ADOPTION OF SELF-SERVE PLATFORM OPERATION BY ADVERTISING AGENCIES
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“CHANGE IS THE ONLY CONSTANT IN LIFE.”

Heraclitus, a Greek philosopher, declared this universal truth in the 5th century. With the rapid advancement of technology starting in the early 19th century, the overall societal and commercial pace of change only continues to accelerate.

EXECUTIVE SUMMARY

Digital media is in a constant state of disruption due to the persistent advancement and adoption of technology. As the rate of technological change continues to accelerate, the digital media ecosystem is the link of the marketing chain that is most affected, and thus most rapidly evolving.

Inherent industry contexts, including the cost of labor, media value intermediation, and pricing arbitrage, position the digital media ecosystem for inevitable and continual disruption by technology and platforms.

With more than 7 trillion digital display ad impressions available in 2016, software platforms have evolved to circumnavigate the vast and fragmented pool of digital media. Automated media execution processes leveraging technology and data, aka programmatic advertising, now power over 65% of digital display media execution.

Performance, control, transparency, and intelligence are a few of the key benefits of running a programmatic platform in-house.

Despite the clear advantages, the majority of agencies are still reluctant to “pull the lever” and fully operate a media execution platform in-house. Many agencies cite real and perceived challenges centered around resources, cost, and risks, but these barriers run in parallel with the actual benefits.

As the initial investment and ongoing operational costs of operating platforms (aka “self-service”) have fallen significantly, the rewards of in-house platform operation now greatly outweigh the risks enabling agencies to capture value, drive performance, and strategically position their businesses for sustainable growth.

There will always be a case for specialization, thus there will never be 100% adoption, but this progression will continue to disintermediate the “media chain”, and those who operate platforms stand to gain the most.

Gartner. By 2017 the CMO Will Spend More on IT Than the CIO. http://www.gartner.com/it/content/1871500/1871555/january_3_cmoasicsbuyingcenter_lmcellan.pdf

Advertising agencies are currently responsible for choosing and managing marketing and advertising service providers at 83% of companies and selecting technology providers at 71%.
Whereas it took 46 years for 25% of the American population to adopt electricity (1873–1919), the Internet reached the same one-quarter usage milestone in just 7 years (1991–1998).

Technology Adoption
Years until used by one-quarter of American population

In parallel to consumer adoption patterns, technology has upended commercial industry after industry in the same accelerated fashion—especially niches traditionally reliant on human service and/or customization.

Austrian economist and political scientist, Joseph Schumpeter, popularized the term “creative destruction” in the early 20th century, which explained how technological progress benefited the many at the expense of the few. The industrial revolution catapulted the world economy via improvements in machinery and manufacturing processes, including watershed advancements such as the assembly line. Many craftsmen and artisans were displaced, but on par the industrial revolution empowered a massive economic expansion through operational efficiency and scale.

Most recently the digital economy has continued as transformational force. In retail, e-commerce leaders like Amazon have changed the way consumers shop, enabling a variety of goods to be delivered to your doorstep in 48 hours with a few clicks of your mouse (and likely much faster with drone delivery coming soon to a neighborhood near you). The seven-trillion-dollar travel and tourism industry was once principally controlled by travel agents, only to be rapidly disintermediated by online applications such as Expedia and Priceline. And most recently local transportation has been completely upended with ride-sharing companies like Uber and Lyft completely redefining how we physically move from place to place.
Business disruption in recent decades is linked to the rapid development and application of software-based technologies and platforms. As entrepreneur and venture investor Marc Andreessen famously declared, “Software is eating the world.” Nowhere is this effect more readily apparent than in the agency-powered digital media industry.

Each year, Russell Reynolds Associates surveys more than 2,000 C-level executives to measure how digital technology will affect their businesses in the near term. Media easily headed the list, with over 72% of media executives predicting their business will be moderately or massively disrupted by digital transformation in the next 12 months.

A variety of factors are in play when assessing the effect of technological innovation on the media industry, especially concentrating on the buying and selling of advertising. Whereas publicly traded shares of stock were once traded through specialists and full-service brokers as opposed to self-service digital brokerages like E-trade, media was once controlled by agency media buyers and their publisher sales rep counterparts (and still is in some areas of the industry). Fast forward a few short years, and nearly two-thirds of online display media is now purchased through automated or programmatic channels.
There are several fundamental reasons for the rapid automation of the digital media industry. Platforms have quickly helped to remedy several key legacy issues that plagued the industry:

LABOR/COST
Due largely to the fragmentation of the digital medium (millions of websites vs. hundreds of TV channels, newspapers, etc.), even a relatively small digital media campaign relies on multiple parties to successfully execute on both the buy-side and sell-side. It is much more “expensive” to buy digital media versus traditional channels that had more inherent scale.

