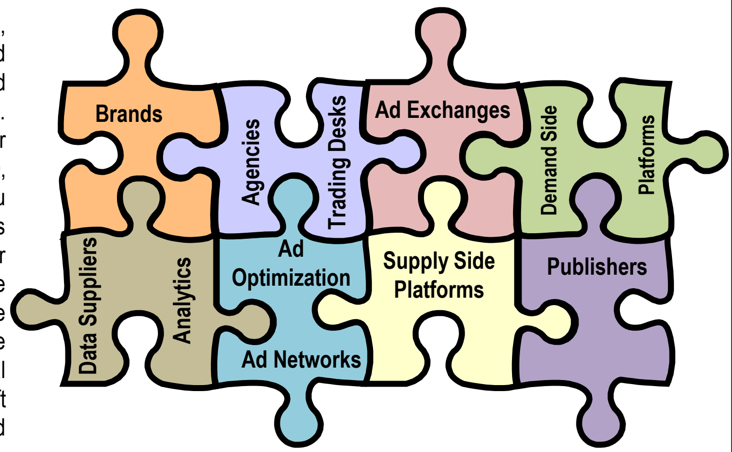
In 2014, Adtech Facilitators Brace for Gale-Force Programmatic Headwinds

Reverberations from the seismic shift driving Omnicom's $35 billion cross-border merger with Publicis (increasing advertising clout of Google and Facebook and importance of data-driven marketing) will continue to be felt by the 250+ companies in the Marcum Cronus Partners' Adtech Taxonomy. However, it is the response by Omnicom-Publicis' rival, WPP, that shines the spotlight on the facilitators and business models most at risk in 2014 and beyond. In December 2013, WPP merged its advertiser and publisher technology units Xaxis (aggregates and targets audiences) and 24/7 Media (ad serving, ad network), respectively, to streamline the programmatic buying process. David Moore, CEO of 24/7 Media and soon to be Chairman of Xaxis, explained, "Publishers will now have the choice to eliminate value-diminishing middle layers by linking directly with the world's largest media buyer. Our advertisers will benefit from the most experienced team of data and technology experts." The combination enables WPP to allow advertisers to buy programmatically directly from publisher inventory, rather than go through an ad exchange or ad network. At bottom, the merger allows WPP to keep more fees once shared across an increasingly fragmented and complicated adtech puzzle.

Not only are the facilitators (DSPs, SSPs, Ad Networks, Data Suppliers, Ad Optimizers) vulnerable to disintermediation, but even agencies and publishers will face headwinds from the tectonic shift to programmatic ad buying. And by headwinds, we mean a foundation wrecking gale-force. While adding "big data," "artificial intelligence," "algorithmic" and similar adtech words du jour to a website or press release may help with SEO, sophisticated clients, strategic partners and public investors will see thru the ruse and drill down for moat defensibility. Certain larger providers have chosen the IPO route and, unless a few fundamentally alter their value propositions, their uprooting has been and will continue to be quite public and unseemly. While others have been counseled to "hit the window" under the JOBS Act and hope their fates will somehow be different than Tremor Video, YuMe, Marin Software, Criteo and Millennial Media. For the countless other providers that remain, what does this shift mean for them, their customers, partners, venture capital backers, and what should be their next move at this all too critical inflection point?



Agencies. If the Omnicom-Publicis and Xaxis-24/7 Media mergers are any indication, traditional advertising and marketing agencies are increasingly looking to data to compete with the tech companies that have spent the past several years chipping away at their business models. Google represents the most transformational disintermediation of ad agencies. The fundamental value of the advertising agency could further come into question if an agency is narrowcast as a money changer sitting between brands and a DSP, while extracting a commission on media spend. With self-serve/automated ad buying products (like those that Google, Facebook, Twitter and recently, Foursquare have built or acquired), agencies can reinforce their position in the value chain as an indispensable partner. Advertising and marketing services agencies should consider shifting from gap filling, or at worst, marketing spin, at the edges of technology. Instead, they should move aggressively towards offering a suite of solutions, including a managed service layer to assist with strategy and execution, self-serve products to streamline audience targeting, and supply side products to gain access to publisher inventory.

