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Programmatic: The stock market of digital advertising

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Ashwin Nayak is vice president of platform delivery at Quaero

By Ashwin Nayak

Programmatic has completely changed the way that online ad buying works. Many businesses are quickly converting to this new method of buying and selling ad space. Yet, some are left wondering, what is it about this fairly new concept that is taking the digital advertising world by storm?

Programmatic refers to the use of software to automate the real-time bidding purchase of digital ads through digital ad markets. It renders the days of RFPs, human negotiations and painstaking insertion orders completely obsolete.

Programmatic is a great tool for advertisers, because it eliminates all of the complicated and frustrating processes that were formerly required, allowing ad buying to be automated for maximum efficiency.

The beauty of programmatic is that it has a transparent pricing model. Buyers can pick impressions and optimize them in ways that they have not been able to before. This means that ads will show up on a certain site only if the right person, i.e. your target audience, is the one browsing that site.

Upon close inspection, the functions of programmatic that make it so attractive are actually similar to the way the stock market operates.

Ad buying versus the stock market
The idea that programmatic is comparable to the stock market might sound strange at first.

However, before you toss the notion out altogether, take a look at these particular parallels:

1. It is a decision-making algorithm based on machine learning, similar to how the stock market works.

2. It streamlines transactions and employs simple economic theory to make ad buying more effective.

3. Each share of media inventory has a value that is determined by scarcity and supply and demand.

4. The scarcer the inventory is, the higher the value and the higher the price.

5. Just like the stock market, an ad publisher will make impressions available for sale at a starting price. Marketers will bid just like potential shareholders bid to win the impressions, or shares.

This is a vast improvement on traditional segment-based buying, in which advertisers can only show one ad to a large audience.

Programmatic lets advertisers have more fine-tuned control over campaigns to make sure the right people are exposed to their ads. Thus, programmatic possess all of the qualities we like about the stock market, with a lot less risk.

How can programmatic improve?
Programmatic buying solutions are continually becoming more sophisticated, further streamlining processes across channels.

However, many publishers are reluctant to release inventory into an auction atmosphere that they fear may undervalue it. Big-spending brands want more control and some level of guarantee that they are going to see results from their efforts.

Just like the stock market, buyers can lose or gain money on their investment.

However, the initial investment creating an ad campaign is much more time-consuming and expensive than the choice to purchase a stock, which is why some publishers have cold feet about getting involved in programmatic versus real-time bidding.

Still, the benefits of programmatic far outweigh the risks, a truth proven by its growing popularity.

With more emphasis on viewability standards and combating fraud among ad impressions, these improvements will find programmatic becoming the dominant avenue to transact ad exchanges.

Ashwin Nayak is vice president for platform delivery at Quaero, Charlotte, NC. Reach him at ashwin.nayak@quaero.com.