

Display Advertising with Real-Time Bidding (RTB) and Behavioural Targeting

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Abstract

The most significant progress in recent years in online display advertising is what is known as the Real-Time Bidding (RTB) mechanism to buy and sell ads. RTB essentially facilitates buying an individual ad impression in real time while it is still being generated from a user's visit. RTB not only scales up the buying process by aggregating a large amount of available inventories across publishers but, most importantly, enables direct targeting of individual users. As such, RTB has fundamentally changed the landscape of digital marketing. Scientifically, the demand for automation, integration and optimisation in RTB also brings new research opportunities in information retrieval, data mining, machine learning and other related fields. In this monograph, an overview is given of the fundamental infrastructure, algorithms, and technical solutions of this new frontier of computational advertising. The covered topics include user response prediction, bid landscape forecasting, bidding algorithms, revenue optimisation, statistical arbitrage, dynamic pricing, and ad fraud detection.

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1

Introduction

An advertisement is a marketing message intended to encourage potential customers to purchase a product or to subscribe to a service. Advertising is also a way to establish a brand image through the repeated presence of an advertisement (ad) associated with the brand in the media. Television, radio, newspaper, magazines, and billboards are among the major channels that traditionally place ads, however, the advancement of the Internet enables users to seek information online. Using the Internet, users are able to express their information requests, navigate specific websites and perform e-commerce transactions. Major search engines have continued to improve their retrieval services and users' browsing experience by providing relevant results. Since many more businesses and services are transitioning into the online space, the Internet is a natural choice for advertisers to widen their strategy, reaching potential customers among Web users [Yuan et al., 2012].

As a result, online advertising is now one of the fastest advancing areas in the IT industry. In display and mobile advertising, the most significant technical development in recent years is the growth of Real-Time Bidding (RTB), which facilitates a real-time auction for a display opportunity. Real-time means the auction is per impression

and the process usually occurs less than 100 milliseconds before the ad is placed. RTB has fundamentally changed the landscape of the digital media market by scaling the buying process across a large number of available inventories among publishers in an automatic fashion. It also encourages *user behaviour targeting*, a significant shift towards buying focused on user data rather than contextual data [Yuan et al., 2013].

Scientifically, the further demand for automation, integration and optimisation in RTB opens new research opportunities in the fields such as Information Retrieval (IR), Data Mining (DM), Machine Learning (ML), and Economics. IR researchers, for example, are facing the challenge of defining the relevancy of underlying audiences given a campaign goal, and consequently, developing techniques to find and filter them out in the real-time bid request data stream [Zhang et al., 2016a, Perlich et al., 2012]. For data miners, a fundamental task is identifying repeated patterns over the large-scale streaming data of bid requests, winning bids and ad impressions [Cui et al., 2011]. For machine learners, an emerging problem is telling a machine to react to a data stream, i.e., learning to bid cleverly on behalf of advertisers and brands to maximise conversions while keeping costs to a minimum [Xu et al., 2016, Kan et al., 2016, Cai et al., 2017].

It is also of great interest to study learning over multi-agent systems and consider the incentives and interactions of each individual learner (bidding agent). For economics researchers, RTB provides a new playground for micro impression-level auctions with various bidding strategies and macro multiple marketplace competitions with different pricing schemes, auction types and floor price settings, etc.

More interestingly, per impression optimisation allows advertisers and agencies to maximise effectiveness based on their own, or the 3rd party, user data across multiple sources. Advertisers buy impressions from multiple publishers to maximise certain Key Performance Indicators (KPIs) such as clicks or conversions, while publishers sell their impressions through multiple advertisers to optimise their revenue [Yuan and Wang, 2012]. This brings the online advertising market a step closer to the financial markets, where marketplace unity is strongly promoted. A common objective, such as optimising clicks or conver-

sions across webpages, advertisers, and users, calls for significant multi-disciplinary research that combines statistical Machine Learning, Data Mining, Information Retrieval, and behavioural targeting with game theory, economics and optimisation.

Despite its rapid growth and huge potential, many aspects of RTB remain unknown to the research community for a variety of reasons. In this monograph, we aim to offer insightful knowledge of real-world systems, to bridge the gaps between industry and academia, and to provide an overview of the fundamental infrastructure, algorithms, and technical and research challenges of the new frontier of computational advertising.

1.1 A short history of online advertising

The first online ad appeared in 1994 when there were only around 30 million people on the Web. The Web version of the Oct. 27, 1994 issue of *HotWired* was the first to run a true banner ad for AT&T.

