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Submission by

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**Debunking Edge Competition Myth Predicate in FCC Title II Broadband Order – FCC Comments**

**SUMMARY:**

In 2015, the FCC’s Title II Open Internet broadband order was predicated on a demonstrably false central competitive premise: that the Internet’s edge was competitive while the broadband Internet core was not competitive. The facts prove the opposite.

The 2015 FCC’s competition premise is myth.

While there is plenty of information in the record, and in the July 17 comments, that broadband is competitive, until now there has been little data and research on the overall competitiveness of the Internet edge providers, save for NetCompetition’s [July 17th comments](http://precursorblog.com/?q=content/debunking-edge-competition-premises-fcc-2015-title-ii-broadband-order-%E2%80%93-fcc-comments) that showed how concentrated the Internet edge is using the Internet Association as a proxy.

To further rebut comments that were predicated on the demonstrably false central premise that the Internet’s edge is competitive, NetCompetition submits additional Internet competition research below.

In a nutshell, the substantial evidence catalogued below provides proof of the Internet edge’s strong tendencies towards cartelization, extreme concentration, winner-take-all, and mythical competition.

The public data shows that the tacit Internet cartel of Google, Amazon and Facebook is 7-8 times more concentrated than the top three offline companies, and that the top ten Internet economy companies are >10 times more concentrated than the top ten offline economy companies.

Public data that Google, Amazon, and Facebook have acquired ~350 potential competitors and the Internet Association overall has acquired ~900 potential competitors, indicates that the apparent cartelization of Internet companies’ investment, acquisition, and innovation processes ensure no innovative “garage startup” has a plausible competitive opportunity to seriously threaten the Internet cartel’s dominance.

Public data also ironically shows that almost all the Internet Association’s members are anti-competitively threatened by one or more of the Google, Amazon, or Facebook, winner-take-all online onslaughts.

The most recent data from second quarter 2017 earnings show that Google and Facebook have a digital advertising cartel that commands 96% of all digital advertising growth. The analysis shows that it isn’t broadband providers that content providers must fear will engage in anti-competitive or discriminatory behavior, it is the Google-Facebook ad cartel.

The second piece of research shows how the Google-Facebook ad cartel is crushing competitors and how Google and Facebook continue to collude and not compete directly with the other in their core businesses.

The third piece of enclosed research documents how the Google Facebook ad cartel harms advertisers, publishers and consumers.

Overall, these findings and evidence belie the 2015 FCC assumption that the “edge” was competitive and thriving, when in fact it is the home to the worst monopolization and cartelization behavior in the Internet ecosystem.

In short, the 2015 FCC’s Internet competition predicate -- that undergirded its rationale to impose Title II utility regulation on broadband ISPs, while summarily exempting all edge providers from Title II requirements -- was wrong on the core competitive facts.

The evidence below, that the 2015 FCC could have easily done themselves, shows that the most concentrated, most anti-competitive, and least neutral part of the Internet ecosystem is the winner-take-all online platforms at the Internet’s “edge” – Google, Facebook, and Amazon.

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**NetCompetition’s Internet Competition Research**

This research was [published](http://precursorblog.com/?q=content/how-internet-cartel-won-internet-and-internet-competition-myth) on Precursorblog.com 8-9-17.

**How the Internet Cartel Won the Internet and The Internet Competition Myth**

**Summary:** The substantial evidence catalogued here provides proof of the Internet’s cartelization, extreme concentration, winner-take-all tendencies, and mythical competition. The public data shows that the tacit Internet cartel of Google, Amazon and Facebook is 7-8 times more concentrated than the top three offline companies and that the top ten Internet economy companies are >10 times more concentrated than the top ten offline economy companies.

Public data that Google, Amazon, and Facebook have acquired ~350 potential competitors and the Internet Association overall has acquired ~900 potential competitors, indicates that the apparent cartelization of Internet companies’ investment, acquisition, and innovation processes ensure no innovative “garage startup” has a plausible competitive opportunity to seriously threaten the Internet cartel’s dominance.

Public data also ironically shows that almost all the Internet Association’s members are anti-competitively threatened by one or more of the Google, Amazon, or Facebook, winner-take-all online onslaughts.

U.S. antitrust authorities have enabled a cartelized and extremely concentrated Internet by taking their eye off the purpose of antitrust law -- *protecting the process of competition*, by first protecting the process of innovation by dominant online platforms.

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The notion that the business of the Internet trends competitive is a myth. After twenty years, the evidence below proves that the business of the Internet powerfully trends toward cartelization, extreme market concentration, and winner-take-all outcomes.

The Internet reality is that multiple unaccountable, winner-take-all online platforms – primarily Google, Facebook and Amazon -- are the core of a tacit Internet cartel. Together they are a de facto governing gatekeepers of aggregated consumer Internet demand for different core, end-to-end, business purposes -- Google for information, Facebook for social sharing, and Amazon for retail ecommerce.

Consider the harsh anti-competitive reality of the U.S. Internet marketplace today.

