WHITE PAPER

Forward Markets 2013–2018: Moving Direct Display Ad Sales onto the RTB Platform

Sponsored by: The Trade Desk

Karsten Weide
March 2014

IDC OPINION

The adoption of real-time bidding (RTB)-based forward markets is inevitable for both ad agencies and publishers to remain commercially viable. Forward markets enable them to move inefficient direct ad trades and ad operations onto an automated platform while still fulfilling their basic needs, such as agencies' need of planning certainty. By applying RTB technology, forward markets automate, integrate, and optimize the trade and delivery of display advertising inventory, which today is in large part still manual and hugely inefficient, thereby reducing costs and possibly increasing revenue and improving return on investment (ROI). IDC also finds:

- The adoption of forward market trades of premium display ad inventory is advancing more quickly than expected. IDC predicts continuing strong growth for RTB-based premium ad sales over the next five years. Total worldwide spending will grow at a CAGR of 128% from a mere $230 million in 2013 to $14.2 billion in 2018.

  The United States is by far the most important premium RTB market in the world. Spending on forward markets will grow by a CAGR of 113% from $211.8 million in 2013 to $9.4 billion in 2018. RTB-based sales of premium inventory will increase its share of total premium display ad sales (including online banners, online video, and mobile display) from 2% in 2013 to 38% in 2018. In 2018, absolute traditional sales dollars will decline for the first time.

  Online premium display ads will be the major contributor to total RTB-based forward market trades in the United States. However, mobile premium display ads will quickly catch up to online ads to near parity as the overall market share of mobile advertising expands at the expense of online display ads. At 235%, its 2013–2018 CAGR will be twice as high as online's (83%). It is obvious that longer-term (i.e., five-plus years out) mobile premium RTB spending will overtake online spending.

- Even in 2018, when other geographies will have had time to catch up, the United States will still stand for about two-thirds of worldwide spending and will be more than 10 times as big as the next biggest discrete market, Japan. Besides Japan, the United Kingdom, Germany, and France are the other second-tier markets. China will catch up to join the existing second-tier markets by 2018, overtaking France in terms of total premium RTB spending and getting ready to take over Germany in the year after.

- For publishers, there is no alternative to adopting RTB in premium ad sales: already, agencies increasingly demand RTB-based trading, which is boosting Google's and Facebook's sales while depressing those of traditional new media publishers such as Yahoo! and *The New York Times.* Our interviews with industry executives indicate that in the short term, average effective cost-per-mille (eCPM) rates for premium display ad inventory will be lower by about 25% than in traditional direct sales. Therefore, it will be key for publishers to lower expenses to ultimately realize the higher return on investment that RTB makes possible. However, in the midterm to long term, eCPMs may well increase again as the average number of ads per page decreases and segmentation and ad effectiveness continue to improve.
- For ad agencies, the adoption of premium RTB trades is a no-brainer. However, agency executives reported the following pain points when adopting RTB-based forward market trades. One, they need more transparency and control than is currently offered by RTB vendors in terms of media allocation and tracking, Two, they need more flexibility with regard to creative possibilities. Three, at least for now, they require more human support with regard to setting up and running campaigns. Finally, agencies want more standardized, simpler ways to draft forward contracts and to track their fulfillment, including whether or not guarantees are being met, and automated processing of penalties.

METHODOLOGY

This white paper analyzes the business aspects of so-called RTB-based "forward markets." Forward markets enable the trade of "premium" display advertising inventory, which will become available only in the future using real-time bidding platforms and which is traditionally sold directly in a human-to-human interaction. (Various other terms used for these transactions are guaranteed upfronts, premium RTB, programmatic direct, programmatic guaranteed, programmatic premium, programmatic reserve, and programmatic upfront trade).

RTB is defined as any trade of advertising inventory on an ad exchange platform on an impression-by-impression basis as each impression becomes available on a publisher's Web site (in real time). In the past, this exclusively referred to ad hoc, spot market, and indirect sales of remnant inventory. In the case of the newly introduced forward markets, the publisher and the ad agency agree on the terms of a media campaign in advance, but the actual physical purchase of each impression still takes place in real time.

RTB is a technologically advanced version of programmatic trading. IDC defines "programmatic trading" as any trading of display advertising inventory that is transacted through a software program or platform (i.e., an advertising exchange) and trades inventory in buckets of 1,000 impressions or multiples thereof (i.e., not in real time). In other words, any RTB transaction is also a programmatic transaction, but not every programmatic transaction is also an RTB transaction.

This white paper estimates past and current spending on forward markets–based sales of display advertising and forecasts spending until the year 2018 for the United States, Germany, France, the United Kingdom, and Japan.

Information in this document has been sourced from:

- Interviews with 20 digital advertising executives in the United States, the United Kingdom, Germany, and France (Interview participants mainly represented major ad agencies as well as some publishers, ad exchanges, demand-side platforms [DSPs], and supply-side platforms [SSPs].)
- Existing IDC research
- Other publicly available information

The model that generated the RTB data in this document employed the following methodology:

- The model established total display advertising spending based on preliminary data from IDC's *Worldwide New Media Market Model, 2H13: Worldwide and U.S. Data* (forthcoming). The New Media Market Model (NMMM) provides historical numbers for 2009–2013 and a forecast for 2014–2018.
- The model estimated direct versus indirect sales for both online and mobile display advertising as well as online video advertising based on ComScore numbers.
- For each of these channels, the model first estimates the share of programmatic trading (based on primary research on the volume of impressions and revenue of the various ad exchanges) and then estimates the share of RTB-based transactions within these programmatic trades based on interviews with industry executives.

The underlying RTB model used for this research project is a rewritten version of the RTB model previously used in IDC's research. It replaces the 2013 forecast with actual numbers and expands the forecast to 2018. It also uses more precise source data. Forecasts are slightly lower than in previous versions in some instances because we used more realistic maximum saturation percentages for all segments. Online display RTB ad numbers are somewhat lower than in previous versions because IDC has lowered the forecast for overall display advertising spending (on which RTB numbers are based) because of the dramatic impact of mobile display advertising on online display ad sales.

Note: All numbers in this document may not exact due to rounding.

IN THIS WHITE PAPER

This research document explores in depth the business aspects of so-called "forward market" trades of display advertising inventory (i.e., using real-time bidding platforms to sell "premium" inventory). This analysis includes an estimate of current and past spending on forward market–based display ad sales and forecasts spending until the year 2018 for the United States, Germany, France, the United Kingdom, and Japan. Follow lead analyst Karsten Weide on Twitter @KarstenW.

SITUATION OVERVIEW

Forward Market Trading

RTB-based forward markets are a new offer from vendors (especially SSPs and ad exchanges) to publishers, allowing them to move inefficient direct sales and ad operations onto an automated platform. Forward markets enable contracts between the parties to buy or sell, respectively, display advertising inventory with certain predefined characteristics at a certain future time at a price agreed upon, and paid for, today. This new application of real-time bidding technology is in contrast to most of the usage of RTB in the past, where it was almost exclusively used for spot market trades of inventory delivered, and paid for, today.

By applying RTB technology, forward markets automate, integrate, and optimize the trade and delivery of display advertising inventory, which today is still mostly sold in traditional direct sales transactions. The goal is to improve the return on investment both for buyers (advertisers and ad agencies) and for sellers (publishers) by optimizing a process that is in large part still manual and hugely inefficient, thereby reducing costs and possibly increasing revenue, ultimately resulting in higher profitability.

The current traditional direct sales and ad operations workflow is extremely inefficient and therefore slow, inflexible, error prone, and expensive. The average display ad campaign can consist of anywhere between 40 and 60 steps. Media planning — that is, determining where a campaign will physically run — requests for proposals, offers, reporting, and optimizing are in large part still manual tasks, which slows down the process and introduces errors, which then have to be corrected at great expense in time and money. The result is high overhead costs. About 20% of media budgets go toward purposes that are not related to media and data purchases. What's worse, since the process is so inflexible, it does not allow for more than basic targeting.

The upshot of all of this is that tremendous amounts of resources are applied to campaigns, delivering middling results. RTB-based forward markets clean up shop: They automate, integrate, and optimize premium display advertising, which makes the new workflow less labor intensive, faster, more flexible, and more accurate to boot. As a result, both publishers and agencies are able to improve their ROI. What's more, in case studies, both making purchase decisions at the impression level and adding real-time campaign feedback for optimization have been shown to improve ad efficiency by about 20%. Of course, the traditional display ad workflow cannot match this because it is too slow and inflexible.

The Anatomy of Forward Market Trades

In an RTB-based forward market transaction, ad agencies submit electronic RFPs (essentially proposed forward contracts) through DSPs such as The Trade Desk or via SSPs such as The Rubicon Project or directly to publishers. These RFPs contain detailed descriptions of the audience and/or inventory they seek, the budget that is available, and the desired outcomes (key performance indicators [KPIs] to be optimized). Once buyer and seller settle on the conditions to be met in an agreement, it is formalized in a standardized electronic forward contract. Of course, one RFP from an agency or advertiser can result in many forward contracts with different exchanges and other vendors.

