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A Retrospective on Google's
Purchase of AdMob**

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I. INTRODUCTION

Google announced its acquisition of AdMob in November 2009 when the “mobile revolution” had just begun. Since then mobile device use has exploded. One in five people worldwide now own a smartphone, and more people worldwide now own a smartphone than a personal computer.² The number of software applications (“apps”) developed for mobile devices has also skyrocketed, increasing from about 100,000³ in 2009 to about one million⁴ today in the Apple App Store alone. Over 50 billion apps have been downloaded from the Apple App Store,⁵ and another 50 billion apps have been downloaded from Google Play.⁶

App developers “monetize” their apps in many ways, one of which is advertising. AdMob was one of several startup mobile advertising networks. After Google announced its acquisition of AdMob, the Federal Trade Commission (“FTC”) began an investigation to assess whether the transaction would eliminate competition between the companies, resulting in too much market concentration. But the mobile industry shifted even as the FTC’s investigation was pending. In January 2010 Apple announced its \$275 million acquisition of Quattro Wireless (“Quattro”), another startup in-app advertising network that Apple subsequently rebranded iAd. The FTC closed its investigation in May 2010, noting that Apple’s entry and other developments made AdMob’s historical success an “[in]accurate predictor of AdMob’s competitive significance going forward.”⁷ Google and AdMob then closed the acquisition.

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² John Heggstuen, *One In Every 5 People In The World Own a Smartphone, One In Every 17 Own a Tablet*, BUSINESS INSIDER (Dec. 15, 2013), <http://www.businessinsider.com/smartphone-and-tablet-penetration-2013-10>.

³ *Apple Announces Over 100,000 Apps Now Available on the App Store*, Apple Press Info (Nov. 4, 2009), <http://www.apple.com/pr/library/2009/11/04Apple-Announces-Over-100-000-Apps-Now-Available-on-the-App-Store.html>.

⁴ Chuck Jones, *Apple’s App Store About to Hit 1 Million Apps*, FORBES (Dec. 11, 2013), <http://www.forbes.com/sites/chuckjones/2013/12/11/apples-app-store-about-to-hit-1-million-apps/>.

⁵ *Apple’s App Store Marks Historic 50 Billionth Download*, Apple Press Info (May 16, 2013), <http://www.apple.com/pr/library/2013/05/16Apples-App-Store-Marks-Historic-50-Billionth-Download.html>.

⁶ Michael E., *Google Play Tops 50 Billion App Downloads*, MOBILE MARKETING WATCH (July 19, 2013), <http://www.mobilemarketingwatch.com/google-play-tops-50-billion-app-downloads-34516/>.

⁷ *Statement of the Commission Concerning Google/AdMob*, FTC File No. 101-0031 (May 21, 2010), available at http://www.ftc.gov/sites/default/files/documents/closing_letters/google-inc./admob-inc/100521google-admobstmt.pdf.

This article explains why the FTC made the right decision. Pre-merger review under Section 7 of the Clayton Act is inherently prospective, requiring the FTC to predict whether an acquisition “may” reduce competition. However, it can be difficult to predict the effects of acquisitions in industries characterized by rapid change and innovation. That is perhaps more true of mobile advertising than any other industry, and the FTC’s regulatory restraint in the AdMob transaction was clearly justified in light of the rapid innovation and fierce competition that has occurred in the ensuing years.

Disruptive new competitors and new technologies have changed the way advertisers and publishers approach mobile advertising—and monetizing mobile content more generally—since 2009. Moreover, large publishers like Facebook have bypassed entirely, and now dwarf, their ad network competitors. Finally, while iAd may not have been exactly what the FTC predicted, competition between AdMob and iAd—and between the iPhone and Android platforms—is robust.

The FTC was correct that predicting AdMob’s future competitive significance in 2010 was nearly impossible. But even more importantly, subsequent industry developments discussed below show that the acquisition did not reduce competition or stifle innovation.

II. MOBILE “IN-APP” ADVERTISING

Mobile devices permit users to access both the internet and software applications (“apps”). “Publishers” of websites and apps may charge users directly to access content, or may monetize content through advertising. Advertising networks like AdMob connect those publishers with advertisers. There are various alternatives for mobile advertising, including mobile web advertising, mobile in-app advertising, and mobile search advertising.

