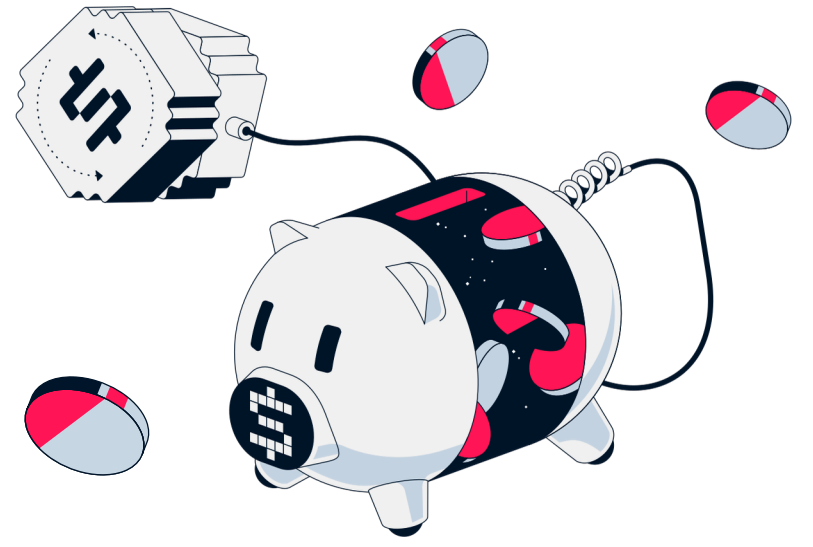


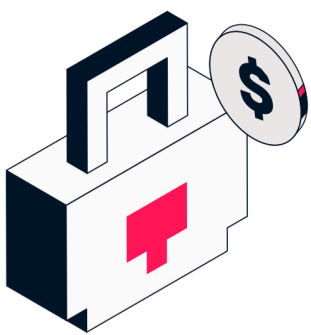
THE UNINTENDED LOSE-LOSE CONSEQUENCES OF DYNAMIC TAKE RATES



By Rotem Shaul
Co. CEO, [Primis](#)

Recently, discussions about shifting to dynamic take rates have resurfaced. Dynamic take rates allow Exchanges to change their commission fees based on market conditions. Instead of sticking to a fixed rate, they can lower their fees to win more bids or increase them when demand is high. This flexibility helps Exchanges stay competitive. Google introduced this, offering 'Average Revenue Share', and lately, it seems to be trending with others. While this might seem like a smart move for any single exchange,

it also has serious downsides, causing more harm than good when viewed from a macro, industry-level perspective. If dynamic take rates become a reality, overall revenue will shrink, and publishers, who are supposed to be the main beneficiaries, will end up losing out. Brands will suffer as well, and the risk of Ad Tech not living up to its promise of serving publishers and brands will become a significant issue. Let's break down why this is happening.



THE NUMBERS: FIXED VS. DYNAMIC

Here's a simplified example to show what could happen.

Scenario 1: Two Exchanges with Fixed 20% Take Rate

Impression	Market / Both Exchanges				Publisher		Exchange A		Exchange B	
	Exchange A Gross Bid	Exchange B Gross Bid	Exchange A Net Bid	Exchange B Net Bid	Gross	Net	Winning Gross	Net Revenue	Winning Gross	Winning Net
1	\$10.00	\$2.20	8 (80%)	1.76 (80%)	\$10.00	8 (80%)	\$10.00	2 (20%)	\$0.00	0 (0%)
2	\$2.00	\$2.20	1.6 (80%)	1.76 (80%)	\$2.20	1.76 (80%)	\$0.00	0 (0%)	\$2.20	0.44 (20%)
3	\$2.00	\$2.20	1.6 (80%)	1.76 (80%)	\$2.20	1.76 (80%)	\$0.00	0 (0%)	\$2.20	0.44 (20%)
4	\$2.00	\$2.20	1.6 (80%)	1.76 (80%)	\$2.20	1.76 (80%)	\$0.00	0 (0%)	\$2.20	0.44 (20%)
5	\$2.00	\$2.20	1.6 (80%)	1.76 (80%)	\$2.20	1.76 (80%)	\$0.00	0 (0%)	\$2.20	0.44 (20%)
6	\$2.00	\$2.20	1.6 (80%)	1.76 (80%)	\$2.20	1.76 (80%)	\$0.00	0 (0%)	\$2.20	0.44 (20%)
7	\$2.00	\$2.20	1.6 (80%)	1.76 (80%)	\$2.20	1.76 (80%)	\$0.00	0 (0%)	\$2.20	0.44 (20%)
8	\$2.00	\$2.20	1.6 (80%)	1.76 (80%)	\$2.20	1.76 (80%)	\$0.00	0 (0%)	\$2.20	0.44 (20%)
9	\$2.00	\$2.20	1.6 (80%)	1.76 (80%)	\$2.20	1.76 (80%)	\$0.00	0 (0%)	\$2.20	0.44 (20%)
10	\$2.00	\$2.20	1.6 (80%)	1.76 (80%)	\$2.20	1.76 (80%)	\$0.00	0 (0%)	\$2.20	0.44 (20%)
SUM					\$29.80	\$23.84 (80%)	\$10.00	\$2 (20%)	\$19.80	\$3.96 (20%)