They can also require one or more of the following guarantees:

- That the budget available will not be exceeded
- That a certain minimum number of impressions will be served (or addressees reached or contacts per addressee delivered)
- That a certain eCPM ceiling will not be exceeded
- For exceptionally rare or much sought after inventory, that a minimum win rate will be maintained – that is, that of a certain type of inventory, a certain minimum percentage will be delivered to the buyer regardless (This is an interesting option for highly desirable inventory such as in political campaigns or in industries such as automotive, telecommunications, or pharmaceuticals.)

Each contract also defines certain financial penalties in case the seller defaults on the agreed-upon guarantees.

If the buyer and the seller agree on the previously defined guarantees, they enter an electronic contract, and the buyer pays up front for inventory that will be delivered to the buyer only in the future (replicating 1:1 the core features of traditional direct sales of premium inventory but delivering them more efficiently).

When the time comes to fulfill the contract, the seller (either an SSP or a publisher) will fulfill it by running an RTB auction, delivering RTB's advantage of making available the best inventory at the lowest price. With the contract, the buyer receives a so-called "deal ID," a simple number identifying the contract and its guarantees, which makes sure that the contract's guarantees are fulfilled even if there may be competing nonguaranteed bidders with better offers to the SSP.

Even today, publishers' inventory forecasting capabilities are terrible, which will – as is the case now – be the most frequent cause for a seller to default on a forward contract. If a publisher does indeed default on the agreed-upon guarantees, the associated penalties are paid out to the buyer. Forward markets' penalties are the modern form of the traditional true-up: Penalties can be processed automatically, without the need for laboriously and perhaps contentiously negotiating a make good. Indeed, IDC expects penalties to be integrated at some point into the financial calculations campaign management platforms to determine the most efficient possible way of running a campaign, using them as one more signal to maximize ROI for both the agencies and their clients (and the same will happen on the publishers' end).

Private Marketplaces

For both publishers and agencies, private marketplaces (PMs) have played and are still playing an important role in their transition into the automated world of forward market trading. PMs are trading systems for premium inventory that run on RTB platforms but generally offer more control. Run on behalf of publishers by RTB vendors, they are restricted to just one or few publishers and a select set of buyers. From the publisher's point of view, they also offer greater control over pricing and over which advertisers and advertisements are featured on a publisher's site, and from the agency's point of view, also on which sites advertisers' ads run.

PMs were devised by RTB vendors in 2012 as an offer to allow mainly publishers, but also agencies, to stick a toe into the water of automated trading of premium inventory without having to fear drowning.

Both agencies and publishers have successfully done this: Almost all interviewees reported using PMs for buying or selling inventory. They also cited them as an important stepping-stone to trade premium inventory on open platforms.

Our expectation is that PMs will fade once two conditions are met. One, PMs convince publishers and agencies of RTB's benefits for trading premium inventory, and two, forward market platforms offer the kind of transparency and control agencies (and publishers) still require. We expect PMs to fade because the term *private marketplace* is an oxymoron. Marketplaces thrive on liquidity; they need a lot of both supply and demand to function well and arrive at prices reflecting the fair value of the commodity traded. But in a PM, that is not the case. In PMs, both the amount of available inventory and the number of bidders are artificially constrained, thereby reducing competition and the efficient price discovery mechanism of open marketplaces. And indeed, research bears that out for advertising markets as well: Admeta found in a case study that when the number of advertisers that are able to access a PM increases, so do average eCPM rates. In this study, a 50% increase in the number of bidders improved eCPM rates by 41%; 300% more bidders increased average eCPM rates by 221%.

However, based on our agency interviews, we believe that PMs will be around for a while. Agencies realize that PMs are less efficient price- and ROI-wise than forward markets. Interviewees estimate that as of today, eCPMs on PMs are perhaps only 10-15% cheaper compared with direct sales versus the 25% savings one can realize using forward markets. They also admit that the volume of available inventory is much lower than in forward markets, which precludes using PMs from certain campaigns. But agencies also appreciate the fact that they have more control over on what sites their ads run and over what kind of inventory (quality) they receive. Until open premium marketplaces gain agencies' trust, transparency and control will be important enough for some agencies and campaigns to stick with PMs.

The Basis for Forward Markets — Real-Time Bidding

The technological basis for forward market trades is real-time bidding. RTB has found rapid adoption to date largely in the indirect sale of tier 2 inventory ever since it entered the scene in late 2009. The United States has led the development and adoption of RTB, followed by the major markets in Western Europe and Japan.

RTB is the next step in the development of programmatic trading. Programmatic trading has been around for more than a decade, initially offered by ad exchanges such as Right Media and AdECN. It is defined as any display ad inventory trade that is transacted by a software program (i.e., an advertising exchange). RTB builds on top of advertising exchange platforms; in other words, without ad exchanges, there is no RTB, and without RTB, there are no forward markets.

There are two main differences between RTB-based trades of display advertising inventory and programmatic trades. Ad exchanges ordinarily trade inventory in buckets of 1,000 impressions or multiples thereof (because of the tradition of CPM-based ad pricing). RTB on the other hand trades every single impression as it becomes available on a user's device (hence the term *real time*). Also, ad exchanges execute trades by matching fixed asks and bids, just like a stock exchange would. RTB on the other hand auctions them off to the highest bidder. This means the demand side determines the price, not the supply side, and second-by-second fluctuations in the marketplace are priced in as well. (Both publishers and buyers retain a measure of control by being able to set price floors and ceilings, respectively.)

All of this means that every RTB transaction is a programmatic one, but not every programmatic transaction is an RTB-based one. It is important to understand the distinction between the two since there is still a good deal of confusion in the industry regarding the terminology, where some use the two terms synonymously. This becomes evident in the use of such terms as *programmatic guaranteed* and others, which, while correctly implying that these kinds of transactions are ad exchange based, are misleading in the sense that they refer not just to simple programmatic transactions but instead specifically to ones based on real-time technology (refer back to the Methodology section).

On the buy side, ad agencies tap into the RTB ecosystem either through their own so-called trading desks (all major conglomerates have their own desks now, such as WPP's Xaxis, Omnicom's Accuen, Publicis' VivaKi, Havas' Adnetik, and Dentsu's AMNET) or through demand-side platforms (DSPs, such as The Trade Desk, DataXu, and Google's Bid Manager [formerly Invite Media]). On the supply side, publishers connect through their own RTB platforms (e.g., the Google DoubleClick Ad Exchange, the Facebook Exchange, or Yahoo!'s Right Media Exchange) or through supply-side platforms (SSPs, such as The Rubicon Project or PubMatic), which aggregate inventory. Buyers and sellers trade either with each other directly or through ad exchanges (such as AppNexus, Google's DoubleClick Ad Exchange, and OpenX, to name a few). Data marketplaces such as BlueKai and Acxiom offer third-party data to supplement publisher and advertiser data to make targeting more accurate. (Several of these vendors are not pure-plays but provide more than one function.)

Using RTB in direct premium display ad inventory sales is the latest phase in a development that first saw programmatic trading replace ad network–based indirect sales of tier 2 inventory (formerly called remnant inventory) and then saw RTB replace programmatic trading for that purpose. Now, as we have described previously, RTB is about to break into direct sales as well.

Digital Attribution and Its Impact on Forward Market Adoption

Premium RTB campaigns, whether they are run through forward markets or private marketplaces, share one shortcoming with the traditional display ad model: They do not have a direct feedback loop that could be used to fine-tune the campaign on the fly as it progresses and bid on certain types of impressions.

This is opposed to the use of RTB in direct response campaigns often solely using tier 2 inventory. In those campaigns, readily available metrics such as click-through rate, conversion rate, or even sales rates allow collecting hard, objective data on the performance of a campaign, which can then be used for campaign optimization, in terms of both which impressions to bid on and how much to bid.

For brand campaigns, that is more difficult to realize because the typical metrics tied to them — brand recognition, brand liking, purchase intent, sales numbers — are not as easily measured by RTB platforms.

However, digital attribution companies such as Marketplace, Visual IQ, and ClearSaleing may change that. Digital attribution is a new type of technology that aims at measuring key performance indicators related to brand campaigns in real time ("attributing" the effects of a campaign to its elements). Most of these entrants offer feedback only on digital campaigns (hence "digital attribution"), usually across several ad formats, but some also offer attribution for cross-media campaigns.