Now most every offline business and competitor seeking to reach mass market consumer demand online, increasingly must go through the Internet’s governing gatekeeper’s gates, and abide by the tacit Internet cartel members’ strategically-similar discriminatory-terms, *if* they want to effectively market, reach, and sell broadly to their offline customers -- online.

And if those businesses and competitors won’t submit to the Internet cartel’s demands to be their primary online distributor for their core business purpose, the Internet cartel’s anti-competitive and discriminatory gatekeeping practices, increasingly pressure them into submission on the gatekeeper’s terms.

This is the increasing harsh reality for online branding, marketing, and advertising of offline companies [via](http://precursorblog.com/?q=content/google-facebook-ad-cartel%E2%80%99s-collusion-crushing-competition-comprehensively) the Google-Facebook duopoly/ad-cartel, just like it is for the physical distribution of offline companies’ goods and services [via](http://precursorblog.com/?q=content/why-amazon-and-google-are-two-peas-same-monopolist-pod) Amazon Prime/Marketplace’s de facto dominance.

**The Evidence the Internet Cartel Has Won the Internet and Internet Competition Is the Loser**

The evidence below will first prove how extremely concentrated most of the U.S. Internet economy has become. The evidence will also show how the Internet cartel coopts, copies, buys, stockpiles, or tames potential competitors of disruptive innovations way *before* they ever get a chance to become a credible direct competitor to the Internet cartel members .

Consider what the Internet Association (IA) tells us about the Internet economy.

The Internet Association’s [tagline](https://internetassociation.org/) is “*We are* *the unified voice of the Internet economy*” and “*the voice of the world’s largest Internet companies*.”

The association’s 41 [members](https://internetassociation.org/our-members/) comprise the largest U.S. public and private Internet companies save for Priceline. It is a surprisingly small number of companies.

When one compiles the latest public financial [information](https://finance.yahoo.com/) from the Internet Association members that comprise the largest and the unified components of the Internet economy by annual revenues, revenue growth, employees and market capitalization, the extreme concentration of this sector becomes evident.

**Comparing Google/Amazon/Facebook concentration to top 3 offline companies:** The online winner-take-all platforms -- Google, Amazon, and Facebook -- comprise 61% of the Internet companies’ annual revenues, (73% of revenue growth), 62% of employees, and 60% of market value.

The top three respective [Fortune 500](http://fortune.com/fortune500/list) companies comprise 7.6% of Fortune 500 company revenues, 11.4% of employees, and 8.4% of market capitalization -- (all minus online companies’ respective shares).

Thus, comparing the market concentration of top three Internet cartel companies Google, Amazon and Facebook, with their 3 offline Fortune 500 counterparts, **the 3 Internet cartel companies are relatively 8 times more concentrated by annual revenues, 5.3 times more concentrated by employees, and 7.1 times more concentrated by market value**.

This contrasts winner-take-all concentration with market competition. This contrasts a market with minimal antitrust scrutiny with consistent antitrust scrutiny.

**Comparing the top 10 companies’ concentration levels online vs. offline:** The top ten largest Internet Association companies by revenue -- Amazon, Google, Microsoft, Facebook, Paypal, Netflix, Expedia, eBay, SalesForce, and Uber -- comprise 93% of the Internet companies’ annual revenues, (93% of revenue growth), 88% of employees, and 93% of market value.

The top 10 respective [Fortune 500](http://fortune.com/fortune500/list) companies comprise 7.9% of Fortune 500 company revenues, 21% of employees, and 9% of market capitalization -- (all minus online companies’ respective shares).

Thus, comparing the market concentration of top 10 Internet Association companies with their top 10 offline Fortune 500 counterparts, the **top 10 online companies are relatively 11.8 times more concentrated by annual revenues, 4.2 times more concentrated by employees, and 10.3 times more concentrated by market value.**

When the Internet economy’s biggest companies are economically ~10 times more concentrated than their biggest offline company counterparts, it is powerful evidence of a cartelized winner-take-all market dynamic that has won the Internet and the process of Internet competition is the biggest loser.

Anyone who doubts this extreme relative market concentration **can easily replicate this analysis** by simply doing the math themselves using publicly available company financial [data](https://finance.yahoo.com/) and the [Fortune](http://fortune.com/fortune500/list) 500 data.

Three general groups could greatly benefit from confirming the harsh reality of the simple math behind this obvious extreme concentration of the U.S. Internet marketplace.

First, it would stiffen the backbones of government authorities, especially the DOJ, FTC, FCC, and EU competition authorities for them to add up this extreme concentration problem themselves.

Second, if the Google gaggle of [paid academics](https://www.wsj.com/articles/paying-professors-inside-googles-academic-influence-campaign-1499785286?mg=prod/accounts-wsj) and antitrust experts that trumpet that Internet competition is “a click away” did this simple math, it might prompt them to come up with another vacuous antitrust immunity slogan.

Third, those newly concerned with antitrust and market concentration of 3-4+ competitor markets in the offline economy could benefit from the perspective and prioritization that comes from learning that the U.S. companies in the “Internet economy” are roughly *10 times more concentrated* than the companies in the offline economy.

