

Message

From: Eisar Lipkovitz [eisar@google.com]
Sent: 9/13/2017 4:35:32 PM
To: Aparna Pappu [apappu@google.com]
CC: Jim Giles [jimgiles@google.com]; Jonathan Bellack [jbellack@google.com]; Bahman Rabii [bahman@google.com]; Ali Nasiri Amini [amini@google.com]; Brad Bender [bradbender@google.com]; Jason Bigler [bigler@google.com]; Max Loubser [maxl@google.com]; Paul Muret [muret@google.com]; Payam Shodjai [pshodjai@google.com]; Vivek Rao [vivekrao@google.com]
Subject: Re: Offering 1st price to publishers?

Thanks for writing this down and the thoughtful discussion.

Ali (and others on the buy-side) made very compelling arguments but IMO all of them were from a perspective of sell-side, i.e. his opinion on what would be helpful for the sell-side, where in practice Google's buy-side is really agnostic. The cost to the buy-side is minimal as we need to deal with other SSPs (on DBM and AWBId) that have moved to 1p already or have dirty auctions.

That said, we must accelerate all relevant buy-side projects to quickly reach a point where the reality of 1P yielding more than 2P greatly diminishes.

The impact to AdX buyers in particular IMO should be ignored. They are certainly losing share on AdX and while I believe some of them are intentionally moving to other SSPs, those who can't effectively deal with 1P are going to get destroyed no matter what.

I'm happy to argue about the following premise, but I honestly think it's purely a sell-side discussion.

Ultimately to me this gets reduced to the fact we appear stubborn, buy-side friendly and late in adopting technologies. While theoretically one can argue it's correct for market leader to wait and see and fast follow anything that gains momentum, I actually think we dropped the ball on header bidding. Our attempts to "solve" it via better mediation and FLD were wrong. FLD is a good idea, but we should have realized that Mediation as defined in the past is DOA. All that really matters is yield management reduced to properly handling Direct .vs. Programmatic and NOT trying to improve the yield from the flawed daisy chain mediation solutions.

I am pretty sure that there is nothing inherent about HB solutions that require 1p .vs. 2p auctions, it was just a consequence of the client side JS implementation.

My preference is to go with A', i.e. provide publisher a choice but avoid the pitfall of "doing it right", meaning allowing them to slice their inventory to decide which tranche should be 1p .vs. 2p or build tools that lets them do A/B experiments or spend a lot of time upfront thinking through the interaction with other yield management options. We should leave it as a Beta feature whitelisted to only some pubs thus avoiding this mess where AdMob/AdSense pubs wants a piece of the game.

In conjunction and following yesterday's discussion, I think we should come up with a proposal to lower our margins and compensate for the profit loss by raising serving fees. IMO this has the potential to be more long term substantial in nature in terms of matching price and value.

Moreover I do think it would make sense to invest in transparency for the sell-side, here I am not so worried about exploiting the buy-side and rather have a future proof framework to prevent people coming up with BS/Novel ways which claim to extract yield based on FUD that can't be refuted due to lack of transparency

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On Mon, Sep 11, 2017 at 10:48 PM, Aparna Pappu <apappu@google.com> wrote:

So we should consider this in a framework in my mind

a) Respond with FP option

The pros and cons here are in the doc but are far more complicated when we disentangle what does it mean to offer it to a publisher - is this a web property or something more substantial - if the former they can play games of using the first price to set the floor for a second price auction just coming in via a different web property or via adsense or ad mob backfill - not sure what we would say/do there.

b) Do Nothing

c) Ask some more key pubs what they think

What happens with a do nothing for a year and see what happens to the other SSPs option - given the actual person-months of making this change and the considering what we wouldn't do as a result of spending the time in making the auction FP - is it worth it

As you can tell from my email I lean toward the combo of option (c) and (b) given the cost of doing this and for an unclear benefit given the Jedi and J4N path exists. We can stave (b) off if we can discuss this in more detail with trusted premium pubs.

On Mon, Sep 11, 2017 at 10:37 PM, Jim Giles <jimgiles@google.com> wrote:

I think there some risk a 1p provider can get ahead, especially if buyers are slow to respond (either by changing buying strategy or by fading away). On the other hand, EB and soon DP put pressure on SSPs and I think 1p will commoditize most and drive margins down (some of the articles also say this). So do first price auctions win customers fast enough for these SSPs to change their market position? -- not sure. I think the Rubicon article said they thought 1p was only appropriate for ~10% of ads and they were going to choose for the publisher based on machine learning.

