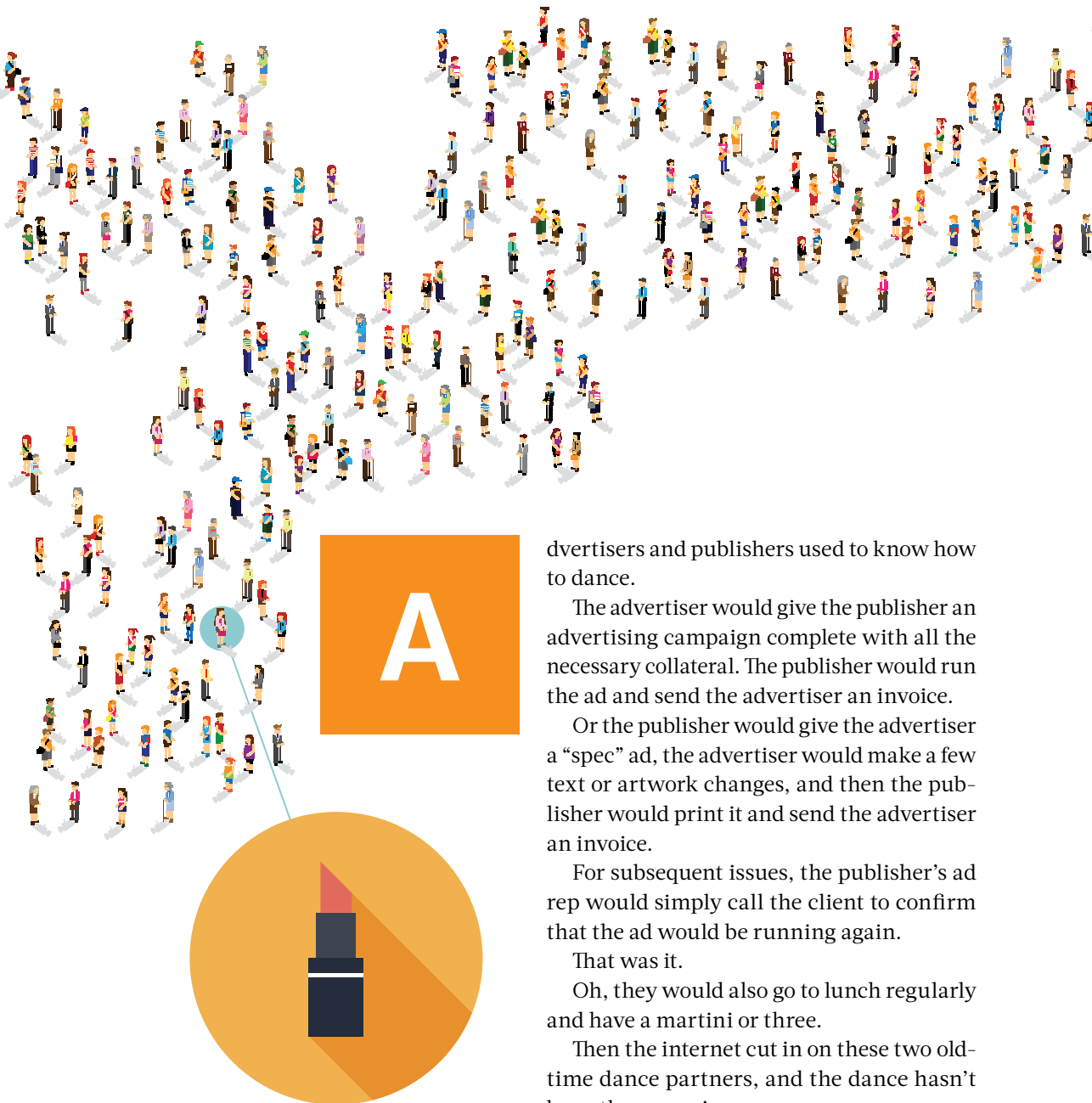


The Holy Grail of advertising?

