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VERTICAL

MARKET INTELLIGENCE
GROUP

Programmatic Advertising: GDPR Hits Spending Plans

FB, GOOG

ADBE, AMZN, AppNexus Inc., CRTO, RUBI, TTD,
TWTR, VZ

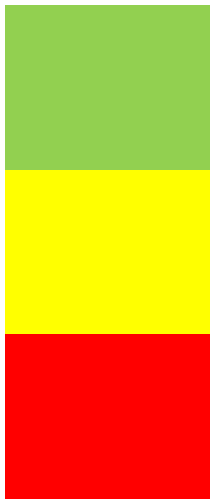
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BULLISH



GOOG, AMZN
ROKU, FB

CBS, DIS, FOX
TTD

TWTR
SNAP, CRTO

BEARISH

Diminishing ROI and growing concern regarding GDPR compliance is driving advertisers to slow or halt growth plans for programmatic display and video ads, particularly for third-party platforms, with Criteo and third-party players seeing weaker demand in 2Q18.

- Total market share for all programmatic channels expected to fall in 2Q18, with marketers shifting focus to publisher-directly sold inventory as well as GOOG, FB and away from CRTO, RUBI, and third-party DSPs.
- Weakening demand for programmatic ads and caution over using microtargeting tools on platforms expected to lower seasonally expected CPM growth in 2Q18; prices expected to go from \$5.73 in 1Q18 to \$5.96 in 2Q18.
- GOOG, FB still seen as top performing programmatic platforms, while marketers depend on TTD to improve third-party alternatives' lagging performance.
- GDPR already impacting spending plans; sources expect impact to be more noticeably in 3Q18 and beyond.

Programmatic Growth to Dip

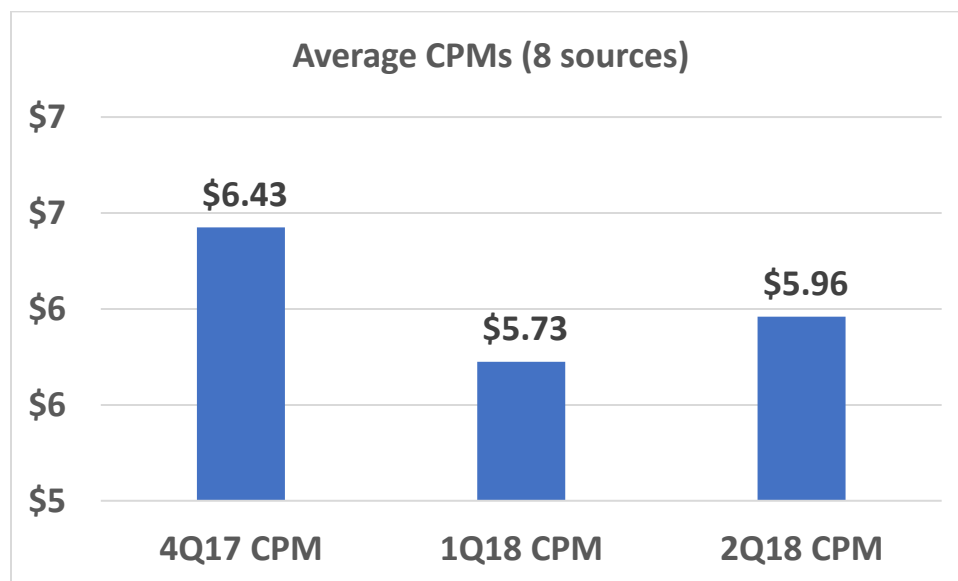
VMI industry contacts said third-party programmatic advertising is continuing to lose share to higher priced more premium alternatives, driving programmatic ad spend to represent a smaller portion of budgets in 2Q18 relative to 1Q18 as advertisers pull away from third party options, particularly AppNexus Inc., The Rubicon Project Inc., and Criteo SA. "We used to be extremely cost conscious when it came to buying programmatic ads, but now we're willing to pay more in dollar terms if it means we can cover the whole sales funnel with programmatic ads," said a source.

