Understanding The Financial Sophistication of Digital Advertising

Exploring new models for transactions

A White Paper by The 614 Group

Underwritten by

NYIAX

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The Financial Sophistication of Digital Advertising

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ACKNOWLEDGMENTS

The 614 Group would like to thank the following companies for their participation. (Of note, all data has been combined and is anonymous.)

Major publishers such as:

A+E Networks	AMC Networks	ABC
Accuweather	CBS	EA
ESPN	Everyday Health	Fox News
GroupNineMedia/Thrillist	Hulu	Legacy
LIfeScript	NASCAR	Pandora
PGA Tour	Rodale	SmartBrief
Thomson Reuters	USA Today Sports	Ziff Davis

Disclaimer

The information provided in this white paper is based on surveys, interviews and a roundtable discussion with senior digital media professionals and conducted by The 614 Group and underwritten by NYIAX. The analysis was written by The 614 Group based on both the survey findings and the information gathered during individual interviews with industry leaders. The analysis does not necessarily represent the position of NYIAX.

I. INTRODUCTION

Is it time for the digital advertising industry to adopt more financially sophisticated models for its transactions?

Digital ad[1] spending in the US will grow 19% to $129.34 billion, making up 54.2% of estimated total US ad spending (https://www.emarketer.com/content/us-digital-ad-spending-will-surpass-traditional-in-2019). Ad tech continues to evolve, providing marketers, agencies and publishers with new capabilities to grow their return on investment into digital. However, beneath the surface of discussions concerning first- and second-party auctions, header bidding, attribution modeling and the like is a potential economic problem: Do the financial transactions between advertisers, agencies and publishers offer the appropriate level of sophistication to support prolonged sustainability?

While the entire industry faces persistent challenges, publishers face continual downward pressure on CPMs. Agencies continue to fight for their existence. Brand marketers are uncomfortable with the lack of transparency and safety digital advertising provides. **Payment terms and credit implications** of the media business remain challenging. It's no surprise that many question whether the current system only really works for walled gardens like Google and Facebook, companies that see quarter-over- quarter growth despite epic brand safety blunders.

Our research has uncovered that the online advertising industry may be at an important inflection point, specifically regarding financial models that gird the ecosystem for publishers, advertisers and brands.

That's why we noted with interest, when Nasdaq announced the launch of NYIAX, an initiative to serve as the world's first guaranteed advertising contract exchange. Bringing such an advanced trading mechanism to the advertising market seems like a promising initiative to address the problems described above. But the announcement also prompts deeper questions about the underlying financial models by which the industry transacts its business:

- What changes are required by all parties to move to a more sophisticated financial model possible?
- What challenges need to be resolved in order to implement these more sophisticated models?
- What can be gained from an increase in financial sophisticated media transactions?

[1] https://www.emarketer.com/content/us-digital-ad-spending-will-surpass-traditional-in-2019

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In the Summer of 2017 and with a renewed interest in 2019, The 614 Group embarked on a three-pronged qualitative and quantitative research project with the goal of understanding how well the current financial mechanisms met the needs of publishers, advertisers and agencies as well as what a new financially diverse approach could provide all parties.

The study consisted of:

- **Quantitative Data.** First, we conducted a survey to assess the publishing community's response to the opportunities, benefits and challenges of a secondary market for digital advertising contracts, and to identify issues that must be resolved in order for them to participate.
- Sixty media professionals who have some level of responsibility for digital advertising revenue participated in the survey. The majority of the respondents were in management and ad operations.
- **Roundtable Discussions.** Once we tabulated the results, we scheduled roundtable discussions to review the responses revealed in the survey and provide insight into why participants responded as they did. Participants were senior executives at publishing, agency or brand organizations.
- **Qualitative Deep-Dive Interviews.** To broaden the lens and to explore discussion points revealed in the survey and the roundtable discussion, The 614 Group conducted in-depth interviews with:
  - Rich Caccappolo, Chief Operating Officer at MailOnline
  - An anonymous leading Agency Holding Company CFO
  - Jackson Jeyanayagam, former Chief Marketing Officer, Boxed
  - Daniel Spears, former Director of Programmatic, The Guardian

Part one of this report describes the insights and analysis of what we learned as a result of our research.

II. INSIGHTS AND ANALYSIS

We asked the following topline questions in the thesis:

- What changes are required by all parties to move to a more sophisticated financial model?
- What challenges need to be resolved in order to implement these more sophisticated models?
- What can be gained, what would the benefits of increased financial sophistication?

WHAT CHANGES?

The industry needs new concepts for transacting media. To answer our first question -- understanding the changes that are required by all parties to move to a more sophisticated financial model -- we began our research by focusing on how the media is bought and sold. We wanted to know whether contracts accurately reflect what was agreed upon, as well as the impact of programmatic on those transactions. Here's what we learned:

Existing contact structures fall short for all concerned. During our discussions with executives representing both the buy and sell-side all agreed that the existing structure of most digital advertising contracts fail to serve either party well. As one agency participant said, "In digital, if you fail to deliver just one impression, everyone is up in arms. The way we are constructing digital agreements needs to change."

What can be gained: Guaranteed contracts come with no guarantees. According to our research, 88% of publishers consider their contracts to be guaranteed, however, they fully recognize these same contacts include easily invoked out-clauses, negating the guarantee. The amount of contract cancellations is small, with survey respondents saying less than 10% of the contracts were canceled. However small, almost half of the respondents said those cancellations made it difficult to forecast inventory and revenue.

Contracts are too rigid, making it difficult to deliver campaigns. This issue echoes the one raised above, but goes further in a way we found fascinating. It is generally accepted that digital allows buyers to purchase exactly what they want for their campaigns (i.e. target east coast moms in market for new cars on Sunday afternoons) benefiting buyers, sellers and consumers alike. However, our roundtable participants voiced significant concern that digital raises expectations that are too high and given the inherent volatility and too difficult to deliver on.

