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 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.

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INTRODUCTION

Is it Time for the Digital Advertising Industry to Adopt More Financially Sophisticated Models for its Transactions?

US media advertising spending is expected to reach $218.93 billion in 2018, of which digital advertising will account for $93.75 billion.[1] Ad tech continues to evolve, providing key stakeholders, marketers, agencies and publishers with these new capabilities to grow their return on investment into digital. However, beneath the surface of discussions concerning first- and second-price auctions, header bidding, attribution modeling and the like is a potential economic problem: Do the transactions between advertisers, agencies, and publishers offer the appropriate level of sophistication to support prolonged sustainability?

The entire industry faces persistent challenges: Publishers face continual downward pressure on CPMs. Agencies are fighting for their existence. Brand marketers are uncomfortable with the lack of transparency and brand safety digital advertising provides. It's no surprise that many question whether the status quo really works – Google and Facebook see quarter-over-quarter growth despite epic brand safety SNAFUs.

The industry is at an important inflection point. Clearly, the financial models that gird the ecosystem must work for all publishers, advertisers, and brands, and not just a select few.

When NYIAX and Nasdaq announced their partnership in March of 2017 to serve as the world's first guaranteed advertising contract exchange, we noted with interest. 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 some deeper questions about the underlying financial means by which the industry transacts its business:

- **What changes are required by all parties to move to a more sophisticated financial model?**
- **What can be gained by the increased financial rigor involved?**
- **What challenges need to be resolved in order to implement more sophisticated models?**

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

[1] "US Ad Spending: The eMarketer Forecast for 2017."

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This research study consisted of:

- **Mass Survey.** The goal of the survey was to assess the publisher 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 responsibility for digital advertising revenue participated in the survey. The majority of the respondents were in management and ad operations roles.

- **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 major publishers, agencies and brand organizations.
- **Deep Dive Interviews.** To broaden the lens as well as explore discussion points revealed in the survey and the roundtable discussion — The 614 Group conducted in-depth interviews with:
  - Rich Caccappolo, Chief Operating Officer, MailOnline
  - Chief Financial Officer, Leading Agency Holding Company
  - Jackson Jeyanayagam, Chief Marketing Officer, Boxed
  - Daniel Spears, Director of Programmatic, The Guardian

This report describes the insights we learned as a result of this research. It also includes the complete results of the mass survey, highlights of the roundtable discussions, and transcripts of our interviews (edited for clarity and length).

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INSIGHTS AND ANALYSIS

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 media is bought and sold. We wanted to know whether contracts accurately reflect what was agreed on, as well as the impact of automation on those transactions. Here's what we learned:

- **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 contracts were canceled. However small, almost half of the respondents said those cancellations made it difficult to forecast inventory and revenue.
- **Existing contract structures fall short for all concerned.** Roundtable participants, representing both buyers and sellers agreed that the existing structure of most digital advertising contracts fail to serve either party well. As one agency roundtable attendee said, "In digital, if you fail to deliver just one impression everyone is up in arms."
- **Contracted targeting parameters are too rigid, and that makes 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 the market for new cars, shopping 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 of the industry, too difficult to deliver on.

  As the CFO at a leading media agency holding company stated, "The curse of the whole online media system right now is its massive volatility. **Buyers need a lot of guarantees that what we buy today is what we'll have tomorrow.** And these guarantees must be guarded with so many conditions and waivers that basically we're 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.

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- **A senior publisher ad operations person 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 probably prefer to 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[2] 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.

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.

- **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.

More Sophisticated Financial Models Will Deliver Micro- and Macro-Level Benefits

This brings us to our next question: what can be gained by an increased sophistication of the way digital advertising transactions are financed (along with the business terms that are part and parcel to those changes)? We believe the sophisticated financial instruments will lead to significant changes to the way the industry operates, both on a micro and macro level:

- **Greater focus on client goals.** In our roundtable discussions and in-depth interviews, the reasons for the appeal of guaranteed-revenue contracts or secondary trading were varied and profound. For instance, Rich Caccappolo, Chief Operating Officer at MailOnline, noted once his sales team was 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.

  Said Caccappolo, "The team we would put in place to this end would be more of an operational delivery team than one trying to fill unsold, available inventory."

[2] In further discussions, the $100,000 was representative of income and resource costs for doing the actual reconciliation work.

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- **Reduction in quantity and significance of discrepancies.** We believe that technology, combined with new financial instruments can ease the burden of resolving discrepancies by reducing both the quantity, and the risks associated with them. For instance, we envision a scenario where both the buyer and seller agree to deploy blockchain technology to track served impressions, and serving as the "agreed to" count. And new financial instruments enable terms upfront that prevent downstream re-negotiation that currently happens when discrepancies do occur.
- **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. For instance, 47% of respondents said custom ad units couldn't be automated, while 40% cited sponsorships and first-look packages would present problems.

  That said, in the roundtable discussions and in-depth interviewers we heard a greater degree of confidence that automation of direct deals was possible outside of open exchanges. In these forums, a main point of contention was the need for creatives to deliver on a variety of devices that might require custom work.

- **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.

  As the CFO of a major agency holding company explained, **"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."**

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However with additional, and more sophisticated financial models to rely upon, agencies will 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.

- **Further domination of 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 room. 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.

  Jackson Jeyanayagam, CMO of Boxed explained, "Right now I have a lot of options for buying media, that 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."

Getting There Requires Solving Challenging But Not Impossible Issues

Our final question — what challenges need to be resolved in order to implement more sophisticated models — revealed difficult, but not impossible issues to overcome.

