TRAFFIC REPORT:

HOW GOOGLE IS SQUEEZING OUT COMPETITORS AND MUSCLING INTO NEW MARKETS

A Study by INSIDE GOOGLE

JUNE 2, 2010
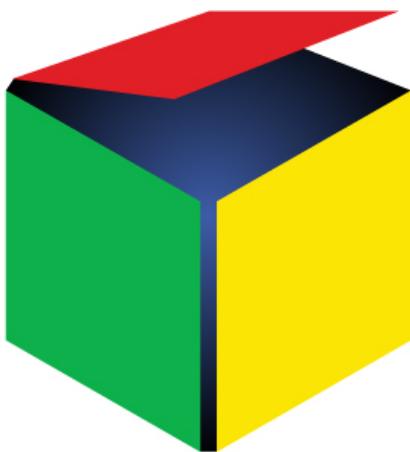
Executive Summary

Google has been muscling into new web markets and greatly expanding its dominance of other web commerce sectors since 2007, when the web search giant adopted a controversial new business practice aimed at steering Internet searchers to its own services.

Google's dramatic gains are revealed by an analysis of internet traffic data for more than 100 popular websites. Once upon a time, these sites primarily benefited from Google. Now, they must also compete with it. In the most comprehensive study of its kind to date, INSIDE GOOGLE obtained three years of traffic data from the respected web metrics firm Experian Hitwise, allowing an analysis of Google's business practices and performance that is unprecedented in scope.

The data shows that Google has established a Microsoft-like monopoly in some key areas of the web. In video, Google has nearly doubled its market share to almost 80%. That is the legal definition of a monopoly, according to the federal courts, which have held that a firm achieves "monopoly power" when it gains between 70% and 80% of a market.[1]

The report examines whether Google has erected "barriers to entry" in markets such as video by manipulating its search results so that users are directed primarily or exclusively toward Google's own services, such as YouTube.

Google's dominance in video and its huge gains in other markets such as local search and comparison shopping correlates with these increasing efforts by Google to promote its own services within search results. This

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[1] http://www.justice.gov/atr/public/reports/236681_chapter2.htm#N_23_

Consumer
Watchdog.org

practice, which amounts to a new business model, appears to be an abandonment of Google's pledge to provide neutral search capability.

The most striking example of how this practice enables Google to muscle its way into new markets is the lucrative market for local search. Google now inserts results from Google Maps into the first page of results from most Google searches, driving enormous traffic toward Google Maps and away from competitors. Google now has more than half the market for local search.

The ultimate significance of these developments is that they spell a rapid decline in choice for consumers. Increasingly, consumers who use Google are placing themselves in a sort of virtual gated community, or what was once known as "a company town." You can go anywhere you like, as long as you use the company's roads. And you can buy anything you like, as long as you shop at the company's stores.

A strategy by Google to insert links from its proprietary shopping, map and video sites into the main "results" page after a search appears to have had a steroidal effect on the company's web traffic, fueling the company's breakneck growth in ad revenues.

The Google practice, known as Universal Search, is already the subject of a complaint to the Federal Communications Commission by one British shopping-comparison website which claims Google improperly used Universal Search to depress its web traffic and steer users to a less-popular Google shopping site.

While a fair case can be made that Google's offerings in maps, video, shopping and other areas are as good or better than competitors', modest differences in quality do not appear to account for such radical and rapid shifts in traffic.

Among the biggest losers from Google's adoption of Universal Search is MapQuest, the venerable web site for maps and local directions, which has seen its traffic cut nearly in half since Google launched an assault on its franchise in 2007 using Universal Search, according to three years of data from the respected analytical firm Experian Hitwise.

In the same three-year period, the Hitwise data also shows, Google's YouTube has also nearly doubled its share of the video market from a little over 40% to more than 80% -- meeting the legal criteria for a monopoly. The site Photobucket, which once had nearly 20% of the video market, now has less than 3%. MySpace, another one-time contender with over 12% of video in 2007, now has less than 1%. Even ESPN has taken a thrashing, from 8% to 4%.

