

WTF IS IN-HOUSE
PROGRAMMATIC?

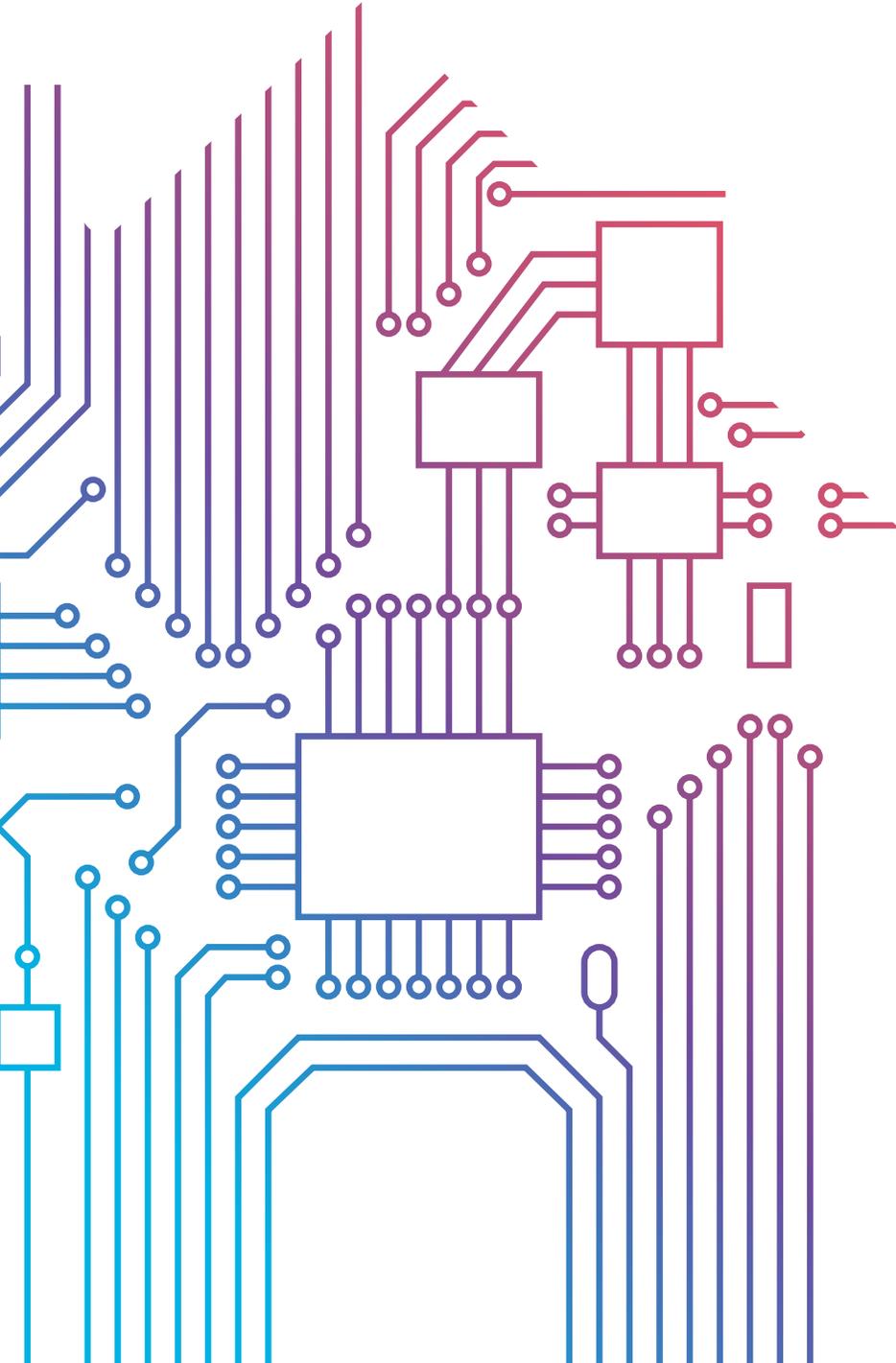
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Introduction

Programmatic advertising continues its forward march. The data-driven ad-buying mechanism, which matches a brand's digital advertising with its desired audience, will account for some [\\$46 billion](#) in annual ad spending by 2019, according to eMarketer.

