Arkose Consulting LLC

Attracting Brand Ad Dollars: First, Take a Deep Breath

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By Leo Scullin, Partner, Arkose Consulting LLC

Slow down you move too fast…

The pace of change in digital advertising is so dynamic that it takes all of one's effort to just keep up. It is hard to see the forest for the trees here, as every new service provider in every new segment just adds density to the landscape. Brand marketers want to embrace this exciting market but the current ecosystem is confusing and off-putting. Well, take a deep breath and consider this: the digital advertising industry needs to help brand marketers grasp the realities of the digital advertising space with clear, simple and generally accepted market perspectives, including how price discovery and order fulfillment really work, and better planning tools so clients can see how digital opportunities are relevant to their brand objectives.

During the month of January 2011, and in review of all the market buzz of 2010, the author interviewed a coterie of thought leaders and expert practitioners in the digital advertising arena to test the following thesis:

Better industry tools, such as an industry cost database (ICD), could add valuable insight, reduce friction, potentially reduce costs, improve the planning process and offer traditional brand marketers an unobstructed bridge into the digital advertising market.

From our experts we learned a lot and confirmed much of what the market has come to accept, for good or bad, about the realities of this complex ecosystem.

The bottom line: the digital advertising industry is at a juncture where even more progress can be made with more brand marketers, but there is a lot work to do. This is not the "Wild West" nor is it run by a "black box." These perceptions only increase the resistance threshold. The industry needs to leverage the fine work done by the Interactive Advertising Bureau (IAB), Bain, Jordan Edmiston Group (JEGI), LUMA Partners LLC and many others, and create and support industry tools that allow for better planning, buying and selling. There is a need to shift the focus of brand marketers to the realities and opportunities of digital display advertising. It is time to start with a clear view of the market and then assess the key challenges and how to address them.

By Leo Scullin, Partner, Arkose Consulting LLC

A Simple Overview

As a result of the dialogue with the panel of experts, from the buyers and sellers perspectives, a simple picture of the structure of the digital display marketplace emerged:

Simple Tiers, Explained

Digital Display Advertising: Marketplace Tiers

Highest Cost Per 1000 (CPM)

Primary Tier **Features:** highest CPM but smallest % inventory; primarily sponsorships and customized packages; high credibility, quality content
Secondary Tier **Features:** the bulk of the "negotiated" market; involves labor, sales cycles; tends to harbor the most inefficiencies in process; complexities being addressed with technology for some "non-negotiated" premium inventory
Tertiary Tier **Features:** largely remnant inventory; "non-negotiated" low CPMs; networks and exchanges operate this tier

Lowest CPMs

The IAB reported that the display market in 2009 accounted for $8.0 billion, or 35%, of the total Internet Advertising spend. For the first half of 2010 total US Internet ad revenues totaled $12.1billion, the best first-half revenue ever. Display ad revenues were $4.36 billion, or 36% of the total spend, up 16% over 2009. According to the IAB, "upward bound display, impression-based and hybrid revenue models indicate an influx of brand dollars." Further spending breakdowns are not aggregated in an industry *spending* database, like Publishers Information Bureau (PIB) offers for magazines and Kantar Media Intelligence and Nielsen Monitor Plus provides the major media. However, Arkose Consulting estimates the 2010 ad revenue breakout by tiers as follows:

Digital Display 2010 Revenue Estimates

Digital Display Advertising: $9.083 Billion

2010 Revenue Estimates:

Tier				
Primary Tier	**Size:**	**$0.500 billion**	**Notes:**	Extrapolation of IAB 1st Half 2010 Sponsorship estimate
Secondary Tier	**Size:**	**$6.249 billion**	**Notes:**	Includes estimated $0.850 B in Demand Side Platforms
Tertiary Tier	**Size:**	**$2.334 billion**	**Notes:**	Assumed to be all network and exchange $$ for remnant inventory

Source: Arkose Consulting LLC

In addition to the dollar allocations by tier, ascribing pricing to each segment would then define a marketplace that's easier to understand and to embrace. Such a pricing tool would be an industry cost database. This would permit clients and their partners to evaluate the cost and implications of different strategies before they set foot in the actual transaction marketplace. As will become apparent, any tools that help address the key challenges facing this multi-tiered market can be of enormous value.

