A Brave New Ad World

A whitepaper on the state of
Digital Media and Online Advertising
in 2020 and beyond.

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EXECUTIVE SUMMARY

The digital media and online advertising ecosystem is in a state of flux. And we at OAREX know that is putting it mildly. The spate of industry blow-ups in 2017 to 2019 seemed relentless, as well-established players like Defy Media, Videology, Sizmek, RockYou and IgnitionOne, all succumbed to declaring bankruptcy or same-day shutdowns. What is going on? How did it come to this? And what can advertisers and publishers alike do to survive in this meaner and leaner era of digital clicks, ad auctions, and ad dollars?

This whitepaper will seek to address these issues, by looking both to the recent past and to the near future. An overview of the evolution of the industry will provide necessary context. More recent landscape will then be discussed, including some of the biggest collapses in the industry in the last few years. The principal causes for the collapses of these prominent players in the industry should provide insight into the underlying reasons for the current state of upheaval. The analysis will include how everyone seems to be struggling in the digital media space, whether on the SSP or DSP side of ad exchanges.

This will bring the discussion up to the present and immediate future, which will include how the market is evolving due to emerging technology and changes in how revenue is being generated. However, although the current ecosystem may seem unpredictable and even unnerving, there is room for hope. There is certainly more transformation and further growth in the form of consolidation and innovation, which is already well in motion. The emphasis will certainly be on 'leaner,' but not to the detriment of content or quality.

Finally, our whitepaper will offer you tips on the best mitigation measures that players should consider taking, not only to survive but to thrive in this ecosystem. One means of mitigation will be to better hedge the unpredictability not getting paid because a demand partner goes out of business. Lastly, this paper will demonstrate how, in this brave new world of digital media and online advertising, every cent will count more than ever and what you can do to mitigate against unknown risks.

1. **Digital Media: An Evolutional Overview**

Fundamentally, a digital ecosystem comprises all those players interconnected in endless permutations by the shared use of digital ad-tech platforms. It was not always that way. At the dawn of the internet in the mid-1990s, an advertiser or agency needing ad inventory to buy would simply do so directly with individual publishers via site-level deals. By the early 2000s the sheer scale of websites meant that traditional, linear buying and selling methods for ad real estate were simply not viable. By then, ad networks were proliferating in the fast-growing business of aggregating, categorizing, and selling available ad inventory in relatively closed markets. However, this became unsustainable by the mid-2000s, as the limitations of ad networks, such as lack of transparency, limited reach, and limited targeting, became apparent.

Thus emerged ad exchanges, whereby advertisers, agencies, publishers, and ad networks could buy and sell inventory via real-time bidding (RTB). More innovative, cookie-generated behavioral targeting became possible, which in turn resulted in more precise, meaningful impressions for advertisers. Scalability was now possible, as all players had access to far greater numbers of publishers and ad networks.

But media and ad buyers needed more when buying inventory. They needed a single interface that provided centralized access to determine what was the best inventory to buy and how much of it to buy, as well as where to display it. Demand Side Platforms (DSPs) provided just that via algorithmic technology, which had access to Supply Side Platforms (SSPs) digital real estate, which could help sellers monetize inventory with higher CPMs. Ideally, SSPs evolved to help publishers better manage and optimize their inventory for each and every impression obtained. Programmatic ad buying and selling not only boomed but became the complex and always-evolving industry that it is today. This lead to a ton of investment in the space between 2008 and 2015, what we refer to as the ad-tech gold rush.

2. The Crisis Period, 2017-Present

a. Notable Bankruptcies & Failures of 2017-2019

It was already back in May 2015 that *Business Insider* spoke of concern for the ad tech 'bubble' ready to burst. But they were far too soon, as we didn't see major bubble bursts until 2017-2019. In their article, Business Insider noted how ad tech stocks had fallen by 12% in the first quarter of that year and how companies that had secured high-profile IPOs were already experiencing significant losses. The worst was yet to come.