Programmatic advertising has burst from the shadows to become the system that delivers extremely targeted ads to extremely targeted individuals instantly and efficiently

 Jen Matthews, Korsha Wilson and John Wilpers



Advertisers and publishers used to know how to dance.

The advertiser would give the publisher an advertising campaign complete with all the necessary collateral. The publisher would run the ad and send the advertiser an invoice.

Or the publisher would give the advertiser a “spec” ad, the advertiser would make a few text or artwork changes, and then the publisher would print it and send the advertiser an invoice.

For subsequent issues, the publisher’s ad rep would simply call the client to confirm that the ad would be running again.

That was it.

Oh, they would also go to lunch regularly and have a martini or three.

Then the internet cut in on these two old-time dance partners, and the dance hasn’t been the same since.

Among the many digital disrupters, the biggest party crasher may end up being what’s



called programmatic advertising. Many traditionalists see it as taking the human element out of advertising decisions, damaging the brand, and cheapening inventory. But its advocates see programmatic advertising as providing a more lucrative, more targeted, more efficient and far less expensive way of buying and selling ad space for both the publisher and the advertiser.

While programmatic advertising has been around for roughly a decade, it has exploded in the last year. The stunning statistics of the growth in both its use and the size of programmatic budgets makes it crystal clear that publishers who ignore programmatic advertising do so at their peril: “We are seeing entire markets moving en masse [to programmatic advertising],” said Jay Stevens, international general manager at automated advertising seller Rubicon Project, which sells News Corp’s inventory programmatically.

“Publishers are watching print revenue

decline and looking at digital to make up the [revenue] they are losing in print. They have to move to automated trading or they will die,” Stevens told *The Guardian* in February 2014.

“All media will be purchased this way in the future – on television, mobile phones, video and social,” Michael Smith, vice president of revenue platforms and operations at Hearst Magazines Digital Media told *MediaPost*.

“The industry has seen a monumental shift toward programmatic buying,” Forbes Media senior vice president of digital advertising Mark Howard told *eMarketer*. He didn’t say a “slight” or “moderate” or even a “significant” shift, he said a “monumental” shift.

To wit: US programmatic advertising is growing at 53 per cent a year, according to IDC, and by 2017, 83 per cent of US digital display advertising will be programmatic, according to Magna Global, one of the world’s largest advertising buyers. Research firm Forrester believes programmatic will

ultimately capture the bulk of all global digital ad spending.

And, while the spread of programmatic advertising will be slowed in some countries by obstacles such as traditional publishers resisting change, a slow-to-develop ecosystem infrastructure, and tough privacy laws restricting the use of behavioural data, the growth of programmatic advertising appears to be inexorable.

Magna Global predicts that programmatic advertising will account for a significant percentage of all digital display advertising in 2017 in key countries, as shown in the chart on the right.

But let's take a step back before we get too overwrought here.

What exactly is "programmatic advertising"? The term is widely used but not so widely understood.

To over-simplify a complex process, programmatic advertising is ultimately a data-driven process of buying digital ad space at scale across multiple platforms to reach highly targeted readers from a very specific demographic with very specific online behaviours that indicate that an individual is most likely to purchase the product being advertised. The ads are purchased often, but not always, through automated, open, real-time bidding with the ad going to the highest bidder.

There are subsets of programmatic advertising where publishers create private networks, selling the same spaces and demographics but to a limited number of potential bidders who pay extra for the privilege of having a chance to bid on the highly desired ad spaces and audiences. Those private networks also help publishers protect the integrity of their brands by limiting the type of advertiser with access to their pages.

Real Time Bidding (RTB) is a term that is often used interchangeably with "programmatic advertising", but it is not a synonym. Real time bidding is a key part of the programmatic advertising process – it is how the ultimate winner of the ad space is chosen. Programmatic advertising itself is the entire process of integrating customer and site data into the planning of an ad campaign to take advantage of algorithms that can deliv-

Programmatic advertising percentages of digital display advertising in 2017

The US

83%

The Netherlands

60%

The UK

59%

France

56%

Australia

52%

Japan

40%

Germany

33%

Spain

31%

China

23%

Source: Magna Global



er qualified individual viewers for an ad and, thus, trigger the real time bidding.