INTERMEDIATION
Because of the technological complexity of executing a digital media buy, most media buys are facilitated by a chain of specialty partners that add value in the execution of campaigns—both technical and human. Naturally, each link in this “media chain” carves out a piece of the budget before it’s applied to the actual media purchase. The underlying technology rapidly develops and changes, but the evolution of the operating platforms has made it easier to understand and operate across automated mediums. The result is that it requires fewer agents to successfully operate an automated media campaign. Many clients have even elected to run it in-house.

TRANSPARENCY/ARBITRAGE
Based on the complex nature of the ecosystem, brands/agencies typically pay a fixed CPM amount with little to no visibility into the actual “clearing” cost of the media and technology fees. Also, brands/agencies don’t have very much visibility into which intermediaries are adding value and the ways in which they are doing so. Historically, many agents arbitrated by inserting unjustifiable margins into the price without adding applicable value.

Each of these issues and many others have contributed to the rapid and inevitable automation of the digital media ecosystem. In 2016, it is estimated that programmatic media will be a $22 billion industry and will represent over 60% of all digital media execution.

While marketers are increasing their adoption of programmatic technology, the understanding of exactly what it is and how it works remains unclear. In July 2015, more than half of marketers surveyed by the Boston Consulting Group said their understanding of programmatic was “very poor”, “poor” or “average”.

Based on inherent limitations of the targeted mediums, legacy media buying strategies typically focus on surrounding content to reach the desired audience, in order to capitalize on the inferred intent of the respective consumers. Marketers aiming to engage potential automotive enthusiasts advertise in magazines, websites and TV shows that feature automotive content. Another method is to widely target publications and content that indexes well against their target audience, principally focusing on demographic attributes. For example, if you want to target men, buy TV ads that run during a football game.
In contrast, programmatic advertising is the process of buying and selling media based on a set of rules applied by software and algorithms. Most programmatic buy-side platforms (often called Demand Side Platforms or DSPs) employ a data layer that facilitates the targeting of individual profiles based on known parameters including demographics, geolocation, purchase behaviors, and brand affinities. This data enables advertisers to reach highly targeted yet scalable audiences online, wherever they are spending their time—and often irrespective of the content. Data targeting can also be layered with more traditional content targeting for further refined performance strategies.

It is important to distinguish programmatic from Real-Time-Bidding (RTB), which are often conflated. RTB is an auction-based methodology that powers a good portion of programmatic advertising. RTB programmatic campaigns are typically executed by the aforementioned DSP that operates a “bidder" to bid on and win individual impressions based on targeting parameters.

**RTB AUCTION DEFINED**

When website visitors land on a page with available ad inventory, the publisher of the page puts that ad impression up for auction within the ad exchanges and networks; this process is typically facilitated by a publisher's Supply Side Platform (SSP). The ad exchanges then run an auction among advertisers interested in the opportunity to serve an ad to those website visitors based on their predefined ad parameters. Dozens of advertisers may simultaneously compete in such an auction, but ultimately only one wins and earns the right to serve their ad to the targeted visitor. This auction process happens in milliseconds and is conducted millions of times per second across the entire online advertising ecosystem around the world.

In addition to RTB ad buying, programmatic includes many other automated media execution tactics. Gaining widespread application is Programmatic Private Marketplace (PMP) deals where the publisher can still dictate rates, often in setting a floor CPM. It can also include directly executed deals with guaranteed inventory and rates—Programmatic Direct. Whether RTB or directly executed, the common thread of all programmatic advertising is that it is powered by technology-enabled workflow automation that streamlines the process (no insertion orders or spreadsheets) and reduces human error while increasing transparency and control.

The automated programmatic model originally gained traction and scale in display advertising. Early execution tapped into auction-based advertising exchanges such as Yahoo!'s Right Media Exchange and Google's DoubleClick Ad Exchange. The inventory made available through these supply sources had been inventory that publishers had traditionally allowed advertising networks to sell—often classified as “remnant” and generally regarded as lower quality. However, with the aforementioned programmatic models including Private Marketplace and Direct-Guaranteed, programmatic now encompasses premium inventory and packages. As the digital and agency ecosystem evolves, buyers are given the tools to buy online video, display, mobile, and native formats through programmatic platforms at scale. The automation is also gaining acceptance into traditional mediums such as television
ADVANTAGES

Generally speaking, software platforms reduce the need of human services to operate campaigns while simultaneously making information about the campaign available in real-time with nearly zero distribution costs. In turn, this reduces the amount of agents needed to effectively plan, execute, optimize, and report on any individual campaign.