A leading holding company CFO pointed out"The curse of the whole online media system right now is its massive volatility. Buyers need a lot of guarantees that what they buy today is what they will actually have tomorrow. And these guarantees must be guarde d with so many conditions and waivers that we're basically killing the future."

Auction-based programmatic is a necessary evil. Any discussion of financial models for digital media trading must include an examination of the role that open exchange-based programmatic plays in the equation. Of the publishers surveyed, 93% reported selling inventory via open exchanges, but most had some concerns about the channel. For instance, 78% said their main problem with open exchanges is that CPMs are lower than they get via direct channels. Brand safety and ad quality are also key concerns. As Roxanne Allen, Director of Ad Operations, dotdash explained: "I agree with taking things off the open exchange. Once we started to clean everything up, we made more money. We have managed to control the ad quality. We have a good handle on it through flooring. We would rather show a blank space than to show some crappy, questionable ad."

Reconciliation of discrepancies is still a costly endeavor. Despite numerous advances in technology, resolving discrepancies is still a costly endeavor. Nearly one third of survey respondents spend over $100,000 a year to resolve discrepancies, and many roundtable participants report costs that are significantly higher. Eliminating this function would allow publishers to focus resources on more productive activities.

Both the buy-side and the sell-side are open to new structures. Survey respondents responded positively to the concept of a "guaranteed-revenue contract," with 64% finding the concept appealing.

WHAT CHALLENGES?

Our second question considered what challenges need to be resolved in order to implement more sophisticated models. It revealed difficult but not impossible issues to overcome.

Publishers want specific sales controls. While 69% of publisher survey respondents found the concept of a re-tradable guaranteed contract appealing, they did have their concerns. For instance, 74% cited a need for creative control over the ads as well as the ability to screen the ads for fraud.

Additional concerns were voiced in the subsequent roundtable discussions and interviewers. " How does a publisher ensure that the re-traded inventory is sold to the right type of advertiser, and not setting up for brand or category challenges?"

And as Derek Nicol, VP of Advertising Technology, CBS Interactive explained, " From my perspective, it's about protecting my brand [as a publisher]. It's a constant fight of holding people accountable for protecting my brand as well."

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Buyers also have requirements. While publishers are keen to benefit from the predictability and higher CPMs that new financial models promise, such as secondary trading, buyers also look forward to specific benefits, namely price. As leading agency CFO said, "Upfronts are financial commitments, plain and simple. Why buy them? So we definitely know what will be aired or published, and can trust the content. And when we commit upfront we're able to negotiate relatively good rates. These are important benefits to the advertiser."

Jackson Jeyanayagam, Chief Marketing Officer, Boxed echoed that sentiment: "I'm looking for a partner that will give us exclusive access to something or give us early access ... or a partner that is very relevant at a time ... I'm open to that but I'm also looking for the publisher partner to be really creative in what they give us, I'm not looking to just commit to exclusive buys for a small percentage discount, I want the discount as well, but it's also about what I get with that."

Volatility in audience. All of our roundtable participants agreed that to the buyer, inventory is synonymous with audience. This is an important consideration, as some of our roundtable participants, particularly on the buy side, believe that audiences, even on premium brands, evolve quickly, making it difficult or even risky to purchase inventory too far in advance. As a leading agency CFO mentioned, "What guarantees do I have that the audience three or six months from now is going to be the same, considering the speed at which this market is moving and the volatility of the audience?" He continues, "Buyers need to know what they're buying, which means they need to know the content."

No classification standards for digital assets. In successful commodity markets, buyers and sellers have an agreed upon standard for classifying the value of an asset. To date, no such standard exists for digital inventory. As Rich Caccappolo, Chief Operating Officer at MailOnline explained, "In the commodity markets, everyone knows exactly what it is that they're trading. If I want to sell a share of IBM and you want to buy it, there's no question in either of our minds what that asset is. This shared classification for digital inventory doesn't exist yet."

No standards for classifying digital inventory contracts. Some 57% of respondents to the publisher survey firmly believe that guaranteed revenue contracts would allow them to better forecast inventory and command higher CPMs than the open exchanges. However to get there, the industry will need to develop standards for classifying contracts so they may be sold in an automated market.

As one of the participants in the roundtable discussion explained: "As a technologist, until we get closer to how we describe these things, not just the beginning of the process but all through the end, it's difficult to come to a common understanding."

WHAT BENEFITS?

More sophisticated financial models will deliver micro-and macro-level benefits. This brings us to our next question: what can be gained by the increased financial rigor? The gains we heard applied on both a micro and macro level.

A Higher degree of automation: 50% of the survey respondents said they believed it largely feasible for their companies to automate their premium direct deals to the market, with some exceptions such as custom ad units, sponsorships and first-look packages.

A Greater focus on client goals. Our research uncovered the reasons for the appeal of guaranteed-revenue contracts or secondary trading are varied and profound. For instance, Rich Caccappolo, Chief Operating Officer at MailOnline, noted once his sales team were freed from the burden of chasing down contracts to replace cancellations, they'd have more time to focus on working hand in hand with clients to meet their campaign goals. "The team we'd put in place would be more of an operational delivery team than one scrambling to fill inventory."

This could thwart the threat of media agency consolidation. Our roundtable participants and interviews emphasized that in today's media environment, an important function of the media agency is to acquire media in advance on behalf of clients. In a sense, these agencies act like banks in that they "loan" money to clients in the form of inventory buys, and wait until campaigns are delivered before being paid on those loans. Marketers increasingly demand longer payment terms, which puts significant pressure on the media agency. Agencies will need ever larger balance sheets in order to meet the marketer's demands, and as a result, many may shutter their doors. This is particularly disconcerting to advertisers and publishers, because those few media agencies left standing will be in a position to demand more stringent payment terms and lower margins.

However with additional and more sophisticated financial models to rely upon, agencies may no longer require large balance sheets to service customers. They may buy contracts, and borrow against them for cash. As a result, more media agencies can stay in business, preserving diversity in the ecosystem. If as an industry the opportunity to understand this risk grow clearer, this then leads to these new opportunities.