Google is also rapidly clearing the field in still images, with its onetime main rival Photobucket going from over 31% in June of 2007 to barely

over 10% last month. Another one-time contender, Yahoo Images, has gone from over 12% to a bit over 7%. All of Google's competitors in image searches now have less than 10% market share, according to Hitwise. Google's own market share soared from a low of 43% in mid-2007 to over 60% last year before falling back toward the mid-50% range. Flickr, another popular site, now has less than 9%.

The Importance of Local Search

The most striking example of the power of the Universal Search strategy for Google is MapQuest, a unit of AOL which now has only 32% of the market, down from 57.24% in July 2007. The Hitwise data shows that the stark decline in visits to MapQuest was accompanied by a closely matching rise in visits to Google Maps, as Google put its own service atop all others for generic address searches. MapQuest, a unit of AOL, appears likely to soon be reduced from a dominant player in web commerce to an also-ran, due in large part to the steps taken by Google to favor its own locator service. Google is now the dominant provider of local search information with more than 51% of the market. MapQuest officials declined to comment for this report.

The decline of MapQuest is likely to have a big impact -- not just in e-commerce but on the larger economy. While most people think of map sites as simply a source of driving directions, they're most often used in connection with shopping trips. With the paper-based yellow and white pages dying off, most consumers now use Internet search engines to decide where to shop near their homes.[2]

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[2] On May 9, the New York Times reported that Verizon is seeking to halt distribution of paper white pages directories in New York State. http://www.nytimes.com/2010/05/08/nyregion/08verizon.html?src=me

Google Maps Muscles Into Local Search

Chart legend:
- maps.google.com
- www.mapquest.com
- maps.yahoo.com
- www.bing.com/maps
- earth.google.com
- www.randmcnally.com
- www.wikimapia.org
- www.mapsofworld.com
- maps.ask.com
- www.worldatlas.com
- www.traffic.com
- www.vpike.com
- gasprices.mapquest.com
- www.maps.com
- mappoint.msn.com
- local.live.com

