



Competition In The Tech Sector

July 2020

Executive Summary

The technology sector is a bright spot in the U.S. economy that delivers incredible value for consumers, businesses, and communities across the country and around the world. Despite these substantial benefits, tech companies have come under fire in recent months for their size and success, which critics argue requires federal regulators to break them up.

These critics' arguments, however, are rooted in a fundamental misunderstanding of antitrust policy and how the technology industry fits into it. As this presentation outlines:

- **There Is No Basis For Breaking Up Successful Tech Companies Under The Consumer Welfare Standard:** The consumer welfare standard, which has guided antitrust policy on a bipartisan basis for nearly half a century, has repeatedly found that leading technology platforms benefit consumers.
- **Competition In The Tech Sector Is Robust:** The technology sector is hyper-competitive, with new, VC-backed entrants and established players competing against each other on a number of fronts.
- **Leading Tech Services Provide Enormous Economic Benefits:** This competition in the tech sector has led to more innovation, better products, and lower prices for consumers, all while raising wages for workers.

CCIA Is A Leading Voice On Competition Policy

CCIA Supports Innovation

- CCIA is an international, not-for-profit membership organization dedicated to innovation and enhancing society's access to information and communications.
- CCIA promotes open markets, open systems, open networks, and full, fair, and open competition in the computer, telecommunications, and internet industries.
- CCIA believes supporting a climate of competition and innovation is central to economic success and that tech is important to society.



CCIA Supports Enforcement

- Founded in 1972, CCIA has a long history of advocacy for competitive markets.
- CCIA has supported antitrust investigations and remedies when warranted, but opposes the misuse of antitrust law.
- CCIA has supported government regulators' antitrust actions against AT&T, Microsoft, and IBM.



- **The Foundations Of U.S. Antitrust Policy**

- Thriving Competition In The Tech Sector
- Economic Benefits Of Tech Platforms

Antitrust Policy In The United States Is Based On The Consumer Welfare Standard

For roughly 40 years, there has been a consensus that consumer welfare is the ultimate goal of antitrust enforcement. The mission of the consumer welfare standard is clear: to "protect the benefits of the competitive process by preventing activities likely to raise market prices, lower market output, or otherwise harm competition."

Driven initially by scholars and regulators in the 1970's, the consumer welfare standard protects customers from monopolistic business behavior that includes price effects AND barriers that reduce:

- Quantity
- Quality
- Consumer Choice
- Innovation

Case

General Dynamics & Material Service Corp. Merger

Continental TV, Inc. v. GTE Sylvania, Inc.

Reiter v. Sonotone Corp.

Impact

- Merger cleared because the Supreme Court found concentration brought economic efficiencies.
- Supreme Court ruled non-price vertical restraints should be judged under the rule of reason.
- Supreme Court unanimously concluded, "Congress designed the Sherman Act as a 'consumer welfare prescription.'"

Sources: Joshua D. Wright and Aurélien Portuese, "Antitrust Populism: Towards A Taxonomy," [Antitrust Writing Awards](#), 3/1/20, Joe Kennedy, "Why The Consumer Welfare Standard Should Remain The Bedrock Of Antitrust Policy," [Information Technology & Innovation Foundation](#), 10/4/18; Marianela Lopez-Galdos, "Antitrust In 60 Seconds: Is The Consumer Welfare Standard Appropriate?," [Disruptive Competition Project](#), 11/17/17; Charles S. Dameron, "Present At Antitrust's Creation: Consumer Welfare In The Sherman Act's State Statutory Forerunners," [The Yale Law Journal](#), 2/4/16

Experts Agree: The Consumer Welfare Standard Should Remain The Law Of The Land



"Over the past several decades, antitrust law has responded to new and innovative products and markets to protect against novel threats to the competitive process. Enforcement agencies have developed a strong expertise as new types of assets emerge and consumer preferences shift, and have brought successful antitrust challenges to dismantle barriers to competition."

– **Makan Delrahim, Assistant Attorney General for Antitrust, U.S. Department of Justice**



"The adoption of the consumer welfare standard gave antitrust enforcers a coherent mission: protect the benefits of the competitive process by preventing activities likely to raise market prices, lower market output, or otherwise harm competition."

– **Joshua Wright, Former Commissioner, Federal Trade Commission, and Antitrust Scholar Aurelien Portuese**



"In the United States, competition analysis focuses exclusively on preventing or remedying anticompetitive practices. Experience has taught us that consumers and economic development are best served when competition law and policy focus on an analysis of competitive effects and consumer welfare."

