## Message

From: Rahul Srinivasan [rahulsr@google.com]

Sent: 6/10/2019 5:16:35 PM

To: Payam Shodjai [pshodjai@google.com]; Uchechi Okereke [uchechi@google.com]

Subject: Fwd: 1st Price Changes

+Uchechi Okereke -- please advise on any legal concerns

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Hi Payam,

This slide explains some of the analyses we've done in the past around this topic differential price-based inventory access on AdX vs other channels (Exchange Bidding, Header Bidding). Pubs have had traditionally been deliberate about setting higher floors for AdX in general, and GDN/DBM in particular. A lot of this is to employ specific yield management strategies to close out the auction discount between the buyer's bids and the transaction price in the second price auction.

I can't claim to know Ali's thinking on this topic in explicit detail, but his comment probably stems from the belief that floors are a less useful lever for specific yield management strategies in a first price auction, since the floor price does not directly influence the transaction price (unlike in a second price auction, where the floor can set the transaction price). And hence, the hypothesis maybe that pubs try to set different floors for different sources of demand, realize there isn't much benefit to such strategies, and incrementally move to a world where the floors are uniform across all buyers and all channels. This hypothesis may be true if the feedback loop between setting different floors and not seeing incremental value in return, is short and accurate, which may not be the case in first price auctions, precisely because the floor price does not directly influence the transaction price and it's hard to evaluate this feedback loop. This is also based on the belief that floor prices that get sent in the callout do not influence the buyer's decision on what to bid in that auction, which may not be uniformly true across all buyers. And based on market feedback, pubs believe there is still value in setting different floors for different buyers/channels even in a 1P auction, based on their experiences with other SSPs. If we continued offering the buyer-specific floor price controls (by not coupling this deprecation with the 1P launch), there could still be some buyers that have lower priced inventory access, which takes away from a fair auction. FAN for eg. was insistent in our recent conversations with them that they get exempt from floors, because they don't face reserve prices in mediation. If pubs have the ability to set buyer-specific floors, we believe FAN will negotiate with some of these pubs to set low/no floors for their demand.

We were looking to drive toward a fair, transparent and sustainable auction through the application of uniform reserve prices for all demand sources with this launch, which is the rationale for coupling the floor changes with the migration to the 1P auction. Happy to set up some time to chat live if you have any other concerns/ questions.

On Tue, Jun 4, 2019 at 5:48 PM Payam Shodjai shodjai@google.com wrote:
Sorry for the majorly delayed reply.

From chatting with Ali and others, he doesn't really believe in the first bullet ("The primary internal objective..."), i.e. he doesn't believe that removing the controls helps the buyside much. Do you know why that could be the case? And would that warrant decoupling the removal of controls from the launch of 1P auction? Not trying to rock the boat, but just thinking out loud as someone who hasn't really been involved in all the detailed discussions.

On Fri, May 10, 2019 at 7:43 AM Rahul Srinivasan < rahulsr@google.com > wrote:

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## Hi Payam,

Apologies for the delayed response -- we were at Bigler's offsite all week.

- The primary internal objective for the entire launch is to ensure that Google buyside, Authorized buyers, Exchange Bidding and Header Bidding compete on an equal footing in the Ad Manager auction, from a price-based inventory access perspective.
- The secondary objective for this launch is that Google buyside and Facebook (after FAN integrates through Open Bidding) get access to the same 1st Price auction dynamics
- We could achieve the secondary objective by just moving to a 1st Price auction, but we'd need to remove some floor control to achieve the primary objective -- if not, pubs could set different floors for AdX, EB, HB, etc, which we're looking to move away from.
- Having granular control also incentivizes pubs to call the same demand source multiple times through different channels with different floor prices (eg. DBM is called through AdX, EB and HB with different floor prices), to effectively fish for the highest price. AdX has typically been subject to higher floors set by pubs on other exchanges

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- Removing some of this functionality also helps reduce some of these complex monetization practices
  (like multi-calls, waterfall based monetization, etc), and improves the sustainability of the ecosystem -basically we're moving programmatic to a simpler, transparent and more sustainable ecosystem, which makes
  the industry as a whole more attractive
- The reason we're bundling these 2 launches together, is that moving to a first price auction provides us additional justification to remove some these controls -- in a 1st price auction, you don't need to constantly fine-tune your floors to influence publisher revenue (the floor price does not directly impact the auction clearing price for 1st price bids). We're still offering other floor controls (like different floors for different advertisers).
- The removal of control has caused some backlash among publisher, but we are defusing some of this tension through individual conversations with the top partners -- we believe we can get past this phase, once pubs get over their initial control loss aversion

Please let me know if you have any more questions.

On Mon, May 6, 2019 at 8:45 PM Payam Shodjai shodjai@google.com wrote:
Hi Rahul,

As someone who hasn't been closely involved in the 1st price changes, I have a basic question which stems from some of the difficult PR we've received on this launch. What is motivation behind removing publisher controls (i.e. different floors per buyer)? Couldn't we just make the change to 1st price without removing the controls?

Thanks, Payam

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