

The **FUTURE** *of* **PROGRAMMATIC**

A Publisher Perspective

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A Benchmarking Study By:



>operative

THE FUTURE OF PROGRAMMATIC

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Contents:

1. Building a Better Programmatic Advertising Business
2. Set Up To Sell
3. Waiting for the Revenue
4. Programmatic Is Not Automatic
5. A Custom Approach Can Pay Off
6. Finding a Profitable Future

Key Findings:

- Most direct sales teams are empowered to sell programmatic, but rely on a complex and manual set of systems and internal teams to complete a deal.
- Publishers cite decreasing CPMs and manual labor as the two factors that are most detrimental to their programmatic business.
- Most publishers are still earning 5% or less of their digital revenue from programmatic advertising.
- Less than 30% of publishers optimize programmatic revenue sources in any automated way.
- Despite current issues, many publishers believe that both exchange traded, and private or premium programmatic, is the future of their digital advertising business.

Building a Better Programmatic Advertising Business

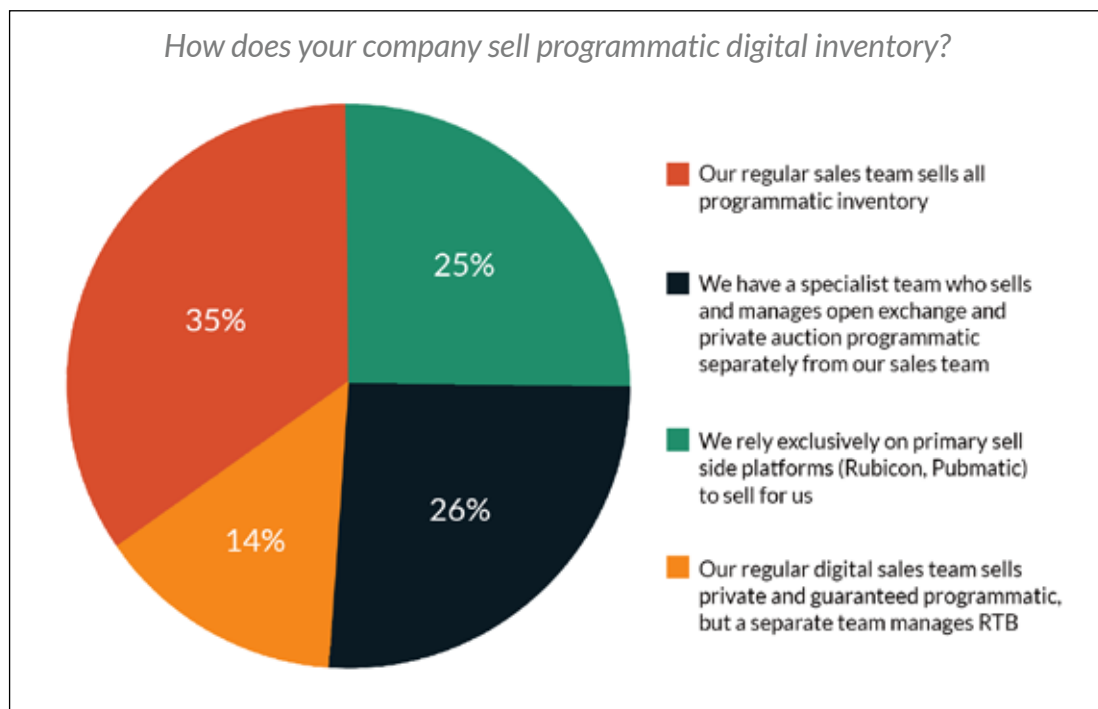
Programmatic advertising - from open exchanges to private auctions, almost every publisher we surveyed is using it in some way (our recent survey found that 81% of publishers are.) But just because programmatic is widespread doesn't necessarily mean that it's working well. In fact, Operative found that programmatic is rife with serious problems. From low CPMs to heavy manual labor, today's programmatic business is not very profitable or even very efficient for most publishers. Yet many publishers are betting on a programmatic future, and are planning to invest in both RTB and premium programmatic technology. Publisher optimism indicates that programmatic advertising will be given the chance to evolve and improve. Publishers know that digital advertising is here to stay and as media selling gets more complex, automation is key. Programmatic will be part of the multiscreen future that publishers are preparing for.

