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Thought Leadership Paper
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The Move Toward In-App Advertising

How And Why Advertisers Are Increasing Their Spend On In-App Inventory Over The Next 12 Months

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More than half of advertisers say in-app inventory has delivered on the promise of better targeting and increased customer engagement.

Executive Summary

Consumers downloaded 197 billion apps in 2017. That number is projected to grow to more than 350 billion by 2021.¹ Clearly, consumers' use of app-rich mobile devices to access content and connect with friends and family is skyrocketing. Furthermore, the share of online users who stream ad-supported content on a smartphone or tablet has trended upward over the past three years, while PC viewership is trending slightly downward.² But have advertisers followed their customers and prospects into these app environments? Or have concerns around inventory volumes and quality controls deterred advertisers away from a potentially useful and lucrative advertising environment?

To answer this question, in October 2018, PubMatic commissioned Forrester Consulting to explore how media-buying organizations plan and purchase programmatic in-app advertising generally and video in-app advertising specifically. Forrester conducted an online survey with 336 respondents and four interviews with media-buying and -planning decision makers at brands, agencies, and technology providers in the US, Europe, and Singapore to explore this topic. We found that advertisers are increasing their use of in-app advertising, ending this disconnect and shifting budgets to facilitate consumer connection on the devices and in the environments of their choice.

KEY FINDINGS

- › **Media dollars are increasingly being spent on mobile in-app environments.** It's no surprise in the digital age that media budgets are largely aimed away from traditional channels like TV in favor of digital media. And increasingly larger shares of digital budgets are going toward mobile generally and in-app inventory specifically.
- › **Measurement and fraud issues plague advertisers, leaving them looking to publishers and technology partners for assistance.** Media plans may have moved into the digital age, but key performance indicators (KPIs) largely haven't. Advertisers tend to stick to the traditional KPIs — like watch time, cost per click, and cost per acquisition — that they know, leaving many to struggle with viewability measurement issues. The fear of fraud is also widespread — particularly among brands that stand to lose the most. Because of these challenges, advertisers wish that publishers and tech providers would relieve them of responsibility by proactively providing trustworthy fraud and viewability verification.
- › **Advertisers enjoy the enhanced targeting and increased customer engagement that in-app provides.** Investment in in-app advertising is spurred by advertisers' desire to improve their targeting abilities and customer engagement. And happily, in-app inventory delivers. More than half of all advertisers surveyed said they have experienced these same benefits from in-app advertising generally and in-app video specifically.

Advertising Is Becoming Increasingly Digital, Mobile, And App Focused

As consumers spend more time on their mobile devices, advertisers looking to connect with these potential and current customers must follow suit. This necessitates a shift in media dollars away from traditional channels and toward mobile. But what exactly does the media-buying landscape look like today? In surveying media-buying and -planning decision makers across the globe, we found that:

- › **Media dollars continue to shift toward connecting with the mobile customer.** On average, media buyers are allocating just under two-thirds of their advertising budgets to digital media. Of these digital budgets, the majority goes toward mobile — both in-app and web. While a fair portion of budgets are still being spent on channels like digital out-of-home, desktop, and connected television, in-app and mobile web account for nearly half of all digital budgets on average (see Figure 1).
- › **Advertisers allocate budgets to digital formats quite equally.** Though advertisers prioritize mobile among digital channels, they distribute budget more equally when it comes to ad formats. Respondents in our survey, on average, allocate approximately one-fifth of their budgets to each of the following types of advertising: social media, video, display, native, and search formats.

“Mobile is the best way to reach the consumer I’m focused on reaching. And we know that they’re using apps basically all day. . . . It is the best way to reach that consumer and get your message out at this point.”

Marketing manager, large multinational financial services brand based in the US



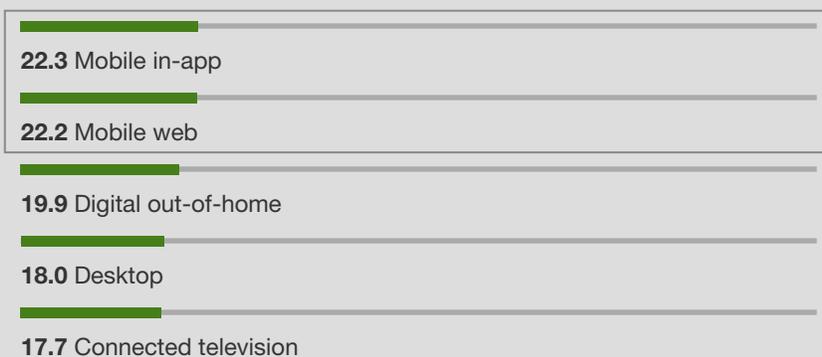
“Everything is mobile first. If it doesn’t work in mobile, it won’t work anywhere else. More and more clients are putting money toward mobile . . . and we’re seeing the budgets increase dramatically [for in-app.]”

