Advertiser Perceptions®

The Future of Programmatic Native

What Advertisers Need to Know to Get Ahead of Industry Change

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Executive Summary

Native advertising—programmatic native in particular—remains a key component of advertisers' media plans. eMarketer estimates US advertisers will spend $53.42 billion on programmatic native display ad placements this year, accounting for roughly two-thirds of the total US programmatic display ad market. From building brand awareness to amplifying content marketing to driving leads, native programmatic advertising can provide a richer, more integrated advertising experience versus standard ad placements.

But programmatic native, like all digital advertising, is feeling the effects of a changing ad landscape. Advertisers have already been navigating brand safety and suitability through the heated political and social landscape of the past year. Now they're also reckoning with consumer privacy considerations, as deadlines loom to phase out Apple's Identifier for Advertisers (IDFA) in iOS, and third-party tracking cookies in Chrome. While in certain cases programmatic native may be well positioned to navigate some of these changes, advertisers still have work to do to future-proof their strategies.

What can programmatic native advertisers do now to get ahead?

This white paper features actionable tips gleaned from conversations with agency and marketing executives gathered via research commissioned by Microsoft Advertising and conducted by Advertiser Perceptions in March 2021. It provides programmatic native advertisers a more definitive road map on how they can survive—and even thrive—as the ad industry continues to evolve.

[1] Source, eMarketer: US Native Programmatic Display Ad Spending

Programmatic Native

In a Prime Position as Big Industry Changes Come into Focus

Brands today rely on native to fulfill objectives across the advertising funnel, be it building brand awareness to driving leads and customer loyalty. The deeper, more integrated connections with audiences afforded by native versus standard ad placements often give it the edge.

“Native is a critical part of our strategy,” said one CPG marketing executive. “We’re trying to intercept consumers while they’re on this journey for information and navigating different questions, concerns, ideas or life-stage issues that could potentially lead them to brands. If we can insert ourselves and be productive, helpful and a resource, that’s a competitive advantage.”

Many advertisers lean heavily on programmatic to bring automation, richer targeting, and scale to their native ad buys. But as brand safety concerns have assumed more importance and privacy-driven changes threaten the future of addressable advertising, **brands’ ability to reach audiences regardless of where they are and in a brand-safe way, and measure those efforts, is at risk.**

Advertisers are looking to partners to help them navigate the rocky road ahead.

PRIVACY CHANGES: A QUICK RECAP

Advertisers today must consider increased consumer privacy concerns and a growing number of legislative responses to these concerns. Many find themselves pivoting to abide by a host of new policies that build on the privacy-protective foundations laid by the European Union's General Data Protection Regulation (GDPR) in 2018 and the California Consumer Privacy Act (CCPA) in 2020. These include:

APPLE'S APP TRACKING TRANSPARENCY FRAMEWORK

Starting in Spring 2021, Apple is restricting the passing of its IDFA, which many advertisers and publishers use to target and measure audiences, unless explicit opt-in permission is granted by consumers at the individual app level.

CHROME'S PHASEOUT OF THIRD-PARTY COOKIES (AND LIMITING USE OF FUTURE WORKAROUNDS TO IDENTIFY USERS ACROSS WEBSITES AND DEVICES)

Starting in early 2022, Chrome will phase out third-party cookies, and recently added that it will also not accept alternatives that explicitly identify users. Advertisers will still be able to use their own first-party data to target individuals.

COUNTRY AND STATE-LEVEL LEGISLATION

Many have already retrofitted their actions to abide by CCPA, but they will have to further modify practices for the California Privacy Rights Act (CPRA) and the Virginia Consumer Data Protection Act (VCDPA) as these and other future regulations go into effect.

Programmatic native equally demands contextual relevance and audience relevance. While the need for one or both may vary depending on advertisers' objectives, campaigns and ad partners are often held to both standards.

"We're paying attention to audience targeting, but also the contextual alignment," said one marketing executive in the insurance industry. "Part of your reputation is the environment you're in and the media you're supporting.

