



RTB TREND REPORT

EUROPE 2014 Q4



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Executive Summary

Adform is pleased to present this European RTB Trend report for the fourth quarter of 2014, and as a general wrap-up of programmatic advertising in 2014. The metrics that follow demonstrate the strength of programmatic in Europe, as well as its potential to continue growing exponentially.

Spending

2014 was another banner year for programmatic across Europe, with spending growing 250% from 2013 to 2014. Interestingly, programmatic spending in 4Q13 declined due to advertisers and publishers locking in direct buys in advance of the holiday season. In 4Q14, however, programmatic ad spend grew substantially, perhaps an indication of the ecosystem's confidence that the tactic is better suited to meet their goals.

Much of the growth in overall ad spend was fueled by brand formats, which grew by 605% from January 2014 to December 2014. As of December, marketers allocated 17.1% of their budgets to brand formats.

Spending in mobile continues to make inroads into desktop. In 4Q13, desktop accounted for 81.12% of all programmatic ad spend; by 4Q14, that number dropped to 72.62%. After desktop, marketers favored mobile inventory (14.22%) followed by tablet inventory (13.16%).

In 4Q14, we saw a slight decrease in the percent of media-spend in private marketplaces, most likely due to an increase in overall programmatic spending during the holiday season.

CPM

For the first three quarters of 2014 CPMs for programmatic inventory were relatively flat, experiencing minor ups and downs. That changed in September as the back-to-school shopping season gave way to the holiday shopping season. Stiff competition for inventory delivered a 35% lift in CPMs in 4Q14. CPMs for the three top-earning banner sizes (video, 980x400 and 600x315) were 7x higher than 300x250, the workhorse of display advertising. In the open markets, CPMs were up 22% from 4Q13 to 4Q14, but are still 222% lower than those earned in private marketplaces.

CTR

Across Europe, CTR performance presents a significant success story, growing 59% from January to December 2014. In November 2014 alone, the CTR grew 45%, setting a new record across Europe. This compares to 2013 performance, which saw CTRs decline over the year.

The CTRs in private marketplaces were 127% higher than those earned in open marketplaces. In terms of banner size, in-stream video delivered the highest CTR by far -- some 2x higher than the second largest banner (980 x 400). Not surprisingly, CTR for rich-banner ads is 209% better than the CTR for standard ads.

From 4Q13 to 4Q14, CTR was up by 28% for tablets and 51% for mobile. CTR on desktop grew steadily throughout the year, and experienced 44% growth from 4Q13 to 4Q14.

Cost-Per-Click

The cost-per-click (CPC) held steady for most of 2014, experiencing only small ups and downs during the summer. Overall CPC declined by 4% from 3Q14 to 4Q14, and 22% from 4Q13 to 4Q14. The declining CPC rate, combined with the increased CPM rate, benefits both the sell side (who earn more for their inventory) as well as the buy side (who pay less for clicks).

A notable observation: The CPC for brand formats is 13% lower than the CPC for standard formats, making them more cost efficient for performance-based campaigns.

Engagement

4Q14 engagement reached 1.88% for Europe, and 3.04% for the UK. The 4Q14 engagement time decreased slightly, though it was still an impressive 13.93 seconds (down from 14.33 seconds in 3Q14).

The Style and Fashion sector delivered the strongest engagement performance in 4Q14, followed by Arts and Entertainment and Travel. In terms of engagement rate, brand formats and synchronized banners are best suited to attract the consumer's attention, outperforming Flash and images by several factors.

Conversions

Brand formats delivered the highest conversion rate, which was nearly 14% in 2014, and up from 10.96% in 2013. In-stream videos delivered the lowest conversion rate, though they also have the highest CPM and CTR. This isn't surprising given that in-stream videos typically appear prior to or at the conclusion of content consumers have chosen to view, which means they're less likely to click away from that content.

A point of interest in 4Q14 is that image (i.e. static) banners delivered more conversions than Flash banners. This may be due to a heavy use of retargeting (which uses static images) during the holiday season.

Day of the Week

Once again, 4Q14 saw significantly higher CTR on the weekends, coupled with the lowest number of requests from advertisers. Similarly, CTR is at its lowest on Wednesdays. Adform receives the most ad requests on Tuesdays -- the day that delivers the highest CTR of the workweek.

Above/Below-the-Fold

The CPM for above-the-fold ad units is 57% higher than inventory that appears below the fold. At the same time, the CPC for above-the-fold inventory is 28% lower than the CPC for inventory below it, making the upper units more cost efficient for marketers.

Viewability

Adform began examining viewability across Europe in 3Q14. In 4Q14, viewability across Europe was better than 50%, which is higher than the industry norm for RTB-traded inventory.

Spending

Advertisers continue to flock to programmatic channels, as evidenced by the 255% growth in ad spend from 4Q13 to 4Q14. Looking over the past year familiar patterns emerge. Programmatic spending goes up in the first two quarters, and then drops during the summer months. Once back-to-school shopping begins in September, programmatic ad spend resumes its upward trajectory through the all-important holiday season.

Interestingly, programmatic spending in 4Q13 declined due to advertisers and publishers locking in direct buys in advance of the 2013 holiday season. In 4Q14, however, programmatic ad spend grew substantially, driven, perhaps, by an increase in confidence in programmatic's ability to drive strong performance during the holiday shopping season.

Within Europe, select markets experienced exceptional growth. For instance, the Nordics saw a 200% lift in ad spend, while in Poland the lift topped 850%. Spending in Germany, Austria and Switzerland all grew by 600%. In the U.K., spending shot up 196%, even though its programmatic market is already mature.

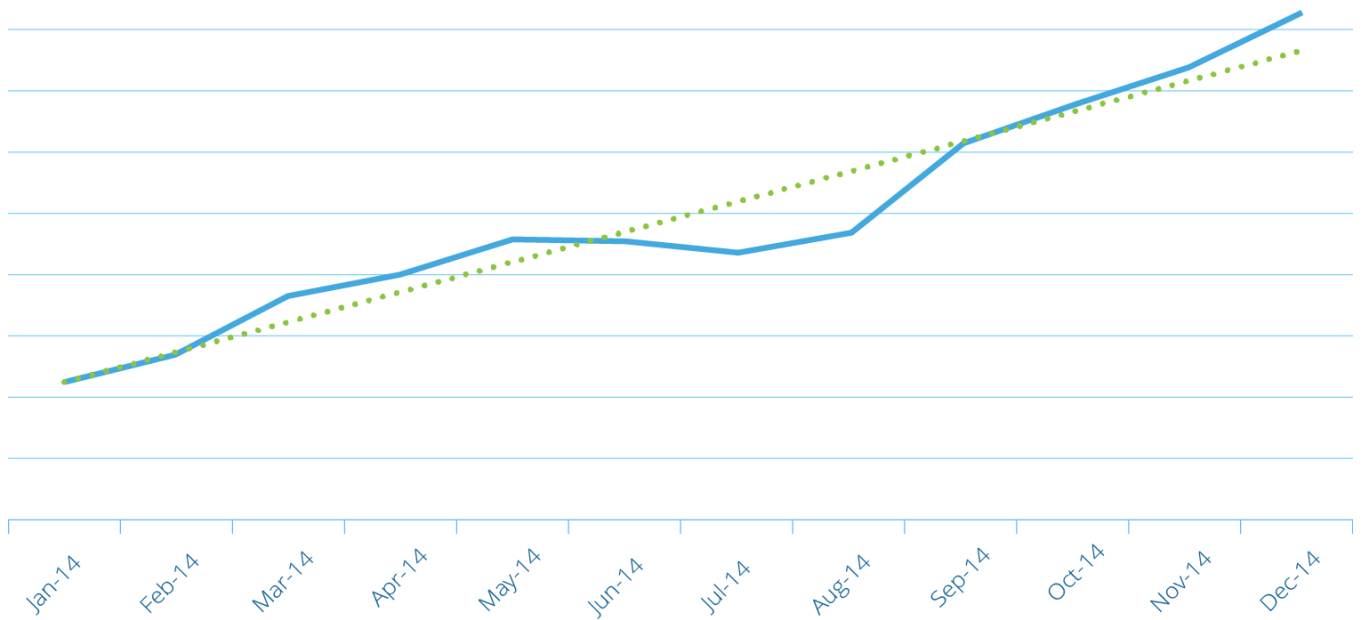
Much of the growth in overall ad spend was fueled by brand formats, which itself grew by 605% from January 2014 to December 2014. Advertisers continue to allocate more of their budgets to brand formats, growing from 13.99% in October, 16.3% in November, and topping 17% in December.

Spending in mobile continues to make inroads into desktop spending. In 4Q13, desktop accounted for 81.12% of all programmatic ad spend; by 1Q14, that number dropped to 72.62%. After desktop, marketers favored mobile inventory (14.22%) followed by tablet inventory (13.16%).

From 3Q14 to 4Q14, the percent of total ad spend in private exchanges dipped from 28.19% to 25.11%, though that decline is probably due to the vast increase in overall programmatic spending due to the holiday season.

