

Testimony of

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September 27, 2007

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Senior Vice President of Corporate Development and Chief Legal Officer  
Senate Judiciary Subcommittee on Antitrust, Competition Policy and Consumer Rights  
Hearing on "An Examination of the Google-DoubleClick Merger  
and the Online Advertising Industry: What Are the Risks for Competition and Privacy?"  
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Chairman Kohl, Ranking Member Hatch, members of the Subcommittee.

It's my pleasure to appear before you this afternoon to discuss recent developments in the world of online advertising. My name is David Drummond, and I am Google's Senior Vice President of Corporate Development and Chief Legal Officer.

The online advertising business is complex, but my message to you today is simple: Online advertising benefits consumers, promotes free speech, and helps small businesses succeed. Google's acquisition of DoubleClick will help advance these goals while protecting consumer privacy and enabling greater innovation, competition, and growth.

There are various types of online advertisements. For example, there is text-based advertising, which looks much like a classified ad in a newspaper. There is also display advertising - static or moving images that appear on a website you're visiting that are similar to billboards or TV commercials. In both cases, many competitors and thousands of individuals are engaged in creating online ads, purchasing and selling advertising space on websites, delivering ads, measuring performance, and creating new technologies to deliver better and more relevant advertising to consumers.

Though online advertising is relatively young and a very small piece of the advertising market, it is a robust business characterized by strong competition, significant innovation, and tremendous growth. In Google's case, the growth that we've seen has occurred because the innovations and investments that we've made, and the risks that we've taken as a company, have brought benefits to consumers, advertisers, and website publishers such as blogs and news sites.

Benefiting Consumers, Supporting Free Speech, and Partnering with Small Business

I'll start with consumers - our users - on whom our business depends. In our experience, our users value the advertisements that we deliver along with search results and other web content because the ads help connect them to the information, products, and services they seek. Simply put, advertising is information, and relevant advertising is information that is useful to consumers.

The advertising we deliver to our users complements the natural search results that we provide, because our users are often searching for products and services that our advertisers offer. Making this connection is critical. In fact, we strive to deliver the ads that are the most relevant to our users, not just the ones that generate the most revenue for us. We do this through our innovative ad auction system, which gives weight to the relevancy - the usefulness - of the ad to our users.

And our ads aren't always commercial. We run a program called Google Grants that provides free advertising to non-profit organizations engaged in community service in areas such as science and technology, education, global public

health, the environment, youth advocacy, and the arts. Since April 2003, grantees have collectively received more than \$155 million in free advertising.

We've also found that online advertising promotes freer, more robust, and more diverse speech. It's no coincidence that blogs have proliferated over the past few years. Our business model enables bloggers and others to generate revenue from sharing their views with the world. Without online advertising, the individuals who run these sites would not be able to dedicate as much time and attention to their publications as they do today.

In fact, we know that many website owners can afford to dedicate themselves to their sites full time because of online advertising, in part because a significant percentage of the revenue we earn from advertising ends up not in Google's hands, but in the hands of the bloggers and website operators who partner with us.

Last year we paid \$3.3 billion in advertising revenue to our partners, and it's a great satisfaction to Google that we help enable this proliferation of online speech and activity. Our advertising programs help fund an incredible range of useful Internet websites, from AskTheBuilder.com, where home construction expert Tim Carter earns an average of \$1400 a day through Google advertising, to SeatGuru.com, a website that allows consumers to review the pros and cons of every seat on every commercial airline.

Our advertising network also helps small businesses connect with consumers that they otherwise would not have reached, and to do so affordably, efficiently, and effectively. The advertiser decides the maximum amount of money it wishes to spend on advertising. And in the cost-per-click payment model, the advertiser only pays us when a user actually clicks on an ad.

Allen-Edmonds - the Port Washington, Wisconsin, shoemaker - is an example of how effective this type of advertising is. Allen-Edmonds has frequently appeared as a sponsored link to people searching for terms like "men's dress shoes." According to Allen-Edmonds' marketing director, the company's online sales rose 40 percent in 2005 because of the type of advertising that Google enables. Mr. Chairman, there are thousands of other Wisconsin-based companies - most of them small businesses - that also advertise with us.

It's no mistake that I've focused mainly on individual users, small publishers, and small advertisers. Google's business model has focused on what's known as the "long tail" of the Internet - the millions of individuals and small businesses that cater to niche interests and markets. We lower the barrier to entry for these small publishers and advertisers, and we match them up with users who are interested in what they have to say or sell.

We believe that our advertising business as it continues to grow and evolve will continue to encourage the development of the long tail. We also believe that the DoubleClick acquisition will help us broaden display advertising, in which we have very little experience, to the long tail of the Internet.

