

The Fundamentals of First-Party Data



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Third-party data has long been the dominant customer data source for marketing and advertising. As data aggregators collect end-user data through cookies and browser behavior, companies pay for access to this third-party data, either directly or through advertising platforms. This practice is about to change.

Consumers are pushing back on data collection without consent, and government bodies are establishing regulations to protect data privacy and consumer rights. In addition, companies have found that their use of third-party data erodes customer trust.

First-party data, on the other hand, is collected by a company when customers directly interact with its products, marketing campaigns, and customer service channels. The result is more accurate and relevant customer data that companies can use to personalize customer experiences, building stronger customer relationships.

Customer data: Shifting sources

For your business to be successful, you must know your customers well—what their needs are, how they use your products, and what they'll want next. Businesses today have access to a wealth of data about their customers. However, **not all customer data is equally reliable or helpful** in providing actionable insights and building customer relationships. This is leading to a massive shift in data sources used today—a **shift from the use of third-party data to first-party data**.

Third-party data has been the backbone of ecommerce and online advertising for two decades. Tracking users over multiple websites provides segmentation and behavioral predictions across a wide range of products and services. Automated marketing tools use third-party data for generic data aggregation and business intelligence.

However, data privacy and reliability concerns are compelling companies to change their approach. They're instead embracing first-party data—data provided directly by end users—to improve their relationships with customers and hone in on the information that best connects their customers and products.

In this ebook, we'll look at why first-party data is becoming pivotal to the task of building personalized customer experiences and fostering customer trust. In particular, we'll cover the following:

- **The difference between third-party and first-party data**
- **Why companies are moving away from third-party data**
- **How first-party data yields a competitive edge**
- **How CDPs are purpose-built for first-party data**

With a first-party data approach, businesses are adopting the Customer Data Platform (CDP), which provides targeted segmentation without the overhead or messiness of other data analytics solutions.

Finally, we'll review a case study of how Quartz used Twilio Segment, the industry-leading CDP, for its first-party data management.

The difference between third-party data and first-party data



Customer data comes from various sources, including direct customer actions in an app or browser, customer-initiated correspondence, or market research.

Understanding the source and the original customer intent in providing this data is the first step in data-driven decision making for a business.

What is third-party data?

Third-party data refers to the data that online advertisers and data brokers collect through a variety of sources, and it combines data that the user has provided both passively and proactively, as well as behavioral data.

Third-party data has been a trending topic in recent years, garnering attention from both the media and lawmakers. Third-party data is a fundamental enabler of targeted advertising, and online advertising has become an increasingly important part of doing business. Still, [more than two-thirds of consumers are concerned about data privacy](#).

Let's look at how third-party data is collected, acquired, and used.

Collecting third-party data

Data aggregators collect third-party data from cookies on every website, through social media, online shopping, and other online activities. Based on user behavior over multiple websites and apps, data aggregators can segment audiences. Of course, when we say that data aggregators "collect" third-party data, the question arises: Where do data aggregators collect their data from? Some of their sources include:

- [Most mobile apps sell user data to aggregators](#).
- In the physical world, [surveillance cameras at retail stores can generate data about customer behavior](#).
- Combining [retail store surveillance cameras with AI technology, loyalty programs, and customer purchase history](#) opens up an entirely new stream of customer behavior data.
- Companies such as [Equifax](#) have long offered detailed data on credit card and other purchasing behaviors.

In addition to the above examples, online users also experience behind-the-scenes data collection, especially through the use of cookies, from companies such as:

- **Amazon**
- **Google**
- **Meta (formerly Facebook)**
- **Apple**
- **Microsoft**

These large companies have an advantage when it comes to data collection and leveraging that data. If you were to look at the data collection policies on any website, you would see a list of third parties that have access to the data collected through cookies. Depending on your geographical region, you are probably familiar with the pop-ups that ask you to approve or reject cookies on almost every website today.

Acquiring third-party data

Having access to more data leads to a more accurate prediction of customer behavior. How do companies get their hands on this third-party data for their own marketing purposes? They can use the data indirectly through advertising platforms or they can purchase the data outright.

