

OBTAINED BY:



Google

**Google, Competition and Openness**

Today's Headlines...

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Google

**“One company [is] now the  
world's chief gateway to information”  
(*Boston Globe*, 6/22/08)**

**“Google, Apple, Intel: The Next  
Competition Targets?”  
(*TechDaily*, 1/11/08)**

**“So when do we get over with it and  
declare Google a monopoly?”  
(*CNET News.com*, 7/22/08)**

## ...Have a Familiar Ring

Google

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Just a few years ago...

**YAHOO!**

"The most successful company ever spawned by the World Wide Web. Yahoo! has won the search-engine wars and is poised for much bigger things." (*Fortune*, 3/2/98)

  
**altavista**

"AltaVista was the Google of its era. [...] By 1997, AltaVista was truly king of search." (*The Search*, 2005)

**LYCOS**

"For a short period in 1999, Lycos became the most popular online destination in the world." (*The Search*, 2005)

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The Lesson:

*Search has always been a highly competitive space – and companies can't get too comfortable*

Claims on DoubleClick deal not born out




Google

Google + double  
click

<u>Claims made in 2007</u>	<u>Reality (2009)</u>
Display advertising prices will increase	Display advertising prices have <u>dropped 53%</u> since FTC approved Google-DoubleClick deal (Source: PubMatic Ad Price Index, January 2009)
Consumer privacy will be harmed	Ads preference manager hailed as “giant leap for privacy,” offering “unprecedented level of choice and control” (Berin Szoka, Progress & Freedom Foundation; Rebecca Lieb, ClickZ)
Consolidation would reduce innovation and competition	New display formats released; AOL’s Platform-A leads in display ad reach; Yahoo #2, ValueClick #3, Google #4 (Source: comScore Ad Focus, Feb. 2009)

# A Reality Check on Size

# Google

	<b>Microsoft</b>	 <b>at&amp;t</b>	 <b>verizon</b>		<b>Google</b>
<b>Revenues</b>	\$60 billion	\$118 billion	\$93 billion	\$98 billion	<b>\$21 billion</b>
<b>Gross Profits</b>	\$48 billion	\$61 billion	\$55 billion	\$41 billion	<b>\$13 billion</b>
<b>Operating Expenses</b>	\$38.3 billion	\$98 billion	\$77 billion	\$85 billion	<b>\$16 billion</b>
<b>Market Cap</b>	\$184 billion	\$148 billion	\$90 billion	\$113 billion	<b>\$99 billion</b>
<b>Employees</b>	91,000	309,050	228,315	386,000	<b>20,123</b>
<b>PAC Donations</b>	\$1.7 million	\$4.9 million	\$1.7 million	N/A	<b>\$287,000</b>
<b>Lobbying Budget</b>	\$6.8 million	\$11.7 million	\$13 million	\$5.3 million	<b>\$2 million</b>

# Openness and Competition Principles

Google

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1. Help other businesses be more competitive.
2. Make it easy for users to change.
3. Open is better than closed.
4. Competition is just one click away.
5. Advertisers pay what a click is worth to them.
6. Advertisers have many choices in a dynamic market.

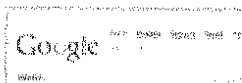
# 1. Help other businesses compete



Your ads appear beside related search results...

People click your ads...

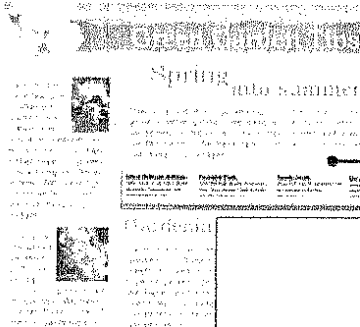
...And connect to your business



Your ad here  
See your ad on Google and our partner sites.  
www.your-company-site.com



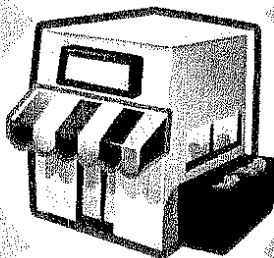
**AdWords:**  
Making small biz ad budgets go further



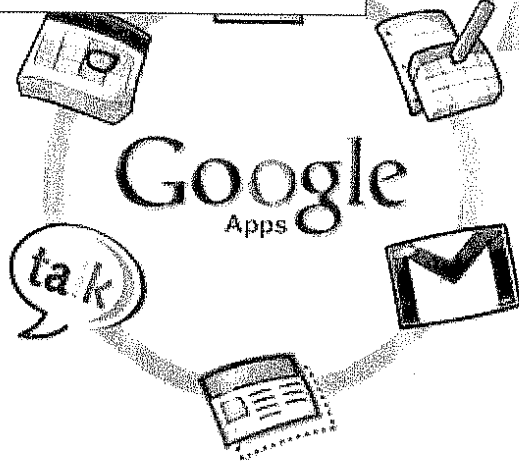
**Roses, Daisies and more**  
Local florists. Same day delivery  
Freshest flowers from \$10.99  
www.greengardengifts.com

