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# Programmatic Disruption for Premium Publishers

Holm Münstermann and Peter Würtenberger

For publishers of journalistic websites who offer contextual advertising, the rise of programmatic advertising represents a particularly big challenge: They risk being demoted to mere suppliers of ad space, as data points for determining target groups can be purchased separately. Publishers can only overcome this challenge by taking the plunge into programmatic, data-based selling – and buying.

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## 1 Origin and Characteristics of Premium Publishers

There’s hardly a term used more often in marketing than the adjective “premium.” There are “premium reaches,” “premium inventory,” “premium marketers,” “premium sales” – all of which are usually used to elevate things that aren’t premium and are usually no different from the products and services of others.

Publishers used to be “premium” by nature – as publishers of newspapers and magazines, or distributors of journalistic content. But today, at a time when any high-school student can produce, publish and operate their own website for just a few dollars a month, the term “premium” is used to distinguish between sites featuring journalistic content produced by professionals, and those that are written by amateurs or where the focus isn’t even on editorial content. As a result, professional content sites can be considered premium, while the term is used less and less for sites made up of service-generated (e.g., mailings) or user-generated content.

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Even if the difference between premium and non-premium publishers is not entirely the same because, from a marketing perspective, every website would naturally like to be considered premium, it is indisputable that the web offerings of magazines and newspapers are premium sites – and by default, their owners are premium publishers. Publishing houses and companies therefore make up the core of premium publishers.

And it was also publishing houses that transferred their marketing principles from print to online and are still successful with this today. For example, ad space on the homepage of Germany's largest news site, Bild.de, is sold at a cost per day – just like in traditional print papers. And it was also publishing companies that applied their principle of placing advertising around journalistic content to marketing their online sites: Special, theme-based ad placements have much higher rates than campaigns where an ad server determines where on a site or network a campaign is inserted next, based on availability.

This approach to selling ad space, taken over from newspapers and magazines, quickly became known on online portals as “contextual advertising.” Because in the world of print advertising, which is hard to quantify and measure, the context is the only targeting criteria, the only data point, which offers an advertiser some orientation: For example, if there's an article about the common cold, it's likely that it will be read by people who currently have a cold or at least suffer from one frequently. The waste circulation when advertising cold drugs is therefore significantly lower when the ad is placed next to or below an article like this than when it's placed next to a sports article, for example. The journalistic article reduces waste circulation by offering an appropriate context – because the context is suitable for coming to a conclusion about the person who's reading the article and therefore looking at the ad next to it.

The principle of contextual marketing is why, in online marketing, journalistic sites achieve a higher cost-per-mille (CPM) than mailing websites, for instance: The article determines the reader and, therefore, the user, and as a result is little more than a targeting measure. Additionally, people who read articles typically spend longer than average on a single page impression. Therefore, besides targeting, the ad's increased visibility causes a CPM markup in the contextual marketer's rates.

Premium publishers in online marketing are therefore publishers of digital, journalistic content, which they can generally also market at premium prices – because they can offer professional environments that reduce waste circulation for ads.

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## **2 Existing Disruptions for Premium Publishers in Digitalization**

In the late 1990s, the publishing industry began putting its content online. What's now seen as a major error went without question back then: The articles were made available online, completely of charge. They were to be financed via advertising. Therefore, advertising also had to compensate for this second, lost income stream. The misnomer “cannibalization” was increasingly used: The same content that generated both sales revenues and very good advertising revenues in print was

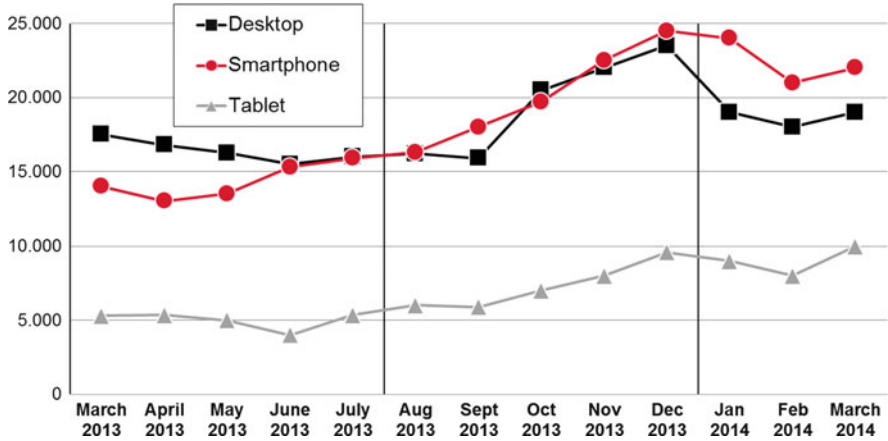
put online – where sales revenues weren't the norm and advertising income hadn't yet been developed. But the exodus of readers from print to online couldn't be stopped, and titles that didn't follow suit risked losing their readership completely.

