

Understanding ad networks

Introduction

Digital ad networks have existed for two decades, and they have come a long way since their inception. Here's a primer on what they do, and what they mean to today's increasingly mobile marketplace.

Ad networks facilitate the buying and selling of publisher ad space. They provide advertisers with a single point of access to inventory from many publishers, as opposed to advertisers having to reach out to each publisher individually. Ad networks help advertisers scale their buys and understand the vast and fragmented digital landscape. Most networks also provide reporting and tracking support.

For publishers, networks can be an important part of their monetization strategy: networks help publishers sell their inventory. That core purpose hasn't changed much since DoubleClick, the world's first digital ad network, launched in 1996. (It was bought by Google in 2008).

What may not have been predicted 20 years ago is the sheer volume of networks, the explosion of niche providers, and the role they'd play in a digital ecosystem that has become increasingly automated by the introduction of programmatic technology.

How ad networks work

Ad networks are aggregators that use technology to sort through the sea of available supply--ad space--and match it with advertiser demand. Ad networks make money by selling inventory at a higher price than they paid for it, and they often make a percentage off every transaction.

Ad networks help advertisers scale their ad buys and target a particular audience or vertical.

Ad networks enable campaigns that wouldn't be possible by working directly with a single publisher by connecting advertisers with more inventory and enhanced targeting capabilities. They offer a variety of pricing options, including cost-per-thousand impressions (CPM), cost-per-click (CPC), and cost-per-acquisition.

Pros and cons of ad networks

Pros

For publishers and advertisers, the advantages of ad networks include:

1

Reach and scalability

Ad networks drive efficiency, allowing advertisers to reach wider audiences and publishers to connect with a larger pool of buyers.

2

Targeting and reporting capabilities

Ad networks offer a range of targeting options. Advertisers can serve their ads alongside specific type of content (contextual), or target based on device, location, demographics, behavior, and more. Most ad networks provide valuable analytics so both advertisers and publishers can better understand their campaigns.

3

Flexibility

Networks often offer flexible pricing models, including CPC and CPM strategies. Ad networks vary in the degree of flexibility and control they offer publishers, but some allow them to block particular types of advertisers to help preserve the user experience. For advertisers, flexibility also pertains to the type of audience they can reach, and the types of ads they can serve. Some ad networks offer a breadth of sizes and formats.

4

Convenience and time-savings

Ad networks are generally easy-to-use and allow publishers to begin to make money quickly. For publishers, especially small ones, ad networks can take the place of, or at least supplement, an ad sales team and allow them to reach a volume of advertisers they could simply never access on their own. Ad networks also handle the administrative components of ad sales, such as paperwork and invoicing. Advertisers benefit from time-savings, too, as they can access multiple publishers from a single contact person.

5

Price benefits

Advertisers can negotiate prices and secure cost savings, particularly in bulk buys. (This can be a good or a bad thing for publishers.) The best ad networks pay publishers quickly, so they don't have to worry about tracking payment down from lots of different advertisers.

But ad networks can also have disadvantages, especially when compared to ad exchanges [[link to article](#)], which aggregate inventory from a variety of digital publishers and allow a greater pool of advertisers to bid via real-time bidding (RTB).

Cons

The disadvantages of ad networks include:

- 1 Less efficiency than ad exchanges**

Ad exchanges help publishers monetize more of their inventory by accessing a larger pool of buyers and help advertisers make data-driven decisions. Ad networks enable bulk buys, whereas ad exchanges allow advertisers to evaluate every single impression to determine its worth. (You can think of ad networks as stock brokers and ad exchanges as the stock exchange itself. This common metaphor helps illustrate key differences.)
- 2 Lack of transparency**

While ad networks may provide a list of their publishing partners and facilitate audience targeting, most don't let advertisers know exactly where each impression will run. They also don't typically allow publishers to see which advertiser is buying their space, which makes it challenging for publishers to understand the value of their inventory, create informed monetization strategies, and preserve the user experience by policing ad quality.
- 3 No real-time optimization**

Ad exchanges use technology and data to automatically optimize campaign performance. Ad exchanges also integrate with other tools, such as DSPs, that can afford additional targeting and optimization advantages. With ad networks, users can analyze campaign performance and make changes accordingly, but it is not done in real time.
- 4 Prices are negotiated rather than determined by demand**

When working with an ad network, companies generally negotiate an upfront price for a bulk amount of impressions. This is in stark contrast to ad exchanges, in which real-time bidding allows the market to determine the value of every single impression.

