Problematic Programmatic

8 predictions that will change the face of programmatic for brands, publishers and platforms

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Problematic Programmatic: Introduction

Programmatic advertising is an ever-evolving and deeply complex industry. It is the leading edge of digital media technology, fulfilling billions of ad requests and performing millions of real-time auctions every second to serve ads in front of the right people at the right time. There are hundreds (if not thousands) of companies trying to create value for either the demand or the supply sides and taking their piece of the pie.

It is an industry that often finds itself in the limelight, albeit for the wrong reasons, which are centered around consumer privacy, eerie ad targeting, fraud and trust issues. Privacy as a topic is mainstream, especially after the introduction of GDPR regulation in the EU in 2018. The industry also has several long standing criticisms including: high ad-tech tax taken by middlemen, the lack of transparency from platforms, and dubious means of getting audience targeting data, to name a few.

Moreover, this is a space dominated by tech giants. Google and Facebook not only rake in a very large chunk of overall digital spending dollars but they are also the largest platforms and inventory sources that enable the ecosystem. Other giants (read: Amazon) are quickly progressing within the space while Apple is waging a war on the duopoly's practices.

The programmatic news cycle can be overwhelming for an outsider given the complexity of the industry and the politics of the companies involved. Nova has a strong market position in this industry from providing hundreds of trusted publishers like NBC, Gannett, Conde Nast, News Corp, The Telegraph, and more with the tools to build their direct-sold ad business, including programmatic workflows. In this report, we leverage our unique position to share our predictions for how the face of programmatic is changing.

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Prediction #1:
All Premium Ad Spend Goes Programmatic

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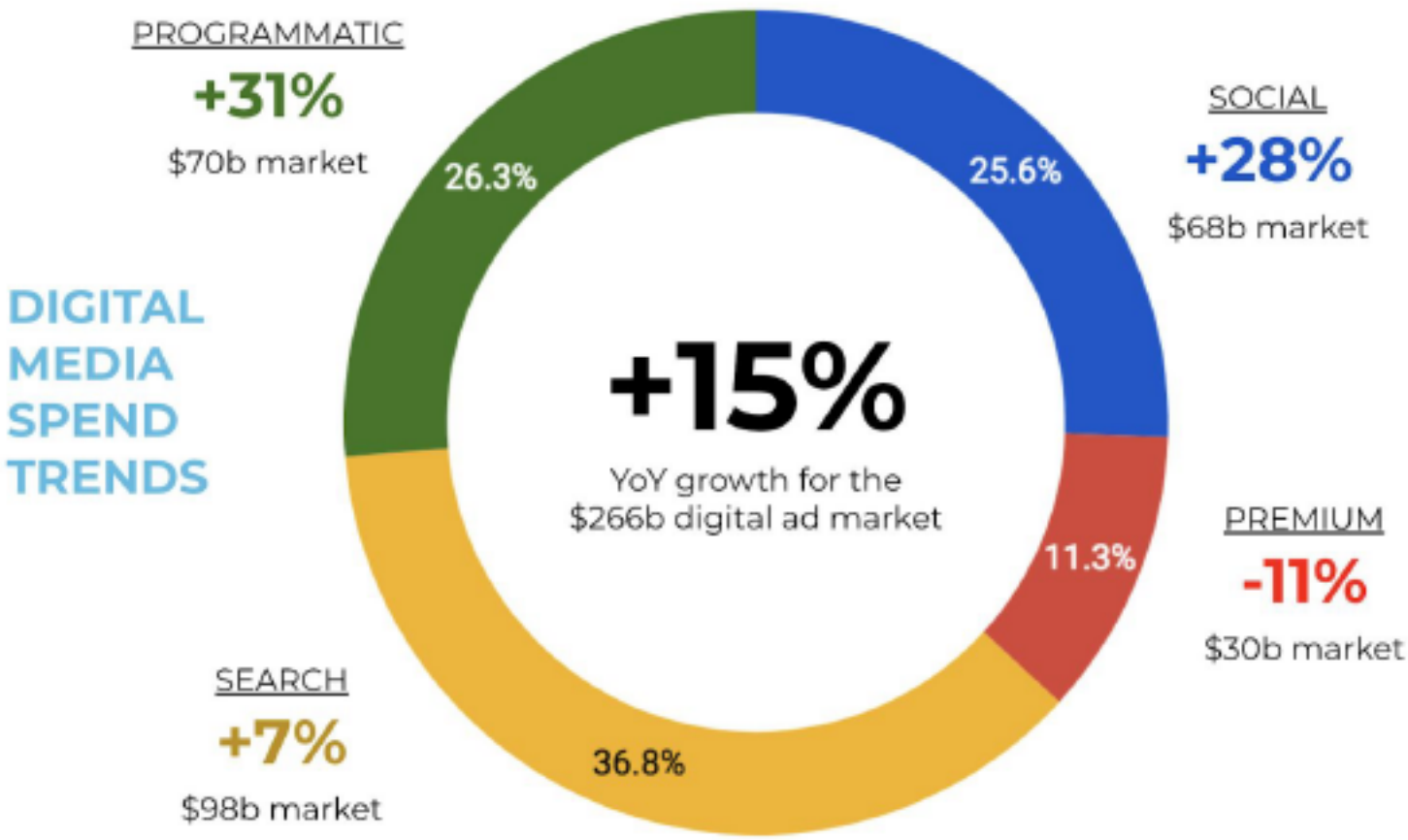
Programmatic is no longer remnant or low quality inventory. With the proliferation of PMP, PG and Preferred Deals, there is a future where all Premium spend goes programmatic

