Why and **how** ‘programmatic’ is emerging as key to real-time marketing success

Southern European report

The real-time digital economy is here, turning many industries upside down and leaving marketers across Europe wrestling with empowered customers and digitally fuelled competition. Marketers face an explosion of data and platforms that are transforming owned, earned and paid media – often blurring the lines between each. As digital becomes central to customer interaction, programmatic technology has emerged as the driving force for a new vision of digital advertising that integrates paid media into real-time marketing. This report looks at the current state of programmatic in Europe and explores why and how it is viewed as pivotal to the future of real-time marketing.

August 2014

Headlines

- 175 agencies, publishers and marketers from Spain, Italy and Portugal joined nearly 500 of their European counterparts in sharing their latest thinking on digital marketing and programmatic advertising.
- As is the case across the rest of Europe, budget is no longer a key driver of advertising success in Southern Europe; instead success is due to a combination of creativity and targeting.
- Southern European organisations see improved targeting as the biggest benefit of programmatic and are turning to programmatic in order to provide competitive advantage (motivation for 68% of adopters).
- Across the entire Continent, Media Buyers lead the way in programmatic adoption; but Marketers are lagging.
- In addition, Southern Europe is falling behind its neighbours in terms of digital and programmatic adoption. In particular, usage of programmatic amongst Publishers is much lower in Southern Europe than elsewhere.
- And barriers to forecast growth are real. In particular, skills gaps and budget battles are preventing adoption.
- The Southern European ecosystem appears to be overwhelmingly turning towards advertising agencies to provide the necessary programmatic capabilities…
- …but there is a severe deficit of strategic planning – only one quarter (28%) of organisations in Southern Europe have a programmatic strategy in place (vs. 42% across Europe).
- However, there is a determination to overcome the barriers to programmatic – nine in ten organisations in Southern Europe think programmatic will be a very important part of digital advertising in the future; one in five think it will be dominant.

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Research Introduction: Context & Reach

Programmatic advertising is growing rapidly and is now a major part of the digital advertising economy across Europe. But while much has been written about WHAT programmatic is, and analysts repeatedly increase their predictions of how big it will be, very little has been said about WHY and HOW the programmatic market is growing.

For the purposes of this report, we consider programmatic to be the use of technology to improve the efficiency and effectiveness of internet advertising; ***helping marketers to reach their desired audience and publishers to best monetize their inventory****.*

We think that understanding WHY and HOW is incredibly important for marketers, agencies and publishers. That's why Circle Research, in association with AppNexus, IAB Europe and WARC, went to the 'front-line' of advertising across Europe, seeking the opinions of some of the most highly respected professionals from across the advertising ecosystem, to discover what the industry is really thinking about the key issues.

Why are they moving to programmatic or, if they are not, why not? What are the key challenges, worries, expectations and opportunities across the ecosystem? How are these being addressed and what impact will this have on skills needed in the industry, the creativity of digital advertising or the nature of the relationships between buyers and sellers?

We asked the industry these questions through April and May 2014 and received 626 full responses from Marketers, Media Buyers, Publishers and Advertising Agencies. Responses came from across Europe, with especially strong representation from the UK (165), Spain (103), Germany (96), France (96) and Italy (66).

Those who took part together control over €3billion of advertising spend at some of Europe's largest advertising organisations:

This report focusses on findings from Spain, Italy and Portugal. If you would like to receive further reports and commentary from AppNexus please register for News at:
www.appnexus.com/subscribe

The research was conducted by independent, ISO20252 accredited, B2B research specialists, Circle Research (www.circle-research.com).

For any questions on the research programme, please contact:
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AppNexus Introduction – Programmatic & the Real-Time Revolution

We are at an inflection point for the marketing industry.

The digitally empowered consumer is harder to reach, more difficult to engage and actively hostile to much of the marketing they receive. To stand out, brands are living in the moment; seeking to be contextually relevant, useful and engaging.

This real-time revolution is fuelling a new level of interaction, but is proving difficult to sustain and integrate across all media. The Superbowl or Oscars moment remains largely isolated from broader campaigns, burning brightly but dying fast. No matter how strong the idea or how deep the engagement, the industry has lacked the agility to react, adapt and scale. Unsurprising when the way that advertising is bought and sold often owes more to the last century than the digital era.

Yet over the last decade a revolution has been quietly brewing. It's been called many things – RTB, RTA, AdTech, Programmatic – but the goal has always been the same: to give advertisers the agility to tailor their message for an audience of one, anywhere on the web and in less than the 200 milliseconds it takes a page to load. It has massive implications for brands, advertising & media buying agencies and the website publishers that use advertising to fund their free content.

As consumers migrate to an always-connected, mobile, multiscreen and real-time world, advertisers must follow or risk losing relevance. Traditional models do not scale and so programmatic has emerged as the major driver of real-time digital engagement, with analysts predicting that it will account for as much 60% of all digital advertising by 2017.

AppNexus is powering the shift towards programmatic. Today, we're over 500 AppNexians worldwide dedicated to making advertising a more efficient and effective tool for marketers, publishers, programmatic media companies, and data providers alike. We provide trading solutions and power marketplaces that enable the whole advertising ecosystem — and eventually, the Internet — to work better. We initiated this research to empower our partners to see the whole system so that they can to capitalize on this rising tide.

Graham Wylie - Senior Director, EMEA & APAC Marketing, AppNexus

Warc Introduction – Making data work for business

Warc is proud to partner with AppNexus and IAB Europe on this important research study investigating the adoption of programmatic across Europe.

