Executive Summary of

Googleopoly: The Google-DoubleClick Anti-Competitive Case

By Scott Cleland
President, Precursor LLC -- A Techcom Industry Research and Consulting Firm

July 17, 2007

Purpose**:** The purpose of the 35 page "Googleopoly" white paper is to present the detailed case theory, argumentation and evidence of **why Google-DoubleClick is a traditional horizontal merger to monopoly that will be blocked in court by the FTC**. The more antitrust authorities learn about the facts and evidence of this particular case, the more concerned and convinced they will become that there are profound anti-competitive implications of this merger for competition, consumers, advertisers, content providers and the future of the Internet business model.

Perspective**:** Most observers do not appreciate how extraordinarily concentrated key parts of the Internet have become. To put in proper perspective this merger's market concentration in the *intermediary market* of online advertising, compare it to the analogous *intermediary market* of finance or capital markets. **To equal Google-DoubleClick's level of market concentration, one single financial services company would have to own:**

- The top ~15 Wall Street banks/asset managers;
- ~60% of the hedge fund and private equity industries;
- The New York and London Stock Exchanges;
- The two leading providers of financial analytic tools: Bloomberg and Factset;
- Two of the three national providers of credit profiles: Experian and Equifax; and
- ~60% of the Federal Reserve's and U.S. Census Bureau's raw market and consumer data.

The theory of the case**: Google and DoubleClick each dominate the two leading competitive technology platforms to deliver targeted online advertising,** i.e. the market of using technology to monetize the intermediation of the three core online advertising constituencies: users, advertisers, and content providers, and also the leading business model for providing access to Internet content. **With ~60% share of each of their respective technology platforms, search and display,** technologies which are mutually-reinforcing, the combination would enable a horizontal merger to monopoly, which would harm users, advertisers and content providers with higher prices and less choice.

Summary of conclusions:

- The facts and evidence will **prove that the Google-DoubleClick merger will substantially lessen competition** in the appropriate defined-relevant market: *targeted online advertising* – **warranting the FTC to file an injunction in Federal court to block the transaction.**
- The facts and evidence will also **prove this to be a standard horizontal merger to monopoly** of competitive technology platforms in the targeted online advertising market, not a vertical merger of separate search and display markets, nor an inconsequential merger in the broader $300 billion advertising market of TV, radio, newspapers.

- The market power created by the Google-DoubleClick merger **would lessen competition and harm consumers, advertisers, and content providers specifically** by:
    - Enabling Google-DoubleClick to effectively dominate:
        - Online ad-serving to websites;
        - The monetization model for accessing Internet content; and
    - Providing Google-DoubleClick greater opportunity to collude to manipulate the targeted online advertising market, raise prices, fix prices, and price predatorily.
- The facts and evidence will **prove consumer, advertiser, and content provider harm:**
    - Tens of millions of **consumers would be harmed** by facilitating an unregulated information access monopoly making consumers more vulnerable to: misrepresentation, conflicts, fraud, deceptive/unfair trade practices, and clandestine invasion of privacy.
    - Thousands of **advertisers would be harmed** by higher online ad prices, less real choice, and impaired market forces to prevent, investigate and rectify click fraud.
    - Hundreds of **content providers would be harmed** by higher prices (i.e. lower revenue ad splits) and less real choice for monetization of their digital content via the Internet.

<u>The relevant market</u>: **The facts prove the relevant market to be "targeted online advertising."** Google has produced a mountain of evidence in SEC filings, sales materials and public comments that Google's targeted online advertising market is dramatically different than any other ad medium in the much larger advertising sector, because of online advertising's capacity to target, measure and make advertising more "relevant" and effective. In addition, the non-Google-produced facts also prove that several market characteristics create a stark online-offline advertising market dichotomy: technology architecture; interactivity; audience; market drivers; economics; and consumer expectations.

