

## Charting a Different Course

7/5/2017, 10:13 PM

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## Charting a Different Course

audience network vision

### What's our Mission?

Our job is to create the best dollar and best minute an advertiser can choose to spend (see note).

### What's our goal?

- To build a brand safe place for advertisers to access the worlds inventory and tools to buy that inventory at the most cost effective outcome rate in the industry.
- Internally: Be the second most important place for advertisers, after feed.

### What does this mean?

- We should cater to advertisers with measurable outcomes based on real people.
- We should drive the world of monetization to reward high quality content, intentionally consumed by real people on a predictable and repeatable cycle.

### TL;DR

- Google sits between us and the impressions we want to buy [as a technology vendor, DFP & Admob]
- Google's market share [as a technology vendor, DFP & Admob] is expected to grow
- Ad serving is not going away, and at the very least is needed as a form of file delivery
- Google has monopolistic power, it uses its power to manipulate the market its favor and disadvantage competition
- To win we need to make DFP a "dumb" auctioneer

### Google's Market share

Google is the dominant technology provider for publishers. They control the lion share of the ad serving market:

- 40%+ in video (DFP)

how google achieved this position

**PTX1709**

**1:23-cv-00108**

- They have offered a best in class product and they continually invest in product improvements
  - 2007: Doubleclick acquired for \$3.1bn
  - 2009: Admob for \$750m
  - 2010: Invite Media for \$80m
  - 2011: Admeld for \$400m
  - 2014: Spider.io for undisclosed
  - 2014: mDialogue for undisclosed
  - 2014: Firebase for undisclosed
  - 2016: Anvato for undisclosed
  - 2017: Fabric for undisclosed
- They have invested heavily in servicing their customers
- They have aggressively priced this tool
  - Free to use for SMB
  - They have commoditized their premium offering
- They have bundled DFP & Admob with value added services
  - Google Analytics
  - Adsense monetization
  - Adx Monetization
- Aggressive market tactics (i.e. rebating publisher cost of DFP if they use AdX)

What's the outlook (Trend) for Google's publisher marketshare?

In short, it is going to increase. Google has monopoly power in four key forms:

- The capital requirement to build a competing product is a barrier to entry
- Their technological superiority is a barrier to entry
- Substitute goods are scarce
- Network externality - if you are to think about Google's ad serving capabilities as a modus operandi for all businesses selling ads; once enough publishers are on-board, advertisers are induced to buy and in adopt Google's protocols and processes. As more advertisers buy in, additional publishers are induced to join. The cycle continues

What does it mean for competing players in the market? Their economic viability is diminished. Google has commoditized the ad server. We can expect independent, resource poor competitors to exit the business. Publishers looking for an alternative will be less likely to consider an competitor if the long term viability of potential vendors are in question.

- Companies at risk are: Fyber, Switch, Smart Adserver and Ironsource.
- Appnexus has all but exited the business in favor of its exchange
- AOL is a hold out, mainly for its O&O

Why does it matter if Google offers a superior product?

Don't the publishers pay for ad serving?

Google uses their market power to promote anti-competitive practices. Therefore we are missing out on the inventory we want to buy and have in our network (even when we sign up a new publisher).

This applies to all inventory made available through programmatic channels. Google does not have this control over direct inventory, where the seller is highly sold through (primarily video inventory against longer form content).

- Google has seamlessly integrated 3rd party demand - via its Ad Exchange - with DFP. All of publishers we want to work with leverage AdX as a monetization solution.
- The way that Google operates Adx significantly disadvantages other competitors
  - AdX gets last look, meaning they can bid \$0.01 higher than the highest bidder and win
  - ADx leverages DFP to provide data, not otherwise provided to other demand sources

This means that although we now have access to the inventory we want (in web), our ability to compete fairly for it is handicapped.

Wait, wasn't header bidding going to fix this?

Yes, but....

- Header bidding has been great because it tackled the waterfall, an efficient way to create a market for a given piece of inventory.
- It has meant that we get called on every impression and are not subject to where a 3rd party puts us in the waterfall
- Header bidding has not removed Adx's last look advantage
  - [REDACTED]
- Header bidding doesn't work in app because app cannot be hacked using a key value pair.
- Google is looking for FB to pay 15% of working media cost in order to remove this last look advantage.

what does this mean for market dynamics?

- It is killing alternatives for open markets - anyone who does not participate in Adx is effectively setting the market for Adx (last look)
- It is pushing the market towards programmatic direct deals. The only way to truly access the inventory we want, is to secure it directly with a publisher. Although the programmatic pipes of open and direct might be the same, priorities of programmatic direct are set by the publisher and therefore not subject to Google's market set up

#### THREAD CLASS:

document

#### CREATED:

2017-07-05T22:13:47+00:00

#### UPDATED:

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#### LINK:

<https://fb.quip.com/lse7ALEREy2z>

#### SHARED TOPICS:

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Swarna Kakodkar, Louise Watson, Francesca Pignataro, Brett Vogel, Alvin Bowles, John Wren, Henry Erskine Crum, David Jakubowski

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#### URLS:

FP

Francesca Pignataro

about 300 employees + an outsourced call centre for DFP alone 7/7/2017, 5:24 AM

it's also got adaptors to thousands of other products that are embedded in publishers' backends 7/7/2017, 5:25 AM

i'd add that switching costs for publishers mean any competitor has a next to no chance of taking significant market share away from google quickly. 7/7/2017, 5:26 AM

created a monopoly 7/7/2017, 5:27 AM

I'd add MoPub to the list 7/7/2017, 5:27 AM

what about open sourcing the technology? how could we neutralize their advantage? 7/7/2017, 5:30 AM

