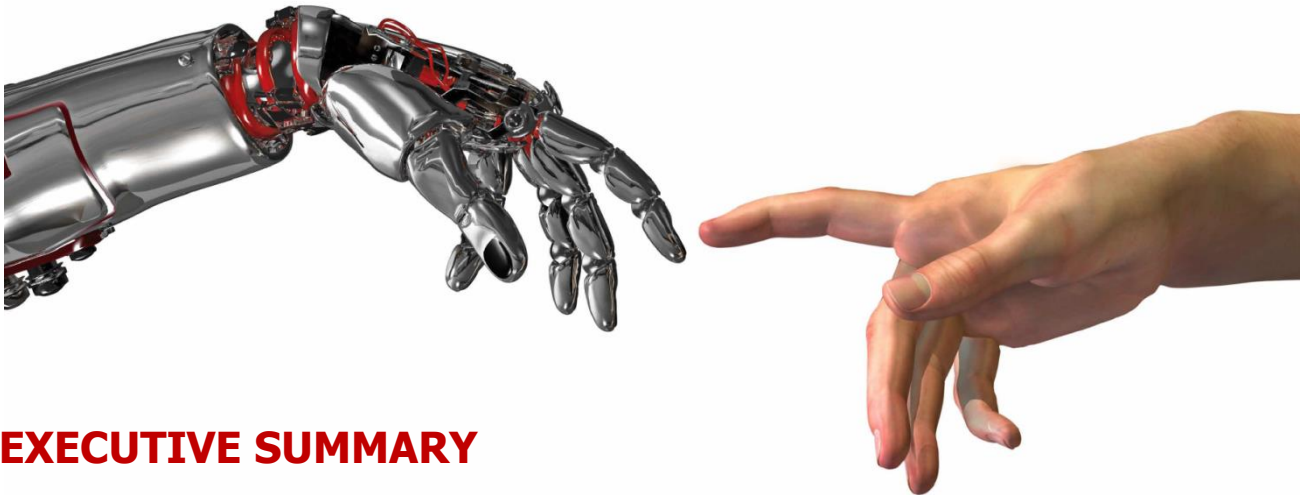


WFA Report: **PROGRAMMATIC & TRADING DESKS**



EXECUTIVE SUMMARY

Agency Trading Desks remain the preferred programmatic model, used by over 70% of respondents, but the market is evolving rapidly. Independent Trading Desks and in-house models are on a considerable growth trajectory. The 'hybrid' model is getting traction and may offer the 'best of both world's'.

The models being put in place now are effectively 'second generation', promising significantly improved control & transparency. It's clear that the only way to get the transparency and control required by clients is by reviewing and resetting trading desk contracts and models - currently being conducted by almost 90% of respondents.

The premise of 'principal' trading is largely (but not always) rejected by clients. Sixty-two per cent of respondents *agree* that they have *not* 'opted-in' to principal trading and are *not* comfortable with the potential conflicts of interest. Many clients are seeking to clarify this position in their contracts.

Ease of integration and assimilation the main factor driving choice of Agency Trading Desks, while transparency and control drives clients to Independents. Ultimately, choices should be governed by the strategic principles which matter to your organisation (e.g. culture, structure, data, technology...).

Looking at buying routes, the direction of travel is clearly towards 'Private Market Places' (PMPs) where inventory quality can be better guaranteed. Two thirds of respondents say that they are increasing investment in unreserved 'invite-only auctions' ('Private Market Places'), and over half say the same for 'Automated Guaranteed'.

Over half of respondents are buying 50% (or less) inventory as 'premium'. But this looks set to increase in the coming year, with the move to PMPs a factor.

Programmatic investment representing 16% of total digital investment, on average, for almost 50 of the world's largest brands. This is not an even distribution across the world however; programmatic represents almost a quarter in North America for respondents, and as little as 12% in China.

Display formats represent the largest share of programmatic budgets, but the momentum is with mobile. Mobile programmatic budgets are to 'increase significantly' for 61% of respondents in the next 12 months.

CONTENTS

Programmatic operating models & partners	Pg. 2
Programmatic investment & performance	Pg. 8
Conclusions & key recommendations	Pg. 12



About this paper:

The primary aim of this research is to build a picture of the programmatic approaches and operating models used by multinational companies. Also in focus in this study is the level of investment committed to programmatic buying, plus the performance improvements seen.

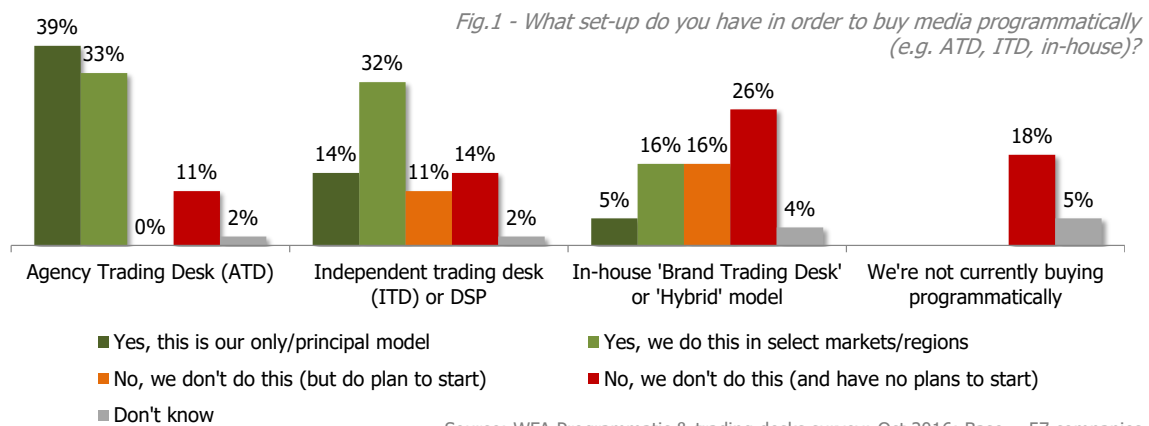
The WFA surveyed members of the MEDIAFORUM between October and November 2016 and received 59 responses across 18 different industry sectors. Total global ad spend of all respondents equates to in excess of \$70bn.

