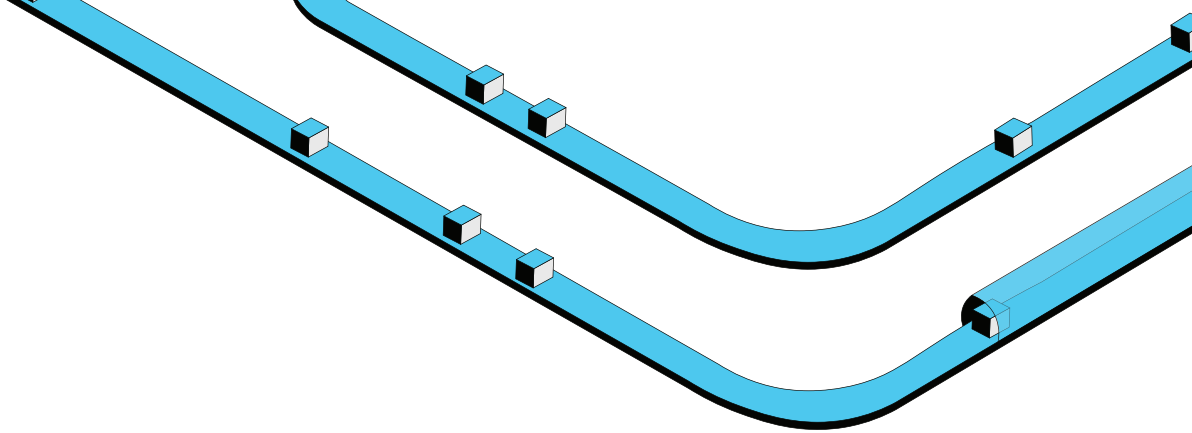


# THE STATE OF SUPPLY **PATH** OPTIMIZATION

PROGRESS AND IMPACT IN THE US





# TABLE OF CONTENTS

## 01

The state of supply path optimization

## 02

Who did we speak to?

## 03

Most US buyers are either implementing SPO or will be soon

## 05

Objectives, benefits and concerns

## 07

The impact of SPO on SSP relationships

## 11

Conclusion

# THE STATE OF SUPPLY PATH OPTIMIZATION

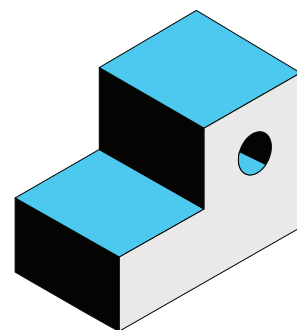
Over the course of a single decade, programmatic advertising has transformed from a niche buying tactic to the dominant means of transacting digital ad inventory. This year alone, US advertisers will spend almost \$60 billion on programmatic display, according to eMarketer. And over the past few years, the advent of header bidding has helped ad buyers refine their programmatic approach further, giving them far more choice over where to access inventory.

But in an advertising landscape dominated by automation and a staggering array of choices, problems with transparency have inevitably arisen. Buyers have struggled to determine which SSPs are bringing quality inventory through their pipes, and to make sure their bids aren't being duplicated for the same impression. Many digital advertisers arrived at an unavoidable conclusion: Their supply

chains were inefficient, complex and lacked transparency — and as a result, return on ad spend wasn't what it should be.

In a process known as supply path optimization (SPO), these buyers have begun assessing the effectiveness of their SSP partners, demanding increased transparency, maximum efficiency and a more innovative and adaptable overall bidding process. To reduce complexity, some have also begun winnowing down the number of SSPs they use.

But while some buyers have made tremendous progress in SPO, others are just getting started. In partnership with Digiday, PubMatic surveyed buy-side professionals (including brand, agency and DSP pros) from the US, gauging how they're currently approaching supply path optimization, along with the benefits and requirements of SPO.

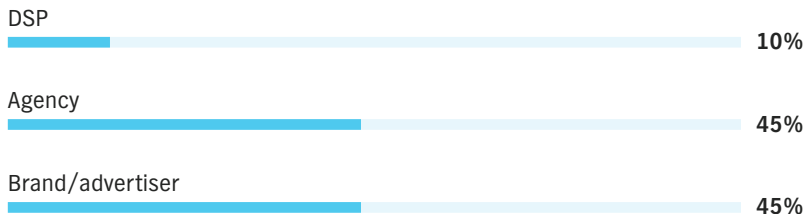


**Transparency and efficiency have now become key considerations for marketers.**

# WHO DID WE SPEAK TO?

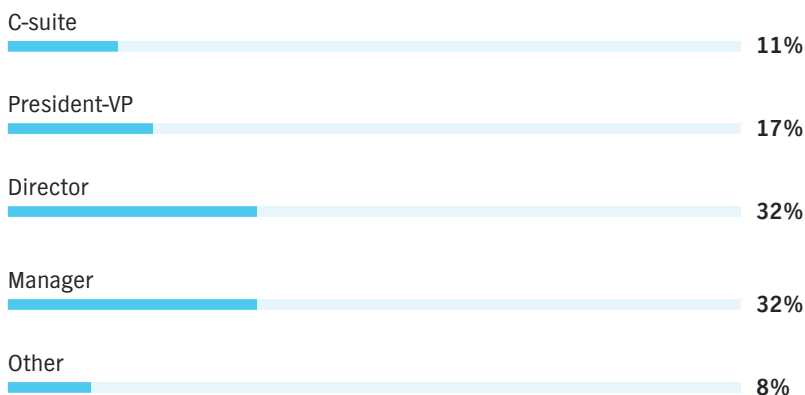
For the PubMatic/Digiday US State of the Industry report, we surveyed over 150 media professionals, made up of brands, agencies and DSPs, between September and October 2019. An equal number of respondents hailed from brands and agencies (45 percent each), while an additional 10 percent came from DSPs.

