



Commentary

Google-AdMob: A Bad Precedent

Thomas M. Lenard, 04.26.10, 5:07 PM ET

It's a safe bet that the Federal Trade Commission will try to block Google's acquisition of AdMob, a significant player in the small but growing world of mobile advertising. But that would be a mistake. The outcome of this case will affect mobile advertising but, more importantly, could set a harmful precedent for how antitrust laws are applied to the fast-moving information technology sector, which has been the engine of growth and productivity for the U.S. economy for the past 15 years.

While the FTC may try to block Google's purchase in the name of consumer protection, its primary effect could be to harm innovation by eliminating the principal way that entrepreneurs make money on their new business ideas. In particular, entrepreneurs realize a return on their investment (especially given the lackluster market for IPOs) by being acquired by a larger company, such as Google.

The \$750 million price for AdMob resulted from a bidding war between Google and Apple. An antitrust policy that takes the biggest players out of the market for these small companies can reduce the potential returns to innovation and therefore the amount of innovation. Competition to acquire innovative new companies like AdMob is a major aspect of competition that the FTC must take into account when deciding whether to challenge the acquisition.

Google has been in the antitrust cross hairs since before the Obama administration took office. The Bush administration scuttled Google's deal with Yahoo!. Even before taking office, Christine Varney, the Department of Justice's new Antitrust Division chief, said, referring to Google, "I think you are going to see a repeat of Microsoft." That was strong statement considering that Microsoft ranks with AT&T, IBM, and Standard Oil, as one of the major antitrust cases of the 20th century. In her first speech after taking office, Varney followed up by signaling a more aggressive approach to antitrust enforcement generally, but particularly with respect to high-tech and Internet-based markets.

The major action, however, has been at the FTC, which last year launched a major case against Intel and now seems on the verge of challenging this Google acquisition. So, how should the FTC evaluate this case?

Mobile advertising currently generates about \$400 million in revenues--only 0.4% of total U.S. advertising--but is expected to grow rapidly as the mobile Internet grows. In such nascent areas, the authorities should proceed cautiously. In the short run, the effects on the economy are small simply because the amount of money involved is relatively small. The most important question, therefore, is not what share of mobile advertising revenue Google would have after its acquisition, but how the acquisition will affect innovation and entry in mobile advertising.

For traditional merger analysis, defining the product market is a critical step. The FTC is apparently defining the market as the mobile non-search advertising market and is concerned that Google and AdMob together have a significant share of that market.

But how confident can they be that this definition is correct and that, if it is correct today, will still be correct next year? Is it really the case that mobile search and non-search advertising aren't sufficiently substitutable to be in the same market? What about text messaging advertising? What about the

substitutability between mobile and non-mobile Internet advertising? These questions are difficult, and perhaps impossible, to answer for a new, rapidly changing area like mobile advertising.

More importantly, what about entry? Apple lost the bidding war for AdMob, subsequently acquired another mobile advertising firm, Quattro, and just recently announced that it will also sell mobile advertising. Given that the iPhone represents about 25% of all smartphones sold in the U.S. and half of all advertising traffic, Apple is almost certain to be a strong competitor. And many other potential entrants are waiting in the wings, including large companies like Microsoft, Yahoo! and the wireless providers themselves.

While the agencies should evaluate the effects of the merger on innovation, the current merger guidelines focus on antitrust analysis for mature, stable industries and provide virtually no guidance as to how to analyze effects on innovation in such a new and dynamic area. There is a good reason for this omission: It is nearly impossible to predict the path of a new and dynamic industry.

The lesson is that antitrust enforcers need to be extremely cautious in interfering in such circumstances. Enforcement mistakes are easy to make at this early stage. The cost of erroneously reducing innovation is much greater than the cost of any slight increase in the price of advertising that might occur.

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