This is the third wave of research WFA has done into programmatic. Where possible we have provided period-on-period comparison, but the findings are composed of different respondents and bases, and should be treated with caution.

PROGRAMMATIC OPERATING MODELS & PARTNERS

Agency Trading Desks remain the preferred model, but the market is evolving rapidly

Amongst the clearest findings from this research is that Agency Trading Desks (ATD) are the preferred programmatic model, used as the principal or only model for 39% of respondents, on a sample of 57 clients (fig.1). In contrast just 14% of respondents say that Independent Trading Desks (ITD) represent their principal model, and 5% say the same for Brand Trading Desks (BTD) or managed service 'hybrid' models.



A further third say that, if not their only or principal model, they do use ATDs in select markets and/or regions. This is where the results become particularly interesting as the same number (32%), use ITDs on a selective market basis, and 16% say the same for in-housing.

That such large shares are now using independents or operating in-house/hybrid models (even if this is on a selective regional or market-by-market basis), illustrates how quickly the market is evolving.

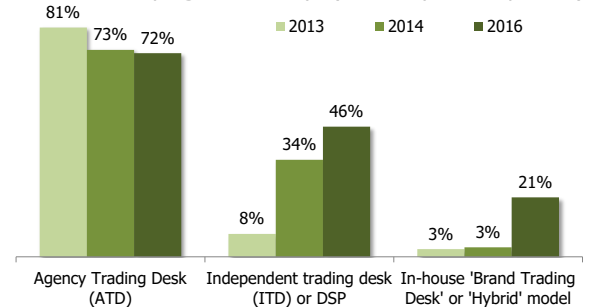
Combining shares of respondents who work with a given model (either as their principal approach or their secondary, selective approach), gives us a clearer idea of the total usage of each. More than 70% of respondents use ATDs on any basis, while almost half of respondents work with ITDs. Meanwhile over one fifth operate in-house and hybrid models somewhere in the world (fig.2).

These numbers tell us that these approaches are not mutually exclusive, and in fact, more than ever before, different models are coinciding and coexisting around the world, as different markets and regions adopt and experiment with new models at different speeds.



But the most striking finding here is that ITDs and in-house models are on a considerable growth trajectory. This is particularly striking for in-house, which was being conducted only at the fringes of WFA's membership just two years ago.

Fig.2 – What set-up do you have in order to buy media programmatically? (Year-on-year comparison)



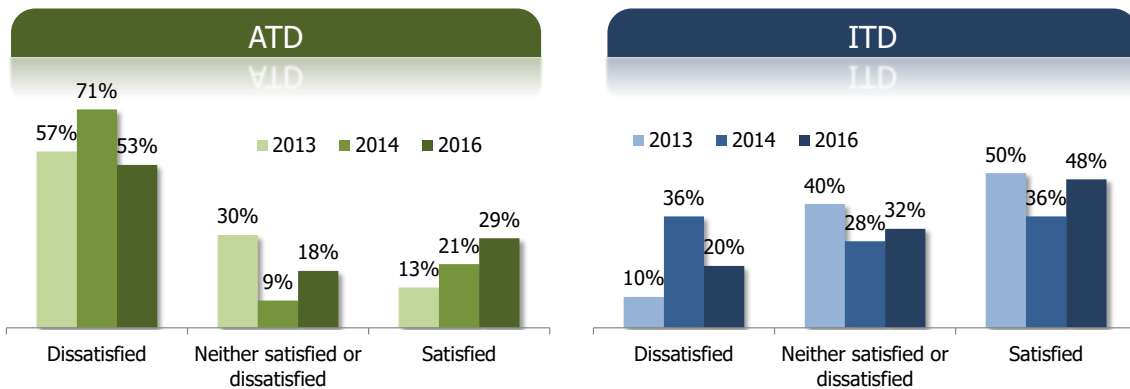
Source: WFA Programmatic & trading desks survey; Oct 2016; Base = 57 companies

The models being put in place now are effectively 'second generation', promising significantly improved control & transparency

Transparency was widely identified as an issue in the first and second wave of WFA's programmatic research. In 2014, two thirds of respondents were unclear on the business model used by their trading desks, and over 70% were dissatisfied with the level of transparency provided by their ATD.

Transparency levels may be improving. Twenty-nine per cent of respondents are 'satisfied' with the level of transparency provided by their ATD, up from 21% in 2014. Meanwhile almost half say that they're satisfied with the transparency they get from their ITD, up from 36% in 2014.

