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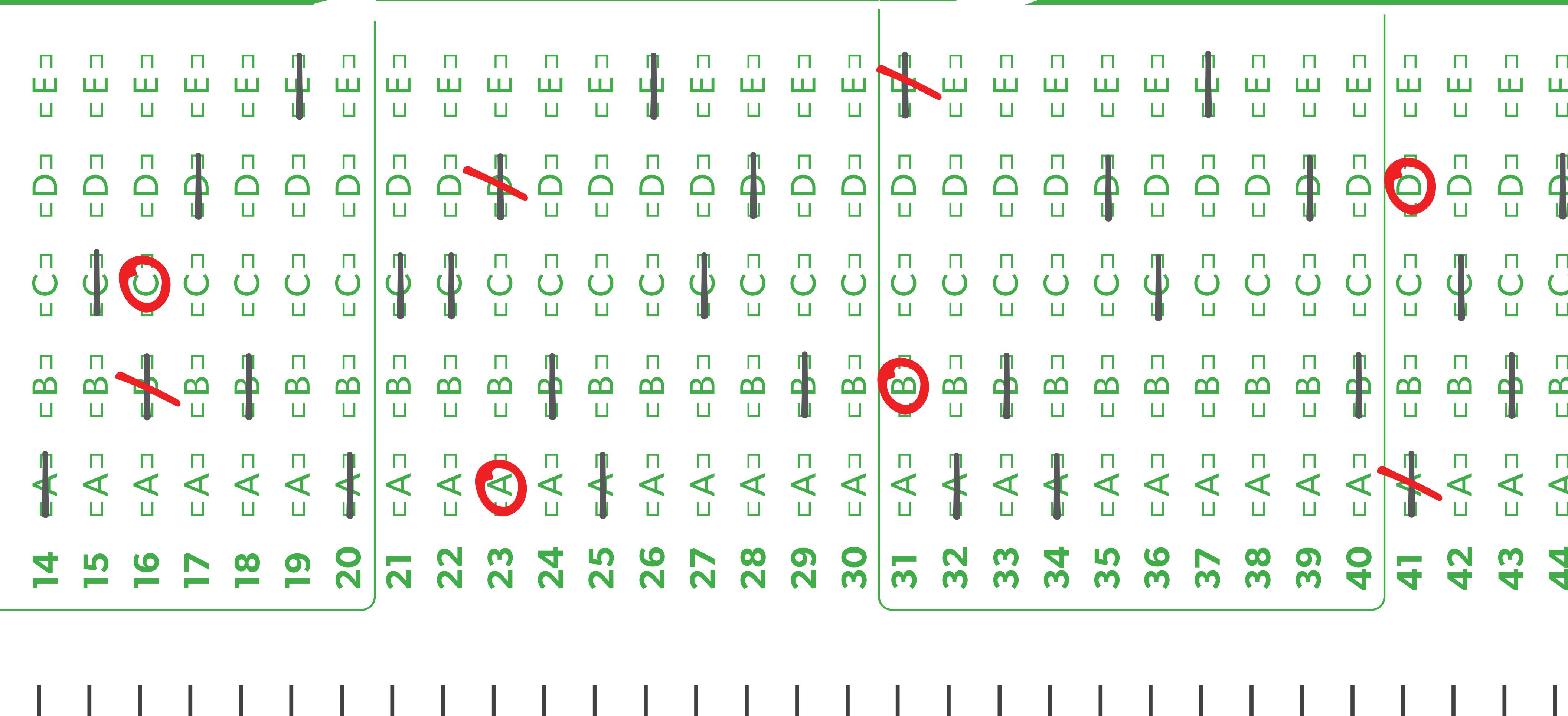
FORM NO. 1882-E

NAME	STATE OF THE INDUSTRY
SUBJECT	PROGRAMMATIC PARTNER
TEST NO.	REPORT CARD



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INTRODUCTION

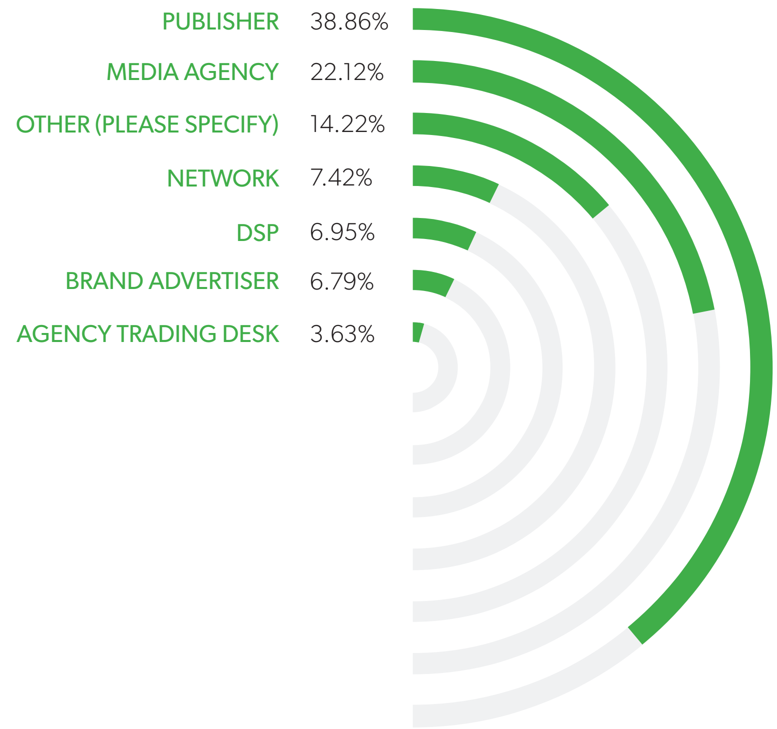
We grade everything these days: restaurants, hotels, even attractiveness (Thanks, Tinder!). We regularly pass out awards to the top publishers, agencies and brands and shine a harsh light on the underperformers with aplomb. So why has it taken us so long to grade our programmatic partners, the players keeping our robust, automated transactions running day-in, day-out?