Thanks to the privacy changes mentioned above programmatic native, like all digital advertising, will face difficulties with audience targeting and addressable capabilities on the road ahead. But native programmatic may be better-positioned to navigate these, as well as brand-safety concerns, for two reasons:

- **First, native's already strong reliance on contextual targeting, which many believe will become a vital way to reach audiences in a world lacking audience addressability capabilities.** A December 2020 survey of US mobile advertisers conducted by Advertiser Perceptions found 7 in 10 agreed that contextual targeting is making a comeback as the industry moves away from deterministic tracking. And a longer tenure with contextual targeting also means greater familiarity navigating brand safety concerns and risks in these environments.
- **Second, its existing emphasis on publisher-direct relationships to ensure proper fit and leverage first-party data, which many non-native programmatic display programs currently lack as they leave decision-making largely to their demand-side platform (DSP).**

The bottom line: Navigating strengths in contextual targeting and first-party data usage will prove pivotal in future-proofing existing strategies.

What does this mean for advertisers, and what practices can they put into play now to future-proof their programmatic native ad practices as big industry changes come into play?

Programmatic Native Advertising

Top Tips to Future-Proof Your Strategy

Advertiser Perceptions recently spoke with several senior-level brand and agency advertising executives directly involved in programmatic native advertising. These conversations yielded important **tips and best practices advertisers can use to future-proof their programmatic native strategies in response to imminent industry changes.**

#1 First-Party Data: Take a Three-Pronged Approach

Evaluate what you can do with your first-party data, publisher first-party data and platform first-party data.

As advertising executives anticipate the declines in third-party data availability, many are pivoting strongly to first-party data as the path forward. With these plans, however, come added factors they must evaluate to ensure their addressable advertising efforts continue to scale and perform.

TACTIC: Focus on three main areas of first-party data practices

- Build out your own first-party databases
- Partner with publishers in possession of robust first-party data sets
- Probe programmatic partners on proprietary data capabilities

As you look to assess opportunities across these three areas, keep the 3 S's in mind: Is my data **secure**, is the partner's data **safe** to use, and is the partner's data **scalable**?

A July 2020 survey of US advertisers conducted by Advertiser Perceptions found 65% planned to rely more heavily on ID graphs built on first-party data as third-party cookies phased out, with half also planning to rely on publishers' first-party data (also known as second-party data to advertisers).

Moving forward, except first- and second-party data to become key identity resolution tools

TACTICS FOR ADDRESSING IDENTITY RESOLUTION IN THE FUTURE

65% relying more heavily on ID graphs built on first-party data

51% relying more heavily on second-party built via data co-ops with other agencies and brands

48% relying more heavily on second-party data from publishing partners

31% still relying on 3rd-party-based identity resolution solutions, but ensuring they are built to last

Q. As third-party cookies are being phased out, what are your [company's main client's] tactics for addressing identity resolution in the future? Base: Total Respondents
SOURCE: Advertiser Perceptions Identity Resolution Report, July 2020

"As we get closer to the 2022 Chrome cookieless situation, there's going to be a push from a lot of big advertisers to collect as much of their own first-party data that they can," said one agency executive with clients ranging from automotive OEMs to personal hygiene brands. "I'm guessing big publishers will do the same. It's going to be more crucial [for agencies] to have that to provide for advertisers and brands for their own marketing purposes."

Build Out First-Party Databases

For agencies and brands, this means emphasis on building first-party databases, which has historically been a challenge for industries like consumer-packaged goods (CPG) and automotive. One agency executive noted their firm is already beefing up practices for clients in these verticals to opt-in to email communications. They're also spending more on driving traffic to their websites to capture added first-party data.

Google's March 2021 announcement that it will not support individual identifiers, but it will continue to honor the use of first-party data relationships on its ad platforms, adds further fuel to the fire for brands to collect their own first-party data.

First-party data will be critical to execute addressable advertising campaigns moving forward, but most advertisers will face issues of scale. Here, the importance of tapping into added first-party databases—especially those of publishers and platforms—is an important next step.

