

Message

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Subject: Unified Auction Changes (Sellside) Executive Update - Aug 12, 2019

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This is part of a series of updates on the upcoming changes to the Ad Manager and AdMob auctions. The first update is intentionally long since its covers the last 6 months.

Summary

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- *Launch Timing:* Aiming for a 100% launch in early September
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- *Market perception:* Improved over the last 3 months due to continued dialogue with publisher partners and the press, and incorporation of some publisher feedback into product changes.
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- *Biggest Risk:* Performance (Publisher and Google revenue, advertiser performance) may be worse than the status quo (particularly on AdX web). We believe this will improve over time, and it is under active investigation and development; more details below.

Timelines

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- Upcoming milestones
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- *Early Sep '19 (assuming revenue impact is acceptable):* Migration of 100% of Ad Manager and Admob traffic to the new auction model, with buyers having the ability to choose whether to submit first-price or second-price bids.
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- Past milestones
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- Feb 15 '19: ACM approving migration of Ad Manager & Admob to a first price auction, removal of AdX last look and unification of pricing rules across Ad Manager non-reservation demand (deck)
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- Mar 6 '19: Blog post announcing migration to a first price auction
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- May 6 '19: Unified Pricing Rules available to all Ad Manager publishers
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- May 10 '19: Blog post announcing replacement of legacy pricing rules with Unified Pricing Rules
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- June 10 '19: Migration of 1% of Ad Manager and AdMob traffic to the new auction model
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- June 26 '19: Migration of 5% of Ad Manager and AdMob traffic to the new auction model
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- July 29 '19: Migration of 10% of Ad Manager and AdMob traffic to the new auction model

Revenue Impact

There are 3 primary short-term effects of the first-price / Unified Pricing Rule changes:

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- Giving up "last look" over remnant line items / header bidding. On second-price traffic, this results in an 8% decrease in AdX revenue (-9.5% on open auction + private auction), and 7.6% decrease in impressions. It is neutral on AdMob, since remnant / header bidding traffic is less significant on app, and there was no previous "last look" on AdMob. There is an increase in spend on External Exchange, since DV3 is a large buyer of header bidding.
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- Moving from legacy AdX pricing rules to Unified Pricing Rules (which apply uniformly across AdX, Exchange Bidding and Header Bidding). This lowers floors on AdX, providing increased access to inventory for buyers. (See details on lower floors below).
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- The effect is estimated at a 6.4% increase in value of open auction + private auction impressions won by AdX and a 32.6% increase in impressions, which are currently blocked due to high legacy pricing rule floors. A previous analysis showed that 16.8% of impressions won by header bidding had an AdX bid higher than the HB bid, which was blocked due to a higher floor for AdX.
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- This also has a negative effect on external exchange spend, since remnant / header bidding / Open Bidding demand previously had no floors applied.
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- Different bidding logic (first-price) from buyers. Many buyers are continuing to submit high bids and paying the full amount, eliminating the auction discount (aka bid-price gap). Some buyers are experimenting with "smart" / first-price bidding algorithms. Quantifying the effect of these is difficult, since buyers are using the transition period to develop and test new algorithms.

Additionally, there is a long-term benefit of publishers having reduced incentives to inflate the CPMs of Header bidding line items. Today, these inflated CPMs are used to provide price pressure for AdX, which can result in increased publisher revenue. In a first-price auction, such inflation can only lead to reduced publisher revenue, so this inflation is expected to decrease over time.

Ad Manager / AdMob will be offering a temporary "bid translation" service that buyers can opt in to. Buyers who use this service during the transition can submit second-price bids as they historically have, and the exchange will intelligently submit bids into the unified first-price auction on their behalf, to help them continue to win impressions without significantly overpaying. Note that other exchanges offer similar services, and most buyers on our exchange are currently evaluating the service. We plan to eventually deprecate this service as buyers adapt to the new first-price ecosystem

Current Performance (GDN + DV3 using Bid Translation)

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- AdX Web (rasta, *Unlikely to be the launch candidate*)
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- Drop in Google backfill revenue (AdX and Exchange Bidding) of 8.1% and programmatic payout to publishers of 8.0%; drop in impressions of 7.4% and value of 7.1%.
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- Overall publisher revenue (including remnant / header bidding revenue) is ~neutral. However, this assumes that Header Bidding revenue (as entered in Ad Manager) is accurate. In practice, for many publishers, this is not true since they apply a boost to Header Bidding bids, such publishers may see a decrease in revenue, but any such decrease should give them an incentive to remove the boost.
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- Apps (Ad Manager + AdMob) (rasta, *possible launch candidate*)
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- Neutral to positive change in revenue (+0.7%), with +2% impressions and +0.9% payout to app publishers, along with neutral Google profit.
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- Overall results are better for AdMob than AdX. We see a small decrease in impressions for AdMob (-0.8%), likely due to impressions shifting to Ad Manager on same inventory. Google revenue, profit and payout to app publishers all increase by ~1% for AdMob.
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- **However**, the overall neutral results hide a shift in spend from Google buyside (GMob -2.5%, AdWords -5.9%, DV3 -4.4%) to AdX buyers, who are increasing spend by 61.6%, while increasing impressions by 55.9%.
- Mitigating factors:
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- This increased spend from AdX buyers may not be sustained when traffic ramps up (if AdX buyers are overpaying for inventory), allowing recovery from Google buy-side.
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- Almost exactly half this revenue loss is budget-constrained on each of GMob, AdWords, and DV3.

