

A Forrester Consulting Thought Leadership Paper Commissioned By SpotXchange

RTB Powers The Rapid Growth Of Online Video

Private Marketplaces Help Premium Publishers Test The Waters On Programmatic Buying

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FORRESTER

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Executive Summary

The online video advertising market is on a steep upward climb, both in terms of viewer impressions and dollars spent on video ad inventory. The bright star of this market is real-time bidding (RTB), which stands out as a major segment of the market in terms of how ads are bought, accounting for 24.7% of video spending by 2014.

RTB spend will grow at a 57% CAGR between 2011 and 2014.

In January 2013, SpotXchange commissioned Forrester Consulting to size the online video RTB market between 2012 and 2014. Using Forrester Research Online Video Forecast, 2012 To 2017, Forrester Research, Inc., and interviews with online video buyers, sellers, and technology providers, Forrester found that RTB continues to grow rapidly as a percentage of the overall video market and as the definition of RTB continues to evolve from a bidding platform to a programmatic tool for buying based on multiple attributes. Over the past year, RTB has been the fastest growing segment of the online video business, growing more than 100% from 2011 to 2012, and forecast to grow more than 70% in 2013.

Key Findings

Forrester's study yielded four key findings:

- **Growth in online video continues unabated, and RTB growth exceeds the overall rate of increase in spend.** Buying online video inventory via RTB appeals to ad buyers who like paying for the value of the placement based on attributes like audience or context, rather than the more traditional fixed-price model of inventory buying. RTB spend in 2012 edged out Forrester's forecast by \$15 million, reaching \$402 million. As the volume of online video ad inventory grows, RTB's popularity will continue to increase at a faster rate than the overall digital video business, particularly as the supply of video inventory begins to outstrip demand.
- **Premium publishers still withhold inventory with claims of sold-out status.** Even as the quantity of premium content increases, premium publishers of video content remain hesitant to use automated platforms to sell their inventory in a public environment, due to the high eCPMs they are able to sustain for the moment. Those that have tested automated platforms are doing so primarily in private marketplaces, where they are able to test the impact on pricing, fill rate, and targeting on a limited and controlled basis.
- **RTB will continue a shift to real-time buying in 2013.** Concerns about protecting eCPM rates have kept premium publishers from adopting an auction-based open marketplace for their inventory. But the growth in inventory practically mandates an automated solution. RTB platforms will morph from bidding engines into real-time *buying* engines that base their decisioning on data such as audience targeting. We expect use of RTB tools to do automated placement of direct buys as the automated process gains popularity.
- **Programmatic buying mechanisms will continue to grow but diversify.** As the online video vocabulary has crystallized and more parties understand programmatic buying, its adoption will be significant as a replacement to manual insertions orders. However, there is no one-size-fits-all model for programmatic, and we'll see the marketplace cleave along three fault lines: private versus public; fixed-price versus bid; and premium versus run of network.

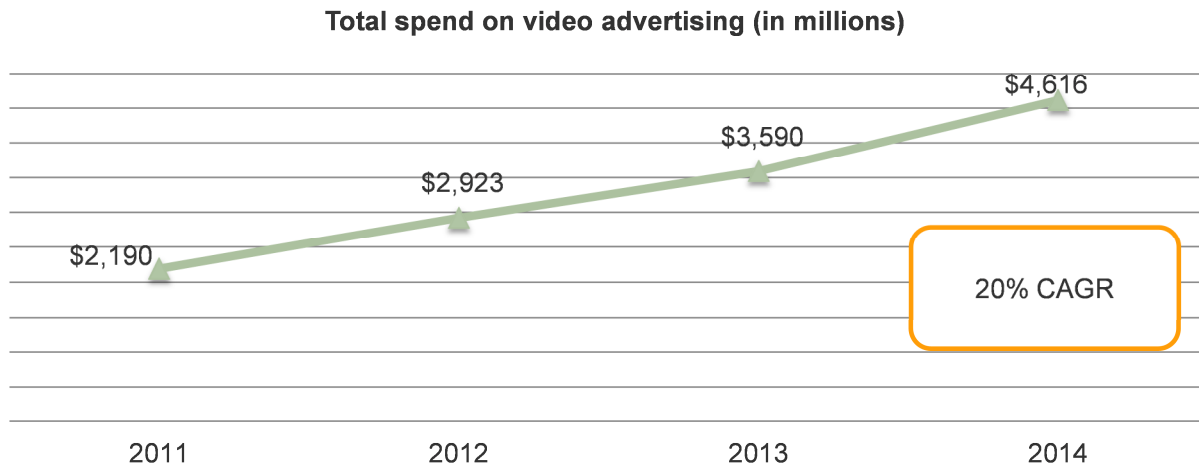
Online Video Continues To Soar With Viewers And Advertisers

