Online Display Advertising: What’s the relevant market?
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Digital advertising is the economic backbone of the Internet. It allows websites and apps to monetize their userbase without having to charge them fees, while the emergence of targeted ads allows this to be accomplished affordably and with less wasted time wasted.

This advertising is facilitated by intermediaries using the “adtech stack,” through which advertisers and publishers are matched via auctions and ads ultimately are served to relevant users. This intermediation process has advanced enormously over the past three decades. Some now allege, however, that this market is being monopolized by its largest participant: Google.

A lawsuit filed by the State of Texas and nine other states in December 2020 alleges, among other things, that Google has engaged in anticompetitive conduct related to its online display advertising business. Those 10 original state plaintiffs were joined by another four states and the Commonwealth of Puerto Rico in March 2021, while South Carolina and Louisiana have also moved to be added as additional plaintiffs. Google also faces a pending antitrust lawsuit brought by the U.S. Justice Department (DOJ) and 14 states (originally 11) related to the company’s distribution agreements, as well as a separate action by the State of Utah, 35 other states, and the District of Columbia related to its search design.

In recent weeks, it has been reported that the DOJ may join the Texas suit or bring its own similar action against Google in the coming months. If it does, it should learn from the many misconceptions and errors in the Texas complaint that leave it on dubious legal and economic grounds.

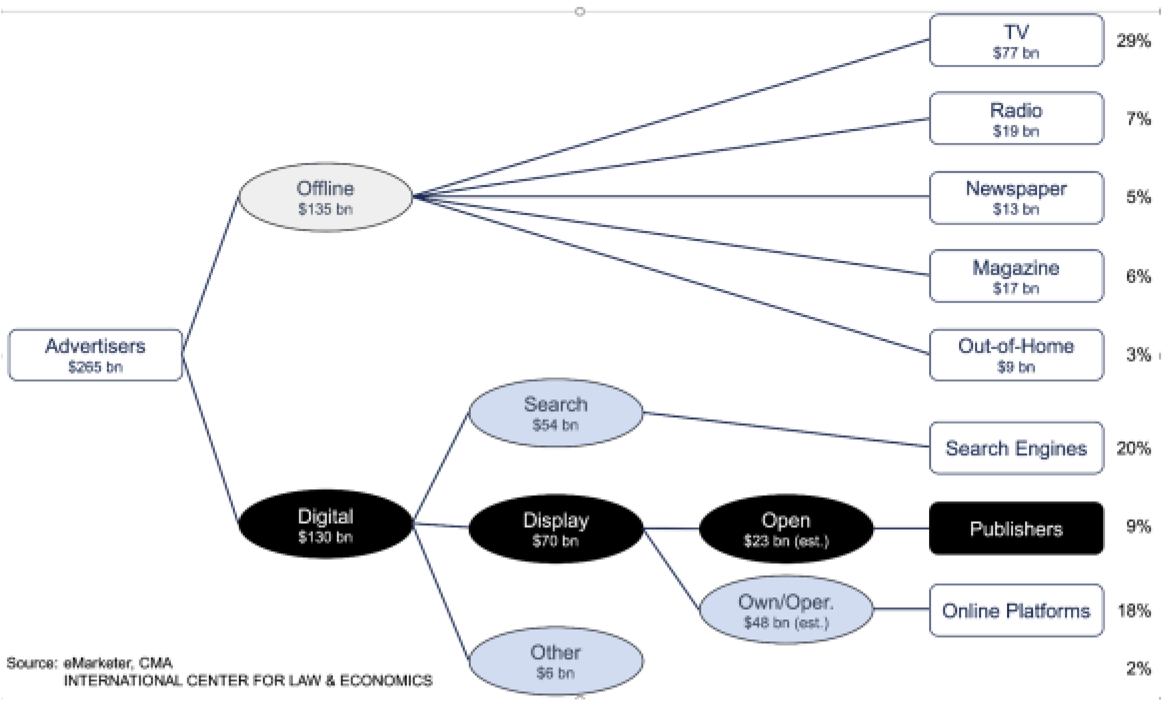
Relevant market

The Texas complaint identifies at least five relevant markets within the adtech stack that it alleges Google either is currently monopolizing or is attempting to monopolize:

1. Publisher ad servers;
2. Display ad exchanges;
3. Display ad networks;
4. Ad-buying tools for large advertisers; and
5. Ad-buying tools for small advertisers.

None of these constitute an economically relevant product market for antitrust purposes, since each “market” is defined according to how superficially similar the products are in function, not how substitutable they are. Nevertheless, the Texas complaint vaguely echoes how markets were conceived in the “Roadmap” for a case against Google’s advertising business, published last year by the Omidyar Network, which may ultimately influence any future DOJ complaint, as well.

The Omidyar Roadmap narrows the market from media advertising to digital advertising, then to the *open supply* of *display ads*, which comprises only 9% of the total advertising spending and less than 20% of digital advertising, as shown in the figure below. It then further narrows the defined market to the *intermediation* of the open supply of display ads. Once the market has been sufficiently narrowed, the Roadmap authors conclude that Google’s market share is “perhaps sufficient to confer market power.”



