

Type: Document

Audience Network Strategy: Scale copy

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This document is the second of a two part series on Audience Network strategy. In order for AN to be successful we need to be deliver **Advertiser Value AND Scale**. This doc addresses Scale and [the first doc](#) addresses Advertiser Value.

Introduction

culmination of an 18 month strategy in the bidding team..

Goal of documents

alignment

- Align on how much scale AN needs to be successful
- ALT-wide understanding of our two available supply-acquisition options
- Align on which strategy to pursue

Key Decision

- Do we move forward with our ad tech partnership strategy and partner with Google?

What's in this document?

As mentioned in the last doc, one of the three reasons for doing AN is to provide liquidity and be an outlet for demand during unexpected negative trends in supply or supply growth. This document outlines:

- The scale that AN needs to reach to be an effective outlet, when we're supply constrained
- How much supply AN generates today
- What our existing supply-acquisition strategy is
- The challenge of this strategy and where the ad tech market is today
- Our two supply-acquisition options: build ad tech, or partner with ad tech
- Our recommendation: pursue a partnership strategy and, more specifically partner with Google

What is meaningful scale?

The question has been raised of 'how big does AN need to be in order to meaningfully impact supply liquidity of the Facebook ecosystem?' The reality is that the impact is proportionate to the amount and quality of supply it can add **AND** how supply constrained Fb Inc is. There isn't a magical number. However, there are some principles that we can use to help us understand the trade offs of decisions on scaling supply:

Definition: *Incrementality of supply = revenue increase from 1% increase in additional supply.*

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These forecasts would result split by page types of:



In addition it's worth understanding the % of supply contributed from AN now and into the future. It would be concerning if AN didn't outpace the growth of FB O&O properties going forward as it would imply that the overall impact on the ecosystem is declining

"LRP looks very aggressive for our current supply-acquisition strategy"

"With the current LRP, even though we grow faster than non-AN placements, our total contributing impression volume isn't that meaningful..."

This is where we think we'll be if we do Google deal:

Insert same diagrams as above...

why scale now?

- take time: scaling takes time, building enough scale to be meaningful in the FB ecosystem takes years
- opportunistic: we have significant leverage over google because of header bidding, which likely decrease over time as Google shifts the market to its own bidding solutions
- we care about advertiser value now, supply incrementality will continue to increase, cpm's will continue to increase, this is important now

How much scale do we provide today?



Insert imps vs requests graphs...

How can AN get to xB imps/day?

Supply-acquisition is highly dependent on the ad tech that a publisher uses. All publishers use ad tech (ad server/mediation platform/supply-side platform) to facilitate transactions between demand sources (like AN) and their available ad impressions. Publishers either build their own ad tech (Twitter, Rovio, Snap) or use 3rd party vendors like Google DFP, Google AdMob and MoPub. [REDACTED]

"There is always ad tech between us and the impression we want to buy, which we have little control over"

At a high-level, we have 3 options to acquire supply

- **Work with publisher, don't partner with ad tech**
De facto strategy. Huge challenge. We anticipate we will not be able to reach xB imps with this strategy. In fact, we anticipate we will cap out. The ad tech industry is in the middle of a shift from waterfall to unified bidding. Being left in the waterfall as other, in particular, sophisticated demand sources move to bidding will further reduce our ability to win.
- **Partner with ad tech**
Recommended strategy. We are in the process of negotiations with Google, MoPub and all major ad server/mediation vendors. We recommend partnering and having a seat at the table to shape how the unified bidding shift happens. For us, this will mean sharing a small % of our margin, but with the benefit of getting the same level of access as the ad tech companies own demand source (in a Google world, this means we will get the same treatment as GDN gets in the DFP/AdMob ecosystem).
- **Build ad tech**

What is AN's strategy for scaling supply today?