Programmatic coming out of the shadows

For years, programmatic advertising functioned largely in the background as a way for publishers to sell “remnant” digital inventory. Recently, however, with the ability to gather increasingly sophisticated data about web user behaviour, programmatic advertising has leap-frogged into what is predicted will be the primary method of buying advertising, or so its advocates would have you believe.

Why? Publishers now have the technology to not only identify their site visitors but also continually follow, catalogue and analyse their behaviours. Thus, the publishers’ “first-party data” (their own) about their readers enables them to serve up finely parsed audiences and deliver different ads in the same position on the same page depending entirely on whom an advertiser wants to reach and which reader arrives in which context (from home, from his mobile, etc.)

There is also third-party data of the same nature, but it comes from sources outside the publishing company and is currently considered less robust and less trustworthy, at least in the publishers’ eyes.

Clickstream data, demographic data, behavioural data, and many other first-party and third-party data points create an extremely fine-grained picture of the consumer who will view an ad. The programmatic advertising system can then decide with incredible precision if this particular consumer in this situation matches the most likely prospect from the most desired audience.

How does it work in the real world? Let’s say Sally Harris, a recent college graduate, wants to buy a snazzy red couch to decorate her cool new apartment. She searches on Google for hours, but can’t find the couch that’s right for her.

The next day, Sally does a Google search for a news topic, intending to find out more about an event that interests her, but red couches show up in the ad spaces on her browser window, distracting her from her news quest. Sally starts clicking on the red couch ads and forgets all about the news she wanted.

Her husband does the same Google search

for the same news topic, but because yesterday he was searching for mountain bikes (and not red couches!), the same results page Sally got will instead feature mountain bike ads in the same spaces where Sally saw red couch ads.

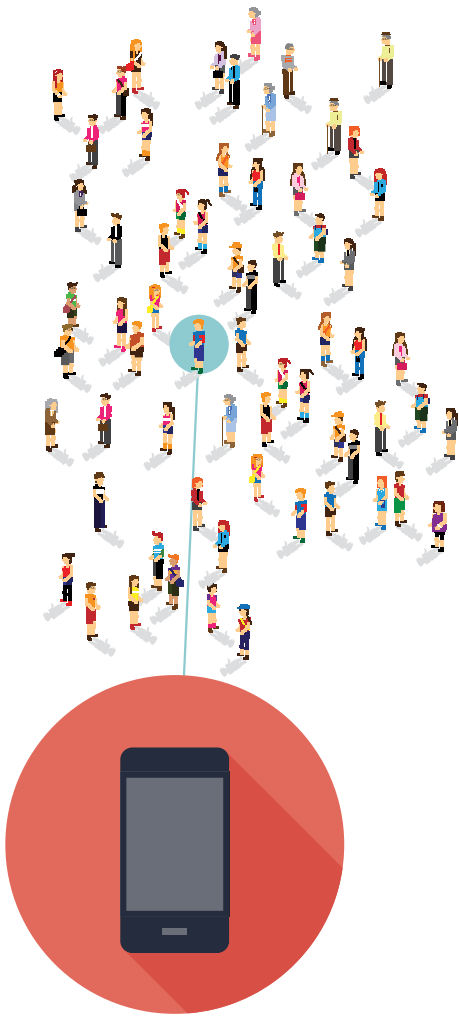
Going to the next level, publishers are increasingly able to differentiate what ads Sally and her husband see depending on where they are: on their home desktop computer or on their smartphone in the city.

New device IDs in both Apple and Android smartphones make possible the re-targeting of consumers on mobile apps. The new IDs strike a balance between user privacy and advertiser targeting capabilities. Additionally, the availability of “hyperlocal” location signals using latitude and longitude information is now increasingly available on ad exchanges, according to ClickZ.

