

EPISODE 453**[INTRODUCTION]**

[0:00:00.6] JM: In the 1960s, advertising agencies were high dollar creative producers. A client would come to an ad agency and pay millions of dollars for artistic messaging that would convince a consumer to buy a product. How could you measure the success of these advertising campaigns? Well, maybe you could see success in the sales data, maybe people were starting to talk about the product. Ultimately, success was defined by how satisfied the client was. When it comes to measuring outcomes, advertising has always been a messy business.

Bob Hoffman's long career in advertising included three CEO positions at different agencies. He helped huge brands craft their messaging and grab consumer attention. In Bob's world of advertising lots of money was spent on creativity. Were the campaigns successful? That depends on who you ask.

In the old world of advertising everyone acknowledged that success was somewhat subjective. As human attention moved online the world of advertising changed. Advertising began to move from TV and magazines to websites. Technology companies were formed to enable this new type of advertising known as ad tech.

These companies claimed to bring scientific accuracy to advertising campaigns. The biggest ad tech player is Google who perfected search advertising. If you could imagine the opposite of what Bob Hoffman built his career doing, it might look like search advertising. Bob's campaigns were about creating a brand's voice with colorful art and subtlety and ambient messaging. Advertising was about turning a brand into an entity that you recognize, teaching the consumer to associate Nike with fitness, or Dove soap with clean hands, or Cheetos with cheesy, salty attitude.

Search advertising on the other hand is just text. You enter a search query, you're looking for some black socks, and the top link that comes back as a line of text that says, "Cheap black socks. You can put these on before your shoes."

Search advertising catches people who have an intent to do something. They have stated their intent by typing into a box. With search advertising, a brand might not even need a sexy, flashy piece of creative. The idea of intent-based advertising was expanded with retargeting. As you navigate through the Internet, ad tech companies are watching you. They're gathering data on your intent. Maybe you aren't typing your desires explicitly into a single search box, but you're clicking on articles and blog posts and tweets. With all your online interactions, ad tech companies can figure out that you are looking for black socks, whether you say so explicitly or not.

Money poured into ad tech for very good reasons. Intent-based marketing works. The shift to add tech put agencies in an uncomfortable position. If they couldn't capture the advertising market by selling highly produced un-measurable creativity, they would have to make their money doing something else.

The situation was this; big brands like Procter & Gamble were buying most of their advertising through agencies. Procter & Gamble decided it wanted digital advertising. The ad tech companies were the ones who knew how to produce and distribute that digital advertising. Since agencies have the relationships with the big brands and ad tech companies had the technology, agencies began to partner with ad tech companies, and this was something of an unholy alliance.

This is actually a simplified version of what happens. In reality, agencies subcontract advertising deals to digital agencies, and a digital agency buys technology from a slew of ad tech companies. Some technology tracks users around the Internet, some technology places bids on advertising spots that will land in front of users, and because of all the middleman, the incentives are aligned against the brands.

Contrast this world of agencies and ad tech companies with the world of Google and Facebook. You might start to understand this is why Google and Facebook are a "dupoly", because they earned that position. By creating a single monolithic purchasing process, they removed much of the risk that comes from a purchasing process that stocked with middleman. If you imagine the government contracting and subcontracting process with all of the fraud and scandal that goes

on there, that's somewhat like the agency and ad tech company buying process, and if you contrast that with Google and Facebook or just you're buying from a single vendor and it's Google all the way down, it's kind of a better process for you as an advertiser.

Back to Bob Hoffman, as money poured into ad tech and user tracking and Google, brands started to care more about metrics. When Bob met with the brand, the brand wouldn't be asking about the cool new advertising campaign featuring a young actress drinking a Coca-Cola. The brand would be asking about the click through rate of a digital display advertising campaign. Brands moved their focus to statistics and away from creativity, and technology companies were happy to provide them with statistics. Whether those statistics were true or not is another story altogether. The industry was moving from creative BS to outright lying and Bob decided to leave.

In today's episode, Bob explains how the state of advertising has become so problematic and the ways in which it harms us as Internet users. We've done lots of reporting about advertising fraud for the last year, and it's a popular topic because people are often shocked to find that online advertising is inextricably linked to organized crime and surveillance and Twitter botnet. That's not to say that online advertising doesn't work. It certainly does. Online advertising facilitates commerce, but understanding the dark underbelly of the Internet's cash cow is a necessary precondition to finding solutions to some of the problems in online advertising.

To find all of our old episodes about fraud and ad fraud, you can download the Software Engineering Daily app for iOS and for android. What's special about these apps is that they have all of our old episodes, not just a limited subset like you will find in the iTunes Store or on other podcast players.

With these apps we're building new way to consume content about software engineering and they're open sourced at github.com/softwareengineeringdaily. If you're looking for an open source project to hack on, we would love to get your help.

With that, let's get to this episode with Bob Hoffman.

