The Antitrust Enforcement Symposium 2017

Market Definition and Market Power of Online Platforms

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The views expressed are those of the presenter and do not necessarily reflect those of the Bundeskartellamt

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Specific features of online platforms

- 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
I. Market definition

II. Market power
### 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?

- 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?

- 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

**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
Agenda

I. Market definition

II. Market power
Positive network effects promote concentration and innovation

- 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

- 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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<tr>
<th><strong>multi-homing</strong></th>
<th><strong>single-homing</strong></th>
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<tr>
<td>may indicate low switching costs</td>
<td>multi-homers may value „reach“ to single-homers</td>
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<td>reduces relevance of indirect</td>
<td>each platform may become bottleneck for access to</td>
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<td>network effects</td>
<td>specific customers</td>
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<td>reduces tipping probability</td>
<td>e.g. wholesale call termination markets</td>
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Further reading


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