

# ePrio

12/13/2007

To the European Commission,  
Directorate-General for Competition  
Merger Registry  
J-70  
B-1049 Bruxelles/Brussel

Subject: COMP/M.4731 - GOOGLE/DOUBLECLICK

The present document is submitted to the consideration of the Commission to help it analyse the Google/DoubleClick case according to what I believe relevant market structures.

By characterizing the activities of DoubleClick as "ad serving technology" and Google as "online advertising and intermediation services", the 11/13/07 press release of the Commission implicitly signals that, in the course of the investigation it announces, the consequences of the proposed acquisition on Internet targeted advertising will be downplayed.

On the contrary I suggest to examine in depth whether the acquisition of DoubleClick by Google will significantly:

- preempt the competition for Internet targeted advertising
- decrease the innovation in Internet targeted advertising
- as well as decrease the market power of sellers of original Internet ad space

It would be presumptuous for me to predetermine the potential findings of the Commission with regard to the questions I have raised. But I strongly feel an absence of answers would be a serious shortcoming and risk undermining the conclusions of the investigation.

More details are contained in the following attachment.

Respectfully submitted,

Philippe Coueignoux PhD  
President  
ePrio Inc.

PS:

Philippe Coueignoux has more than ten years of experience in personalized Internet interaction in privacy and have applied for multiple patents in the US and the EU in this domain. The first one has been granted as US Patent no 6,092,197 and the last one, specifically focused on Internet targeted advertising, has been recently submitted as US provisional application 60973565. Philippe Coueignoux is the founder of ePrio Inc., which is currently in the process of securing financing to exploit this intellectual property.

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## Foreword:

In order to make the argumentation easier to follow, we will make use of a schema to illustrate our analysis of the industry. The full schema being somewhat complex, we propose to look at it in a progressive manner. This leads us to begin with the simplest case and justify our third and last question on "traditional" Internet advertising. We have no doubt the Commission intends to fully investigate the impact of the proposed acquisition on these relatively mature economic activities. By the same token, this will provide a good introduction to the subject of targeted advertising, the focus of this document.

