

PREMIUM
PROGRAMMATIC:
*TURNING WHAT IF
TO WHAT IS*

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INTRODUCTION

You hear it everywhere: Programmatic is the future. Programmatic is the solution.

And in many ways, it definitely is. But despite all the promise and prognostication, the shift from direct to programmatic buying hasn't happened overnight. It's been awhile since the industry press first fawned over its sheer capability, and many are left wondering what still stands in the way.

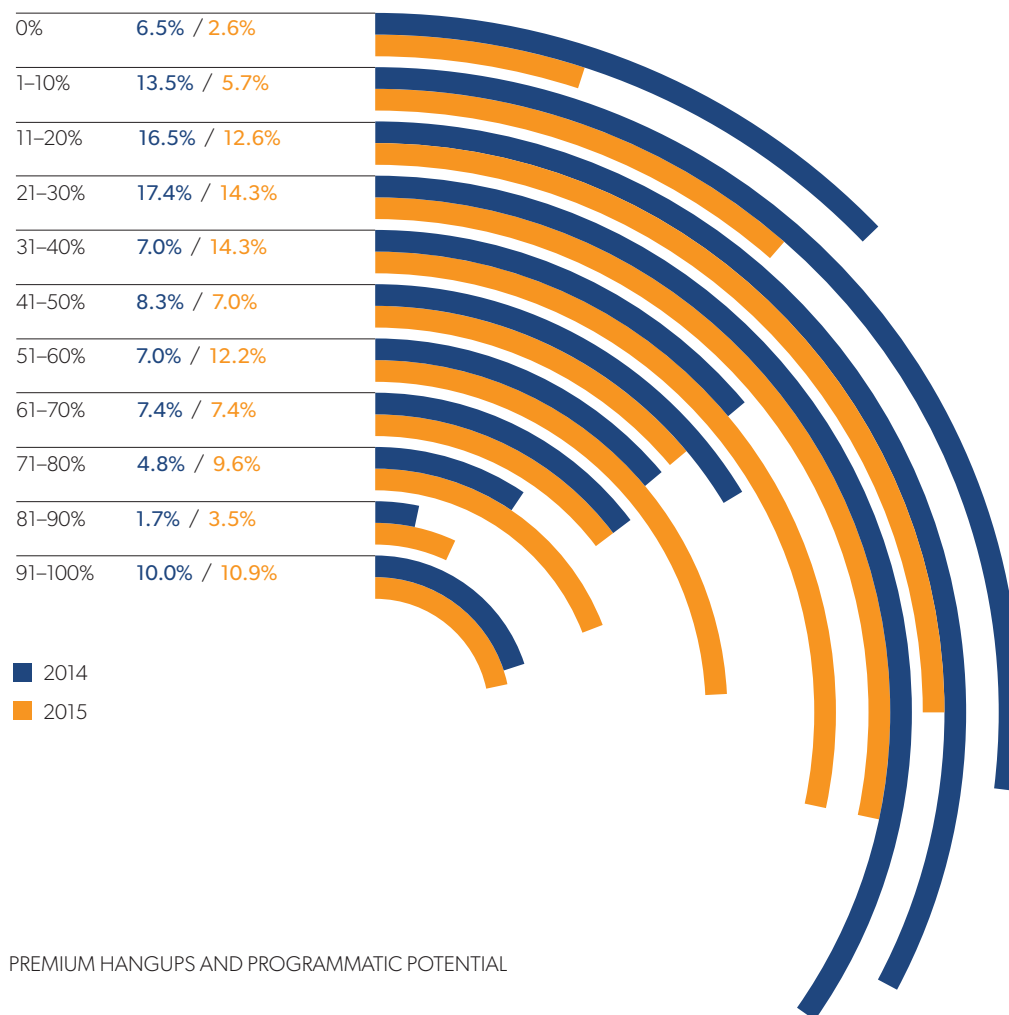
"Our knowledge of the value of the impression is better today than it has ever been," said Oscar Garza, director of programmatic for North America at Essence. "But we're not all the way there yet. There's more we can do."

That's what we tackled in this State of the Industry study with our partner Sonobi. From the major obstacles buyers are still trying to surmount to definitions of "premium" to the importance of guarantees, we asked 274 buyers from brands, agencies and beyond to help us see the way forward.

Ultimately, buyers are ready. But it's going to take some serious maturing in how programmatic inventory is sold to drive greater adoption.

PROGRAMMATIC: BIG TODAY, BIGGER TOMORROW

WHAT PERCENTAGE OF YOUR DIGITAL ADVERTISING SPEND WAS HANDLED PROGRAMMATICALLY IN 2014 AND 2015?



About 65 percent of buyers are already seeing at least 20 percent of their overall advertising budgets devoted to programmatic. While this shows a significant investment today, it's only set to rise.

Between 2014 and 2015, the average range of ad spending through programmatic channels has increased by about 10 percent, from 33-41 percent of total ad spend in 2014 to 42-51 percent in 2015.

To put this change in perspective, the number of buyers spending 30 to 60 percent of their budgets programmatically has grown 51 percent from 2014 to 2015.