Set Up To Sell

Publishers are divided on how to sell programmatic. Often, premium and RTB are sold differently.

More than a third of publishers have empowered their sales team to sell all kinds of programmatic inventory. Many of these publishers have moved toward consolidated selling after a period where programmatic was managed separately.

Publishers Divided on How to Sell Programmatic



Publishers, including Hulu, found that a separate revenue arm suppressed revenue as sales people shunned revenue channels that they weren't compensated for. Additionally, publishers like CBS are training sales people to be able to sell both RTB and premium programmatic effectively because advertisers are asking for programmatic to be on the same plan as direct. "It's all one sales strategy. It's part of the standard offering. We're moving to a place where we're not replacing sales, we're empowering them with a new revenue stream," said Dennis Colon of CBS Interactive.

While sellers might be empowered with a new revenue stream, they have to work hard for it. Today, only 15% of sales teams are empowered to put multichannel deals together themselves using a streamlined technology. This means that most deals take a longer time to put together and require coordination across technologies and teams.

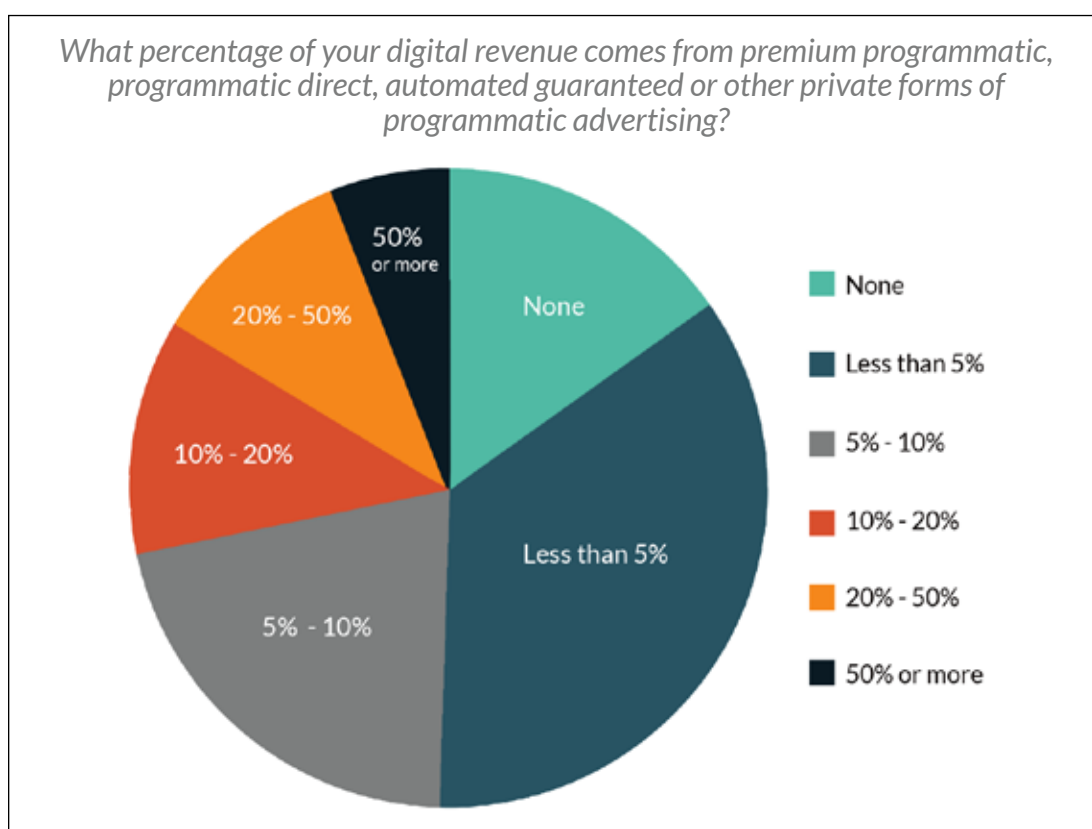
“We’re moving to a place where we’re not replacing sales, we’re empowering them with a new revenue stream”

- Dennis Colon, CBS Interactive

Waiting for the Revenue

Most publishers are using programmatic, but that doesn’t mean that most publishers are profiting. In fact, about half of publishers surveyed make less than 5% of their digital advertising revenue from programmatic revenue of any kind with RTB generating only marginally more than premium programmatic.