- **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 publisher brands, evolve quickly. People's interests in food, music, fashion for example change very rapidly in today's world and what drives a particular demographic today may not work tomorrow. It's hard for a publisher to guarantee they can deliver a specific audience in the future. This makes it difficult or even risky to purchase inventory too far in advance.

  The CFO of a leading agency holding company explained, **"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? Buyers need to know what they're buying, which means they need to know the content,"** said the CFO of a leading agency holding company.

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- **No classification standards for digital assets.** In successful markets that rely on automation, buyers and sellers have an agreed upon standard for classifying the value of an asset. To date, no such standard exists for digital inventory.

  Rich Caccappolo, Chief Operating Officer at MailOnline explained, "We don't have that clarity on assets, or grades of assets, with digital inventory yet; our industry lacks a clear definition of what an ad unit is in different environments.

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- **No standards for classifying digital inventory contracts.** Some 57% of respondents to the publisher survey firmly believe that guaranteed revenue contract 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 standardizing 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."**

- **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?"

  A VP of Advertising Technology for a publisher 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."

- **Buyers also have requirements, namely price.** While publishers are keen to benefit from the predictability and higher CPMs they believe will result from new financial models, such as secondary trading, buyers also look forward to specific benefits, namely price.

  The CFO of a leading agency holding company explains, "Upfronts are financial commitments, plain and simple. Why buy them? So we know definitely 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."

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> Jackson Jeyanayagam, Chief Marketing Officer, Boxed reiterated, "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."

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, look at any commodities market and the way that products are sold in a futures mechanism. This scenerio ensures that the producers have enough capital on hand to keep their operations going.

As a result of our research, we've come to believe the digital advertising sector will be receptive to the technology advances offered by the financial industry, and use them to push the industry forward, specifically adopting new transaction models that promote trust and transparency among all parties. Adoption of concepts borrowed from the financial markets, such as secondary trading, will accelerate once all parties share an understanding of the various asset and contract classifications.

For instance, at the roundtable discussions, many publishers 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. To many people in the digital world, TV upfronts seem to offer a more streamlined model for assessing value, and that methodology is one that may be suitable for digital. One of the roundtable participants explained, "If you can already do an upfront, why wouldn't you want that to be applied to a contract that measures the way that digital does?"

The insight gleaned from this discussion is that people in digital want the upfront, but they also want the automation that digital advertising does better than TV. The problem is that if TV upfronts seem less complicated, that simplicity is fleeting. Addressable TV is quickly becoming the norm, and with it a dizzying level of complexity.

That said, borrowing an upfront model from TV would resolve some of the challenges mentioned above, such as creating classifications of contracts so that they may be 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."

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In conclusion 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 its many players will wholeheartedly adopt newer models for transactions.
- **The desire for new financial models is strong.** All people surveyed or interviewed expressed in one way or another, a strong desire for the kind of financial rigor that would allow them to better forecast inventory, and ensure brand safety and diversity in the market.
- **Emerging technologies will pave the way.** Although tough challenges exist, emerging technologies will go a long way in solving them. **For instance, blockchain can be deployed to ease the task of assessing what happened in a campaign (i.e., resolving discrepancies) by providing an agreed upon and trusted record.** Blockchain provides a digitized and decentralized public ledger of transactions, which many industries are adopting in a variety of applications. An agreed up ledger of transactions will allow for greater automation of contracts for digital advertising.

  Additionally, Smart Contracts will aid in the process. Created for use in cryptocurrency transactions, Smart Contracts are protocols designed to facilitate, verify, and enforce the negotiation or performance of contracts. Smart Contract technology provides for people-to-process automation, which is a process in which machines learn from people. This approach will be critical as the industry moves into a more direct exchange of value with these new markets. In the past years, the current focus of programmatic and RTB has been on impression-based trading, but we believe the next wave of automation will be grounded in support of people in the trading of high-value media.

We believe that blockchain and smart contracts will play a vital role to the future of automation and transparency in digital inventory supply chains, by enabling the automation of contract terms execution, as well as post trading activity, they can support people in the reconciliation and fulfillment of deals.