The transfer of content to the Internet therefore represented the first disruption for premium publishers. This disruption still hasn't been overcome to this day: In the meantime, the majority of the big titles have reached as many unique users with their online versions as readers with their print editions – but in most cases there is still a huge gap between advertising revenues per user and per reader. In previous years, annual increases in online advertising revenues meant this was no cause for concern; it only seemed a matter of time until the gap was closed. But for premium publishers, advertising on desktop sites (as opposed to mobile sites) is by far the biggest source of digital advertising revenues. And even this will decrease in 2015 – at least in the USA, according to eMarketer.com. This shows that the race to catch up has come to an end: Display revenues per user will never reach the levels of advertising revenues per print reader.

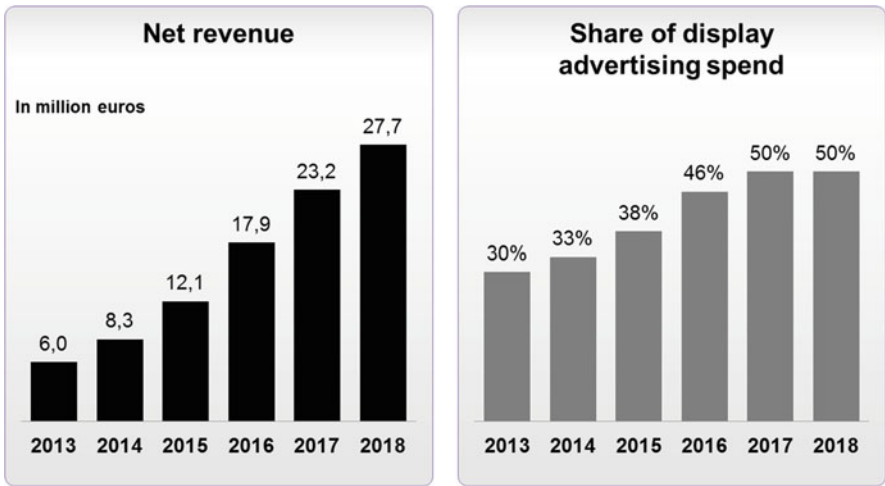
What's even more tragic about this development is that, not only were the levels of print advertising revenues missed, but that most publishing companies still don't make any online sales to compensate for the falling sales of print versions. Without paid content, journalism will be stripped of its financing in the long term.

However, a publishing house must go where its readers go. And so began the second digital disruption for premium publishers worldwide, which started with the introduction of smartphones at the latest: Users are moving from stationary to mobile Internet access. In 2014, for the first time, more users accessed the Internet on their smartphones than their desktops (see Fig. 1). But for sales revenues, this is no longer a disruption – it's an opportunity: Apps are becoming the norm in mobile Internet access, and these apps are procured via a digital kiosk with a payment function – an app store. However, marketers targeting sales revenues are already facing the next disruption, without having overcome the first: It was difficult enough to transfer large, eye-catching 1/1 ad pages from newspapers and magazines to desktops, but it's almost impossible on an even smaller screen. Ads can no longer be placed next to articles and therefore benefit from the context – they have to be placed above or below the content, or cover it completely.

The best chance for contextual marketing on mobile devices is to place the ad *inside* or at least *between* the content and make it look like content. The buzzword “native advertising” is used for this, and has become a nightmare for compliance officers at publishing houses. While Facebook uses the same text and same layout, just with a small note that says “sponsored” to let users know that a post represents paid advertising, publishers must ensure the strict, clear separation of content and advertising, to prevent their independent journalism from being corrupted by the advertising industry. This is an important principle, but one that makes the transition of readers to mobile devices even more painful – because the most significant form of advertising there is inaccessible to premium publishers.