**AdSense:**  
\$5.2 billion paid to entrepreneurs in 2008

**Google Apps:**  
Free apps reduce biz costs; 1M businesses



**YouTube Partner Program:**  
Hundreds making \$1000+/month










## 2. Make it Easy for Users to Change

- “Data Liberation Front” – team of engineers building data export functionality into Google products

Google



Product	Export Formats
 Google Analytics	PDF, CSV, XML, TSV
 Blogger <small>NEW</small>	RSS, Atom
 Google Calendar <small>BETA</small>	XML, iCal
 Google Checkout	CSV
 Google Docs	HTML, Word, PDF, RTF, OpenOffice, Text, CSV, Excel, Powerpoint
 Google Finance <small>BETA</small>	OFX
 Gmail <small>by Google BETA</small>	POP, IMAP

Product	Export Formats
 Google Groups	CSV
 iGoogle <small>NEW</small>	GadgetTabML
 Google Notebook	HTML
 Google Reader <small>BETA</small>	OPML
 talk	XMPP
 YouTube	MP4 <i>(Currently limited basis)</i>
Web History	RSS



3.

# Open is Better than Closed

Google

## Open

- Enhances competition
- Encourages innovation
- Interoperable
- Source code available to outside developers
- User data can be moved



Mozilla  
**Firefox**

## Closed

- Reduces competition
- Discourages innovation
- Not interoperable
- Source code locked down
- User data trapped

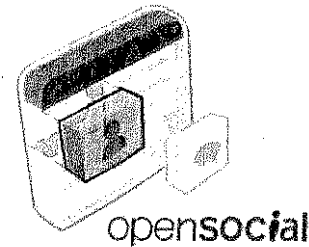


Windows  
**Internet  
Explorer 7**

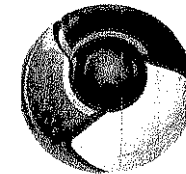
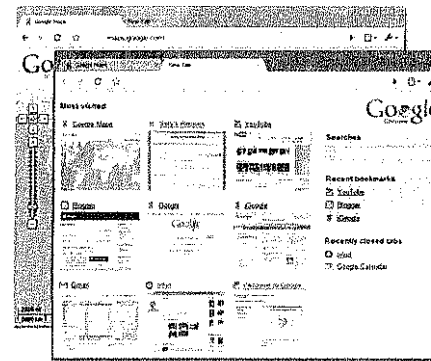
# Open source and open standards

Google

- Google has opened up more than one million lines of code and more than 100 software projects
- Hosting more than 150,000 open source projects developed by non-Googlers
- Chrome: Open source browser
- Android: Open source mobile OS (T-Mobile); 800 apps



Google™  
Friend Connect BETA



Google Chrome

ANDROID



# 4. Competition is One Click Away



- Jan 31 Malware incident: Yahoo! queries doubled over normal levels during Google search error

Google "inbound marketing" Search [Advanced Search](#) [Preferences](#)

Web [Video](#)

**Inbound Marketing vs. Outbound Marketing** · 5 visits · 11/24/09

**This site may harm your computer** marketing, and its differences from old strategy, outbound marketing.

[blog.hubspot.com/blog/tabid/6307/bid/2989/Outbound-vs-Inbound-Marketing.aspx](#)

[Similar pages](#) -

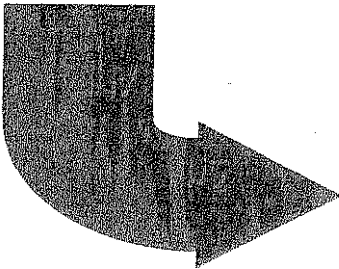
**Internet Marketing Blog**

**This site may harm your computer** Jan 30, 2009 ... want to share your **Inbound Marketing** ad... Learn how to **build your business blog** into an **inbound marketing**...

[blog.hubspot.com/](#) [Similar pages](#) -

[ [Bookmarks](#) [Toolbar](#) [Folder](#) ]

Google coding error, affecting all search results



Yahoo! My Yahoo! Mail Welcome, Guest (Sign In) H

Web | [Images](#) | [Video](#) | [Local](#) | [Shopping](#) | more ▾

inbound marketing Search Options ▾ Customize

1 - 10 of 14,200,000 for inbound marketing (About) - 0.21 s | [SearchScan](#)

Also try: [what is inbound marketing](#), [More...](#)

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[InboundTelemarketings.com](#)

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The **inbound Marketing** Summit **marketing** conference presents the latest strategies, tools, and best practices to improve your **marketing** and grow your business.  
[www.inboundmarketingsummit.com](#) - [Cached](#)

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The Alternative to Cold Calling  
Generate More Leads & Sales Today.  
[www.WordStream.com/inbound-mktg](#)