IS INCREASING YOUR PROGRAMMATIC AD SPEND A FOCUS OF YOUR FUTURE DIGITAL ADVERTISING STRATEGY?

YES, A SIGNIFICANT INCREASE	43.0%
YES, A MODERATE INCREASE	32.2%
YES, A SMALL INCREASE	13.5%
UNSURE	6.5%
NO	4.8%

According to the buyers surveyed, about 3 in 5 are juggling both programmatic and direct transactions. Another 23 percent deal primarily with programmatic.

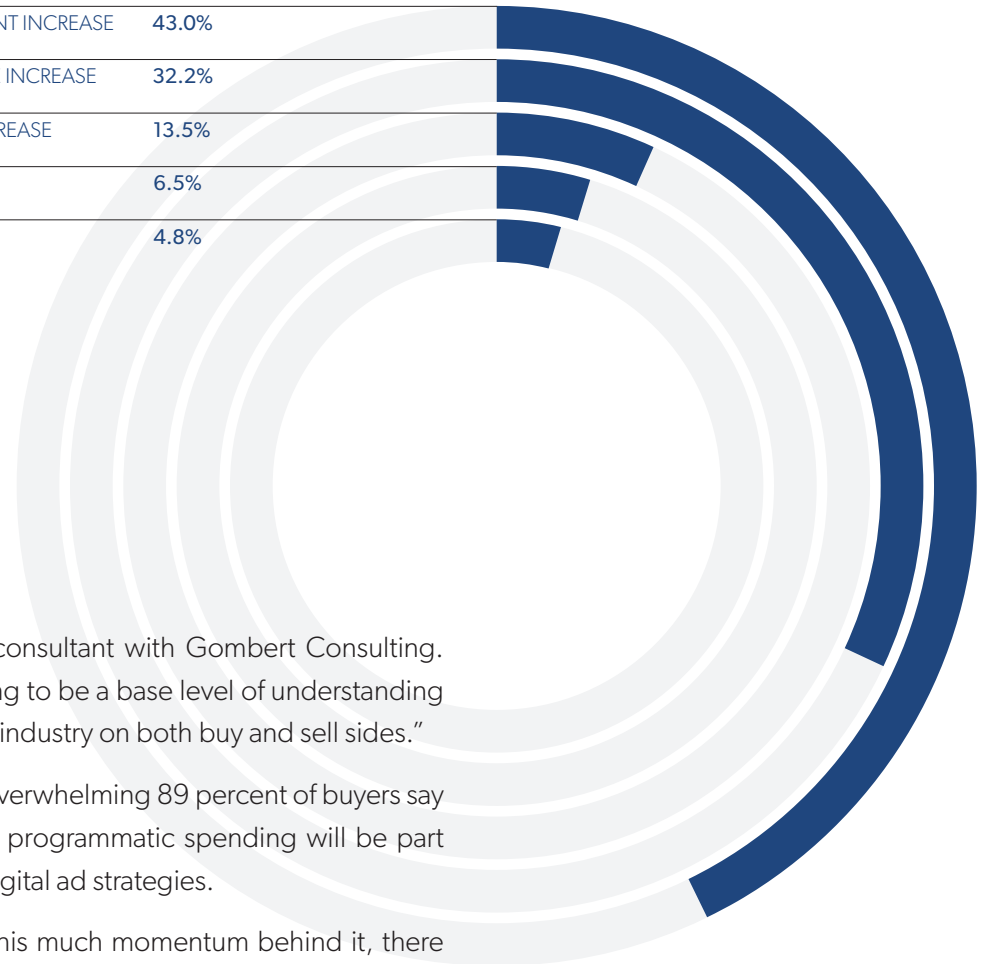
Clearly, today's buyer has to be pretty fluent in automation. Buyers who only touch direct, non-programmatic budgets today are a rare breed; the majority are hybrids.

"The IAB now has programmatic as part of their certification for salespeople," said Alanna Gombert,

programmatic consultant with Gombert Consulting. "So there's going to be a base level of understanding throughout the industry on both buy and sell sides."

