Microsoft

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Microsoft submission to Digital Platform Services Inquiry (DPSI) – September 2024 report revisiting general search services

Microsoft welcomes the opportunity given by the Australian Competition and Consumer Commission (**ACCC**) to respond to the DPSI's September 2024 Interim Report revisiting general search services. Search is an important topic and one worthy of studying. While three years have passed since the ACCC issued its last paper on Search in 2021, the market has not shifted, and the competitive dynamics are the same.

Below we provide a brief summary of Microsoft's views as they relate to general search services in Australia and the role of generative AI in search.

1. General search services in Australia

Microsoft agrees with the Issue Paper's statement that market shares have remained consistent since the ACCC submitted its Report on Search Defaults and Choice Screens in September 2021.[1] Indeed, according to a leading industry source, StatCounter, Google's share of general search services has remained above 90 percent since 2009, which is as far back as StatCounter tracks usage.[2] For example, Bing's usage share in Australia as of January 2009 was 3.17 percent and as of February 2024, its share is 4.68 percent despite billions in ongoing investment by Microsoft. The release of Bing chat in February 2023 has not had a material impact on usage share as Bing's share was 3.9 as of the launch and over a year later Bing has not achieved even a percentage point of share growth.

As we have previously submitted, general search services are characterised by network effects. We also agree with the Issues Paper that mobile phones are the most popular way for consumers to access online services, particularly to conduct online general searches.

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[1] ACCC, September 2024 report revisiting general search services – Issues Paper, p6.
[2] StatCounter, Search Engine Market Share Australia | StatCounter Global Stats.

The key to a competitive general search service is achieving sufficient user and advertiser scale, which is necessary in the following ways:

1. **Scale reduces the investment cost of improving quality**. That is, a general search service with more consumer users and more queries incurs lower costs per consumer to achieve a given increase in quality.

2. **Scale is required to enable algorithms to improve relevance results and facilitate experimentation**. That is, the quality of a general search service improves with user feedback. The more users that use a particular search service, the more click and query data and other usage information to which that search service will have access. That usage data can then be used to train powerful machine learning algorithms to improve the relevance of the search results, which will attract more users and make it less likely that existing users will switch to a different general search service.

3. **Scale is required to attract advertisers**. Achieving user scale is also critical to attracting advertisers to a general search service, which is necessary to provide a revenue stream to support continued innovation and development of the search and advertising functionalities. Achieving advertiser scale also makes it more likely that relevant ads are available to be shown for any particular query.

4. **Scale relativities impact competitive outcomes**. That is, the relative scale difference between competing general search engines is even more important than the absolute scale of a search engine. This is because additional scale leads to higher quality results, leading to more users and advertisers, which in turn leads to even more user scale. These network effects make it exceedingly difficult for challenger search engines to grow once a significant scale gap has been created.

5. **Scale enables a general search service to enter into default distribution agreements that further amplifies scale gaps**. Having the scale for better monetisation can also make a general search service more attractive to device or web browser partners. This can further entrench the scale gap as default settings on mobile devices and web browsers can be critical to the distribution of a general search service.

In relation to web browsers, we continue to believe that in addition to needing to provide a web browser as part of an operating system in order to make the operating system functional and competitive, they are also closely intertwined with search from a business model perspective. Web browsers provide important entry points through which users access search services. Web browsers also seek to monetise their offerings through advertising, either by offering their own general search service as Google and Microsoft do, or by partnering with a general search service to set that service as a default in exchange for revenue share. The extent of competition in general search services, therefore, directly impacts the ability of browsers to compete and monetise.

2. The role of generative AI in search

The use of artificial intelligence and machine learning in search is not new. Different artificial intelligence models have been developed and used for years in driving relevance, predicting ad clicks, and many other features of search engines. Generative AI is merely the next extension of that basic trend. While generative AI can create new ways for users to interact with a search engine and existing machine learning models can benefit from generative AI technologies, we do not expect that the technology will fundamentally disrupt the internet search market that has been dominated by Google for decades.

Over the last year, search engine providers and others have released chat-based generative AI experiences. These include Google's release of Gemini and Yandex's release of YandexGPT. Others provide chat bot experiences, like ChatGPT, Perplexity.ai, or You.com, that are not directly integrated into a search experience but answer a number of questions in a way that is similar to a search engine. For example, Snap is launching a chatbot based on OpenAI's GPT models.[3] Similarly, IBM has its own chatbot functionality[4] as do many others.