## COMPANY TYPE



Buyers with a variety of seniority levels responded to the survey. The majority were either managers or directors (32 percent each). An additional 17 percent were presidents or VPs, and 11 percent worked in the C-suite.

## SENIORITY LEVEL



An even array of departments were represented in the survey. Most respondents were either executives (28 percent) or account planners (27 percent). A further 17 percent of survey-takers were traders, while eight percent were supply team members.

## DEPARTMENTS

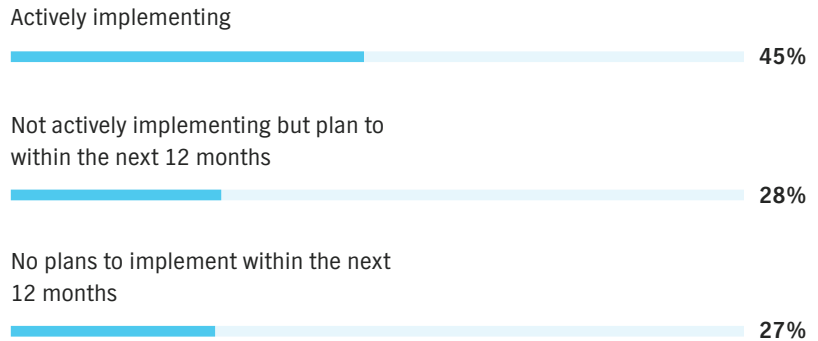


# MOST US BUYERS ARE EITHER IMPLEMENTING SPO OR WILL BE SOON

To dive into the SPO strategies currently being used, we asked buyers to give us a picture of where they were in terms of progress and implementation.

A majority of US respondents were either actively implementing SPO or planning to start within the next year. 45 percent are already implementing supply path optimization, and an additional 28 percent plan to start within the next 12 months.

These numbers demonstrate robust SPO practices (and awareness) within the US: A solid majority of buyers not only know what SPO is, but are either actively engaged in it – or will be within the next year.



## DIFFERENCES BETWEEN BRANDS, AGENCIES AND DSPS

Notably, we see a significant difference in market stages when we compare brands, agencies and DSPs, with brand marketers and DSPs further along in their SPO journeys.

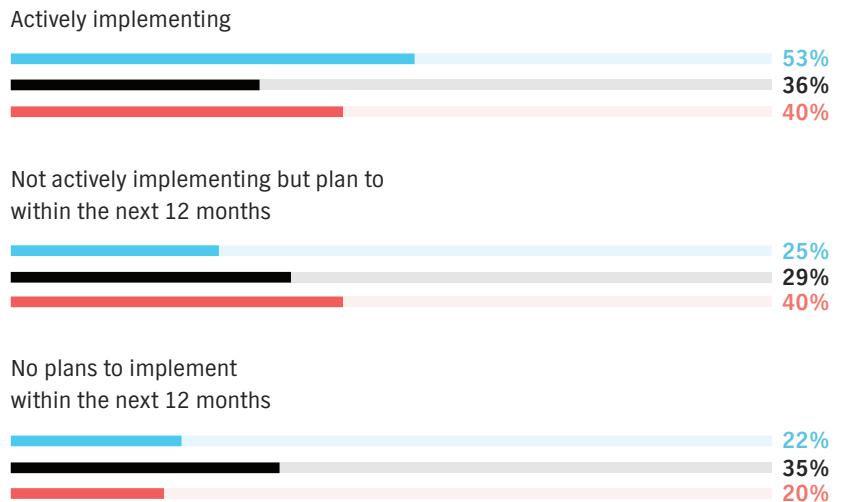
When we asked US agency buyers about their plans for the future, there was a healthy mix of respondents who said they were actively implementing SPO (36 percent) and those who plan to start within the next 12 months (29 percent). In other words, 65 percent were either actively implementing or had plans to start soon.

But the numbers were higher when we asked US brand marketers: Over three quarters of them said they were actively implementing SPO or had plans to start within the next year. Most of those respondents – 53 percent – fell into the “already implementing” column. An additional 25 percent said they had plans to start within the next year. DSP respondents answered similarly to brand marketers: 40 percent were actively implementing and an additional 40 percent planned to do so within the next 12 months – 80 percent, all told.

The US data makes it clear: Agencies, DSPs and brands are diving into SPO, but brands and DSPs report being a bit farther along.