From the very beginning of buying and selling media programmatically, the space has been scarred by low quality inventory and continuous reductions in CPMs. To some extent it was self-inflicted -- big publishers were afraid of making their premium inventory available on open exchanges due to the risk of hurting their direct sold, high CPM business. Thus open exchanges got flooded by mid to low-tier, as well as downright fraudulent, inventory. This and the lack of transparency caused marketers to treat the exchange as a cheap way of finding scale which further lowers CPMs and prevents quality supply from entering the marketplace.

However in recent years there has been a huge shift in perception from both buyers and sellers towards programmatic demand and supply. The proliferation of private and semi-private deals on SSPs as well as the ability to provide first looks to preferred buyers (Preferred Deals) has lead to a new wave of premium inventory. These methods use the same programmatic pipes but provide more control to publishers and higher transparency to buyers. Furthermore, the advent of Header Bidding means publishers can now run several auctions and deal types in parallel without worrying about setting up complicated SSP daisy chains based on historical value. They can offer premium supply to buyers who are looking for better inventory even if it comes with a higher price tag. Concurrently, the same supply can be made available to other demand sources, but the SSP and Header auction dynamics will pick a winner based on criteria set by the publisher.

Another beneficial trend is Programmatic Direct or Automated Guaranteed deals. Publishers with their own in-house sales teams can now use the programmatic tech stack without being restricted to the programmatic business model. This separation of programmatic tech and business model is key for gaining access to inventory and budgets that were previously being finalized through paper IOs, the ‘snail mail’ of the digital advertising world.



Aggregate Digital Media Spend by Category 2018 (Source: eMarketer)

Looking at recent aggregate spend in digital media, it would seem counterintuitive that spend via premium inventory is on an -11% decline. However this spend is actually shifting into the Programmatic category which is the fast growing category at +31%.

We can forecast a future where all premium spend goes programmatic. The key difference between programmatic's past and the future is that the foundation and technologies being used are identical, the players are also (largely) identical, however the business model is different. Through increased competition, expect more innovation in business models and deal types in the premium tier.

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Prediction #2:
Creative Quality Will Soon Take Center Stage, Again

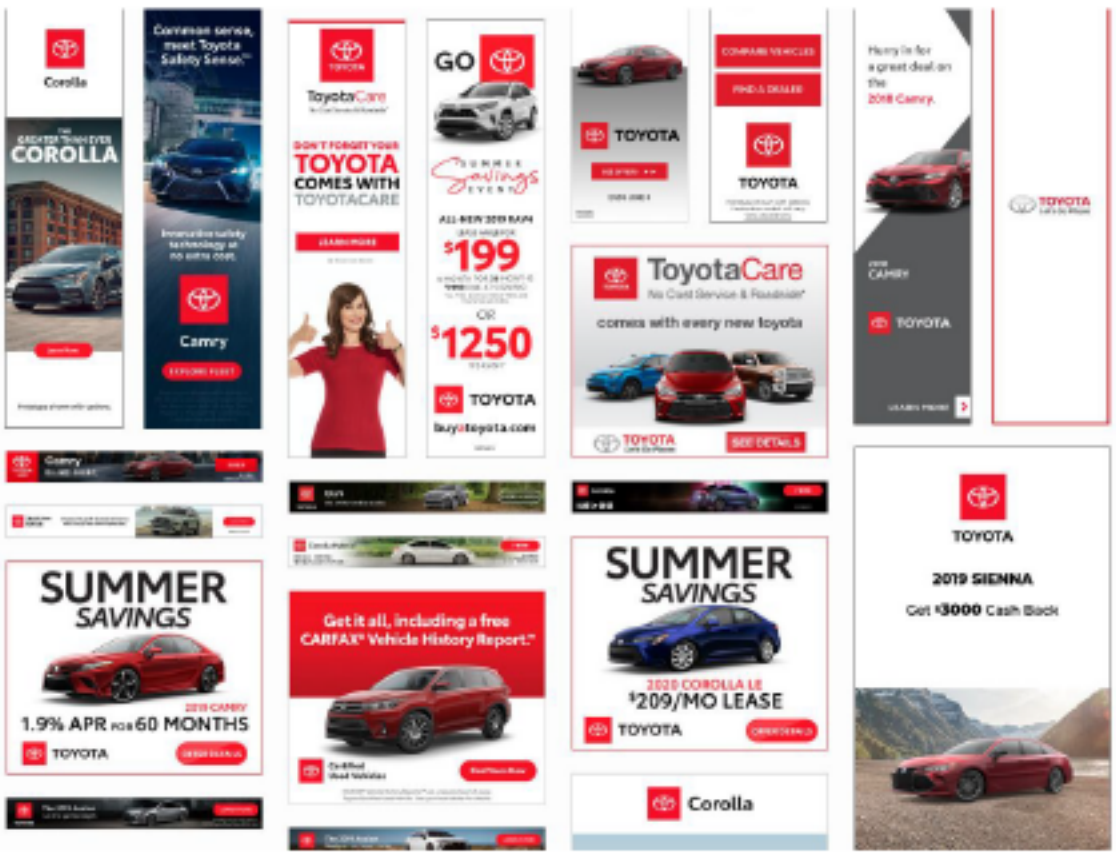
Prediction #2: Creative Quality Will Soon Take Center Stage, Again

