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# Adapting to COVID-19: Programmatic Marketplaces

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## Executive Summary

The COVID-19 crisis has created unprecedented conditions and challenges for consumers and businesses alike. Within the U.S. programmatic marketplaces, we have seen this play out in real-time as both supply and demand have shifted dramatically:

1. Inventory availability (supply of ads) has increased as containment orders have been announced across the country.
2. Businesses have slowed or paused ad spend as they re-evaluate their marketing approach in this new environment.
3. Content consumption patterns have shifted as consumers adjust to the stay-at-home lifestyle.
4. New patterns in video consumption have emerged in the absence of live sports and other tentpole entertainment events.

These conditions have had profound impacts on the marketplace: **Display CPMs are down over 40% across all formats, YouTube CPMs are down over 25%, available Connected TV inventory is up over 40%** with pockets of opportunity for discounts.

By utilizing our Omnicom Digital Content platform alongside partner data, we're able to better understand these trends, and provide insights to our clients on this new marketplace environment.

## Background: The Programmatic Marketplace

Most programmatic ad inventory is bought and sold via an ad auction. Advertisers set bidding strategies, then compete to serve their ads in available ad slots in desktop, mobile, or connected TV environments; these auctions are instantaneous and invisible to the users of these platforms. In the moment of the auction, advertiser bids are gathered and assessed. The aggregated bids (regardless of whether the advertisers' goals are impressions, video views, conversions, etc.) are assessed in terms of CPM. The highest bidder wins the auction and pays the amount they bid. This process is known as a first-price auction, meaning the price of inventory is dictated by advertisers rather than sellers.

There are exceptions to this paradigm; sales of video inventory in general and CTV inventory, in

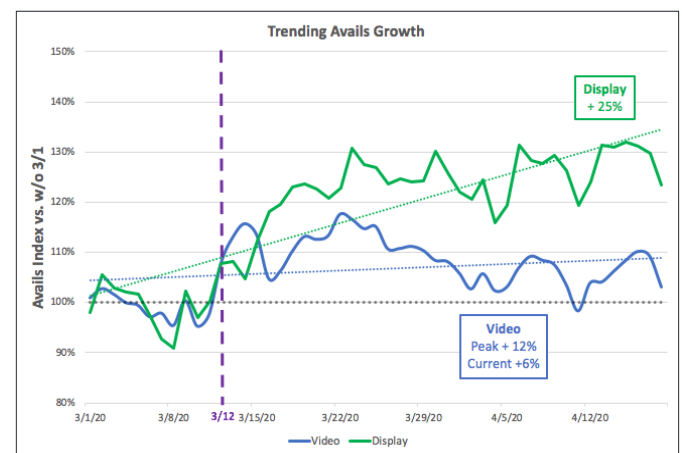
particular, are often characterized by the use of higher price floors (seller will not sell below a given price) or fixed prices that do not flex with market conditions. We'll explore these exceptions later.

In general, though, auctions are the dominant mode of sale for programmatic inventory. These micro-scale ad auctions for individual impressions ladder up into the macro phenomenon of reduced advertiser demand (spend) automatically lowering price levels. Said simply: our COVID-19 reality of fewer advertisers competing for each ad slot results in lower CPMs, even if inventory availability remained constant. However, inventory availability has **not** remained constant.

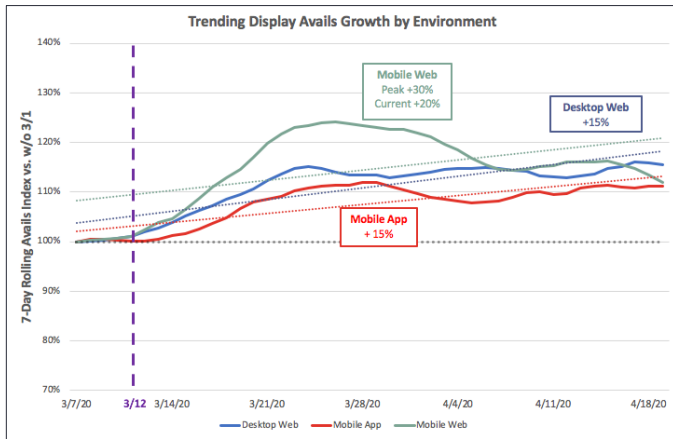
## COVID-19 Has Boosted Inventory Availability

When examining data from the COVID-19 crisis period in the U.S., we believe March 12 was a turning point. The virus had been in the public consciousness for most of the year, but during the evening of March 11, the NBA season was postponed and famous celebrities, Tom Hanks and Rita Wilson, were both diagnosed with the illness. The virus continues to dominate American life with further event cancellations and stay-at-home orders in place.

