The CMA’s digital market study

Seminar to the Autoridade da Concorrência

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22 October 2020

Outline

Competition & Markets Authority

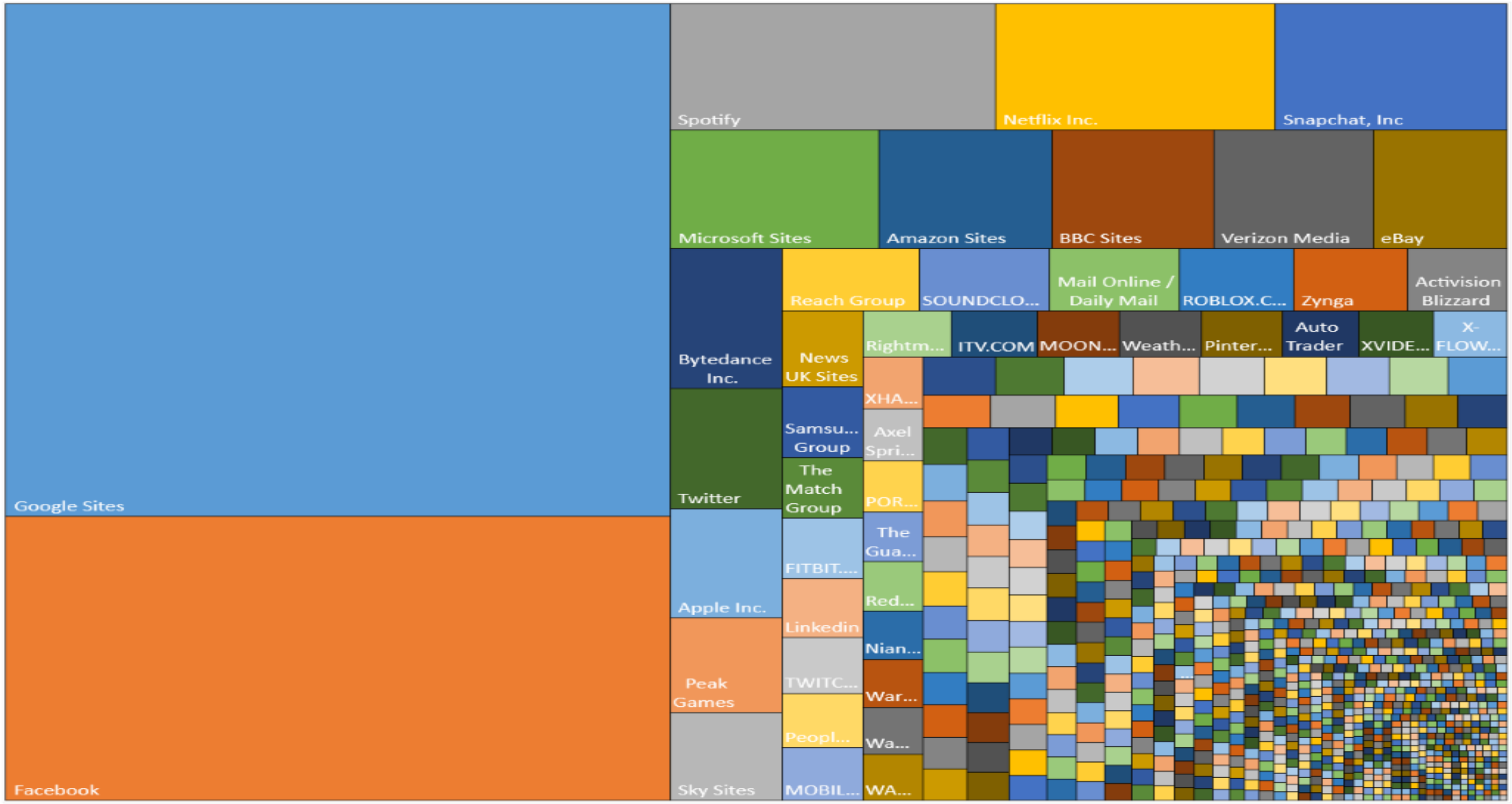
- **Context**
- **Theories of harm**
  - Search
  - Open display
  - Social media
  - Privacy concerns
  - Envelopment
- **Recommendations**
- **What next?**

Context

- **Why look at digital advertising?**
  - Furman Report recommendation
  - Asked to by government
  - Parliamentary committee also asked
- **Digital advertising is where Google and Facebook monetise their products**
  - If there is an exercise of market power, then it will manifest itself in digital advertising
  - We find very strong evidence of substantial market power

Google and Facebook are very big

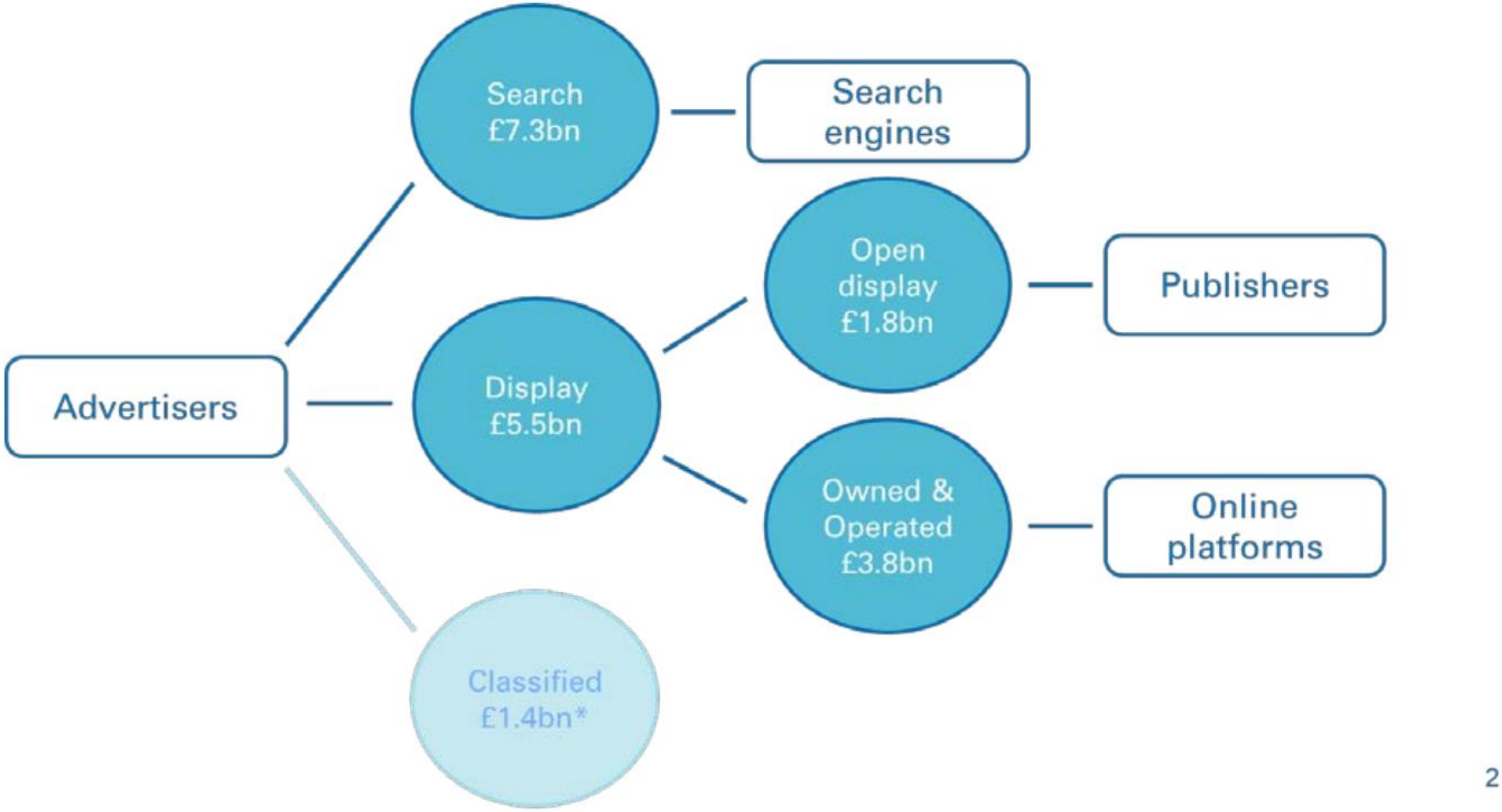
- **Over a third of UK internet users' time online is spent on Google and Facebook sites**