Online video is a new medium that is living through a meteoric rise. From traditional video sources like broadcast networks to video content on news and sports sites and user-created content, the volume and diversity of online video has grown noticeably. Even over the past 12 months:

- **Consumers spend an increasing amount of time watching online video content.** In the US, 70% of online adults say that they have watched some form of online video in the past month. The type of content they watch ranges from premium inventory like sports and news to user-generated submissions of kids and kittens.¹ The types of content viewed have proliferated in tandem with the devices on which consumers view video, as mobile phones and tablets have proved exceedingly popular for watching all kinds of programming, with consumers often using multiple screens at once. As of late 2012, of US online adults who watch online videos on user-generated video sites, 27% did so on a smartphone and 12% on a tablet for at least part of their viewing. And for watchers of other types of online video content, 18% use a mobile phone, and 12% use a tablet.²
- **Online video as a media channel continues to attract significant advertising dollars.** Forrester expects spending on all online video advertising to hit nearly \$3.6 billion in 2013, increasing to \$4.6 billion in 2014 (see Figure 1). Between 2011 and 2017, online video ad revenue across PC and mobile platforms will experience a 26% compound annual growth rate (CAGR), faster than any other digital medium like mobile or social.³ In contrast, the US display ad business is growing slower, with static image revenues expected to decline overall and rich media placements only growing by 16%. Brand marketers are attracted by the opportunity to provide richer advertising experiences using online video, particularly as buying based on targeted audiences and other placement attributes gains greater traction in this more visual and engaging format.
- **TV buyers are incorporating online video into their overall budget.** Although cross-platform measurement that ties TV and online video of all types — Web, mobile, and tablet — together is still in its infancy, TV buyers have begun to look at digital video options to augment existing TV efforts. Some broadcast and cable networks sell TV and digital ad placements as a bundle, and measurement firms are racing to provide a cross-platform metric so that TV advertisers feel more confident in their buys.

Figure 1

Total Spend On Video Advertising Will Rise 20% Per Year Between 2011 And 2014



Source: A commissioned study conducted by Forrester Consulting on behalf of SpotXchange, February 2013

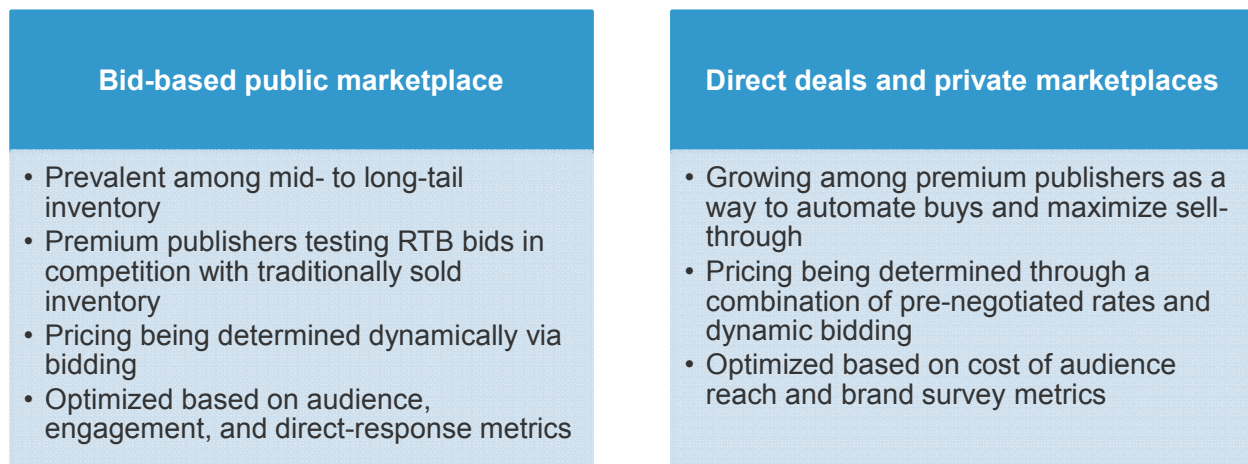
RTB Sustains Its Fast Growth Rate Relative To The Hot Online Video Market