Further domination of walled gardens like Facebook and Google. Not surprisingly, the presence of Facebook and Google were felt in all discussions and interviews, even though they weren't in the rooms. Nearly all participants feared the further domination of those giants, and the impact it would have on their businesses. For instance, participants who represent publishers are concerned that advertisers who may object to their creative standards will simply shift their ad spend to Facebook or Google, forcing publishers to lower their standards or lose the business.

Interestingly, this is a concern shared by the buyers, as Jackson Jeyanayagam, former CMO of Boxed explained: “Right now I have a lot of options for buying media, so I’m not particularly worried about terms. But if I ever have an issue, there’s always Google and Facebook. Those are the only two I couldn’t do without.”

III. ADVERTISING IN AN AGE OF SOPHISTICATED FINANCIAL MODELS: HOW WILL THINGS CHANGE?

The digital advertising industry has a history of looking to more mature sectors for solutions to protracted challenges. For instance, the industry has adopted the sophisticated supply-chain management solutions widely used in other sectors.

As a result of our research, we've come to believe the digital advertising sector will be receptive and will have strong opportunities to scale by leveraging some of the technological and business advances offered by the financial industry, and use them to push the industry forward. Specifically by adopting new transaction models such as those found in the financial community that promote risk management, as well as trust and transparency among all parties will help create a basis for partners effectively assess risk and therefor take more of it.

For instance, many participants looked to broadcast TV upfronts as a potential model to borrow in order to evaluate "value." As noted earlier, value in digital campaigns is measured by a host of requirements -- audience, placement, viewability, etc. -- which make it difficult to deliver on campaigns. A better understanding of the elements of a guaranteed contract, its primary and secondary market implications for trading, leveraging and fulfillment.

Such borrowing would resolve some of the challenges mentioned through this paper, such as creating classifications of contracts so that they may be then traded in an automated fashion. This automation will, in turn, lead to a sharper ability to forecast revenue and availability. And as one of the roundtable participants pointed out: "The ability to forecast more accurately will simplify some of the tech challenges the industry faces. Like television, once ad spend on digital provides predictable results, much of the complexity would go away."

In short, we believe that:

- **New financial models for transactions will emerge.** After reviewing the survey results and studying all the points of view revealed in the roundtable discussions and in-depth interviews, The 614 Group firmly believes that despite the challenges, the industry and all it's many players will wholeheartedly adopt newer models for transactions such as a leverageable contract.
- **Companies must understand what is in a contract in order to consider new complex instruments** - Currently many partners in the ecosystem believe they have a guaranteed contract when actually their contracts are not.
- **Emerging technologies will pave the way.** As business issues get solved emerging technologies will support the extension and automation of the advancement of these financial models. For instance, blockchain will allow each party involved in the transaction to eliminate the burden of assessing what happened in a campaign (i.e. resolving discrepancies), by providing an agreed upon and trusted record. This, in turn, will allow for greater automation of contracts.

A detailed look at the data

III. Quantitative RESULTS

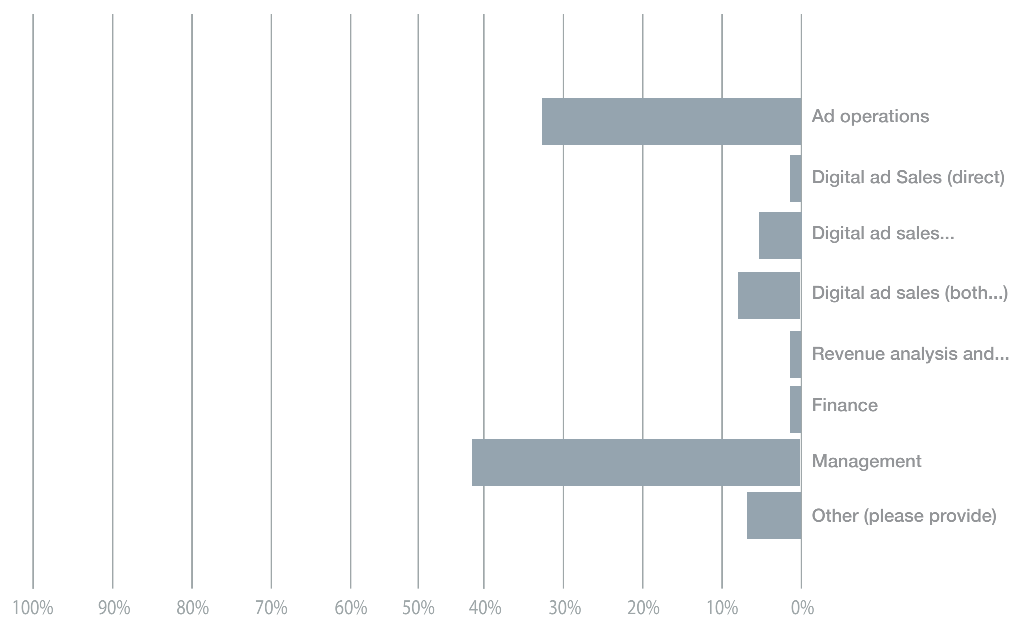
ABOUT THE SURVEY

The 614 Group sought to measure publisher understanding of a new concept to the digital ad-tech ecosystem, called **contracts for guaranteed revenue**. As in all markets this contracts would be sold initially via a primary market and then further sold via a secondary market, which, similar to stock markets, allows buyers to re-trade the contracts for guaranteed revenue.

To gauge understanding and general acceptance of nature of the current environment and desire for change, in late 2017 we conducted a survey consisting of 22 questions, along with two brief explanations that described the new concepts.

RESPONDENTS

We surveyed 60 online publishing professionals who have some level of responsibility for digital advertising revenue. The majority of the respondents were in management (41.67%) and ad operations (33.3%).



Sample of Companies Surveyed

All survey respondents represented premium brands in the publishing industry, representing spanning website, audio and video publishers.