**Fig. 1** Internet usage, minutes per month and user (Source: comSource media metrix and mobile metrix, U.S., Feb-2013–Mar-2014)



**Fig. 2** Growth of programmatic display revenues (Source: BI Intelligence Estimates, Magna Global, IDC)

And while the first disruption hasn't yet been overcome and the full extent of the second hasn't yet been determined, the triumphant onward march of programmatic advertising (see Fig. 2) represents a third disruption for contextual marketing – one that challenges premium publishers existentially in terms of their self-understanding.

### 3 The Significance of Programmatic Advertising for Premium Publishers

Programmatic advertising is essentially nothing more than the long overdue automation of buying and insertion processes in digital advertising (see Fig. 3). Even today, large online marketing campaigns are still ordered with a signature and stamp on a quote, and aren't inserted until the corresponding fax comes through from the agency or buyer. It's high time this process was modernized. Now the advertiser or its agency can deposit the insertion order plus ads on a demand-side platform ("DSP"), which interacts with the marketer's supply-side platform and puts the campaign on its site.

One particular form of programmatic advertising is Real-Time-Bidding (RTB), where auctions ensure that the maximum a bidder is willing to pay is exhausted for every ad impression, in milliseconds. This only works to the publisher's advantage if multiple bids are made for the same impression. But it works: In fact, automated buying and insertion processes can be used for even small campaigns that don't meet the minimum order volumes of media agencies and marketers in direct sales. Without incurring any sales expenses, a publisher has access to additional demand, which, thanks to the auction mechanism, boosts CPMs in the non-guaranteed delivery segment. With Real-Time-Bidding, publishers can increase the rates and therefore revenues for their long-tail inventory. For all inventory that until now has been sold at fixed CPMs, but without guaranteed delivery, Real-Time-Bidding allows the true price customers are willing to pay to be calculated and exploited – which works to the *advantage* of the premium publisher.

The challenging disruption for premium publishers comes from the fact that it's now possible for advertising customers:

- (a) only to bid for ad impressions that match their target group, and
- (b) to select their target group without considering the contextual environment of the publisher whose ad space they are using.

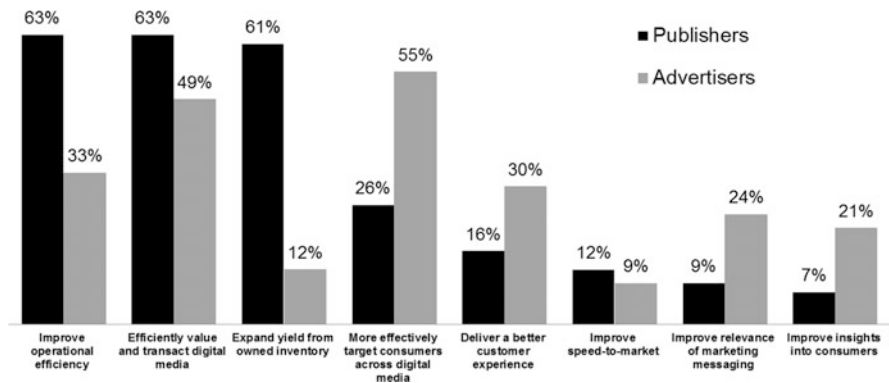
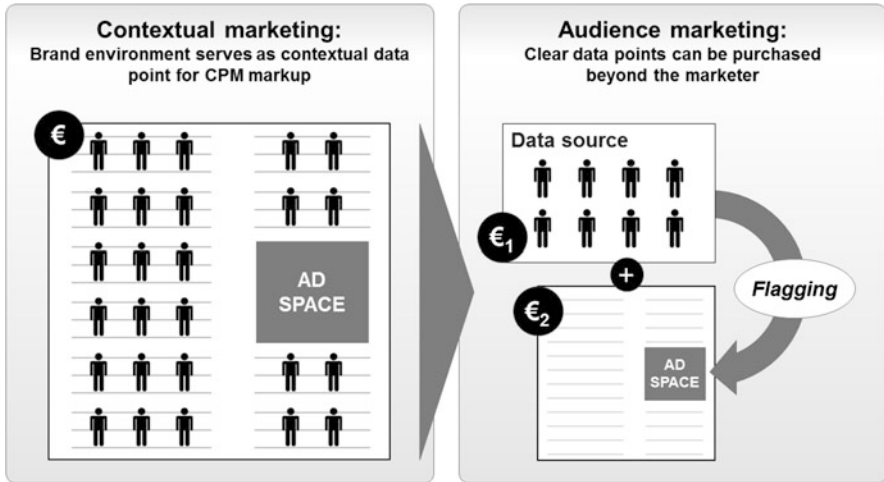