We believe the study comes at exactly the right time. Warc's goal is to provide our users with the knowledge they need to grow their business. That is particularly apt when it comes to programmatic, which offers huge potential for brands to raise the effectiveness of digital marketing, but is held back by confusion and lack of understanding.

Brands are missing a trick if they see programmatic as a subset media specialism that only trading experts can understand. Brands that use online and offline data smartly to understand their customers and respond to their needs gain a competitive advantage. It is about creative use of data, and building online ad strategies that respond both to context and to a consumer's online behaviour.

Digital budgets are growing: Warc's Consensus Forecast suggests global internet ad spend will rise 14.1% in 2014, ahead of the 5.2% rise in total expenditure during that time. But the uptake of programmatic faces a number of hurdles: lack of trust between buyers and sellers of programmatic, lack of in-house skills, and a lag in knowledge on the part of marketers, and indeed many agencies.

This study is an important step in opening up the topic and overcoming these obstacles. We hope it will help the industry as a whole make their advertising smarter and more effective.

David Tiltman – Head of Content, Warc

HiMedia Introduction –
The Real-Time Targeting is now

As a leading ad network in Europe, HiMedia guides advertisers and publishers in the development of their digital strategies. At HiMedia Italy, we strive to accompany our clients through market innovations to make the most of new opportunities. We hope this study will help to further open up the dialogue on the implications of real time solutions for our industry.

HiMedia started the transition to Programmatic & RTB three years ago and we are honoured to have entertained a preferred partnership with AppNexus ever since. From the start, we knew this was the right direction to take, and took this chance to learn a lot and gain a strong expertise.

Today, this transition is close to complete for the group's advertising activities. The main trends which we identified in the beginning still persist to confirm the increasing importance of the use of technologies in the buy and sell process in the advertising field.

But are the publishers and advertisers ready for the change?

Despite having enthusiastically shifted our inventories to programmatic buying, it could take HiMedia Italy several more months for our Programmatic activities to take over that of traditional display.

Every day we face resistance to the adoption of programmatic. But when we have the chance to explain to both publishers and marketers its implications for targeting opportunities, something magical happens. Both parties understand our vision of programmatic: it's the perfect real time targeting! Marketers can ensure that their budgets are entirely directed to the right audience, while publishers can sell at the right price 100% of their inventory. As a matter of fact, the power of programmatic will dramatically increase when Publishers decide to use it not only for the remnant inventory but for every single impression.

This study fulfills a lack of knowledge and, by dealing with the entire ecosystem (Marketers, Media Buyers; Publishers and Advertising Agencies), can help a better and proper development of the Italian market.

Carlo Poss – CEO HiMedia Italia

IAB Europe Introduction – Driving investment in digital

The digital display advertising market has shown no signs of slowing its rapid evolution of the last few years. Technology innovation has helped marketers understand how they can better reach and engage with their customers on a real-time basis and this has helped to drive more investment into digital at a time when other media are struggling to deal with fragmentation.

Whilst digital has enabled the consumer to have a new ‘voice’, better tools have enabled brands to manage the myriad of conversations by channel, time, topic and device.

This AppNexus/IAB Europe/WARC research helps us to understand why and how the planning and buying process is changing and it will be complementary to the forthcoming IAB Europe White Paper on Programmatic Trading which illustrates the opportunity Programmatic provides across the diverse European markets.

IAB Europe is committed to delivering market-making research that demonstrates the value of digital advertising for publishers, agencies and advertisers, helps to educate policy makers on this complex topic and illustrate the benefit of our business to Europe’s bottom line.

Alison Fennah – Senior Business Advisor, IAB Europe

1. It's a digital world

In 2013, European Advertisers spent over €100billion across 26 countries. The IAB Europe AdEx Benchmark results also show that as European economies strengthened, digital advertising outgrew all other formats, increasing 11% from 2012 to reach €27.3billion.

€27.3bn

2013 European digital advertising spend

But as impressive as these numbers are, they still do not represent the impact of digital on the broader marketing landscape. This study found that digital is now a ubiquitous part of the marketing mix, used by 98% of respondents in Southern Europe and crucial to nearly half (Figure 1).