Two key challenges:

- *Managing "infinite inventory"* – There is an overabundance of advertising supply across thousands of sites, in what could easily be called an "Infinite inventory" of ad impressions. Each of the marketplace tiers has different needs and opportunities and, as a result, this makes it difficult to exploit;
- *The Ad Operations Work Flow* – The ad operations work flow that supports digital campaigns is complex, costly and is notoriously dependent on manual labor. Reliable estimates from media agencies, large and small, suggest that for every dollar spent in digital, an additional $0.15 – 0.20 is spent to manage it. Compare this to $0.02 – 0.04 for broadcast and $0.05 – 0.09 for print. An industry that is complex and also expensive raises the threshold of resistance.

These are serious impediments and the developments in each of these two arenas, and the implications for positive change driven by more widespread support for an industry cost database, are the focal point of this paper.

<u>Managing "Infinite Inventory"</u>

The plethora of ad networks, pulled to life by a market that needed aggregated sites and ad impressions at scale, have been harnessed somewhat by the ad exchanges. Both ad networks and exchanges help manage advertising transactions at a scale and speed suitable to growing market needs.

As network growth peaked, a new intermediary, the demand side platform (DSP) entered. They make their profit margin by arbitraging as they disintermediate the ad networks. With the DSPs taking their cut, the agencies see a threat and an opportunity. At first it seemed that access to this technology would be a perfect solution – agencies wouldn't need to invest in technology, and instead they could focus on the service aspects of their business. But such hopes were quickly dashed, and the agency response, especially at the holding companies, is the agency trading desk (ATD). Proprietary technology, coupled with their service offerings, now sets them apart in front of their clients.

As Sarah Fay, a veteran of industry giant Carat and a current board advisor to DSP [*x*+1], notes, the primary driver of the DSP segment is performance advertising. Low CPMs are the focus at this end and, with so much ad supply, continued pressure on rates looks to continue for the foreseeable future. But some change is likely, and soon, according to other media agency giants. Display advertising, with different metrics, initially centering on engagement, is in the DSP mix already, according to sources within the top media agencies.

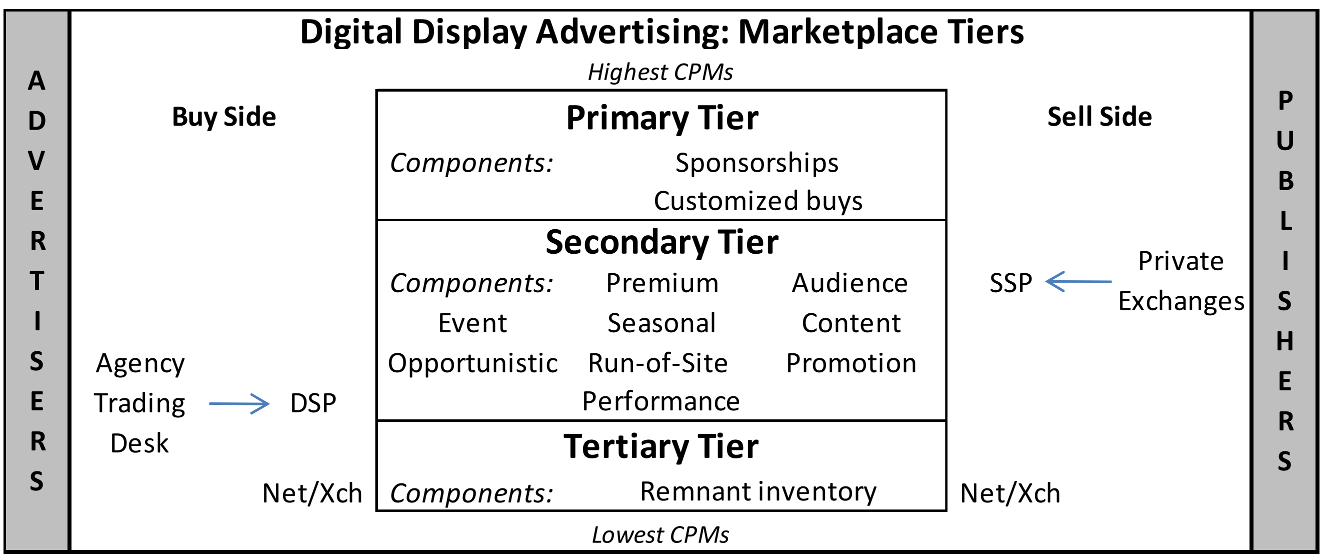
Other advertising measures, such as awareness, consideration and purchase intent, while not as easy to isolate in the short term, will be baked in – somehow. The DSPs have also yielded some extra benefits, as pointed out by a top agency analytics expert: "no RFP, better CPMs and frequency capping!"

