mPOV

Delivering on the Promise of Mobile Video

PubMatic mPOV White Paper #2

The second in an ongoing series
of Mobile Point of View studies
from PubMatic

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DELIVERING ON THE PROMISE OF MOBILE VIDEO

Executive Summary

Over the past decade, mobile device usage has reached critical mass, and advertisers are eager to capture this valuable consumer attention. But mobile video advertising must overcome several challenges before it reaches full potential. There isn't enough premium inventory to satisfy advertiser demand. A lack of consistent standards and cross-platform measurement makes it harder to measure results. Buying mobile inventory across platforms needs to be simplified and rationalized. And the technologies to serve ads, manage workflow and automate processes remain underutilized.

Despite these challenges, the opportunity in mobile video is greater than ever.

Publishers can help close the supply gap by:

1. Increasing their investments in high-quality video production
2. Working towards unified standards
3. Adopting technologies that combine the quality guarantees of direct selling with the efficiencies of programmatic

Buyers can:

1. Work towards better and more robust campaign measurement
2. Stay a step ahead of growing inventory by tapping into programmatic strategies and marketing automation platforms

Introduction

It's often said that "content is king," but mobile video so far tells a different story. There is a vast quantity of content, but there's room to improve on quality. There are many ways to measure results, but they haven't yet reached parity with other channels. And, like every other part of the digital world, consumer interest is limited and fickle – so the experience has to be just right. What this all adds up to is this: In the mobile world, **relevance is king**. Content people want to watch should be paired with appropriate ads that entertain and inform rather than intrude, all delivered and measured in a way that derives true value for publishers and buyers.

(Continued...)

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How do we achieve this? This paper will outline the ways that publishers can create high-quality, personalized mobile video experiences that attract and keep consumers' attention, through foundational technology platforms that can serve and manage a wide (and growing) variety of ad formats. It will also discuss how publishers and buyers can seize on the opportunities ahead, by working to close the supply and demand gap in inventory, develop standards that fairly and accurately measure mobile video against its peers, enable truly cross-platform campaigns, ensure the best user experience, and tap into the efficiencies of programmatic buying and selling.

Mobile At Critical Mass, Mobile Video Advertising Ascendant

In our first Mobile POV white paper, "Getting the Most Out of Mobile: 5 Ways to Maximize the Value of Premium Publisher Mobile Ad Inventory," we explored the growth potential for mobile and began to quantify ways that publishers could use data to increase the value of their mobile inventory. Mobile advertising has surged since then, with mobile display maturing as a category while a vast number of new formats and approaches have emerged – video chief among them.

In the U.S., ad spending on this channel is currently $2.8 billion, and is expected to grow to $6.8 billion by 2019.

The digital world has leapt off our desktops and into our pockets. According to comScore, digital advertising passed the mobile "tipping point" last year – there are now more mobile users than desktop users worldwide[1]. There are 5.2 billion mobile phone users – representing more than 72% of the global population. People in the United States spend about 2.5 hours each day on mobile devices – a little more than half the time they spent online[2]. And a growing portion of that time – about 20 minutes – is spent watching video[3].

We now spend 23.6% of our time online on mobile devices, yet mobile attracts only 16.6% of advertising spending. This 7% gap represents a $12.9 billion market opportunity.

Consequently, advertiser interest in mobile video is growing. In the U.S., ad spending on this channel is currently $2.8 billion, and is expected to grow to $6.8 billion by 2019[4]. With broadcast and cable television ad revenues flat or declining over the past several months, major publishers are shifting their investments towards new kinds of data-driven and video-focused publishers – such as NBC Universal's recent investments in Vox and Buzzfeed. However, like other marketing channels, overall mobile spending still lags significantly behind adoption – we now spend 23.6% of our time online on mobile devices, yet mobile attracts only 16.6% of advertising spending. This 7% gap represents a $12.9 billion market opportunity. (The same story can be told in other markets: in the U.K., for instance, mobile represents 25.4% of consumers' time spent consuming media, but only 20.1% of ad spending, representing a $1.4 billion opportunity.)