Access to data through advertising platforms

When a company pays for advertising through one of the top three industry leaders—Amazon, Meta, or Google—it is leveraging both the data and the AI that these companies have built into their platforms. Marketing departments have come to rely heavily on these powerful advertising tools. These three industry leaders [have captured the dominant share of online advertising budgets](#) in the United States.

While these platforms are great for user acquisition, the data remains in the hands of the data brokers, leaving companies entirely dependent on these third parties for their business longevity.

Direct purchase of data

Third-party data can simply be purchased from data brokers. With data in hand, these companies can use their own tools to process that data while maintaining direct contact with their customers. Of course, such an approach requires in-house resources: data processing capabilities, business intelligence tools, and expert data analysts.

Furthermore, third-party data can be of highly variable quality. In other words, companies who use third-party data aren't always certain that the information is directly relevant to their customers. Making decisions based on low-quality data generates mixed results.

Using third-party data

Third-party data is primarily used for advertising and marketing purposes, though many companies also use it for competitive analysis or to gain insights into consumer preferences for future products and services.

Third-party data may lead to customers receiving targeted marketing for products they have already purchased. Heavy dependence on third-party data can erode customer trust because customers see they are just receiving the same generic targeting as everyone else.

Business 101 teaches that retaining an existing customer is cheaper than acquiring a new one. However, the fact that most third-party data is used for advertising hints at how a company's emphasis on third-party data may inadvertently bias the company towards spending its budget on customer acquisition rather than retention or upselling.

What is first-party data?

In contrast to third-party data, **first-party data is collected directly from customers** in the course of business or through surveys, interviews, and direct social media interactions. Customers provide basic information to a company every time they make a purchase, download gated content, mention a brand on social media, or participate in an event hosted by the company. For the company that a customer is engaging, this data is first-party data.

Collecting first-party data

Implementing an effective first-party data strategy takes thought, but the tools available for first-party data collection, management, and usage are improving. Methods of collecting first-party data include:

- Questionnaires and surveys
- Membership and loyalty programs with benefits for providing data
- Content marketing engagement
- Social media interactions
- Customer service and support interactions
- Mobile app use

The collection of first-party data must honor the relationship between the company and the customer, and it needs to comply with regulations such as [General Data Protection Regulation \(GDPR\)](#) or [California Consumer Privacy Act \(CCPA\)](#). Consent-based data collection is key.

Using first-party data

Like third-party data, first-party data can be used for targeted advertising. In using first-party data, however, the advantage comes in customer retention, upselling, and improving efficiencies in the organization.

First-party data allows companies to deepen their relationships with customers, troubleshoot problems, and recognize use patterns of their products and services. High-quality first-party data can allow companies to prevent customer attrition, improve customer satisfaction, and develop word-of-mouth marketing campaigns. The data from first-party collection also informs the customer support and product development teams.

"Zero-party data is data that the customer explicitly shares through direct interaction with a company. Zero-party data can be obtained through customer preference centers, surveys, customer feedback, product quizzes, and more. Zero-party data used in conjunction with first-party data provides a deeper understanding of the customer which can lead to stronger marketing."

Why companies are moving away from third-party data

Recently, companies have been reducing their dependence on third-party data. Several factors have contributed to this trend.

Consumers pushing back on intrusive practices

Some marketers would argue that third-party data generates more satisfying search results, news feeds, and laser-precise advertising offers for consumers. Imagine a user visiting one website for the very first time and seeing an advertisement for a product that they had searched for on an entirely different site just days before. This use of third-party cookies—though potentially effective as an advertising strategy—has led many [consumers to push back against “creepy” advertising](#). Consumers and their governments have begun to demand that companies get permission for collecting data.

Major technology companies adjusting data collection policies

As a result of pushback from consumers, the major players have been shifting their data collection and dissemination policies. [Apple and Meta](#) have been rethinking their data privacy policies, with Apple blocking data collection by default for its iPhone users. [Apple Safari](#) and [Mozilla Firefox](#) have taken steps to block third-party tracking cookies in their browsers. Google Chrome, similarly, is planning to [phase out support for third-party cookies](#) by the end of 2023. There’s no question that the [growing importance of data privacy](#) is affecting the data collection approach of major technology players.

While these major players are reducing third-party tracking as a response to consumer sentiment, there's another reason they might not want to share: What we consider third-party data they consider first-party data, and they have more first-party data than anyone else. By keeping that data to themselves, they are protecting their own competitive advantage.