RTB is an automated method of buying digital ad inventory using an auction model for pricing at the time of execution. As online video has grown, RTB inventory and revenue have grown faster than the overall video market as a buying mechanism for acquiring inventory. Between 2011 and 2014, RTB video spend will grow at a blistering pace of a 57% CAGR (see Figure 3). Spending using this mechanism is forecast to reach \$686 million in 2013 and cross the billion-dollar threshold in 2014, when spend will reach \$1.14 billion. RTB also outpaces growth of overall video when it comes to impressions, with a 61% CAGR (see Figure 4). This growth is driven by:

- A desire for automated buying and selling.** As overall online video inventory increases and becomes a greater portion of the media mix, the cry for automated mechanisms to execute online video buys will get louder. Currently, RTB is used primarily by buyers for access to biddable inventory. Last year, the market started to evolve into two types of publisher inventory: bid-based public buying platforms as well as direct deals and private marketplaces (see Figure 2). As the use of the platform shifts to buying impressions and placing ads using different pricing mechanisms, premium publishers' interest in the automated aspects of the sale will become more enticing.
- Advertisers' use of online video to supplement TV campaigns.** Advertisers have begun to move a small percentage of TV budget to online video. But those dollars represent a major influx of revenue into this newer medium. These dollars will flow from owned and operated sites to audience targeted outposts in order to maximize reach, frequency, and budget. As buyers learn how to fill in the gaps of campaigns, they will use RTB to fill in reach, frequency, or sales-lift gaps midflight.

- **New measurement methodologies that appeal to brand advertisers.** The TV metrics of reach, frequency, and gross rating points (GRPs) are but one part of the online video measurement ecosystem. But marketers buying online video also need to consider the relationship between viewership and social media activity, for both live viewing and share button usage, as an additional layer of audience measurement. RTB can be used to target engaged audiences on the fly.
- **Buyers seeking video but at a real-time price.** One of the interviewees noted that TV buyers will add online video to their media options and will use programmatic to do that; the process of buying digital is going to “adjust to meet buyers’ needs” by bringing easier buying methods to the market. This sentiment — that to attract TV buyers to online video requires an automated way to buy — will further drive the transition to RTB as an automated mechanism that helps more traditional buyers participate in this more complex ecosystem.

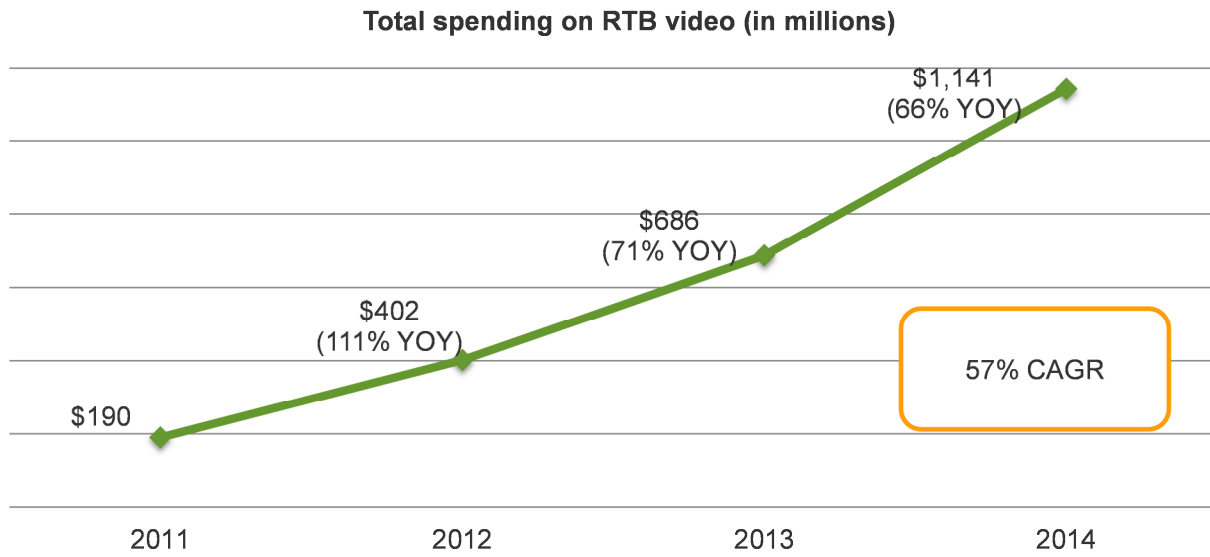
Figure 2Buyers Have Adopted Two Models For Buying Online Video Via RTB