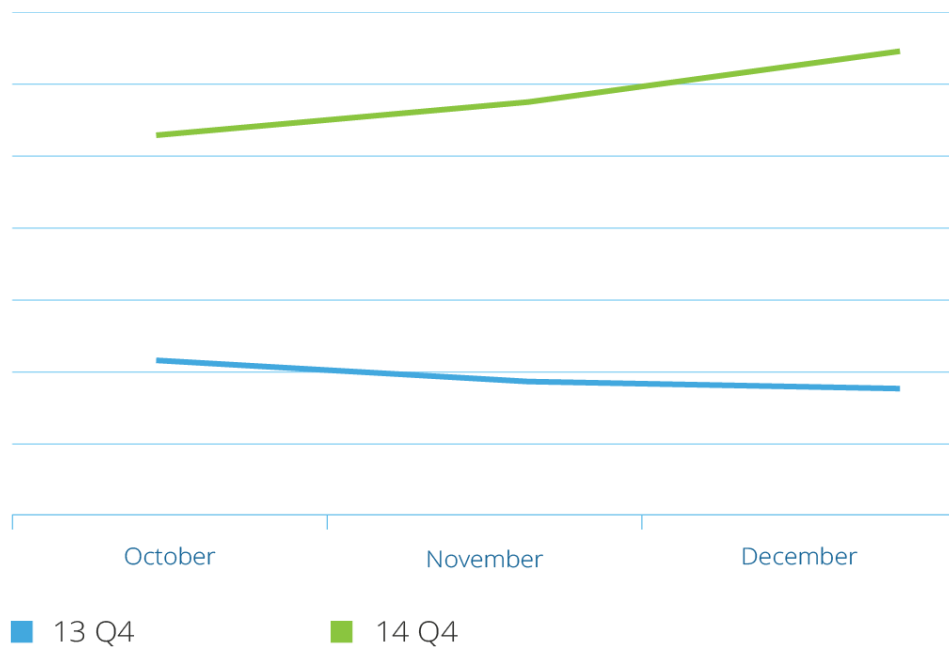
Trend Chart

Programmatic spending increased by 250% in 2014 compared to 2013



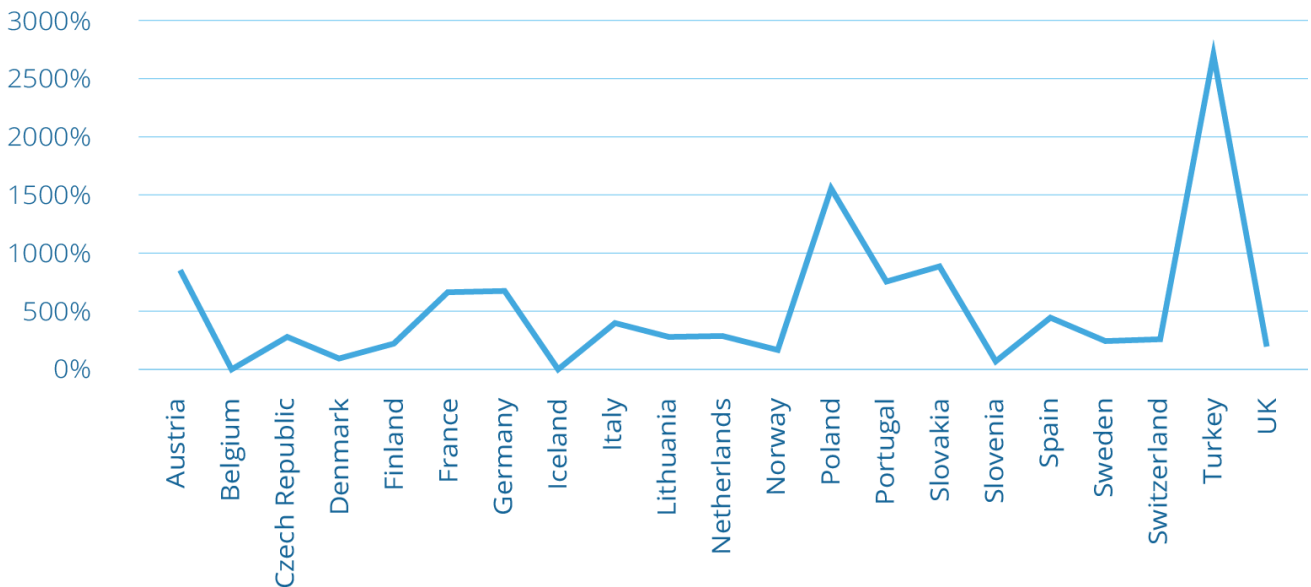
Q4 2013 vs. Q4 2014

Programmatic spending increased by 255% from Q4 2013 to Q4 2014



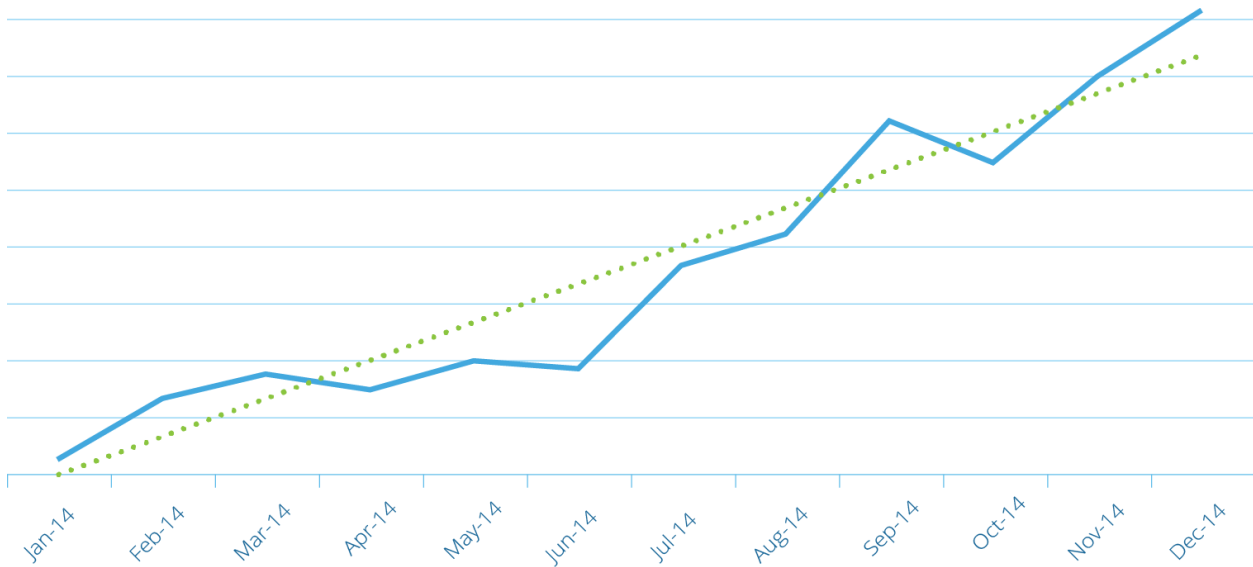
Growth By Country

Nordics saw a 164% lift; Poland 1500%; Germany grew by 600%; the U.K.'s mature market grew by 196% and Turkey saw hyper growth

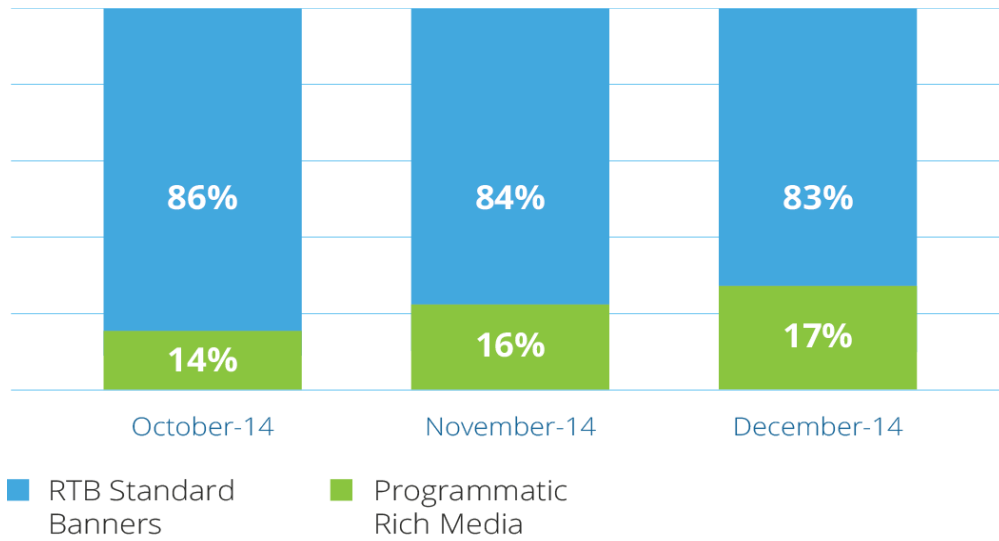


Programmatic Branding

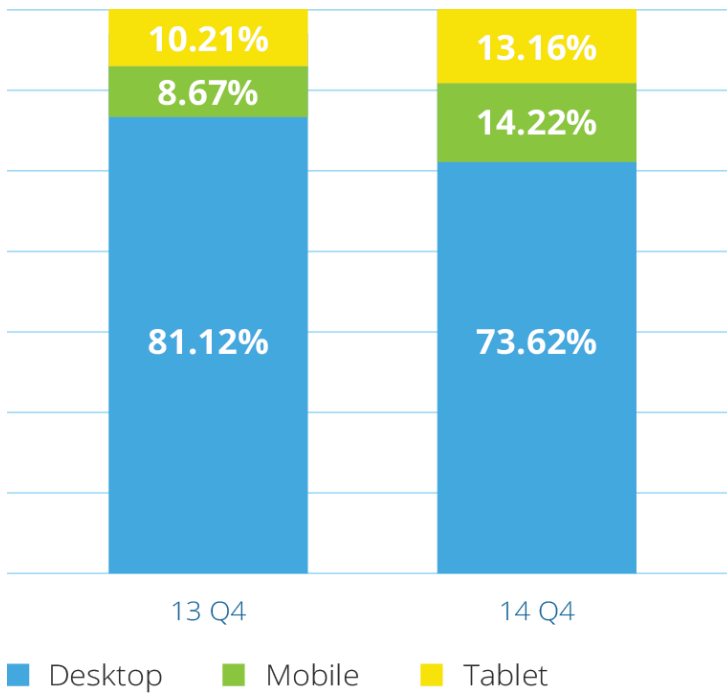
Brand formats grew by 605% in 2014

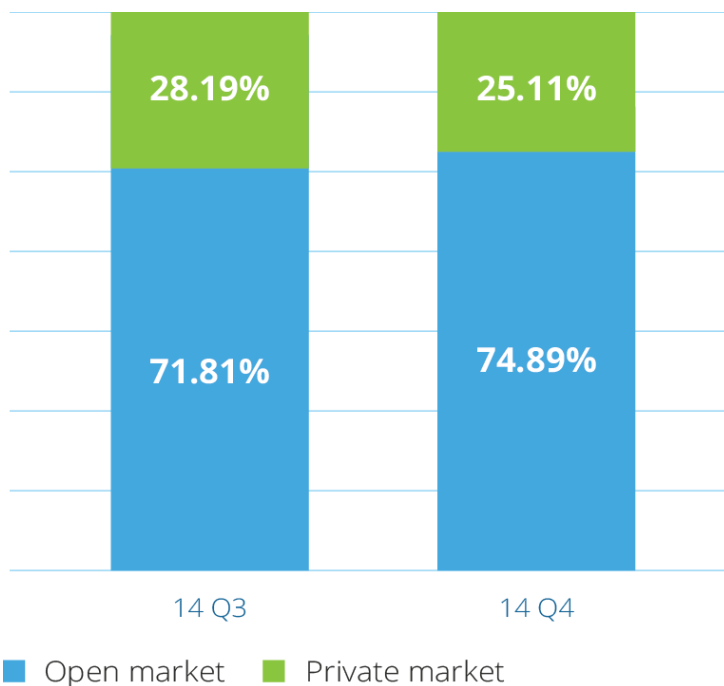


Brand Formats vs. Standard Formats



Split by Device Type



Media Spend – Open Market vs. Private Market**Take-Aways**

- ✓ The dramatic and sustained year-over-year growth in spending points to the marketer's growing conviction that programmatic is the most efficient way to execute campaigns.
- ✓ The marketer's confidence in programmatic advertising has now extended to the holiday season, as seen by the acceleration of spending in the fourth quarter. Traditionally, publishers have been keen to book their inventory prior to the start of the holiday shopping season -- a strategy they may wish to re-think given the strong performance of programmatic in 4Q14.
- ✓ Although spending on brand formats increased throughout the year, the most impressive growth (47%) occurred during the holiday season. Publishers who wish to optimize their programmatic yields are wise to increase their brand formats inventory during that timeframe.
- ✓ Marketers are beginning to shift ad spend from desktop to mobile devices, with 27.38% of the ad spend now allocated to these device types. Clearly they're following the consumer to their favorite devices. We expect this trend to continue, especially since pundits are proclaiming 2015 as "the year of the tablet." Publishers that develop innovative mobile advertising opportunities for marketers will capture that shifting budget.

CPM

For the first three quarters of 2014, CPMs for programmatic inventory were relatively flat, experiencing just minor ups and downs month-to-month. That changed in September, as the back-to-school shopping season gave way to the holiday shopping season. Stiff competition for inventory delivered a 35% lift in CPMs from September to December, 2014. Year-over-year, CPMs are up 20%, most likely driven by some of the higher quality inventory that was traded programmatically, as well as the increase in brand formats.

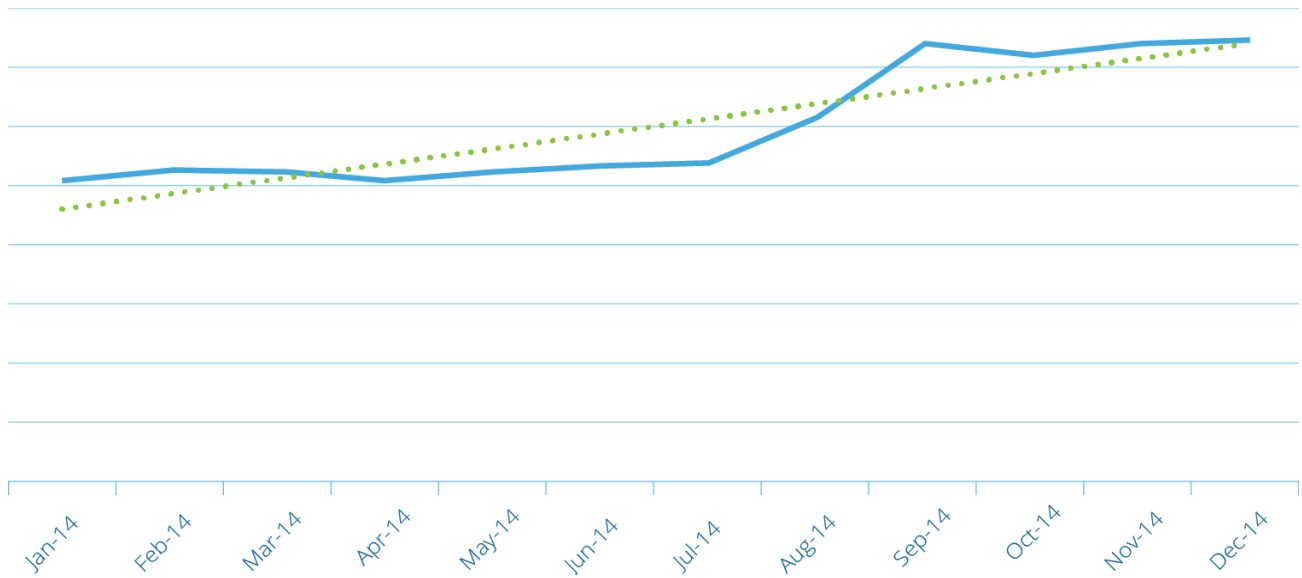
The banner sizes that earned the highest CPMs are mostly unchanged from 3Q14 to 4Q14; video is the clear winner, followed by high-impact formats such as 980x400. Overall, the top-three banners earn CPMs that are 7x higher than the 300x250 format -- the workhorse of display advertising.