Partner with Publishers in Possession of Robust First-Party Data Sets

Brands must also look to publishers to understand what they can offer in the way of proprietary, first-party data that they can be utilized in privacy compliant ways, be it on-property or across partner networks.

"We're looking at which publishers have been capturing first-party data for a long time and who will have measurement reach capabilities," said one agency executive. "It's a question from an investment perspective of how we can become a bit more sophisticated with our future relationships. It will definitely not be just a media relationship. It will be a data-plus-media relationship going forward."

> **"It will definitely not just be a media relationship. It will be a data-plus-media relationship going forward."**
> - Agency Executive

The result? Advertisers are focusing more on programmatic native partners not only capable of activating brand-owned first-party data, but also offering access to their first-party audiences.

Advertisers are vetting publishing partners against the following audience-first criteria:

DATA ONBOARDING CAPABILITIES

Does the partner offer a data clean room or other privacy-compliant onboarding features (e.g., customer data platform [CDP] capabilities) to safely bring ones first-party data into the system? Such data may be used to identify addressable audiences; it may also be used to inform contextual ad buys. Private marketplace (PMP) capabilities may also come into play, as advertisers look to safely bring first-party data into programmatic programs and publishers look to do the same.

PRIVACY POLICIES AND CONSENT MANAGEMENT

Does the partner currently uphold current privacy regulations and practices, and is it capable of building for future state-level restrictions?

LONGEVITY OF FIRST-PARTY DATA COLLECTION PRACTICES

Does the partner currently rely on digital fingerprinting or other identifiers and data collection practices that may not provide long-term compatibility with the rest of the web?

SCALE

Does this partner have enough first-party data to provide the needed scale? What solutions does it offer to augment first-party data to achieve that scale? **Here, advertisers are looking for partners whose capabilities extend beyond targeting based on typical first-party data sets.** For example, some advertisers are prioritizing partners that lean on artificial intelligence/machine learning to augment first-party data targeting pools, or partners in possession of first-party behavioral signals that can be transformed into distinct targeting segments.

CONTEXTUAL CAPABILITIES

Look for partners that can marry first-party data with contextual signals and ad placements to give contextual ad buys an even greater edge.

Probe Programmatic Partners on Privacy-Forward Capabilities

Publisher-direct buys may appeal to those hoping to maintain tight control of first-party data, but smart programmatic native advertisers recognize that DSPs and other programmatic partners are still valuable sources of scale and rich data signals that can lead to productive ad engagements and drive performance.

These platforms are not exempt from the same auditing process outlined above for publishers. But they are held more accountable to two criteria: the privacy compliance of their solutions, and their ability to scale based on first-party data.

“Now that our data is more sophisticated, the level of privacy and security that we need from a partner has changed. By working directly with the DSP, it has allowed us to centralize everything, and it’s allowed for a more integrated look at how we’re reaching somebody. It makes the DSP accountable for some of our guiding principles around how we think about the ethical nature of media and targeting.”

- Marketing executive, financial services

The same financial services industry executive said their team is tasking its DSPs and platform partners to report on their own practices and provide transparency into what techniques they will rely on moving forward. In doing so, the executive hopes to assess the long-term viability of these solutions and the partnership. An agency executive also said their firm has a comprehensive process in place to vet publishers’ and other programmatic partners’ privacy compliance. It involves multiple parties across the agency, including legal, programmatic and dedicated privacy teams.

To achieve scale in a privacy-compliant manner, advertisers emphasized the ability to marry proprietary data with machine learning/AI to bolster audience understanding and reach. Specifically, advertisers interviewed for this report expressed interest in partners capable of leveraging proprietary data signals more indicative of behavior or intent, such as search or social data. Programmatic offerings from partners such as Microsoft Advertising, Verizon Media and Google were mentioned for being capable of achieving the type of precision and scale needed.

