



# The 2021 Guide to **PROGRAMMATIC ADVERTISING**

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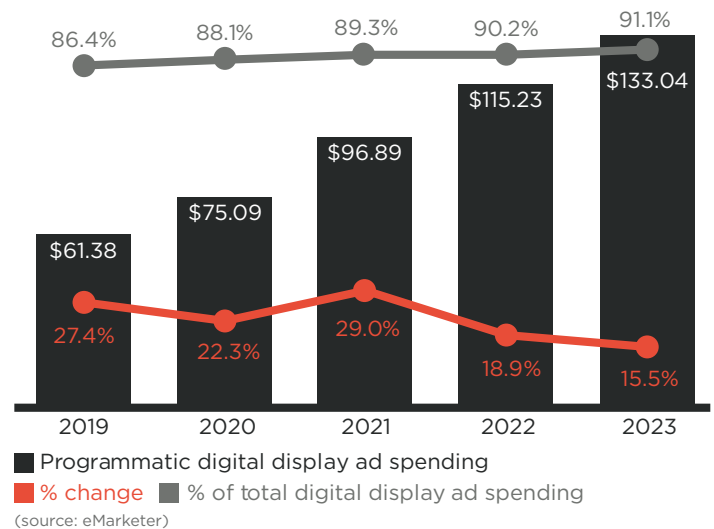
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## WHAT IS PROGRAMMATIC ADVERTISING?

No matter how interesting, persuasive, or innovative an advertisement is, it won't lead to sales if the right people never see it. This is why the placement of advertisements has always been critical to their success. The online advertising space allows for a greater number of consumers to be reached than ever before; however, the need to reach the right consumers at the right time remains. Traditionally, the amount of effort required to reach the right audience among the countless ad spaces available was time consuming and labor intensive. Time was spent on researching, requesting proposals and quotes, as well as a significant amount of human negotiation.

Relying on the use of advanced algorithms, programmatic advertising mediates the placement and sale of digital ad space while taking into account consumer data and online traffic all within the time it takes a website to load. This approach greatly increases exposure to the best possible audience, and leads to considerable return on investment for both publishers and advertisers.

**U.S. Programmatic Digital Display Ad Spending, 2019-2023:**  
billions, % change, and % of digital display ad spending



Because the technology is so efficient it's been growing in popularity every year. By 2023, 91.1% of all U.S. digital ad spend is expected to be bought programmatically.

## HOW DOES IT WORK?

The buying and selling of online ad space occurs on exchanges. Exchanges allow advertisers access to multiple ad networks at the same time. Traditionally exchanges were used by publishers to offer their unsold inventory to the highest bidder. Multiple publishers would place their "leftovers" up for auction in the hopes that it would be purchased. Programmatic ad buying has increased the utility of exchanges by facilitating more precise targeting and more efficient transactions through real-time auctions.



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## HERE IS HOW THIS PROCESS PLAYS OUT:

- A visitor clicks on a website
- The publisher of that website puts the digital ad space they have available up for auction on an exchange through an SSP (supplier side platform). An SSP connects the publisher's inventory to one or more ad exchanges.
- Advertisers offer bids for that ad space through a DSP (demand side platform). A DSP connects buyers to the inventory that is available on ad exchanges in a targeted manner.
- The bidding process takes place in a real-time bidding auction. Algorithms are used to place the bids as well as to determine the highest bid.
- The ad space on the website is allocated to the highest bidder and the ad is placed on the website for the visitor to view.
- Ideally, the website visitor clicks on the ad and that click leads to a transaction.

A deeper understanding of SSPs, DSPs, and how they use information to make decisions about ad buying and selling is helpful when thinking about programmatic advertising and real time bidding.



### HOW DOES AN SSP WORK?

Supply Side Platforms are for publishers to place inventory on ad exchanges. Instead of individual salespeople reaching out to advertisers to entice them to buy online ad space, an SSP makes the entire process fully automated. A seller will use an SSP to let ad exchanges know what inventory they have available. That inventory then is auctioned off through a real time bidding process. Algorithms monitor the bidding and award the ad space to the highest bidder. Using data about the advertisers, the job of an SSP is to sell inventory for the highest price. To do this, an SSP will use multiple ad exchanges to increase access to the number of potential buyers. It also allows publishers to set parameters and controls on inventory by dictating specific channels, buyers, or minimum price points.

### HOW DOES A DSP WORK?

A Demand Side Platform is the other side of the automated advertising coin. It allows advertisers to purchase the ad space made available on ad exchanges. If there are ads that are a good fit for what a publisher is offering, the DSP will begin placing real time bids in competition with other advertisers to win the spot. The DSP uses algorithms to place bids based on data about the website visitor. The stronger the potential that the website visitor is a likely client, the higher the bid the DSP will place. The DSP determines strong potential customers by applying audience targeting preferences. Advertisers can set parameters based on age, geographic location, website users' online habits, and language. DSPs help advertisers buy highly effective ad space for minimal cost.

## HOW DO SSPS AND DSPS MAKE THEIR DECISIONS?

As mentioned above, both SSPs and DSPs use data and algorithms to make automated buying and selling decisions. Both platforms need to get information for making those decisions from somewhere. This is the role of a DMP (data management platform). A DMP collects, stores, and sorts information about users and manages incoming cookie data. DMPs are where DSPs get the information they use to place bids on ad spaces that are most likely to reach their target audiences.

## TYPES OF PROGRAMMATIC TARGETING

With the information DMPs provide, there are a variety of programmatic targeting strategies that advertisers can implement:



### Contextual

Contextual targeting involves placing ads that match the context of the website. An example would be placing ads for clothing on a fashion website or ads for yard care services on a gardening website.