Sure, we opt for the ones we think are best, but how well are they collectively keeping up their side of the bargain? Are the exchanges and marketplaces they support providing what buyers and sellers actually need from their platforms?

Over 600 professionals on both sides of the buy/sell divide had the chance to grade their partners across a number of areas. The need for this review is clear: Programmatic (mainly open marketplace) buying is now claiming the bulk of digital budgets, averaging about 46 percent of spending to become the major allocation.

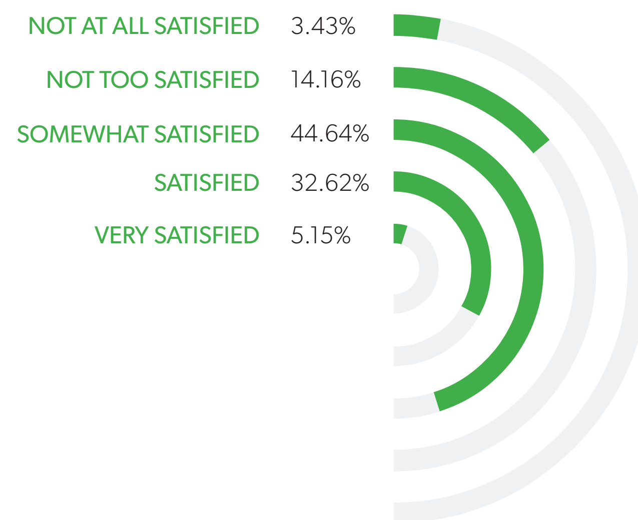
Okay, pencils down. Let's see how they're doing.

WHICH OF THE FOLLOWING MOST ACCURATELY CATEGORIZES YOUR COMPANY?



PROGRAMMATIC'S OPEN MARKETS

HOW SATISFIED ARE YOU WITH YOUR CURRENT PROGRAMMATIC DEMAND SOLUTIONS?



It's always useful to begin by defining our terms. Here, "programmatic partners" includes everything from self-service exchanges to ad networks and other platforms used for buying and selling advertising.

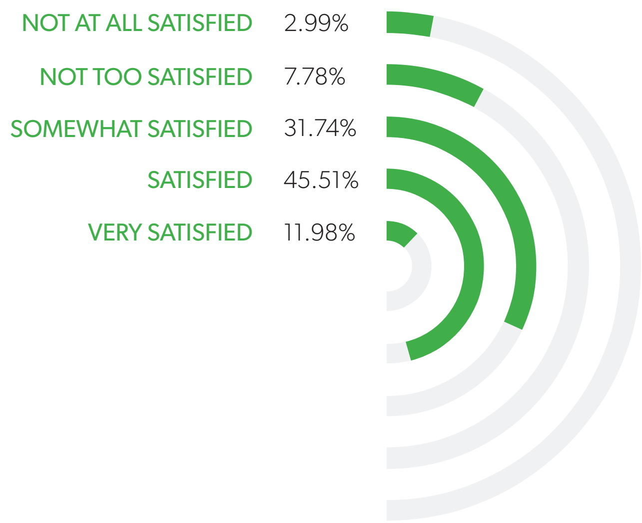
Currently, a majority of publishers are using one to five programmatic partners to monetize their inventory. Buyers are on the same page, tapping into the services of one to five platforms to make their buys. However, a significant segment of both groups uses more than six programmatic partners (29 for buyers and 27 percent for sellers) with a small subset using 20+.

THE GRADE	
PUBLISHERS	C-
BUYERS	C+

About 77 percent of publishers are either satisfied or somewhat satisfied with the current solution partners. But average isn't good enough; there's definitely room for improvement, especially given that about 45 percent opted for "somewhat."

Buyers also harbor middling satisfaction when it comes to their programmatic tools and partners. However, they seem to be more optimistic, with almost 50 percent more respondents saying they're "satisfied" with their current tools than "somewhat satisfied."

HOW SATISFIED ARE YOU WITH YOUR CURRENT PROGRAMMATIC BUYING TOOLS?



THE PROBLEM AREAS

In the end, the problems stem from three major sources, and they're largely shared by both buy and sell sides. Technology constraints abound when it comes to the time and effort required to integrate new systems and partners, and much of this is a product of publishers and buyers not having sufficient internal talent and resources to keep up. It's not just plug-and-play.

On the other hand, automated or not, there's still an interpersonal aspect when considering all of these partnerships. Managing them is difficult in the face of shrinking sales teams and their buying counterparts.