In a post-cookie world, the goal will shift from finding the right audience to driving conversions using quality creatives

I am in the market looking for a new car -- a mid-tier family sedan that is reliable, fuel efficient, has all the latest tech gizmos and safety features. If you are an agency representing a car brand and you know this level of detail about me then getting my attention is much easier. Consequently, I am much more likely to click on an automobile display ad when I encounter one regardless of its quality.

In recent times this has become the dominant strategy for agencies buying digital media. The prominence of data platforms with hyper-targeted audience segments meant that agency traders could find niche market segments that are perfect for the product or services that they want to promote.

A side effect of the aforementioned strategy is a drop in the creative quality. In fact marketers are spending less and less on creative production and funneling those additional dollars into data platforms to find the right audiences. This leads to an internet full of dull ads that are frequently filled with too much text and click-bait headlines that do very little to capture the attention of any uninterested user. It is no wonder that more and more tech savvy audiences just choose to dismiss these ugly distractions altogether by using an ad-blocker.



Sample of recent Display ads from Toyota (source: [Moat Ad Search](#))

This landscape is changing with privacy led digital media as the future where an increasing number of platforms and browsers are cracking down on cookies. To elaborate, third-party cookies are the primary means through which ad and data platforms track user activity across multiple devices and sites on the internet to ultimately profile them based on their actions online.

In a post-cookie world where it is increasingly difficult or expensive to find and target the right audience for your product, marketers will need to find creative ways to find audiences, generate interest, and drive conversions. This is where creative quality will take center stage again. Creative agencies will need to do a better job than what is being sold over display exchanges today - they will need to further innovate on formats, content, and copy.

The importance of creative quality for brands has been proven by ComScore ARS, a leader in digital advertising measurement, who released an extensive report on this topic - "...among campaigns with an above-average creative strategy, 70% resulted in an above-average execution".

The demise of cookies also means the mid-funnel of marketing will get more limelight in programmatic media compared to the bottom funnel conversion campaigns. Marketers will drive campaigns that lead to serendipitous interactions, increased purchase intent, and push users down the funnel. These users *can* convert and close the marketing loop, but two-tone ads with large text are not going to cut it.

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Prediction #3:
Context Will Be Used To Create Higher ROI For Brands

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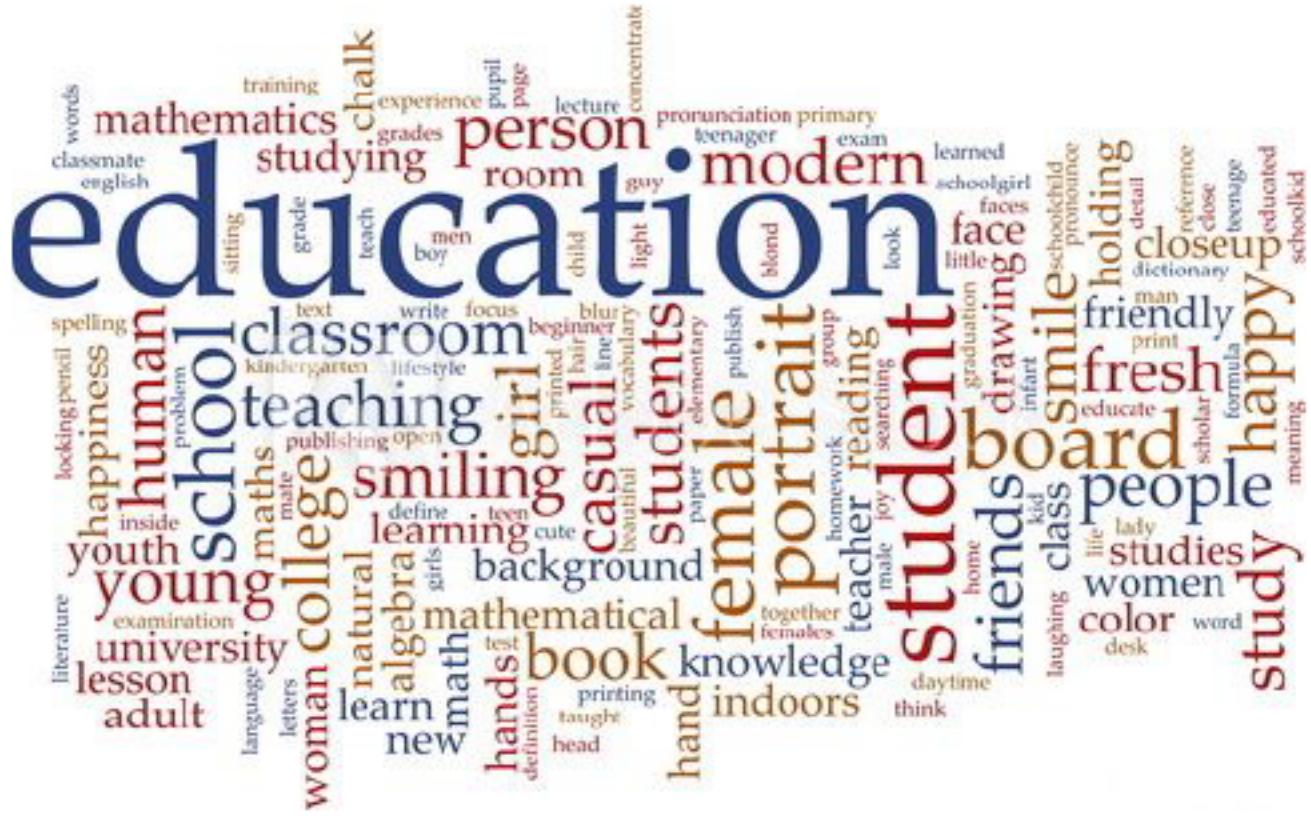
Context and publisher brand/trust will matter much more than finding the right user/audience 'anywhere'