Regulators stepping in to protect data privacy

GDPR came into effect in 2018, protecting European citizens and residents worldwide from excessive data collection or the misuse of user data. Any company serving any person from Europe needs to comply with GDPR or face heavy fines. Similarly, CCPA provides data privacy and consumer rights protections for residents of California. CCPA regulations apply to both businesses and data brokers. Indiscriminate or non-consensual data collection is no longer accepted as a necessary evil for end users on the Internet. Consumer pushback has been fortified by regulation and enforcement.

Companies recognizing that third-party data erodes trust

Businesses want to develop deeper relationships with their customers. However, companies that are perceived as intrusive can [lose customer trust](#). As a result, invasive advertising and data collection techniques are being taken off the table.

In addition, companies are scrutinizing the quality of the third-party data they purchase. Poor data can lead to ineffective and expensive marketing campaigns, as well as poor decision-making.

As industry trends point to third-party data slowly making its exit, companies are looking to a better alternative: first-party data.

How first-party data yields a competitive edge

As a company moves toward a strategy that embraces first-party data, the results are improved data-driven decision making and better care of its existing customer base. Among the advantages of first-party data over third-party data are improved accuracy, direct relevance, and the building of customer trust.

Improved accuracy

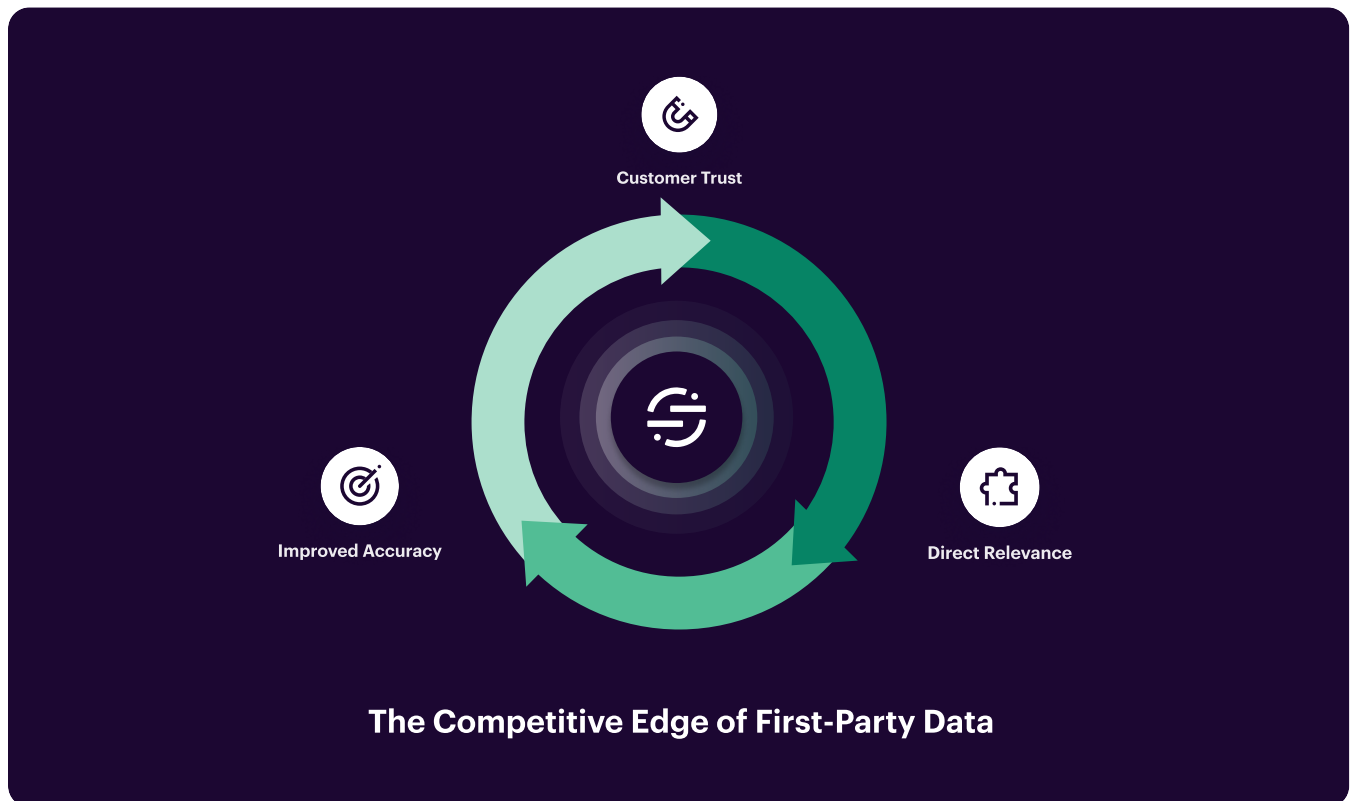
Because you collect first-party data yourself, you are confident in its accuracy. Past studies have demonstrated [the extent to which third-party data is both incomplete and inaccurate](#). In contrast, companies using first-party data can be confident that their data is a worthy input to business intelligence. First-party data collection allows companies to see the entirety of their customers' journeys from discovery, purchase, delivery, support, renewals, and upgrades.