Today, on the agency side, the experience with DSPs is being continuously evaluated and extended beyond performance buys. It remains to be seen how far automation can go to displace or complement the "people based" components in this secondary tier.

The sell side has answered the automation call with algorithm-based, supply side platforms (SSP). Here, the media owners have called on the services of a handful of new players who are helping them optimize the yield on the display advertising. More and more name brand publishers are retreating from the ad networks, turning to SSPs or even looking into private exchanges. With either approach, SSP or private exchange, the idea is to tightly control the sale of inventory with strict business rules and pricing parameters in place to prevent channel conflict. And, of course, to keep upward pressure on CPMs.

Given the complexity of this landscape, brand marketers need to view this ecosystem through a set of filters. The following market grid from Arkose illustrates the expanded view of the market tiers, noting the new forces coming in from the buy and sell sides:

Digital Ad Marketplace Tiers – Expanded View



Source: Arkose Consulting LLC

The primary tier is all about high-touch, people driven business, usually represented by sponsorships, customized packages or special annual commitments that initially require a request for proposal (RFP). Based on IAB reports for the first half of 2010, Arkose estimates that sponsorships will account for about $500 million in 2010.

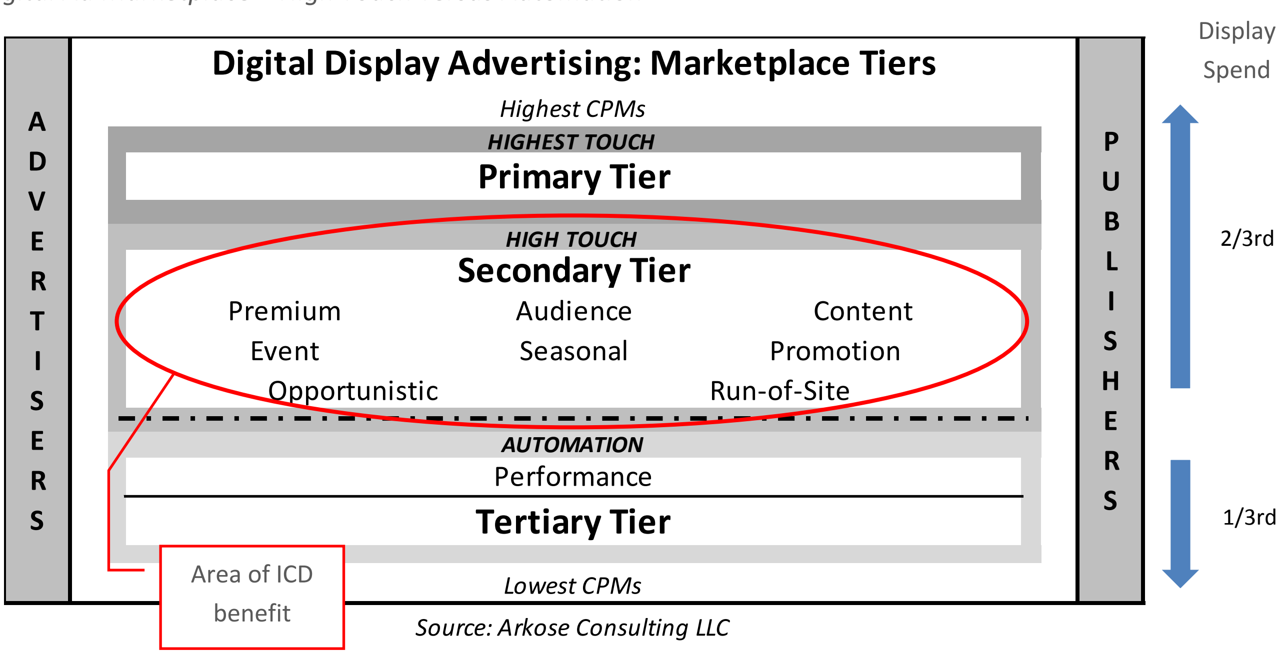
The secondary tier represents a combination of people-driven transactions and, increasingly, algorithm-driven business. Nearly every single secondary component in this middle tier relies on RFP's, which is a necessary but time consuming phase. The component parts look like a laundry list, as the experts used this variety of terms for the inventory in this segment. Hence, there is a lot of noise in this space as every player within this ecosystem is jockeying for market and mind share, perhaps further confusing brand marketers with hype and complexity. Amidst this noise the market needs to gain knowledge – what works, and how, and what are the costs associated with one strategy versus another.

