

## GOAL

Develop a buy/sell unbiased view of the potential impact for Google on GDN buying cross-exchange in order to inform Performance & Programmatic GSL (Jason Spero) and PBS (Daniel Alegre and PMG) Leadership perspectives.

## TEAM:

### GSL:

- Bryan Rowley - Sell-Side
- Barney Pierce - GDN
- Jasper Seldin - AdX Buy-Side
- Sam Temes - DBM
- Dan Taylor - Buy-Side
- Chris LaSala - Sell-Side

Need to consult with PM:

- Jonathan Bellack - Sell-Side
- Drew Bradstock - AdX Buy-Side
- Tobias Maurer - GDN
- Johan Land - GDN
- Payam Shodjai - DBM
- Woojin Kim - GDN

### PSI

- Jerome Gateau

### Sales Ops

- Kevin Krogman

## BACKGROUND

There is concern about GDN's ability to return to growth. Revenue growth is primarily driven by increased conversion volume. This increase can be accomplished through improved performance on existing inventory and through the acquisition of new inventory. Multiple product and sales strategies on both the buy- and sell-side are being considered to fuel both drivers. **In this doc we are only exploring the impact of expanding AWBid to allow all of GDN's demand to bid across exchange in order to increase access to inventory.**

AWBid has been a discussion for five years and a reality for remarketing spend for over two years only gaining traction in the last nine months. As of November 2015, GDN is spending ~\$230k per day (1.2% of total GDN spend) via AWBid. Through a GDN-defined metric the vast majority of spend/conversions are incremental to AdX. This does not mean AWBid is only buying on publishers where AdX does not have an existing relationship; in fact most AWBid pubs are using AdX along with other exchanges.

In order to preserve margin for Google, AWBid's pre-bid revenue share is 32% which is the equivalent of Google's margin when GDN buys on AdX or when GDN buys on AdSense. The bid is then subject to business terms from 3rd party exchanges. Recent analysis suggests that if Google's pre-query margin was allowed to vary between 0-32% (targeting an average of 27%) AWBid would be able to increase conversions by ~50%.

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## 2016 OUTLOOK

Finance is expecting spend via AWBid to increase over the course of 2016. Final growth expectations are not yet finalized. Guidance currently reflects daily AWBid spend increasing to ~\$900k per day (2.3% of total GDN spend; 7.6 % of GDN Remarketing spend) in Q4 2016.

**Full Cross Exchange Logic:** Remarketing is 30% of GDN spend therefore AWBid represents 7.6% of GDN Remarketing spend. Directionally, a full ramp of AWBid to encompass all demand from GDN could translate to 7.6% of all GDN spend.

## SELL-SIDE CONCERNS

Today GDN is the largest buyer on each of the sell-side products (AdX, AFC and AdMob). Despite the steps taken today to favor sell-side products, by allowing GDN to buy cross-exchange the spend on sell-side products could be directly reduced thereby slowing the growth of the sell-side business.

Regardless of the financial reality the value proposition of our sell-side products will be greatly impacted by the news of GDN buying cross-exchange. AdX, AFC and AdMob have each and collectively touted the fact that they were the only product(s) capable of providing GDN demand. Even during the life of AWBid our Exchange partners have been contractually obligated to keep this fact secret. When our competition is able to say they have access to GDN, whether it is equal or not, our sales and marketing teams will have to be prepared for significant competitive pressure. Our buy-side positioning will put sell-side relationships at risk.

## IMPLICATIONS

### What do we need to believe for this to be good for Google

- Gross revenue YOY growth across the combination of GDN + DBM accelerates
- Net revenue (gross rev less TAC) is not cannibalized / High margin transactions are not traded for lower margin transactions (incremental transactions with lower margins is fine)
- GDN becomes more competitive (delivers more conversations) by accessing more inventory
  - access to walled garden inventory (FB, YHOO, AOL, TWTR, MSN) or pub inventory where AdX is not present
  - access to inventory from existing inventory partners results in incremental revenue
- Any market beliefs that need to be included \_\_\_\_\_



### Assumptions

- The most GDN would spend cross exchange in 2016 is 7.6% of total GDN
  - need to understand what that means from a growth standpoint for Non-GDN Remarketing spend - assume cross-exchange spend on non-remarketing is incremental; Non-remarketing GDN spend sees incremental boost in revenue growth
- GDN spend will continue to take a pre-bid revenue share on AWBid transactions that ensures parity with cumulative revenue share of GDN transacting on AdX
  - Pre-bid rev share of 32% is currently taken by GDN. gTrade team allows for buy-side rev share manipulation on AdX. Parity would include a flexible pre-bid rev share on AWBid transactions.
- Spend is optimized to transact on Google O&O or Partner inventory to maximize Net Revenue

### Scenarios

- Extend GDN AWBid to all demand up to current rmkt % of total spend (~8%) assuming incremental transactions (remarketing case)
  - margin intact b/c volume is low
- Extend GDN AWBid to all demand up to current DBM cross exchange rates (~53%) assuming cannibalized transactions
  - margin intact scenario
  - margin eroded scenario with ranges (how low could we go and have it make sense)
- How do we factor in pub behavior and sell-side implications that are hard to model

<u>Adx</u>	<u>Rubicon</u>
GDN = \$4	GDN = \$2.50 (few signals)
MM = \$2	MM = \$3 (more signals)
Pub = \$2	Pub = \$2.50

