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ECON331 Essay - Jedi Blue

Google's agreement with Meta, "Jedi Blue", has stirred controversy about how large firms can participate in anti-competitive behaviour, and is subject to an ongoing antitrust investigation by the UK Competition and Market Authority (CMA) and European Commission department for Competition (DG COMP). To analyse this agreement, we first explain how the relevant parties work with simple models. We then discuss strategic firm behaviour, and finally discuss the justification of a block on the agreement regarding implications for the market.

Open-Bidding

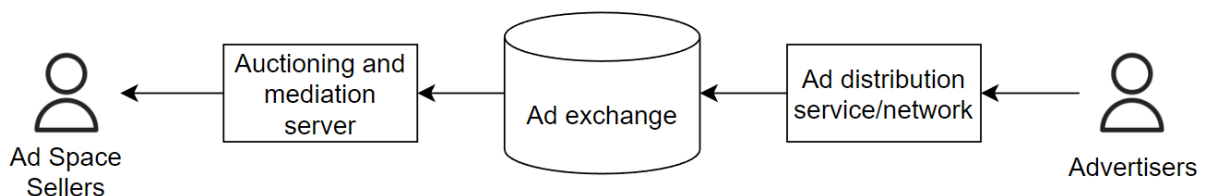
Upon opening a web-page with conventional "Header-bidding", the user or "client's" device will send requests to initiate a bid and fill eligible ad space to some partner advertisers, which will send back bids. The client passes the highest bid to an ad server (a service that mediates between many ad networks), which compares it to any other bids on the server with priority such as sponsors or any pre-arranged deals/partnerships, and sends back the final ad to be displayed on the client device.

Google’s “Open-bidding” service takes this entire process and moves it so that all actions happen on a unified server managed by them: “Google Ad Manager” (G.A.M) and their ad exchange, “AdX”. Upon opening a web page, a client must now simply send Google the initial request for ads, and the rest of the process is taken care of in isolation from the user’s device, and at the end the final ad is returned.

Market Presence

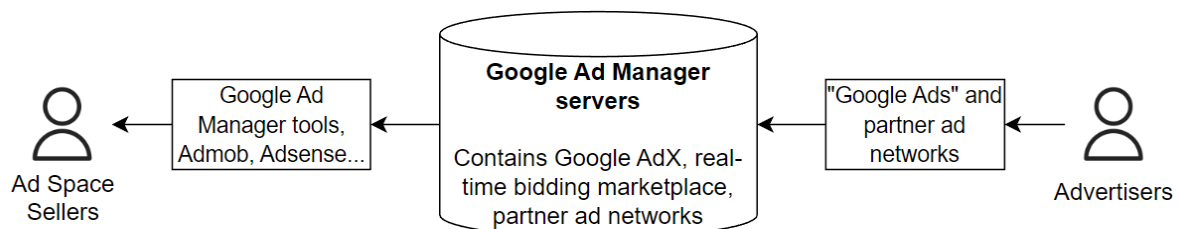
Google

Google’s large presence in the market is not restricted to merely one part of the “supply chain” for ads. It serves both organisations that want to advertise (“advertisers”) and also those wishing to monetize ad space on their websites or apps by displaying ads (“publishers”). To explain, we use a simple diagram to model the important players in a general-case ad supply chain.



(Figure 1: General ad supply)

Figure 1 can be interpreted as follows: Publishers need a server, which can request bids from partners or go to an ad exchange and “mediate” between offers from the different ad networks, and pass back the best offer’s ad media. For the “supply side”, advertisers join an ad network, which will go and bid for them in real-time on the exchange. Visualising it in this sense also allows us to see advertisers and publishers respectively as analogous to “upstream” and “downstream” firms in other supply chains.