With fixed take rates, the market gross value for the 10 impressions is \$29.80, and the publisher earns 80%, resulting in a total of \$23.84. Both Exchanges compete with a fixed 20% take rate. Exchange A earns \$2, and Exchange B earns \$3.96, leaving them with a combined total of \$5.96.



Scenario 2: Exchange A with Dynamic Take Rate, Exchange B with Fixed 20%



Impression	Market / Both Exchanges				Publisher		Exchange A		Exchange B	
	Exchange A Gross Bid	Exchange B Gross Bid	Exchange A Net Bid	Exchange B Net Bid	Gross	Net	Winning Gross	Net Revenue	Winning Gross	Winning Net
1	\$10.00	\$2.20	5.3 (53%)	1.76 (80%)	\$10.00	5.3 (53%)	\$10.00	4.7 (47%)	\$0.00	0 (0%)
2	\$2.00	\$2.20	1.9 (95%)	1.76 (80%)	\$2.00	1.9 (95%)	\$2.00	0.1 (5%)	\$0.00	0 (0%)
3	\$2.00	\$2.20	1.9 (95%)	1.76 (80%)	\$2.00	1.9 (95%)	\$2.00	0.1 (5%)	\$0.00	0 (0%)
4	\$2.00	\$2.20	1.9 (95%)	1.76 (80%)	\$2.00	1.9 (95%)	\$2.00	0.1 (5%)	\$0.00	0 (0%)
5	\$2.00	\$2.20	1.9 (95%)	1.76 (80%)	\$2.00	1.9 (95%)	\$2.00	0.1 (5%)	\$0.00	0 (0%)
6	\$2.00	\$2.20	1.9 (95%)	1.76 (80%)	\$2.00	1.9 (95%)	\$2.00	0.1 (5%)	\$0.00	0 (0%)
7	\$2.00	\$2.20	1.9 (95%)	1.76 (80%)	\$2.00	1.9 (95%)	\$2.00	0.1 (5%)	\$0.00	0 (0%)
8	\$2.00	\$2.20	1.9 (95%)	1.76 (80%)	\$2.00	1.9 (95%)	\$2.00	0.1 (5%)	\$0.00	0 (0%)
9	\$2.00	\$2.20	1.9 (95%)	1.76 (80%)	\$2.00	1.9 (95%)	\$2.00	0.1 (5%)	\$0.00	0 (0%)
10	\$2.00	\$2.20	1.9 (95%)	1.76 (80%)	\$2.00	1.9 (95%)	\$2.00	0.1 (5%)	\$0.00	0 (0%)
SUM					\$28.00	\$22.4 (80%)	\$28.00	\$5.6 (20%)	\$0.00	\$0 (0%)



When Exchange A changes its bidding strategy to dynamic auctions, despite average take rates staying at the same 20%, the value of the inventory drops to \$28.00. As a result, the publisher earns a total of \$22.40, 6% less than in the previous fixed rates example. Exchange A earns \$5.60, and Exchange B earns \$0.00. The average commission remains 20%.

THE CANNIBALIZATION EFFECT EXPLAINED

While this might seem like a smart move for any single exchange, it also has serious downsides, causing more harm than good when viewed from a macro, industry-level perspective.