## Internet advertising:

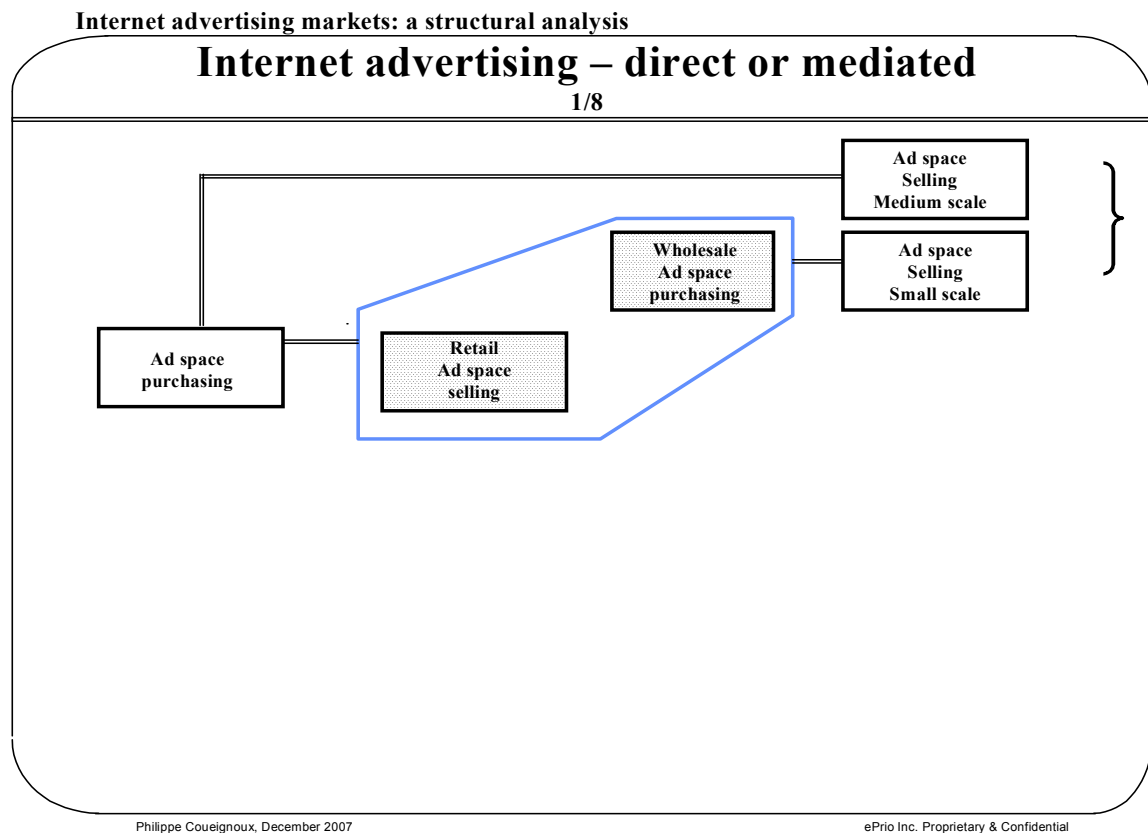


Figure 1 shows the industry structures which account for Internet advertising. Advertisers in need of ad space either buy it directly from sellers or indirectly from ad server networks, which buy the space wholesale from sellers to resell it retail.

Notice the conventions we use in this and later figures:

- the multiple lines (double lines in fig. 1) represent market-based transactions
- the colored lines (blue lines in fig. 1) bundle together several functions, e.g. wholesale ad space purchasing and retail ad space selling, which must be performed within a single economic entity

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Figure 1 illustrates some of the economic activities of DoubleClick:

- selling the DART services to give market participants access to the necessary technologies, whether to purchase or to sell
- acting as an intermediation network with its "Advertising Exchange".

We take this simple schema to stress an important point. Organizations with ad space to sell have a choice between selling direct or through an ad server network. This choice will normally reflect pure economic factors, balancing the margin taken by the network against the costs to set up and run operations in house. The decision is expected to reflect the size of the ad space for sale. The larger this space, the lesser the average cost of in house operations and the likelier a direct sales approach.