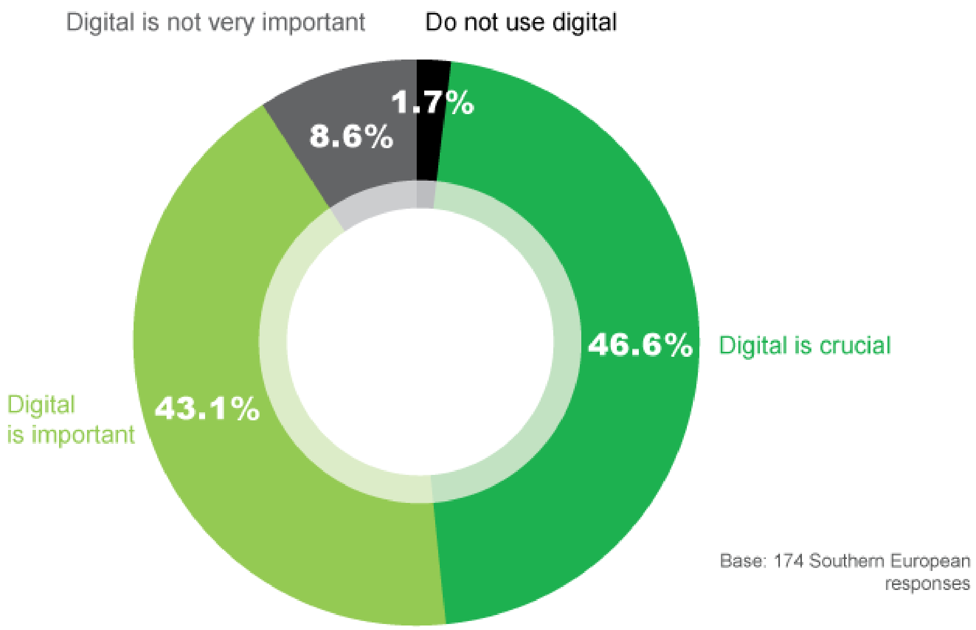

Figure 1 – Importance of digital to overall advertising strategy

However, with 10% reporting that digital is not very important or that they do not use digital at all, this still leaves Southern Europe lagging behind the rest of the continent (where the average is only 5%). There's some catching up to do.

The digital world brings challenges and opportunities as brands seek to engage their audience across many different channels, through a multitude of devices and at any and all times of day. Now is the age of the always-on, always-connected consumer whose attention span is shrinking ever shorter and whose access to information has redefined the path to purchase.

Digital is the new frontline of the consumer experience. If you can't identify and reach your consumer online at just the point where they are receptive to your message, then someone else can and will.

2. Money can't buy you love

The good news for those clutching the purse strings is that you don't need the deepest pockets to win. There was a time when media was in short supply and the big brands could effectively own the consumer if the budget was large enough. Today, media is almost infinite, money no longer guarantees success and it's not enough to just be seen – brands have to be relevant in their context to have any chance of cutting through the clutter and engaging their audience.

Creativity + targeting = success

In our research, advertising and marketing professionals were emphatic that budget is no longer the key differentiator in campaign success. Of course, almost every campaign could be made better if there was a bit more money for creative or to push the reach just a bit further; but this no longer determines success. In today's world, brands can reach and engage individuals like never before and it is this ability to understand and respond to buying signals that drives advertising effectiveness. Thus, while only 4% attribute success to a big budget, targeting has been thrust towards the top of the pyramid at 17%, although this is still below the pan-European average of 24%. Perhaps this is symptomatic of Southern Europe's greater reluctance to adopt digital than their continental counterparts, and helps to explain why Southern Europe is still relying more heavily on bold, simple adverts to reach their aims (Figure 2).

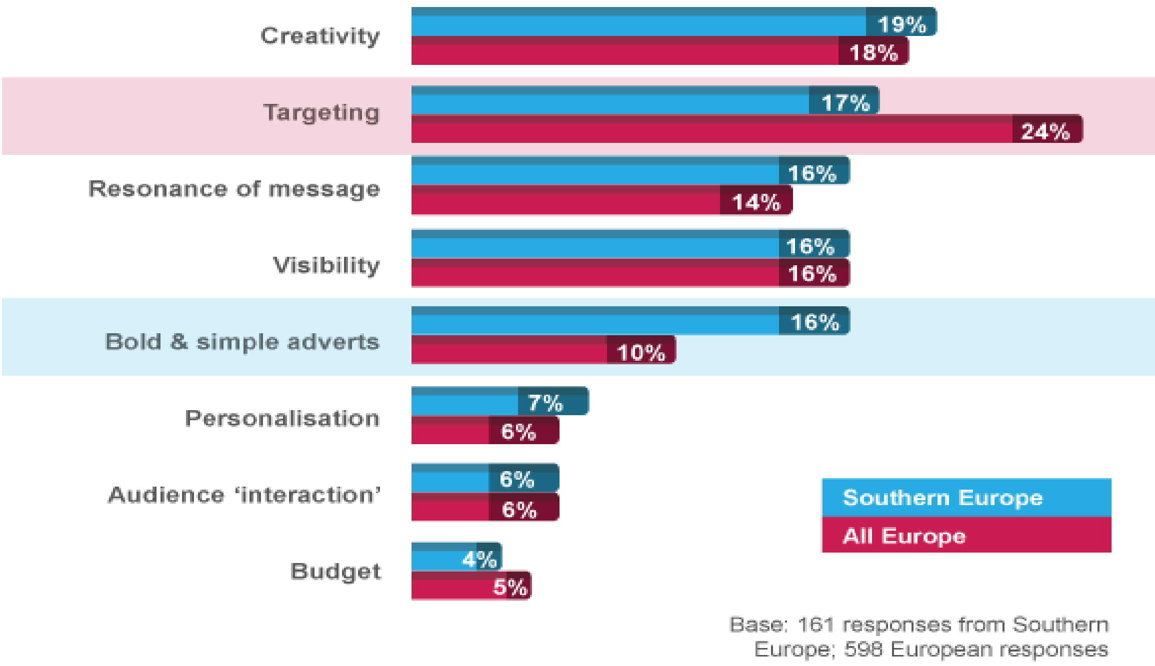

Figure 2 – Most important factor behind a successful advertising campaign

3. Convergence in a real-time world

Since the first banner advert appeared in 1994, digital has held the promise of much better targeting than had ever been achieved in conventional media, where the use of the socio-demographic profile of the audience was an essential proxy for campaign targeting. However, Display advertising has struggled to deliver on this promise, largely because buying habits were carried over from traditional media. Even today, the traditional I/O is the dominant media buying tool and over half of all respondents still rely on geo-demographic targeting. As a result, Search and Social have grown faster than Display advertising and have been 'front of mind' for most of the last decade when marketers plan their digital strategies.