[SPONSOR MESSAGE]

[0:07:23.5] JM: At Software Engineering Daily, we need to keep our metrics reliable. If a botnet started listening to all of our episodes and we had nothing to stop it, our statistics would be corrupted. We would have no way to know whether a listen came from a bot, or from a real user. That's why we use Encapsula to stop attackers and improve performance.

When a listener makes a request to play an episode of Software Engineering Daily, Encapsula checks that request before it reaches our servers and filters bot traffic preventing it from ever reaching us. Botnets and DDoS are not just a threat to podcasts. They can impact your application too. Encapsula can protect API servers and microservices from responding to unwanted requests.

To try Encapsula for yourself, go to encapsula.com/2017podcasts and get a free enterprized trial of Encapsula. Encapsula's API gives you control over the security and performance of your application, and that's true whether you have a complex microservices architecture or a WordPress site, like Software Engineering Daily.

Encapsula has a global network of over 30 data centers that optimize routing and cachier content. The same network of data centers are filtering your content for attackers and they're operating as a CDN and they're speeding up your application. They're doing all of these for you, and you can try it today for free by going to encapsula.com/2017podcasts and you can get that free enterprized trial of Encapsula. That's encapsula.com/2017podcasts. Check it out. Thanks again Encapsula.

[INTERVIEW]

[0:09:11.1] JM:

Bob Hoffman is the author of the new book *Bad Man*. He is finally the CEO of three different ad agencies. He's written a lot about online advertising, real-world advertising. You've been on the show before. Bob, welcome back to Software Engineering Daily.

[0:09:25.2] BH: Thank you, Jeffry. It's very nice to be here again.

[0:09:28.6] **JM:** Yeah. I really enjoyed *Bad Man*, it was a quick, highly informative read about the modern advertising industry. You call it surveillance marketing in some contexts.

[0:09:41.2] **BH:** Well, I'm very glad to hear that you enjoyed it. That's great.

[0:09:43.7] **JM:** Yeah, it was great. I was taking notes the whole in the book.

[0:09:46.7] **BH:** Good.

[0:09:48.1] **JM:** Let's give people a little bit of background on who you are. There's a quote from the book, "The advertising industry is world-famous for BS, but BS is different than lying." Describe the context in which you realized that you had to leave the advertising industry because there was some lying going on in excess of the BS.

[0:10:10.0] **BH:** Yeah. I was CEO of an ad agency, and as online advertising became more and more prominent and as it became more and more staple of what my clients wanted to do, I found myself not really telling the truth, hiding some things from them. It came to a head one day when we were doing a review on a display advertising campaign that we had done and we're going through the results and the metrics, and we had the click through rate, and the click through rate went up on the PowerPoint, then it was .02 and we quickly moved on to the next slide and the client said, "Hey, can you back up for second?" We backed up to the click through rate and we all held our breath, and the client said, ".02%." He said, ".02. Hmm. 2%. That's not bad."

Instead of saying .02 is not 2%, it's 2/10 of — Its 2/10 of 1%. It's not to clicks in a hundred. It's two clicks in 10,000. Instead of saying that, we just moved on to the next slide and I've realized at that moment that I had become a liar, just like so many of what I've felt with the online ad hustlers had lied to me as an agency head, I was now lying to my client. Maybe it wasn't a lie of co-mission, it's a was a lie of omission, but still it was a lie.

At that point I said to myself, "You know what? I'm used to bullshit in the advertising business, but I'm not used to lying." This is the time for me, first of all, I'm old enough. Second of all, I've

done everything I can do. Third of all, I don't want to get into this mess of lying and non-transparency, and it's time for me to start thinking about getting out. That's when I knew I had to leave.

[0:12:35.7] JM: That numerical discrepancy that you describe is representative of so much of what goes on in the interaction between agencies and brands. They create an opaque process. It's opaque. You are General Mills or GM or Unilever and you go to some ad agency and you say, "I want to buy the online stuff," and they're like, "Great! How much you want to spend?" You take their money and then you give them some report that says, "All right. You bought online ads. Congratulations!"

[0:13:10.7] BH: Congratulations. You're so hip. You're online."

[0:13:13.2] JM: Right. Exactly.

[0:13:14.7] BH: It's sad. One of the reasons that online advertising I think has been so successful is that it is so opaque. Nobody knows what the hell is going on. Maybe there are 10 people in the world who really understand what the hell is going on. There so much fraud. There's so much deception. There's so many bullshit metrics. Am I allowed to say bullshit on your podcast?

[0:13:42.8] JM: Well, at least in a preproduction, sure.

[0:13:47.7] BH: There are so phony metrics that it's opaque, and because it's opaque, that's one of the reasons it's been so successful, because nobody can really figure out what the hell's going on.