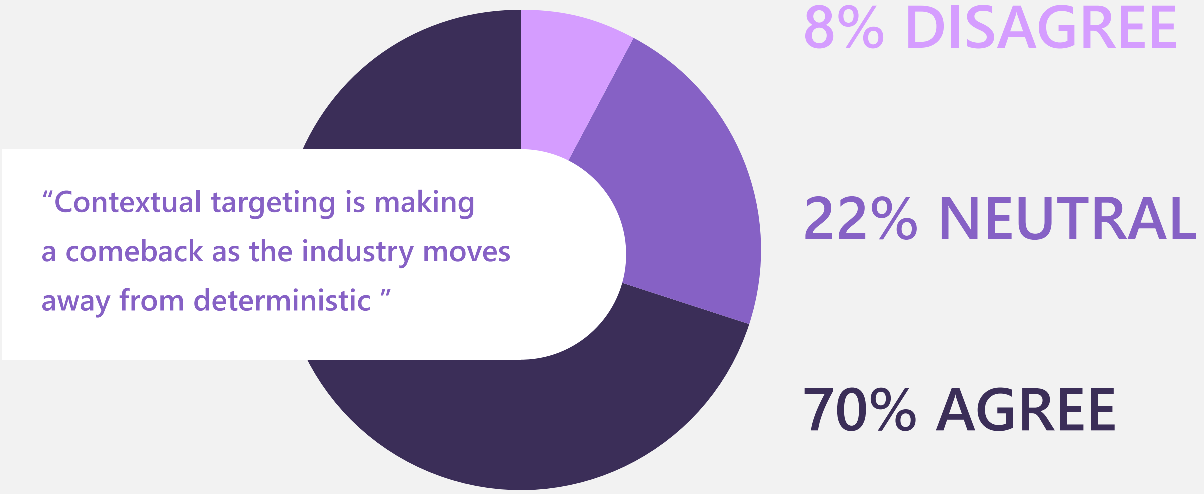
Considerations about the longevity of proprietary targeting solutions remain top-of-mind for advertisers. Executives said they are keeping up-to-date on the latest industry initiatives aimed at delivering privacy-forward targeting practices ranging from shared initiatives like Unified ID 2.0 to Chrome’s Federated Learning of Cohorts (FloC) Privacy Sandbox proposal to Microsoft’s Private and Anonymized Requests for Ads that Keep Efficacy and Enhance Transparency, (PARAKEET), which it proposed as a mechanism for anonymizing ad requests.

#2 Contextual Targeting: Test and Innovate Now

Look to partners offering newer and richer contextual targeting signals

Contextual targeting has emerged as the de facto tactic for achieving scale and relevancy across the portion of the digital advertising ecosystem no longer capable of one-to-one addressability. A December 2020 survey of US mobile advertisers conducted by Advertiser Perceptions found 7 in 10 agreed that contextual targeting is making a comeback as the industry moves away from deterministic tracking.

Context matters now more than ever



Q100. How much do you agree with each of the following statements? Base: Total Respondents
SOURCE: Advertiser Perceptions Mobile Advertising Report December 2020

> “We’re getting a lot of pressure to look more at context. I think it’s worth it, if it drives better results. If we have a partner that is willing to test this with us and is open to that, then I think that might be the partner for us to get through the next couple of years.”
>
> - Marketing executive, Financial Services

TACTIC: Test and benchmark contextual targeting now—and look to strike the balance between performance and brand safety.

Programmatic native advertisers interviewed for this report who were already heavily invested in contextual buying worried less about changes coming down the pike and as a result, potential performance impacts. That said, all executives expressed the idea that leaning into contextual targeting now while they still had other data to benchmark against will give them a better idea of performance impact down the road. Use this time to test new partners and dial up—or down—their current mix of contextual vs. audience-specific targeting across various programmatic native ad placements.

Inclusion and exclusion lists are one way to balance brand-safety issues that surface when testing new partners and placements, as is looking to partners who deploy a mix of AI and user-based content screening capabilities. An increased reliance on verification vendors such as IAS is another option, so long as these vendors also make the pivot away from a heavy reliance on third-party cookies.

Many expect that as contextual targeting programs increase, so will brand safety concerns. Already, brand safety is a top issue for US advertisers, especially programmatic advertisers. A December 2020 poll of US advertisers conducted by Advertiser Perceptions found 4 in 5 agreed that brands need more oversight and control over where their ads are placed, and who profits from those placements.