Head of planning, large Singapore advertising agency



Figure 1

“Approximately what percent of your digital advertising budget is allocated to each of the following channels?” (Showing mean percentages)



Base: 336 media-planning/-buying decision makers in the US, EMEA, and Singapore
Source: A commissioned study conducted by Forrester Consulting on behalf of PubMatic, November 2018

Mobile channels see the largest share of digital budgets today.

PROGRAMMATIC IN-APP ADVERTISING IS HERE, AND IT'S NOT GOING ANYWHERE

With such a significant portion of budgets directed to in-app ad inventory, the question now becomes, “How are advertisers purchasing in-app inventory?” Our study found:

- › **A programmatic approach is preferred most often today.** In comparison to direct buy, media professionals opt for programmatic buys — both programmatic direct (e.g., private marketplaces, programmatic guaranteed) and open exchange (i.e., open digital advertising marketplaces for aggregated inventory from multiple partners where buyers can bid to purchase ad impressions) — most often when it comes to in-app advertising. In fact, 68% of respondents say that they always include programmatic direct in-app advertising in their digital media plans, while 59% say they often include open exchange in-app advertising in those plans. Programmatic strategies also tend to get a larger portion of in-app advertising budgets. On average, 66% of in-app budgets go to programmatic direct or open exchange strategies as compared to 34% for direct buy.
- › **And budgets are increasing.** Not a single respondent in our survey expects in-app advertising budgets to decrease in the coming year. And the increases are expected to be largest when it comes to programmatic direct buys: 30% of firms expect programmatic direct in-app budgets to increase by more than 6% over the next 12 months, and another 62% expect to see between a 1% and 5% increase in that same time period. Direct-buy and open-exchange in-app budgets are also expected to increase, but by far fewer firms: 56% expect open-exchange budgets to remain the same, and 30% expect the same budgets for direct buy (see Figure 2).
- › **Advertisers buy a slew of in-app ad formats.** In-app advertising takes many forms. Media professionals allocate their funds between social media (26%), video (26%), display (25%), and native (23%) fairly equally on average. They're also buying certain types of apps. Excluding social media, respondents are most often including health/lifestyle, news, music, and gaming apps in their programmatic in-app buys.
- › **In-app video — especially short-form — is also on the rise.** When it comes to video, media buyers are also focusing on a programmatic-direct approach. Ninety percent of survey respondents say that their programmatic-direct in-app video budgets are expected to increase over the coming year (see Figure 2). But not all video is created equal. Media professionals overwhelmingly prefer short-form to long-form: On average, approximately 43% of in-app video budgets go to short-form compared to just 17% to long-form video.



“A lot of the dollars that are going to mobile are essentially allocated to several big publishers. And then, from that point on, you really don't have many other choices to do a direct buy. So, you really veer toward doing it programmatically. It's buying across as many devices as possible to increase your reach. So, that's kind of the strategy that's been taken on in the mobile space.”

Head of digital product, large US media agency



“We're starting to see more and more advertisers understand the mobile behaviors for consumers, and the preferred method is obviously short-form video content, and the best performing formats are full-screen videos.”

