collective wisdom®
szabo MEDIA COLLECTION PROFESSIONALS
SZABO ASSOCIATES, INC. VOLUME 30, ISSUE 4, DECEMBER 31, 2015

Dear Friends:

Confusion persists about programmatic buying and selling of advertising. So many of our clients have voiced frustration with its various (and sometimes contradictory) definitions and descriptions, unease about its many challenges, and uncertainty about its future evolution. In this issue's feature article, we hope to clear up some of the areas causing confusion. Two things are certain: programmatic is here to stay, and media credit and credit personnel need to stay informed of this rapidly changing technology!

We hope to see many of our friends and clients at the Media Financial Management (MFM) 2016 CFO Summit on February 25-26 in Ft. Lauderdale, Florida.

All of us at Szabo Associates wish you a very Happy New Year and a prosperous 2016.

Best wishes,

Robin Szabo, President
Szabo Associates, Inc.

Probing Programmatic . . . Your Questions Answered

Believe it or not, two decades have passed since the first banner advertisement appeared on the Web. It ran on the original website of *Wired Magazine* in October 1994 as part of an AT&T campaign to promote art museums.

The buying and selling of online advertising at that time did not depart from traditional industry practices. With a nod to Mad Men, negotiations still often involved three-martini lunches and a handshake, and insertion order delivery had reached the sophistication level of a fax machine.

Fast forward to today, with technology enabling a multitude of digital methods and devices to advertise and market goods and services. In his June *Harvard Business Review* article, "Is Programmatic Advertising the Future of Marketing?", Jeffrey F. Rayport predicts our entry into a new era of marketing accountability in which advertising "budgets" will have turned into marketing "investments," a change in mindset that "will transform marketing forever." With millions of new online players and opportunities to consider, billions of impressions to analyze, and no time to do any of it, automation is a necessity. (As Rayport calculates, the daily number of possibilities that buyers on ad exchanges might consider, including which impressions to buy and how much to bid, is a mind-blowing quadrillion, or a million billion, or 1 with 15 zeroes following it.)

As programmatic buying and selling of advertising continues to grow rapidly, questions about it continue to arise. Herein, we will do our best to answer our clients' questions and to clarify some of the more confusing aspects of the process.

Question: *I hear so much jargon in relation to programmatic buying and selling of digital advertising—real-time bidding, open auction, etc. It seems that the term "programmatic" means different things to different people. Why can't people speak the same language?*

Your question has come to us time and time again. Some resources assume their audience already has a working knowledge of programmatic, thus compounding confusion. Additionally, some people use the term "programmatic" to mean only one particular type of transaction (for example, programmatic=real-time bidding. It doesn't). And finally, numerous names can be used to refer to each type of transaction.

A comprehensive (and comprehensible) guide has been published by the Interactive Advertising Bureau (IAB). The first—and perhaps most important—takeaway is IAB's simple definition of "programmatic": automatic. That's it. The term simply refers to advertising buying and selling that is automated through technology.

The other terms you mentioned in your question are types of programmatic transactions. Visualize "programmatic" as a big tent housing a four-ring circus. Each of the four rings is a distinct type of programmatic transaction: Automated Guaranteed, Unreserved Fixed Rate, Invitation-Only Auction, and Open Auction.

Automated Guaranteed is the closest of the four to traditional digital direct sales. This transaction type is negotiated between one buyer and one seller, inventory and pricing are guaranteed, and the transactions have equal campaign priority status as other direct deals. The programmatic components are the automation of the Request for Proposal (RFP) and campaign trafficking.

—continued on page 2

Programmatic—

—continued from page 1

Unreserved Fixed Rate appeals to advertisers who need some predictability. Like Automated Guaranteed, the deal is negotiated between one buyer and one seller, and the pricing is fixed. Unlike Automated Guaranteed, the inventory is not guaranteed.

Invitation-Only Auction transactions are restricted to several select buyers. The publisher creates a "whitelist" (allowed participation) and/or a "blacklist" (refused participation). Buyers are expected to bid on inventory, and the highest bidder wins the sale. Prices are unfixed and variable; however, price floors may be set.

Open Auction, a.k.a. the "Wild West," generally allows any and all buyers to access the publisher's inventory. Usually no direct relationship exists between the buyer and seller, and buyers are often unaware of the publisher's identity.