[0:14:00.3] JM: Certainly, but there is always been opacity, and listeners who know I have reported on advertising fraud so much, they know my position on online ad fraud. You were in industry for a long time where there was, like you said, BS. So what's the difference between BS and fraud? If I sell a commercial — If instead Budweiser comes to me and says, "I want to buy an awesome commercial," and you're an ad agency and you say, "Okay. Here's our plan. We've got this new animatronic technology. We can make these frogs talk about Budweiser, and

they're going to say bud-weis-er and then we're going to air it on the Super Bowl. It's only going to cost you \$9 million. Let's do it."

If Budweiser were to say, "Okay. Cool. How are we going to measure it?" The agency would say, "Well, we have no idea how — That's not what we do." How is that different than lying? How is selling that different than lying?

[0:14:58.9] BH: It's very different, because if I'm Budweiser, I can see my ad running on the Super Bowl. I know that it's actually run. If I buying online advertising, 50% of it is never viewed by a human being, it essentially doesn't exist. It's either running below the fold or it's not loading on time or it's one pixel being stuffed into a frame, and it's not a real ad or it's not really running on a website.

When I buy an ad in the New York Times, when I buy an ad on the Super Bowl, I can see it. I can go and make sure it's run. When I'm buying online advertising, I'm not buying a publication. I'm not buying the show. I'm buying the type of person when I'm buying programmatic online, and I have no idea where that is going to run. I have no idea if it has actually run. I get a report, but so much of what I get in the report is fraudulent. We know that, and that's the difference between lying and bullshit.

When I'm talking about bullshit in advertising, I'm not talking about lying, about whether the stuff actually runs or not. I'm not talking about how many people actually see the ad or not. That's all measured. We have generally accepted methods for measuring that stuff.

In the online world, we don't — Facebook and Google do not, will not comply with the normally standard metrics and auditing processes that have been gone on for decades, and Facebook and Google may be the most reliable.

The other people, if you're buying programmatically, you have no idea what you're buying or where you're buying it. The bullshit that goes on in the agency business is mostly qualitative bullshit. It's not quantitative bullshit. You know what I'm saying? I'm going to bullshit about how powerful this ad is going to be and people are going to love it, then everyone's going to — That's qualitative stuff. It's not quantitative bullshit, because quantitatively, when you run a TV spot,

when you run a print ad, you know how many — The measurements, the Nielsen's and those kind of measurements are not perfect. They are there flawed. All research is flawed to some degree, but it's not — But online metrics are like way, way different and way, way fraud.

[SPONSOR MESSAGE]

[0:18:02.5] JM: DigitalOcean Spaces gives you simple object storage with a beautiful user interface. You need an easy way to host objects like images and videos. Your users need to upload objects like PDFs and music files. DigitalOcean built spaces, because every application uses objects storage. Spaces simplifies object storage with automatic scalability, reliability and low cost. But the user interface takes it over the top.

I've built a lot of web applications and I always use some kind of object storage. The other object storage dashboards that I've used are confusing, they're painful, and they feel like they were built 10 years ago. DigitalOcean Spaces is modern object storage with a modern UI that you will love to use. It's like the UI for Dropbox, but with the pricing of a raw object storage. I almost want to use it like a consumer product.

To try DigitalOcean Spaces, go to do.co/sedaily and get two months of spaces plus a \$10 credit to use on any other DigitalOcean products. You get this credit, even if you have been with DigitalOcean for a while. You could spend it on spaces or you could spend it on anything else in DigitalOcean. It's a nice added bonus just for trying out spaces.

The pricing is simple; \$5 per month, which includes 250 gigabytes of storage and 1 terabyte of outbound bandwidth. There are no cost per request and additional storage is priced at the lowest rate available. Just a cent per gigabyte transferred and 2 cents per gigabytes stored. There won't be any surprises on your bill.

DigitalOcean simplifies the Cloud. They look for every opportunity to remove friction from a developer's experience. I'm already using DigitalOcean Spaces to host music and video files for a product that I'm building, and I love it. I think you will too. Check it out at do.co/sedaily and get that free \$10 credit in addition to two months of spaces for free. That's do.co/sedaily.

[INTERVIEW CONTINUED]

[0:20:21.2] JM: Yeah. *Bad Man*, the title refers to a play on *Mad Men*, which is a show about the ad agencies in, I think, the 50s and the 60s.

[0:20:34.7] BH: 60s, yeah.

[0:20:36.2] JM: 60s. Okay. These ad agencies that were established around then, I think — I don't know my history too well. Many of them are still around in different forms. They've conglomeratized and re-reformed. They have been perverted by the shift to online. You have borne witness to some of that shift and that perversion. How did you see — By the way, a lot of the listeners have no idea how the ad industry works from an agency perspective. They don't know where an agency fits in, to the buying process and to the mechanics of purchasing online advertising. Maybe you could give us a brief history of what ad agencies used to do and when they became bad.

[0:21:26.0] BH: Okay. The title *Bad Man* — Let me first clarify that. That's not about the advertising industry per se. To me, *Ban Man* is about what is happening with online tracking and surveillance marketing and ad tech. That's the bad part of *Bad Man* to me, and the essence of the book is about how dangerous online tracking is, surveillance marketing is, and ad tech is, that it's dangerous for us as individuals, as private citizens, and it's also dangerous for us as a society.

