A rising tide lifts all boats, goes the old proverb. Well, most boats. You can rule out those overloaded with anvils or built with holes in them.

Consider a thriving sector with plenty of opportunity borne of technological changes or evolving consumer habits. To pick three random clients from our list, modern furniture, legal practice management in the cloud, and exercise equipment: all strong. We credit the clients for good positioning, great products, and solid execution. We pat ourselves on the back for uncommonly savvy execution of the ad spend. But some might speculate whether just about anyone with a pulse could have achieved success in such an environment. (TL;dr – some success, maybe. Great success, nope!)

Under such conditions, the spoils accrue to the players who get after it and don't skimp in the race to acquire new customers. Getting ahead of the curve, in some cases, is surely as important as dotting every i and crossing every t. Isn't it?

Such notions (ride the wave, don't fight the Fed, etc.) are perhaps less foreign in the financial sector, where trillions upon trillions of dollars must be managed by professionals. Sure, there's room for "alpha" and the celebration of legends who can pick stocks or fund unicorn companies that go public.

But a baseline assumption in this world of money management is that investments in certain asset classes, sectors, and geographic locales tend to be correlated. One's mandate as a manager of pension funds, etc., isn't to wade into (say) emerging markets and somehow pluck out the 36 best "bets" to make your investments soar. It's to practice good risk management and solid stewardship of asset classes, knowing how they work and expecting the overall outcome to be favorable.

Piling onto the critique of the myth of star power in stock picking and portfolio construction, we'll find critics like Nassim Taleb (in Fooled By Randomness and elsewhere), who reveals more about the parlor trick that is played in the marketing of mutual funds and the narratives that grow up around the "stars." As his analysis shows, the same industry would generate stars even if the various portfolio strategies were created at random. And then we'd try to figure out what made the stars into such market soothsayers.

I remember the phenomenon well. A new fund family in Canada emerged as an upstart and a couple of its managers became stars, generating impressive returns and becoming nearly household names (one of them had a nickname, "Bibi*," which was handy for recall). The funds were named pensively like "Pile of Canadian Stocks That Have Been Well-Chosen and Beautifully Allocated." But the preponderance of the bets were on oil and gas, including juniors. The funds (investing as they did in a cyclical "bet") did poorly in subsequent years.

In advertising, depending on the circles you travel in, careers often have to be built around this obnoxious chest-thumping notion of "alpha," if only because the big ad agencies once made excess profits around the mystique associated with their brand-building creations. Some creative geniuses must have been far better than others! Fortunes depended on it! (Or were spent on it. Chicken-egg, really.)

Solid stewardship of marketing dollars might have worked just as well as winning all those Cannes Lions, no? Thus, today's data-driven Big Tech reaction is to challenge the very notion that "people in advertising" should even seek alpha ("alpha" being financial jargon for outsized returns, as opposed to just tracking the index).

But was it an overreaction?

The table is now set – by Big Tech reacting against the Mad Men era – in the form of a model advertising professional: bland, data-driven, rule-following, uncaring, and… just average. Did I mention bland?

Against that backdrop (stay with me), a new hero will be born. Spoiler alert! It isn't you. It isn't me. It isn't any person! It's The Bots. Aren't they special? Precocious little buggers, aren't they? Why they're just a few years old! And unlike you, they never get tired.

Alpha Strike: Big Tech and advertiser incompetence

Let's follow the Big Tech narrative a bit more.

If, on average, a company's growth is positively correlated with aggressively buying a good swath of targeted media in a growing market, then executing on the budget allocation shouldn't be terribly hard.

Unfortunately, though, it can be a lot harder than it looks. Competitors may want the exact same media. If you're lazy or out of touch, they'll do a far better job of allocating their budget than you do. At the end of a couple of years, they could wind up with 4x the number of new customers than you. If those customers tell others about the product or service, the effect is amplified. The emerging leader gets more entrenched. That's the dynamic at play. Relatively small budget, short timeline, and significant competition for prospective new customers day in, day out. (That's no comparison with a large pension fund making a bid for a billion-dollar infrastructure asset, for example. The fund has the ability to invest like few others could; it is able to perform due diligence on the asset; and it expects steady returns on an asset it now controls… over a 30-year timeline.)

Now add a wrinkle. There are one or two motivated, star ad buyers in your vertical, a few average ones, and a few dozen incompetent, newbie advertisers in a revolving door of "overspend on the ads and then run out of budget" cycle. It's pretty clear who wins in this scenario: the publisher. The one who controls the auction. The one selling the picks and shovels on the road to the gold rush. Google. Facebook. You get the idea.

