Programmatic Fast-Tracks Revenue Growth for Digital Audio

A RAIN Report

in collaboration with WideOrbit

Contents

Introduction

Programmatic advertising technology for aiding media transactions has long been a part of the digital advertising landscape and is rapidly gaining traction in television, video, and web display advertising. Audio trails other media categories in its uptake of programmatic solutions, even as most observers believe that some degree of adoption is both inevitable and favorable.

In fact, programmatic has started to exert much-needed influence in the audio advertising world. The recent announcement that Spanish Broadcasting System would market its inventory in WideOrbit's programmatic platform is one indicator that audio publishers are starting to extend their monetization efforts onto software platforms that foster easier and more efficient transactions.

This paper will explore how programmatic software solutions directly address the obstacles preventing digital audio providers from monetizing their large, growing, and valuable audiences. We'll discuss why digital audio streams and on-demand content are sorely undervalued by advertisers and suggest how programmatic breaks down the barriers to winning more business.

The Programmatic Solution

Digital audio advertising is both undervalued and undersold. Although it brings a high-quality audience to advertisers, its audience is not monetized correspondingly to competing mediums that lack audio's advantages.

To date, audio's effectiveness to marketers is not realized in either sales volume or pricing. Audiences with similar characteristics are sold for disproportionately more money by competing media forms, even when they are sold against virtually indistinguishable content.

Unless a digital audio outlet is affiliated with the largest networks or a demand-side platform, it is likely to be facing this problem. In this paper, we will identify factors that hold back revenue growth for digital audio outlets, then propose a method for minimizing these to make more money. Right now.

The Market

In a perfectly operating market where buyers and sellers have equal access and knowledge, the only differences in price across media result from observable differences in effectiveness. That is not the case for digital audio, and comparing it with digital video provides an example. Online video is a relatively new media form whose audience has desirable characteristics. Digital video viewers are sold to advertisers at much higher valuations than audio despite digital audio's highly desirable and easily targeted audience.

Digital audio users skew young with highly coveted demographics and behavior. Spotify's Brand Impact Study, administered by ComScore, found that people who use streaming music services are over 2x more likely to pay more for brands and 61% more likely to recommend a brand to their friends. Stream listeners are also mobile-first; they are twice as likely to listen to music on a smartphone or a tablet. Even their listening contexts are attractive to advertisers; streamers are nearly 5 times as likely to listen while shopping, and 3 times as likely to at work, at school or while exercising.

These are statistics that should make buyers interested in digital audio. Yet, video currently enjoys CPMs 10x greater than audio:

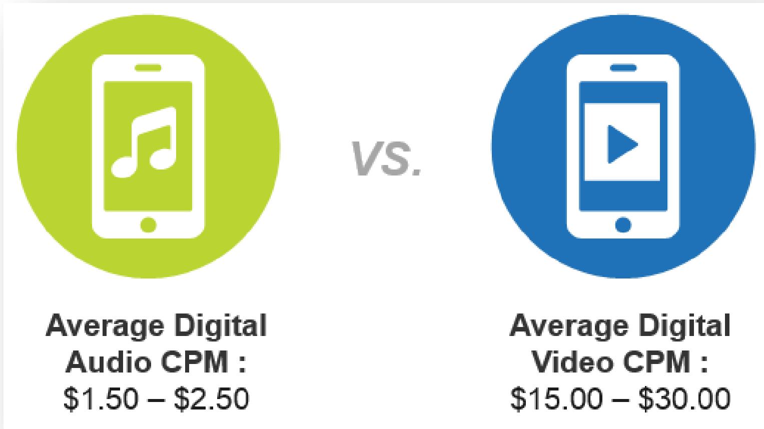

Figure 1: Digital Audio CPMs 10% of Digital Video

Several compelling reasons have been offered the disparity between digital audio and video ad rates. Click-through rates are higher on average for video than audio, which makes sense since video consumers are in front of the screen nearly 100% of the time when served a video ad. Nevertheless, this difference should not be so wide because the audience engagement is still as strong or stronger, as evidenced by audio listen-through rates that are significantly higher than video view-through rates.

