Message

From:	Chris LaSala [chrisl@google.com]
Sent:	6/27/2018 4:42:32 AM
To:	Carlos Kirjner [kirjner@google.com]
Subject:	Re: PRIVILEGED AND CONFIDENTIAL

Great to hear. Thanks Carlos.

On Wed, Jun 27, 2018 at 12:24 AM, Carlos Kirjner <kirjner@google.com> wrote:
Thank you for the answer during vacation. Enjoy!

On your question re: resources. We are deploying finance resources in line with agreed upon priorities with Suresh. My strong hypothesis is that if we are seriously looking at fundamentally changing our pricing structure over the next two years, this would be very high in the list. So, my answer is highly probably yes, we can lean in.

On Tue, Jun 26, 2018 at 8:54 PM Chris LaSala <chrisl@google.com> wrote:
Hi Carlos,

I'm officially on vacation now, so apologies for the delay. I'm about to go off the grid for a bit...but answers in-line:

On Mon, Jun 25, 2018 at 11:25 PM, Carlos Kirjner <kirjner@google.com> wrote:
+gabe

Chris this is great (even though I dont understand a lot of it, I am sure)

I like the idea of taking a blank slate approach and working backwards. I like the idea of charging publisher platform products as enterprises and making sure we price where there is value (our demand) and not for the exchange services.

I have three questions

a) if we take the end state as you suggest (set aside DBM for a sec), what is the order of operations to get there? I dont think we and the industry have the stomach for a big bang change (I may be wrong)
CL: I don't have the commercial plan thought out just yet...I'm focusing on philosophical alignment and analysis at this stage. But I would imagine that we'd take a measured approach over the course of 2+ years. Bellack floated an idea of using the "new network" as the best path, where we can use GAIA informed/served demand as the natural point to differentiate 'old demand priced the old way' from 'new network demand priced the new way'. I think that idea has merit.

b) Would any of the above chance if we accelerated the process of merging DBM and Adwords? Why do we need two buying doors?
Great question that is better answered by Dan (copied - welcome to the party). But the premise is that large, brand advertisers need a platform that gives them more control than AdWords does, and it is exactly that 'control' that complicates what we can do wrt to DBM as a 'network'. Dan much better suited to provide history and current thinking.

c) If we beleive that there is merit in looking at this holistically (sell and buy side together), what is the right process to get this done? Who in product oversees the scope involved here?

PTX0624
1:23-cv-00108

Brad oversees the buy and sell-sides, so can make the call here and I would think he would be supportive. But we would also need some dedicate support from finance to model the different outcomes AND pricing team to help think through different strategies. We would love your support to help get an effort started to look into this that goes beyond GSL and PM. Dan and I are looking to draft this perspective - are there resources from your team that could lean in?

On Mon, Jun 25, 2018 at 4:57 PM Chris LaSala <chrisl@google.com> wrote:

Thanks for adding me in.

I have a reasonably strong perspective that we should not make any changes to the sell-side pricing structure without evaluating changes to the buy-side. Some sloppily organized thoughts:

Premise:

- We should separate how we charge for our 'media' business and our 'platforms' business
- The value Goolge provide to publishers in sourcing new media can be delivered with blind rev share - we take a cut and pass bid. Rev share to a pub is essentially 0%. We have incentive to not take too much of a cut in a liquid market, as we won't win, and can't make money when we don't win. The market is increasingly becoming more liquid and more competitive.
- The Sell-SIde 'platform' should charge based on the value provided by the platform (e.g. in excuting reservations, forecasting, yield managing, etc). These things all have value. The problem is that we've been discounting it and subsidizing it with an AdX rev share, without making specific account and allocation decisions for how much the OA rev share was subsidizing the platform. We can change this
- The AdX sell-side fee of 20% holds today not because there is 20% of value in comparing 2 bids to one another, but because it comes with unique demand via AdWords that is not available any other way. AWBid puts pressure on this narrative, but is not as big a concern because even with AWbid, we can take our 32%. You could argue that when you use Google Ad Manager, it comes with all this demand from 3P buyers and you don't have to go get them..that is worth something, but I think we are all in agreement that 'exchange functionality' is not worth 20% and value comes from sourcing demand.

The Challenge

- If our only demand source was GDN, we could change pricing tomorrow, move the margin to the buy-side and charge for the ad server and yield manager with minimal impact to our gross and net revenue...but.....
- ... DBM complicates this as DBM demand is not positioned as unique because DBM is a 'buying tool' not a source of demand. So Demand from DBM is not meaningfully different to a pub then demand from Media Math. So I cannot easily reduce prices on the sell-side for DBM demand because I cannot easily make up for with network margins in DBM
- And if DBM doesn't make any changes aligned to a strategy that crosses buy and sell sides, it is dangerous to make sell-side changes only that simply 'raise prices' on the platform without removing the subsidy that was provided by the OA rev share....

One Option to Consider:

- charge GAM platform fees as enterprise software - the more you use, the more you pay, with the more valueable stuff being charged higher rates (reservations) and the less valuable stuff (mediation, comparing bids) at less valuable rates. We could either do that by going to a usage fee (not rev share) or keep some parts that are rev share (like cc processing fees)....but something much lower than today that meets some hurdle rate of contribution margin + takes into account the strategic value of 'owning the tag' ...which still has value as it ensures fair access.

- reduce rev share on DBM and GDN to 0%
- GDN operates as they do today
- DBM either:

o Splits its demand - one attached to YT with google data (smart pipes), which then flows through some GDN like pipes. If you want access to "YT and the Google Video Parnter network" we will take your money and spend it in our network. The other is an advertiser using DBM dumb pipes to buy 'other' exchange inventory (including Google Ad Manager inventory, but without any DBM smartness) - but this part of our business will be tough to run on 9% avg fees...so another option is.....

o ...get out of the x-exhange DSP business and only buy on O&O and google partner inventory. If DBM's strategy is to 'consolidate media spend' as a North Star, then I question whether that is possible long-term, as today agencies are using multiple DSPs already, can't get access to inventory like FB with any DSP, and with AT&T's acquisition of AN, it looks like the walled gardens are building their walls higher. We can also do that.

Getting back to my original point, if we don't think about the intersection of the buy and sell sides of our business, and making pricing changes on one without having a plan on how that impacts the other, we will have missed an opportunity.

On Mon, Jun 25, 2018 at 7:02 PM, Jonathan Bellack <jbellack@google.com> wrote:
+ChrisL because we were discussing our meeting.

On Mon, Jun 25, 2018, 6:52 PM Jim Giles <jimgiles@google.com> wrote:
Another one you could add which a') Should we disclose to publishers a new arrangement where there is a fee we are not disclosing (eg net price with declared sellside fee) -- easy to do for GDN and doable with DBM if we have a similar new arrangement with advertisers.

On Mon, Jun 25, 2018 at 2:47 PM Carlos Kirjner <kirjner@google.com> wrote:
in addition to exploring DFP/AdX price increase possibility given that we are delivering increased value, I suggest you put two questions on the table separately

a) should we disclose to publishers the buy side fee?

b) Should we increase this buy side fee across GDN/AdX?
- If yes, what is the value upside and how do we think about managing our relationship with publishers?

Again, my intention here is to ensure we have the room to invest in the next couple of years

C

--

Chris LaSala / Director, Global Programmatic Sell-Side Solutions / 212-565-8801 (office)

--

Chris LaSala / Director, Global Programmatic Sell-Side Solutions / 212-565-8801 (office)

--

Chris LaSala / Director, Global Programmatic Sell-Side Solutions / 212-565-8801 (office)