Until recently, brands have largely put their automated ad spend in the hands of media agencies and trading desks. But all too often, brands have fretted over those companies' opaque practices. In 2016, research by K2 Intelligence and the Association of National Advertisers revealed the [widespread deception](#) of advertiser-clients, and the diversion of millions in assets from the rebates and incentives that programmatic bid-winning publishers paid the agencies. The revelation of "pervasive and systematic" agency abuses triggered client demands for transparency, and agencies have begun to oblige.

It also led some brands to start taking a good, hard look at their agency relationships. More than a handful of household names have begun bringing programmatic operations in-house: Procter & Gamble, American Express, Unilever, L'Oreal, Netflix, Allstate, Target.

As those pioneer models mature, other advertisers are beginning to wonder whether they, too, should begin handling their own programmatic business. But just what does it take to oversee in-house programmatic operations? Is it worth the investment in talent and tech? What does it really entail? We'll answer all these questions and more as you read on and discover, WTF is in-house programmatic?

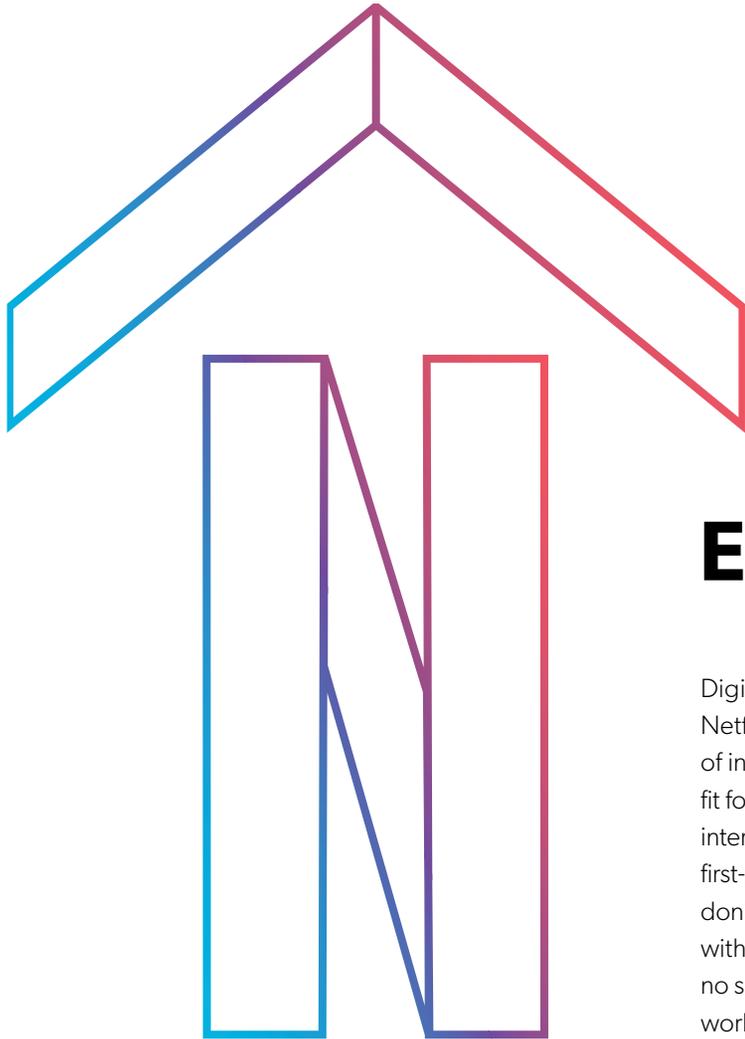
The percentage of marketers expanding their in-house programmatic operations more than doubled in 2017 from 2016, [according to ANA data](#).

A separate 2017 survey by UK digital ad agency Infectious Media found that 86% of marketers [plan to bring home](#) some programmatic operations.

The black box

While programmatic's share of US and global total ad spend grows, less ad-spending has been [going to agencies](#). Transparency concerns are a key driver of this trend. The agencies brought this on themselves.

"In-housing was born from client dissatisfaction with media agency models," said Tom Triscari, managing partner of Labmatik, a consultancy that helps advertisers bring programmatic operations in-house.



Early pioneers

Digital-native, data-forward brands like Netflix and Target were early adopters of in-house programmatic. It's a natural fit for companies that were born on the internet, or that boast rich, voluminous first-party data. Web-endemic brands don't mind mixing their marketing with a heavy dose of technology; it's no surprise that they're comfortable working with data-driven advertising.

As [Digiday reported in January](#), Netflix is increasing its in-house marketing spend from about \$1.3 billion to an estimated \$2 billion in 2018. Industry analysts and agency executives told Digiday that they expect most of

Netflix's ad dollars to go to digital, especially programmatic.