Perhaps digital audio is ignored by advertisers because it doesn't have the audience scale to attract them. Industry statistics show this doesn't make sense either. Digital audio's sweet spot is the coveted 18-34 age group. *The Infinite Dial 2015* by Edison Research and Triton Digital found that 72% of 18-34 year olds listen to online radio monthly. If you extend the survey to include listeners up to the age of 49, digital audio reaches 80 million millennial consumers – the largest population group in U.S. history. Over 150 million people a month access digital audio streams.

No, audience scale is clearly not part of the digital audio valuation problem.

Does digital audio advertising work? The evidence says Yes. TargetSpot's 2011 study on cross-media effectiveness found that online and broadcast radio advertising response rates increased 2 to 3.5x among consumers who also listen to digital audio, and the addition of digital audio to a campaign contributes more to increased ad response of both online advertising and broadcast radio advertising than increased usage of those media.

Does digital audio advertising work? The evidence says Yes. Digital Audio reaches a desirable demographic, scales to cover huge swaths of the population, and is proven effective.

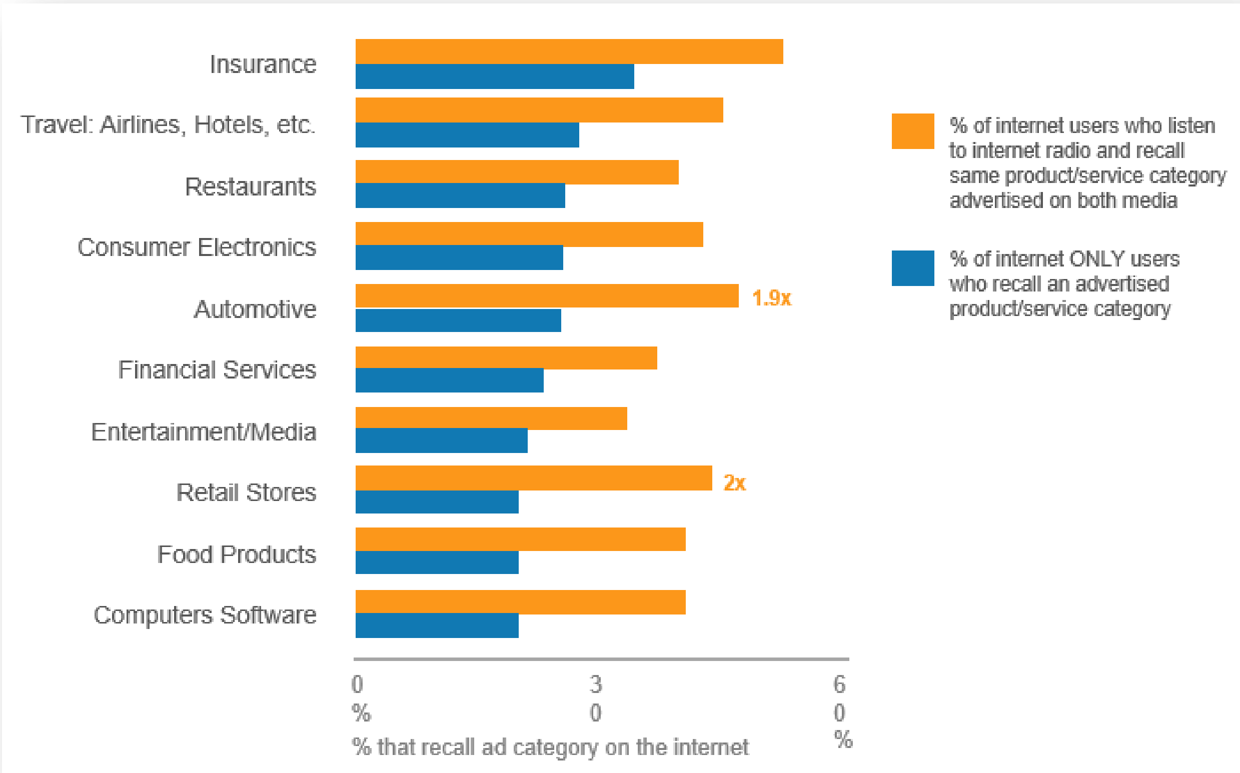

Figure 2: Digital Audio Ad Effectiveness. Source: TargetSpot Internet Radio Advertising Impact Study