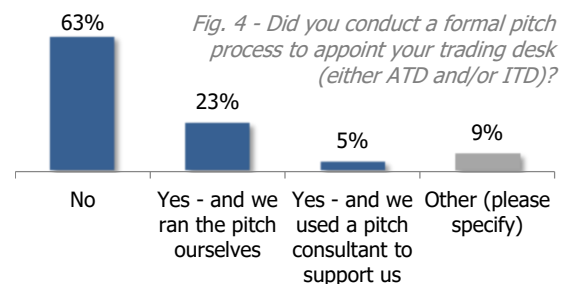
Fig.3 – Are you satisfied with the level of transparency/details you have into how you are charged for media/audience buying and other services, by your Trading Desk?



Source: WFA Programmatic & trading desks survey; Oct 2016; Base = 47 companies

For some clients it appears that **the choice to use an ATD may have been a "default decision in the absence of a strategic choice"**. For others this was a "legacy decision that was made when the account was won by [the] current AOR", or an "organically developed position with the AOR rather than a pre-considered choice."

The majority of respondents (63%), did not conduct a formal pitch process and some respondents elaborate that they were nudged in this direction (fig.4).



Source: WFA Programmatic & trading desks survey; Oct 2016; Base = 56 companies

“ We did not so much as decide to go down the ATD route but were nudged in this direction by the agency. ”
WFA Member



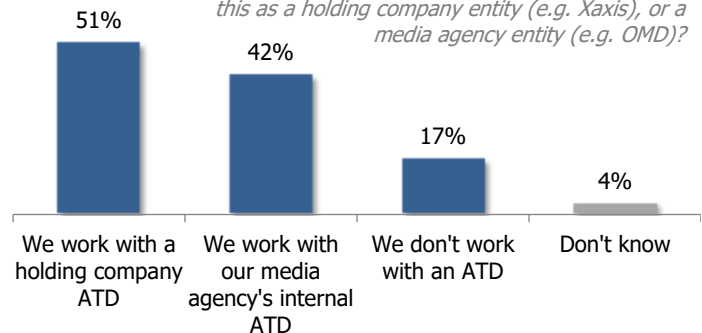
We are now seeing a 'second generation' of programmatic model emerging. This could mean establishing a hybrid model, working with an independent or remaining with an ATD. **Whatever the shape, it's clear that the only way to get the transparency and control required by clients is by reviewing and resetting trading desk contracts and models - currently being conducted by almost 90% of respondents.**

89% Agree
We're making changes to our programmatic models to improve transparency and control

ATDs themselves are evolving, and new ways of working are emerging...

The legacy ATD set-up is via a holding company entity (e.g. Xaxis, Accuen, Cadreon, etc). This remains the primary way for clients to conduct programmatic through their agencies, and 51% of respondents operate on this basis (fig.5).

Fig. 5 - If working with an ATD, would you describe this as a holding company entity (e.g. Xaxis), or a media agency entity (e.g. OMD)?



“The honed, specialist trading skills and knowledge are of a higher quality among ATDs.”
WFA Member

Source: WFA Programmatic & trading desks survey; Oct 2016; Base = 53 companies

There can be issues with account servicing on the part of these companies though, who occasionally lack client-facing experience, acknowledges a respondent. Routing communication back through the AOR might be the solution, though this creates its own challenges, as more strategic and technical principles can be lost in translation.

The preference for an increasing share of clients, is to work with their media agency's internal ATD. This appears a growing trend, in part motivated by clients wanting their day-to-day agency team to also handle their programmatic buying, for the sake of consistency and simplicity in reporting structure. But in some cases agencies themselves are prompting this change. In 2015 Publicis Group announced that it would be merging VivaKi into the company's agencies, because "clients don't trust the concept of a trading desk anymore".

“Clients don't trust the concept of a trading desk anymore”
Marco Bertozzi, VivaKi

The premise of 'principal' trading is largely (but not always) rejected by clients

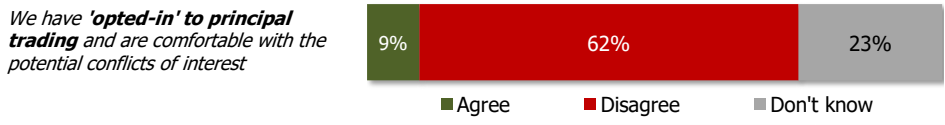
The reality is that holding company entities tend to have quite a unique offer, with aggregated data and access to more inventory via Private Market Places (PMPs). In some cases holding company ATDs will be buying inventory at wholesale prices and selling to clients at retail prices ('arbitrage'). This is something that some clients may be prepared to consider if the price is right and they're comfortable forfeiting transparency:

“Some partners that we use every now and then (when there is a 'fit' or deal we want to take advantage of) do not provide any transparency. As the opportunity and cost is good, we can accept this on occasion.”
WFA member

But the results to this survey suggest that this is not a commonly accepted position. **Sixty-two per cent of respondents disagree that they have 'opted-in' to principal trading and are comfortable with the potential conflicts of interest** (fig.6).



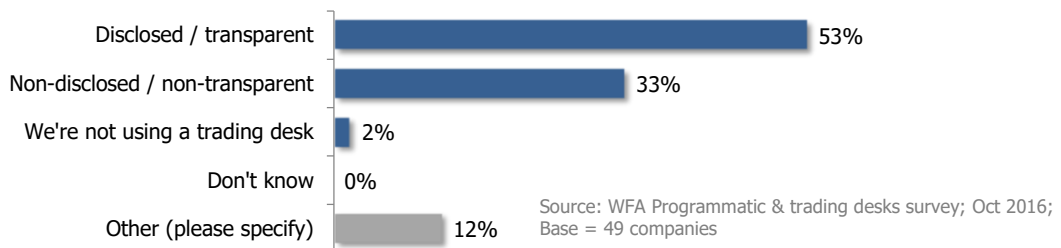
Fig. 6 - Please indicate to what extent you agree or disagree with following statements.



