


The Daily: What to make of the Google antitrust ruling, part 2—What this means for Google and which competitor benefits the most

Audio





In part two of this two-part podcast episode on the Google antitrust ruling, we discuss what this decision will actually mean for Google and which competitor is likely to benefit the most from whatever penalties get handed out. Tune in to the discussion with host Marcus Johnson, analyst Max Willens and vice president of content Paul Verna.

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Episode Transcript:

Marcus Johnson (00:00):

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Paul Verna (00:27):

You might try Google. You might try Lycos or Yahoo or AltaVista or any of the search engines that were vying for market dominance. And Google was the one, obviously, that made it, but there was a time when you had choices and the results were actually quite different.

Marcus Johnson (00:50):

Hey, gang. It's Tuesday, August 13th. Paul, Max, and listeners, welcome to the Behind the Numbers Daily, an eMarketer podcast. I'm Marcus. Today, I'm joined by the two gentlemen who hung out with me yesterday. We have with us our senior analyst who covers everything digital advertising and media. Based in Philadelphia, it's Max Willens.

Max Willens (01:07):

Yo, yo, yo.

Marcus Johnson (01:08):

Hey, fella. Three?

Max Willens (01:09):

The show's going to have to get longer. I'm sorry.

Marcus Johnson (01:11):

Don't do it, Paul. We're also joined... If you listen to yesterday's episode, you know why that's funny. If you didn't, then just go with it. We're also joined by Paul Verna. He is our vice president of content. Covers everything digital advertising, media, and technology. He is based just north of New York City. How you doing?

Paul Verna (01:29):

Word.

Marcus Johnson (01:30):

Oh, okay. Curveball. Didn't see that coming.

Paul Verna (01:31):

Me neither.

Marcus Johnson (01:35):

It's a weird beginning. Okay, today's fact. Most maps of the world, you'll be pleased to know, are wrong or at least misrepresentative. That's because the world is round and paper is flat. So when you project an image of the world onto paper, it's called the Mercator projection. It's developed in 1569 by Gerardus Mercator. The proportions of countries get affected. As BBC Science notes, this method still used today is wildly inaccurate and makes Alaska appear as large as Brazil, even though it's one-fifth the size, and it makes Greenland appear 14, one four, times larger than it actually is. Which way is even up anymore?

Paul Verna (02:19):

I think Mercator did it on purpose because he really wanted to give those places an opportunity to shine. Otherwise, they're so sparsely populated and-

Marcus Johnson (02:29):

I know. No one checked his work, did they?

Paul Verna (02:31):

No, they're-

Marcus Johnson (02:31):

Who's been like, "Is this really a map of the world?"

Max Willens (02:34):

He'd made some real estate investments that were looking pretty dumb.

Paul Verna (02:37):

Yep. Yeah. Yeah, I mean, he maybe wanted to buy Greenland, but...

Marcus Johnson (02:45):

Let's see.

Paul Verna (02:46):

Yeah, no, I think at the time everybody was probably like, "You know what? The world is flat anyway, so this guy doesn't know what he's talking about. So let's just let him."

Marcus Johnson (02:55):

They mess about with his paper maps. Anyway, today's real topic, what to make of the Google antitrust ruling, part two. Welcome to part two. So we're talking about the Google antitrust ruling. What's going on? Federal Judge Amit Mehta found Google's search business constitutes an illegal monopoly, saying that they are stifling competition by paying device makers, like Apple, billions of dollars to be the phone's default search engine and also, in turn, over-inflating ad prices. Google is appealing the ruling as they are adamant that folks use Google simply because it's the best.

(03:36):

Yesterday, we talked a bit about initial reactions to the ruling and also what some of the penalties might be, what we think might happen there. The penalty is being handed out in September. And for this episode, we're going to talk about what this actually means for Google and which of its competitors might benefit the most from this landmark ruling.

(03:55):

So Max, I'll start with you. What does this actually mean for Google?

Max Willens (03:59):

A lot of legal fees. No, there's more to it than that.

Marcus Johnson (04:03):

It's true.

Max Willens (04:04):

I think what's interesting about what this actually means, to your setup, the actual sentencing is about two months away. It's going to happen in September, and there will be subsequent fighting to the death on Google's part to try to get as close to a favorable result as it can. But

I think that there's a pretty reasonable likelihood that this actually winds up being a win for them.

(04:25):

And the reason that I say that is we discussed this a little bit on part one, but basically the EU has forced Google to do something like what a lot of people expect Amit Mehta will make Google do, which is to essentially rip up the revenue sharing agreements, bar Google from entering into agreements with device makers and browsers to make their search engine the default, and force consumers to choose what search engines they want. And in the EU, what that has effectively led to is a negotiable difference in the change in market share, and Google has had to pay a lot less in traffic acquisition costs. And I think it's reasonable to anticipate that if something like this is enacted in the United States, what we're just going to wind up with is Google saving about \$50 billion a year in tack and actually making more money because they have just as many people using its search engine just as much as they were. They've just had to click a couple of extra buttons to put that setting in place.