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The Data

SURVEY RESULTS

ABOUT THE SURVEY

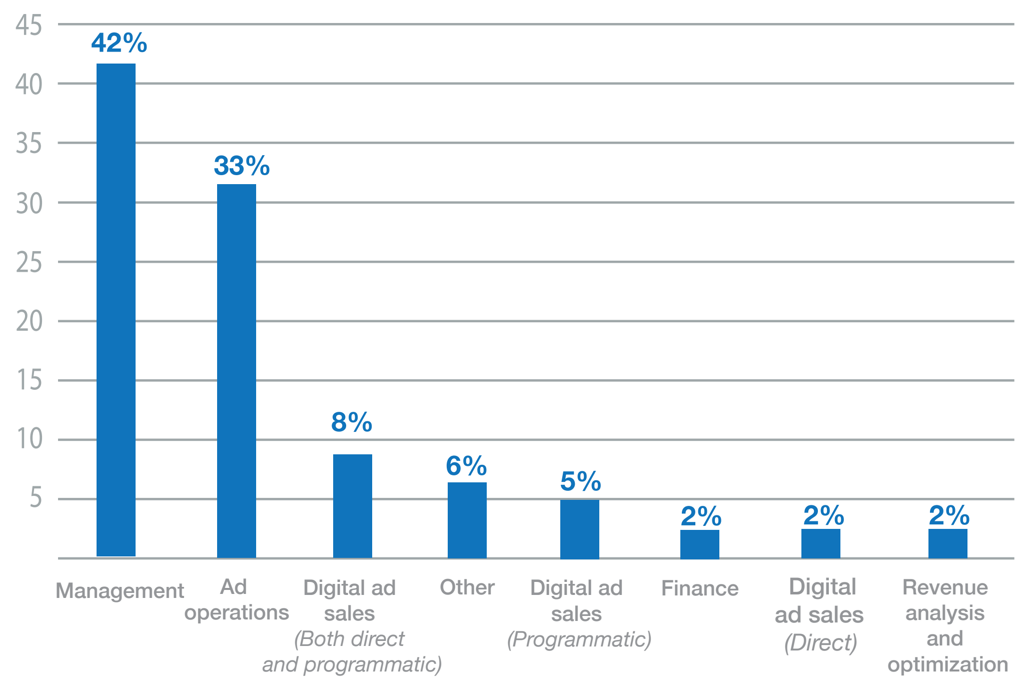
The 614 Group sought to measure publisher understanding of a new concept to the digital ad-tech ecosystem, called contracts for guaranteed revenue. These contracts would be sold via a secondary market, which, similar to stock markets, allow buyers to re-trade the contracts for guaranteed revenue.

To gauge understanding and general acceptance, in the summer of 2017 we conducted a survey consisting of 22 questions, along with two brief explanations that described the new concepts.

RESPONDENTS

We surveyed 60 senior professionals who work for an online publisher and have some level of responsibility for digital advertising revenue. The majority of the respondents were in management (42%) and ad operations (33%).

Survey Respondents from Online Publishing



Sample of Companies Surveyed

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

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Survey Details

Direct Sales Contracts

Does your company sell guaranteed-ordered media contracts?

- The vast majority (88%) of respondents said they sell guaranteed media contracts
- 12% rely only on ad networks or programmatic partners to monetize their inventory

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:

- 92% 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

Although significant quantities of cancellations affect less that 9% of publishers, nearly four times that amount — 37% — said those cancellations make it difficult for forecast inventory, and even more (45%) said they make it difficult to forecast revenue. So while cancellations are few, they are never far from the publisher's mind, as we shall see later on in the research.

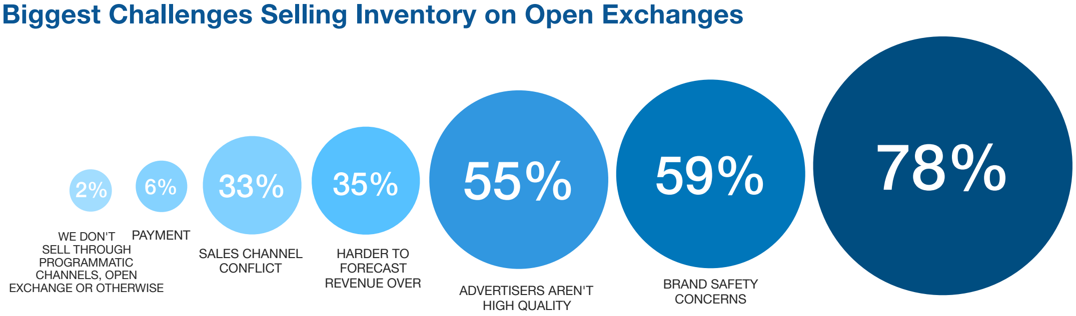
Not So Enthusiastic about Open Exchanges

When asked to rate their level of satisfaction with selling inventory via the open exchanges, less than half (43%) said they were satisfied, while 36% said they were dissatisfied. Slightly more than 18% of respondents were ambivalent about the channel, feeling neither satisfied nor dissatisfied with open exchanges.

- A scant 6% described themselves "very satisfied," a surprising number given the budget, time and attention programmatic has received over the past 10 years.

Digging deeper, we learned that low CPMs (78%), concerns for brand safety (59%), and poor advertiser quality (55%) are the biggest challenges posed by open exchanges.

Biggest Challenges Selling Inventory on Open Exchanges



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Reacting to Guaranteed-Revenue Contracts

After assessing the respondents' attitudes towards open exchanges, we introduced them to the concept of guaranteed-revenue contracts. As a wholly new model to the market, we provided the following description:

> In this next session, we would like to gather your thoughts regarding a similar market for secondary trading, except instead of trading stocks, we trade contracts for digital ad inventory. In this scenario, publishers could sell a contract for a specified package of digital inventory to a buyer in the market. The buyer deposits the payment into an account, where it's held until the campaign runs, at which time the publisher is paid in full. Although the contract will likely be traded or re-traded, from a revenue point of view, it cannot be cancelled with a few exceptions. For the purposes of this survey only, this model will be referred to as **"contracts for guaranteed-revenue."**

Overall Appeal is Positive

After reading the above description, respondents were asked about the appeal of guaranteed-revenue contracts for their companies. While the results were mixed, we learned that 69% of respondents found the concept of guaranteed revenue contracts appealing to somewhat to extremely appealing.

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).

The Ways in Which Publishers Will Benefit Most*

57%	Publishers will be better able to plan inventory availability
57%	Publishers will be able to command higher CPMs vs. the open exchange
43%	Publishers will gain more transparency into the buy-side than they do with selling inventory via open ad exchanges
40%	Publishers will have better control over which advertisers run on their sites
32%	Publishers will see more revenue than they do through private exchanges
30%	Publishers will be able to streamline direct sales deals
26%	Publishers will have better control over the ad content run on their sites

The percentages in this chart do not add up to 100% because the question was presented as multiple choice.

