Google

SUBMITTED (12.12.22) - NO FURTHER CHANGES

Case AT.40670 – Google - Adtech and Data-related practices

Response of 12 December 2022 to the EC's

RFI 10 dated 31 October 2022

This submission provides the response of Google LLC and its parent company Alphabet Inc. (together "**Google**") to Questions 1, 2, 5, 6, 8 to 18, 23, 25, 33 to 35, 48, 52, 79, 82, 85 to 87, 90, 92, 93, 96 of the European Commission's ("**EC**") information request of 31 October 2022.

Google's response contains highly confidential information on its business and technologies, the disclosure of which would cause serious damage to Google. Google therefore requests the Commission not to disclose any information provided in this response, without prior agreement from Google.

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1. Please indicate (i) when the initial version of Exchange Bidding was first launched;[1] (ii) whether, in the initial version(s) of Exchange Bidding, AdX solicited a bid after the auction of the SSPs participating in Exchange Bidding was terminated; and (iii) if so, when this mechanism was dropped.

1.1. In April 2016, Google began to test a feature to enable real time bidding of third-party ad exchanges that would later be known as Exchange Bidding. Exchange Bidding applied to Google Ad Manager ("**Ad Manager**") publisher inventory from April 2016. In June 2017, Exchange Bidding entered open beta testing for Ad Manager 360. In April 2018, Exchange Bidding was rolled out to general availability, at which time Exchange Bidding also entered closed beta for Ad Manager Small Business.

1.2. In the initial (and later) version(s) of Exchange Bidding, AdX did not solicit a bid after the auction of the SSPs participating in Exchange Bidding was terminated. Bids were requested simultaneously and bids from the SSPs participating in Exchange Bidding

[1] Which means when the first third-party SSP was integrated with Exchange Bidding, irrespective of whether Exchange Bidding was in a beta phase or fully deployed.

would not affect the floor price provided to AdX buyers.

2. Please indicate whether the Dynamic Revenue Share feature was enabled by default on AdX (or GAM).

2.1. Based on the understanding of the current Google employees consulted on this question, to the best of their knowledge, the Dynamic Revenue Share feature was not enabled by default for Ad Manager Premium customers (now known as Ad Manager 360) but was enabled by default for Ad Manager Small Business customers. The Dynamic Revenue Share feature was discontinued from September 2019, following the launch of the Unified First Price Auction.

5. The Commission understand that Dynamic Revenue Share allowed AdX to modulate its fee dynamically. What were the minimum and maximum fee (in terms of percentage) applied by AdX in this context?

5.1. Dynamic Revenue Share provided the flexibility for publishers to accept a lower revenue share in some auctions, if other auctions transact at a correspondingly higher revenue share. Therefore, in a situation where the highest bid would not meet the floor price if Google took its full revenue share (and the transaction would therefore not happen at all), Google could forgo its full revenue share, enabling the transaction to proceed and the publisher to be paid. In a subsequent auction, if the bids were significantly higher and well in excess of the floor price, Google could take a larger revenue share. Overall, the publisher would increase its revenue.

5.2. On a per-query basis, and assuming an agreed upon aggregate revenue share of 20% with a GAM publisher:

(a) In the initial version of Dynamic Revenue Share, the minimum revenue share applied was 0% and the maximum revenue share applied was 20%.

(b) In the second version of Dynamic Revenue Share (launched in December 2016), the minimum revenue share applied was 0% and the maximum revenue share applied was 40%, but the objective was to keep the average revenue share at 20% over queries.

6. In relation to intermediation channels mentioned in your reply to Question 7 of

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[2] The FCA Commitments offered by Google dated 15 February 2021 are available here (in English): https://www.autoritedelaconcurrence.fr/sites/default/files/commitments/2021-08/google_committments_english_version_21d11.pdf. They were made mandatory by the FCA's Decision n°21-D-11 of 7 June 2021.

to "near-real-time". In practice, the minimum-bid-to-win data is received within seconds of completion of the auction.

17. Please indicate whether Google has a plan to start sharing the minimum bid to win information with Header Bidders that are integrated through a new yield group for Header Bidding. If yes:

a. Please specify when this is to be fully implemented;

17.1. See Google's responses to Questions 15 and 16 above. The implementation newly created under FCA Commitment 1B allows minimum-bid-to-win data to be shared with integrated header bidders, in the same way that that data is shared with bidders that are intermediated via Google's ad exchange and third-party SSPs that participate in Open Bidding. FCA Commitment 1B has now been fully implemented since Google moved to open beta on 15 June 2022 (ahead of the 30 June 2022 deadline provided for under the FCA Commitments).

b. Please explain whether this will require Header Bidding partners to enter into a direct contractual relationship with Google and, if so, whether this would be on a fee based basis.