When it comes to Audience, some echo Andrew Kraft, SVP at Collective Media, when he says, "standardized data in this space could be useful." In addition to the overall usefulness of an ICD, Mr. Kraft is referring to standardized cost data that highlights the relative value of one audience versus another. This will further cement in the minds of brand marketers the value proposition of digital advertising.

Our panel of experts all seemed to concur that the tertiary tier is the exclusive province of the networks and exchanges, but not just among direct marketers. For instance, brand marketers from the consumer packaged goods (CPG) field have dabbled with ad networks in the tertiary tier, and as one media director said, "to take advantage of the favorable pricing" while maintaining their concerns about the quality of the environment. The continued over-supply of inventory and the automation supporting this tier will keep it in the mix for the foreseeable future. But the Digiday Report from December 2010 indicates that "DSPs are being seen as a substitute for ad networks in the coming year."

To further assist the marketer the market structure below highlights the role of technology-enhanced versus the people-based parts of the business:

Digital Ad Marketplace – High Touch versus Automation



Source: Arkose Consulting LLC

Automation is central to the tertiary tier and the Performance segment of the secondary tier. The dotted line above *automation* represents the inexorable trend to bring more business-rules based approaches to the market.

Arkose estimates that almost 2/3rds of display expenditure are spent north of the dotted line. On the other hand, it seems as if 80% to 100% of the discussion today, punctuated with LUMA's technology landscape, falls below the line. Technology may be a godsend to this industry but it does not and will not eliminate many costly and time consuming aspects of the work flow needed to support digital ad campaigns.

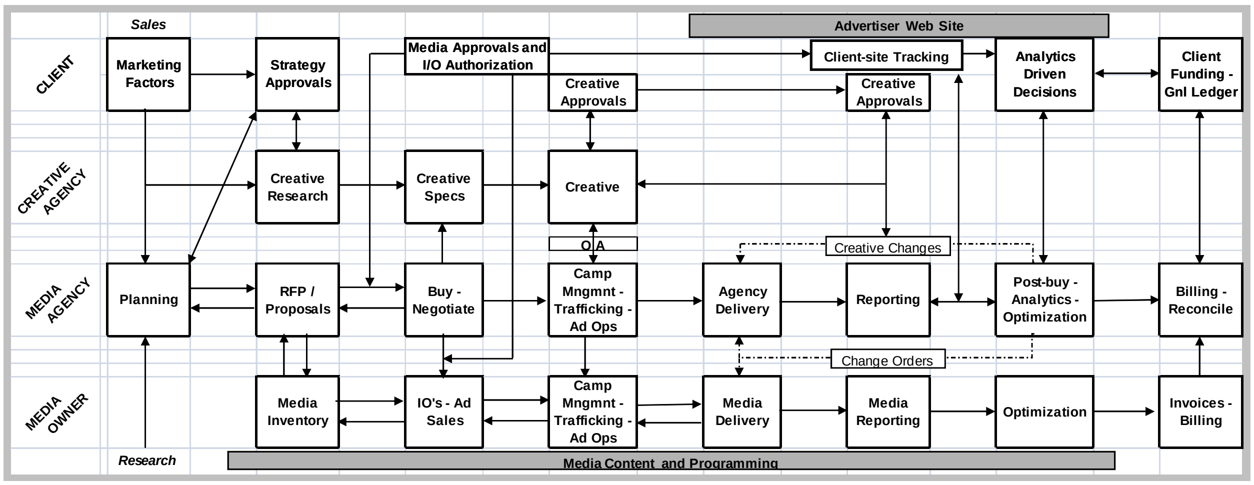
It is in the high touch aspect of the display spectrum where negotiation prevails (human) and where an industry cost database can bring a market price framework to better define this market place. This would also allow media owners to bring an industry-based price / value component to their conversation. Nevertheless, the touch aspects of the digital industry remain the most costly.