Source: WFA Programmatic & trading desks survey; Oct 2016; Base = 47 companies

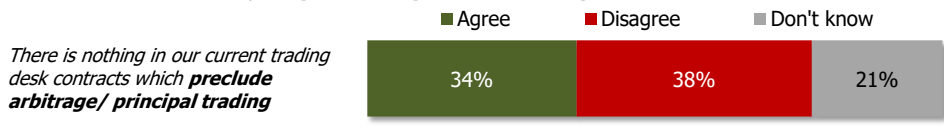
This reflects a predictably strong stance on the part of the client community and is supported by the fact that **53% of respondents claim to have a 'disclosed or transparent' programmatic relationship with their suppliers** (fig.7). In reality this may be a bit of a blend, with a "mix of disclosed and non-disclosed depending on the market lead's vision".

Fig. 7 – How would you describe your trading desk operating model?



On the other hand, one third of respondents operate on a 'non-disclosed' or non-transparent basis, and a similar number, **34%, agree that there is nothing in their current trading desk contracts which preclude arbitrage/principal trading** (fig.8).

Fig. 8 - Please indicate to what extent you agree or disagree with following statements.



Ultimately, where the media agency is acting as principal, it is recommended that advertisers consider the 'Prescriptions, Principles and Processes' contained in Ebiquity's Media Transparency guidance, produced in accord with the Association of National Advertisers (ANA, US):

- Develop an internal policy (including an in-depth understanding of tradeoffs) regarding the media agency acting as agent or principal. This policy should be strictly adhered to in the contractual terms which govern principal trading.
- Confirm and reaffirm when the media agency is acting as an agent and when it is acting as principal.
- Confirm that the media inventory or other services and products are being supplied to the advertiser on an "at risk" basis by the media agency (i.e., exposure to the chance of loss), and therefore warrant any additional margin agreed upon for such transactions. The advertiser should have the right to independently verify that the media agency is acting as principal.
- Agree on permitted margins for principal transactions. Margins should be based on any added value arising from principal trading in proportion to the benefits and/or the risks for the media agency.
- Maintain a clearly outlined process for accepting a principal relationship, and identify the person on the advertiser side who should give that permission (such as the contract signatory).

Source: Media Transparency: Prescriptions, Principles, and Processes for Marketers; Ebiquity/ANA

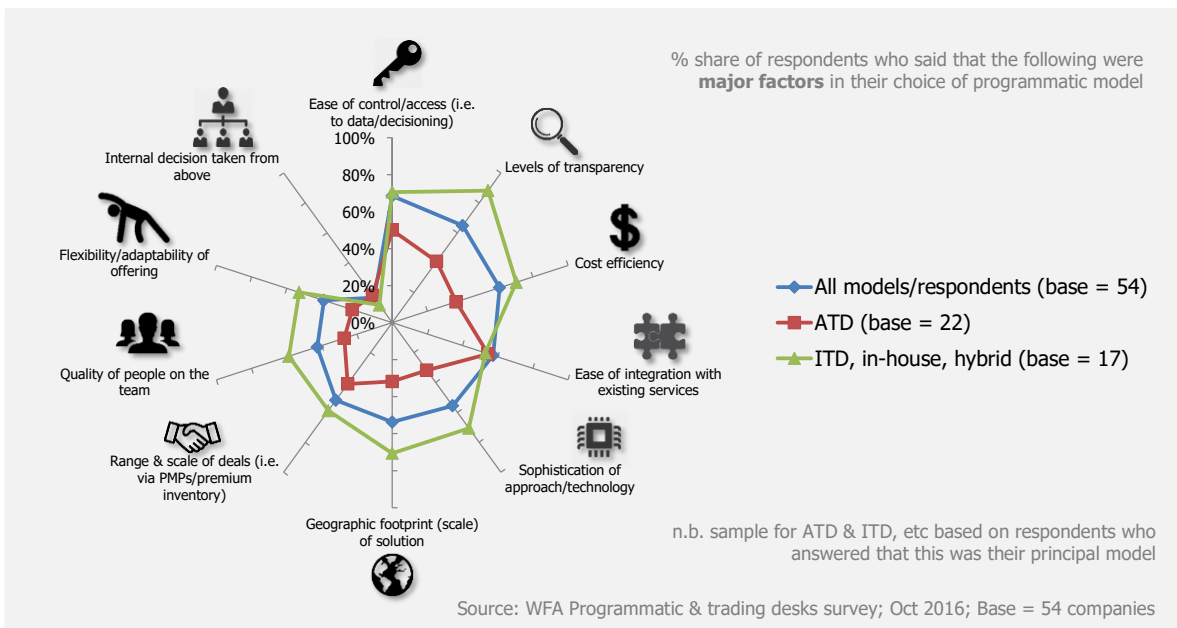


Ease of integration and assimilation with existing products and services the main factor driving choice of Agency Trading Desks, while transparency and control drives clients to Independents

Looking across all models deployed by respondents, ease of control and access to data plus decisioning, is a 'major factor' determining choice for 69% of respondents. Transparency (65%) and cost efficiency (61%), are not far behind (fig.9).

Drilling down into this data, to see the motivations driving specific operating model choices reveals some interesting trends.

