From: Gabe Kronstadt <gabekronstadt@google.com>
To: Chris LaSala <chrisl@google.com>
Subject: Re: EB
Cc: Cyrus Beagley <cbeagley@google.com>, Andrey Donov <adonov@google.com>, David Goodman <davidgoodman@google.com>, Bryan Rowley <browley@google.com>

Hi Chris and Cyrus

We think we have answers to #1 and 2 as best we can.
For #3: Bryan, any luck getting a summary of sales activation plan (I believe this was your AI)? If not, can Cyrus's team help?
On the question re: DBM product strategy, we're a bit stuck. Chris/Bryan, could you help drive this?

On Tue, Jun 19, 2018 at 7:53 AM Chris LaSala <chrisl@google.com> wrote:

Thanks Andre...great work as this is tough question to answer. A few recommendations if possible:
1. Can we also look at the degree to which we think EB is a result of impressions moving from Line Items (either from HB through line items or just moving exchanges out of line items and into EB). If EB growth is coming from that, then the argument that EB is taking from OA is less relevant.
2. Can we see how much of the growth of EB is coming from DBM through EB and normalize the above analysis. With my Google hat on, the right answer is not "do something different with EB and ask our sales teams to jump through hoops" but rather suggest that DBM stop buying on 3PEs when they know they can see the impression in AdX.
3. Agree we should put together a quick upate on what sales is doing re: helping pubs optimize EB. Can someone in RevIntel do that (Jerry??) for global teams?
4. Suggest this team regroup when all of that is done before going to GP leads.

Chris

On Tue, Jun 19, 2018 at 9:55 AM, Cyrus Beagley <cbeagley@google.com> wrote:

Thank you Andrey! Interesting stuff. Good that there are other factors at play too -- encouraging that it is not all due to EB.
Think we should bring this to GP Leads. What about the other workstreams we discussed last time (sales activation plans to ensure pubs are setting floors properly, DBM initiatives on the product side)? Would be good to bring back full perspective if we can.

On Mon, Jun 18, 2018 at 8:52 PM Andrey Donov <adonov@google.com> wrote:

hi Chris/Cyrus,

Wanted to provide a quick update on my AI from the EB discussion (analyzing decline in OA business): Long story short: besides EB, there are **two/three other factors** contributing to the 20 ppts drop in OA growth over past 12 months, namely: (i) **Safari ITP launch** (~5 ppts); (ii) **lapping** the exclusion of **GDN demand from PA** (which inflated OA growth in 2017) and possibly (ii) improvement in **AFC** performance, leading to **budget shifting** from AdX OA to AFC. We also found that publishers using EB have seen around 4 ppts faster growth decline vs. publishers not using EB.