We were taught that totalitarian governments are bad, and they're bad because they know what we're doing, they know who we talked to. They know what we talk about. They have secret files on us that are dangerous to us, because we have no idea what's in those files and they affect our lives in ways that we don't know about. We know that about totalitarian governments and how bad they are.

Well, that kind of stuff is happening now, but it's not governments, it's marketers. It's marketers who know who we're talking to, where we're going, what we're doing all the time that have secret files on us about what our beliefs are. We don't know what's in these secret files, and we don't know who they're selling it to, and we don't know how they're using these files, and it's

very dangerous and I don't believe marketers should have this personal private information on us.

To answer your question, that's where, I think, the advertising industry went bad. We used to buy media based on demographics, on types of people. For example, if we wanted to sell Coca-Cola, we would buy — Let's do beer. Beer is a better example. If we wanted to sell beer, we would buy Monday Night Football. We'd buy advertising on Monday Night Football and we would reach a lot of guys who were of young beer drinking age.

We bought marketing based on general demographics, and it made sense, right? That makes sense to you, does it not? That we should buy — If you're a beer market, if you're a beer advertiser, you're going to buy something like Monday Night Football. That's where you're going to find a lot of guys who drink beer. Okay.

Now, we don't buy media like that anymore online at least. Now we know what individuals are doing every minute. We know who their friends are, how they talk. We buy them as individuals. We follow them as individuals. For example, if you saw 60 minutes last weekend, they had the guy who was Trump's Facebook guru on the election, and he would find people who were vulnerable to certain kinds of messages, who were vulnerable to certain political points of view. He might find five people or 10 people or 15 people and send them specific ads based on information he had collected about those individuals and influence them in ways that I think advertising should never have been built to influence.

A perfect example of this is a company called Cambridge Analytica. It's a British research company. They claim to have files on every adult in America with 4,000 to 5,000 data points on every adult in America, 230 million people. This is frightening. This is beyond frightening. This is Orwellian and scary and should not be allowed to exist. I don't want some company that I've never even heard of to have a file on me with 4,000 or 5,000 data points about my behavior, who I talk to, what I talk about. It's inappropriate, and we need to do something about it.

[0:25:52.3] JM: You think there should be some sort of legislative effort or —

[0:25:57.4] BH: Ideally, no. Ideally, the advertising and marketing industries would be mature enough to regulate themselves, to self-regulate and to realize that this is dangerous and they shouldn't be doing this. However, it'll never happen in a million years. For Facebook and Google, make billions of dollars every year based on the day that they have on us. That is their leverage.

What is happening — There is a fellow named Don Marti. He's a very smart guy. He says online advertising success and business success in online marketing is simply a hacking contest. The people who can get the most information on the most people are going to win regardless of how they get that information. That's what Google and Facebook have done. They have enormous amounts of information about individuals, about each of us, and they're making billions of dollars on — And consequently they will never yield on supporting ad tech, on supporting spyware, on supporting surveillance marketing. They will fight like hell for it, and consequently I believe the only way we can get around this is through government regulation. Now, I'm not a big fan of government regulation, but in this case I think it's necessary.

[0:27:28.7] JM: Okay. You've outlined some strong points that are against surveillance marketing. Let me take the devil's advocate position. I used to play online poker a lot, and when I played online poker there was a revolution in data science in online poker. You had people that would aggregate the historical playing patterns of everybody who played poker, and the initial result of this was that the people who were aggregating the data became much better players. Over time, what happened was the ability to aggregate data and make more educated decisions about what your opponent is holding and what kind of bet you should make to extract the most value out of a situation. Over time, it made the game of poker more efficient. The players became more tough and overall quality of decision-making was improved.

What if, today, we are just going through a speed bump where people are starting to wake up that there is this market for getting knowledge in front of people and it is being used in somewhat lopsided ways, but over time you can imagine a free market for getting information in front of people, is there really anything wrong with that? Could it potentially make us as a society more efficient?

[0:29:07.4] BH: No. I think it's a false analogy. It can make marketing more efficient, but we are not a society that's in business to make marketing more efficient. Part of the essence of democracy and free societies is that we are entitled to privacy, that we are entitled not have information about us collected by people we don't know and sold by people we don't know and exploited by people we don't know. We're not here as a society for the convenience of the marketing industry. There are a lot bigger issues than that.

Now, can data collection make marketing more efficient? Sure, it can. I'm not opposed to using data to make marketing more efficient. What I am opposed to is the sneaky collection of data by people we don't know without our specific permission and collected in ways that are very, very dangerous, that we have no control over, and that we can't do anything about it. It's our privacy and our security that are at risk. We're fairly lucky now, we have governments, at least in the Western world, that are mostly not too oppressive.

