

The Rise of the Publisher: Harnessing Rightful Ad Value

By *Russell Glass*

It wasn't long ago that the publishers and content creators held all the cards. Whether it was newspapers, magazines, TV or even radio, they owned the content that drove eyeballs, and advertisers had to follow. The same was initially true with the launch of the Internet.

On the Web, however, things began to change when Google and the other ad networks began to proliferate. The promise that these networks brought to the publishers was better fill rates and monetization of impressions that went unsold. The value to advertisers was efficiency and better results through a combination of lower costs and better targeting. Google's AdSense was able to monetize pages that the publisher couldn't sell because Google was able to understand the context of the content, giving Google asynchronous information as to the true value of the impression, using the publisher's content against them.

Like a developing nation that brings a foreign country in with the right tools to drill for oil, the value accrues primarily to the foreign country. In this case Google is the foreign country. The economics are simple: publisher offloads unused inventory for just about any price since it's worthless if it goes unsold. Then Google and the networks charge somewhere below 10-20% of premium, keep a 50% cut and pay the publisher and sometimes a data provider the rest. The publisher ends up with roughly 5-10% of the true value of what should still be considered premium inventory, if the publisher was able to package and sell it properly.

Why do publishers still do it? From a publisher's perspective, the argument boils down to revenue and gross margin. If the alternative is to have an impression go unfilled, then even 5-10% of full value is still valuable. And, with enough raw volume, this can add up to non-trivial dollars. However, the catch-22 that has plagued publishers is that the lower rates have given advertisers a taste of reaching premium audiences at non-premium prices, generally resulting in huge ROI on their spend. In fact, at this point, any direct marketer that

isn't concerned about brand associations has moved most, if not all, of their dollars into low cost, performance-based networks and search engine marketing.

An additional pressure for online publishers is that brand dollars haven't moved online at nearly the same rate as the audience consumption patterns would suggest. For example, even though big brand budgets are more than 75% of overall advertising spend, they only represent about 25% of online spend. Finally, these networks are supposed to be selling blind—which most of them do—i.e. the advertiser can't target by site, so there's no competition with the publisher's direct sales teams.

However, enough networks have repeatedly breached this critical relationship element that even brand advertisers have looked to networks because of the promise of delivery on the major brand sites, which has compressed rates even further. "A publisher can and should price their inventory at levels that will meet the market expectations and drive their business model. What they should not do is allow some sort of invisible hand to price their inventory," argues Jim Spanfeller, the former president and CEO of Forbes.com. "This practice has fundamentally driven pricing down across the Web and, perhaps more importantly, changed the success metrics from ones based on 'demand creation' to ones driven by 'demand fulfillment.'"

Unfortunately, it gets worse before it gets better for the publisher. Google, Yahoo and others in the industry are all now driving the proliferation of ad exchanges and "real time bidding," or RTB. The promise of RTB is the online advertising equivalent of NASDAQ where buyers (advertisers) and sellers (publishers) can come to one table and all bid on the same impression in real time.

In theory, with enough liquidity in the market, this would ensure the right clearing price for every impression, where bidders can buy impressions in an auction, much like you might buy a share of IBM on a stock exchange. This actually further increases the value of, as well as the need for, asynchronous information.

For example, if a CEO is viewing an impression on a page and one bidder for that impression knows it, but no one else does, then that bidder has a huge advantage over other bidders, as well as the publisher. Suppose that an impression in front of a CEO is actually worth \$10 CPM—i.e. an advertiser would be happy paying \$10 CPM, and the publisher would be satisfied receiving \$10 CPM. However, without such knowledge, the impression is only worth \$1 CPM. In this example, the knowledgeable bidder—the one who knows this is a CEO impression—only has to bid \$1.01 to create an arbitrage scenario. This arbitrage benefits everyone but the publisher: The advertiser can still buy the impression from the bidder at the actual value (\$10 CPM) and the bidder pockets \$8.99. The publisher, however, gets squeezed by selling the impression to a bidder who only offered—in fact, only had to offer—substantially less than what the CEO impression was actually worth.