1.1.1 The birth of sponsored search and contextual advertising

Online advertising has been around for over a decade. The *sponsored search* paradigm was created in 1998 by Bill Gross of Idealab with the founding of *Goto.com*, which became *Overture* in October 2001, was acquired by Yahoo! in 2003 and is now Yahoo! Search Marketing [Jansen, 2007]. Meanwhile, Google started its own service *AdWords* using *Generalized Second Price Auction* (GSP) in February 2002, adding quality-based bidding in May 2002 [Karp, 2008]. In 2007, Yahoo! Search Marketing followed, added quality-based bidding as well [Dreller, 2010]. It is worth mentioning that Google paid 2.7 million shares to Yahoo! to solve the patent dispute, as reported by *The Washington Post* [2004], for the technology that matches ads with search results in sponsored search. Web search has now become an integral part of daily life, vastly reducing the difficulty and time once associated with satisfying an information necessity. Sponsored search allows advertisers to buy certain keywords to promote their business when users use such a search engine and greatly contributes to its continuing a free service.

On the other hand, in 1998, *display* advertising began as a concept *contextual advertising* [Anagnostopoulos et al., 2007, Broder et al., 2007]. Oingo, started by Gilad Elbaz and Adam Weissman, developed a proprietary search algorithm based on word meanings and built upon an underlying lexicon called WordNet. Google acquired Oingo in April 2003 and renamed the system *AdSense* [Karp, 2008]. Later, Yahoo! Publish Network, Microsoft adCenter and Advertising.com Sponsored Listings amongst others were created to offer similar services [Kenny and Marshall, 2001]. The contextual advertising platforms evolved to adapt to a richer media environment, including video, audio and mobile networks with geographical information. These platforms allowed publishers to sell blocks of space on their webpages, video clips and applications to make money. Usually such services are called an *advertising network* or a *display network* and are not necessarily run by search engines, as they can consist of huge numbers of individual publishers and advertisers. Sponsored search ads can also be considered a form of contextual ad that matches with simple context: query keywords; but it has been emphasised due to its early development, large market volume and research attention.

1.1.2 The arrival of ad exchange and real-time bidding

Around 2005, new platforms focusing on real-time bidding (RTB) based buying and selling impressions were created. Examples include ADS-DAQ, AdECN, DoubleClick Advertising Exchange, adBrite, and Right Media Exchange, which are now known as *ad exchanges*. Unlike traditional ad networks, these ad exchanges aggregate multiple ad networks together to balance the demand and supply in marketplaces and use auctions to sell an ad impression in real time when it is generated by a user visit [Yuan et al., 2013]. Individual publishers and advertising networks can both benefit from participating in such businesses. Publishers sell impressions to advertisers who are interested in associated user profiles and context while advertisers, on the other hand, can contact more publishers for better matching and buy impressions in real-time together with their user data. At the same time, other similar platforms with different functions emerged [Graham, 2010] including (i)

demand side platform (DSP), which serves advertisers managing their campaigns and submits real-time bidding responses for each bid request to the ad exchange via algorithms, and (ii) *supply side platform* (SSP), created to serve publishers managing website ad inventory. However, real-time bidding (RTB) and multiple ad networks aggregation do not change the nature of such marketplaces (where buying and selling impressions happen), but only make the transactions in real-time via an auction mechanism. For simplicity, we may use the term “ad exchange” in this monograph to better represent the wider platforms where trading happens.

1.2 The major technical challenges and issues

Real-time advertising generates large amounts of data over time. Globally, DSP Fikisu claims to process 32 billion ad impressions daily [Zhang et al., 2017] and DSP Turn reports to handle 2.5 million per second at peak time [Shen et al., 2015]. The New York Stock Exchange, to better envision the scale, trades around 12 billion shares daily.¹ It is fair to say the volume of transactions from display advertising has already surpassed that of the financial market. Perhaps even more importantly, the display advertising industry provides computer scientists and economists a unique opportunity to study and understand the Internet traffic, user behaviour and incentives, and online transactions. Only this industry aggregates nearly all the Web traffic, in the form of ads transactions, across websites and users globally.

With real-time per-impression buying established together with the cookie-based user tracking and syncing (the technical details will be explained in Chapter 2), the RTB ecosystem provides the opportunity and infrastructure to fully unleash the power of user behavioural targeting and personalisation [Zhang et al., 2016a, Wang et al., 2006, Zhao et al., 2013] for that objective. It allows machine driven algorithms to automate and optimise the relevance match between ads and users [Raeder et al., 2012, Zhang et al., 2014a, Zhang and Wang, 2015, Kan et al.,

¹According to Daily NYSE group volume, <http://goo.gl/2Ef1kC>, accessed: 2016-02.

2016].