**More Internet Association related evidence of the Internet cartel**

The Internet cartel has masterfully distracted antitrust enforcement authorities largely away from protecting *competition as a process* and being a fair referee that ensures a fair fight, towards largely protecting companies that are monopolizing markets by presuming monopolies are legal and not lasting because innovators will always upend any “temporary” monopoly if antitrust authorities are just patient enough to wait.

Sadly, **Internet-related antitrust has become corrupted to be more about protecting innovation as a process that protecting competition as a process,** and predictably that yields winner-take-all outcomes boasting of innovation, and not a healthy process of competition in the marketplace.

The fatal flaw in Internet-related antitrust thinking is ignoring that innovation can spawn from competition from competitors, if the process of competition enables potential innovative competitors the opportunity to challenge the Internet cartel.

Hiding in plain sight is how the Internet cartel has effectively gamed the investment, acquisitions, and innovation processes to ensure that no potential competitor ultimately can seriously threaten the Internet cartel’s supremacy.

Please consider this evidence.

Think about how less concentrated and more competitive the Internet cartel and Internet economy would be if Google, Amazon, and Facebook had not acquired **345** companies/potential competitors, and the Internet Association companies’ overall had not acquired at least **893** companies/potential competitors: Google [206](https://en.wikipedia.org/wiki/List_of_mergers_and_acquisitions_by_Alphabet) companies; Amazon [77](https://en.wikipedia.org/wiki/List_of_mergers_and_acquisitions_by_Amazon.com); Facebook [62](https://en.wikipedia.org/wiki/List_of_mergers_and_acquisitions_by_Facebook); Microsoft [203](https://en.wikipedia.org/wiki/List_of_mergers_and_acquisitions_by_Microsoft); eBay [53](https://en.wikipedia.org/wiki/List_of_acquisitions_by_eBay); Twitter [54](https://en.wikipedia.org/wiki/List_of_mergers_and_acquisitions_by_Twitter); Salesforce [48](https://www.crunchbase.com/organization/salesforce/acquisitions); IAC [28](https://www.crunchbase.com/organization/iac/acquisitions); Expedia [15](https://en.wikipedia.org/wiki/Expedia,_Inc.#Mergers_and_acquisitions); LinkedIn [17](https://en.wikipedia.org/wiki/LinkedIn); PayPal [12](https://www.crunchbase.com/organization/paypal/acquisitions), Airbnb [12](https://www.crunchbase.com/organization/airbnb/acquisitions); Uber [4](https://www.crunchbase.com/organization/uber/acquisitions); and Yahoo [114](https://en.wikipedia.org/wiki/List_of_mergers_and_acquisitions_by_Yahoo!). (Note: Yahoo was a member of the Internet Association before it was acquired by Verizon in 2017.)

Importantly, the Internet cartel has been allowed to buy what turned out to be substantial competitors. Google acquired: YouTube, DoubleClick, AdMob and Admeld. Facebook acquired: Instagram, WhatsApp, and Occulus. Amazon acquired: Zappos, Twitch, and Souq.com.

IA has 41 members of which 23 are publicly traded and 18 are privately held. The 23 public companies’ revenues comprise 95% of revenues and market value and 97% of employees.

Interestingly, Amazon’s CEO Jeff Bezos was one of the four founding [investors](http://www.newyorker.com/magazine/2008/01/14/the-search-party) in Google in 1998.

The two largest private companies in IA are Uber and Airbnb; and both Google and Amazon are early investors in both, giving them access to inside information that creates a huge asymmetry in competitive intelligence between the 2 of the 3 winner-take-all Internet cartel platforms and the two most likely winner-take-all wannabes i.e. potential online competitive platforms to Google, Amazon and Facebook.

Overall, Google [owns](http://www.gv.com/portfolio/) [parts](https://www.capitalg.com/companies/) of seven (17%) IA members: Uber, Airbnb, Snap, HomeAway, Survey Monkey, Thumbtack, and Ten-X; and Amazon’s CEO Bezos [owns](http://www.bezosexpeditions.com/updates.html) parts of three IA members: Uber, Airbnb, and Twitter.

Consider the feeder pipeline of potential competition to these winner-take-all gatekeepers. Potential competitive innovation companies are called “unicorns” i.e. startups valued over $1b.

Of the top 50 “unicorns” today, Google and Amazon own parts of **42%** of them, i.e. Google has [ownership](http://www.gv.com/portfolio/) [stakes](https://www.capitalg.com/companies/) in 19 of the 50, Amazon’s Bezos has ownership [stakes](http://www.bezosexpeditions.com/updates.html) in 4 of the 50 and 2 overlap, Uber and Airbnb.

Google is the apparent U.S. Keiretsu King with [28](https://www.capitalg.com/companies/) Internet-related companies it is invested in via Google Capital and [291](http://www.gv.com/portfolio/) Internet-related companies via Google Ventures.

Now one can see how the fabled garage entrepreneur that is supposedly the next Google, Facebook, or Amazon, is not likely to sneak up on them or grow up to be a potential competitor that can seriously threaten to disrupt their core dominances.

This tentpole antitrust assumption that Internet/tech companies deserve special de facto exemptions from traditional antitrust enforcement because they reside in fast-moving markets that are relatively more innovative than other markets, apparently stands upon an unstable bed of sand that can’t bear the weight of this heroic grand assumption.