The Statement of Issues incorrectly states that, if a chatbot provider wants to include search functionality in their chatbot experience, Microsoft prevents "providers from using the Bing search index" for generative AI tools. This is not accurate. Microsoft has a publicly available program for use of the Bing search index in such tools.[5] Any provider, including DuckDuckGo which was explicitly referenced in the Issues Paper, could rely on this program.

In February 2023, Microsoft launched an update to Bing to provide an AI-enhanced, large language model (**LLM**)-based web search experience. This LLM-based experience is available in Australia and is customised by Microsoft for Bing experiences, which Microsoft refers to as the Prometheus model. Prometheus combines the AI model with information from Bing's index, ranking, and answers results.[6]

The new Bing experience has three main aspects: helping to summarise Bing search results, providing a chat-based experience (Bing Chat, now branded "Microsoft Copilot"), and enabling the user to generate content. When a user enters a query or prompt in Microsoft Copilot, the service will process the input using the Prometheus model and provide a response. Responses are presented to users in several different formats, such as traditional links to web content and as AI-generated summarisations and chat outputs. The user could also choose to go directly to a chat-based experience by clicking on the Microsoft Copilot tab or navigating directly to copilot.microsoft.com instead of typing a search query into Bing.

Thus, Microsoft Copilot presents another way for users to interact with and receive results from Bing and to drive traffic to content sources on the Internet. By summarising the information in a more useful way for the user, the user can digest information more quickly and get a more complete picture. Microsoft Copilot results include footnotes to the

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[3] See, e.g., Rohan Goswami, CNBC, Snap launches A.I. chatbot powered by OpenAI's GPT, 27 Feb 2023.
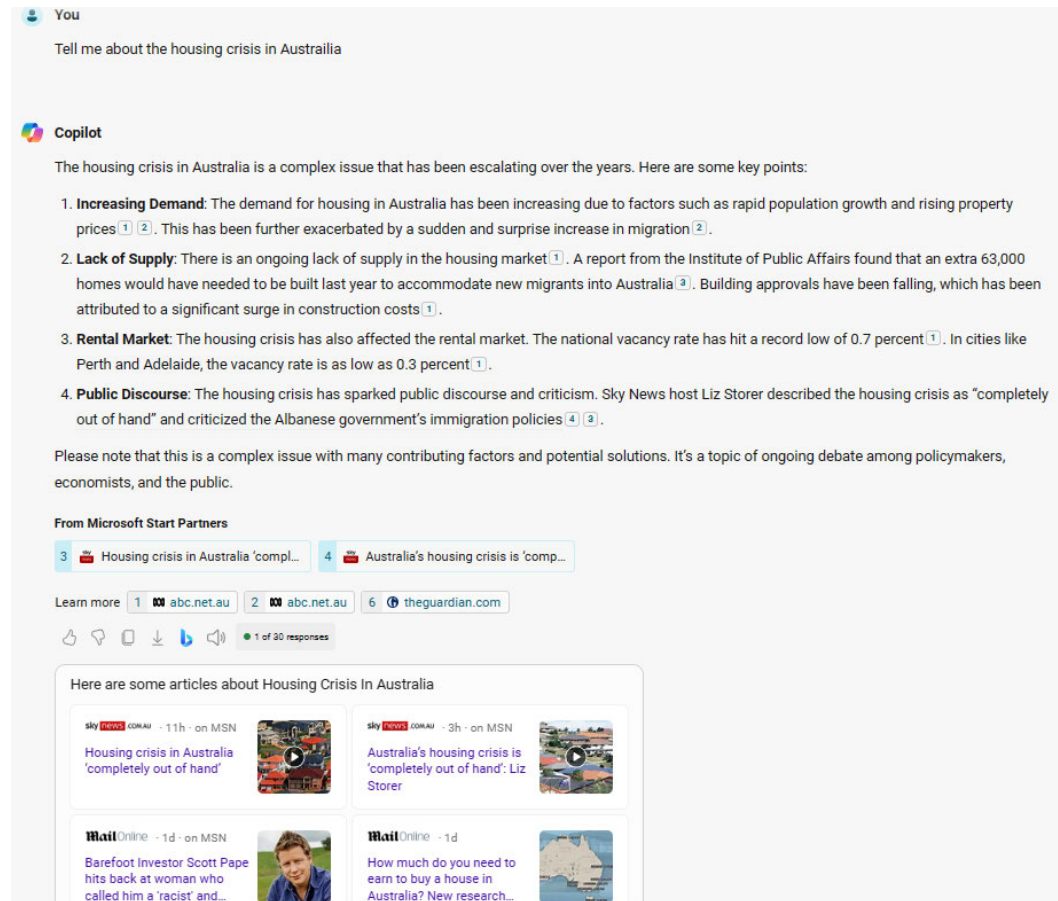[4] See IBM, watsonx Assistant.
[5] See Microsoft, Bing Search APIs, with your LLM.
[6] See further, Jordi Ribas, Building the New Bing, 22 February 2023.