Display growing faster than Search

But there are signs of a change. Across Europe, the 2013 AdEx Benchmark results indicate that over the past year Display advertising grew faster than Search at 14.9%, to account for more than €9.2billion in spend.

The acceleration of Display spending is indicative of major changes in the European media landscape over recent years:

- Advertising is no longer dependent on media as a proxy for audience; but can be bought and sold at an impression level basis, i.e. targeting a single user
- Social media is no longer free, with new advertising formats emerging and proving essential to sustain reach
- Mobile advertising is growing, bringing new opportunities to market
- Measurement and analytics are improving
- Organisations are accelerating to real-time consumer engagement

Real-time blurs the lines between Owned, Earned and Paid media with integrated planning now breaking down internal silos.

Several metrics are already being used to respond to this change in the digital landscape. As well as more conventional metrics such as geographical location (53%), a good proportion of respondents in southern Europe are now using social behaviour (21%) and declared attitudes and opinions (21%) to shape digital strategy and harness data in real-time across their many digital touch points.

However, organisations in Southern Europe are slower to adopt targeting based upon the type of device being used, with only 26% applying this metric compared to 37% across Europe.

4. Real-time requires a data-driven mindset

Real-time targeting is all well and good; but try achieving it within a conventional media plan and it doesn't take long for the cracks to appear. Where the twitter war-room might work for the SuperBowl or the Oscars, it's not scalable for every day.

Programmatic = competitive advantage

The much-hyped but nonetheless real wave of 'Big Data' is changing the way that marketers think about engagement possibilities and the context of the customer conversation. What started as website analytics and evolved into social media listening is now the opportunity to 'listen' to billions of digital touch points across the global web as they happen. Thus the scale and complexity of targeting the right customer at the right time and in the right context exceeds the conventional media plan. In fact, it exceeds any manual process.

With only one third of organisations in Southern Europe using programmatic (38% compared to 55% in France and Benelux), there is still plenty of room for growth.

This is especially true as organisations in Southern Europe can see multiple benefits from adopting programmatic – nearly half of organisations see improved targeting (a main driver of overall campaign success) as a key benefit of programmatic.

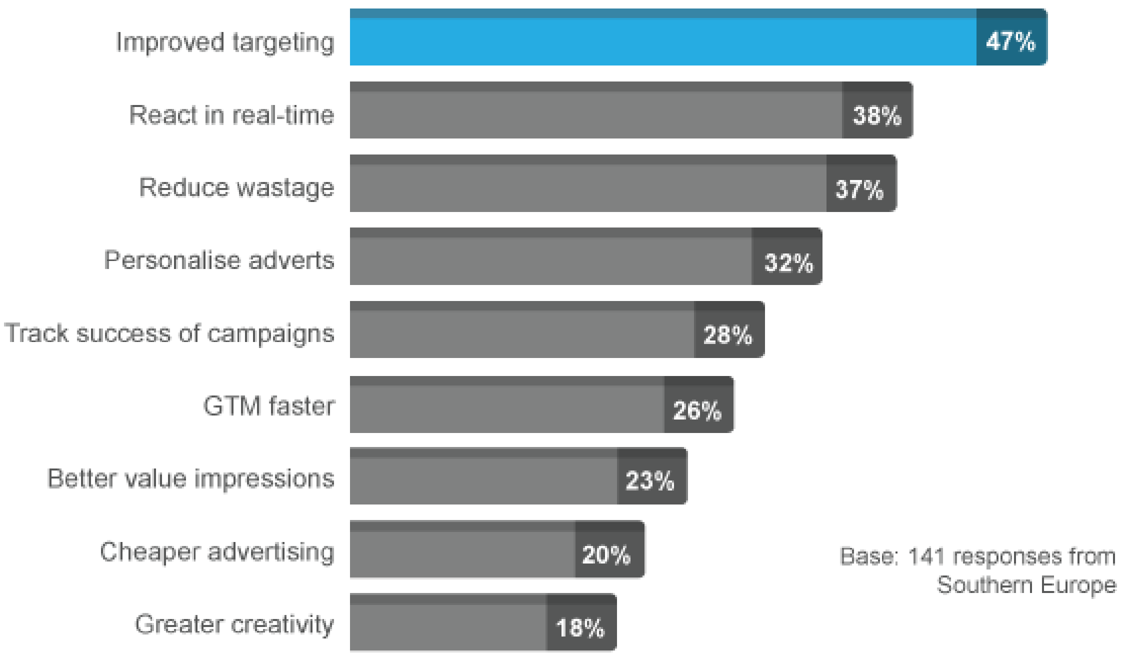

Figure 3 – Key benefits of programmatic advertising

The benefits gained through programmatic are also seen to vary according to the type of organisation:

- Media buyers in particular see the benefits of reacting in real-time (47% vs. 38% average) and better valuing of impressions (47% vs. 23% average)
- Advertising agencies see greater benefits in being able to go-to-market faster (41% vs. 26% average)

With all of these benefits in mind, the majority of organisations to have already adopted programmatic across Southern Europe did so in order to gain a competitive advantage (68%).

However, for many it was a dual-attack – just as competitive advantage drove from one angle, so fear of becoming left behind also played its part. Over two-fifths (41%), said that they adopted programmatic out of fear of becoming left behind if they didn't adapt – the highest level of anywhere in Europe.

.5. Programmatic answers the real-time question – that's WHY it's growing.

