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### Advertising in the digital age

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# ADVERTISING IN THE DIGITAL AGE

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*Algorithms, big data and real-time computing are revolutionising the advertising industry, but brands still need to be clear about their business objectives to maximise advertising returns*

In a study earlier this year, research firm Strategy Analytics forecast 2015 digital advertising expenditure in the UK to reach 50 percent, compared to 24 percent for TV and 16 percent for print. By 2018, digital advertising in the UK will account for 56 percent of ad spend, says the study.

“Think about it: advertising on search engines, email, etc. is bigger than that on TV, print, and radio combined,” says **Rohit Kumar**, Managing Director at programmatic advertising platform Sociomantic Labs. “We will see digitisation of these non-digital channels such as TV. It’s a matter of ‘when’, not ‘if’.”

## WHERE IT’S AD

Kumar, who spoke at the recent SMU Centre for Marketing Excellence event with a presentation titled, “From Mad Men to Math Men – The Transformation of the Advertising Industry as We Know It”, explained how the advent of real-time bidding (RTB) for online ads is changing the way advertising is done (watch [this video](#) for a concise explanation).

To simplify things and to increase budget efficiency, advertisers work with their advertising agencies and demand-side platforms (DSP) like Sociomantic to buy ads on websites on real-time. On the other side of the equation, there are publishers and online content providers who work with Supply-side platforms (SSP) to manage the ad inventory they have to sell.

In between the DSPs and SSPs are so-called “ad exchanges,” which are like stock exchanges. Where stockbrokers buy and sell shares in stock exchanges, ad exchanges are where DSPs and SSPs – on behalf of advertisers and content providers respectively – work out how much advertisers are willing to pay for ads on publishers’ sites in auctions that take place in a matter of milliseconds. This is made possible by a lot of computing horsepower, algorithms and data.

When a user opens up a website, his or her profile is immediately made known to advertisers. If the user's profile fits the advertiser's target audience – for example, someone who has previously visited their website but not made a purchase – then the DSP makes a bid to buy the ad impression on the website. Because it's an auction, the highest bidder gets to place an ad.

"You can add another line to the algorithm, saying, 'If it exceeds this price, don't put my ad in,'" Kumar explains. "I don't think that's necessarily the right thing to do, even though there might be budgetary constraints. If you have a clear objective in mind, this is something technology can solve for you. For example, why would you want to cap it at x amount per click when the technology can actually buy clicks that are more expensive but convert at a higher rate?"

"The CPC (cost per click) may be higher, but for every 100 people who clicked, 10 could end up buying. As such, you get more revenue."

## DEALING WITH CHANGE

This new algorithm-based way of advertising called programmatic advertising is a technology-heavy business, and almost everything can be measured from cost-per-click to a treasure trove of details – preferred language, location, online shopping history etc. – about visitors to any given website. However, advertisers can develop an unrealistic picture of what is possible.

"DSPs should educate advertisers," Kumar urges. "If you don't have that, then you become a victim of your own success. Advertisers might think it is possible to target any person on, for example, Facebook at any time and make that person click on an ad."

"One of things that needs to be done is to stop jargonising this business; in other words, speak the marketer's language. Whether you're talking about the load factor for airlines or average basket value for online retailers, it's about being change agents for businesses."

Ad agencies that sometimes occupy the space between DSPs and advertisers, are perhaps the main change agents for advertisers. However, these same ad agencies risk becoming obsolete in the age of digital advertising even as they catch up with the ever-changing landscape.

"Many agencies are investing in their own DSPs or what is called agency trading desks," says Kumar, referring to agencies' in-house operations where programmatic ad buying is done.

"These are often powered by external DSPs. Very few agencies have their own technologies in-house. It's expensive to keep it updated and it's not an agency's fundamental business. So they work with DSPs deemed to be the best."

He adds, "We just have to stay ahead. As long as you have the mindset of trying and adopting a 'fail fast' methodology where you have easy exit clauses in these experiments – if it works, scale it; if it doesn't, pull the plug – that's how things will go forward."

## A THRIVING SECTOR

With programmatic advertising still in its formative stages, Kumar encourages fresh college graduates to explore where they can make their mark. While successful ad exchanges generate millions and perhaps billions of dollars in revenue, they are mostly owned by the biggest companies: Google, Facebook, Microsoft, Yahoo! etc. But there are ways for smaller players to take market share, too.

"The business around the exchange is where the innovation comes in," Kumar explains, "whether it's DSPs or technology that helps people create ads and rich media. There's also technology around viewability – was the ad seen? Was it above the fold or below the fold? Was the page in which the ad was served brand-safe?"

“What this is doing from an innovation perspective is that it drives more jobs because this ecosystem needs more players around it. The pace of change is maintained by these smaller companies that are breaking the mould. From an exit perspective, if you build technology that scales and works, there is plenty of venture capital appetite for it. There are plenty of big companies looking to beef up their capabilities, and that makes the whole ecosystem very profitable.”

What would Kumar say to parents who worry about their children pursuing a career in an industry with unknown prospects?

“With students, at least in Singapore, the larger question is to consider industries outside the regular ones such as banking or management consulting. The larger challenge is widening the base of people considering digital advertising as a career option that is rewarding professionally. There are only about 100 people in Singapore who have the right experience in this field.”

He adds, “By working in this industry, you’re putting yourself on a knowledge curve that sets you apart. The point I want to put across to people getting into this business is this: ‘Do I want to get into a business where there are 10,000 other people? Or a field where people still don’t understand what it’s all about, and where things will change but I’ll change along with it?’”