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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:

- 74% selected traffic quality screen to detect fraud
- 72% identified competitive exclusions and blacklists (by advertiser and/or category)
- 63% selected white lists
- 61% selected unit types (i.e. the ability to limit contracts to specific ad units)
- 50% selected the ability to include audience data

Interestingly, only 17% of respondents selected viewability as a requirement, which surprised us. It is an indication that viewability may not be a stumbling block for such contracts.

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 were feasible for their companies to automate premium direct deals.

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:

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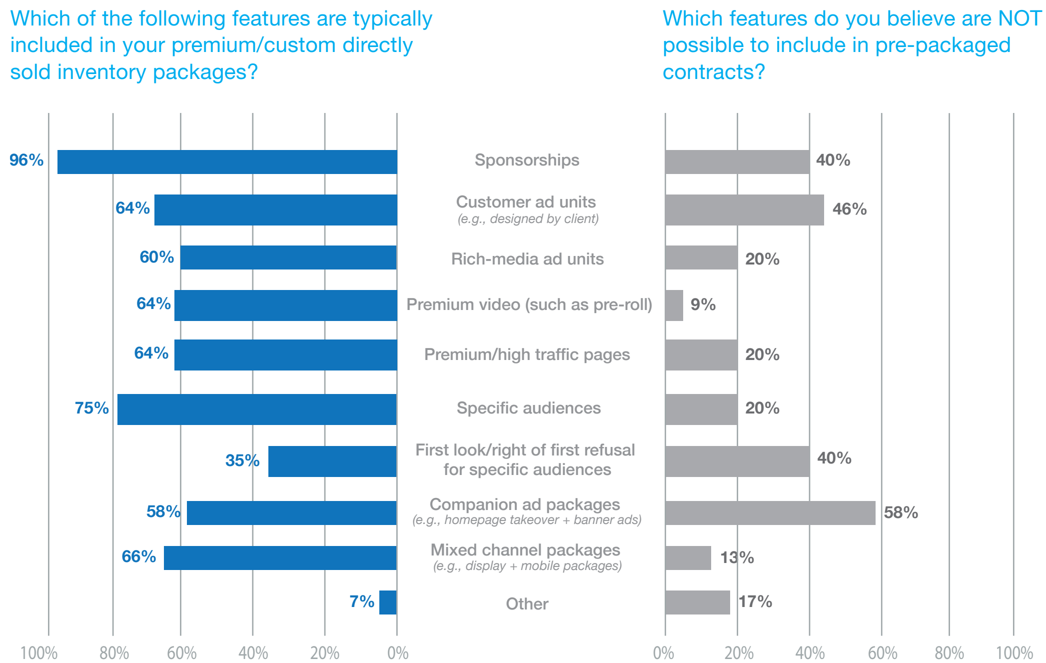
Components Offered in High-End Sales Packages



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.

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%) and value of personal relationships with advertisers (58%), and pricing strategies (55%) ranked the highest. Only 40% were concerned about the custom insights and research that's only available from their sales teams.

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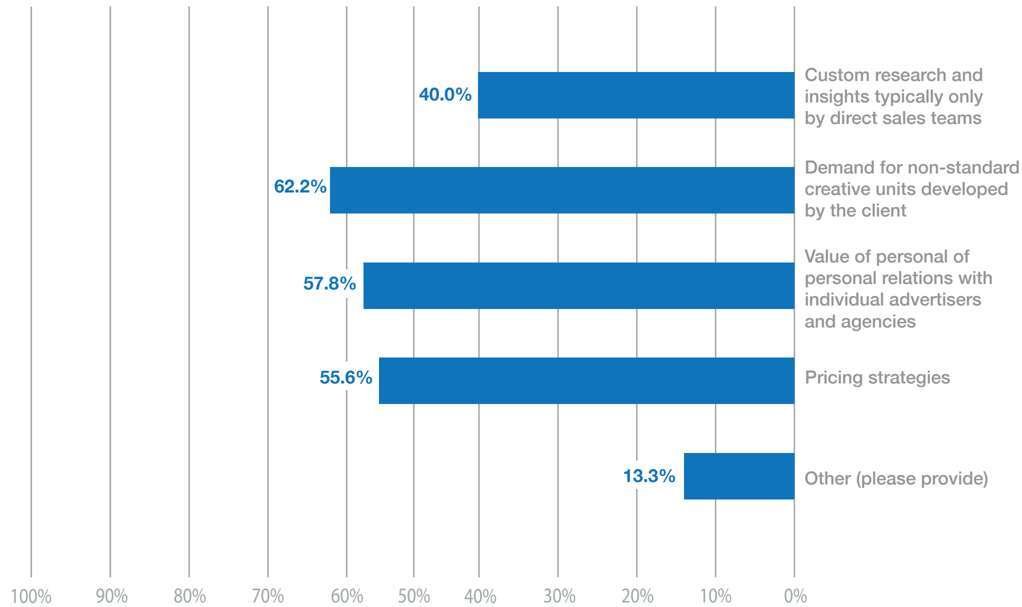
Which of the following issues do you see as a potential impediment to creating custom inventory packages sold via a secondary market for guaranteed-revenue contracts? *(select all that apply)*



Predicting Revenue

Although less than 10% of respondents said earlier that cancellations or out clauses prevented them from accurately predicting revenue, over half (53%) said guaranteed-revenue contracts would help them predict revenue more accurately.

