



University  
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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

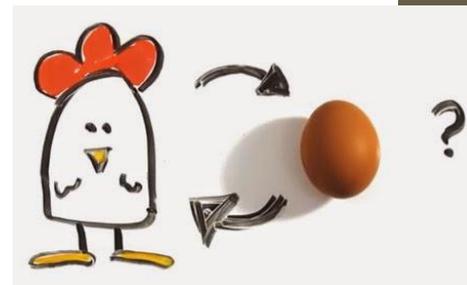
| Webpage        | Category  | Page Views in November 2015 | Free participants                    | Paid participants                            |
|----------------|---|-----------------------------|--------------------------------------|--|
| FACEBOOK.COM   | Social Media - Social Networking, Social 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                                      | 1,675,640                   |                                      |  |
| INDEED.COM     | Career Services and Development - Career Resources, Career Services and Development | 1,406,670                   |                                      |  |
| CNN.COM        | News/Information - General News, News/Information                                   | 1,362,860                   |                                      |  |

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?