Direct relevance

Observational data about how people interact with your website, products, and services is directly relevant to your organization, unlike data that is an aggregate of behaviors over the entire industry. Any surveys or interviews you conduct can be tailored for the data that is most relevant for you and your decisions, and you can go into greater depth if necessary.

Customer trust

When you interact directly with your clients, you build trust. The customers have clarity about how you are using the data, and you can make sure that you are collecting the right information. Boilerplate industry surveys can include requests for all kinds of information that you may not care about—such as ethnicity, household income, and age—and these questions can feel invasive to your audience. Shorter surveys have a higher completion rate, and they can focus on what you need to know, such as specific information about how they use your products and services.



Although managing all of your own data may seem like a major undertaking, the [tools available today](#) can smooth and simplify the entire process. The primary tool for streamlining the collection and management of first-party data is the Customer Data Platform (CDP).

How the CDP is purpose-built for first-party data

Whether you're new to first-party data collection or already have some marketing automation systems in place, using a CDP can make it easy to create and implement your customer data strategy. A comprehensive CDP solution collects, governs, synthesizes, and activates customer data.

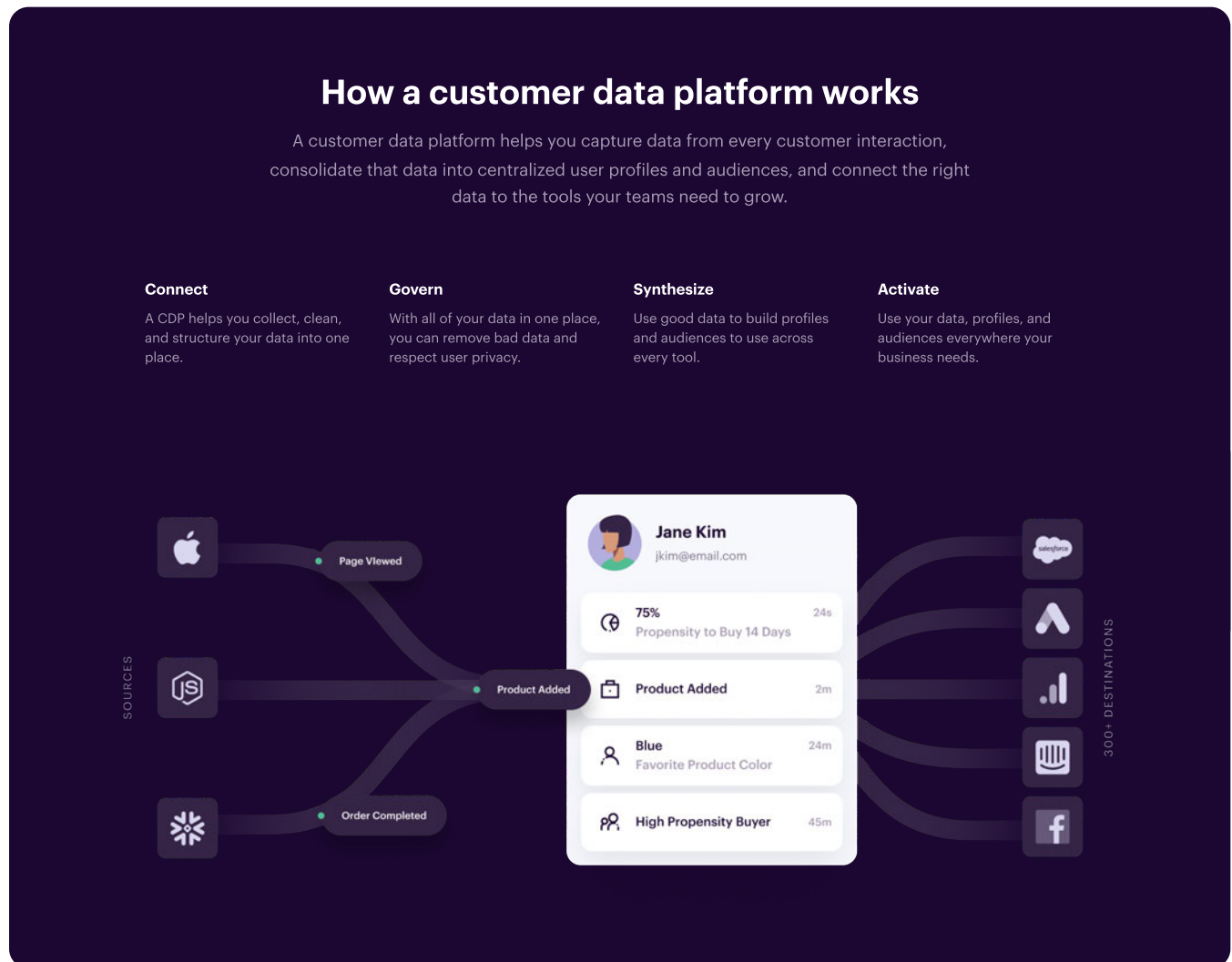
CDPs and the customer data lifecycle

The image at the start of this whitepaper showed the myriad of sources of customer data for a company. A CDP integrates with all of these possible sources as it **collects** data through APIs and centralizes that data in a single place. Each of these sources has its own structure for the collected data. Something as simple as the order of the fields that are stored needs to be unified into a standard format before it can be used for data analytics.

Next, a CDP **governs** that data, validating and cleaning it before using it for analysis. Bad data is set aside. Duplicate data is removed. Personally identifying information is sanitized for privacy concerns or regulatory compliance.