When we look at all these potential objections, the slow growth of advertising in digital audio is illogical. Digital Audio reaches a desirable demographic, scales to cover huge swaths of the population, and is proven effective. If we live in a rational market, we must assume there are other factors driving the disparity between intrinsic value and prevailing market value.

The Core Problem

If we are talking about an appealing medium with a desirable audience, why are digital audio's CPMs only 10% for an audience similar to the digital video audience? The central problem that prevents realizing the full value of local radio and digital audio streaming inventory is this: *The cost of doing business is too high for national advertisers that have numerous media alternatives they can buy more easily.*

Operators of digital audio platforms may realize there's a problem with the valuation of their inventories, but aren't sure of the cause. In this section, we'll discuss why digital audio is less appealing to buyers compared to other mediums.

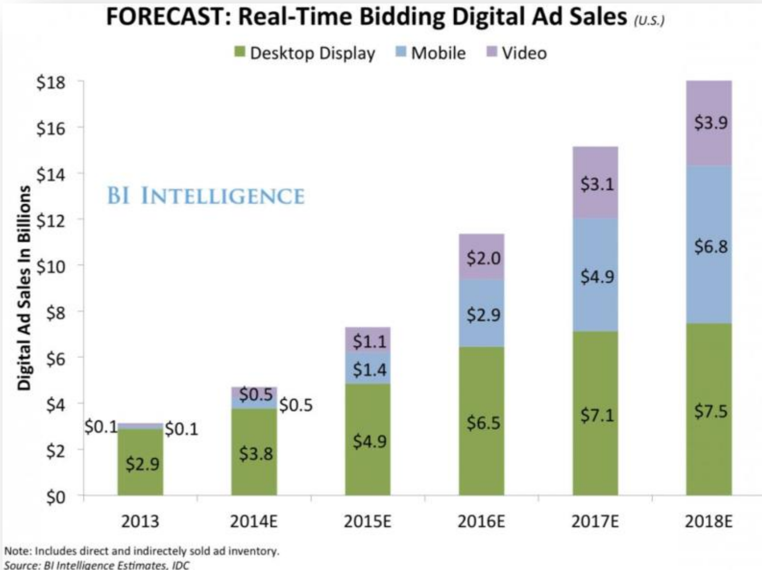

Figure 3: Where is Programmatic Digital Audio?

It's All About Liquidity

Digital Audio has a liquidity problem.

To define liquidity, we need to define the commodity being transacted. In media, this is the attention of a particular audience. The most elemental unit is the attention of a particular individual listener, while spots and sponsorships – the most frequently transacted entities in digital audio – represent bundles of viewers.

What's behind digital audio's liquidity problem? In many ways, it boils down to *friction*, or the inhibiting effect that the cost of doing business has on a transaction. Friction is particularly harmful to media sellers when substitute media forms exist and compete for the same dollars where the friction of doing business is significantly less (e.g. online video, national TV media, social, etc.).

> *What's behind digital audio's liquidity problem? In many ways, it boils down to friction.*

Most buyers operate on a lean model where every additional dollar spent on labor reduces their margin perilously close to zero. They constantly make decisions that balance their mission of maximizing their clients' success versus maximizing their own profitability.

When any product generates more visibility and buyer interest, it builds greater bid density and drives higher prices. When demand for Digital Audio grows, it should enjoy the same effect. There is precedent for this: digital ad networks generate greater than 40% gross margins simply by aggregating the supply of audiences across remnant providers.[1]

Five Key Frictions

Here are the five key frictions that prevent digital audio broadcasters from receiving consideration from national buyers:

- **Discovery Friction:** *Discovery friction* is when demand-side agents have a hard time finding the right inventory -- or aren't even aware it exists -- resulting in fewer entities vying to purchase media. This invisibility problem results in lower market depth and higher price volatility, while a lack of bid density reduces unit prices.