Sample of Publishers Surveyed

A+E	ABC	Dotdash	Accuweather	Advance Digital
Autotrader	Bauer Media	BBC	Business Insider	Bustle
Cafe Media	Cars	CBS	Charter	Conde Nast
Crain	Daily Beast	Discovery	ESPN	Fast Company
Financial Times	Fordes	Hearst	Hulu	iHeart Media
MailOnline	Mashable	Meredith	NBC	New York Times
News Corp	NPR	Pandora	Purch	Rodale
SheKnows	Slate	Spotify	Times	Turner

Survey Details

Direct Sales Contracts

Does your company sell guaranteed-ordered media contracts?

- The vast majority (88.3%) of respondents said they sell guaranteed media contracts

Out-Clauses/Contract Cancellations

When asked if those guaranteed-ordered contracts contained out clauses, more than 94% of respondents said their contracts allow advertisers to cancel the contract for a variety of reasons. But cancellations aren't a big issue:

- 91.67% of respondents said that less than 10% of their contracts were canceled each month
- 82% said that less than 10% of their revenue was affected

When asked whether they agree or disagree with the statement, "cancellations make it difficult to forecast revenue," 37% of respondents said they agreed, while 43.48% said they disagreed. The remainder had no strong feeling about it.

We found similar results when we asked about the impact of cancellations on forecasting revenue: 45.49% agreed cancellations make it difficult, while 43.38% disagreed.

But They See Benefits

Next we asked those who saw potential benefits to select the ways in which publishers will benefit most (multiple answers permitted).

Answer Choices	Responses
Publishers will be better able to plan inventory availability	57.45%
Publishers will be able to command higher CPMs vs. the open exchange	57.45%
Publishers will gain more transparency into the buy-side than they do with seeling inventory via open ad exchanges	42.55%
Publishers will have better control over which advertisers run on their sites	40.43%
Publishers will see more revenue than they do through private exchanges	31.91%
Publishers will be able to streamline direct sales deals	29.79%
Publishers will have better control over the ad content run on their sites	25.53%

Publisher Requirements for Participation in Market for Guaranteed-Revenue Contracts Next we wanted to assess requirements for offering inventory via guaranteed-revenue contracts, along with the types of inventory respondents felt would be appropriate.

When asked specifically about sales controls they'd like to see:

- 73.91% selected Traffic Quality Screen to detect fraud
- 1.74% identified competitive exclusions and blacklists (by advertiser and/or category)
- 3.04% selected White Lists
- 60.87% selected Unit Types (i.e. the ability to limit contracts to specific ad units)
- 50% selected the ability to include audience data

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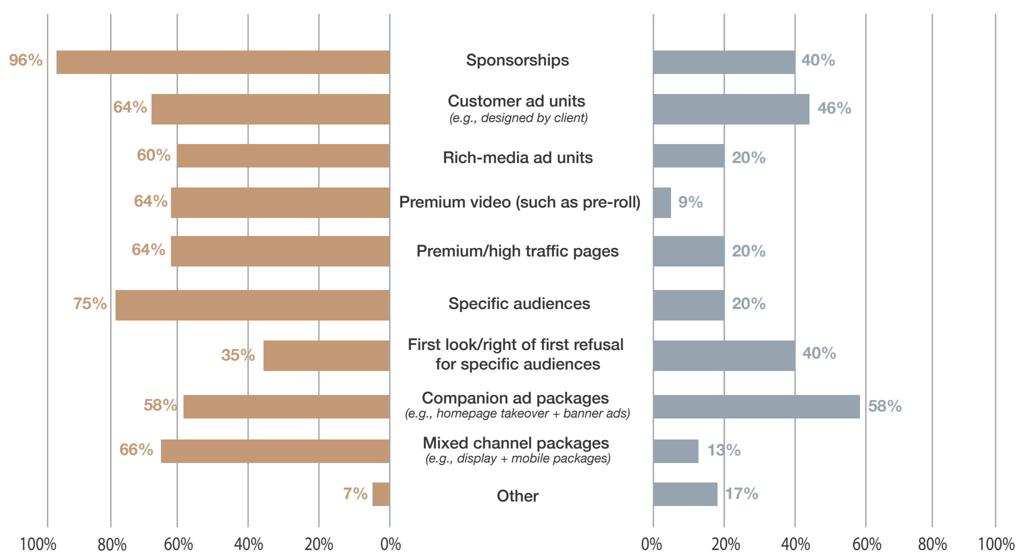
Automation of Complex Sales Packages
Automation is an essential part of the market for guaranteed-revenue contracts, and we wanted to know whether respondents felt it was feasible for companies to automate premium direct deals, although some

We specifically asked: "Given the composition of the sales packages sold by your direct sales team, do you believe it's possible to automate the creation of high-end inventory packages to be sold via a secondary market for guaranteed-revenue contracts?"

- 50% said yes
- 22% said no
- 28% were unsure

Digging deeper, we asked about the specific components of the respondents' high-end sales package. Sponsorships and specific audiences are the most common features:

But not everything can be automated; **47%** of respondents said custom ad units couldn't be automated, while **40%** cited sponsorships and first-look packages would present problems.



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Potential Impediments

When asked about potential impediments to creating custom ad units for a secondary market for guaranteed-revenue contracts, advertiser demand for non-custom ad units (62.22%) and value of personal relationships with advertisers (57.78%), and pricing strategies (55.5%) ranked the highest. Only 40% were concerned about the custom insights and research that's only available from their sales teams.

Predicting Revenue

Although less than 10% of respondents said earlier that cancellations or out clauses prevented them from accurately predicting revenue, over half (53.33%) said guaranteed-revenue contracts would help them predict revenue more accurately.