Source: A commissioned study conducted by Forrester Consulting on behalf of SpotXchange, February 2013

Figure 3

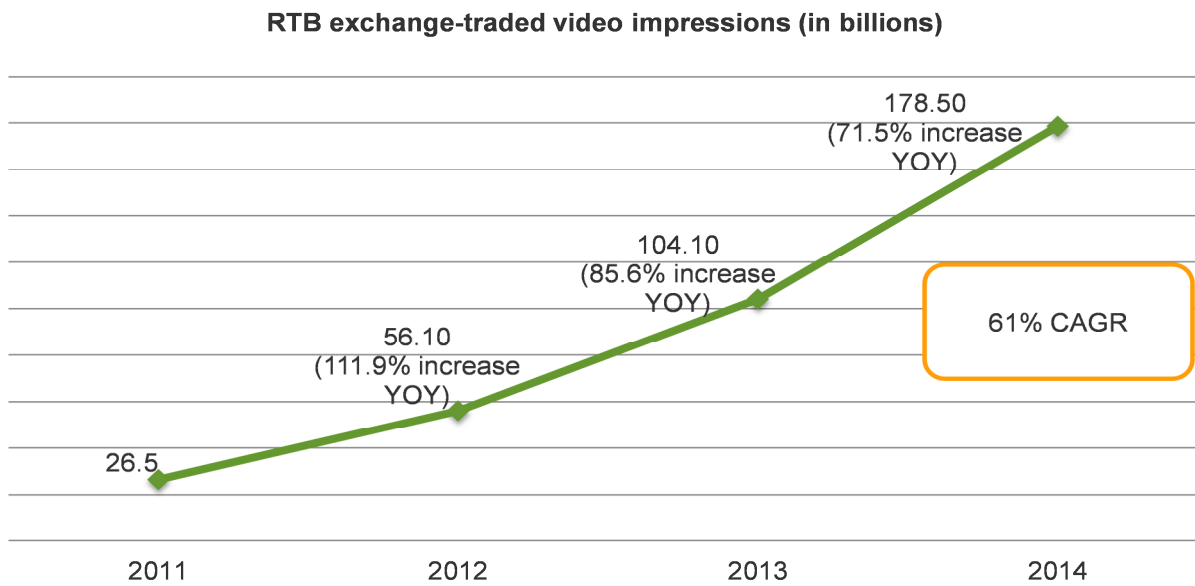
Total Spend On RTB Video Grows At More Than 50% Annually Between 2011 And 2014



Source: A commissioned study conducted by Forrester Consulting on behalf of SpotXchange, February 2013