Get an oppressive government in place with access to all these information about us as individuals, and in about three weeks it's a Nazi regime or a communist regime. It doesn't take very long for malefactors to take this information about us that they have no right to have and use it in bad ways.

[0:31:06.1] JM: There are these different players in the ecosystem. You've got the ad agencies that we've already explored. You've got Google and Facebook, which some people argue a duopoly. We'll go into Google and Facebook, but there's also these people that you've never heard of, the surveillance middlemen that are brokers of information. These are the bad men or do you consider Google and Facebook to be in the category of bad men as well?

[0:31:37.7] BH: I don't like to point out any individual as a bad men. Look, Facebook and Google are fantastic companies. They have brilliant people. They do amazing things, but —

[0:31:52.1] JM: Yeah, as you're pointing out, I give them a hard time as well, but I love Google and Facebook. I'm a huge fan of those companies.

[0:32:00.9] BH: There's no question that they're great companies. The problem is down in the basement there's a dungeon, and the dungeon is collecting information about people that they

shouldn't have, that they are not entitled to, and that we need to do something about. There's a dirty little secret down there underpinning a lot of their moneymaking capability.

As you say, there are lots of companies between advertisers and consumers. Advertisers are trying to get messages to consumers, and there are companies in between that if you've ever seen — I'm sure you've seen the loom escape.

[0:32:47.7] JM: Yeah. That's in your book.

[0:32:49.3] BH: It's insane.

[0:32:51.2] JM: Okay. Let's try to pick this apart, because the Lumiscape specifically that you're talking about is this diagram that you have in your book, which is it describes the online ad buying process. If an ad is shown to me on newyorktimes.com, there are like 30 layers of middleman brokerages that help with the decision being made for that ad to target me, the exchanges, the DSPs that are aggregating demand, all these different players.

Okay. We could go there. Let's take a specific example, since you were talking about the dungeons of Google and Facebook where they're gathering information that maybe they shouldn't have. Let's take a very specific example. Let's say I get credit card statements, or every time there is a buying — I buy something with my American Express, an email comes into my Gmail account that says, "Hey, you re-subscribed to Spotify," or "You bought a bag of mixed nuts at Walgreens." Why shouldn't Google be able to take that information and market mixed nuts to me? What's wrong with that?

[0:34:11.6] BH: What's wrong with that is that I never gave them permission to collect information on me. That's what's wrong with it. Who gave them the — They are now collecting information off-line. If I go shopping at the Gap now, they're getting information on where I shopped offline. I don't remember giving them permission to collect that information about me. I don't remember them — I don't remember giving them permission to sell that information about me to anyone. Since when is my private — For example, let's say this was done by an offline company. Let's say someone was just following me around to every store that I shopped, taking

notes on what I was buying. Would you be happy with that? Is that part of a free society? I don't think so. But they're doing it online and we have no recourse.

Now, we're going to have recourse because what's happening in Europe now, the EU, is starting to wake up to what's going on and they are — Can I talk about this?

[0:35:23.4] JM: Please do.

[0:35:24.0] BH: They are starting to wake up and they have a couple of regulations that hopefully will go into effect this May called the GDPR and the E-Privacy regulation, which will make it much more difficult for online entities to collect personal private information about us without our permission. They're going to have to get prior permission from us if these regulations go into effect as they are currently configured. They're going to have get permission from us to do so before they can collect and use information on us. I think this is a very healthy thing.

Once this goes into effect in the EU, I suspect they're going to have some problem. They're going to have to iron out some of the regulations. It's not going to go smoothly at the beginning, but once they get it ironed out and once online entities are going to be required to get permission before they can collect personal private information about us, I think that's going to spread. It's probably not going to spread in the U.S. under the current administration, but sooner or later it will. This will make our online behavior that is personal and private truly personal.

[SPONSOR MESSAGE]

[0:36:51.7] JM: Do you want to be a detective? Do you like the idea of analyzing a large data set looking for fraud and other bad behavior? Method Media Intelligence is an investigative engineering company that helps companies understand their advertising data. Method Media Intelligence has found millions of dollars of fraud by studying the datasets of their clients.

I'm good friends with Shailin Dhar and Praneet Sharma, the guys who founded Method MI, and I remember talking to Shailin more than a year ago about how crazy it is that so many advertising dollars are stolen from businesses on the Internet. It turns out that these businesses want to get

that stolen money back, and Method Media Intelligence is looking for engineers and data scientists to help scale Method MI.

If you're looking for an exciting, well-paid job in data, email jobs@methodmi.com to find out more. Shailin and Praneet are awesome guys and if you think you might be a fit I encourage you to send them an email, jobs@methodmi.com.

Fight ad fraud and take money back from the corrupt companies who are stealing it. Check out Method Media Intelligence at methodmi.com.

[INTERVIEW CONTINUED]

[0:38:15.3] JM: You talked about how in this atmosphere, online publishers are suffering. These are the people who are putting out the great content that we consume where coincidentally we're supposed to be consuming ads, but sometimes it feels like the focus of the page is the ad rather than the article. How are the online publishers suffering in this environment?

