

Defining the Relevant Product Market for Google- DoubleClick Merger

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Industry Background

- In 2007, U.S. advertisers were expected for the first time to spend more on online advertising than on radio advertising
 - Source: eMarketer
- U.S. online advertising revenues in 2007 were roughly \$17 billion, an increase of 35 percent over 2005 revenues
 - Source: Interactive Advertising Bureau

The Inputs to an Online Ad

Suppliers of online advertising provide three primary inputs: (1) ad tools, (2) intermediation, and (3) publisher tools

Ad tools: software packages that allow advertisers to manage inventory and produce ads

Intermediation: matching advertisers (buyers) to publishers (sellers) in an advertising marketplace

- publishers' direct sales forces
- "ad networks" (resell publisher ad space)
- "ad exchanges" (match advertisers and publishers)

Research Agenda

- Our analysis focuses on whether different channels of online advertising represent a single product market
- Limitation: We do not analyze whether other forms of advertising (e.g., print) should also be included
 - Reid, King, Martin and Soh (2005) (finding that local advertisers perceive Internet advertising to be a poor substitute for traditional media)

Segments of the Online Advertising Industry and the Major Providers

Online Advertising		
Search-Based	Publisher-Based	
	Contextual	Graphic
<ul style="list-style-type: none">•Google.com•Yahoo.com•MSN.com•AOL.com•Ask.com	<ul style="list-style-type: none">•Google AdSense•Yahoo Publisher Network•Quigo	<ul style="list-style-type: none">•DoubleClick•ValueClick•aQuantive•24/7 Real Media

Contextual and Graphic Ad Input Providers

	Contextual	Graphic
Advertiser Tools		<ul style="list-style-type: none">• DoubleClick• aQuantive• ValueClick
Intermediation	<ul style="list-style-type: none">• Google Adsense• Yahoo Publisher Network	<ul style="list-style-type: none">• Direct Sales• ValueClick• aQuantive• 24/7 Real Media
Publisher Tools		<ul style="list-style-type: none">• DoubleClick• 24/7 Real Media

The Search Segment

- Google collects between 70 and 76 percent of search ad revenue
 - Source: Alan Rimm-Kaufman, eMarketer
- The top ten paid search advertisers, generating 16 percent of all sponsored links, were all retail or comparison shopping sites
 - Source: comScore

The Publisher-Based Segment

- Line between text-based and graphic ads is blurring
 - Google's AdSense, which scans a page's content and selects an appropriate ad, can now deliver "text or image ads."
- **60 percent of the \$2 billion a year** contextual segment was claimed by Google's AdSense
 - Source: eMarketer
- **Graphic ads use electronic tags or "cookies"** to track which sites an Internet user visits (behavioral rather than contextual)

Legal Precedent on Market Definition

- *KinderStart.com LLC v. Google, Inc* ■ Plaintiff alleged search result ranking abuses
 - Argued that search advertising was a relevant product market
- **Court rejected this definition as being too narrow**
 - “Because a website may choose to advertise via search-based advertising or by posting advertisements independently of any search, search-based advertising is reasonably interchangeable with other forms of Internet advertising.”

Survey Data

- According to Merger Guidelines, product markets are defined based on “evidence that buyers [1] have shifted or [2] have considered shifting purchases between products in response to relative changes in price or other competitive variables.”
- In the absence of evidence on [1], a survey can inform [2]

Survey Background

- Firm: Shaw and Company
- Respondents: 200 retail advertisement managers who had purchased publisher-based advertising within the last year
- Respondents answered as many as 21 questions related to their usage of online advertising, their substitution preferences, and their firm characteristics

Dhar's Critique of Our Survey

Argues that survey respondents must have confused an increase in the price of DoubleClick's input with an increase in the final price of the display ad.

Seems unlikely in light of the fact that 68 percent of survey respondents said that they would consider shifting some portion of their purchases of display ads to contextual ads in response to a ten percent increase in the *final price* of the display ad.

Thus, the 19 percent response rate associated with an increase in the price of the DoubleClick-provided input is not inconsistent with other answers in the survey.

Dhar's Critique of Our Survey

- Pre-screening questions also prevent confusion
 - 1) work for a company that purchases Internet advertising;
 - (2) purchase or have knowledge about these advertising purchases; and
 - (3) that the respondent's company purchased Internet advertising that ran on a publisher's website (such as NYTIMES.COM or ESPN.COM)

FTC's Statement

- “Directly purchased display ads” are distinct from contextual ads
 - Contextual ads are used for “direct response advertising,” while directly purchased display ads are used for “brand advertising.”
- But conclude that the prices of contextual ads are constrained by display ads sold by ad intermediaries

All ads sold by intermediaries (contextual, display) Google	Directly purchased ads (display) DoubleClick
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er Penalties An End

a Senate unanimously repealing the state's al abusive-driving fees and agreed to give anyone who has begun fees



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Metro has \$150 million in capital projects that need to be funded immediately to maintain safe and reliable operation of the rail system, General Manager John B. Catoe Jr. said yesterday. (By Alfredo Duarte Pereira -- El Tiempo Latino)

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“Brand advertising”

Do advertisers perceive these two ads to be substitutes?
Survey says . . . Yes.

“Direct response ad”