This is an **average** across a large number of experiments with different bidding logic, including some that exist purely for training, so *limited conclusions (if any) should be drawn from this data*. Our buyside team will provide separate updates on individual experiments, which may be more representative of expected performance (including potential launch candidates for Web)

- Google revenue drops by 8.3%, with a 13.2% decrease in Google profit, and a 6.9% drop in payout to publishers. There is a 1.9% decrease in impressions, with a 6.7% decrease in value.

- Google revenue is slightly up (0.7%), but payout to publishers is considerably lower (-5.4%), primarily because of a higher Google margin (+13.0%).

Authorized Buyers Bidding

- Overall, CPMs are lower by 27.5% while match rate has increased by 87%, resulting in a 35% increase in revenue

- Product changes

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- *May '19:* Launched unified pricing rules, where a single floor applies uniformly across all of a publishers' non-direct sales traffic, irrespective of the channel (e.g. Header Bidding, Exchange Bidding, AdX) or the buyer. This feature will replace legacy AdX Pricing Rules.
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- *May-June '19:* Incorporated changes based on publisher feedback (including increasing limits on number of rules a publisher, extending functionality to block specific buyers for brand safety reasons)
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- Current state: We see significant reduction in effective floors, which will improve inventory access for buyers.
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- 56% of queries have non-zero Unified Pricing floors, compared to ~80% of queries with non-default legacy pricing rule floors. (Default pricing rules were required previously.)
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- When a Unified Pricing floor *is* present, it is set only to ~72% (at the median) of the corresponding legacy Pricing rule floor.
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- Concretely, for AdWords, the mean applicable publisher-configured floor price has gone down from \$3.31 under the old pricing rules (which includes AdWords-specific floors) to \$1.01 under Unified Pricing Rules. Median AdWords floors have decreased from \$0.7 under the legacy pricing rules to \$0.45 under Unified Pricing Rules.
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- Upcoming product changes
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- *Mid-Aug:* Extending functionality to offer discounted floors for specific advertisers (publishers will not be able to set up buyer-specific floors even after this change), to achieve specific business objectives (e.g. a lower floor that's part of a large cross-channel advertising campaign) that are not related to yield management
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- *Early Sep:* Migration of brand safety/protections controls (like advertiser and buyer blocks) from the legacy AdX Pricing rules UI to the new Unified Protections UI
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- *Oct:* Extending functionality to define different floor prices for different formats (for eg. outstream video vs display ads)

Ad Manager Auction Transparency (Bid Data Transfer):

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- We're making changes to one of our publisher data transfer files (Bid DT) to allow publishers to gain visibility into the entire bid landscape and improve auction transparency.
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- However, we're *removing* the ability for publishers to join the data in this file with their remaining data transfer files (which may contain user identifiers). Only 30 publishers have this file today, so it will be incremental data for other publishers. However, the 30 using the file today include some of our most sensitive and vocal customers, who may complain about reduced functionality.
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- We expect this to be a tricky commercialization when we communicate this to the market. Initial message testing with a handful of trusted partners is currently ongoing, and they seem receptive (though others are likely to be more skeptical).

Publisher/ Press updates

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- *Mar '19:* Positive press following initial announcement to re. the migration of Ad Manager to a first price auction, around the improved simplicity this change would bring to the ecosystem ([AdExchanger](#), [AdAge](#), [AdWeek](#))
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- *May '19:* Negative press upon subsequent announcement around our intent to unify pricing across all demand sources (including header bidding) and disallow the ability to set buyer-specific floors ([Ad Exchanger](#), [Digiday](#))
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- *May-June '19:* Extensive partner education through individual (>20 1:1 PM/eng/pub meetings) and group engagements (eg. US/EMEA User groups) around the benefits of the upcoming changes, reaching >400 pubs
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- *May-June '19:* Positive feedback received from a variety of publishers, including the Washington Post, Vice Media, NYT, MailOnline, etc
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- *"Google's move to first-price auctions and unified pricing is an opportunity to improve transparency throughout the ecosystem, including improved visibility of their own actions and practices, which I believe should benefit everyone." -- MailOnline*
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- *"We welcome Google's move to first price auctions and unified pricing rules. These changes will help us simplify how we implement our most advanced pricing strategies between our header bidding partners, Ad Manager and Exchange Bidders. We believe this will help create a level playing field for non-guaranteed transactions and help us review the performance of our demand partners." -- VICE Media*
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- *Jul '19:* A few unhappy publishers (including NewsCorp and the Guardian) who we continue to engage with; More recently, Steph Layser (VP, AdTech Newscorp) wrote an Ad Exchanger Oped raising fairness concerns around combining our ad server with our exchange as part of Ad Manager unification.
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- *Jun-Jul '19:* Regional sales teams conducted multiple hands-on workshops with clients around the operational aspects of setting unified floors in a first price auction
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- *Aug '19:* We recently shared some aggregated experiment data with a very small set of strategic partners, to give them some visibility into experiment performance, in advance of the 100% migration. Results were mostly neutral to mildly positive, so (at least so far) this has not generated significant questions / concerns.