As expected, private market CPMs are 222% higher than those earned in the open markets, thanks to the premium inventory that's traded in exclusive deals. Private market CPMs saw little change from 3Q14 to 4Q14, while CPMs in the open markets jumped 22%. The lift in the open markets may be a result of increased competition for inventory during the holiday season.

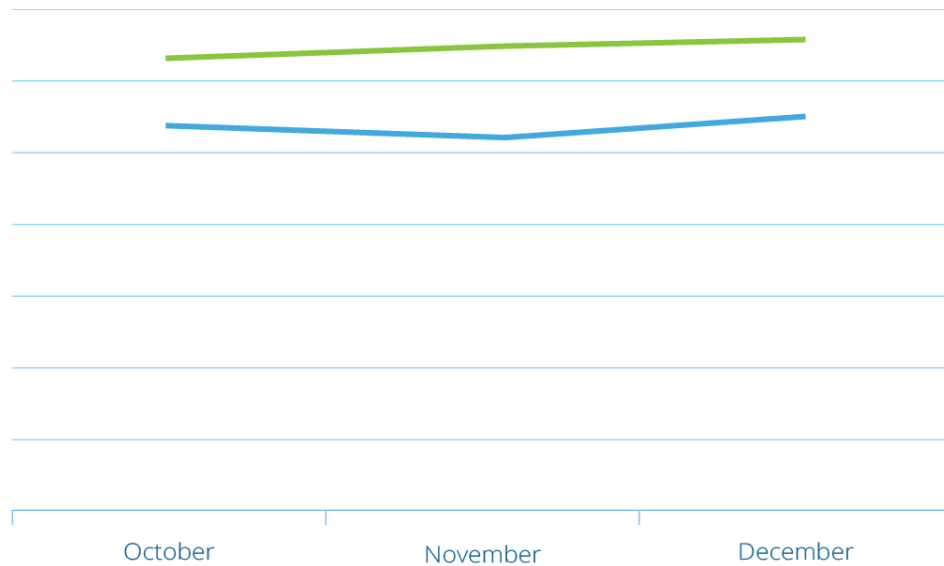
CPMs for desktop increased 23% from 4Q13 to 4Q14, while those for mobile and tablet decreased 12% and 7% respectively during the same timeframe. There are several possible explanations for this. To begin, in 2014 there were a lot more high-earning brand formats available for desktop, including in-stream video ads, which drove overall prices higher. Private trading of desktop inventory may have also led to an increase in CPMs. Meanwhile, demand for mobile and tablet inventory isn't keeping up with supply (which increases daily as consumers add mobiles and tablets, often replacing desktop usage).

Trend Chart

Total lift in CPM for Europe is 20%

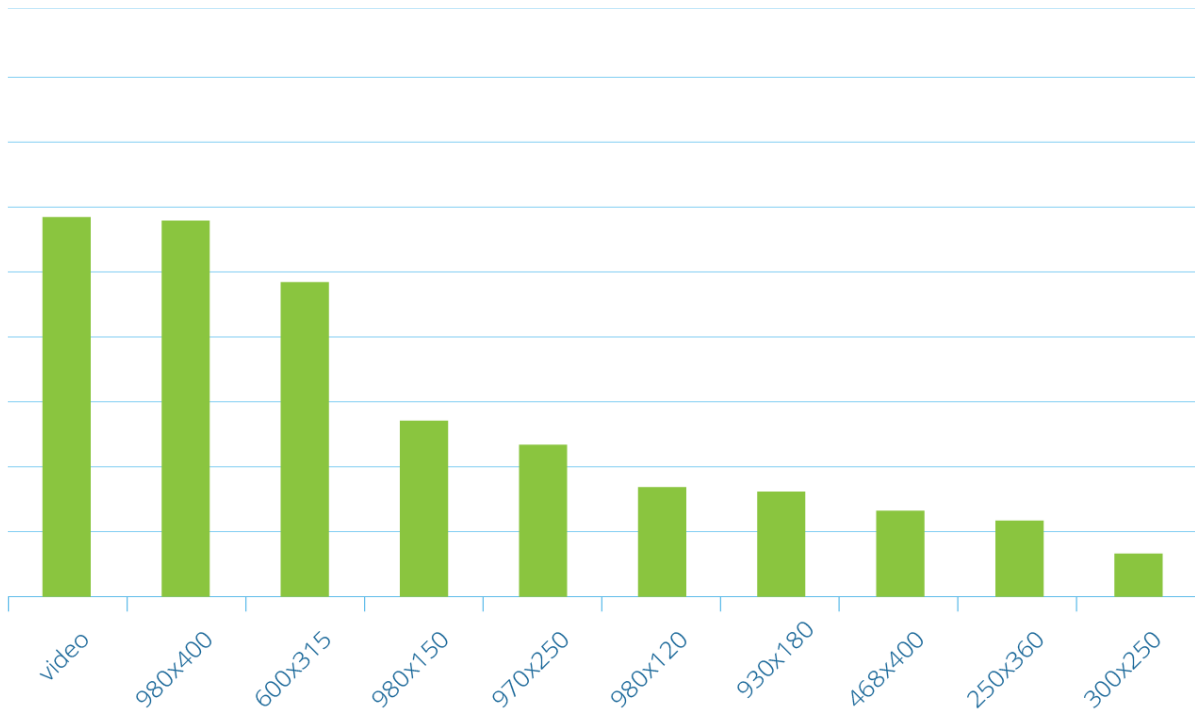


Q4 2013 vs. Q4 2014

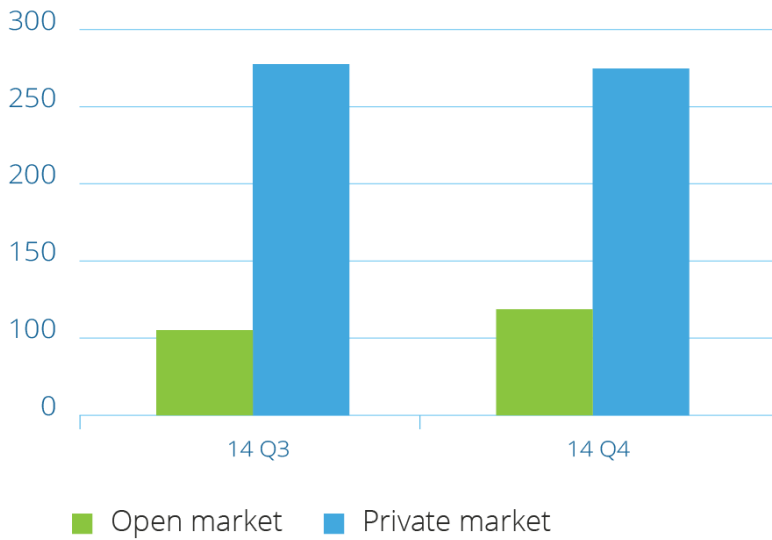


■ 13 Q4 ■ 14 Q4

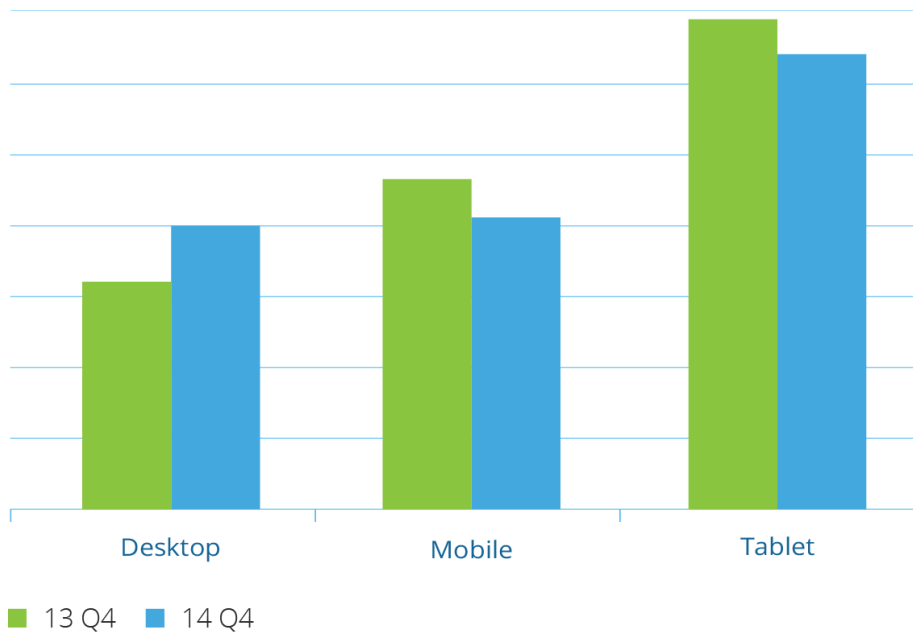
Top 10 Formats



Open Market vs. Private Market (index)



Split by Device Type



Take-Aways

- ✓ Brand formats, such as in-stream video, as well as mobile and tablet inventory continue to earn the highest CPMs. It's safe to assume that the higher prices marketers are willing to pay for these ad units are justified by stronger performance. Publishers seeking to maximize yields on their programmatic inventory should offer these types of units.
- ✓ Given that the top three banner sizes earn CPMs that are 7x higher than the 300x250 format, publishers can consider reducing ad clutter by offering fewer display banners per page, and concentrating on high-impact video, 980x400 and 600x315.
- ✓ The lower demand for mobile and tablet inventory (as compared to demand for desktop inventory) is an indication that marketers aren't keeping up with consumers who now favor their mobile devices. Marketers should spend more on mobile and tablet campaigns, especially given their strong performance (see next section).
- ✓ The high CPMs seen in private markets should allay publisher fears of offering premium inventory programmatically. Going forward, we expect to see rising buyer demand for exclusive programmatic deals.

Click-Through Rate (CTR)

Across Europe, CTR performance was a significant success story. Rather than declining at the close of the 2013 holiday season, CTR continued its ascent through February, then declined slightly. After reaching its nadir for the year in June, CTR shot up, growing an impressive 59% from January 2014. In November 2014 alone, CTR grew 45%, setting a new record. This compares to 2013 performance, which saw CTR decline over the year.