Fig. 3 Drivers of programmatic adoption (Source: Winterberry Group, IAB 2013)



**Fig. 4** Change in the way display advertising is sourced

Programmatic media buying platforms allow for something akin to a game of table tennis with user databases, which, in the milliseconds between the ad server's ad call and actual insertion of the ad, lets an advertiser know whether the user behind an impression belongs to its target group segment. It's these user databases, or data management platforms, which are taking over a part of the added value offered by contextual marketing – namely, target group data. This leaves only the second part for the premium publisher, the provision of advertising space. These two interwoven elements – space and target group data – which previously determined rates of digital contextual campaigns in the “old world,” can now be sold separately (see Fig. 4).

Here's an example: An editorial portal that reports on computer innovations and performs complex comparison tests of hardware for its readers used to be able to rely on high revenues from marketing. This is because advertising clients such as computer manufacturers, who want to reach a target group that's into technology and, ideally, is planning to buy a new device, could only minimize their waste circulation and achieve the best click-through rates by booking ad space on a site like this. That's why a much higher rate could be charged for the same ad format on this site than on general or non-editorial sites.

Thanks to programmatic advertising, the computer advertiser can now source the data points of a price comparison portal and pay a revenue share or fixed CPM to the data supplier. For example, the advertiser uses anonymous cookies to mark all those users who searched for computer hardware costs in the last 4 weeks. In all likelihood, these users are currently considering buying a new computer and looking for relevant advice. Using a DSP, the advertiser can now bid for ad space – but only if the user who's just visiting the website corresponds to the cookies of the selected user segments on the data management platform. This means the

advertiser can target its audience in a much more direct way than by buying ad space on the editorial computer site. That's because this site's readers may simply be interested in computer innovations, without having a concrete intention to make a purchase.

Similar examples can be seen in all online environments, which, until now, have been able to achieve high CPMs because of their target-group specific content: An auto website, whose core clients will in future bid for advertising based on the user segments of a new car configuration site, and not necessarily on the auto site. The fashion website, whose core clients will in future employ semantic targeting to find the right advertising environments, but will procure them for the price of nontransparent run-of-network campaigns instead of transparent contextual campaigns on the fashion site. The travel website, whose regular advertisers will now procure their ad space based on the user segments of a travel booking engine where target users are recognized – and not necessarily on the editorial travel site.

For the first time in the marketing history of premium publishers, the value of the contextual environment as a data point has been thrown into doubt – because there is now an alternative for buying ad space based on user data. With programmatic advertising, data points can be purchased independently of the space and used as a pre-targeting. This is why programmatic advertising represents the next, and possibly the most existential, marketing disruption for premium publishers.

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## **4 The Consequences**

The consequences of the programmatic disruption for premium publishers are easy to foresee – but their scale isn't. We want to focus on the following three consequences:

- (a) The demise of premium CPMs
- (b) The disappearance of the mid-tail
- (c) New competitors

### **4.1 The Demise of Premium CPMs**

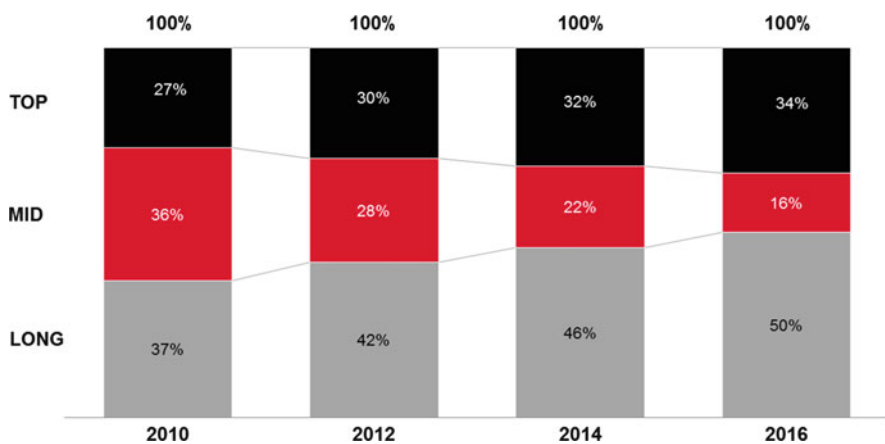
As highlighted in the previous chapter, the data point as a key cost benefit of advertising with premium publishers can now be found elsewhere. An advertiser can determine which users should be reached on a website using a good DSP, in return for an additional charge. Because this criterion is based on the aggregation and segmentation of various behavioral or CRM data, in some circumstances it may even be superior to profiling users by visiting individual sites. But the additional cost that premium publishers charge for ad space on their sites isn't usually a percentage of the cost of the same space on non-premium sites. It's usually a multiple of that.