Fig. 9 - Please indicate if the below are major or minor factors in your choice of programmatic model. Please respond with your principal model in mind.



Fifty-five per cent of clients primarily choose ATDs because of the ease of integration and assimilation with existing products and services. This makes sense and supports the responses collected elsewhere in this research.

Looking at those respondents who use either an ITD, in-house or hybrid as their primary model, the numbers are striking:

- **Level of transparency** is a 'major factor' behind choice of working with an ITD for nearly nine in ten respondents (compared to 41% for those who use an ATD as their primary model);
- **Ease of control/access** is a 'major factor' behind choice of working with an ITD for 71% (compared to 50% of those who use an ATD as their primary model);
- **Cost efficiency** is a 'major factor' behind choice of working with an ITD for 71% of respondents (compared to 36% of those who use an ATD as their primary model);
- **Sophistication of approach/technology** is a 'major factor' behind choice of working with an ITD for 71% of respondents (compared to 32% of those who use an ATD as their primary model).

Fundamentally there are much fewer ATD respondents claiming that these criteria were 'major factors' in their choice of model. That is to say, they were 'minor factors' or 'not factors at all'.

This is particularly surprising for 'Range and scale of deals' and 'Geographic footprint of solution' where logic suggests that ATDs would be a stronger contender. But responses to this survey suggest that clients have been satisfied that their ITD/hybrid model can deliver sufficiently even in these criteria, where media agencies have traditionally offered a unique selling point.



The 'hybrid' model is getting considerable traction and may offer the 'best of both worlds'

An in-house programmatic approach typically requires establishing relationships and contracts with suppliers while also building the internal resource to operate the technology. Hybrid models, on the other hand, start from the basis that the desk will be resourced externally, by an agency or independent, but the technology selection and contract are handled by the client.

In an early sign of where the client-side skill market is headed, WFA is seeing increasing numbers of members with 'programmatic' in their job titles. But finding the right resource to coordinate programmatic operations has long been considered a barrier to doing more of this in-house. Sixty-two per cent of respondents to recent research on 'Media Transformation' acknowledged that resource remains a struggle. For many, the hybrid approach seems to offer the 'best of both worlds':

“Hybrid model: agencies do the buying, we own the data/tech stack”

“We have our own trading desk powered by the best in market partners for our needs that we have RFP'd out. The reason for this is that we want to have ownership of the data and transparency on costs so that we can drive ROI.”

“Our hybrid model is about taking control of our data by choosing the technology components and owning direct contracts. The agency performs the work (planning, setting up campaigns & buying) on the marketing tech stack we have chosen.”

“We use best in class tech, run by the agency”

Identify the strategic principles which matter to you – these will govern your partner choices

It's clear that a number of considerations need to be kept in mind when deciding on the programmatic partner for your business. For clients about to launch an RFP and exploring which programmatic models to consider, the best approach is to consider **what strategic principles are important for your business – these are likely to govern your choices**, to a lesser or greater extent:

<p>CULTURE</p> <ul style="list-style-type: none"> • How important is transparency to your business? • How cost focused are you? • What's the business's attitude towards risk and innovation? • How comfortable is your business working with smaller independents (vs larger holding company's) 	<p>STRUCTURE</p> <ul style="list-style-type: none"> • Is your business centralised or decentralised? • What level of programmatic resource/ capability exists in-house? • How is that distributed across offices? • Do you expect partners to match your geographic footprint? 	<p>DATA</p> <ul style="list-style-type: none"> • What types of data does your business have and what else is required? • To what extent do you need access to a DMP? • Is there an ambition to integrate programmatic with other marketing data? 	<p>TECHNOLOGY</p> <ul style="list-style-type: none"> • What's more important for your business: best-of-breed or fully-integrated? • Do you need access to multiple DSPs? • Does the ownership of technology impact upon your decision (agency owned, independently owned, media owner owned...)?
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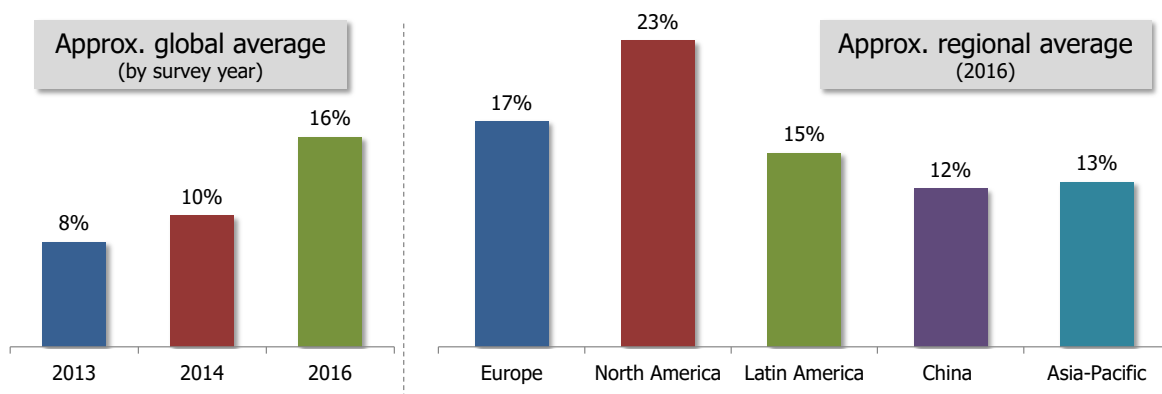


PROGRAMMATIC INVESTMENT & PERFORMANCE

Programmatic investment now representing 16% of total digital investment, on average, for almost 50 of the world's largest brands

Programmatic investment, as a share of total digital media spend (programmatic plus 'traditional' digital media), represents 16%, aggregated across respondents to this survey. This has grown by six percentage points since WFA's second wave of programmatic research in 2014 (fig.10).

