Search engines: just another business?

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Topics

- Some facts and data about search engines
  - User perspective
  - Quantative data on search
  - Marketshares
- The business model
- Relevant markets
- Conflicting interest
- Regulatory intervention and remedies

Facts (1)

- 84%-98% uses search engines to find information on the internet
- 81% thinks search engines are the best way to find information
- 68% considers search engines a reliable source (19% doesn't trust search engines)

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Facts (2)

- 40%-60% uses internet as a source to solve problems/to find answers (top 3 position)
- For finding health info 66% uses a search engine (27% goes directly to a site)
- 15% verifies search results on health issues

Facts (3)

'Internet searchers are confident, satisfied and trusting – but they are also unaware and naïve'

(PEW Internet, 2005)

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Top US Search Properties

Property	Searches (MM)
Total Expanded search	15.088
Google Sites	8.267
Yahoo! Sites	2.391
Microsoft	1.054
AOL LLC	891
Ask	506
Ebay	474
Fox	377
Craiglists.org	277
Amazon	149
Facebook	107

Source: comScore qSearch, March 2008

Top European Search Properties

Property	Searches (MM)
Total Internet	24.550
Google Sites	19.434
eBay	752
Yandex	528
Yahoo! Sites	486
Microsoft Sites	469
NASZA-KLASA.PL	320
QXL Ricardo	298
AOL LLC	224
Ask Network	201
Rambler Media	125

Source: comScore qSearch, March 2008

European Search Overview

Country	Unique Searchers (000)	Searches (MM)	Searches Per Searcher
Europe	*221,181*	*24,550*	*111*
United Kingdom	32,392	4,030	124
Germany	36,011	3,935	109
France	26,280	2,955	112
Italy	17,562	1,867	106
Spain	14,535	1,472	101
Russia	14,621	1,141	78
Netherlands	11,713	1,097	94
Sweden	5,023	606	121
Belgium	4,575	510	111
Portugal	3,401	437	128
Switzerland	3,630	401	111

Source: comScore qSearch, March 2008

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Time spending (Netherlands)

Website	**Hours per month**
Google	38.5 mln
Hyves	19.6 mln
Nu.nl	10.9 mln
Relatieplanet	8.5 mln
Startpagina	6.8 mln
AD	5.6 mln
MSN	5.5 mln
Zigiz	4.1 mln
Marktplaats	4.1 mln
Youtube (NL)	3.3 mln
Total	136.6 mln

Source: Multiscope, March 2008

8.54 p/m, 17 min, tv 186 min

Market shares US

Percentage of US searches among leading search engine providers				
	Mar.-08	**Feb.-08**	**Mar.-07**	**Mar.-06**
Google	67.25%	66.44%	64.13%	58.33%
Yahoo	20.29%	20.59%	21.26%	22.30%
Microsoft	6.65%	6.95%	9.01%	13.09%

Source: Hitwise

Market shares Europe

Countries			
	Germany	France	UK
Google	88,5	88,79%	79,38%
Yahoo	3,4%	3,14%	7,72%
Microsoft	1,4%	2,48%	5,28%

Sources: www.webhits.de, www.xitimonitor.com, www.hitwise.com

Market shares the Netherlands

Search Engine	**2/02**	**1/03**	**2/04**	**1/05**	**1/06**	**2/07**	**2/08**
Google	32	52	68	84	91	94	93
Ilse	19	14	19	9	5	2	1
Microsoft	4	5	4	2	2	1	0
Yahoo	3	1	1	1	0	0	0
Lycos	2	2	1	0	0	0	0
Vinden.nl	0	0	0	0	0	0	2
Others	40	36	7	4	2	3	4