So, for example, if Sally had recently searched for sushi restaurants and was using a magazine app in a cab on her way downtown, she might see advertisements for sushi restaurants. Her husband, on the other hand, might see ads for a nearby gym because he’d recently searched for fitness equipment.

When you think about it, programmatic advertising is rather like the Holy Grail of advertising: the ability to deliver adver-

With the ability to gather increasingly sophisticated data about web user behaviour, programmatic advertising has leap-frogged into what is predicted will be the primary method of buying advertising



tisements for specific products the viewer is looking to buy at the moment they are in the purchasing mode for that product. Talk about “qualified leads”!

Outside of print, gone are the days when advertisers will buy “full-run” ads that serve up products to thousands of people who have absolutely no interest in what the advertiser is selling. No more pregnancy test kits being sold to senior citizens or cases of beer being sold to active members of Alcoholics Anonymous or steak dinners being promoted to vigorous vegetarians. You get the idea.

Simply put, companies create programmatic campaigns that only buy online ad space when a buyer triggers their carefully constructed algorithms.

When a person comes to a site, his or her arrival is instantly noted and, if he or she meets an advertiser’s set of criteria, the algorithm triggers the instantaneous RTB process

and the ad is purchased at lightning speed by the highest bidder. The visitor is then, quite to his or her amazement, seeing ads that have them thinking “Yeah, I’ve been looking to buy one of those! How’d they know?”

As good as this sounds, there is a problem: Most publishing companies are dangerously clueless about how to maximise the potential of programmatic advertising.

The sudden rise in the importance of programmatic advertising has caught most advertising departments flat-footed. Most publishing companies have no one on staff who truly understands programmatic advertising and how to put it to use in the context of all their other marketing tools. Additionally, programmatic advertising is technologically challenging, adding to the difficulty of finding someone internally who can guide the company.

A new position: chief of programmatic

“Six years ago they were selling a print magazine,” one magazine publisher told *AdAge* about his overstretched sales team. “Now they’re being asked to sell print, online, mobile, tablet, conferences [and programmatic]. Their lives are insanely complicated.”

Some publishing companies have created a special position within their sales organisations dedicated to programmatic advertising.

Because so many advertisers and agencies want to buy media with programmatic ads, and because their budgets are so large, publishers cannot turn a blind eye anymore. Since they cannot rely on internal resources, publishers must consider hiring outside talent as programmatic directors to figure out how to use programmatic not as a separate, secondary tool but as an integral part of the sales operation.

In the last nine months of 2013, *The New York Times*, Meredith, and *The Washington Post* all hired top executives to head up their programmatic initiatives.

One common feature of the portfolios of each programmatic executive is the training, education and support of the sales team. At present, that means the care and feeding of both their own sales department and their advertisers. The ad sellers need to educate their clients as to what’s possible but most ad

sellers themselves don't yet know.

"You have to prep your team to understand how to integrate it [programmatic] into any sale," Meredith vice president of programmatic sales and strategy Chip Schneck told *Digiday*. "A key part of my role is scaling, which is getting people talking about it with clients and understanding how it can support a deal."

"I work hand in hand with both operations and sales, educating both in-house and customers," *Business Insider* programmatic director Jana Meron told *Digiday*.

Some publishers are also getting ready by forming private networks within which to sell programmatic advertising. In September, five leading Czech media houses formed the Czech Publisher Exchange to offer advertising inventory from publications that reach 70 per cent of the population. The Czech Republic followed France and Denmark as the third European country where large publishing houses have announced collaborations.

These private networks or "exchanges" claim to be able to calm four of publishers' biggest fears about programmatic advertising: Taking the human element out of sales, eliminating the consultative element of direct sales, damaging the brand, and eroding price.