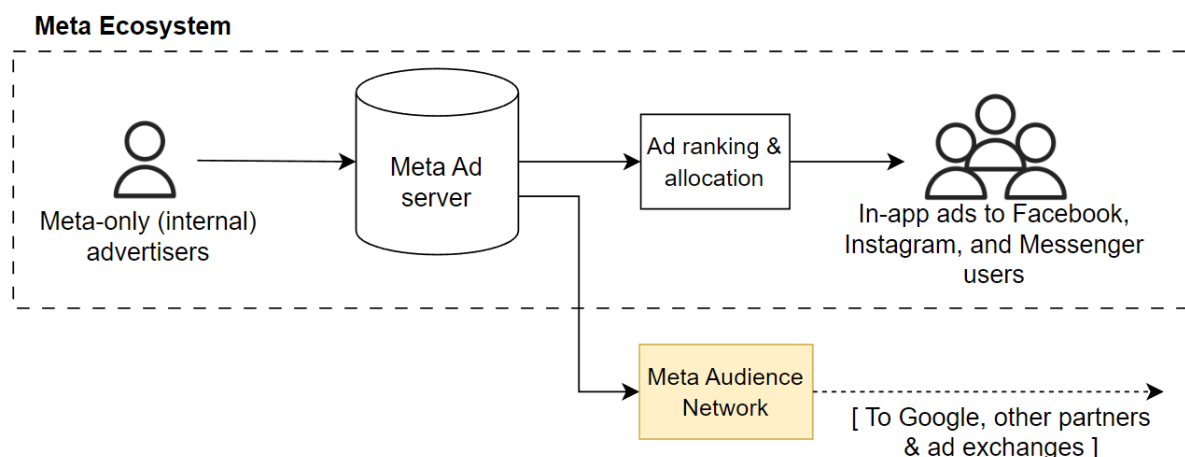


(Figure 2: Google Ad supply)

Figure 2 shows Google’s model, and indicates the size of Google’s influence. Google owns its entire supply chain of ads- even with elements it does not directly own such as the plethora of third party networks partnered with it, it still has market power as not just any network can participate in Google’s auctions, and has to be integrated into G.A.M by Google. Google also has its own ad network (“Google Ads”), however since this is only a fraction of G.A.M’s supply of ads we do not consider its presence significant enough to affect the behaviour of other players in the model, and so Google exists mainly as a middle and downstream entity.

Meta

Meta exists in a very different paradigm. It creates an ecosystem where only those with accounts on Meta's apps can advertise on Meta- thus its uniqueness is that it has a closed system of apps, with a very large user base (and thus valuable ad space available), and it is the only one that can supply them with ads. The Meta Audience Network (M.A.N) is an addition to this, and gives Meta advertisers the option to expand their reach beyond these apps and onto other websites and apps in the same way as the general model, without needing to sign-up elsewhere. Secondly, M.A.N also offers direct supply to desiring individual publishers, but as with Google Ads, we do not consider its relatively small presence to be significant in the model.



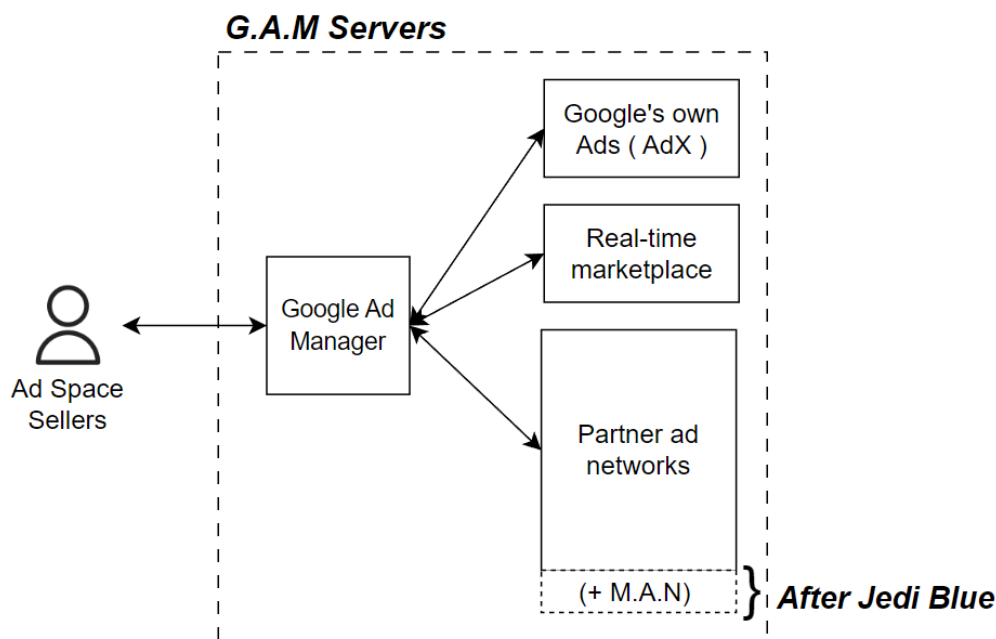
(Figure 3: Meta Ad structure)

