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Market definition in the digital economy

A multi-sided markets analysis

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Characteristics that affect the nature of competition

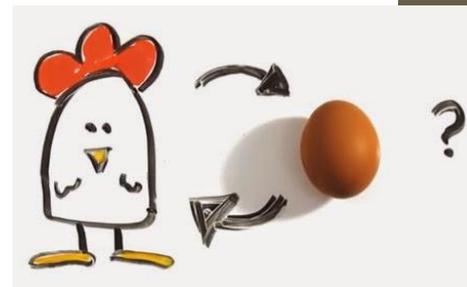
Webpage	Category	Page Views in November 2015	Free participants	Paid participants
FACEBOOK.COM	Social Media - Social Networking, Social Media	122,298,603	People and many app developers	Advertisers and some app developers
GOOGLE.COM	Search/Navigation	75,325,987	Searchers and websites	Advertisers
YOUTUBE.COM	Entertainment - Multimedia, Entertainment	38,899,360	Video uploaders and viewers	Advertisers
YAHOO.COM	Portals	25,612,235	Viewers	Advertisers
AMAZON.COM	Retail	11,490,679	Buyers do not pay Amazon MarketPlace	Sellers pay Amazon for sales and advertising
BING.COM	Search/Navigation	9,080,541	Searchers and websites	Advertisers
CRAIGSLIST.ORG	Directories/Resources - Classifieds, Directories/Resources	8,964,010	Viewers and many listers of ads	Certain categories of listers for ads
MSN.COM	Portals	8,483,598	Viewers	Advertisers
EBAY.COM	Retail	6,197,320	Buyers do not pay eBay	Sellers pay eBay for sales and advertising
AOL.COM	Portals	5,363,234	Viewers	Advertisers
ESPN.COM	Sports	3,492,807	None	Viewers pay and advertisers pay
SWAGBUCKS.COM	Services - Coupons, Services	3,131,420	People	Advertisers/marketers
LINKEDIN.COM	Social Media - Social Networking, Social Media	2,722,905	People for basic service	Advertisers and people for premium service
PAYPAL.COM	Business/Finance - Personal Finance, Business/Finance	2,043,564	Receivers of funds	Senders of funds
GROUPON.COM	Services - Coupons, Services	1,966,866		
IMGUR.COM	Social Media	1,892,341		
ANSWERS.COM	Directories/Resources - Reference, Directories/Resources	1,881,800		
TWITTER.COM	Social Media - Social Networking, Social Media	1,675,641		
INDEED.COM	Career Services and Development - Career Resources, Career Services and Development	1,406,671		
CNN.COM	News/Information - General News, News/Information	1,362,861		

Source: comScore

- Large platforms
- Multi-sided markets
- Gratuity of users
 - Non-price competition
- Innovation and rapid technological change eg. Move to mobile app

Multi-sided markets

- Friction in the market/T-costs to internalise
 - *Evans & Schmalensee (2007)*
- Indirect Network effects or Interdependency *Rysman (2009)*
 - Feedback Loop: chicken & egg problem
- Pricing structure *Rochet & Tirole (2003)*
 - Depending on elasticity of demand on both sides
- MS markets – a matter of degree
- Combination of characteristics that provide essential input to competition law assessment



Challenges for competition law analysis

The nature of competition

- Competition on both sides possibly ineffective

Market definition

- One-sided logic may lead to wrongly defined markets (too narrow)
- Elasticity of demand of both sides intertwined: SSNIP → SSNDQ?
- How to deal with market shares?

Market power as 'Ability to raise prices above competitive level?'

- Price-cost margin
- Competitive Pricing structure



Approaches to market definition

- **One/two distinct sides**

- *Google/DoubleClick* (2008): online advertising
- *Facebook/WhatsApp* (2014): social networking and online advertising
- *United States v American Express (district court) (2015)*: Network services (merchant cards)
- *United States v American Express Court of Appeal (2015)*: both merchant & users

- **How to deal with Gratuity?**

- Gratuity: 'Ceci n'est pas un marché' ?
- Booking (German case)



Approaches to market definition

- Transaction and non-transaction based definitions
Filistrucchi et al. (2014)
- Avoid too formalistic approach and focus on competitive constraints on each side of the platform
- Define a market for platform as a whole / or one side if in line with purpose of case
- Broad approaches – to be mitigated with differentiation corresponding to functionality offered
 - D. Evans: ‘market for attention’
 - ‘Monetizing users information’
 - (e.g identity, interest, purchase aims..) to advertisers
 - Are Facebook and Google competitors? (Thepot, 2013)

The real question(s) Market power ?



- Market definition enables to ask the right question, get a sense of the nature of competition
- Market power
 - Barriers to entry
 - Network effects rather than technological cost?
 - Switching costs
 - Multi-homing, ‘competition one click away’ BUT Limited attention & laziness
 - Network effects
- Winner-takes all competition?
 - Network effects v. diseconomies of scale and platform differentiation
- Dynamic competition
 - The role of innovation: ‘ Damned if you Don’t...But Damned if you do!’
- What is the optimal market structure for consumer welfare?