The following section will examine this more closely.

The Ad Operations Work Flow

The digital advertising industry is challenging to manage – no other ad supported industry has "ad operations" at its core – and requires incredibly complex and sophisticated technology to harness all the transactions and hours of labor to manage the operations. Arkose Consulting identified eight key steps or phases supporting the management of digital advertising efforts. The resulting map looks at the interactions of the key constituents – clients, creative agencies, media agencies and media owners – at each phase. This particular map (pictured below) allows one to see the friction as well as the pain points.

Overview of Digital Advertising Operations Work Flow



Source: Arkose Consulting LLC

Our industry experts all agreed that the outlined work flow from Arkose was largely consistent with theirs, but, as Steve Sullivan, the VP, Digital Supply Chain at the IAB, says, "the ad operations work flow will probably contain the same steps for some time to come, but the way things are done within each phase will evolve." That's good and bad news. What looks smooth and direct on a grid can be very taxing, primarily on campaign management teams at media agencies. As more digital dollars go through this system, and the more optimization is required, the more human labor is required to manage it. It's as if there are no economies of scale. The media owner work flow has been more fortunate in that solution providers have stepped up to address the most pressing issues, like inventory, pricing and yield management and optimization.

Of particular note here is the existence of the RFP stage, a step not associated with other major media, save magazines. In other media, planners and clients have access to cost databases like SRDS in print and SQAD in national and local broadcast. These tools offer directional guidance as to the potential cost and price variations between media vehicles and market segments. In other words, with such a tool price discovery can take place during the planning stage and not at the RFP stage, as it is now in digital. The digital advertising executive today only knows that this step is essential, but it might not need to be the burden that it is.

If agencies had access to better industry data on costs and specs, the man-hours associated with this phase could be lessened and costs reduced. As seen in the secondary tier example, the RFP has a place in certain parts of the buyer/seller relationship, but not having industry planning tools like SRDS or SQAD weakens the role of the planner.

David L. Smith, the Founder and CEO of SFO-based digital media agency, Mediasmith, Inc. helped confirm the work flow and he pinpoints the RFP stage as “indigenous to the digital media space” and one that can involve considerable time and effort. The Mediasmith team breaks down the planning and buying steps into the time and effort required, summarized below.

Interactive Planning/Buying Process Time Flow

		Senior Mngmnt	AMD / Supervisor	Analytics	Planner / Buyer	Assistant
Scope of work definition	1 Week	25%	25%	5%	10%	0%
Strategic Development						
Audit history / research / data review			25%	5%	50%	50%
Media brief		2%	5%	1%	10%	0%
Target audience definition	4 Weeks	2%	10%		5%	5%
Develop/agree on Objectives		1%	25%		50%	5%
Prepare strategic plan		2%	50%	1%	50%	50%
RFP / Content Buying*						
Compose buy guidelines, develop RFP list			5%		***25%***	***15%***
Issue RFPs					***25%***	***75%***
Collect proposals						***75%***
Analysis	2 Weeks				***25%***	***75%***
Negotiation/prepare buy options			25%		75%	25%
Present options/reco/tag sites		1%	30%	5%	25%	
Data-Driven Buying**						
Evaluate data sources			10%	25%	10%	5%
Merge client & 3rd party data	2 Weeks		5%	50%	10%	5%
Define audience profiles			5%	50%	10%	5%
Set DSP logic			5%	50%	10%	5%
Buy Implementation						
Order buys & manage creative assets	1-2 weeks		5%	5%	75%	25%
Ongoing						
Stewardship / optimization	Daily/weekly		1%	1%	15%	75%
Reporting	Daily/weekly					
Post-buy analysis	1 week post campaign	1%	5%	1%	50%	50%

RFP Stage

Hidden labor costs can be offset by ICD (see next page)

* Content Buying represents tradtional definition of digital buying - inclusive of meeting site sales reps, securing proposals, and making client recommendations based on strategic/content value. These buys are generally made to promote brands and/or distribute digital assets.