Publishers worry that their brands will be damaged because the highest bidder for an ad space might in some way be inappropriate for their content, their readers, and their brand. Publishers also worry that even the highest bidder might be below the rate they need to be profitable. They also see the algorithms of programmatic advertising as the death knell for the human touch so integral to the consultative approach to direct sales of advertising campaigns.

But programmatic advocates argue that it is no longer the dumping ground for remnant ad space. Programmatic is so powerful in delivering extremely targeted, qualified leads that it must now play a strategic role as a critical part of a publisher's ad sales efforts. Sales executives are pushing their teams to bundle programmatic as just one element of lucrative "premium" packages. And, increasingly, publishers are also using it to better monetise their first-party audience information as well (more to come on that).

Programmatic advocates also argue that by

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Chip Schneck

VP of Programmatic Sales and Strategy, Meredith

limiting access to the RTB process, publishers can protect their brands by limiting the type of advertisers who can bid on the space. The private exchanges can also include a price floor, below which the ad will not be sold.

And while some publishers have experienced revenue drops even with price floors, other publishers are reaping an unanticipated benefit: price wars that are escalating, not lowering, CPMs (cost per thousand).

"Evidence shows that RTB eCPMs are increasing, indicating agencies are prepared to pay premium prices in an automated environment," Improve Digital CIO Janneke Niessen told FIPP's *Magazine World*. "This highlights the advertisers' demand for greater efficiency and reinforces the core value of publishers' first party data, consumer access, quality content, and intimate audience relationships."

"Prices are going up, not down," Hearst's Smith told *MediaPost*. "The concept that RTB, ad exchanges, ad technologies and middle men are all in a race to the bottom is completely not the case. The opposite is true. The pricing that Hearst sees is reaching a state of market equilibrium that is indeed fair."

"We find that the more competition we see for each bid, the higher the rates people are willing to pay for that inventory," Forbes Media senior vice president Mark Howard told *eMarketer*. "As a result, we see higher yield in terms of not just the cost per impression but the overall revenue generated. This has been really useful in helping us understand the true value of our display inventory as a result of that increased competition."

"It gives us a daily feedback mechanism

that shows us where the volume of activity is taking place, in what industries, for which companies and for which campaign objectives,” he said.

Results: rate hikes, not lower prices

Seeing this advertiser activity also helps publishers figure out where to raise rates. “By having a much more granular view of what advertisers are paying for – users and segments – you are able to determine what inventory is most valuable and start increasing your rates,” Leon Siotis, senior director of programmatic video advertising platform BrightRoll, told *Magazine World*.

For the advertiser, the benefits are obvious: a much more targeted audience and, as a result, a much higher rate of return.

“The smartest programmatic buyers may see ROI improvements in the range of five to six times over traditional buying, because they pay only for the exact consumers that they want to reach, in contexts that work,” according to Roland Siebelink, product marketing director for artificial intelligence firm RocketFuel.

“Programmatic buying is also effective simply because it makes every individual impression, brand-attribute lift shift, click, and conversion measurable in real time,” said Siebelink. “This makes it easy to set a clear and measurable campaign goal, and to optimise the campaign toward that goal as it is running. Whether the goal is brand lift, click-throughs, or conversions, programmatic buying can help marketers reach – and verify – the maximum possible effect at the lowest possible cost.”

Another very real benefit of programmatic advertising is that it takes most of the tedium and labour intensity out of placing ads. The old insertion orders (IOs), delivered by mail, fax or email, required human interaction and lots of paperwork and time. Manual buying is inefficient and costly. On average, it can take up to 50 steps to complete a direct sale, and can require as many as a dozen people, according to iSocket.

Programmatic “greatly reduces the friction and costs associated with buying and selling advertising by eliminating many of the inefficiencies associated with booking an IO, such

as sending over tags, setting up daily reports etc.,” said BrightRoll’s Siotis.