Figure 4

RTB Impressions Show Growth Of More Than 60% Per Annum Between 2011 And 2014

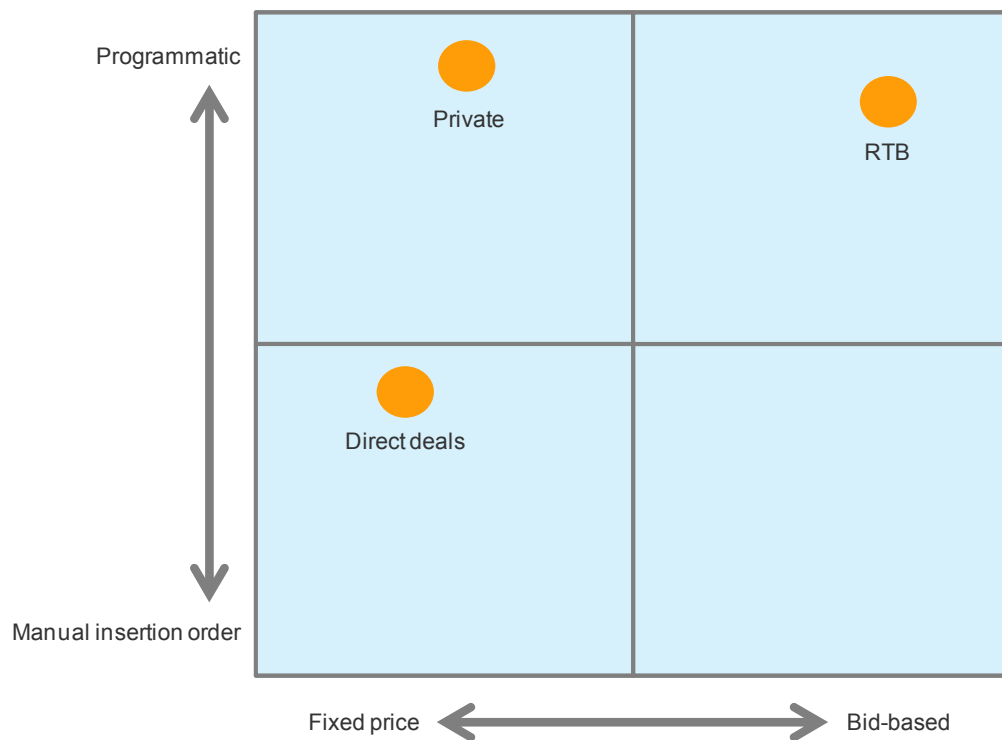


Source: A commissioned study conducted by Forrester Consulting on behalf of SpotXchange, February 2013

Programmatic Buying Shifts From Bid-Based To A Mix Of Pricing Models

In the past year, the vocabulary that defines how people buy online video, and what pricing mechanism they use, has begun to solidify. In particular, the distinction between “programmatic” buying and RTB has been hotly debated in public forums as it relates to primarily display but increasingly to online video inventory.⁴ RTB has evolved from a pricing model into a buying mechanism that allows buyers to transact at a real-time or auction-based price. As RTB matures, buying mechanisms will diverge (manual versus programmatic transactions and fixed versus bid-based pricing models) (see Figure 5). With the constraints in online video at present, premium publishers have been less willing than expected to participate in RTB, as they associate it with an auction-based model, even though they recognize the benefits of the automated processes. They don’t see the tools they need to manage inventory and minimize exposure on price.

Figure 5
Online Video Buying Mechanisms Proliferate



Source: A commissioned study conducted by Forrester Consulting on behalf of SpotXchange, February 2013

Future Growth Of Video RTB Will Be Hampered By Several Factors

Despite RTB's strong projected growth, there are still a few market elements that will limit broader adoption. These include:

- **Online video RTB not evolving like display.** Although digital display laid the technological groundwork for online video RTB, thus far video simply doesn't look like its display counterpart when it comes to available inventory from premium publishers and how advertisers want to buy those placements. Since overall video growth will be supported by brand advertisers and their brand-lift goals, and less driven by the cost-per-action metrics used in display by direct marketers, RTB will have to prove that it can support these brand objectives. Additionally, there is significantly less premium content made available for purchase via RTB in video, compared with the high volume of display inventory being placed on networks and exchanges, keeping the price premium for this content in place.
- **The infancy of comparable measurement between video and TV.** Measurement firms are making headway in evolving their measurement efforts to marry TV with digital channels. But RTB's immediacy and specificity is somewhat at odds with the GRP's broad audience view. As one industry expert told us, "Objectively, the GRP isn't a good metric. But it will bring TV buyers online and is probably the best option over the next decade." That lukewarm sentiment harms RTB — and online video overall — as measurement-driven marketers remain cautious about their ability to track video performance.
- **A seller's market for premium video ad inventory.** Online video is hot, making it RTB's own worst enemy because premium publishers that sell direct believe that they need to manage their inventory themselves to sustain the high CPMs they enjoy. RTB is generally associated with tier-two and -three inventory at lower eCPMs, giving premium publishers little incentive to participate. Furthermore, premium content owners have been slow to open up to the idea to sell through indirect channels. However, as RTB becomes defined more by the programmatic buying process rather than the pricing model, publishers will enter the fray to reduce friction in the transaction process.
- **Buyer confusion about in-banner versus in-stream inventory.** The sentiment that there is significant confusion about the quality and effectiveness of in-banner video ad inventory, compared with in-stream, was widely expressed in Forrester's research interviews. Buyers are looking for low-priced in-stream video but often are getting sold in-banner instead. Also, although awareness about the differences between these two types of content is increasing, prices remain in flux and will do so until there is more transparency about what a marketer is getting for the money. We expect in-banner spend to remain essentially flat, at a 2% CAGR, while in-stream will grow at a 24% CAGR between 2011 and 2014 — the result of more inventory and better understanding about the two options.