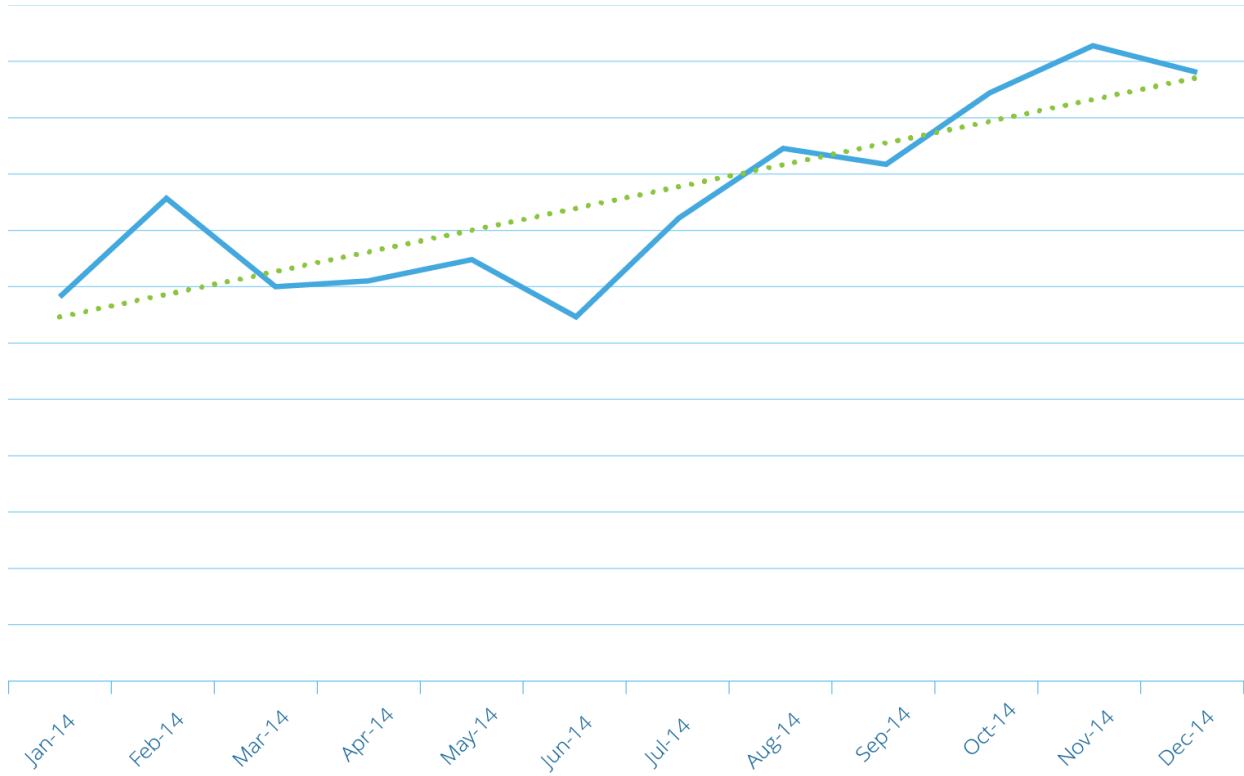
The strong growth in CTR may be attributed to the increased spending for programmatic mobile and brand format inventory, as well as the influx of premium inventory into both the open and private real-time markets. Consumers are more apt to respond to campaigns for personal goods and services on their mobiles and tablets, and brand formats do a better job at commanding the consumer's attention. Inventory from premium sites is less prone to fraud, and therefore will deliver stronger performance.

CTRs in private markets were 127% higher than those earned in the open markets. In terms of banner size, in-stream video delivered the highest CTR by far -- some 2x higher than the second largest banner (980 x 400). And not surprisingly, CTR for brand formats is 209% better than the CTR for standard banners.

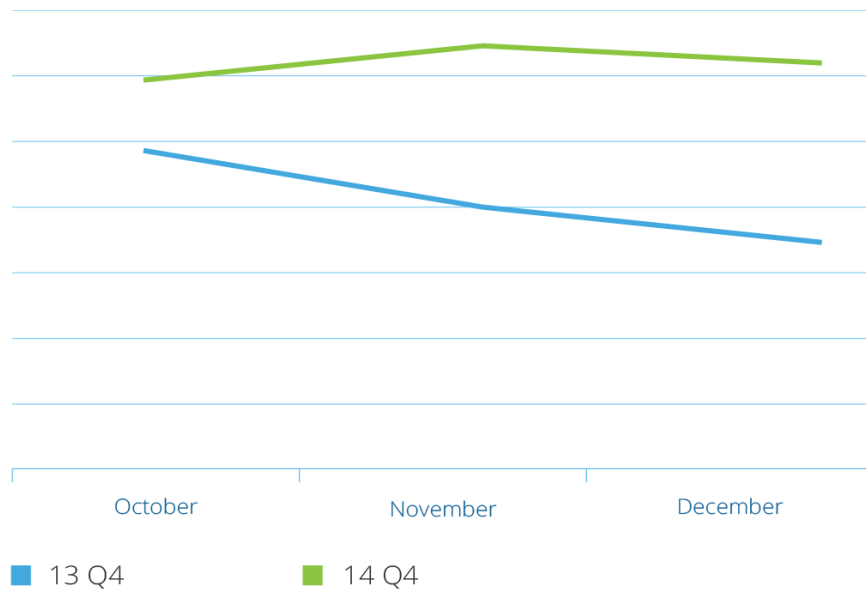
In terms of banner type, once again the in-stream video format delivered the highest CTR, followed by synchronized banners and brand formats. The brand category includes simple HTML banners, which deliver a lower CTR, lowering the overall CTR for the brand format category. Still, the CTRs for in-stream, synchronized and brand formats are significantly higher than the standard formats.

Mobile and tablets continue to deliver the highest CTR, both of which reached their zenith in October and November, and then declined slightly during the holiday season. From 4Q13 to 4Q14, CTR for tablets is up by 28% and 51% for mobile. CTR on desktop grew steadily throughout the year, and experienced 44% growth from 4Q13 to 4Q14.