By 2017, it was inevitable: the 'ad tech party' had to come to an end. Companies were highly leveraged on both the DSP and SSP sides of the ad tech equation, in an industry in which capital flows can often be stagnant for weeks and even months on end. The high number of bankruptcies, many of them sudden and 'unexpected,' from 2017 to 2019 bore testament to this crisis in the ad tech ecosystem. Three of thse failures of what were once prominent players in the industry will be briefly discussed in this section. Further examples of notable and recent ad tech company failures will also be discussed in other contexts in this paper.

i. Defy Media, 2017: Things were looking good for this digital media company as recently as early 2017, when it raised $70-million on the back of its heavyweight YouTube presence. It was even scouting for upmarket production facilities in Los Angeles. By November 2018 it had declared bankruptcy. Why? As with so many digital media companies, Defy did not own the distribution of most of its content. An expensive over-reliance on ad revenue from YouTube became unsustainable in the end for a media group that produced over 75 channels on the platform, and the costs of producing such media were unexpected when they made the acquisitions. In their attempt to become a NetFlix, DefyMedia overestimated the effort and costs it would take, and that led to the companies demise, leaving publishers "high and dry".

ii. Videology, 2018: What was once a titan in the online video advertising world, Videology declared bankruptcy in May 2018. It had built its niche as a quasi-TV buy similar to traditional TV ad buys, and had raised more than $200 million in venture capital in its time. Videology was one of the ad tech middlemen that had folded due to overwhelming competition from the Facebook-Google duopoly, especially the latter's decision to pull all YouTube inventory from Videology's ad exchange.

iii. Sizmek, 2019: The collapse of this media group in March 2019 was fairly simple: it was a cash flow issue. Sizmek simply could not recoup money it was owed for ad sales and services quick enough to service the front-end inventory costs it had to incur for each campaign. This cash flow-related reason for failure wasn't the first of its kind, and would be replicated again and again in the ad tech industry. The company had between 1,000 and 5,000 creditors by the time of its demise, including the likes of Google, Verizon, and Bidswitch. Amazon took over the assets with a big entrance into the DSP side of the economy.

iv. RockYou, 2019: *see below under an Ever-Evolving Ad-Tech World*

v. IgnitionOne, 2019: The demise of IgnitionOne is one of the best examples of the surge toward consolidation in the ad tech market. IgnitionOne as a DSP was a major player, having been in business since 2004. Rapid changes in the programmatic industry such as header bidding, first price auctions, and supply path optimization meant that crucial facets in ad tech run more efficiently and, hence, smoothly. This could only mean one thing: less DSPs and SSPs would be needed. IgnitionOne simply was not efficient enough (or needed in the market) any longer. Along with its closure was that of Netmining, itself a once important programmatic solutions provider, and which had been wholly owned by IgnitionOne.

b. Publishers are Struggling, Left Holding the Bag

Publishers were also being particularly hard hit, going through a period of upheaval as their demand side partners go bust. *The Atlantic* commented about

this in November 2017 in what it dubbed “a media apocalypse,” stating how “almost every digital publisher seems to be struggling, selling, or soliciting…” It cited examples such as media company IAC seriously analyzing offers to offload *The Daily Beast*, and Fusion Media Group offering a minority stake in *The Onion* and other of its properties. Meanwhile *Mashable* sold for just a fifth of its former valuation. Global publishers that continue to operate as of early 2020 saw major layoffs in 2019, including BuzzFeed, Verizon Media, and Gannett. Smaller yet still large publishers like Little Things, who relied on Facebook influencer traffic, disappeared with one simple algorithm change by Facebook.

Three reasons offered for publishers being on the proverbial struggle bus include that **(1)** there was a huge number of publishers chasing limited ad dollars, thus driving prices down because of the influx of inventory, **(2)** many publishers put “all their eggs” in one basket of traffic sourcing, and when that traffic source disappeared, so did their business, and, **(3)** venture capital saturation had finally occurred in the digital media industry and there became a lack of new dollars to help accelerate growth. Meanwhile, many SSPs, ad exchanges, and DSPs went out of business or had to be reorganized, as already noted above.

