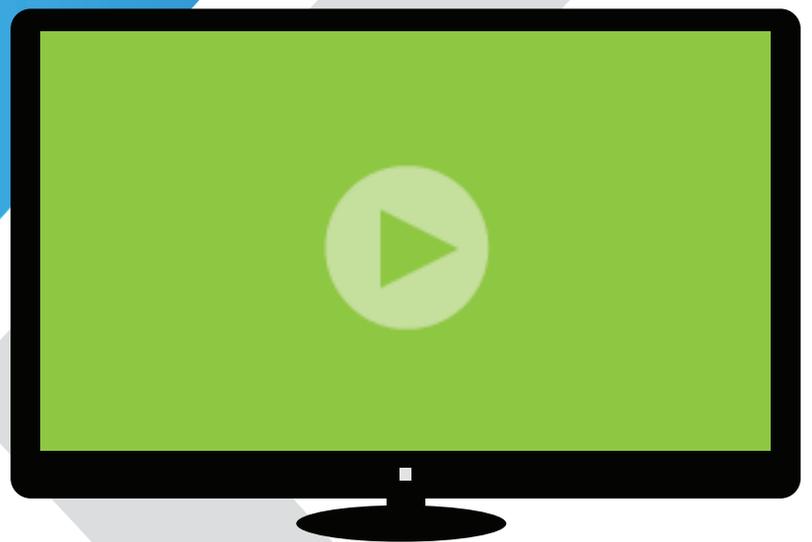




A Programmatic TV Guide for Sellers

White Paper





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A Programmatic TV Guide for Sellers

Introduction

Saying that the traditional concept of television has entered a transformational phase with tremendous potential for broadcasters and content owners is about as profound as saying water is wet. In the time you take to read this sentence, more than one million people in the United States alone just discovered video content they've never seen — acting as virtual programming directors, stitching together their own personal entertainment experiences across traditional television, DVRs, video on demand (VOD), laptops, smartphones, tablets, smart TVs, Hulu, Netflix and the like.

The television industry used to be called “TV” with planning budgets line-itemed for NBC, CBS and ABC to be negotiated and transacted with the buyer. Now we call TV, “video” because we no longer consciously draw distinctions among the way we consume, well, video.

Consider for a moment how millions watched AMC's *Breaking Bad* — they discovered it late, binged through Netflix, bought the next-to-last season on iTunes via AppleTV (watched a few of those episodes on the iPad), time-shifted most of the last season and then watched the finale live with the rest of the world for fear social media may spoil the ending. That's five distinct viewing streams, four of which share the exact same flat panel TV.

Alas, “TV” seems more appropriately used in reference to a device than it is a medium. Consumer behavior has changed significantly in a very short period of time and had some profound impacts on the TV advertising ecosystem.

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Buyers face an increasingly more complex ecosystem, with literally thousands of channels to consider within the linear TV marketplace. When you include the additional layers created by new devices, streaming platforms, time-shifting and all of the other emerging options for viewers to consume video content, sellers and buyers must navigate a highly fragmented marketplace.

Various trade commentary on television's disposition would seem to indicate it's heading the way of the newspaper—yet in reality people are now consuming more video and TV content than ever before. They are simply availing themselves of the ever-expanding options when it comes to accessing that content. So how do TV operators position themselves to best monetize every single impression across each of their sales channels?

Given the challenges sellers face with increasing audience fragmentation, deteriorating reliability of the ratings currencies and the expanding number of inventory options necessary to fulfill advertiser audience commitments, programmatic may offer TV operators the ideal platform to holistically monetize audiences wherever they're consuming content. As we increasingly evolve into a TV Everywhere world, the need for an Audience Everywhere™ solution is becoming paramount for TV operators.

Programmatic TV is an emerging area of interest throughout the media industry. While programmatic TV is still very much in its infancy, for many it represents an inevitable future. For others, a healthy skepticism regarding programmatic's potential value within the traditional TV transaction prevails. This will be the first paper in a series sponsored by SpotXchange exploring the integral components and issues pertaining to programmatic TV — from industry economics to critical analyses regarding video consumption trends.



Global Perspective:

While every TV market certainly has its own endemic challenges-- be they technological infrastructure, ad rights management, government regulations or just market politics-- the biggest challenges TV operators face around the globe are nearly identical market to market.

