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Despite Strong 4Q Spending Trend, Dissatisfaction Mounting with TTD

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Phil Leggiere
(802) 258-0754
phil@vertintel.com

Michael Foster
(347) 566-0936
mike@vertintel.com

Although sources said spending remained solid in 4Q19 for The Trade Desk thanks to larger than expected ecommerce budgets towards the end of the holiday shopping period, they also said higher fees and growing opacity are making them less enthusiastic about the platform.

- Very strong ecommerce spending in 4Q19, despite tough comps, drove better-than-expected programmatic advertising spending for the quarter, with spending growth similar to 3Q19's pace.
- The Trade Desk remains the most favored alternative to Google's DV360 among display ad buyers, but unrest over hidden fees and the platform's gross costs to ad agencies is expected to drive renegotiations for a lower takerate (estimated to fall to 15%-17% on average) in 2020.
- First-price auctions on Google Ad Manager continues to see improved price and bidding efficiency, resulting in higher prices on more desired inventory and great post-click conversion rates.
- High clickthroughs, low CPCs, low post-click conversions increasingly drive advertisers away from Criteo.
- Area to watch: The Trade Desk's membership in Prebid is expected to help it get better access to publisher inventory, allowing more efficient ad placement.

Please refer to important disclosures on pages 4-5

- Area to watch: After declines in minimum spend throughout 2019, sources expect minimum spending to fall from a reported $100,000 to $50,000 in 2020 as The Trade Desk attempts to expand its presence in smaller agencies.

High Ecommerce Spending Boosts TTD

Sources said spending on The Trade Desk rose by mid-double digits yy in 4Q19 as a result of both volumes and yy pricing growth, exceeding previous expectations. "A couple of things have converged to boost display: first, you have bigger budgets with the push for mcommerce towards the end of the holiday season, and, second, the smaller DSPs are underperforming," said a source, adding that both The Trade Desk and DV360 were "dominating the market with no end in sight."

Another source noted that the strong spending in ecommerce, while not necessarily met in other verticals in 4Q19, resulted in no deceleration in total programmatic ad spending on a yy basis from 3Q19, despite expectations of a slowdown going into the quarter as a result of tough comps. "You could say last year was a banner year for a lot of reasons: GDPR shook out the weak hands and solidified the adult approach of Google, The Trade Desk, and Facebook. Plus you had a massive bump in holiday ad budgets that set things up for a weaker growth trend this year. In reality, we didn't see that weakness show up," said the source.

Despite Grumbling, TTD Remains Top Choice

Despite broad agreement on The Trade Desk's strength relative to third-party DSPs, sources are increasingly expressing dissatisfaction with opacity in the fee-structure and net return on ad spend (ROAS) on the platform. "What we negotiate with them is above my pay grade," said a source, "but what I can say is that there are a lot of hidden fees that don't make a lot of sense to me, and beyond the set takerate there are extra costs that we should take more seriously than we do."

Sources said that takerates, which average in the high teens currently, have been on a steady decline for a while—but the company has made up for this in extra fees for specialized services. Sources believe takerates are likely to fall further in 2020, with estimates of a 15%-17% takerate among sources, but opinion was split on whether hidden fees will make up for the cut. "Not enough people audit The Trade Desk's total costs as closely as they should. When that happens, there will be a reckoning," said a source.

Google Ad Manager First-Price Auctions Drive Efficiencies

While The Trade Desk remains an important and, according to some sources, an "invaluable" or "essential" alternative to Google, sources said that Google Ad Manager is benefitting tremendously from first-price auctions, which are making transactions efficient and benefitting both buyers and publishers. "Now with first-price auctions the market has less manipulation and less room for third parties or disingenuous buyers to play around. Buying inventory is now faster, hitting KPIs is easier, and our price tolerance is going up," said a source. Broadly, sources said first-price auctions will likely result in very high yy spending growth on Google Ad Manager for the first three quarters of 2020, with holiday spending a factor for 4Q20 spending growth.

Criteo's Persistent High CTRs

Sources continue to express concern over Criteo's ad targeting and overall performance, with lower attribution abilities bringing extra focus at large CTRs, which exceed DV360 and The Trade Desk rates by 10x or more. "With very high clickthroughs and low CPCs, Criteo is great for optimizing to clicks—but optimizing for clicks is a terrible way to market a product," said a source. "What we need is better attribution, which Criteo stubbornly refuses to provide, and that's driven us away from the platform."

When measured on an eCPM basis, Criteo prices were in-line with DV360 and The Trade Desk, but sources said on an eCPA basis, Criteo was substantially more expensive, especially on mobile. As a result, sources reported overall spending declines yy on Criteo, with that decline projected to continue throughout 2020.

Areas to Watch

Prebid May Give TTD Advantage in Header Bidding

While The Trade Desk may see some tougher negotiations on takerates in 2020 and more scrutiny on fees, sources believe The Trade Desk's partnership with the Prebid coalition will drive better ROAS on the platform thanks to the standard allowing The Trade Desk to bid directly from publishers and bypassing SSPs. "Prebid is a coalition of buyers to see what SSPs are selling what inventory, to ensure they aren't overpaying through an unnecessary middle man and they're closer to the publisher itself," said one source, adding that "the standard can be adopted at the publisher level, allowing The Trade Desk and other DSPs to circumvent SSPs altogether."

TTD to Expand Client Base with Lower Minimums

Sources believe that The Trade Desk, having already lowered minimum spending to $100,000 in 2019, will lower it further in 2020 to attract smaller regional ad agencies who they believe are a captive audience for the platform. "In terms of scale and ease of execution for a local campaign, nothing beats The Trade Desk, and these guys have been desperate to be on for a long time," said a source at a large ad agency, describing his experience when previously working at a smaller agency.

If The Trade Desk executes on these plans, it could expand its total client base to smaller ad agencies in 2020, with reported minimum spending expected to fall to $50,000 throughout the year. Similarly, as takerates fall for larger advertisers, sources believe The Trade Desk will be in a position to negotiate higher takerates for these smaller agencies. "I bet they'll try to go downmarket with lower mins and they can charge higher fees because these agencies have been desperate to use the platform by themselves," said a source. "I don't know if that will be enough to make up for the lower fees they'll have to agree to with bigger players, though."

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