1 http://www.comscore.com/Insights/Presentations-and-Whitepapers/2014/The-US-Mobile-App-Report
2 http://www.smartinsights.com/internet-marketing-statistics/insights-from-kpcb-us-and-global-internet-trends-2015-report/attachment/mobile-internet-trends-mary-meeker-2015-1/
3 http://www.emarketer.com/Article/US-Adults-Spend-55-Hours-with-Video-Content-Each-Day/1012362
4 eMarketer (September 2015)

It's not just the raw audience numbers that make this channel so attractive for advertisers:

- Compared to display advertising, video offers greater creative possibilities and more opportunities to engage viewers with relevant, entertaining content.
- Compared to desktop video, mobile video is perceived to be more immersive because of touch capabilities and a personalized and immersive viewing experience.
- Compared to broadcast TV, online and mobile video offer more precise targeting and measurable ROI.
- The growing adoption of mobile video offers a tremendous opportunity to tap into the $200 billion estimated global TV advertising market.

As a result, video advertising commands significantly higher CPMs than standard online display ads. Although the mobile video marketplace is highly fragmented, making comprehensive measurement challenging, some estimate that the average pre-roll video, for instance, commands a $15 CPM[1] – five times the average CPM for a mobile display ad[2]. While CPMs may vary across vertical segments, higher CPMs for mobile video, compared to mobile display, generally hold true across the board.

Another contributing factor to these high CPM rates is a simple imbalance of supply and demand – there just isn't enough quality video inventory to go around. At the same time, accurate and effective measurement of mobile video is still in its infancy, with providers like Nielsen and comScore just beginning to focus on this channel this year. Meanwhile, the Media Rating Council is working to improve viewability standards, but adoption is slow for the most part, with some companies making huge promises in viewability[3] and others ignoring the metric due to technology resource limitations.

Lessons, Challenges and Opportunities

Improving the Customer Experience

In the mobile world, the bar is much higher for quality experiences. Smaller screen sizes, shorter engagement periods, and the personal nature of mobile devices all mean that defects and poor design choices that might be tolerated on the desktop can fail miserably on smaller devices. Pages that fail to load quickly, functionality that doesn't work, and advertising that's intrusive or irrelevant can drive away users. So, publishers that wish to thrive on mobile must pay extra attention to the quality of the experience.

Add video to the equation, and the mobile experience is even harder to get right. A recent Forrester study[4] showed that 70% of mobile users thought in-app ads were interruptive, and more than two-thirds found them annoying – reflecting a much lower tolerance for advertising than on television or the Web. This sentiment is fueling the move towards content blocking solutions such as those enabled in the next version of Apple's iOS.

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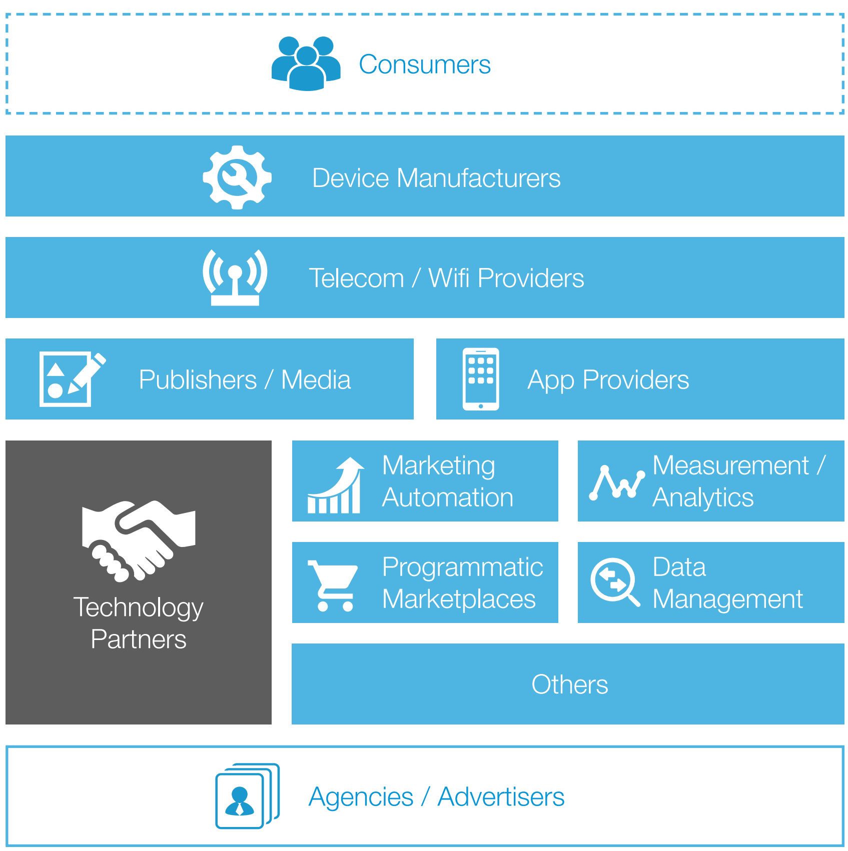
1 http://www.streamingmedia.com/Articles/Editorial/Featured-Articles/The-Challenge-of-Mobile-Video-Big-Returns-for-Small-Screens-101321.aspx
2 http://monetizepros.com/display-advertising/average-cpm-rates/
3 http://adexchanger.com/ad-exchange-news/in-the-quest-for-100-viewability-everyone-is-taking-a-different-path/
4 http://adage.com/article/digital/mobile-ads-disruptive-television-spots/238730/