I can share more charts/details (have synced with Goody, rev team, Michelle's team, Art Price, etc), but the headline is that the OA business is being impacted by multiple factors. We believe EB is one of them, but it's very difficult to precisely pinpoint the exact impact of EB.
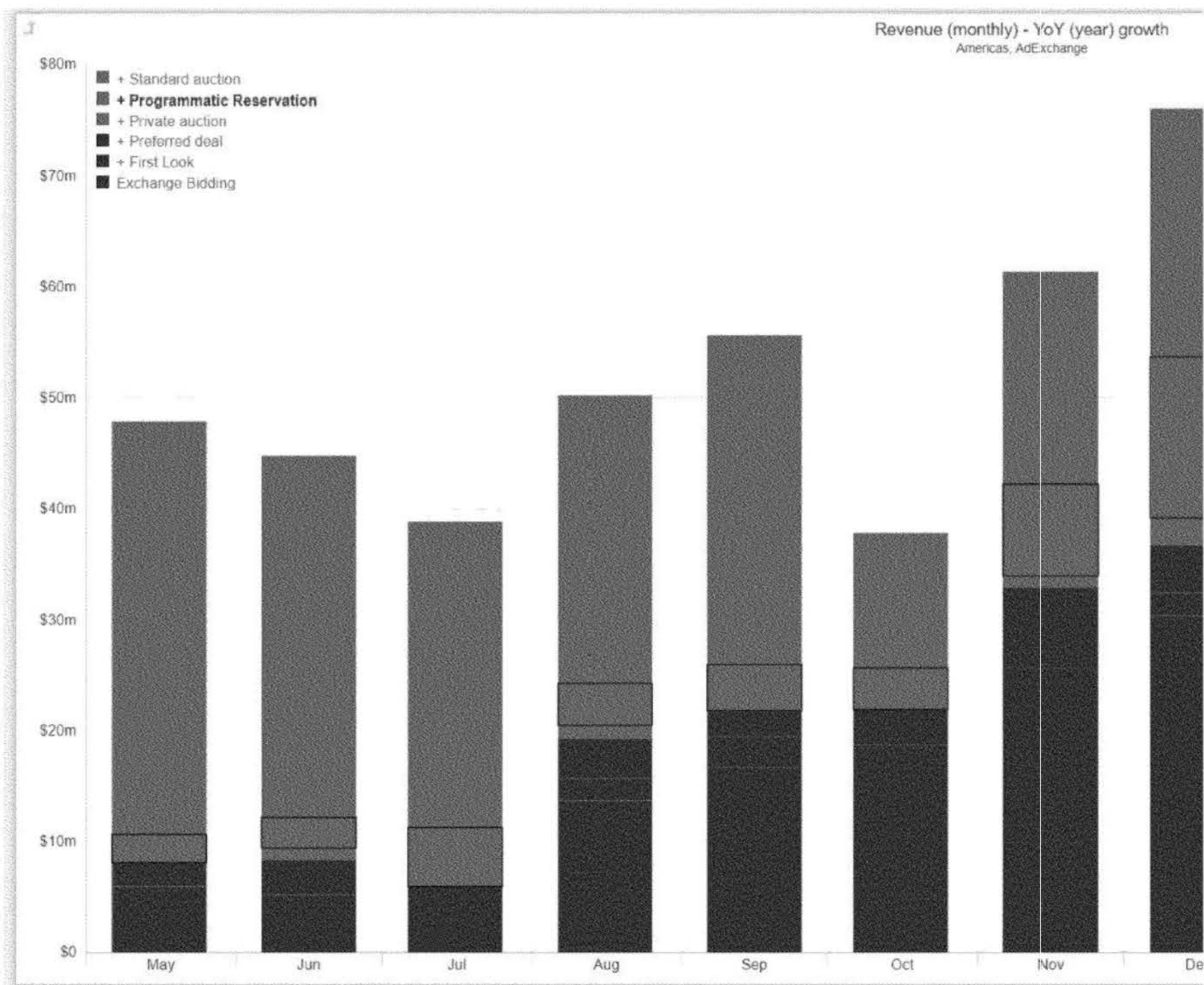
The chart below shows the incremental AdX revenue in the Americas by transaction type. The headline is that in May 2018, we generated the same incremental **GROSS** y/y **~$50M revenue** as in May 2017, but from **NET** revenue PoV, the growth came almost entirely from 5% businesses (EB/PG), vs. 20% businesses in May 2017 (OA/FL), so our net revenue $ growth is 3 to 4x smaller.

Speaking with Bryan, I understand that there is a working group on EB led by product team. What shall we do as **next steps**? I think it's still worth bringing to GP leads or shall we do a deep dive for the QBR or another avenue?

Best.