Now we have proof that the Internet economy is much more concentrated than the offline economy; and that the Internet cartel concentration is real and Internet competition is largely a myth.

Now we also have proof that the supposition that market forces are sufficient to enable the next innovative garage startup to upend and neutralize Google, Amazon and Facebook’s core dominances is an intentionally deceptive myth. Is it possible? Yes. Is it likely enough to enable antitrust enforcers to give winner-take-all platforms a continuous, un-skeptical, antitrust benefit of the doubt? No.

**Additional evidence of the Internet cartel**

It is telling that 3 of the 4 original founders of the Internet Association were Google, Amazon, Facebook, and eBay. 37 more companies have been added.

If we do a competitive assessment of the Internet cartel winner-take-all platforms Google, Amazon, and Facebook and their 38 associates, it is not hard to discern that 18 of the companies are threatened by Google’s winner-take-all path, 13 are threatened by Amazon’s winner-take-all path, 4 are threatened by Facebook’s winner-take-all path, and 6 are unlucky enough to be threatened by 2 or all 3.

Note: there is a saying in poker, if you look around the table and can’t spot the sucker, it’s you. Apparently, most Internet Association members don’t play poker.

Two members of the Internet Association, Google and Intuit, were sanctioned by the DOJ in 2010, for illegal cartel behavior, along with Adobe, Apple, Intel, and Pixar, for “*entering into agreements that restrained competition between them for highly skilled employees*.” … A special “*agreement between Google and Intuit, prevented Google from directly soliciting Intuit employees*.” The civil [settlement](https://www.inc.com/associated-press/apple-google-other-tech-firms-to-pay-415-million-wage-case.html) for this illegal cartel collusion was for $415m.

Several IA members have had, or currently have, serious antitrust concerns about Google, Amazon and Facebook’s anti-competitive behaviors.

*Microsoft:* Most public and well-known was Microsoft’s opposition to Google on antitrust grounds in opposing the Google-Yahoo ad agreement, Google-DoubleClick, Google-ITA Google-Admob, and advancing a Microsoft-Yahoo alternative, etc., and as leaders of FairSearch in the U.S. and in Europe, challenging Google’s search discrimination.

Tellingly, Google apparently knocked Microsoft out of the digital advertising business, by apparently [getting](http://precursorblog.com/?q=content/why-did-google-facebook-stop-competing-with-each-other) Facebook to stop using Microsoft-Bing search on Facebook. This eventually resulted in the #2 and #4 Internet Association members by revenue dropping all of their many serious competitive and antitrust regulatory disputes against the other in an new global “entente” [agreement](https://www.wsj.com/articles/microsoft-withdraws-complaints-to-regulators-about-google-1461333788).

*Yelp* has been a consistent antitrust [complainant](https://www.nytimes.com/2014/07/09/technology/yelp-joins-critics-of-european-union-settlement-with-google.html) against Google with the FTC and the EU charging Google scraped Yelp’s reviews without authorization and represented them to users as Google’s.

*Expedia and Trip Advisor* [opposed](http://www.travelweekly.com/Travel-News/Travel-Technology/Expedia-Sabre-in-coalition-against-Google-ITA-merger) Google’s ITA acquisition on antitrust grounds in 2010 and secured a Consent Decree from the DOJ until 2016. It is very telling that the Internet segment that may be the most competitive currently, is travel, where the DOJ threatened an antitrust suit and then reached a court-supervised [settlement](https://www.justice.gov/atr/case/us-v-google-inc-and-ita-software-inc) to ensure Google could not act anticompetitively. What a concept. Antitrust enforcement can protect the process of competition.

*Uber:* After Google invested in Uber and got their General Counsel on Uber’s board, Google learned that the Uber was entering the autonomous car business that Google’s Waymo was then leading, Google [sued](http://fortune.com/2017/02/23/waymo-sues-uber-otto/) Uber for theft of its autonomous driving trade secrets. One winner-take-all platform teaching a wannabe winner-take-all upstart an apparent lesson in cartel reality.

*Snap:* Currently, Snap is reportedly contemplating antitrust action against Facebook for predatory self-dealing on Facebook to favor Instagram over Snap -- [per](https://www.theinformation.com/snaps-path-forward?eu=QWgarmTd_aMrJGWSg75kTw#continue-reading) The Information.

*Google-Facebook Ad Cartel:* The IA relevant activity that involves the most cartel-like behavior is the overwhelming [evidence](http://precursorblog.com/?q=content/google-facebook-ad-cartel%E2%80%99s-collusion-crushing-competition-comprehensively) that Google and Facebook have jointly cartelized the digital advertising market in jointly commanding 96% of the revenue growth in that fastest-growing global advertising market.

Concerning cartelization of U.S. Internet user sign-in/authentication for ~160,000 of the top websites, 53.1% sign in with Facebook, 44.8% sign in with Google, and 2.1% with “other” -- [per](https://blog.loginradius.com/2016/08/customer-identity-preference-trends-q2-2016/) Loginradius.