Source: Experian Hitwise
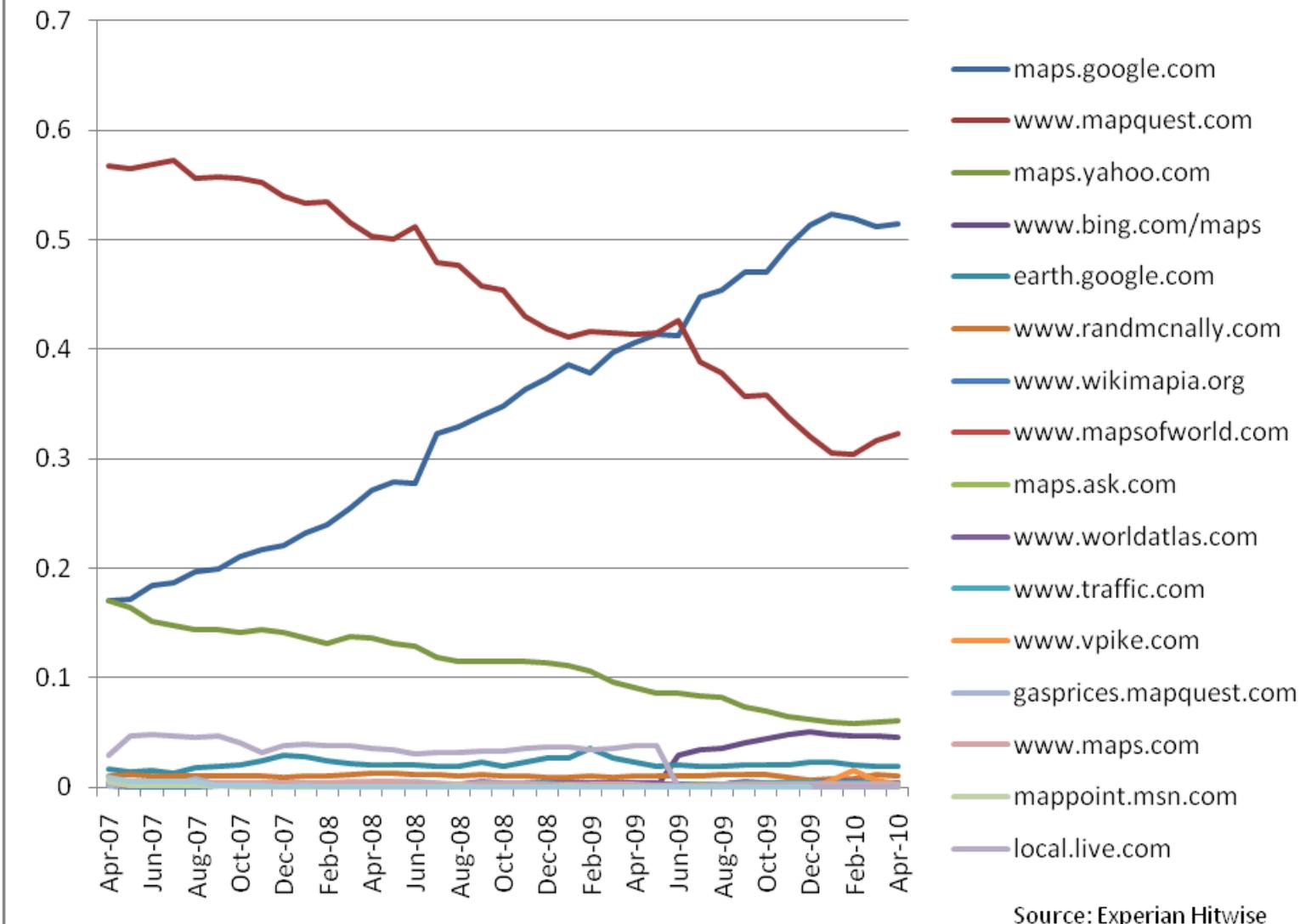
That makes local search one of the most lucrative corners of the Internet, and also gives one company -- Google -- enormous power over the bricks-and-mortar economy. While e-commerce has become a substantial economic force, the reality is that people still do most of their shopping in stores near their homes. If Google comes to dominate local search the way it dominates other areas such as video, a day may not be far off where

small businesses feel they have no choice but to engage with Google. And consumers would end up being steered, many without their knowledge, toward the local businesses that are willing to participate with Google.

As the Department of Justice and the Federal Trade Commission eye Google for possible antitrust violations, the question of whether the Mountain View search giant uses its dominant position in search to muscle its way into other businesses is vitally important.

Under the definitions of U.S. antitrust law, Google already has "market dominance" in search and search advertising with over 70% of the market, much as Microsoft has market dominance for computer operating systems. That means Google, like Microsoft, could get into trouble by "bundling" its dominant product with other services as a way to seize new markets.[3]

The rise of Google Maps has also hammered MapQuest's once-formidable competitor, Yahoo Maps, the Hitwise data shows. Once the market leader with about 41% of traffic in 2005, according to Hitwise, by April of 2007, Yahoo had ceded about half its traffic to Google and has now slid to just 6% of the market. Microsoft's Bing has about 4.5%.

Google can certainly argue that it provides a better user experience than MapQuest or Yahoo for local search and mapping. Yet there is little question that Google's rapid ascent in local search and mapping is due less to consumer preference than to the Universal Search strategy it adopted in 2007. Universal Search shoehorns maps and relevant local hits directly into the results produced by Google's famed search algorithms.