Marcus Johnson (05:26):

Yeah. Paul, there was a title of an article by Ian Bogost at The Atlantic that read Google Already Won, and that summed it up for me. He goes on to write a landmark antitrust ruling will not change how people find information on the internet and continues to say these cases arguably needed to happen a decade or more earlier when the tech companies had accrued less power and the activities they facilitated were still developing. Blocking the Google acquisition of the ad tech company DoubleClick in 2007 might have prevented some of the company's subsequent monopoly abuse because DoubleClick put the digital ad industry under Google's control. Does it feel like that for you, that Google's already won and this is not really going to change things because it's already established itself as synonymous with search in people's lives?

Paul Verna (06:10):

Yeah, I agree with that. I mean, first off, the Justice Department, these lawsuits take a very long time to unfold and they're usually fighting the past war, not the present one. So in this case, I agree if this process had started 10, 15 years ago, maybe Google could've been prevented from getting to the monopolistic position it's in. But I think-

Marcus Johnson (06:33):

I mean, quickly-

Paul Verna (06:36):

Yeah.

Marcus Johnson (06:36):

Quickly on that point, Paul, even from the start of the case, it's been four years. This case got brought against Google in October of 2020. I went and looked. They're still benefiting from the status quo. Since the DOJ brought the antitrust case against Google in October 2020, Google has made \$844 billion in revenue and \$270 billion in profit just since the case. So I think that's a great take, the fighting the war of the past, not the present one, because it does seem like it almost was worthwhile, Google doing this, because it's benefited and will continue to benefit from these practices from now and into the future.

Paul Verna (07:13):

And to your other question, I don't see a future world in which Google is not a dominant tech player, and I would say the same about all the other companies that are facing similar lawsuits or similar scrutiny. And you just have to look back at the history of some of these big antitrust cases, maybe the most relevant one being Microsoft because obviously, Microsoft is still here as a tech giant. Another aspect of the Microsoft case, which was actually filed in 2001, and most of the activity that it litigated took place in the mid '90s. So again, the delay. But the way that one unfolded was the initial ruling was against Microsoft. They appealed, and part of the judgment was reversed and the two parties eventually reached a settlement.

Marcus Johnson (07:13):

Mm-hmm.

Paul Verna (08:05):

So these things aren't binary. It's not you win, you lose. It could come down to an appeal that changes some of the parameters, and then there could be a settlement. So a lot of things can happen, but they're going to happen over a long period of time.

(08:21):

And I think at the end of the day, Google does have... They own that search business in the sense of brand equity. I mean, when we say we're going to Google something, that's because of the brand that Google has established in search. It's synonymous with search.

Marcus Johnson (08:40):

Mm-hmm.

Paul Verna (08:40):

So I think that that is going to be very hard to break. And so again, if these contracts are voided, or if Google is not able to enter into similar contracts for being the default search engine, it's still not going to clip its wings when it comes to being essentially synonymous with search.

Marcus Johnson (09:00):

That is a huge part of the reason I think it's difficult to speculate who benefits the most from this. Because as I mentioned in yesterday's episode, the judge in this case was saying Google is a monopolist. They've acted as one. And they're pointing out that Google enjoys nearly 90% share of the US search market and even higher on mobile phones. A similar web dataset counter also has them about 85%. This is in the US. But if we use similar [inaudible 00:09:27] numbers, 90% share of the US search market for Google, Bing and Yahoo have 3% each. And so Max, this seems like almost like a silly question, but which competitor do you think benefits from this, if any?

Max Willens (09:39):

So I have two answers based on how liberal a definition of competitor you allow me to use.

Marcus Johnson (09:45):

Go crazy.

Max Willens (09:46):

If we're going to allow basically anybody that is a Tech Giant into the conversation, then I think that the answer is Apple because basically, assuming this plays out in a way that we seem all to feel confident that it will, which is that the default arrangements are a thing of the past, then basically all Apple gets to do is save itself about \$20 billion a year in fees with a minimal

hit to their user experience. And you could even go one step further and say that this is also potentially a crack open of the window for them to potentially launch a search engine, which is something that people have been expecting them to do for a very, very long time. One of the things buried in Judge Mehta's voluminous ruling was a finding that Apple has already built an index of billions of websites that it's been sitting on. There's speculation that that's used to power Siri to an extent, but it's the foundation of assets that you would need to launch a search engine of your own.

(10:44):

So I would say that Apple, if you're allowing that kind of liberal definition of competitor, is the answer. If we're going to confine it to search, then my answer is the field of gen AI hopefuls. So that includes SearchGPT, which is in a closed beta, Perplexity, Ark, all of these search engines that are effectively offering a completely different value proposition in terms of how search functions for you. None of them really has a commanding position at the moment, but I think that if you're looking for something that might potentially get a big benefit out of this, it's folks that are looking to try something radically different. So I'm going to say the field of gen AI search hopefuls.

