Message

From: Michael Hopkins [mhop@google.com]
Sent: 7/12/2018 7:15:03 PM
To: Leah Caldarone [lcaldarone@google.com]; Noam Wolf [nwolf@google.com]; Marissa Pelliccia [pelliccia@google.com]; Suresh Kumar [sureshkm@google.com]; Carlos Kirjner [kirjner@google.com]; Deepika Phakke [deepikaphakke@google.com]; Emil Ochotta [emilo@google.com]; Jessica Mok [jmok@google.com]; Xuefu Wang [xwang@google.com]; Aparna Pappu [apappu@google.com]; Jim Giles [jimgiles@google.com]; Sunil Kosalge [sunilk@google.com]; Brad Bender [bradbender@google.com]; Max Loubser [maxl@google.com]; David Goodman [davidgoodman@google.com]; Eisar Lipkovitz [eisar@google.com]; Sam Cox [samcox@google.com]; Alvin Dias [alvindias@google.com]; Katie Lewinski [klewinski@google.com]; Macha Ross [machaross@google.com]; Niharika Khanna [niharikak@google.com]; Jonathan Bellack [jbellack@google.com]; Lauren Taralli [laurentaralli@google.com]; Paul Muret [muret@google.com]; Duke Dukellis [dukellis@google.com]; Justin Cutroni [jcutroni@google.com]; Bahman Rabii [bahman@google.com]; Sagnik Nandy [sagnik@google.com]; Kurt Spoerer [kspoerer@google.com]; Sandra Robles [sjanky@google.com]; Julie Chen [juliech@google.com]; Matthew Conroy [mattrc@google.com]; Rahul Srinivasan [rahulsr@google.com]; Chris LaSala [chrisl@google.com]; Glenn Berntson [gberntson@google.com]; Payam Shodjai [pshodjai@google.com]; drx-pm-leads [drx-pm-leads@google.com]; sellside-review-attendees@google.com
Subject: Re: Sellside Review for Tomorrow

Thanks to everyone that attended the sellside review yesterday. There was a lot of great discussion. I've copied the notes from the review below.

Thanks,
Michael & Rahul

Topic: DRX Pricing Strategy
Date/Time: 7/11, Wed 10:00-11:00 AM
Strategy Paper
Summary: One major goal for DVAA heading into 2019 is to improve our net profitability. We present options for improving our net revenue from a strictly sell-side perspective. We believe there is potential for as much as $300 million per year by 2021 through three strategies. First, we should stop disclosing margin on GDN (and DBM open auction if possible). Second, we should stop buying through middlemen, who generally add little value to our transactions with publishers and prevent us from maximizing the value of those relationships. Third, we should revise our platform fee structure to charge more for where we are providing more value, and target an overall increase in platform fees.

TLDR:

- DRX proposed three changes to DVAA pricing structure: (1) stop disclosing margin on GDN (and DBM open auction if possible), (2) stop buying through middlemen, and (3) increase our platform fees
  - There was strong support for (3), moderate support for (1), and (2) remained an open question
- In general, there was agreement that it would be much easier to apply changes (e.g. stop disclosing margin, increase platform fees) on new inventory sets (e.g. video, app, yavin) / new publishers / new products
- The group was supportive of prioritizing DRX pricing efforts in 2019 and accelerating progress as much as possible

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- Suresh advised the sellside to be competitive in our pricing (don't leave room to be undercut), not to abuse market power, and to build new products with better economics rather than changing the pricing of existing products whenever possible

AIs:

- Evaluate complimentary buyside changes to DRX pricing strategy proposal
- Write down the list of things that everyone agrees on + are low risk and just do them
- [Long-term] It would be helpful to figure out where we want to be on a spectrum from open platform to walled garden (set north star)

Notes:

- Suresh: like the new sellside review format (documents everything clearly in one place)
    - JB: Dozens of people that collaborated on the pricing strategy doc
    - Suresh: paper like this forces you to collaborate and streamline thought process
- Thoughts / comments from room
    - Carlos: great stuff
        - Why 2021? Why does $300M ARR take 3 years?
            - 2021 isn't super methodical, intentionally conservative
            - Recontracting and moving to 1p would take a while

