Ways of Buying Ad Inventory

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Imagine if you had to pay a fee to view content from all your favorite websites. Thankfully, due to programmatic advertising, you don't have to. Programmatic buying simply refers to buying ad inventory through automated means as opposed to more manual buys where advertisers are in contact with a sales team, or other "offline" mechanism. Advertisers want to be able to target their product to the right viewers; publishers, in turn, want to better monetize their site so that they can continue to offer users free content.

To better understand how this type of transaction between the advertiser (buyer) and publisher (seller) occurs, you'll need to know about the different ways in which inventory is bought for display advertising, and each of the various pricing models that exist.

On this page

How Advertisers Acquire Publisher Inventory

There are three different ways through which sellers and buyers meet to transact on media: real-time bidding (RTB) auction, deals/packages, and direct.

RTB

Real-time bidding is an open marketplace programmatic auction where ad inventory is sold and bought through a bidding system that occurs during the milliseconds that a web page is loaded by a user.

Demand-Side Platforms (DSPs): DSPs can be used on behalf of advertisers to automate the purchasing of online advertising. A DSP helps set the buying parameters of the advertiser's campaign and monitors its performance.

Supply-Side Platforms (SSPs): SSPs can be used to help better manage and sell publishers' inventory.

Ad Exchange: The ad exchange is the platform that connects publishers and advertisers.

An RTB auction is effective for an advertiser because the advertiser can value each opportunity to buy an ad impression in real-time, allowing for accepting or rejecting each ad impression in the campaign.

Deals/Packages

Deals and packages constitute a bid-based marketplace based on relationships between specific publishers and advertisers.

Typically, to initiate the purchase and sale of deals and packages, a publisher invites an advertiser to bid on its inventory, and it enables the advertiser to gain first access on specific ad inventory before it's made available to other buyers in an open auction.

Open auction deal bids compete with RTB bids. Private auction deals are prioritized over the RTB marketplace. Packages are pre-made deals that buyers can browse, making offerings more visible and accessible to the marketplace. Packages can also be a great jumping off point for deal negotiations. This marketplace generally gives the advertiser access to high quality, brand-safe inventory.

Direct

In a direct marketplace, advertisers are buying impressions in bulk at a fixed rate instead of going through a real-time bidding auction. This model provides the advertiser with a guarantee, or a reservation, on the ad inventory. Advertisers and agencies will often pay premium prices to access this type of inventory, as it allows them to target specific audiences based on geography, browser, etc., and the advertiser gets certainty of campaign volumes. Direct buying works well for advertisers who want better control over the placement of their ads, and also gives them the flexibility to have rich media formats such as page takeovers on a homepage, where no other ad is shown.

Pricing Models for the Sale of Online Ads

There are a few main ways of pricing media: CPM, CPA, and CPC. Generally, the price of an impression is determined by what buyers are willing to pay in real-time, as well as the quality of the product. This type of buying means that ads can be targeted to specific user groups or segments, and budgets can be managed in real-time.

> RTB operates on a second price auction model. This means that the highest bidder wins the auction but pays $0.01 more than the second-highest bid. Second price auctions allow a more accurate valuation of the item up for auction.

CPM

CPM (cost per mille) is where the advertiser pays a flat amount per 1000 impressions. This is good for publishers as they will get paid for every impression and risk nothing on ad performance.

- As a buyer, a $1 CPM price means that if my ad is shown 1000 times, I pay $1.
- As a seller, a $1 CPM price means that I'll receive $1 for every thousand ads I display.

> **vCPM** or viewable cost per 1000 impressions means that an advertiser only pays when an ad is shown on screen for a certain period of time (typically based off IAB [International Advertising Bureau] standards).

CPC

CPC (cost per click) is a performance-based model, with the advertiser paying a flat amount per click on an ad. This means that a publisher gets paid only when a user clicks on an ad, regardless of how many impressions were served before the click occurred.

Dynamic CPM

This model allows for optimization to an average CPM goal.

CPA

CPA (cost per action/acquisition) is a model where the advertiser pays the publisher only when a click on the impression results in a sale, or a conversion against their campaign goal.

Further Reading

- Introduction to Ad Serving
- Creatives
- Ad Tags