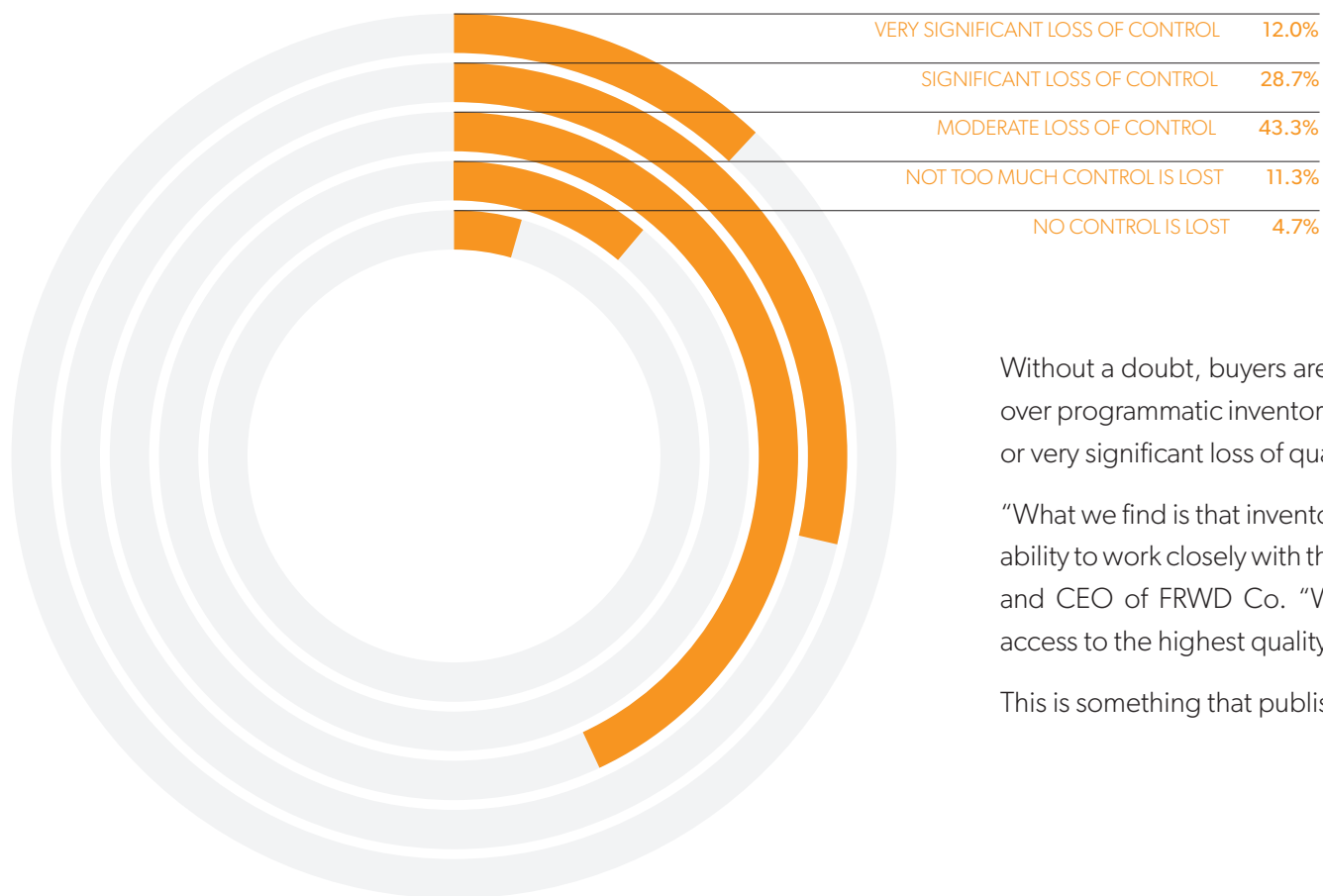
As a result, an overwhelming 89 percent of buyers say increasing their programmatic spending will be part of their future digital ad strategies.

But even with this much momentum behind it, there are still improvements to be made to accelerate programmatic adoption to its true potential.



BUYERS' STANDARDS AREN'T CHANGING, THEIR EXPECTATIONS ARE

HOW MUCH QUALITY CONTROL, IF ANY, IS LOST OVER INVENTORY PURCHASED PROGRAMMATICALLY VERSUS DIRECT?



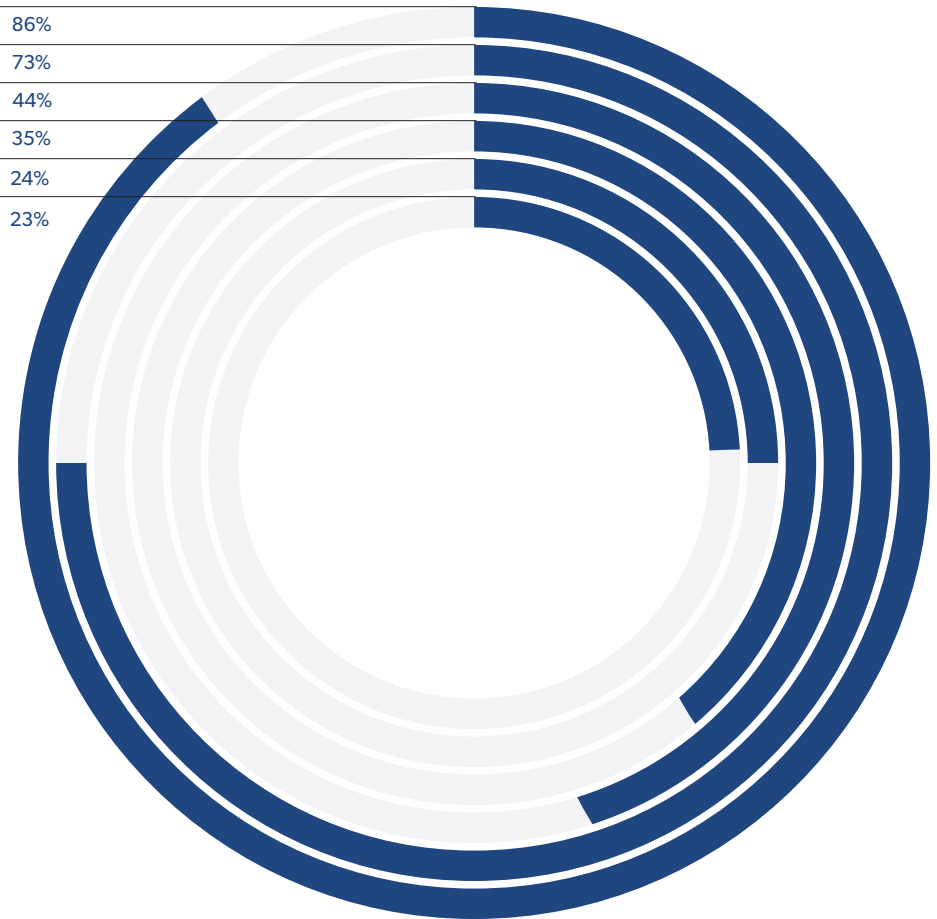
Without a doubt, buyers are concerned over the amount of control they have over programmatic inventory. In fact, 40 percent say there is either a significant or very significant loss of quality control.