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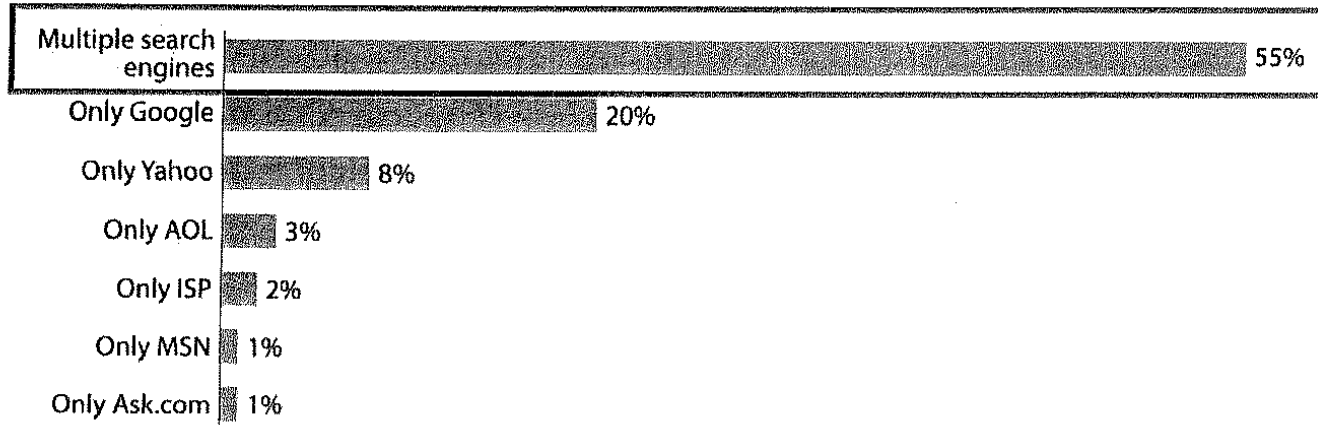
# Most consumers willing to switch

Google

**FORRESTER**

## Most consumers use multiple search engines

All search users who use this engine each week\*



Base: US online adults

Source: North American Technographics® Retail Online Survey, Q3 2008

\*Note: Numbers do not total 100% because not all consumers use a search engine weekly.

Source: Shar Van Boskirk, Forrester, 2/3/09



Would you consider switching search engines?

<u>All Users</u>	<u>Google Users</u>
38.2% No	37.5% No
61.8% Yes	62.5% Yes

Source: JP Morgan survey, January 2009

# Search: Innovations and Investments

Google

## YAHOO! SEARCH

- SearchMonkey (open developer platform)
- BOSS (Build Your Own Search Service)

"[Yahoo and Microsoft] have invested heavily to catch up in search and online ad auctions."

- New York Times  
(10/13/07)



- Planning \$100M ad campaign to promote search engine
- Jan. 2009 syndication deals with Dell, Verizon Wireless
- Cash back service to increase traffic
- Acquired Powerset, startup in semantic search



- 3-D search, other innovations in search results
- TV advertising campaign

# How to explain Google's success in search Google

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## ~~Economies of scale?~~

- ~~• Increased competition in data centers~~
- ~~• Search improvements based on 1% of queries~~

## ~~Network effects?~~

- ~~• Value of a search engine doesn't depend on # of people using it (like fax machines)~~

## “Learning by Doing”

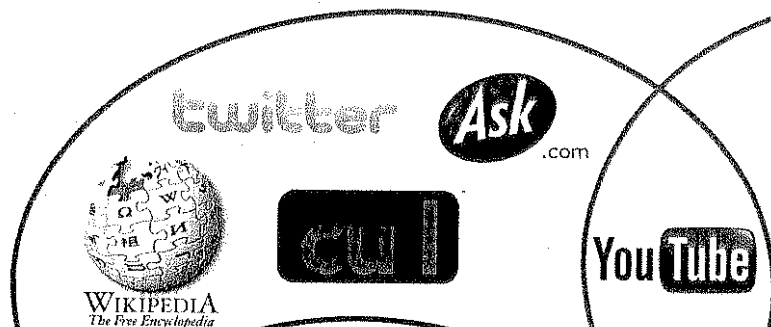
- Economic theory developed by economist Kenneth Arrow in 1962
- The longer a company has been doing something, the better it gets at doing it
- Google has been doing search for 10 years, constant experimentation and improvement

# Many competitors in search and navigation Google

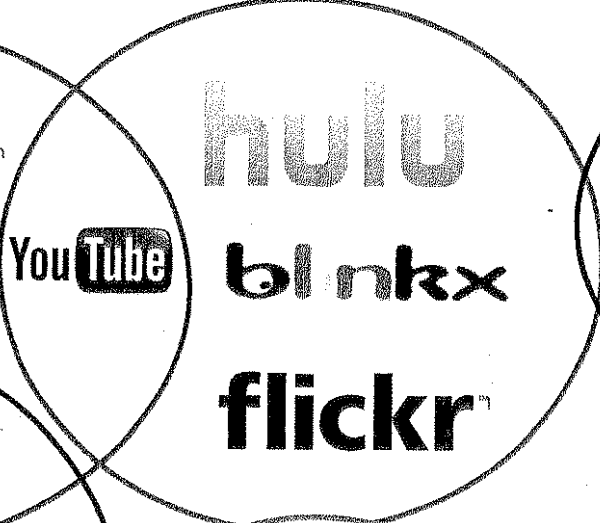
## Search/Navigation

## Audio/Video Search

## Semantic Search



Logos in the Search/Navigation circle: twitter, Ask.com, WIKIPEDIA The Free Encyclopedia, CWI.