Because programmatic transforms the way that brands can use paid media – integrates it and aligns it to the wider marketing engagement and makes it as accountable as search and social – it's growing fast! In fact, nine in ten Southern European respondents (86%) are convinced that programmatic is the future of digital advertising – one in five (18%) think it will be truly dominant – even when they may have reservations about their own organisation's ability to leverage this (Figure 4). And confidence levels across the rest of Europe are even higher – on average 30% believe programmatic will be dominant, 42% in France and Benelux!

Programmatic data enhances real-time business performance

The wealth of data collected via programmatic is also being used to enhance business performance in real-time. In Southern Europe, organisations are primarily using programmatic data for determining future campaign strategies – both programmatic strategies (84%) and non-programmatic campaigns (55%). The use of programmatic data to help determine strategies for non-programmatic campaigns is in fact higher in Southern Europe (55%) than anywhere else on the continent (39% average).

Southern Europe using programmatic data to inform campaign strategy

Programmatic isn't just a way of displaying ads – it's a way of harnessing big data and putting it to work for business growth.

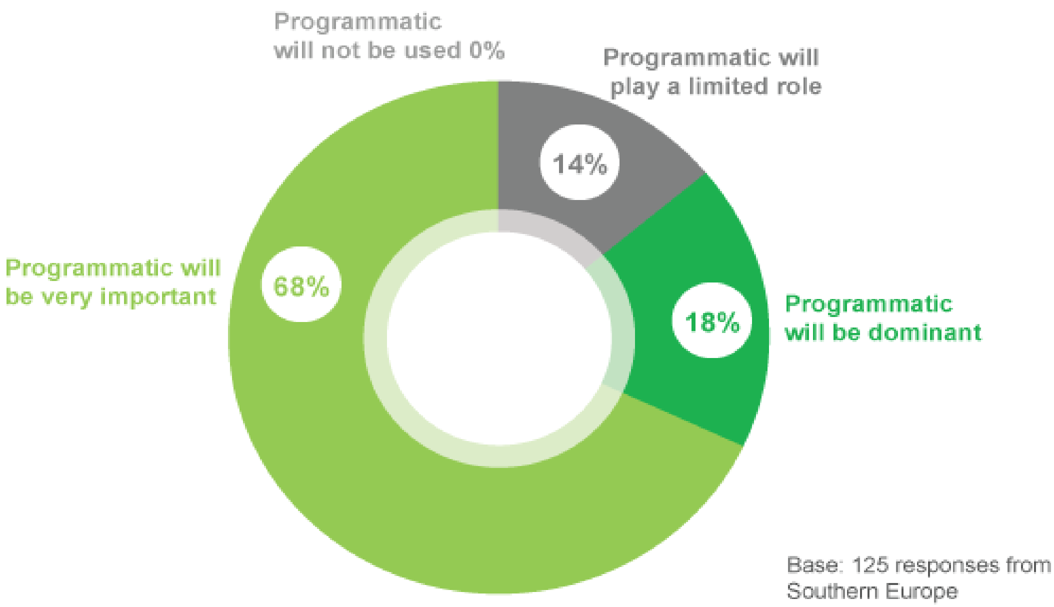

Figure 4 – Role of programmatic in the future of digital advertising

6. Getting to grips with programmatic

Despite programmatic's obvious momentum, the research shows that current adoption is far from evenly spread.

More marketers have never heard of programmatic than use it

Not unexpectedly, media buying teams are leading the way. Programmatic emerged first as a better way of buying and selling fragmented and remnant publisher inventory – the stuff that wasn't being sold by the direct sales team and was of uncertain value. Real-time Bidding's (RTB) auction format was an effective way to value that inventory and ensure that it generated revenue. Because it valued the specific impression, the process had to happen in real-time and value was derived from what was known about the user not the domain on which the ad was displayed.

So today, 81% of media buying agencies in Southern Europe are using programmatic, compared to 50% of advertising agencies, 32% of publishers and only 15% of marketers (Figure 5). On a positive note, media buying and advertising agencies are further along the path than their other European counterparts. However, the use of programmatic amongst publishers and marketers is particularly low (32% and 15% vs. 48% and 22% average).

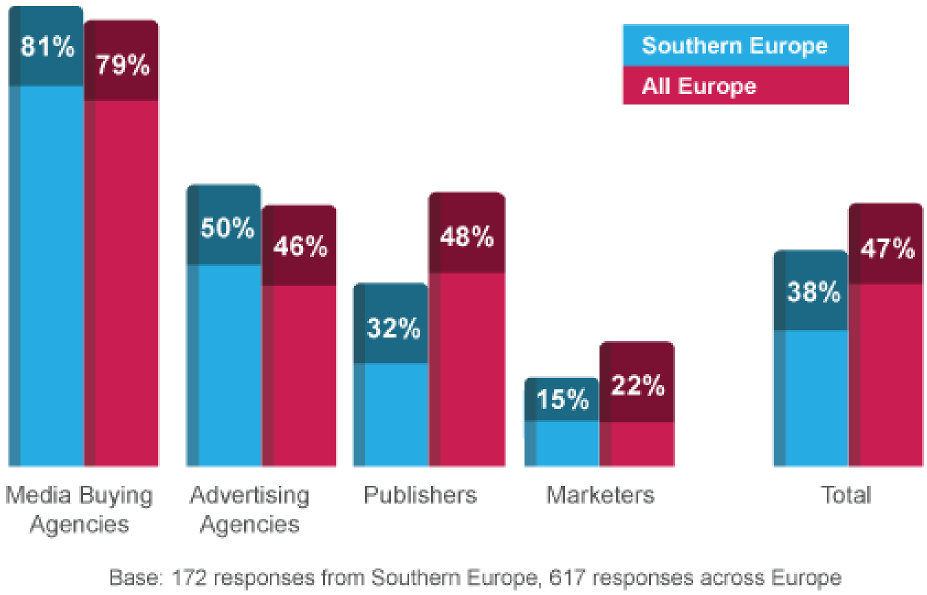

Figure 5 – Current use of programmatic by organisation type

Disconnect between media buying agencies and marketers

With the greatest exposure, Media Buyers in Southern Europe have built the deepest understanding of how programmatic works and where it is best deployed (68% have a good understanding). However, nearly one quarter of Marketers (24%) have never even heard of programmatic, with a further 40% saying they know very little about it.

