

Self-preferencing Workshop

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I will be outlining that:

- Google's PLA is **a Comparison Shopping Service** on the Search Engine Results Page (SERP)
- This is **self-preferencing and must go**
- We have a solution in **Comparison Listing Ads** (CLA) that is **non-discriminatory**
- Allocation to this unit can be via **a modified auction** to ensure fair pricing
- This will **save merchants billions in advertising costs** and is therefore great for consumers

The problem
we have to solve



Service on the SERP

The screenshot shows a Google search for "coffee makers". The search bar is at the top with the Google logo. Below the search bar, there are tabs for "All", "Images", "Shopping", "News", "Maps", and "More". The "All" tab is selected. Below the tabs, it says "About 232,000,000 results (0.44 seconds)".

The main content area shows a sponsored comparison service titled "Shop for coffee makers". It has a "Sponsored" label in the top right corner. Below the title, there are two tabs: "Products" and "Comparison sites". The "Products" tab is selected.

The comparison service displays five coffee makers side-by-side, each with an image, name, price, source, and rating. The products are:

Product	Price	Source	Rating
DeLonghi Magnifica S ...	399,00 €	MaxiCoffee.com	★★★★★ (4)
Machine Nespresso ...	199,00 €	NESPRESSO	★★★★★ (71)
Krups Arabica Deluxe Edition ...	329,00 €	MaxiCoffee.com	★★★★★ (71)
Jura E8 Chrome (Smart Connec...	1 249,00 €	MaxiCoffee.com	★★★★★ (397)
DeLonghi ECAM 650.55.MS ...	1 189,00 €	MaxiCoffee.com	★★★★★ (55)

Below the comparison service, there is a link to "Coffee Makers, espresso bar et torréfacteur à Lille" with the URL "www.coffeemakers.fr/" and a "Translate this page" button. Below the link, there is a short description: "Découvrez notre espresso bar et salon de thé à Lille et profitez de nos cafés torréfiés sur place et petite restauration maison."

Google's service (PLA)
directly on the SERP

Compares offers side by side =
embedded comparison service



Contrary to article 6(5)
This is self-preferencing

⇒ This service must go
question is: what to replace it with?

How to reach a solution

- Obligation to comply is Google's
- Compliance happens in practice, not on slides
- Crucial elements:
 - Testing
 - Industry feedback

Breaking down the solution

Design

Selection Criteria

Payment – *whether and how*

02



The three principles for compliant design

Equal Prominence

- Same criteria for ranking
- Same position on the page

Equal Attractiveness

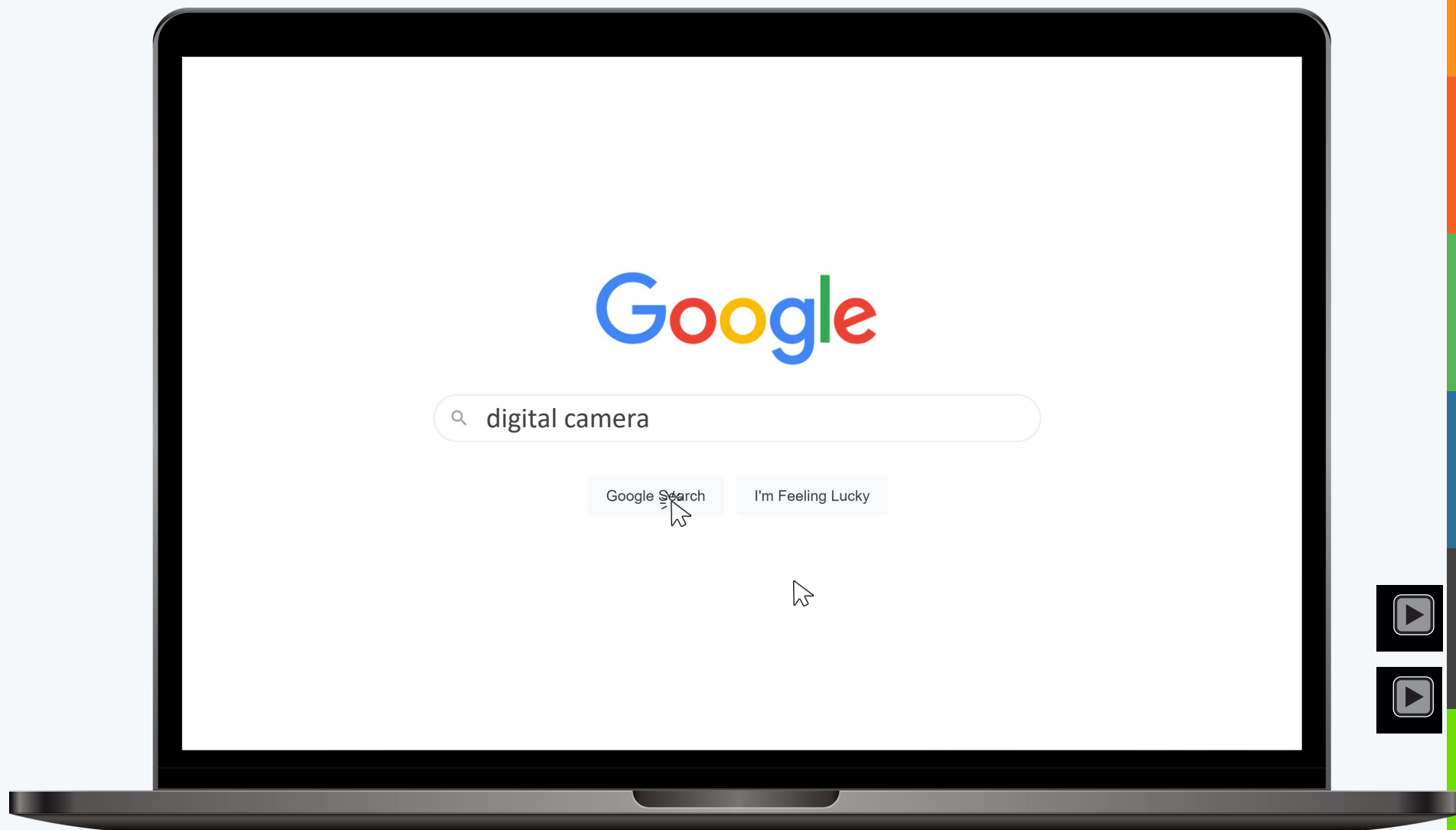
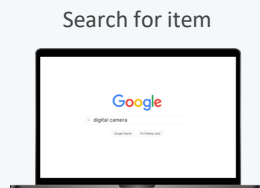
- Same display formats for rivals vs platforms
- Same design and features available to rivals

Equal Functionality

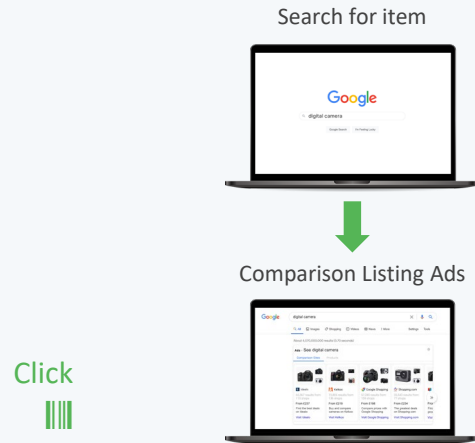
- Any function/service available to a platform must be available to rivals
- e.g. ability to populate specialised results boxes