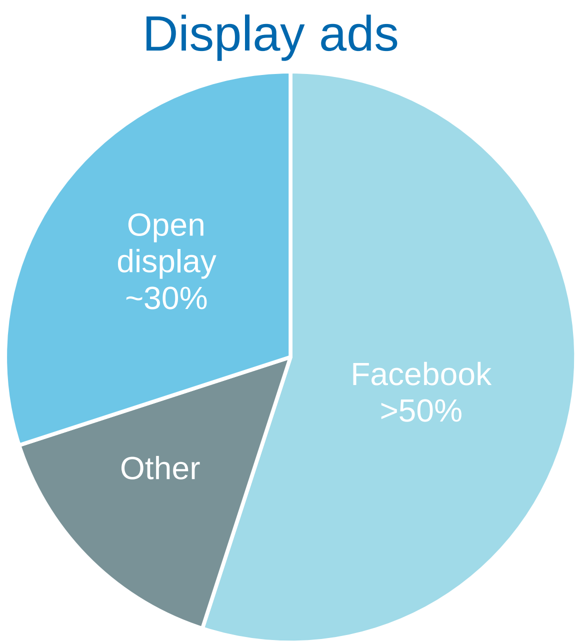
Strong positions in a large sector

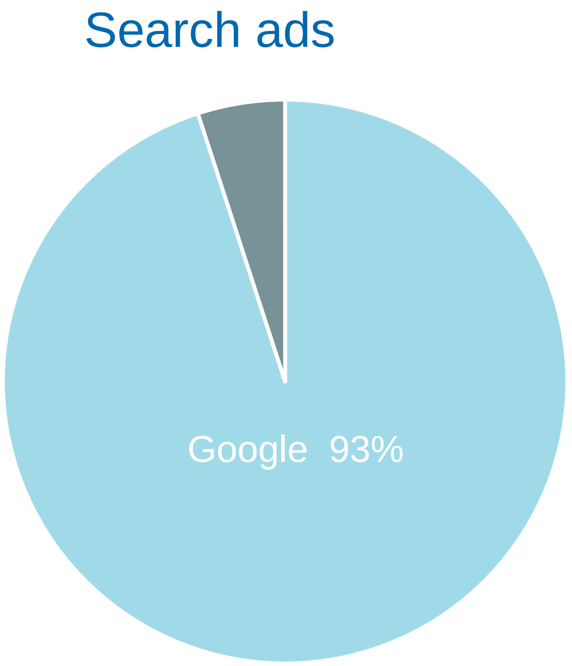
- **Market size:**
  - £14 billion spent each year on digital advertising in UK
  - This about £500 per household
- **Around 80% of these advertising revenues go to Google and Facebook**
- **Market shares:**
  - Google has more than 90% share of search advertising
  - Facebook has over 50% of display advertising
  - Google has high shares throughout the “Open display” chain (“ad tech”)

Strong positions in a large sector



Strong positions in a large sector





Does it matter?

- **Lots of good reasons for Google's and Facebook's success:**
  - Product innovation
  - Giving consumers what they want
  - Effective use of data to tailor the service
  - Expansion of the ecosystem to provide complementary services
- **But also some competition concerns:**
  - Network effects, economies of scale and path dependency, leading to market power and prices being higher than under more competitive structures
  - Platforms' behaviour creating barriers to entry – e.g. through use of defaults
  - Platform envelopment to protect the core monopolies
  - Privacy issues

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- Recommendations
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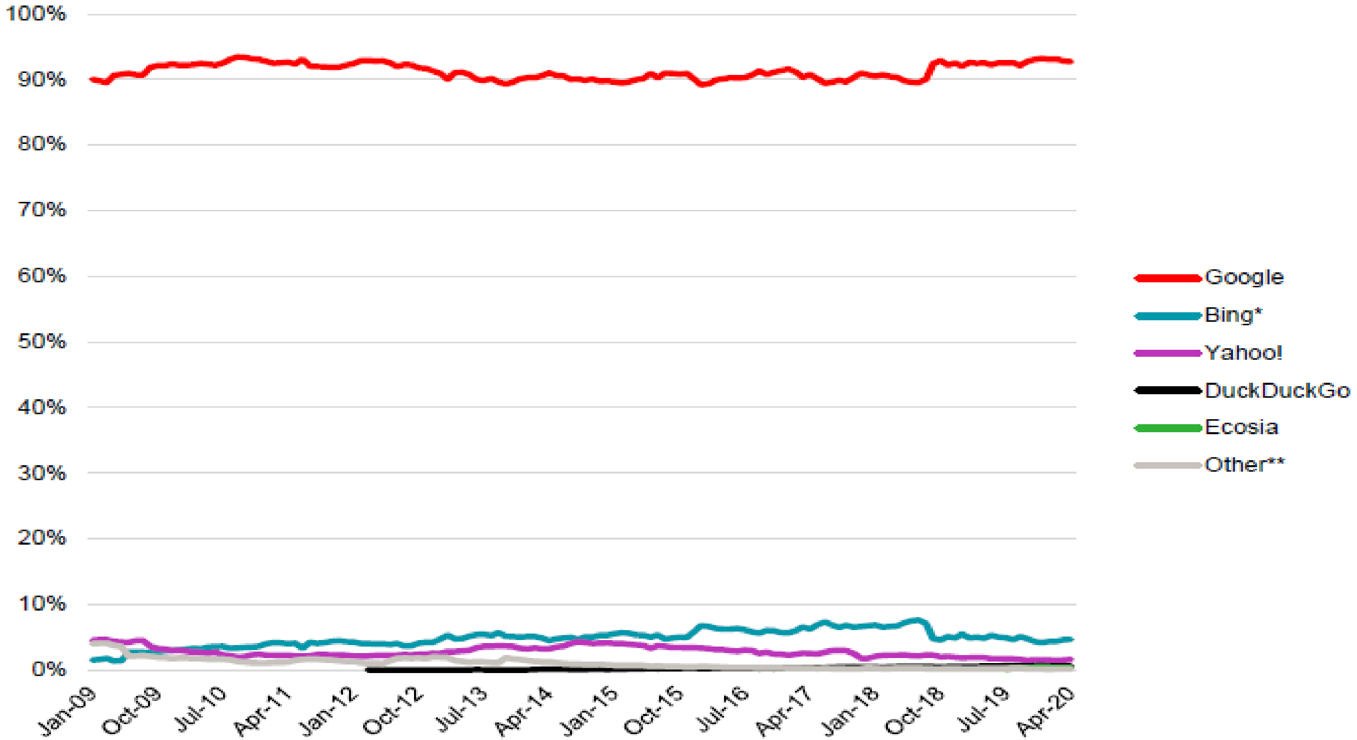
High share of search …

- **Google has more than 90% of the search market**

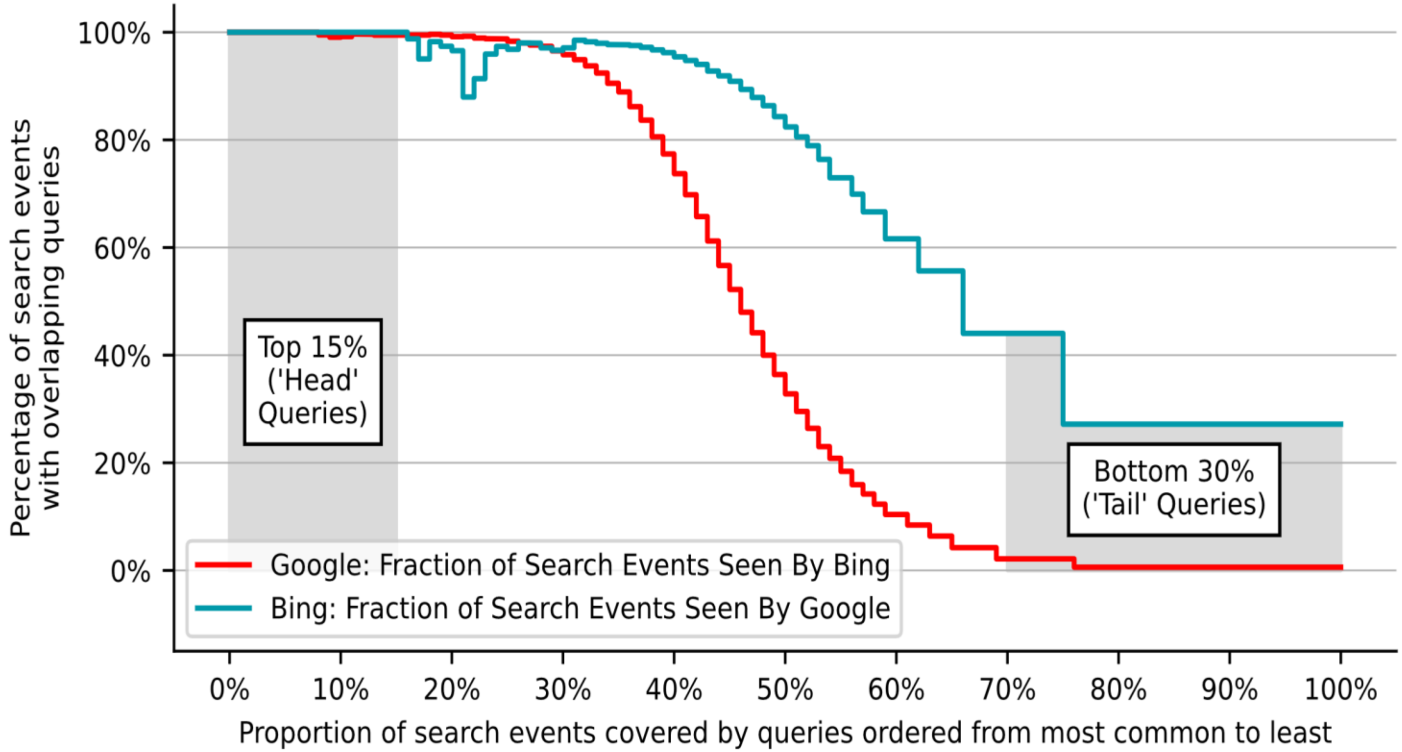
Figure 3.3: Shares of supply by page referrals from January 2009 to April 2020