#### The DoubleClick Acquisition Promotes Competition

The display ad business has existed for over a decade, and it's led by three portals - the Microsoft Network, America Online, and Yahoo! Each has more than \$1 billion in annual display ad revenue. Content sites such as CNET and ESPN.com also generate significant revenue from display advertising. Display ads, as I've noted before, are static or moving images similar to billboards or TV commercials, and in the chronology of internet advertising display ads came first.

In 2000, Google started to build its business by innovating in another segment of online advertising. Since that time, we have focused on text-based ads, which are generated in response to what an Internet user is searching for or the web content that the user is reading. To date, however, we have been a minor player in display advertising.

Today, display advertising is becoming more sophisticated and more popular with advertisers and publishers. Advertisers and publishers who work with us have asked us to complement our text-based advertising with display advertising capabilities offered by many others in the online advertising space. Part of our response to this was our decision to purchase DoubleClick, which delivers display ads and measures their effectiveness.

We believe that by combining our advertising network with DoubleClick's display ad serving products, and by investing resources in the display ad business, we will be able to help publishers and advertisers generate more revenue, which will fuel the creation of even more rich and diverse content on the Internet.

Some have asked whether this acquisition raises competition concerns. We are confident - and numerous independent analysts have agreed - that our purchase of DoubleClick does not raise antitrust issues because of one simple fact: Google and DoubleClick are complementary businesses, and do not compete with each other. DoubleClick does not buy ads, sell ads, or buy or sell advertising space. All it does is provide the technology to enable advertisers and publishers to deliver ads once they have come to terms, and provide advertisers and publishers statistics relating to the ads.

The simplest way to look at this is by way of analogy. DoubleClick is to Google what FedEx or UPS is to Amazon.com. Our current business involves primarily the selling of text-based ads - books in our analogy. By contrast, DoubleClick's business at its core is to deliver and report on display ads.

Our acquisition of DoubleClick does not foreclose other companies from competing in the online advertising space. Rather, the transaction is just one of several that underscore the strong competition in the online advertising space.

In the second quarter of this year, on the heels of our acquisition of DoubleClick, several major transactions in the online advertising space were announced: Yahoo's acquisition of the online advertising firm Right Media; AOL's acquisition of ADTECH AG, a leading international online ad-serving company, and of TACODA, an online behavioral targeting advertising network; WPP Group's acquisition of online advertising firm 24/7 Real Media; and Microsoft's \$6 billion acquisition of online advertising firm aQuantive, as well as its acquisition of online advertising exchange AdECN Inc.

These acquisitions are strong signals that the market believes this space has a lot of room for growth and competition. In fact, just this week Microsoft announced that it had added 20 new advertising clients after closing its acquisition of aQuantive, a DoubleClick competitor - providing fresh evidence that numerous companies are finding it possible to compete in the online advertising space and the free market.

Each of the acquisitions following our purchase of DoubleClick demonstrates that there are many sophisticated, well-financed, and competitive companies that believe that the online advertising space merits more investment and remains open to strong competition.

Beyond the recent acquisitions, thousands of companies compete in selling online ad space. According to InternetAdSales.com, there are at least 36 online advertising management companies, 47 advertising sales networks, and thousands of websites that sell ad space directly.

More capital infusion into this space means that more entrepreneurs will enter it, too. Since the announcement of the DoubleClick transaction, venture capitalists have invested in startups in the ad serving business. We are seeing more entrepreneurs, more market participants, and more capital combining to create not only more competition but also more innovation in technologies and business models.

Brian McAndrews, Microsoft's Senior Vice President of the Advertiser and Publisher Solutions Group, recently commented that the online advertising space is "in the first or second inning of a long game here. There's no monopoly on innovation. I don't think you're going to see two or three big players and then game over. There will continue to be a broad range of companies."

We agree with this assessment, and we welcome this competition and innovation. The online advertising space is both critical to the continued growth of our economy, and beneficial to consumers.

Google and DoubleClick Will Continue To Protect Online User Privacy

As a result of the DoubleClick acquisition, consumers will benefit from more relevant and useful advertising, as well as from improvements that we plan to make to DoubleClick's ad serving technology to enhance the loading speed of websites. Another area where Google plans to continue innovating is in privacy.

Google's bottom line is this: We believe deeply in protecting online users' privacy, and we have a strong track record of doing so. We are constantly working to innovate in our privacy practices and policies. Some have asked questions about privacy protections in connection with the DoubleClick acquisition, but for us privacy does not begin or end with our purchase of DoubleClick. Privacy is a user interest that we've been protecting since our inception.