  Digital audio offerings are exceptionally balkanized. Advertisers are already inured to the idea that premium, carefully targeted audio inventory is hard to find in a broadcast radio market with dozens of stations in each of 210 designated media markets (DMAs) available for purchase. (DMAs are how media buyers think about regional coverage by a group of local stations.)

Figure 4: Discovery Friction

  Rather than simplifying their choices, digital audio is seen by buyers today as increasing the fragmentation of audience and complicating their choices. Digital audio content providers must make it easy for potential buyers to understand what inventory is available, and how it can be aggregated for purchase in the same way. They are accustomed to buying it from non-digital providers.

[1] "The Truth About Ad Nets," MediaPost: http://www.mediapost.com/publications/article/110642/the-truth-about-ad-nets-profit-margins-of-45-to.html?edition=

- **Transaction Friction:** *Transaction friction* is the excess time and labor cost that buyers are forced to spend on buying ad units, making the cost of business too high relative to the CPM. The cost to transact is more or less fixed per media purchase; the cost of buying doesn't go down commensurately with the size of the purchase. This means that making many small buys is expensive for both buyer and sellers, and thus excludes smaller media outlets from consideration for large advertising campaigns. In a typical non-programmatic transaction, these additional costs usually can be traced to multiple phone calls, horse-trading of packages, value-adds, and other negotiating points.

  The buyer's option for reducing transaction friction is to make buys that involve a higher ratio of audience per unit. That is why national network campaigns are usually more appealing than transacting with several small markets. The agencies want to manage their labor cost, buyer resource allocation, as well as time to market.

> ***THE FIVE KEY FRICTIONS***
>
> DISCOVERY FRICTION
> Buyers can't find the inventory
> TRANSACTION FRICTION
> Excess time and labor cost
> MEDIA STANDARDS FRICTION
> Lack of standardization across outlets
> OPERATIONAL FRICTION
> Cost of confirmation and invoicing
> AUDIENCE MEASUREMENT FRICTION
> Poor integration of buyer & seller metrics

- **Media Standards Friction:** *Media standards friction* comes into play when the dimensions that define a buy can not be compared easily across transactions or media outlets. Lack of standardization creates additional costs for buyers. It also adds labor cost for both the agency and the media outlet because they have to assign people to assess the value of deals.

  There are also comparability issues *within* the digital audio category. Today many competing digital audio outlets are selling packages of impressions that are not comparable across providers. The IAB's new DAAST technical solution will go a long way toward reducing fragmentation in the market. Until standards are more widely accepted and utilized, the lack of comparability will continue to be a showstopper problem for most national agencies.

- **Operational Friction:** *Operational friction* is the cost of confirming delivery, reconciling for discrepancies, and invoicing. The traffic departments in a small complicated buy spend significant labor time to assure that media creative reaches the appropriate outlets with the appropriate instructions. This is a fixed cost that only increases incrementally with additional streams in a buy.

  The cost of reconciliation is often significantly larger than the cost of negotiating the buy. Agency reconciliation departments spend a lot of time and effort on verifying they got what they negotiated. If expectations aren't met, sales reps and finance departments have to get involved, too. This creates too much cost for a national brand when there are good digital substitutes available.