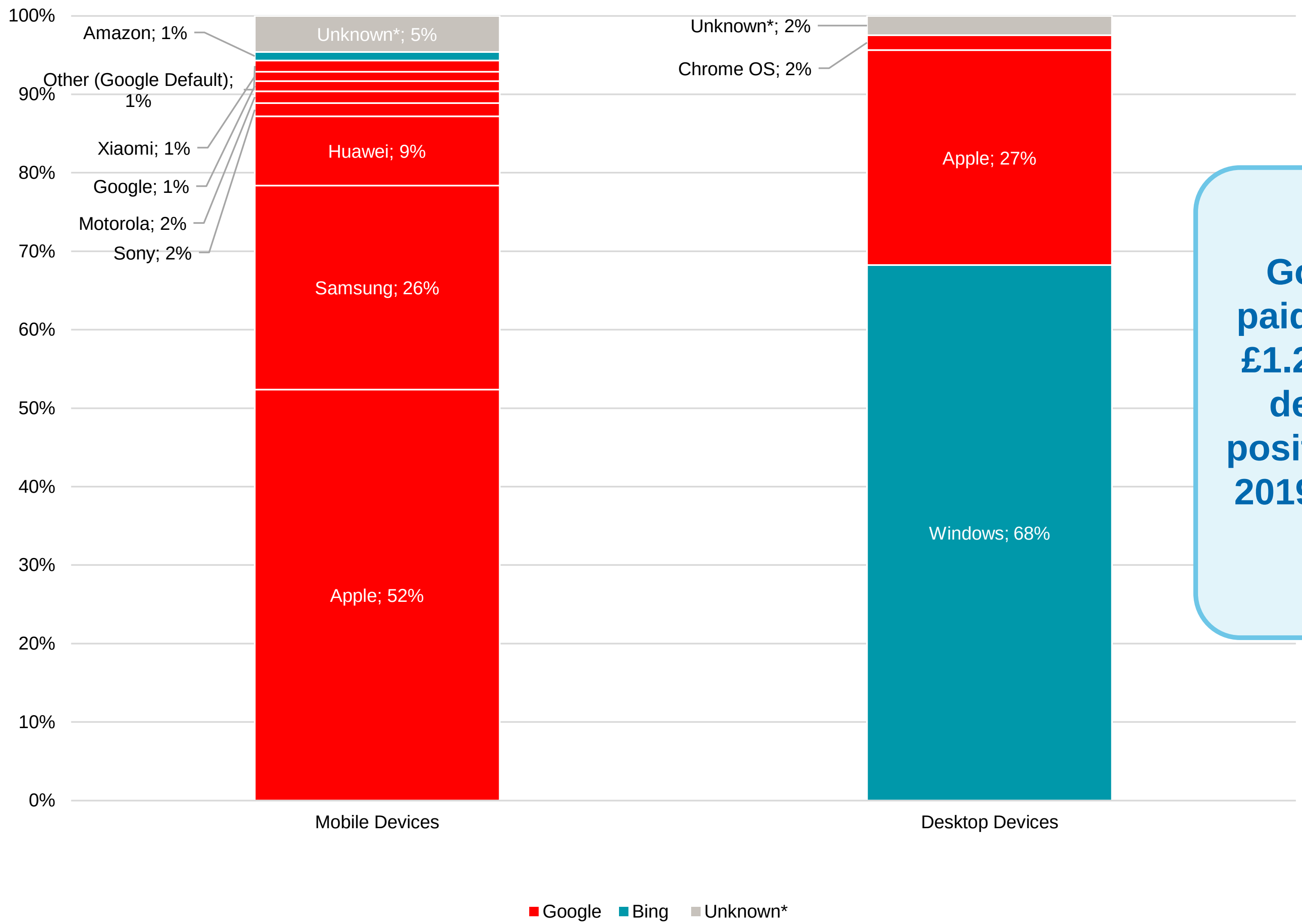
Source: Statcounter Global Stats.
Notes: UK data.
* Bing's share represents that of Bing and MSN Search. MSN Search was rebranded as Bing in 1998.
** 'Other' consists of: AlotSearch; AOL; AskJeeves; AVGSearch; Babylon; Baidu; Conduit; NortonSafeSearch; Snapdo; Webcrawler; WindowsLive; Yandex; and 'other'.

… protected by higher quality …

- **Quality in search relates closely to amount of searches undertaken on your platform**
  - More searches, more data, better results
  - Particularly for less common (“tail”) queries



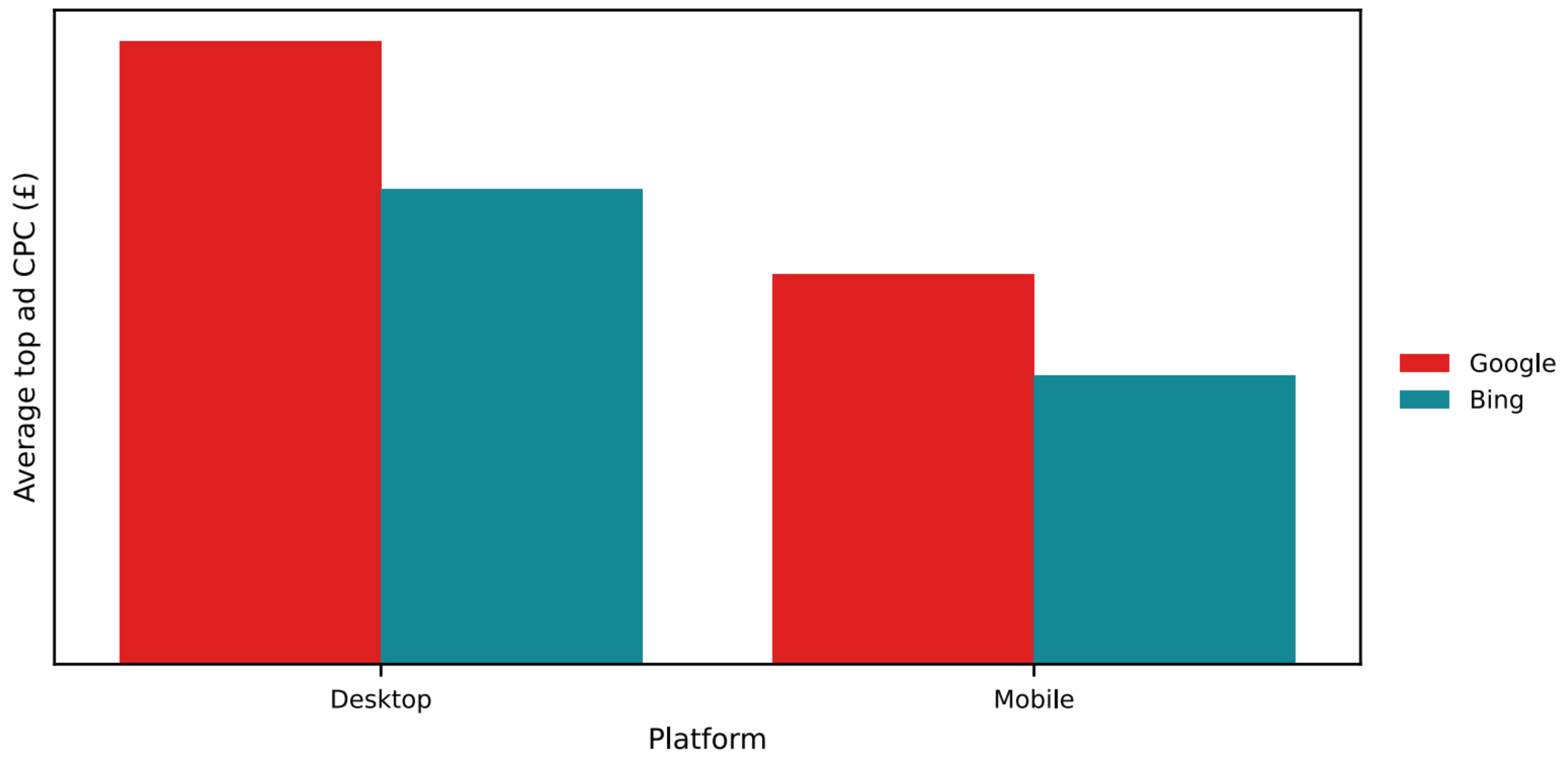
… and defaults …



Google paid about £1.2bn for default positions in 2019 in the UK

… leading to higher prices

Figure 5.7: Average cost-per-click for top ad cost per click on Google and Bing



Source: CMA analysis of parties' data.