Defining Programmatic TV

Today, if you ask three industry professionals to define programmatic TV, you'll get at least four different answers. But, as programmatic TV becomes more and more of a tangible opportunity, rather than a nebulous concept on the distant horizon, a general consensus is beginning to emerge around the promise of programmatic to empower the planning, buying, measurement, and optimization disciplines of traditional television.

What is programmatic TV?

Programmatic TV is the technology-based empowerment of the planning, buying, measurement and optimization disciplines of traditional television.

At its heart, the goal of a fully realized programmatic TV solution will deliver:

- Operational efficiencies
- Better yield management
- Data-driven transactions
- Real-time optimization
- Household addressability

For content owners, this means the ability to effectively manage all ad inventory across the increasingly fragmented platforms that consumers use to view video content — and do so in a way that optimizes the monetization of every ad impression.

For ad agencies and other media buyers, this means the opportunity to target audiences with greater accuracy, holistically manage buys across platforms and drive stronger results.

Data & Automation at the Forefront

It all happens through automation: driving new efficiencies, and harnessing masses of granular data to analyze the market, and provide the ability to identify and target audiences more finely and deliver ads more effectively than ever before.

The ideal programmatic TV solution would allow the industry to:

- Improve transactional efficiencies for sellers and buyers through process automation
- Optimize ad targeting, decisioning and message exposure based on audience characteristics rather than ratings alone
- Match TV (video) sellers and buyers, providing increased value for both sides
- Increase per-impression revenue by surfacing new data and delivering better measurement

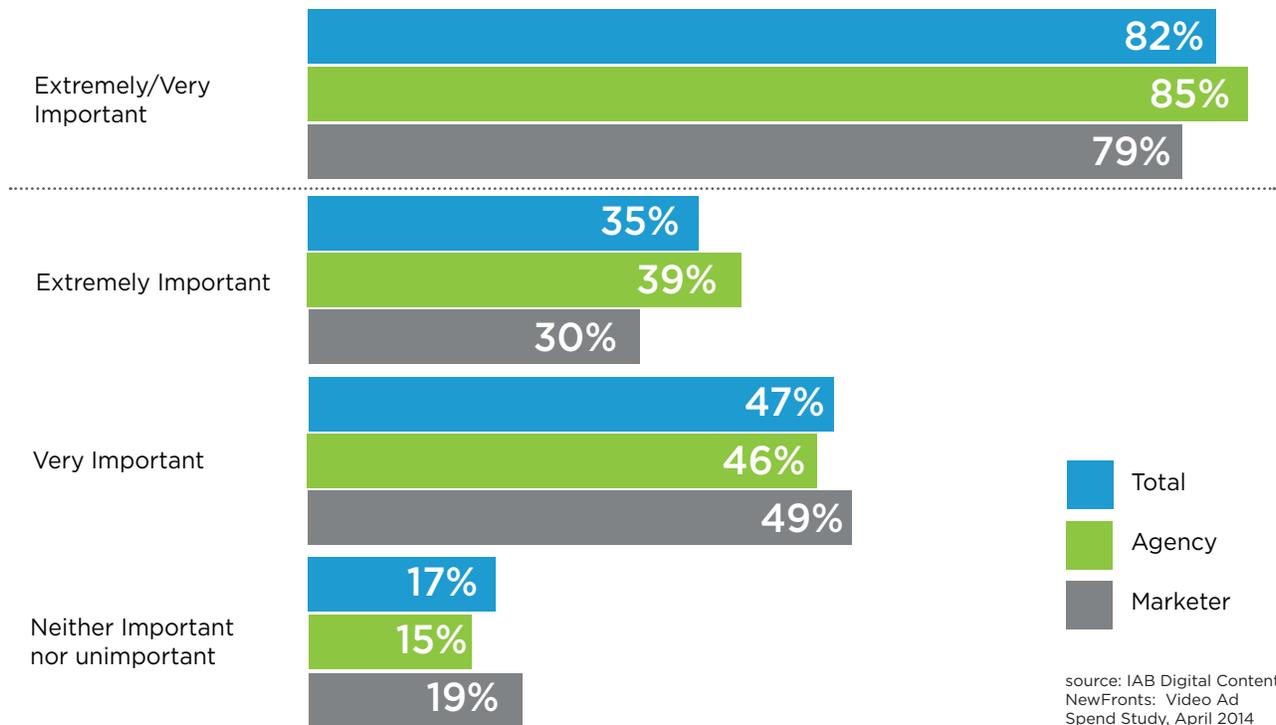
Programmatic television means selling and buying ads on audience attributes rather than just a ratings basis

