Competition in Online Search and Advertising

Melanie Sabo
Assistant Director
Anticompetitive Practices Division
U.S. Federal Trade Commission
December 1, 2010
VIEWS EXPRESSED TODAY ARE MY OWN, AND DO NOT NECESSARILY REFLECT THE VIEWS OF THE FTC, ANY COMMISSIONER, OR ANY OTHER FTC STAFF MEMBER.
FTC Activity in the Search Industry

• To date, FTC has evaluated two cases that required an analysis of search engines and search advertising:
  – 2007: Google’s purchase of DoubleClick
  – 2010: Google’s purchase of AdMob

• Both cases required market definition and other competition analysis
Evaluating a Conduct Complaint

• Determine the Market
  – Market Definition: Scope of market; market shares
  – Entry: Likely new entrants; barriers to entry
  – Alternative Analysis: Upward Pressure on Prices (UPP)

• Identify a Theory of Harm (Law)
  – Tying, Bundling, Raising Rivals’ Costs, Exclusive Dealing, Information Exchange

• Analyze Evidence of Harm (Facts)
  – Weigh procompetitive and anticompetitive effects
  – Procompetitive: Lower costs, increased output, protect IP, align incentives
  – Anticompetitive: Higher prices, reductions in investment, quality, or innovation

• Consider Justifications
What Kind of Conduct Could Trigger Review?

1. Changes to the search result and search advertising algorithms that:
   - Raise rivals’ advertising costs
   - Raise rivals’ development and operating costs
   - Restricting rivals’ output (visitors)

2. Information exchanges that coordinate competitors’ advertising prices

3. Bundling, blending, or tying products
   - Products for users and/or advertisers
Issue #1: Algorithm Changes

• Search engine algorithm changes have prompted concern among search providers
  – Kinderstart.com (2007)
  – TradeComet (2010)
  – Foundem and eJustice.fr (2010)
  – Ciao

• Allegations that search engines “blacklist” firms, causing them to drop in the ranks
  – Allege no change in website content
  – Allege rankings reductions of 30+ places
Issue #1: Key Questions

• What obligations, if any, do search engines have to competitors in downstream segments?
• Do “blacklisting” and “whitelisting” occur?
• What are the competitive effects of any such practices?
• What motivates each algorithm change?
• Do less burdensome alternatives exist?
Issue #2: Information Exchanges

• **Background:**
  – Online advertising firms, including search engines, have increasingly partnered and vertically integrated
  – Examples: Partnerships between Bing-Yahoo! and Google-AOL-Ask; purchases of graphic ad networks by search engines

• **Do these partnerships and purchases facilitate information exchanges?**
Issue #2: Information Exchanges

• Weighing the benefits and costs
  – Benefits: May increase efficiency, improve safety, or reduce costs
  – Costs: May allow tacit or overt collusion enabling firms to increase prices or reduce supply

• Evaluated under Sherman Act § 1
  – Coordinated conduct involving multiple firms
Issue #2: Information Exchanges

Within horizontal partnerships

• Possible Exchange of:
  – Reserve prices for advertising space
  – Actual advertising prices

• Across the various ad types: search, contextual, graphic, or mobile
  – Examples: Search partnership structures, including the aborted Google-Yahoo! partnership and the present Bing-Yahoo! partnership
Issue #2: Information Exchanges

Using vertical methods

• “Universal buying platforms” attempt to manage bidding for *display* ads across multiple platforms
  – Example: Google’s Invite Media

• Extension to *search* ads could facilitate the exchange of search ad price information
  – Transparency of reserve and actual prices
  – Compare prices for exact same keywords
Issue #2: Information Exchanges

- FTC and DOJ developed a safe harbor test in the joint Statement of Antitrust Enforcement Policy in Health Care (1996)

- A safe harbor exists if:
  - Third party manages the information;
  - Price data provided to competitors is more than three months old;
  - At least 5 providers participate, none of which have greater than 25% of the market; and
  - Data is sufficiently aggregated so as to be anonymous
Issue #2: Key Questions

• Are legitimate efficiencies realized by partnerships and vertical relationships?

• Can the partnership or vertical relationship be designed in a manner that does not exchange competitive information?

• Has the integrated firm implemented a “Chinese Wall?”
Issue #3: Bundling and Raising Rivals’ Costs

• Foundem’s recent comments allege that Google is engaged in practices that involve bundling and raising rivals’ costs
  – Foundem comments to FCC
  – New York Times opinion piece

• Recent focus on integration of “vertical search engines” into search results
Issue #3: What Are “Vertical” Search Engines?

• Provide deeper coverage of one topic

• Ad supported
  – May compete with “horizontal” search engines for search ad dollars

• Initially provided by stand-alone entities
  – MapQuest, Kayak, Priceline, iTunes, Amazon

• Gradually integrated by search providers
  – Google Maps, Bing Travel, Yahoo! Music

• Some allege that search engines are increasing bundling or “blending” strategies
  – Google’s “Caffeine” program allegedly increases the proportion of Google services that are bundled with search results
Issue #3: Integration of Vertical Search Functions

• Google Has Been Particularly Active:
  – Organic Growth:
    • 2002: Google News & Product Search Launched
    • 2005: Google Maps Launched
  – Purchases:
    • 2006: YouTube (Video)
    • 2010: ITA (Travel)

• Competitors Are Also Vertically Integrating
  – Yahoo! and Bing both offer Music, Finance, Movies, Travel, Weather and News features
Issue #3: Example of Vertical Search Integration

Google Vertical Search
(Google Maps & Google Local)

Google AdWords
(paid ads)

Unaffiliated Content
Issue #3: Potential Efficiencies

• Integration May Enhance Search Results’:
  – Organization
  – Relevance

• Creates or Improves Services
  – Examples:
    • Digitization of out-of-print books (Google Books)
    • Improvement of mapping services by adding street-level pictures (Google’s Streetview, Bing’s Bird’s Eye View)
    • Integrates many functions in one place
Issue #3: Potential Anticompetitive Effects

• Bundling may result in partial foreclosure
  – May exclude rival complements
  – May enhance the bundler’s market power in the search market
    • May allow firms to bundle the related advertising services: search ads + complement ads
  – May retard nascent competitors that would arise from a vertical search segment
    • Could Kayak develop into the next great search engine?

• Bundling may otherwise raise rivals’ costs
CLOSING

• FTC analysis would include substantial factual and legal inquiry
  – Market definition
  – Pro-competitive effects
  – Anticompetitive effects

• FTC will continue to monitor developments in the online marketplace, including search
  – Review proposed mergers
  – Conduct investigations initiated by complaints