Concerning Internet traffic dominance, Google and Facebook provide 80% of referral traffic to websites, [per](https://blog.parse.ly/post/5194/referral-traffic/) Parse Ly.

Concerning the cartelization of apps, of the 22 Android apps [downloaded](https://en.wikipedia.org/wiki/List_of_most_downloaded_Android_applications) over a billion times, 17 are Google’s, 4 are Facebook’s, and 1 is Samsung, the number one manufacturer of Google Android phones.

**Conclusion**

Internet competition is increasingly a myth, because what matters is not that other websites may be just a click away, but whether any viable online or offline competitive alternative or substitute *exists*.

While I agree “*big is not bad*,” **beyond-big is bad, because beyond-big is a winner-take-all worst outcome**, because “winner-take-all” means unaccountable to competition or government.

If “beyond-big” had a dictionary definition, one would be: “the tacit Internet cartel of Google, Amazon, and Facebook.”

The tacit Internet cartel has won the Internet and Internet competition has lost.

Apparently, U.S. antitrust authorities lost their way in the Internet space by taking their eye off the ball of first protecting competition as a process, to first protecting innovation as a process -- with no congressional authority, standards, or objective basis/data to justify such special Internet antitrust non-enforcement.

The most serious antitrust problems facing U.S. authorities today are obviously Internet-related given the evidence above.

Forewarned is forearmed.

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This following research was [published](http://precursorblog.com/?q=content/google-facebook-ad-cartel%E2%80%99s-collusion-crushing-competition-comprehensively) on Precursorblog.com on 8-1-17.

**Google-Facebook Ad Cartel’s Collusion Crushing Competition Comprehensively**

Why are none of Google’s many [paid experts](https://www.wsj.com/articles/paying-professors-inside-googles-academic-influence-campaign-1499785286) not publicly defending Google and Facebook’s 2014 decisions to stop competing against each other in search and social? And why are they not trumpeting the pro-consumer, pro-innovation, and increased efficiency benefits of accelerating their digital advertising dominance since those decisions?

The silence is telling, and maybe even suspicious, given the DOJ cartel enforcement “what to look for” [primer](https://www.justice.gov/atr/file/810261/download).

Also telling is the pile of evidence that continues to accumulate that the Google-Facebook ad cartel is colluding and the collusion is crushing competition. [This piece will add to the evidence pile chronicled over the last year: [8-3-16](http://precursorblog.com/?q=content/why-did-google-facebook-stop-competing-with-each-other); [10-21-16](http://precursorblog.com/?q=content/what-no-bids-twitter-tell-us-about-google-facebook-online-advertising); [1-2-17](http://precursorblog.com/?q=content/google-facebook-online-ad-cartel-biggest-competition-problem); [2-5-17](http://precursorblog.com/?q=content/twitter-evidence-confirms-goobook-ad-cartel-crushing-competition); [5-18-17](http://precursorblog.com/?q=content/new-evidence-google-facebook-ad-cartel-crushing-competition-market-failing); and [7-20-17](http://precursorblog.com/?q=content/how-google-facebook-ad-cartel-harms-advertisers-publishers-consumers).]

For new readers, here is a quick synopsis. Company collusion to divide up a market is per se illegal under antitrust law. After fiercely competing directly in search and social, in 2014, Google and Facebook quietly [stopped](http://precursorblog.com/?q=content/why-did-google-facebook-stop-competing-with-each-other) competing against each other directly. Shortly thereafter, Google and Facebook’s market share gains jointly accelerated significantly. Apparently, Google and Facebook have become a de facto digital advertising cartel that has illegally divided up the market and allocated customers. Google is specializing in lead generation, local business visibility, hard news, and jobs. Facebook is specializing in brand awareness, interactivity, and soft content like entertainment and lifestyle. Advertisers, publishers and users have all been [harmed](http://precursorblog.com/?q=content/how-google-facebook-ad-cartel-harms-advertisers-publishers-consumers). Finally, DOJ has a criminal cartel enforcement [program](https://www.justice.gov/atr/leniency-program) that grants leniency only for the first individual or company to report illegal collusion.

What’s the new ad cartel evidence from second quarter earnings?

It was another great quarter for the ad cartel.

Google (which is 88% advertising) [grew](https://abc.xyz/investor/news/earnings/2017/Q2_alphabet_earnings/) revenues at a 21% annual rate, or +$17b for an annual total of $99.3b. Google [grew](https://finance.yahoo.com/news/alphabet-q2-earnings-depth-cost-225010684.html) ad revenue growth via a 52% increase in ad volume largely via YouTube.

Facebook, [grew](https://investor.fb.com/investor-news/press-release-details/2017/Facebook-Reports-Second-Quarter-2017-Results/default.aspx) revenues at a 47% annual rate, or +$10.6b for an annual total of $33.2b.

Tellingly, half of Facebook’s revenue growth came from the **pricing power of a 24% increase in the average ad price** per the earning call. The other half came largely from Instagram, Facebook’s [“Snap-killer](https://seekingalpha.com/article/4058860-yes-facebooks-new-app-capabilities-will-snap-killer),” and the emerging top social competitor that the FTC [allowed](https://www.ftc.gov/news-events/press-releases/2012/08/ftc-closes-its-investigation-facebooks-proposed-acquisition) Facebook to buy in 2012, guessing wrong that it would not “*substantially lessen competition*.”