At the same time, the technical challenge of reliably delivering high-quality video content that looks and sounds great and is free of glitches and delays has been difficult to overcome even by major media companies. Adding advertising to the mix – whether pre- or post-roll or in-stream – brings another layer of difficulty to the task. A bad ad can ruin even the greatest video, so publishers must pay as much attention to the quality of ad serving as they do to their core content.

And success itself can become a burden here: if inventory is sold directly and manually against a video that goes viral, publishers can lose out on the value of all those additional impressions. Here, again, is where marketing automation platforms and programmatic marketplaces can help, by reducing human effort and enabling technology to respond in real time to shifts in demand.

What this all comes down to is a singular mobile video experience for the end consumer. However, to get there, many players in the ecosystem are responsible for doing their part to achieve that one perfect video ad. Some players, such as device manufacturers, are very apparent because they physically touch the consumer, while other companies, such as marketing automation providers, are working hard behind the scenes to create a technology foundation for the perfect digital experience.

Key stakeholders in the consumer experience



Where is the inventory?

The most common concern among advertisers about video in general, and mobile video in particular, is that there simply isn't enough good inventory. A recent Forrester study[1] showed that 40% of agencies and 27% of advertisers believe that the lack of premium inventory is holding back spending on digital video advertising. On the supply side, the study showed that 37% of publishing and media companies don't have enough inventory to meet advertiser demand. Essentially, the raw numbers are there, but the quality isn't. And it turns out that the very definition of "quality" is not what it seems in this new world.

First, not all premium video is available to advertisers. Among media companies with a heritage in video, such as TV networks, many have not adopted advertising as a business model. Meanwhile, existing carrier agreements often limit the amount of content they can offer through digital channels, ads for on-demand video are served through Dynamic Ad Insertion (DAI) or online video is bundled with TV deals as cross-platform add-ons. With the exception of certain platforms such as Netflix and Hulu, much of what consumers view on TV is "off limits" digitally. This is changing, with TV companies such as NBCUniversal, CBS and Viacom developing over-the-top (OTT) direct-to-consumer offerings and offering content directly to viewers as subscription or ad-supported services. But for now, there is a tremendous opportunity for new players to fill the supply gap with compelling new content.

"40% of agencies and 27% of advertisers believe that the lack of premium inventory will inhibit digital video spending. 37% of publishing and media companies don't have enough inventory to meet demand."

– Forrester Consulting (May 2015)

Video production is not without its challenges. The skills required to conceive, script, shoot and edit premium video are very different than what's necessary to put together a written article, and print-heritage publishers expanding into video must climb a steep learning curve. And video that "works" on TV or the desktop doesn't automatically work on mobile devices – publishers are still becoming fluent with the medium, learning everything from appropriate clip length, to personality and tone, and even screen orientation. Additionally, the definition of "premium" is itself evolving. YouTube and Vine celebrities have shown through videos with lower production values that attract audiences that can exceed those of cable networks. Factor in social sharing, and audience sizes can increase exponentially for digital video content.

