The promise of Big Data has tantalized brands for the better part of a decade. Their interest was focused on the maturation of the programmatic marketplace, where it became possible to easily buy audiences instead of space. The evolution of the ecosystem has been fueled by previously underutilized troves of customer and aggregate data.

Today, it’s clear that Big Data as we first knew it—huge stockpiles of data processed and sorted by third parties—only holds the solutions to some of marketers’ needs. For data to be effective in digital media, it needs to balance quantity with quality and relevance. As the ad ecosystem evolves, marketers demand more certainty, accuracy and trust in the data that underlies their efforts.

The emphasis on first-party data has grown along with brands' technological sophistication and their understanding of its potential: 86% of brand marketers agree that their first-party data is a "strategic asset." Seventy-five percent report they are investing in increasing the volume and quality of the first-party data they collect.¹

In addition to using their own data, brands have used third-party data to help their campaigns scale for as long as the programmatic market has existed. In recent years, the industry has begun exploring the value of second-party data—another brand’s first-party data acquired directly through partnership.

The use of second-party data is no longer a nascent opportunity. We now can lay out guidelines for how to select partners whose data can enliven your campaigns, how to navigate walled-garden environments, and how to apply this data without risking your partners’ security or users’ privacy.

Taking the potential of second-party data further, we can illuminate how companies can better monetize their assets by becoming data vendors themselves and investigate how partnerships can help brands cultivate trust-based relationships with publishers.

This report addresses these questions so that second-party data can move from abstract concept to actionable strategy.

¹ Econsultancy, Omnibus Study, 2017
Context

Any discussion of the various data types must start with definitions.

First-party data (1PD) is data you possess, which comes from your own audience, your users or consumers. You know what this data represents and where it came from.

Example sources: Brands’ owned and operated sites and apps, form capture, social media channels, point of sale, CRM, site search

Second-party data (2PD) comes directly from a partner; it’s their first-party data. It is obtained through a deal (either paid or bartered), usually from a non-competitive company.

Example sources: A specific publisher, retailer, brand, DMP/data aggregators or groups of affiliated brands or publishers

Third-party data (3PD) is data from anywhere across the digital and/or offline worlds. Vendors aggregate and package third-party data and anonymize it to comply with privacy regulations. While you may have a relationship with the vendor that provides you with third-party data, it’s unlikely you’ll know much about where they got it, when they got it, or how they got it.

Example sources: Online and offline data aggregator vendors, i.e., Bluekai, Lotame, comScore, Acxiom, etc
Why Turn to Second-Party Data?

For years, digital advertising and marketing have been fueled by a combination of first- and third-party cookie data. Most companies leaned more heavily on the latter because few companies have enough first-party data to make campaigns scale (think Amazon, Google and Facebook).

However, it’s challenging to find reliable sources of 3PD. Third-party data is probabilistic: the data processor sorts it into audiences based on the probability that it pertains to them. This data possesses similar characteristics as an audience of identifiable, known users, but the similarity isn’t equivalence. Third-party data doesn’t describe people, but theoretical models that at best resemble reality.

Third-party data is likely to have inaccuracies and gaps, especially if it comes at a low price and it may be difficult to ascertain its accuracy until you see post-campaign analytics. Further, vendors make the same data sets available to anyone, so while the integration and management of the campaign may be very efficient, the data itself is unlikely to offer a competitive advantage.

Third-party data can also be challenging and costly to activate once it’s been acquired. Companies in the U.S. are now spending slightly more on data activation solutions ($10.13 billion) than they are on the data itself ($10.05 billion).^{2}

Perhaps most importantly, the story that third-party cookies tell is limited. The consumer journey for a single sale often includes multiple devices and sessions. Traditional tracking and measurement are seriously hampered in a cross-platform environment. Third-party cookies are ineffective on Apple’s Safari browser (pre-loaded on iPhones), on mobile apps and on connected TVs. They are also swept out of many consumers’ browsers on a regular basis.

The gap in understanding mobile customer journeys must be overcome. An increasing share of all sales includes a mobile component and multiple device participation. Yet over 55% say that they lack a reliable picture of their customer’s behavior as they move from one device to another.^{3}

Meanwhile, first-party data is always in limited supply because it can only describe the customers and prospects a brand has already. The simultaneous desire to expand audience while retaining quality makes second-party data increasingly desirable to marketers in their quest for clear signals in the Big Data noise.