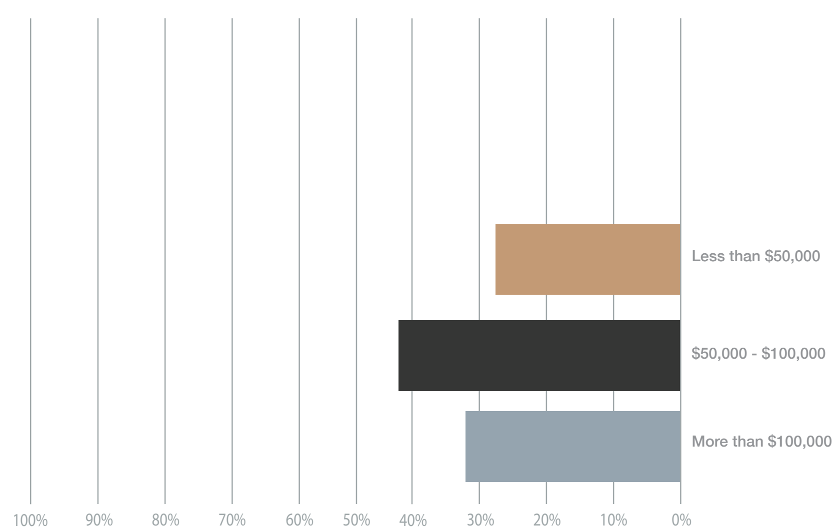
Only 15.56% of respondents said it wouldn't help them predict revenue more accurate; the rest (31.11%) said they were unsure.

DISCREPANCIES

We were keen to understand the impact of discrepancies on publishers. To do that, we needed to first determine if respondents had insight into the time and effort their organizations spend on reconciling discrepancies. Over 77% said they did.

Discrepancies are Expensive

We asked respondents to estimate how much their organizations spend on reporting and reconciling discrepancies each year, 41.46% put the cost at $50,000 - 100,000, while nearly a third (31.71%) reported spending more than $100,000.



IV. ROUNDTABLE HIGHLIGHTS

The purpose of the roundtable discussion was to gain a better understanding of the results uncovered in the mass survey. We selected 15 respondents to elaborate on why insight into why participants responded the way they did.

All participants held senior-level executive positions within the organizations. Titles include: VP, Digital Sales Planning & Client Services, VP of Advertising Technology, Director, Ad Operations, SVP, Advanced Platforms Ad Sales & Operations, SVP, Advertising Data & Technology Solutions, EVP, Innovation, Chief Product & Technology Officer, SVP, Strategy & Innovation, Principal.

Key Highlights

- Our participants equated the concept of a futures market with upfronts, and that's a different deal than a standard insertion order. A standard contract is about the rate where an upfront is an overall relationship deal. The feeling was that digital contracts need to evolve and try to find a way to offer the flexibility of a TV upfront with the rigor of a digital contract. More sophisticated ways of transacting like a financial market MAY do this.
- From the publishers: "If we knew each other's KPIs we could have better contracts which would allow us to do more business."
- From the publisher: "We have certain parts in the contract that are not cancelable. We have a high sell rate, the supply is limited. There is a value of locking in up front with us with the intent of agencies following through with their purchase.
- Publishers feel that much of what is being sold directly can be automated but the fragmentation of screens that consumers use poses a challenge in delivering sponsorships/custom ad units without manual conversations. The transaction can be more efficient, but the creative is problematic.
- Buyers and publishers both see value in making inventory available in a wider variety of packages and purchasing channels. Inventory flexibility opens the door to a wider variety of buyers who value different variables in the purchasing process.

V. HIGHLIGHTS FROM IN-DEPTH INTERVIEWS

Interview with Rich Caccappolo, COO for MailOnline

The global site of Daily Mail.co.uk

What role do the open exchanges play in your sales strategy?

It's a great way to provide access to our audience to buyers who want to engage with them, but who may not be familiar with our brand. Once we see these buyers who compete for our audiences, often losing, it's up to us to transition them to a model that's more predictable for them.

So when I work with our sales team and I see their projections, I tell them to focus on the categories for which access to inventory at a predictable price is crucial:

To succeed, we believe the best opportunities lie in creating more preferred and private deals, whether they're guaranteed, private auction, DSPs, etc. So regardless of our position in the market or our direct sell through rate, our goal is to structure more preferred deals. This is our overall strategy, how we get these will differ from region to region.

Do you believe that the automation in the open markets can translate into preferred deals?

We do a lot of deals in the open market, and are very good at optimizing our performance, as well as the yield we get for providing access to our audience. We've done an especially good job with the migration from direct sales to more indirect sales (a change happened sooner in the US than it did in the UK, but once it started there it moved very quickly).

Automation delivers better yields, so no the next questions are, how do we automate preferred deals? How do we get people to buy that way? And how do we facilitate sales for buyers who want more predictability with regards to availability quality and quantity that is at a price that is predictable for them?

In our survey we asked publishers about the impact of out clauses on guaranteed contracts. We learned that most don't consider those out clauses as a big concern as they're not typically exercised. In your opinion, do out clauses have an impact on forecasting or predicting revenue and inventory?

Predictability is an issue for a few reasons. Programmatically guaranteed deals with out-clauses look good when compared to deals that aren't guaranteed, which tend to have so many issues with getting ramped up, the pipes malfunctioning, or the targeting being too specific that the volume isn't there.

We talk to publishers every quarter, and one of the things we ask is: How long do you give a private deal to work if it isn't performing? Now it's getting a little better because the pipes are getting better. Still, I think most publishers prefer programmatically guaranteed deals with an out clause to PMPs -- even those with a set price -- that won't deliver as anticipated.

There's another consideration. In many ways, programmatically guaranteed deals are just like direct deals, but where advertisers use their own data. In fact, internally we allocate guaranteed deals as a direct sale. These are situations where the client is willing to purchase inventory and take a lot of steps to get precisely what they want. At that point, it's up to us to ensure the deal is working for them, and that means my guys need to know how that translates into advertiser metrics and goals. If my guys aren't focused on them, the deal won't work for the advertiser, and they'll opt out. For this reason, the out clause keeps us clean and focused on the advertiser's metrics.

What is the potential impact on revenue and inventory when advertisers cancel a direct deal tens days out, for instance?

Direct deals are a slightly different animal than private deals. Publishers need to protect themselves against cancellations. In my experiences, outs are due to poorly constructed contracts.

Going back a few years in the direct world, out clauses typically concerned availability to promise levels of inventory, allocations and reservations, and they were more acceptable to publishers. We're not seeing that too much any more, except with video, where there is some scarcity of inventory.