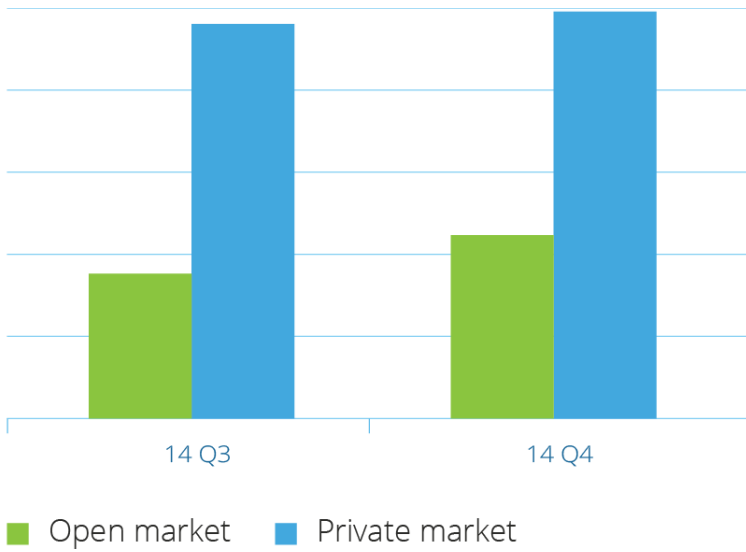
Trend Chart



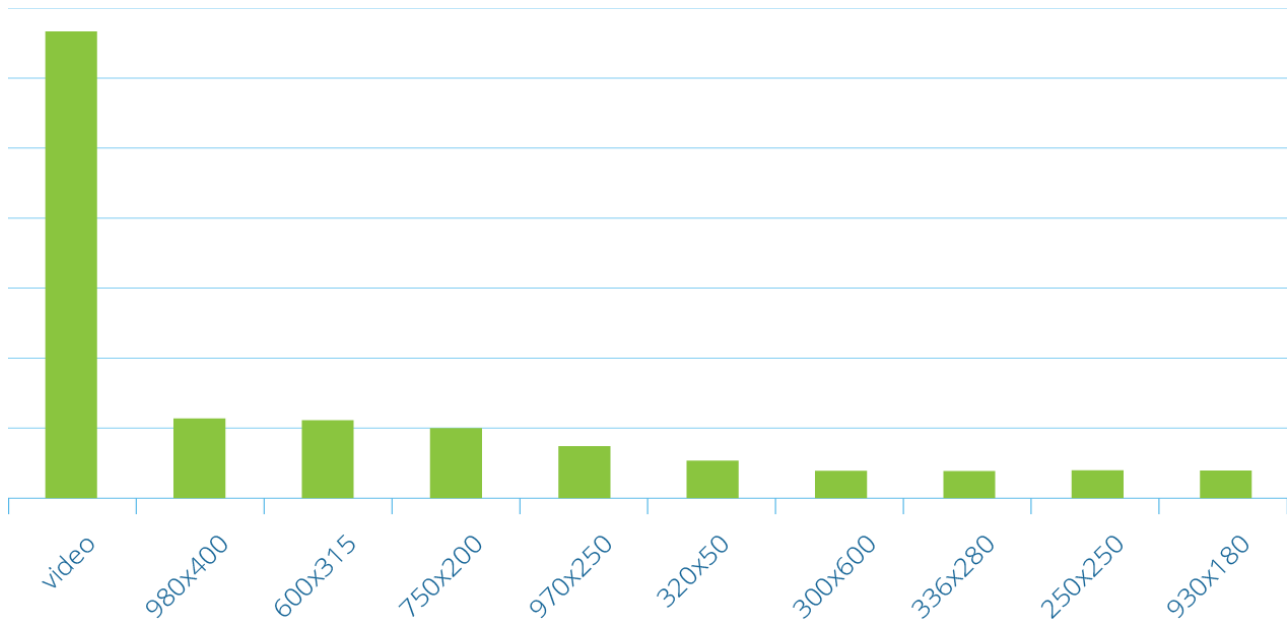
Q4 2013 vs. Q4 2014



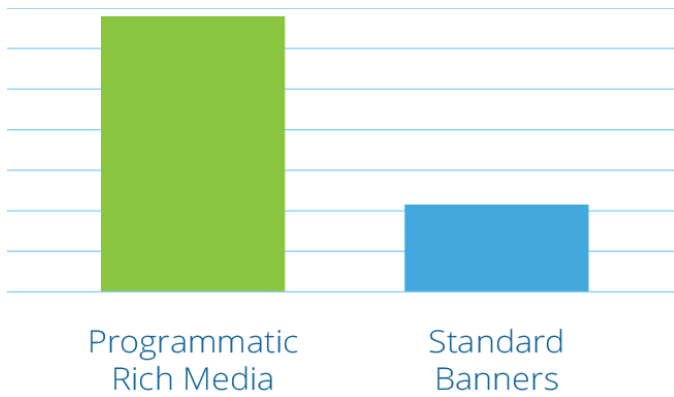
Open Market vs. Private Market



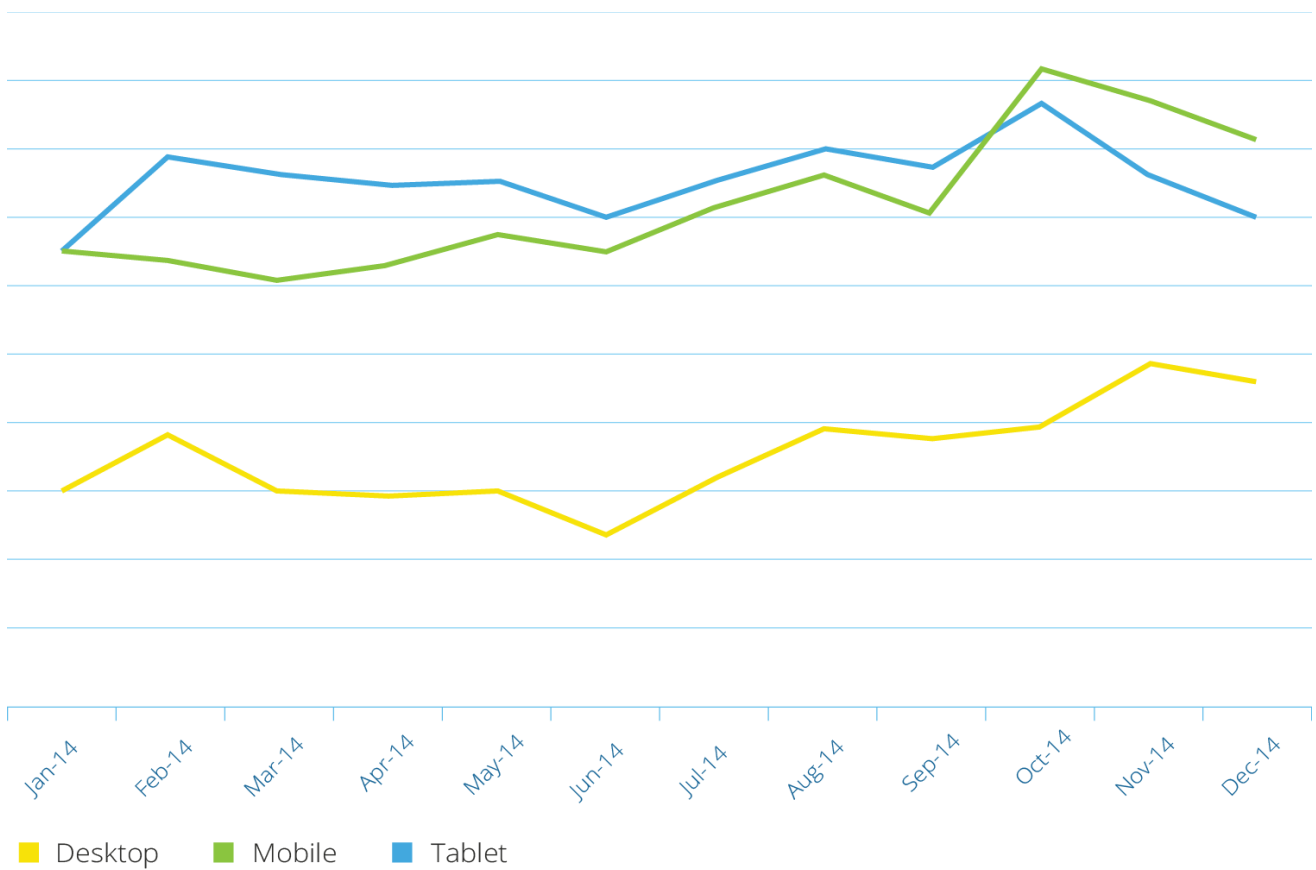
Top 10 formats



Brand Formats vs. Standard Formats



Split by Device Type



Take-Aways

- ✓ Given that programmatic mobile and brand spending is sure to increase in the near- and long-term future, we expect to see continued lifts in CTR.
- ✓ Although the CPM for in-stream video is similar to the other large banner formats, there is a huge difference in performance as measured by CTR. In-stream CTR is 2x higher than 980 x 400 (the second largest format). Marketers for whom CTR is an important metric would be wise to concentrate on in-stream banner ads.
- ✓ Mobile and tablets have significantly higher CTR than desktop, probably because consumers are more apt to respond to ads for personal goods and services on these devices. Performance-based campaigns should include mobile and tablet components.

CPC

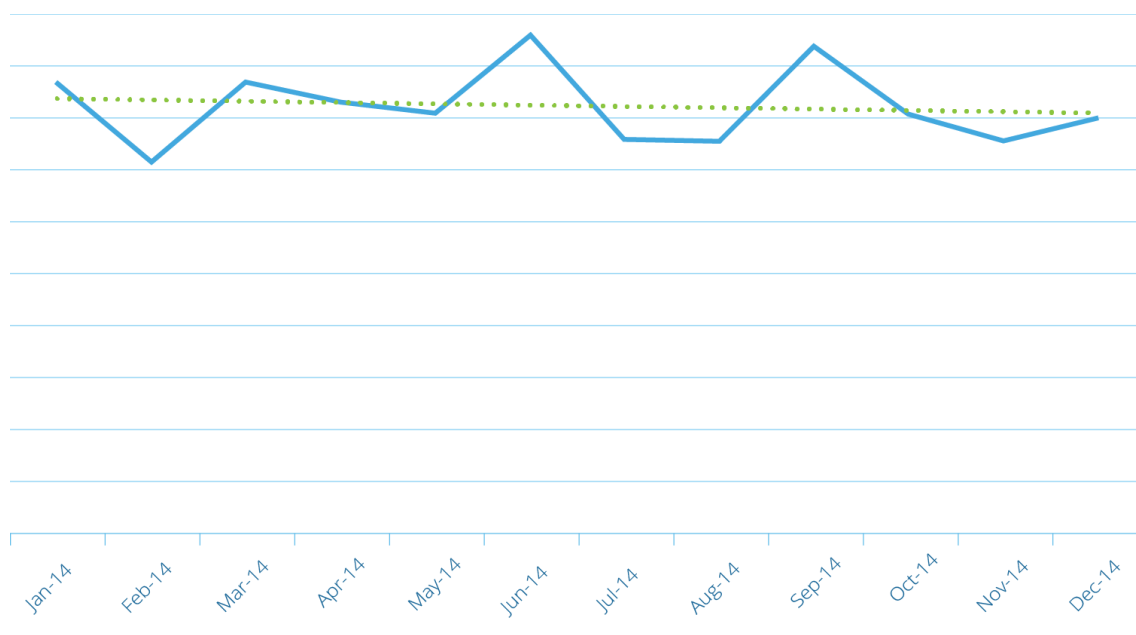
The cost-per-click (CPC) held steady for most of 2014, experiencing only small ups and downs during the summer. Overall CPC declined by 22% from 4Q13 to 4Q14, a strong signal of the growing sophistication among marketers and agencies. And considering the increase in CPMs and ad spend, this sophistication is benefiting both the sell side (who earn more for their inventory) as well as the buy side (who pay less for clicks). No doubt, the widespread availability of local data, the growing use of data management platforms (DMPs), and other analytic tools are enabling marketers and agencies to do a better job at optimizing their campaigns.

The CPC in private marketplaces is 46% higher than it is in the open markets, however, inventory sold in private deals is much more premium and therefore more costly, so a higher CPC is to be expected. In general, we saw very little change in the open vs. private CPC from 3Q14 to 4Q14.

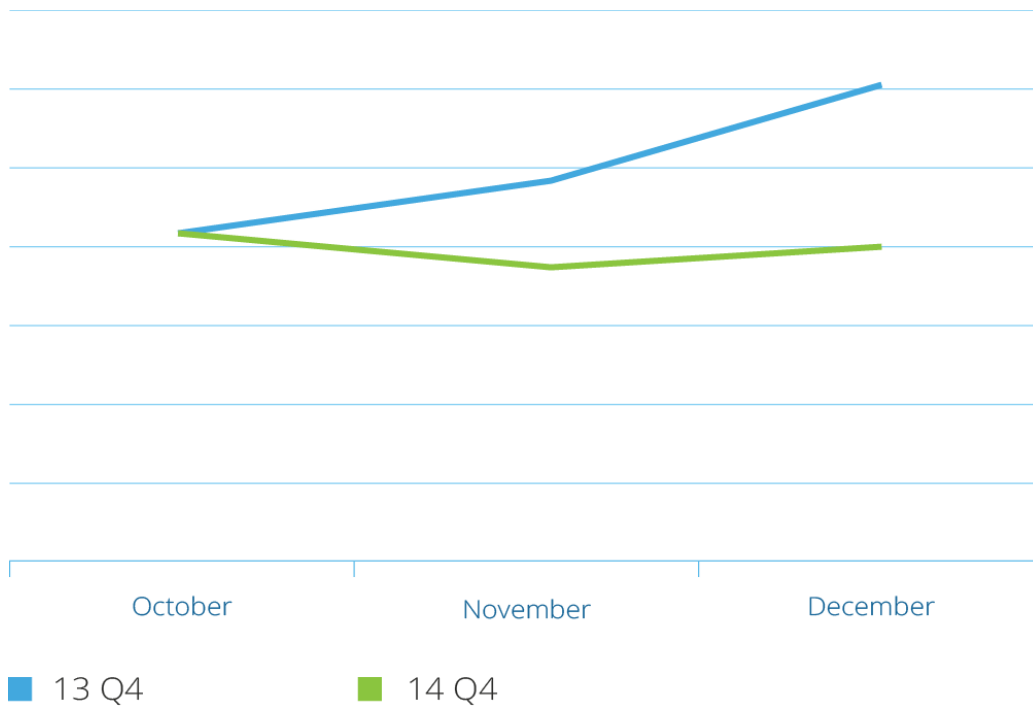
The CPC for brand formats is 13% lower than the CPC for standard banners, despite the higher CPMs paid for brand formats. Clearly, brand formats do a better job capturing the imagination of consumers, making these banner types ideal for both branding and performance campaigns.

In terms of device type, mobile delivers the lowest CPC by far. However, only a fraction of those clicks result in a visit to a landing page, and are therefore likely to be accidental. The CPC for desktop is higher, but those clicks result in more landing-page visits. Given that the cost of desktop inventory is significantly lower, desktop may be the sweet spot for certain types of marketers.

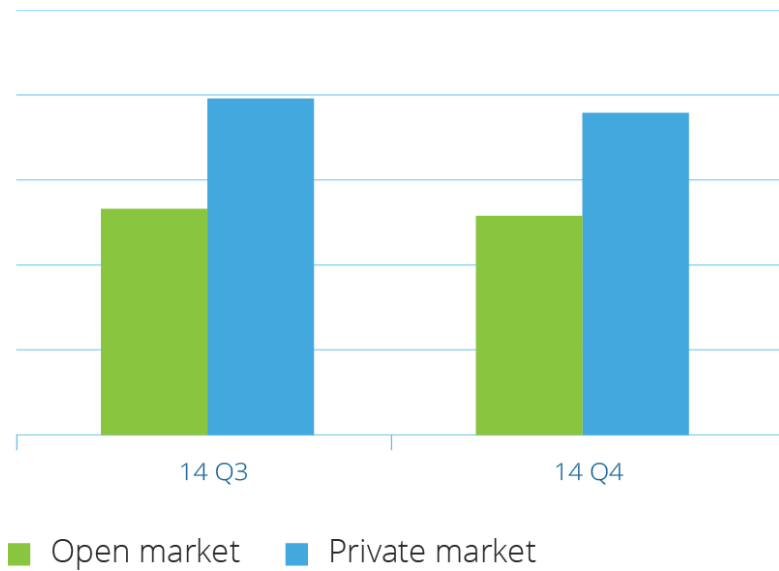
Trend Chart



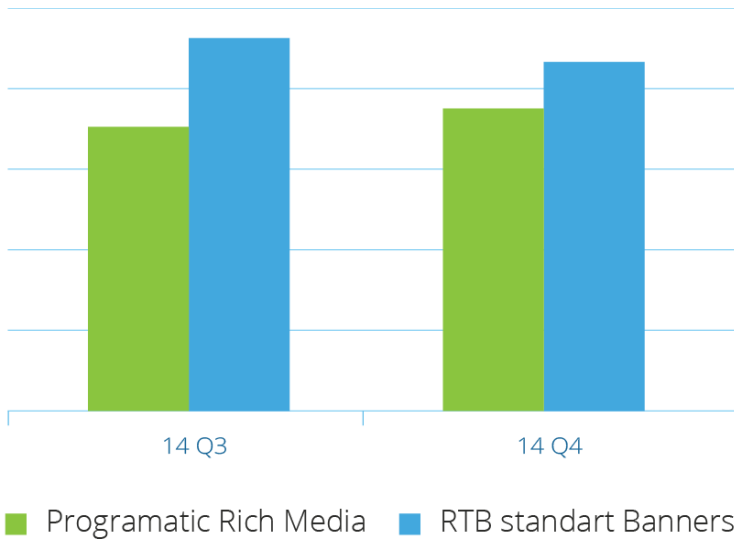
Q4 2013 vs. Q4 2014



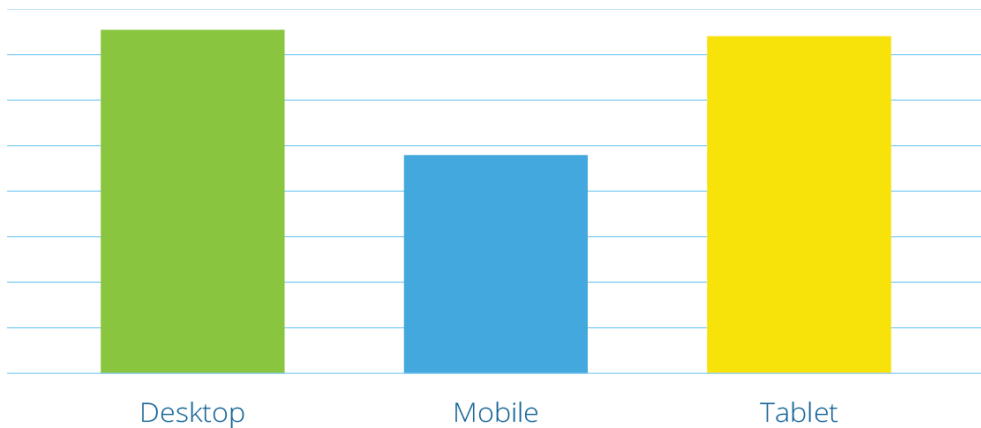
Open Market vs. Private Market



Brand Formats vs. Standard Formats



Split by Device Type



Take-Aways

- ✓ The declining CPC is a clear indication of programmatic’s ability to drive cost-effective campaigns. Overall, programmatic is becoming more cost efficient.
- ✓ Although brand formats are more expensive than standard ones, overall they deliver a lower CPC, making them more cost efficient options for marketers.
- ✓ Desktop inventory offers an appealing combination of low CPMs and reliable CPC, and may be the ideal channel for certain marketers (e.g. financial services or any product with a high degree of consideration)

Engagement

Adform has watched the European engagement rate and time with keen interest over the past two years. These metrics, which measure the percent of people who engage with an ad, and for how long, are particularly important to brand managers.