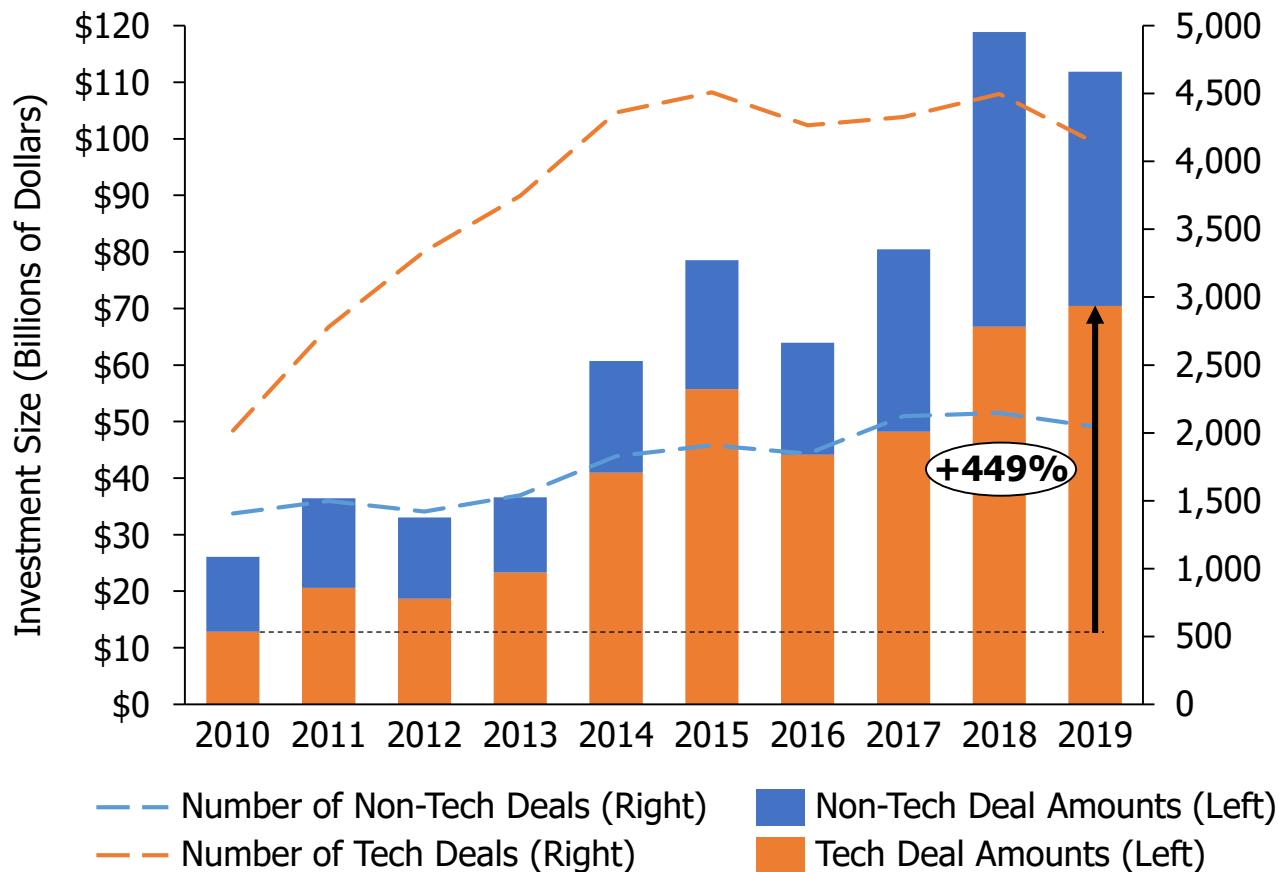
– **Edith Ramirez, Former Chairwoman, Federal Trade Commission**

Sources: Makan Delrahim, "Don't Stop Believin': Antitrust Enforcement In The Digital Era," [U.S. Department Of Justice](#), 4/19/18; Roger Alford, "The Pearl Of Great Worth: The Common Pursuit Of Protecting The Markets," [U.S. Department Of Justice](#), 5/7/19; Edith Ramirez, "Core Competition Agency Principles: Lessons Learned At The FTC," [Federal Trade Commission](#), 5/22/14

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Deal Value In The Tech Sector Is Historically High, Indicating A Competitive & Mature Market

Size And Number Of Venture Capital Investments In Tech & Non-Tech Sectors, 2010-2019*



Oliver Wyman finds larger deal sizes are the result of rising human capital costs – an indication of firm maturation.

- "Despite declining technological costs, average deal values have grown as a result of soaring marketing budgets for startups' go-to-market strategies. Additionally, human capital costs are rising as innovation hits new levels and demand for talent increases."
- "Industry perspectives also suggest that as funds increase in size the fund prerogative becomes to deploy larger amounts of capital per round, thus increasing deal size."

*Calculated using PwC data. Tech deals consist of investments in Internet, Computer Hardware & Services, Mobile & Telecommunications, and Software sectors. Sources: [PwC/CB Insights MoneyTree Data](#); "Assessing The Impact Of Big Tech On Venture Investment," [Oliver Wyman](#), 7/11/18

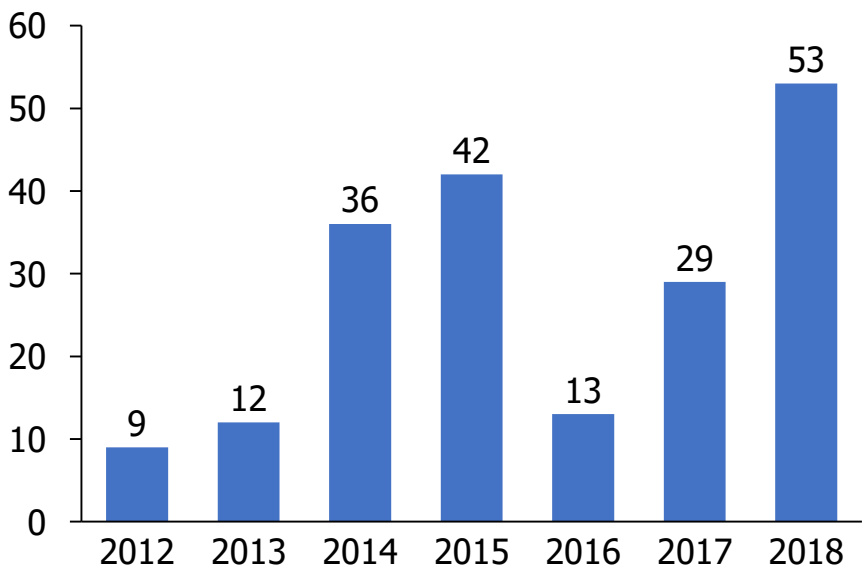
Data From The Tech Sector Is Clear: Incumbent Companies Do Not Constrain Competition

Venture capital data disproves the idea of the "kill-zone," which alleges that dominant firms' investments and presence kill new entrants on arrival. With rising venture capital investments and an ever-expanding number of "unicorn" companies valued over \$1B, new entrants are finding their footing in the tech sector.