Today, it's not that acceptable for advertisers to pull out of direct deal, there's a sense that it's just not the right thing to do. But on a programmatically guaranteed deal, we are somehow more accepting of outs, which is strange. There's an inconsistency there.

In your opinion, do the current media contracts for direct work well for the publisher or are they disadvantaged in the way the standard terms and conditions are set?

I think we're seeing a bifurcation in product. Deals that are reserved for direct generally cover products that aren't well suited for programmatic, or that publishers feel shouldn't be sold programmatically for one reason or another, particularly in the open exchanges. For instance, takeover ads and native inventory tend to be sold in direct deals.

When to use a direct deal and when to use a programmatic private deal really comes down to who owns the data that will be used for targeting.

If the advertiser wants certain products, such as take-over ads for a movie launch, then it's direct. If they want to target a segment using their own data, assuming it's not too specific, we're happy to facilitate a programmatic deal.

If you could automate products such as sponsorships, would you prefer to offer them programmatically rather than direct deals?

We've always treated certain products, such as a homepage takeover, as something that could only be sold direct, but in Australia we've in-skin ad units -- which are like take-overs -- make great inroads and bring in demand. Advertisers are using their own data and purchasing these units programmatically. This leads me to think that going forward, there will be fewer and fewer things that can only be purchased in a direct way.

> Going forward, there will be fewer and fewer things that can only be purchased in a direct way.

In our survey we asked about the idea of a secondary market for guaranteed-revenue contracts (described throughout this report). Do you think this is an appealing option for publishers?

Essentially you're asking about a futures market, which I've thought about a lot and think is appealing. But it's quite different from the markets we use to trade digital inventory today.

In the commodity markets, everyone knows exactly what it is that they're trading. If I want to sell a share of IBM and you want to buy it, there's no question in either of our minds what that asset is. You may have some information that makes you value that share of IBM more than me, but we both know exactly what it is we want to trade. We don't have that clarity with digital inventory yet. The industry lacks a clear definition of what an ad on a site is.

There's another way the commodities markets differs from the digital inventory market. At the moment, digital inventory is purchased one impression at a time. Who is the audience? Is it viewable? Is it in a brand safe environment?

Let's look at another example. Let's say I'm a pig farmer, and I'm willing to sell futures of my pork bellies at a lower price to a buyer because I know that there will be a glut of pork bellies in the future. The buyer I sell to may not have that same insight that I have; all he knows is that he can't risk having to a higher price in the future, so he takes me up on my offer. This can happen because we have a standard grade for pork bellies. We don't have the equivalent for an ad on my site or an ad targeting my audience.

So in order for a futures market to work, we would need to have a way to grade inventory at scale?

Yes, but that's a tricky path to go down. Someone needs to determine what a Grade A egg is, which ultimately ends in a type of whitelist and blacklist of a sort. But who determines what a Grade A ad unit is? Whoever that is will be handed a great deal of leverage.

Do you think it's possible for buyers themselves, with the right tools, to be the ones who identify the clean well lighted pools of inventory?

Absolutely, and then it becomes the role of the sales person or the business development person to convince the market that our inventory deserves to be in that Grade A or that clean well lighted pool. Once publishers have that ability I believe they'll make the transition to a futures market.

From your perspective what's the biggest appeal of revenue that's guaranteed?

The predictability. In the direct world we start every month and every quarter at zero, which is a tough way to live. Of course there are some pre-sold deals, but we are essentially at zero revenue.

> That's why predictability is so attractive; publishers will know if they've sold, say 60% of their Q4 inventory to reliable and clean partners. This is very very appealing.

Ironically, open programmatic gives you a little bit of predictability in the sense that a publisher says, "if I send this volume of traffic to the market I know I can bring in this amount of income." In many ways, open programmatic is even more predictable. I can go to a budget meeting and say if I grow traffic by 10%, then I would know I can grow revenue of at least 10%. In the old days of direct you didn't have that ability to predict revenue, since deals fall through or are delayed.

That's why predictability is so attractive; publishers will know if they've sold, say 60% of their Q4 inventory to reliable and clean partners. This is very very appealing.

Interview with a leading CFO of a holding company Does programmatic have an effect on the client conversations regarding transparency?

Clients now understand how complex programmatic is, and all the layers of vendors that sit between the buying platform and the publisher. They also understand that

RTB is a free market, one where price is dependent on demand at that moment. The more demand, the higher the prices. Advertisers are concerned about price, of course, but we can't say definitively what it will be until we buy it. Our clients realize this, though it still causes a bit of discomfort.

And there is still the question about the quality of each side, which brings us back to the brand safety concerns that happened with Facebook and Google earlier this year. At the end of the day, we can buy inventory that's great theoretically, but as we know, content changes by the minute or even by the second. For this reason, it's possible to acquire inventory that qualitatively doesn't achieve anything. We can't control content, and that's a problem.

Is it safe to say that some things can never be fully transparent? If yes, how does that affect your conversations with clients?

It's a question of negotiation. Like many other holding companies, we work with Google, Facebook, and Amazon to create systems that offer more fluidity and rapidity in the information we get from them. This might not be quite equivalent to transparency, but it does give us insight. It's always a question what transparency actually means; people tend to mix it up with a lot of things. But when speaking about transparency, it's important to remember that transparency is always after the fact, never before.

We have mobile-only clients, and a large part of their media spend is divided between Facebook and Google and for them, transparency isn't a question for them. They're fully educated on the way it works, and our team is in constant communication with their teams. And while there's no duplication of tasks between the client and ourselves, there is an overlap: creating confidence in the way the system works. The questions we have come from advertisers who are not fully digital or mobile only. When their internal teams mix offline and digital media, then questions arise.

What's your experience with upfront deals for media? Are you in favor of more or fewer upfront deals?

Upfronts are financial commitments, plain and simple. Why buy them? So we definitely know what will be aired or published, and can trust the content. And when we commit upfront we're able to negotiate relatively good rates. These are important benefits to the advertiser. Upfronts are good for publishers as well, because upfronts allow them to know at least part of their income streams. I see a future for upfronts in the short and medium term, but maybe not long terms.

