

Ad Exchange's transition towards first-price auction is a positive one

 By [Lianne Godfrey](#), issued by [Incubeta](#)

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"It will increase transparency across the industry and simplify yield management for publishers."

Introduction

In early March of this year, [Google announced](#) that Ad Exchange will be moving to a first-price auction. Other SSPs such as AppNexus, Rubicon, Index Exchange and Sovrn have previously done the same. With the rise of Header Bidding, pre- and post-bid and Google's own Exchange Bidding it is no surprise that Ad Exchange is now following suit. After all, the transition towards a first-price auction is a positive one, as it will increase transparency across the industry and simplify yield management for publishers.

First-price vs second-price auction

The difference between the two types of auctions lies in the price paid. In a first-price auction the closing price is determined by the highest net bid in the auction. In the current second-price auction structure the closing price is determined by the second-highest net bid in the auction.

Because of this, the role floor prices play in a first-price auction compared to a second-price auction also changes. In a second-price auction, floor prices can be used to increase the closing price of the auction. That is, the buyer with the highest bid will pay the second-highest bid unless the floor price is higher than the second-highest bid. To illustrate this in an example, if the highest bid is €10, and the second-highest bid €6, with a floor price set at €8, the buyer with the highest bid will pay €8 and not €6 due to the floor price set.

In a first-price auction on the other hand, the buyer with the highest bid in previously mentioned example will pay his bid price of €10 even though the publisher would have accepted €8.

The transition

The ramp-up started in the week of June 10th. Currently, one percent of all ad requests through to the first-price auction, and this will be slowly increasing over the next few months. By the end of this month, five percent of all ad requests will transact through the first-price auction, and this will continue to gradually grow until all ad requests will have transitioned to first-price auction. By the end of July second-price auction will be a mechanism of the past.

What does this mean?

In practical terms, buyers will probably bid less because they will learn that if they win the auction, their bid price will be the price paid, whereas previously price paid would be lower than their submitted bid. Going back to the example, once buyers will learn that an €8 bid is accepted, they will lower their bid from €10 going forward. Buyers will also find that often, a lower bid is accepted as the winning bid because other buyers are also submitting lower bids.

Yet that doesn't mean that the value of publisher's inventory will decrease. Rather, buyers will start paying the true value of the inventory they purchase, and the entire online advertising ecosystem should become more transparent in the long run. Complicated strategies and setups (both on the sell and buy side) will soon become a thing of the past.

In fact, if buyers are too slow in making adjustments to their campaigns, publishers can reap the benefits temporarily.

However buyers who are on the ball, and drop their bids, will be able to reap the benefits of publishers who have not yet set up their 'Unified Pricing Rules'. That is, this new section in the Google Ad Manager user interface allows publishers to set up their Pricing Rule structure for first-price auction transactions. If publishers fail to do so, there will be no floor price in place for ad requests filtering through the new first-price auction, and whichever bid is the highest will automatically win the auction.

How should publishers prepare?

Publishers should start by setting up their 'Unified Pricing Rules' for first-price auction transactions. You could implement the same pricing rule structure as you have set up in your current pricing rules (for second-price auction), or change strategies and either lower or increase your floor prices for first-price transactions. Which strategy is best depends on what your current pricing rule structure looks like, and what price buyers are willing to pay for your inventory. If you work with DQ&A, we will have some recommendations based on your setup. Please feel free to reach out to your Account Manager should you have any questions about this imminent change.

ABOUT LIANNE GODFREY

As the Head of Tech & Services I manage the Cape Town Ad Operations team in order to create and facilitate a flourishing and streamlined operations workflow for both Buy Side and Sell Side customers, ensuring that we service all products to global markets and to drive profitability and innovation.
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