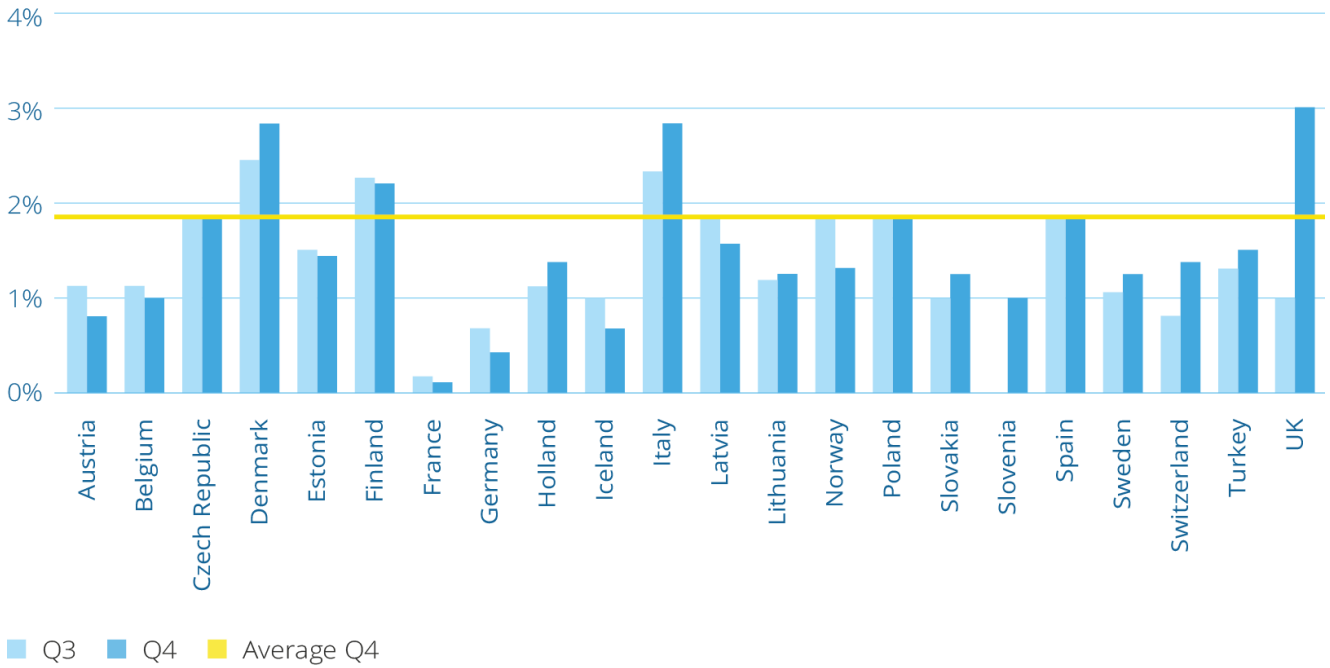
The 4Q14 engagement reached 1.88% for Europe, and 3.04% for the UK. The 4Q14 engagement time decreased slightly, although it was still an impressive 13.93 seconds (down from 14.33 seconds in 3Q14). The strong engagement rate and time may be explained by the allure of brand ads, as clearly, consumers spend substantial amounts of time engaging with them.

We began our inquiry by examining both metrics by industry vertical (see bubble chart below). The X-axis represents engagement rate, the Y-axis represents engagement time, and each bubble represents impression volume (the more impressions, the bigger the bubble).

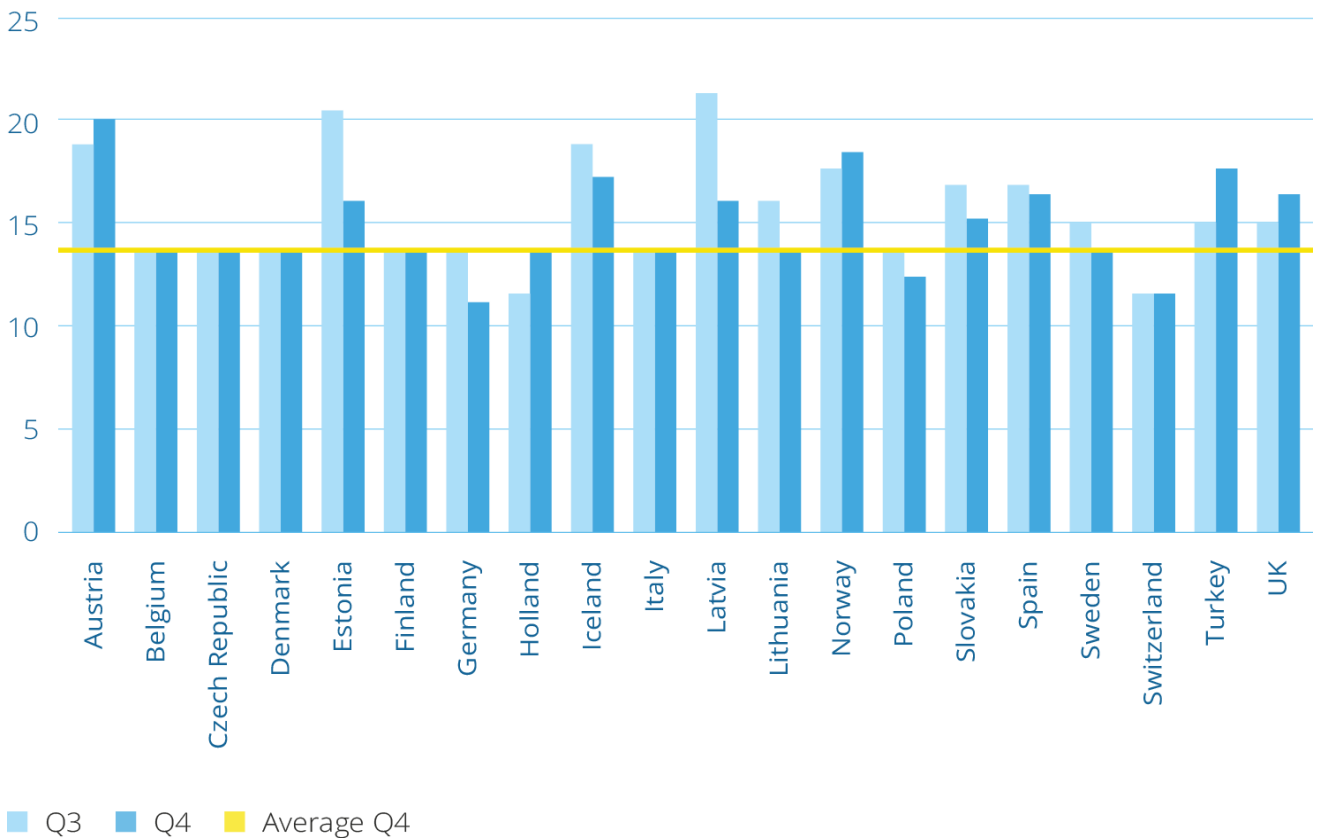
The Style and Fashion sector delivered strong performance in branding. Arts and Entertainment also enjoyed notable success with engagement rate, though the sector had a difficult time keeping consumers engaged for long, as indicated by the low engagement time. Travel engages consumers the longest, though the sector has the lowest engagement rate.

In terms of engagement rate, brand formats are best suited to attract the consumer's attention, outperforming flash and images by factors.

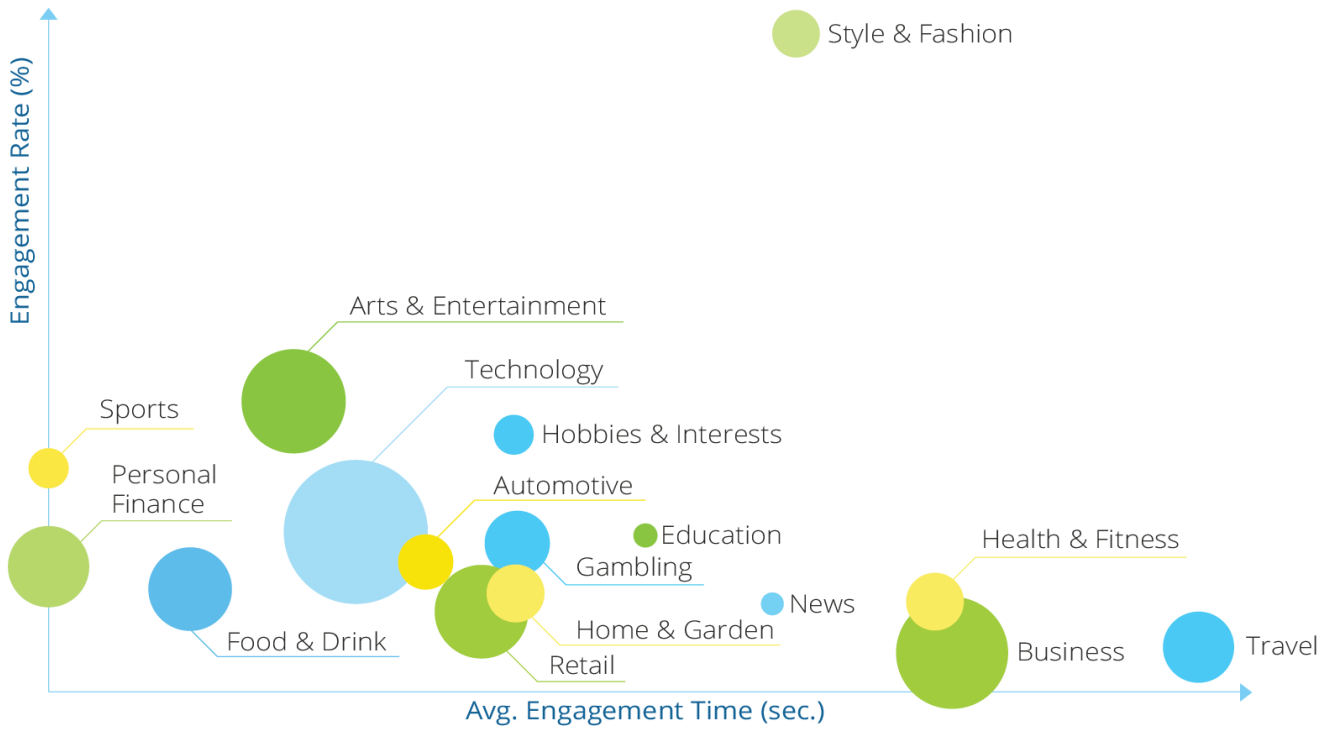
Engagement Rate Per Country



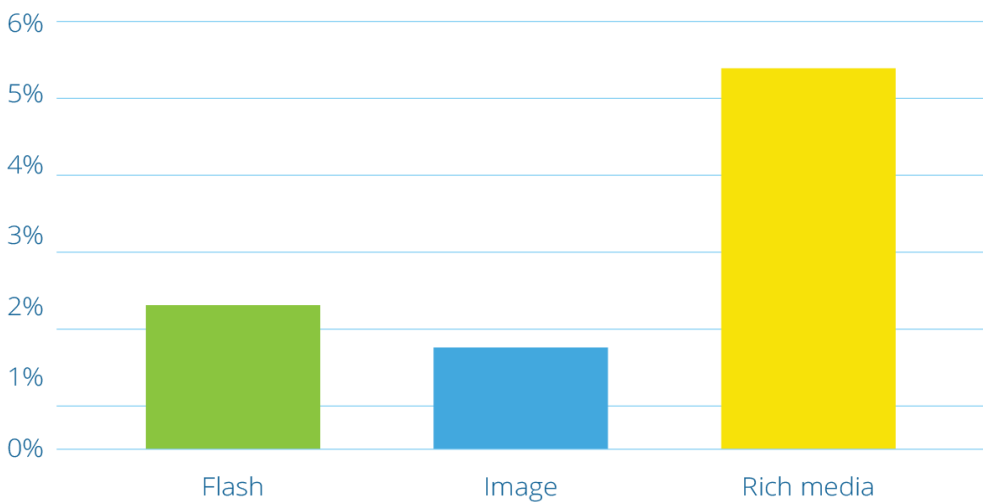
Engagement Time Per Country



Engagement Rate



Engagement Rate per Banner Type



Take-Aways

- ✓ Brand format banners do a better job at capturing the consumer’s attention, and are ideal for brand campaigns