[Netflix told its shareholders](#) in an April 2017 letter that it's investing more in programmatic to boost its "ability to do individualized marketing at scale and to deliver the right ad to the right person at the right time."

That's what it's all about. "The in-house shift is ultimately about taking control of the supply chain to ensure transparency and financial accountability, which in turn lowers cost and enables a reliable foundation to prosper," said Triscari.

Considering In-Housing Programmatic?

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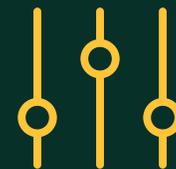
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What you'll need: Talent

For brands, in-sourcing programmatic is a significant undertaking that boils down to two elements. You'll need talent and technology to pull off your own algorithmic ad-buying operations.

“One of our suggestions coming out of the K2 work is that more marketers need to...take an active role in managing and optimizing media investments,” said Bill Duggan, group executive vice president at the Association of National Advertisers. “We advocate a Chief Media Officer position for internal oversight into optimized investments,” Duggan said. “It’s a position that will pay back many multiples.”

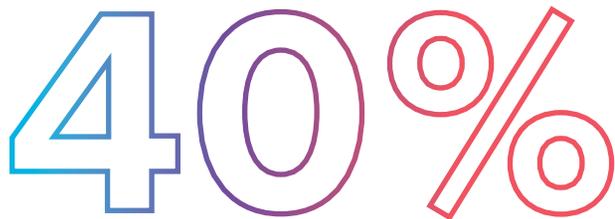
Even without in-housing programmatic operations, he said, just juggling the multiple agencies that many brands use for media, mobile and influencer campaigns requires a brain on the client side that can bring it all together and tie it back to the brand. “Our perspective is that media has become so complicated with so many potential landmines that marketers need to have that in-house expertise,” said Duggan.

Triscari, of Labmatik, said that no matter how large or small a brand’s in-house programmatic commitment is, there’s one hire of paramount importance. “You have to have an awesome programmatic manager, whether your operating system underneath is all-in in-house or third-party-executed,” he said.

Programmatic is still a relatively new discipline, and the labor market is tight. Not surprisingly, brands have been shelling out big bucks to hire and keep programmatic talent. “No player in the programmatic space can win without the right people, and the right people are expensive,” Triscari said.

Fortunately, the talent pool has deepened over the last few years. It’s also fairly concentrated: Programmatic pros tend to work in advertising hubs like New York, Los Angeles, San Francisco, Chicago and London.

What you'll need: Talent



of senior-level brand marketers
come from agency backgrounds

Triscari said it's not uncommon to see in-house digital teams being built entirely from agency talent. [Digiday research shows](#) that 40 percent of senior-level marketers at brands come from agency backgrounds, up from 25 percent a few years ago. "The talent is out there," he said.

Advertisers who are contemplating total independence from their agencies will likely need some big staff additions—programmatic manager, data analysts, engineers and developers, to name a few. Meanwhile, advertisers that only want to take greater control of strategy and third-party tech contracts may have more limited hiring needs.

"If the marketer thinks that their programmatic needs are best serviced without any intermediaries whatsoever, then you basically

take a look at an agency's org chart" as a hiring guide, said Brian Wieser, senior analyst at Pivotal Research, an independent equities research firm. An advertiser going all-in on in-housing should consider mirroring an agency's programmatic team, from data analytics to demand-side platform console operation, he said.

"At the other extreme, just make sure you've got very good lawyers and good planners who can appropriately scrutinize [third-party tech] contracts to make sure you've taken as much control as you can without actually bringing the work in-house," Wieser advised.

What you'll need: Technology

"In-housing doesn't have to mean bringing every function in-house, but it must start with advertisers bringing control back in-house."

The sheer amount of tech needed for programmatic is head-spinning: data management platforms, demand-side platforms, ad blocking, ad serving, data targeting, inventory targeting, metrics, measurement and more. Bringing programmatic operations in-house can mean onboarding all of these tools, or some of them, or at least taking ownership of contracts with third-party tech vendors.

"In-housing doesn't have to mean bringing every function in-house, but it must start with advertisers bringing control back in-house," said Labmatik's Triscari.

Hybrid programmatic models can offer a happy medium between your agency's programmatic offerings and total onboarding. The agency/in-house/third-party mixture is the most popular of the in-house options, each combination customized to the brand.