### AGENCIES, BRANDS AND DSPS

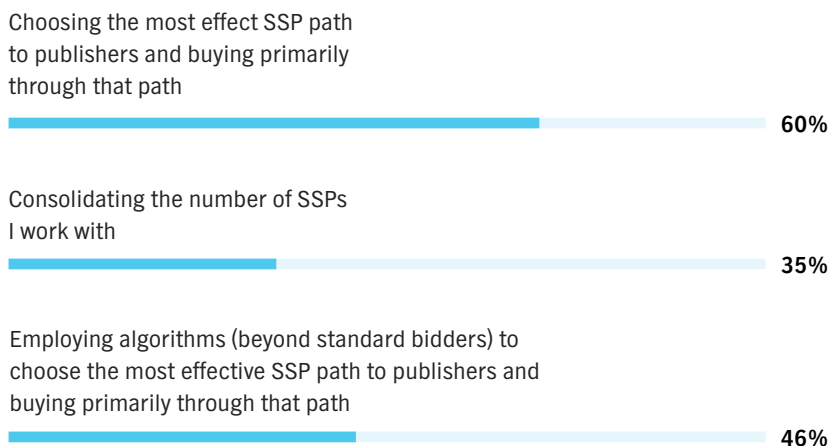
■ Brands ■ Agencies ■ DSPs



## A NEAR MAJORITY OF US PRACTITIONERS ARE WORKING AT THE ALGORITHMIC LEVEL

We asked buyers to describe their current approach to SPO. The most common response, at 60 percent, was “choosing the most effective SSP path to publishers and buying primarily through that path.” But a near majority — 46 percent — cited “employing algorithms (beyond standard bidders) to choose the most effective SSP path to publishers and buying primarily through that path.”

### WHICH OF THE FOLLOWING DESCRIBES YOUR CURRENT APPROACH TO SPO? SELECT ALL THAT APPLY



It's extremely notable that so many US practitioners are working at the algorithmic level; many stateside buyers already appear to have reached a mature phase in their SPO journey.

Employing an SPO algorithm generally involves partnering with a technology provider to automate functions such as fraud detection, analyzing traffic, assessing a publisher's SSP partners, and turning off SSPs that are offering duplicative inventory. The algorithmic approach means cutting down on onerous, manual assessments and choices. But it also necessitates that buyers place a great deal of trust in a technology partner or partners, that they boast extremely sophisticated internal operations, or both.

The large number of US buyers who are turning to algorithms has several connotations. Most basically, the data makes it clear that US buyers think that

the size and complexity of the US market demands that they automate some of their SPO operations.

“The scale of the [US] market might... require an algorithmic approach,” said Ben Downing, global head of programmatic at Havas Media Group London. “The market is so big, it's difficult to have a more manual approach to SPO.”

It's also clear that many US buyers have concluded that there are indeed existing technology solutions that can help them take a more automated approach to SPO.

“It may be that the right resources — in terms of really understanding and getting the right leadership and partnerships in place — have just been a lot more available [in the US], and had a larger impact to help buyers and sellers alike bridge the gap and actually get into the weeds of an SPO solution,” said Rahil Berani, vp and director

of programmatic at Digitas North America.

Finally, the survey responses demonstrate that many US buyers are deep enough into the implementation phase that they've begun selecting technology partners or perhaps even coding their own algorithms. And this would seem to indicate that many of them have already done a great deal of research into which algorithms and partners to use.

One last key takeaway, then, is that the 46 percent figure is likely to increase as more media professionals increase their level of knowledge and education regarding the SPO market. And boosting internal technology sophistication may be a key factor.

“Algorithmic approaches to SPO are really powerful,” said Downing, “but only if you absolutely know what's going on.”

# OBJECTIVES, BENEFITS AND CONCERNS

We asked marketers what their main objectives are when it comes to implementing SPO. Interestingly enough, no individual choice commanded a majority of responses. The top two choices were reducing overall supply chain fees (38 percent) and reducing the risk of fraud or brand safety exposures (29 percent).

The varied motivations of US respondents may be an indicator that SPO is a relatively new phenomenon — i.e., industry players are still feeling out their options and

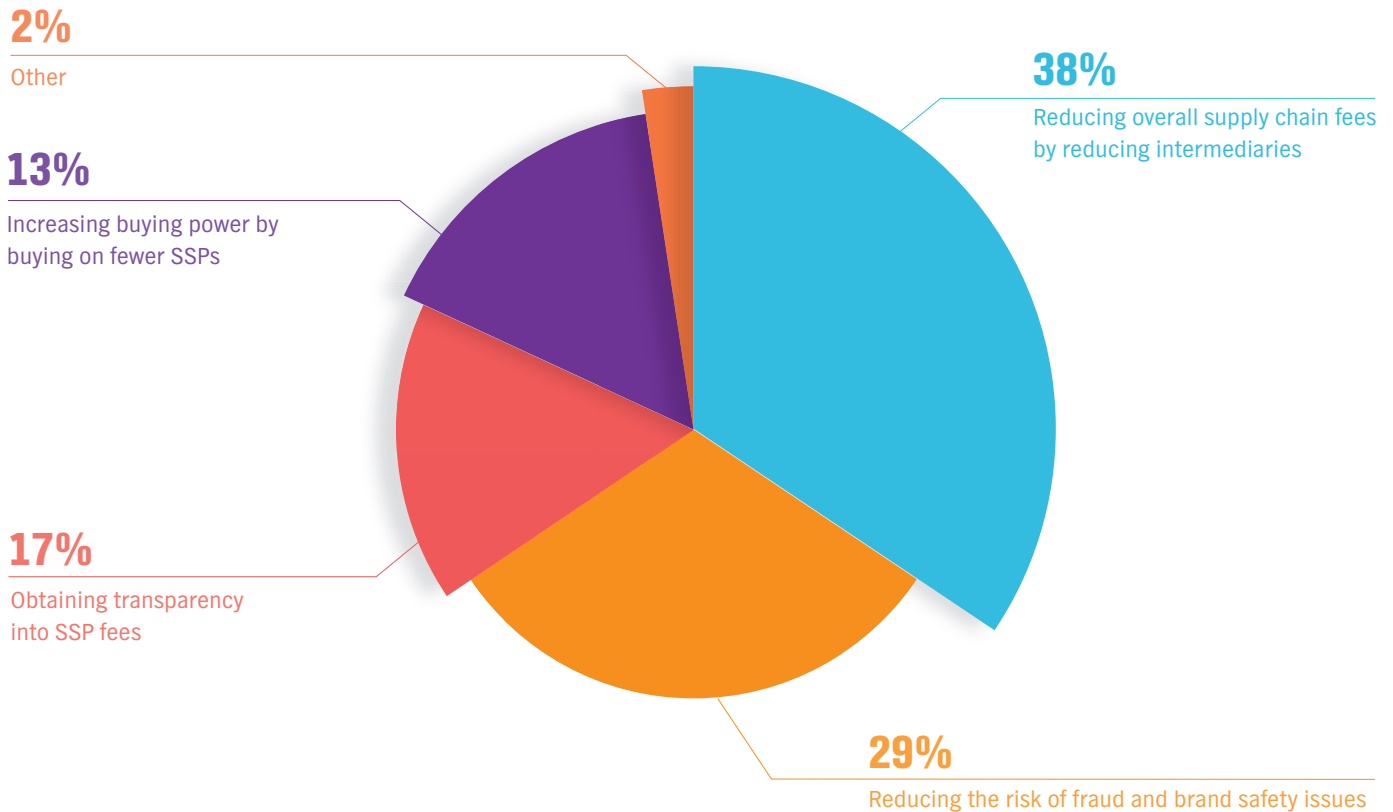
approaches. But it also indicates that buyers are implementing multiple SPO tactics and solutions, for a number of reasons, at the same time.

