Display Strategy Working Document
August 2012

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GDN as an AdX Buyer

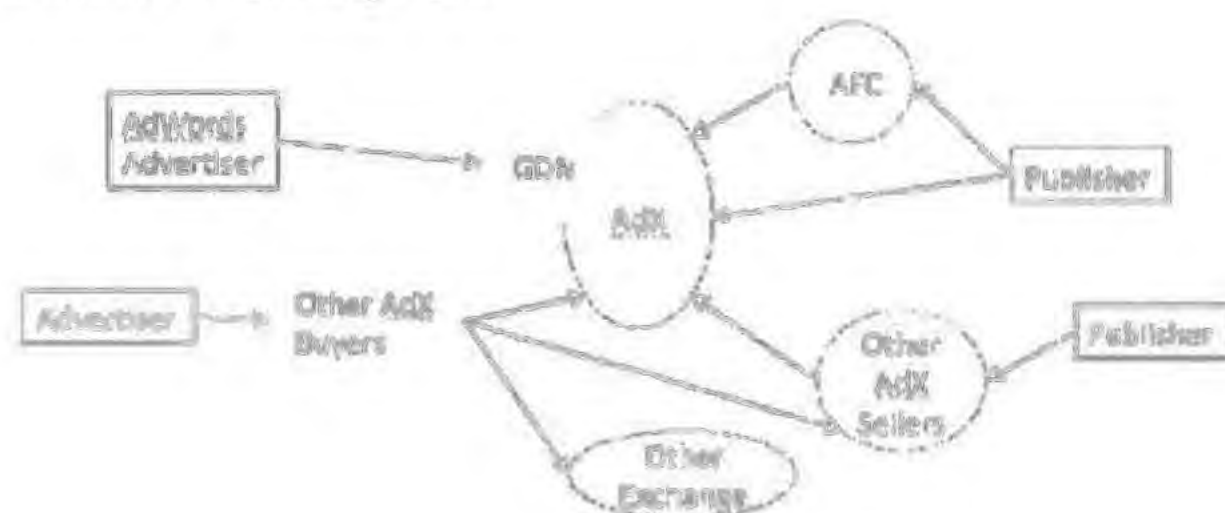Clarifying Google's auction display strategy
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Problem Statement

Our auction media business went from this in the "Network" Era

to this in the "Exchange" Era:

And we have several problems with this new ecosystem: we're still operating with a 'network' mindset when we're now in an open 'exchange' environment. Specifically, the problems are as follows:

1. From GDN's perspective: GDN is competitively disadvantaged against buy-side competition
   a. In the auction ecosystem, we appear to be running a buyside-subsidizes-sellside model: we are artificially handicapping our buyside (GDN) to boost the attractiveness of our sellside (AdX). Specifically, we have chosen to limit GDN to buying only on AdX, an exclusivity that makes AdX more attractive to sellers.
   b. This greatly weakens GDN's position in the market – why would an advertiser buy thru GDN when they can do the same retargeting on Criteo on same inventory *plus more inventory*.
   c. Secondly, GDN is the only buyer who puts in two bids into the AdX auction, effectively second-pricing itself. Other buyers take greater liberty with their AdX bids to control their margins and win rates.
2. From AdX's perspective: GDN does not behave like an arms-length buyer

a. GDN has visibility into "confidential" AdX data due to shared infrastructure. Publishers dislike this -- Viacom did not join primarily because of this data sharing.
b. In May 2012, GDN clawed back revenue from AdX publishers to credit advertisers on bug-related mis-spend. AdX tried to force GDN to eat the cost, but GDN refused.
3. From GDN's perspective: assumptions about inventory are changing with the introduction of AdX
    a. GDN is a picky buyer. It dislikes certain types of content ("sensitive" content pages, low contextual content pages).
    b. GDN's pickiness was previously codified via AFC policy. Now that GDN buys on AdX (and AdX has different policy), GDN ends up buying unsuitable inventory.
    c. Example: AdX approved 'hacky' implementation for showing ads on webmail inventory in AdX, not realizing that implementation misleads GDN contextual targeting.
4. From AFC's perspective: AFC policies are outdated
    a. AFC's policies were written when it was a network. AFC and AdX have different policies. Does this make sense, given they both offer up inventory to the same set of buyers?

Proposed Solution, Impact, Risks

The general theme here is one of separation, one of incentive alignment. AdX should really become the neutral platform; GDN should align purely with advertiser interests. There are 4 things we need to do:

1. **Remove** any vestigial attachment to network model, turn GDN into a proper buy-side product
    a. Go multi-exchange, do what's best for our advertisers without worrying about how it might hurt our exchange business.
    b. Allow GDN to place one bid (no second bid) into AdX auction; allow GDN to do whatever it wants to on the AdX auction, just like how any other buyer would act.
    c. **Investment:** AWBid eng, BD work mostly done. Mostly a strategic decision.
    d. **Impact:** Last year's analysis - $100M in US in Year 1.
    e. **Risks:** Weakens AdX's competitive positioning -- but we can mitigate this by (for example) paying less on inventory sourced thru other exchanges or only buying others' O&O.
2. Erect a firewall (Chinese wall) between AdX and GDN.
    a. GDN should be treated just like any other AdX buyer -- no special data access, no special policies, no special treatment. DoubleClick products currently operate this way.
    b. **Investment:** Unclear. Need to survey existing system. Will require work to build internal control systems and reorganizing the code for cleaner separation.
    c. **Impact:** Legitimizes AdX as a platform, a neutral party. No immediate revenue benefit.
    d. **Risks:**
        i. Are there currently (fair) benefits GDN derives from accessing AdX data? Do we unnecessarily lose those through separation?
        ii. Is it possible and practical to separate the technology between AdX and GDN? What part of the code belongs on what side? Logs?
3. GDN should assume nothing about AdX inventory type / quality
    a. Various things codified into AFC policy before should now be built into GDN product. For example, GDN should detect contextual deserts and choose to not buy, instead of relying on outdated policies to disallow that inventory into AFC/AdX.
    b. **Investment:** 1 engineer, 2 quarters to build logic into GDN
    c. **Impact:**
        i. GDN more robustly protects its advertisers from types of content it deems inappropriate for its advertiser. No immediate revenue benefit.
        ii. AdX can acquire any inventory it deems appropriate, without worrying specifically

about how it might violate. No immediate revenue benefit.

    d. **Risks**: None

4. AFC should be treated internally as AdX Lite -- same product, same policies, same incentives
    a. **Investment:** PM work to clean up policy
    b. **Impact**: Simpler, less confusion. No immediate revenue benefit.
    c. **Risks**: None