Finally, there's the issue of ad quality. For publishers, this means the time and effort to ensure that quality of all of the winning advertisements is up-to-snuff is daunting. For buyers, it's an awareness that multiple partners does not necessarily mean access to unique pools of inventory.

THE PATH TO IMPROVEMENT

So how can programmatic partners raise their grade? As usual, it's going to take some work, but publishers and buyers have some clear advice for getting ahead.

No surprise here: The main source of publishers' dissatisfaction with their current options seems to center on the revenue their platforms and partners are able to generate for them. CPMs, fill rates and total revenue are all deemed too low.

Publishers are already taking steps to make do with the systems and platforms they have, and they've found some to be more effective than others.

USE PASSBACKS AND FLOOR PRICES	48.99%
WORK WITH FIXED-CPM PARTNERS	39.90%
MANUALLY ADJUST AD SERVING RULES BASED ON ESTIMATED CPMS AND FILL	38.89%
USE AN SSP OR EXCHANGE TO MANAGE PROGRAMMATIC FOR ME	36.36%
WORK WITH FULL-FILL (NO PASSBACKS)	29.29%
ALLOCATE A PERCENTAGE OF MY INVENTORY	14.14%
USE A PROPRIETARY RTB SYSTEM	9.60%
OTHER (PLEASE SPECIFY)	3.03%

WHAT ARE THE MOST EFFECTIVE TECHNIQUES YOU CURRENTLY USE TO MAXIMIZE YIELD WITH YOUR PROGRAMMATIC DEMAND SOLUTIONS?

First, they use passbacks (redirects of an impression back to the publisher's ad server if it cannot be sold), set floor prices and work with fixed-CPM partners to ensure that their inventory is being sold at an acceptable price. When this isn't enough, they manually adjust ad-serving rules based on estimated CPMs and fill rates to bring more competition to the mix.

Another prominent challenge that publishers have been facing with their partners: ad quality. All publishers want to sell out of their inventory, but the advertisers who appear on their platforms affect their reputation and can disturb user experience. They would like there to be some level of selectivity where that's concerned.

Regardless of their satisfaction, the fact remains that buyers are using multiple programmatic buying tools and partners to make their buys. To field this fragmented demand, publishers need to work with multiple demand platforms or risk leaving money on the table. It's in everyone's best interest to improve those grades.

WHICH OF THE FOLLOWING ARE THE BIGGEST CHALLENGES YOU FACE WORKING WITH PROGRAMMATIC DEMAND SOLUTIONS?

1.	Not being able to have demand partners compete with each other on each impression	45.45%
2.	Not having my own internal developers with time/resources/expertise to support my needs	44.44%
3.	"Daisy Chaining" or "Waterfalling" partners is inefficient and not as effective as I'd like it to be	43.43%
4.	Not having the technology and tools that address my needs	43.43%
5.	A/B testing of partners is time consuming and complex	41.41%
6.	I don't have sufficient data to inform the selling/pricing of my inventory	38.38%
7.	Technology platforms are biased toward their own market places	37.88%
8.	Other	5.56%

