Message

From:	Jonathan Bellack [jbellack@google.com]
Sent:	1/25/2017 2:43:56 AM
To:	Wiser, Philip [Pwiser@hearst.com]; Young, Troy [Troy@hearst.com]; Smith, Michael [michaelsmith@hearst.com]; Laurent Cordier [laurentc@google.com]; Bonita Stewart [bonita@google.com]
Subject:	Google/Hearst: written response to your concerns
Attachments:	_CONFIDENTIAL_ Google response to Michael Smith email 2017-01-24.pdf

Hello Michael, Phil, and Troy. (Laurent & Bonita cc'ed.) I am head of product management for DFP and the DoubleClick Ad Exchange. I have been working closely with your account team here at Google on matters related to your upcoming renewal that have led to Hearst Magazines deactivating AdX as a demand source. I understand that Laurent and Bonita have spoken with each of you recently. In addition, thanks to our past relationship, I reached out to Michael last week, who was kind enough to share a list of Hearst's specific concerns.

I really value our partnership, so I want to extend our regrets that the relationship between our companies has reached the point that you saw turning off the Ad Exchange as your next step.. All of us here at Google are committed to helping turn things around and proving to you that the Ad Exchange can continue to help you meet your goals in 2017 and beyond.

To help rebuild trust, we have provided detailed, confidential responses on each Hearst concern in the attached PDF document. In summary, the key points are:

1 - we are offering our engineering and analytic resources to participate in a transparent and fair test, because we believe that **by completely turning off AdX, you are losing out on unique demand from our ad network (GDN) and higher yields from our DSP (DBM)**;

2 - we are offering to discuss your broader ad technology cost structure, because we believe that **there may be other opportunities for Google to reduce costs, beyond DFP & AdX fees**;

3 - we are offering price concessions which we feel offer fair value for money, because we believe that **selecting the low-cost vendor in ad tech is not a recipe for sustainable long-term growth**.

I would also be happy to meet with any of you personally at IAB next week, or in NYC at your convenience, to further discuss the topics in this note or anything else.

Thank you, and I look forward to a continuing discussion.

-- Jonathan Bellack / jbellack@google.com
Director, Product Management / Publisher Ad Platforms

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Response to Hearst concerns as stated in email from Michael Smith dated Jan 20, 2017

Hi Mike,

Thank you for raising the list of issues you have encountered over the last few months. I really value our partnership, so I want to extend our regrets that the relationship between our companies has reached the point that you saw turning off the Ad Exchange as your next step. All of us here at Google are committed to helping turn things around and proving to you that the Ad Exchange can continue to help you meet your goals in 2017 and beyond.

You have brought up a few issues which I respond to in detail in this document. The key points are:

1 - we are offering our engineering and analytic resources to participate in a transparent and fair test, because we believe that **by completely turning off AdX, you are losing out on unique demand from our ad network (GDN) and higher yields from our DSP (DBM)**;

2 - we are offering to discuss your broader ad technology cost structure, because we believe that **there may be other opportunities for Google to reduce Hearst's costs, beyond DFP & AdX fees**;

3 - we are offering price concessions which we feel offer fair value for money, because we believe that **selecting the low-cost vendor in ad tech is not a recipe for sustainable long-term growth**.

I would also be happy to meet with you personally at IAB next week, or in NYC at your convenience, to further discuss any of the topics in this note.

"1. ~10 ad fraud incidents where our publisher brands are being used by bad actors via Adwords. All well documented."

Thank you for raising the ad quality issues to our team. I can confirm that our teams documented and escalated an estimated 15 incidents that you reported to us from November 19th through January 4th and the buyer accounts that were reported have been disabled or notified of their violation to ensure a cure. We take the behavior of these buyers very seriously and can assure you that we have added signals to our enforcement efforts to reduce the risk of such culprit advertisers bypassing our systems in the future. Additionally, we are working on a new control for publishers to block "sensational" ads that will give pubs the option to filter out a broader set of ads that could be potentially considered misleading. Scott Spencer is our product management leader for all policy matters including this work. I understand you are looking to find time to talk to him directly (hopefully at the IAB ALM). He can share more details about our efforts here.

"2. $250k we are due since October (our account team is making this a renewal deal point while they hold Hearst's money)."

We understand that you believe that AdX discounted open auction tiers are based on all programmatic revenue. The legal intention of our contract has always been to apply only open auction revenues to the open auction tiers. As a sign of goodwill, we offer to make you a one time goodwill payment of $284K with the understanding that Hearst releases us from any further claims regarding this matter for previous periods. We will also include all programmatic revenues for calculating the open auction tiers in your renewal contract, with specific contract language to make that clear.