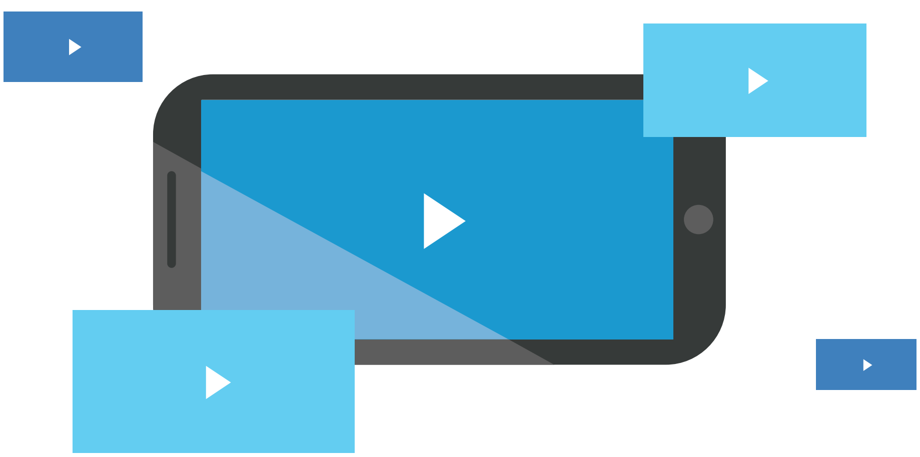
Format and video player decisions are also a factor in a video's success. Publishers and advertisers are having some success with vertical-oriented mobile video, which in some ways works better on mobile devices than traditional horizontal orientation. The emerging consumer interest in live mobile streaming platforms such as Meerkat or Periscope signals another potential approach to premium content.

1 http://teads.tv/en/teads-forrester-download/

Recognizing this imbalance of supply and demand, premium publishers are increasing their investments in video and rapidly developing more sophisticated strategies. Several publishers with a heritage in print are investing to own and operate their own video production capabilities: The New York Times has aggressively hired video production staff and given video content more prominent placement on its properties; The Economist established Economist Films this year to expand its print voice into video; and Condé Nast has established a video production arm and packages video from its various brands and partners in a single offering. Digital pure players AOL and BuzzFeed have also committed significant resources to video production over the next several years. And as app usage continues to grow, the volume of available inventory within those apps will grow in turn. As these efforts mature, we can expect to see much more quality inventory available to mobile video advertisers.

Amplifying Value with Data and Context

As the quality of video content improves, the value of that inventory for buyers also has room to grow. Not only should video content do its primary job – be entertaining and compelling for viewers – it should also be supplemented by data that can help improve relevance and audience targeting. On this side of the quality equation, every additional piece of metadata counts: first- and third-party data that can tell advertisers more about who's watching what and where and how that data has a measurable positive impact on CPMs. According to internal PubMatic data[1], mobile publishers who can provide latitude and longitude data can realize CPMs 124% higher than average. Adding device ID data increases this lift to 275%. Marketing automation providers are working to create the technology foundation to support effective first- and third-party data integration.



