

Regulation of digital and intangible assets: Internet advertising

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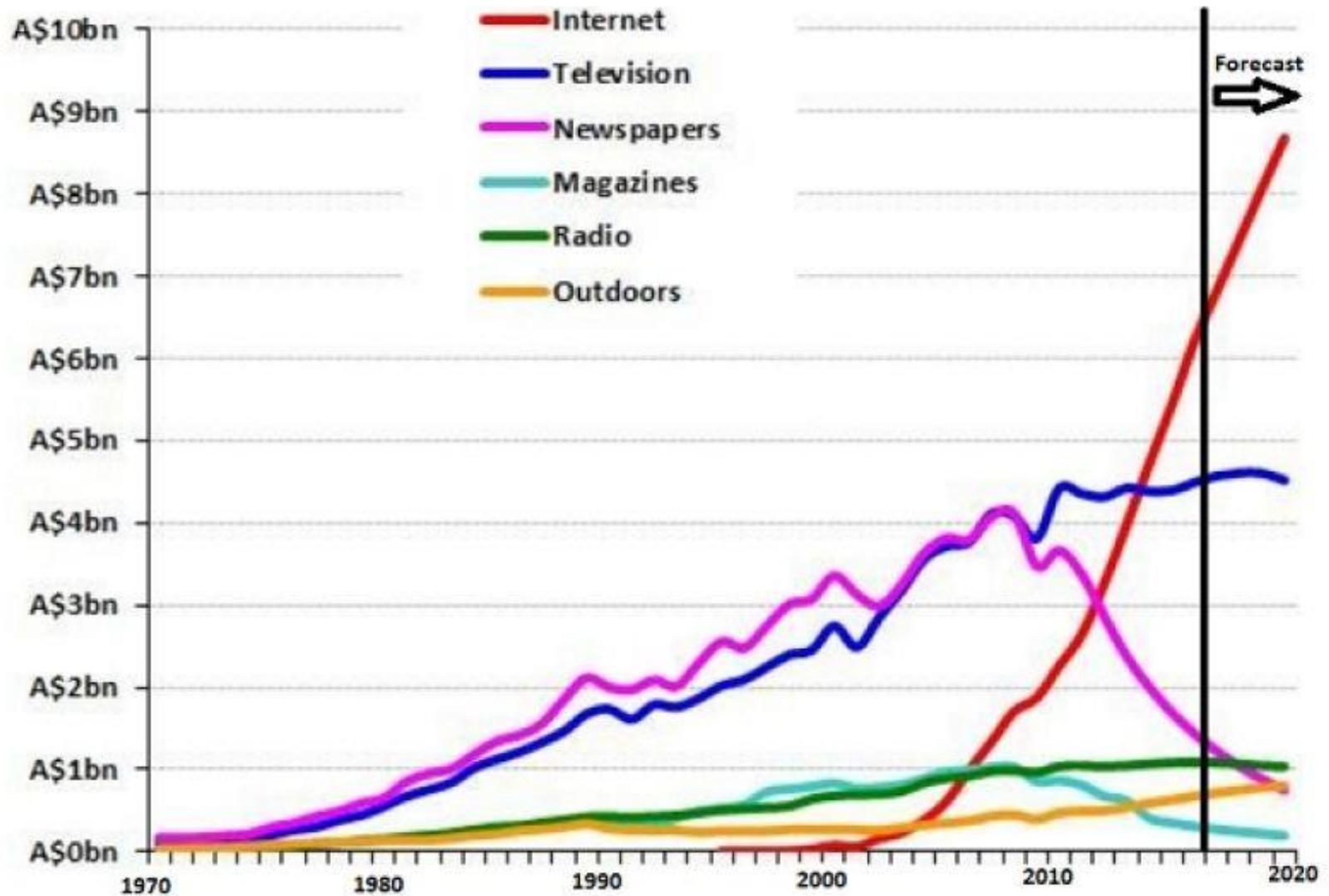
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1. Market definition