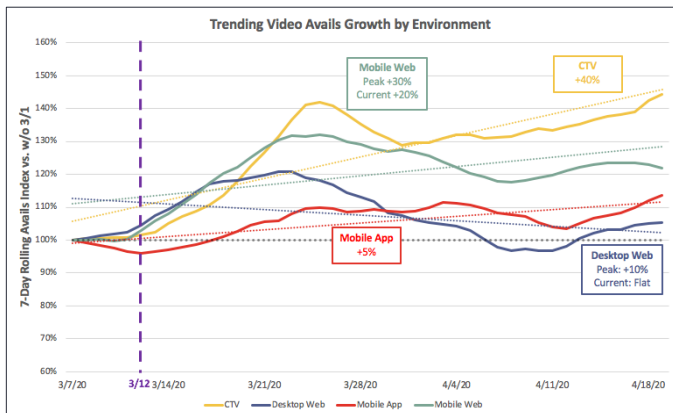
Looking at our inventory availabilities data, we can see that the supply of both Display and Video ad impressions rose, reflecting the increased media consumption that immediately followed those developments:



Ad inventory across Video and Display showed immediate dramatic increases, with Display maintaining those gains, and Video stabilizing a bit at the outset of April.



Mobile Web has led the growth in inventory availability for Display, dominating content consumption on weekends, while Desktop Web and Mobile App have maintained steady increases and witnessed a degree of narrowing in traditional weekday/weekend browsing disparity.



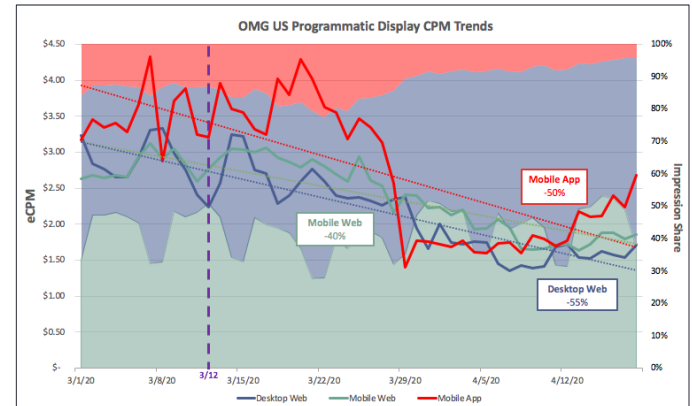
While all Video environments initially saw a large spike in inventory availability, Desktop Web and Mobile App have returned to levels near or at their pre-stay-at-home rates, while CTV (connected TV) continues steady growth, especially on weekends and Mobile Web maintains increased short-form popularity.

Consumers are favoring video consumption on the largest household screen, while overwhelmingly engaging with content on their mobile devices.

## Delivery and Pricing

While we do not have a total view of market demand, we can gain insight by looking at auction clearing prices and distribution based on OMG spend across major formats.

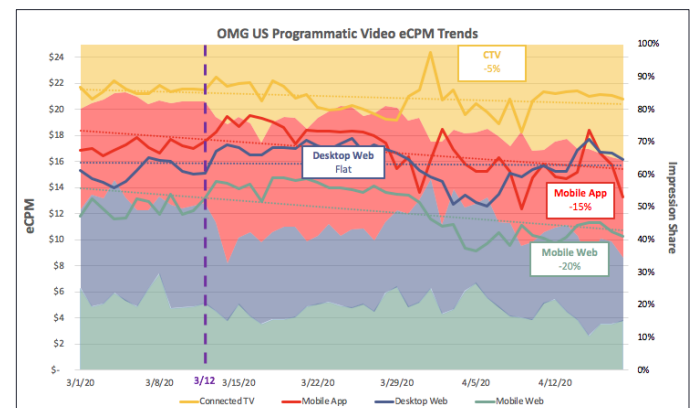
## Display



We saw the Web environment across Desktop and Mobile hold steady pricing for much of March, before falling precipitously with an 11% WoW decrease for the week ending March 29, then consecutive WoW decreases of 19% as April began.