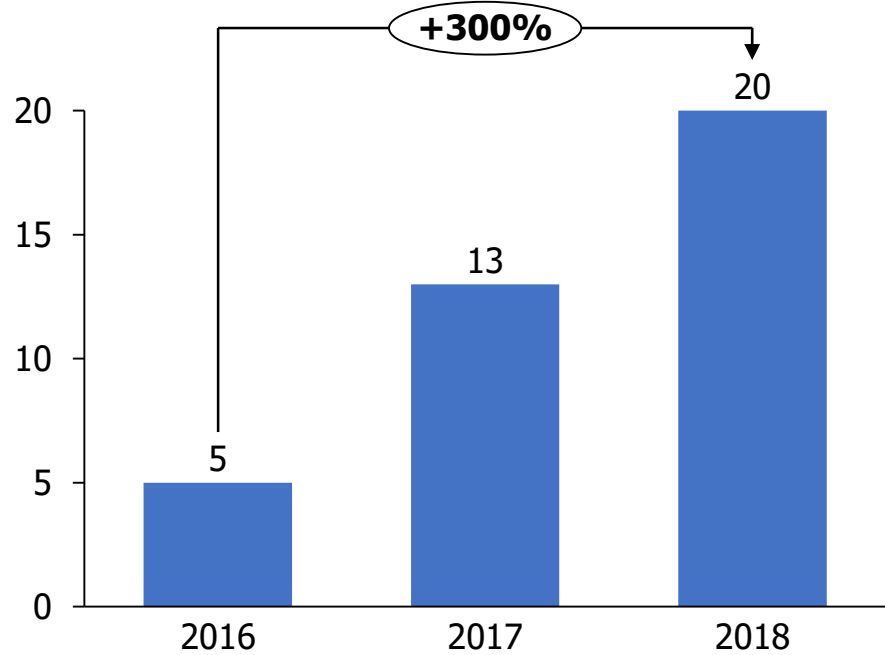
PWC/CB Insights: U.S. Companies Continue To Reach \$1 Billion Valuations At Historic Rates

Intelligize: Unicorn IPOs Are Increasing

Number Of U.S. VC-Backed Unicorn Company "Births" (\$1B Valuations) By Year



Number Of Unicorn Company IPOs By Year



Sources: "PwC/CB Insights MoneyTree Report Q4 2018," [PwC](#), 2019; "New Intelligize Report Finds Significant 2018 Increase In IPOs For Companies Valued At \$1 Billion+," [IPO Edge](#), 2/26/19

Leading Tech Services Compete Across A Wide Range Of Products

Because consumers can use different platforms simultaneously with low or no switching costs between platforms, innovative tech services compete across tech *and* traditional lines. This results in:

- **More Competition:** Multihoming, when consumers use multiple products and services, leads to lots of competition; economist David Evans finds the five largest tech companies compete across at least 27 different categories.
- **Disruptive Innovation:** Services compete on tech itself – a better consumer-facing platform, good marketing, the ability to use data in new and disruptive ways – and also on product value against traditional industries.

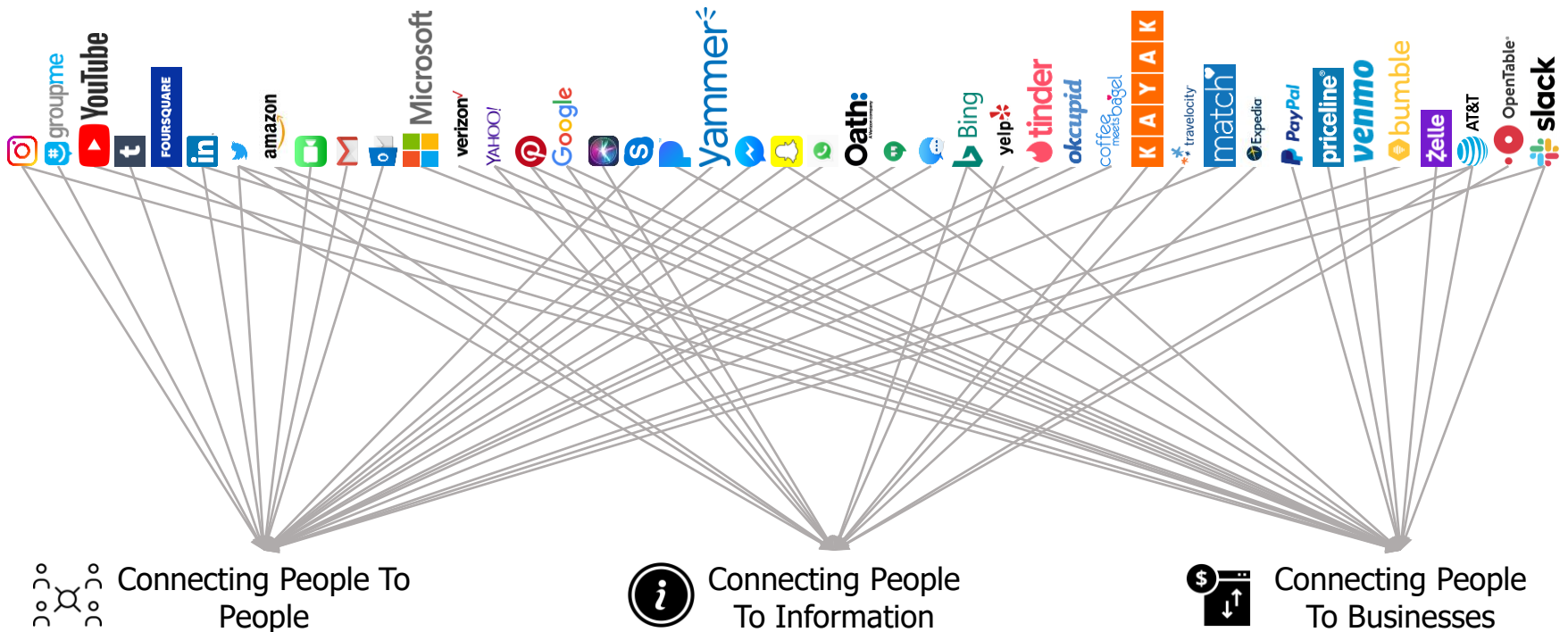
*Examples of tech competition across products and services**

