October 20, 2008

Stuart Lee (Sangwon)
Competition Law Officer / Agent du droit de la concurrence
Mergers Branch / Direction generale des fusions
Competition Bureau / Bureau de la concurrence
Government of Canada / Gouvernement du Canada
50, rue Victoria Gatineau (Quebec) K1A 0C9

Dear Mr. Lee:

Re: Google/Yahoo!

Thank you once again for your time and interest a few weeks ago, and that of your colleagues as well, when we met with you in Ottawa. I wanted to follow up in writing to outline our concerns with the proposed search advertising alliance between Google and Yahoo!.

The Association of Canadian Advertisers (ACA), Canada's only national association exclusively representing client marketers, represents over 200 companies and divisions that collectively account for estimated sales of $350 billion annually and approximately 80% of all advertising expenditures in Canada.

As we explained to you, we are opposed to this ad deal and, as such urge the Bureau to disallow this "arrangement" for three key reasons. One, we believe that the deal will create an unacceptable level of market dominance for Google. Two, we believe that the arrangement will restrict competition and lead to price increases for advertisers. And three, we are troubled by the lack of transparency.

1. Market Dominance

Search advertising in this country accounts for approximately 38% of all internet advertising revenues. Total internet advertising in Canada for 2008 is estimated to be $1.5 billion. It is estimated that Google enjoys at least a 70% share of the online search market, and Yahoo! approximately 20%. The deal, if approved, would bestow a virtual monopoly (+90% share) to the “arrangement”. Further, search advertising is unique. Advertisers’ ability to switch or substitute search advertising for other media is virtually impossible.

2. Restriction of Competition Leading to Price Increases

Online search advertising is sold on a cost-per-click (CPC) pricing model. In Canada, Google’s CPC’s are consistently higher than Yahoo!’s. For all intents and purposes, the deal sets Google’s price as a default minimum and creates an economic incentive for Yahoo! to choose Google ads over their own, thereby limiting competition, and raising costs for advertisers.

Obviously this “arrangement” will necessarily lead to increased cooperation between Google and Yahoo!, and will decrease the incentives for the two companies to compete with one another. These anti-competitive effects, we believe, will mean gradually increased, leading to almost total, market power for Google, which will inevitably lead to increased prices for advertisers. It is our belief that an increase of market share for Google from its current 70% in the short term, to as high as a 90% share in the long term will occur.

Please note that we do not accept the Google and Yahoo! argument that since prices are set by stock-market-like bidding, pricing is in effect set by advertisers themselves; that there is effect no artificial raising of costs to advertisers. The fact is that Google’s system does not resemble anything like a traditional *open* stock market. Unlike in real stock markets, Google sets price minimums or floors, and prices only ever travel in one direction - up - never down.

3. Lack of Transparency

More importantly, Google’s criteria for choosing winning “bids” includes adjustment factors called “quality scores” (referred to in the buying community as “inequality scores”) which are literally a mystery. Often referred to as Google’s “black box”, buyers do not know what factors constitute these scores and receive no verification of such, but nonetheless can lose “bids” or positioning because of them. In fact, these adjustment factors create an unfair, tightly *controlled,* and rather secret, bidding system that often results in the highest bidder NOT getting the ad space.

This blatant lack of transparency in the sales system is very concerning and represents an easy and open invitation to price manipulation. Independent third-party advertising audits are commonplace for other mainstream media (newspapers, magazines, television, radio and out-of-home), and regularly provide advertisers with an open and fair verification of goods purchased. Google's black-box 'inequality' scores and its policies of secrecy prevent this from taking place with their search advertising products.

Advertisers are key stakeholders in a competitive online advertising marketplace. It is advertising that subsidizes and in many cases outright finances the incredible content that is available in Canada on the web. Notwithstanding that the "arrangement" in question is a "non-exclusive advertising services agreement," both parties stand to benefit greatly from this deal. Yahoo! in particular estimates that it will mean an $800 million increase in annual revenues for them (estimate for North America) - directly on the backs of advertisers. The ACA believes that this agreement will restrict competition and concentrate market power such that choices for advertisers will be reduced and prices for search ads will be increased. We again would therefore urge the Competition Bureau to take the necessary steps to disallow this agreement.

In the meantime, if you require more input into your deliberations, please do not hesitate to call us.

Yours sincerely,

B Reaume.

Bob Reaume
Vice President, Policy & Research
Association of Canadian Advertisers