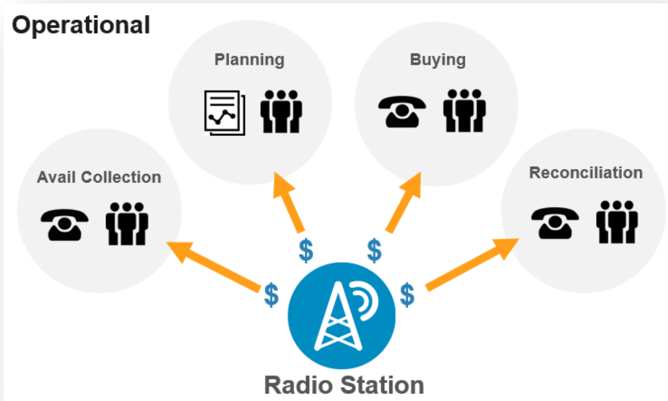

Figure 5: Operational Friction

- **Audience Measurement and Targeting Friction:** *Audience measurement and targeting friction* is the cost of understanding how the characteristics of a purchased audience overlap with an advertiser's ideal audience. Again this is a problem caused by digital audio's lack of standardization in digital audio and the inability to compare its performance against other media. In other digital media, it is a given that advertisers will be able to use first-party data they have developed or acquired.

These frictions collectively and separately make doing business with digital audio outlets too expensive for a national brand. The aggregated cost of these five friction points (Discovery, Transaction, Media Standards, Operational, and Audience Measurement) exceeds the benefit of the media realized by an advertiser. The frictional cost can even consume agency margins for placing the media. In fact, agencies sometimes opt to run on comparable media that performs worse for their clients, if it nevertheless enhances their agency margin. After all, the agency goal is to maximize its own profit, not its client's.

The cost of these five friction points exceeds the benefit for the advertiser.

Why Programmatic Is the Answer

What can a digital audio operator do today to win business and defeat these objections? The answer is to adopt practices that create equivalent scale, performance, and measurement to national buys and competing media types. Ideally, they will also consider the needs of the buy side by helping them increase their margins while reducing real and perceived cost frictions.

Programmatic advertising solutions expressly address all of these things, which is why its share of digital advertising is expected to reach 2/3 of the total market by 2020.

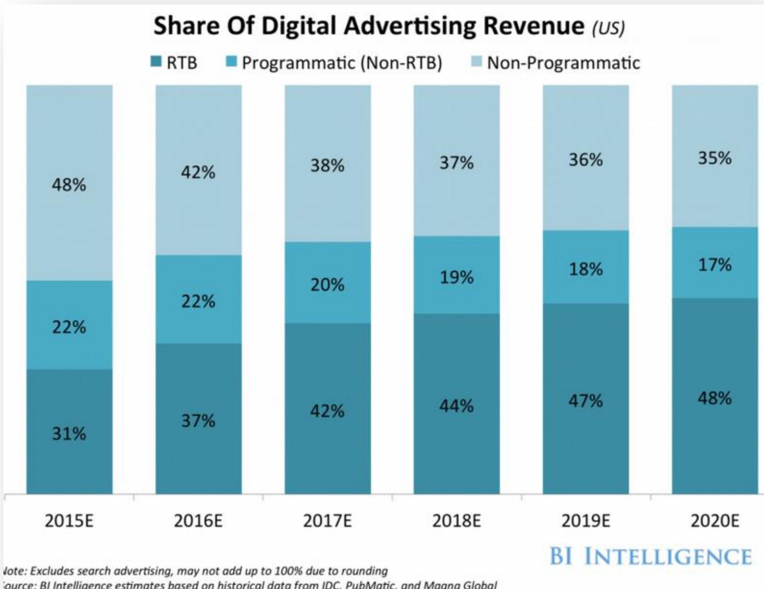

Figure 6: Programmatic Is Growing

What Is Programmatic?

Ad tech vendors sometimes use the word *programmatic* in a wide range of contexts and applications, creating some confusion in the market. For purposes of this discussion, let's define programmatic as having these key capabilities:

- Enables transactions that are fully automated by software that connects buyers and sellers;
- Uses data to provide buyers with targeted audiences and consumer analytics;
- Prices units based on market supply and demand.

Most crucially, programmatic solves liquidity problems by enabling buyers and sellers to transact with comparable consideration of all possible outlets and forms of media – not just the ones that are easy to buy. We have every reason to believe that the result will be CPMs that are much more even across DMAs, regardless of whether we are talking about listeners in Miami, Minneapolis or Missoula.

Programmatic's share of digital advertising is expected to reach 2/3 of the market in 2020.