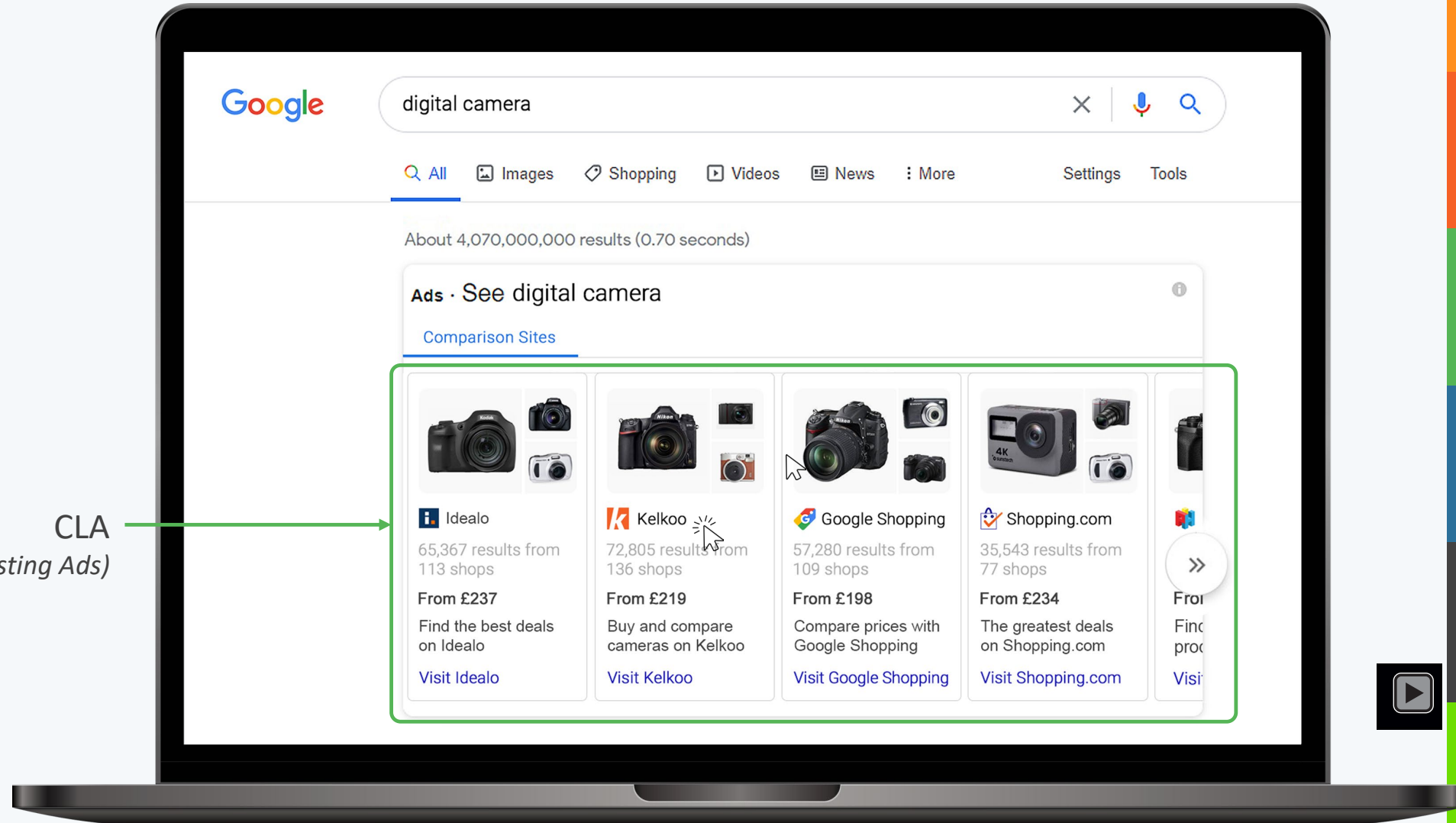
Proposed compliant design



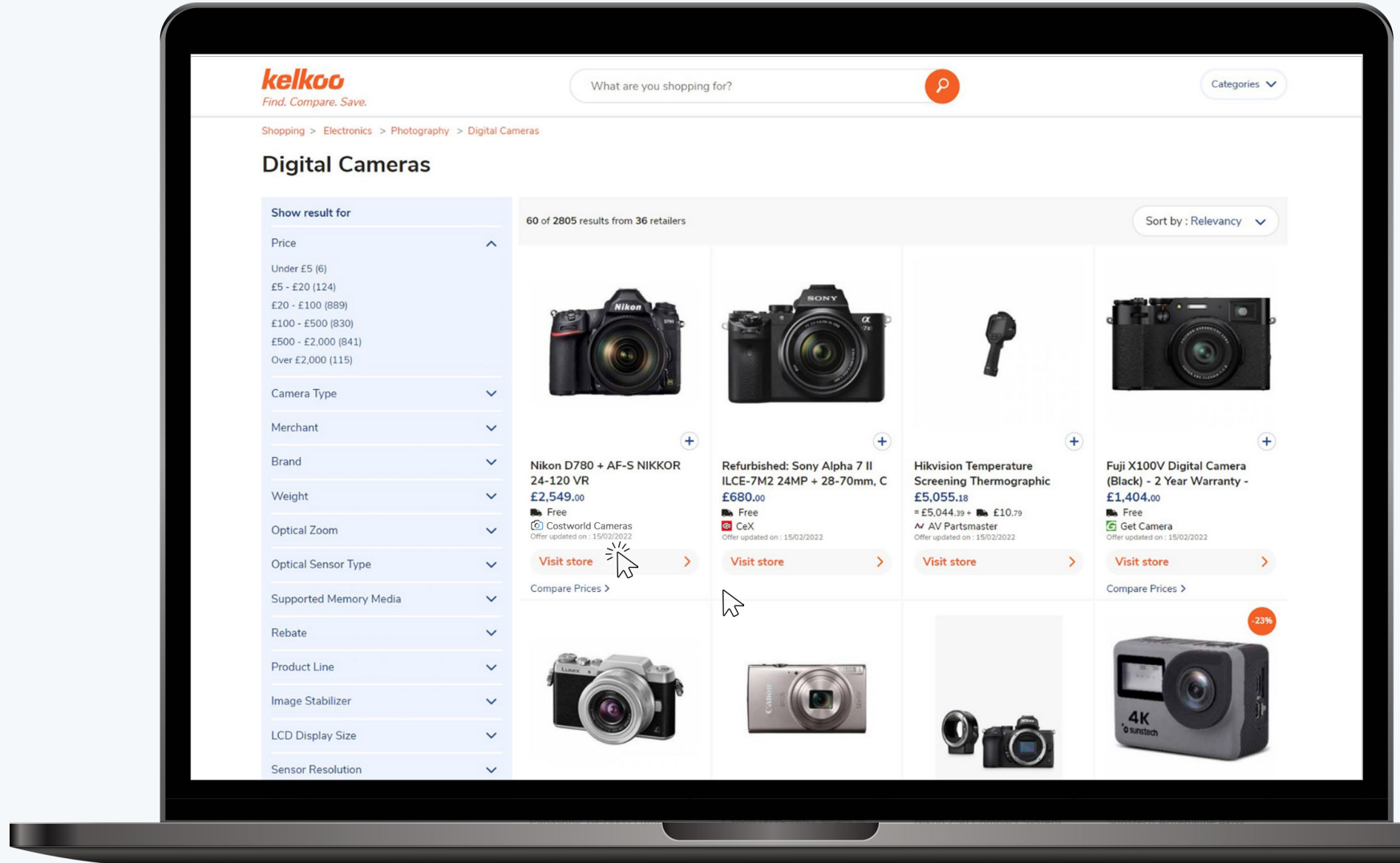
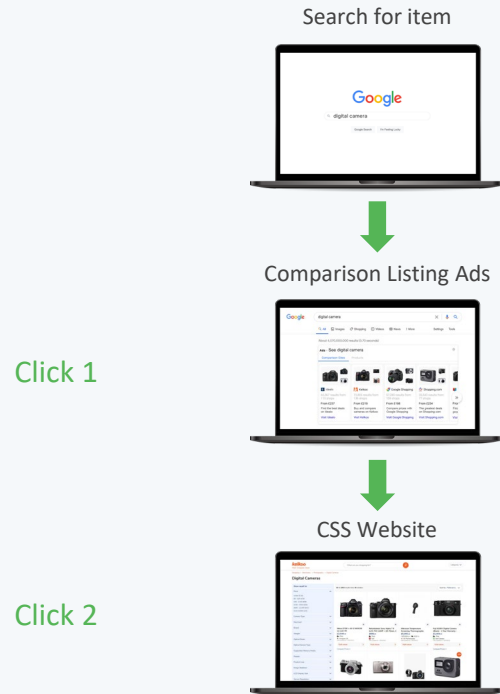
Proposed compliant design