Programmatic for these more traditional TV outlets provides a bridge to a future that will allow sellers and buyers to transact impressions seamlessly across broadcast, cable and digital “over-the-top” (OTT) sources — on the open Internet via devices such as Roku, Playstation, Xbox or a desktop computer — all on the same plane, calibrating and correlating impact in real-time for all forms of delivery. Another aspect of this shift will be adjusting from focusing on 30-second avails to inventory being defined by the impression capacity a TV seller can deliver.

Buyers are Looking for Enhanced Solutions

Importance of Multi-Platform Solutions that Include TV and Digital Video Under One Media Buy

Overall about eight in ten advertisers say that a multi-platform solution including TV and digital video under one buy is important.



It's clear that demand for programmatic is poised for fast growth. More than eight in ten agencies and marketers told the IAB that a multi-platform solution that includes TV and digital video under one buy is either "extremely" or "very" important. Increasingly sophisticated media buyers want the kinds of targeting, data and control that digital offers. They want to know not just the shows and dayparts in which they're placing ads, and how many ratings points they're getting, but also specific attributes of the audience - down to the individual home or even viewer, if possible.

"Buyers are getting used to and liking the tactics they're using in programmatic for digital video and they want to apply that to TV," said Alex Merwin, SpotXchange's Vice President of Global Programmatic Demand.

But, programmatic isn't just a boon for buyers. Content owners looking to optimize the value of every ad impression across every video viewing opportunity will use programmatic to maximize yield and vastly improve workflow.

Television - Traditionally



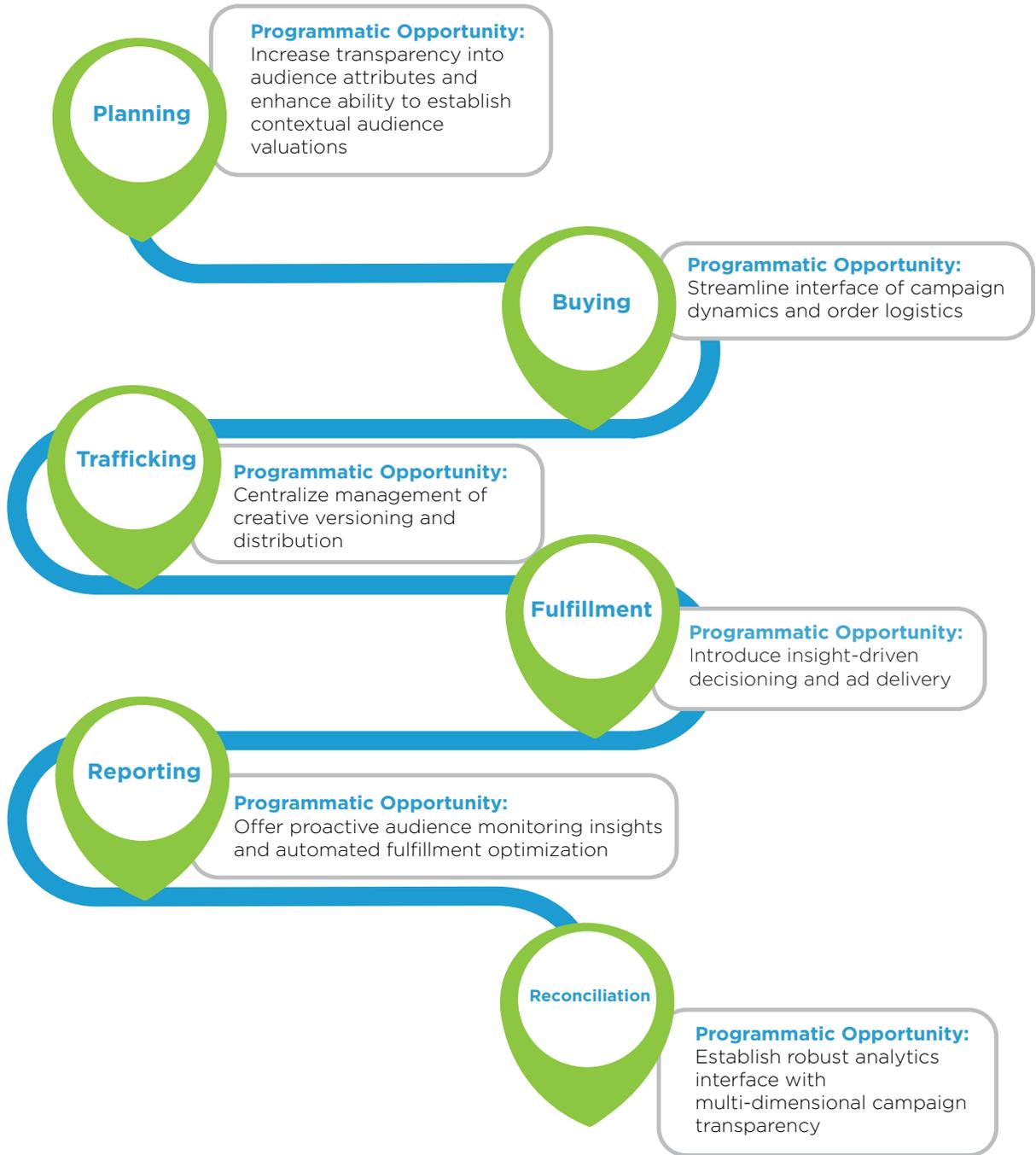
In 2014, most of the \$70 billion¹ spent on traditional television advertising was transacted using traditional types of campaign planning methodologies. Even if workflows and booking processes have become digital, the complexity of today's multi-platform video ecosystem requires new kinds of campaign management to provide sellers and buyers with more transparency on what is truly being bought and delivered.

