Two-sided platforms: discussion

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Warning: legal scholar trying to understand competition processes

OUTLINE: FOUR POINTS

1. Two-sided platform analysis isn't generally neglected by competition policy enforcers (**no "inhospitability**")

2. There is a need to further assess the differences among types of two-sided platforms (**no "one-size-fits-all")** especially with regard to technological platforms

3. Need for a more dynamic analysis of platforms (**two-sided platforms' dynamics)**

4. Difficult to assess today the future scope of the two-sided platform theory (**two-sided platform theory's stickiness**)

Setting the scene from a competition policy perspective

- Literature on two-sided markets relatively new (but basic features of media markets studied for more than sixty years)
- "two-sided markets" "two-sided platforms" "two-sided businesses" or "two-sided ***strategies***" (e.g., Amazon)?
- two-sidedness is a matter of degree

RECIPE FOR A TWO-SIDED PLATFORM: FIVE INGREDIENTS

1. Two different products or services to two distinct groups of customers

2. Indirect network externalities

3. The two groups of customers do not internalize those externalities (different from complementary products like printer+ink jet cartridge)

4. Intermediary able to internalize those externalities: creates value by bringing together two groups/sides that need each other but cannot easily get together on their own

5. The side charged the higher price is not able to pass on the difference in prices to the other side (no significant pass-through)

CUSTOMERS ARE BETTER OFF BY HARNESSING INDIRECT NETWORK EFFECTS

A WELFARE ENHANCING POLICY TOLERATES/ENCOURAGES PRACTICES THAT

Effectively contribute to balancing externalities

Contribute to the optimal size of the platform

CONSEQUENCES FOR COMPETITION POLICY IN A NUTSHELL

Prices set in a *different* way than in standard (read: one-sided) IO models

ceteris paribus the side that attaches a higher positive value the other side is going to pay more (e.g. men – dating club; merchants – credit cards network)

Allocative efficiency can be improved by changes to the **price structure** (*ratio* of the two prices), not only by changes to its level (*sum* of the two prices) (not totally new: already known that price discrimination can be a source of efficiency – movie theatres charging different prices to parents and children)

Therefore

- Price below the marginal cost is not a per se sign of predation

- other predation tests suggested, for instance Evans (2003), Fletcher (2007), Motta (2014)

- Other consequences:
  - assessment of the relevant market(s)
  - tying
  - exclusivities
  - collusion
  - vertical restraints
  - etc.

No "inhospitability" in competition law

European Commission (OECD 2009)
empirical research is 'lacking' and is ‘indispensable'
it is still early for a competition authority to adopt any definitive views, let alone concrete policies or assessment methodologies, concerning the application of competition policy un cases involving two-sided platforms'

today*: two-sided platform analysis complicated but already part of the bread and butter of competition policy enforcers (read: economists involved in actual cases)*

However

High costs of applying two-sided platforms analysis to real cases (economists *don't* always mind)

Fact specific questions: substantial investigation required

Explanatory value of the TSPT not always crystal clear

High profile cases in EU law: credit cards networks

Multilateral interchange fees set collectively between banks (not on the basis of bilateral arrangements): on a superficial level, doesn't it look like price fixing? Do we see a restriction of competition between the banks? Is the common cost that all acquiring banks have to bear passed onto the merchant?

MASTERCARD 2007 DECISION: contrary to Article 101(1) TFEU

SOME QUESTION: could the anticompetitive effects be outweighed by efficiencies stemming from MIFs?

- MIF set to balance issuing and acquiring demands (get two sides on board)
- ***lower*** cardholder fees – on the other side of the platform

European Commission: the required empirical evidence to demonstrate positive effects on innovation and efficiencies was not submitted

General Court: largely same conclusions as European Commission

CJEU (2014): "it is necessary to take into account the **system** of which that measure forms part, including, where appropriate, all the objective advantages flowing from that measure not only on the market in respect of which the restriction has been established, but also on the market which includes the ***other*** group of consumers associated with that system, in particular where, as in this instance, it is undisputed that there is interaction between the two sides of the system in question"

Still rather unclear, though: what kind of increase to a platform's *output* necessary to balance a price increase on one side of the platform?

