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Cyberspace showdown: Google versus eBay

The two Internet behemoths are headed for a major conflict that could ultimately change the world of retailing. Here's what it means for the companies, consumers and investors.

By [Michael Brush](#)

Get ready for a showdown in cyberspace that's going to change how you shop . . . again. The contest pits **Google** ([GOOG](#), [news](#), [msgs](#)) against **eBay** ([EBAY](#), [news](#), [msgs](#)).

When the dust settles, at least three things will look very different in the world of retail.

Google will have moved beyond search and morphed into a major intermediary -- efficiently connecting shoppers and sellers in a way that makes it look a lot more like, well, eBay.

A new search technology that it's refining -- dubbed "programmable search" -- will make it easier for consumers to dig into store inventories and find exactly what they are looking for both on and off line, at the best price.

Ebay and its shareholders will suffer as buyers and sellers migrate away from eBay's platform and set up their own storefronts on the Web.

We saw round one of this spat in mid-June, when Google wanted to throw a seemingly innocent party in Boston. It just happened to be during the week of the annual eBay Live user conference, in which "power sellers" rub elbows with the powers-that-be at eBay and celebrate the popular online auction site.

Whose victory?

Google's party -- complete with free massage, drinks and food -- was to be just a short, free bus ride (provided by Google) from the eBay Live event. Google's Checkout Freedom Party was supposed to introduce a new online payment system called Checkout to eBay users.

Google's Checkout is banned on eBay because the auction giant sees it as a competitor to its own PayPal payment system. When news of the Google party surfaced, eBay cancelled its advertising on Google. Google then backed down and cancelled the party. About a week later, eBay resumed Google advertising.

Since the auction site didn't lose much traffic during the boycott, conventional wisdom holds that you can score a victory for eBay. "The data suggests that Google may be less powerful than people thought, at a time when the search engine is seeking to widen its empire," wrote Tom Bawden of The Times, a British newspaper. The New York Post's Janet Whitman agreed that the turn of events showed eBay "may not be so dependent on Google as many had thought."

A word of caution: Accepting this takeaway on the Boston scuffle could be hazardous to your investment wealth, because few things could be further from the truth. "If Google was ever to get serious about eBay's space, eBay would likely be in a lot of trouble because they could cut off much of eBay's air," says technology consultant Rob Enderle.

Getting with the program

That's about to happen. For a more detailed analysis of why this is so, and what the Boston scuffle really signified, I turned to **Bear Stearns** ([BSC](#), [news](#), [msgs](#)) analyst Robert Peck. I also checked in with an ardent Google watcher and online technology expert named Stephen Arnold of [Arnold Information Technology](#). They've pored over patent documents filed by Google earlier this year and have come to a big conclusion: Google is in the process of using its powerful database technology to take search to a whole new level by introducing something called a programmable search engine. This will allow Google to become more like eBay -- a key player in matching buyers with sellers -- and probably make it easier for you to shop for stuff, as well.

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Currently, Google sorts search results in part by giving preference to sites with more links. This serves as a kind of vote of confidence that a site is worth looking at. But programmable search will take things a big step further. In programmable search, Web masters will tell Google's search engine how to interact with their sites and what to do with the contents. For example, they can tell it to dig up detail on what products are in inventory and how much they cost. Or they can tell Google's search engine to display selected password-protected information. On the user side, Google's search engine will be "programmed" in the sense that it will respond to search queries in a tailored manner, based on a user's past behavior.

One-stop shopping

In the retail space, this change will make it easier for consumers to use Google to find out about available inventory at nearby retailers.

Let's say you live in Greenwich, Conn., and you want to buy a Mercedes. Now, if you type in "Mercedes" and "Greenwich Conn." you get back the name and location of a local Mercedes dealership. With programmable search, you could also get a list of what cars are available on that dealership's lot.

Video: [Google, eBay relations strained](#)

There's a big advantage in this for the Mercedes dealer, too. Search histories can be used to figure out the tastes of a shopper and understand which car to display more prominently. Profiling a user's search patterns may determine, for example, that she's more likely to go for a convertible than a stodgier model.

[Continued: Marketplace connections](#)

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None of this will turn Google into a retailer in the traditional sense. But it will mean that Google will be providing connections in the marketplace -- exactly what eBay does now. "This will capture consumers, and they won't go to traditional shopping portals," Peck says.

Peck thinks Google will roll out programmable search by the end of this year, but he says you can already see the crude beginnings of it at the site. If you run the query "real estate" followed by a ZIP code, you'll get the option of clicking on a button that will then show a list of homes available for sale from real-estate agents who paid a fee, with a map showing where the homes are. That's a lot more than just a list of Realtors and their phone numbers. "It will get way more sophisticated," says Peck. "We think this is the beginning of a transfiguration of the Web."

Peck sees Google's recent launch of "universal search," which has a single search scan videos, images, news, maps, books and Web sites, as a step along the way to programmable search.

Programmable search makes use of a powerful advanced database and storage technology developed by Google called Bigtable, Arnold says. "The real story here is these guys invented a brand new kind of database, and if you are in the database business, you better get your act together," Arnold says. He explains other ways Google will use the technology in an upcoming book called "Google Version 2.0, The Calculating Predator."

For Arnold, Google's scheduling of its Checkout party during eBay Live was just another example of how the company likes to probe competitors to gauge how they will react to upcoming changes. "This is typical of Google's probing to determine the limits of another company's resolve," Arnold says. "There is a pattern where they allow a regional manager to go in, do some testing to get data and withdraw. So now they have a data point." Likewise, says Peck, eBay was responding with some probing of its own by canceling ads on Google to see how well it could do without them.

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A Google spokesman responded that it regularly files patents and that "prospective product announcements should not necessarily be inferred from our patent applications." Google also says it has worked closely with eBay for seven years and "looks forward to a continued partnership."

Will eBay pay?

So what does it mean for investors? It looks like Google is finding a way to sustain its impressive 65%-plus sales growth, a rate of growth that has lasted so long -- more than four years -- that many have questioned whether it can endure.

While Peck still has a "buy" rating on eBay, I disagree with him. Though Google may never declare outright warfare on eBay -- and may indeed continue to work with it as a partner -- the coming change in search cannot be good for the premier online auction site.

Video: [Google, eBay relations strained](#)

Cantor Fitzgerald analyst Derek Brown, who has a "sell" rating on eBay and a \$30 price target, thinks the Boston party dust-up was just a symptom of growing tensions between the two companies as everyone figures out they are in the same business. "It's important to realize what eBay is. Ebay is a venue through which sellers can advertising products and consumers can find and buy those products. In that context, Google's platform is really not all that different."

And it's about to get a lot better.

Expert picks

With this column, I'll add Google to the [Company Focus tracking portfolio](#) in our Expert Picks section, and we'll see how it does from here.

At the time of publication, Michael Brush did not own or control shares of companies mentioned in this column.

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