AdMob’s business focuses on mobile in-app advertising. In-app advertiser prices are generally set through an auction model in which an advertiser specifies a maximum price it is willing to pay for a given unit of “ad inventory,” or a piece of real estate on an app that has been devoted to advertising. Publisher prices are generally determined by the “revenue share,” or the split of advertiser revenue between the advertising network and publisher. Once an advertiser sets a maximum price, the ad network serves ads to the apps that are likely to maximize both the publishers’ revenue and the advertisers’ return on investment. Publishers and advertisers can integrate with multiple ad networks through “mediators” or “exchanges.” As discussed below, these platforms have evolved to give publishers and advertisers increasingly sophisticated tools.

III. FTC CLOSING STATEMENT

The FTC’s Closing Statement accompanying the end of its investigation expressed its initial concern that Google and AdMob were the “two leading mobile advertising networks,” and the transaction would eliminate “head-to-head competition between them” on the iPhone and Android platforms.⁸ The FTC cleared the transaction based upon two observations:

First, the FTC found that Apple (through its acquisition of Quattro) would be a “strong” competitor because of its “relationships with application developers and users;” its ability to offer “targeted ads” using “proprietary user data;” and its ability to control app developers’ access to

⁸ *Id.*

the iPhone platform, which gave Apple the “ability to define how competition among ad networks on the iPhone will occur and evolve.”⁹ In short, the FTC found that “AdMob’s success to date on the iPhone platform is unlikely to be an accurate predictor of AdMob’s competitive significance going forward.”¹⁰ In speeches and interviews, Commissioners Edith Ramirez, Julie Brill, and J. Thomas Rosch each separately noted that Apple’s entry was a “game-changing development” that contributed to the Commission’s decision to close the investigation.¹¹

Second, the FTC found that Google had a “strong incentive” to encourage the development of “free or low-cost” apps “to maintain the competitiveness of Android.”¹² If Google were to “exercise market power” with AdMob post-transaction, it would reduce the competitiveness of Android because these apps were “made available” using revenue from ad networks like AdMob.¹³ In addition, other firms were developing platforms to compete against iPhone and Android, and these firms “would have a strong incentive to facilitate competition among mobile advertising networks, including through self-supply.”¹⁴

IV. THE EVOLUTION IN MONETIZING MOBILE

The FTC’s conclusion that the AdMob transaction would not undermine competition or innovation proved prescient. In addition to competition from iAd, mobile advertising has undergone a rapid evolution in the few short years since the AdMob acquisition. Competition has flourished, with new innovations that leapfrog existing technology. Ad networks like Millennial Media (which acquired JumpTap), Greystripe (acquired by ValueClick/Conversant), InMobi, LeadBolt, and Tapjoy have expanded their business and introduced new products to serve growing demand as Quattro and AdMob has focused on post-acquisition integration. AdMob even lost important employees to competitors like MoPub and Mojiva. But most importantly, other companies have pioneered new technologies that represent the future of mobile advertising.

⁹ *Id.*

¹⁰ *Id.*

¹¹ See Edith Ramirez, Commissioner, FTC, Address at the 20th Annual Golden State Antitrust and Unfair Competition Law Institute (Oct. 21, 2010) *available at* http://www.ftc.gov/sites/default/files/documents/public_statements/address-commissioner-ramirez/101021goldenstate.pdf; J. Thomas Rosch, Commissioner, FTC, Remarks before the ABA Antitrust Section Fall Forum: Intel, Apple, Google, Microsoft and Facebook: Observations on Antitrust and the High-Tech Sector (Nov. 18, 2010) *available at* http://www.ftc.gov/sites/default/files/documents/public_statements/intel-apple-google-microsoft-and-facebook-observations-antitrust-and-high-tech-sector/101118fallforum.pdf; Interview by Howard Morse with Julie Brill, Commissioner, FTC, in Federal Civil Enforcement Committee Newsletter (Nov-Dec 2010) *available at* http://www.ftc.gov/sites/default/files/documents/public_statements/aba-federal-civil-enforcement-committee-interview-commissioner-julie-brill/101221abainterview.pdf; see also, *Antitrust in the Digital Age: How Enduring Competition Principles Enforced by the Federal Trade Commission Apply to Today’s Dynamic Marketplace: Hearing Before the H.R. Comm. on the Judiciary Subcomm. On Courts and Competition Policy* (2010) (Statement of Richard Feinstein, Director of the Bureau of Competition at the FTC), *available at* http://www.ftc.gov/sites/default/files/documents/public_statements/prepared-statement-federal-trade-commission-antitrust-digital-age-how-enduring-competition/100916digitalagetestimony.pdf.