sources themselves to drive traffic to these sites and to help the user ensure the accuracy of the answer – see further example in **Figure 1** below.

Figure 1 – example of a Microsoft Copilot response to a user query

Microsoft Copilot responses also have a hover experience where hovering over information in the response will display the title of article or webpage and the specific sources along with a link to that source – see **Figure 2** below. Of course, it is still early in the evolution of these experiences and Microsoft and others will continue to experiment with features and what might provide the best user experiences as it relates to search. Similarly, Microsoft expects that AI-powered consumer experiences like this will be part of many different products and services over time, with web search being just one such service.

**Figure 2 – example of the hover experience in Copilot**
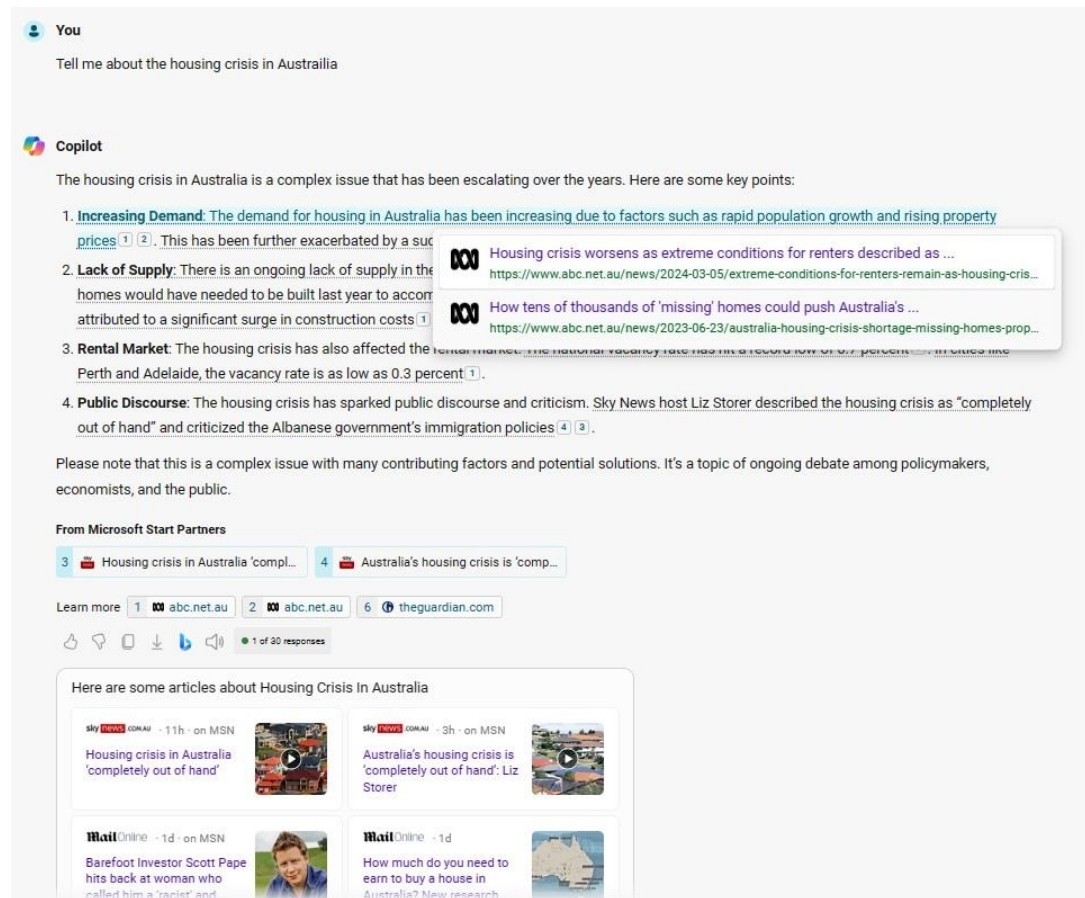
Microsoft does not expect that Microsoft Copilot will change Bing's search usage share in a material way for several reasons:

1. First, access to large language models is prevalent within the technology industry. Microsoft is not the only entity offering chat-type experiences in search. Many other companies have also enabled new chatbot features that eliminate the novelty factor for Bing. In particular, Microsoft Copilot competes with Google's conversational AI chatbot Gemini (previously known as Google Bard). Gemini entered the market after Microsoft Copilot but enjoys significant market advantages. Specifically, it benefits from Google's dominant search engine, which gives it access to a web index larger than Microsoft's Bing and access to extensive search usage data. Google is also integrating Gemini into Google Search, increasingly enabling users to engage with the service in a conversational mode. Google has already positioned Gemini as the successor to Google Assistant, which is pre-installed on more than three billion Android mobile phones globally. And Google is widely reportedly to be finalising a deal with Apple for Gemini to power AI experiences on more than 1.8 billion iOS mobile phones. Google is well-positioned to evolve and leverage its position in search and its distribution channels on mobile into a leadership position in generative AI. New entrants and

competitors of Google, such as subscale search engines like Bing,[7] will not enjoy the same advantages when developing their own AI experiences.

2. Second, nearly all searches, including chat-based searches, are directed to a search engine through the default settings in browsers and on the home screen of a mobile device. Google Search is the search default in all the most used browsers and on all mobile devices. Users rarely change these default settings to Bing and Microsoft does not expect the new Copilot for Bing experience to change this longstanding customer behaviour. Even if customers want to try the new Bing experience to create a poem or engage in an AI chat, it does not mean they will change search defaults for their everyday search queries. As explained above, this is further underscored by publicly available search engine market shared data. Since the launch of Bing Chat, Bing's market share has not materially changed, either globally or in Australia[8]:
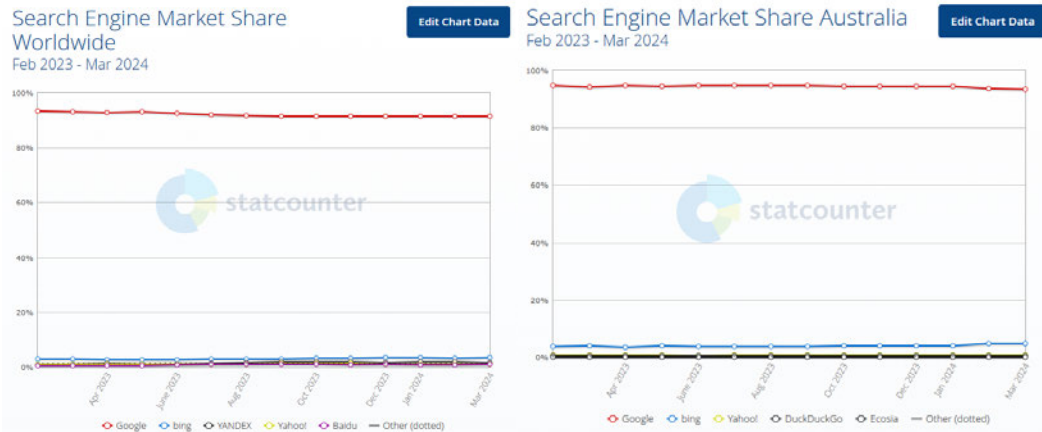
We appreciate the ACCC's consideration of our perspectives on competition in the supply of general search services in Australia. Please let us know if you have any questions regarding our observations and comments or if you need any additional detail or information for the Report.

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[7] For example, if a subscale search engine does not have sufficient data to learn from, it will struggle to understand and provide relevant results to a user's query. With respect to Bing and Microsoft Copilot, if Bing does not have sufficient data or signals to provide a relevant response to a query, Microsoft Copilot will similarly be unable to provide a relevant response to a user's prompt since Microsoft Copilot's web based responses are based on data and signals available in Bing.
[8] See StatCounter, Search Engine Market Share Worldwide, Feb 2023-Feb 2024 and StatCounter, Search Engine Market Share Australia, Feb 2023 to March 2024.