Out With The Old

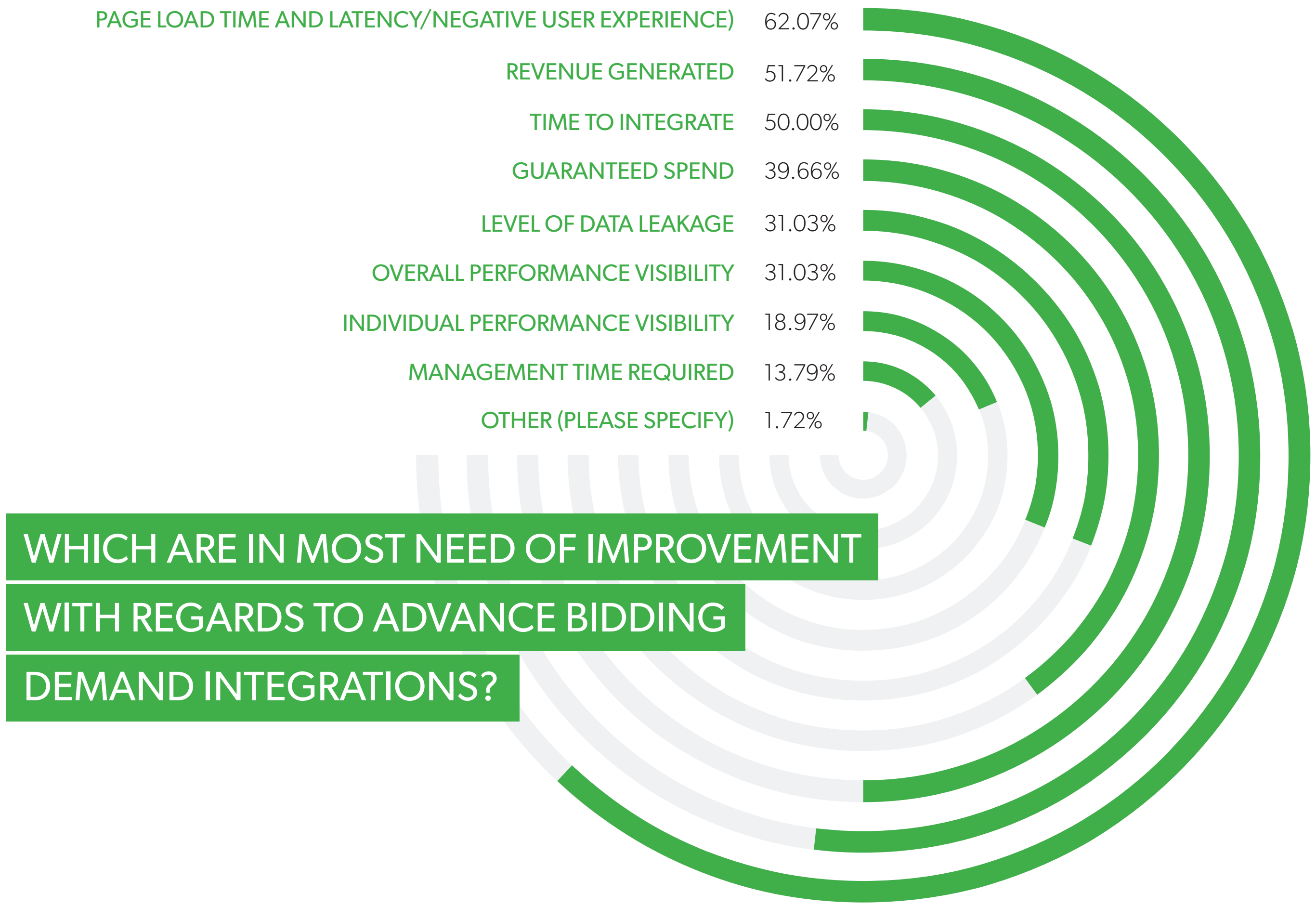
Publishers who are looking to make the highest CPM on all of their inventory are clearly dissatisfied by some of the traditional programmatic methods for maximizing yield. Almost half of publishers (49 %) use passbacks and floor prices to maximize yield of programmatic demand solutions, essentially "daisy-chaining" or "waterfalling", the practice of giving each partner in a series a chance at an impression before moving it along to the next partner if it's not purchased. However, this solution seems to be the best in a relatively unsatisfactory set of options.

Publishers know that when demand partners are not able to compete with each other for each impression, it doesn't yield the optimal price. Buyers who might have paid more end up locked out of the auction. Many are calling for an end (or at least an alternative) to daisy-chaining or waterfalling in order to bring true competition into the market.

EARN SOME BONUS POINTS WITH ADVANCE BIDDING

One way to provide access to the best inventory while ensuring publishers get the highest price through true demand competition is advance bidding. This method allows publishers to offer first-look and bid opportunities to multiple programmatic demand partners and have them compete with each other equally on each impression.

Using JavaScript tags placed on the publisher's page, select partners can bid on the impressions before they go to the ad-server, ensuring an equal auction. But the process is relatively new and not without its challenges.



EARN SOME BONUS POINTS WITH ADVANCE BIDDING

First, it takes a long time to integrate partner-by-partner. But more specific to the technical setup, the tags cause page load times and latency to increase, contributing to negative user experiences, the last side effect publishers or advertisers want from a solution. And with these two issues front-of-mind, publishers would like to see significant revenue generated from their advance bidding integrations before trusting a demand partner with more of their inventory.

But the biggest thing keeping publishers from working with advance bidding partners is a lack of information. As a relatively new strategy, it sounds like the industry could benefit from some more education.

Shani Higgins

CEO
Technorati

Forty-five percent of publishers report that not having demand partners compete with each other on each impression is the greatest challenge they face working with programmatic demand solutions. Forty-three percent report that daisy-chaining partners is inefficient and not as effective as they would like it to be.

Advance bidding/header bidding is picking up momentum as a quick and straightforward way for publishers to unify demand within their ad server and have them compete on each impression without the need for passbacks, daisy-chaining or sequential auctioning.

The biggest advantage of advance bidding is higher revenue for publishers through higher CPMs and fill thanks to unified and increased competition. Buyers also win, as they have access to every impression, not just the ones passed over by the party ahead of them in the auction. Not surprisingly, advance bidding is taking off, with 86 percent of large publishers reporting being approached by advance bidding partners and 53 percent currently working with advance bidding partners.

However, working with numerous advance bidding partners exposes publishers to high internal implementation and management costs both in time and resources. For the revenue benefit, publishers pay in potential page latency, data leakage, fragmented reporting and limited visibility and control over each partner's performance.