Many refer to Google and Facebook as a “[digital duopoly](https://money.usnews.com/investing/news/articles/2017-07-28/google-facebook-show-power-of-ad-duopoly-as-rivals-stumble),” because Google-Facebook will command 61% of the $83b in U.S. Internet advertising market in 2017 per eMarketer (Google 41% and Facebook 20%).

However, Google-Facebook are much more than a “digital duopoly.” Their behaviors indicate a de facto digital ad cartel that apparently colluded to stop directly competing in 2014, and since has colluded to divide the market to capture most all digital ad revenue growth.

How much digital ad growth is the cartel capturing? Previously, Morgan Stanley [estimated](https://www.nytimes.com/2016/04/18/business/media-websites-battle-falteringad-revenue-and-traffic.html?_r=0) they jointly will capture 85% ad growth share, and two other estimates put the cartel’s joint ad revenue growth at 99%, [Digital Content Next](https://www.theatlantic.com/technology/archive/2017/04/yahoos-demise-is-a-death-knell-for-digital-news-orgs/523692/) and [Pivotal Research](http://www.businessinsider.com/facebook-and-google-dominate-ad-industry-with-a-combined-99-of-growth-2017-4).

Recent earnings strongly confirm these cartel capture revenue estimates.

Google and Facebook have grown their ad revenues ~$26b over the last twelve months. The only digital ad provider of size that has some significant ad growth is **Microsoft**, which reported 8% growth in its search advertising revenue or +~$.5b in annual ad revenue growth. (Remember Google apparently kneecapped Microsoft as a serious search competitor when its apparent collusion with Facebook got Facebook to [scuttle](http://www.reuters.com/article/us-facebook-microsoft-idUSKBN0JQ2AY20141212) its Microsoft-Bing search offering on Facebook, robbing it of the scale of the #3 most-visited site in the world. This effectively forced Microsoft to [forfeit](https://www.statista.com/statistics/511358/market-share-mobile-search-usa/) the mobile search advertising market to Google, and [settle](https://www.wsj.com/articles/microsoft-withdraws-complaints-to-regulators-about-google-1461333788) its regulatory disputes with Google around the globe.)

The other competitors of note are: **Verizon-Oath**, which rolled up Yahoo and AOL, [whose](http://www.verizon.com/about/news/verizon-reports-wireless-customer-gains-and-strong-loyalty-2q) ad revenues are smaller than Microsoft’s and are not publicly reported; **Twitter**, which [suffered](https://www.microsoft.com/en-us/Investor/earnings/FY-2017-Q4/press-release-webcast) -5% revenue growth; **Snap**, which is still small and apparently struggling to grow in the face of Facebook-Instagram’s Snap [copycat](https://digiday.com/media/publishers-switching-affections-snapchat-instagram/) growth; and **Pinterest**, which is also small and apparently struggling to grow in the face of Android’s Pinterest [copycat](http://www.businessinsider.com/alphabet-isnt-fooling-around-with-google-lens-2017-5?nr_email_referer=1&utm_source=Sailthru&utm_medium=email&pt=385758&ct=Sailthru_BI_Newsletters&mt=8&utm_campaign=post_email) visual search growth. There are lots of other even smaller players, but their small sizes pre-determine that they do not have the scale, scope, and reach necessary to capture significant ad share to matter competitively in the near-to-medium future.

What 2Q17 earnings confirm is that **the Google-Facebook ad cartel is capturing roughly 96% of digital ad growth, i.e. Google captured 57%, Facebook 39%,** Microsoft 2%, and other 2%.

These concentrated shares at these accelerated rates, and with this systematic efficiency, **reek of cartel behavior** – especially when combined with the chronicled, substantial and widespread, [harms](http://precursorblog.com/?q=content/how-google-facebook-ad-cartel-harms-advertisers-publishers-consumers) to advertisers, publishers and consumers.

In addition to the apparent cartel joint market share gains, market division and customer allocation, what [evidence](https://www.justice.gov/atr/file/810261/download), “[tells](https://en.wikipedia.org/wiki/Tell_(poker)),” or behavioral clues are there of potential illegal collusion here?

Let’s start with understanding the foundation of this digital duopoly that’s apparently colluding.

What are customers’ identity preferences for signing in to the top ~160,000 websites? Overall, 93% use a social login and 7% use an email login. Of the 93% that sign with a social login, 53.1% sign in with Facebook, 44.8% with Google+, 1% with Twitter, .6% LinkedIn and .3% Yahoo -- per Loginradius’ Q216 [report](https://blog.loginradius.com/2016/08/customer-identity-preference-trends-q2-2016/). As for social sharing popularity, Facebook has 57% share, Twitter has 18%, Google+ 9%, LinkedIn 5%, and other 11%.

What is the antitrust/cartel relevance here? Its two-fold.