	Alphabet	Facebook	Apple	Microsoft	Amazon
Search	✓			✓	✓
Mail	✓		✓	✓	✓
Messaging	✓	✓	✓	✓	
Voice/Video Calling	✓	✓	✓	✓	✓
Payments/Wallet	✓	✓	✓	✓	✓
OS	✓		✓	✓	✓
Networking	✓	✓		✓	✓
Workplace Collaboration	✓	✓	✓	✓	✓
Cloud	✓		✓	✓	✓
Photo Storage	✓	✓	✓	✓	✓
AI	✓	✓	✓	✓	✓
AV	✓		✓	✓	✓
Tablets	✓	✓	✓	✓	✓
VR/AR	✓	✓	✓	✓	
Streaming	✓	✓	✓	✓	✓
Assistant	✓	✓	✓	✓	✓
Online Ads	✓	✓	✓	✓	✓

Today's Top Technology Companies Face Fierce Competition Across Services

Tech platforms offer a wide range of services and products that power the modern economy. While some critics have asked about competition expecting an easy answer, the reality is that tech services compete fiercely with each other across a number of functions and products.

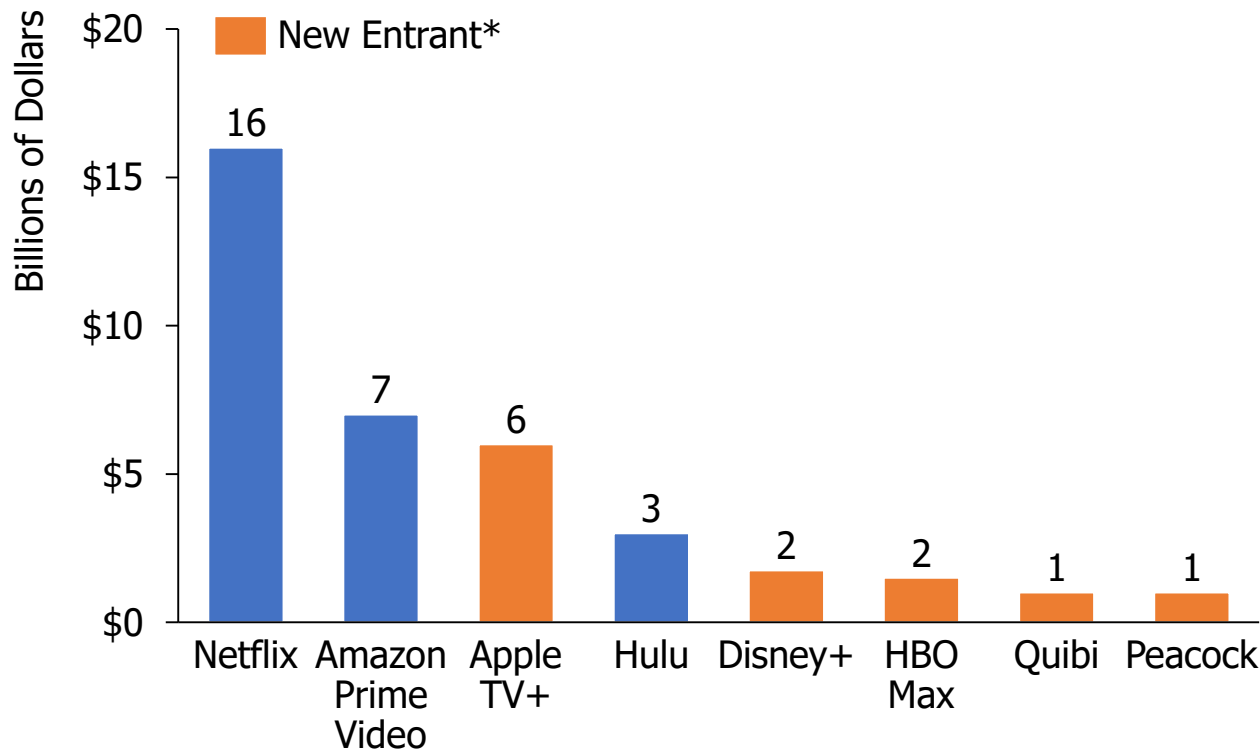
Illustrative



Today's "Streaming Wars" Show Competition Spurring Consumer Demand And New Entrants In Tech

Video streaming can be looked to as a case study for innovation in technology. Newer entrants are quickly gaining market share in the space. Disney+, for example, gained 54.5M subscribers globally within six months of launching. Consumers are along for the ride, with 76% reporting satisfaction with their video subscriptions.