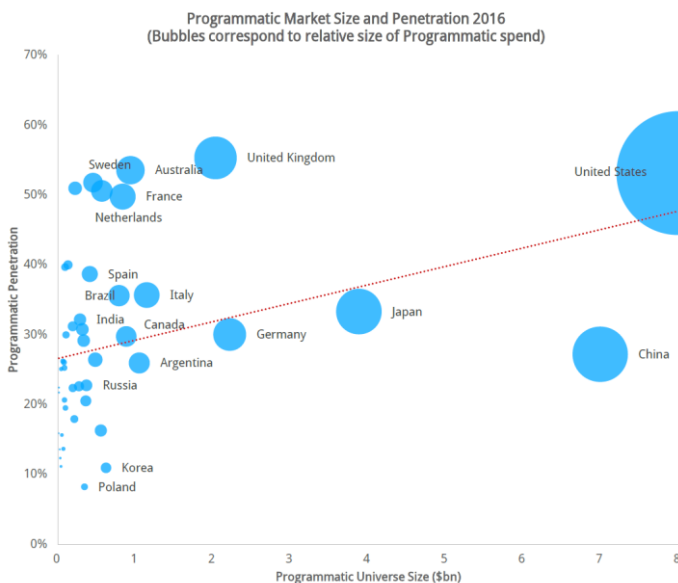
Fig. 10 – Approximately what share of your total digital media investment is bought programmatically? Does this differ by region?



Source: WFA Programmatic & trading desks survey; Oct 2016; Base = 48 companies

Predictably, this is not an even distribution across the world and programmatic represents almost a quarter in North America for respondents, and as little as 12% in China.

Looking at total programmatic market data from MAGNA Global reveals the level of potential that China offers. Penetration is currently relatively low, but at around \$7bn, the programmatic universe is one of the largest. Strong growth is expected in the coming years, though most likely within private exchanges.



Source: MAGNA Global

Focus on China: While a number of ad tech players work across North America and Europe, and to an extent Asia Pacific, China remains very much its own programmatic ecosystem. Strong growth is expected for this market in the coming years, but underlining inventory quality concerns, much of the growth is expected to be within private exchanges owned by 'BAT' (Baidu, Alibaba, Tencent).

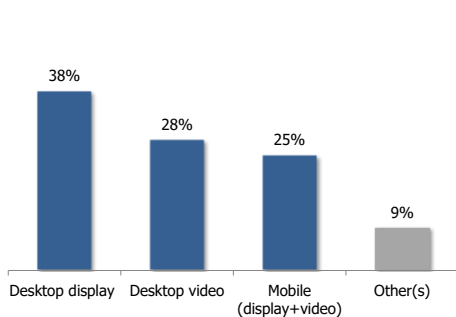


Display formats represent the largest share of programmatic budgets...But the momentum is with mobile

Desktop display (banners, etc) currently represents the largest share of programmatic budgets for respondents, (38%), followed by video (28%) and then mobile (display plus video), at a 25% share (fig.11). But this picture looks set for considerable change over the course of 2017 and beyond.

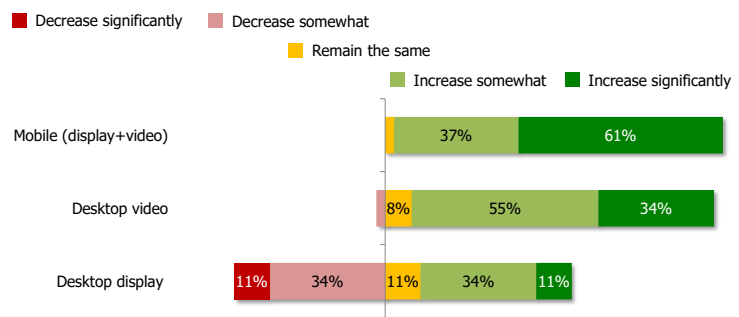
While tech challenges remain for mobile programmatic transactions and targeting, **mobile programmatic budgets are to 'increase significantly' for 61% of respondents in the next 12 months** (fig.12). Desktop video is also set to be a strong driver of growth for programmatic in 2017, while desktop display will be reduced for almost half (45%) of respondents.

Fig. 11 - Roughly what share do each of the following represent of your total programmatic investment?



Source: WFA Programmatic & trading desks survey; Oct 2016; Base = 41 companies

Fig. 12 - For the following media channels, do you envisage that your budgets invested via programmatic channels will decrease, remain the same or increase, in the next 12 months?