In short, third-party data has low fidelity, and first-party data is in short supply.

These constraints are inspiring companies to think strategically about second-party data, whether they’re seeking partners who have the data they want or partners who want the data they have.

^{2} The State of Data 2017, Winterberry Group for the DMA and IAB, 2017

^{3} Econsultancy, Driving Growth Through Measurement in a Mobile World, 2016
What is Second-Party Data Good For?

Second-party data can help a company hit the intertwined goals of accuracy and scale. It is functionally quite similar to using a brand’s own first-party data because both are proprietary and verifiable. Confidence in the data is in direct proportion to confidence in the partner relationship.

By partnering with non-competitive companies in complimentary verticals (think hotels and airlines or insurers and auto clubs), it’s possible to gain broader access to consumers without expanding into new niches. There are also valuable insights to be found in partner data from outside of a target vertical. (See Use Cases)

Many brands have already taken steps to become more adept at sharing data, albeit internally. Nearly 40% say they have significantly increased their investment in technologies to improving sharing customer data across teams and product lines. This is an important step in the learning journey to successfully sharing more widely.

Partners will likely find some of their own customers in the other’s data. They’ll also likely find a broader and richer range of insights about behavior and purchases than either can find on their own.

Depending on the way such data is structured and provisioned, it’s possible to perform index scoring, giving the marketer the ability to use the data for cross-sell, upsell or new customer acquisition.

The idea is not that second-party data replaces third-party data. Both play an important role in a holistic data strategy, and 3PD still provides on-demand scale and convenience. But 2PD can become a competitive differentiator because not everyone has equal access to it—it’s available to the partner you got it from and to the limited circle they choose to share it with.

Arrangements like this can have an impact beyond the campaign. Previously, the beer brand understood through simple observation that country music fans showed an affinity for their brand. By layering in data from a trusted source and running a promotion, the brand can discern the strength of the association and access other insights. The second-party relationship gives them the ability to learn and optimize with greater confidence than any third-party alternative.

Depending on the scope of the data sharing arrangement, the partner data can be used for more than just targeting. Second-party data can be used as an input into lookalike modeling, machine-generated segmentation and (especially) attribution modeling. Sharing deals often start with basic targeting use cases and expand as the two parties gain trust and benefit from the controlled flow of data between entities.

Use Case

In this example, a major beer brand wanted to launch a promotion reaching country music fans. Their own first-party data couldn’t identify music preferences and wouldn’t provide sufficient scale even if it could.

Enter the partner, a ticket selling company with both broad reach and clear knowledge of audience affiliation. The beer brand and the ticket seller worked out a paid deal where the seller would share data around all users who viewed or bought tickets to see leading country music performers in a 180-day date range. The beer brand would target their campaign to those users.

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4 Econsultancy, Omnibus Study, 2017
A New Opportunity in Walled Gardens

Marketers may feel ambivalent about walled gardens. While they offer atypically deep engagement, third-party verification is often problematic or impossible, and in some cases, post-campaign analytics are opaque, with the phrase “data black box” used to describe the effects to marketers.

But there’s no doubt that publishers on this scale offer access and capabilities that are unrivaled, and 2PD is an emerging route to expanding the possibilities and impact of campaigns within the walls.

Recently, key players have been allowing selected brands to access carefully-screened user data within their walled gardens, offering high-quality user data at potentially enormous scale.

The key is data provisioning—software-enabled data governance that strictly controls how data is shared. It allows data owners to safely deliver data to partners and, for macro publishers, it opens the door to user-level sharing. They benefit from the greater brand spending that comes with true attribution. Marketers benefit from the access and information that comes from inside the media platform.

However, it’s important to point out that the data partnership between a walled garden and a brand advertiser will be limited to a campaign within the walled garden itself. To activate that same data across the web, it would likely be necessary to partner with vendors such as DSPs and DMPs that can operate in cross-platform/cross-channel environments.