“What we find is that inventory quality and control is co-dependent on buyers’ ability to work closely with the ad tech partner,” said John Grudnowski, founder and CEO of FRWD Co. “Working directly with supply teams gives buyers access to the highest quality inventory at the desired level of control.”

This is something that publishers cannot ignore.

WHICH OF THE FOLLOWING FEATURES ARE ESSENTIAL IN YOUR DECISION TO MOVE MORE AD SPEND FROM DIRECT TO PROGRAMMATIC?

AUDIENCE TARGETING	86%
PLACEMENT TRANSPARENCY	73%
ABILITY TO FORECAST INVENTORY AVAILABILITY	44%
FIRST LOOK IMPRESSIONS	35%
ABUNDANCE OF RICH MEDIA	24%
PAGE-LEVEL SHARE OF VOICE	23%



After all, buyers are very clear about what they need from any programmatic offering. To start, audience targeting is essential (86 percent of respondents say so).

“You’re not just showing them an ad,” said Gombert. “You’re telling a story and conveying a message. And it’s great to have an audience that you can speak to. That’s what data allows.”

Inventory availability forecasting comes in a more distant third (44 percent say this is essential). Still, it would allow buyers to play a longer game programmatically, which is difficult in today’s environment of real-time decisioning.

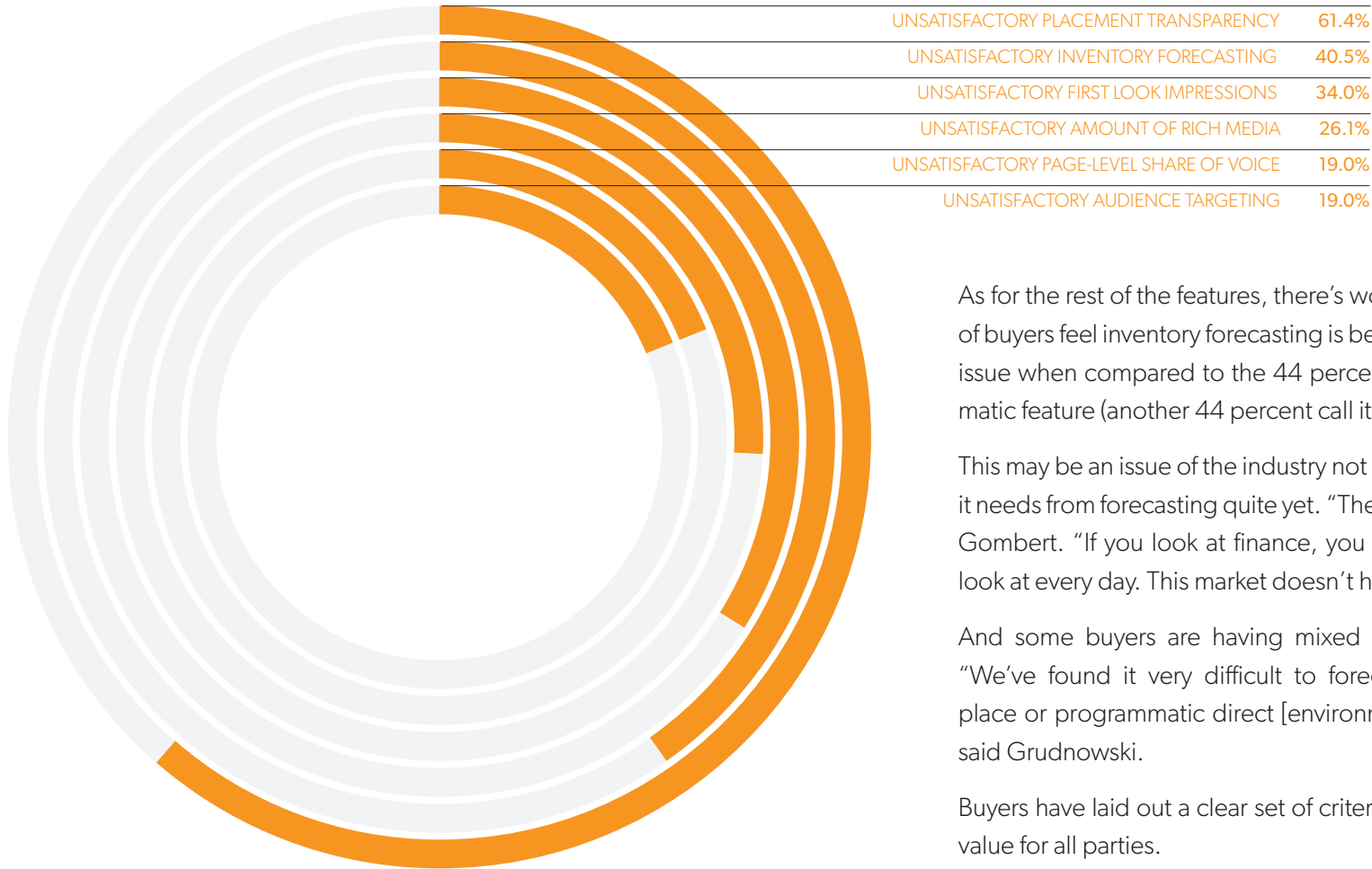
With publishers understanding their audiences and inventory better than anyone else, this is a clear area where value can be created. And if publishers want to capitalize on budgets shifting from a direct to a programmatic sales channel, these are the needs that must be met.