- Few contracts are more than 2 years
- If approved, we'd come back with a more detailed timeline
- Likes paying publishers without disclosing margin
- Grow platform revenue screams as an opportunity (gap between gross revenue growth and net revenue growth)
- Brad: in general, I'm supportive
- Likes idea of increasing platform fee structure and varying margin in auction
- Most supportive of 3) (grow platform revenue)
- We have a lot of flexibility on margin on buyside with new network, awbid, yavin; less flexibility where we've made disclosures historically
- Brad: we should evaluate complimentary buyside changes too
- Jim and Aparna:
- We don't know what publishers think about GDN margin on AdX
- Spectrum of risk in possible responses
- Could not mention GDN buyside rev share

- Could have reactive comms
- Could plan proactive comms
- Could just change for video + app, not web
  - Brad leaning towards this option
- JB: honorable thing to do is to recontract to preserve pub relationships
  - Brad: AdSense is a fixed 32%; with this proposal, could it be worse to be on DRX than AdSense?
    - JB: We'd also walk back AdSense commitment to 32% rev share
  - Carlos: my mental model for web publishers is large web publishers (e.g. News Corp) that monetize w/ 15 different exchanges -- how much would this change really hurt them?
  - Chris: paper separates media business (empowered by Google data) from platform business (enterprise software business)
    - Chris: We shouldn't raise platform fees without going to blind rev share structure in programmatic
  - Goody: we can't completely decouple platform and media; e.g. dynamic allocation (and the ability to dictate the rules of the platform) brings us a lot in terms of media rev share
  - What is the risk profile of changing rev share?
    - JB: changing on app and video going forward is safest; we always have the safety valve of quietly agreeing with selected pubs to a specific rev share

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- Carlos: we could potentially escalate to Sundar to make call between net revenue trade off and reputation risk for traditional web pubs
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- Bahman: I like most of the ideas; I'd like to accelerate; we've been talking about these ideas for many years
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  - We need to unblock large portions and move a lot faster
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- Brad: we should have some principles for how both Awbid and DBM interact with third party exchanges
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- JB: how aggressively should we move away from paying middlemen a rev share
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  - Bahman: If we buy from middlemen, we should be profit maximizing rather than just walking away
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  - Bahman: there could be some contractual complexities for DBM to withhold spend from middlemen
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  - JB: this paper says that we can work with middlemen but we pay pubs directly and have a contract with the pub (this would allow us to extract a sellside rev share on top of DBM's platform fee)
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- Brad: DBM is starting to already bias towards our inventory (b/c of Ads.txt and Nera)
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- Brad: we can't take away full value proposition of DBM (the fact that they buy across exchanges in a neutral way)
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- Aparna: We should triple down on Yavin
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- Payam: 4-5 years ago, we started with a very open strategy with DBM (⅔ of spend on 3p exchanges); today we're 30% on 3p exchanges
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- Question is what will make us more net revenue in the long run
- Suresh:
- as a follow up, write down list of things that everyone agrees on + are low risk and just do them
- Principles
  - Bundling adds value, should charge for added value
  - We need to be competitive, don't want to leave us room to be undercut
  - Don't want to abuse market power
- Tactics
  - New products easier to start with
  - Existing products - good to build new product with better economics and move people over to the new one
- Think about segmentation
  - In cases where we don't disclose revenue, we can have a single system that optimizes for buyside + sellside revenue

- Aparna: segmenting publishers has unintended consequences (e.g. Admob vs. DFP backfill and Bernanke)
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- Agreement: these are 2019 priorities, not 2018 H2
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- Suresh: creating new product with different economics is better than changing price for what pubs are already getting
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- Chris: it would be helpful to figure out where we want to be between open platform and walled garden (set north star)

On Tue, Jul 10, 2018 at 5:21 PM Michael Hopkins <mhop@google.com> wrote:
Hi all,

We have the following Sellside Review scheduled for tomorrow:

Topic: DRX Pricing Strategy
Date/Time: 7/11, Wed 10:00 am - 11:00 am PT
Strategy Paper*: Sell-side Pricing Strategy Review
Summary: One major goal for DVAA heading into 2019 is to improve our net profitability. We present options for improving our net revenue from a strictly sell-side perspective. We believe there is potential for as much as $300 million per year by 2021 through three strategies. First, we should stop disclosing margin on GDN (and DBM open auction if possible). Second, we should stop buying through middlemen, who generally add little value to our transactions with publishers and prevent us from maximizing the value of those relationships. Third, we should revise our platform fee structure to charge more for where we are providing more value, and target an overall increase in platform fees.

* We are experimenting with a new format for sellside reviews. In this new format, rather than listening to a presentation and asking questions, attendees will spend the first 10 - 15 minutes of the meeting reading the strategy paper. We will spend the remaining time discussing and reacting to the strategy paper.

Thanks,
Michael