Logos in the Audio/Video Search circle: hulu, YouTube, blinkx, flickr.



Logos in the Semantic Search circle: Powerset, BETA hakia.



Logos in the Search/Navigation circle: amazon.com, iTunes, ebay.



Logos in the Vertical Search circle: BUSINESS.COM, monster.com, LexisNexis, WebMD, KAYAK, Zillow.com, careerbuilder.com.



Logos in the Audio/Video Search circle: Mahalo Alpha, ROLLYO, Kosmix.

## Vertical Search

## Social Search & Aggregation

"Many industry experts say Google's present service may ultimately be seen as a primitive precursor to more-advanced services that better handle video or render results in three-dimensions. Microsoft, Yahoo and Google are all investing in such areas."

- Wall Street Journal  
(1/16/09)

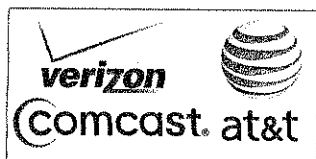
# Technology models evolve quickly

Google

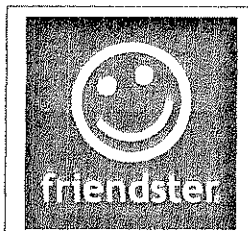
Dial-up



Broadband



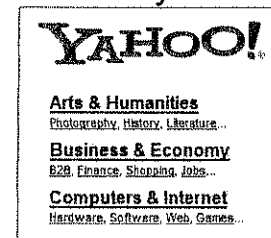
Friendster



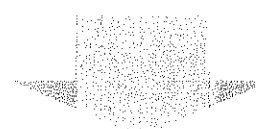
Facebook



Directory model



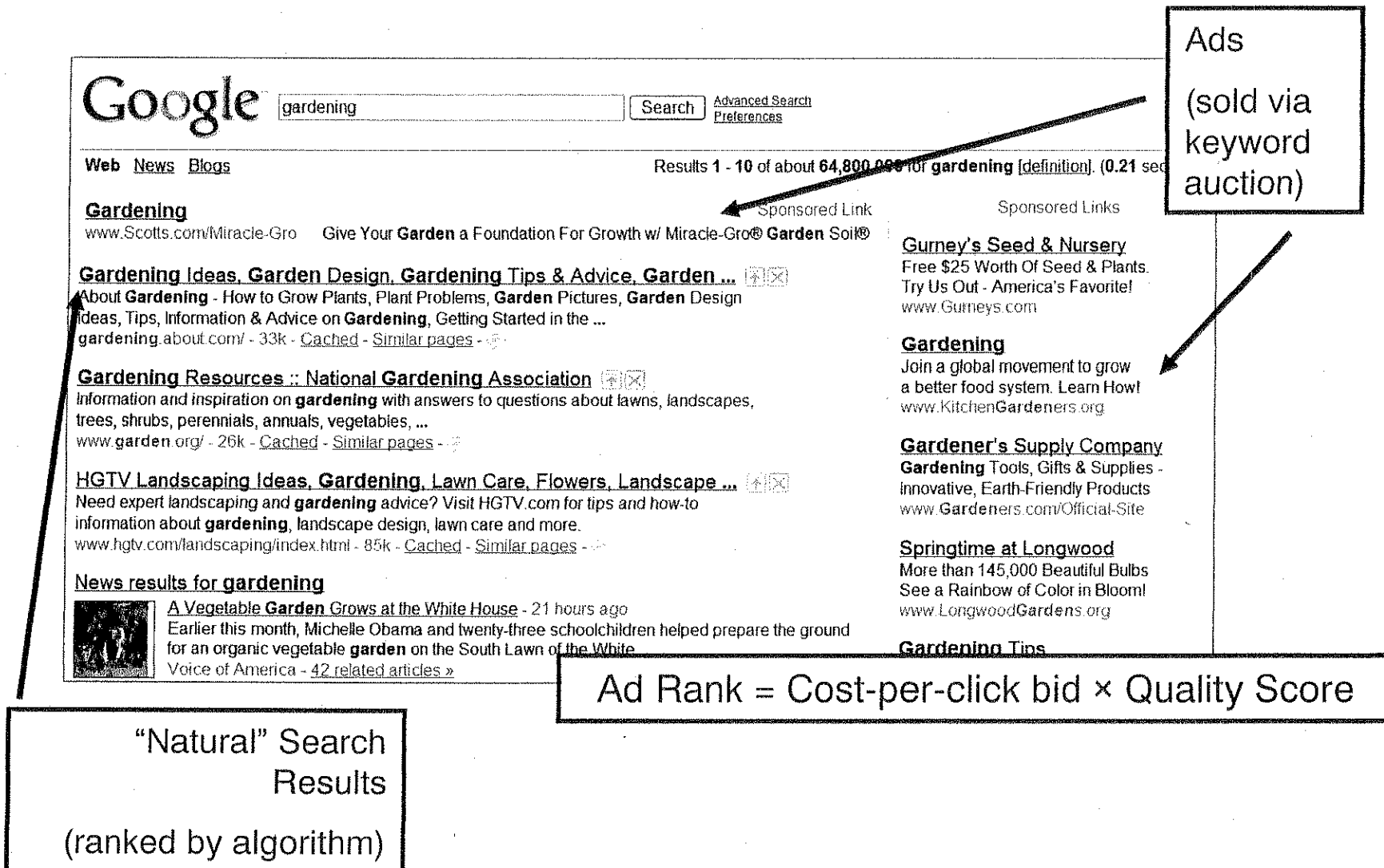
Search / PageRank





# 5. Advertisers pay what a click is worth to them Google

## Anatomy of a Google search result page



# How the Ad Auction Works



- Google's ad prices are set by competitive auction, ensuring that prices are market-driven