Streaming Services' Predicted 2020 Spending On Original Content (\$)



*Launched within the last calendar year (after July 2019)

Source: Sergio Klebnikov, "[Streaming Wars Continue: Here's How Much Netflix, Amazon, Disney+ And Their Rivals Are Spending On New Content](#)," 5/22/2020

Digital Platforms Have Helped Entrepreneurs Reach Customers And Disrupt Industries

In addition to competition across products and services, leading tech platforms have enabled a new generation of businesses to reach customers around the world.

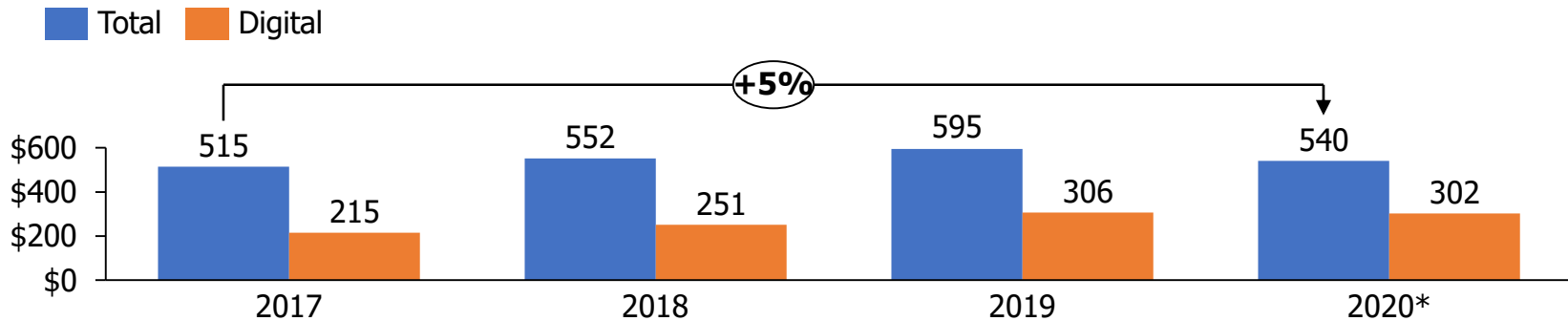
New online businesses, big and small, reap a substantial benefit from the communities and interests developed on tech platforms that offer new opportunities for improved brand awareness and product sales among target audiences.

ILLUSTRATIVE

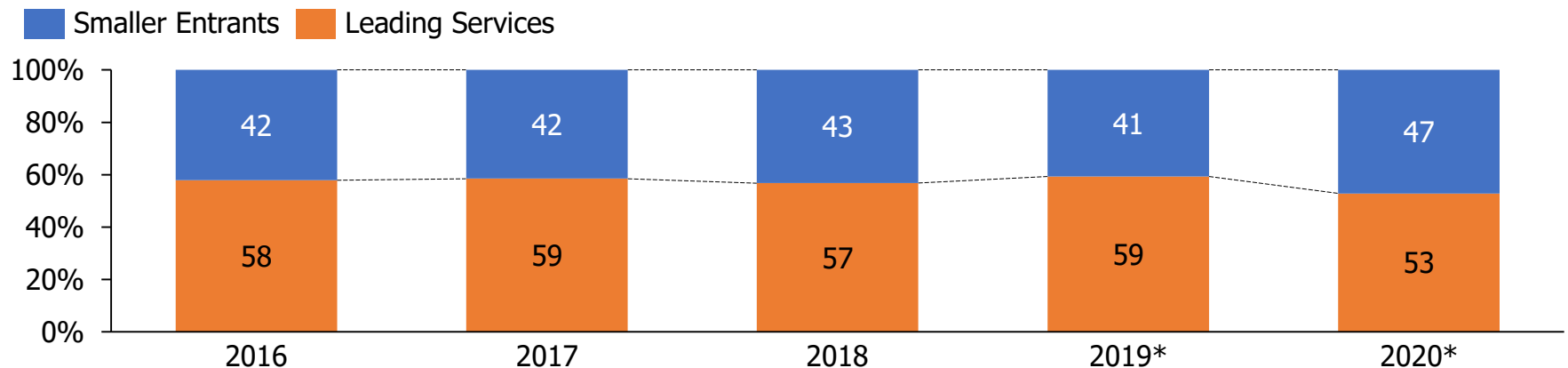


Digital Advertising Continues To Grow, Expanding Opportunities For New Entrants

Ad Revenues Continue To Grow (Billions Of Dollars)



New Entrants Are Earning A Greater Share Of Digital Ad Investment (Percent)