Lookalike Models

Second-party data has uses beyond ad targeting. One is that it can be layered over 1PD to build lookalike models. Second-party data is more valuable than 3PD here because the aim of lookalike modeling is to find consumers previously unknown to you who behave like your known consumers. Using 2PD, marketers have more transparent ways of verifying users actually have behaved a certain way, instead of seeming to behave that way.

This is a potentially versatile application, but it’s not without its own complications. No matter how trustworthy your data is, the process of modeling uses known consumers to draw assumptions about unknown consumers. It’s important to maintain some skepticism and run tests on the models’ performance. The more certainty you have that your data matches actual-known individuals, the more trustworthy the models.

It’s also worthwhile to ask whether your campaign should target users who look like (behave like) a certain kind of consumer or users who probably are that kind of consumer. This is an important distinction that can have real impacts on modeling strategies.
Putting Second-Party Data To Work

DMPs (data management platforms) are central to how most brands activate second-party data initiatives. Although they have been part of the ad ecosystem for years, there remains some persistent confusion about how to use a DMP to its fullest advantage.

A DMP, in short, is a data storehouse that manages cookies and non-cookie IDs, then slots them into audience segments. Advertisers and publishers onboard their IDs, and the DMP matches those ID sets with each other to create unique master IDs/cookies. It integrates with your DSPs and other tech partners, which then target users. The DMP will let you match second-party IDs (from your established data partners) with audience segments (built out with data from publisher sites and ad platforms) as well—basically, the same way you would use your own 1PD for targeting and retargeting purposes.

To be confident you’re taking the best advantage of your DMP’s ability to process 2PD, keep lines of communication open between your account rep at the DMP and any of your own teams accessing the DMP.

It’s also possible to do some of this work in-house, although it’s likely you’ll be constrained to a smaller scale. Some companies collect their data and their direct partners’ data in a shared environment neither of them manages. However, this arrangement is best suited for sharing data between a small number of partners.

Another way to process 2PD on your own involves onboarding a tag management system (which collects, moves and deploys cookies/IDs) and the 1- and 2PD you hope to use. Then ask your data partners to drop a remarketing or retargeting pixel on their site, which should fire when a user who suits your target criteria visits their site. That, in turn, lets you know you can start targeting that visitor.

Some larger or more ambitious publishers and advertisers have been moving more toward the in-house option. Building the infrastructure to store and query your own proprietary data requires significant engineering resources.

The advantage, though, is that the data will be present, in a so-called “data lake,” whenever it needs to be activated. (This could be a benefit for marketers who want insights around a group of consumers only under specific circumstances, like at a particular time or geolocation.) For a brand that has relatively scarce 1PD around its consumers’ behavior, 2PD from other companies can deepen the lake and provide the insights to act on more of the opportunities you want to act on.

Use Case

A national CPG food brand wanted to develop and increase brand awareness of its line of canned tomatoes. They partnered with a media company that owns and operates a very popular cooking-and-recipes site. The media company gave the food brand access to some of its user data to run a campaign across its recipes site.

Whenever a user searched for one of a number of recipes that called for canned tomatoes, the brand could serve an ad alongside the on-site search results. The end result was a more personalized experience for the user and greater certainty for the brand that they were actually reaching their targeted consumer in a highly relevant environment.
Publishers Partnerships

Publishers’ data holds fascinating and valuable insights for marketers. Consumers’ engagement with quality content produces a wide range of insights about interest and behavior. However, many publishers have concerns with sharing their data.

Data leakage remains a common apprehension among publishers. At any point where data is exchanged between two entities, there is a chance that some will seep out into an unsecured environment. That can be a potential legal risk when sensitive data is being exchanged. The fear of leaking sensitive data may at times lead publishers to withhold data that could be of great value to marketers under certain circumstances.

Publishers understand marketers need their data to run campaigns. Some publishers hold the belief that marketers want their data so badly, they will try to access it with or without publisher consent. Regardless of whether this fear is common (or warranted), it exists, and it stands in the way of publisher/brand business relationships’ ability to reach their fullest potential.

Beyond fear, there is also a misunderstanding among some publishers that their data is most valuable when connected to an advertising transaction. That leads to a belief that allowing their data to be shared outside of a monetary transaction is tantamount to data theft.