Programmatic Benefits

Programmatic's benefits directly address all of the cost frictions we described above. Chiefly, these are better targeting and ability to value an audience; a larger pool of advertisers because it's simpler for them to join in; and simplified processes for transacting and reconciling.

Attracting More Advertisers: Inviting in more buyers and creating more activity in a market are always good for prices – especially when there is a finite supply of the resource in play. In media, offering units with demonstrable value to a greater number of buyers increases the likelihood that they will be sold at a price that's fair to the seller.

The fastest way to create greater advertiser flow is to connect digital audio advertising opportunities with buyers that are purchasing other forms of digital advertising. One crucial venue for bringing together both sides of a transaction is the demand-side platform, or DSP. Affiliation with DSPs will allow better comparability with digital video, and in many cases put digital audio inventory on the same buying consoles where other digital advertising decisions are made.

Programmatic technology is the fastest, most direct route for connecting digital audio inventory with DSPs. Not only does it simplify the availing of inventory, the DSP systems are already developed to allow integration of first-party data for decisioning. DSPs barely participate in the digital audio market right now, and at this writing, we know of only one that offers digital audio inventory: The Trade Desk's beta project with WideOrbit to trade inventory on Spanish Broadcasting Inventory streams. We expect this to change quickly as interest in on-demand audio content grows

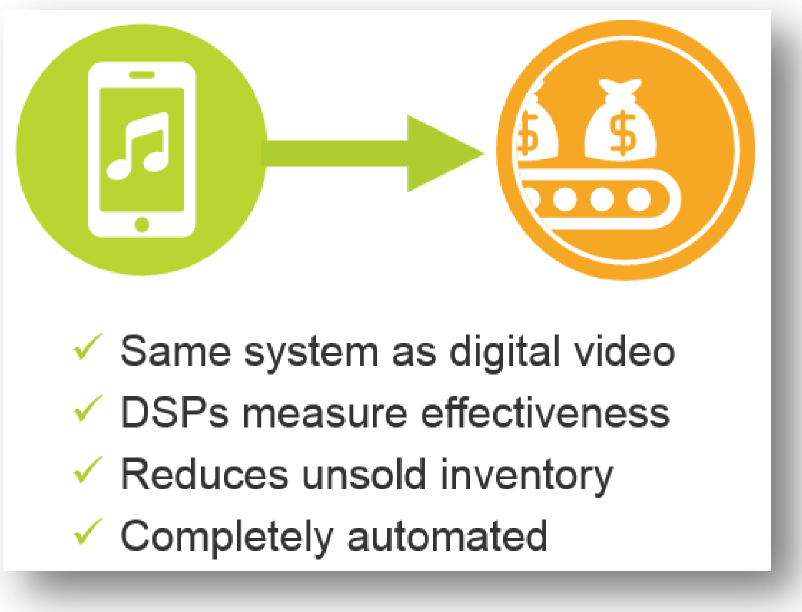

Figure 7: Connect Digital Audio to Programmatic Buyers

Letting Advertisers "BYOD": Everybody in advertising wants better targeting; buyers want to know they are reaching the right people and sellers want to be correctly compensated for aggregating them. Because both sides can evaluate the ROI and ad effectiveness of reaching a cohort in a format comparable with other ads and media, automated platforms that simplify the process of implementing first-party data are likely to attract more agencies and brands. Embracing first-party data will put digital audio on a competitive footing with other media formats that already offer this service as a matter of course.

PROGRAMMATIC BENEFITS

ATTRACTING MORE ADVERTISERS
More buyers + more activity = higher prices
LETTING ADVERTISERS "BYOD"
Better targeting data helps buyers and sellers
SIMPLIFYING ANCILLARY PROCESSES
Solving unsexy post-deal accounting

Programmatic allows buyers to BYOD (Bring Your Own Data) in a way that's never been previously possible in audio mediums. As we've seen in digital display and video where virtually every impression is evaluated with private data, nobody wants to deal in proxy metrics. Brands and agencies are increasingly gravitating to ad solutions where they can identify their highest concentrations of customers by combining audience data with their proprietary customer data. The number-one request from the buy side we hear at WideOrbit is to provide a system for applying their proprietary data to pinpoint their highest concentrations of customers.