17.2. Header bidding partners (SSPs) who wish to integrate with HBYG to receive minimum-bid-to-win data will do so on the basis of a direct contractual relationship with Google. Google will not charge those header bidding partners any fee for integrating with HBYG.

17.3. Following feedback provided by publishers during the alpha testing phase, Google has decided to offer all core functionalities of HBYG at no extra cost to all Ad Manager 360 publishers. This is despite the FCA Commitments allowing Google to charge publishers up to a 5% fee on impressions won by integrated header bidders. Those core functionalities include the minimum-bid-to-win feedback feature, which will therefore be accessible without any additional fees applying to either Ad Manager 360 publishers or integrated Header Bidding partners.

18. Please explain if it is possible to have the minimum_bid_to_win information transmitted to publishers in real-time. If not, please explain why.

18.1. It is not possible to have the minimum-bid-to-win information transmitted to publishers in real-time. Providing such information in real-time involves server-to-server calls. This can only be done with bidders integrated via Authorized Buyers, Open Bidding or HBYG. The majority of data is delivered and available in Data Transfer files to publishers between five and fifteen hours post-auction. In any case, this delay does not mean the data is no longer valuable to publishers (or to bidders with whom publishers may be sharing this data). Typically, this data helps inform and adjust the bidder's bidding models and predictions. Bidders do not necessarily update these models in real time and may only do so at longer intervals (e.g. once a week). In those instances, receiving minimum-bid-to-win information in real time would not bring added benefits.

23. The Commission understands that, at one point in time, Google implemented a

mechanism whereby DFP solicited AdX for all impressions,[10] whereas DFP solicited non-Google SSPs in descending order of expected revenue if AdX[11] did not receive any bid above the floor price.

a. When was this mechanism launched?

23.1. Google is not aware of a feature that solicited Ad Manager's ad exchange for all of its ad server queries. That is, publishers were not required to let Ad Manager's ad exchange compete for impressions. Instead, publishers had (and still have) to actively enable Ad Manager's ad exchange demand, either via individual line items or yield groups.

23.2. Dynamic Allocation is the feature that enabled publishers to solicit real-time bids from DoubleClick's ad exchange (known as AdX) for ad impressions not fulfilled by guaranteed line items. Dynamic Allocation was launched as a new feature in DoubleClick for Publishers ("**DFP**") in around July 2007, before Google's acquisition.

23.3. When Dynamic Allocation was introduced, publishers mostly sold their inventory through direct deals. Non-guaranteed ("remnant") inventories were sold through a "waterfall process". In that process, the ad server would first seek to fill an impression with an ad from an eligible guaranteed sales contract, to ensure the publisher fulfilled its contractual obligations. The publisher would set up "guaranteed line items" for that purpose in its ad server. If there was no such eligible guaranteed line item, then the server would attempt to sell that remnant inventory by sequentially calling a series of ad networks in an order determined by the publisher. For this purpose, the publisher would set up "remnant" or "non-guaranteed" line items in the ad server. If the first ad network would not buy remnant inventory at or above the floor price set by the publisher for a particular ad unit or impression, the ad server would call the second network etc., until the impression was filled or could not be filled. In the waterfall process, a publisher typically would determine the order in which to call ad networks based on data about their historical average performance, based on negotiated fixed-price deals, or any other method the publisher saw fit.

23.4. When Dynamic Allocation was introduced, there was no standard protocol that allowed third-party SSPs to integrate with DFP. Google is not aware of any SSPs that submitted real time bids directly into a third-party SSP in 2007.

23.5. Using Dynamic Allocation, DFP established a "floor price" for AdX bids to beat, based on the highest price of any of the publisher's booked, static remnant line items (which a publisher "booked" by manually configuring the estimated price of each remnant line item or based on a fixed-price the publisher had negotiated with a particular remnant demand partner). AdX buyers would then submit real-time bids to try to beat this floor. The floor price was shared with all AdX buyers: meaning all Google and non-Google AdX buyers. Sharing the floor price benefited publishers and buyers on AdX by allowing buyers to bid on more valuable impressions. Dynamic Allocation enabled publishers to determine in real-time whether there were ad buyers willing to pay a

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[10] Initially for all impressions that DFP could not match with a guaranteed campaign element, later on for all impressions.
[11] Initially AdX, later on Open Bidders or participants to Unified First Price Auction.

price for a particular ad impression greater than what the publisher established its remnant demand partners would generate or than the fixed-price negotiated with remnant demand partners.

b. Does this mechanism still exist? If not, when did this mechanism stop?