The publisher/ad network relationship

Publishers may try to find the ad network that will secure them the highest price for their inventory. While some small publishers sell all of their inventory on ad networks, large publishers generally sell anywhere from 10% to 60% of their unsold space, commonly called remnant inventory, through that channel. Remnant inventory is space that a publisher didn't sell directly to an advertiser. It is sometimes thought of as less-desirable inventory, but that is not always the case. Sometimes a publisher just has more inventory than it can monetize on its own. (Note: some ad networks actually specialize in premium inventory. More on that below.)

The rise of mobile ad networks

As the name implies, mobile ad networks buy and sell inventory from mobile publishers. Today, mobile is one of the fastest-growing advertising segments. There are an estimated 184.1 million adult smartphone users in the U.S. That figure represents 73.6% of the adult population and is expected to grow to nearly 80% of the population by 2018. In the U.S., 62% of all digital time is spent on mobile (as opposed to 38% on desktop), [according to research from comScore](#).

Mobile users spend the vast majority of time in apps -- a whopping 86%! Thus, many ad networks have expanded their capabilities to cover mobile channels, including in-app advertising, and niche ad networks and ad tech players have emerged to help advertisers engage the mobile marketplace.

¹ eMarketer research, 9/2016, <https://www.emarketer.com/Article/Smartphone-Apps-Crushing-Mobile-Web-Time/1014498>

² 3] Lella, Adam, Andrew Lipsman, and Ben Martin. "The 2015 U.S. Mobile App Report." ComScore, 22 Sept. 2015. Web. 10 Nov. 2015

Different types of ad networks

Ad networks can be categorized based on a variety of factors, from the format they support to the way their ads are sold.

By approach



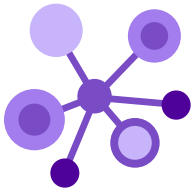
Horizontal

Horizontal networks have inventory from hundreds of thousands of sites across different verticals and often have advanced targeting capabilities because of their reach. Usually, these buys are blind, which means advertisers won't know exactly where their ad will run.

Vertical

Vertical networks typically have less reach than horizontal networks, but are more transparent and allow advertisers to see where their ads will run. Advertisers often target by vertical, such as health or technology, although more-advanced targeting capabilities are sometimes available.

By size



First-tier

The first-tier vs. second-tier labeling refers to the size of a network. First-tier networks work with a large number of advertisers and publishers, as well as second-tier networks.

Second-tier

Second-tier networks work with a smaller number of their own advertisers and publishers and partner with first-tier networks to extend their reach.



By format

Some ad networks support a wide variety of ad formats and platforms, while others specialize. For example, there are video ad networks that only sell online video inventory.



Premium

Premium means different things to different people, but, in general, it refers to high-value inventory. Premium networks work with well-known publishing partners that have high-quality traffic.

How to choose an ad network

There is no one-size-fits all model to buying and selling digital ads. An effective ad network strategy will vary based on inventory, audience location and other factors. Publishers and advertisers often use networks in tandem with other digital advertising players, like ad exchanges.

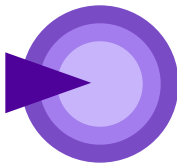
For publishers, choosing a partner is about determining which network suits your needs, size, and ad formats, and can deliver the best value for your inventory while ensuring quality. The right network partner helps ensure your audience is only served quality ads from legitimate businesses. For advertisers, there's a variety of factors to consider, including:



Blind vs. transparent buy



Purpose of the campaign



Targeting capabilities



**The level of support needed
(hands-on vs. turnkey)**



Types of ad formats available



Pricing

Ad networks today

The evolution of ad networks gave birth to a new ad tech player, the ad exchange, which offers greater transparency and targeting capabilities. Ad exchanges use real-time bidding (RTB) technology to auction off unsold inventory to multiple platforms. The RTB approach helps publishers earn the best price possible for every impression, as market competition determines the rate.

To navigate the marketplace and determine the most cost-effective way to buy ad space, many advertisers and agencies work with demand-side platforms (DSPs). DSPs use data and artificial intelligence to determine which inventory to bid for on behalf of the buyer.

Digital advertising has evolved from a manual and cumbersome process to a sophisticated marketplace that now surpasses TV advertising in spend! Ad networks play a crucial role in the buying and selling of digital ad space, and competition and new technology continue to drive advancements in their capabilities, as well as in the industry at large.

³ eMarketer, 9/2016, <https://www.emarketer.com/Article/US-Digital-Ad-Spending-Surpass-TV-this-Year/1014469>

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