However, only audience targeting is considered sufficiently addressed by the current offerings, according to 79 percent of respondents.

Following closely behind (with 73 percent), placement transparency is another vital feature, especially with viewability and other quality concerns so prevalent.

Placement transparency is in need of improvement (even if 31 percent feel it’s being sufficiently addressed today). Even small improvements here would raise overall buyer satisfaction, especially since 62 percent of buyers identify it as one of the primary barriers still standing in the way of increased programmatic spending.

WHICH OF THE FOLLOWING ARE THE PRIMARY BARRIERS PREVENTING YOU FROM MOVING MORE OF YOUR SPEND FROM DIRECT TO PROGRAMMATIC?



As for the rest of the features, there's work to be done. That only 26 percent of buyers feel inventory forecasting is being sufficiently addressed is a serious issue when compared to the 44 percent who say it's an essential programmatic feature (another 44 percent call it "somewhat essential").

This may be an issue of the industry not having reached a consensus on what it needs from forecasting quite yet. "There are a lot of options out there," said Gombert. "If you look at finance, you have your standard reports that you look at every day. This market doesn't have that yet."

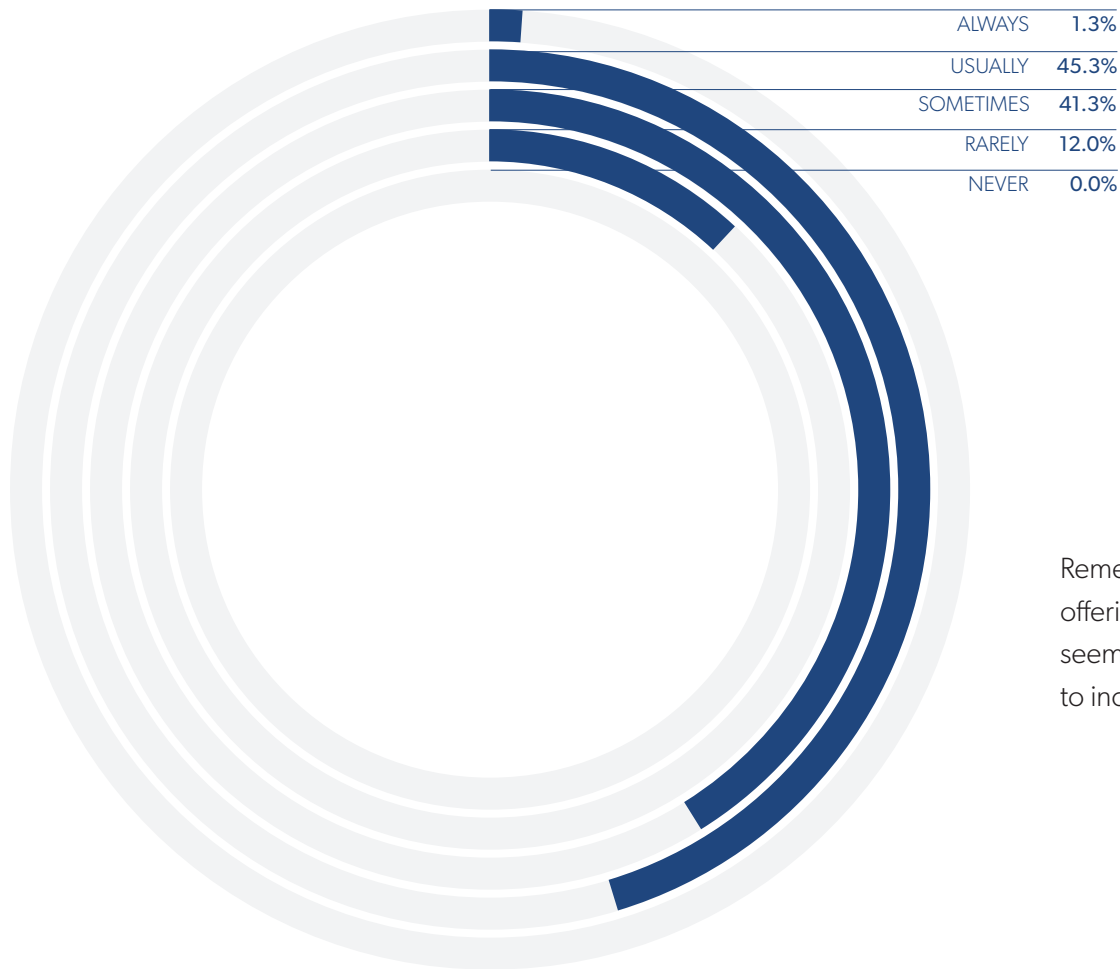
And some buyers are having mixed results depending on the channel. "We've found it very difficult to forecast outside of the private marketplace or programmatic direct [environment] at a high level of confidence," said Grudnowski.