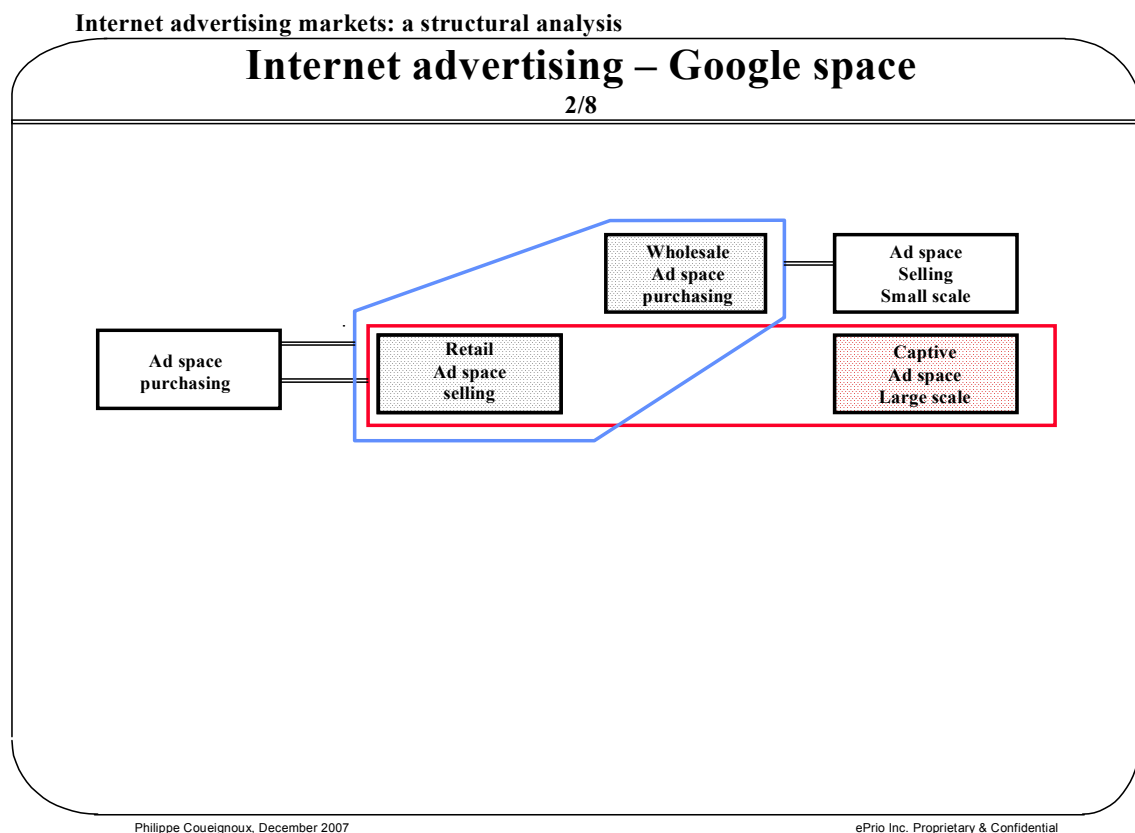


Figure 2 shows the industry structures which account for Google activities.

- At its core, Google uses its free Internet search service to create ad space on the fly, within the context of each user query. Google uses AdWord to act as a retail seller for this captive ad space
- Google also proposes AdSense, an ad server network which reuses most of its core retail sale function by tying it with an appropriate wholesale ad space purchasing activity

The current dominance of Google's search service entails a equally large scale difference between the ad space of an AdSense space seller and Google's own captive ad space.

## Internet advertising markets: a structural analysis

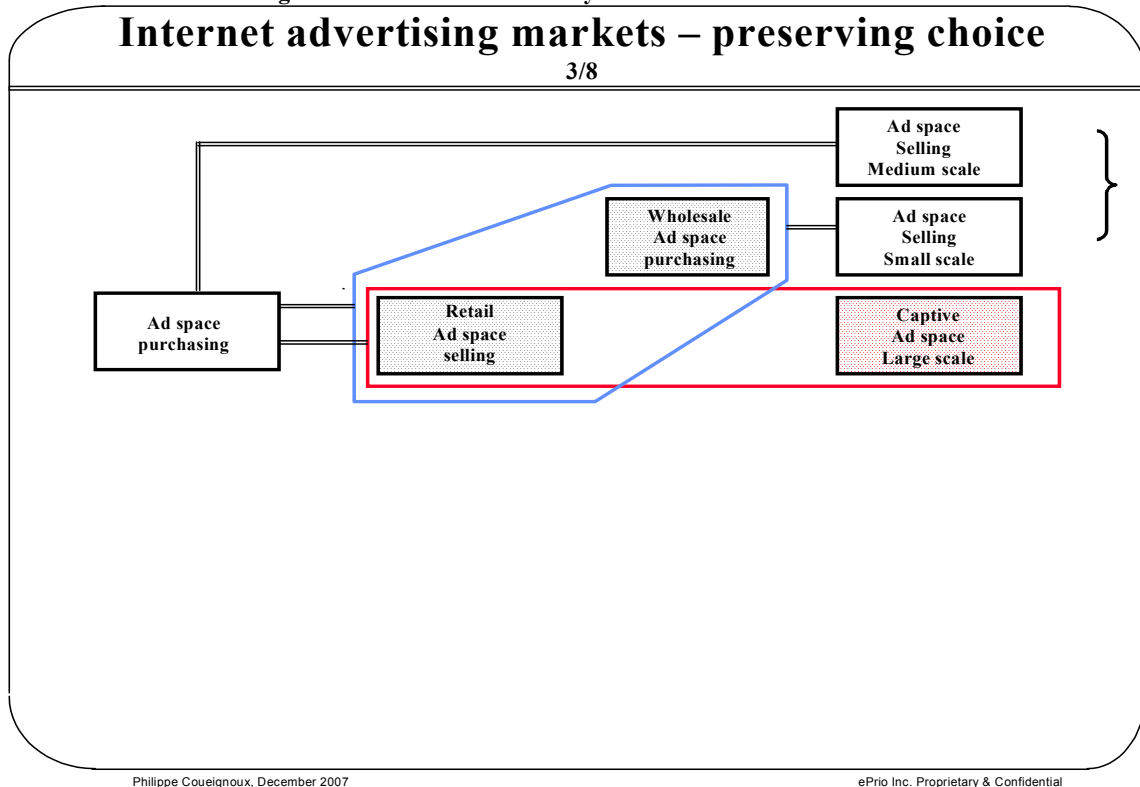


Figure 3 then shows how the proposed acquisition of DoubleClick by Google will play within the Internet advertising industry structures.

Let us call an ad network "independent" when its captive ad space, if any, is less than half of the total space for sale, "dependent" otherwise.