This disconnect between media buyers and the marketers they serve is potentially the most significant constraint on the move towards integrated real-time marketing. Whilst it's possible to argue that marketers don't need to understand or implement programmatic strategies when their agencies are there to do it for them, the fact that nearly one in four marketers in Southern Europe (24%) had never previously heard of programmatic means they cannot properly plan the role of advertising within their broader strategy. They do not know how digital advertising can now extend the impact of TV through synchronised campaign bursts; or how real-time social initiatives can be shared with a much wider audience.

Southern European organisations lack programmatic strategies

In short, too few marketers understand the potential scale and speed of today's advertising and will not properly allocate budget for the media agency to really change the game.

To overcome these hurdles, organisations will need to move quickly to put programmatic strategies in place, something fewer than one third (28%) of organisations in Southern Europe have so far managed to do – leaving them at a distinct disadvantage compared to their European counterparts (Figure 6).

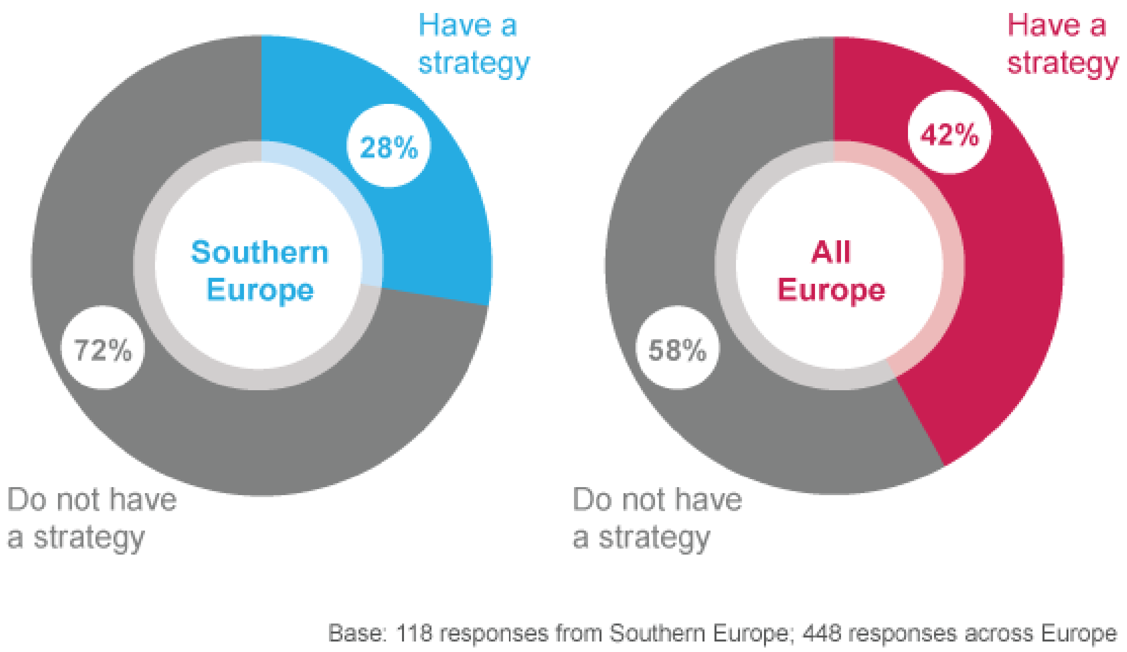

Figure 6 – Existence of programmatic strategies

7. Navigating the obstacles

For those organisations in Southern Europe that have yet to adopt programmatic, it doesn't appear to be due to any scepticism over the model – only 2% say they don't believe programmatic is the future of digital advertising. Instead, by far the two biggest challenges are skills gaps (36% vs. 29% European average) and a lack of budget (30% vs. 26% European average).

Southern European organisations face internal resistance to programmatic

So why is it that skills and budgets are so restrained? Perhaps some of the issue comes as a result of an 'unwillingness' amongst senior decision makers to adopt programmatic. One fifth of respondents in Southern Europe stated that they were restrained from adopting programmatic by dictated company policy (23% vs. 12% European average) and internal resistance (20% vs. 11% European average). Delve another layer deeper and we discover that one in six (15% vs. 13% European average) are worried about an apparent lack of transparency between the buy and sell-sides.

