Message

From: Chris LaSala [chrisl@google.com]
Sent: 1/29/2019 3:52:44 PM
To: Noam Wolf [nwolf@google.com]
Subject: Re: OpenX lays off 100, more pressure on sellside take rates

Yes, I'm here. Let's chat...

On Mon, Jan 28, 2019 at 11:20 PM Noam Wolf <nwolf@google.com> wrote:
Are you at DVAALs?

On Mon, Jan 28, 2019, 7:31 PM Chris LaSala <chrisl@google.com> wrote:
No..this topic continues to get ignored. would love your help to have 1 resurfaced for sure..

separatetly, we should talk about #2 and when the right time, if ever, to bring this up again.

On Sun, Jan 20, 2019 at 2:47 PM Noam Wolf <nwolf@google.com> wrote:
I don't think we've truly discussed this (we had a repricing review where Suresh asked us NOT to change rates) but I don't think we talked about margin or disclosure... right? should we get together (you, bigler, duke, me) to discuss? or push to Sagnik?

--noam

On Fri, Jan 4, 2019 at 4:40 PM Chris LaSala <chrisl@google.com> wrote:
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Hi Nitish,

I was making 2 broader points . . .

1. (in red text) As GDN plans to make changes in their take rate to win more and improve profitability, there was a question about whether we should update our disclosures with AFC partners, who are under the impression (rightly or wrongly) that Google's full take rate is 32% (previously disclosed). So the question posed to this group was (and still is) "should we do this a) with no disclosure b) with a muted disclosure like updating comms docs or c) a more proactive disclosure that explains to the market that 'networks' often work in an arbitrage business model and take an undisclosed fee. Google is no different. We never came to a definitive conclusion about how to approach.

Note: This is different (albeit related) to the disclosure questions we are considering with the changes to AdManager (fka DFP small biz)....but we should have a principled decision in how we approach both. Are we comfortable telling the market that generally Google is comfortable with being 'non-transparent.' Sagnik (I think) was going to get something on calendar in January. Please let me know if I have that wrong, or if that has been decided in another forum.

2. The more important point that could use more consideration, is related to Bellack's points 2 and 3 in his 'parting gift.' My summary POV is that a sell-side rev share should probably top out at 10% for OA (comparing 2 bids with layers of protection). Margin can be made on the 'network buy-side.' So our stated rev share for using a sell-side platform is 10%. What the 'buyer' does with a bid is up to the buyer (GDN, Criteio, FB, AMZ). But spend through a DSP is more tricky given negotiated rates...and Bellack lays out a

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few paths to consider. It was my understanding, coming out of strat planning, that we would pursue for non-web inventory (which is happening, I think, for Audio and DOOH - although that isn't programmatic), but there was some implicit agreement in the works to slow roll DV360 approach to apps (and video?), so we don't end up in the same place we are in with the web.

Can we close the loop on 1 (in January) and get an update on 2? If we could find a way to transfer the margin from sell-side to buy-side, our sell-side segmentation + move to 1st Price auction + unified floors suddenly becomes meaningfully easier for the market to digest.

Chris

On Thu, Jan 3, 2019 at 9:18 PM Nitish Korula <nitish@google.com> wrote:
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Chris, just to make sure I understand: Are you more concerned about the non-transparent nature of GDN's revshare, or the disclosure that they take a revshare at all?

@Dan: Which of the two issues in Chris's email were you referring to? The nature of the buyside revshare, or DV360 moving to a 'network' model vs. 'agnostic buying platform'? Or both of these?

Thanks,
Nitish

On Thu, Jan 3, 2019 at 9:03 PM Noam Wolf <nwolf@google.com> wrote:
I believe we're scheduled to have a "pre-review" next week to prepare for a formal Suresh review on Thursday. We should discuss then.

We touched on the risk of going non-transparent at today's pricing/segmentation meeting but I think there's a lot more to consider.

On Thu, Jan 3, 2019, 7:38 PM Dan Taylor <dantaylor@google.com wrote:
Bumping this back up given 1st pricing convos already starting. What is the best way to make progress here?

Dan Taylor |	Director, Global Display Ads | Google |	dantaylor@google.com |	917.338.0468

On Thu, Dec 20, 2018 at 11:12 AM Chris LaSala <chrisl@google.com> wrote:
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+Sissie Hsiao who may have a POV on apps as well
+Sagnik Nandy as well

Thanks for the parting holiday gift. I agree with this POV and worry that this thinking could use more attention in the new year, particularly in light of the changes we are making to SB, 1st Price, and AM rate card. If we go forward with this, we have a unique opportunity to commercialize this as a single plan, that considers DV360 and GDN plans how buying behavior and pricing evolve, even if the timing is spread out over years.

We should check in on how 'tightly aligned and loosely coupled' our plans are as we start the new year. When we presented this paper to Suresh in June, it was a great plan if 1, 2 and 3 happened together. We also came out of strat planning agreeing that DV360 was going to slowly move toward 'network' vs 'agnostic buying platform' (e.g. no band-aid rip) and that apps and video would be good places to start. Add issues with identity and regulatory environment, this equation becomes even more complicated.

The one specific AI that came out of meeting in the summer strat review over lunch was to regroup on if and how we were going to share with all publishers that our GDN buy-side pricing is fluid with AFC and AM pubs. I don't know if that ever happened. If not, can we get that scheduled in January? This is a very tactical and important decision to make that is a great litmus test for many of the topics that are surfaced in this thread...