KEY RECOMMENDATIONS

With spending set to hit \$686 million in 2013, online video RTB has become a significant opportunity for advertisers, publishers, and demand-side platforms (DSPs), particularly if the focus moves from bidding to buying. To benefit from this change:

- **Premium publishers: Don't confuse technology and pricing.** It is impossible to plan for a video going viral or a major news event capturing the country's attention and driving up video views nearly instantaneously. Publishers need the flexibility to fill inventory on the fly, just as the display world has required. But publishers are caught up in the idea that technology-driven sales will lead to less pricing power and diminished eCPMs. Publishers need to keep their eyes on management tools that allow them to set price floors, choose advertisers directly, and get detailed insight into the types of inventory that are in demand. As they test private marketplaces to improve sell-through rates on these spikes in traffic, they can test the boundaries of the pricing of their content without the risks of putting it on a public exchange.
- **Ad agencies: Don't equate RTB with bad inventory.** Buyers of digital ad space already know the benefits of buying through a marketplace. But buyers used to working on traditional TV buys have a lower comfort level when it comes to online video inventory, let alone auction-based pricing. What these buyers need to learn from their peers on the trading desks is that transparent inventory, priced high, holds the same value as inventory priced similarly in a direct deal, or possibly more. While bid-based models may lead to decreased eCPMs on broad-based campaigns, they may wind up driving up the price on high-quality, relevant, and in-demand content.
- **DSPs. Invest in full transparency to keep the market strong.** The challenge of proving the value of programmatic buying efforts and RTB is the assumption that the inventory lacks transparency and therefore comes with the risk that a brand will show up on an unfavorable site even if other attributes are met. As the DSPs build better interfaces to help ad buyers evaluate the location as well as the audience and context of a placement, they will help ensure that the ecosystem of the buying and selling process will be much easier and gain strength.

Appendix A: Methodology

As part of the forecast modeling, Forrester develops comprehensive historical and base-year market size estimates based on a variety of sources, including public financial documents, executive interviews, Forrester's proprietary primary consumer and executive research, and analysis of the Internet traffic database.

All of Forrester's forecasts are designed by a dedicated team of forecasting analysts who build the models, conduct extensive industry research, and manage the process of formally building consensus among Forrester's analysts. Forecast analysts have backgrounds in investment banking, management consulting, and market research, where they developed extensive experience with industry and company forecasting.

In this study, Forrester interviewed 10 online video-related organizations in the US to evaluate the RTB online video landscape. Survey participants included decision-makers in senior roles from both the buy and the sell side of the marketplace. Questions provided to the participants asked about pricing, impressions, and overall growth for online video and RTB as well as related trends in this space. Respondents were offered a summary of the top-line findings as a thank you for time spent on the survey. The study was conducted in February 2013.

Appendix B: Supplemental Material

Related Forrester Research

"Scale Success With Programmatic Multichannel Media Buying," Forrester Research, Inc., December 6, 2012

"Digital Media Buying Forecast, 2012 To 2017," Forrester Research, Inc., October 9, 2012

Appendix C: Endnotes

¹ Source: North American Technographics® Online Benchmark Survey (Part 2), Q3 2012, Forrester Research, Inc.

² Source: North American Technographics Online Benchmark Survey (Part 2), Q3 2012, Forrester Research, Inc.

³ Source: "Digital Media Buying Forecast, 2012 To 2017," Forrester Research, Inc., October 9, 2012.

⁴ Source: Dave Morgan, "Real-Time Bidding Not Coming To TV Advertising At Scale Anytime Soon," Online Spin, March 7, 2013 (<http://www.mediapost.com/publications/article/195246/real-time-bidding-not-coming-to-tv-advertising-at.html#axzz2O5iUqHM5>); Konrad Feldman, "Why Advertising Through RTB Needs a New Buying Model," Ad Age, January 22, 2013 (<http://adage.com/article/digitalnext/advertising-rtb-a-buying-model/239319/>); Walter Knapp, "Programmatic Isn't Just RTB," Digiday, February 6, 2013 (<http://www.digiday.com/publishers/programmatic-isnt-just-rtb/>).