

The Mercury News

MercuryNews.com

Opinion: In the tech industry, small isn't beautiful anymore

By Glenn B. Manishin
Special to the Mercury News

Article Launched: 10/04/2008 08:00:00 PM PDT

Wrangling over the proposed Google-Yahoo advertising deal makes one wonder whether scale, a virtue in Silicon Valley, can also be a vice. Some have insisted that Google is too big. But with apologies to economist E.F. Schumacher — author in 1973 of the generational anthem "Small Is Beautiful" — big isn't bad anymore, it's good.

A mere 10 years old, Google so dominates Internet search that the company's name has become a verb. Google has grown large because it is good and its engineers continue to design innovative new products. That is something Web aficionados and antitrust regulators should applaud.

Google has already changed the way businesses advertise. The advertising issue is one its critics point to as evidence that Google is so large, the antitrust laws should kill the Google-Yahoo advertising venture before it launches later this month. The idea, as some ad agents have said, is that a combined Google-Yahoo share of "Internet search advertising inventory" would be competitively harmful. This is mushy reasoning being peddled to spread economic paranoia.

Everyone agrees that the principal objective of antitrust law is economic efficiency. To assess Google-Yahoo, therefore, one must first define what market we're talking about. References to Internet search "inventory" are analytically dishonest, disguising the fact that search advertising — of

which Google holds a 63 percent share — competes directly with Internet display advertising. Online display advertising is commanded by MySpace, AOL and Microsoft, and Google's presence is tiny. As the data on rapidly declining advertising revenues for newspapers, network television and other "legacy" media reveal, Internet advertising is also becoming a substitute for advertiser dollars that used to flow elsewhere.

The consequence is that the relevant market cannot exclude Internet display advertising or even be limited to Internet advertising. And once the market covers something more than search ads, all serious competitive arguments against the Google-Yahoo transaction fade away. Take just a few.

Microsoft insists the alliance is unlawful price fixing because it will increase search advertising prices. To the contrary, neither Google nor Yahoo will be able to dictate minimum bids or prices to the other and, since advertisers will have a greater supply of more valuable search ads to buy — the demographically targeted ads produced with Google's famously secret algorithms — the relative price for Internet search advertising will go down. That's simple supply-and-demand, and it's a good thing.

Others argue that Yahoo needs to remain independent and cannot be allowed into Google's orbit. But this is not a merger or acquisition. If Yahoo's board of directors, having just finished a bruising battle with Microsoft, violated its duty to maximize shareholder value, that is hardly the same as eliminating a competitor from the market.

Some suggest the government must act quickly to nip the growing power of Google in the bud. But in our market system we do not punish a successful company because it might do something bad in the future. Microsoft should be especially ashamed for

Advertisement



Sales Associate: Please collect this coupon.
If unable to scan, manually enter the coupon number.

Kidde 9V Battery Smoke Alarm with Hush Button

Coupon Valid 10/4/08 thru 10/26/08

Excludes Major Home Appliances. Good toward the purchase of regular, sale and clearance priced merchandise. Not valid on gift cards, labor, merchandise replacement agreement, Great Price items, installed home improvements, special orders, repair service, and protection agreements or as payment on any OSH credit card account. May not be used with any other coupon or offer. Must present coupon for discount. Redeem at participating Orchard Supply Hardware Stores. One coupon per purchase. One coupon per person. Customer pays applicable sales tax. Cash value 1/2¢. Void if copied or transferred and where prohibited by law. Any other use constitutes fraud. In the event of a return, coupon savings may be deducted from your refund. ©2008, Orchard Supply Hardware.



SKU 657266

CP006

Print Powered By FormatDynamics™

The Mercury News

MercuryNews.com

endorsing this suggestion, since its decade-long antitrust fights here and in the EU arose from its bad acts, not its bigness. And unlike a merger, there can be no problem here of "unscrambling the egg" if things go south.

That leaves the only real objection to the Google-Yahoo! alliance as consumer privacy. There may be valid privacy objections to Google's activities; indeed, Google might someday become so big that its possession of huge troves of personal data alone creates a threat to privacy. But as the FTC decided in approving the Google-DoubleClick merger in 2007, antitrust laws are not a substitute for privacy regulations.

So even here, privacy and bigness are not enemies. Unless Google starts acting badly in the competitive marketplace, the government should just leave it alone.

Glenn B. Manishin is an antitrust partner with Duane Morris in Washington, D.C. He was counsel for ProComp, CClA and other software competitors challenging the Bush administration's antitrust settlement with Microsoft. He wrote this article for the Mercury News.

Advertisement



10% OFF Renee's Flower/Veg Seed Packs

Coupon Valid 10/8/08 thru 10/26/08



Sales Associate: Please collect this coupon. If unable to scan, manually enter the coupon number.

Excludes Major Home Appliances. Good toward the purchase of regular, sale and clearance priced merchandise. Not valid on gift cards, labor, merchandise replacement agreement, Great Price items, installed home improvements, special orders, repair service, and protection agreements or as payment on any OSH credit card account. May not be used with any other coupon or offer. Must present coupon for discount. Redeem at participating Orchard Supply Hardware Stores. One coupon per purchase. One coupon per person. Customer pays applicable sales tax. Cash value 1/20¢. Void if copied or transferred and where prohibited by law. Any other use constitutes fraud. In the event of a return, coupon savings may be deducted from your refund. ©2008, Orchard Supply Hardware.

CP007

Print Powered By FormatDynamics™