In-house programmatic models broadly follow one of two paths:

HYBRID: The brand typically handles programmatic strategy and tech-stack contract ownership, to varying degrees, while the agency typically handles execution, post-campaign reporting and analytics.

ALL-IN: The brand has full ownership of its programmatic capabilities and operations, and the agency may retain some part of the brand's non-programmatic marketing mix.

Triscari said plenty of brands can be successful with what he calls a "three-legged operating model," consisting of brand, ad tech and agency partners.

What you'll get: Transparency, cost & data control

Undisclosed bid prices. Cash rebates. Agency opacity. Not exactly confidence-inspiring. The World Federation of Advertisers in 2017 reported that [90% of global brands](#) surveyed were reviewing their agency contracts to deliver more control and transparency to the client.

"Advertisers are rightly disappointed with the return on investment they're getting from agency programmatic campaigns," said Attila Jakab, managing director at Infectious Media, a UK programmatic agency.

If the engine behind the rise in in-house programmatic is a lack of agency transparency on financial matters like winning bid numbers, rebates and incentives, then the move in-house should alleviate many concerns. Bringing programmatic inside the brand also allows for control over data, targeting, ad placement, brand safety and costs. Indeed, brands are banking on the move in-house to cut agencies' programmatic taxes.

Right alongside transparency, a desire to maintain control of first-party data is also driving the trend. Collected and owned by the brand, first-party data is essentially the 411 on the company's customers, both current and prospective.

First-party data includes information like purchase history, behavior and contact information. That's some crucial stuff; after all, no one's likelier to be receptive to an ad than an existing customer.

Taken together, transparency and control of first-party data should improve the advertiser's marketing budget, according to the ANA's Duggan.

"There are financial benefits," he said. "An advertiser can save money by having a better return on their data and by protecting their data from falling into competitors' hands. And there are efficiencies from transparencies."

Those benefits are especially substantial for companies that spend at least \$10 million annually on programmatic ad buying, according to Triscari. He estimated that some 200-300 top brands spend at least that much on programmatic.

What you'll get: Visibility, reach, measurement & accuracy

Greater visibility, greater reach. Focus on developing closer partnerships with publishers.

VISIBILITY & REACH

Without an agency billing you for an undifferentiated suite of programmatic services, you'll oversee your digital ad spend with more control and insight. You'll also have a much clearer idea of which specific publishers are selling you ad space. That'll make it easier to see where your ads are displaying, and to whom. Greater visibility, greater reach.

Jakab, of Infectious Media, suggests that brands focus on developing closer partnerships with publishers. "That will allow advertisers to gain direct access to valuable publisher data and cut out the intermediaries and resellers who take a margin but add no real value," he said. "These resellers are also a key source of fraudulent and brand-unsafe inventory in the ecosystem, so cutting them out can significantly drive up media quality."

MEASUREMENT & ACCURACY

In the agency-run programmatic model, once an agency has bought the space for your ad, it can be unclear how the ad is performing. But according to data from eMarketer, more advertisers have been [seeking greater control](#) over their campaigns, and over which audiences their ads reach.

Meanwhile, industry measurement standards still revolve around clicks, which Jakab described as an "extremely flawed metric for predicting a sale." Industry pros will see a higher return on investment, he said, if they take more sophisticated approaches that challenge advertisers to "think beyond the click."

What you'll get: Flexibility & agility

In-housing programmatic brings fresh flexibility and agility that can magnify performance in the short and long term. It cuts out layers of vendors to get real-time updates and adjust digital ad campaigns faster, reducing campaigns' time to market.

In-housing isn't a brand-new idea, of course. Kathy O'Dowd, Netflix's director of ad tech and ad data solutions, [recommended the shift](#) nearly four years ago. "If you bring that team in-house, you have an opportunity to share cross-channel findings, be agile, to do more with programmatic," she said at Digiday's 2014 Programmatic Summit. (At the time, her title was senior manager for programmatic, North America.) With an in-house strategy, she added, brands don't have to worry about sharing sensitive company data with an external agency.

Wieser, of Pivotal Research, thinks similarly. "One of the benefits of in-house programmatic," he said, "is tighter integration with other marketing goals, with the absence of intermediaries."

Industry professionals agree that programmatic can drive campaign performance, and that it can have an additional, reverb effect by unifying ad-buying data for intelligence and analysis. But it's a complex undertaking that requires a strategy to manage all of the players and variables, from vendors and creatives to costs and metrics.

Depending on your brand's size, the degree to which you've embraced marketing technology and the volume of your first-party data, you might be well-advised to corral your programmatic functions at home, ex-agency. The challenges may be significant, but nothing worthwhile is ever easy.