Constraints on Google search?

- **Possible constraints are:**
  - Specialised search
  - Organic search results
  - Display advertising
    - Evidence is little substitutability between search and display advertising

Constraint from specialised search

- **Much of Google's revenue comes from sectors where it faces specialised search providers**
  - e.g. retail, financial products, travel
- **But:**
  - Google is a "gateway" for much of specialised search traffic
  - Google advertising a significant cost for many specialist search providers
  - Google can use its gateway position to undermine the market position of specialised search
    - Put Google's own specialist search in a prominent position
    - Include links to rival specialist search
    - Improve product on back of rival's offering
    - Other specialist search becomes disintermediated

Constraint from organic search

- In theory organic search results might undermine Google’s ability to exercise market power in paid search
- But Google is able to reduce this by demoting the salience of organic results
- This also has the effect of raising costs to specialist search providers

Crowding out organic traffic

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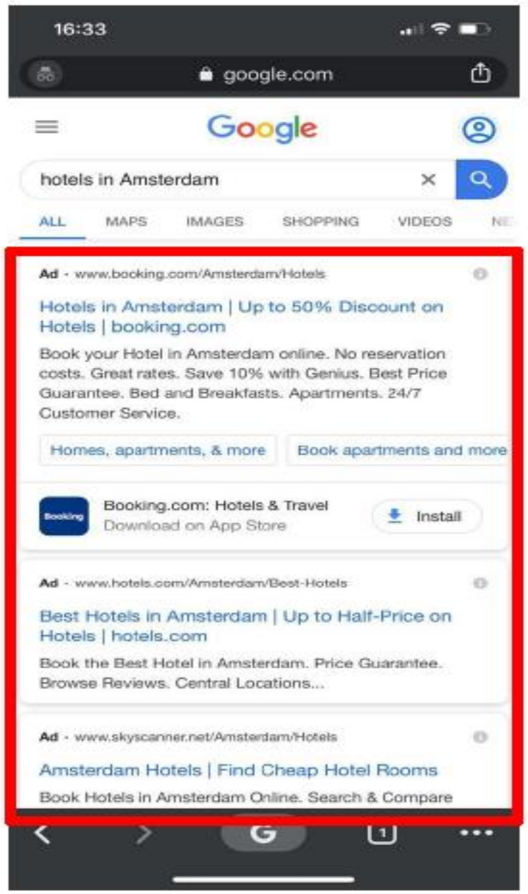
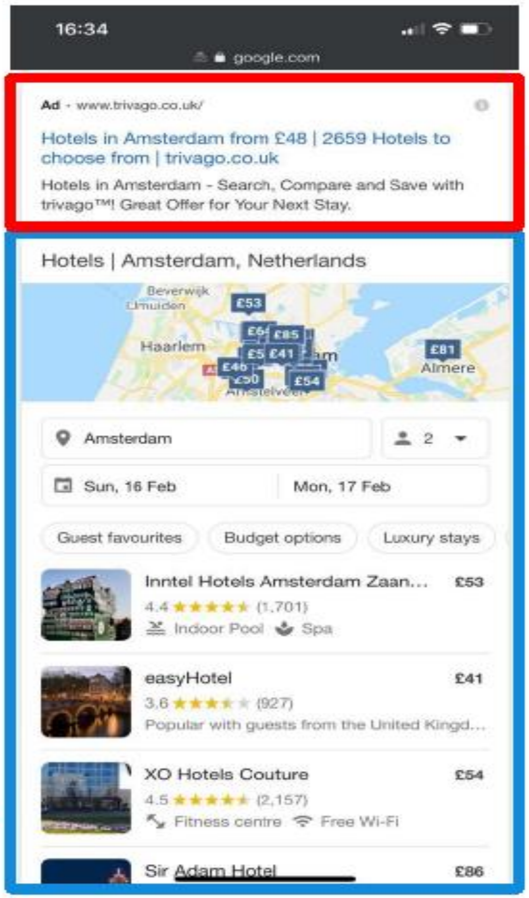
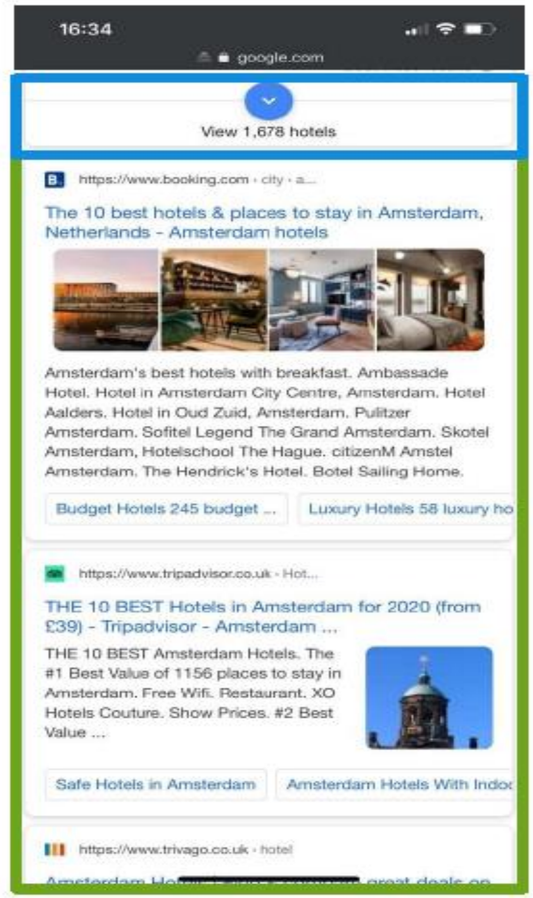


