Virtual Competition

Trends in Retail Competition
Friday 10 June 2016

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Changing Market Reality


2016 - Walmart announced its closing 269 stores.

$2 billion investment in online commerce

Walmart’s revenues in 2014 were five times greater than Amazon’s ($486 billion vs. $89 billion).

But Amazon’s stock market value as of mid-2015 had eclipsed Walmart’s by over $70 billion.
$34 billion in 2010,
$48 billion in 2011,
$61 billion in 2012
$74 billion in 2013,
$88.9 billion in 2014,
$107 billion in 2015.

The fastest company ever to reach $100 billion in annual sales.
The Dynamics of Competition

The Promise of the Algorithm-Driven Economy

- Transparency and flow of information
- Lower Search Costs
- Dynamic competition
- Entry and Expansion
- Dynamic pricing
- Disruption and Efficiencies

- The Rise of Big Data and Big Analytics
**The Perils** of the Algorithm-Driven Economy

Competition, as we knew it -- the invisible hand of competition -- is being displaced in many industries with a digitalized hand.

- Collusion
- Discrimination
- Frenemy
The Collusion Analytical Framework

- The Messenger Scenario
  - The Algorithm as an Intermediary
- Hub and Spoke
  - Intentional and unintentional use of algorithms to align price.
  - Eturas and Others
- Tacit Collusion on Steroids: The Predictable Agent
  - Fast predictive & similar analytics
  - Adopt a similar approach to Mergers review?
- God View and Artificial Intelligence
  - Big data and big analytics
Behavioural Discrimination

- Price Discrimination and dynamic pricing
- Controlled Ecosystems: *The Truman Show*
- The Rise of “Almost Perfect” Behavioural Discrimination
  - Differential pricing and limiting arbitrage
  - Over 100 biases, ...
  - Decoys, price steering, complexity, drip pricing ...
Frenemies

- The Dynamic Interplay among Frenemies
- Extraction and Capture
- The new Gatekeepers

*AI as your trusted alter ego*
To what extent does the “invisible hand” still hold sway?

What are the effects on choice and competition?

In markets continually manipulated by bots and algorithms, is competitive pricing an illusion?

As power shifts to the hands of the few – what are the risks to our democratic ideals, and our economic and overall well-being?
Virtual Competition
THE PROMISE AND PERILS OF THE ALGORITHM-DRIVEN ECONOMY

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Harvard University Press, Forthcoming, September 2016

Available to pre-order on

amazon