1

## Create an ad

### Nike Shoes

Shop **Nike Shoes** at Footlocker  
**Nike Shoes.** Casual, Retro, & More!  
[www.FootLocker.com](http://www.FootLocker.com)


2

## Choose keywords

Nike shoes  
 Nike sneakers  
 Sports equipment  
 Running shoes

3

## What is the most you would like to spend, on average, per day?


The daily budget  controls your costs. When the daily limit is reached, on average, your ad will stop showing for that day. (The budget controls the frequency of your ad, not its position.) Raise or lower your budget as often as you like.

Enter your daily budget: \$

[How will my budget affect my ad performance?](#)

4

## What is the maximum you are willing to pay each time someone clicks on your ad?

You influence your ad's position by setting its maximum cost per click (CPC) . The max CPC is the highest price you're willing to pay each time a user clicks on your ad. Your max CPC can be changed as often as you like.

CPC bid: \$

- No exclusivity
- No fixed duration
- No minimum budgets
- Can export campaigns to other platforms
- Pay the price of next highest bidder

[Video]

# Quality Scores and "First Page" Bids

Google

## Quality Scores

Keyword Analysis: pr jobs washington dc	
Ad showing?	<input checked="" type="checkbox"/> Yes For details on specific criteria for this test, click the following link. <a href="#">Details and recommendations</a>
Quality Score:	<input checked="" type="checkbox"/> OK (7/10) <a href="#">Details and recommendations »</a>

- Reflects predicted click through rate
- Ensure that users see most relevant ads -- not just the highest bidder
- Google, Yahoo! and Microsoft all use quality scores
- Algorithmic score reflects consumers' preferences
- Allows smaller companies to compete

### Click through rate

- Historical CTR of ad and keyword
- CTR for entire account

### Relevance

- Relevance of keyword to ads
- Relevance of ad and keyword to search query
- Ad's performance in geographic region

### Landing page quality

- Relevant and original content
- Transparent about nature of business
- Easy navigation

# Quality Scores and “First Page” Bids

Google

## Quality Scores

**Keyword Analysis: pr jobs washington dc**

---

Ad showing?  Yes  
For details on specific criteria for this test, click the following link.

[Details and recommendations](#)

---

Quality Score:  OK (7/10)  
[Details and recommendations »](#)

- Reflects predicted click through rate
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## “First Page” Bids

**Keyword Analysis: pr jobs washington dc**

---

Your ad is showing for this keyword, and the keyword's Quality Score is **7**. See the 'Quality Score' tab for details.

**Estimated bid to show on the first page: \$0.05**

below

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Your bid: \$1.00 Max CPC

- Replaced minimum bids in November 2008
- Based on quality score and competition for keywords
- Estimates necessary bid for ad to show on first page
- Helps deter low quality spam ads

# Cost per acquisition, not cost per click

# Google

- Cost per click less important to advertisers than the cost of acquiring a new customer
- Example:  
EvesAddiction.com  
(Raymond Galeotti)



**EVE'S ADDICTION.com**  
 Exquisite Sterling Silver Jewelry

Home Rings Earrings Necklaces & Pendants Bracelets Tiffany

1-800-679-EVES Phones OPEN!  
 Sign up for a FREE Catalog

**Free Shipping!**  
 Orders over \$75

SEARCH Keywords or Item #

**Sterling Silver Jewelry**  
[www.EvesAddiction.com/SilverJewelry](http://www.EvesAddiction.com/SilverJewelry) High Quality At Discount Prices! Free Sh