PRIVATE MARKETPLACES

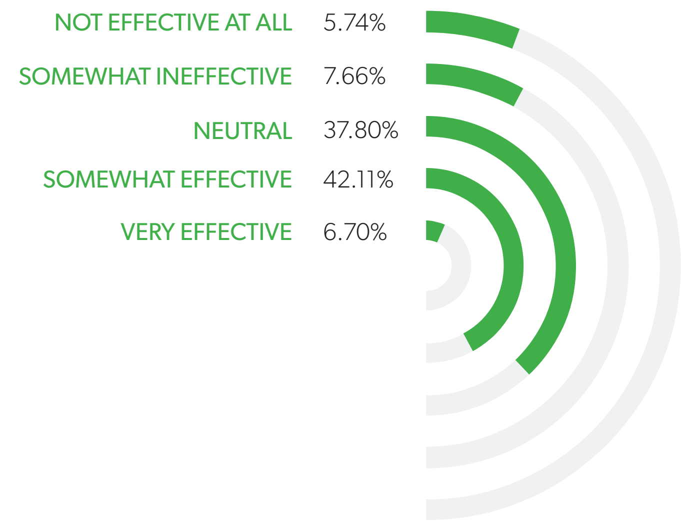
With concern over quality inventory and ad quality, it makes sense that buyers and sellers are looking for more premium marketplaces. Private marketplaces, or PMPs, are customized, invitation-only marketplaces where publishers can make their (usually premium) inventory and audiences available to a select group of buyers.

In fact, buyers are starting to divert more of their budgets to PMP buys: Currently an average of 15 percent of digital ad spend goes through private marketplaces, and they're used by 67 percent of buyers and sellers. But how well are they meeting the industry's needs?

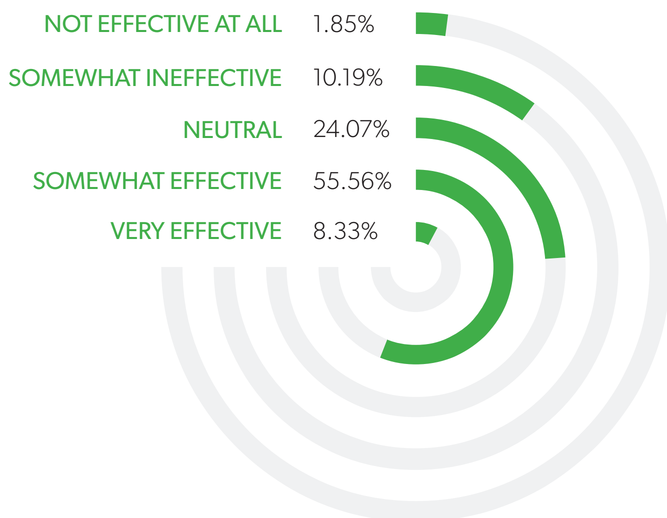
THE GRADE	
PUBLISHERS	C
BUYERS	C+

Only 42 percent of publishers say that private marketplaces are "somewhat effective," with 38 percent staying neutral on the topic. Still, they grade the effectiveness of PMPs more generously than they do the more general programmatic partners above.

HOW EFFECTIVE ARE PRIVATE MARKETPLACES IN MEETING THE NEEDS OF SELLERS?



Again, buyers are a bit more lenient, with 56 percent saying they get the job done "somewhat effectively". A quarter of them are still neutral on the performance.



HOW EFFECTIVE ARE PRIVATE MARKETPLACES IN MEETING NEEDS OF BUYERS?

THE PROBLEM AREAS

Though a majority of buyers are using private marketplaces, it's still a major challenge for publishers to find enough buyers through these platforms. And once they do, it's difficult to ensure that they're actually buying when the deals are set up.

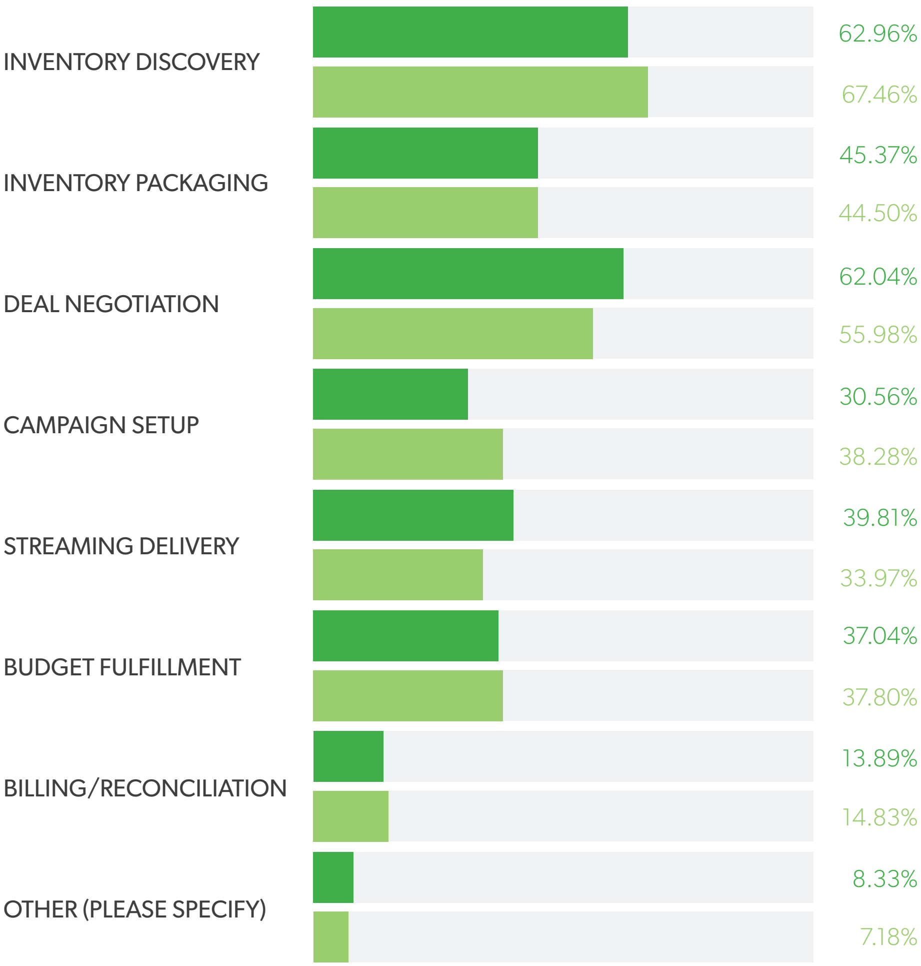
Buyers have their own concerns, which helps explain why they haven't been as active in these marketplaces despite claiming some nominal use. Inventory discovery is not on-point.