I know this is not a good time of year to have this kind of discussion, but let's pick it up in the new year.

Enjoy the break everyone.

Chris

On Thu, Dec 20, 2018 at 10:26 AM Jonathan Bellack <jbellack@google.com> wrote:

ATTORNEY CLIENT PRIVILEGED & CONFIDENTIAL -- bringing Ted into this for the legal PoV because we're now talking more in depth about pricing. Best practice is to always get the legal PoV on pricing discussions, not to just have them in email.

Also +Sam who I realized I left off by accident

Some of you know my views on this, but in terms of parting thoughts -- in my experience publishers & advertisers distinguish between networks (which generate new/unique demand and advertiser ROI) and SSP/DSP platforms (which connect them with those who generate demand). Pubs & buyers are getting price-sensitive about platforms, in part because the competitors are lowering prices as their only compelling differentiator at this point. Something similar happened back in the DoubleClick days with DFP -- Falk made in-roads in the market with prices 1/3 of DFP's, then when we lowered DFP prices to a fair market value (still 25-50% higher than Falk), Falk & the other ad servers out there kept lowering prices in an effort to win business. They kept lowering even to the point where some of their deals were losing money, because their alternative was to have no revenue and go out of business. We did well because we delivered really solid value for the prices we charged, but more importantly, we did not let our prices get out of whack with the market -- we adjusted our rate card down or made one-time special deals to ensure that we were never more than 25-50% higher prices than the competition, because that's what we figured out the market would bear. Sometimes we could even win at double the price of competition, but that was rare.

Pubs and advertisers seem to be much LESS price-sensitive about networks. My thesis is it's because they believe the networks are offering something truly incremental, so giving the network 30-40% of something they couldn't have gotten otherwise feels like a reasonable deal. For example, I have never once heard a pub even ASK what Criteo's take rate is before they bid on Ad Manager. And I've never heard a pub even THREATEN to cut off Criteo or A9 or FAN from their inventory because their revshare was undisclosed or too high.

The logical end point of this would be the following:

1 - get Ad Manager OA revshares in-line with market value. Could still be higher than competition, but shouldn't be double the price.

2 - separate GDN from Ad Manager rates overall, making it clear to pubs that GDN is a network and as such we're not disclosing revshare AND/OR revshare is higher. GDN would be entirely in-line with Criteo, A9, and FAN if we did this, the hard part is making the commercial changes since this reverses ten years of presenting GDN inside AdX instead of as a separate thing, and dealing with the lingering issue of the lack of publisher clarity around the existing GDN buy-side take rate. [Fun thought experiment -- what would have been the pros & cons if we had kept AFC backfill in DART DFP as the primary path to GDN demand, and kept AdX separate as just a product for third-party demand from networks & DSPs?]

3 - rethink the DV360 pricing model. We all know that the relatively cheap fees of DV360 mean it would not be a viable business if it was only buying on third-party inventory without a sellside revshare for Google. This means it's not really accurate to say that DV360 pricing strategy should be kept independent of the sellside, because the sellside is effectively subsidizing DV360's pricing strategy. If DV360 could charge higher rates overall (on or off Google inventory) then the sellside revshare could be lowered to be more competitive with other SSPs. This could be done in two ways:

3a - find new value to charge new fees to DV360 customers. I know there's a lot of buy-side work on this already.

3b - figure out a way to reclassify Ad Manager inventory in DV360 to be part of a network, and DV360 demand in Ad Manager to be part of GDN. This means trying to make Ad Manager more like AFC/AdMob/Yavin -- these are all network products where publishers don't differentiate the revshares of GDN vs DV360, they see it all as Google demand. This will be challenging for Ad Manager though since DBM has always been positioned as a different thing from GDN going back to the Invite days.

-- Jonathan Bellack / jbellack@google.com
Director, Product Management / Publisher Ad Platforms

On Thu, Dec 20, 2018 at 10:00 AM Chris LaSala <chrisl@google.com> wrote:
Good point Nitish. The real question is can we 'retrain' the ecosystem to speak in terms of "what demand sources is proving you the best yield, mrs. publisher" and "what publisher/exchanges is providing you the best return mr. buyer". We'll have to balance our ideal state with reality as we commercialize these changes.

On Wed, Dec 19, 2018 at 9:21 PM Nitish Korula <nitish@google.com> wrote:
Thanks, Jonathan!

The article mentions "OpenX said that take rate pressures aren't a factor in the layoffs", but I suppose they would say that anyway.

@Chris: The second sentence you quoted (about best-performing routes being the exchange with the lowest fees) seems to reflect a somewhat widely held sentiment, but it just seems very unlikely to be true, given all the other difference between exchanges. As evidence, every attempt by DBM to do supply-path optimization (like all their Poirot work) has resulted in more spend shifting to AdX.

Nitish

On Wed, Dec 19, 2018 at 9:00 PM Chris LaSala <chrisl@google.com> wrote:
This statement is consistent with the notion that we can only retain 20% rev share given AdX mostly brings unique demand in GDN. Something to think about as we think about AdManager SB taking network like margins. I'm still convinced that is the only reason we can sustain 20%....

This strategy disadvantages OpenX which, sources say, often charges fees close to 20%, on par with Google. But Rubicon Project charges 12%, and AppNexus averaged 8.5% a year ago. Agencies and DSPs are also using supply path optimization to find the best-performing route to a particular publisher, and that's often the exchange with the lowest fees.

On Wed, Dec 19, 2018 at 7:27 PM Jonathan Bellack <jbellack@google.com> wrote:
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