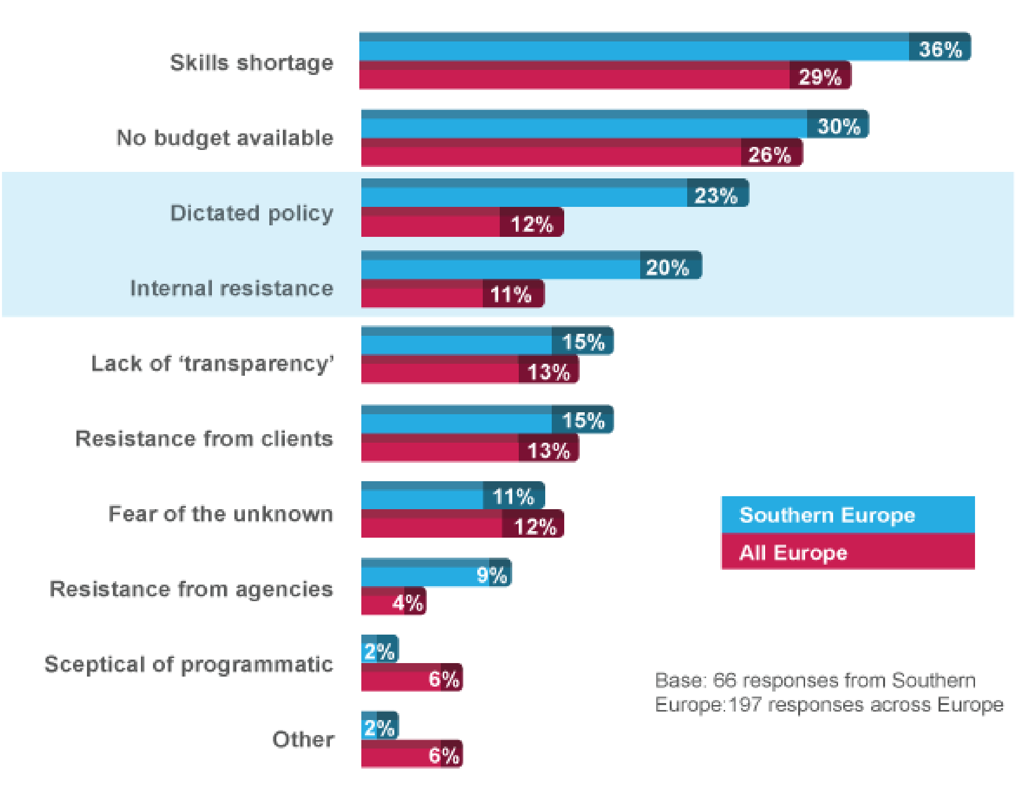

Figure 7 – Barriers preventing programmatic adoption

Internal resistance and pre-determined dictated policies are issues that are especially severe in Southern Europe and raise a number of interesting questions around the attitudes of decision-makers towards programmatic.

However, skills shortage, budget availability and transparency concerns are all prevalent across Europe. These are issues that the ecosystem will need to overcome in order to harness the true potential of programmatic, so let's look at them in a bit more detail...

i. Skills shortages

By its very nature, programmatic requires a level of technical expertise that is outside of the traditional agency or marketing skillset. However, as marketing has become a more analytical profession over the last decade; the advertising industry is seeing an influx of talent from social media and search as well as 'big data' analysts that would at one time have traded equities.

Vital for advertising agencies to have strong programmatic knowledge

However, there is much progress that needs to be made. A skills shortage is the biggest barrier preventing organisations in southern Europe from adopting programmatic (36%).

In particular, advertising agencies need to ensure that they are 'up to speed' as there is an expectation on these organisations to coordinate all aspects of programmatic in the future – two-thirds of respondents in Southern Europe (64%) told us that advertising agencies will coordinate the technical aspects of programmatic. This therefore means that having a good knowledge of programmatic will be a vital pre-requisite for a successful advertising agency.

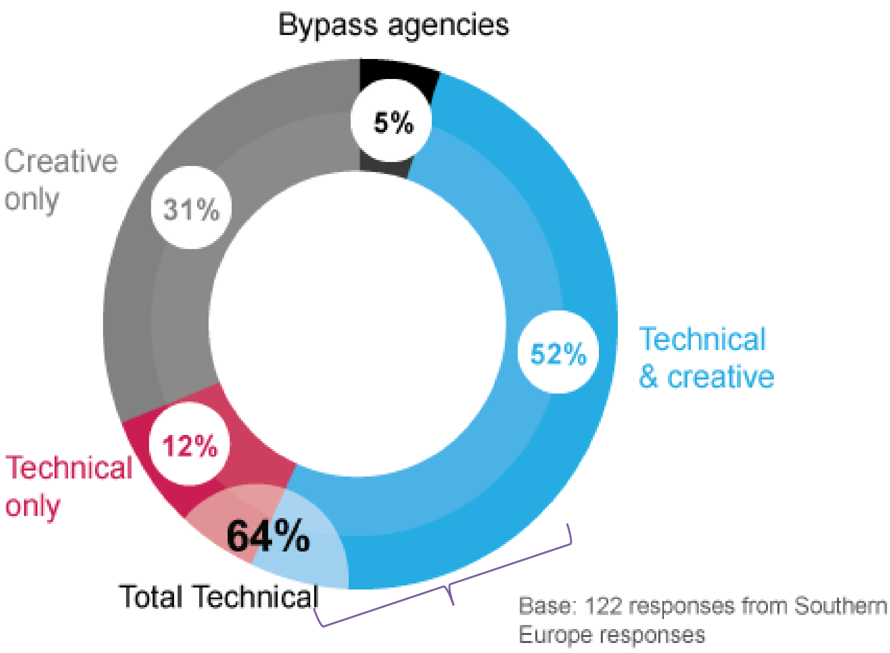

Figure 8 – Role of advertising agencies in coordinating aspects of programmatic

ii. Budget battles

One third of non-adopters held back by lack of budget

Almost one third (30%) of organisations in Southern Europe yet to adopt programmatic are held back by lack of budget.