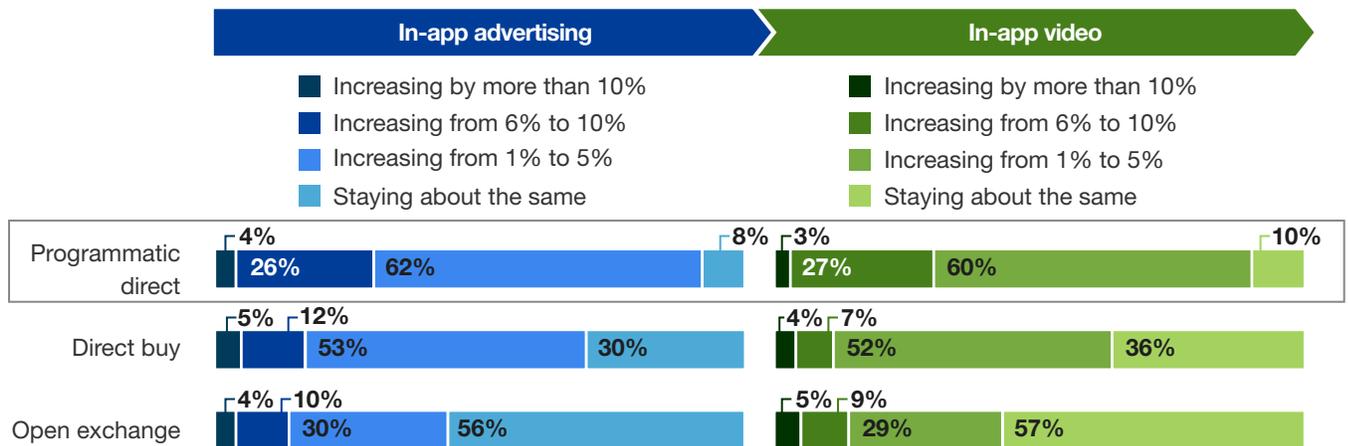
Head of digital product, large US media agency



› **Inventory is generally considered of high quality.** Broadly speaking, in-app advertising inventory of all varieties is considered of good quality: 86% of respondents consider in-app video to be of above-average quality, 77% consider the quality to be above average for in-app display, and 72% find the same to be true for in-app native advertising. These quality levels reflect a perceived improvement over the previous year: Nearly all agree that video, display, and native in-app inventory are of better quality today as compared to just 12 months ago. In this study, we did not define quality, allowing respondents to define the term for themselves. As we'll see later on, fear of fraud and brand safety concerns loom large for many media buyers, indicating that these same people may not consider things like fraud and brand-safe environments when defining quality.

Figure 2

“Do you expect your investment in in-app/ video advertising, excluding social media, to increase, decrease, or stay the same over the next 12 months?”



Base: 336 media-planning/-buying decision makers in the US, EMEA, and Singapore

Note: Percentages may not total 100 because of rounding.

Source: A commissioned study conducted by Forrester Consulting on behalf of PubMatic, November 2018

Advertisers Struggle But Feel That Publishers And Ad Technology Providers Could Ease The Pain

Of course, there are still going to be bumps along the way. So what's still causing media buyers to struggle with programmatic in-app advertising? We found that:

- › **Advertisers are still thinking traditionally when it comes to KPIs . . .** For in-app advertising generally, excluding social media, respondents report relying on the old digital “cost per” standbys: 80% of respondents use cost-per-click, while 76% and 74% of firms utilize cost-per-action and cost-per-acquisition respectively. KPIs are similarly traditional when it comes to video. Seventy-six percent of respondents are using watch time as their key video performance indicator. And KPIs like total media spend, impressions, and cost per impression are also popular. The inevitable conclusion: Advertisers continue to track in-app video in the same way they do television.
- › **. . . making measurement a challenge for many.** Perhaps because most are still relying on various traditional KPIs to track in-app advertising, they rate viewability measurement as a major challenge. In fact, measurement is a top two challenge for both brand marketers and the agencies and third parties that work with brands — both for in-app ads broadly and video specifically (see Figure 3). Attribution challenges also pose problems for many: About a quarter of all firms surveyed rate it as a challenge for in-app video, and even more agencies consider it a problem for all in-app ads generally (36%).

Figure 3

“What are the key challenges you/your customers encounter with programmatic in-app/video advertising, excluding social media?”



Base: 336 media-planning/-buying decision makers in the US, EMEA, and Singapore

Note: Not all responses shown.