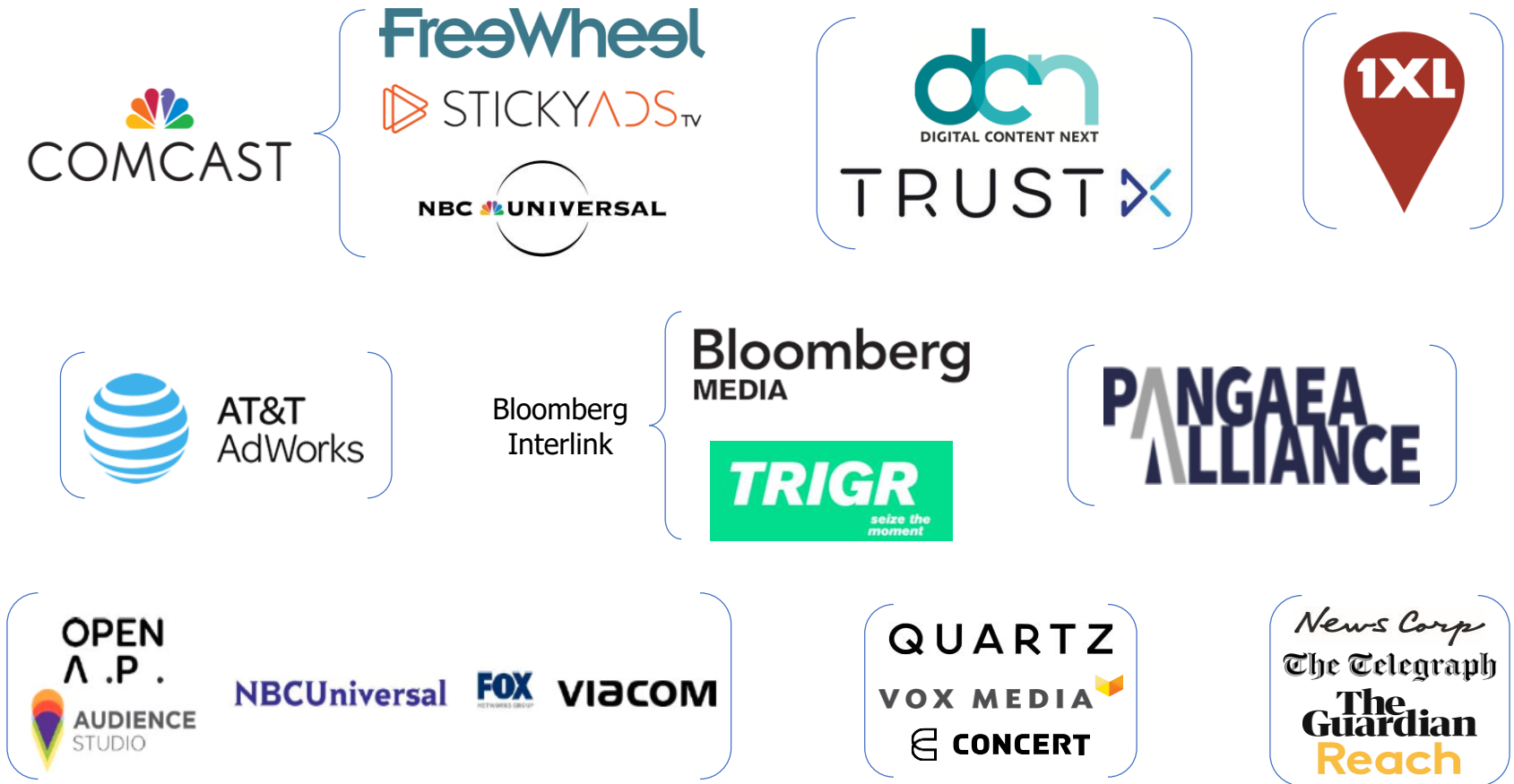


*Predicted; 2021 COVID-19 recovery anticipated.

Sources: "MAGNA Advertising Forecasts (Winter 2018 Update)," [MAGNA](#), 12/3/18; "Data Suggests Surprising Shift: Duopoly Not All-Powerful," [eMarketer](#), 3/19/18; "In A First, Google Ad Revenue Expected To Drop In 2020 Despite Growing Digital Ad Market," [Forbes](#), 6/22/2020; "Google And Facebook To Reach 63.3% Digital Ad Market Share In 2019," [Business Of Apps](#), 3/26/2019

Tech, Publishers, And New Entrants Are Competing For The Future Of Targeted Advertising

As advertising grows more competitive, traditional publishers are turning toward acquisitions and partnerships to adapt to a changing market.