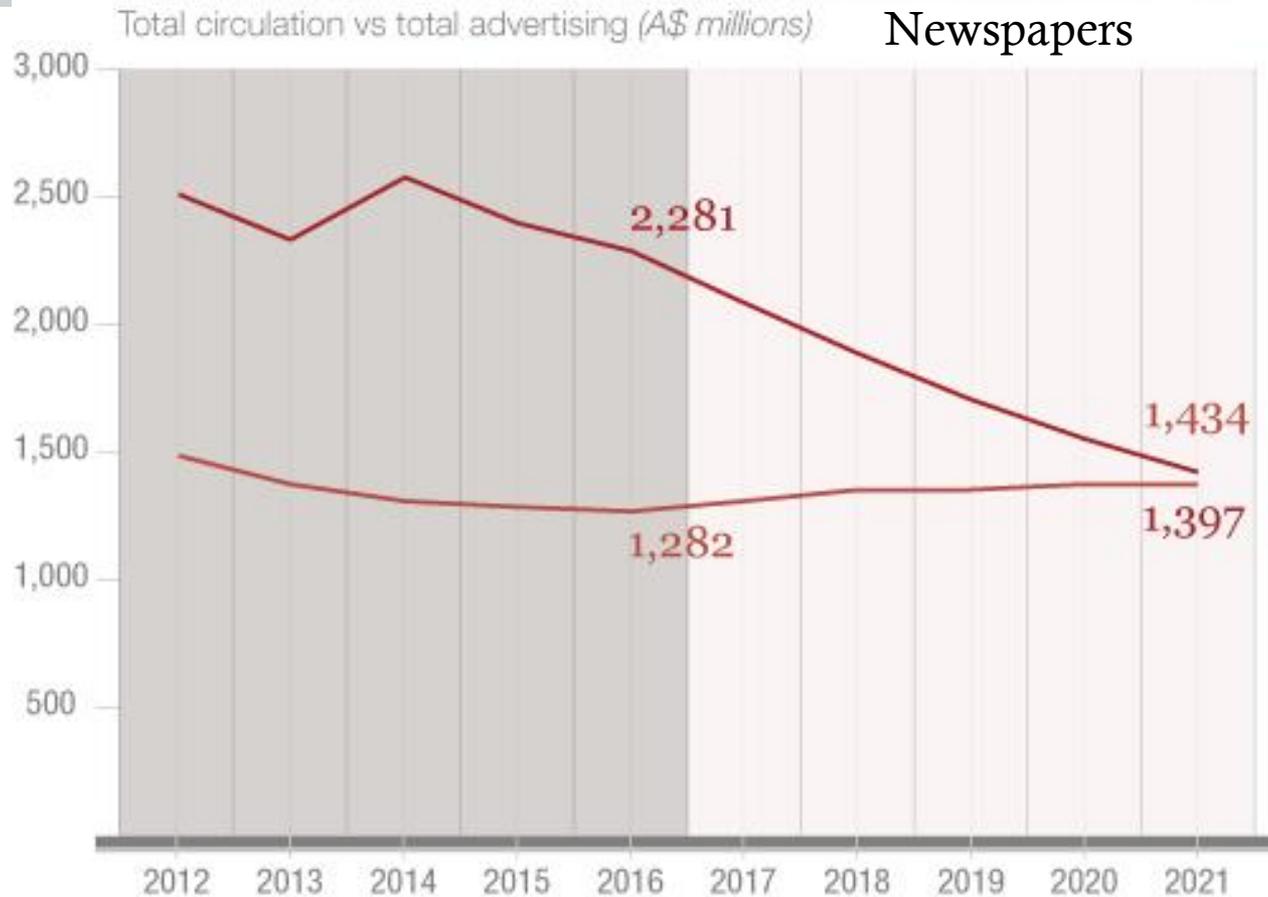
- There is no **“market for online advertising”**, just a national market for advertising.
- ➔ Competition between online channels and newspapers, magazines, TV, radio,...

Australia's changing advertising spend



Source: Morgan Stanley Research Estimates

Advertising revenues for traditional media are falling much faster than their market share



CAGR 2017-2021

Circulation

1.7%

Advertising

-8.9%

<https://print21.com.au/rough-times-ahead-for-print-ads-says-pwc/142203>

Healthy competition

- Evidence suggests that firms find online advertising to be more cost-effective
 - ➔ Like a better quality product on the market: gaining market share, but for the right reasons!
 - ➔ Firms who advertise are better off, for now; may not be better off as other advertising outlets disappear.
 - ➔ No regulatory intervention required (other than perhaps subsidies to quality journalism).

2. How much market power among the new advertisers?

- Initial glance suggests there is strong market power in advertising:
- Google and Facebook have around 40% share of total advertising revenue in Australia in 2018 (and 67% of online)

Market for Bundles

- Online advertising is described as “targeted”
- But there is no market for an individual:
- Rather, standardised bundles of consumers are sold: 100,000 impressions by “female fashionistas aged 18-24”
- Standardisation creates **thick** markets: many buyers and many sellers offering their pages for ads

Quality problems in the market for bundles

- Facebook sells ad space on Facebook; space on other web pages is sold directly, or through “data brokers”
- Evidence that the bundles constructed by data brokers are unreliable (Neumann, Tucker, Whitfield 2018)
 - In their field experiment, gender was accurately identified 55% to 81% of the time, depending on the data broker
 - Big variation in brand safety, viewings by “bots”, non-unique viewings

Is the Market for Bundles a “Market for **Lemons**”?

