

TITLE: Competition vital in online marketplace

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Traditional retailers are happy to pay a premium for high visibility locations and the same is true online. In the online marketplace, high visibility means featuring prominently in search engine results. Google is by far the most used search engine in the world with more than 85 per cent of global search engine revenue. It's estimated to be even higher in Australia. The most likely explanation for this remarkable achievement is that most people, including me, think its search engine is the most helpful and easy to use.

The problem is not, however, the functionality of the site but the potential for its growing monopoly power to stifle genuine competition. The vast majority of consumers click on the first couple of search results. According to a survey conducted by The Australia Institute, 46 per cent of respondents said the order in which search results appear "always" or "sometimes" influences their purchasing decisions. Only 15 per cent said they looked past the first page of results.

Search rankings can make or break an online retailer, and there is little doubt many consider paying Google to prominently display an ad for their company to be an "essential service". Google's incredible market share means that it can charge whatever the market will bear for such prominence.

The US Federal Trade Commission recently cleared Google of claims it unfairly manipulates its search results to harm competitors but it did reach a settlement with the company which will see it change the way it displays some search results.

The European Union's competition commissioner recently gave Google a month to address a number of concerns about its abuse of its dominant position in the online search market. In Australia, the Australian Competition and Consumer Commission and Google are heading to the High Court to resolve a dispute about Google's practices.

There is nothing more destructive than competition. That's why economists are supposed to like it. And in recent years, the rise and rise of online commerce has left a path of destruction through the business landscape. Photo development labs and bookstores are fast becoming

as rare as landlines and BlackBerries. Retailers like Harvey Norman can complain as much as they like about the GST tax-free threshold for online purchases but the reality is consumers have now experienced a much cheaper and more convenient way to shop.

Online retail is likely to deliver far more competition, and in turn far greater benefits to consumers, than the Trade Practices Act has in recent times. The ACCC has found it increasingly difficult to persuade the courts of uncompetitive behaviour on the part of supermarkets, petrol stations or department stores as they buy up smaller rivals. Successive governments have done little to strengthen the ACCC's legislative powers, much to the relief of the big oligopolies.

But it seems that technological change may succeed where the law has been failing. Prices for shoes, clothes and electrical appliances have been plummeting as online retailers with low overheads sell consumer goods at prices the old oligopolists just can't match. But while the economics textbooks assume that fierce competition is the norm, a quick look at the ASX 200 tells us that monopoly and oligopoly are where the action is. The top 50 listed companies for whom figures are available have sales of \$508 billion or just over a third of GDP.

Economists have long known the people most likely to get rich in a gold rush are those who sell the shovels and the tents. Those who build the rail lines get richer still. In the rush to online gold, the firms making the big money are the ones providing the infrastructure. In online retail, the most concentrated and most profitable support service is the humble search engine.

Online competition will continue to carve huge chunks out of the profit margins and balance sheets of some of Australia's biggest brands and, at the same time, it will deliver big benefits to both new entrants and old consumers. Incumbents like Harvey Norman and the management of David Jones mightn't like it, but they aren't supposed to. The whole point of competition is that it delivers low prices to consumers and low profits to producers.

Companies like Google, Telstra and Australia Post will all play a crucial role in driving competition online, but regulators, here and around the world, will need to be vigilant if they want the benefits of online competition to flow to consumers rather than to a new generation of monopolists. Our regulators have been slow to act as the banks and supermarkets built market share at the expense of consumers. They shouldn't repeat the same mistakes in the rapidly evolving online marketplace.

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