For an independent source of ad space, there is a significant difference, strategic rather than purely economic in nature, to sell its space to an independent ad network such as DoubleClick's Advertising Exchange or to a dependent network such as Google's AdSense. After all Google is a direct competitor to all ad space sellers. The same fact extends, with appropriate adaptations, to the sale of technology services to ad space sellers selling direct.

**We therefore suggest that the Commission investigates** whether the disparition of DoubleClick as an independent network, and by extension an independent technology provider, would undermine the ability of ad space sellers to freely pick the best economic solution to market their ad space. The relevant metric here is not so much the future combined weight of DoubleClick and Google relative to the industry total as it is the present weight of DoubleClick relative to the "independent" segment of this industry.

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## Internet targeting:

Outside of Internet, economic agents looking to market their offer can use one of two channels to reach their target and will often use them both:

- their advertising arm will buy ad space in the media
- their direct marketing arm will buy addresses from address sellers

Quite a few companies contribute to both channels. For example a monthly sports magazine will accept advertising and sell its subscribers' file. However the two markets are practically independent as media have a monopoly neither on sources of addresses, merchants making up a large fraction of the offer, nor on delivery, as postal services will reach any valid address.

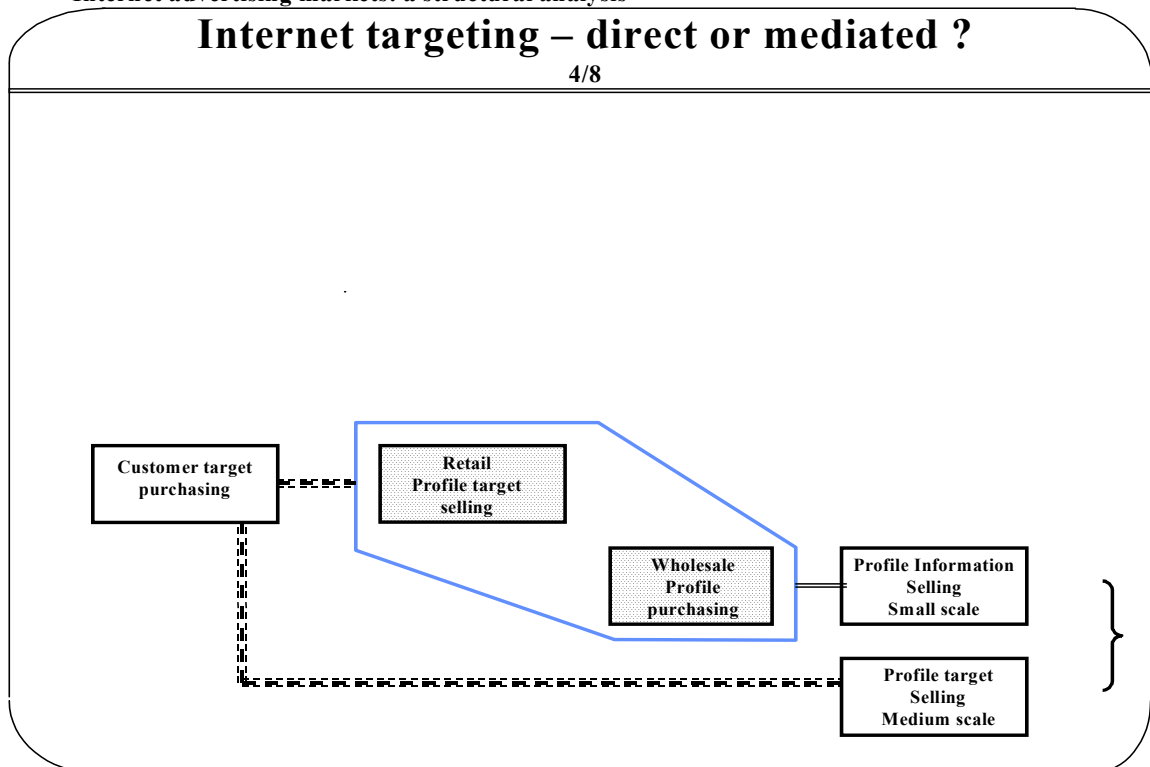
One may enquire how this translates in the Internet world. It is assumed here that the equivalent of an address is an IP, both having the potential to be qualified with additional information on the recipient, herein called personal profile. If one wishes to object an IP is not a fail-safe way to identify a particular Internet user, we remind our critic postal addresses have similar problems, what with people moving all the time.