Clearance Sale  
 Valentines Jewelry

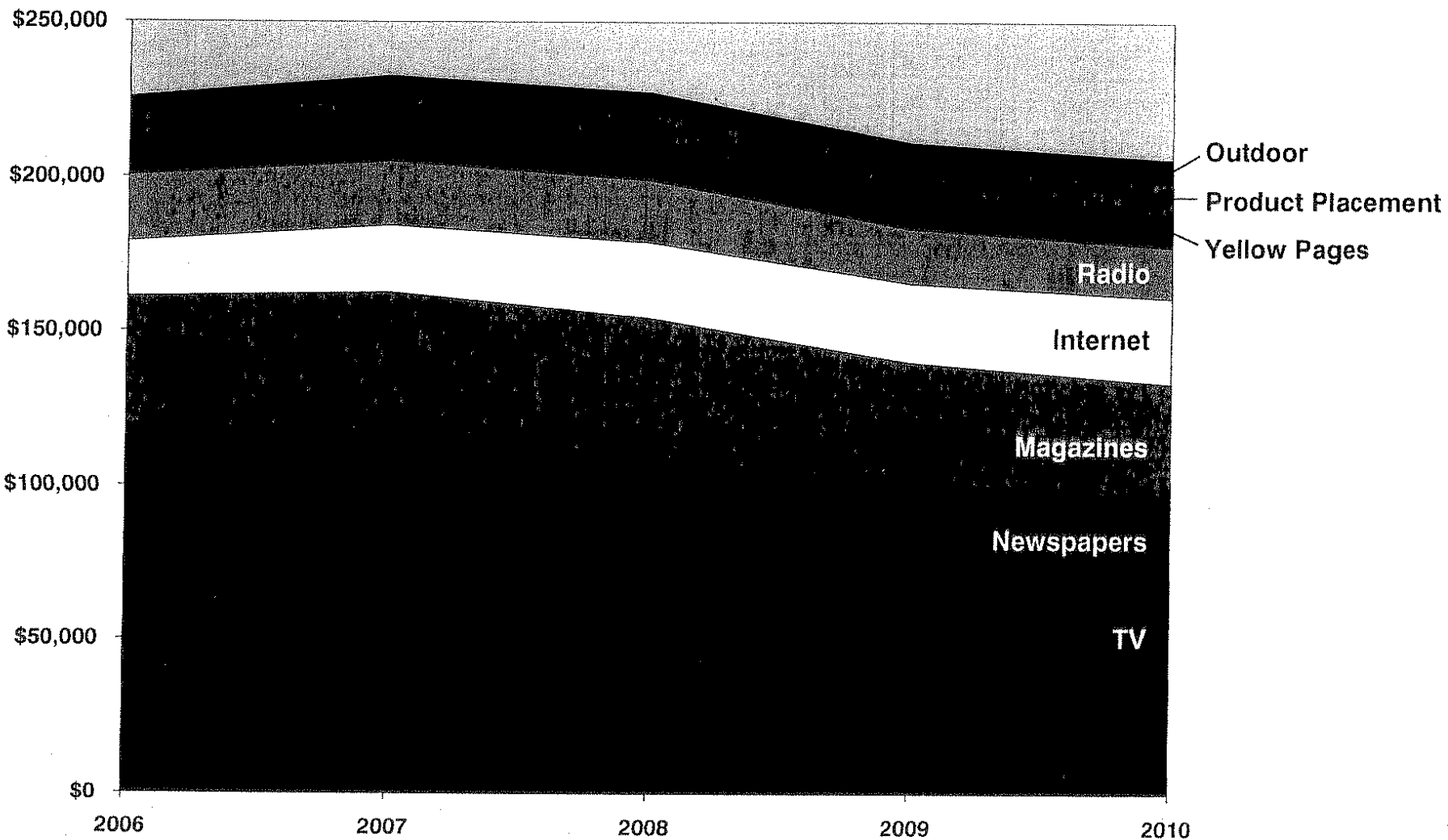
	<u>Last Year</u>	<u>This Year</u> (Using Google ad targeting and analytics tools)
<b>Bid</b>	\$ .50/click	Increase → \$ .80/click
<b>Sales conversion</b>	2 new customers per every 100 clicks	4 new customers per every 100 clicks
	$\frac{\$.50 \times 100}{2}$	$\frac{\$.80 \times 100}{4}$
<b>Cost of acquiring new customer</b>	\$25	Decrease → \$20

