

# EU probe delves into heart of Google's business

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European Commissioner for Competition Joaquin Almunia smiles while speaking during a session at the European Parliament in Brussels on Tuesday, Nov. 30, 2010. The European Commission said it is launching a formal investigation into whether Google has abused its dominant market position in online searches. The EU's competition watchdog Joaquin Almunia said that the probe follows complaints from other online search providers that Google put them at a disadvantage in both its paid and unpaid search results. (AP Photo/Virginia Mayo)

European regulators are tackling a puzzle that could shift the balance of power on the Internet: Is Google stifling competition by juicing its search results to favor its services over its rivals?

Hoping to find an answer, regulators announced an investigation Tuesday that will take the first major look into the heart of Google Inc., focusing

on the very thing that corporations from Coca-Cola to KFC go to enormous lengths to keep secret.

In Google's case, the mathematical formulas that determine its search engine's prized recommendations.

The rankings of Google's results can make or break a business these days, whether it is a blogger or a multibillion dollar company. Knowing how Google makes its decisions, or persuading regulators to dictate changes, could be of enormous value to competitors.

Word of the investigation caused Google's stock to tumble \$26.40, or 4.5 percent, to close at \$555.71. It was the largest one-day drop in the company's shares since mid-July. The company is also dealing with national antitrust probes in Germany, Italy and France.

The inquiry's timing also threatens to complicate Google's efforts to expand an empire that will bring in nearly \$30 billion in revenue this year. U.S. officials are reviewing its \$700 million acquisition of a leading travel technology provider, ITA Software.

Perhaps most troubling to Google, the European Commission conceivably could require it to divulge information about the algorithms that decide the links listed at the top of its search results.

The Mountain View, Calif.-based company has zealously guarded those formulas in much the same manner as the Coca-Cola Co. protects the recipe for its signature drink or KFC guards the ingredient mix for its chicken.

Although any confidential information that Google shares with regulators probably would remain under seal, the company's executives may not want to run the risk of opening its trade secrets to outsiders,

Boston University antitrust law professor Keith Hylton said.

"They are probably going to think long and hard about what to do in Mountain View and they may end up saying, 'Let's just cut a deal,'" Hylton said. "And that decision may not have anything to do whether Google is in the right or in the wrong on this issue."

It's still too early to say whether the commission will ask Google to disclose the algorithms, said Amelia Torres, the spokeswoman for Competition Commissioner Joaquin Almunia.

In a Tuesday statement, Google said it will attempt to answer the commission's questions.

If regulators conclude Google acted illegally, the company could face billions of dollars in fines, similar to what Microsoft Corp. and Intel Corp. faced in recent antitrust cases brought by the commission.

The investigation marks the first time a government has delved so deeply into Google's core business practices, although there have been other antitrust inquiries that have touched upon the company's dominance of the Internet's lucrative search market.

It wouldn't be surprising if the commission's probe spurs similar investigations in the U.S., Hylton said. "State attorney generals will probably look at this and see an opportunity to get their names on the front pages of newspapers, too," he said.

Google processes about two of every three search requests on the Web, even though there's nothing to prevent people from using other services, such as Microsoft's Bing and Yahoo Inc., the next two biggest search engines.

People have become so addicted to Google in Europe that it commands a 90 percent market share in some countries.

The investigation was triggered after several competitors - U.K.-based price comparison site Foundem, French legal search engine ejustice.fr and shopping site Ciao, owned by Microsoft - that complained their services were being buried in Google's main search results.

The companies also contended that Google highlights its own services, such as online price comparison, in the advertising section of the search results. Google charges other companies to be listed in this prime space.

In addition, regulators will look into whether Google tried to prevent other websites in its advertising network from featuring the commercial messages from its rivals. They also want to know whether Google made it more difficult for advertisers to export their information to other online marketing platforms.

Several websites in the U.S. have also complained that their links have been unfairly buried in Google's search results and, in some instances, have even filed lawsuits.

ICOMP, a business group whose members include Foundem and which is sponsored by Microsoft, said it welcomed the investigation.

"This is not just about search results," said ICOMP's legal council David Wood. "This is about the whole ecosystem of doing business with online content, online advertising companies and software companies."

The European probe will help underscore the threat posed by Google's market power, said Thomas Barnett, a former U.S. Justice Department lawyer who oversaw a 2008 investigation that broke up a proposed search partnership between Google and Yahoo in 2008.

Barnett, now working to block the ITA Software deal in private practice, predicted the inquiry will delve much deeper into Google's operations. He said no agency has gone after Google the way the European regulators are in their current investigation.

Google insists its search decisions are guided by a desire to quickly provide the most relevant and convenient information.

"We built Google for users, not websites," Susan Wojcicki and Udi Manber, two of Google's top executives, wrote in a blog post. "It may seem obvious, but people sometimes forget this - not every website can come out on top, or even appear on the first page of our results."

Google's lawyers have also argued the company's website recommendations are a matter of opinion protected by free speech, much like a newspaper's movie reviews or political commentary.

"This investigation could come down to whether Google is a publisher or whether it has become a public utility or some other creature that requires regulatory oversight," said Danny Sullivan, editor in chief of SearchEngineLand.com.

There's little dispute that Google's own services consistently have ranked at or near the top of its search results.

In some cases, there's clear logic to the rankings because some of Google's properties, including its mapping service and YouTube video site, are considered to be among the best and most authoritative in their categories.

Other services, such as finance and health, aren't as widely used or as well regarded, but tend to get high rankings in the search results.

Although Google says it strives to avoid bias, one of its top executives publicly conceded that the company sometimes give its own services preferential treatment.

Marissa Mayer, who formerly helped oversee the search, said the favoritism began shortly after Google introduced its finance section in 2006, according to a June 2007 presentation still available on YouTube (<http://bit.ly/eIHZD2> ).

"We used to have Yahoo (Finance) first and now is Google first," she said. "...When we rolled out Google Finance, we did put the Google link first. It seems only fair, right, we do all the work for the search page and all these other things, so we did put it first.

"That's actually been our policy since then because of Finance," she said.

Google's self-interest isn't much different from a lot of companies that publish or broadcast information, Sullivan said.

The latest inquiry seems "like being upset at NBC for showing only NBC shows, even though people tune into NBC because they like the network's programming" he said.

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