RTB advertising has become a significant battlefield for Data Science research, acting as a test bed and application for many research topics, including user response (e.g. click-through rate, CTR) estimation [Chapelle et al., 2014, Chapelle, 2015, He et al., 2014, Kan et al., 2016], behavioural targeting [Ahmed et al., 2011, Perlich et al., 2012, Zhang et al., 2016a], knowledge extraction [Ahmed et al., 2011, Yan et al., 2009], relevance feedback [Chapelle, 2014], fraud detection [Stone-Gross et al., 2011, Alrwais et al., 2012, Crussell et al., 2014, Stitelman et al., 2013], incentives and economics [Balseiro et al., 2015, Balseiro and Candogan, 2015], and recommender systems and personalisation [Juan et al., 2016, Zhang et al., 2016a].

1.2.1 Towards information general retrieval (IGR)

A fundamental technical goal in online advertising is to automatically deliver the right ads to the right users at the right time with the right price agreed by the advertisers and publishers. As such, RTB based online advertising is strongly correlated with the field of Information Retrieval (IR), which traditionally focuses on building relevance correspondence between information needs and documents [Baeza-Yates et al., 1999]. The IR research typically deals with textual data but has been extended to multimedia data including images, video and audio signals [Smeulders et al., 2000]. It also covers categorical and rating data, including Collaborative Filtering and Recommender Systems [Wang et al., 2008]. In all these cases, the key research question of IR is to study and model the relevance between the queries and documents in the following two distinctive tasks: retrieval and filtering. The retrieval tasks are those in which information needs (queries) are *ad hoc*, while the document collection stays relatively static. By contrast, information filtering tasks are defined when information needs stay static, whereas documents keep entering the system. A rich literature can be found from the probability ranking principle [Robertson, 1977], the RSJ and BM25 model [Jones et al., 2000], language models of IR [Ponte and Croft, 1998], to the latest development of learning to rank [Joachims, 2002, Liu, 2009], results diversity [Wang and Zhu,

2009, Agrawal et al., 2009, Zhu et al., 2009a] and novelty [Clarke et al., 2008], and deep learning of information retrieval [Li and Lu, 2016, Deng et al., 2013].

We, however, argue that IR can broaden its research scope by going beyond the applications of Web search and enterprise search, turning towards *general retrieval* problems derived from many other applications. Essentially, as long as there is concern with building a correspondence between two information objects, under various objectives and criteria [Gorla et al., 2013], we would consider it a general retrieval problem. Online advertising is one of the application domains, and we hope this monograph will shed some light on new information general retrieval (IGR) problems. For instance, the techniques presented on real time advertising are built upon the rich literature of IR, data mining, machine learning and other relevant fields, to answer various questions related to the relevance matching between ads and users. But the difference and difficulty, compared to a typical IR problem, lies in its consideration of various economic constraints. Some of the constraints are related to incentives inherited from the auction mechanism, while others relate to disparate objectives from the participants (advertisers and publishers). In addition, RTB also provides a useful case for relevance matching that is bi-directional and unified between two matched information objects [Robertson et al., 1982, Gorla, 2016, Gorla et al., 2013]. In RTB, there is an inner connection between ads, users and publishers [Yuan et al., 2012]: advertisers would want the matching between the underlying users and their ads to eventually lead to conversions, whereas publishers hope the matching between the ads and their webpage would result in a high ad payoff. Both objectives, among others, require fulfilment when the relevancy is calculated.

1.3 The organisation of this monograph

The targeted audience of this monograph is academic researchers and industry practitioners in the field. The intention is to help the audience acquire domain knowledge and to promote research activities in RTB and computational advertising in general.

The content of the monograph is organised in four folds. Firstly, chapters 2 and 3 provide a general overview of the RTB advertising and its mechanism. Specifically, in Chapter 2, we explain how RTB works, as well as the mainstream user tracking and synchronising techniques that have been popular in the industry; In Chapter 3 we introduce the RTB auction mechanism and the resulting forecasting techniques in the auction market. Next, we cover the problems from the view of advertisers: in Chapter 4, we explain various user response models proposed in the past to target users and make ads more fit to the underlying user's patterns, while in Chapter 5, we present bid optimisation from advertisers' viewpoints with various market settings. After that, in Chapter 6, we focus on the publisher's side and explain dynamic pricing of reserve price, programmatic direct, and new type of advertising contracts. The monograph then concludes with attribution models in Chapter 7 and ad fraud detection in Chapter 8, two additional important subjects in RTB.

There are several read paths depending on reader's technical backgrounds and interests. For academic researchers, chapters 2 and 3 shall help them understand the real-time online advertising systems currently deployed in the industry. The later chapters shall help industry practitioners grasp the research challenges, the state of the art algorithms and potential future systems in this field. As these later chapters are on specialised topics, they can be read in independently at a deeper level.

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