Only 16% of respondents said it wouldn't help them predict revenue more accurately; the rest (31%) 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, 42% put the cost at $50 - 100K, while while nearly a third (32%) reported spending more than $100K.

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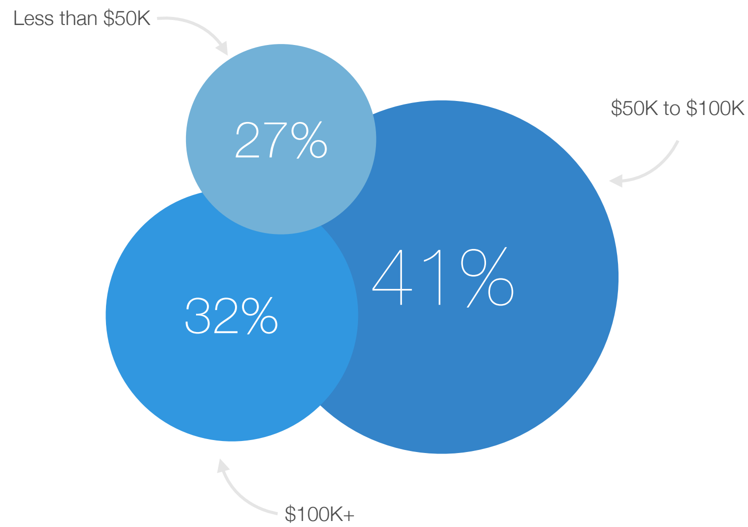
Spend on Reporting and Reconciling Discrepancies



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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 they responded the way they did.

All participants held senior-level executive positions within their respective 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

Room for Improvement in Digital Advertising Contracts

We specifically asked all participants whether they were satisfied with existing contracts for inventory sales, or if they'd like to see improvements made. Every participant felt such contracts could — and should — be improved to better reflect the realities of digital inventory sales.

- **A lack of standards for contract elements is bad for business.** A key issue for the participants concerns line-items agreed to in the contracts themselves. For instance, both parties may agree to a campaign frequency cap, but each may have a different idea as to how that cap is executed, or even defined. Said one participant: "Until we can accurately describe the elements of a contract, it is difficult to come to a common understanding from the beginning of the process to the end."
- **Too focused on rates and not relationships.** With numerous line items in a contract governing delivery, viewability, and a host of other criteria, digital contracts force a scenario where all parties are mired in details and subsequent make goods. This obfuscates any opportunity to focus on the relationship between publisher and advertiser, and to work towards mutually beneficial goals. Said one participant: "Upfronts are a different deal from a standard insertion order. A standard digital contract is about the rate, where an upfront is an overall relationship deal.

  Moreover, hyper focus on the rate means that buyers and sellers aren't sharing the kind of strategic goals that are normally shared when an overall relationship is the primary focus. As one publisher participant explained: "If we knew each other's campaign KPIs we could have better contracts which would allow us to do more business."

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A Digital Futures Market Comes Close to Television Upfronts

Many of the participants equated the concept of a futures market with television upfronts, and expressed an interest in seeing digital contracts evolve so that they offer a similar level of flexibility and financial rigor. More sophisticated ways of transacting, such as a futures market, may be a way to accomplish this goal.

- **Locking in contracts is desirable, but at present is exclusive to ultra-premium publishers.** While participants are concerned with cancellations, they're a fact of life for all but the ultra-premium publishers who are able to dictate terms due to limited supply. As one publisher commented regarding his company's display inventory: "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."
- **Much of premium digital sales can probably be automated.** Like television upfronts, publishers at the roundtable said they believe that much of what they sell directly can be automated, or at a minimum made far more efficient. That said, challenges remain. For instance, consumers use a variety of device types to access content, and that fragmentation of screens pose a challenge in delivering sponsorships/custom ad units without one-on-one conversations between publishers and buyers. As one participant said: "The transaction can be more efficient, but the creative is problematic."

Though Fully Automated, Open Exchanges Aren't Ideal

For premium publishers, the open exchanges are, as one participant noted, "a necessary evil to monetize impressions that aren't purchased via another channel." Some premium publishers said their companies are actively looking for ways to eliminate the channel if some of the challenges, such as low CPMs and brand safety aren't resolved.

- **Reducing the number of ad units as an alternative to open exchanges.** One publisher explained how by reducing the number ads on their site — and thus the need to monetize unsold ad units on the open exchanges — resulted in higher revenues. "Once we started to clean everything up, we made more money. I agree with taking things off the open exchange. We have managed to control the ad quality. We have a good handle on it through flooring. We would probably show a blank than to show some crappy, questionable ad."

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HIGHLIGHTS FROM IN-DEPTH INTERVIEWS

Interview with Rich Caccappolo

COO, MailOnline, the global site of DailyMail.co.uk

What role do the open exchanges play in your sales strategy?
Sure, open exchanges, or open market buying, are a great way to offer advertisers access to our readers, the audiences they are trying to reach, especially when such buyers are not familiar with our brand or aware of the demographic profile or intent or interests of our readers. We review, as much as we can, who these buyers are that are bidding to reach our readers, and then it's up to us to contact such engaged, interested marketers and offer to transition them to more predictable buying models.