“[SPO] lends itself to conversations around fraud, around verifying exactly every piece of the ecosystem,” said Berani. “And that bubbles back into transparency — but transparency can mean a bunch of things. Who am I working with? Where is my ad going? How is the money I’m spending being portioned out for all the players

within that ecosystem? It’s not just about ‘transparency’ from one sort of silo. It’s for everything involved within that kind of industry of digital ad buying.”

Ultimately, SPO is designed to solve a number of discrete issues, and marketers are tailoring their approach to their own unique needs. In many cases, this entails pursuing multiple approaches — and solving multiple problems — simultaneously.

## WHICH OF THE FOLLOWING IS YOUR MAIN OBJECTIVE WHEN IMPLEMENTING SPO?



## BENEFITS

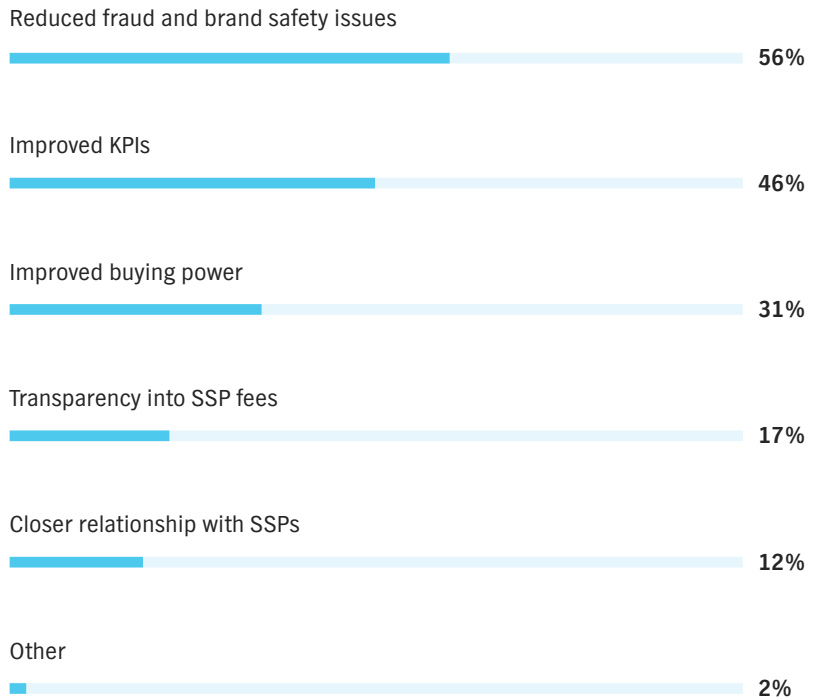
We explored the key boosters and blockers of SPO in the US.

First we asked respondents about the benefits they're seeing from SPO, which didn't always line up with their initial objectives for implementation. For instance, while less than a third of respondents cited reducing fraud or brand safety exposures as a top goal, 56 percent identified this as a primary benefit they've received from SPO. Improved KPIs ranked second, with 46 percent citing this as a top benefit.

Moreover, 31 percent selected improved buying power as a top benefit, while only 17 percent selected transparency into SSP fees, despite reducing overall supply chain fees ranking as the top objective.

It might at first seem that the benefits US respondents see from SPO don't always measure up against the goals they have at the outset. But this may not actually be a clear takeaway. For instance, the respondents looking to reduce overall supply chain fees may actually be seeing "cost" savings in the form of cutting down on fraudulent spending and improving overall KPIs. Ultimately, all of these factors tend to be inextricably connected.