"The ascent of Google Maps is a result of the shortcut in the search results on Google," Heather Hopkins of Hitwise determined in a blog post in

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[3] See http://www.readwriteweb.com/archives/the_anti-trust_case_that_could_be_in_the_works_aga.php and http://www.wired.com/techbiz/it/magazine/17-08/mf_googlopoly

February of 2009. "61% of visits to Google Maps came directly from Google last week."[4]

Hopkins also reported that MapQuest "receives most of its search traffic from searches for its brand name - in other words from people actively searching for MapQuest." In the period she examined, about 80 percent of search queries that ended up sending a user to MapQuest were for the MapQuest name. Contrast that with Google, where only 4% of the site's search traffic came from people searching for "Google Maps" or similar branded terms.

When Universal Search was launched in 2007 it applied to Images, Maps, Books, Video, and News. "The ultimate goal of Universal Search is to break down the silos of information that exist on the web and provide the very best answer every time a user enters a query, " Google vice president Marissa Mayer explained at the time.[5] The "best answer" will appear in "a single set of blended search results," Mayer said.

Contradictorily, Google continues to maintain that its search results are neutral. Said the company in its 2007 announcement:

"As always, Google™ search results are ranked automatically by algorithms to deliver the best results to users anywhere in the world."

It is hard to see how this can still be true, given the increasingly pronounced tilt toward its own services in Google's search results.

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[4] http://weblogs.hitwise.com/us-heather-hopkins/2009/02/google_maps_edges_closer_to_ma_1.html

[5] http://www.google.com/intl/en/press/pressrel/universalsearch_20070516.html

Images Also Shows Big Gains

In images, Google has now opened up a gaping lead with about 55% of the market and everyone else down around 10%. Google's image numbers are inversely related to those of Photobucket, suggesting that the search engine is being used to draw traffic away in a manner similar to what is happening to MapQuest.


Image: Photobucket Swoons As Google Gains

Source: Experian Hitwise

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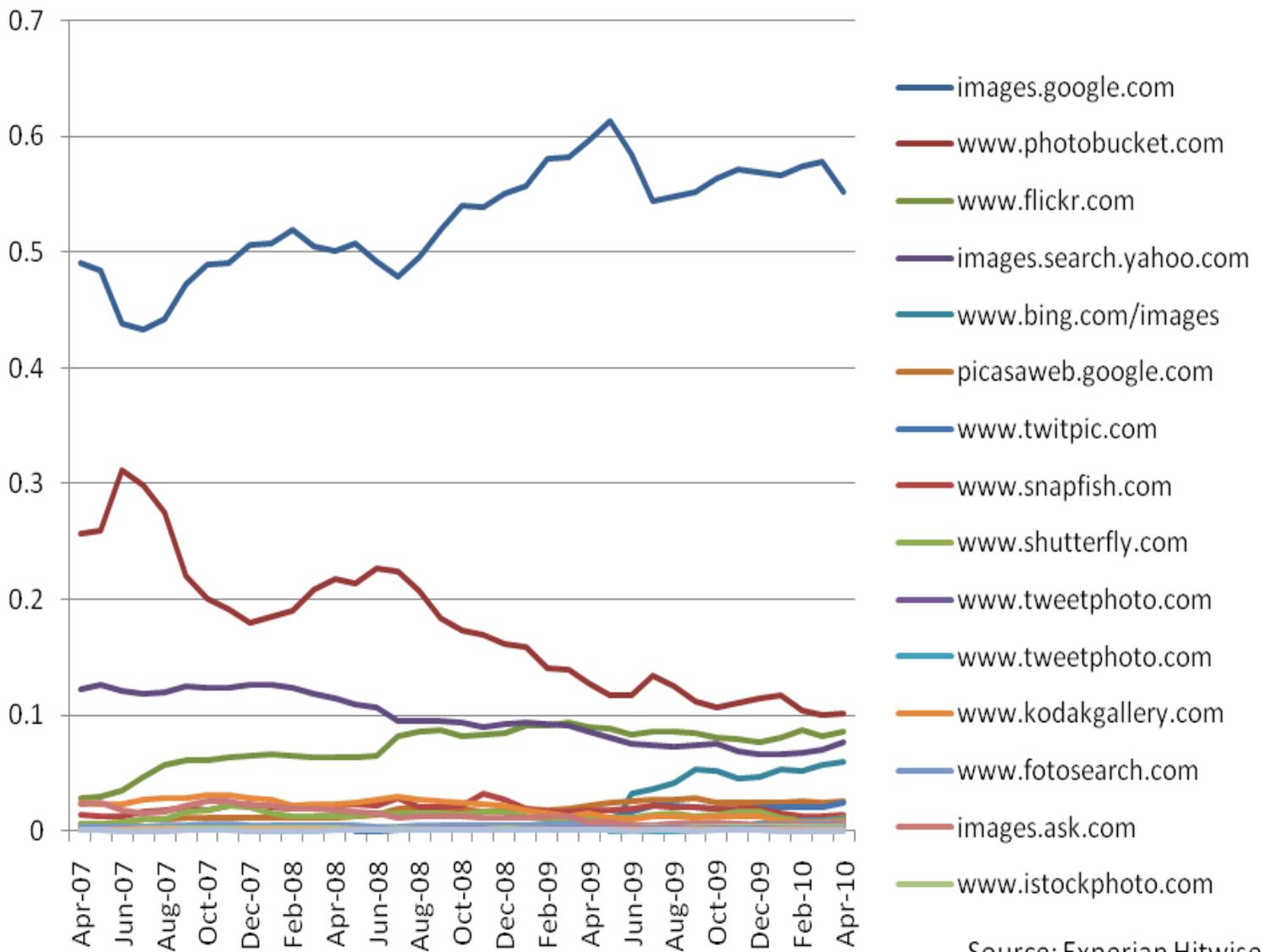
Video Killed the Hollywood Stars?