Alongside creative quality the environment where the creative renders matters more when you are not able to fine-tune and target ideal users. If marketers are not able to re-target users then they will need to find new users to drop into the funnel. This is where trust becomes really important as users will associate, either directly or implicitly, the ad to the content that is placed next to.

Publishers provide access to trusted environments for marketers to place their ads - something that has become a luxury good in the open web era with the prominence of issues like arbitrage sites, fraud, hateful content, and more. Users recognize and rely on publisher brands to provide them with quality journalism and entertainment - this goodwill is passed on to advertisers by association.

To follow, publishers equip advertisers with the power to control the exact context in which their ad will appear. Contextual targeting allows marketers to find audiences based on their reading interests in lieu of more privacy invasive techniques. It allows them to place ads amidst content that is relevant to the product or service that is being promoted. On the other hand it also enables marketers to omit any unsafe content for any promotion like the quintessential example of an airline ad within an aerial accident article. In contrast a publisher has absolutely no control over the content, articles, photos, and videos that are showing up side-by-side to an ad within Social platforms.

From a performance perspective the right context will not only lead to higher clicks but also overall engagement with the ad, meaning longer attention times, video views, and post-click actions. Savvy marketers will understand and optimize for these engagement KPIs rather than just focusing all attention on conversions.



Context will allow publishers to provide new information to help marketers understand their consumers

A new wave of publishers getting back into the front-seat of the ecosystem is coming and several savvy publishers agree. Jana Meron, SVP of programmatic and data strategy at Insider Inc. was asked about the value of Programmatic on the AdExchanger Podcast. She noted that "the cookie-pocalypse that is happening is an opportunity for publishers to regain their power in the ecosystem". She elaborates about how publishers can capitalize the lack of audience data through "content and context and environment". The key question that will be answered over the next few years is "what information do publishers have to help marketers understand your consumer?".

Another publisher leading the resurgence of contextual targeting is CafeMedia. Paul Bannister EVP at CafeMedia wrote in an AdExchanger column about how they are using AI driven attribution models to derive context from their content and how technology is finally catching up to the previous challenges of contextual marketing. "Overall, the rise in advanced attribution modeling, an increase in the scale and value of contextual targeting systems and larger trends toward privacy should make 2018 a year for strong growth in contextually targeted digital advertising. Buyers want to be where consumers are making decisions, and relevant content is the gold standard in that regard."