### WHAT ARE THE MAIN BENEFITS YOU'VE SEEN FROM IMPLEMENTING SPO? PLEASE SELECT UP TO THREE



## CONCERNS

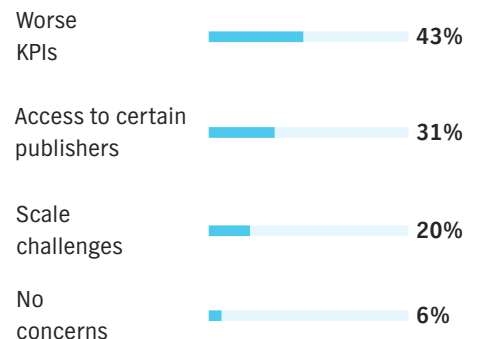
We asked buyers what their biggest concern was when it came to implementing SPO. In response, US respondents mostly cited worse KPIs (43 percent), access to certain publishers (31 percent), and scale challenges (20 percent). No clear majority choice emerges, indicating an array of significant concerns among respondents.

One seemingly counterintuitive result is that the 43 percent of US respondents who cited "worse KPIs" as a potential concern

in implementing SPO is nearly equal to the number of respondents (46 percent) who cited "improved KPIs" as a top benefit of shifting to SPO.

One way or another, KPIs are prominent in marketers' minds when considering or implementing SPO. It may simply be the case that marketers are well aware of SPO's potential, but also worry about implementation going sideways and ushering in unwanted results.

### WHAT WAS YOUR BIGGEST CONCERN WHEN IMPLEMENTING SPO?





# THE IMPACT OF SPO ON SSP RELATIONSHIPS

## CONSOLIDATION

Next we explored the impact that SPO actually has on marketers' relationships.

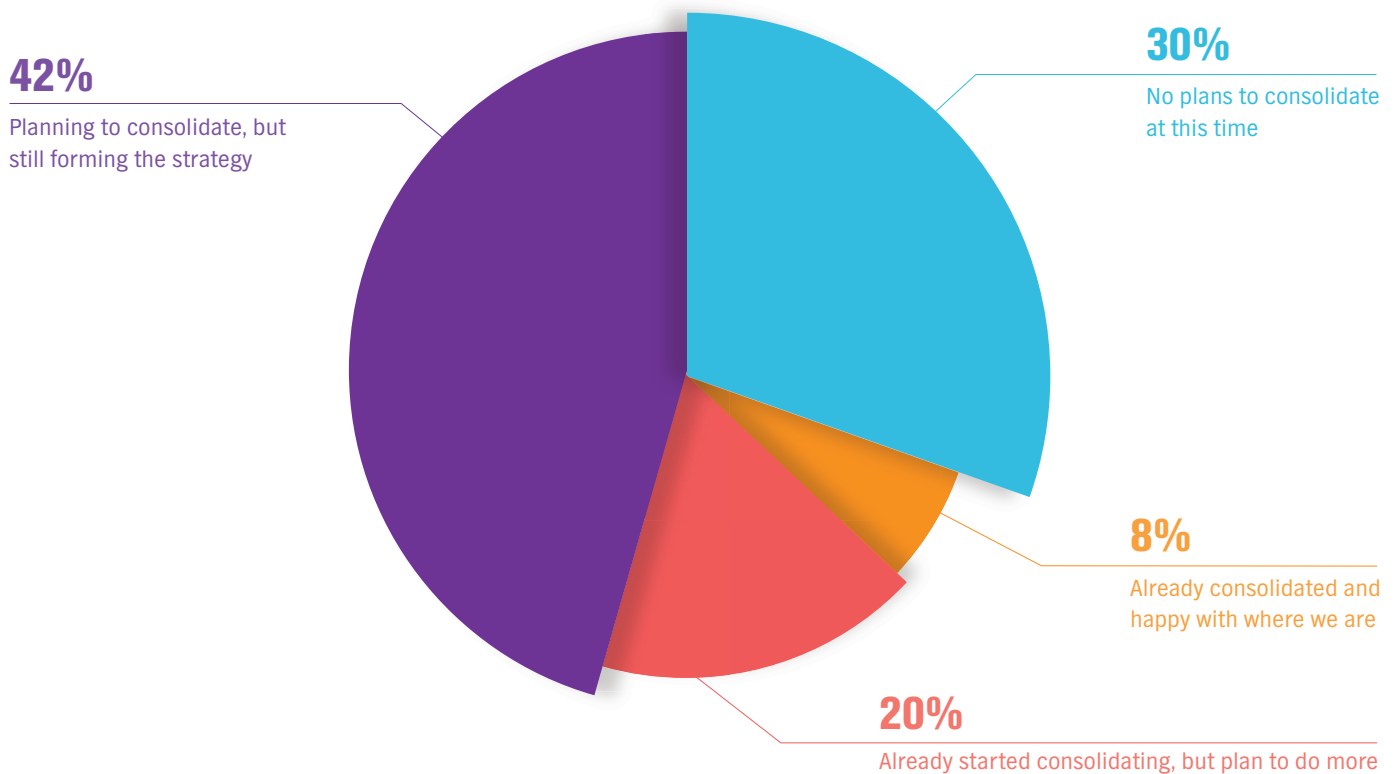
First we asked about SSP consolidation — generally a major component to any SPO strategy. For marketers, cleaning up the supply path usually involves cutting down on inefficient or poorly-performing supply platforms.