This technology in theory provides on-the-fly feedback on the effectiveness of a campaign, which could be used to inform RTB buyers about what kind of inventories to bid on and how much to bid. In practice, these platforms are still in their infancy. There are two major hurdles to overcome:

- The question of which parts of a campaign contribute how much to an eventual sale (or whatever metric an advertiser chooses) is a black box (i.e., prima facie, nobody knows). Some vendors employ a so-called "rule based" approach, in which they attempt to divine the workings of a campaign by manually devising rules (in a more-art-than-science approach); others use a more scientific "multivariate statistical" approach.
- Any attribution project requires a mainly manual and therefore laborious integration with a large number of IT systems run by the RTB platform, the agency, and the advertiser. This puts into question the practicability of attribution at this point in time.

So at this point, it is fair to say that attribution platforms are not quite ready to be used routinely at scale for premium RTB campaigns. But it is also clear that it is only a matter of time until they are and that once they are, it will lead to a collapse of the traditional display advertising model including direct display ad sales save those campaigns that require human intervention.

Forward Markets and Advertising Agencies

In digital brand marketing, the top needs of advertisers are threefold: One, they need a 100% guarantee that their campaigns will run at a precise, scheduled point in time. Two, they require that their campaign will be effective, that is, it will create the effect the advertiser is looking for (usually an increase in sales). And three, that all of this is accomplished economically, that is, the campaign is financially efficient.

Today, that need is filled by advertisers (or ad agencies, acting on their behalf) buying so-called "premium" display advertising inventory directly from publishers. These direct sales typically still take place as if somebody bought ad space in a newspaper a century ago. It is essentially a person-to-person interaction, in which a salesperson contacts a potential buyer, offering his/her wares, and possibly, eventually the buyer and the seller agree on a sale of advertising inventory. Once a deal is struck, the campaign is trafficked, and its results are reported back to the client. Both running and tracking the campaign are also to a large extent still performed manually.

Compared with this traditional display advertising workflow, a fully scaled forward market offers a lot of advantages to ad agencies and advertisers:

- **Planning certainty:** Agencies enjoy a guaranteed 100% book-to-run ratio, just as they do in traditional direct sales.
- **Better guarantees:** Forward contract guarantees better protect the buyer because straightforward penalties, agreed upon in advance, are attached to them. Defaults on forward contracts trigger the payout; no negotiation is required, and it is even possible to pay out penalties automatically. This is opposed to traditional sales, where if the seller defaults, the parties must then go through a complicated and laborious process of negotiating a make good after the fact.

- **Operational cost reduction:** Traditional display advertising is expensive, slow, and error prone since a lot of human labor and human interaction is involved in a workflow that is poorly integrated and automated. To begin with, RTB-based purchases of premium inventory are perceived by agencies to be faster and more convenient. As one U.K. agency executive put it in our interview: "You buy what you want and when – it saves time. As the buyer, you have control over the process and do not get swayed or distracted by salespeople's fibs or glossy talking up of the medium." But of course, the advantages go far beyond that: RTB allows for the automation, integration, and optimization of the value chain. Costs are reduced by making the workflow faster, more flexible, and less error prone. This includes the fact that RTB platforms allow the agency to consolidate the management of inventory from different sources into one dashboard. And what's more, tasks such as media planning, reporting, and campaign optimization, which require a lot of human labor, can be automated, and the head count can be reduced.
- **Better price discovery mechanism and cheaper prices:** Traditional display advertising does not allow for an open, transparent, and liquid marketplace, with the consequence that CPM rates are largely controlled by the publisher. The publisher's "premium inventory" offer is essentially a way of telling the agency: "We are asking you to pay extra dollars for this inventory because we tell you that it is inventory that will perform well." But there is no guarantee for that, and there is no direct feedback loop that would allow adjusting prices based on the actual performance of the inventory.

  RTB-based forward markets are open, transparent, and liquid both in terms of supply and demand. They create a more competitive and therefore more efficient marketplace, a workflow that allows for impression-level purchase decisions and live performance feedback, all of which reduces inventory prices to their true value. Ad agency executives told us in our interviews that eCPM rates for RTB-based forward market campaigns are currently about 25% lower on average than in traditional sales for the same kind of inventory (even though there is the occasional campaign in which eCPMs are higher than they would have been in traditional sales).
- **Better campaign effectiveness:** Thanks to the use of data, targeting, and therefore advertising effectiveness, is better on RTB platforms than in the traditional display ad model. This is true even in those cases where eCPM rates are higher than they used to be in the traditional display advertising model. Ad rates may be higher in cases where demand is greater than supply or where targeting data are expensive, yet campaign ROI would still be better because the return from the increased ad effectiveness would more than make up for the increase in costs. Data on user interests can be sourced from the advertisers themselves, from publishers, or from data marketplaces such as BlueKai and Acxiom (third-party data).

  This increase in effectiveness in essence allows agencies either to sell advertisers a better product at the same price (and enjoy better sales competitiveness) or to sell them a better product at a higher price (and enjoy a better top line and ROI).
- **Better ROI:** All in all, reduced costs and possibly higher revenue will lead to better ROI, that is, profitability. Some agency executives estimated ROI was better by about 15% using forward markets versus the traditional display ad model.

Forward Markets and Publishers

Just as ad agencies have been eager to move more brand campaigns into RTB-based forward markets, many publishers have been hesitant to offer their directly sold, high-priced inventory on RTB platforms. Where today they largely control pricing through their rate cards, they would then cede some pricing control to the market – which of course includes the interplay of supply, demand, and performance.

As we have pointed out previously, our interviews with ad execs indicated that eCPMs currently can be expected to be about 25% lower than they are in direct sales. These lower prices are largely caused by the number of ads today that are ineffective and yet priced highly, a fact that the better-functioning forward market makes apparent to buyers and sellers. Yet, it may well be that eCPMs will over time increase again. The market will reduce the number of ads per page over time and reduce the number of ads that are not likely viewable. Coupled with the confidence brought by market-driven pricing in forward markets and better segmentation, this may translate into higher CPMs in the future. But even now, there will undoubtedly also be times when prices will go up significantly compared with their levels in traditional ad sales. The forward market will have massively higher levels of segmentation than publishers support today, and that allows for pockets of inventory to clear at much higher prices. Voters during an election, video ads during the Super Bowl, sports inventory during the World Cup, and ads during holiday seasons are all examples where inventory will likely clear for higher prices because of the improved segmentation and market-driven decisioning in the programmatic forward market.

One can hardly blame publishers for not wanting to lose control, not knowing beforehand which impact the RTB-based forward market will have on prices. And yet, IDC suggests that they still need to embrace RTB-based forward markets for two reasons.

One, RTB-based forward market trades will help publishers improve their ROI by reducing costs via automating, integrating, and optimizing their workflow. This is because the improved efficiency of RTB-based trades will more than offset the lower inventory yield that will typically go with these trades. In other words, even though revenue per unit of inventory may decline, the cost to produce and sell that unit of inventory declines even more, which increases profitability.

Two, to begin with, forward market platforms can be integrated with existing sales and CRM systems, at which point they simply become very advanced sales tools for the publisher's sales staff. But beyond that, RTB would eventually allow reducing the size of that sales force, reaping significant savings on the cost side. To understand just how significant such savings could be, consider this: When one compares the financial performance of a traditional new media publisher such as Yahoo! with newer entrants such as Google, one can readily see that the latter generates about three times as much revenue per employee than the former. The reason for this is that as opposed to Google, Yahoo! has to carry a large overhead from its huge sales staff needed to transact direct sales. Eventually, everything that can be automated will be automated. Sales personnel will only be retained where they add value beyond what the RTB platform can provide at less expense than salespeople. This remaining new sales force will have a more complex, interesting, and challenging job since it will deal with nonstandard ad formats, custom executions, native advertising, and cross-media campaigns.

Publishers also benefit from forward market sales in other ways:

- Forward market platforms still allow publishers to select advertisers they are willing to serve and advertisements they are willing to run (brand safety) and to set price floors for specific kinds of inventory.
- An open market also means that publishers will see demand (i.e., clients and revenue) that they were not able to access in the traditional display model. Increased competition between bidders will at least support eCPM levels and in some cases will increase rates.

- What will also support or increase ad rates is the fact that agencies will actually know which inventory they receive and what its performance will be rather than just having to trust a publisher's promise. It is an economic fact that when buyers do not know what they are buying, they will discount the price.
- eCPMs will also be supported or increased by the fact that forward markets will increase demand for certain types of inventory.
- By reducing operational costs, forward markets would improve ROI for publishers as well.

Forward Market Adoption Levels

Ad Agencies and Advertisers

Ad agencies — being the principal purchaser of display advertising inventory — are under tremendous pressure to increase sales, reduce costs, and improve ROI, ultimately with the aim to stay in business in a very competitive space. For that reason, given the previously described advantages of RTB-based forward markets, agencies have lately increasingly demanded to be able to buy "premium" inventory used in brand campaigns through RTB platforms in forward market transactions.