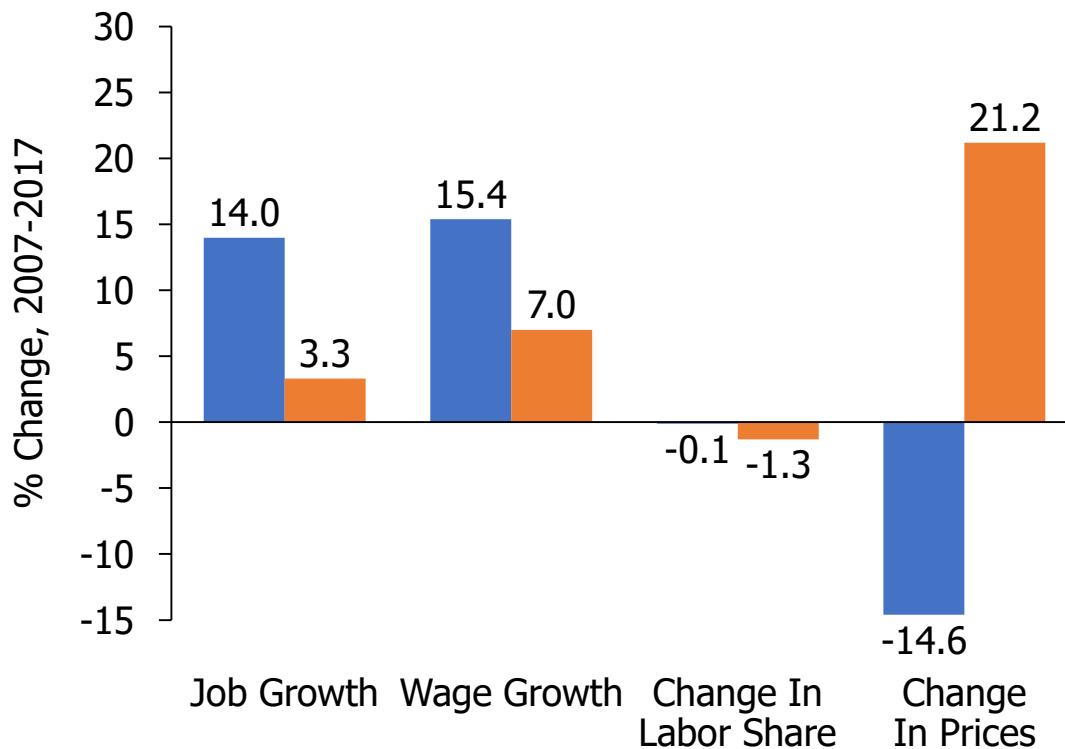


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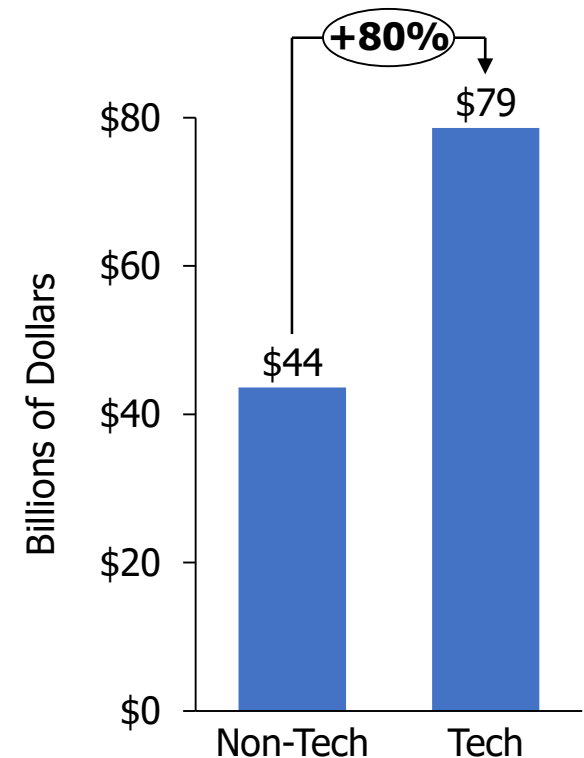
Tech Companies Create More Jobs, Pay Higher Wages, And Invest More In R&D

Digital Sector And Non-Health Private Sector Economic Performance, 2007-2017

■ Digital Sector ■ Rest Of Non-Health Private Sector



Top 10 Companies 2020 R&D Spending*



*Tech v. Non-Tech R&D spending calculated SpendMeNot, "[Top R&D Spenders: The Biggest Investors of 2020](#)" article; Samsung, Alphabet, Microsoft, Huawei, Intel, Apple counted as "Tech."

Sources: Michael Mandel, "Competition And Concentration: How The Tech/Telecom/Ecommerce Sector Is Outperforming The Rest Of The Private Sector," [Progressive Policy Institute](#), 11/29/18; Barry Jaruzelski, Robert Chwalik, And Brad Goehle, "What The Top Innovators Get Right," [Strategy+Business](#), 10/30/18