### Opportunities and Risks

- GDN
  - Opportunity
    - Accelerate growth rate
    - Incremental inventory leads to more conversions
    - Reduce conversion gap with Criteo
  - Risk
    - Lose clients to remarketing/programmatic competitors
    - Not perceived as a programmatic player without cross-exchange

- AdX
  - Opportunity
    - Use AWBid data as a lead list to have conversations with publishing partners. Transactions through AWBid are subject to greater revenue share cuts. (requires legal conversation)
    - Ability to revisit policies to make AdX more inclusive
  - Risk
    - Loss of inventory / Revenue decline
      - Pubs choose to make inventory available to other exchanges based in part on GDN performance (1st and 2nd price) on competition
    - Sales value proposition is weakened
    - A greater % of GDN spend move cross exchange
    - Pre-bid rev share is reduced making other exchanges more competitive
- DBM
  - Opportunity
    -
  - Risk
    - Growth from advertiser clients slow because fewer LCS account adopt DBM

How does this impact the overall market structure?

- How does it impact AdX Policies - led by Drew B / Jasper S

Buy-Side

- GDN
  - What differences will remain between GDN and DBM
  - Cross exchange is not going to be a silver bullet returning GDN to growth. What else on the product roadmap is being considered?
    - Will GDN be able to do PG?
  - Margin decisions
    - believe that an incremental 15% in conversions if margins were reduced by 15%
  - Where are GDN clients moving their budgets and why?
    - 90% of GDN decline is driven by customers that have not adopted DBM [\[link\]](#)
    - Not easy to tell the Majority GDN growers segment from the Majority GDN decliners segment based on statistics and numbers - There are no tell tale industries, type of clients, etc.
    - Who are the providers?
    - There is a performance gap advertiser are trying to address and seeking other DSPs to achieve their ROI goals
    - Volume is the other hurdle - this is where cross exchange is the potential answer
      - Does this apply outside of remarketing such as Other Audience (Brand or DR), Contextual and Fully Automated (mixture of audience and contextual)
  - Does cross-exchange bidding increase advertiser spend?
    - When LCS advertisers begin using DBM overall spend increases [\[Deck\]](#)
      - Why are the drivers?
        - More inventory for similar budgets
        - New dollars coming from other budgets
        - Have we picked any customers that are singularly focus on one type of spend? - How did they perform?
  - - What will the Google margin be when bidding cross exchange and the trade-off to Google when transferring spend from AdX to a 3rd party exchange
      - We currently take 32% (in-line with GDN + AdX rev share) before submitting a bid to 3rd party exchanges - assuming this will change with broader roll-out. DBM charges 10%-15% depending on client

- How closely will GDN's spend split across exchanges be to DBMs
  - For purposes of scenario modeling we will likely assume it quickly matches the DBM split of 45% on AdX
- How sensitive will GDN be to self-competition
- How much will GDN focus on bidding on incremental/new inventory?
- DBM
  - Expecting growth to come from big bets and not from cross-exchange functionality
  - GDN and DBM currently share clients - large advertisers typically part of LCS are engaging with DBM.
  - How will GDN cross exchange buying impact DBM growth?
    - Advertiser spend represent 22% of total DBM spend and is growing slightly faster than Agency and Desk spend.
      - Can model good, neutral and bad scenarios where DBM retains 100%, 50% and 0% of Advertiser spend
- AdX Buy-side
  - Will the AdX buy-side be significantly impacted?

Sell-Side:

- Does GDN spend on AdX go down
- Develop simple financial scenarios
  - WORST: GDN growth rate deteriorates further and revenue splits across multiple exchanges.
  - BAD: GDN grows at current rate and revenue splits across exchanges in-line with DBM
  - NEUTRAL: GDN increases growth rate enough to stay whole on AdX while splitting total revenue across exchanges in-line with DBM
- How does our value proposition change and what adjustments do we need to make?

How do we know when / if AWBid is a problem

**What metrics do we need to track to understand implications of GDN bidding cross-exchange?**

GDN	DBM	AdX Buy-Side	AdX Sell-Side

- need to keep inventory / platform type
  - GDN is not growing on desktop (why is this)
  - DBM and AdX Buyers are still growing in desktop
    - PG/PD/PA
    - New customer adoption
    - Video
- What are the DBM and AdX buyer growth patterns, how can we



Cross Exchange Scenario	GDN	DBM	AdX Buy-Side	AdX Sell-Side
GDN Remarketing only	Opportunity	Opportunity	Opportunity	Opportunity
	Risk	Risk	Risk	Risk
Expand to all GDN	Opportunity	Opportunity	Opportunity	Opportunity
	Risk	Risk	Risk	Risk

What do the buy and sell sides need to do to make it successful

How does the Demand Syndication impact the AWBId conversation

- GDN, DBM, GDN+DBM growth rates
- GDN, DBM, GDB+DBM percent of AdX rev
- Here's the plan as of today
  - Conditions of AWBId
- GDN plans to ramp on 3rd party exchanges
  - There are concerns - what do we need to believe for this to be good for Google
- Financial Scenarios - to start a conversation
  - Variables: GDN Growth; % of GDN on 3rd party exchanges; Margin
  - All 3rd party impressions are incremental
    - all good news for Google top line
    - negative impact to net revenue
- Inventory Scenarios
  - Pub with no relationship with AdX
  - Pub with AdX but other exchanges has unique inventory
  - Pub with AdX and inventory overlaps
- Open questions
  - How does Demand Syndication impact AWBId
  - What do we track to stay on top of this?
  - What are the tipping points when we need to raise alarm?
  - What value do we believe exists in the 'own the tag strategy'?
    - When does 'own the tag' fall apart