COMPLETED ACQUISITION BY FACEBOOK, INC. OF GIPHY, INC.

Summary of third party calls

Introduction

1. The Competition and Markets Authority (**CMA**) is investigating the completed acquisition by Facebook, Inc. (**Facebook**) of GIPHY, Inc. (**GIPHY**) (the **Merger**) under the merger control provisions of the Enterprise Act 2002.

2. In relation to the Merger, the CMA held calls with twenty-one third parties during April and May 2021.

3. In particular, the CMA spoke to the following four categories of third parties:

    a. Social media and messaging platforms and keyboard apps ('Platforms');

    b. GIF providers;

    c. Investors and potential investors in GIPHY; and

    d. Advertising companies and brands familiar with GIPHY's 'Paid Alignment' advertising services (promoted GIFs).

4. The primary purposes of the CMA's calls with third parties was to understand:

a. The third party's relationship with GIPHY and any other GIF library providers (and, if relevant, with Facebook);

b. Whether the third party had ever considered acquiring or investing in GIPHY or any other GIF library provider, reasons for doing so or not doing so, and views on GIPHY's business prospects;

c. The third party's views on the possibility for monetisation of GIF services, including any future plans to enter into advertising of any form, and the views of GIF providers on their current and potential revenue generation strategies;

d. The third party's views on the importance of GIFs for the engagement of end-users on social media and messaging platforms, and any advantages and disadvantages of GIPHY in comparison to other providers;

e. The competitive landscape for the provision of GIF libraries, including any barriers to entry or expansion;

f. The potential ability of GIF providers to access data about third party platforms (aggregated data) and end-users (individual data);

g. The third party's views on the Paid Alignment (or sponsored GIFs) model as an advertising channel, its role within brands' marketing strategy and its success to date or expectations of success; and

h. The third party's views about the Merger.

5. This document provides an overview of comments made by third parties relating to the following key themes of the CMA's Inquiry:

a. The competitive landscape in the supply of GIF libraries;

b. The importance of GIFs for user engagement;

c. Data; and

d. The GIF advertising model.

6. The third parties were also asked for their views on the Merger.

Competitive landscape in the supply of GIF libraries

7. Market participants identified three mutually reinforcing pillars that are focal points of competition in the supply of GIF libraries: (i) distribution (the network of partners through whose platforms the content is shared); (ii) content (a high-quality library that is growing and evolving in response to user requirements); and (iii) search (a sophisticated search algorithm to be able to serve the most relevant content to users). With respect to the second of these, the content, a small number of third parties considered that, in order to maintain a fresh and relevant library, it was important to have a balance between user-generated content and professional content from entertainment and media companies.

8. Most third parties characterised GIPHY as either being the market leader or having a very strong position (roughly on a par with its closest competitor, Tenor).

9. Platforms in particular identified the following as key competitive advantages of GIPHY:

   a. Its large and comprehensive repository of high-quality, branded content;

   b. The fact that GIPHY has secured extensive rights to distribute the content; and

   c. Its strong content moderation capability.

10. Most Platforms did not identify any competitors to GIPHY other than Tenor and, in a few instances, Gfycat. A small number of Platforms named one or more smaller creative content providers, some of which do not provide

GIFs, and none of which were characterised by those third parties as significant competitors to GIPHY.[1]

11. A small number of third parties described GIPHY as superior (in one or more respects) to Tenor, for reasons including GIPHY's more comprehensive and engaging content (including GIF stickers) and better content moderation capability. Some third parties also described GIPHY and Tenor as very similar, variously mentioning their comparable library size and quality, and licensing of intellectual property rights. Another market participant viewed GIPHY and Tenor as similar in terms of content and distribution network, but regarded Tenor as having a superior search capability.

12. By contrast, no Platform described Gfycat as a good alternative or close competitor to GIPHY. A small number of Platforms told us that Gfycat is inferior in terms of the quality and/or volume of its library (particularly due to the fact that Gfycat is more reliant on user-generated content, whereas GIPHY has access to professional-quality branded content through its content partnerships), or due to the fact that Gfycat does not hold the same extensive licensing of intellectual property rights. Similarly, another market participant highlighted three key distinctions between GIPHY and user-generated content (**UGC**) platforms such as Imgur or Gfycat: (i) GIPHY has a team of employees who create and upload content, whereas UGC platforms focus just on user-generated content; (ii) GIPHY has many more brand partnerships with entities such as movie studios; and (iii) GIPHY has a much more extensive network of distribution partners.

Switching between GIF providers

13. One third party commented that barriers to switching are low; most of its contracts are non-exclusive, and many Platforms are integrated with more than one provider. Overall, most third parties that discussed ability to switch described it as quick and straightforward. However, one noted that

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[1] The smaller content providers they identified were: RightGIF, Emoji, Bitmoji, and Songclip.

it would require some technical resources to do so, and another noted that there would be some contractual and engineering costs, but it was unable to estimate their magnitude.

Barriers to entry

14. One third party noted that there was constant innovation in services relating to GIFs, stickers, and other creative content, and that it is possible for start-ups in this industry to come up with new and different ideas. However, another third party said that it would now be difficult for a start-up company to gain traction against the established GIF providers and that, currently, there do not seem to be any innovations on the horizon.