23.6. In the following years, there were a number of technological and product developments that affected this mechanism including:

(a) **Enhanced Dynamic Allocation ("EDA") (2014)**: Google introduced EDA in 2014. EDA made it possible for indirect channels to fill an impression that would otherwise have been reserved for direct deals even if the partner had an outstanding commitment to provide impressions under its direct deal. EDA enabled publishers to allow these indirect channels to compete simultaneously with the guaranteed reservation line items that they enabled for AdX demand. The indirect channel would win the impression if the revenue to be derived from that buyer was higher than the opportunity cost of not serving the guaranteed line item. EDA benefited all indirect sources of demand, including third-party demand that competes through remnant line items. It increased competition between the publishers' reservation deals, AdX and remnant line items.

(b) **Header Bidding (2014/2015)**: Several years after the initial launch of Dynamic Allocation, new solutions started to emerge that allowed multiple ad exchanges and SSPs to submit real-time bids. The most popular of these new solutions was header bidding. Publishers have been able to use header bidding with DFP since header bidding was first adopted. Header bidding is an additional auction that takes place outside of a publisher's ad server and allows that publisher to simultaneously offer ad space to numerous SSPs and ad exchanges before making a call to an ad server such as Ad Manager. Most header bidding auctions take place on the client side, which means that the webpage sends bid requests to individual SSPs via JavaScript code running on the page. This creates latency issues - more code on the page and often asynchronous callouts. The typical timeout for a header bidding auction is one to two seconds, which is several times longer than it would take for AdX to run its auction and return an ad. In addition, there is sometimes a discrepancy between a bid submitted by the header bidder and the payment received by the publisher - header bidders may not actually pay the sum indicated in its offer.

(c) **Open Bidding (alpha 2016, launch 2018)**: In response to the issues caused by header bidding, Google began to "alpha" test a feature in 2016 that would later develop into Open Bidding. Google's intention was to design a solution to make the auction fairer for all participants while protecting users and publishers from ad hoc developments that it was observing in ad tech. Open Bidding allows third-party SSPs and ad exchanges to submit real-time bids into Ad Manager in the same way as Authorized Buyers. This is similar to header bidding, but minimises the latency and transparency (including billing) issues that are associated with publisher-implemented solutions such as header bidding. Google shares broadly the same information, including the floor price, with all Open Bidding participating in the auction, just as it does with Authorized Buyers.

23.7. The mechanism described in paragraph 23.5 above no longer exists. Google began its shift for the Ad Manager auction to the Unified First Price Auction in June 2019, completing the transition in September 2019. The Unified First Price Auction compares the bids that the publisher has obtained via all the different channels at the same time. This includes the bids from third-party buyers intermediated via Google's ad exchange and Google demand, the bids from third-party SSPs submitted via Open Bidding, the highest-priced non-guaranteed (remnant) line items (including bids from third-party SSPs submitted via header bidding), and the temporary CPM bids of the selected guaranteed deals.[12] In the Unified First Price Auction, the floor price is no longer set by reference to remnant line items. The simultaneous comparison of bids in the Unified First Price Auction means that bids submitted by third-party bidders are not shared with other bidders, and therefore bidders on Google's ad exchange cannot bid in knowledge of the bids submitted by other SSPs in that auction.

[12] Using EDA, the ad server calculates what is known as a temporary CPM for that guaranteed deal. The temporary CPM takes into account how much room the publisher has left to meet the agreed volume commitment and calculates an opportunity cost of not allocating the ad space to the guaranteed deal on that basis. This mechanism avoids a preset prioritisation of guaranteed deals.

34. Please provide the dates when Google Ads began to allow advertisers to place their ads on the following, (i) anywhere in the world, and (ii) in each country in the EEA, where applicable:

a. the websites of the Google AdSense network; and

34.1. Since the launch of AdSense in June 2003 (globally, including in the EEA), Google Ads

advertisers could place their ads on the websites of the Google AdSense network.[16]

b. on the apps of the Google AdMob network;

34.2. Google Ads began to allow advertisers to place their ads on the apps of the Google AdMob network in November 2010.[17]

c. the websites that use AdX;

34.3. Google Ads began to allow advertisers to place their ads on the websites that use AdX in September 2009 (globally, including in the EEA).[18]

d. the apps that use AdX.