Although there are several material secondary benefits to self-service platform operation, the entity that “pulls the lever” on actual campaign execution has two key advantages:

- **MONEY**
  Control of the key value capturing portion of the media chain

- **POWER**
  Ownership of platform expertise makes the operator impossible to disintermediate

SUMMARY OF BENEFITS

**CAMPAIGN/CLIENT PERFORMANCE**: Putting more of the client budget directly toward the media purchase directly increases, in proportion, the Return on Ad Spend (ROAS); fusing the agency’s direct client knowledge into self-service platform operation. Who is better suited to run the campaign than the people working directly with the client?

**CONTROL/EFFICIENCY**: Platform operators are less reliant on multiple vendors and can act quickly and precisely during both the strategic planning processes, as well as the execution and optimization phases. Instead of never-ending email chains and conference calls with multiple vendors, the agency platform operator can make key changes in minutes, freeing up more time for impactful and strategic activities.

**TRANSPARENCY**: As the recent ANA study by K2 shows, rebates and other non-transparent business practices are still highly pervasive in the agency ecosystem. Running a platform in-house enables the agent to have real-time access to every cost source (media and data), which can easily be shared with the client in real-time.

**INTELLIGENCE**: Investing in platform expertise is an asset that scales and differentiates an agency—it is transferable between clients, and can be leveraged as a competitive differentiator.

**STRATEGIC POSITIONING**: Platform expertise makes client relationships stickier, and reduces churn as the data and campaign expertise sits within the walls of the respective agency; platform operators effectively future-proof themselves as the value provided to the client makes it difficult to switch.

**VALUE CAPTURE**: As agents are disintermediated, the value is captured at the client and primary agent level, enabling further investment and innovation.

With the learning curve getting lower (platforms getting simpler—reducing onboarding, training, and ongoing support costs) and the entry level costs being kept at a minimum (platforms are cheaper to license and/or have lower or zero media minimums to get started), most agencies stand to gain both monetarily and strategically by investing into in-house platform operation.
According to the Diffusion of Innovations theory by Everett Rogers, despite obvious and measurable benefits, adoption of a new technology happens over time in a predictable pattern. The categories of adopters are ordered by chronology as innovators, early adopters, early majority, late majority, and laggards.

As discussed, advertisers and publishers are quickly embracing programmatic media—more than 65% of agencies and brands now purchase display ads programmatically. According to eMarketer, in 2016 US programmatic digital display ad spending will reach $22.10 billion, which is a 39.7% increase over 2015, and represents 67% of total digital display ad spending in the US.

But in terms of the actual execution of the technology, most independent agencies outsource this function to managed service providers and/or to other agencies that specialize in media buying (who have varying levels of transparency on pricing, performance, data, etc.). Or for agency holding companies, individual Agencies of Record (AORs) will often run their digital media buying through centralized trading desk operations—many times dictated by internal investment personnel inside the agency holding group. In effect, this is similar to outsourcing the execution.

Thus despite the rapid adoption of programmatic media buying, the actual client advertising budget is still highly intermediated as it is passed through many agents before actual execution. According to information provided to K2, markups on media sold through principal transactions can range from approximately 30% to 90%.
In survey data procured by Strata Marketing, only 6% of executives felt comfortable buying media programmatically, while 46% reported they don’t use it. Slightly more than one-third of agencies indicated they are undecided about whether they trust programmatic buying to execute their ad orders. Thus, according to Rogers’ model, programmatic platform adoption is still very much in the “early adopters” phase, especially for independent agencies.

The lack of time and expertise needed to run programmatic is why 46% of marketers outsource their advertising trafficking and ongoing campaign management—this expertise includes pacing, QA testing, and third-party discrepancy monitoring. In addition, 26% also report outsourcing even digital reporting to a managed service provider.

Outsourcing media execution may be the best business arrangement for many agencies due to legitimate resource restraints. However, most agencies can greatly improve on the status quo through minimal investment into in-house platform operation—essentially minimizing markup to their clients while maximizing performance.

**THE BUSINESS TRANSFORMATION**

Despite the clear strategic business advantages, platform adoption is still often met with great resistance from the agent. There is no doubt that change can be difficult and requires costs and/or investment. Platform adoption (self-service operation) can be disruptive as it may touch operations, billing, and human resources. More often, however, the perception of barriers are often much greater than the reality, thus halting or delaying platform adoption.