3. The Current Status Quo

a. The Continuation of the Bust Cycle:

Fast-forward four years from the Busienss Insider article to April 2019, when Axios again raised the concern of potential huge ad tech bubble burst, particularly in the aftermath of the Sizmek collapse. Axios suggested that positive momentum, fueled by huge injections of capital, had inflated the true worth of most ad tech companies. The proliferation of bankruptcies in 2017 to 2019 certainly validates the consensus that the ad tech industry has now entered a bust cycle akin to those experienced by other bubbles in the post-industrial economic world, most notably the dotcom bubble of the early 2000s. And that is the current status quo, for now, as well as a constantly evolving industry. The “shakeout” of the weak, non-nimble companies we learn about in the business cycle in Business 101 freshman year of college is underway.

b. An Ever-Evolving Ad-Tech World

RockYou, 2019: Their demise was a prime example of how changing technology brought about the collapse of a once important industry player. This ad network and media holding company filed bankruptcy in February 2019 with $14.9 million in liabilities owed to 738 different ad tech companies and publishers. For example, the push toward viewable ads at the end of 2017 heavily impacted the company, since its video inventory received low scores on viewability. As an ad network, it couldn't control the publisher's page, while its Facebook desktop games included many non-viewable ad placements. These included below-the-fold, in-banner videos, that marketers simply stopped buying. New tech innovations in ad viewability crushed their business.

c. Data, Data, Data

This technological upheaval will only continue, of course. Mary Meeker, the respected technology trends guru and the founder of Bond Capital, made the following predictions in 2019 regarding the digital media industry in 2020: she-believed commerce sales were set to slow down, although digital ad spending would continue to grow, in step with the growth in data usage generally. Data is exploding. As she quipped, "If it feels like we're all drinking from a data firehose, it's because we are." Other factors that Meeker believed should spur this ad growth include the rise of freemium subscription business models, photo-sharing, interactive gaming, and the further embedding of the on-demand economy, to name a few factors.

d. New Mediums for Digital Advertising:

The current flux in the digital ecosystem is being further exacerbated by new and fast-emerging mediums of digital advertising. These new areas of digital advertising, like Over-The-Top (OTT) streaming TV, Digital-Out-Of-Home (DOOH), and ad placements in AR/VR gaming, are grabbing bigger chunks of ad dollars, and the big players there are really starting to position themselves as permanent. Other new innovations, like the ability to bring viewability statistics to

cars wrapped in mobile ads, are driving more growth and capturing more ad dollars. The greatest thing about digital media and advertising is that new mediums will come and go, but they will always come and go. It's the players that mitigate risk the best and adapt new technologies or create new markets that exist long-term. This fact keeps us bullish long-term on the market, as it does for Mary Meeker.

e. Ancillary New-Age Tech that Drives Efficiency

New tech is emerging that is being integrated with the "traditional" advertising technology as we know it. These include distributed network that are increasingly allowing technologies like blockchain, machine learning as a service (MLaaS), and the internet of things (IoT) to coalesce seamlessly within the infrastructure of a business. These technologies will result in ever-more secure and intelligent networks integrated with the core functionalities and applications of a given business, and which can all be run and managed on third-party platforms , in what is known as business process as a service, or BPaaS. Microservices, containers, and serverless computing will all further contribute to the this dynamic evolution of digital ecosystems.

These various digital platforms will offer far greater agility, speed, and flexibility to businesses. Modular yet highly fluid digital solutions will be the norm. The end result of all these technological advances will be transformative digital ecosystems that will undoubtedly impact not only the operations and outputs of businesses, but how products and services are advertised in the digital realm. ?everaged. Again, another reason to be bullish, despite the short-term shakeout of the over-leveraged, cash strapped businesses in the ecosystem.

f. Consolidation & Distressed Asset Purchases

With the inevitable slowdown comes an equally inevitable phase: consolidation. This consolidation is the logical consequence of any market that was once saturated with multiple players and which resulted in an unsustainable, overvalued market bubble. The ad tech industry will be no different. Two notable

examples of consolidation, in the form of distressed ad tech asset purchases, occurred in 2019:

- Zeta Global took over IgnitionOne's default DSP. This was just one of many buy-side purchases that Zeta Global had made in the market. These included buying up Visto (formerly Collective), as well as snapping up Sizmek's DSP and Rocket Fuel's managed media business while both were in the middle of bankruptcy proceedings.