34.4. App inventory has been offered through AdX since 1 December 2011. This is therefore the earliest date at which advertisers using Google Ads could have placed their ads on the apps that use AdX.

35. Please provide (i) the different names of Google Ads/AdWords (since AdWords' creation) and (ii) the dates when the name has changed. Please include any names that were used only internally within Google. Please also identify any project or code names, apart from AWBid, related to Google Ads bidding on third-party SSPs.

35.1. Since AdWords' creation and until June 2018, Google Ads was known as AdWords. AdWords rebranded to Google Ads in June 2018. There have been no other names for Google Ads/AdWords.

35.2. The display advertising aspect of Google Ads/AdWords may also be referred to as "Google Display Network" or "GDN".

35.3. Google Ads bidding on third-party SSPs (AWBid) was originally called AdWords Bidder and informally referred to as AWBid, or, in an early concept version, YBid or "Yahoo Bidder" (in the case of AWBid on Yahoo specifically). Prior to fully launching AWBid, Google also ran a pilot called AWBid Cross-exchange Pilot for AdWords Remarketing, which was launched in January 2015. Project Marple related to Google Ads bidding on third-party SSPs.

48. Please explain if the fees charged by Google Ads and DV360 to advertisers are deducted before the bids from Google Ads and DV360 are submitted to SSPs' auctions.

Google Ads

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[16] See "Google Expands Advertising Monetization Program for Websites", available at: https://googlepress.blogspot.com/2003/06/google-expands-advertising-monetization.html.
[17] See "Bringing Google ads to AdMob publishers", available at: http://googlemobileads.blogspot.com/2010/11/bringing-google-ads-to-admob-publishers.html.
[18] See "Announcing the new DoubleClick Ad Exchange", available at: https://adwords.googleblog.com/2009/09/announcing-new-doubleclick-ad-exchange.html.

48.1. When advertisers use Google Ads to buy display ads, Google Ads does not typically charge advertisers a per transaction fee, or a fixed revenue share. Instead, advertisers are typically charged when a user takes an action, such as clicking on an ad (referred to as a cost-per-click (**CPC**) basis).[19] Google Ads generally retains a varying take rate, which is the difference between the payments received from advertisers and the amount Google Ads paid to the relevant exchange. Consequently, the Google Ads take rate will vary across impressions and advertisers.

48.2. Google Ads generally commits to make a payment into the relevant auction for every impression it wins, whereas advertisers typically pay only when the relevant impression leads to a click/action/active view. The majority of Google Ads advertisers bid (and are charged) on a CPC basis. Clicks on ads are, however, a rare event. Therefore, Google Ads makes a loss in the vast majority of auctions it wins. These are counterbalanced by the rare cases when a user clicks on an ad, resulting in Google Ads receiving payment from the advertiser. Google Ads is therefore taking on risk in order to facilitate transactions between: (i) its advertisers that want to use a CPC, CPA or CPMAV model, and (ii) Ad Manager and other exchanges that use a CPM model. Google Ads therefore targets an aggregate rate of return for the service it provides.

<u>DV360</u>

48.3. DV360 does not deduct its fees from the bid it submits.

48.4. The principal way in which DV360 customers pay for the service is through a monthly service fee calculated as the sum of:

(a) a flat percentage of the customer's "non-exchange spend" for the given month (i.e. the aggregate cost of the customer's purchases of media through DV360 that (a) were offered via API integrations; (b) utilised YouTube's TrueView functionality; (c) were offered via guaranteed or reserved deals; or (d) were trafficked via third party tags). This percentage is generally 4%;

(b) a tiered percentage of the customer's "exchange spend" for the given month (i.e. the aggregate cost of the customer's purchases of media through DV360 that were offered via (a) open or private auctions; (b) preferred deals; or (c) any other deal type not qualifying as non-exchange spend). This percentage depends on the customer's total exchange spend and generally ranges from 11% to 15% for customers using the self-service option and 17% to 27% for the small number of customers using the managed service option; and

(c) third-party fees incurred by the customer through DV360 during that month.

48.5. A customer's contract may (or may not) also require an initial setup fee.

52. Please indicate to which type of AdX auctions Google Ads was submitting its bids during the period 2009-2022. Your reply to Question 22 of RFI 7 of 12 July 2021 seems to imply that Google Ads only participated in the Open Auction (and

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[19] Other cost types include charging on a Cost per Action ("**CPA**") basis (when advertisers pay for each ensuing action) or Cost per Active View ("**CPMAV**") basis (when advertisers pay for every view).