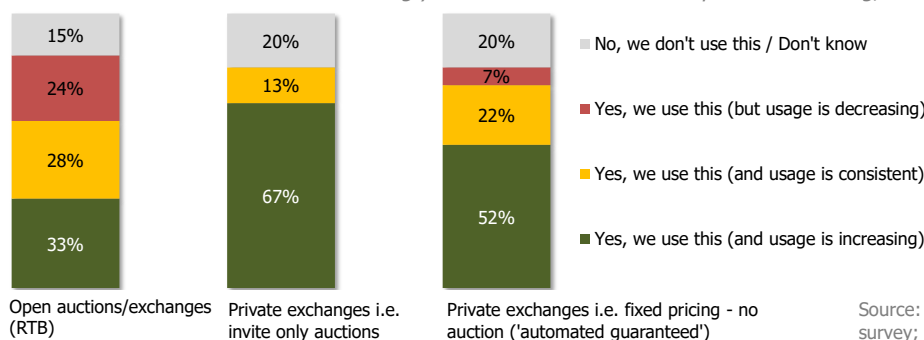


Source: WFA Programmatic & trading desks survey; Oct 2016; Base = 47 companies

Looking at buying routes, the direction of travel is clearly towards 'Private Market Places' where inventory quality can be guaranteed

Programmatic was predicated on the basis of open Real Time-Bidding (RTB) auctions, and 85% of respondents claim to be using this buying route (fig.13). But while a third are increasing investment in RTB, 28% are keeping their spend level consistent and a quarter are pulling money out of this channel.

Fig. 13 - Please indicate which of the following you use and whether these represent increasing, decreasing or consistent buying channels



Source: WFA Programmatic & trading desks survey; Oct 2016; Base = 46 companies

The market is evolving towards closed or private environments of which there are various versions. Chief among these: two thirds of respondents say that they are increasing investment in unreserved 'invite-only auctions' (PMPs). Not far behind, over half of respondents are increasing investment in fixed 'automated guaranteed' transactions.



	Type of Inventory (Reserved, Unreserved)	Pricing (Fixed, Auction)	Participation (One Seller-One Buyer, One Seller-Few Buyers, One Seller-All Buyers)	Other Terms Used in Market	Other Considerations
Automated Guaranteed	Reserved	Fixed	One-One	Programmatic guaranteed Programmatic premium Programmatic direct Programmatic reserved	<ul style="list-style-type: none"> • Prioritization in the ad server • Deal ID • Data Usage • Transparency to buyer • Price floors
Unreserved Fixed Rate	Unreserved	Fixed	One-One	Preferred deals Private access First right of refusal	
Invitation-Only Auction	Unreserved	Auction	One-Few	Private marketplace Private auction Closed auction Private access	
Open Auction	Unreserved	Auction	One-All	Real-time bidding (RTB) Open exchange Open marketplace	

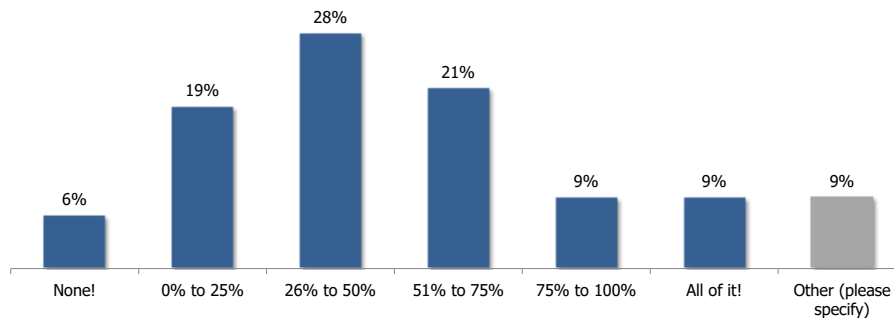
Source: Winterberry Group

Automated Guaranteed deals tend to have top priority in publisher ad servers and are equal to direct deals. Unreserved Fixed Rate, and Invitation-only Auctions are also prioritised based on the monetisation opportunities they represent, although publishers may opt to give select buyers priority access in first-look deals.

In theory programmatic presaged the end of this kind of deal-making, as the might of algorithms had the scope to replace the negotiation and scale utilised by agencies to deliver value for clients. But a large part of the motivation to seek out direct deals is driven by the need of clients to guarantee inventory quality, and avoid fraudulent impressions.

'Premium' inventory is a subjective term, but it's worth noting that over half of respondents are buying 50% (or less) inventory that meets this specification (fig.14).

Fig. 14 - Approximately what share of the inventory you're buying programmatically would you describe as 'premium'?



Source: WFA Programmatic & trading desks survey; Oct 2016; Base = 47 companies

Just 9% of respondents are buying between 75% and 100% of their inventory as 'premium', and 9% say that 'all of it' meets this specification. These numbers seem highly likely to grow in the coming year.

Major uplifts in performance found in targeting and price efficiency

There are a number of inhibitors to programmatic growth, perhaps ad fraud and fundamental weaknesses in the ecosystem being chief among them. Almost 9 in ten respondents to earlier research agreed that there are concerns about the lack of transparency and fraud in programmatic.

This seems like a justified fear as [WFA's Compendium of Ad Fraud Knowledge](#) found that **"virtually any programmatic buy can be exposed to ad fraud and any claims to the contrary should be treated with caution."**

