See comments... “Charm offensive” misleads in several places.
Left with a sense of “watch what we say, not what we do.”

“Openness” pushed on other businesses (open source, access, internet, handset, spectrum, yaddah, yaddah...
No mention of non-transparent ad auction system, quality score, Google Page Rank, collection/integration /profiling of private user data, ultra-secret Google.org, etc.

Google, Competition and Openness

Anti-ive Non-transparent
Today's Headlines...

"One company [is] now the world's chief gateway to information" (Boston Globe, 6/22/08)


"Google, Apple, Intel: The Next Competition Targets?" (TechDaily, 1/11/08)

"So when do we get over with it and declare Google a monopoly?" (CNET News.com, 7/22/08)

Data Mining and the Death of Privacy
Google has all your search information. It has all the e-mails you've written. Your tweets are next. PC Magazine - 4/30/09

These are a year old... Need to update

"...Google believes it will be able to sell premium ads against premium content... Does the NYT make more money from this?... No, Schmidt confirmed."
...Have a Familiar Ring

Just a few years ago...

**Yahoo!**

"The most successful company ever spawned by the World Wide Web. Yahoo! has won the search-engine wars and is poised for much bigger things." (Fortune, 3/2/98)

**altavista**

"Altavista was the Google of its era. [...] By 1997, Altavista was truly king of search." (The Search, 2005)

**Lycos**

"For a short period in 1999, Lycos became the most popular online destination in the world." (The Search, 2005)

The Lesson:

Search has always been a highly competitive space - and companies can't get too comfortable.

Web .5 examples from a decade ago... Search in its infancy. No longer relevant

Now... Google market share 72% (including YouTube)
Google Ad Server share now at 57%. Microhoo less than 15% market share - "...Google ad serving juggernaut appears secure even if MSFT and Yahoo agree on a deal. Yahoo and MSFT lost significant share... Now make up less than 15% of the total market."

Attributor.com – 12/08

<table>
<thead>
<tr>
<th>Claims made in 2007</th>
<th>Reality (2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Display advertising prices will increase</td>
<td>Display advertising prices have dropped 53% since FTC approved Google-DoubleClick deal (Source: PubMatic Ad Price Index, January 2009)</td>
</tr>
<tr>
<td>Consumer privacy will be harmed</td>
<td>Ads preference manager hailed as &quot;giant leap for privacy,&quot; offering &quot;unprecedented level of choice and control&quot; (Berin Szoka, Progress &amp; Freedom Foundation; Rebecca Lieb, ClickZ)</td>
</tr>
<tr>
<td>Consolidation would reduce innovation and competition</td>
<td>New display formats released; AOL’s Platform-A leads in display ad reach; Yahoo #2, ValueClick #3, Google #4 (Source: comScore Ad Focus, Feb. 2009)</td>
</tr>
</tbody>
</table>

Privacy International – real privacy groups... PFF part of Google Policy Fellowship, not a privacy group.)

Comscore 2/09: Google “largest ad network in the world.” Reaches 75% of international users, 76% of U.S. online audience... Jeff Chester blog – 4/30
1993: MSFT comes under DOJ scrutiny... Revenues at the time... $3.75bn
doesn’t matter

<table>
<thead>
<tr>
<th></th>
<th>Microsoft</th>
<th>AT&amp;T</th>
<th>Verizon</th>
<th>IBM</th>
<th>Google</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>$60 billion</td>
<td>$118 billion</td>
<td>$93 billion</td>
<td>$98 billion</td>
<td>$21 billion</td>
</tr>
<tr>
<td><strong>Gross Profits</strong></td>
<td>$48 billion</td>
<td>$61 billion</td>
<td>$55 billion</td>
<td>$41 billion</td>
<td>$13 billion</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td>$38.3 billion</td>
<td>$98 billion</td>
<td>$77 billion</td>
<td>$85 billion</td>
<td>$16 billion</td>
</tr>
<tr>
<td><strong>Market Cap</strong></td>
<td>$184 billion</td>
<td>$148 billion</td>
<td>$90 billion</td>
<td>$113 billion</td>
<td>$99 billion</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td>91,000</td>
<td>309,050</td>
<td>228,315</td>
<td>386,000</td>
<td>20,123</td>
</tr>
<tr>
<td><strong>PAC Donations</strong></td>
<td>$1.7 million</td>
<td>$4.9 million</td>
<td>$1.7 million</td>
<td>N/A</td>
<td>$287,000</td>
</tr>
<tr>
<td><strong>Lobbying Budget</strong></td>
<td>$6.8 million</td>
<td>$11.7 million</td>
<td>$13 million</td>
<td>$5.3 million</td>
<td>$2 million</td>
</tr>
</tbody>
</table>

Sources: Reuters, 2009 annual earnings reports, OpenSecrets.org

Misleading... Doesn’t factor in free campaign tools for candidates, free YouTube channels for campaigns, **$275 million** in free AdWord donations to policy groups thru Google.org
Openness and Competition Principles

1. Help other businesses be more competitive.
2. Make it easy for users to change.
3. Open is better than closed. ...where we don’t already dominate the market
4. Competition is just one click away.
5. Advertisers pay what a click is worth to them.
6. Advertisers have many choices in a dynamic market.