Adoption levels across geographies are a repeat of what we saw when RTB was first introduced for the indirect trading of tier 2 (or "remnant") inventory. The United States is clearly in the lead, with Western Europe being about 12–18 months behind. Among the U.S. agencies we interviewed, most have employed RTB-based premium inventory trades anywhere between 6 and 24 months (some of which having gotten their start in private marketplaces), with a couple of holdouts that have not made the move yet at all. In France, Germany, and the United Kingdom, agencies are clearly still at the beginning of the adoption phase. There are some that have used private marketplaces for up to 2 years, but when it comes to forward market trades in particular, the early adopters have used them for a maximum of 6 months, with about half having only just begun to use them now (late 2013, early 2014) or about to use them.

In our interviews, the following subjects emerged as the most important ones when it came to agencies' expectations and needs:

- Agencies need *precise, granular targeting* of the desired audience demographic, the offered audience reaches and frequency, and information on which sites are available. This is mostly because not all advertisers give agencies an "open brief" with flexibility as to how to physically run their campaign. Some agencies complained that "forward markets permit insufficient detail on what ads appear when or where." There is also the need to provide additional metadata about inventory, which will be essential to scaling this business. The recent introduction of metadata such as stat IDs, viewability data, and brand safety scoring, as well as publisher disclosures, is going in that direction.
- Ad agencies also wanted *seamless ways to apply targeting data,* whether they are advertiser or third party provided.
- Ad agencies, when forced to choose, tend to strongly and frequently prefer to use buy-side data over sell-side data. Therefore, it is important for vendors to accommodate both data sets in order to enable better ad efficiency through better targeting.
- Agencies need publishers to *meet the agreed-upon guarantees.*

- Agencies require *accurate delivery* of the promised inventory. A few agency interviewees said they felt some RTB vendors backfilled missing premium inventory with tier 2 inventory. Ad verification specialists such as Integral Ad Science and DoubleVerify could play an important role in establishing the trust that is needed to make forward markets flourish.
- Agencies need the ability to protect their clients' *brand safety.* They need the assurance that advertisements will not run on sites that are inappropriate for the advertiser's brand.
- Agencies want more *transparency and detailed reporting.* One recurring subject was the fact that agencies felt there was not enough transparency and detail in the reports that were offered to them. Where exactly did their ads run? On what sites did the ads run? For each site on which ads were run, on which pages were they run? However, agencies also appreciated that there were in some cases limits as to how much forward market vendors were able to disclose, for the simple fact that some inventory purchased through ad exchanges just did not come with a lot of detail. The reason for this is that the publisher that sold that inventory to the exchange had no interest in disclosing the exact source of it for fear that it would — if it were sold at a lower rate than in direct sales — compete with the ongoing direct sales of identical inventory at a higher price.
- Another issue that agencies were acutely aware of was the fact that with automation comes less *creative flexibility.* One, because automation requires standardization, and two, because the personal relationship between the salesperson and the agency manager that allowed for nonstandard creative solutions, especially across channels and media, goes away. But by IDC's estimate, there will always be 20–30% of campaigns that simply do not lend themselves to being transacted on a software platform.
- Agencies understand that *dynamic ads,* that is, ads that can be custom tailored in real time to each individual user based on that user's interest at the time, are a tool that can increase ad efficiency even more.
- Several agency interviewees mentioned that for some vendors, setting up a contract and following up on it might be just as complicated as drafting one in traditional sales because of the lack of standardization and tracking. For that reason, they were asking for *standardized, simple ways to set up contracts.* A big part of that involved automated tracking of whether guarantees have been met or not and automated processing of penalties. Some agencies saw penalties, often featured as strength of forward contracts, as inflexible and too difficult to set up and track.
- Another topic that emerged was that agencies wanted more *support* in implementing technology, educating agency staff, and executing campaigns from contract to reporting.

Publishers

Despite agency demand, some publishers are resistant to the idea of using RTB for premium display ad sales. They worry that by introducing RTB for the sale of premium inventory, revenue yield would decline (i.e., the amount of revenue they generate against each unit of inventory). The following are publishers' top concerns:

- Publishers know they will *lose price control* to some extent. In traditional sales, publishers largely control pricing by selling through their rate cards off of which they can offer varying degrees of discount. In the open forward markets, supply, demand, and actual inventory performance control price. That's because in an open marketplace, publishers' inventories now have to directly compete with other publishers' offers. In other words, where before the sellers had an advantage because they had more information, now the buyers are better informed and are therefore more powerful.

- Of course, an open marketplace will increase the amount of inventory that is readily available, while demand — although also increasing — will not increase in the same measure, which will put *pressure on eCPM rates.*
- Publishers now own two important assets that drive sales: *client relations* and *brand*. Agencies' trust in publishers, and agencies' perception of publishers' qualities are tied to publishers' names. The concern is that this brand value, often built up over decades, will lose much of its impact once sales are moved onto an automated platform because it commoditizes publishers' offers.

  While some of that is true, interestingly, even agencies that embrace premium RTB feel the need for continuing *human support* — especially during the transition onto the automated platforms, which is fraught with uncertainty for agencies as well.
- Publishers need *brand safety* just as much as advertisers. They need to be able to ensure that no inappropriate advertisements run on their sites, which could damage their brand.

These are valid concerns. In terms of ad prices, IDC believes that in the short term, based on what we heard in our agency interviews, eCPMs will most likely be lower than in the past. In the midterm to long term, however, eCPMs may rise again as the market reduces the number of ads per page over time, as the market gains confidence in market-driven pricing in forward markets, and as better segmentation makes ads more effective.

But the truth is resisting automation will only relegate publishers to lower tiers or render them obsolete. There is no point in trying to stem the tide of display advertising automation when the only option for survival is to ride that tide. Traditional publishers may decide not to offer forward market trading. But others will.

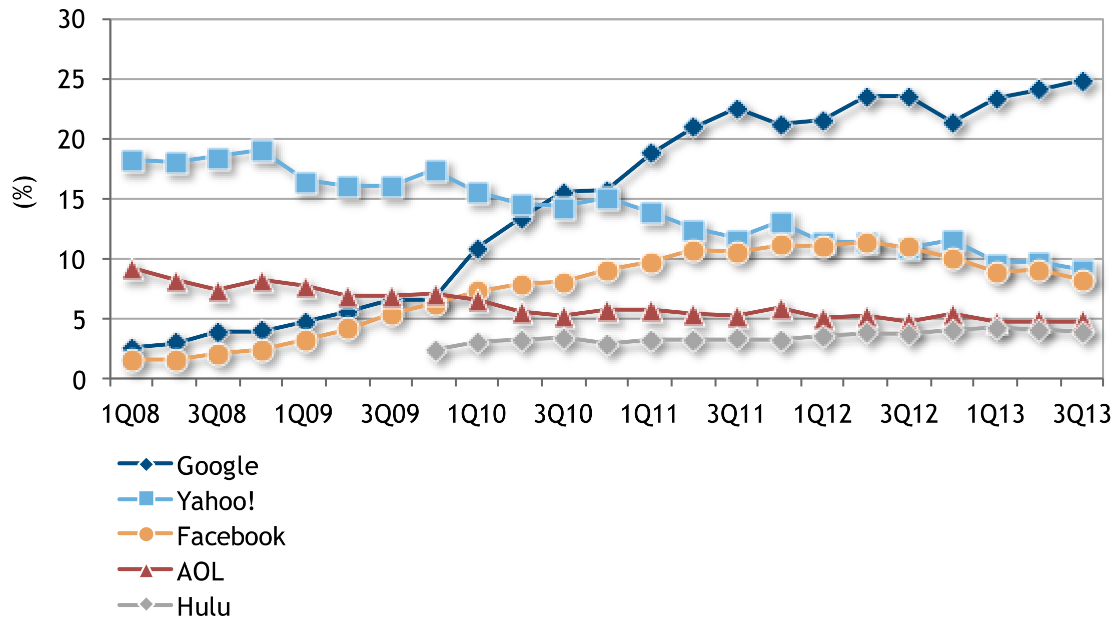
A research project commissioned by OpenX found that in 2013, over 33% of U.S. publishers were already using RTB to trade both remnant and premium inventory, and of those who weren't, 70% were planning on doing so within a year. Another proxy one can use to gauge publisher adoption is the amount of inventory available in forward markets. U.S. agencies told us that while there was little in 2012, the amount tripled in 2013, and they expect supply to double again this year (2014). Agencies also expect that even within the premium RTB segment, inventory quality will continue to improve as publishers extend the use of forward markets up the inventory quality pyramid.