From here, a CDP **synthesizes** the customer data, building customer profiles and audience segments. As a result of synthesis, a user can be identified as the same person across different systems, such as a website, email campaigns, social media, and customer support systems. This stage in the work of a CDP helps a company to visualize customer trends and behaviors as well as see insights into how different customers have similar behaviors.

Lastly, a CDP helps a company to **activate** that data, converting those insights into actionable steps. Just as a CDP integrates with data sources for collection, it should integrate with destinations, such as email campaigns, advertising tools, and data warehouses.



Leveraging a CDP

CDPs are designed to automate the most common practices in marketing, product management, and data engineering. By integrating with the common tools companies use for their marketing, analytics, customer service, and sales, a CDP becomes the central tool that all data sources and destinations plug into.

Use pre-built integrations instead of custom tools and manual processes

The majority of businesses want to do the following:

- Understand user journeys
- Segment customers
- Create personalized marketing
- Identify which features are most popular with users
- ...and more

Similarly, there are hundreds of tools that are in common use. If a company were to attempt to build integrations for even several dozen tools in order to centralize the data from those sources, the drain on its engineering resources could be crippling. For a CDP, however, those integrations are part of the product itself. By adopting a CDP with a rich library of integrations, many companies eliminate the need for extract-transform-load (ETL) processes or manual labor by data scientists.

Eliminate the need for complex infrastructure

Many CDPs are cloud-based offerings that remove the need for managing complex infrastructure setups. Typically, CDP pricing is based on usage levels, offering pricing tiers that make these tools accessible to small and medium businesses as well as larger enterprises.

Provide tools and a UI for non-engineers

CDPs are designed for ease of use so that marketing professionals and product managers don't need to have a sophisticated understanding of data analytics to leverage the tool. By providing simple drag-and-drop interfaces with the ability to custom-code, CDPs create simple workflows that enable **anyone in the organization** to collect data, identify user profiles and behaviors, and generate actions that personalize the user experience.