“...advertisers are also up in arms. They say they have no bargaining power because Google controls so much Internet search ad real estate—more than 70%, according to the U.S. Justice Dept.”

Business Week – Google’s PR Campaign, 4/29/09
“Tradecomet.com alleges Google tried to ‘starve nascent competition’... Once Google determined TradeComet was a competitive threat, Google raised the price... for many keywords 100 fold. Company says it “lost 90% of its monthly traffic from Google and millions of dollars of revenue”

Business Week – Google’s PR Campaign, 4/29/09

Google

1. Help other businesses compete

AdWords: Making small biz ad budgets go further

Google Apps: Free apps reduce biz costs; 1M businesses

YouTube Partner Program: Hundreds making $1000+/month

~ 140 million videos, and only “hundreds” of YouTube’s partners are making money? Not Googly!
It's not easy for users:
1) to change status and not be tracked by Google across the web...
2) to change and opt out of pervasive collection of private info...

**2. Make it Easy for Users to Change**

"Data Liberation Front" – team of engineers building data export functionality into Google products.

<table>
<thead>
<tr>
<th>Product</th>
<th>Export Formats</th>
<th>Product</th>
<th>Export Formats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Google Analytics</td>
<td>PDF, CSV, XML, TSV</td>
<td>Google</td>
<td>CSV</td>
</tr>
<tr>
<td>Blogger</td>
<td>RSS, Atom</td>
<td>iGoogle</td>
<td>GadgetTabML</td>
</tr>
<tr>
<td>Google Calendar</td>
<td>XML, iCal</td>
<td>Google Notebook</td>
<td>HTML</td>
</tr>
<tr>
<td>Google Checkout</td>
<td>CSV</td>
<td>Google Reader</td>
<td>OPML</td>
</tr>
<tr>
<td>Google Docs</td>
<td>HTML, Word, PDF, RTF, OpenOffice, Text, CSV, Excel, Powerpoint</td>
<td>talk</td>
<td>XMPP</td>
</tr>
<tr>
<td>Google Finance</td>
<td>OFX</td>
<td>YouTube</td>
<td>MP4 (Currently limited basis)</td>
</tr>
<tr>
<td>Gmail</td>
<td>POP, IMAP</td>
<td>Web History</td>
<td>RSS</td>
</tr>
</tbody>
</table>
### Open is Better than Closed

<table>
<thead>
<tr>
<th>Open</th>
<th>Closed???</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Enhances competition</td>
<td>- Reduces competition</td>
</tr>
<tr>
<td>- Encourages innovation</td>
<td>- Discourages innovation</td>
</tr>
<tr>
<td>- Interoperable</td>
<td>- Not interoperable</td>
</tr>
<tr>
<td>- Source code available to outside developers</td>
<td>- Source code locked down</td>
</tr>
<tr>
<td>- User data can be moved</td>
<td>- User data trapped</td>
</tr>
</tbody>
</table>

- Advertisers "remain in the dark about what goes on inside Google's ad machine." NYT, 6/08
- "Even on Wall Street, many experts describe Google as a giant black box that they struggle to comprehend." - NYT, 6/08
- "Google closely guards its top-secret formula for ranking web sites, making it impossible for a publisher to know why a site might enjoy front-page ranking one day...and drop to Page 100 the next.” - SJ Mercury News, 8/07
Open source and open standards

- Google has opened up more than one million lines of code and more than 100 software projects.
- Hosting more than 150,000 open source projects developed by non-Googlers.
- Chrome: Open source browser.
- Android: Open source mobile OS (T-Mobile); 800 apps.
“[The U.S. economy will] continually see a problem – potentially with Google”

Christine Varney,
US DOJ Antitrust Chief

DOJ Doesn’t Agree...

Justice Dept. Opens Antitrust Inquiry Into Google Books Deal
NYT - 4/28/09

On G/Y! DOJ complaint: "[Complaint] would have ended up also alleging that Google had a monopoly and that [the advertising pact] would have furthered their monopoly" – Sandy Litvack, DOJ

AmLawDaily 12/08
Diversionary tactic - Changes the subject...