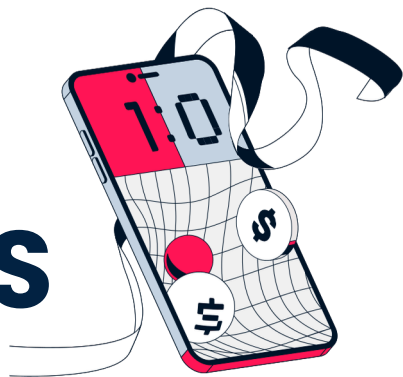
If dynamic take rates become a reality, overall revenue will shrink, and publishers, who are supposed to be the main beneficiaries, will end up losing out. Brands will suffer as well, and the risk of Ad Tech not living up to its promise of serving publishers and brands will become a significant issue. Let's break down why this is happening.

The market value for the 10 impressions dropped from \$29.80 to \$28.00, or 6%. This happened because when the gross bid was high, the publisher "lent" \$2.70 to Exchange A. But when Exchange A paid back, via nine transactions of \$1.90 instead of \$1.6, the publisher didn't really earn an extra \$0.30 per impression; they made \$0.14 because they had an alternative buyer willing to pay \$1.76.

It doesn't matter how many exchanges you add or what type of bids you use; The fact I choose to present two exchanges running at the same, 20% take rate doesn't matter also.

THE CORE IDEA OF DYNAMIC BIDDING IS AS FOLLOWS:

WINNERS AND LOSERS





Publishers


End up losing, they "lent" \$2.70 to Exchange A, and even though Exchange A was fair and paid back the debt in full, buying nine impressions for \$0.30 more than what they valued, the publisher's perspective is different, they value the inventory at \$1.76, from the publisher's point of view, they lent \$2.70 and got \$1.26 in return.


Brands

Brands that pay high rates find themselves subsidizing others. Holding groups, agencies and big brands are probably the biggest losers, they lose more than the publisher. In our example, the SSP lent \$2.7 and the publisher got \$1.26 in return. But the brand who paid \$10 ended up financing the whole \$2.7.

 An Exchange takes a larger cut from high gross bids, "borrowing" the extra revenue for future bids.

 This allows the Exchange to purchase impressions that would be unattainable with a fixed rate.

 While the delta is X for the Exchange, it is less for the publisher; otherwise, dynamic bidding wouldn't be necessary.

 The Exchange increases its volume, but the overall revenue and the publisher's revenue decrease.

And as more bids that should have been lost end up winning, the overall market value shrinks.

When you buy something in ad exchange, you don't expect such behavior. Think about buying a stock: if you purchase an Apple stock for \$200, you assume that this is the cost of the stock.

Finding out that the cost is \$100, and that the exchange took your money to subsidize other buyers who buy Ford stocks that cost \$12, selling them for \$10 instead of \$12 to increase their overall volume, would sound insane!

DSPS

Not all DSPs are the same, some specialize in different categories. Assuming that no DSP has an exact 50-50 ratio between high CPM campaigns and low-paying ones, we see that:

DSPs representing more buyers that bid high

are losing. Their hard work is used to subsidize other DSPs. A DSP that specializes in big agencies and brands finds itself paying for other DSPs that specialize in performance marketing.

DSPs representing more buyers that bid low are losing as well. In our example, as CPMs go down their addressable market value shrinks from \$19.8 to \$18, a 9% drop. As the market shrinks, they are probably getting paid less also.

While it's reasonable to get paid less when market conditions change, it's more upsetting when the reason is that the competition is subsidizing it. High CPM DSPs are actually, and unknowingly, subsidizing the low CPM ones out of business.

Exchanges that Run Dynamic Bidding

The obvious winners, in the example, grow their business with the publisher by 180%, from \$10 to \$28.

Exchanges that Keep a Fixed Take Rate

The obvious losers, in a fixed rate world, Exchange B won 90% of the bids. In the new world, they win no bids. And it gets worse: as Exchange B's win rates drop, they are SPO'd out, deprioritized by DSPs, and a spiral effect begins.



Open Exchange Market and Price Discovery

Running an efficient market requires managing expectations so buyers and sellers can plan ahead. When the market seems illogical, people lose faith in the system. Dynamic take rates disrupt expectations, causing price fluctuations during periods of high or low demand, leading to problems. In high seasons like Q4, when there are a lot of subsidies, the buyer willing to pay \$2.20 loses to one willing to pay \$2. As Q1 begins, the buyer willing to pay \$2.20 wins again.



Consider the buyer willing to pay \$2 point of view: during high season, he expects a drop in traffic but ends up buying a lot. In low season, he anticipates growth as big brands withdraw, yet he gets zero inventory. This inconsistency makes it difficult for him to manage his business. Even the DSP can't help, as their market insights no longer align with actual outcomes.

