

# WTF

is Programmatic TV?



# Introduction

## TARGETING

It's 11:57 p.m. and you're deep into a binge watch of *The Mindy Project* on Hulu. It's time for your quarterly dose of four commercials. You have exactly two minutes to grab a handful of popcorn from the kitchen or check your Instagram account for new followers when a car ad grabs your attention. Why?

You're in the market for a car. You've been online checking out mid-priced hatchbacks. And this is an ad for a mid-priced hatchback.

## ADDRESSABILITY

This is the blue sky promise of programmatic TV: to bring linear TV out of its silo, connect it to other digital buying platforms, then deliver, measure and optimize ads in a matter of days instead of weeks or months. In this sunny vale, marketers no longer need to rely on traditional age and gender ratings to make an educated guess at what their desired audiences are watching. Their buys are built on the digital pillars of automation, addressability and targeting.

## INVENTORY

But we're not at blue sky quite yet. While programmatic TV and audience targeting platforms—some backed by the biggest names in broadcast and cable—are making strides, there are still some technological and market perception challenges.

## REVENUE

Keep reading and we'll explain just what programmatic TV is, what hurdles the technology needs to overcome and whether it can break through with an industry already raking in billions.

# The pieces of programmatic

TARGETING

ADDRESSABILITY

INVENTORY

REVENUE

In the programmatic looking glass, digital is traditional and television is the new frontier. Essentially, programmatic providers have ported a familiar collection of technologies to this “new” medium, aiming to bring targeting, measurement and efficiency to the last existing “mass” medium. This collection consists of three different parts: supply side platforms, data driven targeting, and connected TV

# TV supply-side platforms

## TARGETING

If a buyer is purchasing broadcast television inventory programmatically, it's likely that they're going through an inventory aggregator called a supply-side platform (SSP). These SSPs offer access to local and national cable and broadcast inventory with some of the segmentation and targeting heretofore lacking in television buying. As of now, the targeting data most readily available combines broad demographic categories such as gender and age with strategic targeting options like household income, presence of children or pets, ethnicity, education level, purchase history and more.

This kind of data isn't quite as specific as digital marketers are used to, but it offers broadcast buyers the opportunity to target a Cheerios ad to households with children versus a college campus.

A recurring knock against programmatic TV is that the inventory available largely consists of local cable and satellite networks with little or no primetime space. While the massive prime time buys are still predominantly negotiated directly at the Upfronts, early findings show that about thirty percent of all TV ads served programmatically run in primetime.

## INVENTORY

While television supply-side platforms are less sophisticated than their digital counterparts, they do introduce a level of automation that represents a major improvement over historical TV buying methods. One of the promises of programmatic TV is, after all, the potential to make the buying process less labor intensive and manual.

## REVENUE

# Data-driven targeting

## TARGETING

Traditionally, targeting an individual user or even a broad demographic category via broadcast television has been difficult. To understand the composition of their audiences, networks have traditionally relied on ratings. Nielsen, with their famous boxes, samples a chunk of the TV viewing public, asks them what they're watching at a given time and how much they like it. From that sample they extrapolate the viewership of particular shows, day parts, and networks.

## ADDRESSABILITY

The ratings have dominated television advertising for decades because they're the only way for advertisers to get any insight into who will actually see the ads they're buying. Ad targeting services are trying to go beyond just age and gender by layering historical viewing data from Nielsen to find out which shows and day-parts index highly against a particular target audience – soccer moms, for example.

By combining this data with more traditional measures of viewership like ratings, ad targeting services can offer advertisers a clearer picture of the audiences they're buying. Instead of buying against a broad assumption of who will be watching, advertisers have the opportunity to buy segmented audiences through these services. The opportunity is big enough that Comcast, NBCUniversal, Time Warner, Turner and Viacom have all invested in developing their own targeting capabilities.

## REVENUE

# PROGRAMMATIC TV IS READY FOR PRIMETIME



Programmatic TV (PTV) brings the power of software to TV advertising. With PTV, advertisers can now access the most coveted inventory and audiences on any daypart, in any DMA on a single platform. Automated TV buying that's efficient, flexible *and* scalable? That's PTV.