On Mon, Sep 11, 2017 at 11:41 PM Jonathan Bellack <jbellack@google.com> wrote:

Makes sense. I am asking a slightly different question, which is how does our decision now impact our market position over time. Imagine a world where others go to 1P and we don't, other SSPs win more now -- if/when the buy-side consolidation happens, what happens to those other SSPs? Do they fade as the number of buyers drops, or does the market resettle with them having more share since they won a lot of pubs during the initial 1P phase?

On Mon, Sep 11, 2017 at 8:35 PM Jim Giles <jimgiles@google.com> wrote:

Short term, I think there is money to be made from less savvy buyers by going to 1p. How long those less savvy buyers can survive that way (whether it is also medium term) is a question and how much inventory we lose if we don't do it is hard to say. I think we should talk to some of our top publishers in addition to what the smaller pubs are saying like those at the panel.

I would not say we don't like 1p -- in a highly consolidated world I don't think it matters much. I think the question is whether we want/need to bring that consolidation more quickly and how we will help publishers not get squeezed too much once that happens.

On Mon, Sep 11, 2017 at 10:28 PM Jonathan Bellack <jbellack@google.com> wrote:

I am much more interested in the short / medium term dynamics. If others go to 1P and we stay 2P, how much inventory do we lose, and what does that do to the SSP market? Does that change over time, or do the SSPs that bet on 1P now gain a sustainable advantage? If we do not like 1P, what other options could we pursue to deliver better payouts to publishers in a manner we find more sustainable?

On Mon, Sep 11, 2017 at 4:02 PM Jim Giles <jimgiles@google.com> wrote:

Notes from our discussions so far with the best reasons why we could consider offering 1p, and some of the open questions.

There are interesting differences in what others are doing --- OpenX seems to be making it a buyer choice (which would be more similar to the effect of Jedi4N) while others are running 1P when in competition with header bidding. It also seems some of the worst offenders in the 2P world are making the move to 1P -- is it because buyers have become smarter and they can't get away with dirty 2p any more?

Some of the open questions are 1) 1p will likely accelerate buy-side consolidation -- will a world with a few big buyers really deliver as much revenue to publishers and do we think it is good to accelerate that world? 2) it will be much harder to demonstrate differentiated yield in a 1p world -- how will we maintain access and margins?

On Fri, Sep 8, 2017 at 12:50 PM Bahman Rabii <bahman@google.com> wrote:

Also:

<https://adexchanger.com/platforms/big-changes-coming-auctions-exchanges-roll-dice-first-price/>

On Fri, Sep 8, 2017 at 9:45 AM, Eisar Lipkovitz <eisar@google.com> wrote:

<https://www.mediapost.com/publications/article/306986/openx-unveils-1st-price-auction-option-for-program.html>

<https://adexchanger.com/platforms/appnexus-index-exchange-header-bidding-leaders/>

On Thu, Sep 7, 2017 at 6:21 AM, Aparna Pappu <apappu@google.com> wrote:

Thanks Ali

On Sep 6, 2017 10:35 PM, "Ali Nasiri Amini" <amini@google.com> wrote:

Great! I work with Jim and the team to provide any help that they need from buy-side.

On Wed, Sep 6, 2017 at 6:24 PM, Aparna Pappu <apappu@google.com> wrote:

Thanks for the feedback. Here are the next steps.

Jim/max/Nitish/max/mpal and team fleshing out a shared doc with pros and cons.

We discussed second order effects of what this means for AdSense/admob and can pubs who choose first price re-enter via AdSense and other gameable outcomes.

We hope to have this fleshed out by Tuesday including the eng cost which we can scan afford of building it out.

Let's discuss then.

On Sep 5, 2017 10:52 PM, "Vivek Rao" <vivekrao@google.com> wrote:

I care about fair access to all inventory and aim for maximum coverage. I am +1 on option 2.

If we give too much ground on the 1p auction dynamics which in the short term gives pubs more money, then there is a possibility that we are not the first choice for an SSP. We can argue that we can always add the 1p auction at any point, however I worry that we might be giving too much ground here.

