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Search engine market power poses risk to online competition

Two thirds of Australians are in favour of the government taking action to ensure competition on the internet, new research by The Australia Institute reveals.

Despite this, and the boom in online retail being fuelled by consumers' desire for choice, a surprising number of people are less concerned about a lack of diversity online than in traditional marketplaces.

The Institute's Executive Director and report co-author Dr Richard Denniss said there is a real risk of online retail becoming dominated by a few big-name brands and retailers, mirroring the existing Coles versus Woolworths duopoly.

What you don't know can hurt you: How market concentration threatens internet diversity, reveals that Australians are unaware of and often unconcerned by rising concentration in the online marketplace. The report highlights the way in which search engines can amplify the market concentration that big retailers already enjoy. Around half of online shoppers (46 per cent) admit that the order in which search results appear always or sometimes influences their purchasing decisions.

Just 15 per cent of survey respondents indicated that in their most recent web search they went past the first page of search results.

The research identifies a widespread lack of awareness among Australians about certain basic aspects of the way search engines work, with misconceptions particularly noticeable in relation to the way search engines treat their own affiliated services and paid advertising. More than a third of internet users (37 per cent) were unaware that search engines display paid advertising.

"Unless regulators pay more attention to the need for online diversity, and there is greater understanding of how search engines function, online retail could come to resemble today's shopping centres, in which the appearance of choice exists but actual choices are limited to a small number of players," said Dr Denniss.

"Search engines such as Google, Yahoo! and Bing have become an essential service much like electricity, telephony and banking. However, key aspects of how they operate, such as

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how their search algorithms actually work and the nature of their commercial arrangements with advertisers, are currently shielded from public scrutiny.

“Just as Australians have expressed concern about a lack of competition in banking, mining and retail, they should also be concerned about the potential for such market power to emerge in the online economy.

“Put simply, the more diverse and competitive the online economy is the greater the cost savings to consumers will be,” concluded Dr Denniss.