In terms of hard numbers and slanted lines, nothing is more graphic than Google's increasing dominance of video, where YouTube's traffic has nearly doubled in just three years to about 80 percent of the market -- while all of its competitors now languish in the single digits. Again, it is hard to account for such crushing market power simply by branding or quality, given that Google Video is up against some of the world's biggest and best-financed brands such as Fox and Disney.

Google Gains Video Monopoly

Legend:
- www.youtube.com
- espn.go.com
- www.hulu.com
- www.photobucket.com
- www.bing.com/videos
- msn.foxsports.com
- video.google.com
- www.disney.com
- www.dailymotion.com
- www.metacafe.com
- vids.myspace.com
- www.fancast.com
- www.justin.tv

Source: Experian Hitwise

Consumer Watchdog.org
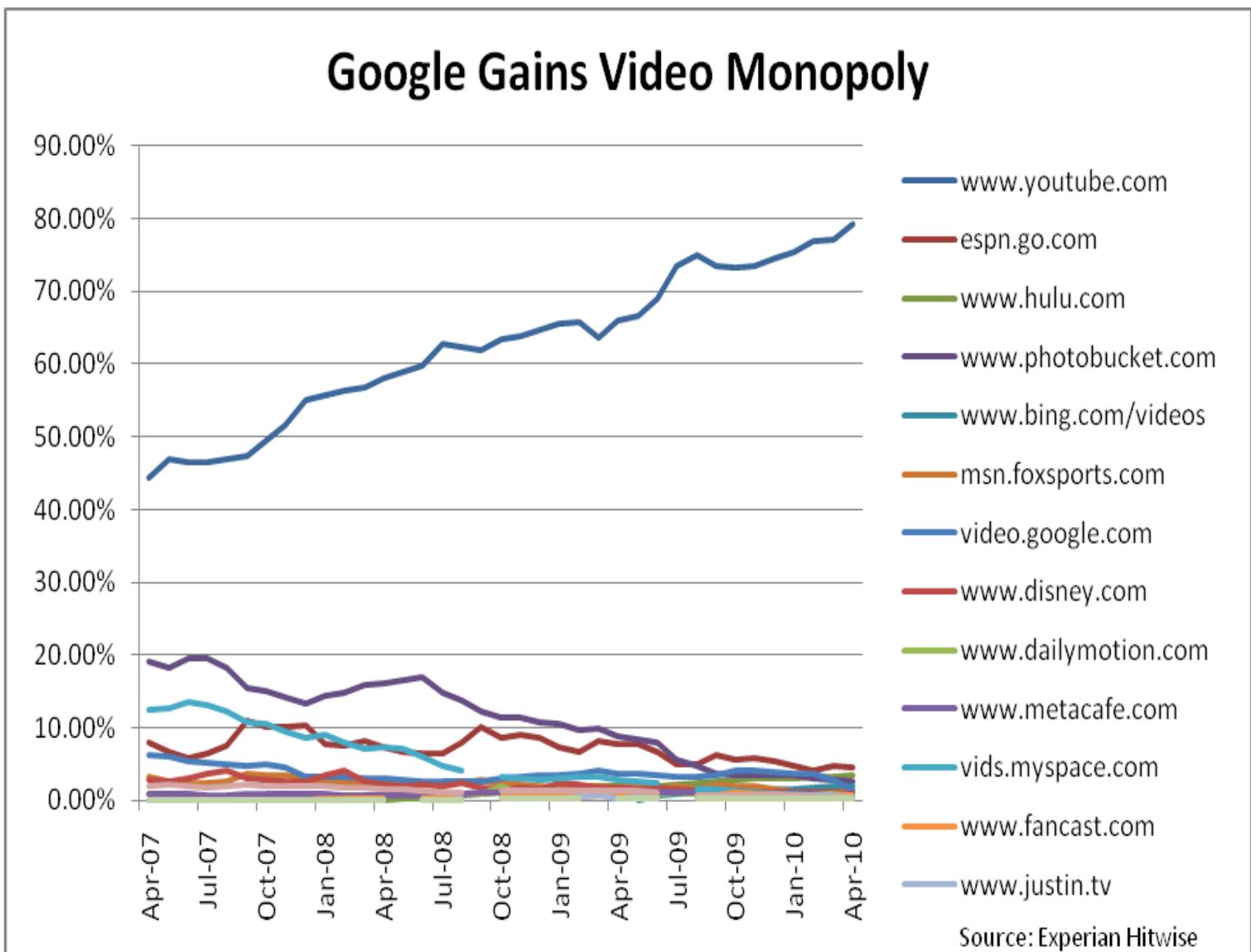
Shopping Comparison: The Foundem Case

Another striking example of the market power of Universal Search is shopping price comparison websites. As documented by the British company Foundem in a submission to the Federal Communications Commission, Google's product search service has virtually annihilated several once-popular shopping-comparison sites since it was integrated into Universal Search in December 2007.[6]