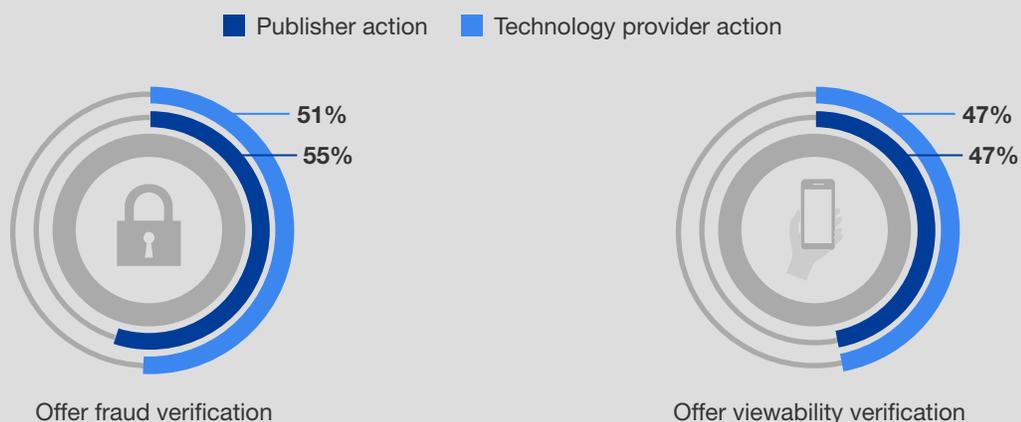
Source: A commissioned study conducted by Forrester Consulting on behalf of PubMatic, November 2018

- › **Ad fraud looms as a big issue for brands.** There is an interesting disconnect when it comes to the fear of ad fraud. Brands are far more likely to consider it a challenge than their agency partners (52% vs. 36% for all in-app ads and 57% vs. 42% for in-app video ads). This may be due to the fact that brands — not agencies — are the ones that are actually losing money due to fraud, making it top of mind for them.

But there are capabilities that both publishers and ad technology providers like sell-side technology or demand-side platforms (DSPs) could add to make the process easier. We found:

- › **Fraud and viewability verification top the list of things that marketers want from partners.** Unsurprisingly, given the focus on measurement and fraud concerns, respondents report wanting assistance from both publishers and technology vendors with these concerns. Fraud verification and viewability verification are the top two capabilities most desired by advertisers from both publishers and adtech/martech vendors in our survey (see Figure 4).
- › **Publishers can also assist advertisers by focusing on their targeting abilities.** Most respondents (73%) cite targeting as the most important criterion for choosing a publisher for programmatic in-app advertising. One marketing manager who works for a multinational financial services brand in the US said that targeting abilities are the first thing asked of a potential new publisher: “From a brand standpoint or a media-buying standpoint, one of the first questions for us [to a potential publisher] would be, ‘What are your measurement capabilities? Do you have the ability to target specific consumers?’” Of course, targeting, though important, isn’t everything. Other criteria that top the list are inventory quality (58%), a brand-safe environment (56%), and ease of use (54%).

Figure 4: Most Valuable Actions



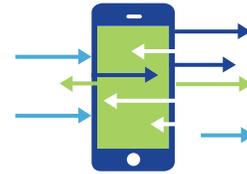
Base: 336 media-planning/-buying decision makers in the US, EMEA, and Singapore
Not all responses shown.

Source: A commissioned study conducted by Forrester Consulting on behalf of PubMatic, November 2018

Despite Challenges, Marketers Find Value In In-App Advertising

Given the level of investment already allocated to in-app advertising, and the fact that budgets are only going to increase, it's clear that marketers and agencies find value in this type of advertising. But what exactly is it that they value? Our survey found that:

- › **Better customer engagement and targeting abilities drive investment in in-app ads.** Why exactly is it that marketers buy programmatic in-app ads? About three-quarters of respondents say it is because the medium offers better customer engagement and better targeting abilities. This is the case for both in-app ads generally and in-app videos specifically.
- › **Programmatic in-app advertising delivers on those promises.** The benefits that marketers experienced directly mirror the reasons for initial investment. Fifty-six percent of respondents say they experienced better audience targeting with their in-app advertising (both generally and for in-app video), while 54% received more effective customer engagement from in-app ads and in-app video (see Figure 5). The head of planning from a large advertising agency in Singapore expanded on these benefits: "I think the targeting options [in-app] are much greater, and therefore can impact different, more personalized iterations of creative. Being able to follow people through the full customer journey is another thing. A lot of the targeting options, we wouldn't be able to get from mobile web. We wouldn't be able to see device type, for example. Location, we could get, but not as granular. There still is a lot more targeting options, I think, available, particularly when you're in-app."



"It clears a lot of the hurdles right out of the gate. You know exactly where the ad is being shown; every user is addressable in-app. From a tracking and transparency standpoint, it's easier to manage in-app than it is on the web."

eBusiness director, global financial services firm



Figure 5

"What are the benefits of programmatic in-app advertising/video, excluding social media, to a campaign?"



