Programmatic Advertising
White Paper

Industry Parallels
Programmatic advertising is one of the most discussed topics in television advertising today. Based on the number of articles, summits, blog posts and YouTube videos, it seems as though everyone in the advertising and media industries, worldwide, has adopted programmatic technologies.

So what is it? Programmatic advertising generally refers to a number of technologies that automate the planning, selling, buying and optimization of advertising inventory using audience data. “Programmatic” is another word for automated, and programmatic buying and selling refers to any ad buy processed via a computerized interaction, as opposed to manual or partially automated processes such as fax or email.

At that simple level, it could be interpreted that programmatic advertising is just a couple of computers talking with each other. In actuality, large quantities of data on brand attributes, audience, ratings and other metrics potentially could be incorporated into sophisticated formulas for ad placement on both the buy and sell side. The term is frequently associated with computer-run, auction-based ad sales, which is where programmatic buying originated — but that is just a subset of programmatic buying.

Today, programmatic advertising is primarily used in the purchase of online display advertising, and according to Magna Global, covers about 46% (approximately $21 billion in 2014) of all transactions in the overall digital advertising market. While digital advertising has an impressive projected growth rate (CAGR) of 27% through 2018, it is still only one component of the total advertising market. For programmatic to become more than the phrase of the moment and gain scale with advertisers, it will need to grow beyond digital. The obvious target is the large TV and radio advertising market, which currently leverages programmatic buying in less than 1% of the total spend.

So what is preventing programmatic advertising from gaining a foothold in the TV and radio market?

Programmatic Marketplace Debate in Television and Radio
Think back to (or ask your parents about) a time when you actually had to go to a store to buy music, or visit a travel agent to book an airplane ticket. And remember when researching an item required talking to a salesperson or reading a magazine review? While much of our consumer activity today is transacted via the Internet, the television and radio ad sales marketplace is still largely a relationship business — sales are made over a lunch, with a proposal and negotiations leading to an order. In considering why this market has not embraced the concept of automated ad sales, we have to recognize that the players on the “buy-side” and those on the “sell-side” of the process bring diverse perspectives to the subject of programmatic advertising. [Table 1]

Buy-Side. With the transition to a multiplatform world, agencies and advertisers are challenged with effectively reaching consumers through multiple channels and formats. As such, advertising agencies and media buyers are pushing for greater visibility, accountability and automation of the buy-sell process — and are supported by the advertisers in their efforts.

Consider, for example, an event like the Summer Olympics in 2016, which presents multiple opportunities to reach consumers through streaming to mobile devices, delayed viewing with DVRs and live content shown on widescreens at home, along with all of the tweeting, sharing and connecting with groups over social media. If agencies are compelled to buy each of these channels separately, plus derive their effectiveness by combining television GRPs (Gross Rating Points) with streaming impressions and counting tweets, the process will be massively complex; therefore, leveraging the automation already developed for digital buys would be very appealing.
Additionally, and a bit more controversially, the agencies would like to have full access to commercial ad placements, meaning that they want to be able to look at the schedules in order to “cherry pick” placements based on their own magic formulas about ratings, demographics, view patterns, social media “buzz,” etc. The agencies also evangelize an auction model, in which the price of inventory is set based on demand.

**Sell-Side.** On the other side of the process, the media companies are open to programmatic sales as a way to make certain types of commercial inventory more available for sale and to streamline the selling process — with the caveat that they remain in control of their inventory and their data.

It is important to note that this is not a stodgy reluctance to adopt the new: programmatic sales — even in the simplest form — will lower some transaction costs and reduce the complexity of the ad sales operation. It will also serve to free up resources for managing sophisticated brand integrations and cross-media, cross-region TV Everywhere deals.

### Programmatic Models

Some form of programmatic buying of television and radio is inevitable. However, there are several different approaches that may play out in the marketplace, depending on the types of inventory.

The programmatic **auction model** could very well be used for remnant and scatter inventory in all models (station group, network, MVPD), in a very low-touch scenario. There have been a number of implementations of this model, such as Google TV Ads and programs run by a few networks and operators. Whether the individual ventures were entirely successful or able to achieve scale is up for debate, but what was proven by all of the efforts is that there is interest in the concept and that much of the technology to drive programmatic buying is viable and works.

Arguably, the **auction model** could be used for highly sought-after inventory, like a surprise late overtime in a key game. This process would involve reserve pricing and multiple or sealed bids, and would require live log software to insert spots from the highest bidders.

A **reverse-auction model** — in which the buy-side requests bids from multiple sellers, with the winner offering the lowest price — may also provide opportunities to move remnant and scatter and reduce prices for advertisers.

A majority of mid-tier inventory, which would include non-prime local content, airtime controlled by distributors, and higher-valued scatter market content, could move to **impression-based selling models** (see callout, below). If you begin to detach the essence of program content (e.g., HGTv network’s “Property Brothers”) from the job it actually performs (1.3 million impressions of which 70% are women ages 25-54), it opens up a very different conversation.