Further, they're grappling with inefficient deal negotiation mechanics. This is a serious problem, since this is the nuts and bolts of automating the exclusive relationships at the heart of private marketplaces.

THE PATH TO IMPROVEMENT

Both buyers and sellers agree that, obviously, demand discovery and deal negotiation need improvement for that satisfaction grade to go up. Buyers need to find the inventory they're looking for before they buy it, and this extends to more accurate and descriptive packaging of inventory on the part of publishers.

PRIVATE MARKETPLACES



Of course, this is all reliant on publishers getting their valuable premium inventory into these marketplaces in the first place. But deal negotiation is tied to the platform, and this is an area of improvement where programmatic partners can really shine.

Despite these problems, publishers still expect 15 to 23 percent of their revenue to come through private marketplaces by the end of 2015, and buyers expect their PMP budget allocations to rise to anywhere between 16 and 25 percent in the same time.

But marginal growth doesn't mean private marketplaces are in the clear, as the less-than-stellar grade implies.

WHICH ASPECTS OF PRIVATE MARKETPLACES ARE IN MOST NEED OF IMPROVEMENT?

The Great PMP Debate

Solving for private marketplace satisfaction may not be easy with buyers and sellers disagreeing on what works best.

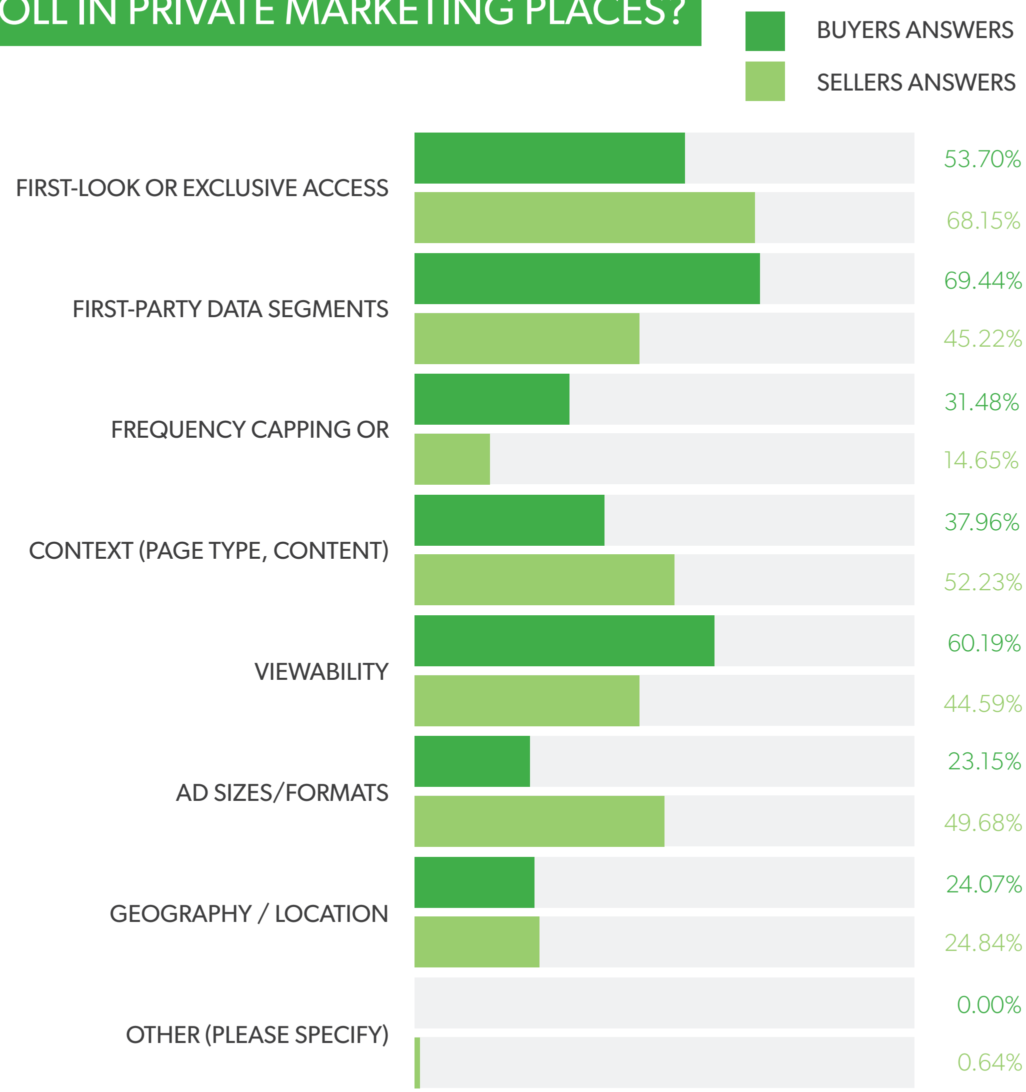
Buyers are looking for and finding the greatest success in seeing a return on their investment in PMPs when using first-party segment data above all else. This information is more native and descriptive of particular sites' traffic and audiences' intentions, increasing its value.

