

Customer & Market Due Diligence Of CTV AdTech Platform: Deciphering CTV And Programmatic Advertising Ecosystems And Growth Outlook

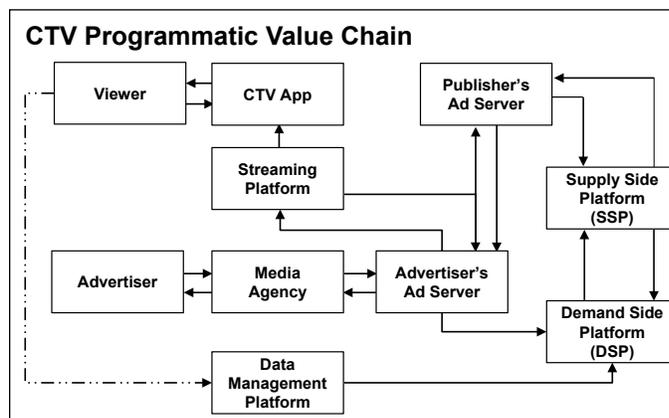
The Challenge: One of our clients, a leading performance marketing agency, was looking to acquire a programmatic advertising technology company specializing in connected TV (CTV). Our client was attracted to the growth of CTV and target's numerous publisher relationships but wanted to better understand the target's role in the CTV advertising ecosystem and the impact of supply path optimization (SPO) on the target. As such, our client asked Gotham to conduct a 3-week customer & market due diligence to establish: (1) the CTV advertising market size and growth outlook; (2) the target's competitive positioning in the CTV advertising ecosystem; and (3) the programmatic advertising market growth outlook and competitive dynamics.

Programmatic Advertising Tech Stack Deep Dive: To address the due diligence objectives, Gotham:

- Conducted 35 interviews with and 280+ online surveys of decision-makers at publishers, advertisers, advertising agencies, and AdTech platforms to gain insights into: CTV and programmatic display tech stacks and their interactions; CTV and programmatic display ad buying dynamics; the impact of SPO; ad spend trends; and the target's reputation and competitive positioning
- Leveraged industry data and secondary research to establish CTV and programmatic display market dynamics and digital marketing spend trends
- Built a comprehensive database of AdTech players – supply side platforms (SSPs) and demand side platforms (DSPs) – and developed in-depth profiles of large and midsize platforms.

CTV Ad Ecosystem, Comprising Publishers' And Advertisers' Tech Stacks, Is Complex And Growing Rapidly

CTV combines the high-quality advertising opportunity of traditional Linear TV with the ad targeting capabilities of digital marketing. This powerful combination has resulted in CTV ad spend growth of 39% CAGR, now reaching 24% of total TV ad spend. CTV ads are sold through an ecosystem comprising publishers' tech stacks (ad servers and SSPs) that conduct auctions and route bid requests and advertisers' tech stacks (DSPs) that manage campaigns, place bid requests, and integrate with data management platforms and brand safety tools. The CTV platform landscape is fairly consolidated with the largest SSPs (Magnite, Freewheel) holding ~65% market share and the largest DSPs (The Trade Desk, Google DV 360) holding ~70% market share, while the target is a small player.



Although Ads Are Delivered Through The Programmatic Tech Stack, Sales Forces Still Play An Important Role In CTV Advertising

Over-the-top (OTT) services deliver content over the internet to be viewed on CTV. While OTT service keeps majority of the ad inventory, some is given to the CTV platform in return for allowing the service on their platform. There are 4 main types of OTT services: premium subscription services (e.g., Hulu, Max), Tier 2 streaming services (e.g., AMC+, Discovery+), online cable providers (vMVPDs) (e.g., Fubo, Direct TV), and FAST channel services (e.g., Pluto TV, Samsung TV Plus). Premium streaming services typically utilize a TV upfront sales model as their inventory is limited and desirable while smaller players, in addition of having their sales force, also take advantage of the programmatic channel to sell leftover inventory. Besides OTT sales forces, SSP sales teams focus on attracting demand to their platforms and Local TV stations sales forces sell CTV inventory to local advertisers. Regardless of the use of advertising sales forces, all ad buys are executed through the tech stack with the auction dynamics varying depending upon the sales channel. Programmatic direct, a direct deal between advertiser and publisher, accounts for ~70% of the market. Private marketplace (PMP) deals are limited auctions between preselected advertisers (~20%). Finally, open exchange, inventory auction on open market (~10%) is primarily used to unload unsold inventory.

Established Programmatic Display Ecosystem Is More Automated And Undergoing SPO

The programmatic channel allows millions of websites to sell their display ad inventory (banner and online video ads) through automated exchanges, and programmatic display ad spend has been growing at 27% CAGR – faster than the overall digital market. Each ad opportunity is auctioned using multiple pathways as publishers make the opportunity available to resellers and multiple SSPs, and SSPs connect to multiple DSPs and sometimes other SSPs. This complex web of connections creates lack of transparency and increases cost as each intermediary charges tech fees and increases computing cost due to duplication of bids. To overcome this, advertisers and DSPs have started to push SPO to streamline the ad buying process. Advertisers are analyzing paths that bids take to reach a specific publisher to find an optimal path and pursuing direct deals with high-value publishers. Some DSPs are establishing direct connections with publishers to lower costs and some are pruning their SSP partners, leading to SSP consolidation. While the programmatic display DSP landscape has been dominated by The Trade Desk, the growing importance of first-party data is leading to the rise of new DSPs and retail media networks that grant advertisers access to proprietary data (e.g., Amazon shopper data available on the Amazon DSP). The target has an opportunity to enter the programmatic display market by leveraging its technology and our client's programmatic ad spend and customer relationships.

The Outcome: Gotham's deep dive into the CTV and programmatic advertising ecosystem provided our client with a clear view on the inner workings of the ecosystems and the target's positioning in the CTV ecosystem. This clarity, along with details on the outlook for digital marketing spend, allowed our client to gain confidence in the target's potential and move forward to close the deal.