First, if Twitter enjoys ~18% of the user sharing, why does Twitter capture <7% of social revenues among Facebook, Twitter, Snap and Pinterest, and none of the revenue growth? And why is Twitter effectively waving the white flag of surrender that they can’t grow digital advertising revenues in this cartel environment, by signaling they are testing a $99 a month subscription [service](http://mashable.com/2017/07/28/twitter-subscription-service/#Yyvroh_xIPqX) for small businesses to promote their tweets?

Second, if Google+ still is involved in ~9% of social sharing, why does Google not leverage that obvious revenue opportunity with pursuing social advertising via Google+ like Facebook does and Facebook-Instagram does successfully and profitably?

This is curious (suspicious?) when much of Facebook’s current outsized capture of digital ad revenue growth is propelled by Facebook-Instagram’s revenue growth, which is based on advertising shared photos/videos, *at the exact same time* that Google Photos is the fastest-growing photo service in the world by far – much faster than Instagram or Snap.

Google Photos has gone from zero users in May 2015 to 500m users in May 2017 and users’ “*images can easily be shared with social networks (Google+, Facebook, Twitter) and other services*,” [per](https://en.wikipedia.org/wiki/Google_Photos) Wikipedia.

The question for antitrust investigators is why did Google abruptly and effectively exit social advertising in 2014? Was is unprofitable? If so, why do many of the Google+ social functions continue to operate, grow and improve without a direct social monetization effort?

What’s even more curious (suspicious?) is how Google recently redesigned its news feed in ways that clearly limits its ability to compete directly with Facebook.

Business Insider [described](http://www.businessinsider.com/google-rolls-out-a-redesigned-feed-for-news-2017-7?utm_source=alerts&nr_email_referer=1&utm_medium=email&pt=385758&ct=Sailthru_BI_Newsletters&mt=8&utm_campaign=post_email) it this way. “*Google’s feed is similar to Facebook’s in function, but minus many social elements. Content doesn’t surface according to what others in a user’s social circle are reading or have shared and there aren’t any native functions for commenting or liking a post. …* ***the lack of social features on Google’s feed limits its ability to challenge Facebook****. Part of what makes Facebook’s news feed attractive is the personal endorsement and comments that users often add to stories they share. Google’s feed won’t appeal to users who value having their friends’ commentary on shared links within a news feed*.” [Bold added.]

Not only was it suspicious when Google and Facebook quietly stopped competing with one another, **it remains suspicious when Google purposefully excludes social functions, that their users could benefit from, and that Google could monetize**, given the tremendous digital ad growth engine that Facebook’s news feed generates.

Why is Google going out of its way to handicap itself so it can’t compete with Facebook in social advertising?

It appears that they understand what cartelists learned before them, that dividing up a market and allocating customers optimizes revenue growth and profitability.

If imitation is the sincerest form of flattery in a competitive market, why is Facebook-Instagram copying Snap’s storytelling functions, and why is Google-Android copying Pinterest’s visual search, but Google won’t copy social sharing functions on its dominant newsfeed, when Facebook has proven that it can generate rapid revenue and profit growth?

If Google had not agreed to stop competing directly with Facebook, Google would be exploiting the social revenue growth opportunity in its mobile news feed.

In short, the digital advertising monetization engine for much of the content sector suffers under an apparent Google-Facebook digital advertising cartel that [harms](http://precursorblog.com/?q=content/how-google-facebook-ad-cartel-harms-advertisers-publishers-consumers) advertisers, publishers, and users.

We await Senate confirmation of President Trump’s nominee for DOJ Antitrust Division Chief, Makan Delrahim, who [testified](https://www.politicopro.com/f/?id=0000015c-55ab-d355-a3fc-77eb3ab90001) under that: “*To the extent that companies with market dominance take anti-competitive actions to stifle competition, vigorous and timely antitrust enforcement is appropriate. If credible allegations of antitrust law violations are made, such allegations will be investigated if I am confirmed*.”

Mr. Delrahim’s confirmation cannot come soon enough.

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The following research was [published](http://precursorblog.com/?q=content/how-google-facebook-ad-cartel-harms-advertisers-publishers-consumers) on Precursorblog.com on 7-20-17.

**How the Google-Facebook Ad Cartel Harms Advertisers, Publishers & Consumers**

How much smoke and fire must there be, and how many people must get burned, before the fire department will investigate and put out a forest fire?

Apparently, a lot, if the forest fire is in the digital ad market that Google and Facebook dominate, and U.S. antitrust authorities are the firefighters.

Where’s the fire here?

Google and Facebook, which don’t directly compete in search and social, together dominate over 70% of the digital advertising market. They also dominate about 80% of online referral traffic, the online oxygen upon which every Internet publisher depends for survival.

After fiercely competing directly with each other in search and social in 2013 and 2014, Google and Facebook abruptly and quietly stopped competing against each other in 2014 with no explanation.

Since then, Google and Facebook have accelerated their capture of almost all digital ad revenue growth and profitability, exposing that Google and Facebook have become a de facto cartel that has illegally divided up the digital advertising space.

In 2014, Google and Facebook apparently decided they could each optimize their growth and profitability by colluding as dominant market complements to each other, rather than competing head-to-head as less efficient search-social competitors.