<u>Why Google and DoubleClick are direct competitors</u>: Targeted online advertising is basically a technology market where different technology platforms, like search engines and ad-servers, compete to better intermediate and target consumers with advertisers' messages. **Both Google and DoubleClick offer the same targeted online advertising value proposition, to the same: corporate advertising clients, Internet users, and websites -- just employing different technology platforms.** The easy technological interchangeability of Google and DoubleClick's ad-serving formats (text, display, rich-media) make Google and DoubleClick *direct competitors*.

<u>What barriers make Google's search dominance enduring</u>? New entrants cannot compete with Google's market leading economies of scale in infrastructure, information searched, brand, user base, algorithm improvement, content network, and advertiser network. A variety of powerful network effects are making Google's leading competitors decreasingly competitive with Google. Google has effectively reached the "tipping point" to dominance in the size of it's: audience, content/website partner network, advertising client base, and database of consumer metadata.

Yahoo will continue to fall behind Google for a variety of reasons. Yahoo is a brand/marketing focused website company, not a search technology leader like Google. Yahoo seeks to serve users of its website; Google seeks to serve the much broader global Internet audience. Yahoo, as a proprietary website, has a real business conflict handicap relative to Google in trying to be a wholesale search provider to its website competitors, and wholesale search is the key to market share. Furthermore, Yahoo is an Internet content retailer, while Google is primarily an Internet content *access* wholesaler.

Microsoft will continue to fall behind Google for similar reasons. Microsoft is not focused on search; MSN is only 5% of /Microsoft's revenues and Microsoft does not list Google as a *primary* competitor in its SEC filing. Google and Microsoft have very different purposes for their technologies: Google's technology is about *accessing other's* information; Microsoft's technology is about *creating and processing your own* information through software applications. Google is a web-centric architecture; Microsoft is a computer-centric architecture. Microsoft/MSN, like Yahoo, is a proprietary website, so it has a competitive conflict in being a search engine wholesaler, the key to gaining search market share. Microsoft is overwhelmingly a subscription-based business, while Google is virtually an all-ad-based business model. Lastly, Microsoft is antitrust-encumbered and Google is not.

