

Understanding Programmatic Auction Pricing Is a Major Priority For Marketers

Marketers are digging under the hood in 2018

ARTICLE | **FEBRUARY 28, 2018**

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As [automated advertising has matured](#), the structure of programmatic auctions has become more confusing. In 2018, marketers are looking to break through the clutter to understand what's going on under the hood.

Programmatic auctions have historically operated on a second-price basis. In second-price auctions, the second-highest price determines the amount of money the auction winner will pay. So if the highest bid is \$10 and the second-highest bid is \$5, the winner of a second-price auction will pay \$5.01.

This style of pricing was easier to navigate before [header bidding became popular](#) and supply-side platforms (SSPs) started simultaneously bidding on the same piece of inventory. With so many vendors sending so many bids at the exact same time, publishers and advertisers alike became prone to gamesmanship. OpenX and an unnamed demand-side platform (DSP) teamed up and found that some SSPs [were raising their price floors after bids came in](#), which allowed the SSPs to pocket extra money from advertisers and their DSPs.

Last year, to make pricing more transparent, several of the industry's largest SSPs announced they would be **shifting their auctions to first-price models**, in which the highest bid determines what the winner pays. In a first-price auction, for example, if the highest bid is \$10, the winner will pay \$10. That sounds simple enough, but not all SSPs made this shift, so advertisers were left in the lurch trying to figure out if a given auction was first- or second-price.

"Advertisers and most agencies have no view into auction dynamics and the game theory applied," said Charles Cantu, CEO of programmatic platform Huddled Masses.

Given the confusing state of programmatic auction pricing, it makes sense that marketers are looking to get a better handle on this. In a December 2017 survey by the **World Federation of Advertisers (WFA)** and **dataxu**, more than 60% of marketers worldwide said better understanding auction dynamics/pricing is a priority for 2018. And about a quarter of respondents identified it as a major priority.

Programmatic Ad Tactics that Advertisers Worldwide Use vs. Plan to Prioritize, Dec 2017

% of respondents

	Already done in 2017 or earlier	Major priority for 2018
Building site white lists & black lists	69%	21%
Ensuring we have a fully disclosed/transparent relationship with our programmatic partners	45%	41%
Looking for new external partners/suppliers/agencies to manage programmatic on our behalf	24%	21%
Getting current internal staff up to speed with understanding programmatic better	24%	45%
Appointing new internal staff to manage and steer programmatic better	21%	28%
Adopting more direct relationships with publishers and SSPs (e.g., 'programmatic guaranteed,' 'deal ID')	17%	34%
Addressing data segment markups and data arbitrage	14%	38%
Putting in place ID management systems	14%	28%
Eprivacy/ensuring programmatic approaches are fit for purpose post-GDPR	10%	76%
Addressing 'walled garden' & data access issues	10%	45%
Putting in place robust fractional/multitouch attribution modelling	7%	52%
Mastering cross-device path-to-purchase marketing & attribution	7%	41%
Exploring new programmatic channels (e.g., programmatic TV, Digital out-of-home, native)	7%	41%
Encouraging adoption of Ads.txt	7%	34%
Getting a better handle on auction dynamics (e.g., first price, second price)	7%	24%
Getting a better understanding of how blockchain could improve transparency and reduce fraud	3%	21%

Source: World Federation of Advertisers (WFA) and dataxu, "Future Of Programmatic Media," Feb 9, 2018

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The biggest obstacle marketers face in determining what type of programmatic bidding strategy to use is that there is a lot of conflicting information floating around the ad industry when it comes to what type of auction marketers are participating in, according to Cantu.

"There are so many so-called experts perpetuating misleading ideas to maintain higher margins," he said.