As mentioned above, human resources departments will have to stretch if they want to lure and retain talent in a tight labor market. But the talent is out there, especially for the right price.

Companies will also have to consider where they stand when it comes to basic, nuts-and-bolts infrastructure. Big brands, of course, may boast deeper pockets, and a more abundant supply of first-party data, than smaller brands. So ask yourself: Does your brand have enough first-party data—and enough money set aside for a robust programmatic buying strategy—to make a total in-house shift worthwhile? If not, all is not lost; one of the many hybrid alternatives to wholesale in-housing may be the key to your ad-buying dilemma.

Agency-run programmatic model

A programmatic model in which an external agency runs a brand's entire programmatic advertising operation, including strategy, execution, third-party tech contracts, metrics, measurement, reporting and everything in between.

Data management platform (DMP)

Technology that stores and sorts first- and third-party audience data and spits them out in a way that's useful for advertisers (and publishers) seeking audience segmenting for display and other digital ad campaigns. Through DMPs, marketers gain centralized control of their data for better management, analysis and measurement of campaigns' return on investment by audience segment and channel.

Demand-side platform (DSP)

Programmatic technology used by advertisers and agencies to buy, serve and track digital ad impressions across a range of publisher sites, targeted to specific audiences based on data such as location, browsing behavior and

purchase history. DSPs are integrated with multiple exchanges, where publishers auction off their ad inventory through a real-time bidding process that takes place in milliseconds, as a user's computer loads a webpage.

First-party data

Collected and owned by the brand, first-party data is information relating to the company's current and prospective customers, such as purchase history, browsing behavior, contact data and demographics.

Hybrid programmatic model

The most popular of the in-house programmatic models, a hybrid approach has the advertiser controlling parts of the overall program (typically third-party tech contracts and strategy) while the agency retains other duties, such as execution.

In-house programmatic model

A programmatic model in which a brand has control over some or all of its programmatic advertising operations. With all-in in-house programmatic models, the brand handles everything,

including strategy, execution, third-party tech contracts, measurement and the steps in between. More often, advertisers will take control over parts of the schematic. See hybrid programmatic model.

Programmatic advertising

Automated, data-driven ad-buying technology that matches a brand's digital display advertising with its desired audience, in real time, at scale, based on audience purchase history, browsing behavior, demographics, location, daypart or other variables.

Programmatic manager

The key professional who runs programmatic for a brand's digital team. S/he sets the strategy for the programmatic practice, then develops, staffs, operates and oversees it. This includes recruiting talent, building relationships with third-party tech providers, publishers and SSPs, and measuring performance.

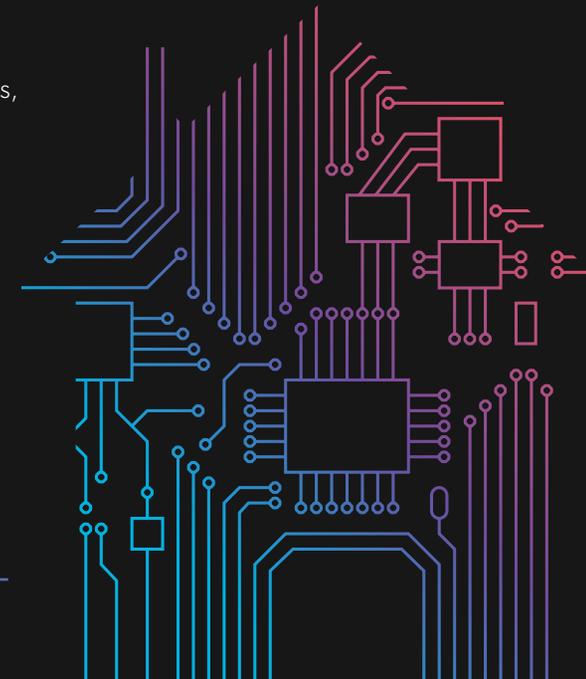
Third-party data

Consumer information purchased from external sources. Third-party

data is farmed from digital footprints and used for audience segmentation and ad targeting to extend a digital ad campaign's reach and scale.

Trading desk

Typically an independent unit within an advertising agency, the trading desk works on behalf of client-advertisers to enhance their programmatic exchange-based ad-buying performance, from ad-impression purchase to results measurement and reporting. Some brands have begun building their own in-house trading desks, but agency trading desks still dominate the field, at least for now.



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