Also pubs tend to add more demand sources to increase demand. In the longer term holding on to 2p auction might not give us any big advantage since the pubs are going to send these calls to 1p sources also. At that point from a buy-side perspective the other channels become a lot more attractive and spend will move more anyways. So effectively in any case spend will move.

I am +1 on exploring how to offer the 1p auctions to pubs and how to rationalize the choices for them. Effectively option 2 in the email.

Finally I strongly believe that we should do a lot more than what we do today to help advertisers buy only "good" inventory (both on DBM and on GDN). If we do a good job of this then it should help negate some of the longer term buyside corrections to 1p auctions. (I place transparency of auctions into the "good vs bad" conversation)

On Tue, Sep 5, 2017 at 7:49 PM, Bahman Rabii <bahman@google.com> wrote:

I am looking forward to next week's discussion. Let me lay out the case now for (finally) going with choice 2, the first price option for pubs. We should launch it now, and we should have launched it years ago.

1) Pubs will not lose money in the long run. We are pretty close to clean 2nd price now. In the limit of "perfectly rational" buyers, the revenue nets out the same between 1st price and clean 2nd price. Not 50% lower, not 5% lower, not even 0.5% lower - the same. If the buyers are not reacting perfectly, the revenue will be up in the long run.

2) The benefit is pretty clear. We completely remove the incentives for offering "creative", distorted dirty auctions. These get sold to pubs on the principle of capturing more of the value of a bid / reducing bid discounts. We know this actually *does* hurt publishers in the long run (GDN/DBM spend goes down when we implement reasonable ROI-defenses on other exchanges; we spend most efficiently cleaner AdX auctions). But dirty still sells; we could offer an easily understood value proposition to neutralize it.

3) We are offering 1st price through yavin and jedi anyway. So *we* are moving to first price; the tide is flowing. But we still prefer to get most of the demand in the RTB auction - it is more efficient in multiple ways. We should keep that competitive with our less desirable alternatives. Pubs moving to yavin partially or wholly as a way to get first price bids would be very disappointing.

On Tue, Sep 5, 2017 at 6:28 PM, Jonathan Bellack <jbellack@google.com> wrote:

Chiming in late and with a strong view. I think the drivers here are simpler.

1 - first price -- HB/EB is forcing all the SSPs to compete directly. First price is an easy way to goose payouts by exploiting unsophisticated and unaware buyers. We hear that it is working, at least for now. TBD if it is sustainable. Let's not overreact.

2 - transparency -- most pubs do not care so we do not need a global fix. There is a subset of large partners that care a lot. AdX is the total outlier here. Every other SSP exposes full bid landscapes for every buyer. DBM and AwBid allow every other SSP to share their full bid landscape. We have lost the argument with the big pubs about this. It is not unlike when we argued against header bidding but recognized the opening was inevitable. We need to acknowledge reality, start exposing GDN and DBM bids to the big pubs who ask for it (just like every other SSP and our own demand on other SSPs) and deal with the consequences of however they start optimizing against the data.

On Tue, Sep 5, 2017 at 8:39 PM Eisar Lipkovitz <eisar@google.com> wrote:

I am not convinced we need to be leading the way here but do think as time passes my POV is getting shaped by additional information and I'm completely open to have this discussion again.

Off the bat I think that of the 3 options you laid out I reject (1) and agree with Jim on (3), so it really leaves status quo .vs. (2).

To me the decision should be made based on the principles Aparna laid out and I would like to see more concrete data.

A bunch of you will be in town next week for the strat summit, I'm trying to reserve a smaller group dinner on Tuesday and we can take the time to have a deep debate.

Ali, can you spend a bit more ahead of last week to sharpen the proposal? What information will be passed into the buyers? How does it fit with Jedi?

Can we use data gathered from Poirot to model the impact of such change to overall revenue and advertisers ROI?

Lastly I'd like to understand the impact to access to queries. Ultimately auction dynamics should be a feature of the sellside and should be considered in tandem with "mediation" or other platform features. This entire AI is probably for Aparna's team.

Can you please include the Apps folks POV?