Most advertisers can't switch... Antitrust/monopoly problem is with search advertising and search ad syndication, NOT search engines... - See DOJ Statement

Most consumers willing to switch

<table>
<thead>
<tr>
<th>Engine</th>
<th>Multiple search engines</th>
<th>Only Google</th>
<th>Only Yahoo</th>
<th>Only AOL</th>
<th>Only ISP</th>
<th>Only MSN</th>
<th>Only Ask.com</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base: US online adults</td>
<td>55%</td>
<td>20%</td>
<td>8%</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: North American Technographics* Retail Online Survey, Q3 2008
*Note: Numbers do not total 100% because not all consumers use a search engine weekly.

Would you consider switching search engines?

<table>
<thead>
<tr>
<th>Users</th>
<th>Google Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>38.2% No</td>
<td>37.5% No</td>
</tr>
<tr>
<td>61.8% Yes</td>
<td>62.5% Yes</td>
</tr>
</tbody>
</table>

Source: JP Morgan survey, January 2009
It's not about search, it's about advertising, but if you want to talk search, Google also engages in a kind of bundling where Google also organizes search for sites like Ask & AOL.

Search: Innovations and Investments

**Yahoo! Search**
- SearchMonkey (open developer platform)
- BOSS (Build Your Own Search Service)

**Live Search**
- Planning $100M ad campaign to promote search engine
- Jan. 2009 syndication deals with Dell, Verizon Wireless
- Cash back service to increase traffic
- Acquired Powerset, startup in semantic search

Ad links on its pages outsourced to... Google

**Ask.com**
- 3-D search, other innovations in search results
- TV advertising campaign

---

"[Yahoo and Microsoft] have invested heavily to catch up in search and online ad auctions."

- New York Times
  10/13/07

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**AOL**
How to explain Google’s success in search

**Economies of scale?**
- Increased competition in data centers
- Search improvements based on 1% of queries

**Network effects?**
- Value of a search engine doesn’t depend on # of people using it (like fax machines)

**“Learning by Doing”**
- Economic theory developed by economist Kenneth Arrow in 1962
- The longer a company has been doing something, the better it gets at doing it
- Google has been doing search for 10 years, constant experimentation and improvement

USA Today: “What’s your take on why Google keeps growing, while your competitors have such a hard time catching up?”

Eric Schmidt: “…We get more users, and that gets us more advertisers. More advertisers give us more cash, more cash gets us more data centers, more data centers means we can get engineers who want to build even bigger data centers…”

USA Today - 5/07
Many competitors in search and navigation

"Many industry experts say Google's present service may ultimately be seen as a primitive precursor to more-advanced services that better handle video or render results in three dimensions. Microsoft, Yahoo, and Google are all investing in such areas."

- Wall Street Journal (1/18/09)
Technology models evolve quickly...We buy them even quicker!!!

- YouTube
- DoubleClick
- Grand Central
- Picassa
- Keyhole
- Blogger
- Feedburner
- Baidu
- dMarc
- Orion
- JotSpot
- AdScape
- Jaiku
- Postini
- Etc. Etc...
5. Advertisers pay what a click is worth to them

Anatomy of a Google search result page

"Natural" Search Results
(ranked by algorithm)

Ads
(sold via keyword auction)

Ad Rank = Cost-per-click bid × Quality Score
“Google sets reserve prices and other parameters that substantially determine prices. Contrary to Google's claims, Google's actions and policies do not fully determine prices; Google's auction does not solely influence prices.”

“...Other Google practices, particularly Google's restrictions on export and copying of advertisers' campaigns, further hinder competition in Internet advertising—without any countervailing benefit whatever...”

Quality Scores and “First Page” Bids

Quality Scores

Keyword Analysis: pr jobs washington dc

Ad showing? Yes
For details on specific criteria for this test, click the following link.
Details and recommendations

Quality Score: ✓ OK (7/10)

- Reflects predicted click through rate
- Ensure that users see most relevant ads -- not just the highest bidder
- Google, Yahoo! and Microsoft all use quality scores
- Algorithmic score reflects consumers’ preferences
- Allows smaller companies to compete

Click through rate
- Historical CTR of ad and keyword
- CTR for entire account

Relevance
- Relevance of keyword to ads
- Relevance of ad and keyword to search query
- Ad’s performance in geographic region

Landing page quality
- Relevant and original content
- Transparent about nature of business
- Easy navigation

Non-transparency = “Black Box”
Capitalizes on dominance to organize industry ad biz around model at which only Google succeeds... No other advertiser has scale of private user information necessary to make “pay per click” model fully succeed. None others profitable but Yahoo – hence G’s attempt at Y! acquisition.