Both Google and Facebook, number 1 and number 2 in the display ad market, offer premium RTB; as a matter of fact, that is a big factor for why they have become market leaders in the first place. Twitter, an infant destined to become a heavyweight fighter, also offers it. Of the biggest three "traditional" new media publishers, both AOL and Microsoft are already adopting premium RTB (AOL has done so in a big way with its upfront event in New York last year [2013]). We expect Yahoo! to join the fold under pressure to improve its financial performance this year (2014). Many smaller players such as ESPN, Glam, Hearst, PopSugar, Stack, and Time Warner also offer forward market trading.

For those publishers that still hesitate, such as Yahoo! and *The New York Times,* the consequences are dire. Yahoo! has continued to lose market share (see Figure 1). And *The New York Times'* Chief Financial Officer James Follo confirmed in the company's 3Q13 earnings call that the "… shift toward ad exchanges, real-time bidding, and all the programmatic buying channels that allow advertisers to buy audiences at scale, including through platforms owned or operated by Google and Yahoo!," put pressure on the top line.

FIGURE 1

U. S. Online Display Advertising Net Revenue Share (Excluding TAC) by Entity, 1Q08–3Q13



Source: IDC, 2014

And things will only get worse for premium RTB holdouts from here: Amazon and eBay have also started to make inventory available through RTB. These are companies that have not only massive amounts of high-quality inventory but also unique data on consumers' interests, which are highly useful for targeting. These are also companies for whom advertising sales are merely a source of incremental revenue, at least at this point. In other words, they can swamp the market with cheap, yet effective inventory sold through RTB. This will make the situation of businesses that rely on direct sales even more untenable. As a matter of fact, Amazon and eBay might even spell trouble for giants like Google and Facebook.

For publishers, this means they must introduce forward markets or risk becoming obsolete. While this may seem a daunting prospect, the reality is that RTB will make publishers more profitable, not less so. eCPM rates may decline, but by automating, integrating, and optimizing their workflow, publishers will save costs to an extent that will improve profitability. RTB is the friend, not the enemy, of publishers.

FUTURE OUTLOOK

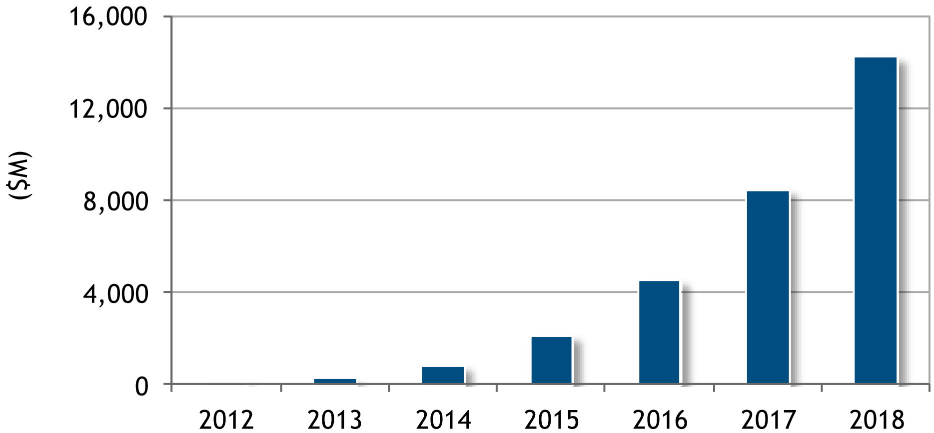
2010–2017 Forward Market Forecast

Worldwide

IDC predicts continuing strong growth for RTB-based premium ad sales over the next five years. Total worldwide spending will grow at a CAGR of 128% from a mere $230 million in 2013 to $14.2 billion in 2018 (see Figures 2 and 3 and Table 1).

FIGURE 2

Worldwide RTB-Based Premium Display Ad Sales, 2012–2018

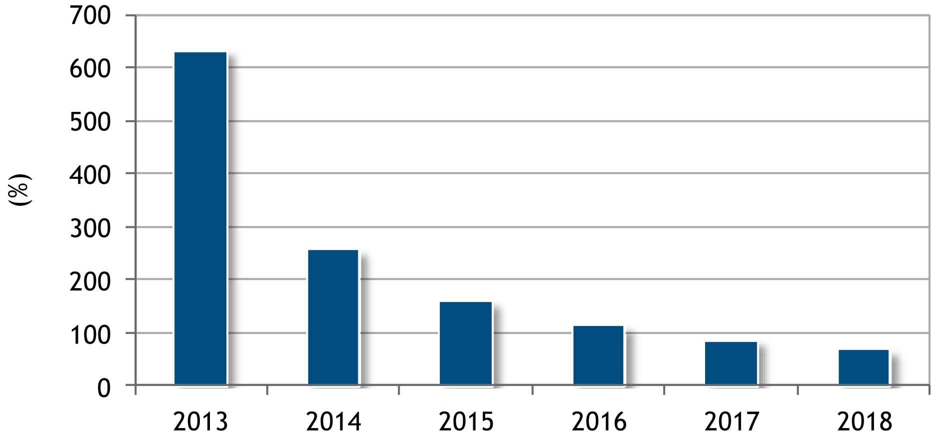


Note: Data includes online display ads, online video ads, and mobile display ads (including video).

Source: IDC, 2014

FIGURE 3

Worldwide RTB-Based Premium Display Ad Sales Year-Over-Year Growth, 2013-2018



Note: Data includes online display ads, online video ads, and mobile display ads (including video).

Source: IDC, 2014

TABLE 1

Worldwide RTB-Based Premium Display Ad Spending by Region, 2012-2018 ($M)

	2012	2013	2014	2015	2016	2017	2018	2013–2018 CAGR (%)
United States	31.5	211.8	674.9	1,599.8	3,225.7	5,759.4	9,369.3	113.4
Growth (%)	NA	573.0	218.7	137.0	101.6	78.5	62.7	
Canada	–	1.9	11.9	34.7	75.5	138.6	226.4	161.4
Growth (%)	NA	NA	543.2	190.7	117.7	83.6	63.3	
France	–	2.1	13.1	39.5	95.2	190.7	364.1	180.5
Growth (%)	NA	NA	523.2	202.0	141.2	100.3	91.0	
Germany	–	3.1	19.7	59.6	138.8	275.1	491.8	175.8
Growth (%)	NA	NA	539.5	202.4	132.6	98.2	78.8	
United Kingdom	–	4.4	32.0	97.1	218.9	418.0	719.4	176.7
Growth (%)	NA	NA	622.0	203.3	125.3	91.0	72.1	
Rest of Western Europe	–	–	10.7	69.8	204.4	457.6	868.0	NA
Growth (%)	NA	NA	NA	554.8	192.8	123.8	89.7	

TABLE 1

Worldwide RTB-Based Premium Display Ad Spending by Region, 2012-2018 ($M)

	2012	2013	2014	2015	2016	2017	2018	2013–2018 CAGR (%)
Russia	–	–	1.3	9.2	27.8	64.6	126.6	NA
Growth (%)	NA	NA	NA	601.5	202.6	132.5	95.9	
Rest of Central and Eastern Europe	–	–	1.2	8.3	25.2	59.8	120.4	NA
Growth (%)	NA	NA	NA	591.2	204.5	137.3	101.4	
Middle East and Africa	–	–	–	0.5	4.2	16.0	43.0	NA
Growth (%)	NA	NA	NA	NA	676.9	278.9	168.0	
Japan	–	7.0	42.4	118.3	251.7	453.6	734.1	153.7
Growth (%)	NA	NA	506.7	178.8	112.8	80.2	61.9	
Australia	–	–	2.5	16.1	44.7	91.0	152.8	NA
Growth (%)	NA	NA	NA	535.7	177.7	103.8	67.9	
China	–	–	4.6	34.3	107.9	252.9	484.5	NA
Growth (%)	NA	NA	NA	652.1	214.8	134.3	91.6	
Rest of Asia/Pacific (excluding Japan)	–	–	3.9	27.4	86.6	199.9	382.8	NA
Growth (%)	NA	NA	NA	607.3	216.0	130.8	91.5	
Brazil	–	–	0.6	4.2	12.4	28.8	55.8	NA
Growth (%)	NA	NA	NA	579.7	198.3	131.8	93.5	
Rest of Latin America	–	–	0.6	3.9	11.6	27.3	54.1	NA
Growth (%)	NA	NA	NA	598.9	197.9	135.8	98.2	
Worldwide	31.5	230.3	819.4	2,122.7	4,530.6	8,433.4	14,193.3	128.0
Growth (%)	NA	631.7	255.8	159.0	113.4	86.1	68.3	

Note: Data includes online display ads, online video ads, and mobile display ads (including video).