Half of Publishers Make Less than 5% From Programmatic



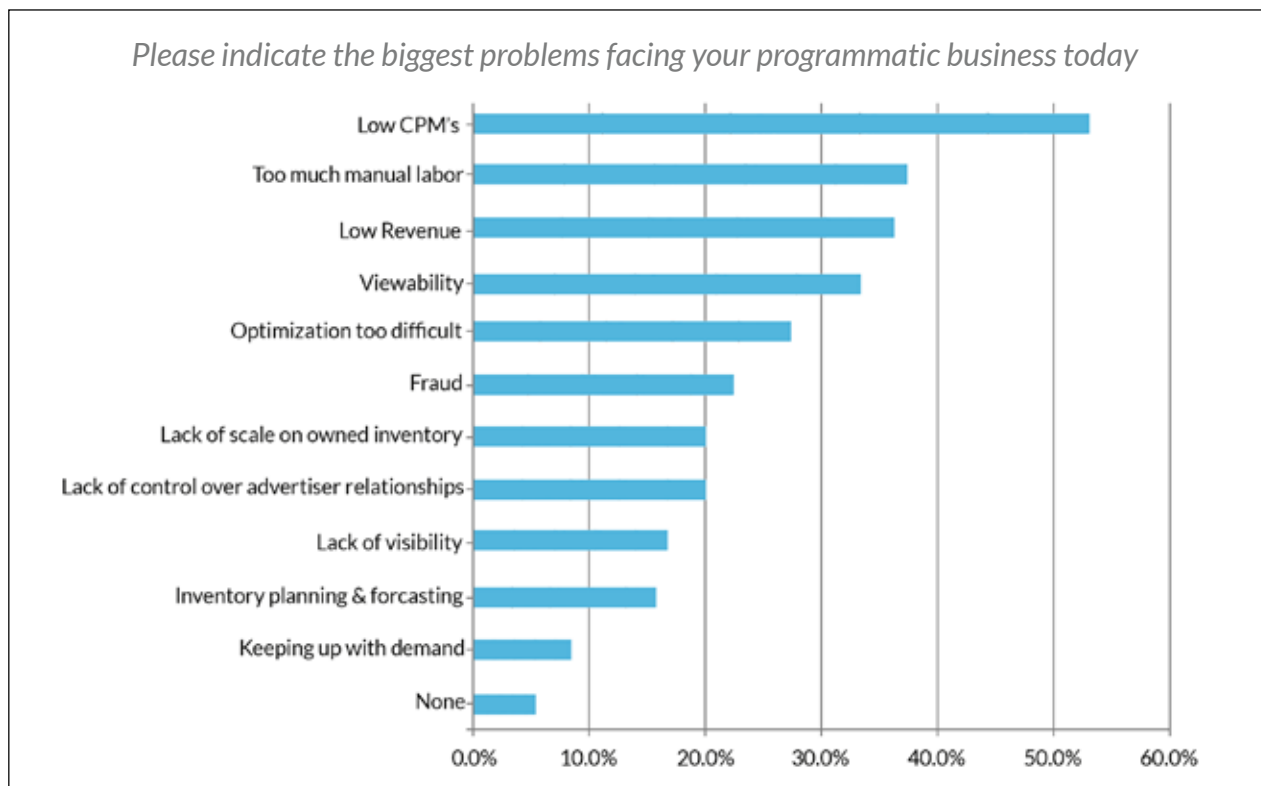
Premium publishers are rarely positioned to reap the greatest rewards from programmatic. Most of programmatic revenue that isn’t taken by agency trading desks is sucked up by companies like Google, Facebook Rubicon Project and AppNexus, who are involved in more than a simple market transaction, but may supply ad serving, audience targeting and many more services that increase the margins that they take before a publisher gets paid.

Programmatic Is Not Automatic

Many premium publishers have the good fortune to command premium prices for their inventory. But this can actually create headaches as they switch to programmatic. Programmatic RTB simply doesn't command the same CPMs as direct sold inventory. This is due to many factors such as its variability, lack of guarantees and limited customization. Recent "long tail" issues including fraud, bots and viewability have affected overall market prices, which affects even the most premium publishers.