- Prior to that, Amazon acquired Sizmek's ad server and Sizmek Dynamic Creative Optimization (DCO). This too was an effort for Amazon to consolidate and scale its own presence in the ad tech world, as noted above.

Investment giants like Zeta Global have far deeper pockets than did any of the former programmatic vendors. For example, most of Zeta's revenue comes from software licenses for its data cloud, with the media business accounting for less than 10% of its revenue, so it can afford to invest in media-buying tech for purely strategic reasons. One can multiply that clout several-fold with such savvy and enormously powerful players such as Amazon.

Today, it is accepted that continued innovation and consolidation is the name of the game in the ad tech world. It's what Bloomberg CEO Justin Smith referred to as, "[not]…the complete death of the industry, but [rather] a radical resizing, and rethinking, and reality acceptance process." We agree.

4. Forecast for 2020 and Beyond

a. The Olympics & US Elections

Forbes predicts that 2020 will be another record year for ad spending, with the Olympics and Election season on deck. BIA Advisory Service estimated that $6.55 billion would be spent on local political advertising in 2020, with non-cable television still garnering the largest share (47%) of total political spend. However, digital media was forecast to get 21% of political ads, well ahead this time around

of both cable TV (a 14% forecast) and radio (under 5%). That was definitely a larger share than digital got in 2016.

The 2016 election cycle was rife with allegations regarding Russian bots, hacked email servers, and other digital manifestations, not to mention the rise in importance of politically motivated profiling and targeting. It was also a year of record-breaking ad spend. The 2020 election year, along with the Olympics, is set to be even more important for the ad tech industry with more dollars appropriated for ad spend by big brands. The industry is surely growing, but what can possibly slow it down?

b. Lack of Cash Flow Remains #1 Impediment to Growth

Cash flow is the lifeline of any business. It affords a company the ability to pay operating costs, vendors, service debt, and invest in talent and innovation as needed. More importantly, it allows a business to drive new ad revenue with dollars for media buying.

However, the ad tech industry continues to be one based on credit terms of 30-150 days – oftentimes firms receiving credit that have no justification for being approved for credit. Long net terms and extending credit to cash-strapped firms can wreak havoc for any company having to meet its weekly or monthly capital needs. And it's not like many firms can pay suppliers on net terms, as they have no leverage in the equation. For the small players, payment terms with suppliers (like Facebook, for example) are invariably shorter (3-7 days) than the payment terms that customers pay them on (30-120 days). This creates a "cash flow gap" that needs to be filled with cash on hand, debt, credit cards or a service like OAREX.

The pain is real. Many digital agencies are in a constant struggle to overcome this 'cash flow gap' that hampers their growth and can put their very existence in jeopardy. Surveys have shown to what extent ad tech companies are struggling with their cash flow. The 2018 Growth Report by HubSpot Marketing Agency found that 29% of agencies view having adequate cash flows as their single-biggest pain point. 31% of agencies also stated how a lack of regular cash

flow was preventing their growth to the extent they wanted. Most worryingly, 57% of those surveyed by HubSpot stated they had *less than three months' cash flow* available to pay for salaries and expenses. More than 1 in 10 agencies (13%) were even more precarious, stating that they had less than 1 month of cash flow available or were waiting on customer payments in order to pay pending salaries and overhead expenses. Those are very worrying statistics. As if the risk of becoming technologically inferior wasn't enough, firms have to also manage their cash flow in a way that won't put them out of business.