Viewability rates are also in demand, especially with the premium inventory hosted by private marketplaces. Buyers want to know if the inventory they're paying higher rates for is even being seen.

Conversely publishers cite context and specific ad sizes and formats as having some of the greatest value in PMPs. Unfortunately for publishers, what the buyer actually values always wins, and they would do well to put more of a priority on first-party data segments and viewability if they hope to see PMP budgets rise.

The good news is that both buyers and publishers agree on one area: First-look or exclusive access guarantees are popular; it's always awesome to be first in line.

WHICH TYPES OF TARGETING HAVE THE GREATEST IMPACT ON MAXIMIZING YOUR ROLL IN PRIVATE MARKETING PLACES?



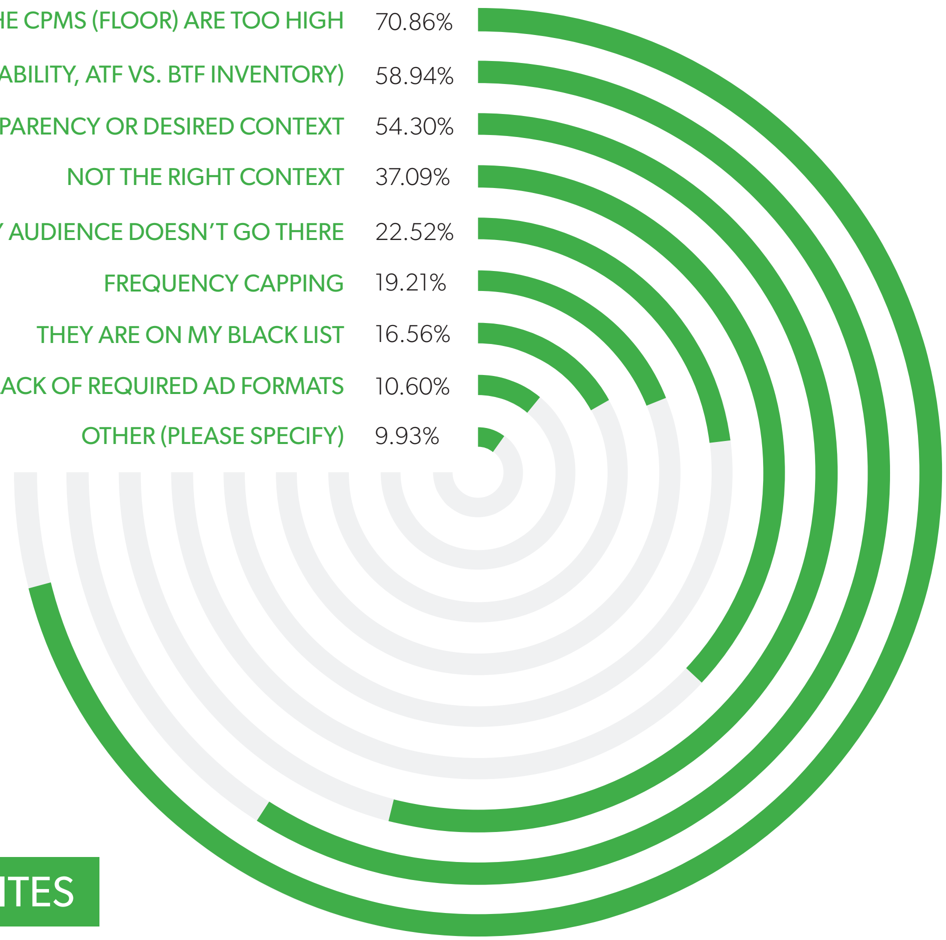
CHECKING YOUR WORK: INVENTORY QUALITY

There are a few more notes that buyers can give their programmatic partners (and publishers) to move them in the right direction.

Programmatic ads that aren't hitting the comScore top 250 sites aren't appearing for a few reasons. First, these placements are costly, and CPM floor prices (which publishers favor to ensure profitable revenue levels) are often just too high to deliver sufficient ROI back to buyers and are optimized out of the budget spending.

Then there are the usual quality issues, from above- versus below-the-fold placement, to viewability and beyond. There's a perceived lack of transparency over the ad's context; without more information and some idea of their ROI, buyers are reluctant to spend more.

WHY DO YOU THINK YOUR PROGRAMMATIC ADS DON'T SHOW ON CERTAIN COMSCORE TOP 250 SITES THAT SUPPORT ADVERTISING?