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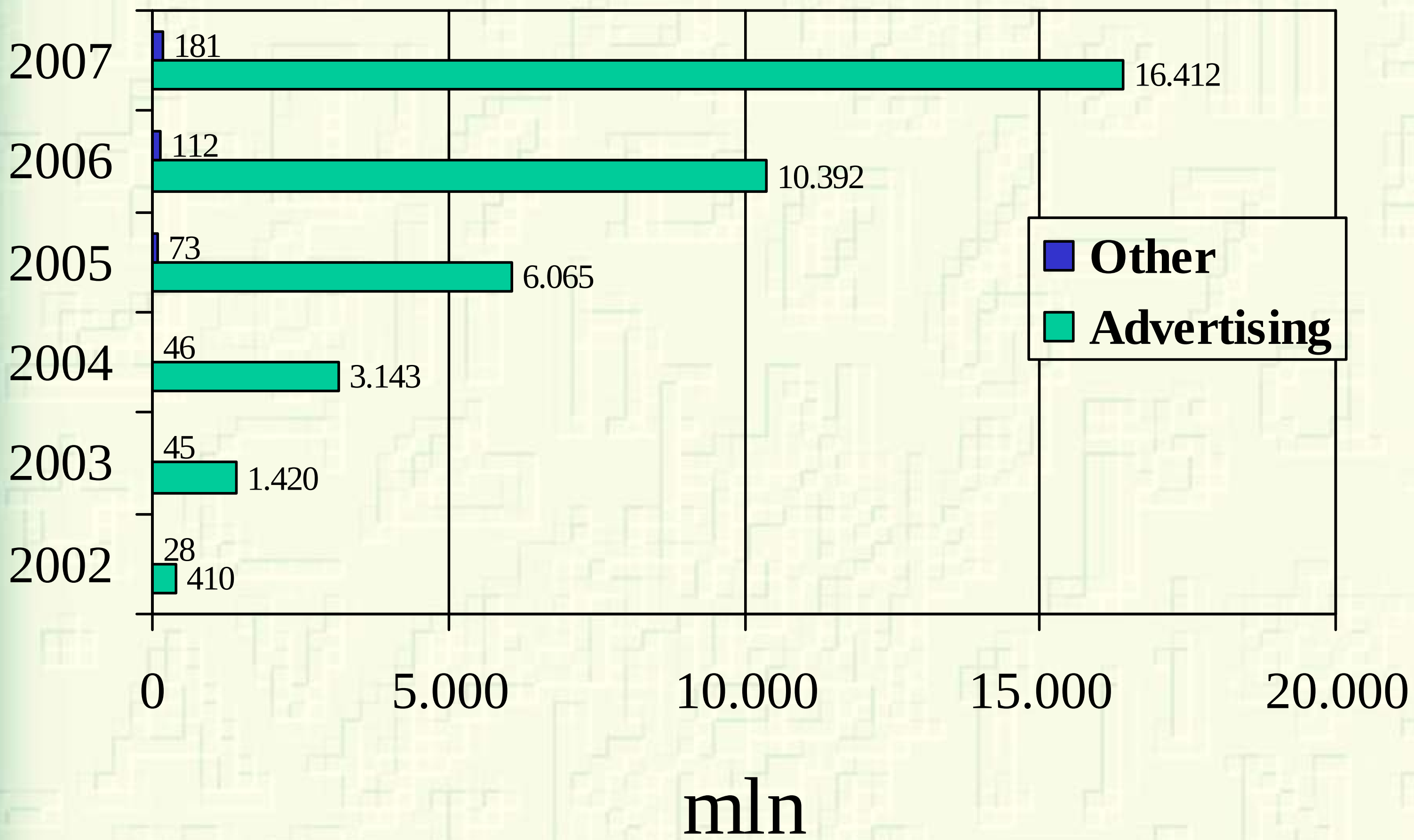
Business model

- What's the underlying business model for search engines?
- At present only one income driver: advertising (adword, adsense, banners, etc)
- Subscription or other user related income: zero

Revenues Google

Revenue	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**Q1 2008**
Revenues	*439,508*	*1,465,934*	*3,189,223*	*6,138,560*	*10,604,917*	*16,593,986*	*5,186,043*
Google web sites	306,978	792,063	1,589,032	3,377,061	6,332,797	10,624,705	3,400,405
Google network web sites	103,937	628,6	1,554,256	2,687,942	4,159,831	5,787,938	1,686,141
Total advertising revenues	*410,915*	*1,420,663*	*3,143,288*	*6,065,003*	*10,492,628*	*16,412,643*	*5,086,546*
Licensing & other revenues	*28,593*	*45,271*	*45,935*	*73,558*	*112,289*	*181,343*	*99,497*
As % of revenues							
Google web sites	70%	54%	50%	55%	60%	64%	66%
Google network web sites	24%	43%	49%	44%	39%	35%	33%
Licensing & other revenue	6%	3%	1%	1%	1%	1%	