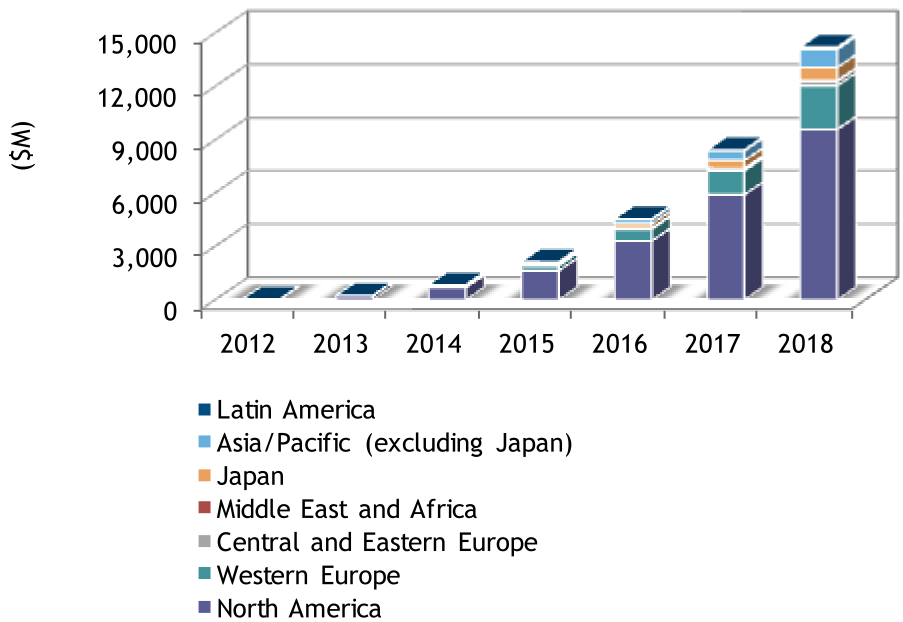
Source: IDC, 2014

By far, the biggest contributor to that spending will be the United States (see Figure 4), even if international growth rates will be much higher than growth rates in the United States. Even in 2018, when other geographies will have had time to catch up, the United States will still stand for about two-thirds of worldwide spending and will be more than 10 times as big as the next biggest discrete market, Japan. Besides Japan, the United Kingdom, Germany, and France are the other second-tier markets.

China will catch up to join the existing second-tier markets by 2018, overtaking France in terms of total premium RTB spending and getting ready to take over Germany in the year after. Other regions, including APEJ, remain relatively small during the forecast period. Beyond the forecast horizon, the APEJ region, and in particular China, will gain premium RTB market share quickly.

FIGURE 4

Worldwide RTB-Based Premium Display Ad Sales by Region, 2012–2018



Note: Data includes online display ads, online video ads, and mobile display ads (including video).

Source: IDC, 2014

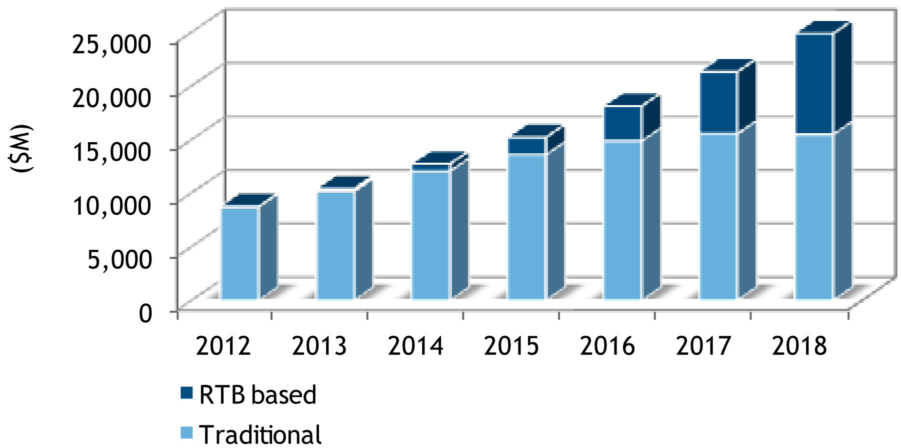
United States

The United States is and will remain for the entirety of our forecast period by far the most important premium RTB market in the world (as described previously). Spending on forward markets will grow by a CAGR of 113% from $211.8 million in 2013 to $9.4 billion in 2018.

RTB-based sales of premium inventory will increase its share of total premium display ad sales (including online banners, online video, and mobile display) from 2% in 2013 to 38% in 2018 (see Figure 5). The biggest surprise in our research project was that the 2013 RTB-based share of total premium ad sales (i.e., counting both traditional sales and RTB sales) was twice as big as we had expected (in our 2013 forecast, we had predicted a 1% market share), which indicates a quicker adoption by the industry than anticipated. If one just looks at online display ads, excluding online video ads and mobile display ads, the share of premium ads that are being traded on RTB platforms will increase even more dramatically: from 3% in 2013 to 45% in 2018. In other words, by the end of 2018, nearly half of all premium online display ads proper will be traded using RTB.

FIGURE 5

U.S. RTB-Based and Traditional Premium Display Ad Sales, 2012-2018



Note: Data includes online display ads, online video ads, and mobile display ads (including video).

Source: IDC, 2014

Because traditional sales will continue to grow in absolute terms to 2017, the true impact of RTB-based premium ad sales will be somewhat masked. But by 2018, it will be obvious that a revolution is taking place. In that year, absolute traditional sales dollars will decline for the first time, at which point reductions in sales forces will be inevitable.

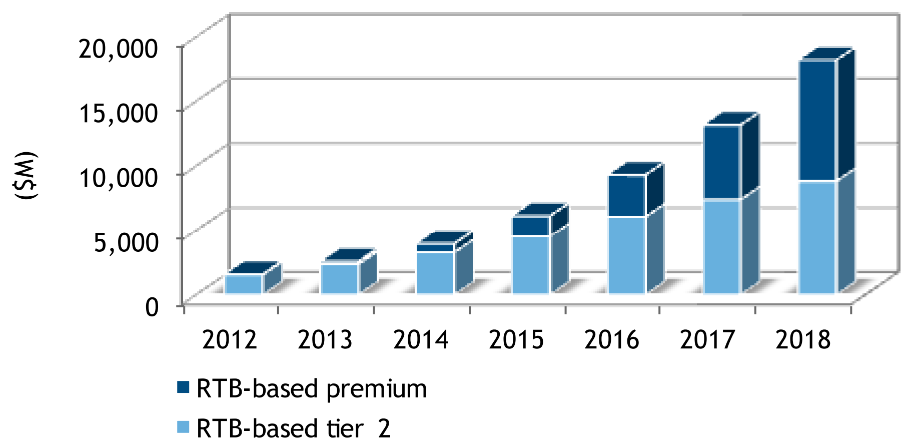
So far, real-time bidding has been the domain of indirect sales of tier 2 inventory. However, as RTB branches out into premium ad sales, that will change very quickly. In 2013, about 8% of all RTB-based trades (in revenue) were sales of premium inventory. But by 2018, that share will skyrocket to 51%. Forward markets' growth rates will be multiples of those of RTB-based tier 2 sales. By 2016, premium RTB sales will add more new spending to total RTB spending than RTB-based tier 2 sales. And in 2018, RTB-based premium sales will overtake tier 2 sales (see Figure 6).

Online premium display ads will be the major contributor to total RTB-based forward market trades in the United States during the forecast period. However, mobile premium display ads will quickly catch up to online ads to near parity as the overall market share of mobile advertising expands at the expense of online display ads. At 235%, its 2013-2018 CAGR is twice as high as online's (83%). It is obvious that longer-term (i.e., five-plus years out) mobile premium RTB spending will overtake online spending.

Premium online video advertising will contribute only about half as much revenue as premium online display by the end of the forecast period, but its 2013-2018 CAGR is significantly higher than online display's at about 179% (see Figure 7 and Table 2).

FIGURE 6

U.S. RTB-Based Premium and Tier 2 Display Ad Sales, 2012-2018

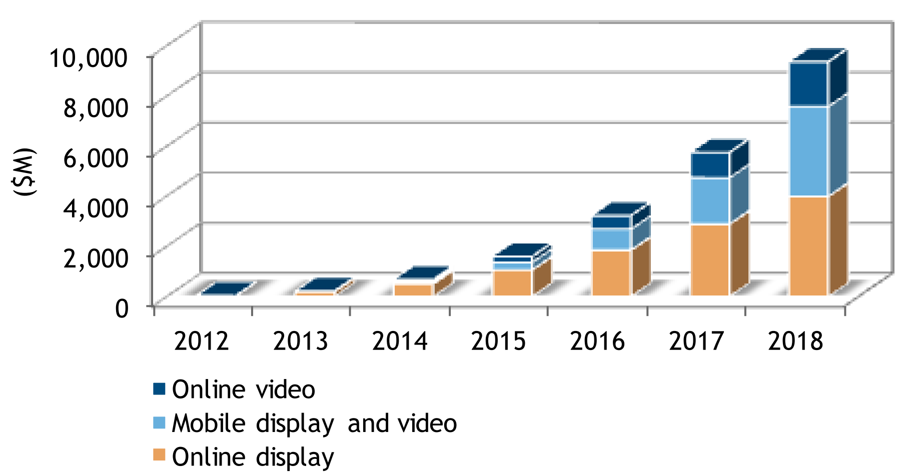


Note: Data includes online display ads, online video ads, and mobile display ads (including video).