Screen swipe 1



Screen swipe 2



Screen swipe 3

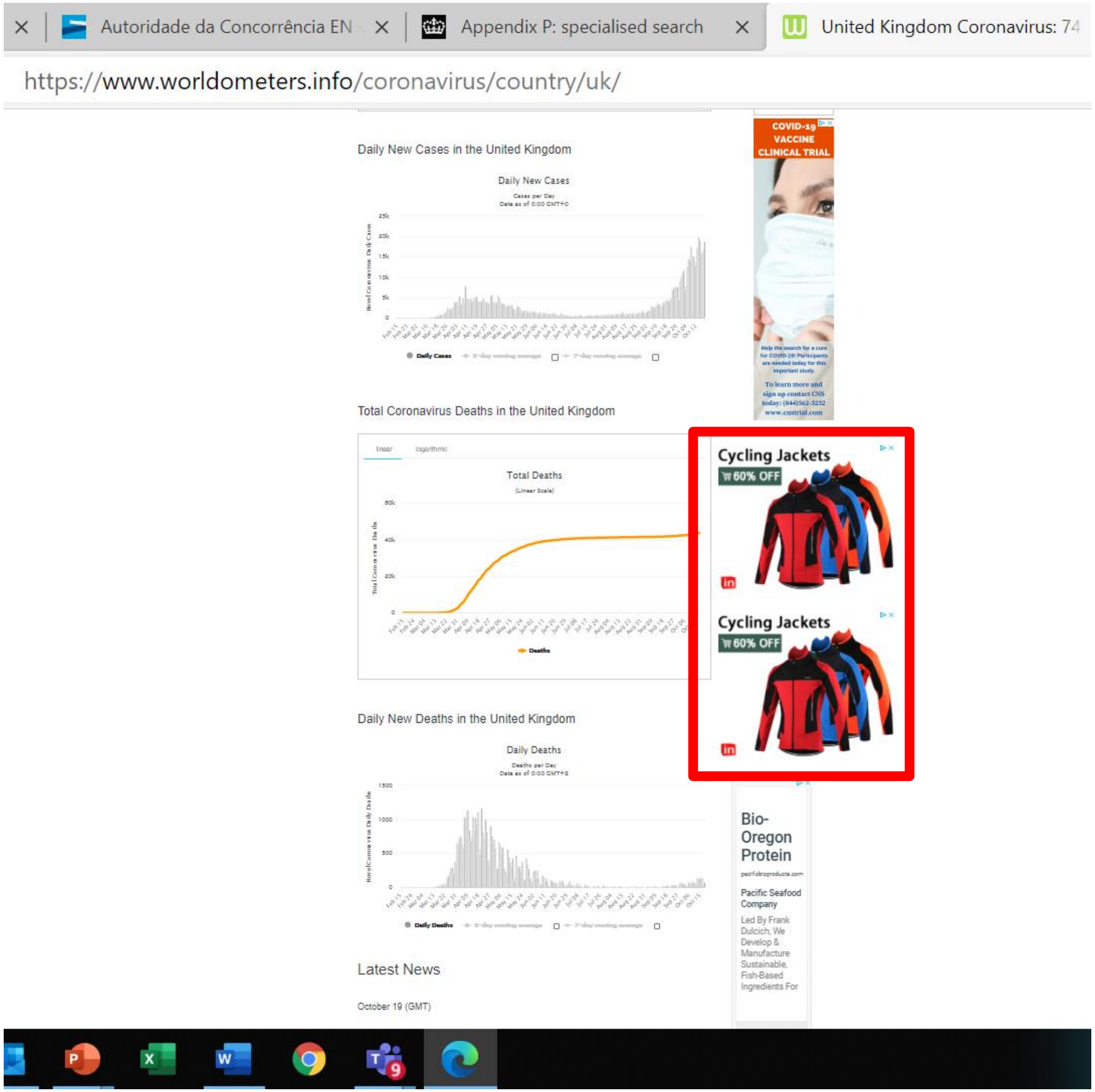
Conclusions on search

- **Google has a very high market share (>90%), protected by substantial network effects in search**
- **Allows it to earn higher advertising revenues for equivalent searches**
- **Google is able to weaken the constraints that it faces in search**
  - Disintermediating rival specialist search
  - Reducing the constraint from organic search

Open display

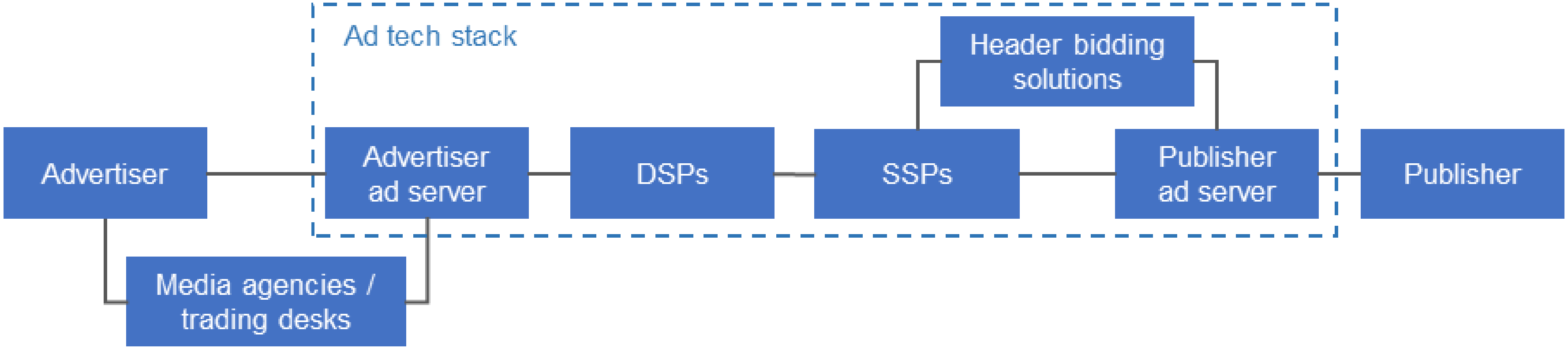
- **Open display ads are those shown on websites rather than as a result of search**
- **When a user visits a website/app an auction is run to select the ads to be shown.**
- **A complex chain of firms/functions allows publishers (website/app owners) to receive bids from multiple interested advertisers and to deliver the ad from the winning bidder.**
  - This is called the “ad tech stack”

Open display

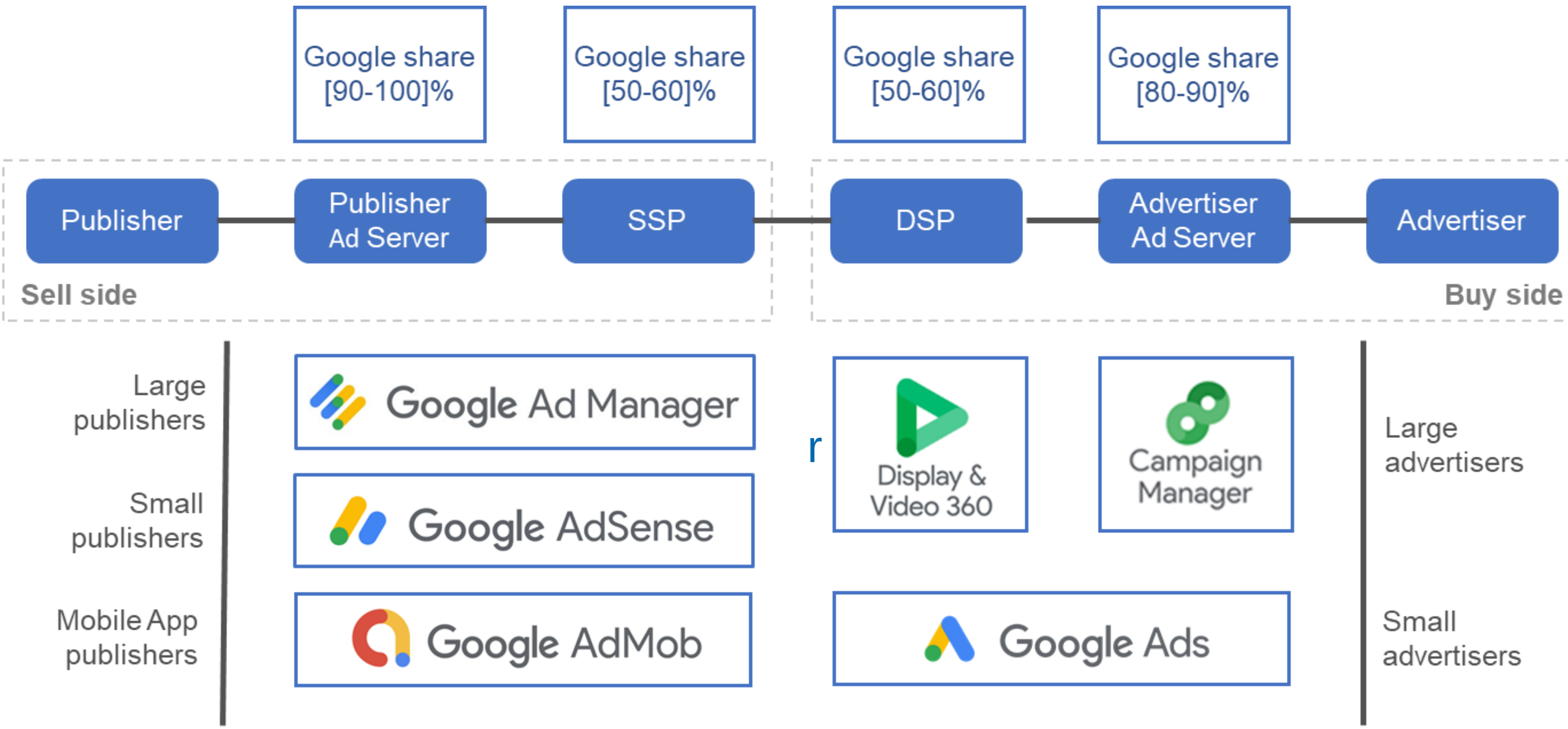


Open display

- **A simplified version of the ad tech stack**



Google’s position



- This strong position is supported by Google’s position in search and display advertising (YouTube)
- Much of it via acquisitions (e.g. Doubleclick)