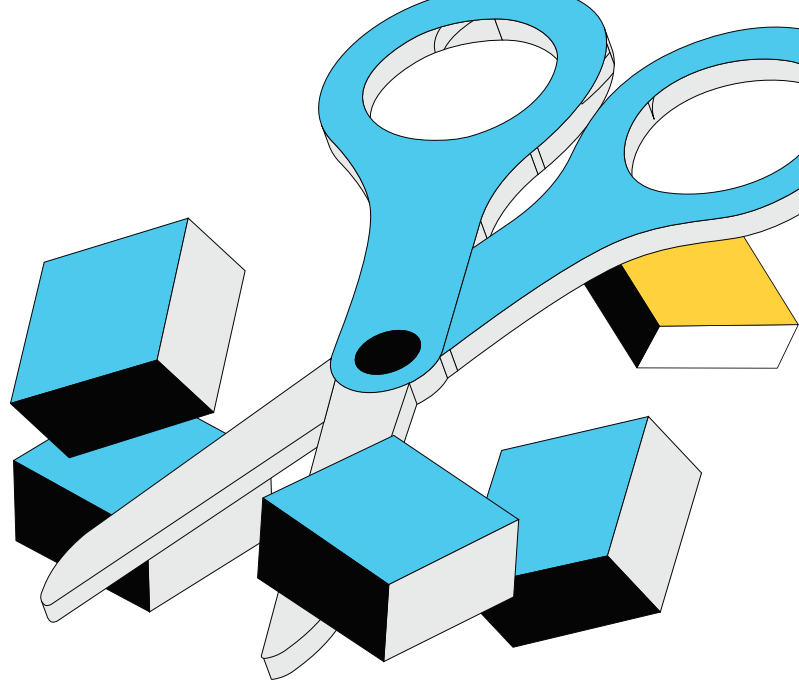
We discovered that a majority of buyers (70 percent) are either planning to consolidate the number of SSPs they work with in the next 12 months or have already begun doing so. To be more specific, 42 percent

said they were in the planning stages, 20 percent said they'd already begun doing so, and 8 percent said they'd already consolidated and were happy with where they were. Only 30 percent said they had no plans to consolidate at the current moment.

The high number of respondents who are in the planning stages would seem to indicate that SPO is a major trend to look out for on the horizon, and is set to become a much more prominent course of action in the very immediate future.

### DO YOU HAVE PLANS TO CONSOLIDATE THE NUMBER OF SSPS YOU WORK WITH OVER THE NEXT 12 MONTHS?





## MANY BUYERS ANTICIPATE CUTTING DOWN ON SSP PARTNERS

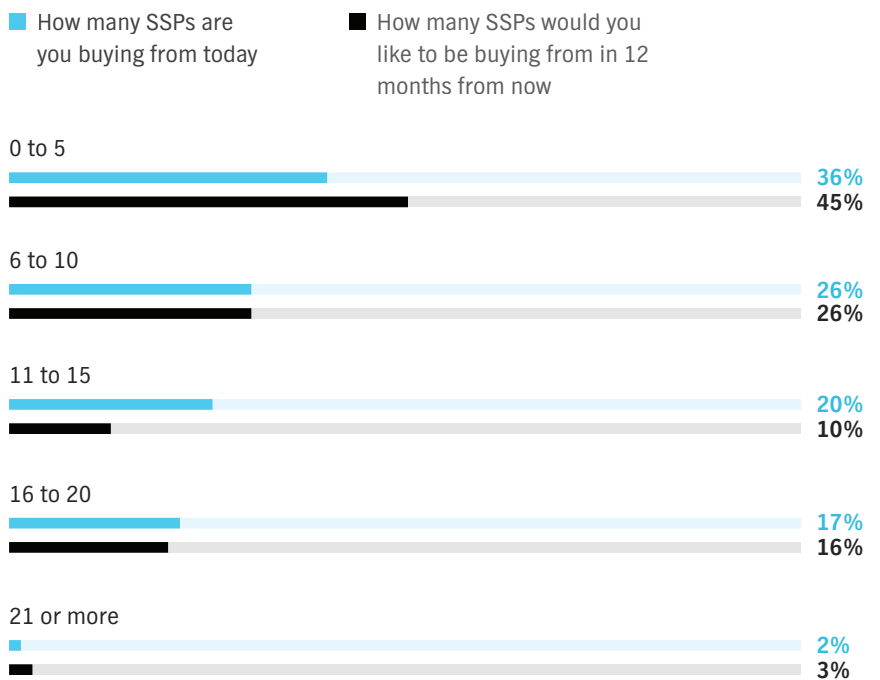
When it came to the number of SSPs US respondents were buying from, the numbers were varied, but most were buying from more than five.

We also asked respondents what they would like their average number of SSP partners to be in 12 months. There was one significant change: A number of respondents want to reduce their number of partners. While 36 percent said they were buying currently from five or fewer SSPs, 45 percent said they would like this to be the case in 12 months.

There's one other notable data point: When we look only at individuals who said they've already consolidated SSPs and are happy with where they are, 70 percent of these respondents are already buying from five SSPs or fewer.

Overall, the numbers indicate a strong correlation between winnowing down SSP partners and satisfaction with media buying.

