

The Antitrust Enforcement Symposium 2017

Market Definition and Market Power of Online Platforms

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presenter and do not necessarily reflect
those of the Bundeskartellamt

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Specific features of online platforms

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- direct network effects
- indirect network effects (INE)
- unidirectional vs. bidirectional INE
- platform = firm serving two or more distinct customer groups between which there are (substantial) INE
- INE impact the platform's profit maximization rationale: group exhibiting stronger positive INE will pay less
- frequent phenomenon that (at least) one customer group is served without being charged

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I. Market definition

II. Market power

One market or separate markets for different market sides ?

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Pro separate markets

capture competitive landscape on each market side

relevant substitutes / geographic scope (and thus market power) may differ on each market side

don't miss a competition issue that evolves (only) on one market side

Pro one market

customer groups may be inseparably linked by a platform interaction

competitive analysis may be the same for each market side

don't miss relevant indirect network effects

One market or separate markets for different market sides ?

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- in principle, both approaches are in line with the concept of demand-side substitutability
- both fine as long as the (later) analysis appropriately accounts for
 - interdependencies between market sides and for
 - all competitive forces on each market side
- rule of thumb: define separate markets for each side unless it is a transaction platform or a matching platform
 - transaction vs. non-transaction platforms
 - matching vs. audience providing/advertising platforms

Can antitrust markets 'exist', if service is offered free of charge ?

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- gratuitous service is a frequent phenomenon in multi-sided markets due to positive indirect network effects
- there is usually competition for customers no matter whether they are paying customers or not
- services offered free of charge should be considered as (part of) an antitrust market if there exist indirect network effects between the group that is served without being charged and another group that is charged
- no need to view "data as a currency": no requirement that free service is a bundle that comprises two goods with a positive and a negative value (e.g. service + ads or data)

Challenges for SSNIP test and other quantitative methods

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quantitative methods

network effects should be accounted for when estimating demand functions, elasticities, diversion ratios, etc.

modelling and measuring network effects is a non-trivial task

disentangling these effects in a robust way is difficult in practice, if proper data are available at all

SSNIP test

original SSNIP test does not account for interdependencies between distinct customer groups

also modification proposals difficult to apply in practice:

- lack of proper data
- free of charge services
- non-price competition

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I. Market definition

II. Market power

Positive network effects promote concentration and innovation

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- positive network effects - direct and multilateral indirect - can lead to positive feedback loops
- disadvantage / entry barrier for competitors
- risk of „market tipping“
- prospect of fierce competition for the market
- prospect of disruptive entrant

Degree of platform differentiation has an ambiguous effect on competition

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- product differentiation reduces current competitive pressure
- platform differentiation mitigates tipping risk
- e.g. Bundeskartellamt cleared merger of #2 and #3 real estate platforms on account of lowered tipping probability



Multi-homing tends to limit market power, single-homing tends to convey market power

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multi-homing

may indicate low switching costs

reduces relevance of indirect
network effects

reduces tipping probability

single-homing

multi-homers may value „reach“
to single-homers

each platform may become
bottleneck for access to specific
customers

e.g. wholesale call termination
markets

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Further reading

Bundeskartellamt (2016): Working Paper on Market Power of Platforms and Networks

Wismer, Bongard & Rasek (2016): Multi-Sided Market Economics in Competition Law Enforcement, in: JECLAP

Wismer & Rasek (2017): Market Definition in Multi-Sided Markets, forthcoming in: OECD Hearing "Rethinking the use of traditional antitrust enforcement tools in multi-sided markets"



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