"3. A reasonable reduction in AdX fees. Our account team's response was to ask us for our full direct sales P&L (revenues and expenses)."

We understand that you are seeking an open auction revenue share of 5%, plus additional DFP price concessions, to find savings of $3M from your Google relationship. My understanding is that this represents a cut of 50% from 2016 levels. I would like to clarify why our team asked about your costs, and we also have an offer that will help move you toward your cost goal.

First, our team asked about your costs not to discover any proprietary information, but because we want to find more ways for Google to help you achieve your savings target. We are hoping to expand the conversation beyond DFP and AdX, to see if Google's analytics, measurement, mobile/native/video, Cloud, or other products can be a source of material cost savings. We hope that you are open to that broader conversation.

Pending that discussion, we are pleased to offer you the following terms that would create $1.24M in annual cost savings for Hearst, which we calculate to represent over 20% reduction from 2016 levels. We believe that this is a significant concession that reflects the value of our partnership and product.

DFP	*DFP fee for display ad impressions (at current tiers 8B+/mo)*	$0.014	$470k savings *(based on 9B monthly ad impressions)*	26% discount on your current DFP rates, bringing you in line with industry peers
	DFP fees for all AdX impressions	$0 ad serving fee for programmatic impressions served by AdX	$220k annual savings	
AdX	Open Auction	80/82.5/85 with tiers of $0M/$2M/$4M	$550k annual savings	Assuming Mar - Aug will now hit highest $4M tier given renewal at current revenue tiers
	Private Auction	90% (excludes AdWords)	No change	No change
	PD/PG	95%	$ TBD	Savings from elimination of traditional I/O trafficking, discrepancies, collections, etc.
	Exchange Bidding	95%	$ TBD	Savings from elimination of overhead from header tag maintenance, compiling reports, and collections
	Self-Bought Impressions	99%, Capped at 300M impressions per month	$ TBD	Increased cap by 100M
	Total Estimated Savings		**$1.24M**	

The team feels that this represents a material price concession. As mentioned above, we believe there is significant unique value in the Ad Exchange -- including unique GDN demand and higher yield from DBM, not to mention the benefits of unifying your business on one ad stack, and simplified/timely payments. We also believe our fees represent fair value for our deep and ongoing investment in constant improvement of the platform. **In our experience, selecting the low-cost vendor in ad tech is not a recipe for sustainable long-term growth.**

Despite our firm conviction, we are open to learning more about your experience. We would like to work with your team to design a transparent and fair test to determine the impact to Hearst's overall yield of changing your AdX implementation. We would commit product, engineering, and analyst resources to such a test, and would discuss additional contract terms after the test, based on what it reveals.

"4. Transparency on Google's earnings from reselling Hearst's inventory via Adwords (all other auction technology providers provided us with this information in November). Our account team will not report to us Google's earnings from Adwords buyers on Hearst's media."

There are three buckets of demand on AdX: 1) the Google Display Network (GDN), meaning advertisers using Google AdWords to manage campaigns; 2) DoubleClick Bid Manager (DBM), used by agencies and others to manage campaigns across multiple exchanges; and 3) "AdX buyers", meaning third parties using our RTB interface to bid on publisher inventory.

1) the **Google Display Network** (GDN) is an ad network, comparable to Criteo (when buying through header tags instead of as an RTB buyer) or Facebook Audience Network. Like other networks, GDN invests to generate unique demand for partner publishers through tools like AdWords and through a large sales force. An ad network bidding on an ad exchange operates with an "internal" margin, which is taken out before the bid, independent of whatever the ad exchange's deal is with the publisher. To our knowledge, ad networks generally do not disclose this "internal" margin -- an ad network buying RTB through an exchange could be winning Hearst impressions at $1 but charging the advertiser $10 for them, keeping 90% in arbitrage profits.

That said, we are happy to disclose that the standard effective revenue share for GDN buying through the AdX Open Auction is the same as what we disclosed for AFC in 2010 -- 32% to Google, 68% to the publisher (https://adsense.googleblog.com/2010/05/adsense-revenue-share.html). This is implemented on the Ad Exchange in two pieces -- the sell-side revenue share as per the AdX contract, and an additional revenue share that GDN takes before its bid which nets out to the same effective 32% as AFC. When the AdX revenue share is discounted, as in Hearst's case, this has the effect of reducing the GDN revenue share too. Hearst's 15% AdX revenue share means the effective GDN revenue share is 27%. We are confident that Hearst will find this to be competitive with any other ad network.