Base: 336 media-planning/-buying decision makers in the US, EMEA, and Singapore

Note: Not all responses shown.

Source: A commissioned study conducted by Forrester Consulting on behalf of PubMatic, November 2018

Key Recommendations

Consumers are in control. They access the content of their choice on the device of their choice at the time of their choice. And they have voted for mobile, the most personal of all devices. This is good news for publishers. They can create mobile content experiences — web-based, in-app, video — that engage consumers and appeal to advertisers intent on reaching those consumers. But there is more that publishers can do to help their advertisers achieve their goals, and, in the process, reap much-needed ad revenue.

Forrester's in-depth survey of media-buying and -planning decision makers about programmatic in-app advertising yielded several important recommendations for publishers to maximize ad revenue from mobile, in-app, and video content environments. If you follow these recommendations, you will continue to improve the perceived quality of inventory and of the overall advertiser experience:



Collect and share customer data with your best advertisers. Unlike many marketers, publishers have a one-on-one relationship with their consumers, a relationship that yields precious first-party data. Smart publishers will collect that data and make it available to their best advertisers for targeting purposes in exchange for significant media commitments. That's a win-win strategy.



Deliver completely viewable content and advertising experiences.

Once upon a time, publishers had no idea how consumers interacted with content, so it was understandable that some content fell below the line or was otherwise not completely viewable. Those days are long gone. Responsible publishers today can track and monitor how consumers engage and make certain that everything they offer, in terms of content and advertising, is completely viewable. Be a responsible publisher.



Engage in only the most transparent and ethical audience-development practices.

Marketers fear fraud, and that's understandable given the amount of money they lose on average every year to bad actors. Be completely transparent about the size of your audience. Don't get pressured to deliver higher volumes of users than you can organically. And, when you partner, do so only with those organizations that practice the same level of transparency and ethics that you do. You will gain the trust and loyalty of your advertising partners by doing so.



Implement and support the Internet Advertising Bureau's (IAB) Open Measurement Software Development Kit (SDK).

Advertisers want to verify that they've gotten what they've paid for, which requires that publishers work with viewability and verification vendors. The IAB's SDK eliminates friction by standardizing the measurement process.



Understand the KPIs that count for your advertisers. The more you understand about how marketers are measuring for success, the better equipped you will be to be a proactive partner for them. You will enhance their experience and help them achieve their goals. An advertiser with a positive ROI because it achieved its KPIs will be a repeat advertiser, and that is to your advantage.



Transact with advertisers using the strategies they prefer.

Advertisers have stated a preference for programmatic direct as a strategy for transacting. Work with your supply-side platform to ensure that this is a friction-free process that maximizes the advertiser's experience and your revenue.