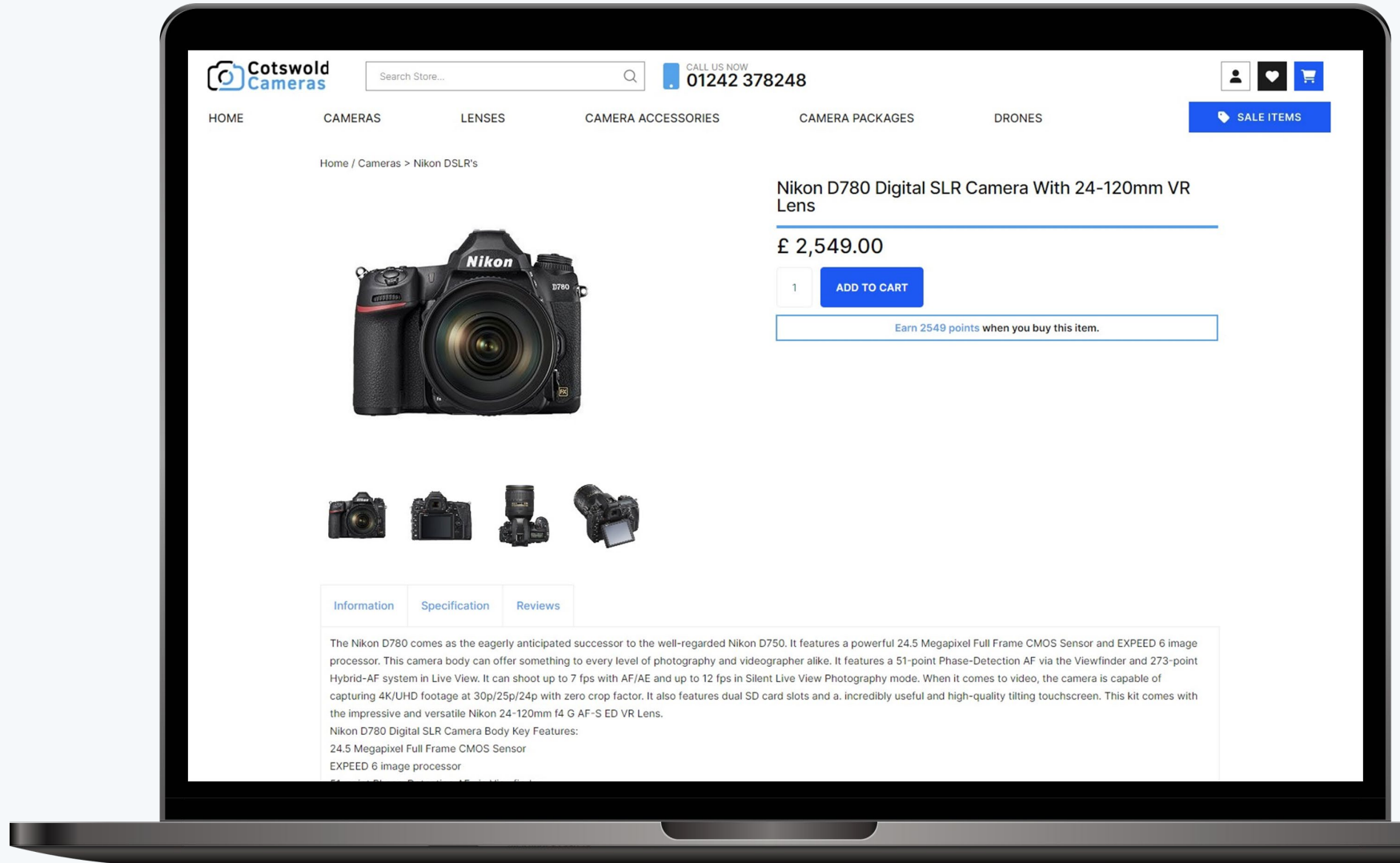
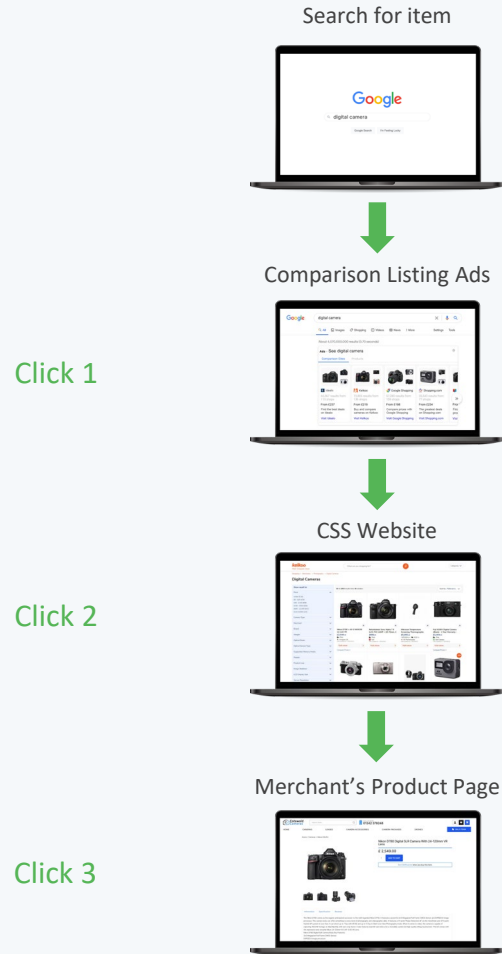
CLA
(Comparison Listing Ads)



