
Australian Competition and Consumer Commission
Digital Platform Services Inquiry
Email: digitalmonitoring@acc.gov.au

17 April 2024

Submission to the ACCC digital platform services inquiry

Dear Sir/Ma'am,

Please find enclosed our submission to the ACCC digital platform services inquiry – **September 2024 report revisiting general search services**. We cover two areas of your consultation questions with which we are somewhat familiar through our research: **level of competition for general search service** and **entry by interactive AI**. We were informed about this inquiry in the last minute and prepared it in a short period of time. We would love to discuss in the future other mentioned issues such as pre-installation of search engine and self-preferencing.

We are happy to address any follow-up questions you might have. Please note that the views expressed in this submission are solely ours and should not be attributed to Monash University.

Kind regards,

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The technology that underpins search engines like Google relies on what's known as a data-enabled network effect.¹ As more users utilize the search engine, more data is generated, enabling deeper insights into user behaviour. This, in turn, aids in enhancing search results, subsequently attracting even more users to the platform. In comparison to other forms of direct network effects, such as those seen in social media, data-enabled network effects typically exhibit weaker defensibility against new entrants due to the following reasons:

- (i) Entrants can obtain data from other sources such as data brokers.
- (ii) Unlike the network effect on Facebook or Instagram, which works to attract more users once established, a data-enabled network effect requires effective data analytics to provide insights about participants in this market.
- (iii) In some cases, such as digital wearables, the information that can be gleaned from users is limited, and additional data adds little to gaining new insights.

Point (iii) does not apply to dynamic markets such as the one for search engines. Consider the buyer-seller scenario: the listing of sellers on a search engine often changes due to entry/exit and popularity fluctuations, while individual buyers' demands also vary over time due to shifts in preferences or budgets.

Points (i) and (ii) are indeed applicable to search engines. New search engines could potentially gain access to substantial data from third parties (or even directly from the dominant search engine, if required by regulation), and if they possess superior data analytics capabilities, they could extract better insights from the available dataset. Consequently, entry into the search engine market is more feasible compared to other online markets with more traditional network effects. However, the pre-conditions for points (i) and (ii) hinges on significant uncertainties, depending on the maturity of the third-party data market and the new search engine's proficiency in data analysis. Generally, it remains highly challenging, if not impossible, to enter the search engine market where the incumbent has already established strong network effects.

It's crucial to recognize that having a dominant search engine isn't necessarily detrimental. In fact, having a single search engine that attracts everyone to use it could be the most efficient way for the market to operate, at least in the short term. This setup maximizes the benefits derived from the data-enabled network effect.

Putting aside the concerns about privacy and sponsored links², the main issue with a dominant search engine is whether it can continue investing on R&D and deliver the most relevant results to search queries. If it faces no effective competition constraint, either from an existing fringe competitor or a potential entrant, it has no incentive to do so. Entry into the

¹ See Andrei Hagiu and Julian Wright, 2020, "Why are data network effects less valuable than regular network effects?" (<https://platformchronicles.substack.com/p/why-data-network-effects-are-less>)

² One issue with sponsored links is the price effect, i.e., whether small business pay too much for advertising in position auctions held by Google and whether the high advertising cost is passed on to consumers via high prices. Another issue would be whether Google self-prefers its vertically integrated business in showing sponsored ads.

search engine market is highly unattractive to innovators given the huge fixed cost they need incur beforehand and the dim perspective for profit given the incumbent advantage. At the same time, entering into the adjacent markets and developing new technologies that are complementary to the incumbent search engine is attractive, which in turn strengthens the dominant position of the incumbent.

As rightfully noted by the ACCC's issues paper, the increasing generative role of AI may alter the competitive landscape of the search engine market. An interesting parallel can be drawn with the computer device market, where Apple's Macbook laptops and iPads compete with PCs and tablets from other companies. Just as laptops and tablets are often used as complements rather than substitutes, it's likely that search engines and interactive AIs will serve as complements in consumers' usage patterns. This scenario is most likely to occur in the early stages of interactive AI development. Google would maintain its advantage in searching for general information due to its vast data resources, while AIs excel in other tasks, such as assisting in essay writing.

As time evolves and interactive AIs accumulate enough data, it is natural to expect that both Google and OpenAI will explore entry into each other's markets to leverage this complementarity. In fact, Google has already taken steps in this direction with the development of Gemini. The most promising avenue for significantly enhancing competitiveness in the search engine market would be an entry by OpenAI with its own search engine. Indeed, as both companies expand their offerings to include segments in both search engines and interactive AIs, they will begin to resemble substitutes more closely. This convergence could lead to more effective competition between Google and OpenAI.

Regarding policies, three potential directions for intervention emerge:

- (i) Empower fringe competitors by fostering a more active and healthy data market. This could involve enabling them to acquire data directly from users or indirectly from brokers to enhance and refine their search algorithms.
- (ii) Implement direct regulations on the dominant search engine to mandate data sharing with competitors and prevent the imposition of barriers that hinder existing or potential competitors. Like many digital markets, the search engine market is dynamic and uncertain, direction regulation like such should be light touch but highly vigilant.
- (iii) Implement stringent controls on the dominant search engine's acquisitions in adjacent markets. This is crucial as the emergence of new power in these markets may eventually lead to attempts to enter the search engine market, given the complementary nature of these sectors.