Note that GDN on AdX involves substantial unique demand unavailable through other channels. This includes the ICM interest data co-op, Google's proprietary contextual targeting technology, no loss due to cookie matching, higher trust in the inventory, and many other unique attributes.

2) **DoubleClick Bid Manager** (DBM) is a DSP, comparable to The Trade Desk or Mediamath. Like all DSPs, DBM negotiates a technology fee with its agency or advertiser customers. That technology fee is not disclosed to the publisher and is applied independent of the publisher's agreement with the exchange. A DSP could be winning impressions at $1 and charging its advertiser an additional 5, 10, or 15-cent tech fee, which the publisher would not be aware of. Google does not disclose negotiated fees or rates to other

parties, in either direction. We do not disclose to publishers what a given agency or advertiser is paying for DBM, just as we do not tell DBM customers what revenue share a publisher has negotiated for AdX.

In addition, note that using DBM in conjunction with AdX is likely to result in higher yields compared with DBM buying through other exchanges. This is due to having zero cookie matching loss from AdX to DBM, the ICM interest data co-op, high trust in the inventory, and other factors.

3) **"AdX buyers"** are third parties placing RTB bids on the Ad Exchange. These could be ad networks like GDN, or DSPs like DBM. In all cases, we do not charge AdX buyers any fees or revenue shares of any kind. **AdX is free to buyers.** With Hearst's 15% revenue share in the Open Auction, if an AdX buyer spends $1 on an impression in the Open Auction, Hearst receives 85 cents.

Note that many AdX buyers tell us they bid higher on AdX than on other exchanges due to higher confidence in our inventory and more reliable RTB infrastructure compared to other exchanges, among other factors.

There is also one UI control that affects Hearst's AdX Open Auction revenue share. The "Apply per-query revenue share for AdX" control can be found in "Global Settings" section within the 'Admin' tab of your DFP UI. In its default state (UI control not selected) contracted revenue share is applied as an average over a billing period. This means that some queries will pay better than revenue share, and others will pay less. Publishers can choose to apply their contracted OA revenue share exactly on every query by selecting the UI control. Hearst currently has the control in default state, meaning the Hearst revenue share is an average over the billing period. Hearst may change this setting at any time.

"5. An assessment of the revenue loss to Hearst of Google Search discontinuing referral traffic to web pages with interstitials. I estimate this to be a $5m+ bad guy in 2017 across Hearst."

For the record, this change was decided and implemented completely separately from Google's ad business, so Hearst's decision to work with AdX or not has no bearing on Search decisions. Google is also not alone in seeking to improve user experience of ads -- the Coalition for Better Ads (https://www.betterads.org/) is also pursuing new standards for ad implementations that could impact Hearst.

That said, over the past two years, the mobile web has become a much more enjoyable experience for users thanks to the efforts of webmasters all around the world to increase the mobile friendliness of their websites. This development has been good for users, publishers and advertisers, who fund the content users enjoy and depend on a flourishing mobile web to reach new customers.

As part of our ongoing effort to make Search more user-friendly on mobile, we updated our ranking signals earlier this month so that pages where content is not easily accessible on the transition from Search may not rank as highly in Google's mobile Search results. Blog post can be found here: https://webmasters.googleblog.com/2016/08/helping-users-easily-access-content-on.html .

The update addresses overly intrusive interstitials, where smaller screens can result in user frustration, disturbance, and involuntary clicks leading to undesired pages -- a poor user experience documented by many, including The New York Times last year: https://www.nytimes.com/2015/12/07/business/x-marks-the-spot-that-makes-online-ads-so-maddening.html?_r=3 .

No action will be taken on interstitials that are reasonably sized (eg: banners for app installs or other features). And even if you keep using full-page interstitials, you will still be indexed in Search and rank highly against queries if you have highly relevant content for them -- we are creating a new signal, not removing websites from Search.

We were very surprised at your estimate of the size of the impact to Hearst. We would be happy to review your data to better understand your calculations.

Finally, I know that you are laser focused on meeting your 2017 budget obligations, but want to reiterate that our sales team is committed to growing your top-line revenue through connecting you with our buy-side leadership, bringing Hearst unique PMP and PG deals, and continuing to scale up Hearst's revenue on exchange bidding.

On a personal note, Michael, I really value our partnership over the years and I hope it can continue with AdX as well as DFP. Please let me know if you have any questions on the above, and if you are open to working with us on setting up a transparent and fair test to prove the value of Google's unique demand and yield, or to discuss your overall ad technology cost structure to find other ways for Google to help you achieve your goals for 2017.

Thanks again and see you at IAB!

Sincerely,

Jonathan Bellack