Despite enjoying overdue growth in 2019, Mobile App display demand still lags behind Web, reflected by more volatile pricing trends. The App environment fluctuated around a \$3.50 eCPM before plummeting at the outset of April, likely due in part to advertisers pausing their App-centric location strategies to begin the second quarter. Currently, it appears as if the App marketplace is on the precipice of recovery as OMG saw clearing prices rise 29% WoW for the week ending April 18.

## Video



Pricing for CTV and Desktop Web has stayed consistent, within 10% of values a month prior. Like their mobile Display counterparts, Mobile Video formats saw increased prices as the end of the quarter approached. However, we began seeing deflation with Mobile Web and App eCPMs down 18% and 14% respectively for the week ending April 11 as opposed to where they were the first week of March.

## Re-evaluating our Pricing Approach

With a focus on consolidation and automation of direct IO investment, OMG has worked to secure the most scarce and valuable inventory via programmatic guaranteed and first-look deals that feature fixed prices. The table below shows our pricing mix of auction and fixed pricing breaks across the various Display and Video formats. While 92% of our purchased display media is priced dynamically and sold in an ad auction, only 35% of programmatic video we purchase is sold at auction.

Display	Fixed	8%	Desktop	Auction	94%
				Fixed Price	6%
	Auction	92%	Mobile Web	Auction	95%
				Fixed Price	5%
			Mobile App	Auction	81%
				Fixed Price	19%
Video	Fixed	65%	CTV	Auction	11%
				Fixed Price	89%
			Desktop	Auction	59%
				Fixed Price	41%
	Auction	35%	Mobile Web	Auction	67%
				Fixed Price	33%
			Mobile App	Auction	16%
				Fixed Price	84%

This bias towards fixed-price arrangements in Video explains the comparative lack of volatility relative to Display. Compounding this is the fact that aside from CTV, Video has seen smaller increases in availabilities compared with Display.

This crisis and its associated volatility have exposed the brittleness of the video marketplace. Rather than using an auction mechanism that is

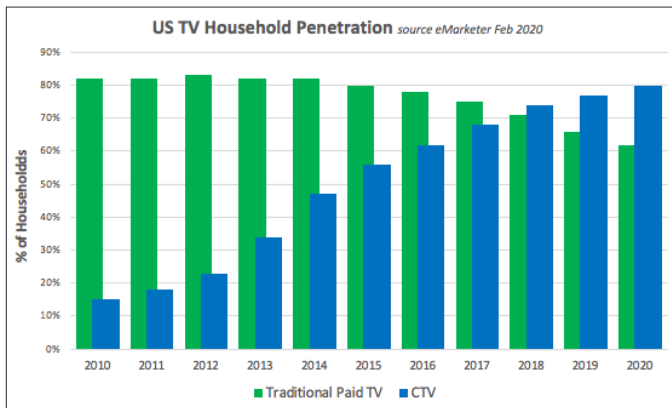
responsive to market conditions to set prices, video ad sales are being hamstrung by fixed prices that may now be uncompetitive. This creates a window for video publishers that do use an auction model to take a larger share of emerging demand than their more rigid counterparts.

In light of the circumstances, our Programmatic Investment team is pursuing four separate avenues for our buying teams to follow:

1. **Maintaining first-look preferred deals where advantageous** | Maintain high win rates on top priority inventory. (Top 20 Pubs)
2. **Move to zero/low-floor private marketplaces (PMPs)** | Allows buyers to leverage auction mechanics to set prices that closely mirror these price fluctuations. (Top 20 Pubs – Display)
3. **Utilization of SPO to find inventory at attractive prices** | With the influx of traffic, publishers are testing different monetization paths with their exchange partners. By monitoring Supply Source Reporting within the Digital Content Platform, OMG traders can identify and capitalize on opportunities in this shifting marketplace.
4. **Leverage SSP marketplaces to aggregate supply** | The OMG Programmatic Investment team is partnering with core SSP partners to leverage exchange mechanics to develop group deals with post-auction price reductions. Rollout is expected in early May.

## CTV

In 2020, CTV is commonplace across the U.S.; it is now more common for a household to use connected TV than traditional Pay TV services. The rise of Netflix and Amazon Prime Video is well-known, but at this point the move to IP-delivered video content is universal, encompassing major traditional Pay TV providers.