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Our existing strategy is to:

- **Meet the publisher where they are**
- Work directly with the publisher
- Don't work directly with 3rd party vendors

As a consequence we have 3 ways of accessing supply:

1. Waterfall with price optimizations

The dominant

2. Bidding a true value

3. Pay for access: guaranteed price or revenue deals

Challenge of reaching scale with this strategy

Whenever AN wins an impression in our publisher ecosystem, the transaction is facilitated by a 3rd party ad tech vendor. The business model of these vendors has been to provide advantages to their own sources of demand, the most obvious being Google DFP and AdMob providing their own demand via AdX with preferential treatment. Currently, we don't have a strategy to build our own ad tech and compete, having been burnt twice trying.

[REDACTED]

"Aside from Advertiser Value, we view this as the most material long-term risk to AN accomplishing its strategic goal of providing Facebook Inc with meaningful supply liquidity."

What are the trends?

Where we are today

- **Google dominates the market.** [REDACTED]
- **FreeWheel (Comcast)** has a strong position in video, having created a strong moat by focusing on high levels of customization per publisher.
- **Header bidding** has been driving the trend from a sequential waterfall world to a parallel bidding auction world. It developed in web and is beginning to exist in app. It is a hack on top of Google ad tech, which enables competing 3rd party demand sources like AN, to bid their true value without having to bid through AdX.

[REDACTED]

* revenue reflects indirect, and excludes direct deal revenue

our pov on the ad tech market:

- **Google's market share will continue to grow** across app, video, web regardless of whether we partner. They are the only company still investing heavily in both technology and services. They have the most compelling, feature rich products for every segment of the market.
 - AdMob market share growing fast, especially in APAC.
 - Large app developers moving to DFP (eg, Cheetah experimenting, King moved) as they look to do direct.
- **Header Bidding hacks will plateau in web and be even more difficult in app**
 - HB doesn't work at all in AdMob.
 - Google's new product, Exchange Bidding Dynamic Allocation (Google's answer to header bidding) will make it increasingly difficult to win via hacking DFP with header bidding.
 - Beyond top tech-savvy pubs, it is difficult to scale due to heavy ops/tech burden.
- **No legit competitor to Google is emerging**
 - MoPub is losing market share and likely to accelerate unless we support them with a partnership.
 - FB unlikely to commit to a long-term strategy to own or fund DFP competitor.
 - Betting on Amazon making the shift from a header bidding play to a full blown DFP competitor is risky.

Where the market is headed

Without an alternative market force, Google will increase their dominant position across all formats. Although publishers want an alternative, no other opportunities are emerging to replace DFP/AdMob black box mediation monopoly. Google are the only company making credible long term investments in mediation and ad server tech. For example, Firebase Analytics, Google 360 suite, Crashanalytics, EBDA, etc.

By 2020, we estimate that Google will facilitate 68% of revenue in app, 80% in web, 50% in in-stream video.

[REDACTED]

Revenue in gross millions USD per annum. Impressions is average / day anticipated each year, in millions.

• [REDACTED]
• [REDACTED]
• [REDACTED]
• [REDACTED]

Category	2010	2011	2012	2013	2014
Overall	100	100	100	100	100
Male	100	100	100	100	100
Female	100	100	100	100	100
White	100	100	100	100	100
Black	100	100	100	100	100
Hispanic	100	100	100	100	100
Other	100	100	100	100	100