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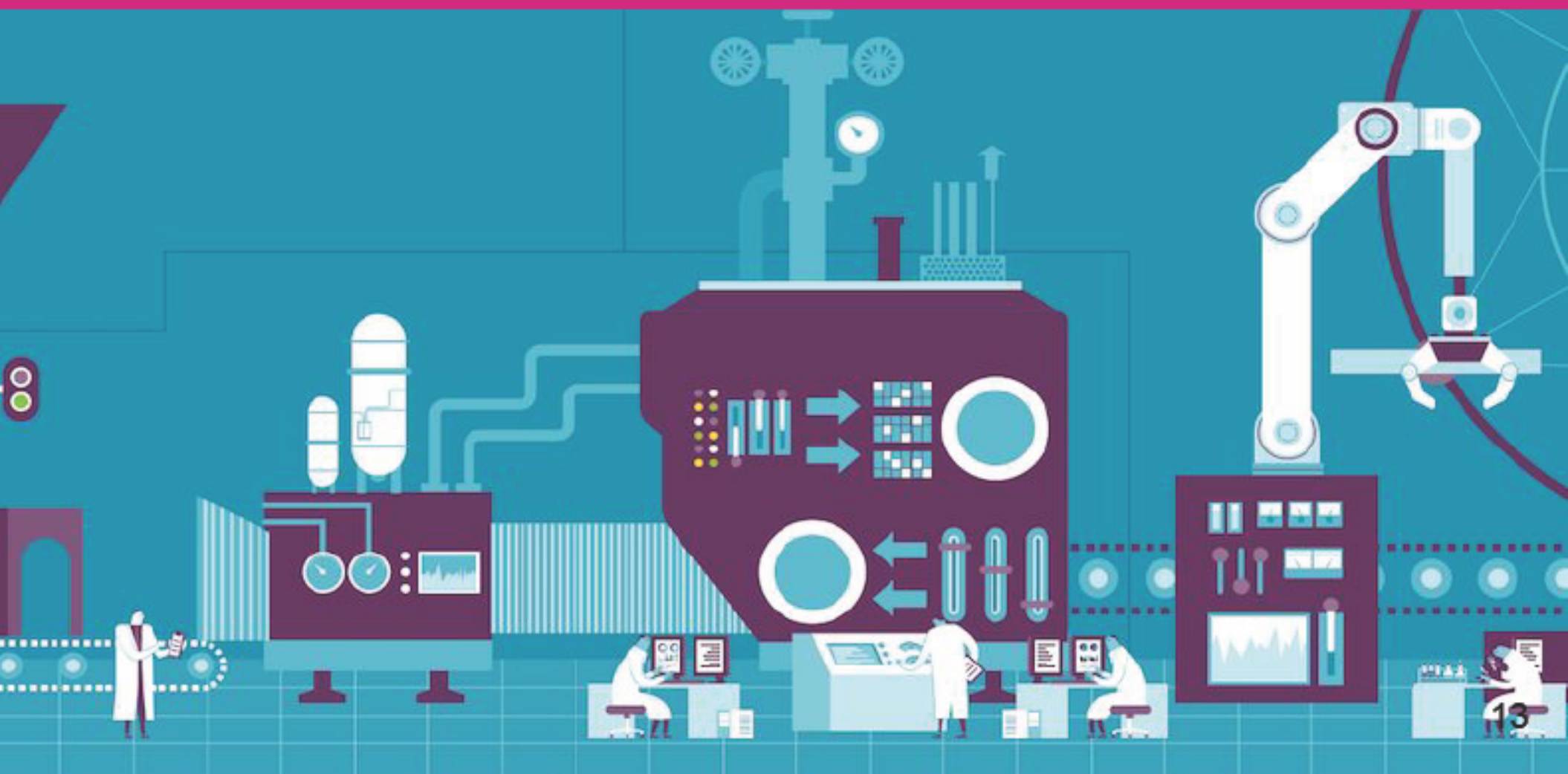
Prediction #4:
Amazon's Growth Will Continue To Slow Down Google's Growth



Prediction #4: Amazon's Growth Will Continue To Hinder Google's Growth

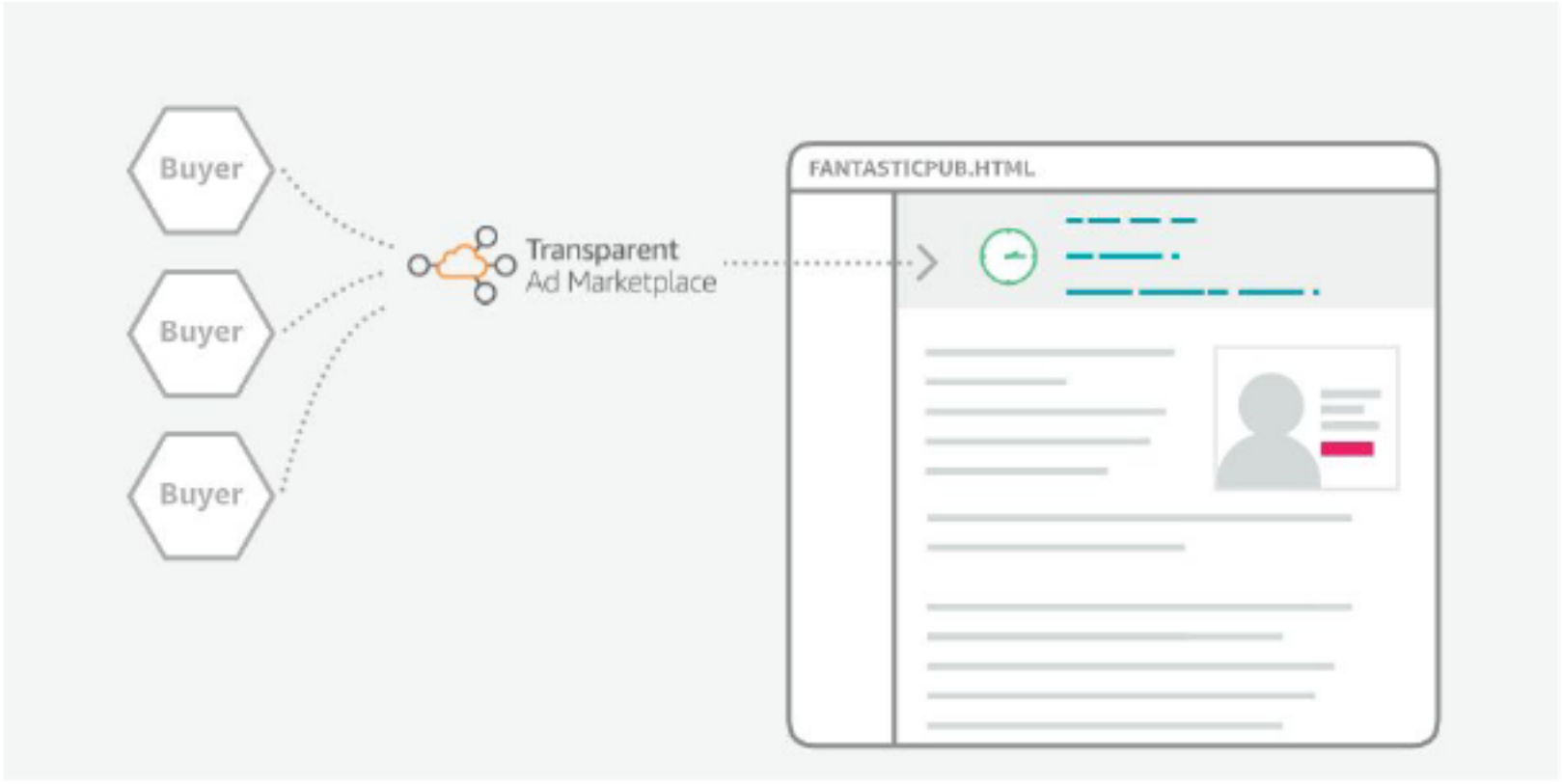
Amazon is making significant investments on the Supply (TAM) and Demand (Sizmek acquisition) sides and actively taking an anti-Google stance in their product and business model approach