Figure 4 presents what, in keeping with the non Internet world, we suggest to be the industry structure for Internet targeting, i.e. the buying and selling of individual profile information with the intent to target marketing messages. It is easy to interpret it as the symmetric equivalent of figure 1.

### Internet advertising markets: a structural analysis

## Internet targeting – direct or mediated ?

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Philippe Coueignoux, December 2007

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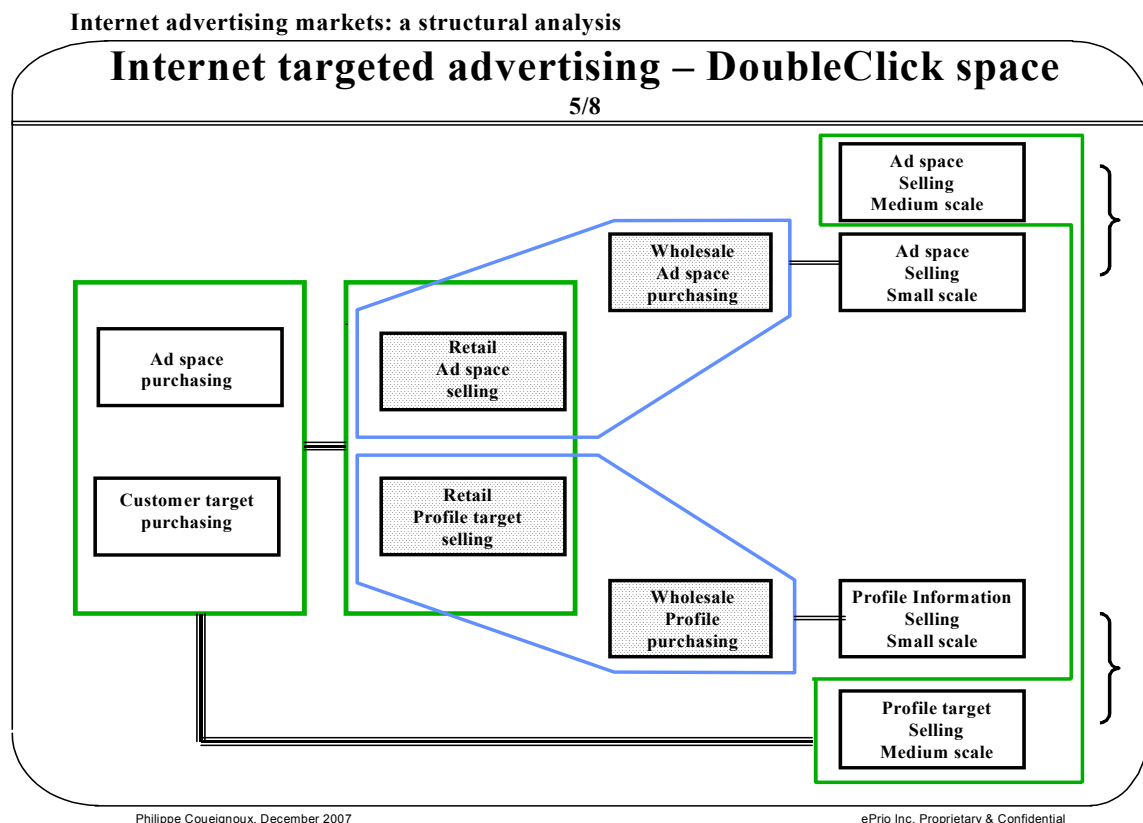
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## Internet targeted advertising:

The problem with figure 4 is that there is no equivalent to the postal service for delivering marketing messages to targeted recipients. For reasons which go beyond this document, marketing messages sent through email are no different from spam and are routinely filtered out by intended recipients. The Internet advertising industry takes this opportunity to present itself as the only efficient channel to reach the target and combines both functions, leading to the concept of targeted advertising.

Consequently we have used dashed multiple lines in figure 4 to represent hypothetical market relations for which we have found so far no actual instances.

Rather we propose figure 5 to illustrate the current situation.