The trouble with upfronts is that they limit flexibility, and buyers want to optimize their media buys day to day or week to week, depending on the media category. Ultimately, I think we'll buy TV the same way we buy online inventory, because it will all go through the same tube. Add a little bit of artificial intelligence and it becomes even more compelling and soon we won't be talking about programmatic anymore, because it will all be a blur.

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Will publishers want to sell in an upfront model?

Absolutely, let's take the example of the New York Times. A publisher of that caliber can sell inventory upfront its content and reputation are known, the audience is there, and so on. We purchase inventory upfront from them. But it's not the majority of what we buy. I think that's why the advertisers are a little resistant right now. When we stray from the proven trails persuasion and sales efforts are needed.

So let's assume that a new model arose in the market whereby to lock down an attractive rate with a particular publisher, agency must pay the cost of the inventory into a holding account, where it will sit until after delivery. Is this an acceptable or desirable concept?

It does exist in certain countries, where media agencies have no legal or financial responsibilities, and the entire transactions are between the advertisers and the media companies. In these countries, media companies and agencies have joint bank accounts that are activated with a dual signature. It doesn't guarantee anything beyond the fact that the agency use the money to buy media; nothing else is guaranteed. It's just a financial guarantee, it will not guarantee the quality of the buy.

So it's like an escrow. Could you see doing that more and clients being interested in transacting in that way?

I would love to but no. Look at the payment terms of P&G, Kraft and GM. When they extend the payment terms towards the agency, it's for a specific reason, namely they don't want to lay out the cash. So why would they want to do that directly with the media? Because I don't see that happening, I think media agencies will continue to feel the financial pressure, which is counterproductive. As it is, agencies have such a massive pressure on cash and costs that the one thing I see changing over the next few years is a dramatic renegotiation over the payment terms.

What's the right mix of "stuff" that's going to lead us to a futures contract with a financial commitment?

It's interesting to me right now, especially in light of new client we're working with. One of our clients is dealing with an internal transition from a traditional CRM to a completely online one. We both realized that the client was spending more money on client acquisition than client retention, even though the best return on investment was with retention. And because they were spending too little money on client retention they were losing money on the whole. One of the reasons they made this mistake is they didn't use the data they had to understand who their best sources of revenue are.

It will just change your business a little?

Not really, it has already changed the business a little but when you look at the balance sheet we need to buy media. It will call for further consolidation.

I think the problem is everytime a change like this happens, it goes back to finances and a consolidation business results. At the end of the day we need to be careful where we go because we already have a duopoly in online media buying. If on the agency side we see further consolidation we may end up with two mega media buying holding companies. The bigger the market is, unfortunately in our world, the more concentrated it becomes.

Jackson Jeyanayagam

Chief Marketing Officer, Boxed

How has programmatic changed your take on media buys?

It allows us to be far more efficient and scaled to reach a far wider audience than we'd have an opportunity to work with people and teams. So programmatic gives us a chance to opt in and opt out of different creatives based on what's working well, and get the scale and breadth that we otherwise wouldn't have. Which is very important for a startup.

Where do you look to do guaranteed buys?

I'll do guaranteed buys with specific partners- publishers that we have a relationship with or have a unique reach; or are doing something really interesting. I am also always open to doing a guaranteed buy if I'm getting a lot of value back. Now that sounds obvious but, what I'm looking for is a partner that will give us exclusive access to something or give us early access to a beta ad campaign or ad unit they are testing. Or a partner that is very relevant at a time that is very important to us, like holidays or New Years is really important to us too. I'm open to that but I'm also looking for the publisher partner to be really creative in what they give us. I'm not looking to just commit to exclusive buys for a small percentage discount, I want the discount as well, but it's also about what I get with that.

So there's value in these guaranteed contracts. Obviously from all other parts of the process whether it's the agency or the publisher they're looking for that upfront commitment. How do you look at the requirements from the agencies and the publishers on these kind of guaranteed buys?

I do look for an out-clause, that's important to me as a start up, unlike a bigger brand where you have a lot more resources. As a start up we can do a lot of things big brands can't, but the one thing we can't do is come up with the capital. So it's really important that we have some sort of out-clause for the sake of the business So I pay a cost per acquisition, that's how I judge success, how much am I paying to acquire a customer. If goes below or above a certain number, then I need to address that and be able to optimize. So I'm looking for results beyond just engagements and impressions, i'm looking for a partner to hopefully help me optimize within the campaign, it doesn't mean I'm going to kill the campaign after two weeks of under performance but I need an understanding of what they're going to throw at me to help me achieve those results that you know, if I'm locked into guarantee then I need guaranteed results too. And if I'm not getting them I need some sort of guarantee that I'm going to get time and resources from their people to help me optimize that. And obviously if we're still not seeing results then that's where my out-clause kicks in.

When it comes to paying for media as part of these guarantees, do you need that flexibility to see results really before you can pay?

I generally don't like paying upfront especially when it comes to media, but I'm pretty flexible. A lot of times what we'll do is half and half, or based on when the media will run which is more common. I think we're pretty flexible, depending on the size of the buy and when we paid.

Even when performance is good and everything works, it seems that payment terms are being dragged out and continue to be longer and longer. Is there a future where brands start to pay faster?

Maybe, I think on the digital side they already do, they have to. I think if your talking the terms that they want and the reason they pushed out, another reason would also be, if they just delayed the payment that's one thing, but if they're like, we're looking for net 60 or net 90, a reason would be because they don't want to commit to that for a year, if it doesn't perform then we don't know what the second spend will be, or the next media spend will be. And if we can push that out further than we can maybe hold those dollars for another campaign. I think that's definitely in the mindset. But if the performance is there and the brands have the ability to pay quickly then I think they would. I know all brands open up credit lines with Facebook and Google and just pay off of that. When you say Facebook and Google, there's no pressure there, even if the performance isn't great, there's no way around it, you're going to be paying and you're going to be using Facebook and Google.

