US Advertising Year in Review: More than $10 Billion Spent on Programmatic Fees amid Continuing Consolidation

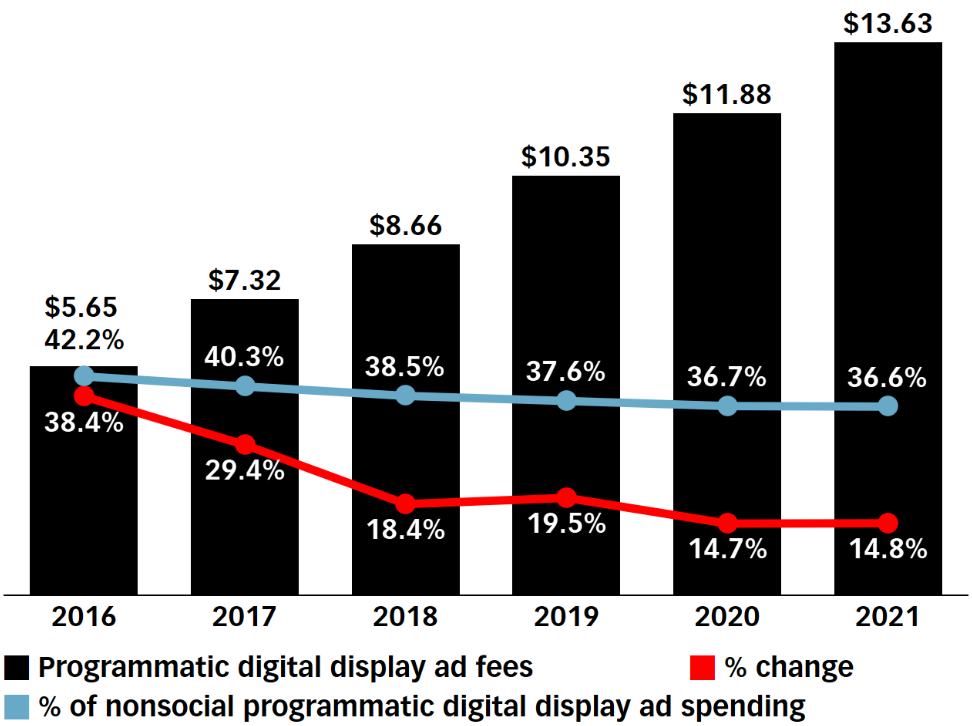
ARTICLE | **DECEMBER 16, 2019**

Nicole Perrin

The ad tech world may feel targeted (pun intended) by privacy-related scrutiny in the press, but the fees earned by the ecosystem of partners that facilitate programmatic display transactions in the US were up almost 20% this year.

We estimate that US advertisers spent more than $10 billion on programmatic fees this year—almost 38% of their nonsocial programmatic display budgets. That was almost $2 billion more than they spent on the “ad tech tax” in 2018, but it does represent a slight decrease in the share of programmatic display budgets going to fees rather than working media.

Programmatic Digital Display Ad Fees in the US, 2016-2021
billions, % change and % of nonsocial programmatic display ad spending



Note: programmatic display ad fees are the portion of programmatic display ad spend that is paid to technology and software intermediaries that execute the transaction before the publisher receives the spending as ad revenues
Source: eMarketer, October 2019

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Earlier this year, we estimated advertisers would spend closer to $12 billion on programmatic fees in 2019, or 32.7% of nonsocial programmatic display ad spending. We now believe the absolute level of spending will be lower due to a downward adjustment to our nonsocial programmatic display spending forecast—but we also believe the proportion going to fees will be higher because more programmatic display spending continues to be transacted in the open markets, where buyers and sellers alike are more likely to use additional services, such as ad verification and fraud detection.

Advertisers have complained for years about paying fees on programmatic display transactions due to problems including a lack of transparency that made many buyers suspect they were overpaying (often with good reason). They have pursued a number of strategies to drive fees down, including scrutinizing the practices of their media buying agencies, demanding better contract terms and reevaluating bidding strategies to focus on buying inventory from trusted sellers and avoiding resellers that don't add value. These practices have helped reduce fees from more than 42% of nonsocial programmatic display spending in 2016—and we expect them to keep dropping.

In some cases, it has put a squeeze on ad tech player revenues, and 2019 has seen a wave of consolidation, including some better and worse exits. In the spring, for example, Sizmek declared bankruptcy and saw some of its assets bought by Amazon, while others were purchased by marketing cloud Zeta Global. More recently, a handful of video-oriented deals have made headlines, including Roku's purchase of demand-side platform (DSP) dataxu and Xandr's acquisition of linear TV supply-side platform (SSP) Clypd.

One theme that continues to develop is the supply side taking on more of a role in owning or controlling ad tech—or pub tech, as the case may be. Amazon bought an ad server. Roku bought a DSP. Vox Media and The Washington Post have begun licensing out their home-built publishing and ad technology to other publishers. In July, AdExchanger reported that Hearst was building a self-serve ad platform. Publishers have also felt crunched for years by the fact that they were getting a lower share of media dollars than when all ads were bought on a direct basis, but the rise of the choice to build out self-serve ad buying services also points to a recognition that ease of buying is one important way for them to compete with the likes of Facebook.