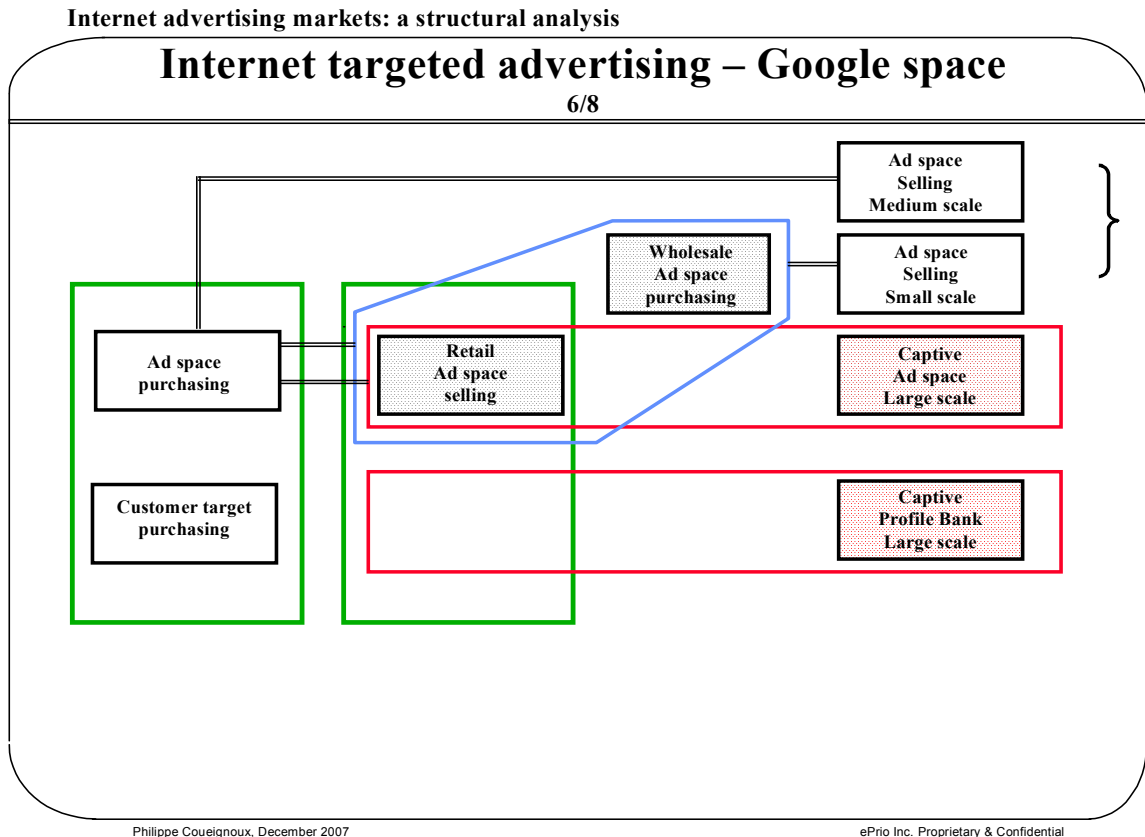


Advertising clients purchase both ad space and customer targets, a tie-in shown in figure 5 with a green line. Independent organizations may propose services in Internet targeted advertising by offering both ad space and profile targets (another green line). Similarly, targeted ad networks act as retail sellers of both ad space and profile targets (the third green line), and through the pre-existing tie-ins (shown by the blue lines). Market transactions now combine both aspects and are shown as solid multiple lines (triple line) between the green blocks.

One should note that targeted ad networks acquire a new function, that of integrating profile information into profile targets. Thanks to this important role, sellers of profiles not detailed enough or lacking an in house ad space tie-in to provide a full answer to the ultimate clients can still monetize their information.

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Figure 5, on the previous page, is actually the only correct depiction of DoubleClick's activities, whose DART, both as a technology and a service, specifically includes targeting in its description.