Most people recognize Amazon as an e-commerce giant and perhaps some in the tech industry also know of their dominance in cloud services through their AWS platform. Until recently even ad tech industry professionals did not think of Amazon as a formidable player in the digital ad ecosystem.

Amazon's foray into advertising started off as a platform that allows marketers, most of whom were Amazon sellers, to purchase ads on its owned and operated sites - amazon.com and Amazon apps. However in the last 12 months it has become clear that their ambitions are much larger. They not only have a seat at the table but are playing to win. Amazon is starting to pose a real threat to Google's dominance.

On the supply-side Amazon introduced its own exchange bidding platform, Transparent Ad Marketplace, in early 2018. Architecturally this platform took bidding to the server with hopes to ease several issues with header bidding. However this is in direct competition with Google's similar offering: Exchange Bidding Dynamic Allocation (EBDA) platform. Google's platform was marred with trust issues due to the conflict with their own exchange: they did not provide publishers with bid level data. This consequently caused some to suspect that they might be taking advantage of the last-look advantage in their own AdX auctions. Amazon went a step further to make transparency and access to data a core principle for their platform. Matt Battles, VP of advertising technology at Amazon, described their philosophy as: "We built Amazon Publisher Services and our Transparent Ad Marketplace around the core tenets of transparency, operational simplicity, and a better user experience...". This is a clear differentiator against Google.

Another big point of distinction is their pricing. Amazon does not charge publishers any revenue share or monthly fees, and only a nominal $0.01 CPM per impression served to all SSPs.



Amazon TAM is actively positioning itself as the anti-Google solution for server-side bidding

On the demand side Amazon has its own DSP - the only one in the market with access to Amazon's first party user data on its platforms. Though even with this advantage the DSP has been criticized for several shortcomings including a confusing user interface, lackluster features, and not enough granular reporting. This all is set to change with Amazon's announcement last month that they acquired Sizmek Ad Server. Even though Sizmek as a company had filed for bankruptcy in the past, it is the only marketer ad server to gain market traction other than Google's Campaign Manager (previously DCM).

Among the many benefits for in acquiring an ad server, the biggest one is that Amazon as a platform will now have access to a treasure trove of marketer data including their spending budgets outside of Amazon's DSP. This intelligence can inform new features and tools that the e-commerce giant lacks compared to its competitors. Another advantage Sizmek brings is the ability for Amazon to measure performance and attribution across all marketer campaigns.

Amazon's move to buy Sizmek enables it to become a full-stack player in the ecosystem. Using its anti-Google positioning, in terms of business model and transparency, it can quickly become a strong alternative to Google. It will be very interesting to see how Amazon's presence grows over the next 12 to 24 months but one thing is clear, Amazon will become a household name in ad tech just like e-commerce and cloud computing.

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Prediction #5:
Apple Is The New Ad Blocker

Prediction #5: Apple Is The New Ad Blocker

Apple and Safari continue to restrict cookie access and circumvent other practices for tracking users. Their motivations align with user concerns, but these decisions are irrelevant to their business model and thus cost them nothing.