Source: IDC, 2014

FIGURE 7

U.S. RTB-Based Premium Display Ad Sales by Format, 2012-2018



Source: IDC, 2014

TABLE 2

U.S. Total Premium Display Ad Sales and RTB-Based Premium Display Ad Sales, 2012–2018 ($M)

	2012	2013	2014	2015	2016	2017	2018	2013–2018 CAGR (%)
RTB-based premium display ad sales								
Online display	31.5	192.8	511.8	1,061.2	1,853.9	2,884.2	3,994.4	83.3
Growth (%)	NA	512.8	165.4	107.4	74.7	55.6	38.5	
Online video	–	10.4	77.1	231.3	533.4	1,026.5	1,775.4	179.3
Growth (%)	NA	NA	638.3	199.9	130.6	92.5	73.0	
Mobile display and video	–	8.5	86.0	307.2	838.5	1,848.7	3,599.5	235.1
Growth (%)	NA	NA	908.8	257.3	172.9	120.5	94.7	
Subtotal	31.5	211.8	674.9	1,599.8	3,225.7	5,759.4	9,369.3	113.4
Growth (%)	NA	573.0	218.7	137.0	101.6	78.5	62.7	
Total premium display ad sales	8,729.3	10,361.3	12,709.5	15,202.4	18,118.9	21,309.9	24,869.1	19.1
Growth (%)	NA	18.7	22.7	19.6	19.2	17.6	16.7	

Note: Data includes online display ads, online video ads, and mobile display ads (including video).

Source: IDC, 2014

Western Europe

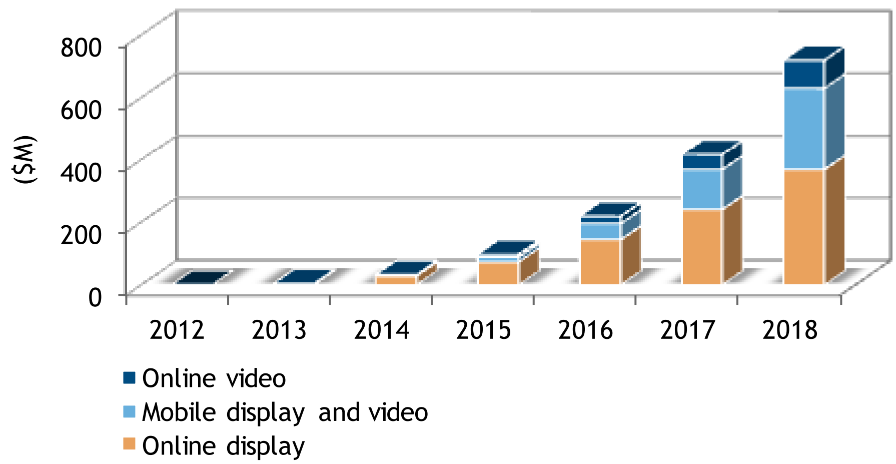
Development of RTB premium sales in Western Europe will be more muted. All in all, the three major markets, namely the United Kingdom, Germany, and France, will lag behind the United States about 18–24 months in penetration, depending on which country and which subsegment one looks at.

The United Kingdom will be fairly far ahead of Germany and France for a number of reasons. For one, digital advertising in the U.K. market is more advanced generally; there is more display ad spending, and both digital ad technology and culture are more developed. What's more, since the United Kingdom is culturally closer to the United States and speaks the same language, U.S. RTB vendors — which will be the major providers of such technology — will focus on this market first and will find faster adoption as well. Since total RTB spending is a function of the preceding, its deployment in the United Kingdom will lead the major continental markets.

Spending on forward markets in the United Kingdom will grow by a CAGR of 177% from $4.4 million in 2013 to $719 million in 2018. Germany's forward markets will expand by a CAGR of 176% from $3.1 in 2013 to $492 million in 2018. France's premium RTB spend will increase by a CAGR of 180% from $2 million in 2013 to $364 million in 2018 (see Figures 8–10 and Tables 3-5).

FIGURE 8

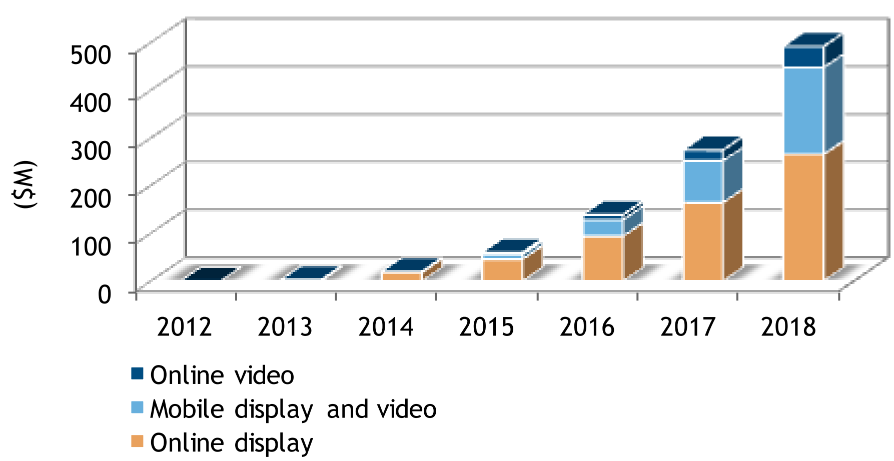
U.K. RTB-Based Premium Display Ad Sales by Format, 2012-2018



Source: IDC, 2014

FIGURE 9

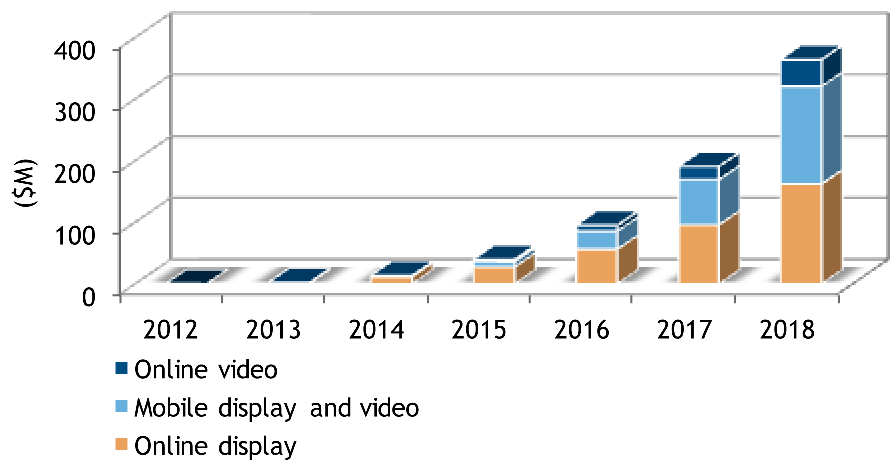
Germany RTB-Based Premium Display Ad Sales by Format, 2012-2018



Source: IDC, 2014

FIGURE 10

France RTB-Based Premium Display Ad Sales by Format, 2012-2018



Source: IDC, 2014

TABLE 3

U.K. Total Premium Display Ad Sales and RTB-Based Premium Display Ad Sales, 2012-2018 ($M)

	2012	2013	2014	2015	2016	2017	2018	2013–2018 CAGR (%)
RTB-based premium display ad sales								
Online display	–	4.4	29.2	73.5	144.9	240.9	369.4	142.2
Growth (%)	NA	NA	558.9	151.5	97.1	66.3	53.3	
Online video	–	–	1.2	8.2	22.9	49.0	88.8	NA
Growth (%)	NA	NA	NA	604.1	179.7	114.1	81.2	
Mobile display and video	–	–	1.6	15.4	51.1	128.2	261.2	NA
Growth (%)	NA	NA	NA	843.1	231.0	150.7	103.8	
Subtotal	–	4.4	32.0	97.1	218.9	418.0	719.4	176.7
Growth (%)	NA	NA	622.0	203.3	125.3	91.0	72.1	
Total premium display ad sales	1,167.1	1,342.2	1,690.7	1,997.0	2,297.2	2,619.1	2,988.5	17.4
Growth (%)	NA	15.0	26.0	18.1	15.0	14.0	14.1	

Note: Data includes online display ads, online video ads, and mobile display ads (including video).