Figure 3 shows a simplified model of Meta's ad system, and we can see how Meta and M.A.N fit into our general model as upstream ("supply-side") entities. M.A.N

continues downstream to participate in bidding largely on G.A.M. It's important to see that although a part of the same chain, G.A.M and M.A.N operate in different parts

Jedi Blue

The Jedi Blue agreement allows M.A.N to participate in Open-Bidding on Google's servers. Figure 4 shows how M.A.N gets integrated into Google as a result.



(Figure 4: Meta integration)

This agreement means that M.A.N is added to the list of networks that publishers on Google can get bids from for their ad space (which, on its own, should theoretically boost competition and improve turnover for publishers with

Google), and that Meta's advertisers (refer to Figure 3) who wish to advertise beyond the Meta ecosystem can now access and benefit from the large demand for ads on Google's servers.

Although not a "merger" as neither firm directly controls the other, the agreement is still clearly a sort of vertical integration, with M.A.N as upstream to G.A.M. However, as long as they continue to cooperate and their behaviour mimics that of a merged firm, we can still apply the same theory, as the 2 firms have no incentive to compete since they are vertical and operate in different areas.

Why Partner?

Context

Google's "Open-Bidding" system initially came as an improvement upon header bidding, however in recent years many big ad networks such as Amazon have supported header bidding, putting competitive pressure on Google. Meta also announced similar support, but their partnership with Google came with a U-turn on this decision.

Strategic Behaviour

Google is a big market player, but the exclusive operator of Open-Bidding. The threat is clear: Referring to Figure 2, we can see that Google's entire ad model revolves around Open-Bidding (on G.A.M); further adoption of header-bidding due to Meta support is detrimental to the appeal of Open-Bidding, and in turn Google's power in the market as a whole. In this case, cooperating with another large player avoids the worse outcome of losing your market share due to header bidding being more favourable as big networks increasingly support it.

Meta is in a much safer position- it already has the safety net of its own internal, "self-sustaining" ecosystem, which is unaffected by these market changes. Its decision between the two appears to be simpler; whichever is best for it to grow further; and it decided the deal with Google offered better benefits. Some of these reasons likely involve benefits that Open-Bidding provides in terms of the technology's convenience and efficiency, but explaining technical points is beyond the scope of this essay.

Impacts

Monopoly

Google captures more than 50% of the ad tech market (U.S House of Representatives, 2020); leveraging this, Google's prices are 30-40% higher than

Bing according to the CMA's 2020 ad market study report. It also states that Meta accounts for more than 50% of display advertising revenues and is highly sought after due to the exclusivity of its ad space (Figure 3). Recalling that Jedi Blue mimics a merged firm, vertical mergers are shown to be anti-competitive (Chen, 2001) when products are close substitutes (as ad media is). Further, Suzuki (2009) shows that large vertical mergers have potential to choke rival firms of their market share ("market foreclosure"), which is worsened by network effects making the merged firm more preferable. Also, Bolton and Whinston (1991) state that foreclosure effects are more likely in markets which are highly concentrated. General monopoly consequences follow from here: Google can raise prices or keep a larger share of the money and gain a surplus profit while creating a deadweight loss, both for advertisers who have to pay more and publishers who potentially earn less.

Collusion

Part of the agreement's controversy surrounds the allegation that Google offered Meta advantages in ad auctions if it abandoned header bidding for G.A.M.

M.A.N receiving advantages in auctions means that whilst Meta advertisers may benefit from having bids picked more even without necessarily being the best paying, publishers still lose out, and other ad networks and their advertising members have an unfair disadvantage in auctions.

Conclusion

Google and Meta display what appears to be cartel-like behaviour; coordinating to protect or secure Open-Bidding's market share and Google's influence. Whilst Meta is not as easy to blame and can be argued as just having made the decision in its best interest, and more information is needed on the collusion allegations between them to be completely convinced of them, there is already enough to say that Google is acting in a monopolous fashion and we showed that it poses a serious threat to competitiveness in the market if allowed to continue. Based on evidence I believe this justifies a block by the CMA or DG COMP.

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