For brands and publishers to have data-based relationships, it’s crucial for marketers to communicate the value of these relationships to publishers. At the same time, marketers ought to respect the data, the users it represents, and the entity that owns it. The owner of the data must agree to the pricing, the length of time for data usage, the type of data shared, and the processes the data can be used for. Beyond that, it’s advisable that the data owner take the lead in setting those terms and conditions.

In negotiating these new relationships and data shares, marketers must assess how much data they need to meet their goals. Asking for as much data as possible may strain the relationship before it truly begins. Expect some resistance, and have reasonable and fair requests of your data partners.
Can You Be A Data Vendor?

Data can become a veritable revenue stream for companies who have it when the company identifies partners who value their data accordingly. However, becoming a data vendor is not a practical route for every company, and those who choose to follow this route must understand and follow certain precautions.

First, a company must understand its data’s assets and identify which companies or verticals/niches could benefit from these insights. This will require communication across teams throughout your organization and with your tech vendor partners. Vendor partners may be able to identify good matches among their other clients.

Next, the company must adapt its privacy policy, informing users that their data may be shared with additional partners. Users must be able to opt out of having their data shared with third parties. Alternately, your company may choose not to share its users’ data with partners by default, and instead require the user to opt-in explicitly for their data to be shared.

With GDPR on the horizon in Europe, it’s a perfect time to take stock of how privacy, marketing goals and data intersect. E.U. regulations about opt-ins for data collection are already more stringent than in the U.S., and that gap will be more pronounced beginning in May of 2018. Companies outside Europe aren’t immune. They have to consider privacy laws wherever their audiences reside.

It’s too early to predict the long-term impact of GDPR and its demands for specific consent for the use of marketing data. But the intent of this and other rules fits well with a first/second-party data approach to marketing. The transparency and accountability of shared first-party data is in sharp contrast with the opacity of 3PD.

In your company’s privacy policy, be clear and unambiguous that your users can either consent to or reject being targeted with ads by another company you partner with.

To be a data vendor, your data sets should be portable so they can be sent to anyone you choose to sell to. Consider again the risk (and fear, among data owners) of data leakage during the exchange itself. Consult with your IT team for guidance. If you will be making these transactions through a data marketplace managed by a partner, have conversations with that partner to see how the data will be protected.

If you drop a pixel on another company’s site, make sure that company’s legal team is aware and in compliance with the possibility of tracking their visitors against your database. Partnering with a DMP or some other qualified external partner can reduce some of these possible legal issues, as those partners often have a process in place already.

When taking 2PD out onto the web, or allowing your own 1PD to be taken there, it is imperative your data be decoupled properly. Carbon copies are not sufficiently safe for sharing data, as they require you to trust your partner will destroy their copy.
Summary

• For data to be effective for modern marketing, its quality is the primary factor in success.

• Marketers have historically relied on a combination of first and third-party data for targeting efforts. Third-party data quality, technological advances and marketers’ data maturity have led them to consider the potential for second-party data.

• Third-party data may be imprecise, expensive to process, and of limited use in cross-platform environments, while first-party data is reliable but scarce. Second-party data—first-party data of a partner you know—can help companies increase both accuracy and scale. Second-party data does not replace third-party data, but could differentiate the accuracy/reach of your campaigns vs. your competitors.

• Companies should learn to identify suitable second-party data partners. Those partners may include companies in your vertical that you do not compete with, companies in different verticals that your audience interacts with, or publishers.

• Partnering with other companies for second-party data requires transparency and structured communication. Success depends on both parties respecting security and privacy through the strict adherence to protocols agreed upon by both entities.

• Second-party data may be combined with first-party data to build lookalike models to find consumers previously unknown to you. This work may be done in-house or with the help of a tech vendor partner.

• Second-party data may help “unlock” walled gardens, in that walled-garden platforms may share data with advertisers that they do not share with other companies.

• Your company may choose to sell its own data to chosen partners. This is a monetization opportunity, if practical for the company. Consider legal and technological factors before becoming a data vendor.
About Econsultancy

Econsultancy’s mission is to help its customers achieve excellence in digital business, marketing and ecommerce through research, training and events.

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