For a more detailed explanation of each type of transaction, see *Collective Wisdom,* June 2014 on our Szabo website.

***Question:** Are the Mad Men Don Drapers of the world going to become a distant memory?*
Yes and no. When machines take over tasks once performed by humans, it is easy to surmise that it means the elimination of humans. Without human facilitation and intervention, however, programmatic will not live up to its potential, according to Dana Caputo, Director of Programmatic Ad Operations for TEN: The Enthusiast Network. "When large sums of money are at stake," she says, "relationships are still what gets the deal done." Additionally, it takes humans to verify that transactions take place as anticipated and to fix things when they break. Operationalization of programmatic is not for the weak-willed, and determining how to structure it, track it, and collect revenue against it takes real human talent.

Programmatic ad buying has already extended its precision targeting to mobile devices, digital out-of-home displays, and even print. According to Jeffrey Rayport, this kind of ad automation will only become more mainstream, and as it does, new enterprise software will automate marketing functions. "Mar-tech" (marketing technology) solutions are being developed that will allow marketers to move quickly when opportunities emerge and to optimize their efficiency and effectiveness in real time. When this happens, says Rayport, CMOs and CFOs will join forces to "enable a new marketing model that blends art and science—the power of human creativity married with the split-second precision and profit potential of marketing automation."

Another important trend is the move by brands to take programmatic ad buying in-house. According to ad-tech company Index Exchange, marketers' in-house programmatic ad buying is the fastest growing category of programmatic spending. The trend requires more tech-savvy employees while eliminating the need for some third-party services.

Clearly, the staffing needs of advertisers, agencies, and media are changing. Sales teams have new roads to travel, requiring them to have business development skills, a consultative disposition, and the technical knowledge to connect audiences, advertisers, and media in a meaningful way. This kind of talent does not come cheap, especially as the need for it continues to grow rapidly.

As for the Don Drapers of the world, automation might free up time for more creative, high-value thinking about campaign strategy and tactics, perhaps over a longer three-martini lunch.

***Question:** Is programmatic expensive?*
Again, yes and no. Through automation, transactions become much more efficient, eliminating the need for complex and costly operational tasks. Efficiencies and cheaper ad inventories often lead advertisers to expect programmatic buying to be much less expensive than traditional buying. This is not necessarily the case.

Expensive engineers, traders, data management platforms, research and development, and other costs and fees can add up to a hefty price tag that is considerably higher than traditional methods. The cost can vary widely, depending on vendor partners and the level of service needed.

Agencies require expensive people to work on smaller buys, reports Alexandra Bruell in her *Ad Age* article, "Inside the Hidden Costs of Programmatic." Her media agency executive source stated that five full-time employees are needed to spend a $100 million national broadcast budget, while the same number is needed for a $5 million programmatic buy. Additionally, the programmatic employees' salaries are 50 to 100 percent higher than their broadcast colleagues, and the high demand for their skills allows them to jump frequently to other employers willing to pay more. These additional labor costs translate into much higher agency commission charges simply to break even.

Mistakes are also costly. One wrong key hit in a complex transaction may result in a five-figure loss, forcing agencies to either eat the loss or charge more to do it.

Then there are the "intermediary taxes" charged by ad-tech "middlemen"—ad exchanges that house media inventory, platforms that facilitate automated sales for media, networks that service programmatic buys, and data-management platforms—which can add up to half of every dollar spent going to non-working investments.

Even so, marketers are willing to pay. The precise targeting, the ability to make a connection, and the opportunity to tailor creative messaging make programmatic a worthwhile investment. Programmatic processes will continue to evolve, including ways to improve performance and maximize investments.

***Question:** Isn't fraud a big problem?*
Yes. Fraud, malware, piracy, and transparency are big issues, but they are being addressed by the industry and the IAB. According to the digital performance solutions company DoubleVerify, 30% of all programmatic buys could be fraudulent.

The criminals, who often operate from overseas and engage in numerous forms of organized crime, use code to create fake "robotic" traffic, called "bots," which simulate human behavior by "clicking" through to websites. The intent is to trick buyers and sellers into believing the results, or metrics, are better than they really are. According to Integral Ad Science, bots account for 90% of all ad fraud.