The economic motivation behind Google and Facebook’s apparent illegal market division is this.

Google takes more share of advertiser demand for lead generation and local business visibility – Google’s special dominance. And Facebook takes more share of advertiser demand for brand awareness and interactivity with consumers – Facebook’s special dominance.

The consumer specialization rationale behind Google and Facebook’s apparent illegal customer allocation is this.

Google takes more share of consumer demand focused on search for local, state, and national news, and the news verticals for business, technology, and job postings. Meanwhile Facebook takes more share of the news and content focused on social subjects like entertainment and lifestyle.

What’s the harm in Google and Facebook efficiently dividing up their markets and allocating customers -- besides being per se illegal under antitrust laws?

Let’s connect the dots of how advertisers, publishers, and consumers, all the key constituencies of this market, are now all being harmed substantially and demonstrably in the digital ad market.

We’ll start with the substantial harm to advertisers -- Google and Facebook’s customers.

Procter & Gamble’s Chief Marketing Officer, Marc Pritchard, succinctly summarized advertisers’ complaints about the online ad industry that Google and Facebook increasingly dominate, in an April New York Times interview.

NYT: “What’s the biggest problem here?”

P&G’s CMO: “The entire murky, non-transparent, and in some cases fraudulent supply chain is the problem. It’s a bigger problem than any one thing. There’s too much we don’t know and we don’t have validated.”

“Ads showing up on objectionable sites, that’s bad. Ads showing up to bots through searching that’s bad. Ads that you place that don’t really get measured by a third party that validates what’s right – that’s not so good either.”

“All we’re really asking for, is here’s what we are paying for, validate that we are getting it, so we can evaluate whether it is a good deal.”

Perversely, the world’s most valuable brands now must worry about ‘brand safety,’ because Google and Facebook have been allowing top brands’ ads to run next to hate speech, extremist propaganda, and other deplorable, brand-defiling, content.

The advertising industry understands the totality of the above critique by a top and seasoned CMO. Digital advertising is in a state of market failure. No other advertising segment has ever been able to get away with so disserving their customers’ best interests.

Think about it. Unlike normal businesses where “the customer is always right,” in digital advertising Google and Facebook apparently consider their advertiser customers mostly wrong.

Grumbling the customer eats what the Google-Facebook cartel feeds them because they don’t have any other viable competitive choice to reach the largest audiences on the planet with their advertising.

Google and Facebook’s web publisher suppliers are being harmed substantially too.

Just last week, the News Media Alliance said that because U.S. antitrust enforcers have not applied existing antitrust laws to Google and Facebook, they are forced effectively to ask Congress for a narrow antitrust exemption in law to negotiate a fair deal collectively with the dominant online platforms.

Since the FTC enabled Google and Facebook to become search and social monopolies with roughly 90% market shares respectively, illegally by acquisition, (Google buying #1 ad server DoubleClick and #1 mobile advertiser AdMob; and Facebook buying #1 photo sharer Instagram and #1 standalone messaging service WhatsApp), and since the FTC does not have the antitrust authority to investigate cartel behavior like the DOJ does, competitors and suppliers like newspapers and other content suppliers, are stuck coping with an untenable situation – obvious FTC antitrust enforcement failure.

Newspapers would never have to propose a longshot option, a new law and special antitrust exemption, if the DOJ/FTC simply had enforced antitrust law over the last four and a half years.

Returning to the initial forest fire metaphor, newspapers are having to ask the government for special permission to organize as a private firefighting force to defend their properties from forest fires set and fanned by an arson gang, that another arm of government – firefighters -- won’t investigate or prosecute for reasons unknown.

Consumers are being harmed substantially as well.

Last year the American people were burned by widespread fake news from all sides during the election process, because Google and Facebook profited most from the super-viral nature of “click-bait” content or “fake news.”

After the November election, Google and Facebook had to substantially tighten their advertising standards after widespread criticism of their platforms’ central distribution roles in systemically misleading and deceiving the public.

Last week we learned of more deception. A Wall Street Journal expose catalogued how Google is paying academics to help defend Google against regulatory challenges of its market dominance.

More and more consumers have figured out that they aren’t Google and Facebook’s customer, but the product that Google and Facebook sell to advertisers.

PageFair estimates that almost 20% of U.S. consumers use adblockers, and PageFair’s user survey indicates the top reasons are security (fear of ad-borne viruses and malware), interruption, slow content serving, too many ads, and lost privacy.

This is more obvious evidence of serious market failure.

Since Google and Facebook provide users no choice to pay for their services as a subscription, so the user can become the customer and treated as a customer and not a product, users are having to take matters into their own hands and sub-optimally blocking ads and losing part of the value of Google and Facebook’s services.

In short, connect the dots.

Google and Facebook are 90% dominant in search and social advertising respectively. They used to fiercely compete, but abruptly stopped. Right then their market shares quickly accelerated. All three main digital advertising constituencies are getting seriously disserved and harmed – advertisers, publishers and consumers.

There’s evidence of illegal arson, smoke, fire, and harms.

Where are America’s antitrust firefighters when they are most needed?

When did netopolies like Google and Facebook become above the law and why?

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