5. How to Mitigate Risk in a Changing Market

a. Six Recommendations to De-Risk your Business

Based on our research of the market and existing recommendations for mitigating risk in a changing market, we have selected 6 methods that publishers and ad tech firms can harness to best adapt to the fast-evolving and maturing digital media landscape:

1. *Go Niche*: The consensus between industry pundits is that generalist brands are losing traction. Multi-channel offerings should be paired off where possible, so that sister brands can create cross-functional synergies and focus attention where needed. The old age holds true, "riches in the niches".

2. *Partner Intelligently*: As the ad tech industry consolidates and matures further, partnerships of any kind need to be symbiotic and strategically motivated. The trick is to walk away early when the synergy is lacking, especially with those who may be your customer-debtors.

3. *Maximize Subscriptions*: Superfans will always subscribe, so efforts should be made to snag casual or once-off viewers. This means gently coercing them into exploring your offering and wanting more of it.

4. *Quality Only*: There is growing mistrust with data online, particularly among Millennials and Generation Z. That is why, coupled with knowing and growing a

niche (as per point 1 above), any content creation must be honest and value-adding for those to whom it is targeted.

5. *Harness Talent*: There are few industries as reliant on top talent to make the slightest difference as this one. That is why top talent needs to be amply and equitably rewarded, if only to ensure talent retention and continued belief in a company. Especially on the developer side.

6. *Cash Flow is King*: As already discussed in this paper, cash flow, or the lack thereof, can make or break any company. This is especially true of an industry so beholden to often-crippling credit terms.

It is specifically on the 6th point listed above that we at OAREX know we can make the difference for any ad tech company that may be on the hook to long credit terms. We know that it is an industry plagued with payment delays. For example, our research has shown that 77% of ad networks have paid late at least once, while 26% have paid late more than 50% of the time.

b. Signing on a New Demand Partner? Ask These 4 Questions

When assessing a new demand partner, you need to make sure you're not doing business with someone that can't pay you. One way to simply mitigate risk (without using OAREX) is to ask the right questions.

1. *Are they a good credit?* What are people in the industry saying about them? Check industry threads like the Reddit AdOps thread. Also do a quick Google search, is there any news about late payments or lawsuits? It will be tough to find this information, but you can piece together anecdotal evidence – how many employees do they have? Is their C-Suite on LinkedIn, or obscure and hard to find? How many offices do they have? Are they well capitalized (i.e. publicly traded)? Have they raised any equity to support the business? Check Crunchbase. Who are their backers? These are questions you have to ask. Use your gut, since you won't have much direct evidence to go off of.

2. *What are their pay terms?* Paying on 90+ terms is not unusual. But the question is, do you want to wait that long? Especially with seasonality, you could miss out on growth if you're waiting to get paid. Take this into consideration. Typically, the sooner an ad network pays, the better (unless you're willing to wait 90+ days for ridiculously high CPMs).

3. *What is their pay history?* Ask for credit references. You may not have direct data into their payment history, but you can ask for credit references. Before you sign up and monetize your audience with an ad network, ask for *credit references*. You need to make sure they have happy customers. But this will only take you so far, because obviously a network is never going to put down someone they owe money to as a reference. But again, this is all anecdotal.

4. *Are they ever late?* Check our payment study. See what our data says about them by checking our most recent quarterly payment study. This data is obtained first hand from our direct collections, and we report how late or early each demand partner pays us, and by how many days early or late.

6. Conclusion

This whitepaper has provided some insight into the trajectory of the digital media/ad tech industry to the present day. It is clearly an ecosystem that is highly competitive and in a tremendous state of flux. The boom days are over, the 'bust cycle' has arrived. Yet the industry will no doubt persevere and evolve as it continues to mature. Consolidation is already reality, as are the fast-evolving technologies that are going to fundamentally change and shape this industry every step of the way. Intelligent ways of doing business will enable sustainable growth, including niches and partnerships chosen, as well as ensuring quality and volume of content. As with any business, ready and available cash flow will be a constant priority, and a 3rd party risk mitigating platform such as OAREX can bridge or help you avoid the cash flow gap. As is so often the case in business, money will beget money. Good luck in this brave new ad world.

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