Testimony of

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Statement of Matthew Crowley, Chief Marketing Officer, Yellowpages.com

before

The Antitrust, Competition Policy and Consumer Rights Subcommittee

of the Senate Committee on the Judiciary

on

The Google-Yahoo! Agreement and the Future of Internet Advertising

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Chairman Kohl and Ranking Member Hatch, AT&T appreciates the opportunity to present its perspectives on the important issues raised by the Google-Yahoo! search advertising agreement.

Competition from an independent Yahoo! is the only thing that keeps Google (which already accounts for about 70% of all search-advertising revenue) from achieving complete control over the online search advertising business. Google and Yahoo! portray their deal as a straightforward supplier arrangement that will benefit advertisers and ensure an independent Yahoo!. In fact, it would do nothing to ensure a vibrant, innovative, competitive check on Google's dominance - it would merely create a dependent and atrophying Yahoo!

As explained below, AT&T evaluated the Google-Yahoo! agreement from the perspective of both a large online advertiser and a search advertising marketing agent that helps thousands of small and medium-sized businesses place their ads on Google and Yahoo! From these perspectives, AT&T believes that the parties' optimistic portrayal of their deal is misguided.

Through this agreement, Yahoo! will turn over some material percentage of its search advertising inventory to Google and will, in turn, become dependent on payments from Google. If this is allowed to happen, it seems obvious that advertisers will have a diminishing ability to play Google and Yahoo! against one another in a competitive marketplace. The result, of course, would be less choice and higher prices for advertisers - especially smaller-scale businesses that do not have the heft or resources to ensure the best deal possible through the already opaque processes through which Google and Yahoo! sell search advertising. Moreover, the deal would dramatically lessen Yahoo!'s incentive to invest in its search advertising technology, leading to a downward spiral of decaying capabilities on Yahoo!'s advertising platform and eventual monopoly control over this important segment of the Internet marketplace by the already dominant player - Google.

Witness Background

My name is Matt Crowley and I am the Chief Ad Product and Marketing Officer for Yellowpages.com, a digital media/local search venture owned by AT&T. I am responsible for end-to-end marketing at Yellowpages.com, overseeing nationwide consumer and business marketing strategies. I have led Yellowpages.com's launch of a completely new website and platform, as well as the introduction of several mobile search applications. In addition, I oversee our Internet advertising product line that we offer primarily to small and medium-sized U.S. businesses. Yellowpages.com has grown to become the nation's most preferred Internet Yellow Pages.

I have over 18 years of experience in marketing, sales and general management in both online and offline environments. Prior to my current position with Yellowpages.com, I was responsible for Internet sales, marketing and product management for SBC's SMARTpages.com, as well as regional ad sales for Pacific Bell SMART Yellow Pages.

I hold a BA in Economics from the University of California, Irvine, and an MBA from the University of Southern California.

AT&T's Perspective On This Transaction

AT&T is one of the largest purchasers of Internet search advertising services. We spend many millions of dollars each year on search advertising to market our own products and services. Like most advertisers, we buy the vast majority of our search advertising from Google or Yahoo!

Through our Yellowpages.com subsidiary, we also purchase search advertising services from Google and Yahoo! on behalf of thousands of small and medium-sized businesses. Yellowpages.com is the online version of our paper Yellow Pages telephone directories, and, in addition to selling paper and online yellow pages listings to local businesses throughout the nation, we offer a service that makes it easier for them to market their products through search ads placed with Google and Yahoo! AT&T therefore has a strong interest in a competitive search advertising market in which independent search engine companies are competing aggressively for our own advertising business and for the advertising business of the many small and medium-sized businesses that we represent.