Source: IDC, 2014

TABLE 4

Germany Total Premium Display Ad Sales and RTB-Based Premium Display Ad Sales, 2012–2018 ($M)

	2012	2013	2014	2015	2016	2017	2018	2013–2018 CAGR (%)
RTB-based premium display ad sales								
Online display	–	3.1	18.2	46.0	94.0	164.2	265.9	143.8
Growth (%)	NA	NA	490.1	152.8	104.3	74.7	61.9	
Online video	–	–	0.5	3.6	10.4	23.1	44.2	NA
Growth (%)	NA	NA	NA	588.3	188.3	122.2	91.5	
Mobile display and video	–	–	1.0	10.0	34.4	87.8	181.8	NA
Growth (%)	NA	NA	NA	901.6	242.6	155.4	107.0	
Subtotal	–	3.1	19.7	59.6	138.8	275.1	491.8	175.8
Growth (%)	NA	NA	539.5	202.4	132.6	98.2	78.8	
Total premium display ad sales	736.2	851.8	1,003.0	1,213.3	1,436.2	1,684.3	1,977.7	18.3
Growth (%)	NA	15.7	17.8	21.0	18.4	17.3	17.4	

Note: Data includes online display ads, online video ads, and mobile display ads (including video).

Source: IDC, 2014

TABLE 5

France Total Premium Display Ad Sales and RTB-Based Premium Display Ad Sales, 2012–2018 ($M)

	2012	2013	2014	2015	2016	2017	2018	2013–2018 CAGR (%)
RTB-based premium display ad sales								
Online display	–	2.1	11.7	27.6	56.4	96.0	162.4	138.7
Growth (%)	NA	NA	456.0	137.0	104.1	70.2	69.2	
Online video	–	–	0.5	3.2	9.5	21.2	43.1	NA
Growth (%)	NA	NA	NA	554.4	192.9	123.1	103.2	
Mobile display and video	–	–	0.9	8.6	29.3	73.5	158.6	NA
Growth (%)	NA	NA	NA	840.4	241.2	150.9	115.9	
Subtotal	–	2.1	13.1	39.5	95.2	190.7	364.1	180.5
Growth (%)	NA	NA	523.2	202.0	141.2	100.3	91.0	
Total premium display ad sales	512.1	657.3	759.9	890.2	1,074.0	1,252.5	1,548.3	18.7
Growth (%)	NA	28.4	15.6	17.1	20.7	16.6	23.6	

Note: Data includes online display ads, online video ads, and mobile display ads (including video).

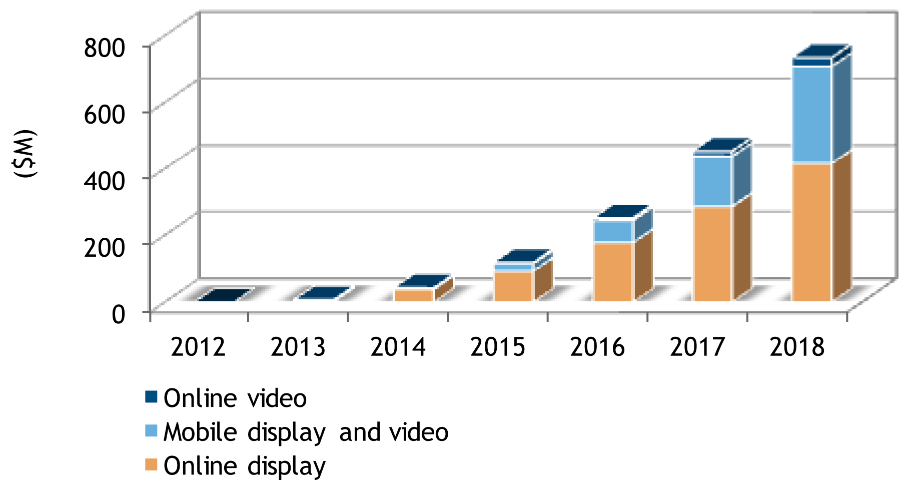
Source: IDC, 2014

Japan

When RTB was first introduced for the sale of tier 2 inventory, Japan was about a year behind Western Europe in terms of deployment, which was in turn about two years behind the United States. But within just the space of one year, Japan caught up to the major European markets. Now, with regard to the use of RTB for the forward market trade of premium inventory, Japan is a little more advanced than even the United Kingdom, with total spending slightly topping the United Kingdom's. IDC expects Japan to remain slightly ahead of the European markets for the remainder of the forecast period (see Figure 11 and Table 6).

FIGURE 11

Japan RTB-Based Premium Display Ad Sales by Format, 2012-2018



Source: IDC, 2014

TABLE 6

Japan Total Premium Display Ad Sales and RTB-Based Premium Display Ad Sales, 2012-2018 ($M)

	2012	2013	2014	2015	2016	2017	2018	2013–2018 CAGR (%)
RTB-based premium display ad sales								
Online display	–	7.0	39.1	93.2	178.6	286.4	417.1	126.5
Growth (%)	NA	NA	459.6	138.3	91.5	60.4	45.6	
Online video	–	–	0.4	2.7	7.3	15.0	26.2	NA
Growth (%)	NA	NA	NA	540.5	169.4	105.6	74.5	
Mobile display and video	–	–	2.9	22.3	65.8	152.2	290.9	NA
Growth (%)	NA	NA	NA	678.0	194.6	131.2	91.1	
Subtotal	–	7.0	42.4	118.3	251.7	453.6	734.1	153.7
Growth (%)	NA	NA	506.7	178.8	112.8	80.2	61.9	
Total premium display ad sales	2,386.2	2,189.7	2,363.3	2,591.5	2,793.6	2,992.5	3,200.5	7.9
Growth (%)	NA	-8.2	7.9	9.7	7.8	7.1	6.9	

Note: Data includes online display ads, online video ads, and mobile display ads (including video).

Source: IDC, 2014

CHALLENGES/OPPORTUNITIES

The opportunities of employing RTB-based forward markets are clear. For advertisers, ad agencies, and publishers, they will improve ROI — for advertisers, by lowering campaign costs; for agencies, by lowering both media and operational costs and by possibly not passing through to advertisers the entirety of margins gained through lower media costs; and for publishers, by lowering operational costs.

Yet challenges remain:

- Agencies expect greater levels of transparency and control than are currently offered, both in terms of the creative possibilities offered and in terms of media allocation and tracking (across digital formats, but potentially even across media); the latter also includes a means of securing their clients' brand safety.
- Agencies need the ability to protect their clients' *brand safety.* They need the assurance that advertisements will not run on sites that are inappropriate for an advertiser's brand.
- Agencies still expect a fairly high level of support, especially in the transition onto RTB platforms, but also, at least for now, with regard to setting up and running campaigns. This could actually be a factor for traditional new media publishers to differentiate themselves from more automated plays such as Google and Facebook.
- Agencies want more standardized, simpler ways to draft forward contracts and to track their fulfillment, including whether or not guarantees are being met, and automated processing of penalties. Some agencies see penalties, often named as a strength of forward contracts, as inflexible and too difficult to set up and track.
- Agencies (or the DSPs working on their behalf) need influence over the decisioning process (i.e., with which impressions to fill the agencies' buys).

  Some publishers (e.g., AOL, Yahoo!) and some publisher agents (e.g., FatTail, iSocket, Shiny Ads, Yieldex, and even Google's DoubleClick) are currently promoting an inventory trading workflow in which DSPs place an order with these vendors, which pass on the order to DoubleClick for Publishers (DFP), which at runtime decides which impressions are allocated to which buys. In essence, this shuts out DSPs (i.e., the buy side) from influencing decisioning, allowing publishers (or their agents — in this case, DFP) to control it completely.

  There are several flaws in this scheme: One, because it makes the marketplace less transparent, it would worsen price discovery — some inventory would be bought for more than its fair value; some would be sold too cheaply. Two, it removes control from the buy side when agencies are clamoring for more transparency, control, and flexibility. ("I don't know what I bought, and I can't control runtime ad decisioning at all. When it doesn't work, I can't change it.")
- Publishers need vendors' support in introducing RTB platforms in a staged approach so that there is no risk of throwing out the baby with the bathwater: They need to be able to gradually phase out the old business model while its income supports introducing the new one.
- Publishers require more transparency and control in terms of setting price floors and in terms of guaranteeing their brand safety as well.

CONCLUSION

The adoption of RTB-based forward markets is inevitable for both ad agencies and publishers to remain commercially viable. Forward markets enable them to move inefficient direct ad trades and ad operations onto an automated platform while still fulfilling their basic needs, such as agencies' need of planning certainty. By applying RTB technology, forward markets automate, integrate, and optimize the trade and delivery of display advertising inventory, which today is in large part still manual and hugely inefficient, thereby reducing costs and possibly increasing revenue and improving return on investment.

About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

Global Headquarters

5 Speen Street
Framingham, MA 01701
USA
508.872.8200
Twitter: @IDC
idc-insights-community.com
www.idc.com