So, open exchanges are critical to us, but our strategy for continuously growing our yields and revenues, and ensuring advertisers' spending on our pages is increasingly or at least consistently effective for them, is to find and convert opportunities to strike more preferred and private deals, whether they are guaranteed, private auction, first look, advertiser direct, brought to us by DSPs, etc. Our goal is to structure more deals above and beyond the open exchanges, but how we get them and how they are structured will differ from region to region.

Do you believe that the automation in the open markets can translate into preferred deals?
Yes, absolutely. We feel our inventory performs well in the open market, and that we are very good at optimizing our performance. But for advertisers in certain categories, we feel they can do better working with us through preferred deals that reduce their auction risks and get them the quantity of quality inventory at prices they want when they need it.

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 they key word, and it can be challenging for a few reasons, many of which are mitigated by guaranteed contracts. Guaranteed deals with out-clauses still look good, especially if we have a track record of success with the buyers, and particularly when compared to deals that aren't guaranteed because they often have many issues - from getting volumes ramped up, getting the pipes functioning properly, or the requested targeting being too specific. I don't think such issues are unique to us; we hear from other publishers that they often struggle to get preferred, but not guaranteed deals, to perform. I think the situation is improving because the pipes are working more predictably, but most publishers still prefer programmatically guaranteed deals with an out clause to PMPs — even those with a set price — that won't deliver as anticipated.

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Another way to think of it — programmatically guaranteed deals are similar to direct deals, but advertisers get to use their own data. Similar to the customer service provided with direct deals, our client managers need to know what our preferred guaranteed buyers are looking for in terms metrics and goals. If we don't focus on getting guaranteed deals to perform for our deal partners, they will opt out, so out clauses keep us aware of and focused on the advertiser's metrics – that is ok with us – we want them to succeed, incentives are aligned.

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

It depends on the pricing of the inventory that had been contracted in the direct deal. If it's significantly higher than open market rates, cancellations hurt expected overall yield. If contracted prices were not exceptional, we can often make up for the cancellation, especially with 10 days to react.

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 articles tend to be the product sold in direct deals.

When to structure a relationship as a direct deal versus when to use a programmatic private deal often comes down to whose data will be used for targeting.

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

It's changing. We've historically thought of certain products, such as a homepage takeover, as only being sold direct, but over the last year we have increasingly accepted deals for products which look like take-overs but are bought, sold, and run programmatically. With these products, advertisers are using their own data and are purchasing these units in an automated way. This leads us to think that going forward, there will be fewer and fewer products that will be restricted to direct interactions with publishers, and that is ok with us. We will take the demand if we believe it can be successful for us as well as the advertisers who want to use them.

This leads us to think that going forward, there will be fewer and fewer products that will be restricted to direct interactions with publishers.

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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 the potential for a futures market - and this is appealing — but it's quite different from the markets in place to trade digital inventory today.

In other markets with future contracts, participants know exactly what it is that they're trading. If I want to sell a share of a publicly traded stock 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 stock more than me, but we both know exactly what it is we want to trade. Same with commodities: pork bellies or eggs or oranges. We don't have that clarity on assets, or grades of assets, with digital inventory yet; our industry lacks a clear definition of what an ad unit is in different environments.

By the way, there is another way commodities markets differ from digital inventory markets. 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? This process is comparatively slow and inefficient.

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 could result in a type of whitelisting of ad inventory. 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 our job to convince the market that our inventory deserves to be in that Grade A category or in that "clean, well-lighted pool" and it has to perform for the advertisers. Once we can make these claims and they can be proven, I believe we can make the transition to a futures market.

How do you feel about the ability to retrade the inventory in the futures market?
It depends on the specifics of the guidelines, the constraints and the tolls taken out along the way. Publishers would be angry if the market makers were to extract significant margin on their inventory. Buyers should be frustrated in such an environment, too. I don't think "re-traders" will be able to exploit at high margins for long, however, because publishers will be increasingly able to accurately determine the value of and price their inventory and access to their audience correctly. My sense is that a large percentage of premium ad inventory will be sold in an upfront market, but publishers will hold back some for a spot market for a variety of reasons. I can see that happening with a futures market, where a publisher sells much of their inventory, but keeps some of it for make-goods or other sales.

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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.

Ironically, open market programmatic gives us more predictability than direct deals do in the sense that a publisher thinks "if I send this volume of traffic to the market I know I can bring in this amount of income assuming fill and CPM stay steady." We can budget by thinking "if I grow traffic by 10%, then I known I will grow revenue of at least 10%." In the old days of direct, you didn't have that ability to predict revenue, since deals often fell through or were delayed.

Guaranteed deals are better than both open market and direct deals, and that predictability is so attractive; publishers would love to know if they've sold, say 60% of of their Q4 inventory to reliable and clean partners. This is very very appealing.

Are you then in a better position to make business decisions, such as whether to hire more staff?
Absolutely! Additionally, with less scrambling for deals to replace that which fell through, we would be in a better position and more focused to ensure we would deliver the campaigns in ways that work for the advertisers. The team we would put in place to this end would be more of an operational delivery team than one trying to fill unsold, available inventory. I think if set-up properly, such an environment would be very attractive and very compelling for publishers.

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Interview with Chief Financial Officer

Agency Holding Company

Does programmatic have an effect 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 costs. 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. 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 receive 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? The answer is simple: So we know definitely what will be aired or published, and can trust the content. And when we commit to upfronts 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 terms, but maybe not long terms.

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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. Soon we won't be talking about programmatic anymore, because it will all be blurred.

