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We've heard a lot recently about how the internet is changing the retail landscape.

Despite the extreme lethargy with which many of Australia's largest bricks-and-mortar retailers have embraced online opportunities, consumers are increasingly turning to the web to find more products at lower prices, and without needing to go anywhere near a Westfield.

What hasn't been part of the discussion of online retail is the role that search engines like Google, Yahoo! and Bing play in shaping the buying habits of online shoppers. Search engines are the nexus between millions of internet users and the huge variety of products and services available online. Search might then be characterised as an essential online service, much like electricity, telephony and banking.

However, key information about the way search engines work - the algorithms used to generate search result rankings - is generally not available to the public or to regulators. Instead, they remain a 'black box' controlled by and known only to the companies which provide search services. Essentially, search algorithms represent the opinion of the search provider about which web pages are most likely to match the user's search. If enough people use a particular search service, the power wielded by such opinions can be significant, influencing economic behaviour and determining what online content users are most likely to access.

A new report published by The Australia Institute, *What You Don't Know Can Hurt You: How Market Concentration Threatens Internet Diversity*, explains the link between the search market and the behaviour of online shoppers. In a survey of 1,084 internet users, just under half (46 per cent) admitted that the order in which search results appear always or sometimes influences their purchasing decisions. Only 15 per cent indicated that in their most recent web search they went past the first page of search results.

Given the key role of search engines in online activity, it is noteworthy that one search provider in particular, Google, enjoys a virtual monopoly in many countries. Public goodwill and the obvious quality of its products have delivered Google a massive share of the search market, including over 90 per cent in Australia.

Just as market power remains a concern in the banking, mining and retail sectors in Australia, the market power that this particular firm wields in internet search should concern regulators. As a publicly listed company, ownership and corporate strategy can change virtually overnight, and there are no guarantees that future owners will act in the public benefit rather than their own.

Survey results also indicate a widespread lack of awareness and knowledge about certain basic aspects of the way search engines work. Misconceptions are particularly noticeable in relation to the way search engines treat their own affiliated services and paid advertising. Indeed, more than a third of internet users (37 per cent) said they were unaware that search engines display paid advertising at all. With search engines nowadays drawing most of their revenue from advertising, this should concern anyone who believes that informed consumers are the key to competitive markets.

Despite a lack of understanding on the part of many Australians about certain basic features of search, the public's desire for an online environment characterised by healthy competition and diversity is unmistakable. Two in three respondents said they would prefer the government to intervene if necessary in the interests of competition rather than leaving the internet to develop without interference.

If the internet is to evolve in ways which Australians say they want it to - with growing levels of diversity and choice, not less - then regulators and consumer groups need to pay serious attention to market power on the internet. With only 6 per cent of all retail sales in Australia currently made online but internet commerce expanding rapidly, now is the time to lay the foundation for a truly competitive online marketplace.

There are measures which regulators can take to deal with the causes and effects of market concentration online, both in search and in other areas. Advocates for competitive arrangements in various communications mediums - including Google - often refer to the need for "network neutrality". It may be that the principle of "search neutrality" - under which search engines would need to treat all web pages, including those that they are commercially affiliated with, without discrimination - will become just as important as network neutrality in determining the matter in which the internet evolves.

Another principle should underlie a range of policy interventions: transparency. At the moment much of the activity that consumers might conceivably object to online is in fact shielded from the public gaze. This includes not only search algorithms but also the vast number of small payments that flow between online advertising businesses and their paying customers, and which could conceivably influence online behaviour profoundly. It is time such practices were subject to greater scrutiny.

Josh Fear is deputy director of The Australia Institute, a Canberra-based think tank, and co-author of the report [What You Don't Know Can Hurt You: How Market Concentration Threatens Internet Diversity](#).