1 PubMatic mPOV White Paper #1, http://info.pubmatic.com/mobile-whitepaper.html

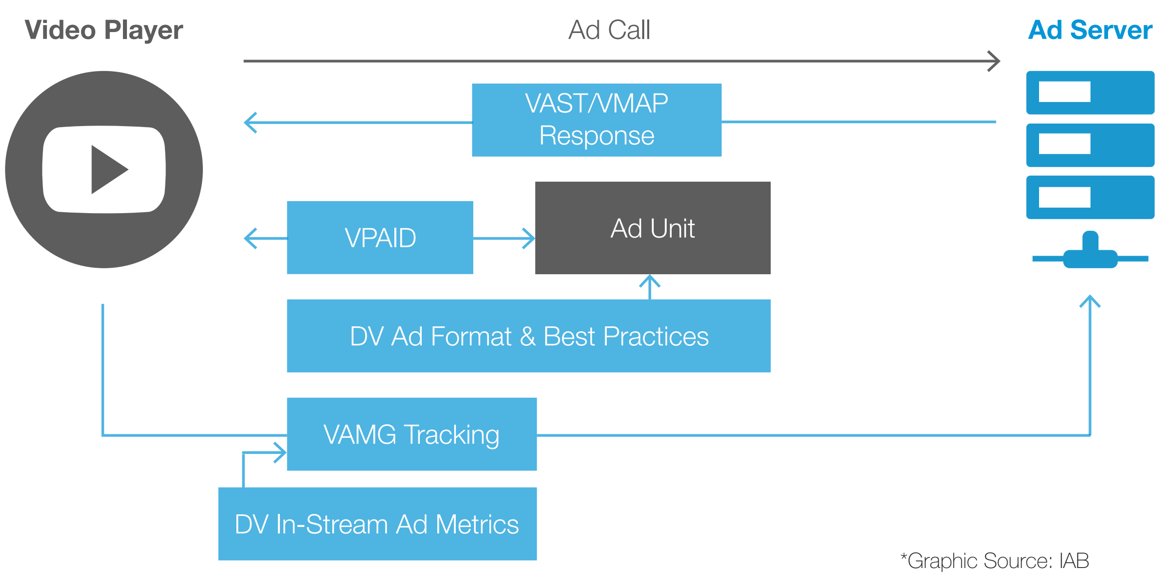
Evolving Towards Standards

Once publishers have the inventory that buyers want, coupled with the data they need to sell it, they face another hurdle: the lack of consistent standards around pricing, formats and metrics.

The mobile video marketplace is highly fragmented, in many ways resembling the display ad market prior to the emergence of ad networks. This situation is further complicated by "walled garden" platforms that sell their inventory directly, such as Hulu, or are based on subscription models that do not include advertising at all, such as Netflix. Compared to the display ad ecosystem, it's challenging for advertisers just to get a full view of exactly where they can place their ads – much less determine a fair price or a consistent measure of effectiveness.

At the same time, mobile video raises a fundamental question: What is a video ad? At the most basic level, it's simple: a short pre- or post-roll clip that plays alongside video content, with some level of interactivity (such as a CTA), or a banner ad that appears over a video clip. This is as true on mobile devices as it is on the Web. IAB standards have existed for these formats since 2012 – the Digital Video Ad Serving Template (VAST) and Digital Video Player Ad Interface Definition (VPAID) helped reconcile and standardize ad placement across multiple video players. VPAID and the in-progress Mobile Rich Ad Interface Definitions (MRAID) have evolved to support touch interaction and access to some device functionality.

Ad Serving with VAST



*Graphic Source: IAB

However, mobile opens up a number of new possibilities – not every video ad needs to live inside a video player as a pre-roll clip. What about ads that live not on a Web page, but inside an app? What about video ads that auto-play in news feeds? What about ads that take advantage of mobile device capabilities, such as the touchscreen and accelerometer? As publishers and advertisers continue to innovate on this platform, standards will need to evolve in turn. This may be solved empirically in a combined effort from all players in the ecosystem.

The Measurement Challenge

Another significant issue facing mobile video inventory is the need for better metrics. Within the ad, advertisers need to know if an ad was played in full or skipped, if the video was visible on screen when played (and for how long), if any interactive functionality was used, and if the impression itself was legitimate. What "counts" as a view by one standard may not by another – making the measurement of just a single channel as complex as assessing a massive cross-platform campaign. For instance, the Media Rating Council considers an ad "viewable" if it is on screen for two consecutive seconds, while media agency GroupM requires that every pixel be on screen, with the sound on, for at least half the video's length. This lack of consistency leaves money on the table – according to one IAB pricing model, inventory packages with viewability guarantees can command 15-70% higher prices[1].

"[T]here are inconsistencies in the measurements that exist today because of different processing methods. The agencies were asking for completely different standards. You have to buy all these data sources, and you have all these agencies asking for different requirements."

– Sherrill Mane, SVP of Research, IAB

Advertisers also need to know the ad's effect on brand recognition or purchase intent, its connection to direct sales, and its relationship to messages delivered through other channels. On top of an already fragmented marketplace for inventory, advertisers must contend with a fragmented approach to measuring these factors, with many different players offering their own slightly different approach. There is no benchmark for measurement, because, as mentioned previously, major measurement providers, such as Nielsen and comScore, are still in the early stages of developing a reliable measurement solution for mobile video.

A larger issue has to do with assigning a fair value to video inventory when similar content is widely viewed on platforms that do not share audience data. Content that is subjectively popular on platforms like Netflix or HBO GO, which are not ad-supported and do not share their audience data, cannot be objectively measured against similar content on other platforms. This can have a chilling effect on open platforms, since there isn't enough information to make a fair value assessment of the inventory – an equivalent to the Nielsen ratings (i.e. gross rating points or GRPs) that are an accepted "currency" for TV ad buying.