Advertisers are already leveraging ad networks and now DSPs (demand side platforms) to gain access to this information and bid appropriately. All of them are buying data from third-party data providers like BlueKai, Bizo, DataLogix, etc., to determine the value of their bids and glean insight from the information asymmetry that will help determine the actual value of the impression. The DSPs like MediaMath, AppNexus and DataXu are building platforms to incorporate all of this third-party data with first-party advertiser data to algorithmically determine best impressions and optimal prices for each impression.

Every impression has some value, even if it's fractions of a penny. Just like a hedge fund gleaning information from a former company employee to improve its bidding strategy, the DSPs are trying to figure out exactly what each impression is worth to their clients. **Read Part Two of Russell Glass' analysis in next week's *min's b2b*.**



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Claim Your Power Position in the Online Ad Ecosystem

By Russell Glass

Following is part II of Russell Glass' analysis of how publishers can harness ad value online. Part I ran in the June 14, 2010, issue of min's b2b and is on minonline.com.

In part I of this column, I talked about how advertisers are leveraging ad networks, DSPs (demand-side platforms) and third-party data providers to milk the value of impressions on media sites, often at the expense of the publisher's cut. The good news for publishers is that the days of the ad networks and DSPs absorbing the preponderance of value are rapidly approaching an end. I predict the rise of the publisher as the key cardholder, creating a much more equitable environment. The publisher is well-positioned to take the driver's seat for a few simple reasons.

Publishers have a huge advantage in that they have the *first* look at an ad impression, which is the one that truly matters. Like before, they can sell it directly or give it away to an aggregator or exchange. Up until now, however, they were blind to the value of the impression and didn't have the right kind of insight as to what that unsold impression is actually worth.

With access to the same data that the DSPs, other trading desks and ad networks have, they are in a much better position to price the impression appropriately. If the publisher knows the value of an impression up front, then he or she can sell that knowledge directly with "CEO targeted" campaigns, or, in the worst case, set a reserve rate for that impression in the auction because he or she knows it's worth

well more than the bid.

Just like on eBay, you often can't buy that \$1,000 piece of stereo equipment for less than \$800 because the seller sets a reserve. No doubt, this is why the industry is seeing the top publishers beginning to buy all of the very same data being used across the ad networks, DSP and trading desk channels.

Secondly, publishers still own the content, and they are the aggregators of the audiences. As more and more brand dollars flow online to follow audiences, the publishers with brands that advertisers value, will capture the lion's share of the brand dollars that are shifting online. Brand marketers simply don't have the same price sensitivity that direct marketers do, but they have significant brand association sensitivities.

As long as the major publishers keep their brands from being diluted and purchased for less than premium pricing via the exchanges (i.e., if you want to buy Forbes.com specifically, the reserve should be set at \$50 CPM), brand advertisers will be forced to pay appropriate value for the impression.

Consider Hotwire and Priceline as examples. Sure, you can get a discounted room in New York through these aggregators, but you don't know the brand before you buy the room. If you're more price-sensitive than location- or hotel brand-sensitive and don't care about room points, Hotwire is a great way to go.

However, if you're looking for Starwood points and want a specific hotel in a spe-

cific spot—and want your Westin dream bed—then you need to call Westin directly. The same argument applies here; brand marketers absolutely need to know where their ads will appear.

A recent Winterberry Group study, "Beyond the Grey Areas: Transparency, Brand Safety and the Future of Online Advertising," showed that U.S. marketers may be holding back their investment in online display advertising by as much as \$2 billion annually because of concerns that their digital advertising efforts "may be compromised by surrounding page content that doesn't align with their strategic interests or brand standards."

Clearly, online is the future, and publishers are just now waking up to their position of power in this ecosystem. In order to be successful in this new world, publishers first need to gain access to the critical audience and impression data that will provide the insight they need to value and price their impressions appropriately.

Publications need to plug into the new ecosystem in a way that both protects their brand value and delivers impressions across the value chain. Finally, they need to work with brand marketers to help them move their ad spend online at a faster pace. The best pubs are doing all of this today, and this will make them power players in the new economy.

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