Buyers have laid out a clear set of criteria that generate greater liquidity and value for all parties.

At the core is a desire for higher quality. And while most of the features mentioned address standard programmatic offerings (often remnant inventory), the finding that 34 percent are dissatisfied with First Look impressions points to another set of buyer concerns centering around "premium."

IT'S WHAT YOU SELL, NOT HOW YOU SELL IT

HOW OFTEN DO YOU FEEL PUBLISHERS COME THROUGH
ON THEIR PROGRAMMATIC GUARANTEES?



When publishers do offer guarantees, buyers are fairly happy with them. 46 percent say publishers usually make good on these assurances.

“The issue of guarantees is such a fundamental and critical topic,” said Mike Smith, vp of revenue platforms and operations, Hearst Magazines Digital Media. “It’s foundational to all forms of advertising buying and selling.”

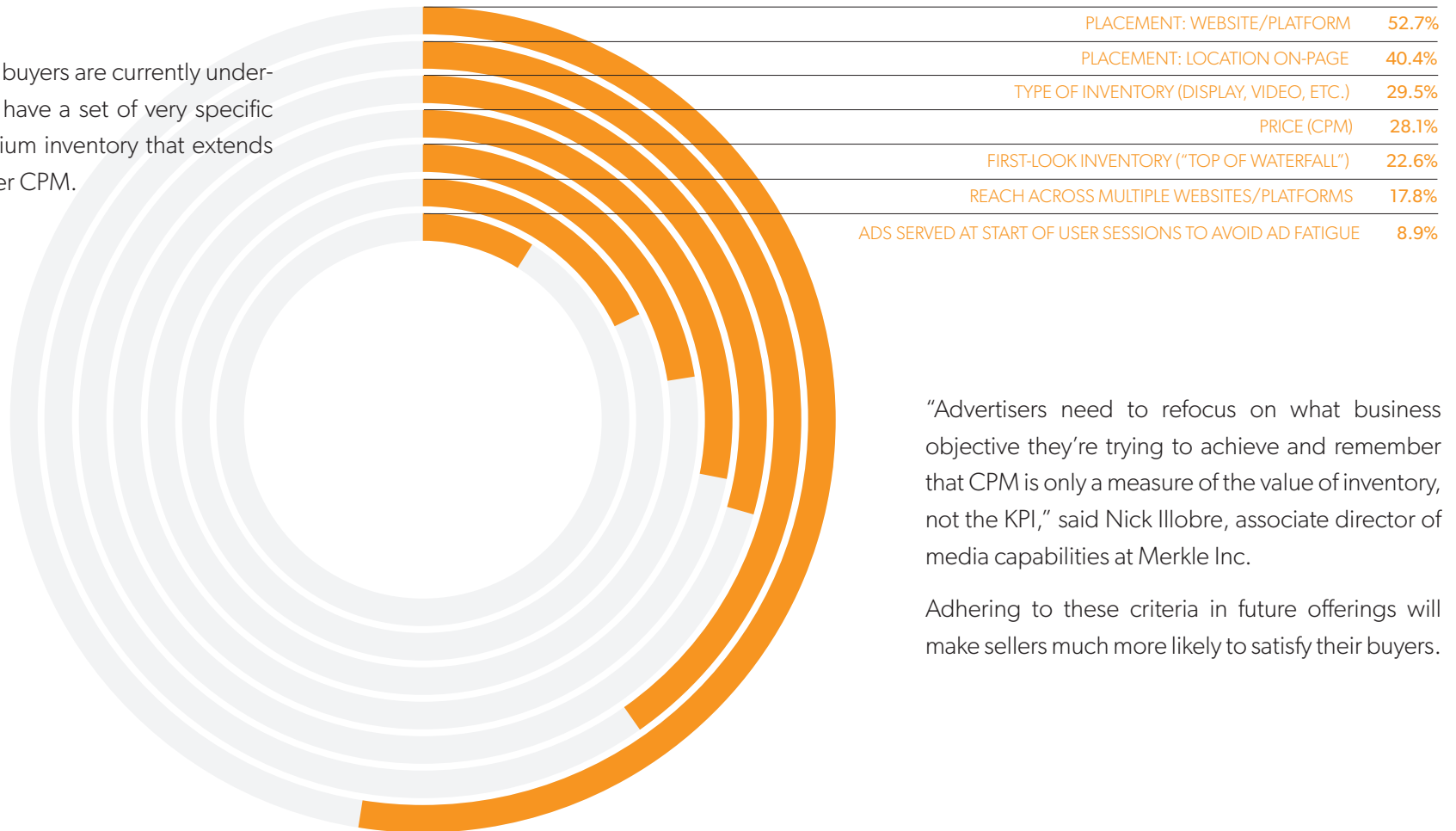
Edging these “usually” responses up to “always” in the next 12 months should be a main goal of publishers working with the right partners. Those who aren’t currently offering them at all are missing an important opportunity.

