Market Concentration in Internet Search: Implications of the Proposed Transaction Between Google and Yahoo Japan

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Agenda

• Search market outcomes in highly-concentrated markets (US, EU, Australia)
  – Advertisers
  – Consumers
• Barriers to entry in Internet search
• The proposed transaction
  – Compensation structure & incentives
  – Information flows; pricing & privacy
  – Innovation
Search results for laptop

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Related searches: laptop deals

LAPTOP Magazine - Product reviews, tech news, buying guides, and more
LAPTOP Magazine is your complete mobile gear guide. We review the latest mobile tech products and provide expert buying advice, plus breaking industry news.

The new MacBook laptop features a precision aluminum unibody enclosure, more powerful NVIDIA graphics, a 13-inch LED-backlit display, and more.

Laptop - Wikipedia, the free encyclopedia
Why care about market concentration in Internet search?

• Gateway to the Internet. Find other sites.
• Search practices affect every other online sector (e-commerce, news, productivity applications).
• Once search tips to monopoly, in a given market, there has been little sign of competition returning.
• Evidence of existing abusive and/or unfair practices.
• Evidence of bias.
Harm to advertisers in highly concentrated search markets
Your Search: laptop

Today | Past 7 Days | Past 30 Days | Past 12 Months | All Results Since 1851

All Result Types | Articles | Multimedia

1-10 of 10,000+ Results

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www.computerelite.net

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Leading Toshiba Laptops!
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Compare Prices & Save - Shop Smart!
PC World Shopping Laptop
www.PCWorld.com/laptops

Laptop Parts & Accessory
Search your Model and
Find the Part you Need.
www.PartStore.com

Personal Tech: Portable Computers
News about portable computers, including product listings, multimedia and articles

Sony's Green Laptop (Literally) - Gadgetwise Blog
Sony shows off new laptops, including one made of recycled CDs and plastic bottles.
Gadgetwise Blog

Optimism Returns to Consumer Electronics Show
At first blush, the machine looks like a traditional laptop. But the screen can be
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ウェブ検索結果（約141,000件中1 - 10件目）

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  www.Bloomingdales.com

- **Mall Advertising**
  Your One Stop For Mall Advertising With Ad Options At Over 1,000 Malls
  MallAds.info

- **J.Crew - Official Site**
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  www.jcrew.com

- **Local Department Stores**

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- Saks Fifth Avenue
- Boots Macy's
- Saks 5th Avenue
- Neiman Marcus
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- Saks 5th Ave Online
- Saks Job
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Harm to consumers in highly concentrated search markets

➡ Search engine bias
Evidence of own-service bias

Analysis of top 3 algorithmic results

<table>
<thead>
<tr>
<th>Search engine</th>
<th>Bing</th>
<th>Google</th>
<th>Yahoo</th>
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<td>Yahoo</td>
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<td>14</td>
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</table>

Analysis of the top-most algorithmic result

<table>
<thead>
<tr>
<th>Search engine</th>
<th>Bing</th>
<th>Google</th>
<th>Yahoo</th>
</tr>
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<td>Bing</td>
<td>1</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Google</td>
<td>1</td>
<td>11</td>
<td>1</td>
</tr>
<tr>
<td>Yahoo</td>
<td>1</td>
<td>2</td>
<td>12</td>
</tr>
</tbody>
</table>

Based on US search results for 122 top search terms

Source: Edelman & Lockwood, forthcoming
Complaints about Google rankings

- Expedia
- TradeComet
- Technorati network
- Foundem (UK)
- Ejustice (France)
- Navx (France)
- Association of German newspaper & magazine publishers

US
Why don’t consumers demand other search options?

- Consumers do not yet understand the impact of market concentration in search.
- Consumers do not pay directly for web search. Not clear how a competitor could offer consumers a lower price.
- There are few search providers.
  - Existing dominant firm. Who wants to compete with Google?
Importance of scale in web search

- Need to be sufficiently large to justify high fixed costs. Algorithmic search is complicated and expensive to build – many servers, many engineers and programmers.
Rich result boxes require even greater investment

- news
- maps
- videos
- products
- blog search
- finance
- weather
- academic articles
- patents
Importance of scale in web search

- Need to be sufficiently large to justify high fixed costs. Algorithmic search is complicated and expensive to build – many servers, many engineers and programmers.
- A small platform would struggle to attract advertisers.
AdWords API Terms & Conditions

**Functional Separation.** Any information collected from an input field used to collect AdWords API Campaign Management Data may be used only to manage and report on AdWords accounts. … [A]ny information or data used [for] AdWords … must have been collected from an input field used only to collect AdWords … For example, the AdWords API Client may not offer a functionality that copies data from a non-AdWords account into an AdWords account or from an AdWords account to a non-AdWords account.
The proposed transaction between Google and Yahoo Japan

- Compensation structure shapes parties’ incentives to compete with each other.
- We don’t yet know the details of the structure.
Every plausible compensation structure presents serious concerns

- **YJ pays a flat fee to use G code.** Then G has an incentive to withhold its best quality results. G can take share by damaging YJ’s product.

- **YJ and G share revenues.** Then both parties have an incentive to raise prices.
  - Prices are set through algorithms (click prediction, spelling, query classification, quality alteration, quality scoring & penalties). We do know G and YJ will share these algorithms.
Impact on the market for syndicated search
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Impact on the market for syndicated search

• Publishers need multiple syndicated search providers, bidding against each other for the publishers’ traffic.

• One provider ➔ low payments to syndicators. ("monopsony")
Information flows in the proposed transaction

• Share advertiser lists?
• Share data about advertiser performance?
• Share data about users?

The proposed transaction makes sharing this data exceptionally easy – information already in the same system.

Who could audit compliance? How?
Innovation under the proposed transaction

• Do G and YJ coordinate updates? Match features? Discuss new features in advance?
• Can YJ truly add new features on its own? Many features will require G cooperation.

The proposed transaction would reduce the parties’ incentives to compete with each other. Then what pushes quality improvements?