Premium programmatic solves some of the low CPM problems, but creates its own headaches. Custom deals often include audience targeting, guarantees and quality measurements like viewability. Assembling and then executing deals involves at least as many people and man-hours as a direct deal, but often via more technologies. Across programmatic channels, publishers experience a double whammy of increased complexity with decreased CPMs.

Programmatic Creates Low CPMs and Heavy Manual Labor



“Premium and automated guaranteed have a lot of promise for our industry, but there is much more work needed in order to accomplish the true goal of efficiency and automation. Today, many programmatic IOs still require the same amount of manual work as business through the traditional channels.”

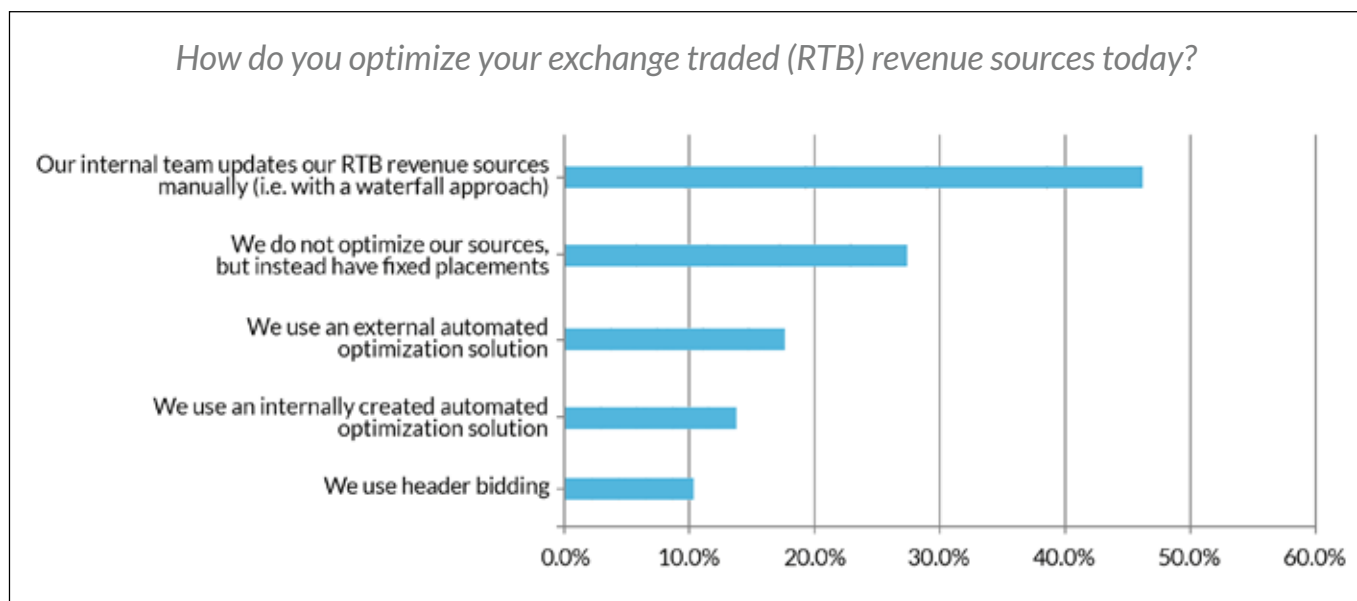
- Jeff Burkett, The Washington Post

Surprisingly, publishers complain about the heavy manual labor required by programmatic even though 55% of publishers who use programmatic are working with fewer than 5 different partners. Even with a handful of partners however, there are many manual processes including:

- > DMP data must be on-ramped and verified
- > Inventory availability needs to be verified across channels
- > Revenue must be optimized across partners
- > Campaigns need to include viewability measurements
- > Metrics and reporting must be reconciled

It is not surprising that many publishers fail to manage these complexities effectively. Strapped for resources and hard pressed to find talent with experience, many publishers are not maximizing programmatic opportunities internally. Only 30 percent of publishers optimize across programmatic revenue streams, for example.