In time, it starts to deeply concern the benevolent $1-trillion-market cap publisher that there are so many mediocre and downright incompetent advertisers. They contemplate training programs. Certifications involving regular exams. And training wheel tools to keep these poor saps from scraping their knees after running into a few bumps in the ad auction. Hey, why not? Cars have airbags.

This dovetails with a major trend in the aforementioned world of investment. Actively-managed mutual funds are on the decline. Managing investments is more of a niche taste now, for those with means. With the advent of rule-based, low-cost ETF's, investors have been sold on the idea that the main threat to long-term returns is fee structures associated with managing funds. Don't try to do well. Just put on the safety bumpers and walk away. This isn't grossly untrue, of course. Most of us do worse when we actively manage our own money than if we just left our investments to percolate along. (If you're looking for some inspiration on that issue, try Carl Richards, The Behavior Gap.)

Still, we're left with an existential question. Why are we here, if not to try to do better? Are we really best served by the Homer Simpson maxim "Can't win, don't try"? (CW;dt)

What does this mean for Smart Bidding?

If you are data-driven – and if you work at the higher levels at Google, presumably you must be – it's hard to escape the compelling Logic of Average. If Smart Bidding is enabled, the data might well show an aggregate improvement in advertiser ROI. This is due to a serious shortage of competent and ethical managers and agencies. In light of the aggregate win that Smart Bidding seems to represent, no one at any level at Google is going to lose sleep recommending such solutions. On average, they're good for you! A little like a laundry list of prescription medications might be "good for you" if you have underlying conditions, poor lifestyle, and are at an advancing age. (Flip side: prescribing the same stuff to 38-year-olds who could do to pick up their socks in the lifestyle department is only keeping them from improving, due to the inevitable side effects, lethargy, and shortened lifespan that result from ingesting the "medicine.")

Marketers who tough it out (mastering their craft, rather than indifferently abdicating responsibility) may evolve to become what Taleb might refer to as robust, even antifragile.

Big Tech's "helpful" but ultimately bland take on advertising ROI is quite profitable for Google. Everyone has to play, but few are motivated to win. Why let any mammal take credit? Why don't we all cheer for our new heroes, the bots?

At a micro-level, if you're the owner of a company, that's not good for you if you happen to run up against a couple of motivated flesh-and-blood players.

Let's say you're in an industry where widespread advertiser incompetence, married to a hard-to-understand Google Ads interface, causes the average advertiser to waste large swaths of the budget. Think about the mistakes that could be made:

- No testing
- Poor choice of landing page
- Not knowing how to weed out bad queries using negative keywords
- Bidding bizarrely
- Not understanding Quality Score
- Poor allocation around geography
- No pricing / LTV strategy

- Not understanding the mechanics of counterintuitive campaign types
- And so on.

Let's say the "waste factor" on average is a whopping 65%. Google's automation, by design, doesn't address all the above factors, but if you give it a goal, it'll roughly hit it – with only a waste factor of 40%. That's some pretty A-OK waste right there.

Unfortunately, in your line of business, that 40% waste factor is still unacceptable. It turned a gross margin of 35% into -5%.

This is the territory many advertisers find themselves in. This doesn't hurt some large, established companies. Their mediocre advertising performance helps them grind their way towards greater market share. No major harm done. (Not so different from the behemoth pension fund that can drop a billion on some ho-hum port infrastructure… it's about managing risk.)

I hypothesize that the "optimal human team" (not just a lone account manager) can hit a "waste factor" on ad spend of 0%. If the company and their vendors fire on all cylinders, magic happens and growth occurs at an even higher rate than this would imply. That's what you can shoot for!

For a startup or plucky SMB, a five-year window of bracing growth (specifically from new customer acquisition in the PPC channel) at strong gross margins is very appealing. Indeed, it might be make-or-break. The one that clambers over barriers to entry and competition and gets established gets to keep going. The one that assigned the future of their company to some safety bumpers designed by Big Tech fragilistas – who seek to control all advertisers' fates and deign to "help" them improve on incompetent ad budget allocation – will stumble out of the starting blocks, and before long, drop out of the race. Sustained financial losses simply won't be tolerated.

This is how two things can be true at the same time. (1) The bots really are improving the general health of advertisers, when measuring the "bot waste factor" (still wasteful) vs. the "aggregate incompetent idiots waste factor" (though I expect the narrative attempting to elevate bots to the status of the new "heroes" of our world will continue to register weakly at the box office). (2) You can win. Do try.

Also, FRIENDS > MONEY. I saw that on a Lululemon bag.

* – *Country-clubbish-sounding mutual fund manager's nickname has been changed.*