While these well-developed workflows have sufficed for decades, the linear television industry — spurred in part by declines in traditional TV viewership² as consumers access content through new means — has started to acknowledge demands for increased transparency, efficiency and verification and is increasingly looking to programmatic for solutions.

“If there are more online eyeballs, there will be more advertisers trying to make their messages there,” Time Warner CEO Jeff Bewkes said at the recent UBS Global Media and Communications conference in New York. “TV needs to have analytics and targeting, and I think they're well on the way to doing that.”

Television programmers and media buyers must also adjust to shifting budgets. A forecast from MAGNA GLOBAL predicts digital budget allocations to come nearly in line with traditional TV in 2019. The GroupM advertising firm released a forecast predicting that traditional television's share of the total ad market will fall for the first time in 2015.³ This provides both a challenge and an opportunity for sellers and buyers as they adjust to the changing dynamics in the industry.

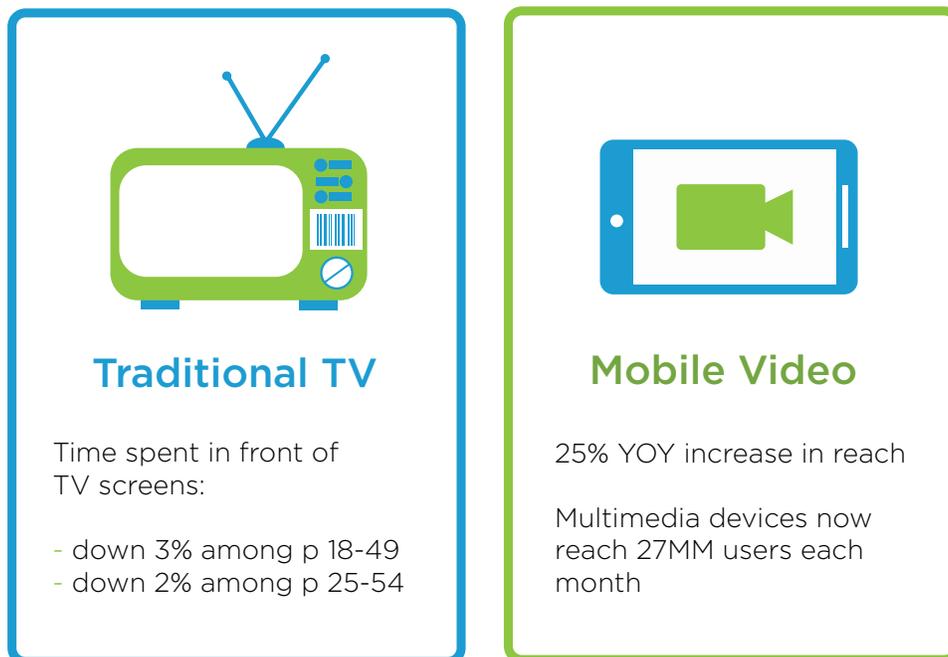
The TV Ad Buying Process



The Supply Side's Role in Programmatic TV

To date, a significant amount of the push for programmatic TV has come from the buy side of the industry. Agencies and other media buyers are familiar with using programmatic technologies and methodologies across their digital buys and foresee many benefits to bringing it to traditional TV buying. However, few of the solutions have focused specifically on fulfilling the needs of the broadcasters and content owners to create a fully integrated programmatic TV solution.