### SSP CONSOLIDATION: TODAY VS. 12 MONTHS FROM NOW



## DOES CONSOLIDATION ALWAYS MEAN REDUCTION?

When asked whether they currently work with more or fewer SSPs as a result of implementing SPO, a majority of US respondents said they were either working with fewer partners or with the same number. (Thirty-one percent indicated they were working with fewer SSPs, while 29 percent indicated they were working the same number.) This would seem to indicate that roughly one third of the US market is out in front of the pack when it comes to spearheading an SPO action plan that clears extraneous partners, while a similar percentage of buyers still haven't made major changes in this area.

Meanwhile 41 percent said they were actually working with more SSP partners as a result of SPO. At first this looks like a strange result, given that SPO is most commonly thought to be about making sure that all SSP partners are adding incremental value, which often leads to eliminating ones that offer duplicative or unfairly-priced inventory.

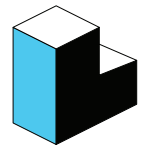
But it's clear that, to some SPO practitioners, "consolidation" doesn't always necessarily mean "reduction." Rather, it can simply refer to the process of strengthening or solidifying a process or approach.

"To me, supply path optimization is not equal to cutting out more supply partners," said Digitas's Berani. "It could mean that, and maybe it does mean that for a majority, but it can also just mean that you're getting smarter about the knowledge that those supply path partners are giving you...and working with [those partners] to understand the importance of where all these feeds are going or what's even necessary."

And some advertisers, Berani explained, believe that increasing their number of SSPs can result in finding new revenue streams. "You could probably find a lot of brands and advertisers out there who are transacting 95 percent of their media spend through one applied site path," he said. "If you build it up to three or four different ones who are helping you find audiences in places [where your budget wasn't going], then you've already been a little bit more successful in finding...gaps."

Still, as our survey makes clear, a 59 percent majority of SPO practitioners have not added SSPs as part of their approach to SPO. Instead, they've either reduced them or made no changes.

James Gyngell, global managing director of investments at Havas, says that working with a smaller number of SSPs is often a hallmark of a mature SPO program. "It's not the ambition that you go into [SPO] trying to reduce the number of excess [partners]," he said. "But the reality is, if you go through a process of trying to do the very best advertising you possibly can, with effective pricing, transparency and fee delivery throughout the whole process, the natural effect is that you're going to reduce supply sources."



**“ If you go through a process of trying...[to obtain] effective pricing, transparency and fee delivery throughout the whole process, the natural effect is that you're going to reduce supply sources. ”**

— James Gyngell, global managing director of investments, Havas

## IMPORTANT FACTORS IN CONSOLIDATION

We asked US respondents, “What is the most important factor in selecting your SSP partners as you consolidate for SPO purposes?”

As with other instances amongst our US respondents, answers were varied. Thirty-one percent selected “fraud and brand safety controls,” 27 percent selected “ability to impact roadmap” and 23 percent selected “PMP capabilities.” That’s a low number for PMP capabilities.

David Kohl, president and CEO of the premium marketplace TRUSTX, explains that some SPO practitioners desire robust PMP capabilities because private marketplaces afford buyers greater control over where digital ads wind up, and can therefore help them protect against fraud and brand safety issues. “With the large exchanges, you’d sometimes see buyers

using PMPs to help reduce fraud and brand safety risks,” he says. “Now we’re starting to see advertisers and agencies set up deal IDs specifically to add a level of control over how their DSPs buy through cost-efficient supply paths. It’s clear that brands want to maximize their working media buying power with or without sophisticated SPO technology.”

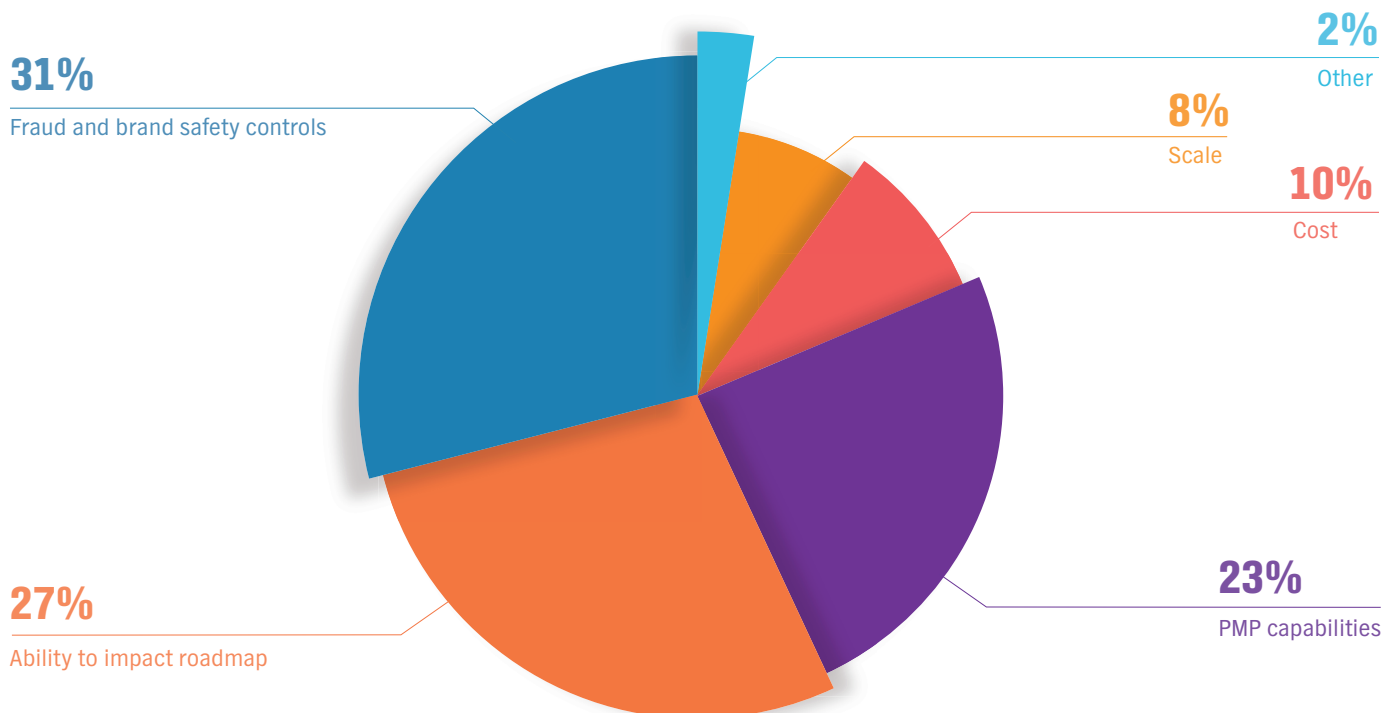
It’s not necessarily that PMP capabilities aren’t important to US buyers — they simply don’t sit atop their list of concerns. As US buyers delve deeper into implementation, reducing supply chain fees and intermediaries appears to be a more immediate SPO concern than securing more control through PMPs.