In November 2007, Google product search had about 1.3 million unique visitors. The next month, that figure shot up to11.9 million. By December of 2009, Google product search had more than 20 million unique visitors, making it second only to Shopzilla with 21 million, a gain of more than 1200%.
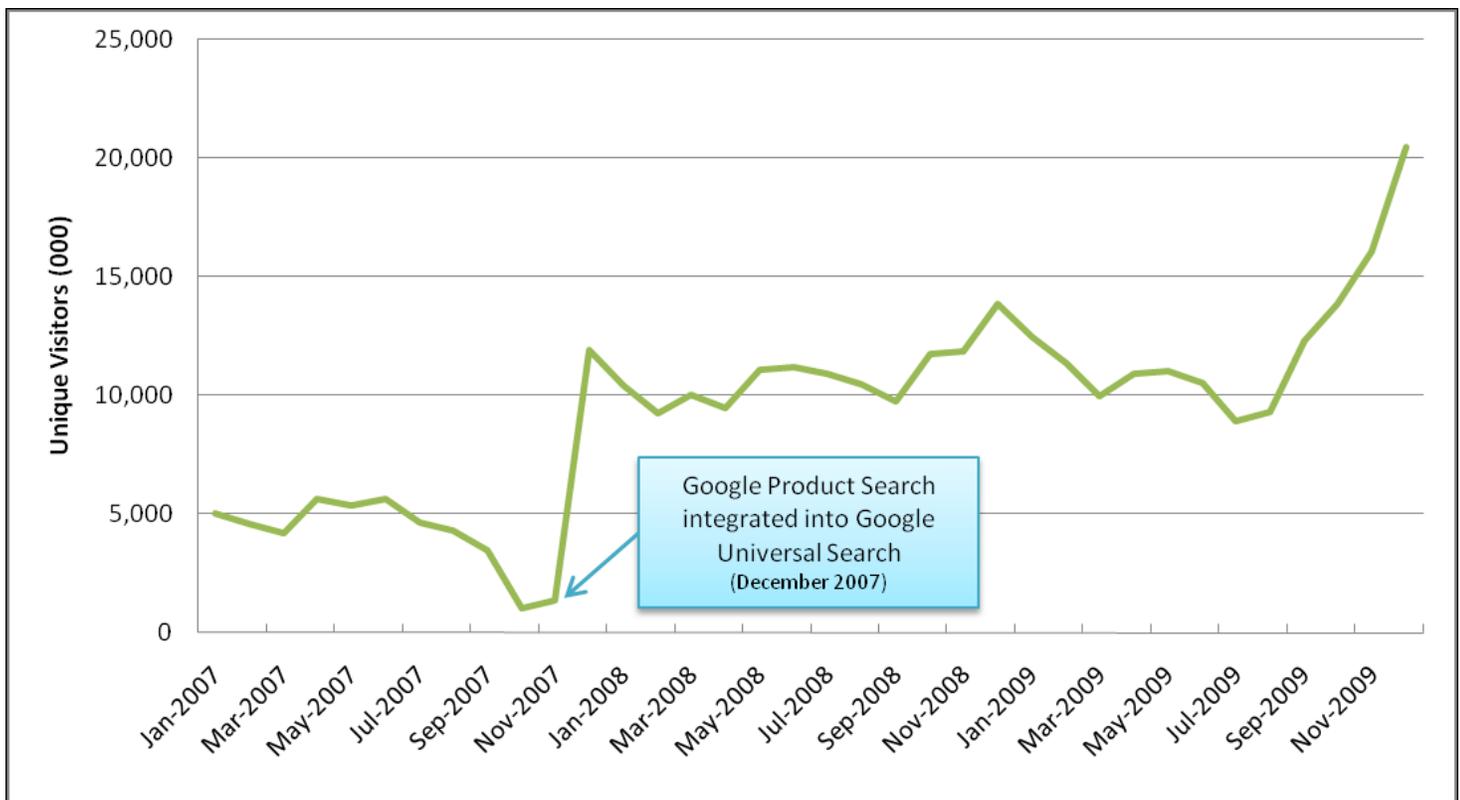
Unique monthly US visitors to Google Product Search between January 2007 and November 2009 (Source: Foundem/ComScore).

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[6] http://www.foundem.co.uk/FCC_Comments.pdf

Universal Search: How Powerful Is it?

Google still has formidable rivals in some online marketplaces and the impact of universal search in such cases is not always so easy to discern. In both books and news, competition remains fierce. Yahoo remains the leader in news with about 23% of the market and Google is far behind with only about 7%, Hitwise data shows. In books, Google lags far behind Amazon and is also slightly behind Barnes & Noble. What is unknowable is whether Google will choose to juice its market share in the future by making additional changes in Universal Search that favor its own book and news products. Google has already announced it will begin selling books as early as next month.

Universal Search makes rubbish of the notion that Google's search results are strictly neutral based on some secret recipe. The company is nonetheless moving increasingly toward this strategy of deliberately manipulating search results. Recently, Google rolled out a new look to its results page which takes another step toward pointing users to its own services by adding a permanent left-hand side navigation bar.