Digital advertisers identified as an ongoing problem the waning ROI from third-party programmatic platforms such as Criteo, citing the limitations of using online activity as a predictor of purchasing behavior. “Behavioral retargeting has its limits, especially if you depend on third-party data. That ceiling has been here for a while, which means we need to find alternatives—and that inevitably brings us back to Facebook and Google,” said a source. Sources also said Alphabet Inc.’s Doubleclick and Facebook Inc.’s Ad Manager are continuing to see robust growth in terms of ROI and spending.

Looking forward, VMI industry contacts said the continual diminishing returns with third-party exchanges will likely be compounded by industry-wide efforts to become compliant with the EU’s General Data Protection Regulation (GDPR), which goes into effect in May. “You’re hit twice. On the one hand, you need to make sure your in-house data management is compliant. On the other hand, the exchanges are doing what they can to be compliant—and that directly hits ROI. We haven’t seen performance change all that much, but we are worried about compliance so we’re going light on those exchanges just to play it safe,” said a source.

Cautions on Microtargeting

The biggest concern with regards to GDPR compliance is how the limitations of data-driven targeting, particularly for microtargeting potential new customers based on data that infers user intent based upon a user’s unique profile and similarities to other customers, will lower ROI, which in turn will lower bids in live auctions for available programmatic inventory. “We aren’t as liberal with the inventory we will buy now, because we don’t trust our models for what performance we can get,” said a source. “We see GDPR compliance as an opportunity to reset prices much lower, and we are willing to sacrifice inventory fills to get to that point,” said another.



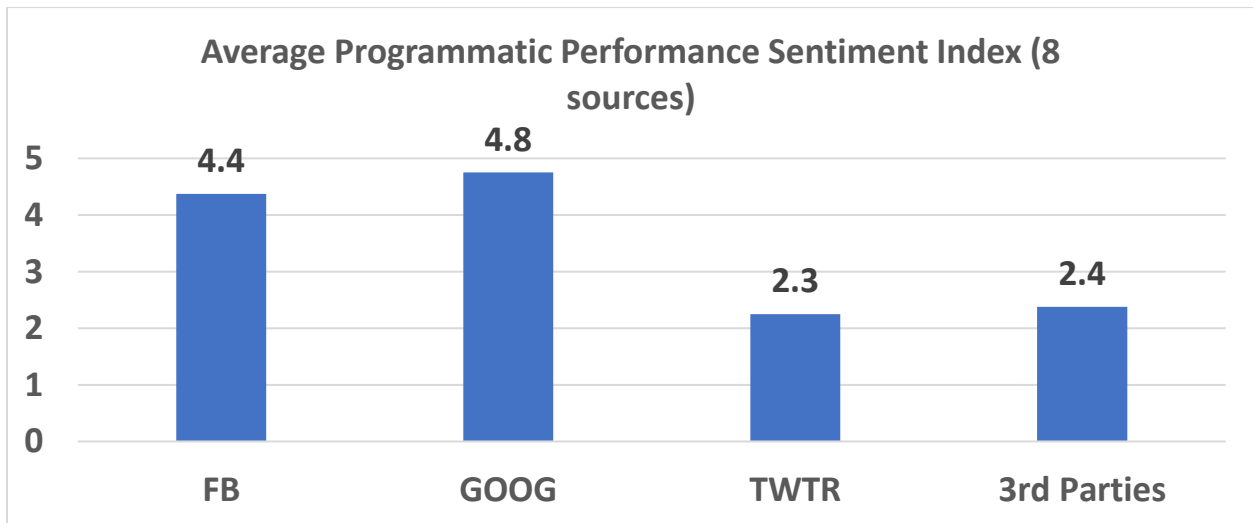
Source: Vertical Market Intelligence

While sources do not yet expect 2Q18 prices to fall below 1Q18, which would be an alarming countercyclical trend, they do expect the seasonal qq gains typically seen throughout the year to be hindered significantly. As a result, industry contacts expect \$5.73 current CPMs (down seasonally from \$6.43 in 4Q17) to rise only slightly to \$5.96 in 2Q18. “If there was no GDPR I’d say 8%-10% qq gains would be possible. But with it, all bets are off,” said a source.