### Keyword

This is a more specific form of contextual advertising. Advertisers set a list of key words related to their product or service. Ads for the product or service will be placed on websites that contain those keywords. An example of this would be a business that repairs cars placing an ad on websites containing a list of pertinent car parts. Advertisers can also provide a list of words that disqualify a website. For instance, if they sell motorcycles they might want to target websites that contain the word “bike” but not if the website also includes terms like “pedals” or specific bicycle brand names.



### Retargeting

Retargeting is based on an individual’s browser ID or cookie. So, if a user visits a business’ website about cleaning services, that individual will be served ads for that business even when they are on unrelated sites, say for salon services.



### Geotargeting

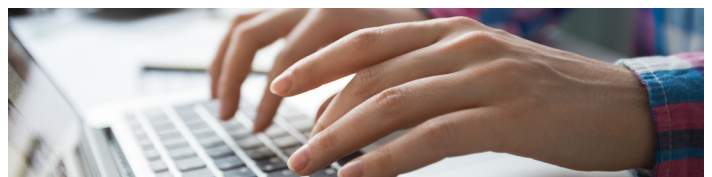
Geotargeting is again based on user data. Ads are only placed on websites for users in specific locations. For instance, if a business has brick and mortar stores throughout the Midwest, they would not want ads served to users in London.



### Demographic Targeting

Demographic targeting is when advertisers specify one or more “type” of user they would like to see their ads--ones who are most likely to desire the product or service they offer. This can be based on gender, age, or interests. It can also be based on online habits, like users who are perusing content over their lunch break. If a business offers services like food delivery, they might want ads placed more heavily during typical lunch and dinner times. Type of device can also be specified, like only targeting users on smartphones.

All of this data is taken into account automatically and used to place bids for ad space before a website even loads.





## RTB VS. PROGRAMMATIC DIRECT

Programmatic ad buys are usually conducted through a real-time bidding auction (RTB). With RTB, individual ad spaces on the open exchange can be bought and sold quickly and in a highly targeted manner. But advertisers also use a different buying strategy, called programmatic direct, to buy large numbers of ad spaces on specific sites. The purchase of these spaces are not in real time, so the audience targeting is limited; however, it does guarantee advertisers a certain number of spots on preferred publishers websites. This approach is usually saved for “premium” types of ads like full page or takeover ads. Most buyers use a combination of these two methods of obtaining online ad space.

**Programmatic Advertising has a number of advantages for advertisers, publishers, and consumers.**



## ADVANTAGES FOR ADVERTISERS

**Quality Advertisements:** When sales decisions are made automatically, businesses can free up time and personnel that were dedicated to sales and reallocate those resources to improving ad content. Humans are still key in developing compelling advertisements. When more people are focused on the creative process, rather than ad placement, the quality of ad materials will improve.

**Reach:** DSPs can easily interact with multiple ad exchanges and therefore reach thousands of potential customers in seconds. This allows businesses to advertise on a much larger scale, without devoting additional time.

**Data Insights and Reporting in Real Time:** Real time access to data about the placement of ads and the activity on websites increases transparency, allowing advertisers to assess the efficacy of their ad placements and make adjustments to campaigns easily.

**Higher Click to Conversion Rate:** By accessing a higher quality audience for products and services, ads placed via a DSP are more likely not only to be clicked on, but are also more likely to lead to conversions.

**Data Driven Decisions:** The amount of information generated through DSPs allows advertisers to make data driven decisions, eliminating human error and any guesswork involved in buying ad space. This efficiency allows advertisers to focus on successful campaign strategies and avoid bidding on underperforming inventory.

**Relevancy:** The audience targeting available through RTB makes ads more relevant to consumers than ever before. Businesses can ensure that only web users in their target audience view their ads.

**Cost Effective:** Using salespeople to buy ad space is time intensive and therefore more expensive. Computer systems can make better decisions in less time for less money than humans can.

## ADVANTAGES FOR PUBLISHERS

Publishers enjoy many of the same advantages that advertisers do using programmatic systems. Publishers can maximize profits by ensuring they get the highest bids for their inventory. They also save money by reducing human sales staff. In addition, the real time data reporting lets publishers understand the activity on and the audience of their websites. Publishers can use data to ensure that the brands advertising on their sites align with the image their organization would like to maintain.

## ADVANTAGES FOR CONSUMERS

The advantages to consumers can be summed up in one word: relevancy. Consumers are more likely to experience ads that pertain to their life, needs, and interests. Not only will they see the right ads, they will see them at the right time, increasing the chances that they find products and services that fit their immediate needs. They will not be subjected to ads that they are uninterested in or even potentially offended by.

## CURRENT STATE AND FUTURE POTENTIAL

Programmatic advertising is highly effective and is here to stay, with U.S. spend expected to reach \$97B this year. It is doing so well that many companies are increasing their programmatic capabilities in-house with self service platforms. In 2018 45% of brands did their own programmatic buying and that number is expected to grow to 62% by 2022. Self-service platforms are also allowing smaller businesses to market in a way that would have been out of reach before.

Not only is it growing now, it is likely to keep improving. Advances in AI will make automated decision making more and more effective. In the future other spaces like out of home digital channels such as billboards, bus stations, and malls, may be bought and sold automatically. This will allow advertisers to streamline their campaigns across multiple medias and platforms for maximum reach.

In terms of its impact, Tim Webster, co-founder of The Exchange Lab, says it best. Writing on AdExchanger, he states: “The effectiveness of programmatic advertising cannot be disputed. Programmatic allows us to understand the media journey better than ever before and have one-to-one conversations with individuals.”

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