15. One third party told us that it would be viable for third party platforms to self-supply, given sufficient time, resources, and commitment. Platforms generally regarded self-supplying at a scale and quality similar to that of GIPHY as a major endeavour, which would require considerable financial resources, human resources, and time (in the order of several years). None of the Platforms that the CMA spoke to had seriously considered self-supplying.

Importance of GIFs for user engagement

16. Most Platforms said that it was difficult to precisely quantify the importance of GIFs to the engagement of end-users. However, one Platform explained that GIFs are very important for user expression, as they are a concise and globally recognised form of communicating emotions, with the ability to add humour and flavour in ways that other content cannot. This Platform noted that, due to competing Platforms offering GIFs, there was an incentive for it to also continue offering them. Another Platform commented that creative tools (including, but not limited to, GIFs and GIF stickers) were a base requirement to provide a competitive messaging product, and that removing its current GIFs would degrade its user experience. A small number of Platforms also characterised GIFs as 'nice to have' but not critical or foundational to their growth or user engagement.

One market participant described access to GIFs as a 'core utility' for today's communications Platforms.

Data

17. Most Platforms understood GIPHY to receive minimal data through their API integration, in most cases limited to the search query (ie keyword(s) or search term(s)) and IP address of the users. One Platform told us that it was possible to implement proxying[2] but noted that some Platforms may lack the engineering resources required to implement this.

18. A small number of Platforms expressed concerns regarding the incremental aggregate data to which Facebook would have access via GIPHY's API/SDK integrations as a consequence of the Merger. They explained that these aggregate data could give Facebook unique insights into user and content trends (eg what search terms and cultural reference points are popular). One of these Platforms was concerned that such data could also provide Facebook with an early signal of the growth trends of current and emerging rival Platforms, which could be used to guide Facebook's strategic acquisitions.

GIF advertising model

19. In relation to GIPHY's Paid Alignment advertising services (promoted GIFs), third parties, including advertisers and investors, noted several distinctive and appealing features:

    a. The ability to reach consumers in a messaging context, which is a space that is difficult for advertisers to access. Relatedly, one advertiser described GIFs as a more 'organic' form of advertising, stating that private messaging comes with an air of credibility.

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[2] Whereby the request is shown as originating from the server of the platform such that the IP address of the individual user is not revealed.

b. GIFs' unique 'niche' as a creative and consumer-based means of communication embedded in social media.

c. Wide-scale and rapid distribution of content (considered by one advertiser to be better than that of television), meaning that advertisers can reach a large number of consumers in a short period of time.

d. The perceived ability to target a younger audience (compared to some traditional media).[3]

e. The looping nature of GIFs and their high 're-review rate', meaning that the content sticks in consumers' minds.

20. However, third parties also identified a number of challenges with this model:

a. Finding staff who understand both the technical and advertising aspects of the business.

b. Facing a 'learning curve' in establishing this new form of advertising, for example, determining its value to advertisers, and building relationships with them.

c. Finding a way for advertisers to get their messages into GIFs, given that users do not anticipate seeing adverts within their private messages, and ensuring that the content is sufficiently creative.

d. Developing an advertising platform (including greater use of automated technologies), allowing for a smooth interface with advertisers and taking the model to scale.

e. Enabling advertisers to measure their return on investment.

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[3] However, one advertiser told us that GIFs are suitable for reaching a broad demographic, rather than targeting the youth segment specifically.

21. One third party stated that GIPHY's monetisation approach (the Paid Alignment model) had been demonstrated to work. Another third party considered that GIPHY had an advertising product that could be very significant if executed well; however, this third party also considered it was clear that GIPHY was not yet close to a 'breakthrough' with its advertising model. No third party characterised the Paid Alignment model as fundamentally flawed, although most recognised some substantial challenges with achieving success at scale (as described above).

22. The majority of advertisers were positive about their experience working with GIPHY and would have been willing to continue exploring this method of advertising. However, one advertiser described it as a concept that never took off, lacking interest from consumers, leading it to end its partnership with GIPHY. Advertisers stated that their campaigns with GIPHY to date were a minor feature of their advertising strategy and represented a very small share of their budget. Advertisers were able to monitor key metrics such as number of impressions and cost-per-mille (CPM);[4] however, attribution (eg linking GIF views to brand-related actions or purchases) was not possible. Advertisers generally viewed GIPHY as the only or leading provider of GIF-based advertising services. A few advertisers mentioned alternative GIF providers they believed may be offering advertising services, including Tenor, Holler, Inmoji and Bitmoji; in all cases, the advertiser had not partnered or seriously engaged with these potential alternatives.

23. In relation to GIPHY's plans to grow its advertising services by placing promoted GIFs on third party platforms, a small number of Platforms told us they either had previously entered into, or would be amenable to exploring in future, revenue sharing agreements. Another Platform mentioned that, while it is not currently looking to add new revenue lines into its business, it may be willing to consider such a proposal in the future.

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[4] CPM refers to cost per thousand impressions.

Views on the Merger

24. Most third parties did not have particular views on the competitive effects of the Merger. However, a small number of third parties explicitly highlighted they had concerns regarding ongoing access to GIPHY and Facebook's access to data.