Bot code can create false traffic in several ways, according to the IAB. It may serve ads in ways that prevent them from being viewed while the consumer browses unaware. Bots may even take over user controls to generate false clicks when the computer is not being used, run unseen processes to simulate consumer activity, or compromise cookie data to look like high-value consumers.

"Impression laundering" makes bot- or rogue-generated impressions appear to be legitimate. It does so by concealing the actual URL where an ad appears by using "front sites" that disguise themselves as legitimate publishers. Programmatic buying is particularly vulnerable because of the numerous handoffs required to process the request, which often results in mismatched URLs for legitimate reasons.

Last year, the IAB issued "Traffic Fraud: Best Practices for Reducing Risk to Exposure," available on the organization's website. The document includes best practices for publishers, networks, and buyers of digital advertising. See *Collective Wisdom,* September 2014 for a more detailed explanation of traffic fraud, how it is perpetrated, what is being done about it, and what you can do to help protect your organization. Additionally, companies are working hard on new technology solutions to bot fraud, so we encourage you to stay tuned.

***Question:** Where is the programmatic market headed?*

Programmatic used to be associated solely with banner advertising on desktop computers; however, a new digital advertising order is developing. According to eMarketer, U.S. programmatic ad spending on mobile will reach $9.33 billion this year and account for 60.5% of total U.S. programmatic display ad spending. Additionally, new mobile, native, digital video, and browser banner formats such as the IAB Rising Stars will continue to fuel digital ad expansion.

Unfortunately, programmatic trading has required easily trafficked ads, and it chokes on most advanced formats, reports IAB's Peter Minnium in *Marketing Land.* Even so, Minnium predicts the decline and eventual disappearance of banner ads as richer ad formats take their place. The standard bearer for this display renaissance, he says, is the IAB Rising Stars program.

In 2010, the IAB challenged the marketing community—creatives, technologists, publishers, and marketers—to develop new ad formats in its Rising Stars competition. The entries were judged on branding, user experience, functionality, page integration, and ease of adoption. As a result, six new formats were added to IAB'a Standard Ad Portfolio, and 11 of its previously listed 18 standards were removed. The six winners—Billboard, Filmstrip, Portrait, Pushdown, Sidekick, and Slider—offered greater size, richer interactivity, and improved placement, resulting in better performance than older standards.

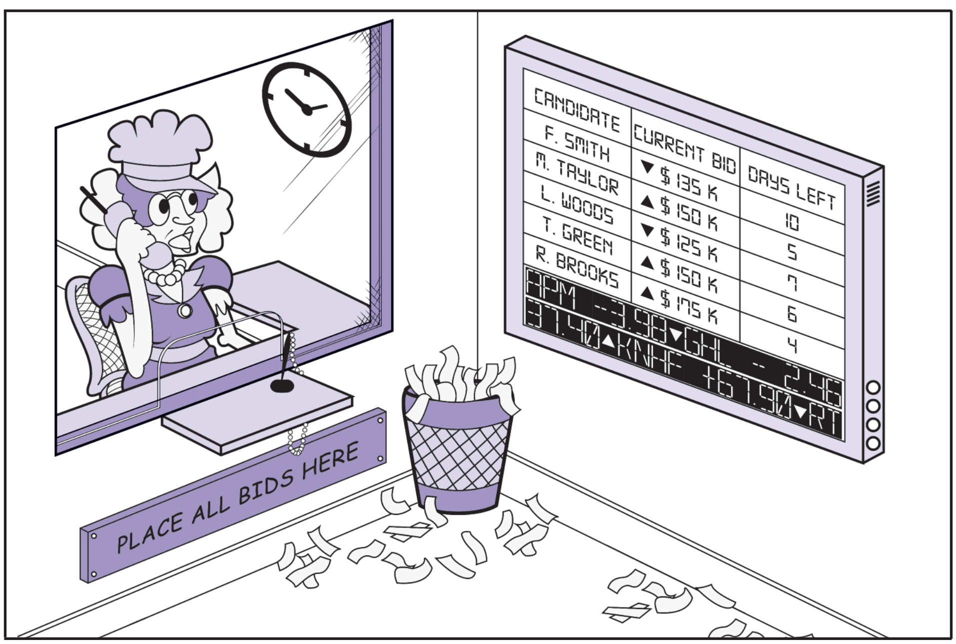
In an April 2015 article in *Ad Age,* Alex Kantrowitz reported that programmatic "isn't just for banner ads anymore," and that prominent sites on the Internet will be employing automated buying for more sophisticated ad units. Ad network Undertone, which sells space on sites owned by Gannett, American Media, USAToday Sports, and others, will make some of these splashier ad types available. With an expanded selection of ads beyond unimpressive banners available, brands are expected to invest more marketing dollars in programmatic spending.