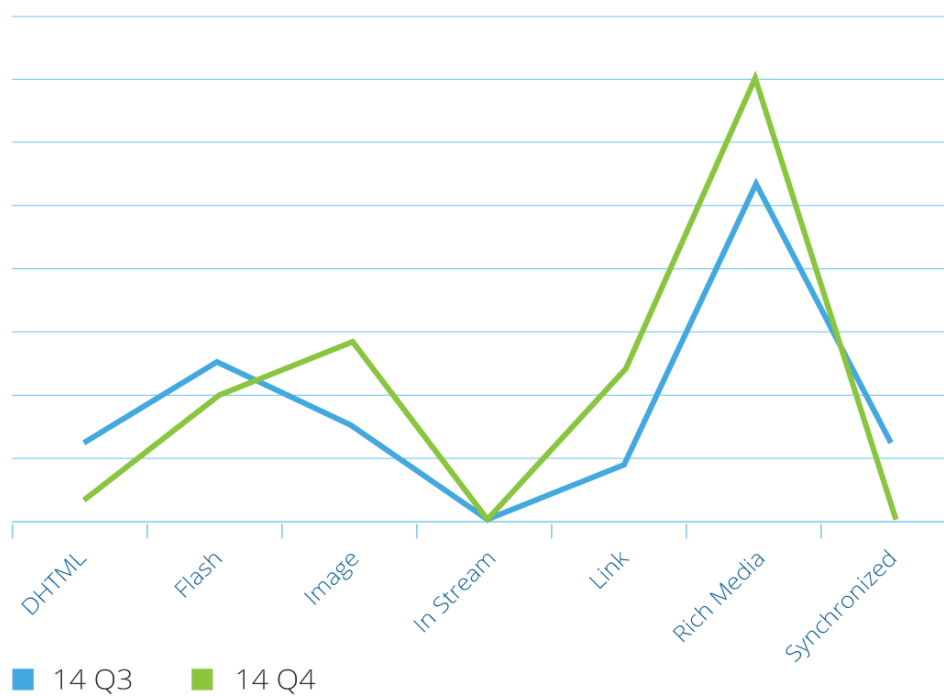
Conversions

Adform began tracking conversions in the third quarter of 2014. On the whole, we measured very little change in conversion by banner type from 3Q14 to 4Q14. One point of interest in 4Q14 is that image (i.e. static) banners delivered more conversions than Flash banners. This may be due to the fact that image banners are used in retargeting, and are useful for converting holiday shoppers.

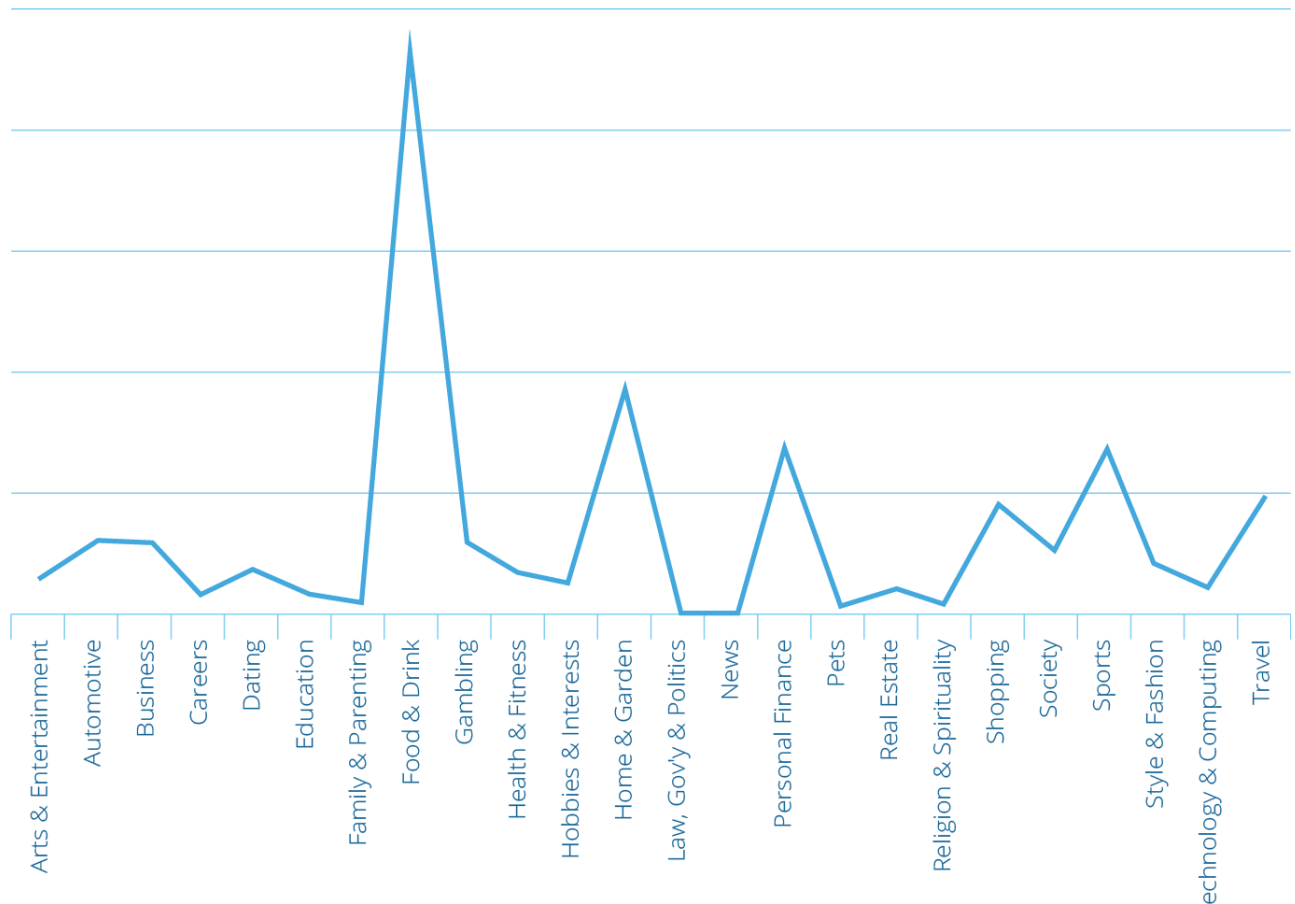
Brand formats deliver the highest conversion rate (as well as the highest engagement rate). In-stream videos deliver the lowest conversion rate, though they also have the highest CPM and CTR. In-stream videos typically appear prior to, or at the conclusion of, content consumers have chosen to view, which means they're less likely to click away from that content.

In terms of performance by industry sector, Food and Drink enjoys the highest conversion rate, followed by Home and Garden and Personal Finance. Some industries, such as Family and Parenting and News have a zero conversion rate; however, it is quite difficult to define a conversion event for these industries, and their primary goal is often to drive traffic to their sites rather than driving conversions.

Conversions by Banner Type



Conversions by Industry Vertical



Take-Aways

- ✓ For performance-based campaigns, brand format banners deliver the highest conversion rates, and should be the top choice for marketers.
- ✓ In-stream videos do a poor job in delivering conversions, but deliver high engagement rates. In-stream videos are ideally suited for brand marketers seeking to increase awareness.

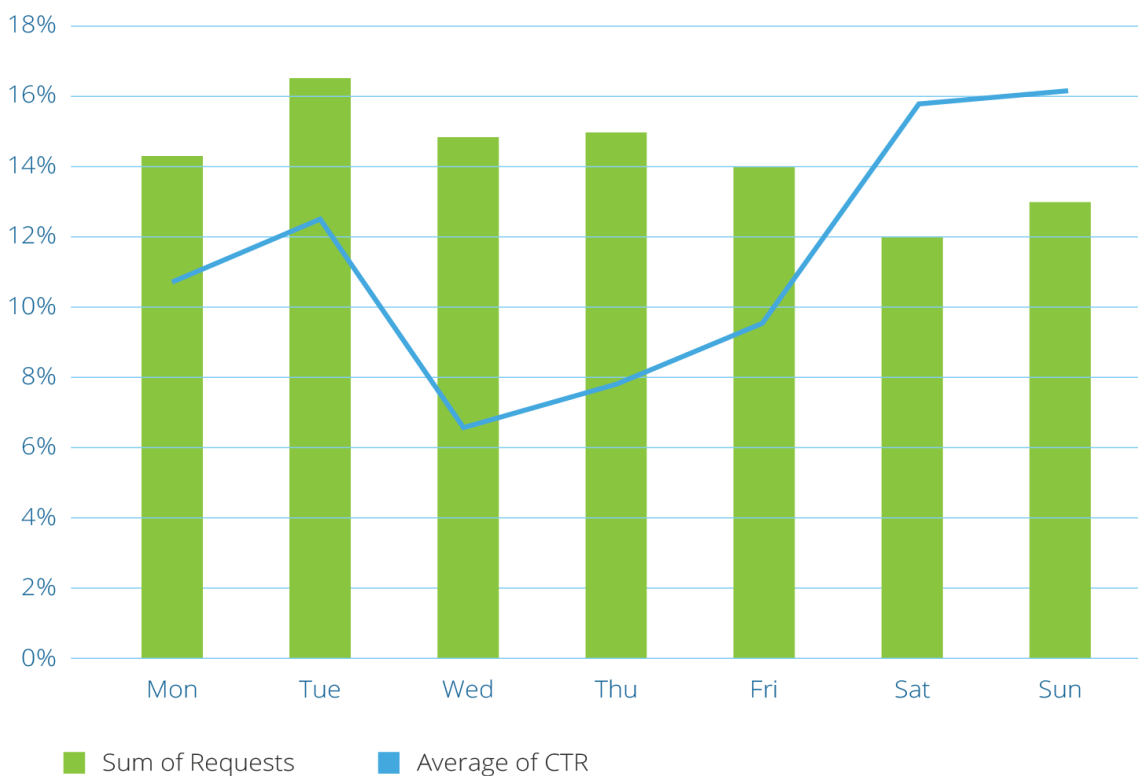
Day of the Week

For several years, Adform has tracked CTR alongside the number of ad requests received by day of the week. We've consistently seen significantly higher CTR on the weekends, coupled with the lowest number of requests. Clearly, consumers spend less time browsing the Internet on Saturdays and Sundays, though when they do, they're quite open to engaging with ads.