¹² *Statement of the Commission Concerning Google/AdMob, supra*, n. 7.

¹³ *Id.*

¹⁴ *Id.*

At the time of the acquisition, mediators permitted shifting inventory across multiple ad networks, eliminating any benefits an ad network may realize from its size. These platforms have continued to evolve, and now provide significantly more transparency and efficiency, as well as an increasingly robust competitive constraint on individual ad networks like AdMob.

On the publisher side, supply-side platforms (“SSPs”), ad servers, and ad exchanges¹⁵ have developed sophisticated new technologies that broaden publisher access to a variety of advertisers and other revenue sources and offer a range of tools that enable publishers to optimize yields and maximize revenue. Examples of companies offering these tools include Nexage, MoPub, MobClix, AdMarvel, and Smaato.

On the advertiser side, demand-side platforms (“DSPs”)¹⁶ and real-time bidding (“RTB”) platforms help advertisers maximize their return on investment. For example, tools may analyze publisher data to help advertisers calculate appropriate bids and allow advertisers to target users based on various criteria like location, device, app categories, etc. Certain companies, such as Drawbridge and Tapad, also now offer solutions that enable advertisers to target users across multiple devices (smartphone, tablet, desktop, laptop, television, etc.). Evolving bidding technologies allow advertisers to bid on publisher inventory in real time. Examples of companies offering these tools include MetaResolver (acquired by Millennial Media and rebranded mMedia), MdotM, Adfonic, Turn, OpenX, and many others. With increasingly transparent and efficient bidding, less innovative ad networks that generate less revenue lose bids.

Innovation also has led to entirely new monetization methods that pose an even greater competitive threat to ad networks, including in-app purchasing (“IAP”), engagement advertising, affiliate marketing, and native advertising. IAP involves a user paying for virtual goods within an app. An increasing number of publishers choose to monetize their content with IAPs rather than in-app advertising. IAP generated over 75 percent of App Store revenues in early 2013.¹⁷ Various competitors like Tapjoy and Amazon offer IAP solutions, and publishers like Supercell (which recently sold a 51 percent stake for over \$1.5 billion) have had enormous success monetizing using IAPs. These IAPs are a significant competitive constraint on ad networks like AdMob that simply did not exist in 2009.¹⁸

Similarly, engagement advertising incentivizes users to interact with the advertisement, often in exchange for actual or virtual rewards. Competitors offering engagement solutions include Super Rewards, Kiip, Adquant, and Session M. With affiliate marketing, a third-party pays the publisher every time the app user is directed to the third-party's product or service.

¹⁵ Christopher Reynolds, *Increasing Mobile App Revenue with Mobile Ad Servers*, Moby Affiliates (Sept. 25, 2012), <http://www.mobyaffiliates.com/blog/increasing-mobile-app-revenue-mobile-ad-servers/>.

¹⁶ Christopher Reynolds, *Buying Mobile Advertising using Mobile Demand Side Platforms (Mobile DSPs)*, Moby Affiliates (Oct. 15, 2012), <http://www.mobyaffiliates.com/blog/buying-mobile-advertising-using-mobile-demand-side-platforms-dsps/>.

¹⁷ Chris Royd, *In-app purchases now account for a staggering 76% of App Store revenue according to report*, iMore (Mar 31, 2013), <http://www.imore.com/app-purchases-now-account-staggering-76-app-store-revenue-according-report>.

¹⁸ Apple changed its developer agreement to permit in-app purchases for free applications in October 2009. Erica Sadun, *Apple Relents: In-app Purchase for Free Apps Allows Demo-to-Paid*, TUAW (Oct. 15, 2009), <http://www.tuaw.com/2009/10/15/apple-relents-in-app-purchase-for-free-apps-allows-demo-to-paid/>.

Various competitors offering these solutions include LinkShare, Commission Junction (acquired by ValueClick/Conversant), ClickBank, and ShareASale.