Remember how buyers were feeling a loss of control with programmatic? Well, offering guarantees would go a long way in alleviating that anxiety. Buyers seem to agree, as 59 percent say guarantees are important or very important to increasing their programmatic ad spend.

But beyond guarantees, buyers need a better premium offering than programmatic is currently giving them before they decide to move more dollars from direct. While a little over a quarter say the quality of premium inventory is currently high, the majority (57 percent) say it's moderate. Only 1 percent is satisfied enough to call it very high quality.

Part of the reason that buyers are currently underwhelmed is that they have a set of very specific criteria defining premium inventory that extends far beyond just a higher CPM.

WHAT ARE YOUR PRIMARY CRITERIA FOR CONSIDERING CERTAIN PROGRAMMATIC INVENTORY "PREMIUM?"



"Advertisers need to refocus on what business objective they're trying to achieve and remember that CPM is only a measure of the value of inventory, not the KPI," said Nick Illobre, associate director of media capabilities at Merkle Inc.

Adhering to these criteria in future offerings will make sellers much more likely to satisfy their buyers.

First, placements have to be prime, and this means a few things. Buyers are looking to see their ads on premium websites and platforms, sections where they can reach high-value users (though admittedly, “high-value” users vary depending on the buyer and even the campaign).

“And the definition of placement can also include off-site inventory, which is new,” said Gombert, referring to social platforms like Facebook.

They also want to make sure that their placements on those sites and platforms are front-and-center where they can catch the largest number (and highest quality) of eyeballs. And this doesn't just mean being above the fold; placement quality extends to factors like correct contextual placement, driving the greatest marketing opportunity through adjacency.

Once placement concerns are handled, buyers look for an offering of diverse premium formats. “Through the lens of Hearst, premium has a number of attributes, one of which being a very large canvas,” said Mike Smith, vp of revenue platforms and operations, Hearst Magazines Digital Media. “Will these be offered programmatically? Yes. But when we release a new ad format, do we release it to both the private exchanges and open exchanges? We don't.”

For Smith, it goes back to ensuring the quality of the advertisers involved, but Illobre cautions against too many restrictions: “We need to ensure we do not back ourselves into [having] more complexity for the sake of complexity.”

From display to video, rich media and beyond, having the right stimulating and engaging tools goes back to that desire for quality of inventory. And for that, buyers are more than willing to pay a little extra.

“The client doesn't want to pay more,” said Garza. “But the savvy advertisers understand the quality of impressions. That logic says to calculate the disparity between what was sold to me and what I actually got. This is where we start to discover the value of good publishers.”

And those good publishers have to be good communicators. “The best success we've had is when the publisher articulates what ‘premium’ means to them,” said Grudnowski.

The opportunity for programmatic technologies to facilitate that communication is immense.

SO WHERE DO WE STAND?