For example, just recently we announced a finite data retention policy that states in a clear and simple manner what we do with our server logs. We were the first leading Internet company to decide to anonymize IP addresses and cookies-- which are bits of data placed by nearly all websites on your computer -- in our server logs after 18 months. We are pleased that other search engines - including Microsoft, Yahoo and Ask.com - followed our lead in setting their own data retention policies.

We have also announced a new policy to reduce our cookie lifespan from 30 years to 24 months, which will be a much shorter lifespan than the cookies of many other companies.

We also spend a lot of time designing products on the principles of transparency and choice - transparency about what information we collect and how we use it, and user choice about whether to provide us with personal information at all. For example, to give users more control Google engineers built an "off the record" feature in Google Talk, our instant messaging product, so that users could decide whether their conversations are stored.

Google makes privacy a priority because it's deep-seated in our culture. Early in the product development process, our product teams and lawyers are thinking about user privacy by building privacy protections into our products from the ground up. We have designed most of our products to allow people to use them anonymously, and to ensure that none of our products use any personally identifiable data unless fully disclosed in our privacy policy.

We make privacy a priority because our business depends on it. If our users are uncomfortable with how we manage the information they provide to us, they are only one click away from switching to a competitor's services. If you don't believe me, recall that before Google, users clicked on an earlier generation of search engines like Excite, Altavista, Lycos, and Infoseek - each extremely popular in its time. User interests effectively regulate our behavior, and user trust is a critical component of our business model.

Our desire to protect consumer privacy is one reason why we are late to the display advertising space. For some time, Google's leadership has been concerned that third party cookies - a key component of the display ad-serving systems of Atlas (now owned by Microsoft), 24/7 Real Media (now owned by WPP), DoubleClick, and many other companies - might collect data in a way that might not be easily detected or understood by users. As a consequence, we traditionally have not accepted third party cookies in our advertising network.

I should note that DoubleClick is a founding member of the Network Advertising Initiative, a cooperative group of network advertisers that developed privacy principles that set the standard for privacy in the online advertising industry. These principles have been applauded by the Federal Trade Commission, and we are committed to continuing to follow the NAI's privacy guidelines following the acquisition. In fact, Google recently submitted its application to join the NAI, and we look forward to participating in its efforts to protect user privacy.

I should also note that DoubleClick is already extremely protective of privacy. In fact, it does not own and has very limited rights to use any of the data it processes on behalf of its publisher and advertiser clients.

Of course, given that innovating is what we do, we are also approaching our entry into third-party ad serving with a fresh eye, and evaluating whether changes can be made to innovate on user privacy in this space. As is the best practice in the ad serving industry, we will be including an opt-out mechanism so that people can choose not to have an advertising cookie placed on their computer. If users do accept the ad serving cookies, those cookies will expire after two years.

In addition, our industry leading decision to anonymize log data after 18 months will also cover our new test ad-serving logs. Beyond current practices, we also are experimenting with new online ad technologies and new approaches to privacy. For example, we're exploring the idea of using what we're calling "crumbled" cookies, so that user data isn't stored in association with a single cookie, and providing better forms of notice within ads to help users understand who is behind the ads they see.

Like all experiments, these ideas may or may not work out. And we believe that the entire industry must address the privacy issues raised by online advertising. As far as we are aware, we are the only company taking these steps. And we are excited to start innovating in this area for our advertising customers and for our users.

We have consulted with numerous privacy, consumer, and industry groups in developing these ideas, and have endeavored to be responsive to their concerns. We hope to be part of an ongoing conversation with these organizations after the acquisition is completed to ensure that we are listening to them, learning from them, and addressing their concerns. In addition, we have every intention of continuing to be transparent about our advertising practices and continuing to launch industry-leading privacy protections.

We are also exploring other ways to create more transparency in our privacy practices and policies. We have a lot of information about our privacy practices on our website, and we're making that information even more accessible to users by adding video-format "tutorials" to help users understand privacy issues online in plain English. The first of these video tutorials has been viewed about 43,500 times on YouTube, and the second video launched earlier this week and has already been viewed hundreds of times.

We also believe that government can and should play a key role in protecting the privacy of its citizens. The U.S. government could lead the effort to create broad-based privacy standards that protect consumers and give clear rules to business. We support federal privacy legislation, and we recently announced our support for the world community to develop global privacy standards that can help to build consumer trust and confidence in the Internet.

That's a long-term project, and in the meantime we'll continue protecting and respecting our users' privacy and we'll remain engaged with consumers, advocacy groups, and government agencies. For example, the Federal Trade Commission is planning a town hall meeting in November on the emerging privacy issues surrounding online advertising, and we're looking forward to participating in the important discussions there.

I appreciate the opportunity to discuss with you recent developments in our advertising business, and the efforts Google makes to protect user privacy. I would welcome any questions that the members of the subcommittee may have for me. Thank you.

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