Advertisers will continue to use the familiar environments of premium publishers, if only for reasons of “brand safety.” But they will no longer use them as targeting criteria, rather as brand-strengthening premium environments – like a perfume that’s considered higher quality in the cosmetics department than at a discount retailer. But premium publishers will only be able to maintain their existing rates, if they add further targeting measures to their impressions, as described in the following chapter. Otherwise, as soon as programmatic advertising takes more than one-third of the online display market in their country, they will see a fall in their average CPMs for run-of-site or channel usage.

## 4.2 The Disappearance of the Mid-tail

The mid-tail segment is the bread and butter business of premium publishers. While the top homepages are sold exclusively and as a rare commodity, and the long-tail as non-guaranteed, run-of-network space that offers basic circulation with low CPMs, the mid-tail represents high-margin, second-best placements. This is space where run-of-network campaigns are also featured, but where delivery and placement can be guaranteed. It does not include the very best ad space such as on top homepages. But it is significantly more expensive the long-tail segment.

Programmatic advertising means that the mid-tail has new competition from below (see Fig. 5): Run-of-network campaigns can suddenly be managed fairly precisely – not only by the publisher, who may demand an additional charge for it, but also by a good audience marketer via a DSP. The client defines the most important terms for their product, and then the system crawls the Internet for sites featuring these terms, adds new, appropriate terms to a “tag cloud” and then continues to browse for sites which best fit this tag cloud. This form of “semantic



**Fig. 5** Forecast revenue shares of inventory segments in the US display advertising market (Source: Credit Suisse Study “Web 2.012” 2012)



targeting” helps to narrow down the environments where the advertiser wants its campaign to land. But the CPM, which is paid to the publisher for this, remains that of a long-tail campaign. If a publisher fails to enhance its mid-tail segment with its own data, this segment will be pushed out by the “external” long-tail, i.e., by external data sources that the advertiser can integrate. However, even with programmatic advertising taking a much bigger share of the market, the top placements will be able to retain their premium prices, and as a rare commodity may even benefit from the auction mechanism of Real-Time-Bidding.

### **4.3 New Competitors**

It was never an advertiser’s primary goal to place its ads in a specific environment. Placement was always intended to help it reach its target group. But while contextual marketers at premium publishers primarily offer the website that they are representing, audience marketers take the opposite approach: They inquire about the client’s target group first.

For many years these audience marketers were mere ad networks – selling unfamiliar ad spaces, which they aggregated and repackaged as verticals of complementary environments. Nowadays, programmatic advertising means anyone can allocate his verticals to environments – you don’t need an ad network anymore. All of which means audience marketers, who enable a campaign to be run based on exclusive, hard – and not extrapolated – target group data, have been pushed into the foreground. Almost every large owner of digital customer data is becoming a marketer by offering marketing products based on its data segments. The largest of these are Amazon, eBay, Apple, Google and Facebook, which are all sitting on huge volumes of customer data. But advertiser data like that collected by Criteo can also create large marketers. Media agencies have also created trading desks, to collect data and use it for their own marketing purposes. Otto Group, the mail order multi-national based in Germany, has just established an advertising sales house – not because of its expertise in marketing, but because it owns so much great data. Almost all companies that own data have become potential competitors for the sales houses of premium publishers, battling for the same advertising budgets.

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## **5 Potential Approaches for Premium Publishers**

Premium publishers can’t afford to be reduced in their roles as suppliers of advertising space. CPMs like non-premium publishers, the disappearance of the high-margin mid-tail segment, and smaller market shares due to new competitors will cause the contribution margins for financing editorial offices to shrink and, with that, the foundation for professional journalism. Publishers and their marketers cannot sit by and watch this development unfold – they must act on it.

The following measures are available, as a minimum:

## 5.1 Profiling Their Own Users

Most premium publishers have already set up their own data management tags. However, these are rarely used to systematically establish new segments because the overwhelming opinion is that a data-driven targeting offering could usurp the individual brand environment and therefore support the flow of advertising budgets into audience marketing. This is true to some extent, but as long as the revenue remains with the same marketer, it should still be promoted – as the alternative will happen anyway.