Native advertising involves integrating ads into the app experience. Revenue from native ads has increased substantially, and is facilitated by various networks, such as NativeX. Publishers like Facebook and Twitter have had large success embedding native ads into their apps.

Finally, the FTC was correct to predict that iAd would remain a strong competitor with AdMob going forward. Initial reports of iAd were highly favorable as Apple secured significant contracts with major brands like Campbell Soup, DirecTV, General Electric, and Sears. While Apple originally focused primarily on high-dollar advertising campaigns, it has subsequently expanded its reach. Apple recently launched iAd Workbench, which reportedly allows publishers to launch ad campaigns for as little as \$50. Apple is also launching new innovations, such as an RTB platform and advertising on iTunes Radio.

V. PUBLISHERS ON THE RISE

Perhaps the most important development in mobile advertising is the increased significance of large publishers, which are bypassing ad networks to monetize their extensive new mobile inventory. By 2012, publishers controlled more than half of all mobile display advertising.¹⁹ Large publishers have far more information about their users than ad networks, and the trend toward displacing ad networks like AdMob is likely to continue.

Perhaps the best example of the rapid pace of change in mobile advertising is Facebook. Facebook started with zero mobile advertising revenue in 2011,²⁰ but in 2013 the company earned \$3.1 billion from mobile advertising alone, driven primarily by native ads served in users' newsfeeds.²¹ The company reportedly accounted for 16 percent of worldwide mobile ad spending in 2013, up from 5 percent in 2012.²² The trend continued into 2014, with Facebook earning \$1.3 billion in revenue (or 59 percent of the company's total advertising revenue) from mobile newsfeed ads alone in the first quarter.²³ Facebook's rapid growth is the result of targeting ads using its extensive proprietary data on over one billion mobile users.

But this is only the beginning. In 2008 Facebook launched Facebook Connect, which allows users to use their Facebook logins to access third-party apps and permits Facebook to integrate with the app. Facebook can use its relationships with third-party apps to improve targeting of ads, and also to compete directly with ad networks. In 2012, Facebook tested a new

¹⁹ IDC: *For Mobile Advertising Networks, Era of Dominance is Over*, Press Release, IDC (Apr. 9, 2013), <http://www.idc.com/getdoc.jsp?containerId=prUS24063113>.

²⁰ Facebook 10K (Feb. 1, 2013) at 47, available at <http://www.sec.gov/Archives/edgar/data/1326801/000132680113000003/fb-12312012x10k.htm>.

²¹ Facebook 10K (Jan. 31, 2014) at 46, available at <http://www.sec.gov/Archives/edgar/data/1326801/000132680114000007/fb-12312013x10k.htm>.

²² Natasha Lomas, *Facebook to Capture 15.8% of Global Mobile Ad Revenue This Year, Predicts eMarketer, Up From Just 5.35% In 2012*, TECH CRUNCH (Aug. 28, 2013), <http://techcrunch.com/2013/08/28/facebook-global-mobile-ads/>.

²³ Facebook 10Q (Apr. 25, 2014) at 26, available at <http://www.sec.gov/Archives/edgar/data/1326801/000132680114000023/fb-3312014x10q.htm>.

ad network that used Facebook's proprietary user data to target advertisements more effectively for third-party publishers in direct competition with ad networks. Although Facebook temporarily "paused" the development of its new ad network, Facebook has since restarted the project.²⁴

Other publishers are expanding their mobile advertising capabilities as well. For example, Twitter acquired MoPub in September 2013 for \$350 million, permitting Twitter to implement RTB for Twitter ads and to improve use of Twitter's social data for targeting. Pandora also is generating substantial advertising revenues without an ad network.