Few Publishers Optimize Programmatic Effectively



Additionally, only 10% have tested a newer, potentially more profitable (yet also risky) form of programmatic RTB called header bidding. Header bidding, literally placing an RTB tag in the header of a web site, enables publishers to optimize both RTB and direct CPMs before a direct ad is placed. This technology promises to improve upon the current waterfall approach, where an open ad placement is handed off from one revenue source to the next until it is filled, rather than opening it to competitive bidding, but is not at all capable of fully replacing it today. Header bidding is cumbersome to manage, takes a lot of time to implement and slows down publisher websites. However, the promise of a fully optimized revenue model is strong enough that header bidding is sure to evolve and grow in the near future.

A Custom Approach Can Pay Off

Not every publisher has embraced the messy combination of direct and programmatic advertising. Those publishers who have gone their own way have one thing in common, they claim to be profiting from their approach.

Several digital native publishers, BuzzFeed and Vox included, have publicly shunned the programmatic ecosystem, preferring to rely on their own custom direct advertising formats such as content sponsorships, native and video advertising. By staying off of the exchanges, these companies create scarcity and theoretically increase the prices they can command.

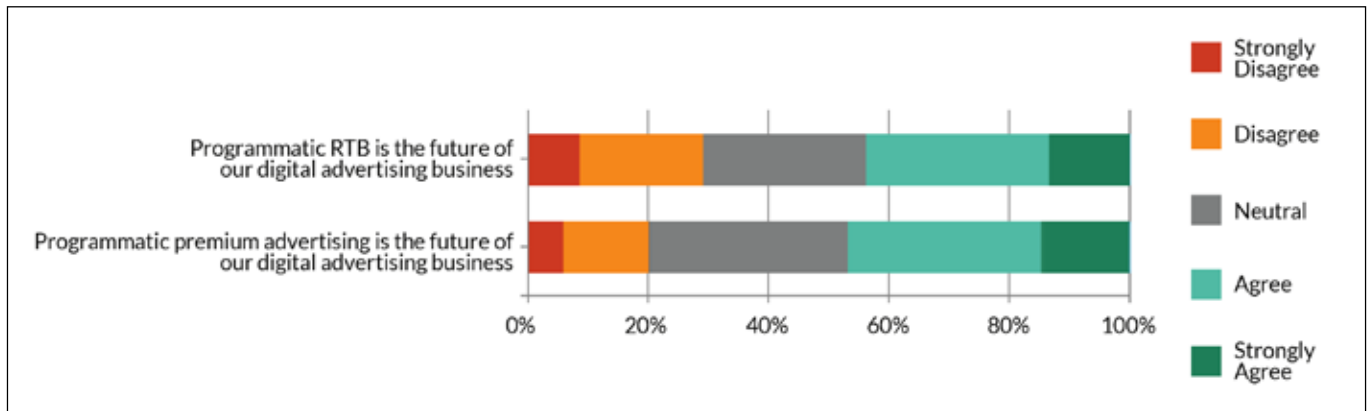
On the other end of the spectrum is Bauer. The large premium magazine publisher's digital arm Bauer Xcel Media is betting on an "programmatic first" approach, but has added several twists that help it maintain premium pricing including heavy reliance on mobile and social media. With only the cross channel brand sales team to manage custom and cross channel deals, they work with a few select programmatic partners who increase the value of what they sell on programmatic.

"We have found that social and mobile are our most profitable channels and have leaned into them. In fact, we have gotten to a point where about 70% of our traffic is mobile and a lot of traffic is driven through Facebook. We partner with specialized programmatic rep firms that can help us customize deals for premium advertisers on these channels," said Christian Baesler, President of Bauer Xcel Media. "In this way, we command good CPMs without having to manage a sales team."