[0:38:39.1] BH: Quality online publishers are having their audiences that they attract stolen from them by shitty publishers. It works like this, it's called data leakage. What happens is Bob Hoffman goes to the newyorktimes.com and let's say Coca-Cola wants to serve me an ad at newyorktimes.com, and I go there and they drop a cookie on me and the next time they are not going to pay the New York Times a dollar to reach Bob Hoffman, instead they'll pay bikini babes, beachbabes.com a nickel to reach Bob Hoffman, because they can follow me to a shitty website.

What's happening is the quality publishers are losing their audiences to shitty publishers, and that's why they're having so much trouble staying in business. They're having a tough time making any money online because the programmatic advertising systems will find the value proposition of programmatic buying is we will find you the highest quality eyeballs at the crappiest possible locations, at the least expensive locations and will follow your audience to the crappy websites and serve them your ads there rather than at the high quality websites.

[0:40:20.9] JM: Yeah, you're describing a world in which the New York Times shifts from a place where an advertiser wants to show an ad to the user to a place where an advertiser just wants to cookie the user so that they can follow them around and then show them an ad in a place that is lower budget.

[0:40:40.1] BH: Much less expenses and much lower quality. Yes. You're absolutely right. That's what I'm describing.

[0:40:45.8] JM: Who is managing that tracking and information brokerage? This is just part of the loom escape I suppose?

[0:40:57.6] BH: This is how online — This is the whole basis of online advertising these days. This is what it's about. This is the value proposition of programmatic buying. It's that we advertisers are no longer buying a publication. We're buying a type person, following that type of person everywhere they go and serving them advertising at the cheapest possible locations to save money, and that is destroying the business opportunities for high-quality publishers.

It's also an essential part of the whole fake news ecosystem, because what happens, someone puts up a crappy website somewhere with stolen content from someone else. They go to social media, run some kind of click bate headline, online traffic follows to that crappy websites. Programmatic systems see people going to that crappy website with fake news and sending advertising there and feeding those fake news sites money. It just happened — It's amazing. What's been happening this week, the ANA, the Association of National Advertisers ran advertising on a site that's supposed to recognize fake news, but instead published fake news, and the Association of National Advertisers that's supposed to be fighting this had their advertising run there because a programmatic system sent it there and the association had to apologize for this. The whole system is insane.

[0:42:58.0] JM: It's counterintuitive, but the people who gain the most from advertising fraud are actually not the fraudsters, but they are the marketing and advertising industry itself. We've explored ad fraud in a bunch of different episodes where we talked about how many of the ads that a brand, like Procter & Gamble, wants to display on the Internet to humans are actually getting shown to bots sitting in a data center somewhere.

But we haven't explored as much why the conventional marketing and advertising industry, or maybe some of the middlemen sitting in the loom escape are absorbing the profits. You would expect the profits to be going to the fraudsters who are spinning up the bots in a data center. Why is it that the marketing and advertising industry, the people who would expect, "Oh! These people should be getting defrauded from the fraudsters." They actually benefit from the fraudsters. Explain why that is.

[0:44:03.8] BH: That is because a lot of the fraud doesn't enter the money system until after the buying and the middlemen have already taken their cut. If you look at my book, you will see you there is a chart taken from the World Federation of Advertisers that shows that about 60% of online advertising dollars programmatically spent online advertising dollars are taken by the middlemen. Then the money gets to the publishers where the fraud occurs, so the agencies, the DSPs, the middlemen have already taken their cut before a lot of the fraud occurs.

This isn't to say that the legitimate marketing industry and that the agencies are in cahoots with fraudsters. They're not. What it does say is they are inadvertently getting money and getting revenue from advertisers who in the fullness of time will be subjected to fraud. Who has the motivation to end ad fraud? The problem is right now the only people with motivation to end ad fraud are; number one, the advertisers who are spending the money; and number two, the quality publishers who are getting screwed by ad fraud.

The publishers can't do anything about it, because nobody cares about them. They can scream all they want and nobody gives a damn. The advertisers have the power, but so far they have been so bamboozled by the crazy opaque ways of doing stuff in online advertising that they don't know how to do it. They don't know how to end this. The people in the middle; the agencies, the middlemen, everyone along the line, they have very little motivation to end fraud. If they did, if their compensation was hurt by ad fraud, they'd be doing a lot more about it than they currently are, but they throw their hands up in the air and they say, "Oh! It's just part of the act. It's part of what we have to live with." Well, that's baloney.

Right now — I'm going to get this wrong. According to J.P. Morgan Chase, there is going to be about — I think they said 16 or \$18 billion lost to ad fraud this year. That's over twice what

happened last year. Can you imagine? it's growing by like 150% a year. I mean the fraud is out of control.

