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Consumers Are Charged More As A Result of Google's Search Monopoly

Google's abuse of its monopoly position in search has not only harmed competitors, but has cost consumers money. Consumers who search for products using Google's search engine would pay higher prices for many items than if they sought the same product on competing Comparison Shopping Engines (CSEs). Tests this month by Consumer Watchdog found consumers buying a product located through Google Shopping could pay as much as 67 percent more than if they had made the purchase using information from a competing CSE. Consumers would have paid more for eight of 14 items using Google Shopping rather than a competing CSE, Consumer Watchdog found during its test.

The results are described in detail below, but some background is necessary to understand what is happening. Google is able to increase its revenue and cause higher prices for consumers because of its monopoly position in search and the way it favors its own services over those of its rivals in search results. Also key to what has happened is the change in business model when Google switched from Google Product Search to Google Shopping.

Google Product Search was originally a search service that returned results based on the best price for consumers. There was no charge to merchants for them to be listed. In fact Google opposed the idea on principle. When the Internet giant went public in 2004 it wrote:

"Because we do not charge merchants for inclusion in [Google Product Search], our users can browse product categories or conduct product searches with confidence that the results we provide are relevant and unbiased."

In 2012 Google launched Google Shopping and started charging merchants to be included in the service. This change in the business model in which advertisers now effectively bid for placement in Google Shopping is a key reason consumers are being overcharged. A

merchant must pay more to win top placement, so winning merchants raise their prices to consumers to cover their added costs. Before the business model could be implemented, Google needed to clear the field of competing CSEs.

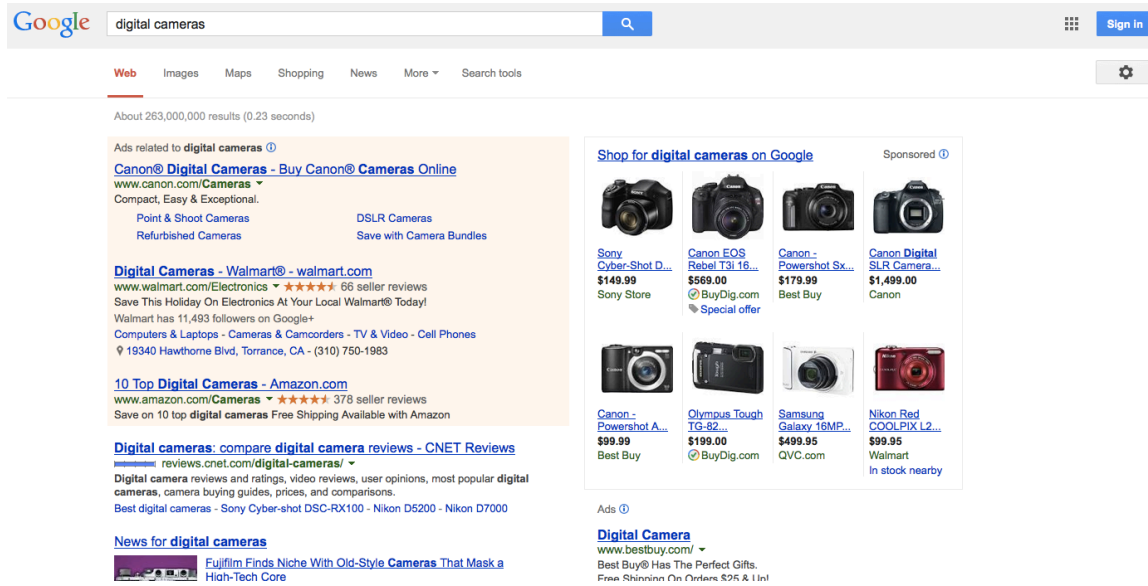
And it did; here's how. Until its Universal Search was launched, Google used its secret algorithms to return results that it deemed most relevant to a user's request, ranked according to relevancy. The algorithms were Google's "secret sauce" and their effectiveness ensured the search engine's popularity. Users understood that the Google's results were based on relevance to their request.

Universal Search changed that. Google began emphasizing its own services in search results. Algorithms were tweaked so that rival services were penalized and began appearing lower in the results. Consumer Watchdog's June 2010, study, *Traffic Report: How Google Is Squeezing Out Competitors and Muscling Into New Markets*, (<http://www.consumerwatchdog.org/resources/TrafficStudy-Google.pdf>) documents the impact on such competing services as Mapquest, which saw its traffic plunge 50 percent in the two years after the change was made. Tellingly Google Product Search, the precursor to Google Shopping, soared when it was featured in Universal Search in December 2007. In November 2007, Google Product Search had about 1.3 million unique visitors. The next month, that figure shot up to 11.9 million. By December of 2009, Google Product Search had more than 20 million unique visitors, making it second only to Shopzilla with 21 million, a gain of more than 1200 percent.