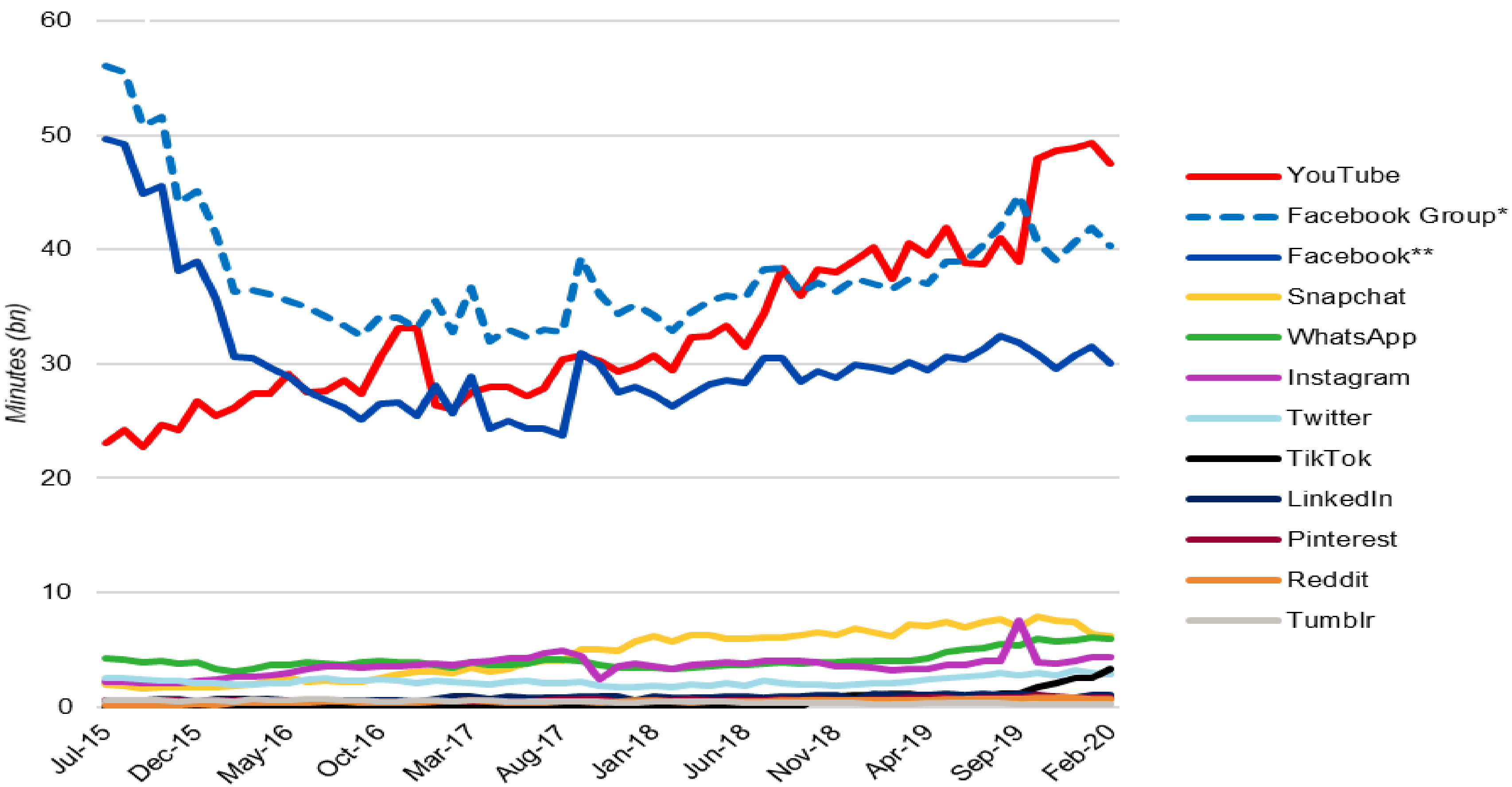
Open display concerns

- **Two main concerns**
  - Pricing transparency
  - Conflicts of interest
- **Pricing transparency:**
  - Found publishers receive on average only 65% of what advertisers spent on open display
  - ISBA/PWC analysis suggests the figure is only 51%, with a 15% “missing delta” between DSPs and SSPs
- **Conflicts of interest:**
  - DSPs act on behalf of advertisers
  - SSPs act on behalf of publishers
  - Google acts on behalf of both

Social media

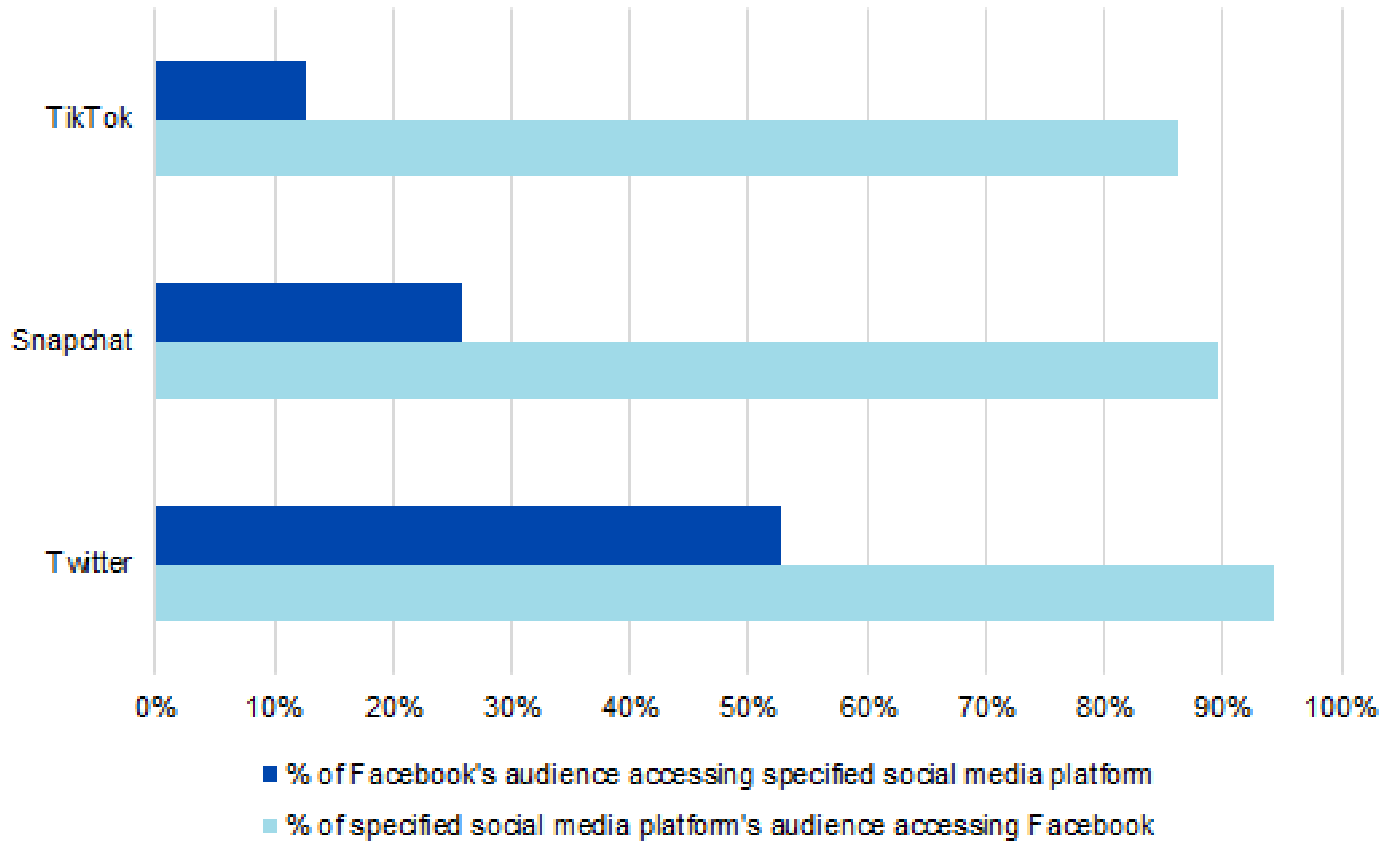
- **Facebook has a very strong position in social media**