1 http://www.iab.net/media/file/PublisherEconomicswithguaranteedin-viewsellingmodel.pdf

With a lower supply (for now) of high-quality video inventory, publishers can already expect to command higher CPMs for quality content. However, by developing strategies to sell that inventory efficiently and at scale, they can improve quality along a different dimension: inventory that is not just compelling, but also easy to price, buy and measure. This can be accomplished through workflow solutions that make it easier to sell inventory directly or through real-time bidding, yield management that can make more valuable inventory available to buyers, and real-time analytics to measure and adjust campaigns in order to maximize revenue.

By adopting programmatic strategies and participating in open platforms that automate transactions and offer clear and consistent ways to measure results publishers can create a virtuous cycle that closes the supply and demand gap. They can do this while also significantly increasing the volume of easily measurable pricing trends and viewability metrics – gradually building up a "track record" that can increase buyer confidence. This confidence will in turn increase the budgets allocated to mobile video inventory.

The Cross-Platform Challenge

Much of the appeal of digital advertising lies in the ability to execute cross-platform campaigns. These campaigns allow advertisers to tell a compelling, consistent story across desktop and mobile, through video and display ads, and even extending to outdoor, connected TV, audio, or the "Internet of Things." These types of campaigns open up new creative possibilities while also capturing consumers' attention in a media- and advertising-saturated world.

There may never be a unified schema of formats and metrics to account for all possible combinations of channels. The advertising landscape is too complicated, and innovating too fast, for any single entity to keep up. At the same time, these channels are populated with content and ads by a diverse ecosystem of players, many of which will likely continue to operate as distinct silos. While the programmatic ecosystem for display advertising is relatively mature, these challenges become more acute on emerging platforms such as mobile.

This challenge further speaks to the need for publishers and buyers to move from siloed tools to marketing automation platforms, which can abstract away the complexity of dealing with multiple platforms and channels, as well as reconciling divergent or overlapping standards and metrics. In concert with work towards more consistent and unified standards, marketing automation can bring all marketing channels together in a seamless way. The result for marketers is a simpler view of the consumer and more effective tools to reach them, while publishers can use the same tools to analyze, package and ultimately uncover hidden value in their inventory.

Conclusion

Mobile video advertising is still ascendant, which means that the time is now to address the challenges outlined in this paper. By making the right decisions today, publishers and buyers can tap into the full potential of this channel and better prepare themselves for a mobile-first future. Specifically, they should:

1. **Deliver more premium ad-supported mobile video content.** Invest in production and emphasize quality, but also experiment with the possibilities of the medium.

2. **Supplement that content with great data.** Develop a better understanding of the audience and package that understanding in a way that can amplify the value of this inventory.

3. **Adopt effective yield management and bidding tools.** Moving from manual direct sales to programmatic open marketplaces for direct and RTB selling can not only clear the ideal price for buyers and sellers alike, but also extract the greatest value from each piece of inventory.

4. **Explore software for workflow automation and data integration.** Make the most of great content by targeting more effectively, and using data and analytics to increase CPMs and increase the ROI on every dollar invested in video.

5. **Work towards standardized and effective metrics and measurement tools.** Adopt and advocate standards that enable a true “apples to apples” comparison within mobile video platforms, as well as across all other channels.

About PubMatic
PubMatic is the leading marketing automation software company for publishers. Through real-time analytics, yield management, and workflow automation, PubMatic enables publishers to make smarter inventory decisions and improve revenue performance. Focused on serving the needs of premium publishers, PubMatic inspires buyer confidence by providing flexibility in audience discovery and planning media campaigns through its Media Console and APIs. The company's marketing automation software platform provides a global roster of comScore publishers with a single view into their advertiser relationships across every screen, every channel and every format. PubMatic was ranked by Deloitte as one of the fastest growing companies in the US Internet sector for the third consecutive year in 2014. The company has offices worldwide, and is headquartered in Redwood City, California.

Delivering on the Promise of Mobile Video is the second in an ongoing series of Mobile Point of View (mPOV) studies that PubMatic will produce in 2014 and 2015. This series will provide context and best practices for publishers who wish to profit from the profound changes that mobile advertising brings to digital advertising.

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