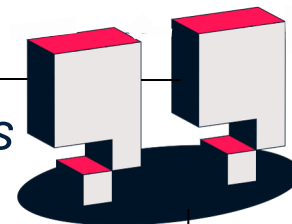
Besides the frustration, there is the price discovery aspect. If the \$2 buyer didn't get any traffic during Q4, he might have raised bids; instead, he assumed \$2 was enough and ended up unprepared for Q1. A market that doesn't run an efficient price discovery encourages buyers to pay less than they should have, and therefore shrink.

DISTORTED PERCEPTION LEAD TO DISTORTED RESULTS

Exchanges Will Adopt Dynamic Take Rates

In his essay "Critique of Pure Reason", Immanuel Kant claims that we can never truly know what reality is because our understanding is always filtered through the lenses of our senses and cognitive faculties. Exchanges that win more auctions usually do so by having superior technology or access to more unique demand. Exchanges that adopt dynamic bidding create a distorted Kantian reality, appearing favorable over those that don't. This creates a significant dilemma for everyone else.

"The Prisoners Dilemma, a concept from game theory, illustrates why two rational individuals might not cooperate, even if it would be in their best interest. In the classic scenario, two prisoners are isolated and offered a deal: if one betrays the other, the betrayer goes free while the other receives a full sentence. If both betray each other, they both get moderate sentences. If both remain silent, they receive light sentences. This highlights the tension between individual rationality and mutual benefit."

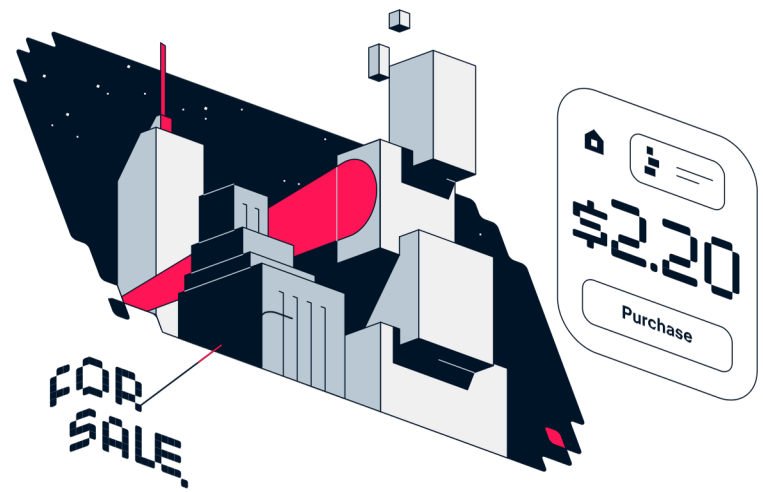


In the context of dynamic bidding, exchanges face a similar dilemma. The implementation of dynamic bidding is already out there; Google was the first to go public with it. The fear of other exchanges adopting its implementations as a precautionary measure. Game theory suggests most will, not because they are bad actors, but because the structure of the game leaves them with no other choice.

OFFERED SOLUTION

We can't expect a single exchange to sit back and watch as they are SPO'd out of business, nor can we point fingers, blaming those who do. This is a macro situation affecting everyone in the supply chain and everyone with a stake in improving ad tech must step in and find a way to remove the incentive to implement technologies that harm the companies we are supposed to serve, brands and publishers.

Since exchanges face the Prisoner's Dilemma, we'll use a real-world scenario to offer a solution. In reality, prisoners often remain silent, not because the Prisoner's Dilemma is incorrect, but because additional rules added to the game change the outcome. One rule for example is prisoners fearing retribution more than jail time.



Their own personal fears, and also knowing the other prisoner is less likely to betray them, results in prisoners choosing silence. Sell-siders fear big brands, agencies, and DSPs—the entities that often lose the most, even more than publishers. If Exchanges knew that using dynamic take rates and getting caught would force them to answer to these large players, the fear of losing these relationships would outweigh the fear of another Exchange taking market share. They would also realize that other Exchanges share these fears.

If this happens, the market will regain value lost to dynamic take rates. Even if one Exchange, like Google, continues using them, it will be an exception. Past experiences show that with enough pressure, even Google will eventually cave, allowing the industry to heal completely rather than normalizing a harmful practice. Choosing this path means short-term pain but long-term healing. Normalizing bad behaviors like dynamic bidding does the opposite.

I choose the long-term approach, always.