So instead of looking at shows, the programmatic interfaces will expose units of audience instead of placements. That will allow the inventory holder to maximize the value of their avails by combining them in the most efficient way to meet any given order. This would support a CPM (cost per thousand) pricing model where those CPMs remain similar to what is paid for TV advertising today (relating to “TV dollars instead of Internet dimes”). Whether those CPMs are set by a rate card or by a reverse-auction model (or some combination of both) is still open for debate.
While high-value spot sale-driven inventory, whether sold in the upfronts or on a real-time basis, may not be sold programmatically, the spot placement model for very high-value inventory can continue to operate alongside the programmatic models, allowing inventory holders to continue to charge whatever the market will bear for the Super Bowl, Olympics, broadcast premieres, etc. Needless to say, advertisers (and agencies) are not crazy about that model. However, components of the programmatic buy-sell interfaces will likely replace email, fax and EDI interfaces, to reduce transaction costs and to ensure efficient order delivery, spot placement and as-run reporting.

Additionally, while all of the examples used above refer to traditional inventory, the programmatic models apply to multiplatform inventory — not only opening opportunities to buy all of the platforms made available by inventory holders, but also creating opportunities to package and sell all of the different types of inventory together. In the future, it would not be much of a stretch to see a preempted television commercial made good with impressions on a digital signage network or the web.

The real questions seem to be about who sets the rules for programmatic buying.

Clearly, the desire for the next level of automation of the agency–broadcaster relationship has arrived, but a clear, consistent process has not yet been defined by the industry. And while the agencies, and more importantly the advertisers, are pushing for it, many of the inventory controllers haven’t made the opportunity to buy programmatically available.

This gets to the key point: the inventory holders control the ecosystem. If they do not want to make their inventory available through programmatic interfaces, then they cannot be compelled to do so. Several major agencies have threatened to withhold advertising buys from inventory holders who will not participate, but enforcing the threat will ultimately result in a chunk of missed impressions. So it seems likely that programmatic will be introduced by the sell-side as opposed to being forced open by the buy-side.

**Conclusion**

Programmatic trading methodologies will continue to grow beyond digital and into the television and radio advertising business. Without standards and a clear consensus on the business models, experimentation will continue — but it will take time to see standardization.

Over time, there will be more clarity around the value of inventory, with a greater understanding of how inventory, regardless of demand, can be packaged to deliver value. Additionally, as better data and audience (impression-based) buying evolves, improved monetization — with better inventory yield — will flip the business model away from selling inventory with the hope that it is right for advertisers to one that specifically delivers audiences that are of value to advertisers. This will create a winning environment for both media companies and advertisers, where advertising is valued appropriately for the delivered audience, and advertisers can achieve the full impact of their campaigns.

As workflow improves in both media and agency buy-sell systems, we see the evolution of the media workflow further managing cross-platform sales and incorporating multiple definitions of programmatic sales models. Ultimately, with the ability to adopt new platforms and unify cross-platform behavior, the end game will be systems that can handle jumping from model to model as easily and seamlessly as consumers jump from screen to screen.
Imagine Communications Programmatic Solutions

A number of offerings in the marketplace attempt to address a portion of the programmatic ecosystem. For example, a large U.S. agency has announced that they have a universal interface to all programmatic sell systems. A major MVPD and network has announced that they are open for programmatic buyers. However, these systems do not have the full support of the industry and do not necessarily involve a lot of standardization.

Imagine Communications is using its unique position as a software solution provider for every part of the buy-sell chain, leveraging its extensive relationships to stay ahead of developing industry needs. As the programmatic sales process evolves, the company is actively working with agency, media buyer and broadcast partners to develop processes to support the next generation of advertising sales. The company has supported and continues to support multiple programmatic advertising methodologies in the field.

- The Imagine Communications Media Inventory Service (MIS) was the first in the industry to partner with broadcasters and Google TV Ads, placing hundreds of millions in inventory — over 475,000 spots per night — into specific avails that broadcasters identified for sale, while protecting prime inventory and rate information from aggregators and buyers.
- Collaboration between Placemedia and Imagine Communications is bringing targeted, measureable strategies to traditional TV advertising with a fully automated, programmatic ad sales platform.
- Imagine Communications’ Landmark™ family of products provides impression-based selling for millions of dollars in inventory for major media sales companies globally, and this capability is being expanded to MVPDs and other networks — ultimately creating new selling models for programmatic advertising.
  - Impression-based inventory is not exclusive and allows key inventory to be sold on a placement basis, with any unsold inventory being exposed to the pool of impression-based inventory, while super-prime inventory would always be held for spot-based placement.
  - Converting remnant or scatter inventory to impression-based inventory — based on real-world data — is creating an additional 20% of sellable inventory opportunities.

The Imagine Communications strategy has been to develop tools and platforms that allow the sell-side to offer the programmatic model, while also allowing for a model that supports placements and impressions across both linear and nonlinear (VOD) inventory. To learn more about the power of the Landmark Sales platform, please contact Imagine Communications.