While whittling down the defined market may achieve the purposes of sketching a roadmap to prosecute Google, it also generates a mishmash of more than a dozen relevant markets for digital display and video advertising. In many of these, Google doesn’t have anything approaching market power, while, in some, Facebook is the most dominant player.

The Texas complaint adopts a non-economic approach to market definition. It ignores potential substitutability between different kinds of advertising, both online and offline, which can serve as a competitive constraint on the display advertising market. The complaint considers neither alternative forms of display advertising, such as social media ads, nor alternative forms of advertising, such as search ads or non-digital ads—all of which can and do act as substitutes. It is possible, at the very least, that advertisers who choose to place ads on third-party websites may switch to other forms of advertising if the price of third-party website advertising was above competitive levels. To ignore this possibility, as the Texas complaint does, is to ignore the entire purpose of defining the relevant antitrust market altogether.

Offline advertising vs. online advertising

The fact that offline and online advertising employ distinct *processes* does not consign them to economically distinct *markets*. Indeed, online advertising has manifestly drawn advertisers from offline markets, just as previous technological innovations drew advertisers from other pre-existing channels.

Moreover, there is evidence that, in some cases, offline and online advertising are substitute products. For example, economists Avi Goldfarb and Catherine Tucker demonstrate that display advertising pricing is sensitive to the availability of offline alternatives. They conclude:

> We believe our studies refute the hypothesis that online and offline advertising markets operate independently and suggest a default position of substitution. Online and offline advertising markets appear to be closely related. That said, it is important not to draw any firm conclusions based on historical behavior.

Display ads vs. search ads

There is perhaps even more reason to doubt that online *display* advertising constitutes a distinct, economically relevant market from online *search* advertising.

Although casual and ill-informed claims are often made to the contrary, various forms of targeted online advertising are significant competitors of each other. Bo Xing and Zhanxi Lin report firms spread their marketing budgets across these different sources of online marketing, and "search engine optimizers"—firms that help websites to maximize the likelihood of a valuable "top-of-list" organic search placement—attract significant revenue. That is, all of these different channels vie against each other for consumer attention and offer advertisers the ability to target their advertising based on data gleaned from consumers' interactions with their platforms.

Facebook built a business on par with Google's thanks in large part to advertising, by taking advantage of users' more extended engagement with the platform to assess relevance and by enabling richer, more engaged advertising than previously appeared on Google Search. It's an entirely different model from search, but one that has turned Facebook into a competitive ad platform.

And the market continues to shift. Somewhere between 37-56% of product searches start on Amazon, according to one survey, and advertisers have noticed. This is not surprising, given Amazon's strong ability to match consumers with advertisements, and to do so when and where consumers are more likely to make a purchase.

‘Open’ display advertising vs. ‘owned-and-operated’ display advertising

The United Kingdom’s Competition and Markets Authority (like the Omidyar Roadmap report) has identified two distinct channels of display advertising, which they term “owned and operated” and “open.” The CMA concludes:

> Over half of display expenditure is generated by Facebook, which owns both the Facebook platform and Instagram. YouTube has the second highest share of display advertising and is owned by Google. The open display market, in which advertisers buy inventory from many publishers of smaller scale (for example, newspapers and app providers) comprises around 32% of display expenditure.

The Texas complaint does not directly address the distinction between *open* and *owned and operated*, but it does allege anticompetitive conduct by Google with respect to YouTube in a separate “inline video advertising market.”

The CMA finds that the owned-and-operated channel mostly comprises large social media platforms, which sell their own advertising inventory directly to advertisers or media agencies through self-service interfaces, such as Facebook Ads Manager or Snapchat Ads Manager. In contrast, in the open display channel, publishers such as online newspapers and blogs sell their inventory to advertisers through a “complex chain of intermediaries.” Through these, intermediaries run auctions that match advertisers’ ads to publisher inventory of ad space. In both channels, nearly all transactions are run through programmatic technology.

The CMA concludes that advertisers “largely see” the open and the owned-and-operated channels as substitutes. According to the CMA, an advertiser’s choice of one channel over the other is driven by each channel’s ability to meet the key performance metrics the advertising campaign is intended to achieve.

The Omidyar Roadmap argues, instead, that the CMA too narrowly focuses on the perspective of advertisers. The Roadmap authors claim that “most publishers” do not control supply that is “owned and operated.” As a result, they conclude that publishers “such as gardenandgun.com or hotels.com” do not have any owned-and-operated supply and can generate revenues from their supply “only through the Google-dominated adtech stack.”

But this is simply not true. For example, in addition to inventory in its print media, *Garden & Gun*’s “Digital Media Kit” indicates that the publisher has several sources of owned-and-operated banner and video supply, including the desktop, mobile, and tablet ads on its website; a “homepage takeover” of its website; branded/sponsored content; its email newsletters; and its social media accounts. Hotels.com, an operating company of Expedia Group, has its own owned-and-operated search inventory, which it sells through its “Travel Ads Sponsored Listing,” as well owned-and-operated supply of standard and custom display ads.

Given that both perform the same function and employ similar mechanisms for matching inventory with advertisers, it is unsurprising that both advertisers and publishers appear to consider the owned-and-operated channel and the open channel to be substitutes.

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