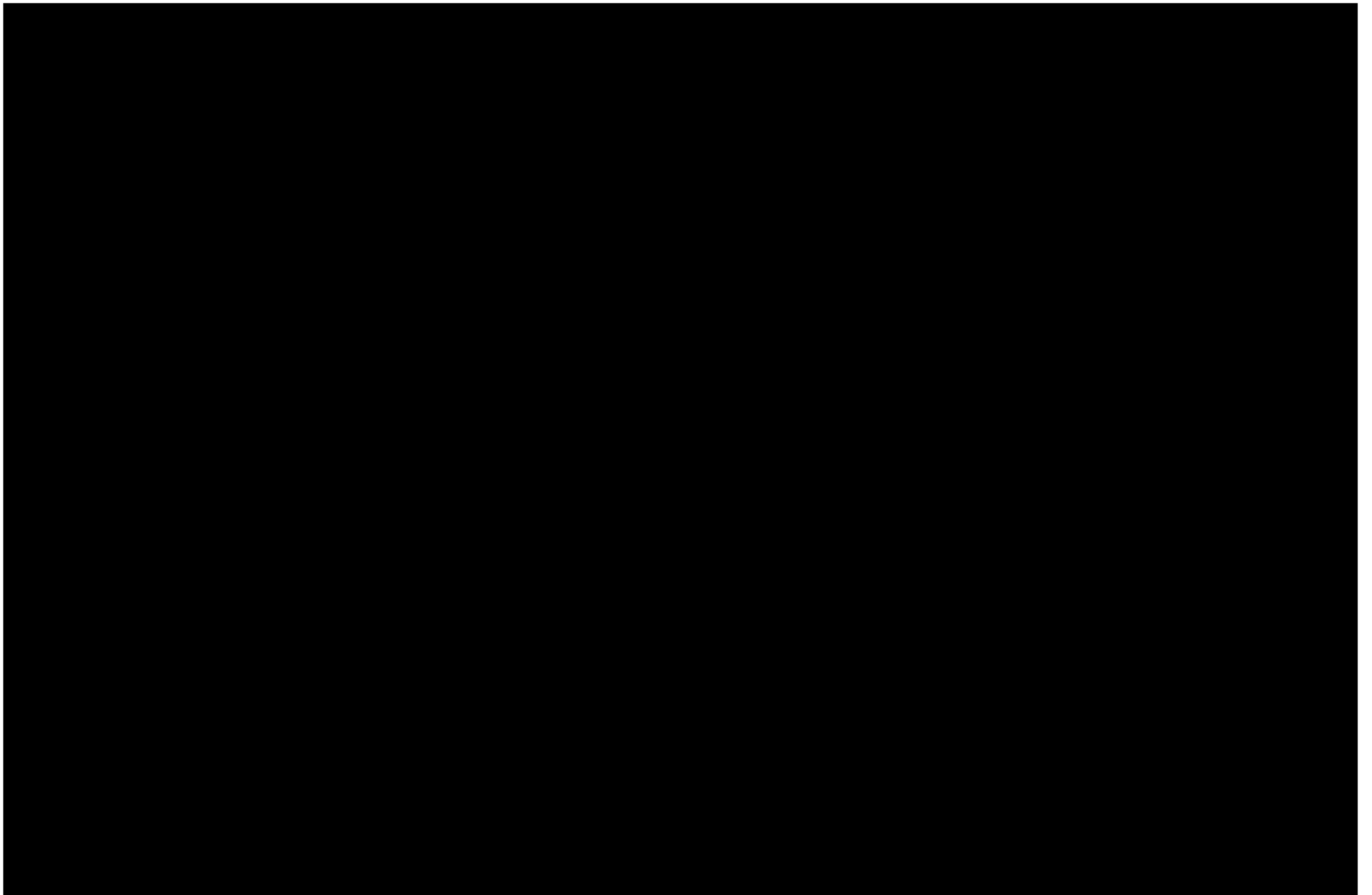
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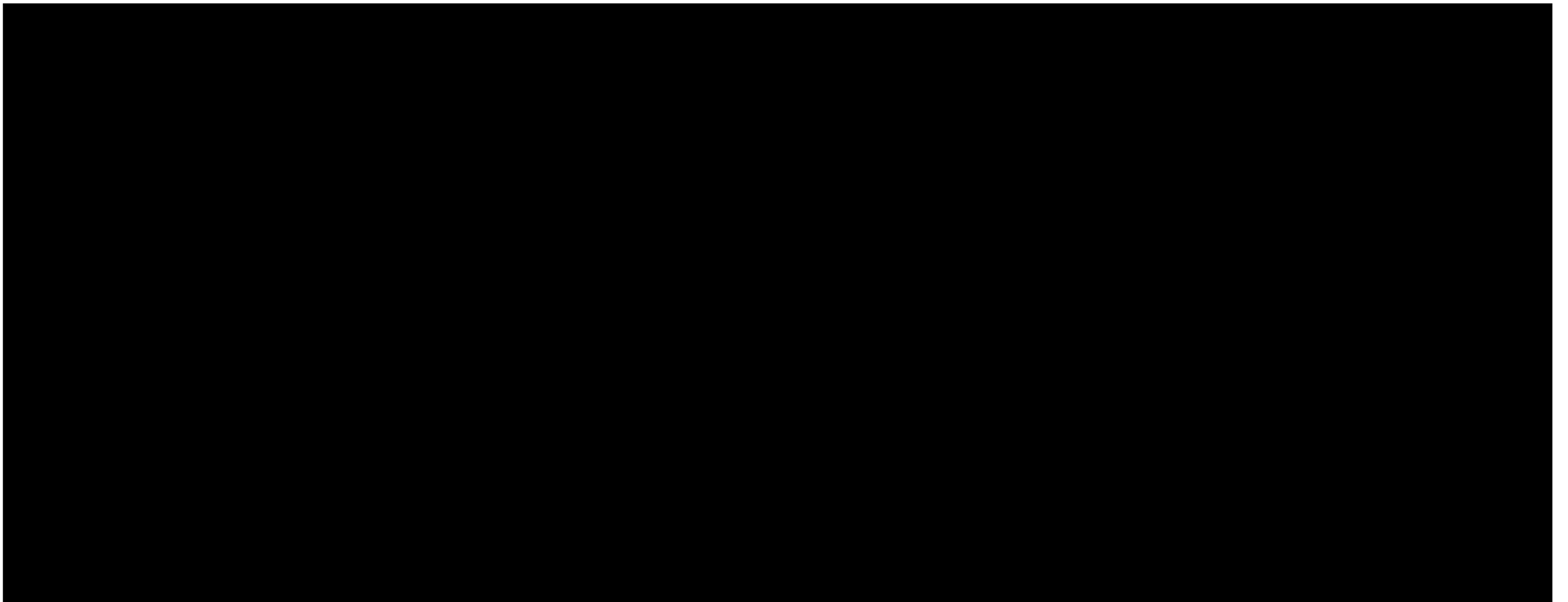
Category	1990	1991	1992	1993	1994
1. Total	100	100	100	100	100
2. Government	10	10	10	10	10
3. Private	90	90	90	90	90
4. Non-profit	10	10	10	10	10
5. For-profit	80	80	80	80	80