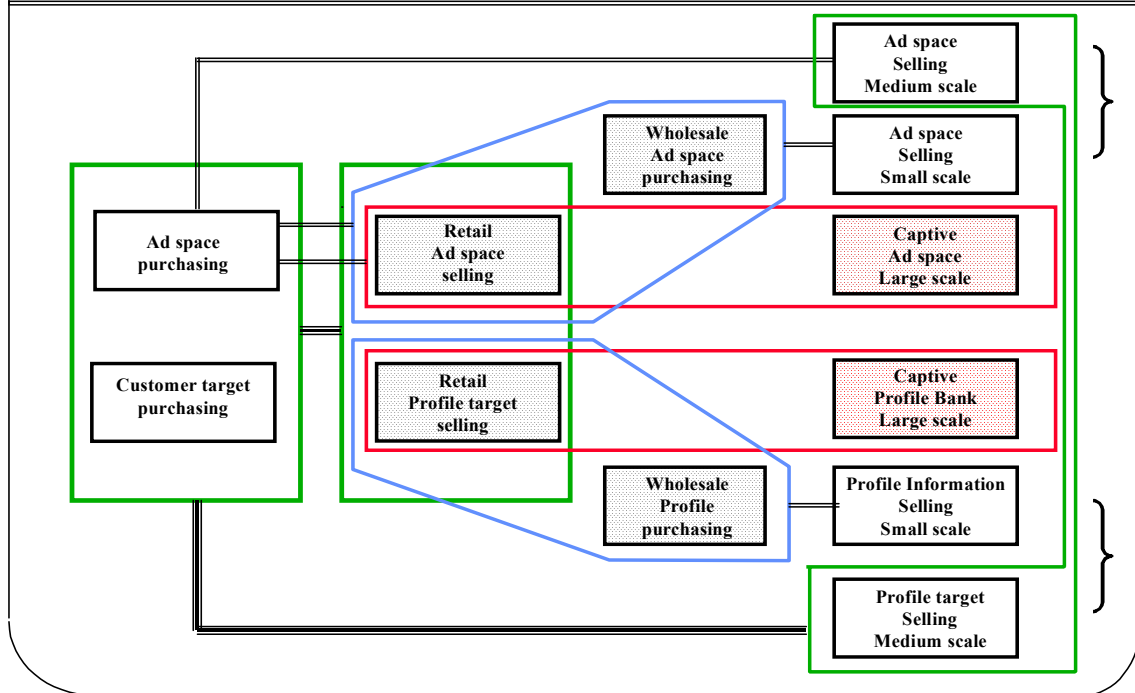
Similarly figure 6 is a new analysis of Google's activities in the light of this more complete schema. The point is that the same Internet search service which generates a massive and captive ad space also generates, in the current state of enforcement of privacy laws, a massive and captive data bank of user profiles. It is important to stress that this analysis needs not to judge whether this situation is good or bad for privacy. However the existence of the data bank itself is a fact well documented by all the privacy advocates.

Figure 7, on the next page, is but the superposition of Figure 5 (DoubleClick) and Figure 6 (Google). It shows the consequence of the proposed acquisition of DoubleClick by Google as Google would be enabled to:

- operate as an integrated provider of Internet targeted advertising
- deploy a captive large scale profile data bank
- and eliminate an independent provider

## Internet targeted advertising - preserving competition

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Philippe Coueignoux, December 2007

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Contrary to Internet advertising, Internet targeted advertising is an emerging field. The Commission may therefore feel that no reliable metric exists today which could provide an objective basis for its conclusions. It is also true that Google by itself has the resources necessary to replicate whatever technology DoubleClick possesses today and that opposing the proposed acquisition would have no significant impact on the field. We wish to point to the Commission that in fact those two objections are linked and together indicate the relevant metric, time to market.

**We therefore suggest that the Commission investigates** whether the acquisition of DoubleClick as an early player in Internet targeted advertising would enable Google to preempt competition in a key emerging market by marrying two dominant assets, a large scale ad space and an equally large profile bank, with a leader in ad serving and profile targeting technology and therefore:

- fielding a full scale, complete solution
- with a savings in the time needed for development, testing, deployment and market acceptance which will be critical in a rapidly evolving industry
- while eliminating a significant competitor, either by itself or by the alliances it could form with other competitors

**We also want to draw the Commission's attention to the fact** that, as we already suggested in our analysis of Internet advertising, the disappearance of DoubleClick as an independent intermediation service and technology provider may significantly decrease the freedom of choice of profile information sellers as well as with ad space sellers. This is even more so as ad space is additive, i.e. Google may find it good for its business to buy as much ad space as possible, while profile information is substitutive, i.e. it does not make business sense for Google to buy profile information it already possesses.