Cost per acquisition, not cost per click

- Cost per click less important to advertisers than the cost of acquiring a new customer
- Example: EvesAddiction.com (Raymond Galeotti)

<table>
<thead>
<tr>
<th></th>
<th>Last Year</th>
<th>This Year (Using Google ad targeting and analytics tools)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bid</strong></td>
<td>$.50/click</td>
<td>$0.80/click</td>
</tr>
<tr>
<td><strong>Sales conversion</strong></td>
<td>2 new customers per every 100 clicks</td>
<td>4 new customers per every 100 clicks</td>
</tr>
<tr>
<td></td>
<td>$0.50 x 100</td>
<td>$0.80 x 100</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td><strong>Cost of acquiring new customer</strong></td>
<td>$25</td>
<td>$20</td>
</tr>
</tbody>
</table>

Source: New York Times Bits Blog, 12/24/09
"Google has a huge new moat," [Berkshire Hathaway Chairman Charlie] Munger said. "In fact I've probably never seen such a wide moat. The moat refers to how difficult it is for rivals to compete in the same business..."

Google's main business of charging companies when people click on their ads after running an Internet search is "incredible," he added... "I don't know how to take it away from them. Their moat is filled with sharks."
Two Points:
1) While ad revenue is plummeting in virtually all categories, Google’s revenue share continues to rise dramatically – even in a tough economy.
2) Among the big 4 (G, MSFT, AOL, Y!) Google takes home 65% of online revenue

Google share of all ads and online ads

Google Has <3% of Total Ad Revenue

Google Has ~30% of Online Ad Revenue

Source: Cowen & Co. report, 1/09
Smart ad campaigns have many components

The "Marketing Funnel"

Eyeballs ➞ Awareness ➞ Consideration ➞ Preference ➞ Action ➞ Loyalty ➞ Buyers

"Brand" Advertising
- TV
- Magazines
- Newspapers
- Radio
- Outdoor
- Online banner (display) ads

"Direct Response" Advertising
- Telemarketing
- Direct Mail
- Online search

"Are [text and display ads] in the same market? If the price of one goes up, will publishers switch to the other? We think the answer's yes."

- Brad Smith, General Counsel, Microsoft
  (DoubleClick Senate Testimony, 9/27/07)

- Most ads influence consumers as early as 60 days prior to a sale (Source: Microsoft Engagement Mapping, March 2009 study)

- Search clickers exposed to display advertising 22% more likely to produce a sale (Source: Microsoft Engagement Mapping, Sept. 2008 study)
Online advertising is dynamic

Major Media Firms Acquiring and Launching Ad Networks

<table>
<thead>
<tr>
<th>Acquisitions</th>
<th>Launches</th>
</tr>
</thead>
<tbody>
<tr>
<td>AOL</td>
<td>Project Canoe</td>
</tr>
<tr>
<td>TACODA</td>
<td>Food and lifestyle Ad Network</td>
</tr>
<tr>
<td>quigo</td>
<td>Project Canoe</td>
</tr>
<tr>
<td>bluelithium</td>
<td>Food and lifestyle Ad Network</td>
</tr>
<tr>
<td>Google</td>
<td>Forbes</td>
</tr>
<tr>
<td>double click</td>
<td>Condé Nast</td>
</tr>
<tr>
<td>FeedBurner</td>
<td>Wired Style.com</td>
</tr>
<tr>
<td>WPP</td>
<td>Condé Nast</td>
</tr>
<tr>
<td>Lagardère</td>
<td>The Washington Post</td>
</tr>
<tr>
<td>jumpstart</td>
<td>Wired Style.com</td>
</tr>
<tr>
<td>Ole Health</td>
<td>The Washington Post</td>
</tr>
</tbody>
</table>

Source: IAB / GCA Savvian, June 2008

a monopoly
Charm offensive doesn’t match actions...

- **Competition**: All for it when DOJ believes you’re anti-competitive and seeking to extend monopoly, but different tune when marketing advertising dominance of AdWords, Page Rank, etc.

- **Openness**: Pushes “open” on competitors, but not itself... Among the most non-transparent on ad auction system, quality score, Page Rank, use of private user data, Google.org, etc.)

**Conclusion**

- Google welcomes competition because it stimulates innovation, makes us all work harder, and provides users with more choice

- **Privacy**: Silence is deafening... No discussion here at all of privacy record, despite practices being high on FTC/Congress agenda and privacy groups (e.g. Privacy Intl.) ranking privacy practices the worst in the world.

"I think Google's competition will come from the same place Google did. It will sneak out of nowhere... It will come from someone small enough, visionary enough, obsessive enough and ballsy enough to still do great things, without those great things being picked to death at the boardroom table."

- Gord Hotchkiss, Search Engine Analyst

(Enquiry Blog, 5/15/08)