Apple has always been very public about its priority for preserving consumer privacy across all its software and services. It was the first in the industry to release privacy protecting updates in Safari with Intelligent Tracking Prevention (ITP) in iOS 11 back in 2017. This feature limited cross-site and cross-screen tracking by degrading access to third-party tracking. Since then it has made several updates to ITP with every major Safari release. The latest version ITP 2.1 announced earlier this year blocks all third-party cookies by default and also purges client-side first-party cookies after seven days. Moreover Apple is actively working on a new Privacy Preserving Ad Click Attribution model which is a proposal that will degrade all post-click attributions for advertising. These measures not only make behavioural advertising and cookie-based audience targeting almost impossible, but they also put additional strain on other web practices such as web analytics tracking, subscription tracking, content personalization, and others.

With these actions Apple presents itself as the leader of privacy and clearly distinguishes themselves from the likes of Google and Facebook. However note that Apple has a big advantage because their business model does not include advertising or collecting user information. Not retaining user information does not hurt their own bottom line but prevents other companies from gaining a competitive edge.

Let us take Google search as an example: Search accounts for 40% of overall digital advertising spend and Google has a feature known as RLSA (Remarketing Lists for Search Ads) that lets marketers retarget users based on their own data, e.g who previously visited their website, added items to a cart, etc. The ITP 2.0 update restricts Google from using RLSA across any search done on Safari (browser) and Safari accounts for more than 50% of US mobile searches.

Another segment that does not directly compete with Apple but is definitely detrimentally affected by Safari's updates is publishers. It has led to an indirect loss of revenue at least in the short term while

they (and other platform providers) figure out the ins and outs of contextual segmentation and targeting.

Apple's strategy with Safari allows it to take a privacy high ground without any consequences for its own bottom line. Ben Thompson who runs the technology and media analysis site Stratechery has called Apple's advantage a Strategy Credit: "An uncomplicated decision that makes a company look good relative to other companies who face much more significant trade-offs". Ben defines and alludes, "user information of this type isn't important to Apple's business model, so they choose not to retain it.'There's nothing worth praising here – or denigrating – but it's worth acknowledging."

Apple has nothing to lose directly so it will continue to fight for consumer privacy and further restrict access to user data with Safari and their other platforms. There will be a constant cat-and-mouse chase between new ITP rules and all the data platforms trying to circumvent them. Apple will keep gaining strategy credits at the expense of the rest of the industry players.

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Prediction #6:
Google Uses Chrome To Become A Stronger Walled Garden

Prediction #6: Google Uses Chrome To Become A Stronger Walled Garden

Google will start restricting cookie usage in upcoming Chrome updates, however it is unclear if Google will apply the same restrictions to their own ad stack which would possibly give them an unfair advantage

Google has announced several privacy updates to Chrome mainly centered around how it handles cookies. To some extent this was expected - Chrome was the only major browser, with a two third desktop market share, holding back on tightening cookie privacy after similar updates from Safari (ITP 2.0 Announcement) and Firefox (Enhanced Tracking Protection) over the last year. Here are the two main privacy updates that will get released in Chrome later this year:

- Chrome is going to require developers to call out single-domain cookies (that store your login information for convenience, etc) from multi-domain tracking cookies used by data companies so that users can easily clear the latter without any inconvenience. Moreover any cross-site cookie will need explicit consent from the user before it is able to deliver any data to a third-party.
- Chrome is going to actively restrict non-cookie based user tracking effort known as 'fingerprinting' which looks at unique browser patterns and assigns a unique ID based on that.

Whilst these updates are welcome, Google has not yet release more details as to how they plan on implementing some of the updates and more importantly if the same rules will apply to their own cookies from its Ad platforms. Google is unique amongst all the other companies with major browser market share in that they have a vested interest in protecting cookie tracking and not limiting marketers' ability to re-target. Some publishers including the Wall Street Journal and AdWeek have reported that Google has been working with a few of them to figure out how they can transition and serve marketers post Chrome updates. But others in the industry are nonetheless skeptical. Given Google's track record on transparency, it's not hard for people to speculate foul play. We will need to wait and see when the updates are released if Google is transparent and plays fair.

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Prediction #7:
The Straws Finally Break Facebook's Back

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In the next couple of years we will see Facebook face the repercussions from their past scandals - from a potential company break up to the death of Facebook Audience Network.

Facebook's long and dirty list of privacy issues in the last 24 months is no secret. To read more about this see our detailed report on The Secret To Facebook's $67 Billion Ad Machine. It may seem that Facebook has not paid enough consequences for their actions yet because their ad revenue keeps rising despite the negative press. Its stock price even soared after the FTC announced a five billion USD fine, in line with Facebook's and investors' expectations.

We're in the calm before the storm. Now is just the beginning of the severe repercussions that Facebook will eventually face, both because of their privacy breaches as well as the rest of the industry dynamics.

Firstly there is the growing pressure in breaking up Facebook from influential legislators such as Elizabeth Warren and Facebook co-founder Chris Hughes. The process for breaking up Facebook will be arduous due to the temperamental dynamics of US politics and the slow pace of the Justice Department. As history shows us, the Justice Department's battle to break up Microsoft in the 90s lasted almost a decade and ended unsuccessfully, leaving Microsoft mostly intact with minor business practice changes. If the Justice Department does pursue a lawsuit against without regard for the final outcome, one thing is for sure, it will eat up a lot of Facebook's resources. Just like Microsoft in the 90s, Facebook will be continuously distracted, extra cautious of its products and actions for a long foreseeable future. And just like how Microsoft missed the internet wave at the time, Facebook might miss the next wave which will impact their digital advertising and social businesses.