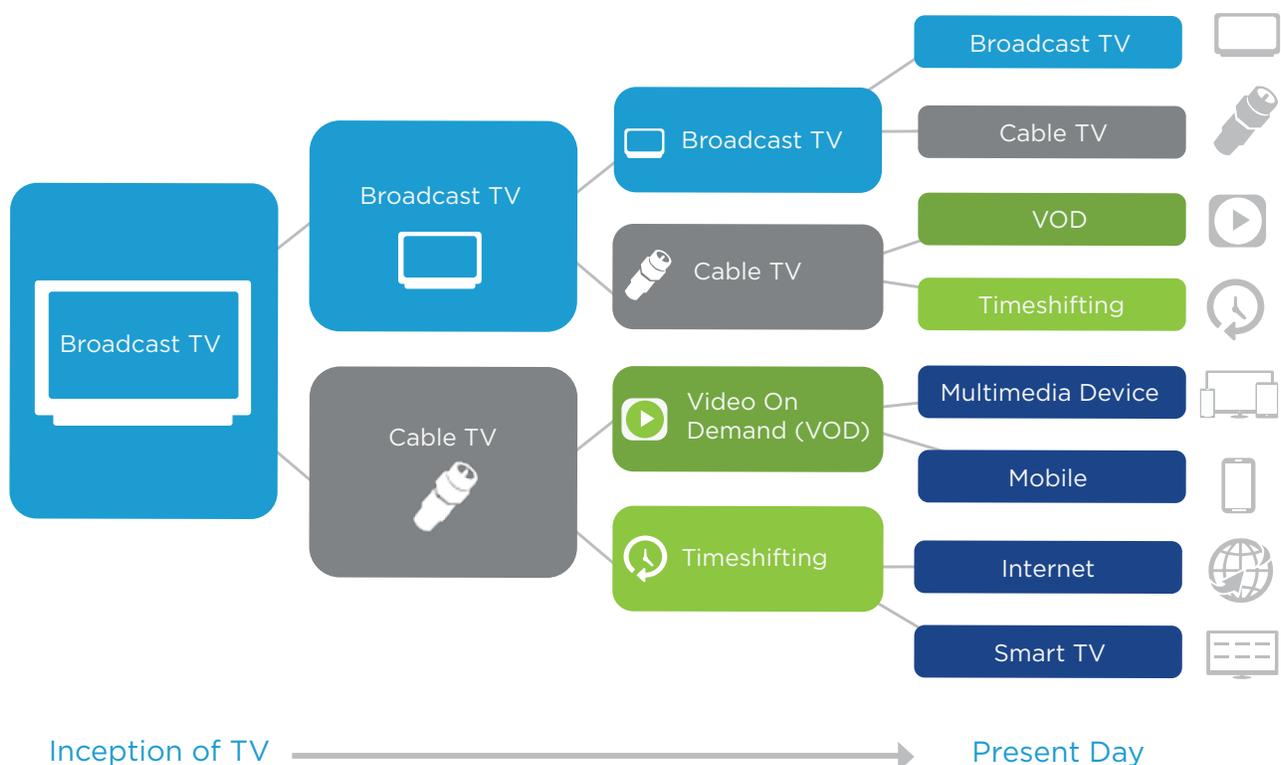
The supply side programmatic TV platform will exist for the purpose of maximizing revenue and inventory yield management across demand side platforms, enabling content owners, networks, stations and MVPDs to effectively and efficiently fulfill audience obligations across all sales channels with principal rate fidelity. It's a tall order, but one that needs to be met to ensure the owners of the actual content are able to make a successful move to programmatic.