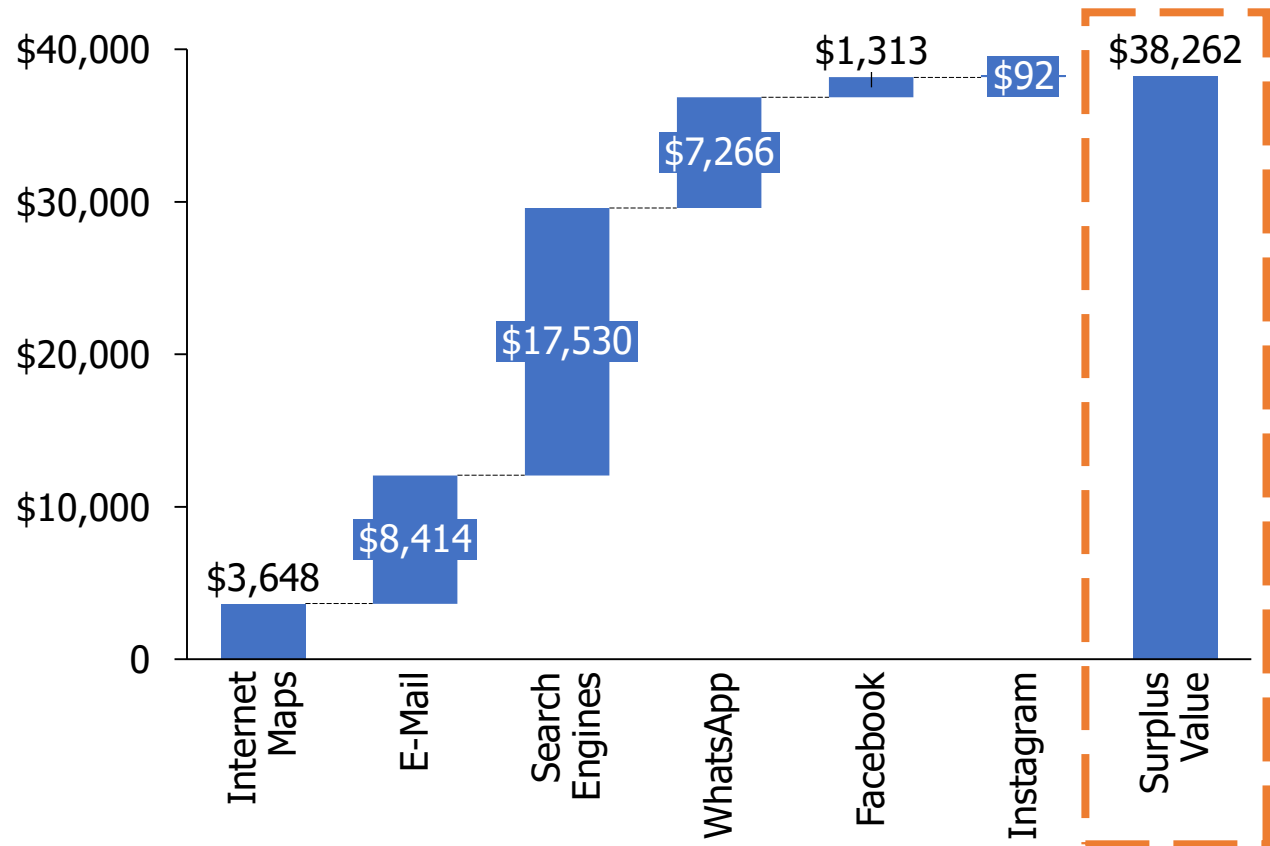
Consumers Say Leading Tech Services Offer Them More Than \$38,000 In Value Annually

Two studies from MIT economists asked consumers how much they would have to be paid to give up tech products for a year.

They found internet maps, e-mail, search engines, and social networks, which are free to use, provide the average consumer **\$38,262* in surplus value every year.**

Multiply that figure by hundreds of millions of users, and the aggregate surplus value these companies provide reaches trillions of dollars.

Cost To Forego Various Internet Services For One Year (\$)



*Euros/month converted to dollars/year based on conversion rate as of 6/20/2019.

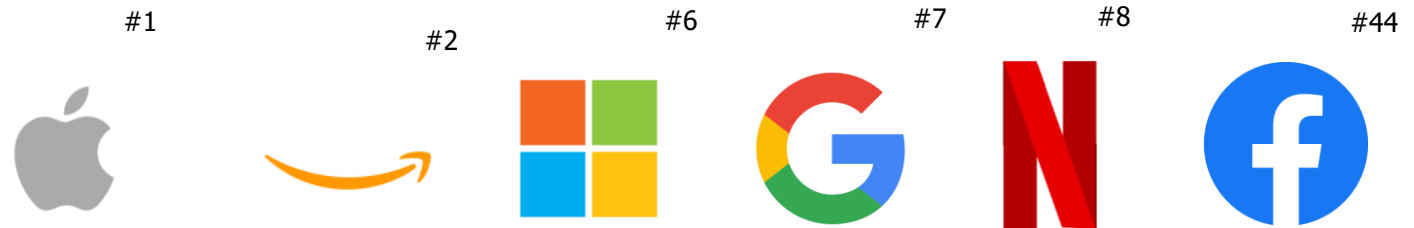
Sources: Erik Brynjolfsson, Avinash Collis, And Felix Eggers, "Using Massive Online Choice Experiments To Measure Changes In Well-Being," [Proceedings Of The National Academy Of Sciences Of The United States Of America](#), 4/9/19; Erik Brynjolfsson, Avinash Collis, W. Erwin Diewert, Felix Eggers, And Kevin J. Fox, "GDP-B: Accounting for the Value of New and Free Goods In The Digital Economy," [MIT Initiative on the Digital Economy](#), 3/19

Given This Value, It's No Surprise Tech Services Are Popular In Consumer Rankings

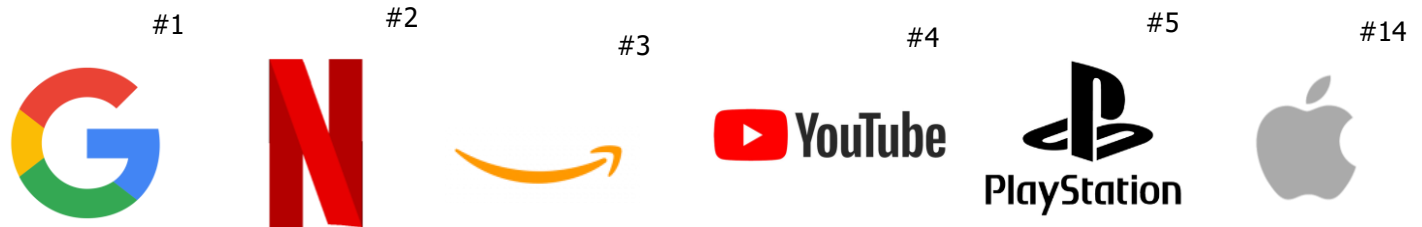
LinkedIn: Top 50 Companies In The U.S., 2019



Fortune: World's Most Admired Companies, 2019



Morning Consult: Most Trusted Brands Among Gen Z Adults, 2020



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**Advancing ideas to keep tech empowering
people.**