Total user time spent on social media platforms



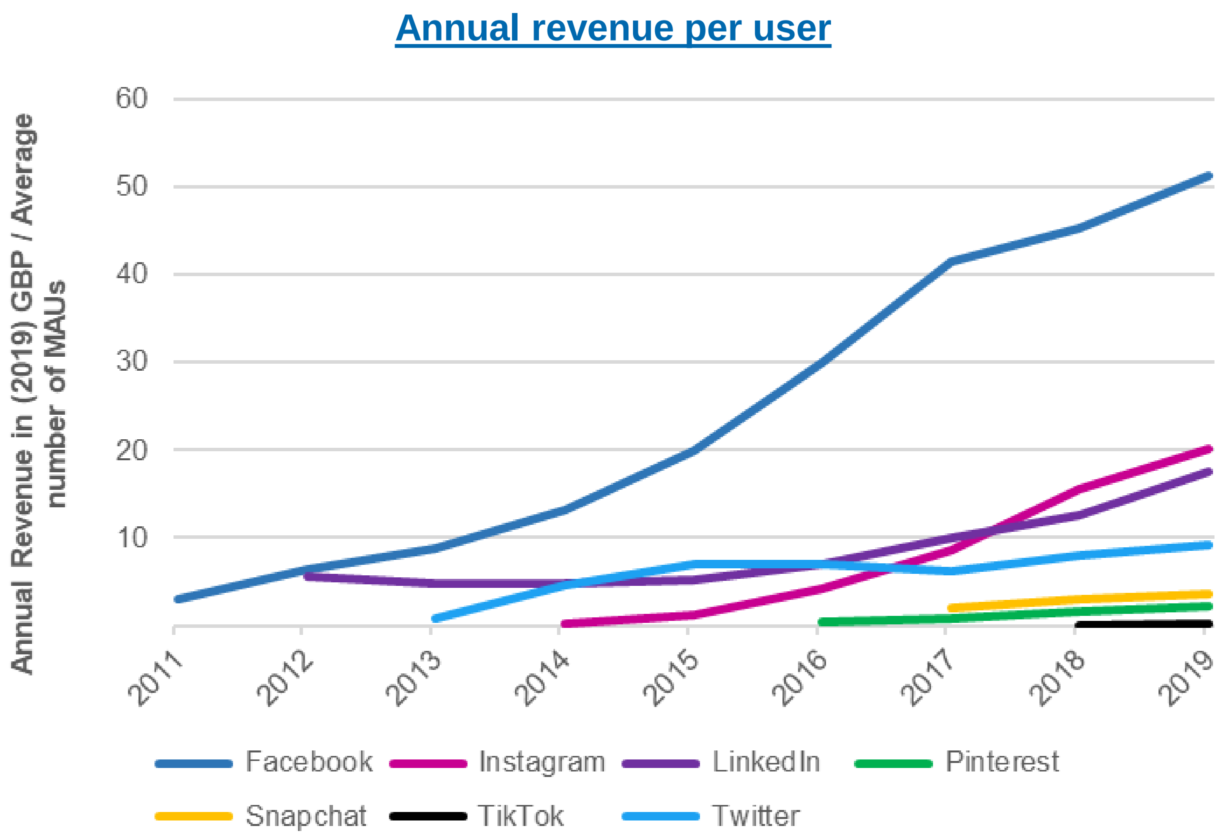
Facebook close to “must have”

Cross-visiting between Facebook and selected other platforms



Exercise of market power by Facebook

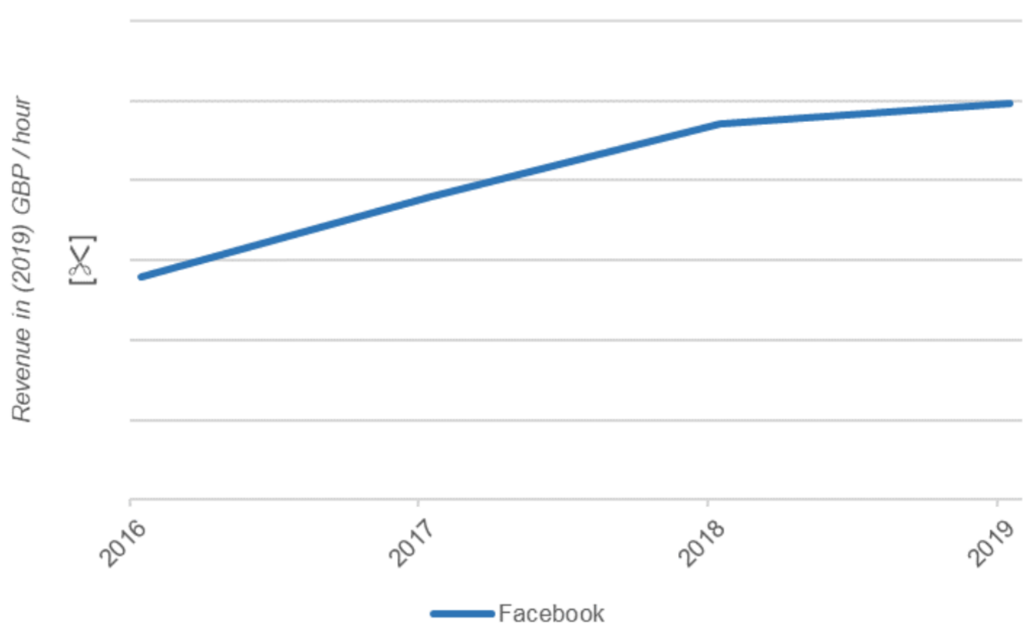
- FB has higher monetisation (revenue per user) than rival platforms



Exercise of market power by Facebook

- Also has increasing revenue per hour
- Likely cause is market power from consumer side network effects

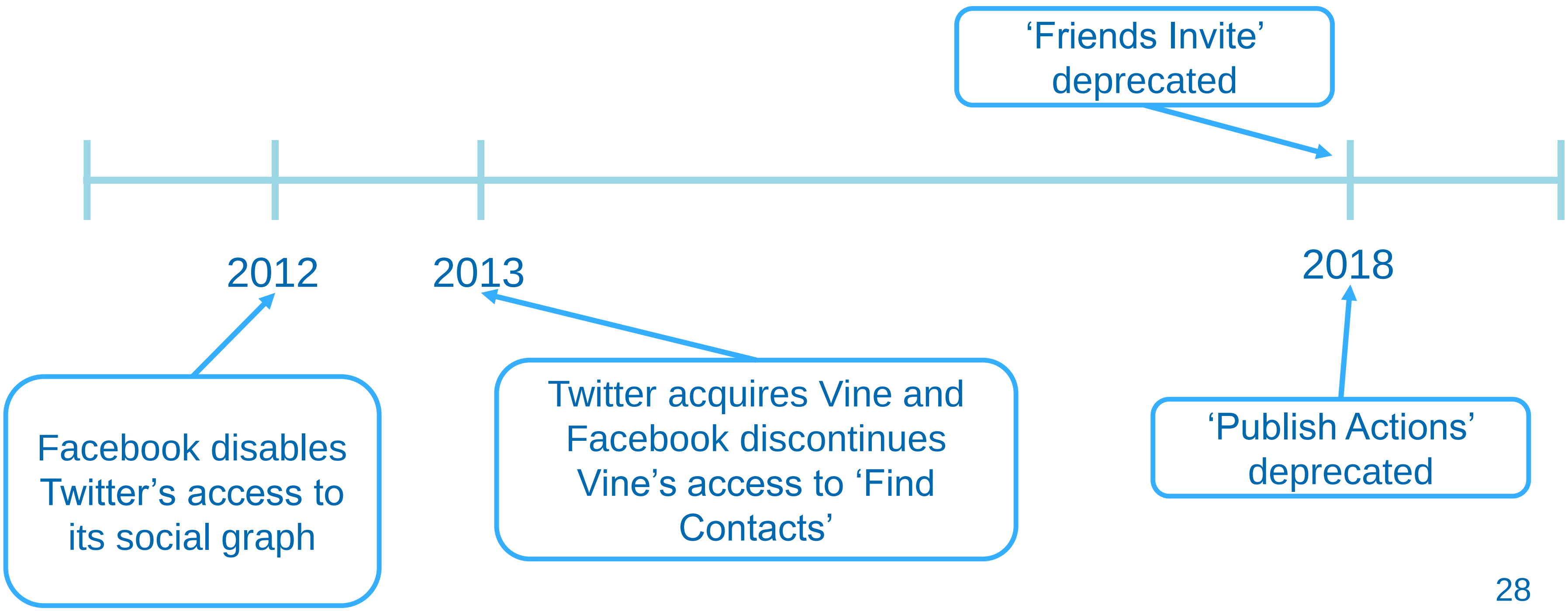
Figure Q.15: Facebook revenue per hour, 2016-2019



Source: CMA analysis of Facebook data.