# 6. Advertisers have many choices

Google

U.S. advertising spending by medium, eMarketer

US \$ Millions

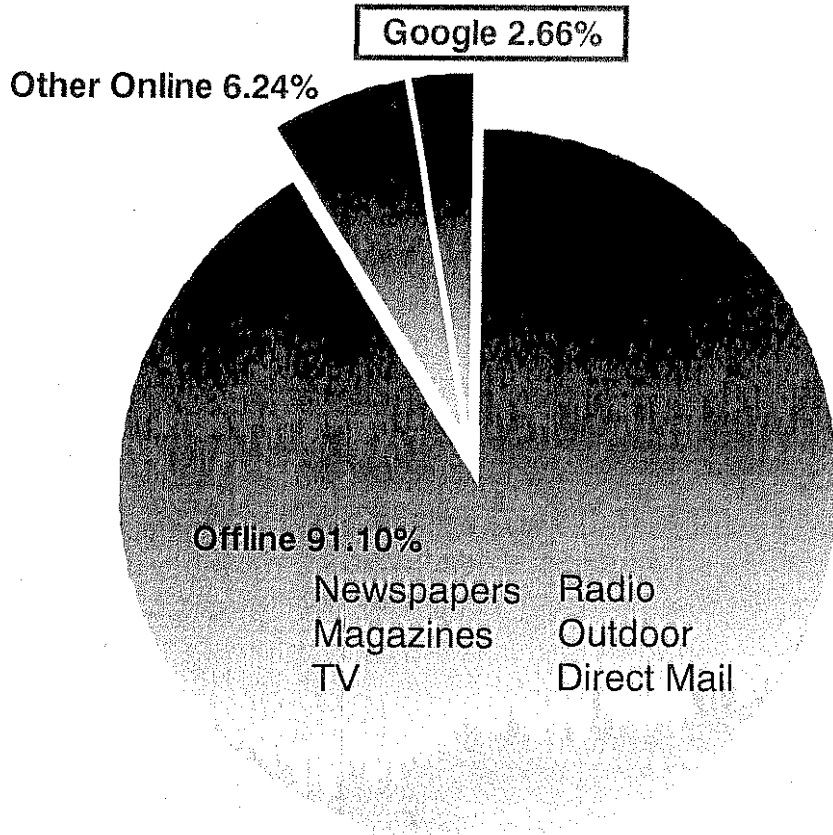


# Google share of all ads and online ads

# Google

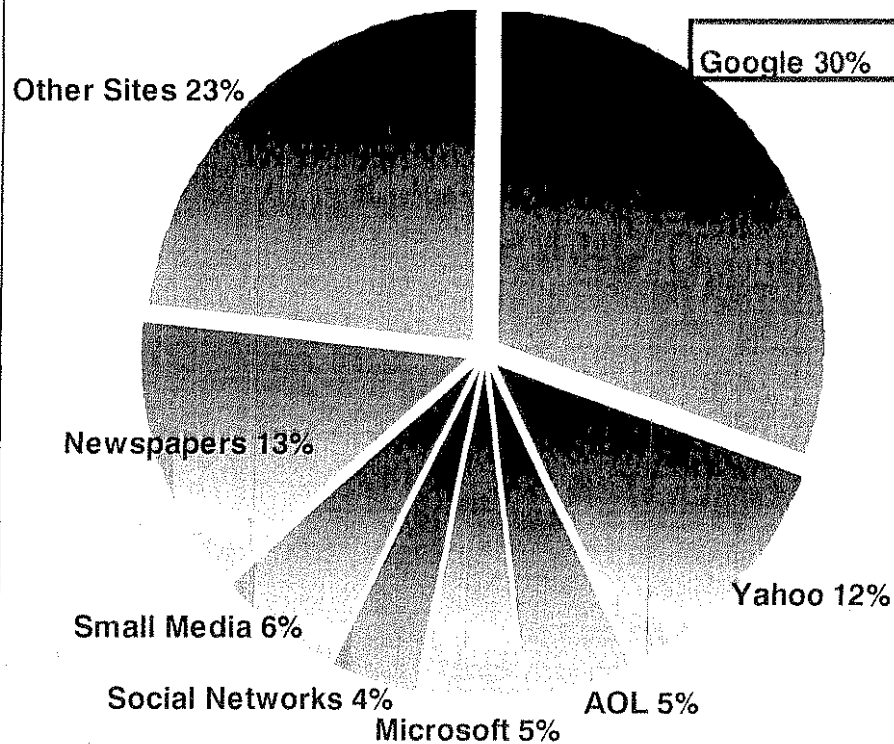
## Google Has <3% of Total Ad Revenue

Share of All U.S. Ad Revenue, 2008



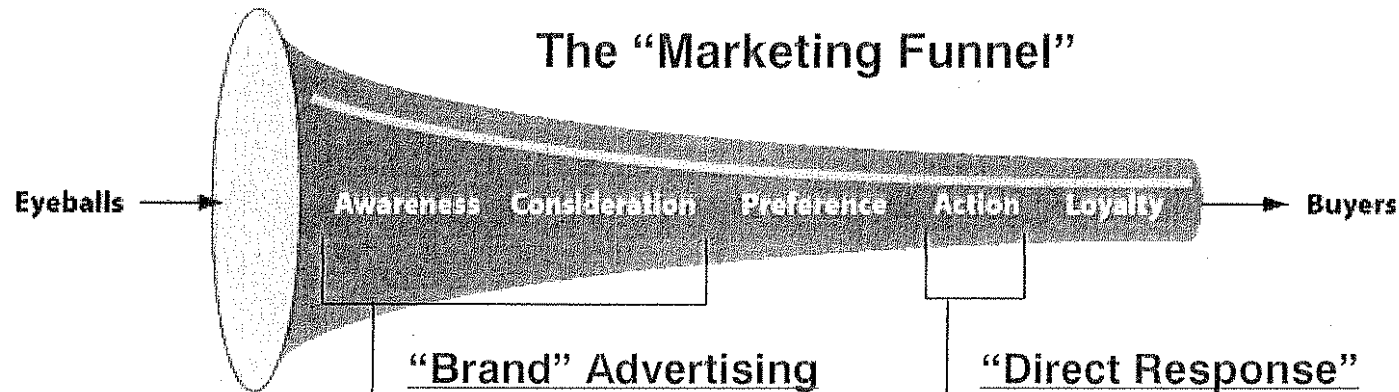
## Google Has ~30% of Online Ad Revenue

Share of Online Ad Revenue (Owned and Operated Properties), 2008



# Smart ad campaigns have many components

Google



"Are [text and display ads] in the same market? If the price of one goes up, will publishers switch to the other? We think the answer's yes."