** Data-Driven Buying focuses on the use of audience data (client + 3rd party) to define optimal target profiles. This data, along with optimization rules is fed into a Demand Side Platform which taps into exchange inventory. Impressions are accepted or rejected in real time based on their matching the profile(s) and meeting price goals.

Source: Mediasmith, Inc.

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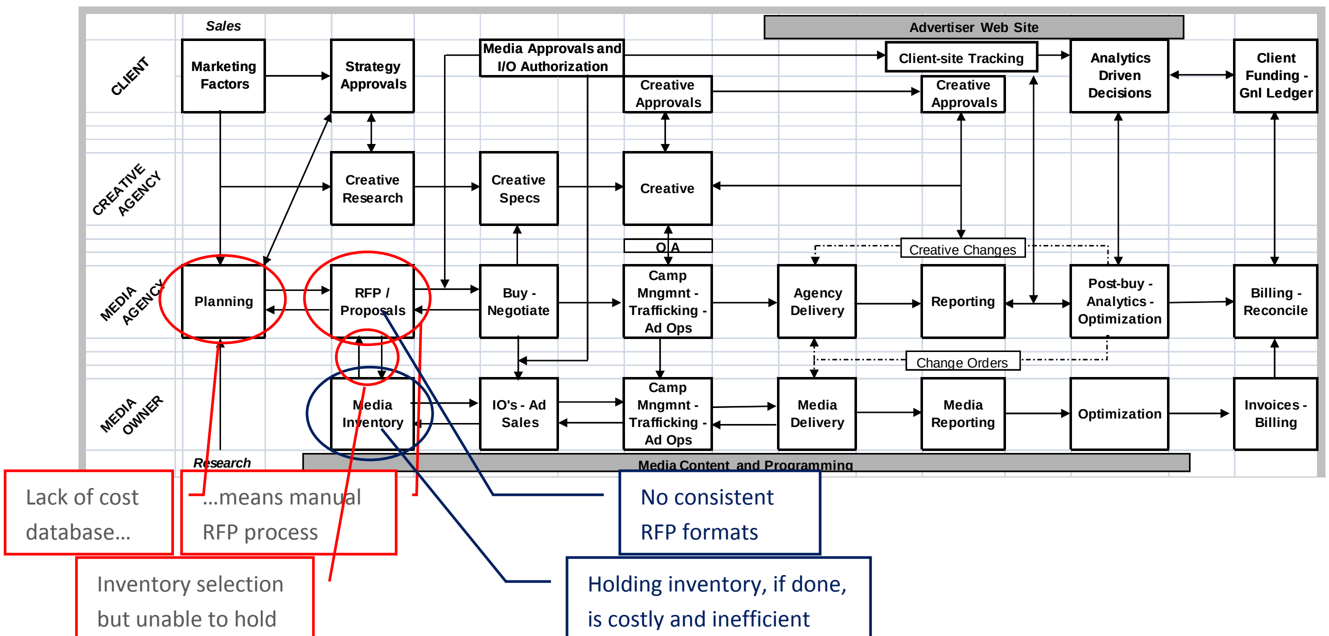
The Hidden Cost of the RFP Process

Note that the RFP/Content Buying stage stretches over two weeks. The percentages in the boxed area can be used to define the time each stage requires from each management level in the mix. For example, the compose, issue RFPs, collect responses and RFP analysis tasks requires 75% of a planners time, or 26.25 man-hours (over two 35 hour weeks) and 240% of Assistant's time, or 168 man-hours (over two 35 hour weeks). Obviously, the work load is spread over multiple Assistants, but the time and its associated cost are the real issues here. Billing these costs back to clients may be the norm now, but sooner or later the savvy client will want to see better processes at work. The following annotated work flow map highlights the issues associated with the RFP stage, and underscores the hidden costs for both media agencies and media owners:

Costly Components within the RFP Process: Red = Media Agency – Blue = Media Owner



Source: Arkose Consulting LLC

An industry cost database would immediately address and reduce the costly interactions associated with the RFP process. David Smith, like other veterans of traditional media, sees the digital RFP inefficiencies as a byproduct of a lack of industry cost data. If planners had access to better industry cost tools, more time could be devoted to developing strategy. However, another senior exec from a large holding company suggests that "the RFP process is not just due to a lack of an ICD, but mainly due to the fact that you can't buy the same things twice." Mr. Smith even suggested that without an ICD his teams probably issue at least twice as many RFPs as needed, causing unnecessary time and costs.