What's your reaction to a futures market for digital inventory?
Buyers need to know what they're buying, which means they need to know the content. Why would I buy online media without knowing what the content is going to be? I think advertisers would be reticent to buy an upfront or commit to inventory that's unknowable to them.

How does pricing come into that view? You know the Super Bowl is coming up, would you want to lock in certain rates and use that inventory as needed within your holding company?
The Super Bowl is a good example. Specific events — The Olympics, FIFA, the Super Bowl — will always have what I call "happy days ahead" because people know what they are, and they know the content. We always go back to content; you're fine as long as you know what you're buying. The Super Bowl hasn't changed in 20 years, it's always the same for the advertiser.

We always go back to content; you're fine as long as you know what you're buying.

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 will be able to sell its inventory upfront because its content and reputation are known, the audiences are 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.

Do you think that a futures market could lead to more transparency? If so, would that lead to better contracts and deals with more of a financial rigorous market?
I don't think so because it is all based on audience. 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?

The curse of the whole online media system right now is its massive volatility. Buyers need a lot of guarantees that what we buy today is what we'll have tomorrow. And these guarantees must be guarded with so many conditions and waivers that basically we're killing the future.

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How is that different from what we were discussing with the New York Times, which is a known entity? When you talk about a futures market, your concern isn't with premium publishers, but that it doesn't make sense in an open marketplace?
That's right. We've done marketing stunts that nobody thought were going to be as successful as they were (or as catastrophic). What changed? The shift in audience. These shifts occur virtually overnight.

I don't talk about media buying the way we used to; it's now just part of marketing activities and it's totally linked with the content you're creating, and the content you're likely to be placed nearby. That's the complexity.

That complexity and disruption...do they open the door to secondary sources of media?
No, they open the door to a different way of handling media. Unlike the 1980's, media must now be integrated fully in the strategy at the onset and in the creative process. And very soon we'll have one platform to buy media, whether it's online or offline, because it will be all online, for the lack of a better word. Already we've seen in Asia experiments where consumers are watching the same TV channel in different rooms but see different ads. All screens, including our TV, will have our browsing history.

Let's assume a new model arose in the market whereby to lock down an attractive rate with a particular publisher, the 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 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 can 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 that model growing 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 layout the cash. So why would they want to do that directly with the media? 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 of payment terms.

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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 a new client we're working with. This client 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.

More and more I see clients moving towards focusing on client retention. But client retention doesn't use the same techniques for online media buying as new customer acquisition. For this reason, I see a lot of budget moving from mass online media to targeted online media. When you look at the online media market, you realize we're making the same mistake we made 30 years ago with TV. Online may be more fragmented and complicated, the overall landscape is the same.

Has this changed the way you manage the business?

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 every time a change like this happens, it goes back to finances and a consolidation business results. At the end of the day we need to 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.

Right. Clients ultimately make decisions based on price, for media and services. That means the holding company must be bigger so they can make the deals that people want. And that, in turn, means fewer companies.

As the numbers of companies decrease, so does bargaining power. There are four now; what are the odds there could be two? If you look at the numbers it makes total sense that there could be two. And on the other side you will have three maybe four.

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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 could do using people and teams. 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'd not have otherwise, which is very important for a startup.

When do you do guaranteed buys?
I'll do guaranteed buys with specific publishers, those with whom we have a relationship, those with unique reach, or those doing something really interesting. I am also always open to doing a guaranteed buy if I get a lot of value out of it, which sounds obvious, but what I'm looking for is a partner that will give us exclusive access to something, or early access to a beta ad campaign or ad unit they're testing. We also do guaranteed buys with partners that are very relevant at a time that is very important to us, such holidays. I'm not interested in committing to exclusive buys for a small percentage discount. I want the discount, of course, but it's also about what I get with it.

I'm looking for is a partner that will give us exclusive access to something, or early access to a beta ad campaign or ad unit they're testing.

There's value for your agency in guaranteed contracts. Both agencies and publishers have a keen interest in upfront commitments. How do you address these pressures to pay earlier?

I 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 startup 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.

I judge campaign success based on the cost per new user. If that cost goes above a certain number, then I need to address the issue and optimize as required. By definition, it means I'm looking for results that go beyond engagements and impressions, and I need my partners to help me optimize my campaigns. I won't necessarily kill the campaign after two weeks of under performance, but I need an understanding of the actions a publisher will take to help me achieve my results. This is especially true if I'm locked into guaranteed contract.

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Guaranteed contracts must come with guaranteed results. And if I'm not getting them as my campaign progresses, the I need some sort of guarantee that the partner will provide the time and resources of their teams to help me optimize. And obviously if we're still not seeing results then that's where my out-clause kicks in.

In terms of paying for media in guaranteed buys, do you want to see campaign results before you write a check?

I generally don't like paying upfront, especially when it comes to media, but I'm pretty flexible. A lot of times we'll go half and half, or pay 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 continue to lengthen. Is there a future where brands start to pay faster?

Maybe, I think on the digital side they already do because it's required. With regards to the terms they want and the reason they pushed those terms out is that they don't want to commit without seeing results. And, they don't always know what their media spend will be in the coming year.

If we can push payment terms out further, then we can hold those dollars for another campaign. I think that's definitely the mindset. But if the performance is there, and the brands have the ability to pay quickly, then I think they would pay faster. I know all brands have opened credit lines with Facebook and Google and they use them to buy their inventory. 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 pay and you're going to use Facebook and Google.

