

Online competition and online search: Findings from qualitative research

CMA overview

1. The Competition and Markets Authority (CMA) commissioned Research Works¹ to undertake a survey of businesses operating online from a range of sectors. The full report of the findings is published separately from this note, which provides a brief overview of what the CMA considers to be the main implications of the research.
2. The internet has triggered a revolution in how consumers search for information and make purchases. As the UK's main consumer and competition authority, the CMA needs to keep abreast of changes in the UK economy directly affecting consumers. The CMA recently published a literature review² on online search, which identified a set of key findings on consumer and firm behaviour and discussed their implications for the work of the CMA. However, the CMA also identified some gaps in the literature that left some questions unanswered.
3. This business survey aims to investigate specific aspects of online competition that are less well covered by the existing literature.
4. The CMA is often required to assess the state of competition in a given market and this research will help inform future decisions in cases involving firms that operate online. However, the survey itself is not intended to identify specific practices related to online competition that result in consumer harm or suggest avenues for further investigation by the CMA.
5. The objectives of the research were to investigate:
 - (a) what factors businesses consider important for attracting consumers online and whether these vary across sectors;

¹ More information about [Research Works](#) can be found on its website.

² For more information, see, [Online search: Consumer and firm behaviour. A review of the existing literature](#) (7 April 2017).

- (b) the main costs, in terms of IT capabilities, building product assortment, and marketing investments, that a typical online business has to incur;
 - (c) how long it takes for a new entrant to gain prominence in relevant online search fields and what tools are available to help it do so; and
 - (d) which strategies firms use to compete for business online, such as search engine optimisation (SEO)³ or paid search⁴ strategies, and what difficulties online businesses face when implementing these strategies.
6. Research Works addressed these objectives by conducting 60 in-depth interviews with businesses operating online across a range of sectors. This approach allowed it to gain a detailed understanding of how firms operating online compete and the challenges they face. However, as these are findings from a qualitative exercise with a limited sample size, the responses should be interpreted with caution and cannot be generalised to all businesses operating online. Nevertheless, the findings, alongside the literature review, provide useful information for the CMA to consider when assessing competition online.

Relevance of findings to the CMA

7. Respondents confirmed a finding which emerged from the literature review: price is not the only (and sometimes, not even the most important) factor that matters to consumers when shopping online. Online competition takes place on many other dimensions, among which the user-friendliness of the website seems to play a prominent role. The CMA should thus take non-price factors seriously when investigating cases involving online competition. These non-price factors may vary significantly across industries (for example, user-friendliness of the website, availability of reliable delivery services) and may differ from the non-price factors usually considered in cases concerning offline competition.
8. Barriers to entry and expansion can be an important aspect of competition, and the CMA is often interested in how easy it is for new businesses to enter a specific market. Easy entry into a market is likely to help healthy competition develop in a market to the benefit of consumers. The CMA is especially interested in timely, likely and sufficient entry into a market, which provides a

³ SEO is best defined as a set of techniques that can be used by online companies to rank highly on a search engine's unpaid (organic) results. Businesses that want to rank highly on search engines' result pages for certain keywords need to improve and optimise various aspects of their websites and webpages for those keywords.

⁴ 'Paid search' is a form of online advertising: online businesses pay to display advertisements on a search engine's result pages when certain keywords are searched.

reasonable likelihood that the new entrant will be able to constrain the pricing practices of incumbent firms.

9. The interviews highlighted several characteristics of online search that have the potential to represent barriers to entry for businesses wishing to compete online, or that make it less likely that entry, if it occurs, will be timely, likely and sufficient.⁵ Among these characteristics we find:
 - (a) Many businesses reported being reliant on search engines to generate visits to their websites, and stressed the importance of being ranked highly among search results. Established players may have an advantage over new entrants in terms of getting visibility among consumers on search engines since their more established presence in the market may allow them to get a larger share of their traffic from organic links or direct traffic (as opposed to paid links). This is a result of having had more time and resources to optimise their websites so that they rank highly on search engines' result pages.
 - (b) SEO was perceived to be easier to implement for larger companies. This is because it takes some time to develop the SEO capabilities needed to consistently get visits from organic links, and because of the perceived difficulty of assessing whether SEO consultants are providing a good return on investment.
 - (c) Unpredictable changes in how search engines decide to rank search results may significantly affect the position of smaller businesses' websites on organic rankings, making it more difficult for them to have a reliable source of traffic. Larger businesses may be less affected by these changes as they are often more experienced with SEO and can rely on larger teams of SEO experts who can help mitigate the impact of these changes.
10. All these points suggest that new entrants may find it more difficult to raise their profile online using organic search than established players. While the evidence shows that these barriers can be overcome, and indeed have been by businesses, the CMA should seek to investigate these aspects when dealing with cases where search engines account for a large proportion of the visits to firms' websites.

⁵ The literature review also suggested that some features of online markets may represent barriers to entry for new businesses. For more details, refer to [the published literature review on online search](#).

11. While these potential barriers to entry should be taken into consideration by the CMA in its work, the research also confirms that businesses have other options available to reach consumers:
 - (a) While paid search is generally perceived as expensive, several online businesses underlined that it can pay off in generating more traffic, allowing newer businesses to get traffic even if they lack advanced SEO capabilities. However, it is unclear how sustainable this strategy is in the long term.
 - (b) Many digital channels other than search engines allow firms to make contact with final consumers, and these seem to be actively used by businesses. The CMA should therefore consider to what degree these other channels can provide reliable sources of traffic in cases involving firms operating online.
12. Finally, how consumers search online and how businesses compete given this behaviour is essentially dependent on the technology available to them. Therefore, as the technology enabling search evolves, we can expect consumers and businesses to adjust to the most recent developments in technology. As online search is a highly innovative area, it is important for the CMA to understand how businesses may compete online in the future in response to these technological changes.
13. Businesses identified several technological trends which may affect the way they compete online in the future, including the fact that online purchases increasingly take place on mobile devices. This development may make it even more important for an online firm to rank highly on search engines given the more limited screen space available on mobile devices.⁶ The CMA should continue to monitor market developments and consider how competition may be affected by this shift.

⁶ Findings from the literature review suggest that the share of total clicks going to the top links is higher on mobile than on desktop devices. For more details, refer to [the published literature review on online search](#).