## Programmatic TV

The New Standard in TV Media Buying

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# Connected TV

## TARGETING

Though they operate outside of traditional broadcast models, connected TV platforms offer a viewing experience very similar to that of traditional linear television combined with the individual-level targeting and measurement capabilities of digital.

“With CTV you can measure, you can look at really deep data, and you can target specific segments,” says Jason DeMarco, director of programmatic and audience solutions at A&E, adding, “You don’t have live though, and the audiences is obviously smaller.”

## ADDRESSABILITY

Platforms like Hulu and Roku make their inventory available on programmatic platforms. Hulu has gone so far as to launch its own exchange. Advertisers are able to automate their buying against targeted audience segments. In many ways it’s the best of both worlds, except that the audiences are comparatively smaller and they don’t have a Super Bowl.

Advertising on connected TV platforms tends to resemble other forms of online video advertising, adopting a pre, post and mid-roll structure that interrupts the content at regular intervals. Ads can be stitched directly into the content at the server level, making them unskippable.

## REVENUE

Despite being highly targeted, addressable and measurable, connected TV advertising hasn’t caught up to its linear predecessor in terms of CPMs. Smaller audiences mean that while the experience mirrors television, the prices for advertisers are distinctly digital. For now at least, advertisers willing to dabble in connected TV will pay much less than broadcast buyers.

# What's it worth?

## REVENUE

Programmatic TV generated close to \$1 billion in revenue for broadcasters in 2015 according to [estimates by the International Data Corporation](#). That's an increase over 2014, when estimates for programmatic TV spend hovered around the \$750 million mark. It's clear that programmatic TV is gaining some traction with advertisers, but it's still small ball compared to the wider advertising industry.

Advertisers spent \$70 billion on traditional television advertising in 2015, with almost all of that passing through the direct buying channels that have dominated the industry for decades. It's also worth noting that digital advertising, which is qualitatively much closer to programmatic TV than traditional television, brought in just north of \$60 billion in 2015.

Numbers like these make it clear that programmatic TV is still in its infancy, but some experts expect it to hit adolescence pretty quickly.

"We're expecting PTV to really grow in the next couple years," says Jason DeMarco. "Big networks are getting involved and that's going to move the needle. By 2020 it'll be much bigger than it is today."

Estimates vary, but a widely circulated report by IPG's Magna Global suggests that programmatic TV spend could top \$17 billion by 2019. That's just four years for PTV to enter its terrible teens. The main driver for this growth is expected to be adoption of programmatic tactics by major broadcasters. This, at least, seems to be proving out with [programmatic announcements from both NBCUniversal and FOX at this year's Upfronts](#).

# Why programmatic?

TARGETING

ADDRESSABILITY

INVENTORY

REVENUE

Programmatic TV could cause a seismic shift in the way television is bought and sold. But what are we getting in exchange for shaking a business model that's been working well enough for the past six decades?

# Programmatic vs. addressable



And now, a word from our sponsor:

There has been some marketplace confusion surrounding the definitions of “programmatic” versus “addressable” TV.

Programmatic TV – as it largely exists today – simply automates the process for planning, buying and delivery of ads. Usually, it allows advertisers to apply data to inform which networks, day parts and programs to buy, making TV more “addressable,” but not at a household or individual level. It’s more of a smart, automated contextual buy.

True addressability is different and made possible by pay TV distributors, such as a cable or satellite company, which enable advertisers to buy specific households using first-party and credit company data.

# Selling unsold inventory



For providers, Programmatic TV is an efficient way to monetize unsold inventory, adding some incremental revenue. These unsold placements—normally sold on the scatter market—are made up of two primary classes of inventory: small blocks of premium inventory that were intentionally withheld at Upfronts in hopes of fetching a higher price later in the year thanks to scarcity, and some less desirable blocks that just didn't sell.

A [report by Google's insights division](#) notes that programmatic channels have been shown to not only find buyers for the less desirable inventory on the scatter market, but to fetch a higher CPM on average. Google analysts also estimate that programmatic efficiency would yield higher prices for the intentionally withheld premium inventory that broadcasters routinely reserve from the Upfronts.