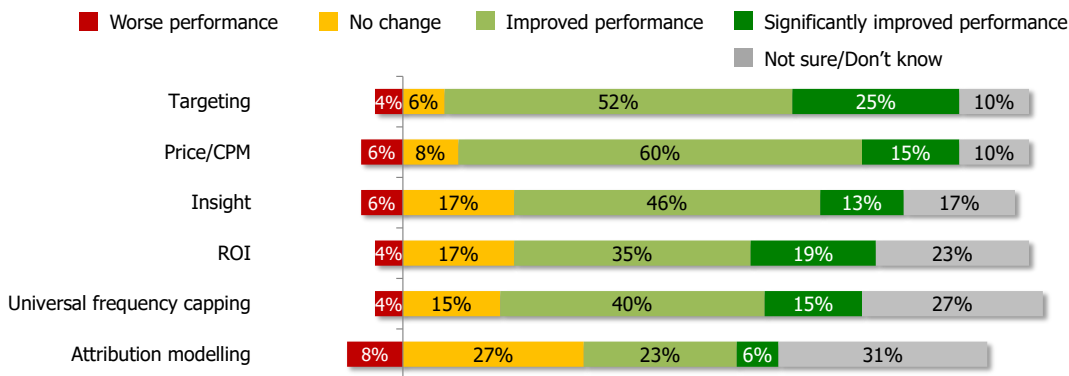
88% Agree

Our organization has concerns about the lack of transparency and/or fraud in digital media and programmatic



Putting this aside, there are a number of performance improvements found from trading programmatically. **In the past 12 to 24 months 77% of respondents have seen improvements in targeting** (25% 'significantly improved'). Just behind is Price/CPM, for which 75% of respondents have seen improvements.

Fig. 15 - Looking back over the past 12 to 24 months, how (if at all) has the use of programmatic affected the following aspects of your digital media?



Source: WFA Programmatic & trading desks survey; Sep 2016; Base = 48 companies

The reality is that tracking programmatic performance remains a challenging task, and for many clients the focus is on establishing “a decent measurement framework that can give credibility to agency reporting. It’s early days on what the real impact/benefit of programmatic is”.

Ultimately, the ability to measure price (and many others elements) is highly dependent on the operating model being used. Limitations to pricing and other data-flows in non-disclosed models preclude a full understanding of performance and ROI, which can in-turn, provide a barrier to increased investment.

“ If it is a non-disclosed model, we do not have full visibility of the data, meaning that the tracking of price performance, savings calculations and any year-on-year fluctuations, are impossible. ”

WFA member



CONCLUSIONS & KEY RECOMMENDATIONS

- ✓ Whether ATD, ITD, in-house or hybrid... **closely consider which programmatic model is likely to work best for your organisation.** A number of factors should be taken into account during this decision, including company culture and structure, your access to data and views on technology;
 - Managed service hybrid models are growing in popularity and may offer the 'best of both worlds' in terms of transparency, control and resource.
- ✓ Whether changing model or remaining with the status quo, **seriously consider reviewing and resetting programmatic contracts to allow for unimpeded access to the platforms, tools, and data** used on your behalf throughout the programmatic trading process;
 - Aim to fully understand and track the technology (including DSPs, DMPs, etc), uses of data, and processes involved in your programmatic media trading operation;
 - Aim to obtain data (or the right to obtain data) at the log level from all suppliers involved.
- ✓ Especially important when working with ATDs, **consider developing an internal policy regarding the entity acting as agent or principal.** This policy should be strictly adhered to in the contractual terms which govern principal trading.
- ✓ **Establish a strategy for how different programmatic buying routes should be used** (e.g. open auction, automated guaranteed, PMP...), incorporating an understanding for the implications for inventory supply and quality, levels of 'premium' inventory and local market nuance.
- ✓ **Performance measurement is key to establishing an objective view of how well programmatic is performing** for your business:
 - Consult with your programmatic partners and media auditors to establish how programmatic performance can be base-lined and measured;
 - Seriously consider using an attribution system (algorithmic or fractional/multi-touch) to assign appropriate credit across your digital media touch-points;
 - Also consider measurement approaches such as 'incrementality', which establish groups of users who see, and who do not see and ad, to inform a view on the effectiveness of digital media to drive outcomes.

FURTHER READING

[WFA Survey Results on Calculating Programmatic savings](#)

[WFA Guide to Programmatic Media](#)

[WFA Report on Programmatic & Trading Desks](#) (wave 2, 2014)

[WFA Report on Media Agency Remuneration \(2016\)](#), (including programmatic remuneration levels)

[WFA Compendium of Ad Fraud Knowledge for Media Investors](#)

[WFA MEDIAFORUM Meeting Overview](#) – "If you're too complicated you can't come to the party" – simplifying programmatic for in-house

[Media Transparency: Prescriptions, Principles, and Processes for Marketers](#); ANA/Ebiquity;

For further or related information, please browse the [Knowledge Base](#) or contact [Matt Green](#) at [WFA](#).



Note: All WFA benchmarks, survey results, agendas and minutes are reviewed by Hogan Lovells International LLP, our competition lawyers

WFA Competition law compliance policy



The purpose of the WFA is to represent the interests of advertisers and to act as a forum for legitimate contacts between members of the advertising industry. It is obviously the policy of the WFA that it will not be used by any company to further any anti-competitive or collusive conduct, or to engage in other activities that could violate any antitrust or competition law, regulation, rule or directives of any country or otherwise impair full and fair competition. The WFA carries out regular checks to make sure that this policy is being strictly adhered to.

As a condition of membership, members of the WFA acknowledge that their membership of the WFA is subject to the competition law rules and they agree to comply fully with those laws. Members agree that they will not use the WFA, directly or indirectly, (a) to reach or attempt to reach agreements or understandings with one or more of their competitors, (b) to obtain or attempt to obtain, or exchange or attempt to exchange, confidential or proprietary information regarding any other company other than in the context of a bona fide business or (c) to further any anti-competitive or collusive conduct, or to engage in other activities that could violate any antitrust or competition law, regulation, rule or directives of any country or otherwise impair full and fair competition.