Revenues Google



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Online advertising: growing market

Online advertising	2006	2007	Increase
US	$ 16.9 bln	$ 21,1 bln	25%
Europe	€ 8 bln	€ 11,5 bln	43%

- Approx 8-9% of the total advertising market; expected to grow quickly (2012, 15.4%)
- ‘Search’ represents 40% of online advertising market (2007, % expected to remain stable)

Future playground

- Expansion in the online advertising market (i.e. take over of DoubleClick by Google)
- Extending Internet advertising model into other markets (i.e. radio, television) using profiling data and add location/revenue system
- Vertical integration (acquisition or creation of content; applications (also in order to generate more personal data)
  - Google Earth, You Tube, Google books, Google scholar, Picasi, Gmail, Google-apps

What are the relevant markets

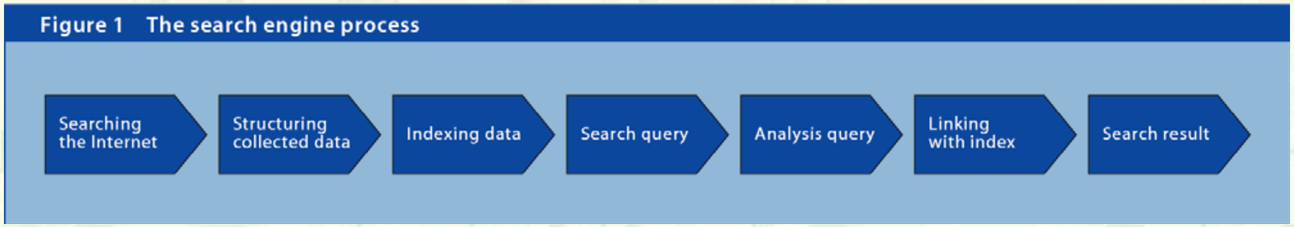
- Advertising market and/or search market
- The search market is not an ‘independent’ market but aimed at creating ‘eyeballs’
- Similarities with market structure:
  - Internet in general
  - Broadcasting sector
- However, search market is a relevant market for the information providers and users

Conflicting interest

- Search Engine: optimization of advertising revenues
- Information providers: optimization of search results
- Users: best results based on intended query

Double bottleneck

- Search engines have a double bottleneck dilemma.
  - They control the access of the information provider to the user
  - They control the access of the user to the information provider



Manipulation

- Manipulation by:
  - search engines
  - information providers
- Forms of manipulation:
  - Search results against payment
  - ‘Search Engine Optimization’ (SEO)
  - Manipulation methods: spamdexing, cloacking, linkfarming, doorway pages, pagejacking, etc.

General interest

- Search engines play a dominant role by making information accessible
- At least two fundamental rights are at stake:
  - Freedom of expression
  - Privacy
- Introna & Nissenbaum: public good

Regulatory intervention

- Does the business model require intervention?
  - Structure of the existing market
  - Advertising market vs. search market
- Do general interest goals require intervention?
  - Importance of search engines for the information society
  - Freedom of expression
  - Privacy

Remedies (1)

- Can we rely on generic regulation ?
  - Competition law
  - Constitutional guarantees
- Generic regulation has limitations
  - Primarily ex post
  - Difficult to apply market criteria on non-market issues (freedom of expression, privacy)

Remedies (2)

- Sector specific regulation ?
- Present sector specific regulation doesn’t cover search engines (AVMS-directive, framework for the communications sector)
- However, certain concepts might be useful, i.e.
  - Significant market power
  - Access regulation
  - Minimum QOS-criteria
  - Consumer empowerment regulation
  - Privacy concept of communications framework

Conclusions

- Business model is dominated by online advertising market; New/other business still in it's infancy
- Conflicting interests
- Regulatory intervention seems inevitable
- Existing concepts in communications regulation might be extended/adapted for implementation in the search engine market

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