AT&T also has a strong interest in seeing Yahoo! succeed in the marketplace. Since 2001, Yahoo! has been our exclusive Internet portal partner. We have more than 14 million broadband Internet customers and more than 70 million wireless customers, and we are well on our way to a million customers for our new U-verse TV service. For all of these services, we rely upon Yahoo! for content, search capabilities and advertising. Thus, if Yahoo!'s agreement to turn over part of its search advertising business to Google were good for search advertising competition and good for Yahoo!, we would fully support it. Unfortunately, after careful consideration of what Google and Yahoo! have, and have not, disclosed about their agreement, AT&T has concluded that the agreement poses a significant danger not only to competition for Internet search advertising services and to the broader Internet economy, but to Yahoo!'s continued viability as a strong independent competitor to Google.

AT&T's Yellowpages.com Service

Yellowpages.com is a subsidiary of AT&T that provides a one-stop shop for the online advertising needs of small-and medium-sized businesses. Our core business is the online extension of AT&T's traditional yellow pages business - i.e., the yellow pages phone books that

local businesses use to advertise their products and services. An Internet user who visits the Yellowpages.com website can query our yellow pages listings for a particular type of business in a particular location, such as a local pizza parlor, and see the listings of local businesses that offer that product or service - just as a user of our paper directories can look up local businesses under service headings.

Yellowpages.com also serves as a search advertising marketing agent for small and medium-sized businesses, helping them place their ads on Google and Yahoo!. Small and medium-sized businesses need to reach consumers who may not specifically query yellow pages listings for a particular product, but they often do not have the resources or expertise efficiently to purchase search engine advertising directly from Google or Yahoo!. Successful search engine advertising requires expertise in choosing key words that match the advertisement and resources to monitor the extent to which the advertisement is being presented, whether users are clicking on it, and whether those "clicks" are translating into sales. Yellowpages.com helps these customers take advantage of the power of Internet search advertising by designing, purchasing, and monitoring an Internet search advertising strategy on their behalf. When it acts as a marketing agent for its small and medium-sized business customers, Yellowpages.com learns their needs and represents them in securing the most cost-effective and customer-effective placement of advertisements on Google and Yahoo!.

By making this targeted advertising readily available to small- and medium-sized businesses, Yellowpages.com places these "little guys" on equal advertising footing with some of the largest companies in the world. The importance to small and medium-sized businesses of having effective access to Internet search engine advertising cannot be overstated. Internet search advertising is one of the fastest growing and most effective forms of advertising today. It is often the most effective way for small and medium-sized businesses to attract customers who are interested in their products.

Perhaps more than anything, this role - effectively as an ad agency for thousands of small and medium-sized businesses - gives Yellowpages.com direct visibility into the detrimental impact of the Google-Yahoo! agreement for the online advertising ecosystem.

There Are Very Limited Choices For Internet Search Advertising Today.

Advertisers today have only two real choices for sponsored search advertising on the Internet: Google and Yahoo!. The No. 3 competitor, Microsoft, which has a single digit share of advertising revenues, simply lacks the scale and capabilities of Google and Yahoo! in this area and has been losing ground. Nos. 4 and 5, AOL and Ask.com, are not even independent competitors - they both already rely upon Google.

Yahoo! has, so far, managed to hold its own against Google. But this is a critical time in this market, and if Yahoo! is weakened, loses focus, slows down on investment or innovation, or does anything but continue to compete all out to best Google, there is a real risk that the market will tip even further toward Google. No one in the industry wants that to happen. Without robust competition from Yahoo!, there would be little to stop Google from gaining bottleneck control over search advertising.

The Google-Yahoo! Agreement Implicates Services that are Essential to Internet Growth and Innovation.

Two related phenomena have contributed heavily to explosive Internet growth over the past decade: (1) the development and enhancements of search engines that allow consumers to search the Internet effectively and without incurring any charges, and (2) the growth in the number and quality of websites maintained by myriad online "publishers" that consumers locate (often through search engines) to obtain information, services or entertainment and can visit without incurring any charges.