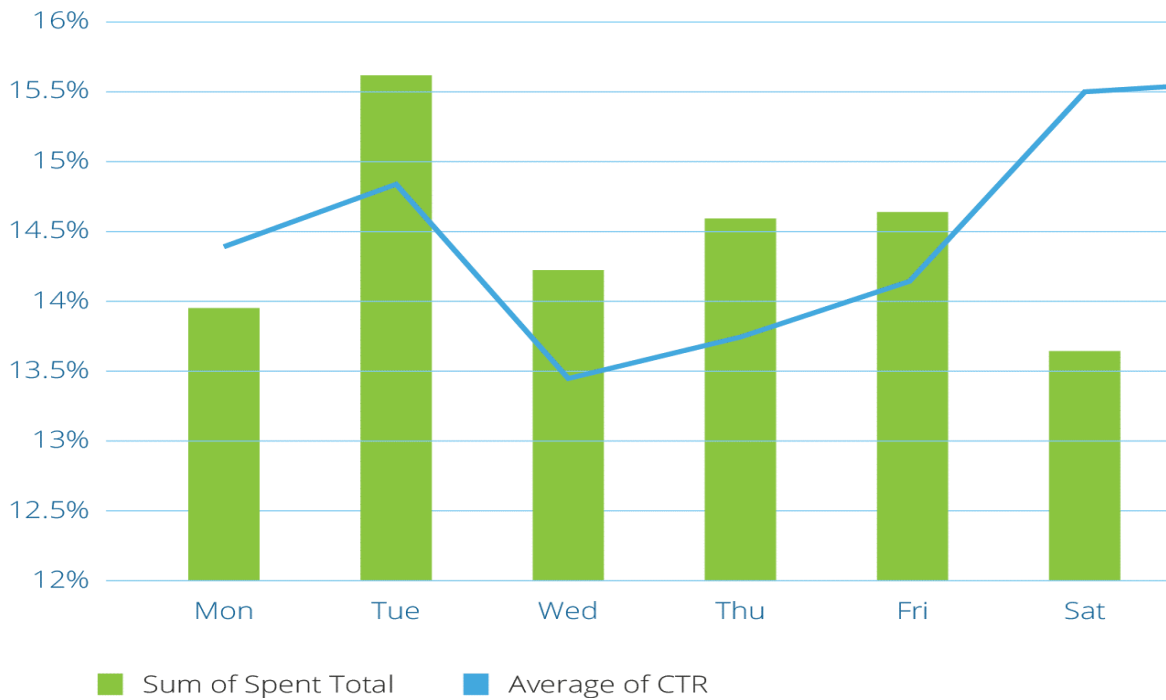
Similarly, CTR is at its lowest on Wednesdays. Adform receives the most requests on Tuesdays -- the day that delivers the highest CTR of the workweek.

Ad spending follows similar fluctuations as ad requests, with one exception: spending is lower on Wednesdays. Perhaps marketers are attuned to CTR during the workweek, and match their spend levels to CTR. Once again, ad spending is lowest on the weekends, when CTR is at its highest.

Total requests vs. CTR%



Spend Per Day vs. CTR%



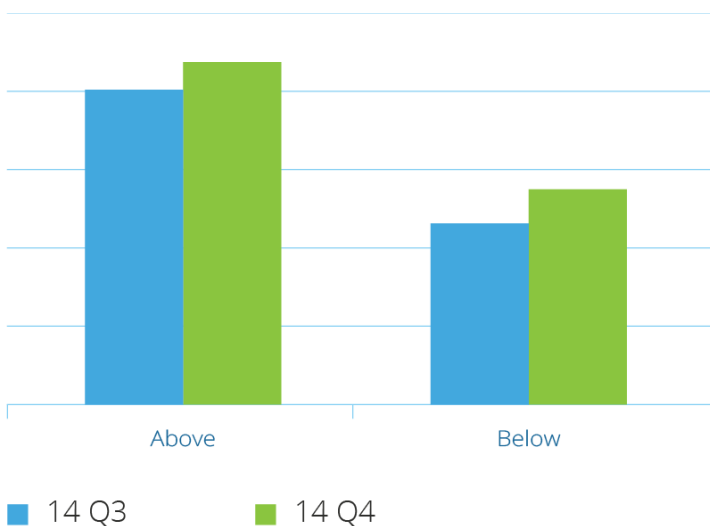
Take-Aways

- ✓ Programmatic marketers seem reluctant to advertise on the weekends, even though CTR is at its highest. Perhaps they're concerned that they're not on hand to monitor performance. The compelling CTR should prompt them to at least test the waters during the weekends.

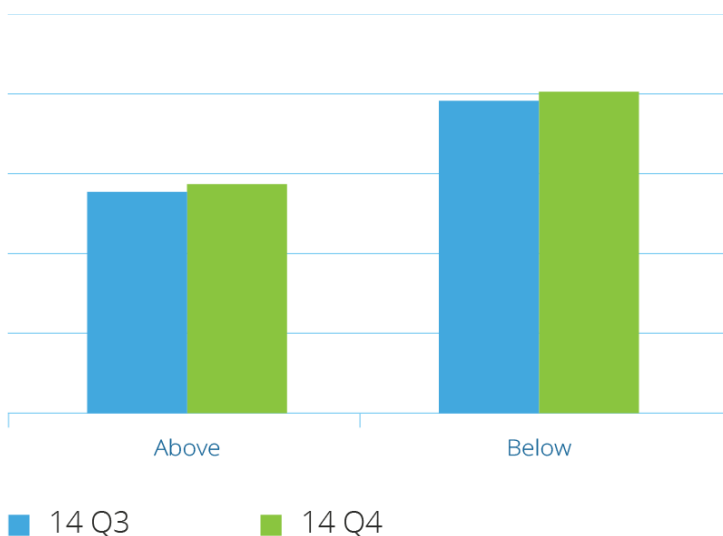
Above/Below the fold

The CPM for above-the-fold ad units is 57% higher than inventory that appears below the fold. Though below-the-fold inventory may seem like a cost-effective option, the truth is revealed once we compare the CPA of the two. The CPA for above-the-fold inventory is 28% lower than the CPA for inventory below it. Comparing CTR for above- and below-the-fold is even more dramatic; the CTR for above-the-fold is more than 3x higher than the CTR of below-the-fold inventory.

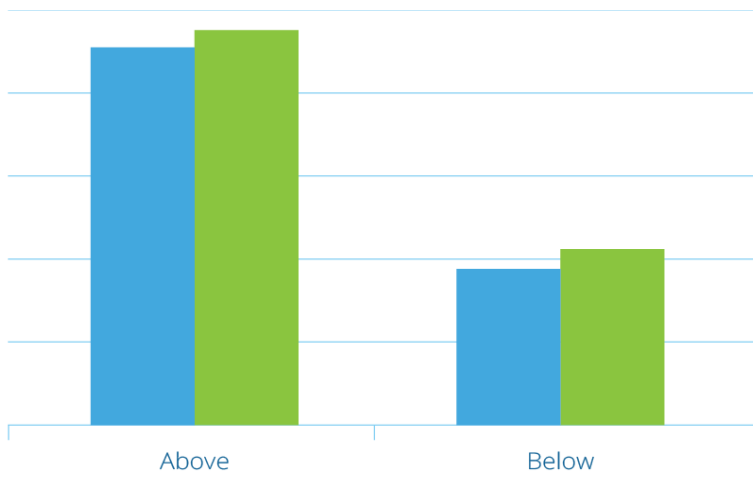
CPM



CPC



CTR



■ 14 Q3 ■ 14 Q4

Take-Aways

- ✓ For performance campaigns, as measured by both CTR and CPC, above-the-fold inventory is the most cost-efficient option

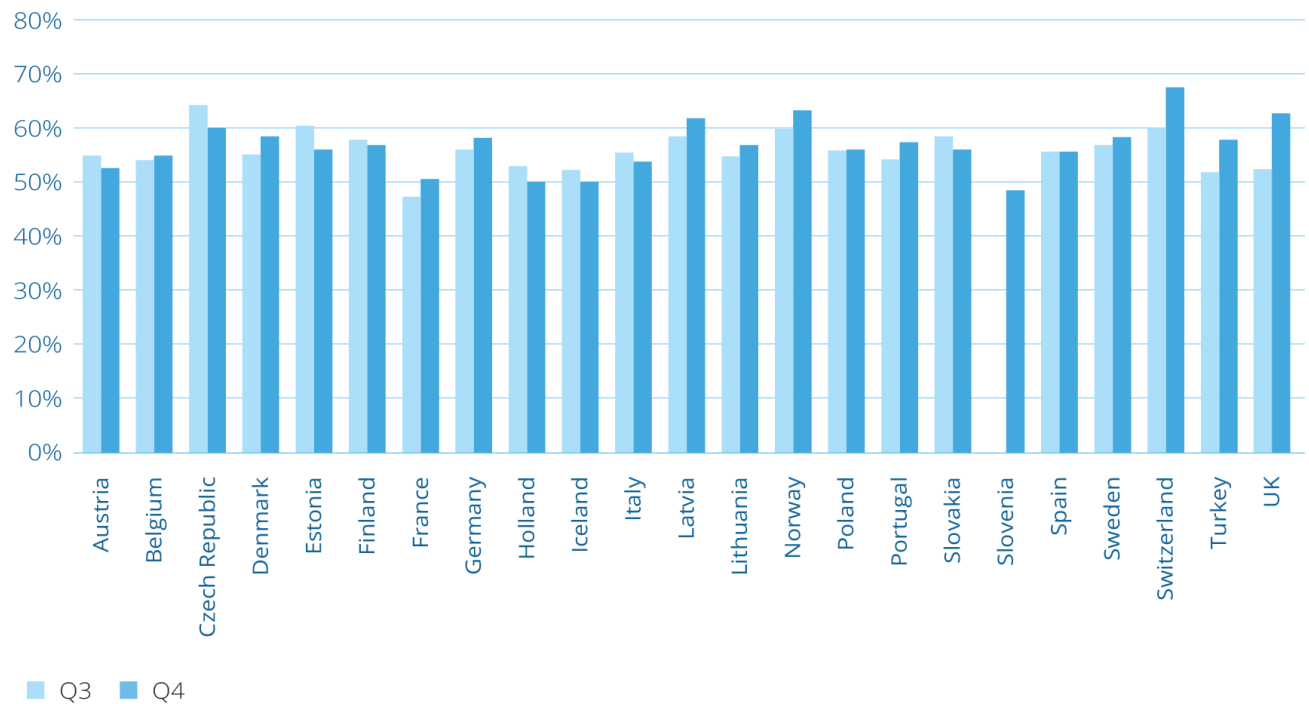
Viewability

Adform began examining European viewability in 3Q14. In 4Q14, viewability across the continent was better than 50%, which is higher than the industry norm for RTB-traded inventory. Though some countries performed better (e.g. Switzerland achieved nearly 70% viewability), the differences between countries were minor.

The countries that experienced the greatest gains in viewability include the UK, Switzerland and Norway. The programmatic markets are more mature in these countries, and may explain why viewability rates are on the rise. More publishers may be optimizing their sites and adopting technology solutions that promote viewability.

Those that experienced the greatest decreases in viewability are Estonia, the Czech Republic and Holland.

By Country



A Look Forward to 2015

Branding Campaigns

The numbers only tell part of the story. In conversations and in planning meetings, we see key trends brewing for programmatic, particularly for brand managers, including:

More Brand Campaigns

An abundance of rich-media ad formats will attract more branding campaigns to the programmatic channel, which will increase the ad spend in both the open exchanges as well as the private exchanges.

Programmatic Outdoor Advertising

It's still in its early days, but programmatic outdoor advertising shows considerable promise. We anticipate brand managers folding it into their programmatic media plans in the years ahead.

Television Migrates Online

More and more, consumers are opting to watch television content via digital channels. The rise of anytime/anyway viewing behaviors means that brands, which traditionally relied on television, will need to migrate to digital channels. Programmatic is the natural solution to reach the right consumer at the right time.

Engagement Supersedes Conversions

Many brand marketers are beginning to view digital advertising primarily as a means to start conversations with consumers, rather than to drive conversions. A key KPI is the lifetime value of a consumer, rather than the value of a single sale or action.

Measuring Engagement Has Been Solved in Digital

Marketers can now measure the engagement rate and time of their digital campaigns. They now want to learn how to combine the data that's generated via their campaigns with more traditional brand measurement KPIs, such as top-of-mind, likely to recommend, and so on. While that connection between digital data and brand measurement is far from complete, we'll see significant activity in this area in 2015.

In-House Programmatic

In-House DSP Licenses. The bigger brands are keen to install programmatic expertise within their ranks, and are actively bringing DSP seats in house. These brands are still using agencies, but signing contracts with ad-tech vendors such as DSPs and DMPs.

Data Ownership

Brands of all sizes are keenly aware of the importance of data ownership – which is to say, to possess internally the data about their customers and prospects, which are generated via their digital campaigns.

Wider DMP Use

Related to data ownership, more brands are implementing a data management platform (DMP) internally so they can centralize their campaign data, as well as connect it to their internal information systems, such as their CRM and web analytics programs, and to perform sophisticated data analysis of their advertising initiatives.