VI. THE MOBILE WARS

Furthermore, as the FTC anticipated, competition between the iPhone and Android platforms has intensified since 2009. Although Apple appeared poised to extend its lead in the smartphone industry at the time of the AdMob acquisition, Android smartphones have since become a significant competitor. Nevertheless, Android still lags behind iPhone generating revenue for advertisers and publishers. With respect to advertisers, iPhone had a higher share of global mobile advertising revenue in 2013 despite Android's higher market penetration.²⁵ With respect to publishers, the top 200 grossing apps in the Apple App Store generated almost five times the revenue of the top 200 grossing apps in Google Play in 2013.²⁶ One reason cited for the discrepancy is that less expensive Android devices are purchased by consumers who are also likely to spend less on apps and other purchases.²⁷

This evidence suggests that Google will continue to face significant pressure to increase the profitability of Android for publishers and advertisers if Android is to succeed. And Google has a strong interest in ensuring the success of Android, even though Google does not directly profit from sales of the free operating system. In fact, the availability of an open platform is critical to Google to ensure that it can distribute its products and services like Google Maps or Google Search on mobile devices.²⁸

Competition between iOS and Android is intense, and publishers must design their apps specifically for particular platforms. If Google provided insufficient incentive for publishers to design apps for Android, those publishers—and smartphone consumers—would look elsewhere.

²⁴ Cade Metz, *Facebook Challenges Google With Its Own Mobile Ad Network*, WIRED (Jan. 22, 2014), available at <http://www.wired.com/business/2014/01/facebook-mobile-ad-test/>.

²⁵ John Heggstuen, *Charts: Apple's Phones and Tablets Still Handily Beat Android Devices in Generating Global Ad Revenue*, BUSINESS INSIDER (Oct. 2, 2013), <http://www.businessinsider.com/mobile-ad-revenue-by-platform-2013-10>; see also John Koetsier, *Facebook Ad Profit a Staggering 1,790% More on iPhone than Android*, VENTURE BEAT (Oct 16, 2013), available at <http://venturebeat.com/2013/10/16/facebook-ad-profit-a-staggering-1790-more-on-iphone-than-android/>.

²⁶ Tirui van Agten, *A Granular App Level Look at Revenues: Google Play vs. Apple App Store*, DISTIMO (May 2013), available at <http://www.distimo.com/publications>; Harry McCracken, *Who's Winning, iOS or Android? All the Numbers, All in One Place*, TIME TECH (Apr. 16, 2013), available at <http://techland.time.com/2013/04/16/ios-vs-android/>.

²⁷ See, e.g., Harry McCracken, *The Smartphone App Wars Are Over, and Apple Won*, TIME (Feb. 21, 2014), available at <http://techland.time.com/2014/02/21/ios-vs-android-2/>.

²⁸ Charles Arthur, *Apple maps: how Google lost when everyone thought it had won*, THE GUARDIAN (Nov. 11, 2013), available at <http://www.theguardian.com/technology/2013/nov/11/apple-maps-google-iphone-users>.

Incentivizing publishers is particularly important given the wide variation in Android operating systems use by smartphone manufacturers, which makes developing apps for the fragmented Android market more difficult. The ability to monetize an app on a particular platform is the most important factor for publishers, and Google would risk the overall viability of Android if it deliberately decreased advertiser or publisher profits in the AdMob network. Given the intense competition between iPhone and Android platforms, this competitive pressure on AdMob is even more significant today than it was when the FTC considered the issue in its Closing Statement in 2010.

VII. CONCLUSION

The years since the AdMob acquisition have vindicated the FTC's decision to close its antitrust investigation. It is extremely difficult, if not impossible, to anticipate perfectly the competitive effect of acquisitions in a rapidly evolving industry, but the FTC was correct to conclude that AdMob's historical success did not predict its competitive significance going forward. Apple's iAd continues to be a significant competitor to AdMob, and vigorous competition between the iOS and Android platforms eliminates incentives for Google to disadvantage its advertisers or publishers.

But the history of mobile advertising since 2010 reveals even more fundamental shifts that underscore the FTC's conclusions. Following the AdMob and Quattro acquisitions, existing competitors and new entrants have gained increased traction in the marketplace, and have leapfrogged each other with new technologies like exchanges, RTB, "native" ads, and IAPs that provide sophisticated new ways for publishers and advertisers to maximize their revenue. Companies that are pioneering these new technologies are driving the industry forward.

Perhaps even more significantly, large publishers like Facebook pose a new competitive threat. Within a mere 18 months, Facebook went from zero mobile revenue to a mobile business that dwarfs AdMob and other ad networks. Facebook has user data for targeting that no independent ad network can match, and it is now displacing ad networks entirely by serving ads to third-party publishers. No one could have predicted these changes since 2009. Consumers will reap the rewards of FTC regulatory restraint in the face of these changes, and the future of competition in mobile in-app advertising is bright.