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Much Ado About DoubleClick

Uncle Sam's scrutiny likely won't derail Google's $3.1 billion deal, but it may result in some limits on the search king

by Catherine Holahan

There was little doubt that the Federal Trade Commission would thoroughly investigate Google's (GOOG) planned acquisition of DoubleClick. Google's undisputed dominance of Web searches and the related $8 billion search-advertising market all but guaranteed scrutiny of any move capable of extending the search titan's online influence. The fact that DoubleClick places ads for many of the leading Web publishers made a government inquiry inevitable, say antitrust experts.

But, there's even less doubt that the FTC will eventually sign off on the $3.1 billion deal. Even some who see red flags in the transaction don't seriously think it will be blocked. "We are not foolish enough to think the FTC will say you can't buy DoubleClick," says Jeff Chester, executive director of the Center for Digital Democracy.

His group is nonetheless concerned over the combination of the leading aggregator of information on who's searching for what on the Web with a company that tracks Web surfing behavior to help advertisers measure the effectiveness of their ads. Putting the two companies together leaves consumers' privacy at risk, Chester says. And he's hoping the scrutiny by Uncle Sam will result in some conditions placed on the transaction.

LIMITING GOOGLE

In particular, Chester and other critics hope the government will put limits on the amount of data Google can collect and use to place targeted ads throughout the Web. Google already collects data on searches, using the information to locate ads related to queries. DoubleClick tracks when individual computers visit the Web sites, and click on ads, in its vast client network. Though DoubleClick has stressed that the Web surfing data belongs to its advertiser and publisher clients —and thus cannot be turned over to Google—privacy advocates fear Google could eventually access that vault by, say, offering to waive ad serving fees in exchange for sharing data. "Privacy is put at risk given the aggregation of tremendous amounts of personal information by these digital giants," says Chester (see BusinessWeek.com, 4/16/07, "Google's DoubleClick Strategic Move").

So what concessions may Google have to make? That depends on just how important the FTC deems the role of computer-user information in setting online ad budgets. If the FTC determines that the market for online advertising is largely determined by the amount of information a company has on a given computer, the government will want to ensure that one company does not have a monopoly on the information, says Mozelle Thompson, chief executive officer of

Thompson Strategic Consulting who served as an FTC commissioner through 2004. Such a monopoly could force advertisers looking to target their ads to deal with one company, giving that company undue influence over pricing, says Thompson. "It has yet to be seen that the role of database analysis and whether the control of those databases…will result in any conditions," says Thompson.

GATHERING INTELLIGENCE

The ability to access and harness Web user data is a key factor driving a flurry of acquisitions of online ad outfits (see *BusinessWeek*, 5/21/07, "Behind Those Web Mergers"). Yahoo! (YHOO) can use Right Media, which it announced plans to acquire in April, to gather intelligence on what its users are doing on the Web and place ads in front of them when they are off Yahoo's sites (see BusinessWeek.com, 5/1/07, "The Promise of Online Display Ads"). Microsoft's (MSFT) planned acquisition of aQuantive (AQNT) for $6 billion arguably holds similar appeal for the software giant to offer better ad targeting on more sites (see BusinessWeek.com, 5/18/07, "Microsoft's Big Online Ad Buy").

The FTC has asked Google for a wide range of information. Some of it is undoubtedly aimed at helping the commission ascertain just how much information, and resulting power, a Google-DoubleClick union could put in the hands of one company. The next step, which could take several months, is for the FTC and Google to negotiate terms under which the FTC would feel comfortable allowing the deal. "It rarely goes to trial," says Allison Davis, a partner at Davis Wright Tremaine, based in California, who specializes in antitrust cases. "The investigation raises concerns and those concerns need to be alleviated and addressed."

Sometimes, says Davis, the companies sign "consent decrees," such as agreeing to divest an aspect of the business that gives the combined company too much control over a specific market, or limiting how the two companies will combine their assets. After the companies have reached the extent of negotiations, the FTC typically has 20 days to decide whether to sign off on the deal.

GOOGLE'S RESPONSE

Google has several strong arguments for not needing to concede much. For one, it has not been a major player in the online display advertising market, which the FTC could view as a different animal than search advertising, says Davis. Also, its competitors in search, namely Yahoo and Microsoft, as well as competitors in the online advertising market in general, namely WPP Group (WPPGY), have announced intentions to acquire ad networks that compete with various parts of DoubleClick's business (WPP purchased 24/7 Real Media (TFSM)). "I'm sure that is part of their story," says Davis. "Everybody else is buying up these guys…and just because we have the best search engine doesn't mean we should be punished."

In a statement, Google pointed to similar acquisitions as evidence of healthy competition in the online advertising space. "We are confident that upon further review the FTC will conclude that this acquisition poses no risk to competition and should be approved," said Don Harrison, Google's senior corporate counsel. "Numerous independent analysts and academics have determined, after looking at this acquisition, that the online advertising industry is a dynamic and evolving space—as evidenced by a number of recently announced acquisitions—and that rich competition in this industry will bring more relevant ads to consumers and more choices for advertisers and Web site publishers."

UNIQUE CONCERNS

Microsoft, which along with AT&T (T) raised concerns over Google's intended acquisition, insists that a Google-DoubleClick merger has unique anticompetitive aspects that its intended purchase of aQuantive does not. "We believe the enforcement agencies will conclude that our deal will promote competition, and that the Google deal will reduce competition," said a Microsoft spokesperson in a statement.

However, some antitrust experts and groups that complained about Google's deal see Microsoft's proposed merger as a similar—though smaller and less threatening—animal. The Center for Digital Democracy has raised privacy concerns about Microsoft's planned purchase of aQuantive, says Chester.

Forrester (FORR) analyst Shar Van Boskirk believes the recent acquisitions, along with the presence of competitors such as ValueClick (VCLK), BlueLithium, and Tribal Fusion—to name a few—can't help but give Google more leeway to push its deal through with few, if any, major concessions. "It makes Google look less aggressive," says Van Boskirk. "Everyone is trying to create this set of integrated services." And they're all collecting data to sell more targeted ads.

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