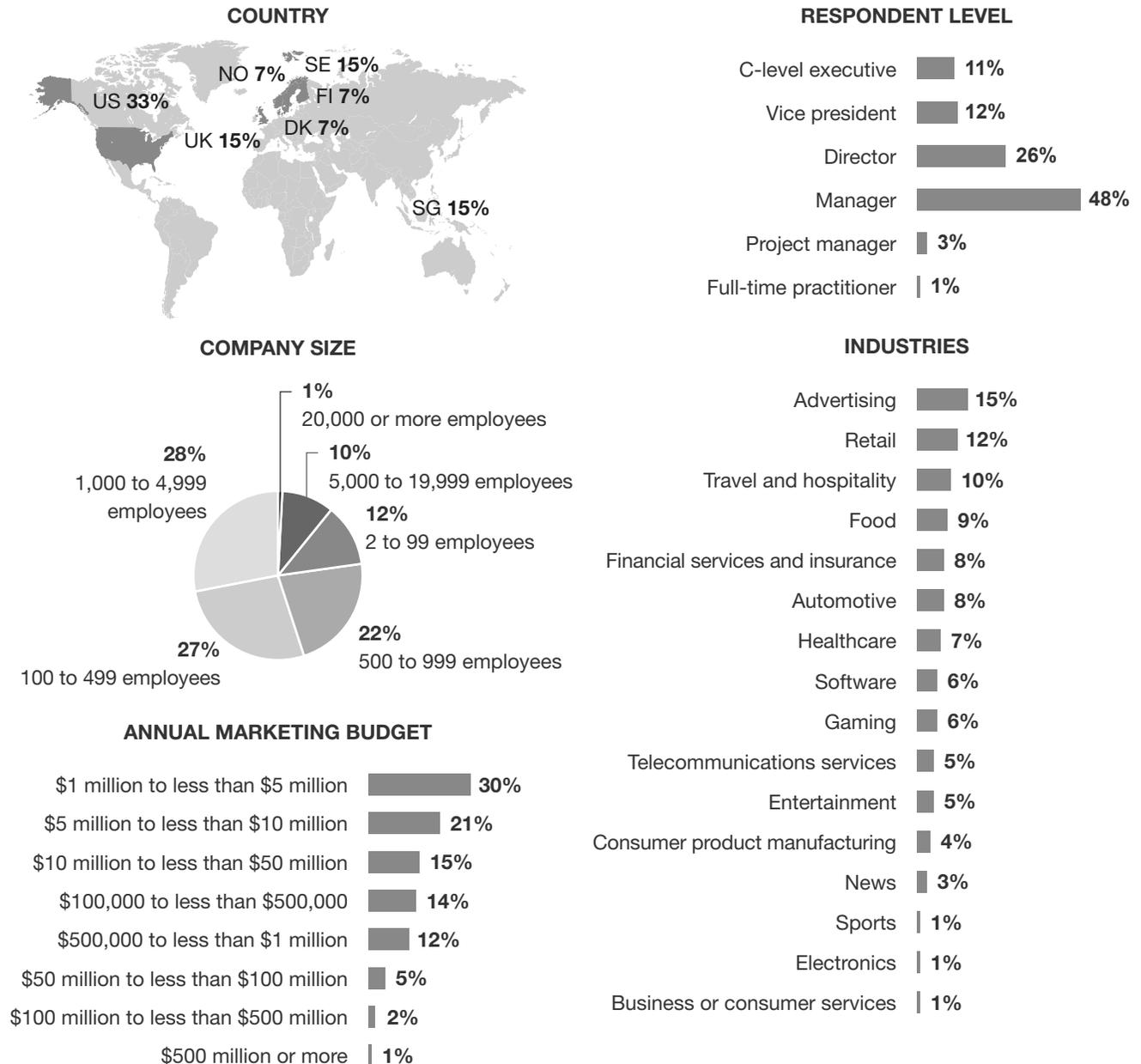
Keep the user experience as your top priority. If you are like every other responsible publisher, your top priority is delivering a positive user experience — one that attracts and maintains that robust and desirable audience that you can monetize. When crafting ad experiences with marketers, keep in mind the drain on data and battery, and urge your advertisers to opt for nonintrusive solutions that integrate well with the overall context.

Appendix A: Methodology

In this study, Forrester conducted an online survey of 336 organizations in the US, UK, Sweden, Norway, Finland, Denmark, and Singapore to evaluate the state of programmatic in-app advertising at media-buying organizations. Survey participants included decision makers in media-buying or -planning roles at brands, agencies, and advertising technology companies. In addition, Forrester conducted four 60-minute phone interviews with respondents of a similar profile. Respondents were offered an incentive as a thank you for time spent on the research. The study began in October 2018 and was completed in November 2018.