Demand Side Platforms (DSPs). While the challenges faced by ad agencies are many and not easily solved, they do have the benefit of being (for the moment) closer to the advertiser than DSPs and the technologists. Over the years, the largest ad holding companies have anticipated potential disintermediation at the hands of DSPs by aligning with or acquiring trading desks that have access to publisher inventory. In response, standalone DSPs like Rocket Fuel have partnered with ad agencies (Dentsu subsidiary Cyber Communications Inc. in 2012). An intriguing construct would be a DSP moving towards more of a full service agency model, whether it be through a merger/acquisition or overall shift in business strategy. Such a pivot could neutralize the trading desk threat by enabling the DSP to morph into an agency itself and work with brand advertisers directly. Additionally, developing tighter relationships with publishers through partnerships or acquisitions of supply side platforms would better insulate DSPs from the agency+trading desk hegemony.

Ad Networks. At one time not long ago, ad networks in all their variations, horizontal, vertical and video were the darlings of the digital media world. Offering the promise of connecting unlimited, remnant (and one day, premium) inventory with targeted audiences, ad networks exploded on the scene in search of arbitrage opportunities. Competition, advertising and publisher sophistication and the growing reach of agencies, trading desks and DSPs have made life more challenging for ad networks. Adding to these headwinds, the fact that programmatic buying neutralizes pricing volatility (read: advantage) that many publishers previously enjoyed, should cause ad network executives to reassess their value proposition. Delivering sizable, targeted audiences will remain critical in the programmatic world; however, more is needed to effectively defend and take market share. Similar to the adjacencies available to agencies, ad networks might consider self-serve products (demand and supply side), more refined ad optimization and targeting tools and audience aggregation at scale.

For all adtech facilitators, as dollars become more concentrated among the few full- or multi-service providers, the hundreds of capable participants that either lack scale, scope, differentiation or VCs' patience face an uncertain future. Given the pace of technological advancement in this space, those headwinds may only intensify.

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- Enterprise application software
- Software-as-a-Service (SaaS) and traditional legacy software
- Supply chain technology and software, including asset management
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- Digital media and Internet technologies
- Communication technology and related services

Manufacturing, Services and Established Companies

- Manufacturing and general industrial
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- Hospitality services and consumer wholesalers
- Energy, including oil and gas and alternative energy
- Environmental processing, treatment and handling

Digital Media and Internet Technologies Coverage

Ad / Marketing Tech

- Brands
- Agencies
- Audience
- Publishers
- Data Suppliers
- Verification/Privacy
- Analytics/Measurement
- SEO/SEM Platforms

Content

- Branded Entertainment
- Animation
- Interactive Games
- Education
- Live Action/Events
- Music
- Publishing
- Sports

Commerce

- Payments
- Couponing / Promotions
- Daily Deals
- Price Comparison
- Marketplaces
- Analytics
- Measurement
- SEO/SEM Platforms

Distribution

- Video Platforms (Linear, OTT, MCN)
- Video Aggregators
- Discovery & Search
- Hosting/Delivery
- Ad Networks
- Analytics
- Measurement

Social

Local

Mobile

Elgin Thompson is a Managing Director at Marcum Cronus Partners with expertise at the intersection of media, technology and brands. Mr. Thompson has over 17 years of experience representing clients on a variety of assignments including sell-side, buy-side, fairness opinion, special committee, divestiture and merger transactions in both the public and private domain, as well as equity and debt financing. He has executed over $40 billion in transaction value. Prior to joining the firm, he served as a senior member of Williams Capital, a boutique investment bank where he led efforts in media and technology. Previously, Mr. Thompson was the Vice President of Corporate Development for GridNetworks, Inc., a venture-backed online video technology provider. Prior to GridNetworks, he was a Vice President in the Media Investment Banking Group at Bear Stearns where he executed transactions for a wide spectrum of clients, including global media, entertainment and technology companies, private equity firms, and digital media companies. Mr. Thompson began his career as a mergers and acquisitions attorney. He serves on the advisory board of Sprezzat, a mobile technology company. Mr. Thompson received an M.B.A. from the Kellogg School at Northwestern University, J.D. from Temple University and B.A. from Northern Illinois University.

212.485.5873 | elgin.thompson@marcumcronus.com

750 Third Avenue
New York, NY 10017
212.485.5870

53 State Street
Boston, MA 02109
617.316.0270

555 Long Wharf Drive
New Haven, CT 06511
203.764.6800