[0:47:18.8] JM: The Procter & Gambles and the Fords and the Unilevers who are getting exploited the most by this, you say they really don't know what to do. Are they doing anything? What have they tried to do?

[0:47:32.5] BH: They are making a lot of noise. They're issuing press releases. Procter & Gamble has actually done some things. They remove between a hundred and \$140 million worth of online advertising from there — I think it was their second quarter by this year. Their second-quarter media buy this year. They've taken a lot of money out of online media this year and actually did them no harm at all, in fact the great 2% in the quarter.

It's not a concerted effort. People can't get together and decide what to do. You'd think the Association of National Advertisers of the world, Federation of Advertisers would put a strategy and a plan into place, "Here's what we're all going to do to end this."

As far as I can tell, they have not done that, and as a result it continued and it's metastasized. It's getting worse all the time. We think that there must be someone somewhere who's in charge of this, who's looking after this ad fraud and is doing something about it, but there isn't. From what I read, there is like — It's going to be something like 16 or \$18 billion in fraud this year and I think one of the organizations, maybe the Interactive Advertising, the IAB, they're spending a million to fight it. Can you imagine a million dollars to fight an \$18 billion problem? It's nothing. It's a joke.

[0:49:02.8] JM: Well, because the IAB is a recipient of probably relationships with a lot of the people who do benefit from the ad fraud.

[0:49:12.7] BH: Certainly are. I don't know what goes on inside the IAB, but I'll bet you, it's pretty much run by Facebook and Google and Amazon.

[0:49:21.8] JM: Okay. Basically, we are waiting for the large brands to get their stuff together to figure this out, or perhaps on the other side of things waiting for governments like the EU to take legislative steps.

[0:49:42.1] BH: I think there are two different issues here. First is the privacy issue and the social danger issue that needs to be addressed by government regulation, because we haven't been able to do it in any other fashion. The second issue is the waste that is going on that online advertisers are being subjected to by a system that is completely opaque. They have no idea what's going. That's not a regulatory issue. That's an issue for them to deal with, for them to straighten this out and to wake up.

The advertising business used to be — We used to have some of the most cynical people in the world. If you try to tell an advertiser that this is going to work, you better have 12 ways to prove it's going to work. Then all of a sudden the online people came riding into town, handsome new guys with pseudoscience and the advertising industry fell for like school girls, like infatuated schoolgirls and they stopped questioning. They dropped their skepticism and they bought all the baloney that was being sold to them, and now they are realizing how much money is being wasted and how much money they have wasted in the last 10 years chasing fantasies.

[0:51:07.6] JM: You write about agency kickbacks. I think there's a relationship between agency kickbacks and the online advertising ecosystem. Explain what an agency kickback is and how that affects this whole ecosystem we're talking about.

[0:51:21.5] BH: Okay. There are several ways in which agencies were screwing their clients. One of them was kickbacks or rebates or — They had another euphemism for it. I forget what it was, but essentially what would happen is this; I'm an agency, you are my client. You say, "Bob, buy me a million dollars' worth of online advertising. Buy me a million dollars' worth of Facebook or something."

I go and I buy you advertising and I get like a 2% commission on the buy, but the people I'm buying from give me a credit. They give me a 7 or an 8 or a 9% credit. So now I have 70,000 or 80,000 or \$90,000 in credit that, I, the agency hold on to. I don't give it to you. I don't give it to my client. I hold on to it.

Now, someone else comes along and says, “Hey, Bob. Buy me \$80,000 worth of online advertising.” I say, “Sure, I will,” and I go use my credits, those \$80,000 worth of credits to buy the advertising and I put your \$80,000 in my pocket. Essentially, I’m making money that really should go to the client. It’s the client who should get the credit, but I’m taking it as an agency. That’s one way that the kickbacks work.

Another way, and this isn’t technically a kickback, but it is a questionable practice, was an arbitrage. I, an agency, would go and I would buy \$10 million worth of online advertising from you. Let’s say you’re Facebook. I’m going to act as a broker. I’m just going to buy \$10 million worth of advertising from you, Facebook, and I don’t have a client yet, but over the course of the year I will use that \$10 million.

Then I go and I sell your \$10 million worth of advertising to my clients for \$13 million. In other words, I’m taking what I’ve bought from you and I’m brokering it. I’m marking it up 30% and selling it to my client. What’s wrong with that? I’ll tell you what’s wrong with that. Agencies are supposed to be working in the client’s interest and getting them the best possible deals and the best possible prices, not working against their interests and buying for one and selling to them at two. That’s another way agencies were doing it.

If you really want to know what was going on, the Association of National Advertisers last July, July of 2016, did a report on agency transparency and how agencies were — You can get chapter and verse on all the ways that agencies were being nontransparent in their online media deals.

Now, having said that, I need to say that in that report they said it wasn’t just online media that this was going on in. It was all media. However, to me that was just mainly baloney. If you look at the language they use in their report and you look at the examples they use in their report, you can see that it’s mainly online advertising in which this was going on.