Online advertising provides the revenue that enables these free services to be offered, developed, and improved. Search advertising is, by a wide margin, the largest category of online advertising. And Google and Yahoo! are, by a wide margin, the two largest players in this highly concentrated market - with Google the clear leader, accounting for the vast majority of all search advertising revenues, and the two together now representing about 90% of the market.

As independent competitors, Google and Yahoo! each invests heavily to improve its search and search advertising algorithms, processes and business models to attract a greater share of enormous amounts online advertisers are willing to spend. It is extremely important that nothing be allowed to interfere with the intense competition that fuels this innovation, because improvements in this area will benefit all Americans in the form of lower prices and better service.

Incentives to innovate and improve search advertising are maximized in a market structure with multiple large, independent search advertising competitors. The ability to make improvements in ad placement and search technologies is heavily influenced by the number of searches and advertising transactions a search engine handles. In economic terms, the search-related advertising business is characterized by strong scale economies. A search engine that handles more searches and search advertising transactions will generally have better capabilities to match user searches with relevant ads today and more of the data that it needs to inform the changes and innovations to its ad platform that will improve its ability to do so in the future. By contrast, a search engine that loses "scale" in these respects may be disadvantaged in its ability to compete for advertising dollars today and to improve its capabilities for the future.

Competition between Yahoo! and Google for the billions of dollars that online advertisers spend annually also fuels investment and innovation across a wide range of other Internet activities, and a competitive online advertising market is thus vitally important to the U.S. economy. Free e-mail, instant messaging, mapping, online storage and many other Internet services and features are all products of unbridled competition for advertising dollars. Online publishers also make most of their money from advertising, and the share of search advertising revenue they can negotiate for agreeing to display a search engine toolbar - and thus what they have available to fund new content and services - depend upon intense competition between Google and Yahoo!

How Google and Yahoo! Sell Search Advertising

Not only are Google and Yahoo! the dominant providers of sponsored search advertising, but they are already able to price their services in an unusually opaque manner. This makes it harder for Yellowpages.com to assist our small and medium-sized advertising customers and harder for all advertisers to ensure that Google and Yahoo! compete against one another. Google's increased dominance as a result of this deal would make this problem worse.

Advertisers seek to ensure that Google and Yahoo! compete by carefully monitoring the cost effectiveness of their ad placement services and shifting advertising dollars as a result. Today, Google and Yahoo! compete head-to-head to do a better job than the other at efficiently placing advertisements on the pages where customers are most likely to click the advertisement. Google and Yahoo! today have completely separate technology processes (or algorithms) for matching advertisements with searches and determining the placement on the results pages a particular advertiser will receive. Google's sponsored search process is branded "Adwords," and Yahoo!'s is branded "Panama."

Knowing that prices reflect the services provided is crucial to monitoring competition between Google and Yahoo!, but this is often difficult even today and would become even more so after the deal. In this regard, statements by Google and Yahoo! that customers control the prices in the "auctions" they hold for search keywords are misleading. In fact, Google and Yahoo! retain ultimate control over the amount that particular customers must pay to receive service through manipulation of the number of ad "slots" available to interested advertisers, the "reserve" prices - or minimum bids - for those advertising slots, and the opaque "quality score" rankings that determine which paid ads will be delivered with search results, the order in which they will appear, and how much advertisers will pay per click.

Competition from an independent Yahoo! now reduces the dangers posed by Google's dominance and pricing system. Even so, Google's "Adwords" algorithms lack transparency; Google's prices are already generally higher than Yahoo!'s; and we have found Google to be more inflexible in terms of negotiating terms and conditions for commercial agreements.

The Google-Yahoo! Deal Threatens to Dramatically Reduce the Competition that is Essential for Internet Growth and Innovation.