According to Adam Cahill, EVP, Co-Media Director at Hill Holliday in Boston, "the RFP process can sometimes be used as a way to outsource media creativity to the publisher." (Many of the experts interviewed from the sales side agree with this assessment.) Further, Adam says that by issuing an average of 20 RFPs for each campaign, it results in 6-8 vehicles to buy. With constant, sometimes monthly planning cycles, this is a lot of work.

Interestingly, many digital media directors we spoke with indicated their teams had little appreciation for industry data as a whole, from cost databases to research. Some even said that the expertise in the industry is so concentrated among a small universe of people, that "everyone knows what everything costs." Of course, this cannot be true but reliance on the memory of a few should be worrisome to brand marketers.

This brings us to the other side of the high cost of the RFP phase – the impact on the media owner. With no consistent RFP formats, as one sell side marketing and ad ops professional says, "you get three kinds of requests: 1) exact spec – doable; 2) exact spec – totally unrealistic, and; 3) fringe ideas, completely outside the core strengths or platform being considered." To boot, way too much time is spent on the third point, as the back and forth just wastes time and effort. Also, as another senior sales executive cites, "the RFP process is challenging because it takes the same effort to respond to a $50K buy as it does a $500K buy."

Such an example is a perfect place to demonstrate the benefits of an industry cost database. If planners can evaluate their smaller budget plans with an ICD, they will not have to seek RFP input until strategies and key tactics are confirmed. This would save the agency man- hours (cost savings), reduce the sales cycles (cost savings) and keep inventory available for legitimate actual business (revenue improvement).

Benjamin Reid is VP at Operative, which offers an ad business management platform connecting buy side and sell side processes and systems. He says it best, "too much time is spent on the tactics of the plan rather than on the goals of the client." He sees the time wasted on exchanging basic information rather than the thoughtful aspects. David Smith concurs, noting, "if we had better industry tools and databases, as media agencies it would *allow us to prove our planning capabilities without others in the loop*."

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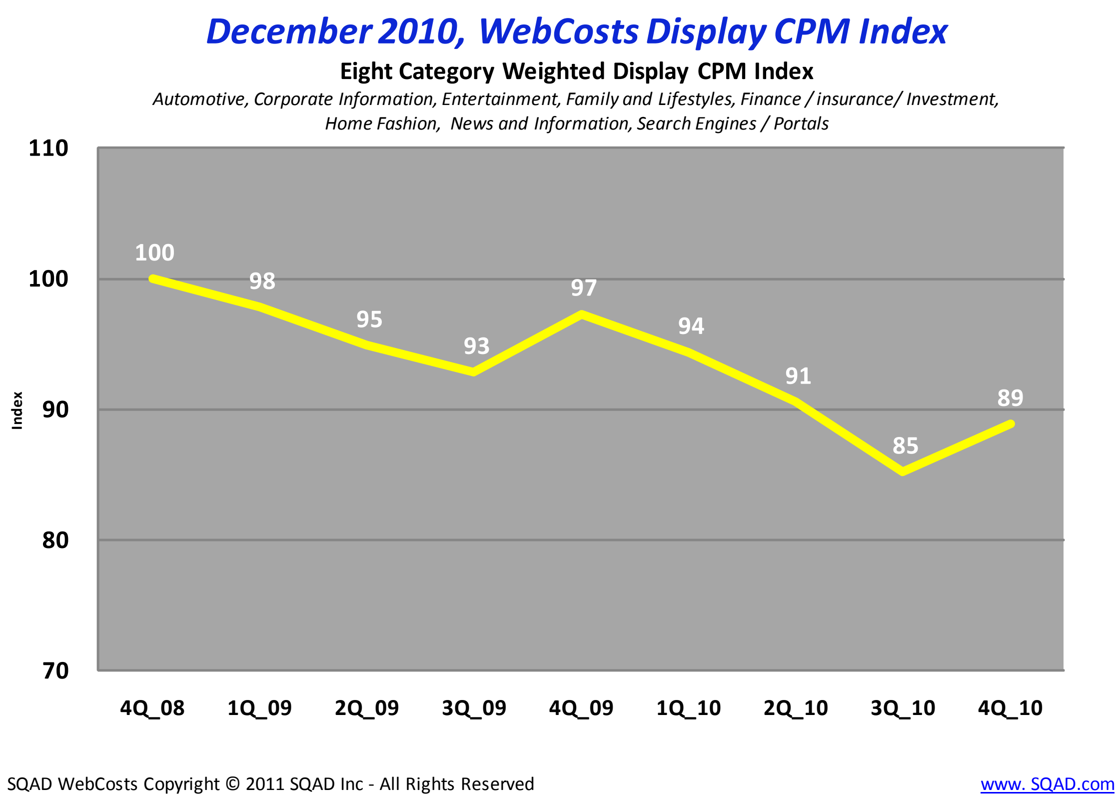
Giving Brand Marketers the Tools They Need