Revenue (monthly) - YoY (year) growth
Americas, AdExchange

Legend:
- + Standard auction
- **+ Programmatic Reservation**
- + Private auction
- + Preferred deal
- + First Look
- Exchange Bidding

On Sun, Jun 3, 2018 at 9:39 PM Chris LaSala <chrisl@google.com> wrote:

Answers in line in red
On Thu, May 31, 2018 at 1:45 PM, Cyrus Beagley <cbeagley@google.com> wrote:

Hi everyone,
Trying to articulate what I learnt this morning. Can you let me know if this is right:

- We believe the main and only significant reason DBM buys impression on EB that are also available on AdX is that publishers are implementing flooring rules in AdX that don't apply to EB [For me this is a hypothesis ...defer to others if it has been proven with data. My ask is that the GTM teams run experiments with pubs to see if this is true and possibly define scaled activation plans with the express goal of ensuring DBM buys an

impression through AdX, all else being equal. Keith can lead globally, but would be great to have rev intel taking the lead given they have the analytical chops]
- It is true that a publisher will make more money net DBM buys view EB than via OA, so *in principle* there is an incentive for publishers to set floors to encourage DBM to buy via exchange bidding, but we don't believe *in fact* that publishers are able to manage this, and therefore this is not a real issue [Defer to Bryan, but in theory it does maximize yield to disadvantage AdX - but what isn't clear if they applied the same 'cheating' to other DSPs if they would get similar results.]
- We agreed that we will explore opportunities on the Product side (workstream 1) and in terms of Sales GTM plans (workstream 2) that might help alleviate this flooring issue and ensure that more of DBM spend comes back to OA [Correct! @Bryan - can you pleas make sure Keith knows this is top priority when he's back from vaca, which I think is this week]
- Overall OA growth is slowing while EB is growing, so the existence of HB/EB is leading to a mix change in our business -- which results in a lower margin overall. There may be other factors, independent of EB, contributing to the slowdown in OA that Andrey will be looking into (workstream 3) [Agreed - I'm not sure if it is possible to 'prove' causation, and we may need to stick with 'correlation', but we should be sure to understand what other things might be depressing OA (e.g. brand advertiser flight to quality, GDPR run-up, NPM clean up, ads.txt impacts, etc]
- The view is that we are better off with EB than without because otherwise EB volumes would go to HB and we would be even worse off. [Bryan reminds me of this weekly, in fear of me forgetting]

Essentially, we've had to adjust our approach to a new low cost entrant (HB) that has undercut our ability to charge the revenue share we were charging. This changes the overall margin structure of the industry. [agree mostly...One could argue that 20% was never the right amount given more of the value accrues to the buyer - same problem we are seeing in PG. the question becomes, how do we transfer that margin to the buy-side as we get pressure on the sell-side. Bellack is working on this for Suresh in June/July and we will be able to shape]

The next 2 big questions in my view are:

- What does this look like 3-5 years from now? How big do we think EB will become. What will this do to the margin of our business? Does that longer term view affect how we look at things today? [To me it is less the impact of EB and more the impact of if DSPs start buying via HB instead of OA as exchanges moving from avg priced line items to HB to EB is net/net good for us. The risk is OA buyers]

- Is there anything else we can do to support OA and slow the shift to EB? As another workstream (#4) would it be worthwhile to outline some of those options and the pros and cons, so we can identify whether any merit deeper evaluation. For example, (and I recognize all of these will raise many concerns)

- we could raise the rev share on EB,

[per note above - pricing workstream in play. another option is to price the ad server as an enterprise software solution, such that we don't care how demand sources hit the ad server, we simply charge you for it. separately, we try to move the margin to the buy-side..... which likely means moving more and more to a network model with Nera as the impetus]

- we could have DBM and AdW buy only on OA,

[i've been asking for this for 3 years and am escalating via Spero and Bruce in light of Suresh coming on board. I think we have an oppty to ignore sacred cows]

- Nera can support a more differentiated OA value prop, etc. [agreed - see above]

Look forward to your feedback.

Cyrus

--

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

--

Andrey Donov | Americas Partnerships Finance Lead | adonov@google.com

--

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

Revenue (monthly) - YoY (year) growth
Americas AdExchange