- Brad Smith, General Counsel, Microsoft  
(*DoubleClick Senate Testimony, 9/27/07*)

## "Brand" Advertising

- TV
- Magazines
- Newspapers
- Radio
- Outdoor
- Online banner (display) ads

## "Direct Response" Advertising

- Telemarketing
- Direct Mail
- Online search

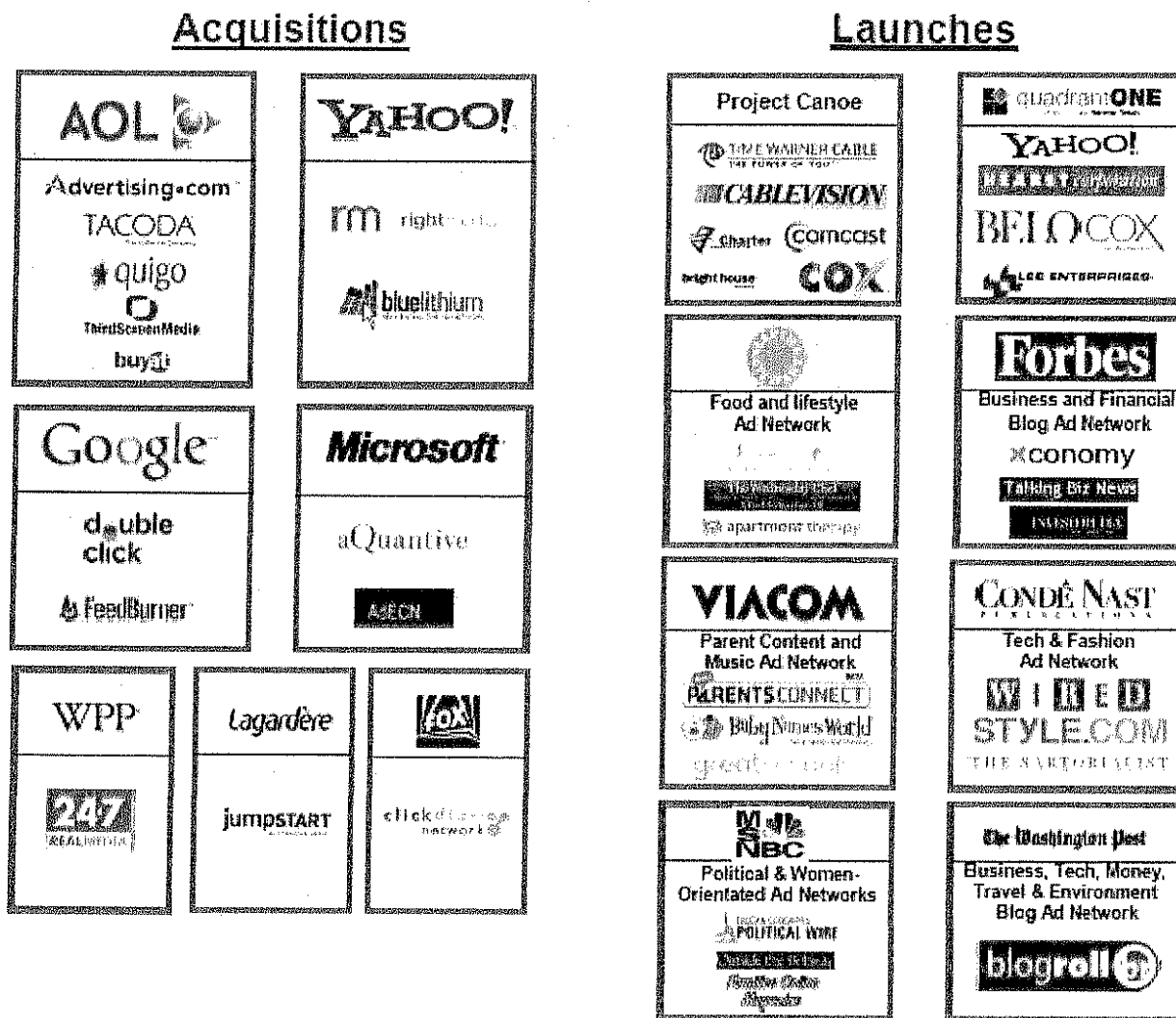
- Most ads influence consumers as early as 60 days prior to a sale (Source: Microsoft Engagement Mapping, March 2009 study)
- Search clickers exposed to display advertising 22% more likely to produce a sale (Source: Microsoft Engagement Mapping, Sept. 2008 study)



# Online advertising is dynamic

Google

## Major Media Firms Acquiring and Launching Ad Networks



## Conclusion

Google

- Google welcomes competition because it stimulates innovation, makes us all work harder, and provides users with more choice

“I think Google’s competition will come from the same place Google did. It will sneak out of nowhere...It will come from someone small enough, visionary enough, obsessive enough and ballsy enough to still do great things, without those great things being picked to death at the boardroom table.”

- Gord Hotchkiss, Search Engine Analyst  
*(Enquiro Blog, 5/15/08)*