



## DON'T BELIEVE EVERYTHING YOU HEAR: A GUIDE TO THE GOOGLE SPEAK

At the Senate Antitrust Subcommittee hearing on “the Power of Google” we’re likely to hear a lot of Google’s favorite phrases. Here’s a run-down on what to expect.

### “GOOGLE IS FREE”

Google is not free – the company took in almost \$30 billion in revenue and kept nearly \$18.9 billion in profits last year, almost all of it from advertising. Those advertising costs, which are higher than they would be in a truly competitive market for search advertising, get passed on to consumers by the thousands of businesses, small, medium and large, that pay them. That’s the Google ‘tax’ on consumers and businesses. Read more: ([Google](#)) ([TechCrunch](#)) ([What we've said in the past](#))

### “COMPETITION IS A CLICK AWAY”

Competition is only one click away for consumers if stand-alone search engines abound and are easy to create. They’re not. Only a handful of companies in the world who can afford to spend, and in some cases lose, billions of dollars a year necessary to run the back-end infrastructure to provide a stand-alone search engine, such as Bing. Competition is never truly ‘one click away’ when cost and infrastructure is a barrier to the creation of truly new and additional search engines.

And Google’s real customers are advertisers – who have no choice but to spend their money with Google if they want to place ads alongside the vast majority of searches conducted online. Google has a dominant position with more than 79 percent share of search advertising in the U.S. and a higher percentage of revenue, and more than 90 percent in many parts of Europe. Advertisers have little or no choice but to use Google to reach the vast majority of Internet users, and they pay a higher price for ads than they would in a truly competitive market otherwise. Read more: ([The New York Times](#)) ([FairSearch](#))

### “GOOGLE BUILT GOOGLE FOR USERS”

Google says “we built Google search for consumers, not web sites.” The assertion may come as a surprise to Google shareholders. We think it’s fair to say Google search was built for advertisers, not consumers.

Google is, after all, an advertising company. It doesn’t “organize the world’s information” just to be helpful. Remember that Google’s customers are the “over one million of advertisers, from small businesses targeting local customers to many of the world’s largest global enterprises, who use Google AdWords to reach millions of users around the world” NOT users! ([Taken from Google's Investor Relations FAQ](#))

Here’s the bottom line. Larry and Sergey had it right back in 1998, pre-IPO, pre-billions. There is an inherent conflict of interest in an advertising-funded search engine between profits and consumer benefits. When real competition exists, it keeps that conflict in check and drives companies to innovate in ways that are responsive to customers and end-users. Read more: ([Google](#)) ([FairSearch](#))

## **“ANDROID IS OPEN”**

Google has locked up as much as [90% of search syndication](#) through its network of exclusive deals with websites, browser companies, software developers and device manufacturers. These exclusive deals help ensure that Google controls these searches and make it difficult for Google's current and potential competitors to achieve the “scale” that could enable them to compete more effectively with Google.

Now, Google is attempting to expand its search dominance into mobile, where its Android operating system represents almost half of all smartphones shipped worldwide (and Google is the default search engine).

According to The New York Times, Android phones must adhere to a “compatibility” standard determined by Google. In an e-mail on Aug. 6, 2010, Dan Morrill, a manager in the Android group, noted in passing that it was obvious to the phone makers that “we are using compatibility as a club to make them do things we want.”

What sort of things? Well, for one, not using competitors' products and services, like Skyhook's location-based services, on Android phones. As a result, Google has successfully locked up 98% of the mobile search marketplace in the U.S. Read more: ([Google](#)) ([The New York Times](#)) ([SearchEngineLand](#))

## **“GOOGLE DOESN'T SET ADVERTISING PRICES”**

Search advertising is the largest source of online advertising revenues. And, Google controls over 79% share of paid search in the U.S. Google made over \$28 billion from advertising in 2010. Let's be clear: those costs get passed on to small businesses and then consumers. Because Google controls search advertising prices in a number of ways.

First, by assigning advertisers a “quality score,” which can be lowered without warning and with little or no justification, Google can manipulate paid search to limit competition. The placement of ads on Google is determined through an auction in which advertisers submit bids for search terms. The bid is the amount that the advertiser is willing to pay each time a user clicks on its ad. The lower the quality score assigned to a bidder, the higher a price the advertiser has to bid to win the auction. What's more, Google often participates in the ad auctions it also runs. Santa Clara University law professor Eric Goldman called this practice “an impermissible conflict of interest,” in that Google is acting as both auctioneer and bidder with the unfair advantage of knowledge about quality scores and prices that other bidders are willing to pay and an unmistakable incentive to bid higher to drive up the price for all bidders and thus grow its own profits.