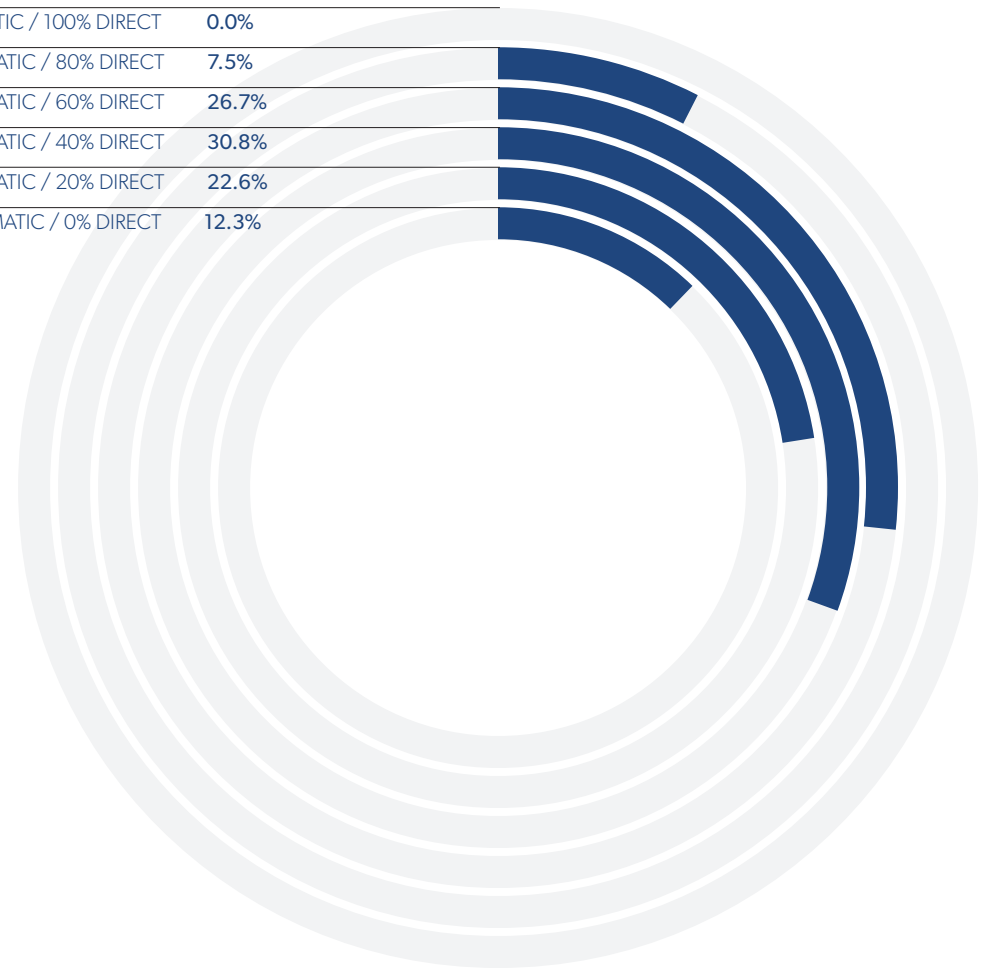
IF THE MAJOR PROGRAMMATIC CHALLENGES DISCUSSED ABOVE WERE ELIMINATED, WHAT WOULD BE YOUR IDEAL BREAKDOWN BETWEEN PROGRAMMATIC AND DIRECT DEALS?

0% PROGRAMMATIC / 100% DIRECT	0.0%
20% PROGRAMMATIC / 80% DIRECT	7.5%
40% PROGRAMMATIC / 60% DIRECT	26.7%
60% PROGRAMMATIC / 40% DIRECT	30.8%
80% PROGRAMMATIC / 20% DIRECT	22.6%
100% PROGRAMMATIC / 0% DIRECT	12.3%

The concerns are real. Programmatic still has some kinks to work out. But buyers are pretty positive when thinking about solutions. An overwhelming 82 percent of them are at least somewhat optimistic that their major programmatic challenges will be overcome in the next 12 months.

This makes sense when we look at the alignment of the essential features of programmatic, those being sufficiently addressed and those still viewed as obstacles.

And once those features are delivered, buyers' ideal split between programmatic and direct spending leans on the side of automation: the largest group (31 percent) sees a 60/40 budget breakdown, with 60 percent of their spending filling in the programmatic bucket.



Another finding makes a strong argument for the programmatic market's sustainability: No one can envision an ideal future with 0 percent programmatic spending (while 12 percent of respondents can imagine one with 0 percent direct buys).

Publishers, too, must up their programmatic acumen to enter the market on the right foot. "They need to be very technically proficient in ad tech," said Smith. "The partnerships are important; it's equally important that there's a trained staff experienced with all of the systems."

Food for thought.



MICHAEL CONNOLLY

CEO of Sonobi

Sonobi set out to determine the level of potential growth for programmatic. What we learned was remarkable – not only did buyers intend to shift their budgets to programmatic, but they wanted it to surpass direct. The next step from this study is identifying how publishers can capitalize on this shift without forfeiting quality.

If the market is to reach its communicated ideal 60/40 breakdown between programmatic and direct-sourced media, publishers need to understand that "premium" is subjective, not objective. The study shows that buyers are divided over the primary barriers preventing the movement of spend from direct to programmatic. Removing one hurdle is not enough for publishers to unlock premium programmatic value. For the market to scale, a more democratized approach to media procurement and buyer-defined rules around subjective standards like "premium" and "quality" media are necessary.

With programmatic revenue set to exceed direct sales revenue for premium publishers, sellers must understand their buyers' needs, define what is premium buyer by buyer, and work to find solutions that build premium CPMs through programmatic sales channels. Doing so will benefit all parties, as buyers get what they want and sellers maintain their premium positions with buyers.

CONCLUSION

Buyers are anything but confused about what they need. There's a consistent message here, and it clearly lays out what the market has to provide to see an acceleration in programmatic growth.

Not only is there a hunger for more features and capabilities, but buyers are also craving more sophisticated and fulfilling premium and high-touch offerings. A multi-dimensional approach is in demand.

"The great news is that buyers have been driving this innovation," said Requidan. "They are public in saying they will pay a handsome premium to get direct access [...] and tighten the gap between buyers and sellers."

And the potential of this closer relationship is very clear. "Most of your new programmatic buyers are looking for the efficiency for their DR campaigns," said Garza. "And that's fine, but the savviest advertisers are looking for a way to apply programmatic to brand campaigns. That's the real promise of programmatic."

To get there, both buyers and sellers need to invest in programmatic technology that focuses on premium media criteria. Only then can programmatic adoption really accelerate.

It's certainly going to be worth their while.