Why are they most vulnerable there? 7/7/2017, 5:31 AM

John Wren edited at 2017-07-19T19:01:40.163Z

- Option 3: Charting a Different Course
- audience network vision
- What's our Mission?
- Our job is to create the best dollar and best minute an advertiser can choose to spend (see note).
- 
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John Wren edited at 2017-07-11T12:55:55.563Z

- ~~What does facebook want?~~
- ~~Our demand to have a cost effective and unbiased access to the impressions we want in order to maximize the value of advertiser outcomes.~~
- ~~what do we have to do to achieve this?~~
- Build / acquire a large enough pool of demand to shift the market. We can enable demand as an aggregator or as a tool
- Push the market to real time decisioning, creating enough demand density that up front guarantees become cost ineffective
- Build a demand ecosystem bought into our success
- Only enable supply where we have fair access. No waterfall & where publisher transparent
- Be public in our stance and which publishers are in the supply pool
- Offer best in class measurement for the advertisers we work with
- For the publishers we work with, ensure that the pool of demand we offer is meaningful enough to them to provide an adequate fill rate and CPM
- Educate publishers on a different way
- ~~what do you need to believe for this to be true?~~
- Ad serving is not going away, publishers are not changing their ad server
- Another piece of technology can handle ad decisioning
- If we can build enough real time demand density for standardized advertising units, the value of the ad server as auctioneer will decline
- Publishers will forgo pre-book guaranteed revenue if there is a demand source that can reliably provide fill and healthy CPMs
- If there is a demand source that is significant enough in size, publishers / app developers will capitulate to their preferences
- Google is most vulnerable at the integration point between DFP and Adx / Adsense / DFA
- A 3rd party demand source can be integrated into DFP / Admob as seamlessly as Google's integration between its own products
- We can build this pool of demand
- We can build decisioning that is better than Google's
- ~~what do we need to do to be a \$30bn media spend business~~
- ~~to negate the tech layer~~

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John Wren edited at 2017-07-10T21:25:53.779Z

- what do we need to do to be a \$30bn media spend business
- to negate the tech layer
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John Wren edited at 2017-07-07T14:26:06.595Z

- Google uses their market power to promote anti-competitive practices. Therefore we are missing out on the inventory we want to buy and have in our network (even when we sign up a new publisher).
- Push the market to real time decisioning, creating enough demand density that up front guarantees become cost ineffective

John Wren edited at 2017-07-07T07:12:18.052Z

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- Offer a large pool of demand + decisioning that mitigates DFP to a "dumb" file delivery solution

Francesca Pignataro edited at 2017-07-07T05:24:11.192Z

John Wren edited at 2017-07-07T01:17:09.361Z

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- This applies to all inventory made available through programmatic channels. Google does not have this control over direct inventory, where the seller is highly sold through (primarily video inventory against longer form content).
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John Wren edited at 2017-07-06T18:01:23.364Z

- Current Course: TL;DR
- Google sits between us and the impressions we want to buy [as a technology vendor, DFP & Admob]
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- Google's Market share
- Google is the dominant technology provider for publishers. They control the lion share of the ad serving market:
- [REDACTED]
- [REDACTED]
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- What does it mean for competing players in the market? Their economic viability is diminished. Google has commoditized the ad server. We can expect independent, resource poor competitors to exit the business. Publishers looking for an alternative will be less likely to consider an competitor if the long term viability of potential vendors are in question.
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- [Wait, Wasn't Header Bidding Supposed to Fix This?](#)
- Yes, but....
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- What does facebook want?
  - Our demand to have a cost effective and unbiased access to the impressions we want in order to maximize the value of advertiser outcomes.
  - what do we have to do to achieve this?
  - Offer a competing pool of demand that will only be available based on the principles of fair access (i.e. we will not buy your inventory in a waterfall or where another programmatic player has an unfair advantage)
  - Offer a large pool of demand + decisioning that mitigates DFP to a "dumb" file delivery solution
  - For the publishers we work with, ensure that the pool of demand we offer is meaningful enough to them to provide an adequate fill rate and CPM
- what do you need to believe for this to be true?
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- Why does this matter to FB:
- Google is the underlying technology powering the majority of the supply sources we want access to
- Google has seamlessly integrated DFP with its AdX
- The majority of our publishers look to AdX as a monetization solution for all inventory that they do not sell programmatically
- The way that Google operates Adx significantly disadvantages other competitors
- AdX gets last look, meaning they can bid \$0.01 higher than the highest bidder and win

John Wren edited at 2017-07-05T22:13:48.776Z

- Option 3: Charting a Different Course
- Current Course:
- Google is the dominant technology provider for publishers
- Their ad server has the lion share of the market
- [REDACTED]
- [REDACTED]
- Google gained their marketshare through offering a best in class product, competitive pricing and aggressive financial incentives for publishers to adopt their technology
- Cost for using DFP - small infrastructure fee for serving an ad
- Cost for using Admob - free
- Further to the point above, they have subsidized any cost borne by publishers by bundling together monetization products and free tools
- Google analytics free
- Adsense monetization for small publishers
- AdX monetization for large publishers
- Google has done an amazing job when it comes to how these tools work together
- At their current trajectory they will continue to increase marketshare

- Commodity pricing has prevents successful entrants into the ad serving business
  - Commodity pricing has eroded the financial stability of 3rd party ad servers (i.e. Fyber)
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