To combat these concerns and avoid potential issues, executives again emphasized the importance of strengthening publisher-direct relationships and more closely screening DSPs and other broader-reaching programmatic partners that will be critical sources of scale but perhaps more susceptible to brand safety issues.

Here, partner audits are also useful. One agency executive recently consolidated from more than 20 native partners to three after doing an extensive audit of the quality of partners' publisher relationships, their open exchange inventory, brand safety and their use of resellers.

> **"While evaluating more than 20 different data points, we agreed that there aren't many exchanges or native partners who are offering unique value, and we have seen that those exchanges were selling clickbait inventory. The brand safety element was the key determinant in determining who the better partner was," they said.**

Advertisers are also screening potential partners on the richness of the data signals that exist. While today many rely mostly on page- and site-based content and keyword signals, interest-based data gleaned from search and social properties, as well as external sources of data that can offer contextual cues like geolocation and weather data are also becoming more important. Many believe native exchanges and programmatic partners are in a prime position with regard to contextual targeting, given their widespread access to context signals across a host of publishers, and the fact that many already offer mature AI and machine-learning capabilities to make more accurate inferences.

"Native exchanges have the advantage of getting rich contextual data signals from their publishers which goes beyond keyword analysis," one agency ad executive said. "And AI has started to play a critical role in understanding the interaction of a user with the content. For branding clients, it's an easy way to scale on upper- or mid-funnel campaigns, as the emphasis is on the content and context. It will be all about the contextual elements of how the users are engaging with the content and what they can glean from that content."

TACTIC: Look to partners that can offer contextual signals—beyond content and keywords—that enrich the native advertising experience, specifically:

Other forms of external data not linked to personally identifiable information (PII) such as weather or geolocation data. These can still offer some level of real-time targeting and addressability without breaching privacy practices.

Behavioral or interest-based data coming from other owned and operated properties. Advertisers emphasized the value of incorporating signals gleaned from areas like search and social media into their programmatic native ad buys. Such data offers a richer context; it also gives advertisers a more comprehensive and cohesive view of the customer journey, which many are concerned about losing once privacy changes go into effect.

#3

Measurement and Attribution: Audit Performance, KPIs, and Customer Journey Capabilities

Identifying at-risk practices and data sets now can help advertisers pivot toward higher-performing ad placements, more accurate measurement methodologies and partners capable of capturing a greater portion of the customer journey

Advertisers often emphasize the audience targeting effects of privacy changes, but it's measurement and performance that are most impacted by the deprecation of third-party identifiers and mobile ad IDs. An October 2020 survey of US advertisers involved in their company or client's measurement strategies conducted by Advertiser Perceptions found 65% of respondents said campaign reporting and insights would be the campaign phase most impacted by the phaseout of third-party cookies. In contrast, 30% cited buying, and 26% planning.

TACTIC: To audit partners to assess future performance capabilities, take into account three criteria:

The partner's current performance, and how much you believe that performance hinges on identifiers and targeting capabilities that may not last long term. Rank partners based on the perceived mix of performance vs. longevity of using them as is.

The metrics you are currently benchmarking partners against, and any higher-level metrics or methodologies they roll into. Ask, 'Will these metrics still be meaningful and available in a changed world, and if not, what metrics can I substitute for them?'

The partner's ability to encompass a greater portion of the customer journey. As third-party identifiers recede, many believe ad buys will become more fragmented, and so will measurement. Prioritizing partners with a greater reach across channels and formats can make it easier for programmatic native advertisers to understand the impact of their ad efforts in relation to broader campaign objectives.