Secondly there is growing scrutiny and lockdown from browsers on Facebook's ability to track users outside of its walled-garden. The power of Facebook's audience network is not just because of the data Facebook has on users but also its ability to track and profile them off-platform across the web using its Social plugins (Like button) and Facebook Login feature. Both these features have already come under pressure from Safari since it introduced ITP 2.0 in 2018 where users on Safari need to visit Facebook daily to use the social plugins and re-login to Facebook every thirty days. Moreover this year in its annual WWDC conference in June, Apple announced its own login feature - 'Sign-in with

Apple' which directly competes with Facebook's login app. Apple will take users away from Facebook and bring a privacy first ideology to web logins with features like private email addresses that will block any third-party from tracking users based on their email. Eventually this will lead to less effective targeting of Facebook audiences which may shut down their Audience Network entirely.

The capability to meticulously target and match Facebook's user data with their own first-party data is a primary reason why advertisers continue to flock to the social platform despite all the negative media they receive. If the efficacy of their data starts depleting, it might be the straw that finally breaks this camel's back.

These are just a few examples of the looming dark clouds in Facebook's future. The future of the company will still continue to strongly influence social interactions in society, albeit negatively, however as a business they may be entirely different from the Facebook of the last two decades.

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Prediction #8:
There Are More Bad Actors Than We Realize

Prediction #8: There Are More Bad Actors Than We Realize

Regulation Authorities across the developed world are focusing in on online Privacy and Trust related issues. GDPR was only the beginning and we can expect similar or more stringent regulation across the globe.

The wild wild west of companies carelessly handling and misusing internet user data are numbered. The European Union led the charge on privacy protection by implementing the much publicized GDPR regulations in May 2018 which not only affected companies based in the EU but all across the globe that provided online services to EU residents. GDPR is a big step forward in terms of defining a general framework for data privacy globally, formalizing and defining the roles of companies collecting and processing data. The regulation provides a strong consent framework for users and brings accountability to the entire ecosystem.

Although the initial implementation and roll-out of GDPR did meet some criticism, it also got the ball rolling for other major economies and countries taking a closer look at their own privacy legislation and potentially proposing GDPR-like bills. An independent research paper from UNSW Law titled - Global Convergence of Data Privacy Standards and Laws shows that at least 10 countries outside the EU have enacted laws similar to GDPR with numerous others drafting bills through their legislation process.

In the US itself there have been 7 Privacy bills introduced by Congress in the last year. A federal privacy law for the US will take time to enact, but individual states may act sooner. The California Consumer Privacy Act (CCPA) is already signed into law and goes into effect on January 1st, 2020. Just like GDPR the CCPA empowers users to provide consent and regulates companies that are collecting their personal information including tracking cookies and other online identifiers.

In the UK its main privacy watchdog, the Information Commissioner's Office (ICO) released a scathing report in June 2019 in which it criticized all ad tech companies for their collection and lack of protection when it comes to user data. The report specifically targeted the Real-Time Bidding (RTB) process and identified systemic concerns around its compliance with data protection laws in the EU and the UK. "Overall, in the ICO's view of the ad tech industry appears immature in its understanding

of data protection requirements. Whilst the automated delivery of ad impressions is here to stay, we have general, systemic concerns around the level of compliance of RTB".

With regard to the lack of data transparency, the report cites "The profiles created about individuals are extremely detailed and are repeatedly shared among hundreds of organisations for any one bid request, all without the individuals' knowledge." In fact the report calls out the processing of sensitive data categories like health data as unlawful. "Any processing of special category data is taking place unlawfully as explicit consent is not being collected (and no other condition applies)." The report concluded that RTB practices as it stands today undermine GDPR and urges data controllers at companies to reevaluate and take decisive action. It sets a six month timeline for further exploration after which the ICO will conduct another industry review.

Regulators and industry lobbyists such as the IAB will continue to battle to define the lines of what is considered to be an acceptable balance between the scale of the user privacy and bottom lines for ad tech companies. We can expect the tightening of loopholes, more austere enforcement of GDPR in the EU, and see most advanced countries counter with their own online privacy regulation. As a result it will become increasingly difficult and expensive to perform the types of behavioral and audience targeting that are so commonplace in the industry today. The winners from this battle will be the companies that arm themselves with alternative approaches that are built with trust as a foundation.

Closing Thoughts

The predictions presented in this report are among many others that are taking place in our industry daily. We are going through a phase of change and maturity - change instigated by the industry's own careless past and accelerated by forces both within and outside the industry.

The one theme that is true across the board is that the Trusted Web is the future of the internet. The Open Web has become the Dirty Web and the Social Web has become the Toxic Web. The wave of privacy regulations and consumer empowerment will bring down many companies from small enterprises to industry behemoths. The ones that adapt their business models and practices to align with trust will ultimately survive and thrive in this new age.

Thank you for your attention,

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