Proposed compliant design

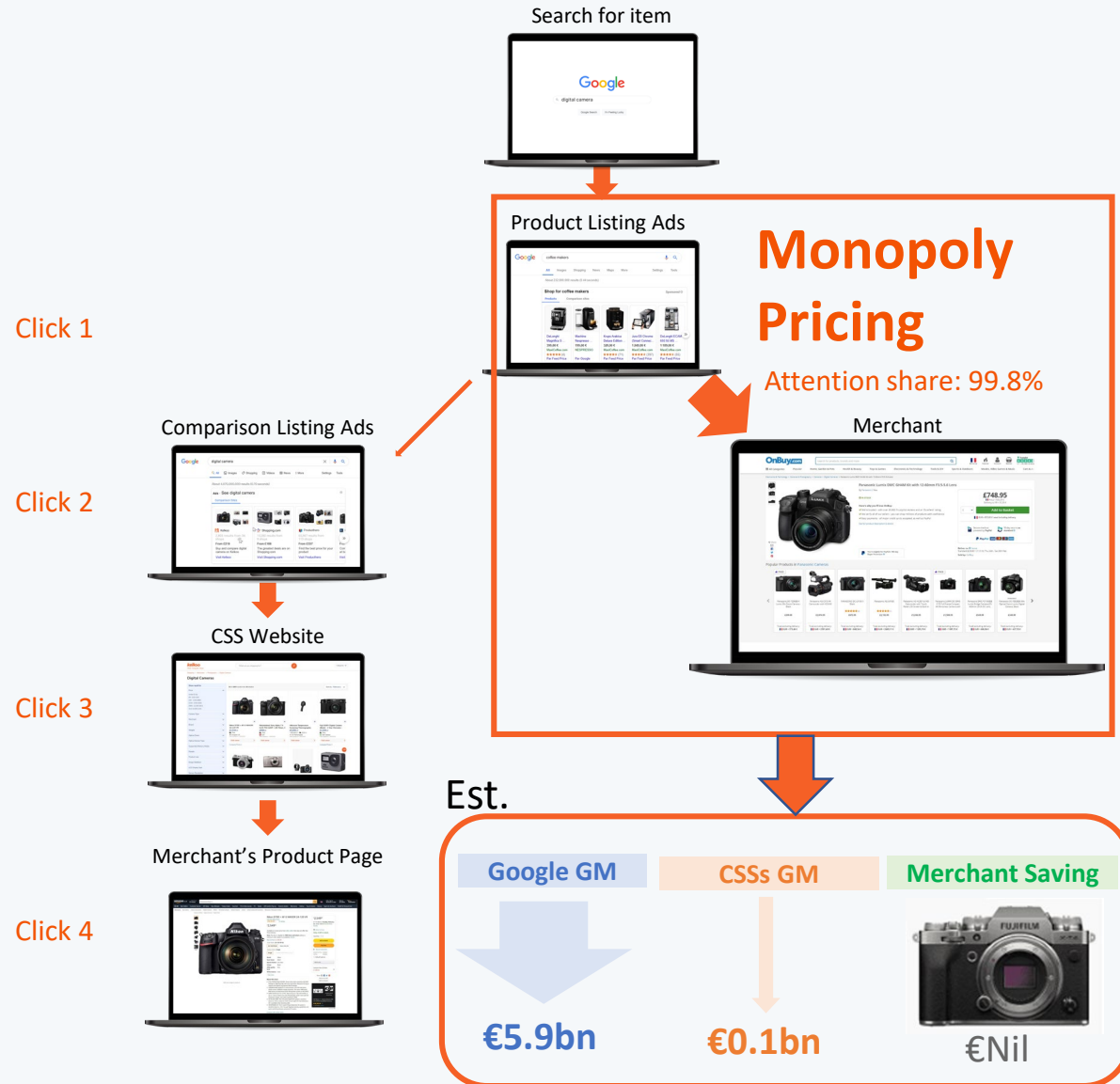


Proposed compliant design



Summary

Current PLA mechanism

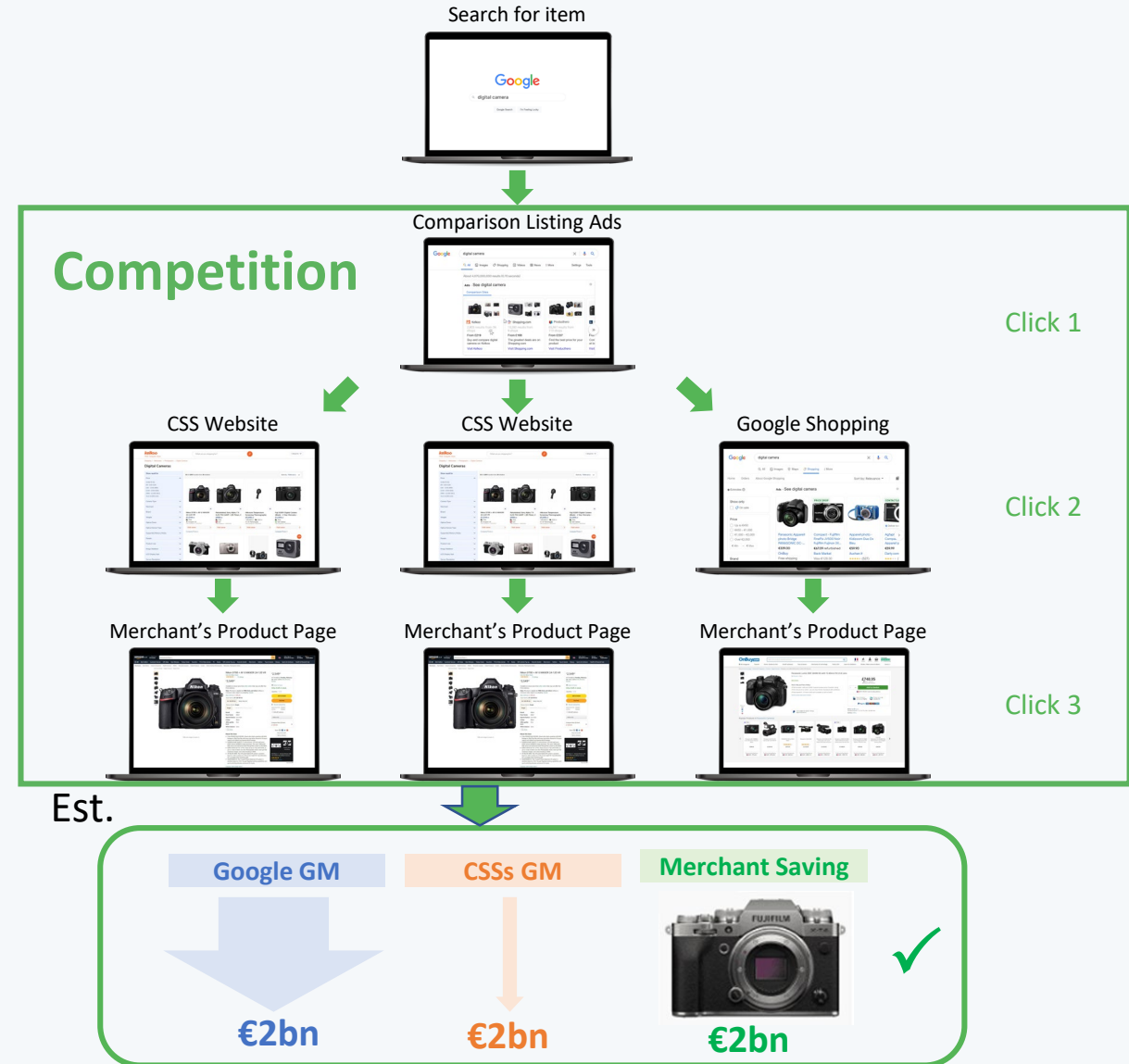


- Merchant traffic from single source: Google
- Competition primarily on bid price
- Results in monopoly pricing