[0:55:13.8] JM: What would you do if you’re in charge of a brand like a Unilever or a Procter & Gamble?

[0:55:19.3] BH: Very hard to say. If I were buying online, I would — What they all do is they have cyber security firms working for them telling them how much fraud there is in their buy and how much of viewability there is in their buy, and these people — I'm sure they tried their hardest, these cyber security firms, but they're just not reliable.

If we have ad fraud growing by 150% in a year, that just tells you that what they're doing is not being effective. The fraud is way ahead. The fraudsters are way ahead of the cyber security people. What can you do as an advertiser to make sure that you're not getting screwed and you're not getting caught? It's very, very hard these days.

What I would do is I would hire an independent consulting expert, not necessarily a cyber security firm, who has skin in the game. These people — Without ad fraud, these people don't make any money. In a way, while they are monitoring ad fraud, they're also making money from ad fraud. I want someone who's completely independent, who is not beholden to anyone to be either on staff for me on a consultant basis to dig into the body. You need to be a computer scientist. You need to be a software engineer to really understand what's going on in these buys.

I can't understand it. I don't think most of the people in marketing departments can understand it. It's so complex. You really need to know code to be able to see what's really going on, and it's a very difficult problem for these companies who think they need to be doing online advertising but don't know how to keep it clean.

If I had the answer to that question, Jeffrey, I'd be a billionaire. How do you keep it clean? I really don't know. I do know from a policy standpoint, we have to end tracking and we have to get some sort of handle on programmatic buying, which is so dirty and so much of the fraud is happening in the programmatic buying area.

[0:57:58.4] JM: Let's say we were able to get away from data-driven surveillance marketing. Let's say there's a shift away from that, either because maybe you have regulation — Maybe you just have the big brand advertisers shifting away from it. I see both of those as credible outcomes. Where will the excess ad dollars flow to?

[0:58:20.8] BH: First of all, let's be careful in our terminology. Data driven advertising has always existed. People who buy television, people who buy radio, people who buy magazine. It's all data driven. It's a different type of data. It's not private personal data. It's demographic data, which is different. Maybe I'm not expressing that in the most eloquent terms, but it's different. The people will always use data to make media buying decisions.

The way we can clean up so much of the problems in the online industry if the media buyers or just to buy at the same way they buy magazines and television and not buy it based on tracking, but buy it based on other kinds of demographic data, not on tracking.

If I would buy quality online publications the same way I buy quality offline publications, a lot of this mess would disappear, and that's where it needs to go. It needs to go to where this old system of data, private data collection and programmatic buying, it's got to go away. It's no longer relevant. It's become too corrupt and too fraudulent.

Marketers need to go to where they're buying online advertising from quality publications directly, rather than through these networks that are unreliable and full of fraud, and these programmatic systems that are unreliable and bring the advertising to crappy places.

[1:00:10.4] JM: All right. We're almost out of time. What are you doing these days? You've gone from — You're a CEO of three different ad agencies and you're now writing about advertising. How do you spend your time?

[1:00:24.4] BH: I spend my time writing and speaking. I have my blog, which is called the Ad Contrarian. I have a newsletter which I send out every Sunday morning, and if you're interested in reading the blog just go to adcontrarian.com. If you're interested in getting the newsletter, you can go to adcontrarian.com and sign up for the newsletter there and you can go to my website, which is BobHoffmanswebsite.com, and then I do speaking. I speak all over the world, do a lot of traveling, but mainly these days I've become kind of a complete geek about getting people to realize how dangerous the online data collection is and how serious the surveillance marketing issue is and that we need to really get that under control, because it's just too dangerous for free societies.

I'm spending a lot of time talking about that and writing about it, and it's become kind of a cause célèbre for me and I'm hoping — Inside the beltway, inside the marketing and advertising beltway, I think this is starting to get some traction. People are starting to understand how dangerous this is, but outside of that, in the general public, I still don't think people understand. They know that when that Equifax has a security breach, that they're in danger, that their Social Security numbers are being hacked and some personal information about them, but they don't realize that advertising and marketing people are also collecting the same and even more personal information. Information about their sexual habits, their health issues, their psychiatric problems, everything they talk about, every email they write is being scanned by the email ecosystem providers to get information about them. They don't realize this is happening, and I'm trying to make this a public issue because I think it's important.

[1:02:36.2] JM: All right, Bob. I certainly believe it's important too, and that's why I love having you on the show. It was a pleasure having this conversation.

[1:02:43.8] BH: Thanks so much. It was great to be on this show, Jeffrey. Take care of yourself.

[1:02:46.5] JM: Okay. All right.

[END OF INTERVIEW]

[1:02:50.5] JM: Simplify continuous delivery GoCD, the on-premise open-source continuous delivery tool by ThoughtWorks. With GoCD, you can easily model complex deployment workflows using pipelines and you can visualize them end-to-end with its value stream map. You get complete visibility into and control of your company's deployments.

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