(Neumann, 2018)

When quality is unknown by buyers, bad quality (lemons) proliferates and drives good quality out of the market.

- Low price and low quality characterises the ad exchanges
- High-quality publishers don't use ad exchanges
- Creates a **substantial premium** for ad sellers with a reputation for better data = Google, Facebook
- Creates incentive to **merge** with those firms

→ What regulation?

- Will the love affair with “targeted” advertising be short-lived?
- Quality verification would reduce the price premium for Google and Facebook
- Would aggravate the decline of newspaper/TV advertising, however.

3. Price discrimination

- Amazon is both selling products and advertising those products on its site
- Can use richer information in targeting customers
- Can (and does) price discriminate (Mikians et al. 2012)
 - Not problematic if **high-income** customers pay more
 - Very problematic if **less internet-savvy** customers pay more (what we see in electricity pricing)
- May consider regulating.



Search discrimination

- Evidence that high-income people are shown more expensive choices on comparison shopping sites (Mikians et al. 2012)

= means higher margin for the site

= implicit price discrimination

Search discrimination

- Evidence that high-income people are shown more expensive choices on Google (Mikians et al. 2012)
- Google sells “high-income” customers in bundles to advertisers → the bidding process means more expensive choices appear

= advertisers could also use this information to price discriminate (no evidence yet that they do so).

Mikians et al. (2012)

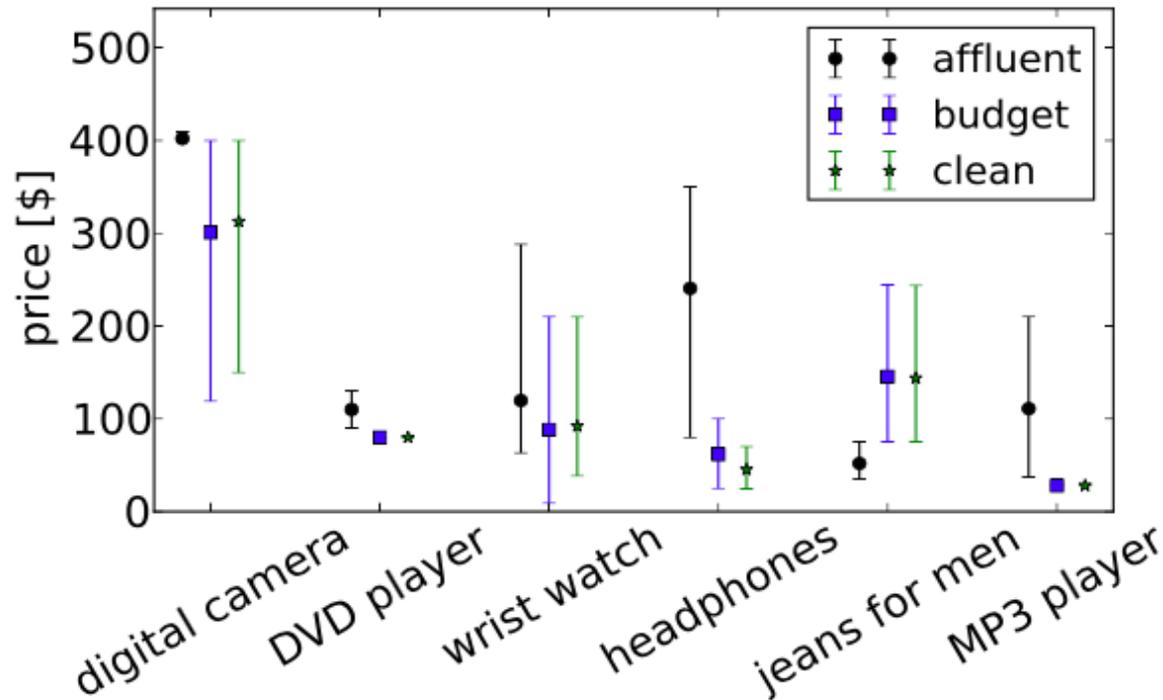


Figure 4: Prices (mean/min/max) shown by Google to the different personas. The median number of products in each category per persona is 12.