- Merchants bid away margin and Google profits

Summary

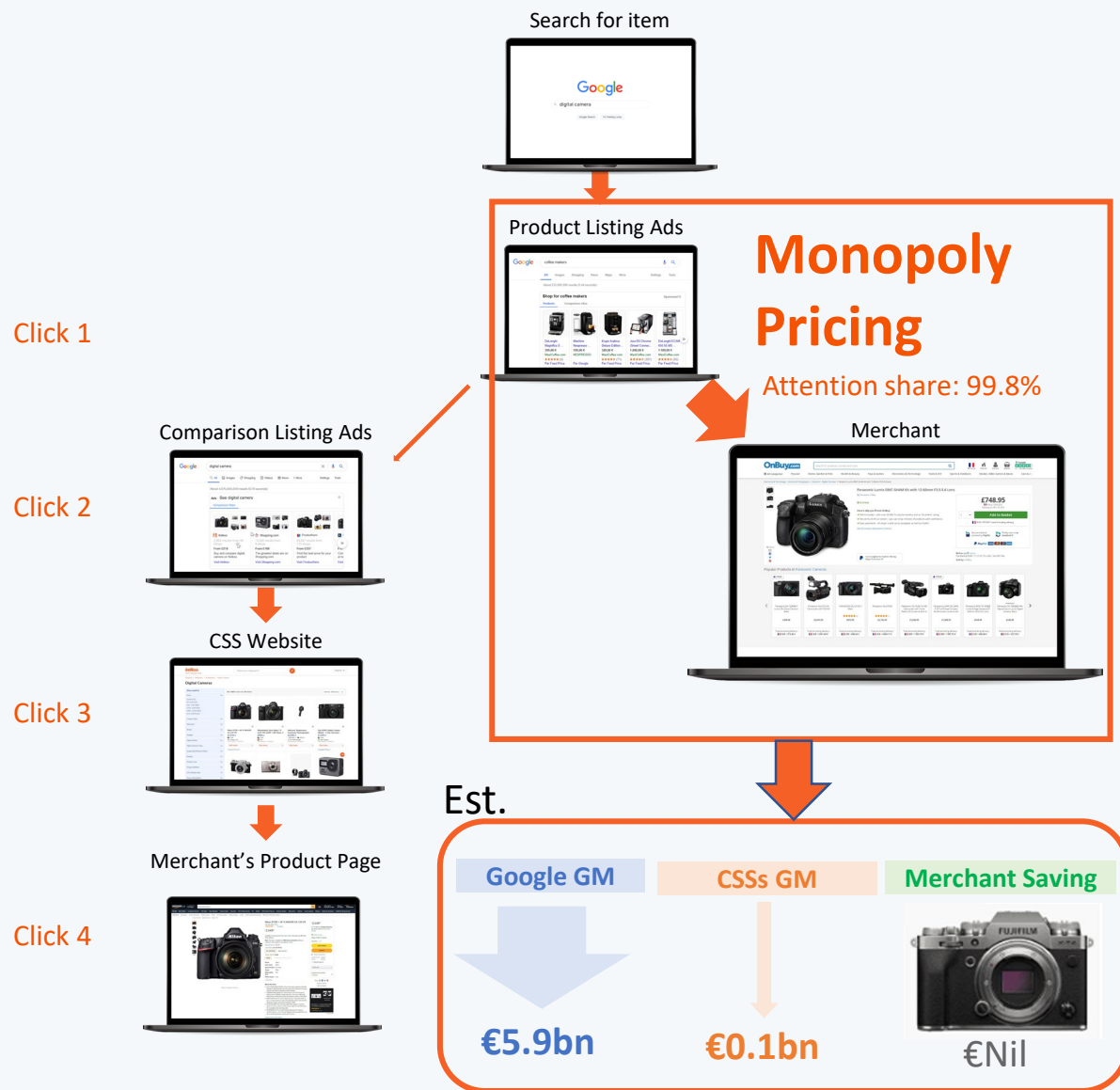
- Merchant traffic from multiple sources
- Competition on product price, availability, delivery, brand
- Results in significant advertising price reduction
- Merchants compete to pass saving to consumers

