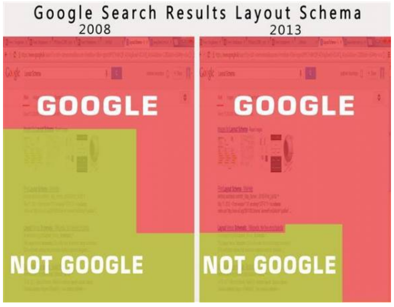
GOOGLE: AMOUNT OF UNPAID SEARCH RESULTS DRAMATICALLY DECREASING



When Google recently unveiled its quarterly results, the online giant once again came up with excellent figures. Sales from April to June 2013 rose by almost a fifth to USD 14.1 billion compared to the previous year; net profit soared 16 per cent to USD 3.22 billion. Cash and cash equivalents are now USD 16.16 billion, and the share price is USD 850, 25 per cent higher than a year ago.

But, what is pleasing to Google shareholders is a growing problem for sectors that suffer from the dominance of the seemingly all-powerful search engine, in particular the tourism and hospitality sectors. Google's financial high is largely maintained by the suppression of the "organic" search results that are replaced by those of paid advertisers when displayed on screen.

According to Aaron Harris, CEO of Tutorspree (a consulting company for training), the organic results in Google searches make up only between 0 (!) and 13 per cent of the first page. These values are somewhat distorted by the MacBook Air used in this study, but even with other screen formats, **the unpaid "organic" Google search results are rarely more than 30%.**

Five years ago, the ratio was inverted. During this period, Google revenue more than doubled from USD 21.79 billion to USD 50.17 billion, while profit increased from USD 4.22 billion to USD 10.74 billion.

The predominant paid AdWords advertisements are usually displayed above and to the right of the organic search results, exactly where, according to studies, the user’s strongest focus is and a correspondingly high click rate is achieved. The remaining results are virtually ignored by the user.

The massive AdWords thrust when searching for tourist services is caused mainly by online travel agents (OTAs), like Priceline (including Booking.com), Expedia (expedia.com), or Sabre Holdings/Travelocity (including lastminute.com) but also HRS and tourist meta-search engines whose big players have already been swallowed by the OTAs (Trivago at the end of 2012 by Expedia and Kayak shortly after by Priceline).

The Priceline example (half-year revenue USD 2.98 billion, operating profit USD 864.5 million) clearly shows how much money is being thrown into the fray; in the first half of 2013, Priceline invested USD 866.3 million, around 60% of its expenditure in online advertising, a large part of it on Google activities. Priceline’s offline advertising consisted of a paltry USD 59.8 million.

The result of this development is that booking portals or meta search engines, because of their investments in Google search results, are at the top of the list (often using the hotel name) and are thus more prominent than the hotels themselves. The online user is thus drawn to the OTA sites (where hotels have to pay high booking fees) and has little chance of going direct to the individual hotel page.

This is a case of the cat biting its own tail; the more bookings running through the OTAs, the more hotel commission they receive which they in turn use to increase their own AdWord advertising. The hotel industry is doomed to finance the growth of OTAs and Google in this cycle and simultaneously loses more and more direct bookings. Neutrality and objectivity are lost on the way; the consumer is specifically directed to those distribution channels that bring the highest profit for Google.

EU competition proceedings on this matter have been pending since 2010. Since then, Google has produced a list of concessions, but according to Kent Nyström, President of the European Association of Hotels, HOTREC, these seem to be far from adequate. The Association "Lobby Fair Search," which unites competitors from Expedia to Microsoft, criticized Google's proposals saying they would worsen the situation.

HOTREC demanded that Google separate organic and commercial search results and display reservation prices (currently only the booking portal prices appear on Google; the original hotel price can be found nowhere on the website) as well as ban the use of hotel names in advertisement copy from third parties (brand bidding).

The hospitality industry and consumers are not the only losers in this development because Google plays off one against another with its monopoly, according to Bastian Sens, owner of the Hotel Online Marketing Agency LibOTEL, as seen with Merchant Center (Google shopping results). Google provides the service to shop operators for free then expands the service with their data; then, there is a swing to the pay model (pay per click). Bastian Sens: "The shops sometimes have their online sales aligned to this channel, and suddenly, it is disconnected if they do not pay. Is that a fair model?"

What happens next is unclear. EU Competition Commissioner Joaquin Almunia asked Google President Eric Schmidt in a letter in July to submit improved proposals and rectify the concessions. The response is still outstanding.

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