The digital ad industry is enormously complex. The promise of automation, higher management costs than other media and an ongoing industry dialogue makes it difficult for the majority of marketers to grasp the process in its totality. It is now time for the digital advertising industry to embrace the realities of both the current market and the emerging one. Aggregated knowledge, insights and data will enable brand marketers to study this market on their terms, and then call on industry experts to explain and exploit the opportunities being offered.

The next wave of new clients to this space, those who are unaccustomed to performance metrics, will soon become the driving force. These clients, familiar with traditional media and measurement, will not only need smart partners but useful tools. The fragmentation, the atomization of the players and functions in the digital advertising industry, require constant attention and re-education by even experienced veterans

What will clients do? How will they cope?

Bottom line, the CMO at a brand marketer will still be driving this bus. They determine how much budget goes into digital, but the balance of the work is left to the agency or media management firm or the media owner. Today, these CMOs need to know the price differential between the primary tier and the tertiary tier. What about the components of the secondary tier, how do they weigh one versus another? Are certain content categories better for certain brands, as is true in other media, or are there meaningful, enduring distinctions? Well, for most of these questions, the answer is not available. But now the SQAD WebCosts trend line on Display CPMs in the major content categories is available, and is instructive:



Summary

How the digital industry responds to the key challenges will be critical in bringing brand advertisers onboard. Here are some key steps to start with:

- Change the perception of “infinite inventory” to one of boundless opportunity. Provide and support industry cost databases, on all tiers of the market, so that current and future clients can evaluate the market on their terms. This will require a critical mass of contributors – from agencies and clients, both large and small. Think of the tools and information available underlying global financial and energy markets as a start, but recognize that negotiation and high touch relationships in digital advertising are more the norm than not.
- Recognize and correct the costly and flawed ad operations workflow. An industry cost database, along with richer data on audience and internet ad spending, will reduce the sales cycles and the effort planners and buyers have to commit to just getting basic data. More industry data will free up time and expertise to more effectively plan and enable insightful analytics, and thus more strategic buying for the marketer.

When brand marketers can see cost and category trends, on an ongoing basis, they won’t need someone at the table explaining the complex maps and workload and costs associated with different buying strategies. As well, agency and sales teams can conceive and package specialized programs that may only be apparent because industry trends revealed them. With an industry focused on planning, execution and results the client can increase their commitment to digital as part of their successful media mix.

It’s time to make digital easier to understand, easier to plan and easier to buy. So, take a breath. You can do it!

About the Author: Leo Scullin is a Partner at Arkose Consulting LLC of New York, a firm that offers strategic, tactical and management guidance to clients seeking to leverage their interactive marketing investments and initiatives. Leo is also a co-founder of ASOC8, Inc. (ad verification) and prior to that was the overseeing measurement and guidelines at the IAB. He has extensive experience in internet professional services, as well as deep expertise in launching and positioning online and traditional media. lscullin@arkoseconsulting.com