Finding A Profitable Future

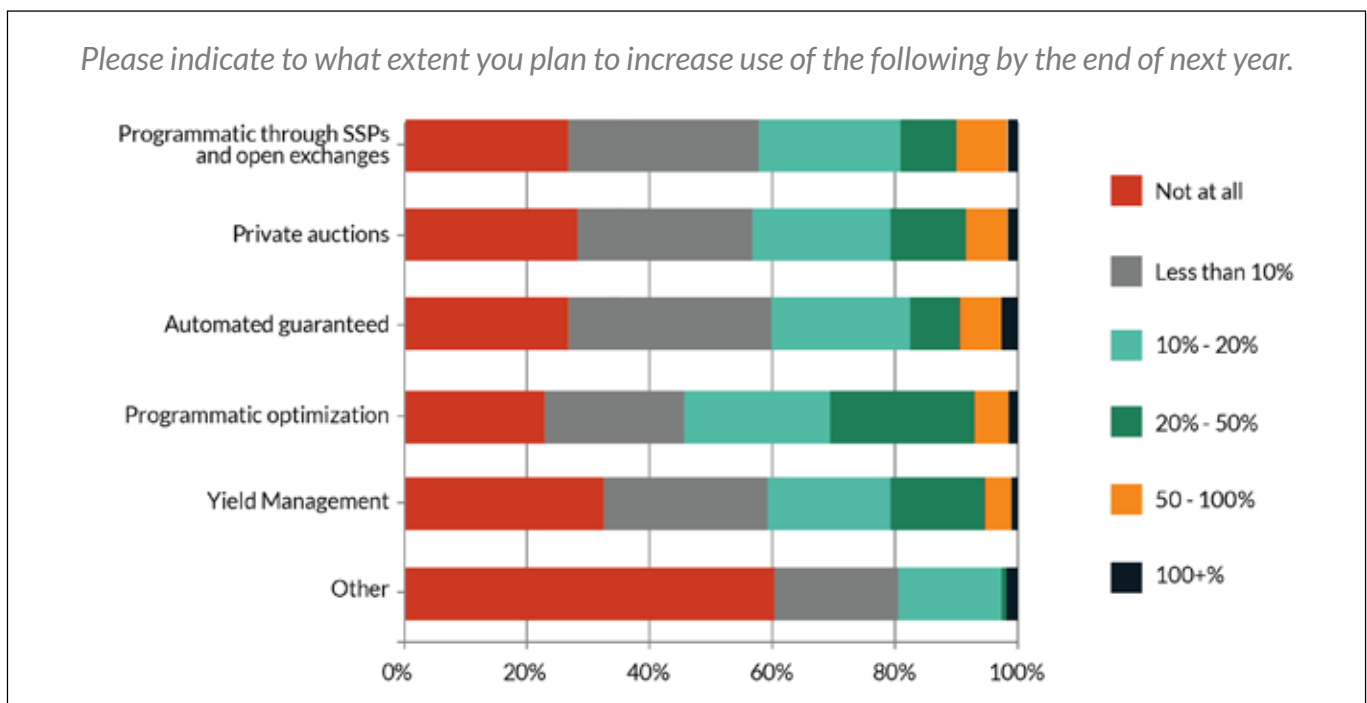
Despite the problems facing publishers today, most are bullish on the future of programmatic. Only about a third are negative about the future of programmatic, while about half agree that both RTB and premium programmatic is the future of their business.

Publishers Betting on Future Value of Programmatic



Programmatic itself is simply a mechanism that enables buyers and sellers to trade on an exchange. In the early stages, publishers ceded control of their inventory to programmatic middle men and trading desks, but that's changing. Publishers are betting heavily on optimization and private auctions, empowering practices that should increase profitability.

Publishers Betting on Profitability



It's up to publishers to develop the technical expertise and the processes to ensure that their inventory and audiences are not commoditized. Savvy publishers are creating plans to increase programmatic profitability and see a path to a future where programmatic works for them, rather than against them.

"Meredith is moving quickly towards a place where all standard IAB inventory will be sold programmatically but at premium CPMs," said Matt Minoff of Meredith Corp. "Programmatic might mean remnant for some, but it's far from the truth. It's about buyers being able to cherry pick, which means they should be paying more not less."



Since 2001, Operative Media, Inc. has developed software and services that help publishers, agencies, networks, and broadcasters simplify the business of advertising. Media companies rely on Operative to sell, traffic, and bill premium ad inventory, increasing revenue and decreasing overhead. Operative's client base, which controls over 20 percent of the global ad market, features Wall Street Journal, Comcast, The Weather Company, BuzzFeed, and Schibsted Media.

METHODOLOGY: Operative fielded a survey to leading publishers. The survey yielded responses from 85 top tier publishers across the United States.

Want to learn more about how Operative can help you run a more profitable advertising business? Let's talk.

Email us at info@operative.com or visit operative.com for more information.