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## Internet targeting revisited:

Let us assume that our previous hypotheses hold, i.e.:

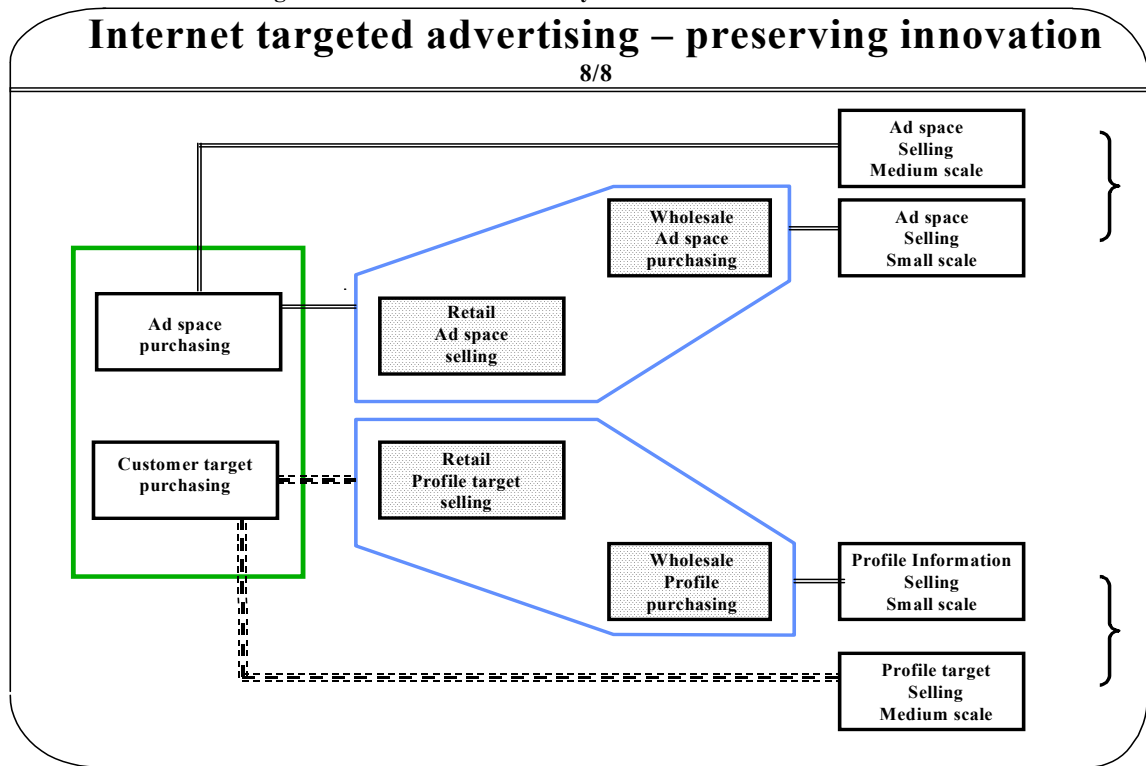
- success in the field of Internet targeted advertising requires the control of three asset types:
  - ad space
  - profile bank
  - associated technology
- early dominance confers a significant strategic advantage over competition, greater even than being first to market,

it follows that in order to have a chance to survive, a competitor needs to have access to all three asset types in about the same time frame as Google, i.e. in less than six months if the acquisition is allowed or more than a year if it is not.

Implied in the previous conclusion is that, were the acquisition allowed, no new technical solution can possibly be fielded in less than six months, even "at Internet speed". This is especially significant in view of two potential developments:

- it is quite possible, as ePrio's research has shown, to decouple the need for ad space from the need for profile targets. It is not the purpose of this document to show how it can be done but the idea is to enable ad networks to "recognize" the targets independently bought by a advertiser. Therefore ad networks can act as delivery mechanisms in the same way postal services deliver direct marketing campaign material per a certain address list. Figure 8 illustrates the potential industry structure, broken lines now representing allowable market transactions.

### Internet advertising markets: a structural analysis



Philippe Coueignoux, December 2007

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- the current trade-off between privacy and economic development, via targeted advertising, is unnecessary. Again ePrio's research has shown it is possible to have both at once

ePrio is by no means the only innovator and the present document should not be confused with a commercial solicitation. If the Commission needed however to provide tangible facts to argument its conclusions, ePrio provides convenient examples backed by an existing patent and a not yet public patent application. An investigation of the US Patent Office database should yield more examples.

**We therefore suggest that the Commission investigates** whether the acquisition of DoubleClick will stifle technical innovation by allowing Google to use its market dominance in Internet search/contextual advertising to standardize to its benefit the technical solutions undergirding Internet targeted advertising and the associated privacy practices.