Data segments could be formed based on advertisers' interests. Every industry has its own specific target groups that it wants to reach. Asking which of the premium publishers' channels and products users of these target groups would use and read helps to generate and name the segments with the aid of a data management platform. The underlying principle still follows the combinations of themes or verticals that are already offered in contextual marketing, but can be technically expanded by setting up additional rules or conditions (e.g., "user visited site A and site B in the last two weeks"). And the price point can be calculated dynamically, with the publisher programmatically allowing advertisers to bid on its inventory with the new segments as an additional targeting charge, or making a bid on it itself to prevent higher-priced campaigns from being squeezed out.

## 5.2 Generating Registration Data

For years now premium publishers have neglected the concept of user logins. Of course, beyond paid content, there are also few reasons why a user should register with a news site. But registration data could become a matter of survival for premium publishers. If, one day, web browser creators or even European legislators question the use of cookies, only those companies with registration data available to them will be able to charge more than basic ad rates – with the four big US players Facebook, Amazon, Google and Apple leading the way. These four will also dominate cross-device marketing because cross-device tracking is only 100 % certain with logins.

Premium publishers will therefore have to find ways to convince their users to register and then remain logged in on all devices. To do this, they need to create added value – for example, through competitions, free services, rewards systems or providing arguments against registration such as restricted access to content.

Here the exodus of users to mobile devices represents an opportunity – because people are used to registering for apps. However, there is still the challenge of persuading users to download an app in the first place and to continue to use it frequently.

### **5.3 Buying External Data**

Where a publisher's data isn't comprehensive enough to provide easily marketable segments, e.g., a lack of reliable sociodemographic data (gender, age, residence), these segments can be bought and added to the publisher's own DMP segments. For example, a female user is known to be interested in cars because she's read several articles about them in the publisher's own portfolio – but it's only confirmed that she's female by a third-party data provider. It is, however, crucial to add an exclusive element to these segments – even if it's simply the user's visit to the publisher's own sites.

### **5.4 Buying External Inventory**

In general, the more complex and precise a data segment, the smaller its reach. If a segment is only to be used in the publisher's own portfolio as part of a campaign running for a limited time, the reach is further reduced to the crossover between the limited data segment and the user's visits to the publisher's site during the campaign period.

However, creating segments on a DMP allows the publisher to recover these data points from external inventory and source them as needed, at any time. Every marketer should make use of this opportunity, without losing sight of what is most important – its clients. But it's also in the interest of advertisers to extend their reach through use of their own data points; as well as looking for increasingly precise targeting, they want a minimum reach. Advertisers and publishers can work more closely in this area: Crossovers between the advertiser's customers on their own platforms and a publisher's users are analyzed and checked for patterns. The same patterns can then be searched for among the publisher's users, because they suggest a high degree of affinity with the advertiser's offering. Finally, these users can be marked, searched for on external sites (beyond the publisher's sites), and furnished with advertising purchased by the publisher on behalf of the advertiser.

### **5.5 Charging More for Premium Space via Brand Safety Scores**

The online environments of premium publishers remain premium. Even if they are not sufficient enough as sole targeting criteria in future, they remain a “hygiene factor,” bringing added value for advertisers. In contrast to publishers' current rates, there could be a basic price per ad format – similar to a pizza base. This could be enhanced with a selection of various “toppings,” i.e., data segments, as well as a choice of online environments of different quality. For measuring the quality of an environment and calculating the additional charges, a “brand safety score” could be produced that ranks environments based on how high quality they are.

However, this approach would only be recommended if audience marketing really were squeezing out the majority of contextual marketing. In this case, it

would be sensible to allow the advertising client to first choose the target group (= user segments), then the format, and finally the quality of the environment based on the brand safety score.

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## 6 Conclusion

Right now, marketers of premium publishers are in the middle of their third digital disruption. While advertisers are benefiting from programmatic advertising, premium publishers must take action to ensure that they are not degraded to mere suppliers of ad space and do not have to lose large chunks of their contribution margins. To do this, premium publishers need to learn from the very audience marketers who represent their new competitors. They must make their data available for smart segmenting and enhancement, and buy external data and inventory. Only then can they make the most of their professional content sites and long-lasting, trustful client relationships to ultimately successfully secure advertising budgets and premium CPMs.



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