Proposed compliant CLA design

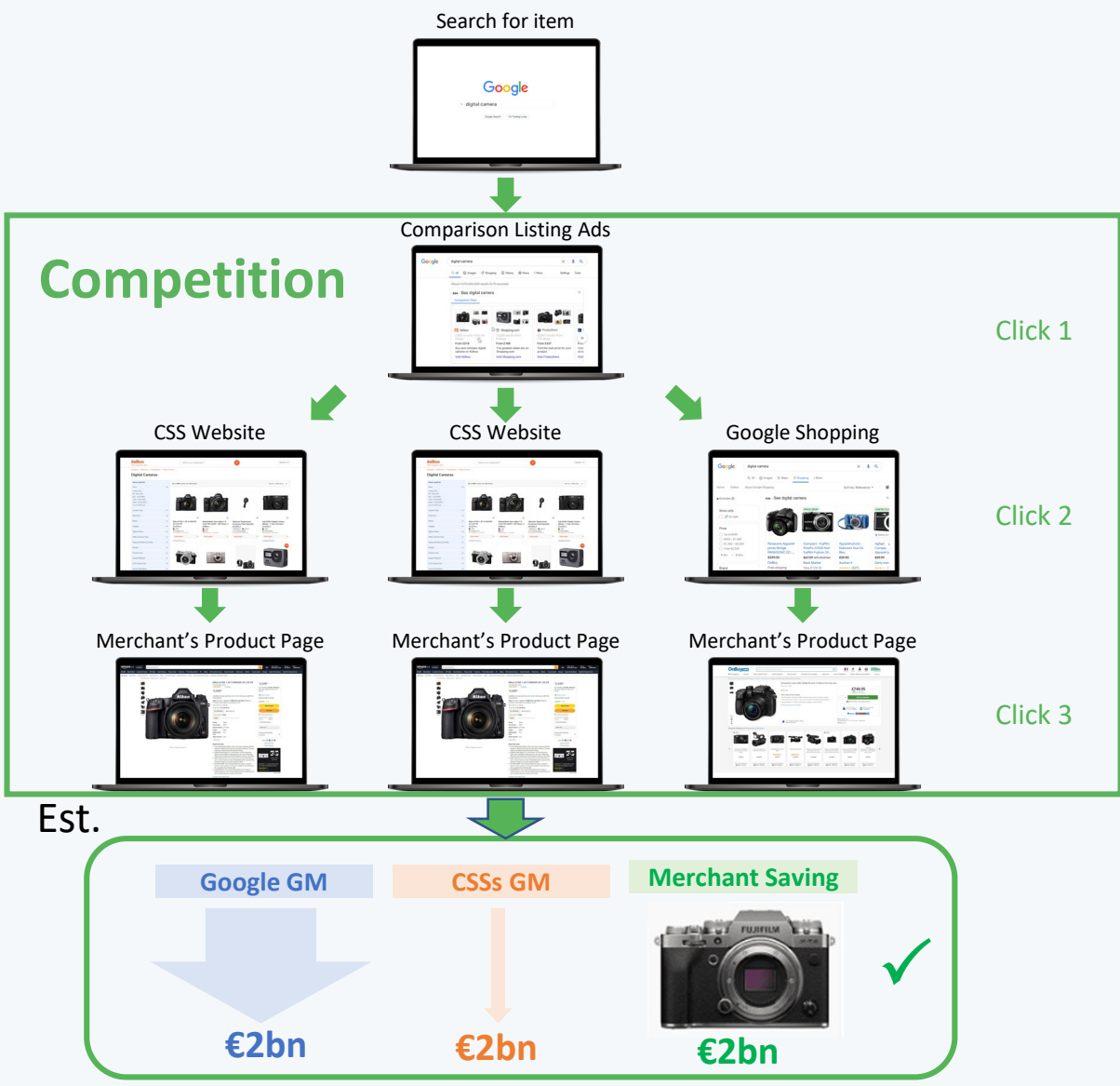


Summary

Current PLA mechanism



Proposed compliant CLA design



Breaking down the solution

Design

Selection Criteria

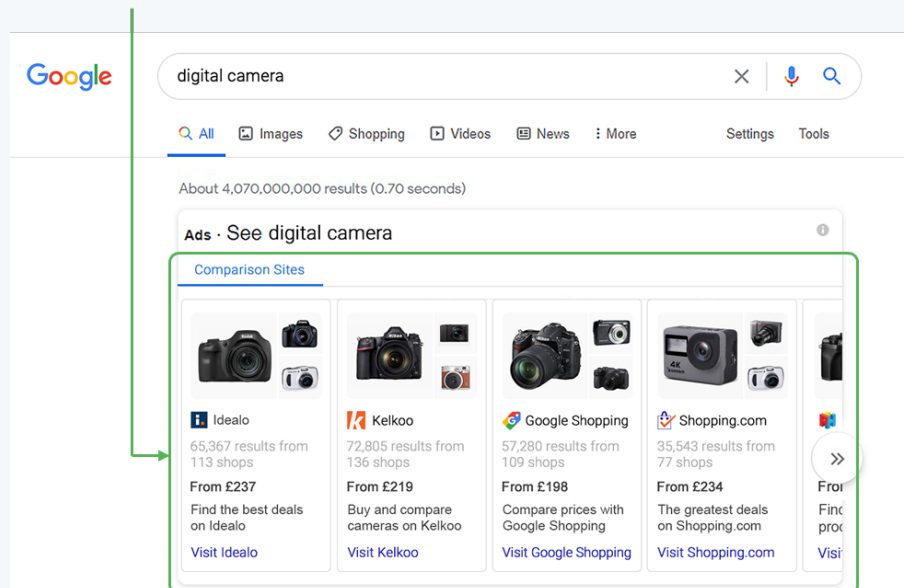
Payment – *whether and how*

02



Selection Criteria

How do you determine which services get shown?

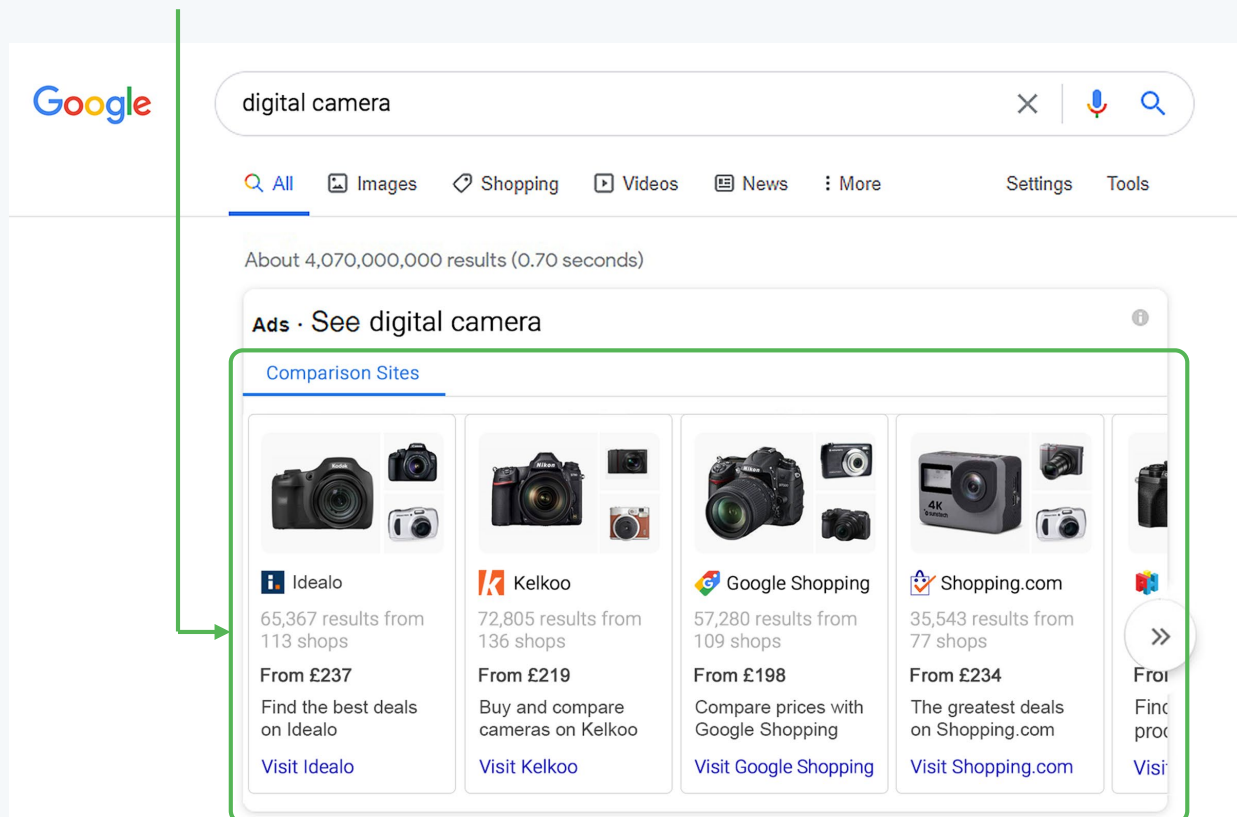


- Commission doesn't want to decide
- Dangerous to leave to Google
- Need an objective market mechanism