I think this makes it more complicated for agencies because they need to manage this process in a much more streamlined manner. The other issue is that brands also have multiple agencies buying for them, they don't just have one media agency of record anymore. Sometimes brands will have separate media agencies for offline, digital and social. I had that at Chipotle.

Are there any elements of a campaign that you can't get in a media buy? For instance, are you concerned you might not get the creative sizes in a guaranteed campaign?

I go into every negotiation assuming I'll get everything I want, so there's nothing I'm concerned I won't get. If I don't get everything I need, then I don't need to do a guarantee. The one exception may be if I really need specific media, but honestly, I can't think of one media partner where I need them so badly that I'll do guarantee without the other things I need.

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Are pricing advantage and positioning important to guarantees?
Pricing is one of the big advantages of guarantees, I'm getting a negotiated rate that I'll always get.

But it's not enough, you need the whole package?
Exactly. There are so many options to buy media that I have no need to worry about the terms. I have so many options, so many places to spend my money. The only exceptions are Google and Facebook, those are the only two I couldn't do without.

Would you consider taking this role on in-house?
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 spend 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. In terms of strategy, I'm really looking for that to be driven from an internal standpoint. I will still use an agency to execute for sure. But in a lot of instances, I have my strategy developed internally first.

Right, so in a future state you'd be controlling the contract.
It's hard for an agency to understand our numbers, so if I wanted to understand how something performs, and to understand the cost of user acquisition, then I'll need to 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 between my finance operations group, my data science team, and my analytics team. With all the data they have access to, they need to understand what is and is not correlated in order to make decisions on where to spend, where to negotiate terms, where to up-level, and where to create a fiduciary relationship with a partner. That is all coming from internal metrics, and they need that data to better understand campaigns and make quick decisions on allocation. So you're right, I would definitely rather have a lot of that internally because they have all the data on the performance side. It's just not realistic to be able to parlay that data to our agencies.

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Absolutely, but having said that, I'm going 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 partners, my publishers, my media partners, because they need to understand what's working and what's not. That means 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.

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Daniel Spears

Director of Programmatic, The Guardian

What is the current state of the relationship between publishers, agencies and advertisers?
I think there is a significant disconnect at present. Technology has disintermediated the buyer- seller relationship and established greater control over the transaction than either of them; through algorithms that drive the buyers' targeting and valuation, and which drive the seller's auction-logic and pricing. In some ways, buyer and seller have become passive participants in their transaction. Through this, ad technology has not only changed the means of transaction; it's changed what is being transacted. This has created unforeseen consequences including brands being exposed to fraud and non-brand-safe environments, and which comes at a cost to both brands and publishers.

Secondly, programmatic business models are often configured in such a way that rewards negative market behaviors. A great example of this is with data businesses that sell precision-targeted audiences, but whose own revenue is dependent on their delivery of volume. This creates conflict in their business model; do they pursue high-precision on behalf of their customers, or high-volume on behalf of themselves? In reality, this model leads to the client outcomes (e.g. ROI) being compromised.

Meanwhile, buyers demand quality at impossibly low-prices, and in doing so create a financial incentive which encourages publishers to undermine their user-experience, and ironically, quality controls. At The Guardian, we call our approach 'fewer, better'; low ad-density paired with formats that are sympathetic to our quality content, and user-experience. This approach, we believe, is the right one, but it carries opportunity cost. It costs us money. We could capture a lot more programmatic revenue if we compromised on our values.

We could capture a lot more programmatic revenue if we compromised on our values.

Brand Safety is a top concern this year for digital advertising. How are you approaching brand safety?
We believe that achieving 'brand safety' for an advertiser is a joint responsibility of both the buyer and the seller, and one which we take seriously. From a publisher perspective, we work proactively to ensure that sensitive content 'not suitable for advertising' is marked as such, and in which case we remove all surrounding ads.

Beyond brand safety of this type, we play an active role in managing 'brand values.' These come into play where we deem content to be suitable for advertising, but within which specific brands might have a sensitivity to that content, e.g. an FMCG brand

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not wanting to be placed next to an article which outlines their product recall. In these instances, our sales and operations teams work to manage brand's interests – and which is a unique benefit of buying from us through a deal. Meanwhile, we expect the buyer to proactively manage their advertiser's interests and sensitivities e.g. through the use of negative keyword targeting.

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

Of course, but dependent on the terms attached. If we look at the programmatic evolution to date, buyers and sellers are in a similar position: they have lost control of their transactions, ceding control to intermediaries. 'Forwards' trading around graded inventory could be a solution.

We think that the next phase of programmatic will see publishers and advertisers seek to take back control of their buying and selling, and through which technologies will become important (but passive) utilities which support the fulfillment of orders. The Guardian has an appetite for innovation, and we recognize potential opportunity around a futures market. We need to understand how that fits into our overall trading strategy.

Do you see a scenario in which a futures market demands CPMs that are higher than those earned open exchange and potentially private exchanges?

A futures market will lend itself to the trading of scarce product which is in high-demand, and which typically resides with quality, trusted media-owners. A specific opportunity I am interested in is how a futures market could be used to systemize 'wholesale' sales agreement in a framework that then feeds the 'retail' transactions that we have our sales team executing programmatically.

How could a futures market impact your organizational set up?

Broadly speaking, large media owners are organized to support two forms of transaction; 'wholesale' trading and 'retail' sales. And so, I think the opportunity for futures might lie within that; an opportunity for both to be coded in such a way that creates greater efficiency, accountability and control of the interaction between wholesale and retail transactions.

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