Facebook's market power is enduring

- Market power protected by same-side network effects …
- … and cross-side network effects
- Also protected by responding to competitive threats by reducing interoperability

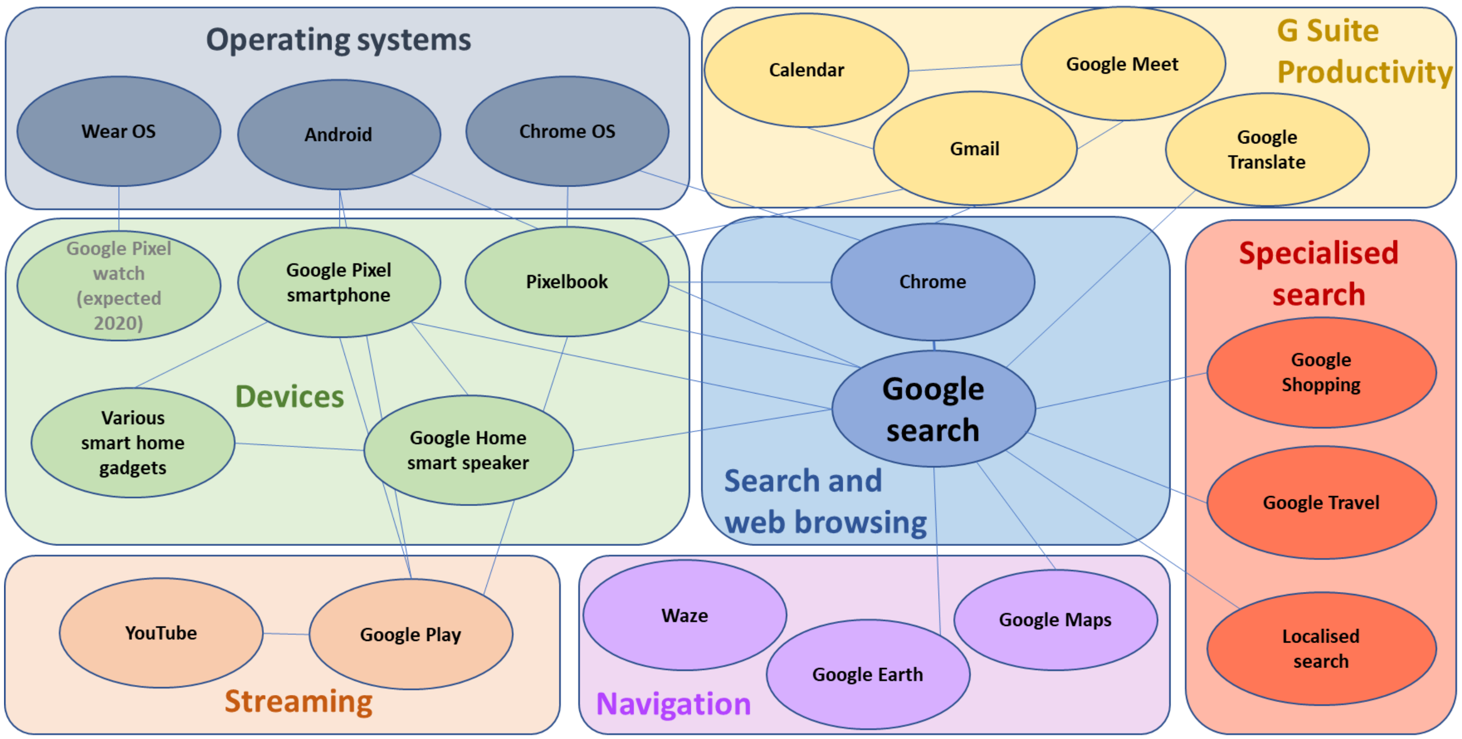


Privacy concerns

- **Consumers have little understanding of privacy issues**
  - Don't understand what data is collected or how it is used
  - Are not engaged:
    - At most 10% "read" T&Cs
    - Average time spent on Google's Privacy Policy is 47 seconds
- **"Privacy paradox"**
  - Consumer's say they care about privacy but do not act as if they do
  - Or maybe they correctly understand that they have no real choice if they want to access the services
- **Incumbents using GDPR/privacy as a shield**
  - Can share data within their ecosystem but not outside
  - Raises barriers to entry
  - e.g. Google getting rid of third party cookies on Chrome

And another thing … ecosystems

- **Both Google and Facebook have built substantial ecosystems**



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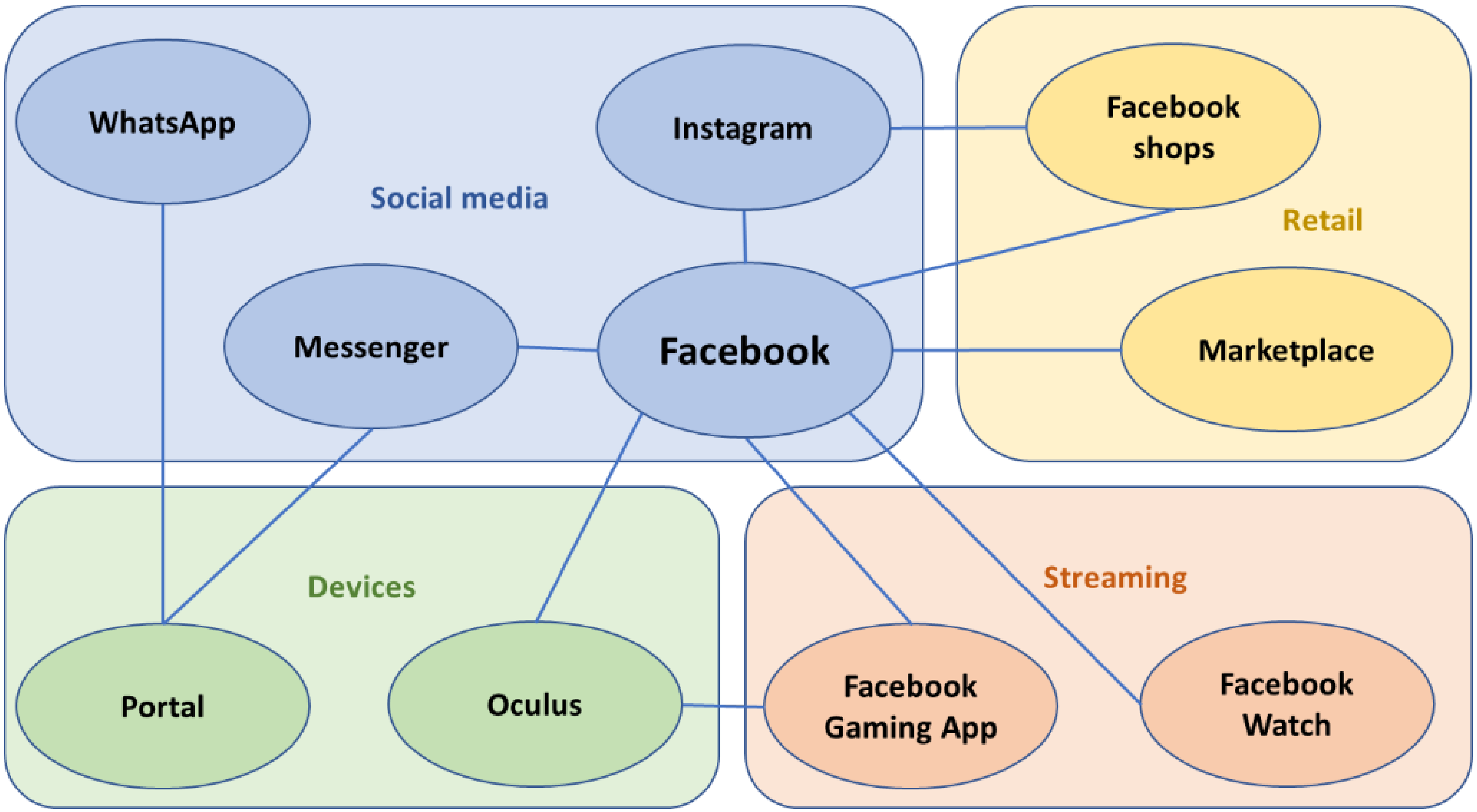

And another thing … ecosystems

- **Ecosystems of complementary products can be beneficial to consumers**
- **But we also have concerns over envelopment strategies to:**
  - Leverage market power from one market into another
  - Raise barriers to entry into the firms’ core markets
  - Acquire potential threats to the core monopolies

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- **Recommendations**
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Recommendations

- **Set up a Digital Markets Unit (DMU) to regulate digital platforms with Significant Market Status**
- **DMU to ensure the platforms comply with a “code of conduct” based on:**
  - Fair trading
  - Open choices
  - Trust and transparency
- **DMU to have powers to impose:**
  - Data-related interventions
  - Consumer choice and default interventions
  - Separation interventions

What next?

- **The debate is no longer over whether regulation is needed, but over the form of that regulation**
- **We continue to advise government on the setting up of the DMU**
- **Recently stated that will impose remedies on Google and Facebook if the government does not act on the DMU**
- **Analysing transactions involving the digital platforms very carefully**
  - e.g. Google/Looker; Facebook/Giphy
  - Concerns over the protection of nascent competition

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