It’s also worth observing that none of the important factors in consolidation received a commanding majority of responses

from US buyers. It seems that the industry hasn’t settled on one overriding motivation for pursuing consolidation as of yet. Once again, the results make clear that marketers are approaching SPO for different reasons, in the hopes that it can yield a number of discrete benefits.

We also asked respondents how SPO has changed their relationships with SSPs. Forty-nine percent said that their relationships remained about the same, and 43 percent said they now communicated more with their SSP partners. SPO appears to be driving a trend which sees many SSPs and buyers beginning to form closer relationships.

### WHAT IS THE MOST IMPORTANT FACTOR IN SELECTING YOUR SSP PARTNERS AS YOU CONSOLIDATE FOR SPO PURPOSES?

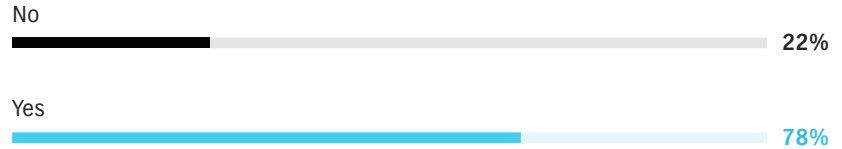


## INNOVATION

Finally, we asked all respondents who are actively engaged in SPO whether they were actually in the process of innovating and building products with SSPs as a direct result of SPO. Most of them — 78 percent — said yes.

For the majority of SPO practitioners, supply path optimization means active innovation and optimization. It's not a one-and-done process; rather, it requires continual adjustments and constant attentiveness to changes in the market and in technology.

### ARE YOU ACTIVELY INNOVATING AND BUILDING PRODUCTS WITH SSPS AS A RESULT OF SPO?



## CONCLUSION

SPO isn't simple, and it doesn't take care of itself. It requires active work and constant optimization. But much of the industry — both in the US and abroad — is still taking a more tentative, sometimes experimental approach.

Professionals are employing a wide variety of tactics and approaches, and most are still trying to pinpoint which solutions work best for their own needs. And in the US, there's a growing inclination to turn to automated, algorithmic SPO solutions. But most US buyers still aren't confident in the existence of any individual silver-bullet SPO tactic or technology that will solve all their problems.

Ultimately, SPO is a complex process that means different things to different organizations. And it's clear that more education from industry bodies is needed to help inform SPO best practices. While some of that education will inevitably come from industry trade groups, it also likely needs to come from technology platforms and agencies. Moreover, brands have to seek it out for themselves.

"The IAB will want to educate [technology] platforms on how they can think about SPO and what options are possible for them," said Sam Tingleff, CTO of the IAB Tech Lab. "They need to think about how to take that to market with their customer base, what the impact will be on their customers, and what choices they want to enable their customers to make."

But ultimately, Tingleff said, advertisers also need to take significant steps to educate themselves. "I think there's a line between how much of this will be the platform's responsibility, and how much will be the buyer's responsibility," he said.

Marketers need to start by taking stock of their current situation. To a large extent, that means asking themselves how many SSPs they're buying from — and why. Cutting down on SSPs is often a major byproduct of maximizing efficiency and transparency through SPO. Ultimately, most practitioners will usually wind up with fewer SSPs than when they started. And when they don't, it should be because the SPO process has bolstered their confidence in new or existing partners.

The goal of SPO, of course, is to drive better return on ad spend. And the survey data makes it clear that that SPO practitioners (many of whom explicitly cite improved KPIs as a clear SPO benefit) are seeing exactly that result.

A next step for practitioners at the beginning of their SPO journeys is to assess their current pathways and evaluate how each of those is providing incremental value. This requires a rigorous internal examination of goals and needs.

But after consolidation comes something just as important: Optimization and constant attentiveness to progress. Marketers need to pay close attention to make sure that SPO is actually helping them meet their performance KPIs — and to continually make changes wherever necessary. It's always possible to optimize and refine further.