No "one-side-fits-all"

One of the thrusts of the TSPT: many of the two-sided issues common to media markets arise also in traditional markets

FROM heterosexual dating clubs TO operating system-centric- multi-sided businesses

Google Search as testing ground?

What about Android?

Software platforms and two-sided markets

Platform owner: coordinator between the two groups:

- price structure
- chicken and egg problem (get and keep both sides on board)

The software platform as demand-coordinator:
Catalyst matching OS users and software developers (OS business "is about the search for the right price structure that will get both sides on board")

Android as multi-sided business (users of Android OS; app developers; hardware manufacturers; advertisers)

- Advertisers’ group is the "plankton" that keeps the system alive and well (Google monetises the users of its products and services)
- Tensions inside the ecology: allegations of anticompetitive practices

Through the lens of the economics of multisided platforms, Sidak (2014), Evans (2014)

- Licensing for free: welfare enhancing pricing structure
- Not anticompetitive practices but procompetitive efforts to harness externalities for the platform
- Hard and soft fragmentation as sources of indirect negative externalities
- Beyond the pricing structure: standards and rules
- Platform practices: promoting positive externalities and reducing negative externalities
- Anticompetitive foreclosure etc. not excluded but efficiency presumption *strongly* suggested

Technological platforms: *only* market matchers?

- Different platform sides are perhaps ***more*** than consumers in case of technological platforms
- The more technological/engineering view of platforms (management literature – empirically based)
- Modularity and core-periphery architecture
- The platform harnesses complementary innovative capabilities and distributed heterogeneous knowledge (app developers, handset manufacturers, etc.)
- *Not even* end-consumers are just consumers: data produced by consumers used for better ads and better products/services

Bringing together the *transactional* and the *technological* views of platforms

- Collaborative innovators make the platform grow and flourish
- Google has forfeited technologies in order to quickly create an ecology (the "carrot")
- Forks - hard fragmentation – as such not surprising (isn’t it just open source working as it should?)
- Do forks promote consumer welfare? Are forks really bad for app developers?
- technological design: soft fragmentation issues exaggerated (e.g. Google Play Services effective?)
- Platform sides often as complementors, not as consumers, and "suddenly" perceived as dangerous competitors (e.g. Netscape)

Many follow up questions: a few examples

- How do we make a useful distinction (for competition policy purposes) between technological and purely transactional platforms?
- Should open and partially-open technological platforms be treated differently from “closer” platforms? Where does the“dividing line”run?
- How do we empirically and theoretically investigate the moment a complementor starts being “feared” by the platform owner? Behavioural economics has shown that firms tend to exaggerate and overreact. Is this funding relevant to practical competition policy enforcement?
- What are the economic incentives for app developers?

Two-sided platforms dynamics

How do platforms evolve?

What are the driving forces of these evolutionary processes?

How could this be relevant for competition policy purposes?