Given that digital advertising budgets are growing, this is an interesting anomaly. However, it reflects the current 'silo' approach of traditional media planning. The good news is that this shouldn't last for long. As programmatic continues to grow and becomes the enabling technology for all kinds of media transactions, it will cease to exist as a line item where specific budget allocation is required and will become instead the de facto method by which the whole plan is executed. As a result, budget will no longer be allocated to programmatic initiatives but rather the whole plan will be delivered programmatically.

It is also possible that at this point in time, the cost of change to programmatic ways of working is causing some of this hesitation. However, as early adopters are able to prove their competitive advantage, and as innovation around SaaS business models continues to lower the cost of adoption, the budget will become less of an issue.

Already, this research suggests that the benefits of programmatic are clearly established with nine in ten industry professionals (86%) saying programmatic will be a very important part of digital advertising in five years' time; one in five (18%) think it will be dominant. Budgets will be found… and quickly.

iii. Trust issues

Digital advertising is a complex ecosystem and programmatic has, for many, added a new layer of complexity to relationships and concerns around channel conflict. While the original RTB model gave publishers a better way to monetise inventory, it was also criticised for potentially driving down overall prices. What this research shows is that programmatic is developing differently across Europe to address the very different regional ecosystems.

Southern European organisations highlight a need for greater specification of campaign details

In Southern Europe there is an acceptance that a critical step along this journey is greater specification, and understanding, of target audiences. Two-thirds believe that there should be greater specification of who sees adverts (64% vs. 62% European average), one in five think specification of where adverts are displayed needs to be tightened-up (43% vs. 37% European average), and one third want greater specification of the times at which adverts may be shown (30% vs. 20% European average) .

And as these relationships develop between the buy and sell-sides, it will be vital to ensure that healthy interactions are nurtured and maintained – something which may currently be at risk. In our survey, nearly all professionals in Southern Europe (92%) feel that the relationship between buyers and sellers of digital property is not completely transparent. In fact, over half (51%) went as far as to say that it can at times be combative (Figure 9).

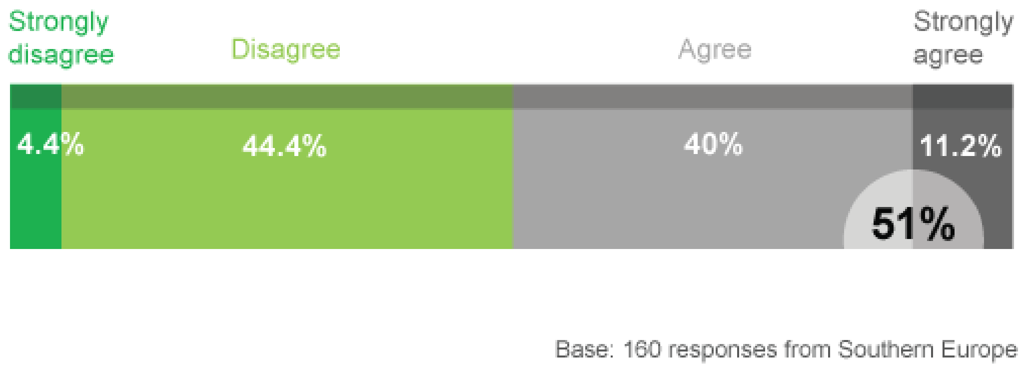

Figure 9 – Combative nature of buyer-seller relationship

While healthy competition is beneficial, ultimately organisations will need to work together much more closely to achieve the best results. As programmatic evolves from transactional RTB toward better enabling Deals and Direct transactions, it will be interesting to see how this develops in the years to come.

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8. Conclusions

Programmatic technology has come a long way over the past 8 years, on its journey to being understood and embraced by all corners of the advertising ecosystem. This study has given us a clearer view on WHY programmatic is expected to grow so fast and HOW publishers, marketers and agencies are already using it effectively across Europe.

The programmatic approach is making it possible for digital advertising to be as dynamic as social and as accountable as search. As boundaries between Owned, Earned and Paid media blur and digital moves front and centre in the battle for consumer attention, programmatic becomes the key to effective real-time engagement at scale.

But whilst Europe is witnessing huge growth in digital display advertising numbers, there is still much room for improvement. Media buyers lead the charge with a clear understanding of the benefits to their clients of better targeting and the ability to make real-time adjustments… but then comes a cliff edge. Only half of advertising agencies, and fewer than one third of publishers and one quarter of marketers, currently use programmatic in Southern Europe. They highlight skills shortages as the main barrier.

Although the early adoption and innovation has been amongst media buyers, programmatic is much more than a media buying tool – only when marketers recognise the benefits it can bring will the advertising industry be ready to capitalise on its full potential.

Perhaps advertising agencies can provide the necessary short-term bridge. Whilst knowledge levels are still limited within this audience, the ecosystem expects advertising agencies to be coordinating all aspects of programmatic advertising in the future.

Either way, as consumers shift to mobile multi-screen engagement and advertisers follow, the scale and complexity of the digital landscape will only increase. While programmatic has brought clear benefits to the early adopters, it is fast becoming not just advantageous but essential for brands to compete in a real-time world.

So it is more vital than ever for all parts of the ecosystem to grasp the opportunity with both hands, and put a programmatic strategy in place; based on an understanding of WHY programmatic is so important and HOW to make it work for them.

We hope that this research is a useful part of that process.