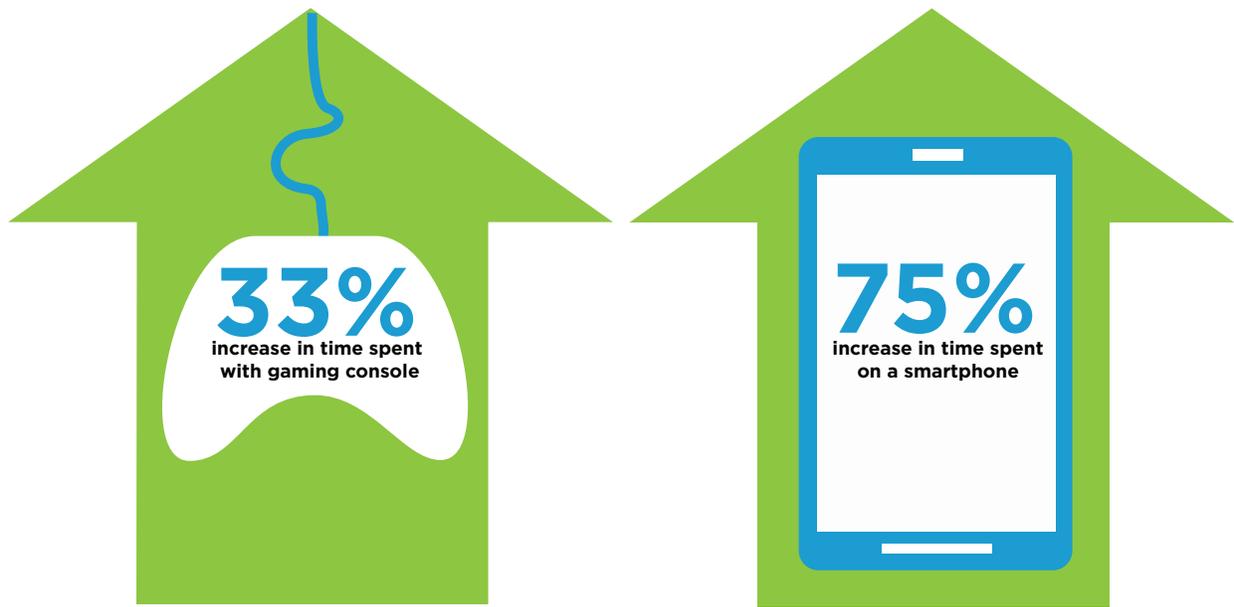
Source: Nielsen, The Total Audience Report, December 2014

The Fragmentation of the Video Viewing Audience

Among the leading reasons for the increased interest in programmatic TV is the ongoing fragmentation of the viewing audience. Today, consumers have an ever-expanding list of choices when it comes to not only the video content they watch, but also the way they watch it. While the explosion in mobile devices has added an entirely new screen for viewers to use, even the big screen TV in the living room now provides a variety of access points beyond linear TV.



On one hand, the influx of new devices has allowed consumers to watch more video content than ever before. But, there is only so much time people can spend consuming media and more specifically video. There's an obvious natural limit of 24 hours a day, but somewhere inside of that, viewers are certain to hit a ceiling - a point at which an increase in viewing on one platform comes at the expense of other options.



Source: Nielsen, The Total Audience Report, December 2014

The Promise of Programmatic TV

Programmatic TV advertising, developed and used effectively, has the potential to answer the challenge of audience fragmentation, holding onto dollars that might otherwise shift to pure digital plays, and offer the ability to better monetize currently undervalued inventory. It also gives marketers new tools to improve spending efficiencies and understand their media buys more intricately than ever.

Optimized Audience Targeting

Media planners are trying programmatic techniques to better understand audience composition beyond large-scale demographic and geographic swathes. Where possible, those techniques have been combined with addressable TV to allow targeting at the individual household level and go well beyond the generalized information that ratings provide.

Addressable TV today is served primarily through connected or “smart” TVs connected to IP networks, through enabled set-top boxes and through IPTV (see appendix) solutions. Invidi reports that addressable TV is integrated into 80 million US households already.

Smaller TV industry operators may be especially situated to reap the early benefits of programmatic. These operators — cable networks with limited viewership, or TV stations in smaller DMAs, for example — tend to sell their advertising in four buckets:

- 1 Premium/tentpole inventory (series premiers and finales, live sports, specials, etc.).
- 2 High demand dayparts, such as Prime, outside of tentpole events.
- 3 Packaged inventory that can't be sold as standalone, but that buyers must purchase along with certain high-demand programming.
- 4 Inventory that is sold to direct response (DR) advertisers, which tends to be in dayparts that brands do not value from a mass audience perspective.