“Removing the need for out-dated, error-prone tools, multiple pairs of hands, repetitive tasks and significant overheads and inefficiencies is what it’s all about: ad automation helps publishers by taking on those time-draining, money-wasting tasks and freeing staff to focus on higher value, creative commercial partnerships,” said Jay Stevens, general manager, international, of the online advertising technology firm Rubicon Project.

Looking ahead, some publishers are already taking what many see as the next step in the evolution of programmatic advertising: Taking their own audiences and selling them via programmatic advertising to other publishers and websites, becoming buyers as well as sellers.

By setting up what the industry is calling ‘publisher trading desks’ (PTD), these forward-looking media owners are selling their audiences and user groups across both their own properties as well as other sites. Using data management platforms (DMP) or other in-house solutions, the PTDs buy inventory from third-party sites and exchanges, repack-age it, and sell it to their advertiser clients at a premium.

The publisher trading desk represents a completely new revenue stream for creative, data-driven sellers – not the least magazine publishers, who often have high value, highly engaged audiences, and sell out across their own inventory – and are therefore well-placed to take advantage of this trend.

Condé Nast, The Washington Post and The

“You are able to determine what inventory is most valuable and start increasing your rates”

Leon Siotis
Senior Director, BrightRoll

Programmatic lexicon

What's the difference between RTB and DSP? And what's a DMP and can you use it with an SSP?

Media Two Interactive founder and CEO Michael Hubbard published in his blog (mediatwopointoh.com), is a quick lesson in media buying space lingo:

Programmatic media buying:

Ultimately, it is the automation of the media buying process, usually through algorithms.

Ad Exchanges: Where only remnant inventory lived but now also include some premium inventory made available for purchase through the programmatic technology.

Supply Side Platforms (SSPs):

Publishers' technology platforms used to place the inventory on the exchange and focus on yield optimisation.

Demand Side Platforms (DSPs):

Marketer and agency side platforms that were developed to purchase inventory off of the ad exchanges in a programmatic fashion.

Trading Desks: Agency side platforms that run off of DSP (see above) technology, but strategies, bidding and optimisation are managed by the in-house ad agency rather than a sales rep from the DSP side.

Real Time Bidding (RTB): The service being performed by the DSPs on the exchanges. Although it's often thought of as a way to just lower pricing, the function of RTB is actually just as much of a function of bidding on data in real time in order to secure the audience an advertiser is after first.

ReMarketing or Retargeting: The ability to send a secondary message to someone whom an advertiser has previously sent an ad to already. An example: A user came to an advertiser's website and spent time shopping on the site, but never actually purchased anything. The advertiser could then identify this person via 3rd party cookies while they surfed the web somewhere else and an ad position on that page they were surfing became available on one of the Ad Exchanges. The advertiser could serve them up another ad with a message of "50 per cent off for all first time buyers, today only!"

Data Management Platform (DMP): A centralised location for first-party and third-party data that allows advertisers and publishers to aggregate all of the information to that one location with the ability of then utilising it to target audiences on the exchanges or networks.

Guardian all launched PTDs in 2013. The advertiser wants the publisher's audience, but doesn't much care where it happens. Making that connection happen on their own and other sites is the opportunity PTDs can make happen.

What does the future hold for programmatic advertising and magazine publishers?

"There's no doubt that more dollars are going to continue to shift to RTB as these technologies get more sophisticated," Forbes Media's Mark Howard told *eMarketer*. "I think we've gone through that first huge wave, and now we're going to need a second wave to come in behind it.

"I think that second wave will mostly be metrics-driven," said Howard. "We'll see an

emergence of metrics that brand marketers will need to measure the branding impact of this channel.

"Over the next few years, I think a lot of the technologies that exist today only in the programmatic marketplace will start to penetrate the direct-buy process," said Howard. "You'll see a lot of those efficiencies from a buying, execution and optimisation standpoint start to affect what you can do on the direct side, but I don't see programmatic buying replacing direct buys any time soon."

The consultative, face-to-face direct sales process will continue, but the discussion will include programmatic advertising now as one of the key elements of an entire campaign. If not, it will be a short discussion.