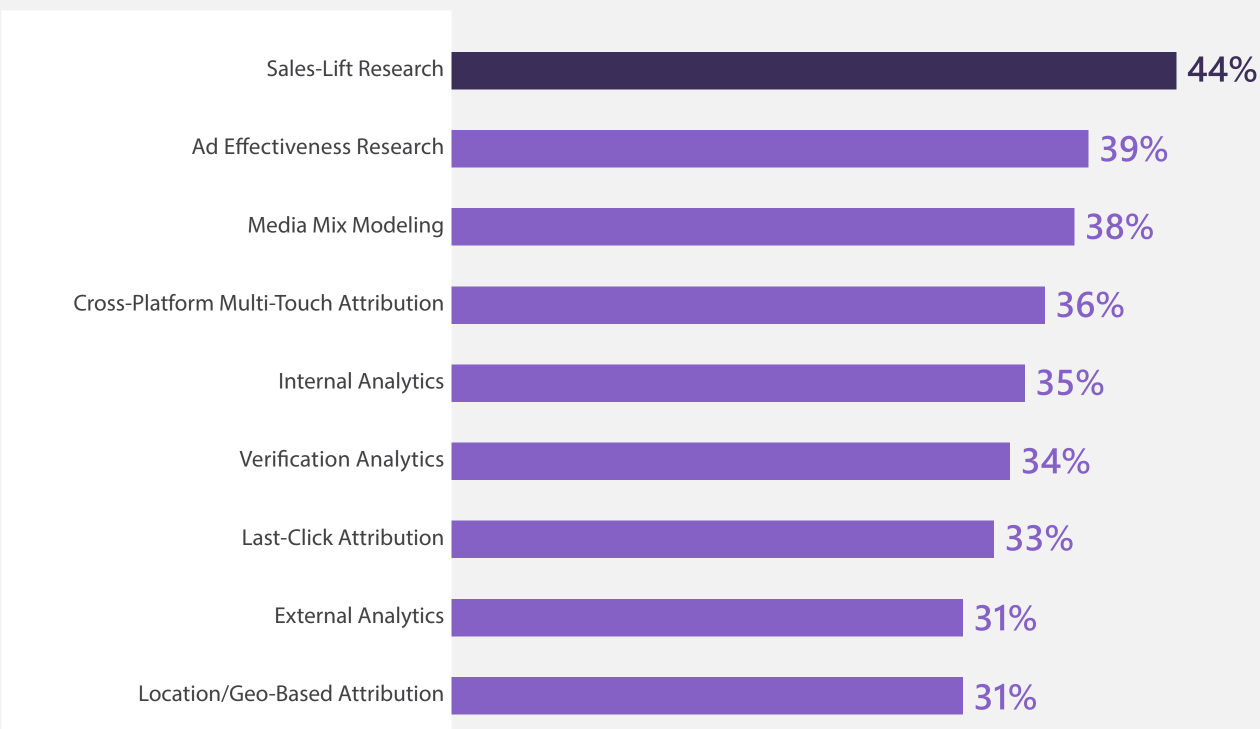
One financial services ad executive said their firm recently audited each media partner and assessed it based on performance at the channel and campaign level. Then, they segmented media partners into performance tiers. This gives them the ability to have a preliminary outline for prioritizing which partners remain and which may have to be removed once changes go into effect.

Executives are following a similar auditing practice for each partner and campaign to better understand which metrics they are currently using, which methodologies they rely on and what changes may need to be made. Many are already preparing to turn to measurement methodologies that may be less prone to disruption.

For example, those relying on digital-based attribution practices like last-click and multitouch attribution (MTA) that have historically been powered by third-party cookies are looking more closely at media mix modeling (MMM) and ad effectiveness research. Two-in-five US advertisers polled in October 2020 by Advertiser Perceptions said sales-lift research and ad effectiveness research would become more important in a cookieless world. An added 38% said MMM would also gain prominence.

Tying advertising dollars to sales will become more important in the new "cookieless" word

Measurement Tools That Will Become More Important in a "Cookieless" World



Q. There has been industry news and discussion around restricting or limiting the use of 3rd party cookies. Which type of advertising measurement and/or research will become more important in a "cookieless" world? Base: Total Respondents
SOURCE: Advertiser Perceptions Measurement Report December 2020

“Some of the newer [measurement] solutions out there are where we need to go, but the translation that has to take place between where we are and where we need to go is becoming more complex for us,” said one marketing executive at a financial services firm. “My biggest challenge is trying to translate the opportunity to a system that’s unaccustomed to it. It’s way more attractive to bring some of the old tried-and-true players like media mix modeling back, because that’s a language people are familiar with.”