The wider array of data will inform sellers when they are offering valuable audiences for rates that are far too low. Over time, sellers can also use this new business intelligence to inform other elements of their business, like programming decisions.

Simplifying Ancillary Processes: The devil famously does his dirty work in the details, and so it is in media transactions. Once a deal is done, there are two unsexy areas that absorb gobs of time on both the buy and sell sides: creative asset management and billing. As we mentioned earlier, the efforts of agencies and station accountants can easily exceed the cost of negotiating the buy. By contrast, the reporting in digital is instantantaneous upon ad delivery.

Programmatically automated transactions resolve both of these issues. Creative trafficking is automatic in a programmatic system, with the creative arriving in the traffic system along with the order request. The only step before on-air at that point is for a human to review the ad to assure it meets the station's content rules and standards. Once an ad airs, it automatically generates a confirmation and an invoice. The simplicity and elegance of having every part of the transaction – from order to air to invoicing – removes many of the petty annoyances and inefficiencies that prevent national advertisers from working with digital audio providers.

Into the Future

Audio content today is in fast growth mode, both culturally and technologically. Edison Research's latest Share of Ear report found younger audiences rapidly adopting on-demand and streamed content -- Pandora, Spotify and others at a rapid clip. Podcasts, the most popular on-demand audio content, are also growing in importance; their "Share of Ear" increased by an incredible 18% in the second half of 2014, and in April 2015 NPR ran an upfront for its podcast ads. This growth gives every digital audio purveyor a tremendous opportunity to grow revenue.

The digitization of audio is a sea change in traditional listening habits and technology. Programmatic advertising solutions have developed in response to help digital broadcasters follow their audiences, monetize them and make them comparable to other digital audiences.

The story of the media industry over the last 10 years – and in years to come – will center on experiments that determine how every player in the media ecosystem will optimize its business for the greatest profit. As Mark Cuban said at a recent conference: "Bits are bits, and they will migrate to the most profitable distribution for them." Programmatic technology allows sellers and buyers to walk together on the new path where bits and profitability coincide, knocking down the barriers and frictions that keep them apart.

Digital audio needs to take steps to even the playing field, and that means adopting programmatic technology.

Digital video is already thriving in the "bit shift." if CPMs are considered a barometer for ad effectiveness, though, anyone reading this paper should find it incredible that digital video is considered to be 10x more effective than digital audio,. Programmatic provides the technological basis for normalizing the value between the mediums.

The evolution of audience behavior and reduction of barriers to doing business will undoubtedly influence how marketers select where they place their advertising budgets. The ones that are easiest to buy from and have the best proof of audience value will arrive to the competition with a competitive advantage.

Digital audio needs to take steps to even the playing field, and that means adopting programmatic technology. Content creators and audience aggregators that adopt programmatic methods for making their inventory available based on digital audience demographics will drive new revenue opportunities, attract new advertisers and enjoy CPMs closer to those enjoyed by digital video.

Credits

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Brian joined WideOrbit in 2014 to be the global leader of its Digital and Programmatic business. As a pioneer of the digital advertising industry, Brian is responsible for many significant innovations and patents. He was a founding member of Microsoft AdCenter, the second-largest paid search marketplace, and Chief Technology Officer at AdECN, the first Real-Time Bidding (RTB) Ad Exchange. Brian was also Chief Technology Officer at PrecisionDemand (acquired by AOL), where he developed advanced targeting methods and ROI measurement for television advertising, and Senior Vice President of Technology at Specific Media, which became the largest independent online advertising network under his leadership.

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Brad Hill joined RAIN in September, 2013. He entered the company after several years at AOL where he was VP of Audience Development, managing traffic growth across 65 online media brands. Brad has authored over 20 books about the Internet and music, including one of the first books about online music. He has been a broadcast radio DJ, and has five radios in his house to supplement his deep involvement with streaming music services. In RAIN, Brad's focus is content creation for the website and Daily Digest newsletter, as well as whitepaper and webinar development.