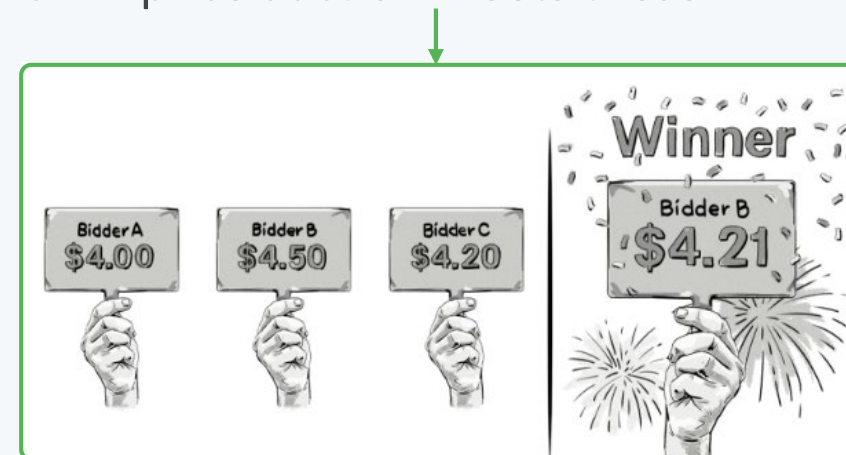
	CSS
Allocation mechanisms and selection criteria	Market decides allocation?
Auction (2 nd price)	✓
Auction (2 nd price with redistribution)	✓
SEO/Google 'quality' metrics	✗

Selection Criteria

Can an auction be Fair, Reasonable and Non-Discriminatory?



- Efficiency Principle = allocation of goods to those who value them the most
- Simplicity Principle = bidders strategies depend only on their own valuations (not on others or redistribution)
- ... a 2nd price auction meets these...



- Auction leads to **excessive rent extraction** by the auctioneer (*be that Google, Amazon, Apple, etc*)
- This type of auction **does not meet the FRAND** principle of the DMA

A Redistributive Auction Can Work

- Cavallo¹ (2012) and a number of other academic papers show that:
 - a redistributive auction can remain efficient
 - while also redistributing a material share of the auction's revenue to its participants.
- Used in **French auctions** on natural gas transmission²
- We have written a paper with the help of an Oxford University academic for the Commission (available on request)

1. Cavallo, Ruggiero. "Improving Allocations through Revenue Redistribution in Auctions with Entry." *International Conference on Auctions, Market Mechanisms and Their Applications*. Springer, Berlin, Heidelberg, 2011.

2. <https://www.cre.fr/Documents/Deliberations/Decision/cspe2>

A Redistributive Auction

→ Proceeds as a 2nd price auction

→ A portion of the winning bid is redistributed amongst all bidders

- **Redistribution** is based on rules around dividing non-winning bids by total number of players in the auction
 - Not based on own bid or on winning bid
 - This meets efficiency and simplicity principles

→ The level of redistribution can be set to meet the FRAND principle under the DMA

→ Simple rules can avoid gaming

Breaking down the solution

Design

Selection Criteria

Payment – *whether and how*



FRAND Principle

How do you ensure fair and reasonable pricing?

And a mechanism straight forward to oversee?

	Google	European Commission		CSS
Paid or free?	Meets FRAND principle	Additional level of regulation needed	Allocation mechanisms and selection criteria	Market decides allocation?
Paid - auction	✗	Very Low	Auction (2 nd price)	✓
Paid - auction with redistribution	✓	Low	Auction (2 nd price with redistribution)	✓
Free	✓	High		
Paid - flat fee	✓	Very High	SEO/Google 'quality' metrics	✗
Paid - capped bid price	✓	Very High		

Summary

→ PLA must be removed to meet Article 6(5)

→ CLA as default meets:

- Equal prominence
- Equal attractiveness
- Equal functionality

→ A redistributive auction can solve selection and FRAND issues

→ c.€2bn of saving delivered to merchants and consumers

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Appendix



Redistributive Auction

Worked example:

10 Bidders for 5 slots with redistribution

		Bid (Fair Value)	Displayed	Clicked	Price Paid	Redistribution	Net bidder outcome	Net Google Outcome
Bidder 1	>>>	10.00	✓✓✓		-	0.40	0.40	-0.40
Bidder 2	>>>	9.00	✓✓✓	✓✓✓	8.00	0.40	1.40	7.6
Bidder 3	>>>	8.00	✓✓✓		-	0.40	0.40	-0.40
Bidder 4	>>>	7.00	✓✓✓		-	0.40	0.40	-0.40
Bidder 5	>>>	6.00	✓✓✓		-	0.40	0.40	-0.40
Bidder 6	>>>	5.00			-	0.40	0.40	-0.40
Bidder 7	>>>	4.00			-	0.50	0.50	-0.50
Bidder 8	>>>	3.00			-	0.50	0.50	-0.50
Bidder 9	>>>	2.00			-	0.50	0.50	-0.50
Bidder 10	>>>	1.00			-	0.50	0.50	-0.50
					8.00	4.40	5.4	3.6

