



Margrethe Vestager | John Thys/AFP via Getty Images

COMPETITIVE EDGE: The Google auction that may turn into a trap

Google suggested a solution to restore competition but the auction plays to the company's advantage.

By **THIBAUT LARGER** | 12/4/19, 7:00 AM CET | Updated 12/4/19, 8:51 AM CET

With Google, nothing's really free.

That's certainly true for the auction the search giant presented to Brussels as a remedy to restore competition between search engines on phones using its mobile software, Android.

In July 2018, EU competition chief Margrethe Vestager fined Google €4.3 billion for illegally leveraging its market power in the Android operating system to promote its own search engine. She ordered Google to fix the market and requested changes, the so-called "remedies."

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To comply with the remedies obligation, Google came up with the idea of auctioning spots on the setup screen every quarter, so people could install their favorite search engines when buying a new phone.

Competitors disapproved of the idea, and the Commission still has to decide whether to green-light it. Google is in the peculiar situation of appealing the decision, while still pressing ahead with a solution that is far from doing it any harm.

“They are trying to take advantage of the situation,” according to David Salant, an economics professor from the Toulouse School of Economics, who has advised telecom companies on auction design.

Through its proposal, Google will make money and could weaken competing search engines, the specialist explained.

“If competitors don’t get any spots for a number of periods, search revenues would be much lower and they may have trouble remaining relevant in the market. That’s possible, very probable,” he said.

“Why should Google be running the auction? Why are they involved in making this decision? There is no need for the auction,” Salant argued.

Innocuous, at first glance

For Google, the auction is “a fair and objective method to determine which search providers are included in the choice screen.”

The gist of the solution is that search engines compete to appear on the setup screen for new phones, by saying how much they are willing to pay each time a user pre-installs them.

It is the fourth proposal made to the Commission since July 2018. It would be run in parallel in all EU countries and there would be three spots available, on top of the one reserved for Google.

The three highest bidders would get a spot on the choice screen but would only pay what the fourth-highest bidder was willing to spend. Google would then tell the winners they made the cut, announce the clearing price, and organize another auction three months later.

“The rules are fairly standard,” said Paul Klemperer, a professor of economics at the University of Oxford.

“The auction design is reasonable,” said Peter Cramton, an economics professor at the University of Virginia. [Privacy Settings](#)

University of Cologne. “Using the fourth price gives bidders good incentives to bid their true values. This should improve efficiency and simplifies bidding,” and announcing the winning price is “good practice,” Cramton said.

Cramton explained that “the auction likely does not maximize revenues, although it should do reasonably well. The goal of the auction is efficiency, not revenues.”

Klemperer and Salant agreed Google would increase revenues with the auction.

Salant added the auction was a “cover way to make money from the remedies.”

As for Google, the official rationale is simple: “The auction revenues [will] help us to continue to invest in developing and maintaining the Android platform.”

The devil is in the detail

Does it mean all is good for Google?

Not quite. There is something peculiar about the auction.

The three top auction experts pondered why Google restricted the number of spots to three on the screen choice.

“Why only three?” Salant asked. “Why can’t users pre-install whatever search engine they want?”

“That’s the first-order question,” Klemperer concurred.

Cramton said: “The main critique from the regulator is apt to be that the consumer should be given more choices. Let the consumer select among six or eight, for example.”

It’s hard to see exactly why Google would limit the bidders, but let’s have a shot!

Fewer choices would be simpler for consumers, Cramton thought.

Good point. But it may not be the choices they really want.

Klemperer pointed out that “the winners will be the search engines that pay the most, but not necessarily the search engines that are best for society.” Say you prefer search engines that are better for privacy protection, well, this auction design may not favor that, the Oxford professor contended.

What is Google’s game then? It looks like it is raising barriers to entry.

“The fewer slots there are, the less competition to Google,” Klemperer explained.

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By doing this, Google would give away less of the market, and this could ultimately prevent competitors from reaching the search volume necessary to fully benefit from scale effects.

Klemperer and Cramton agreed that restricting the number of slots would increase Google's revenues. With only three slots, Google selects the bidders with the highest willingness to pay, since the auction will push search engines to reveal what they are ready to put on the table by design.

This also means that the auction could well make it more difficult for smaller search engines trying to compete against the search giant, because they would have to incur extra costs to acquire customers.

Salant insisted that "becoming the default search engine is valuable." So if search engines face budget constraints, excluding some companies from the auction would deprive them of collecting search revenues. This could ultimately force them out of the market.

The Commission is asking Google to fix the market. The company is suggesting a solution that may kill it.