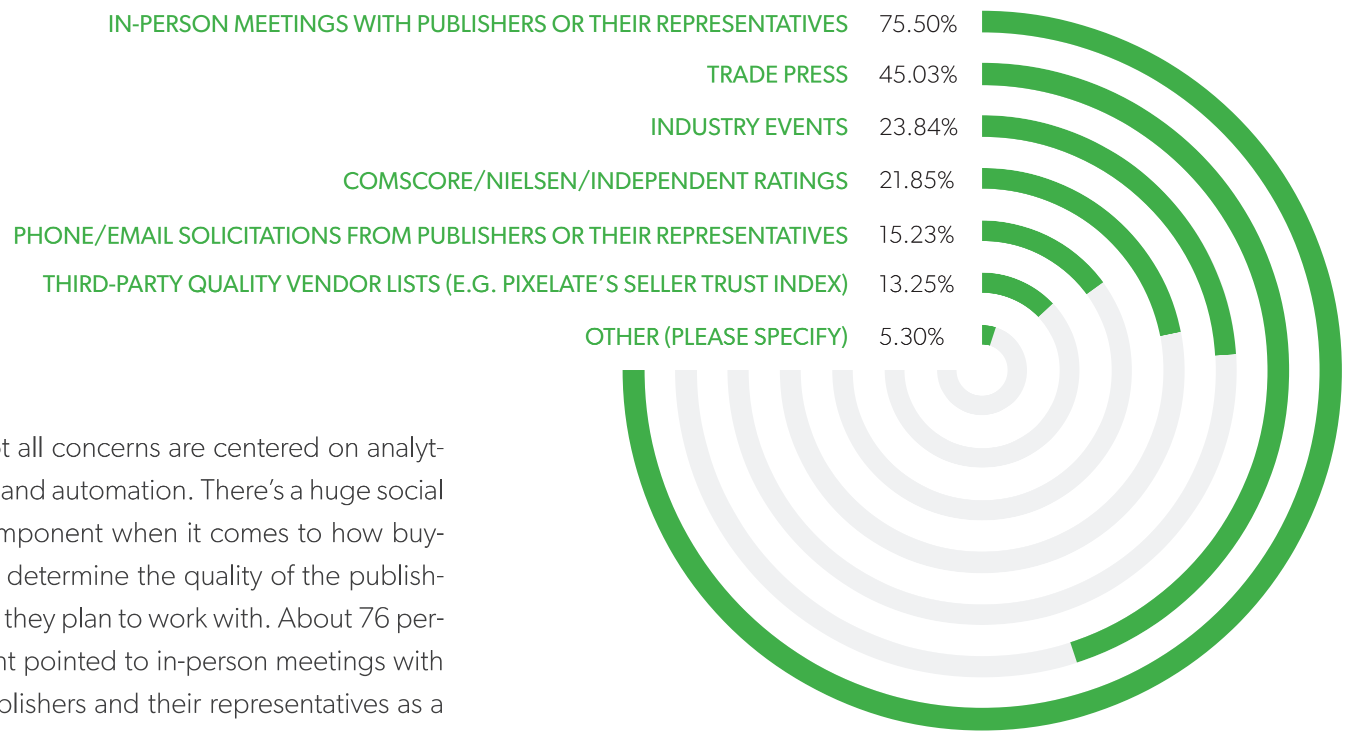
CHECKING YOUR WORK: INVENTORY QUALITY

Just as publishers are discriminant about what advertisers they want to appear on their platforms, buyers have strict criteria about the publishers and platforms they want their ads identified with. To manage their in- and out-groups, the majority of buyers fall back on the parameters set within their systems and platforms to determine what flies and what doesn't. This implies that they're likely looking for an audience type, not a set of particular domains.

Others manually select specific publishers or use whitelists to ensure that their ads appear in a particular context. About half update these lists weekly or monthly to ensure that they aren't stagnant or outdated.

On the other hand, about half of those who use blacklists to keep their ads off of certain platforms have updated them in the last 12 months. While the 32 percent who haven't are worrying, the fact that so many update their lists at all is surprising. Publishers used to assume that blacklists operated like black holes; there was no escape. Apparently, that's not the case.

WHAT SOURCES DO YOU USE TO EDUCATE YOURSELF ABOUT THE QUALITY AND UNIQUE CAPABILITIES OF PUBLISHERS IN THE PROGRAMMATIC ECOSYSTEM?



Not all concerns are centered on analytics and automation. There's a huge social component when it comes to how buyers determine the quality of the publishers they plan to work with. About 76 percent pointed to in-person meetings with publishers and their representatives as a main source of education.

The next most common source: the trade press, showing the continued influence of the traditional media gatekeepers.

CONCLUSION

Today's programmatic partners aren't exactly flunking out, but their report cards aren't hanging on any refrigerators, either. Across open exchanges, networks, private marketplaces and more, there's a lot of room for improvement, and some of the next steps are clear.

Buy and sell sides need to acknowledge that they're both having trouble juggling multiple partners and testing new ones. Unfortunately, they are under the impression that their own side has it toughest.

Both publishers and buyers are looking for the overachievers: the A+s in a sea of Cs. They're out there, for sure. But the rest of the pack has a decision to make: Are they okay with being average?

Our guess is no. So get to work.

IS THE DIFFICULTY OF DEALING WITH MULTIPLE PROGRAMMATIC PLATFORMS FELT MORE BY PUBLISHERS OR BUYERS?