I think it makes it more complicated for agencies, I think they have to be able to manage that in a much more streamlined manner. I think the other thing is that brands also have multiple agencies buying for them, they don't just have one media AOR anymore. Sometimes you'll have a media agency for offline and one for digital and social, I had that at Chipotle.

It's guarantees and performance. The guarantee to optimize and get the resources from their team to ensure that they hit our KPI's, and KPI's have to be well beyond the generic KPI's and impressions. So if they can't deliver that I'm not going to do a guarantee, that's for sure. So it has to be very specific to what I'm getting, and then what flexibility do I have, do I have an out, and what access will I get or uniqueness. Am I just buying display ads, If i'm getting access to beta units then that becomes more compelling versus my competitors.

Sure, and again in terms of some of the elements of a media buy, what would you be concerned about that you couldn't get in a guarantee. You know creatives sizes, what would be some examples where you'd be concerned and say, you know what these things I don't think I'll ever get.

I go into every negotiation assuming I'm going to get everything I want. So no, there's nothing I'm really concerned I won't get. Because if i'm going to guarantee money it is a tougher sell these days. I go in thinking I'm going to get everything I want, if I don't then I don't need to do a guarantee. Unless I really need that media, I don't know who that would be, I can't think of one media partner where I need them so bad that I need to do a guarantee.

But things like obviously pricing advantage and positioning would be valuable to guarantee again.

Of course, pricing is one of the big advantages of guarantees, I'm getting a negotiated rate that I'll always get.

You want everything with it, it has to be the whole package.

Exactly. There's so many options to buy media, I don't think I have to be worried about the terms. So many options, so many places to spend my money. Unless its Google and Facebook, those are the only two I couldn't do without.

Yea, tell me about that.

I sort of believe in that model so I'm building out my media team internally at Boxed and we can still use agencies and we'll still have them on the roster, but I love having the idea of building my creative and media teams, having them sitting next to each other, Internally driving all of that, and driving all of my negotiations and driving my strategy for my spending and my creative direction and where I'm going to push out whatever message I need to. So the agencies still play a role for sure. But in terms of leaving that strategy and where we put significant emphasis on, where I spend more money and consider guarantees. All that stuff, I'm really looking for that to be driven from an internal standpoint. I still will use an agency to execute for sure in some cases. But a lot of instances I have my strategy be developed internally first.

Right, so in a future state you'd be controlling the contract.

That's right.

From an e-commerce standpoint if your Amazon, if you're eventually all the other retailers. Anyone who's playing in digital has to have digital footprints. It's hard for an agency to understand our numbers, so if I wanted to understand how something was performing and what the cost to acquire someone was then I wanna splice that between organic traffic and traffic I wouldn't have gotten otherwise, I need traffic, I need conversions, I need repeat traffic. I can get access to some of that data. My internal team is connected to my finance opts team, my analytics team, my data science team. So the amount of data that they have access to, that they need to understand what's correlated and what's not, and as a result make decisions on where to spend, where to negotiate terms, where to up-level, where to create a

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fiduciary relationship with a partner. That is all is all coming from internal, and they need that data to better understand campaigns, make quick decisions and allocate. So you're right i would definitely rather have a lot of that internally because they have all the data on the performance side. And it's just not realistic to be able to parlay that data to our agencies where they would be effective.

Absolutely, but having said that, I'm going to imagine a line at some point where there's some data you'll be able to share and some that you won't, and then the automation of that comes into play. So the last question is, let's just think about data categories that you think could be shared in an automated fashion?

I would share all my data with my partner, my publishers, my media partners, they need to understand what's working and what's not. So I would share retention goals, my AOV targets, how I've been performing. And we have we do that with Google and Facebook because it helps them deliver better capital to us. For us it really behooves us to be smart about what and how and where we share with those partners so make sure that they're really set up for success. So I definitely would and do, and am already doing that and will continue to do that against the key customer goals, performance goals that we know will help them be better partners to us.

Daniel Spears, Director of Programmatic

The Guardian

What is the current state of the relationship between publishers, agencies and advertisers?

I think there is currently a significant disconnect. Everyone is rewarded for all the wrong reasons. Advertisers reward agencies for buying large amounts of impressions cheaply. This is contrary to focusing on targeting and relevance. Targeting capabilities are a good thing for a publisher, but to capture more volume and make up for the lower CPMs, publishers are rewarded when they put more ads on the page. Which doesn't play in a good user experience. Complete misalignment through incentives which affects the total outcome.

Does the concept of a guaranteed revenue contract appeal to you?

I would say somewhat appealing. If we look at the programmatic journey to date, we look at ourselves and other publishers and we feel as though everyone is in the same position: Publishers have lost control of their business and that control has been ceded to intermediaries. We think that the next phase of programmatic will see publishers and advertisers aggressively pull back control of the buying and selling, which will be very firmly put intermediaries in pipe work and utility. I do think is that this opportunity for a futures based marketplace that doesn't look massively different than selling network in the old days. We have an appetite for innovation and we recognize the opportunity around a futures market. We need to understand how that fits our appetite for control or our strategy for control.

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A specific opportunity that I am interested in is how a futures system could be used to systemize a wholesale agreement in a framework that allows for retail transactions that we manage through programmatic.

Do you see how a futures market might demand a higher CPM than the open exchange and potentially private exchanges?

The issues that we associate with open market today in terms of the lack of value, lack of transparency that exists today can be or needs to be addressed.

How could a futures market impact your organizational set up?

Today we are organized around business that I refer to as wholesale trading which we have at a holding company level. Retail is about sales but ultimately day to day buys. I think the answer lies within that. A futures marketplace has to be supported as part of the wholesale initiative. I recognize a significant step up from where most publishers are today. I think most publishers in terms of business are more programmatic but they look exactly how they did ten years ago and some of the pricing is different. The part where this takes a leap forward for publishers is a world where they look for more commoditization and you have different teams organized around different functions. So you still have wholesale and retail split out. One does feed the other.

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