

TRANSPARENCY IS THE KEY TO PROGRAMMATIC SUCCESS

SUMMARY

The introduction of the programmatic auction¹ as a way of buying and selling digital ads was met with much excitement – a marketplace with multiple buyers and sellers and lots of liquidity, leading to efficient outcomes to benefit all. Yet increasingly, there are indicators that the business rules and processes around programmatic are not set up to deliver on this vision. To scale the market and create value for all, the digital advertising industry must ensure increased transparency in the programmatic auction ecosystem – over fees, net CPMs and the bidding process itself.

FROM REMNANT TO HIGHER VALUE INVENTORY

Programmatic auction technology has the potential to create a fair, efficient marketplace that exposes buyers' true valuations of seller assets. It also enables real-time sale of inventory on an impression-by-impression basis, using data to target specific visitors on a site versus having to buy impression blocks served to all visitors of a site. Ultimately, it could help deliver on the promise to offer “the right message, to the right person, at the right time”, at scale.

Many of the business rules and practices around auction-based programmatic buying stem from its origin as a platform to trade remnant inventory, typically at low value. However the programmatic auction platform is being used more and more by both buyers and sellers to transact a wider range of inventory, including “premium” or high value inventory. Budgets that were historically transacted as direct buys are migrating to programmatic. Therefore stakes are high for both buyers and sellers. If programmatic is to become an efficient tool to unlock true market value of publisher inventory, the industry needs to ensure that the business rules and practices evolve to reflect this shift.

INDICATOR OF CONCERN IN THE AUCTION ENVIRONMENT

1. Lack of Transparency Over Fees and Net CPMs

Despite programmatic media's focus on efficiency, advertisers are often paying significantly higher CPMs for programmatic non-guaranteed buys than a publisher receives net of fees². By itself this pricing model is not problematic, as transactional technology has a concrete value in the purchase cycle and needs to be priced accordingly. However the lack of transparency, where technology fees aren't broken out from CPMs, results in buyers and sellers evaluating inventory value and ROI based on limited information.

1. This Transparency paper focuses on the programmatic auction transaction types only (invitation only & open). See Programmatic and Automation – The Publishers' Perspective for more information on these http://www.iab.net/media/file/IAB_Digital_Simplified_Programmatic_Sept_2013.pdf

2. See for example <http://www.adexchanger.com/online-advertising/aol-announces-programmatic-upfront/>



Source: Interactive Advertising Bureau 2013

For example, a buyer thinks they are purchasing inventory at a \$10 CPM when they may be getting inventory a publisher values at a \$4 to \$6 CPM, plus undisclosed fees bundled into the CPM. The net result is that buyers and sellers are often incorrectly valuing the programmatic auction opportunity and looking at ways to work around it rather than to optimize it.

2. Single Aggregate Bids

For price efficiency, many buyer representatives such as DSPs conduct internal pre-auctions and then submit a single bid to represent all of their clients. This practice has created unintended negative repercussions including

- Limited transparency around individual buyer bid activity
- No ability to match buyer intent and pricing goals with high value auction inventory
- Potential alteration of the true auction value for an impression
- Missed opportunities for buyers to compete for every impression that is important to them, especially given that in many cases internal auctions often don't take into account blocked advertisers
- Significantly lower bid density, market liquidity and efficiency

3. Deals Not Clearing

The issues outlined above have led to numerous examples of otherwise acceptable deals not clearing through the system. "Invisible" fees lead to inaccurate valuation of inventory on both the buy and the sell sides. Also, it is difficult to resolve discrepancies between buyers and sellers as neither party has full transparency into the fees being charged along the value chain. Fee transparency will reduce the quantity of bids not clearing as a result of perceived price discrepancies that fall outside of agreed upon deal parameters.

4. Bypassing the Auction and Parts of the Technology Stack

In response to the above challenges, including low rate expectations, low bid density, lack of fee transparency and deals not closing in the auction, many buyers, sellers and service providers are seeking alternate means outside of the programmatic auction to achieve transactional efficiency.

WAYS TO IMPROVE THE PROGRAMMATIC AUCTION

Introduce Price and Fee Transparency Across the Value Chain

In a direct deal, it is clear and transparent to both buyer and seller what the agreed upon price is as well as any fees associated with the buy. Programmatic transactions should offer at least the same level of transparency as direct guaranteed deals, so that all participants can optimize yields and buys across different channels.

One potential solution is for CPMs to be broken out to buyers and sellers net of fees with fees itemized separately on top. Fees are an inevitable and important part of the ecosystem and support the platforms that enable programmatic transactions.

The net effect of this transparency is that buyers and sellers will evaluate ROI based on more accurate information, minimizing situations where they wrongly value the programmatic opportunity in addition to promoting more active participation in the auction environment.

Create a More Transparent Bidding Process

The ultimate value of an auction is to exposure buyers' true valuations of seller assets while enabling equitable transactions based on that valuation. Creating a transparent bid environment will help match true buyer intent and pricing goals with available inventory. It is also crucial that every advertiser be given equal opportunity and representation to compete for and win every impression that is important to them.

While it may not be realistic to implement a bid process where every bid for every impression is submitted into the auction environment, buyers, sellers, and service providers need to work together to achieve the goal of more transparent bidding to give each bid equal representation and reflect the true liquidity that exists in the market.

Achieving greater transparency over fees/prices, the bidding process and inventory will require all parties from publishers to advertisers and all those in between come together to agree common standards and ways to ensure these are adhered to.

Learn More at iab.net/programmatic
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This IAB: Digital Simplified was created by IAB's Programmatic Publisher Taskforce chaired by Alanna Gombert, Condé Nast. Representatives from Demand Media, ESPN, Financial Times, Match.com, New York Times, USA Today and Wall Street Journal, participated actively in the drafting of this paper, led by Jeremy Randol of NBC Universal and Kelly Roark of Scripps Networks.