

Protecting consumer or reducing competition? The impact of banning foreign pharmacies from sponsored search

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As the Internet intensifies competition among retailers, there is concern that some retailers may offer low quality products and therefore hurt consumers. Arguably, no other market is more intriguing in this tradeoff than online prescription drugs.

On the one hand, high prescription drug prices have motivated US consumers to search for cheaper supplies from foreign online pharmacies; on the other hand, personal importation is technically illegal. Although the FDA does not enforce the law for small quantities, the National Association of Boards of Pharmacy (NABP) emphasizes the illegality and cites examples of poor drug quality from rogue online pharmacies. Because of heightened concern to protect consumers, Google agreed to ban non-NABP-certified pharmacies from their sponsored search listings in February 2010. One year later (August 24, 2011), Google settled with the DOJ by "forfeiting \$500 million generated by online ads & prescription sales by Canadian online pharmacies."

We study how the ban on foreign pharmacies from sponsored search listings appearing in the US affects consumer search on the internet. If the ban has dissuaded consumers from buying from foreign suppliers, we should observe fewer internet searches and fewer (organic) clicks on foreign pharmacy websites after these websites disappear from sponsored search. Alternatively, consumers may ignore the warning and find alternative ways to reach foreign pharmacy websites, such as clicking more frequently on foreign pharmacy websites in the organic results. If this is the case, the ban simply increases consumer search cost with little benefit in consumer protection. Either way, the ban is likely to change US-foreign competition, as well as competition between regular and discount pharmacies within the US.

Our analysis is based on data from comScore covering 690 queries related to pharmaceutical drugs and online pharmacies. Our data span four years from September 2008 to September 2012 and include total searches, searchers, and organic and sponsored click activity for 5 large search engines. We also observe demographic characteristics of the searchers.

Our preliminary analysis shows that searches for discounted drugs and queries related to online pharmacies increased both after Google's initial ban and the subsequent settlement with the DOJ. Further analysis is required to determine if the increased search leads to more organic clicks and if those clicks are on domestic pharmacies, informational sites used to verify the legitimacy of foreign pharmacies, or on rogue foreign pharmacies in the organic listings that no longer appear in the sponsored results.

¹ The opinions expressed here are those of the authors and not necessarily those of the Federal Trade Commission or any of its Commissioners.