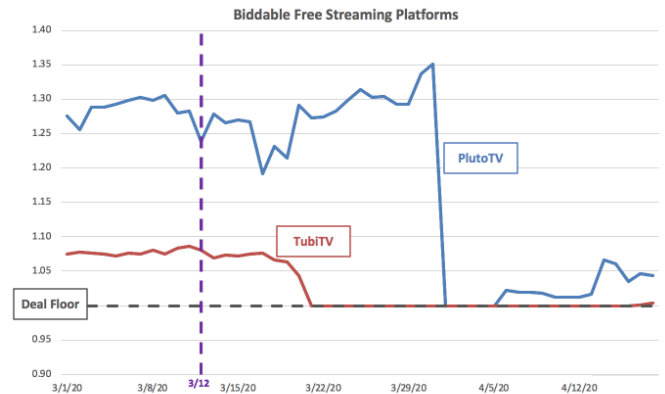


Before containment measures were rolled out, media giants had recently embraced streaming platforms and the advanced digital ecosystem. New platforms had been announced, released, or acquired by Disney, NBC, Apple, DC, Viacom, Fox, and Amazon amongst others. Publishers had also become comfortable with the programmatic ecosystem, working with OMG to include programmatic spend in Upfront negotiations, allowing for fluidity between linear and digital inventory.

As displayed in the price analysis above, CTV hasn't seen much price deflation due to ~90% of our investment being coupled to fixed-rate deals. But there are still opportunities to find value.

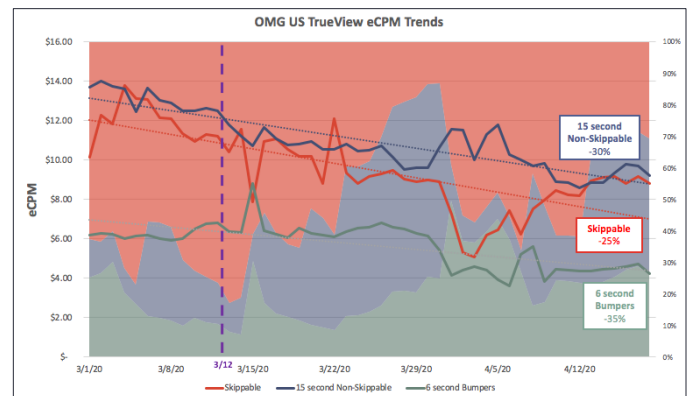
Some publishers have offered added value opportunities for OMG clients, crediting bonus impressions to incentivize clients to keep their media in market or shift investment that would have gone towards spring sporting events. Popular free ad-supported platforms, such as Pluto (acquired by Viacom last January) and Tubi (purchased by Fox last month), are enjoying substantial growth as increasingly budget-conscious consumers look for no-cost content options.

Pluto and Tubi both sell on auction-based PMPs, with supply surging so aggressively they've been selling at or near their price floor for weeks:



## YouTube

No discussion of free streaming Video platforms is complete without acknowledging the biggest of them all; Google's YouTube. Within the non-guaranteed environment, Google's programmatic tool DV360 can buy three primary formats: Skippable "TrueView" (sold on CPV, measurable in eCPM), Non-Skippable 6-second (Bumper), and 15-second ads.



All formats have seen considerable deflation since March 1. With the exception of a price bump in early April, the 15-second Non-Skippable format has seen a steady decline. Skippable TrueView media saw a sharp drop to start April, before rallying back as the month continues. Bumper prices were largely flat through March, before slipping as the quarter turned over, presenting a discount opportunity in line with the other two formats.



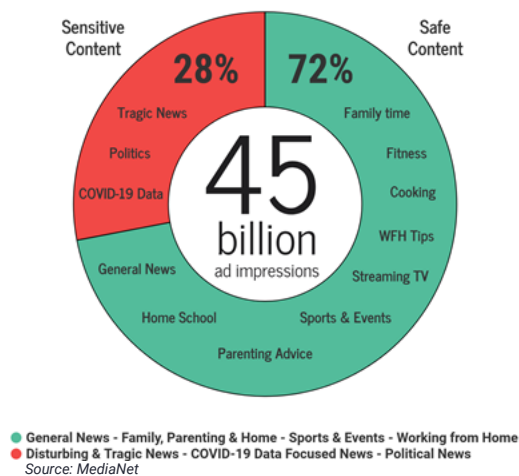
## Guidance for Advertisers

### Tread Carefully, but Don't Hide

The COVID-19 crisis has altered every aspect of American life, holding true for media. The ads marketplace has swelled with abundant and often steeply-discounted media inventory. However, it is important to acknowledge that directly or indirectly, a good deal of this inventory references COVID-19. Many advertisers' instincts are to treat the pandemic as they have other disasters: avoid the content wholesale. This would be a strategic error for several reasons:

1. Any price advantage will be lost as non-pandemic-adjacent content is going to be highly sought-after in the marketplace.
2. Any reach benefits will be negated as inventory that doesn't contain at least broad pandemic keywords somewhere on the page is fairly scarce.
3. The pandemic is part of modern life now; much of virus-related inventory does not carry a negative context.

Even within content classified as "News" as little as 30% of "COVID-19" content could be considered negative:



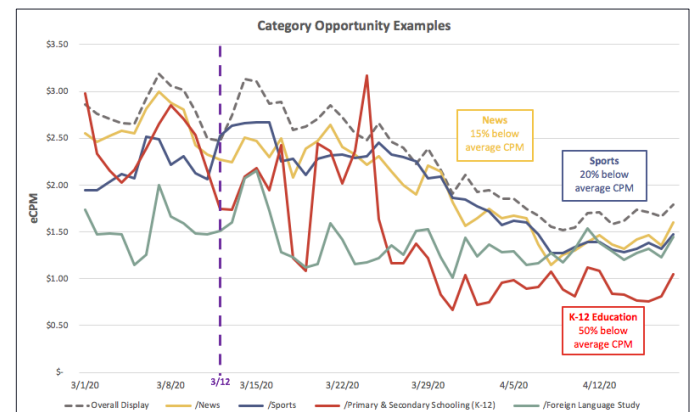
Rather than avoiding the topic altogether, advertisers should take a bifurcated approach to content related to the pandemic: "Disaster" and "Lifestyle". Avoiding the former is understandable, however, the latter is part of the reality of every single individual in their target audience.

## Capture Opportunity

There is no shortage of opportunity in the marketplace:

- Heavily discounted available inventory across Display
- Surging viewership and pockets of value across CTV, including ad-supported free platforms, attractive to users amid concerns of a slowing economy
- Increased supply and reduced prices on Mobile Web and Mobile App Video
- Discounted impressions across all YouTube formats

Nimble advertisers can also discover additional opportunities on content with either an abundance of supply or a shortage of demand. Successfully navigating the "News" category can reap rewards, "Sports" has reduced traffic, but significantly reduced investment as well, educational "K-12" content has surged as schools have closed, while many people have taken the opportunity for self-improvement, like "Foreign Language Study."

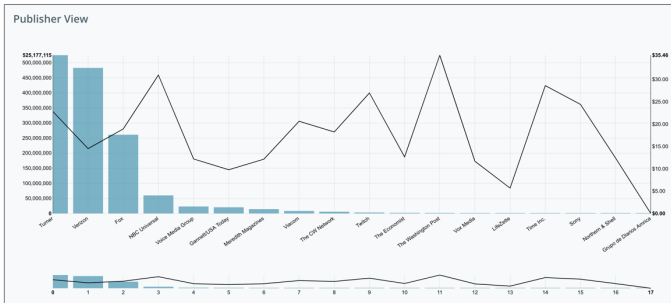


## Reacquaint Yourself with Your Audience

History will certainly view this period as transformative. The way people view the world and themselves, their needs, and their priorities have fundamentally shifted, both in the short and long term. It's more important than ever that advertisers don't take classic truisms for granted about their consumers and closely track their behavior.

Every audience has different nuances, and advertisers must keep a pulse on how their customers are behaving in this metamorphized society.

OMG's Omni Platform provides a vast array of tools to help advertisers understand their audience's behavior. For media buying specifically, the Audience Planner within Digital Content helps OMG clients understand exactly what publishers are most used by their target audiences:



Advertisers should not rest on these initial reassessments of their audiences as the environment is changing rapidly. What held true in March will not necessarily ring true in April, and this will continue to be the case as the pandemic and its economic effects continue.

Traditional planning cycles need to be discarded; it is impossible to know what the media ecosystem will look like in the months ahead. The good news is that programmatic advertising gives advertisers solid tools to grapple with the evolving media marketplace. It is imperative that advertisers work with their OMG teams to understand and respond as these changes are identified.



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