A Redistributive Auction

→ Proceeds as a 2nd price auction

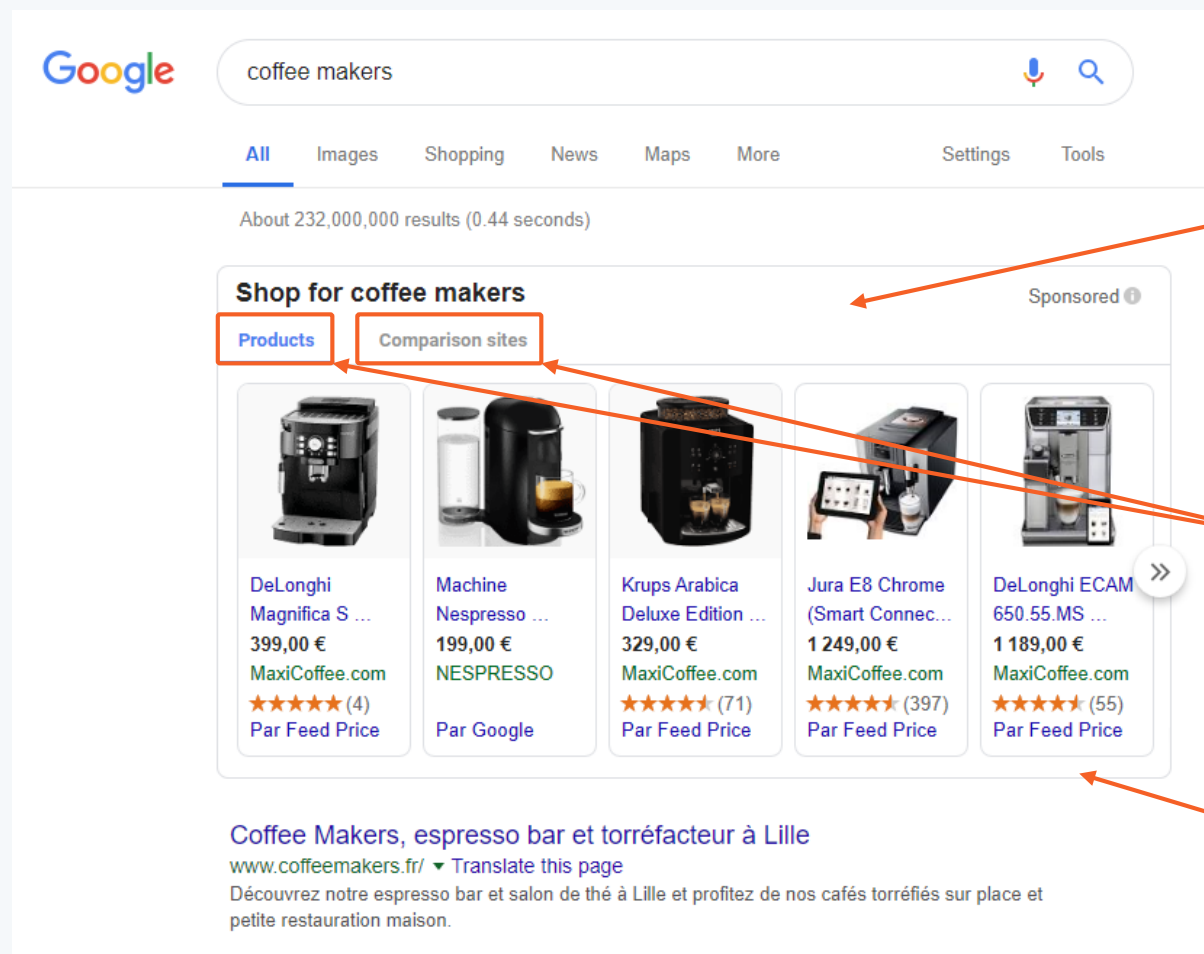
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 - Not based on own bid or on winning bid
 - This meets efficiency and simplicity principles

→ The level of redistribution can be set to meet the FRAND principle under the DMA

→ Simple rules can avoid gaming

Current remedy fails the three principles



Equal ~~P~~rominence

Google's service on the SERP, rivals hidden in plain sight

Equal ~~A~~tractiveness

Google's shows a CSS, rivals are not even visible

Equal ~~F~~unctionality

Google compiles a CSS and sends traffic to merchants, rivals can only send traffic to their own sites

Current remedy fails the FRAND

Google

coffee makers

All Images Shopping News Maps More Settings Tools

About 232,000,000 results (0.44 seconds)

Shop for coffee makers Sponsored ⓘ

Products Comparison sites

Product	Price	Rating	Link
DeLonghi Magnifica S ...	399,00 €	★★★★★ (4)	Par Feed Price
Machine Nespresso ...	199,00 €	NESPRESSO	Par Google
Krups Arabica Deluxe Edition ...	329,00 €	★★★★★ (71)	Par Feed Price
Jura F8 Chrome (Smart Connec...	1 249,00 €	★★★★★ (397)	Par Feed Price
DeLonghi ECAM 650.55.MS ...	1 189,00 €	★★★★★ (55)	Par Feed Price

Coffee Makers, espresso bar et torréfacteur à Lille
www.coffeemakers.fr/ ▼ Translate this page
Découvrez notre espresso bar et salon de thé à Lille et profitez de nos cafés torréfiés sur place et petite restauration maison.

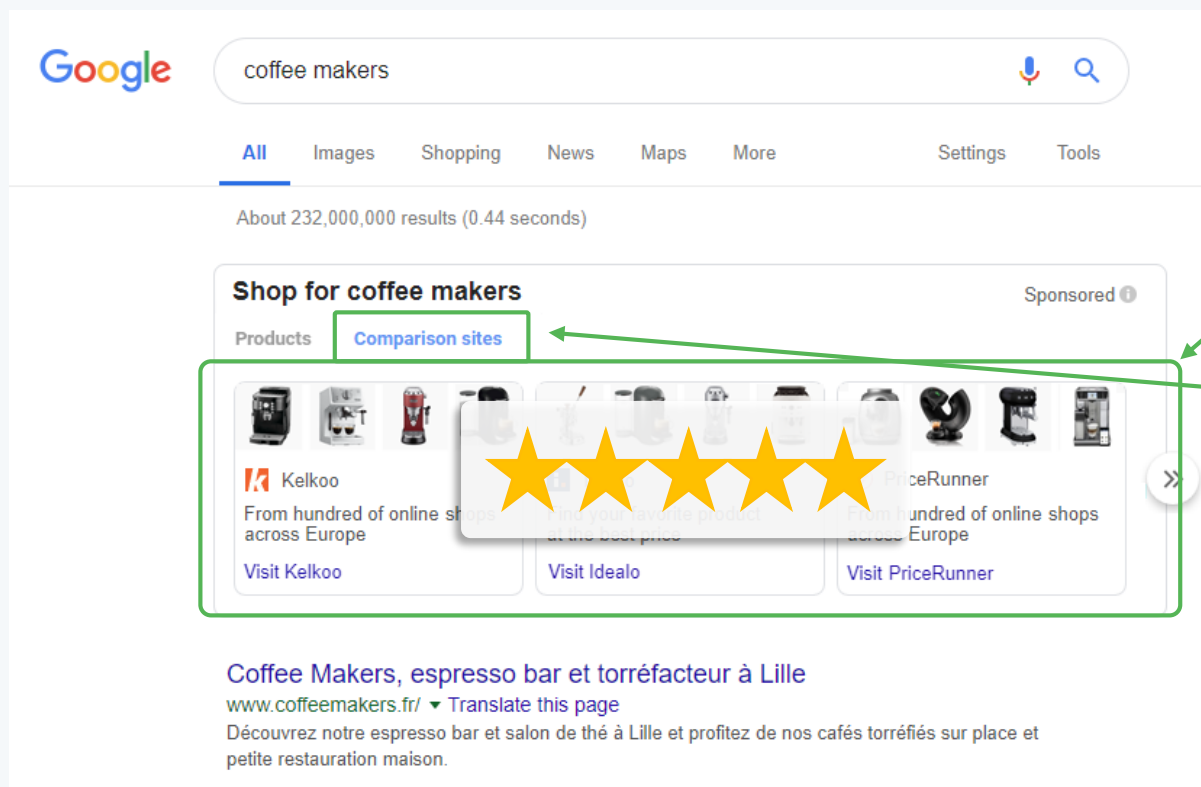
Fair, Reasonable
and Non-Discriminatory

Google service on the page
but rivals not

Clicks don't go to rivals
but to merchants

Auction extracts all the margin

The CLA format



Google currently operates a specialised ad format called **Comparison Listing Ads** in Europe

It appears as a **hidden tab** in the current remedy

Users like it when they find it, with a 4-8% CTR after selecting the tab

It could, with refinements, form the basis of **an effective remedy**
Crucially, we know that it is technically and practically possible – it already exists

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