The essence of the Google-Yahoo! agreement is that the No. 1 and No. 2 competitors today in search advertising have entered into an alliance whereby Google will provide the ads for an unlimited portion of Yahoo!'s search queries in the United States and Canada. Through an undisclosed method, Yahoo! will select the most revenue-enhancing ads from between the two platforms and post those ads alongside its search results. When Yahoo! uses Google ads, Google will pay Yahoo! an undisclosed share of the revenue from ads served by Google.

This arrangement will essentially displace a significant portion of the advertising inventory supplied by Yahoo!'s ad platform, Panama, which is the only truly viable long-term competition for Google's search platform. The attractions of the deal to Yahoo! are obvious - it makes more money from turning over some of its search ad inventory to Google and hopes to scuttle a deal

with Microsoft. For Google, the deal is a way to limit the capabilities and dull the competitive focus of its main rival in this business.

AT&T has two major concerns with the Google/Yahoo! agreement:

First, this agreement will lead to higher prices for sponsored search advertising services. There is very little choice in this market today, and now Google and Yahoo! propose that Yahoo! be allowed to turn over a large portion of its inventory to Google and to become dependent on payments from Google. Advertisers' ability credibly to threaten to shift more of their business to Yahoo! is really the only thing that keeps Google in check today. If Yahoo! is filling fewer advertising slots on Internet search pages (and Google more), we expect that the prices advertisers have to pay to get slots will go up - both on Yahoo! and on Google, which is already generally more expensive than Yahoo! Higher prices and costs for Internet search advertising would, of course, mean higher prices for the products and services that are marketed through such advertising - today, almost everything.

Second, this agreement will substantially and quickly weaken Yahoo! as a competitor, giving Google even more power in this market. If Yahoo! hitches its wagon to Google, takes a stake in Google's profits, and turns over a significant portion of its business to Google, that will lessen Yahoo!'s incentives - and its ability - to invest and innovate to win business away from Google. Success in the search advertising business requires constant investment and innovation, and this deal will clearly handicap Yahoo! in those areas. The fewer advertising transactions a search engine handles, the less information it has to inform decisions how to make its search advertising processes more effective - and the smaller the base of transactions it has over which to spread the costs of that innovation.

To make matters worse, the revenue-sharing deal with Google will also lessen Yahoo!'s need to make risky investments to improve its capabilities - Yahoo! would share in Google's success. AT&T therefore views this agreement as sending Yahoo! on a downward spiral as an ever-decreasing competitive threat to Google. We have already seen that with AOL and Ask.com after they turned over their search advertising business to Google.

A weakened Yahoo! will turn down the competitive heat on Google even further. Google already controls the lion's share of this business, and we see the consequences of its dominance in the form of higher prices, less transparency and an "our way or the highway" attitude. Anything that weakens Yahoo! or causes it to lose competitive focus is thus a major concern.

Indeed, according to internal Yahoo! documents made public in a shareholders' lawsuit, Yahoo! leadership rejected the idea of outsourcing its search-advertising business to Google earlier this year for precisely this reason, concluding: "We are focused on long-term value creation rather than short-term gains (short-term analysis of the revenue potential of outsourcing monetization may not take into account the longer term impact on the competitive market if search becomes an effective monopoly)."

As noted, the impacts of this agreement go well beyond search advertising. Intense competition between Google and Yahoo! for the billions of dollars that advertisers spend on online

advertising is the engine that drives innovation and investment not only in the search advertising business, but in a broad and growing range of Internet activities.

We believe that you will conclude, as we have, that the agreement will reduce competition and harm consumers, advertisers and the Internet marketplace. AT&T therefore urges the Subcommittee to take a very hard look at the Google-Yahoo! agreement; insist that the parties disclose much more about its terms and likely impacts; encourage the relevant regulatory authorities to scrutinize this proposed deal with the same rigor as they would a merger of the two companies; and ensure that, should the deal proceed, it be subject to adequate checks and modifications to protect against harm to consumers and businesses, including the thousands of small and medium-sized businesses that rely so heavily on search advertising as a competitive lifeline to their customers.