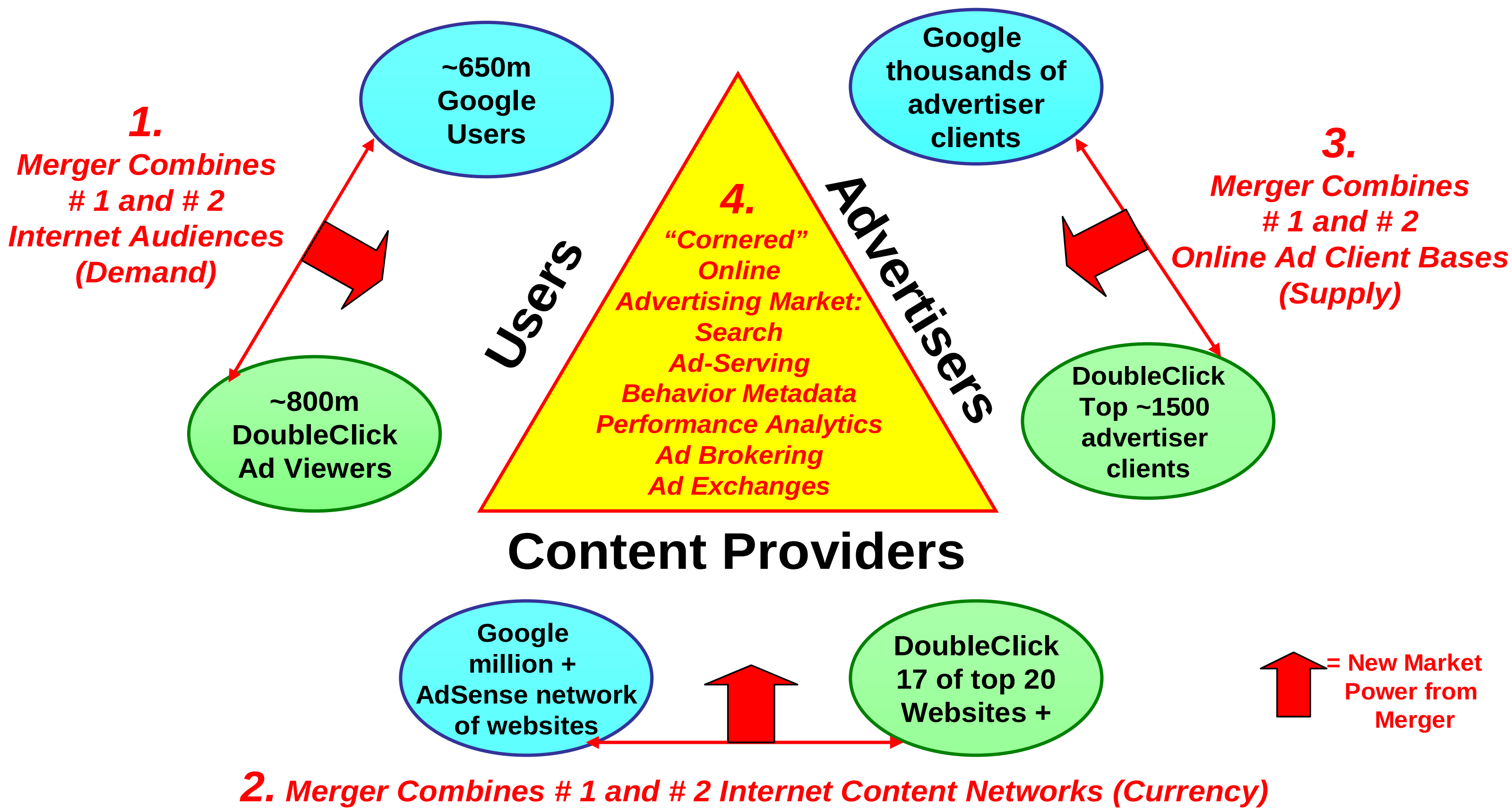
<u>What barriers makes DoubleClick's ad-serving dominance enduring</u>? DoubleClick has the dominant ad-serving platform with 60% market share, over 1500 of the largest global clients, and serves 17 of the top 20 websites. As the ad-serving market leader, DoubleClick also has the dominant share of ad-serving metadata and performance information, and according to competitors, DoubleClick is already leveraging that dominance over industry performance information in an anti-competitive manner to the detriment of competitors and advertisers. Lastly, the huge switching costs of transporting ad campaign metadata to another firm means most advertising clients are effectively *locked in* to DoubleClick's ad-serving platform.

<u>What are the anticompetitive effects of the Google-DoubleClick merger</u>? **A Google-DoubleClick would create the opportunity and incentive to "corner" the online advertising market by dominating all three sides of this intermediary market: users (demand), content providers (currency) and advertisers (supply).** Remarkably this merger brings together the #1 and #2 Internet audiences, Internet content networks and online advertising networks. That broad and deep market power would enable Google-DoubleClick to "corner" most all of the key intermediary advertising functions: search, ad-serving, behavior metadata, performance analytics, ad brokering, and ad exchanges. *Please see first attached chart.*

<u>What are the anticompetitive harms and effects of the Google-DoubleClick merger</u>? The anticompetitive harms and effects of the Google-DoubleClick merger are widespread and deep. Users are harmed by the "monopoly" price of invasion of privacy and increased vulnerability to conflicts of interest and fraud. Websites face higher prices in worse revenue sharing splits and less choice. Advertisers face higher prices and less choice. The result is a Googleopoly of online advertising where GoogleDoubleClick has the opportunity and incentive to bundle and tie their market power in search, ad-serving, consumer metadata, and performance analytics, into the much larger and broader markets of ad brokering and ad exchanges, where the opportunity to manipulate the market and fix prices would be the greatest. *Please see second attached chart.*

Download the full 35 page "*Googleopoly: The Google-DoubleClick Anti-Competitive Case*" at www.Googleopoly.net; the Bio of Scott Cleland at http://www.precursor.com/bio_long.htm

How a Google-DoubleClick Merger "Corners" the Online Advertising Market



Google-DoubleClick
Anti-Competitive Harms & Effects