On Tue, Sep 5, 2017 at 4:32 PM, Jim Giles <jimgiles@google.com> wrote:
Related to what Aparna said about the trickle down impact on access if revenue suffers, we need to figure out how we to ensure revenue is positive for publishers both short term and long term if we make the change from all of their demand sources -- GDN, DBM, and 3P. I also think if we offer publishers a choice on first price, it needs to remain a choice (at least until we see how the market evolves) and it will need to be coupled with a way to show each publisher which model is better for them as buyers change behavior over time. Short term, a move like this would probably make publishers more money from less savvy buyers. but the question is what happens over the longer term.

On Tue, Sep 5, 2017 at 5:12 PM Aparna Pappu <apappu@google.com> wrote:

We had a robust discussion on this today in sell side steering.
On the sell side we have no religion re the auction dynamic being one or the other but more about what ensures we have the right access and don't want pubs shooting themselves in the foot with revenue and therefore as a trickle down impact on access.
With EBDA (Jedi) a lot of the trust we have lost is being rebuilt but we have a long way to go to earn more primarily due to lack of detailed reports to address that our headlines this cycle are focused on bringing pubs this data - yield report, ads intelligence hubs but even with all that at the end of the day any \$ perceived to be left on the table will be \$ that pubs feel is unfairly withheld from them.
You refer to auction dynamics now the next step will be - what is GDN margin why is that not transparent to us on AdX, same with DBM etc.

We have great access via DFL, we have continued to bring incremental inventory via Jedi and if J4N is successful then perhaps that is a path for any large bidder who wants 1st price to move to 1st price. None of that is going to reduce the trust gap that Google is withholding more \$ than it should.
Ultimately we should see who are the remaining SSPs and whether this feature is something we offer the large networks - perhaps this is more of a "when" question rather than a why question esp with buy side demand consolidating.

On Tue, Sep 5, 2017 at 1:58 PM, Ali Nasiri Amini <amini@google.com> wrote:
Folks (limited only to vps and directors),

As you know I have been blaming second-price auction for some of the unfavorable dynamics in the sell-side market and predicted that the market will end up there eventually. So I have been advocating either moving to a clean/transparent first-price auction or at least giving it as an option to our sellers for the past few years. I have presented my arguments many times that by now you should be sick and tired of them :-). So what is new?

Two things:

1) Last week in Quality summit, we had a publisher panel that all criticized Google for lack of transparency. I explained to them that some of auction details can not be shared with them due to the second-price nature of the auction. However, in a hypothetical world that we have first price auction then we can share more with them. Asked them if they care about the auction rule or have any preference? All of them, 5 out of 5, went crazy! They started complaining about second-price auction, giving more details and rational that why second price auction does not make sense for display irrespective of transparency They looked at me and asked "Can you do this for us?", I answered "I take your feedback and share it with the team". Jim followed up with a question that what if 1st price auction give them less money, do they still want it? They answered how much less 50% or 5%? and they all said if it is 5% less they still want it! A few of them found me at the end of the session and repeated their request and I promised them that I will follow up internally.

2) Other exchanges started the migration to 1st price auction recently arguing the it is the best way to integrate it with HB. See OpenX: "OpenX is releasing first-price auctions to give DSPs more control over how their bids are passed into header bidding integrations with publishers, and to increase the competitiveness of DSP bids when they compete in subsequent auctions. We recommend DSPs adopt the signals passed in the bid request, as outlined below, to enable different bidding strategies for first-price and second-price auctions with OpenX.". Appnexus and a few others are more or less in the same path.

I think we may missed the opportunity to take the lead on the narrative of this story in the market. Currently, we are perceived as the main force behind second price auction and naturally market thinks that it has advantages for us. We need to have at least a reactive answer to the market and before that we need to make a decision on the topic. Our options are to

- 1) declare first price evil and push back,
- 2) give 1st price as an option to sellers and accept that it may work well for some,
- 3) move completely to a 1st price world.

How should we decide about this? What is the decision making process?

P.S. I composed this email on Saturday but did not send it to respect peaceful long-weekend :-). This morning this related article was published in adexchanger [Big-changes-coming-auctions-exchanges-roll-dice-first-price/](#).

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Eisar

"Interested in opportunities in Display Ads? : [go/dvaa-mobility](#)"

<https://memegen.googleplex.com/5246758434635776>

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