For their most popular programming and events in the more valuable buckets, operators are able to charge premium CPMs. But for the lowest level of inventory (the TV equivalent of “remnant”) sold to DR, effective CPMs can be as low as \$1. This remnant inventory is also typically bought with no audience guarantees in exchange for the extremely low rates.

Nielsen data shows that 65% of U.S. TV viewing is on programs with a rating of under 0.5,⁴ highlighting the growing impact of audience fragmentation. Because of the relatively low ratings, television media buyers using traditional methodologies become averse to placing ads there — even with low media costs.

Smaller TV industry operators are especially situated to reap the early benefits of programmatic

Driving Higher Value from “Remnant” Inventory

“Most of the sellers and local cable operators recognize they have 40% or 50% of inventory that’s undersold, goes to direct response, or doesn’t get sold,” said Tim Hanlon, founder and CEO of media-focused investment and strategic advising firm Vertere Group.

Programmatic solutions will help operators increase the yield on that underutilized inventory multifold, because many of the viewers exposed to that direct response advertising would be more valuable to buyers if they could be identified.

“What if you could go to a TV seller and tell them to take some of that inventory and elevate it from a \$1 CPM to \$8? That’s found revenue, simply by injecting data!” Hanlon says. At that differential, if even 15% of the inventory was sold at the higher rate and the remaining 85% was not sold, the sellers would make 20% more total revenue on that audience. While this is simply a sample scenario, it helps demonstrate the ability of programmatic technology to optimize yield on inventory that may be currently undervalued.

““ There is still revenue growth opportunity for television, even if linear audiences aren’t expanding. ””

– Randy Cooke, VP of Programmatic TV, SpotXchange

Increasing Inventory Value Through Data and Measurement

The data programmatic provides can turn previously valueless inventory into premium opportunities. For example, today, a viewer may be monetizeable at higher rates only while watching a popular show but not if he or she clicks to another channel. With programmatic, however, operators will have the ability to retarget the most desirable audience segments even if they switch to less popular programming.

“What we are going to be doing is enable the systems to reach those target audiences, and at a target level, monetize every impression that’s reported in that campaign,” says Randy Cooke, SpotXchange’s VP of Programmatic TV.

Programmatic can also be effective in driving attribution metrics beyond the GRP to brand lift, and even be mapped to eventual sales in certain instances. Programmatic data linked to loyalty programs and other shopping databases will help determine real advertising effectiveness, removing much of the guesswork for agencies and media buyers and allowing them to secure additional advertising budget.



In **2014**, time spent consuming digital video grew

62% year-over-year among persons 25-54

55% among persons 55+

53% among persons 18-49

Matching Buyers with Their Target Audiences to Increase Mutual Value on High Quality Inventory

But programmatic’s potential benefits aren’t limited to undersold or under-valued inventory. The yield on higher value impressions can also be optimized. By placing inventory in a programmatic platform, content owners can learn more about their inventory and find out the true value of impressions they may be underselling, even when they’re charging premium rates.

A popular show, for example, may be sold at an aggregate \$30 CPM, but subsets of that audience could be worth significantly more to certain buyers that would yield the seller a greater unit rate if priced accordingly. Once linear TV is linked to true supply side inventory management and data management platforms (SSPs and DMPs), content providers will also be able to address buyer demand they may not have been aware of previously. Highly transparent SSPs will also allow sellers to see what bids are being made on what inventory and which types of audiences attributes are driving demand.

“If a station can figure it out, why wouldn’t I want to work with the smartest stations?” asks Janice Finkel-Greene, EVP/Buying Analytics of the MAGNA GLOBAL media buying agency. “Or what if a station comes to me and says, ‘Have you thought of using this piece of qualitative research, or using it this way?’ Wouldn’t I welcome this kind of input?”

Private Exchanges Will Drive Opportunities

Operators leveraging private exchanges are likely to make early inroads and achieve success as they are applied to the traditional TV ecosystem. Scarce premium inventory can still be offered to a group of select buyers, but programmatic data will allow both sides to more efficiently transact and fulfill each deal and to gather more data on the ads being served.