Here's how it works. Say you are researching the Mark Twain character Tom Sawyer. Put that name into the primary search box and you'll get a Wikipedia entry, a hit on Sparknotes, and then results from Google Images, YouTube, and Google Books -- all components of Universal Search. That takes up most of the first page, although if you scroll down far enough you eventually get to an Amazon hit. Then, if you click the "Books" tab at left, you get dozens of results only from Google Books -- even though there's nothing to indicate that by searching "books" you have been corralled into a proprietary and exclusive service of Google featuring only Google products. (Curiously, video search does not seem to be a gated community, at least not yet. Searching Tom

Sawyer in video gives you five YouTube results first, then options from Amazon, Yahoo, and others.) See how it works in the illustration below:

The results are even more striking when the search is explicitly related to a popular consumer good. Search for "organic coffee," and you're likely to get a screen dominated by Google Shopping results, Google Local Search results, a Google Checkout hit, and numerous paid ads.

The impact of Universal Search has received notice primarily among the cognoscenti of the search engine community, where one insider blog, SEOBook.com, lampooned the strategy.

Only a few of the Internet's more astute observers have picked up on how it changes the dynamic of competition in e-commerce.

Shortly after the rollout of Universal Search, web commerce guru John Battelle noted in 2008 that "Google is becoming more and more of a media company in the traditional sense in that it is driving traffic to properties it already owns.

"And whether or not it does so with transparency, and whether or not we believe that it truly is the best place to end up -- on their maps as opposed to MapQuest or whatever -- the truth is that the interface that's being created, this sort of one-box, universal blended interface that's starting to appear on Google is forcing a

renegotiation of the relationship between content owners and Google."

Universal Search, concluded Battelle, is taking Google across an invisible line in the marketplace from a neutral purveyor of choices to an agent which preselects choices. "Where we used to think [Google] was great because it was just a link and they drove us a bunch of traffic and we could trust them to pick the best link, now we are competing with Google on properties."[7]

Ironically, Google's competitors Yahoo and Bing have also been adopting the idea of Universal Search as a way to enhance their results and prop up properties such as Yahoo Maps, and many commentators say Google is simply responding to competition with its new approach.

But it appears that Google has been after this result for a long time. Google engineers filed their first patent for a Universal Search process on Dec. 31, 2003.[8]

One of the names on that patent is Marissa Mayer, Google's vice president of Search Product & User Experience, who dates the quest back even further in a 2007 blog:

> Back in 2001, Eric [[Schmitt] asked for a brainstorm of a few "splashy"
> ideas in search. A designer and product manager at the time, I made a

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[7] http://www.youtube.com/watch?v=zy-9ZzRk3Lo

[8] http://appft1.uspto.gov/netacgi/nph-Parser?Sect1=PTO2&Sect2=HITOFF&u=/netahtml/PTO/search-adv.html&r=1&p=1&f=G&l=50&d=PG01&S1=20050165744.PGNR.&OS=dn/20050165744&RS=DN/20050165744

few mockups -- one of which was for 'Universal Search.' It was a sample
search results page for Britney Spears that, in addition to web results,
also had news, images, and groups results right on the same page. Even
then, we could see that people could easily become overwhelmed with
the number of different search tools available on Google -- let alone
those that would be created over the next few years. This proliferation of
tools, while useful, has outgrown the old model of search. We want to
help you find the very best answer, even if you don't know where to look.

That mockup and early observations were the motivation behind the
Universal Search effort we announced earlier today.[9]

Mayer paints the Universal Search project in the sort of humanitarian, semi-Orwellian language that regularly comes out of Mountain View.

"With Universal Search, we're attempting to break down the walls that traditionally separated our various search properties and integrate the vast amounts of information available into one simple set of search results," she writes. "We want to help you find the very best answer, even if you don't know where to look."

The reality is a bit more crass: Universal Search now populates the top of the results page mainly with results from Google's own product lines. These changes bring the search giant several steps closer to a closed ecosystem where real consumer choice no longer exists.

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[9] http://googleblog.blogspot.com/2007/05/universal-search-best-answer-is-still.html