GOOG, FB Lead in Performance

VMI industry contacts said that marketing agencies and brands are now working overtime to ensure compliance with GDPR regulations, including the use of data management platforms (DMPs) and integrating data sets with the help of The Trade Desk Inc. to ensure consistent performance and regulatory compliance. “It is not easy, and I don’t think everyone will get it right, but we are doing what we can to make our programmatic campaigns work in the new data-restrictive environment,” said a source.

In addition to better performance thanks to superior data and better tools to analyze data and predict ad performance, industry contacts widely said Google and Facebook’s programmatic exchanges are a bit more preferable because they believe both companies, due to being targeted by EU regulators, are likely to get data-management compliance into order much more quickly.



Source: Vertical Market Intelligence

However, even without GDPR concerns, sources broadly said both Facebook and Google had performance roughly double that of Twitter Inc. and third-party programmatic platforms for both video and programmatic display ads. Asked to rate each platform option on a scale of 1-5, 8 industry contacts rated Facebook and Google at 4.4 and 4.8 respectively, above 2.3 for Twitter and 2.4 for third-party platforms such as AppNexus and Criteo. “Especially if you think broadly across verticals. Criteo is really still all about travel and e-commerce—they have not expanded beyond those verticals, except maybe picked up some mobile penetration—whereas Facebook and Google are

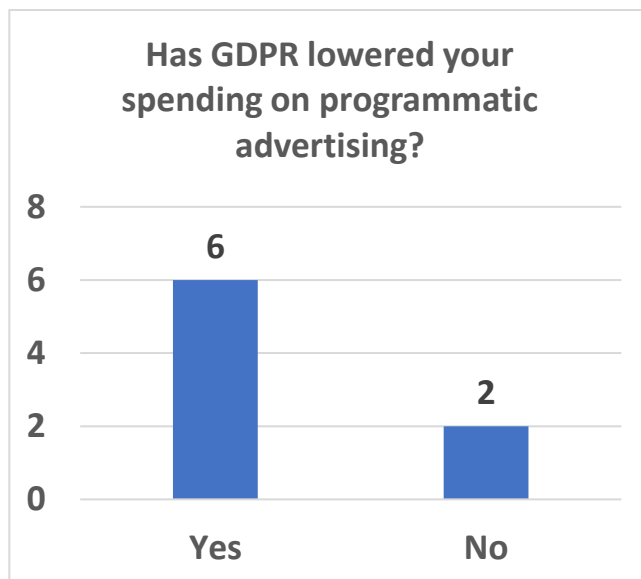
good for everything. The most important key: their programmatic ads work even if your campaign goal isn't getting a click and a sale on that click," said a source.

Emerging Theme

GDPR Compliance Concerns Drive Advertisers to FB, GOOG

All but 2 sources said that GDPR has already lowered their spending on programmatic advertising broadly, with third-party platforms getting hit significantly more than Google. "Especially when you think of Criteo, they are really front and center with EU regulators since that's where they are, even if a lot of people don't think about it that way. That makes us extremely cautious to use them just to get a 20% or so conversion boost with 10% higher CPMs," said a source.

The two sources who said GDPR has not limited spending on programmatic advertising



said they were unsure whether GDPR would impact their spending plans in the future, but one said that this was likely. "It's too early to tell, but I'd be lying if we aren't already discussing how to deal with this. We're working with Adobe [Inc.] to see if maybe we can figure out some way to keep our spending constant by using their Audience Manager to ensure everything is kosher. Honestly, it's a really big headache I'd rather not deal with at all," said a source.

Source: Vertical Market Intelligence

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