



Facebook's Acquisition of GIPHY: Potential Competition Issues

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On May 15, 2020, Facebook [announced](#) that it had acquired [GIPHY](#), an online database and search engine for short looping videos without audio, known as GIFs. Facebook has not integrated GIPHY with its other online platforms (i.e., websites and apps). An [Interim Enforcement Order](#) filed by the U.K. Competition and Markets Authority (CMA) on June 9, 2020, requires Facebook and GIPHY to operate as separate businesses during the CMA's investigation on the effect of the acquisition on competition. On March 25, 2021, the CMA published its [initial assessment](#) that the merger raised competition concerns. A [letter from Facebook](#) to Members of the House Subcommittee on Antitrust, Commercial, and Administrative Law states that a premerger notification under the [Hart-Scott-Rodino Act](#) was not filed because the acquisition did not pass the relevant statutory test. In June 2020, the Department of Justice and the Federal Trade Commission were [reportedly seeking to review the acquisition](#).

Facebook is now facing antitrust lawsuits, some of which focus on its past acquisitions. This Insight discusses how Facebook's acquisitions can affect competition in digital advertising and the potential implications of the antitrust lawsuits on Facebook's acquisition of GIPHY.

The Impact of Facebook's Acquisitions on Competition

Facebook, founded in 2004, is primarily known for its namesake online platform, where users can share information, photos, and other content with other selected users. The company's revenue comes primarily from selling ad placements to advertisers who wish to reach users of its platforms. In 2020, advertising accounted for [97.9% of its \\$86 billion total revenue](#). Because digital advertising allows advertisers to target individual users, owners of online platforms, such as Facebook, have incentives [to collect consumer data](#) to better identify users who are likely interested in a particular ad.

Facebook has expanded its business with [89 acquisitions](#) since 2004. Some of its well-known acquisitions include [Instagram](#), a photo-sharing platform, in 2012, and [WhatsApp](#), an encrypted messaging platform, in 2014. Facebook is [reportedly spending \\$400 million](#) to acquire GIPHY. The amount is relatively small compared to some of its past acquisitions: it spent \$19 billion to purchase WhatsApp and \$1 billion for Instagram.

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Acquiring additional platforms may give Facebook greater access to user information. It can collect data from more users if the acquired platform's users do not use its other platforms. Acquisitions can also help it obtain richer data about individuals by combining information obtained across its platforms. However, GIPHY's business design may make it difficult for Facebook to obtain individual user data.

Consumers can [use GIPHY through other platforms](#), such as Apple's iMessage, TikTok, and Snapchat. Users can search for and share GIFs in GIPHY's database through other platforms by installing its app on their smartphones or downloading its extension to platforms on their computers. For example, users may search for a GIF of a dog waving from GIPHY's server and share it with friends through iMessage. The owners of platforms that are used to share GIFs may seek to [prevent GIPHY](#) from receiving individual user data and [send aggregate usage data](#) instead, but the effectiveness of these measures is unclear.

Some of these other platforms could be considered competitors to Facebook, both for users' time and for advertising revenue. One potential competitive concern is that by controlling GIPHY, Facebook may be able to learn when users tend to be active on its competitors' platforms, how frequently individuals use those platforms, and other information that could help it compete for advertising. Ownership of GIPHY also might improve Facebook's ability to identify new platforms that are gaining popularity and could become competitors.

GIPHY may also provide Facebook with a new outlet for displaying digital ads, strengthening its position in the digital advertising market. In 2020, Facebook was estimated to have a [23.4% share of the U.S. digital advertising market](#), ranking second to Google (29.4%) and ahead of third-ranking Amazon (9.5%). Prior to being acquired by Facebook, GIPHY explored obtaining revenue through digital advertising by [hosting GIFs for commercial brands](#). Facebook may be able to further develop this business, which could potentially increase its revenue from digital advertising. GIPHY could also expose trends and shifts in users' interests based on which GIFs are searched for, created, and shared, which may help improve Facebook's digital advertising across its platforms.

U.S. Antitrust Lawsuits Against Facebook

Some Members of Congress have criticized Facebook's acquisition of GIPHY. Some [have raised concern](#) that acquiring GIPHY will allow Facebook to collect more user data, and that Facebook should not be acquiring companies while it is under investigation for past acquisitions. In addition, some have proposed [halting mergers and acquisitions](#) during the coronavirus pandemic.

Members of the 117th Congress have [introduced bills](#) that would affect mergers and acquisitions in digital markets, ranging from increasing funding for antitrust authorities to amending antitrust laws. These bills could affect antitrust cases against Facebook. On December 9, 2020, the Federal Trade Commission (FTC) and 46 state attorneys general filed [parallel antitrust lawsuits](#) against Facebook. The plaintiffs in both lawsuits allege that Facebook acquires companies to eliminate competitive threats. In addition, several [class action lawsuits](#) alleging antitrust violations have been filed against Facebook, and the FTC has raised concern about Facebook's [collection, use, and sale of consumer data](#), specifically whether the company misrepresents the extent of consumers' ability to control access to their information.

It is unclear how these antitrust lawsuits might affect GIPHY's future. The [parallel antitrust lawsuits](#) filed by the FTC and 46 state attorneys general explicitly mention Facebook's [acquisition of Instagram in 2012](#). One of the proposed remedies is requiring the divestiture or reconstruction of businesses, including Instagram. If that were to occur, antitrust authorities might need to determine whether GIPHY should be considered part of Instagram, remain with Facebook, or be divided in some other way. Similar questions may be relevant to other recent Facebook acquisitions.

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