Audits are also used to assess partners’ capabilities for spanning a greater portion of the advertising ecosystem and therefore, the customer journey. The importance of these partners continuing to give advertisers key insights into the total effects of their advertising on company-level KPIs like sales and customer lifetime value will only rise as the deprecation of third-party cookies and ad IDs pokes holes in the purchase journey. For advertisers, the key partner is one who can still provide a company-level view of success or a closed-loop look at performance.

Partners offering access to—and measurement of—a variety of ad formats or channels are more attractive to programmatic native advertisers, who ultimately will follow performance. Partners like Microsoft, Google, and Verizon Media were especially attractive for their ability to traverse both search and native (and use that rich search data across both channels). “Being able to tap into a cohesive attribution strategy and measurement approach is going to be critical,” said one marketing executive.

It’s this ultimate criterion that distinguishes broader-reaching players, especially those specializing in areas such as search, video or ecommerce, from the walled gardens. Walled gardens will continue to attract native advertisers, thanks to their scaled first-party data sets and closed-loop measurement offerings, but the programmatic native ad executives interviewed for this report highlighted the increased value of partnering with larger platforms capable of spanning multiple channels and still offering scaled reach. For them, it was about continuing to understand a greater part of the customer journey and the role played by programmatic native beyond the confines of any one platform or partner.

Tips to Get Ahead

A Takeaway Sheet

Programmatic native advertisers taking the lead on addressing industry changes must take inventory of their practices across three core areas:

1. Tips for First-Party Data

- **Take a Three-Pronged Approach to First-Party Data:**
  Navigate the shifting privacy landscape and expand first-party data practices by focusing on three main areas:
  1. Build out first-party databases
  2. Partner with publishers in possession of robust first-party data sets
  3. Probe programmatic partners on proprietary data capabilities
- **As you assess opportunities across these three areas, keep the 3 S's in mind:** Is my data **secure** with this partner, is their data **safe to use,** and is this solution **scalable?**

2. Tips for Contextual Targeting and Brand Safety

- **Test and benchmark contextual targeting now—and look to strike the balance between performance and brand safety.** Look to use these efforts as a baseline for performance as you gauge the potential impact of a full shift away from third-party targeting.
- **Remember: contextual ad buys may lead to placements on sites or alignment with content that goes against brand safety standards.** Use inclusion and exclusion lists to balance these issues, and prioritize partners who deploy a mix of AI and user-based content screening capabilities.
- **Look to contextual partners that can offer context signals beyond content and keywords that enrich the native advertising experience,** specifically:
  - Other forms of external data not linked to personally identifiable information (PII), such as weather or geolocation data.
  - Behavioral or interest-based data coming from partners' owned-and-operated properties.

3. Tips for Measurement and Performance

- **Audit partners to assess future performance capabilities. Consider three criteria:**

1. **The partner's current performance, and how much you believe that performance to hinge on identifiers and targeting capabilities that may not last long term.** Rank partners based on the perceived mix of performance vs. longevity of using them as is.

2. **The metrics you are currently benchmarking that partner against, and any higher-level metrics or methodologies they roll into. Ask,** 'Will these metrics still be meaningful and offered in a changed world, and if not, what metrics can I substitute for them?'

3. **The partner's ability to encompass a greater portion of the customer journey.** Prioritize partners with a greater reach across channels and formats to more easily understand the impact of your ad efforts in combination with broader campaign objectives.

Conclusion

For programmatic native advertisers, a more privacy-forward future can mean positive changes in the way of greater investment in customer data, richer alignment in terms of audience and context, renewed measurement methods and stronger partner practices.

By focusing on a mix of first-party data and contextual data signals, and by vetting partners throughout the supply chain on their future-forward capabilities for proprietary data offerings, contextual targeting capabilities, brand safety, measurement and privacy compliance, native advertisers can best future-proof their strategies and partnerships for the road ahead.

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