INSIGHTS FROM THE BDO TECHNOLOGY PRACTICE

DISRUPTIVE MEDIA ENCOURAGES AGILITY IN DIGITAL ADVERTISING

By Demetrios Frangiskatos and Dan Harris

While the fundamentals of media transactions have remained largely unchanged for decades, technology has continued to transform the relationship between media owners and advertisers.

In the past, media buyers would purchase ad space from a media owner, sell the space to advertisers, and take a cut of the proceeds. The price advertisers paid for the space was driven by the volume of media space purchased, whether on TV, radio, or in newspapers. This basic model has continued into modern times: Digital ad prices are often based on the volume of media purchased, whether it's the cost per thousand (CPM) model for display advertising or the cost per click (CPC) model for search.

Today, digital media's breakneck pace of change continues to transform digital ad pricing models and is driving a shift beyond traditional volume-based pricing. Below, we've outlined a few of the factors contributing to this transformation.

WHAT'S DRIVING MEDIA PRICING MODEL CHANGES?

Crowded Ecosystem

Gone are the days when an advertiser could call a media buyer to negotiate an ad in a newspaper. Now, publishing a digital ad often involves multiple companies in the ecosystem between the advertiser and media owner. These intermediaries include ad agencies, demand-side platforms, exchanges, supply-side platforms, and ad networks. As a result, each of these parties takes a cut of the payment flowing from the advertiser to the media owner. A crowded ecosystem is more complex than the traditional media system and can be financially less efficient.

Diverse Media Offerings

Today's readers can now access various types of digital media, from videos to interactive news articles, via their desktops, tablets, mobile devices, social media, and more. Diversity in media offerings has resulted in a variety of pricing models. The same ad now costs different amounts on different platforms, as ads are now often subject to the cost per follower model on social media, the cost per view model on video platforms, and the click-through model. Advertisers' ability to distribute ads targeted to unique individuals has transformed the space and diversified pricing models. While targeted ads allow companies to more efficiently deploy their advertising budgets, engaging the most desirable consumers also comes with a higher price tag.

New Value Metrics

Consumer engagement is the key measure of an ad's performance. Performance-based pricing models allow companies to gauge

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whether their advertising dollars are being put to good use. Now, media owners are able to collect consumer data and better target their audience in real time through various data analytics platforms. From a digital media owner's perspective, performance-based models also better capture the benefits of digital media over traditional media, and in theory, should command higher prices. Performance-based pricing models include cost per install for mobile app ad campaigns, cost per action for specific consumer engagements, and cost per lead for each new contact obtained.

Investors pay a premium for recurring and predictable revenues. This contrasts with those in digital media that are based on the volume of advertising sold or level of consumer engagement and can result in uneven and unpredictable revenues. This has led digital media companies to move away from media-based models and unpack the cost of the technology from the cost of the ads. Separating these technology costs that were previously hidden in the media rate results in a software-as-a-service (SaaS) business model that is currently popular with investors. However, having a recurring revenue means asking marketers to pay recurring costs, which doesn't fit neatly into the typical marketer's budget where costs are managed on a campaign basis.

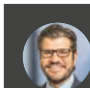
Threats to Accountability

Ad fraud is arguably digital media's greatest challenge. J.P. Morgan Chase **estimates** overall ad fraud will reach $16.4 billion in 2018. In order to mitigate such risks for its own ads, the company cut the number of sites featuring its programmatic display ads from 400,000 to 5,000 last year. Accurate measurement and display continues to concern companies across industries. Naturally, fraud in digital advertising can take various forms, including bots generating fake impressions and clicks, invisible ads (one ad hidden behind another ad loaded into a single pixel), arbitrage (selling ads at one price and buying clicks at a lower price), and click farms (people paid to click on ads). Ad space that operates on a volume-based pricing model often serves as fertile ground for fraud since every party in the ecosystem is incentivized to achieve as many views as possible, lowering incentives to control fraud. On the other hand, performance-based models weigh ad performance using both quantitative and qualitative measures, meaning its definition of success is more than just the number of times a person clicked on an ad. To combat the issue of rising fraud, independent digital media measurement companies are creating fraud labs.

BLURRED LINES

With innovative media products and technologies announced daily, what can advertisers, publishers, and other players in the digital media ecosystem expect in the future? From pricing to performance metrics, new technologies will continue to alter digital advertising and media models. Companies that seamlessly integrate previously separate offerings will find success, while those less adept at fusing strengths will face challenges. This collaboration could be realized as a combination of AdTech and MarTech so that customers can place ads while building, managing, and delivering campaigns, all while generating monthly recurring fees for the company. Meanwhile, emerging technologies like augmented reality, virtual reality, and voice recognition promise a whole new world of ads with new pricing models to follow.

Digital media and advertisers' best bet is to remain nimble, for disruption is here to stay.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