Because of its search monopoly, Google was able to unfairly promote its own services and penalize competitors in what consumers had come to believe and expect was a neutral search engine that returned results based on relevancy to a request. Instead, results were manipulated to maximize Google's profits.

Once the field was effectively clear of much of the competition from other CSEs, Google changed its business model. Google Product Search became Google Shopping and merchants were required to pay to be included in the results. Economic theory holds that a business exercising monopoly power will maximize its profits and force prices higher for consumers.

Consumer Watchdog’s test comparing prices through Google Shopping with those offered on competing CSEs found higher prices through Google in eight of 14 cases. Below is an example of the results when “digital camera” is entered in the search box.



The Product Listing Ads (PLAs) in the upper right of the page are returned as part of Google Shopping. In Google Product Search, before merchants began to pay for placement, such listings were based on the best price. Now with Google Shopping, merchants bid for inclusion. Clicking on the PLA takes the user directly to the merchant’s page and the user doesn’t see other prices. Often our test found better prices can be located on a competing CSE.

Here is how Consumer Watchdog conducted our test on Nov. 11 and Nov. 12: We entered 14 general product queries in our Google search bar. The 14 categories entered were: games Legos, dining room chair, toaster, electric drill, iPad, dinnerware, hammers (entered twice), electric mixer, toaster oven, laptop, telephone headset, external hard drive and camera. We then picked one of the products pictured in the Google Shopping results box, noted the price, which we called the “Google price” and clicked through to the merchant page. We then noted the exact name and details of the item and searched for the exact same item on Shopzilla, Pricegrabber and Nextag.

As the chart below shows, Consumer Watchdog was able to find a lower price for eight of the 14 prices. In six cases the lowest price was the same as the “Google Price.” The “Google price” ranged from 9 percent to 67 percent more than the lowest price found on one of the CSEs.

Some have suggested that Google’s business tactics enabled by its monopoly position only damage competing services. In fact Google hurts consumers in two ways. First, Universal Search populates the top of the results page mainly with results from Google's own product lines. This moves the Internet giant closer to an ecosystem where real consumer choice no longer exists. Second, as our test shows, consumers are paying higher prices because of Google’s behavior. And Google is behaving exactly as is expected of a monopolist in the exploitive phase of market dominance.

Google has developed a substantial conflict of interest. It no longer has an incentive to steer users to other sites, but rather to its own services. It is becoming even more effective at this and has a greater incentive to engage in manipulation now that it is merging data collected across all its services. The only way to deal with this conflict is to remove it. There needs to be a separation of Google’s different services and assets. At a minimum any remedy must insist that Google use an objective, nondiscriminatory mechanism to rank and display all search results – including links to Google products.

However, to remedy the damage that has already been done, competing services should be listed ahead of Google services in search results for the next five years.

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Category	Item	Google Price	Lowest Price	Difference	Percent
Games Legos	LEGO Bricks & More Builders of Tomorrow Set (650 pcs)	\$27.29	\$24.99	\$2.30	9%
Dining Room chair	Eve Dining Room Chairs WT-C7013	\$109.99	\$109.99	0	0
Toaster	Cuisinart® Classic 2-Slice Toaster	\$49.95	\$29.95	\$20	67%
Electric Drill	Dewalt DWD115K	\$89.60	\$59.98	\$29.62	49%
iPad	Apple iPad mini 16GB with Wi-Fi	\$299	\$299	0	0
Dinnerware	Pfaltzgraff 20-pc Villa della Luna Dinnerware Set	\$129.99	\$129.99	0	0
Hammers	Vaughan Titanium Rip Claw Hammer 7182	\$117.55	\$117.55	0	0
Hammers	Stiletto TB15SS 15 oz. Smooth Face Straight Handle Hammer	\$219.99	\$219.99	0	0
Electric mixer	Sunbeam 6 Speed Hand Stand Mixer w/ 3 Qt Stainless Bowl	\$28.62	\$28.62	0	0
Toaster oven	Black and Decker 4-slice toaster oven TRO480BS	\$42.28	\$34.99	\$7.29	21%
Laptop	Gateway Black 15.6" NE Series NE56R41u Laptop PC	\$328	\$299.99	\$28.01	9%
Telephone headset	Plantronics 65148-11 S11 Telephone Headset System	\$69.99	\$50.95	\$19.04	37%
External Hard Drive	Seagate - Backup Plus 1TB External USB 3.0 Portable Hard Drive	\$89.99	\$74.95	\$15.04	20%
Camera	Nikon COOLPIX L28 20.1 MP 5x Zoom Digital Camera - Red	\$86.95	\$80	\$6.95	9%