Appendix B: Demographics/Data

QUANTITATIVE SURVEY: TOTAL SAMPLE

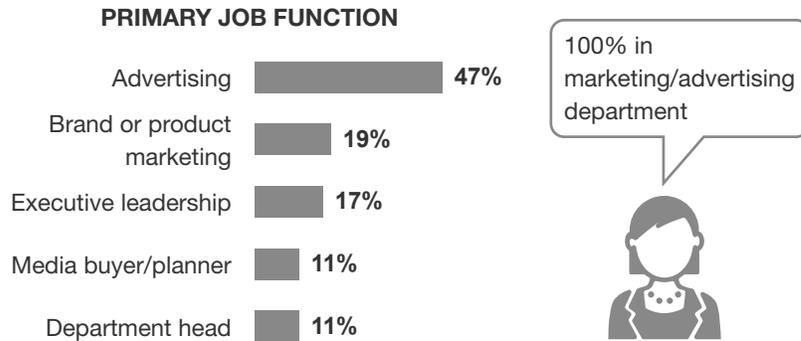


Base: 336 media-planning/-buying decision makers in the US, EMEA, and Singapore

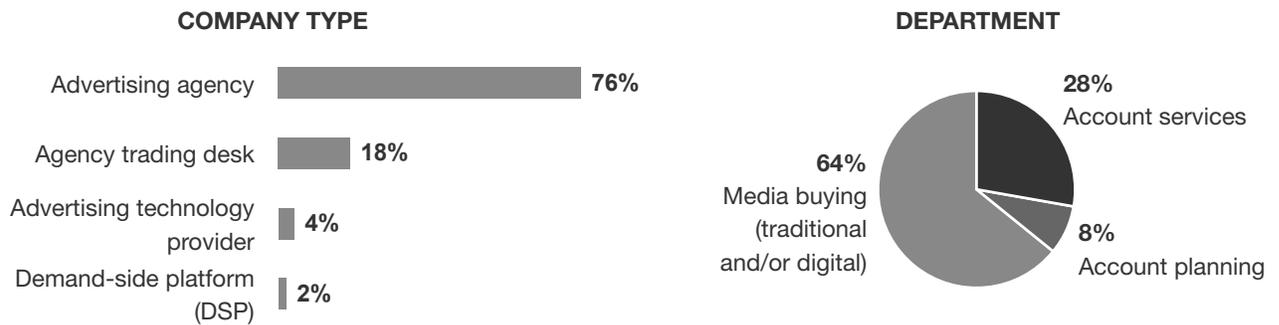
Note: Percentages may not total 100 because of rounding.

Source: A commissioned study conducted by Forrester Consulting on behalf of PubMatic, November 2018

QUANTITATIVE SURVEY: BRANDS

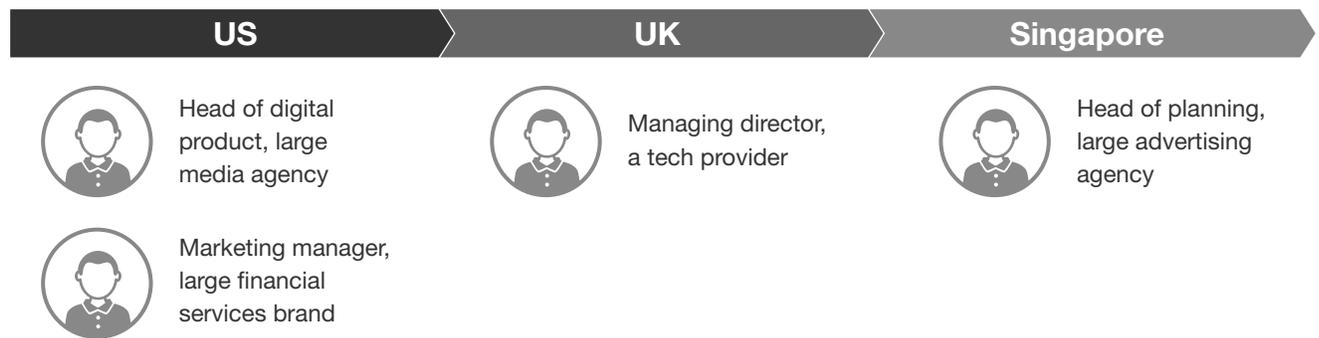


QUANTITATIVE SURVEY: ADVERTISERS/AGENCIES



Base: 336 media-planning/-buying decision makers in the US, EMEA, and Singapore
 Source: A commissioned study conducted by Forrester Consulting on behalf of PubMatic, November 2018

QUALITATIVE INTERVIEWS



Base: Four media-planning/-buying decision makers in the US, the UK, and Singapore
 Source: A commissioned study conducted by Forrester Consulting on behalf of PubMatic, November 2018

Appendix C: Supplemental Material

“Marketers Must Focus On The KPIs That Count,” Forrester Research, Inc. February 9, 2018

“The Future Of Omnichannel Media Buying Is Programmatic,” Forrester Research, Inc. October 6, 2017

“The Tools You Need To Master Omnichannel Digital Media Buying,” Forrester Research, Inc. September 28, 2017

Appendix D: Endnotes

¹ Source: Dogtiev, Artyom, “App Download and Usage Statistics (2018),” Business of Apps, October 8, 2018 (<http://www.businessofapps.com/data/app-statistics/#1>).

² Source: “Forrester Analytics: Online Display Advertising Forecast, 2018 To 2023 (US),” Forrester Research, Inc. June 4, 2018.