Many of these concerns apply to the adoption of any self-service technology platform. The concerns can be placed into three main buckets: resources, cost, and risk. Upon inspection however, each of these challenges actually align with the underlying core benefits of making the switch. Overall, the return on investment greatly outweighs the “costs” of implementing the change.
CHALLENGE/BARRIER #1: RESOURCES
“We don’t have the people or knowledge operate a platform in-house!”

REALITY
The lack of knowledge around any business change can naturally provoke confusion and fear about the proposed change. Regarding self-service platform operation, a common legacy concern is that an entirely new team of individuals will need to be recruited to run said platform. The current reality is that often a single platform operator can efficiently run a massive amount of budgets at scale—and typically the operator is an entry or mid-level media professional with little or no prior media trading experience. The time spent previously on managing vendors, complex RFP processes, and spreadsheets can now be directly applied to the application and optimization of the digital media budget. On an individual level, those who invest to learn platform operation often realize rapid career development and advancement.

CHALLENGE BARRIER # 2: COST & COMPLEXITY
“Self-service operation is too costly and confusing!”

REALITY
Due to the scale of the market opportunity, billions of venture investment dollars flowed into the marketing and advertising technology space over the last 10 years. This investment created an environment of continual and rapid innovation—what was once complex is now highly intuitive. And what was once expensive is now highly affordable. Furthermore, with ad tech investment greatly reduced in the last 3–4 years, the Darwinian effect ensures that only the strong, usable, and practical platforms survive thus forcing scores of inferior vendors/platforms out of the marketplace. The result for buyers is now fewer, higher quality software vendors in the marketplace. Thus, as discussed, with minimal education, most media professionals can become adept at running platform(s) in a short period of time, with minimal commitment and/or financial investment.

CHALLENGE/BARRIER #3: RISK
“What if somebody adds a few zeros and we end up spending $1 million instead of $1 thousand?”

REALITY
This perceived risk can apply to many scenarios including budgeting, creative, targeting, etc. But generally speaking, all platforms have safeguards built in to mitigate against any sort of catastrophic risk. Speaking to potential overspend, all platforms have multiple safeguards that enable capping buys on a daily level, as well as at a campaign level. Furthermore, campaigns can be peer and/or vendor reviewed prior to going live. And with real-time reporting data (and often automated reports), plenty of informational access is available to safeguard against egregious planning. But even with operational risk highly mitigated, self-service operation certainly carries risk of mistakes. But the overall reward of self-service platform operation (see summary of benefits) greatly outweighs the respective risks. It is a common business pattern that those who are willing to (smartly) assume the risks will reap the rewards.
Make no mistake about it, the age of programmatic marketing is upon us, with IDC forecasting nearly $14 billion in real-time buying spend by 2016. This exponential growth is reason enough to pay attention. But the possibilities of programmatic marketing are equally impressive, with an additional $66 billion forecasted in 2016 for programmatic advertising platforms. It is time for agency partners to make the critical changes to skill sets, processes, and technology for economic advantage and to achieve true omni-channel, customer-centric marketing success.

Below is a guide on items to consider when looking to adopt self-serve programmatic platforms at your agency.

**RESEARCH**
Do your homework to understand which platforms are right for you. Most platforms list core functionality on their website. Further product demonstrations can ensure you are focusing on a platform with the right features, level of sophistication, and desired support.

**ESTABLISH A PATH**
Take it one step at a time. In our experience, most teams do best by following a step-wise approach to bringing programmatic in-house. In addition, due to the increased usability and simplicity of platform design/operation, most media planners can be trained to run a platform at scale within a few training hours and a partner that is available to help with the education.

**TEST**
Many platforms have low minimums and license fees. This affords relative low investment to try before you buy. Often, running multiple platforms side-by-side will provide an effective test drive of the platform’s features and capabilities.

**PRICING/COST/MONETIZATION**
“How do we bill our clients?” This is an important question to address with switching managed services to self-serve programmatic. This also includes moving from a flat CPM that most managed services use to a variable CPM that you’ll get from self-serve programmatic platform.

INTERESTED IN LEARNING MORE ABOUT CHOOZLE?
Choozle is transforming the way agencies buy digital media through the industry’s easy to use programmatic advertising solution. Choozle provides a programmatic platform that leverages detailed consumer data to power real-time advertising campaigns across display, mobile, & video mediums—all from a single, simple interface. With simple set-up and superior support, the digital advertising world is yours.

EXPLORE NOW
Founded in 2012 and based in Denver, Colorado, Choozle provides a programmatic platform that leverages detailed consumer data to power real-time advertising campaigns across display, mobile, & video mediums—all from a single, simple interface.