INVENTORY

# Stablize prices

Scoring a few extra dollars on the scatter market could come in handy since overall television revenue is expected to drop in 2016. Magna Global's crystal ball predicts that television advertising could slip to \$66 billion this year, a significant drop from the estimated \$70 billion the industry took in last year. This will also reportedly be the year that digital advertising finally tops television, reaching \$68 billion; another sign that advertisers are increasingly favoring programmatic media.

REVENUE

# What's standing in PTV's way?



So why aren't we already living in a programmatic TV Shangri-La? Programmatic has had a slow start, and both the practice and the technologies behind it have faced an uphill battle. Chief among its obstacles are an entrenched group of stakeholders with little immediate interest in upsetting the status quo, but issues of technology, scalability and a dearth of marquis inventory persist.

# A "don't rock the boat" mentality

"Any opportunity to see more data, or target, is appealing to us" says Drew Wahl, general manager of media and data at AKQA.

Despite this demand from the agency side, Programmatic TV has had a slower entry into the mainstream than one might expect. In some cases it may be entrenched thinking on the sell side creating barriers to the mainstreaming of PTV efficiency.

It's possible that major broadcasters are just hesitant to rock the boat. Television CPMs rose by an average of 3 percent last year and are expected to rise even more this year. Despite projected declines in overall TV spending, the industry is still massively profitable under the current direct buying model. Opening the doors to a programmatic approach may please advertisers and provide greater efficiency, but some fear that it also exposes TV inventory to the whims of a more open market. That's a perceived risk that may make some key sales team players hesitate.

INVENTORY

REVENUE

# Quality

Perceptions about the quality of programmatic inventory are improving with the news that major broadcasters will reserve some of their top-shelf content for programmatic channels. However, some placements available through programmatic are still a bit unglamorous.

Currently, seventy four percent of the inventory available on programmatic markets is either from local cable and satellite networks with limited audiences in smaller markets, or it's late night according to IDC. That's a number that is expected to fall as more major broadcasters shift premium inventory to programmatic channels.

INVENTORY

# Scale



Connected TV is the best-developed corner of the programmatic television universe. Data capabilities here are the highest with measurement and addressability functioning near the level of online video, allowing advertisers to target highly specific audience segments.

However, connected TV is still a small drop in a much larger TV ocean. CTV doesn't yet offer a large enough audience to warrant broadcast dollars. Hulu, which offers one of the largest libraries on CTV platforms, currently boasts 9 million subscribers. That's a healthy number for a streaming service but small compared to the 116.4 million households tuning into broadcast programs Nielsen estimated in 2015. Furthermore, inventory is still too scarce to make CTV a truly meaningful sector of the market. Nielsen estimates that connected TV represents less than five percent of all television inventory currently on the market.

REVENUE

# Technology

## TARGETING

Outside of CTV, programmatic for television doesn't yet operate at the same level of traditional digital. While Programmatic TV platforms provide enhanced targeting and delivery speed, they also make due with a smattering of targeting data that is far less precise than traditional programmatic. Often, it is based on old-school ratings with limited demographic info collected by cable subscription services.

## ADDRESSABILITY

Addressable advertising via Sset-top box data can provide a more accurate picture of the individual subscriber or household, but it's still not possible to serve ads deterministically directly to individuals based on that data. Ad targeting services use this data to give advertisers a more detailed look at broad markets, but it's still impossible to target individually or to break out specialized segments.

"TV can get me into your house," says Drew Wahl, "but it can't tell me who's going to be home when I get there. Digital can tell me who's home, what they had for dinner, and probably what they like for dessert."

# Conclusions

## TARGETING

Programmatic TV has huge promise, and the technology is quickly covering the remaining yards to the finish line. Advertisers are becoming accustomed to highly addressable, targetable and measurable audiences on digital platforms and connected TV, and networks exploring improved targeting are moving linear TV toward the same goals.

## ADDRESSABILITY

With ad dollars beginning to drift away from television and into digital efforts, broadcasters are stepping up their data game to hold on to the multibillion-dollar dominance they've enjoyed for decades. Set-top cable boxes offer context to accompany the ratings, and broadcasters are exploring new ways to know their audiences as they keep pace with rising digital competition.

## INVENTORY

## REVENUE