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Thumbnail Assets

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Henry Erskine Crum edited at 2017-12-29T15:50:36.661Z

- How can we achieve our goal of AN get to xB imps/day?
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- What AN looks like with or without the deal (high-level assumptions used)
- It's estimated that the deal will have significant impact on the scale of AN by 2020 (+85% gross revenue by 2020). The two primary growth drivers are increased access to inventory for existing publishers and increasing market penetration via google mediation. In particular the deal will enable access to the desktop web market, currently 72% Google DFP mediated.
- Image
- Image
- Revenue in gross millions USD per annum. Impressions is average / day anticipated each year, in millions.
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- Assumptions:
- Market size outlined above with 20% haircut for poor quality inventory
- Full scale of deal achieved - Audience network market penetration accelerates via the deal (in particular for web, where we would invest in a product). Initial testing phase of deal will occur in 2018 and scaling of product will occur over 2019 and 2020
- 15% increase in revenue per publisher switching over from waterfall standard integration to bidding
- What is the cost of the deal?
- **Negotiated terms** - Facebook will pay Google 10% of any dollar spent, up to \$500m; at \$500m Facebook will pay Google 5% of any dollar spent above \$500m. Therefore our outlay at \$1 billion would be \$75m. At time of renewal if FB is on an annual run rate of \$1bn in spend, the fee will revert to a flat 5% of all monies spent
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- If the deal is scaled successfully the majority of AN revenue would be run through Google mediation by 2020, and the average payment to Google would be 5.5%. It is anticipated that the AN margin would drop to 22% initially to compensate and then return to 25% over time (or higher were possible).
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- Image
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- Scenario 1: When Fb inc is short-term budget constrained (around the point when Incrementality of Supply <70%)
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