Centralize customer data to a single source of truth

Data silos and disparate data have been challenges for organizations. To combat these challenges, the CDP focuses on creating a single source of truth for every user in a system. CDPs are designed to automatically **recognize and correlate each user across platforms**. When a user receives an email campaign from one system, receives an app feed from another system, and makes a purchase through the website, the CDP knows how to recognize that this is one person interacting with the company across different channels.

Personalize the customer experience

By segmenting users based on their interactions, the CDP creates a more relevant profile than third-party data, because the profiling is specific to the behavior of customers as they interact with a single company. This highly-relevant per-user behavior enables accurate personalization of the company's offerings to the user profiles.

Fundamentally, a CDP makes sure that each customer receives relevant information from the company, thereby maintaining a trusted relationship between the customer and the company. By providing the content that is most pertinent to each individual at any given time, your organization increases the customer's sense that you are aware of their needs and not just blasting them with irrelevant advertising.

Case study: Quartz and Twilio Segment

[Twilio Segment](#) is the industry leader among CDPs, used by new startups and global enterprises alike. One company, [Quartz Media, implemented Twilio Segment](#) to provide personalized global business content and targeted advertising to its subscribers. As Quartz began shifting its data strategy to a customer-centric and permissioned model, Twilio Segment was the best solution for enabling the digital media platform to provide long-term value to readers, journalists, and advertisers.

[Quartz](#) leveraged the data collection and synthesis features of Twilio Segment alongside the privacy, consent, and regulatory compliance tools. Twilio Segment consolidates data across the company's email platforms, mobile app, website, and customer contact systems. Twilio Segment then connects that synthesized data to Quartz's outbound channels to deliver personalized communications.

As a result, readers receive content that is more relevant to their interests. At the same time, advertisers can reach the audiences that are most relevant to their offerings. By moving away from third-party data, Quartz has improved the quality of the news and business content for its consumers while enhancing its ability to provide relevant and unobtrusive advertising.

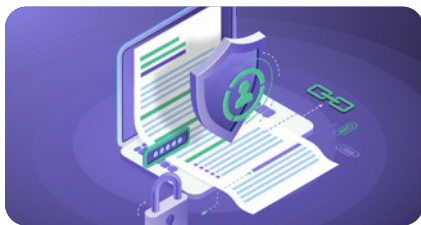
About Twilio Segment

As consumer sentiment, industry trends, and regulatory enforcement all push companies away from depending on third-party data, the need for an alternative source of customer data cannot be understated. First-party data is the solution, bringing a competitive advantage as it fills the gaps where third-party data falls short: accuracy, relevance, and building customer trust.

To adopt a first-party data strategy, companies look to the CDP, a centralized tool that helps modern businesses collect, govern, synthesize, and activate customer data. Twilio Segment is the leading CDP with more than [400 pre-built integrations](#) to different data sources and destinations. Twilio Segment provides a complete solution that eliminates the need for manual data cleansing, complex data engineering processes, and analytics reporting functions. By automating all of the backend customer data operations, Twilio Segment puts companies in a position to get the most out of their first-party data.

You can see Twilio Segment in action yourself when you [schedule a demo](#).

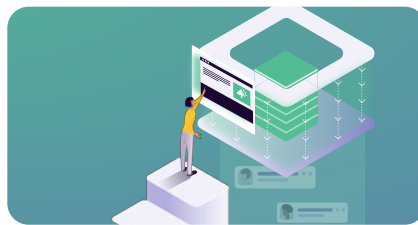
Want to learn more?



Cookies, compliance, and customer data

Protect consumer privacy while sending tailored content with first-party data.

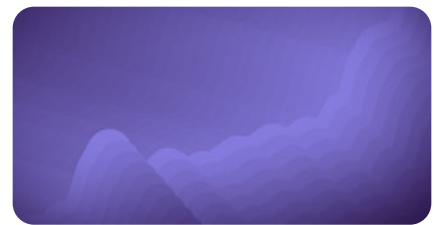
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Digital advertising in the cookieless world

A guide on the future of digital advertising amid web browser and government regulations.

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The Customer Data Platform Report 2022

We examined 10 trillion API calls from Segment - here's the consumer & business trends.

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