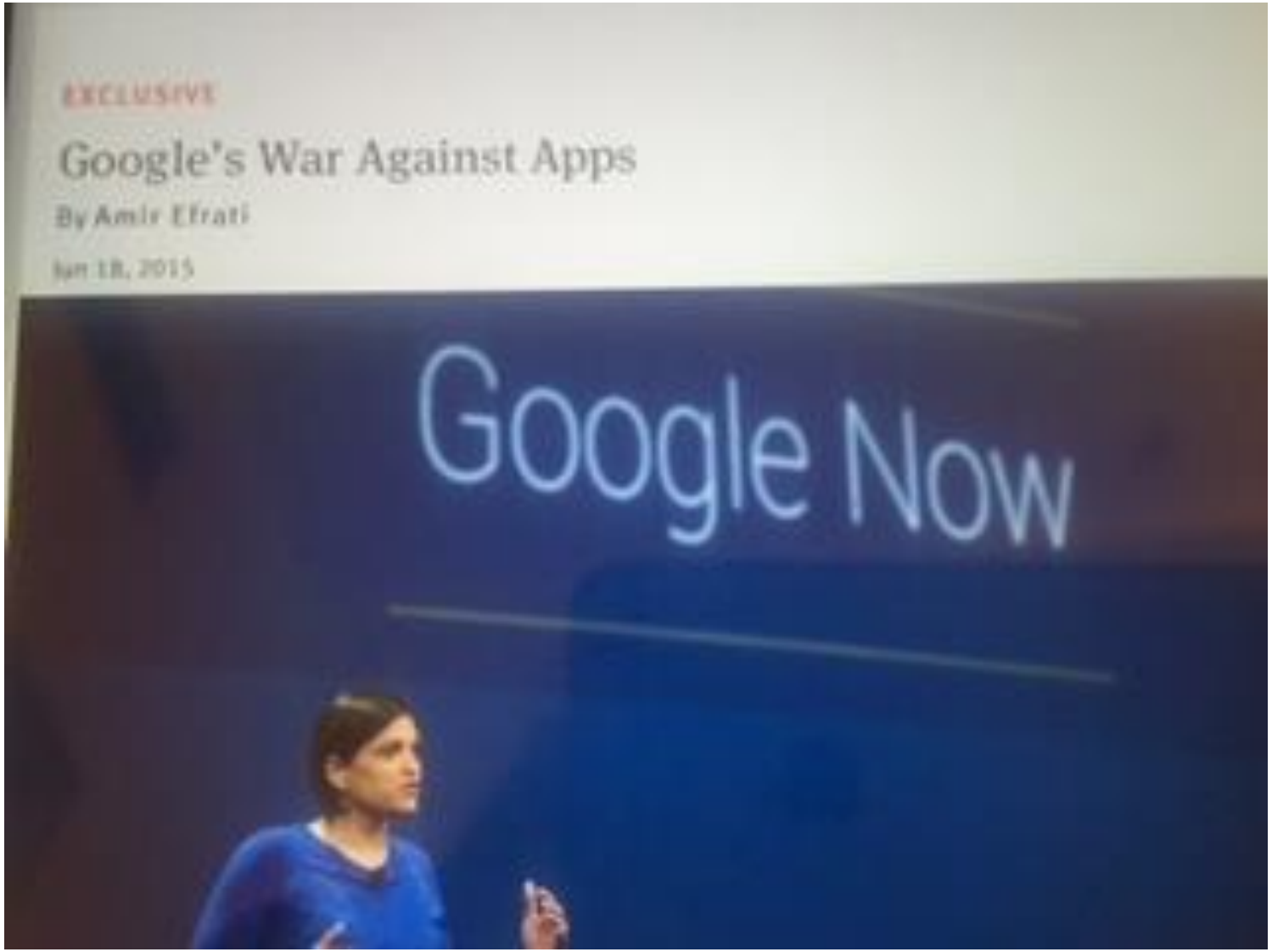
Google's business model based on advertising,

Successful apps in key areas like mapping and location could represent a serious menace in term of “drained” attention time and precious data of Android users.

The platform leader could decide not to compete “on the merits”, but to use its many power levers in order to harm former-complementors-turned-rivals, for instance “enveloping” them (Eisenmann & Van Alstyne, 2011)

An enveloper enters into an adjacent market by leveraging common elements between her market and the target market through bundling

Example: large fraction of Microsoft Windows users were also Netscape users, and vice versa (“symmetrical user base overlap”). By bundling together the desktop OS (Windows) and the browser (Internet Explorer), Microsoft were able to quickly conquer the market previously pioneered by Netscape.



Can the TSPT explain this?

More research is needed

understand and evaluate in more depth how platform scope expands over time, elaborating on both efficiency and power-seeking rationales for shifting boundaries (Gawer 2015).

platforms refrain from expanding their boundaries when adverse effects on incentives to innovate for complementors are expected (Farrell & Katz, 2000; Gawer & Henderson, 2007),

But: platform shifts motivated by the appropriation of the results of complementors' innovative efforts, and made feasible by technology, have been demonstrated empirically (Zhu & Liu, 2015).

Two-sided platforms theory's stickiness

Nothing lasts forever, (attachments are *rarely* good)

Are two-sided platforms as intermediaries here for the long haul?

Consumers sides are discovering for themselves the potentials of new technologies and eventually might learn how to by-pass platforms (e.g. hotels, musicians, etc.)

Near future: real time marketing, proposal of individualized and specific products? For instance, are price comparison websites here to stay?

THANK YOU!

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