Marcus Johnson (11:24):

Apple was the one that jumped out to me in part because it's going to lose a lot of money from these payments from Google, and so they might need to launch their own search engine just to make up the lost revenue. And Google pays it about 18% of its operating profit, so it's a lot of money.

(11:42):

And the Economist seems to agree. They were saying if that cozy payments to be the default arrangement were banned, Apple would have a much bigger incentive to pursue the iPhone search business for itself, going on to point out that in recent years, Apple has been started building an ad business around its app store. Media analysts expect to see ads soon on its streaming service, Apple TV+. Search will be a tempting addition. Also, Siri getting an AI makeover, they point out, designed to help users with the kinds of tasks for which they might previously have sourced the web. So Apple's definitely one potential. Paul, is that who you start with?

Paul Verna (12:16):

Yeah, I mean I think it's reasonable to look at Apple, but I think Max is onto something by taking the conversation away from what I would call traditional search or legacy search, and gen AI is the next frontier. So this could actually open opportunities for an entirely new search player to become dominant or to at least get enough market position to change the dynamic. I would argue also that social search is more and more of a thing. So that obviously... Meta is the first company that comes to mind, but let's not forget TikTok, which of course, there's a whole set of... I mean, we've devoted entire episodes to TikTok. So the conversation there goes way beyond search, but-

Marcus Johnson (12:16):

It'll still be around.

Paul Verna (13:04):

... search is more and more of a thing there.

Marcus Johnson (13:06):

Mm-hmm.

Paul Verna (13:07):

So I think we could be looking at a market that evolves in ways that none of us can envision. To the earlier point about fighting the last war, I think we're very focused on what Google has established for itself and what the market looks like today, but I think the indications that we're getting from these new technology paradigms are that search may be a very different looking thing in five years and 10 years.

Marcus Johnson (13:33):

Yeah. It seems almost unfair to Microsoft that Bing hasn't got a look in. I mean, we talked about them last episode, Max, with you trying them out for a while and-

Paul Verna (13:43):

Max didn't like it. That's where the conversation ends.

Marcus Johnson (13:46):

Yeah, that's the summary. There are the CliffsNotes. But they currently have 3% share of the US search market. Same as Yahoo. Google's got the rest. And Microsoft CFO, Amy Hood, said last year her company would get about \$2 billion in ad revenue for every percentage point Bing gains in market share. So a huge, huge incentive for them to try and swoop in and steal some of those search users away from Google.

(14:12):

I'm with you though, Max. I'm trying to find a compelling argument as to why Bing can capitalize on this moment, but I just don't think it's going to benefit more than OpenAI. People have been using it for 15 years since it came out 2009. They have an idea of what it's capable of. Even though it's infused now with AI, things like SearchGPT, they're new. They're shiny. People associate them much more with the future with AI, and so I could see even folks like SearchGPT, Perplexity, whoever, leapfrogging Bing.

Paul Verna (14:42):

Yeah. I mean, this reminds me a little bit of what the search market looked like when it started back in the '90, where you had a bunch of companies and they were basically all equal players at that time. And for those of us who were around when Pterodactyls with a silent P circled overhead, it was actually fun. When you were going to go do a search, you might try Google, you might try Lycos or Yahoo or AltaVista or any of the search engines that were vying for market dominance. And Google was the one, obviously, that made it, but there was a time when you had choices and the results were actually quite different. And that's why knowing what the benefits and the properties of each one was actually useful.

(15:35):

So I think we're entering into a similar place with certainly the gen AI-based players that Max mentioned. So I think that's where we're going with this. We're just looking at a future that's just going to be very different from where we've been.

Marcus Johnson (15:52):

Yeah. Well, we'll see who benefits from this the most. I mean, we have to wait for the penalties hearing in September when Judge Amit Mehta will decide what is going to happen to Google as a result of him ruling that they are an illegal monopoly. And then Paul, as you mentioned in yesterday's episode, there's another DOJ case focused on Google's ad tech, which will go to

trial same month in September of this year as well. So a lot to pay attention to. We'll definitely be covering more of this in the next coming weeks and months.

(16:22):

Thank you so much to my guests, though, for being on today's episode and hanging out with me yesterday. Thank you to Max.

Max Willens (16:27):

Always a pleasure, Marcus. Thank you.

Marcus Johnson (16:28):

Yes, sir. Thank you to Paul.

Paul Verna (16:30):

Peace out.

Marcus Johnson (16:32):

Paul wins. Winner. Well played. Thank you to Victoria, who edits the show. Stuart runs the team. Sophie does our social media. And thanks to everyone for listening in to the Behind the Numbers Daily, an eMarketer podcast. You can hang out with Sarah Libo tomorrow on the Reimagining Retail show, where she'll be speaking with David Morris and Sky Canaves all about what is next for Amazon's Just Walk Out technology.