Along with the emergence of new ad formats, IAB's Minnium asserts that native advertising, mobile advertising, and digital video will continue to drive the revitalization of digital advertising.

Native advertising, which entered the marketplace about two years ago, has continued to play an important part of the burgeoning digital ad market. Its official definition is a "form of paid media where the ad experience follows the natural form and function of the user experience in which it is placed." The word "paid" is important, because that is what distinguishes native advertising from "content marketing," which is placed on the brand's (advertiser's) own or other unpaid platform. In other words, native advertisers pay; content marketers do not. Like content marketing, native advertising is usually useful, interesting information targeted to a specific audience.

Consumers' love of mobile will continue to drive growth. A February survey conducted by RBC Capital Markets and *Advertising Age* found that the biggest portion of U.S. marketers cited mobile as the format expected to have the most opportunity for programmatic buying. Mobile users may also be the most discerning viewers, unwilling to put up with boring or intrusive advertising, and technology continues to evolve to improve the ad experience on these devices.

Online video advertising is one of the fastest growing ad media, according to Mark Hoelzel in



"Boss, the good news is, we can move into the programmatic space. The bad news is, we need five new specialized employees who are auctioning themselves off to the highest bidder."

—continued on page 4

SZABO ASSOCIATES INC.

MEDIA COLLECTION szabo PROFESSIONALS

PRESORTED STANDARD
U.S. Postage
PAID
Atlanta, GA
Permit No. 747

Collective Wisdom® is a publication of
Media Collection Professionals,
3355 Lenox Rd. NE, Suite 945, Atlanta, Georgia 30326
Tel: 404/266-2464, Fax: 404/266-2165
Website: www.szabo.com
e-mail: info@szabo.com

Programmatic—

—continued from page 3

Business Insider. Digital video advertising provides "a level of visual and narrative richness that nearly equals television," he said, "while offering all the advantages of digital, including advanced targeting, tracking, and increasingly automated buying of video ad units."

Question: ***What are the biggest challenges facing media with regard to programmatic?***

As with most fledgling technologies, significant challenges face the media industry as the buying and selling of programmatic expands. As John McDermott reported for Digiday, the biggest are fraud, a scarcity of talent, and a need to educate those less familiar with the subject. Interestingly, these three were on the lips of executives of brand companies, agencies, ad-tech companies, and publishers alike at the Digiday Programmatic Summit last fall.

Among publishers, one of the most discussed topics at the conference was the need for standards with regard to "viewability," or the extent to which ads are actually seen. Additionally, if a media property allows advertisers to purchase inventory based on view-ability at a premium price, would that practice undermine the perceived value of the publisher's remaining impressions?

Another concern among publishers is their inability to understand who is buying their inventory. While broad availability to advertisers is a boon, the downside is that publishers may not know if the advertiser is "on-brand" for their property.

As programmatic develops, conflicts are arising about how certain types of inventory should be sold. Direct-selling teams, who would like to protect their personal relationships with agencies and marketers, are at odds with open exchange operators, who would like to see real-time competition between direct-sold and remnant inventory. Additionally, according to McDermott, video ads, which generally command more dollars, are still being sold directly. As the video ad market continues to grow, however, making that inventory available in exchanges might bring higher prices.

According to a March survey by AdExchanger Research, publishers cited "vendor complexity" as a major challenge as they look toward 2016. Similarly, publisher-side solutions company Technorati reported in August that more than 40% of publishers surveyed lamented "not having the technology and tools that address my needs."

Programmatic is big and getting bigger. All departments of a media property should understand the vocabulary of programmatic and keep abreast of new developments through digital advertising information sources and trade organizations such as the IAB. Additionally, credit managers should continue to apply the same credit policies and procedures to the programmatic environment as they do to traditional advertising sales. For additional information on due diligence in the programmatic world, see *Collective Wisdom,* June 2014. ♦