Second, Google's dominant share in general search makes its paid search advertising platform, AdWords, a “must buy” for businesses that advertise online. Google uses this power to lock in advertisers, imposing limits on advertisers' ability to port their AdWords data other ad platforms using third party tools and preventing advertisers from syncing updates or changes to their campaign data across multiple platforms.

For Google's customers, especially small businesses, competition is hardly “one click away.” And in the absence of a competitive search and search advertising market, Google will continue to set the prices for online advertising. Read more: ([The Register](#)) ([Harvard Professor Ben Edelman](#)) ([Santa Clara University professor Eric Goldman](#)) ([FairSearch](#))

## **“THE INTERNET AND ADVERTISING SPACE ARE BOTH INCREDIBLY COMPETITIVE”**

We’re not here to talk about the Internet or advertising generally – we’re here to focus on search. Here’s what the Senate Antitrust Subcommittee announced as part of [its agenda](#) for the 112<sup>th</sup> Congress:

*“Access to the wealth of information and e-commerce on the Internet is essential for consumers and business alike. As the Internet continues to grow in importance to the national economy, businesses and consumers, the Subcommittee will strive to ensure that this sector remains competitive, that Internet search is fair to its users and customers, advertisers have sufficient choices, and that consumers’ privacy is guarded. In recent years, the dominance over Internet search of the world’s largest search engine, Google, has increased and Google has increasingly sought to acquire e-commerce sites in myriad businesses. In this regard, we will closely examine allegations raised by e-commerce websites that compete with Google that they are being treated unfairly in search ranking, and in their ability to purchase search advertising. We also will continue to closely examine the impact of further acquisitions in this sector.”*

In the relevant U.S. markets for search and search advertising, Google controls over 79% of Internet search and over 79% of search advertising. There is really only one choice left in the U.S. for general internet search, Bing, and that choice has been losing more than \$2 billion a year just trying to stay in the game. Nearly every other website users might choose as a general search portal is powered by Google (Ask.com, AOL, New York Times, Comcast.net, etc.). And, as many have repeatedly pointed out, Google is making it harder and harder to find more specialized search choices like Nextag or Yelp. As Google’s executive chairman and former CEO told The New York Times in 2003, “Managing search at our scale is a very serious barrier to entry.” Read more: ([Senate Antitrust Subcommittee](#)) ([The New York Times](#)) ([American Antitrust Institute](#)) ([FairSearch](#))

## **“GOOGLE IS GOOD FOR SMALL BUSINESSES”**

Google takes in roughly \$30 billion a year in revenue from search advertising. Many of these advertisers are small and local businesses that are not in technology or online services. They find their customers over the Internet, through search and sometimes advertising. Google’s anticompetitive conduct could cost advertisers hundreds of millions or billions of dollars. Those higher advertising costs get passed on to consumers in the form of higher prices for the products that are advertised. For example, if Google raises the price for advertise on the keyword bicycle, the next time you go buy a bicycle it will cost more.

It’s not uncommon for a local or small business that relies heavily on the Internet to drive traffic to its services to spend \$10,000 or \$50,000 or even \$1 million on advertising with Google *each month*.

Those inflated advertising prices mean the companies can’t hire more workers, invest in new equipment or pass on lower prices to their customers. Read more: ([The New York Times](#)) ([Des Moines Register](#)) ([M&R Strategic Services Economic Impact Report](#)) ([FairSearch](#))

## **“FAIRSEARCH IS CALLING FOR A GOVERNMENT BUREAU OF SEARCH”**

No one is calling for a ‘bureau of search regulation’ or ‘government-funded search engine’ – those are straw-men that Google and its allies have created to divert attention from the serious, credible allegations brought to light about its business practices – allegations the company refuses to address head on.

If law enforcement finds that Google is breaking the law, the immediate and simplest thing to do is to stop Google from continuing to violate the law. FairSearch.org has laid out very specific ways in which Google thwarts competition and harms consumers. Beyond putting a stop to those ways, law enforcement has a number of tools it can choose from to put in place mechanisms to ensure that Google doesn’t break the law in the future. Read more: ([The Wall Street Journal](#)) ([FairSearch](#))

*Listen closely for these Google catch-phrases as Google tries to mask its dominance over the Internet ecosystem.*