Workflow Automation Drives Efficiencies

Another area primed to benefit from programmatic in linear TV will come from creating efficiencies in the financial reconciliation and servicing processes for ads, by automating workflows that are now largely manual. Today’s selling and buying process involves tremendous back-and-forth communication and exporting/importing data from one closed system to another. A typical transaction today may involve taking buy side analytics out of a buyer’s system (eg. Mediaocean) and transmitting it to the seller who then imports the buy sheet into their system (eg. Strata) and vice versa.

Examples of Broadcasters Already Using Programmatic

The future may not be so far away. A number of broadcasters are already experimenting with programmatic techniques, testing competitive demand for desirable ad spots or using programmatic technologies to cut down on trafficking costs.

In 2014, Dish and DirecTV combined their ad-sales effort to apply addressable advertising to political campaigns. Demand was so robust, the networks had to make more inventory available, selling commercial time that wasn't previously addressable.⁵

ESPN, said it is making 30-second "SportsCenter" spots available via online auctions.

Weather Channel will test selling a limited amount of traditional TV inventory programmatically this year, Melissa Squaires, VP-Pricing, Planning and Operations, Weather Company, told Ad Age.⁶ The network is currently speaking with an agency about making time available on a private exchange, she said.

The large networks are experimenting with programmatic, too.

ABC ran a trial with MAGNA GLOBAL during the summer, and NBC began selling ads at a fixed price with programmatic data during the upfront.⁷

Jeff Bewkes, Time Warner CEO said that in 2015, the company will be "ratcheting up" their capabilities in dynamic insertion of ads for video-on-demand.

Cox Media and Dish have announced intentions to use programmatic technology, and many more networks will soon start to come online.

While each of these cases represents an individual test of a specific programmatic feature, a fully functional, holistic programmatic TV solution has yet to be delivered.

Down the Road

At some point in the future, real-time buying may be leveraged in a significant amount of programmatic TV transactions — open moment-to-moment auctions of linear television ad spots, leveraging an infrastructure that includes SSPs, DSPs and DMPs. But real-time buying is neither necessary nor required to bring the wealth of benefits from programmatic to the TV industry by using private exchanges for pre-sold, guaranteed deals.

What's Next?

We are still in the very early days of programmatic TV. Current solutions are fragmented and piecemeal, and long-established processes and business practices may slow the transition. Many content owners have understandable concerns that by putting their inventory into programmatic platforms, they risk a devaluation and commoditization of inventory — analogous to what happened to some display inventory in the digital space on ad networks and exchanges.

Despite all the audience fragmentation, TV remains the best medium to reach large audiences through the power of sight, sound and motion – delivering more concentrated volume than any other video channel can match today. Programmatic offers the opportunity not only to adapt to a changing viewing ecosystem, but also to take advantage of data and automation to optimize yield in ways never before available.

Those content owners who can offer higher levels of targeting, addressable advertising and workflow automation will stand to gain a competitive advantage in the marketplace. 2015 is emerging as a year to learn, experiment and begin exploring the potential for programmatic TV. Stay tuned for more information and recommendations from SpotXchange in the coming months on how TV operators and content providers can begin leveraging programmatic TV and position themselves to reap the benefits of this emerging technology.

“The television advertising system, which, really was set up as a response to scarcity, that system doesn't really apply anymore,” 21st Century Fox president and co-COO James Murdoch noted at the UBS conference. “The business rules need to adapt.”

Thanks to our writers, Dorian Benkoil of Teeming Media and Richard Glosser of Hilltop Digital.

Footnotes

1. Reliable calculations of TV ad spend for 2014 range from approximately \$65 billion to \$74 billion
2. This season, traditional television viewing has seen a 3% decline in audiences, with streaming services like Netflix showing significant increases
3. <http://www.nytimes.com/2014/12/09/business/media/at-a-conference-research-shows-netflix-is-upending-tv-business.html>
4. <http://adage.com/article/digitalnext/tv-finally-embracing-digital-ad-technologies/294142/>
5. <http://adage.com/article/dataworks/phase-addressable-advertising-understanding-tv-roi/295550/>
6. <http://adage.com/article/digital/programmatic-tv-lots-talk-real-action/296184/>
7. <http://adage.com/article/digital/programmatic-tv-lots-talk-real-action/296184/>



THE TRUSTED PLATFORM FOR VIDEO ADVERTISING

Stay tuned for future white papers from SpotX on how sellers can prepare for the convergence of traditional TV and digital video

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