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TWO-SIDED MARKETS IN THE INTERNET ERA

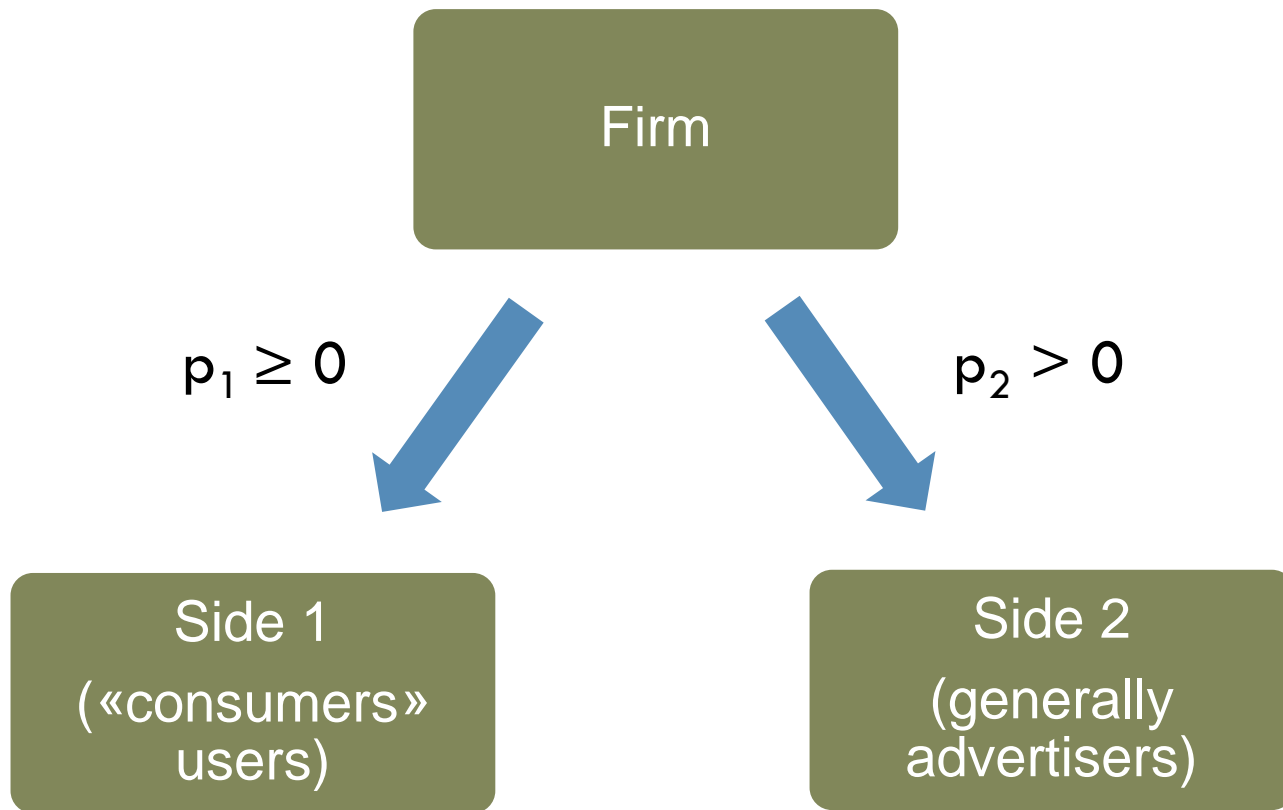
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What is a two-sided market

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- A market in which a firm sells two different products/services to two group of consumers
 - Demand from one group depends on the demand from the other group
 - Examples: media markets, payment card markets, online intermediaries



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- Indirect network effects for the demands
 - Consumers' willingness to pay for a product/service depends on the number of consumers (or the quantity bought) of another product/service
 - The platform internalizes the network effects



Two kinds of two-sided markets

Two-sided non-transaction markets (advertising)

- Absence of a transaction between the two sides of the market



MEDIA OPERATORS

TO CONSUMERS: offer TV programs (for free)

TO ADVERTISERS: offer access to consumers

SOCIAL NETWORKS

TO USERS: offer access to people (for free)

TO ADVERTISERS: offer access to consumers



weibo



YAHOO!

SEARCH ENGINES

TO USERS: offer access to websites (for free)

TO ADVERTISERS: offer access to consumers

Why are services free?

- The key competitive factor is the number of users («markets for individuals», M. Patterson) and profiles
- Both direct and indirect network effects
 - Users' utility increases with the number of users
 - Advertisers' utility increases with the number of users
- Low price (or zero, even subsidy) to consumers more than compensated by the higher price paid by advertisers

Two-sided transaction markets (platforms)

□ Presence and observability of a transaction



CREDIT CARDS

TO CONSUMERS: issues cards for purchases

TO SELLERS: «acquire» to the payment system

Direct transaction consumer-seller

PLATFORMS

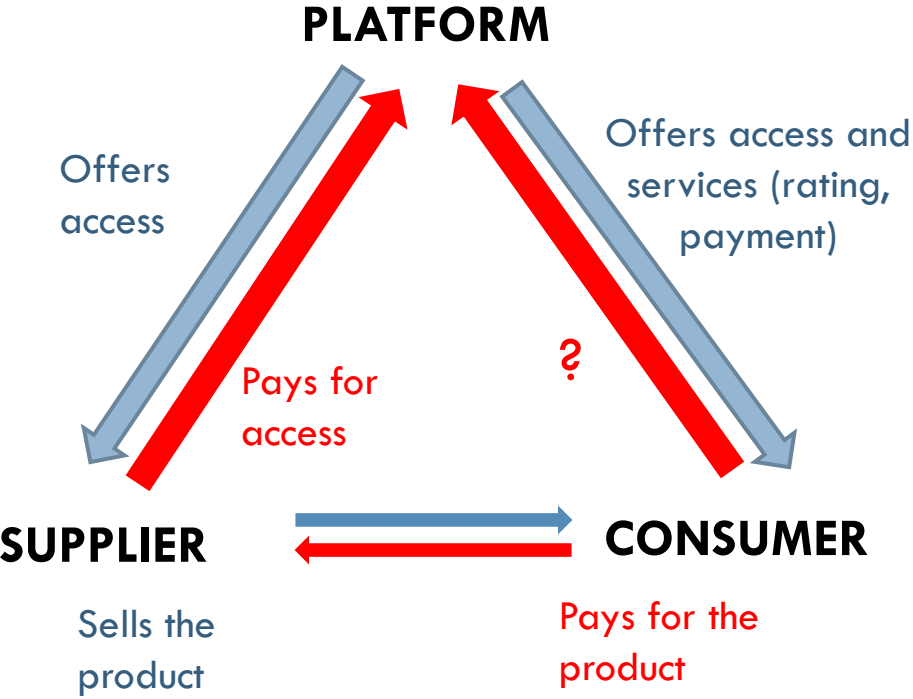
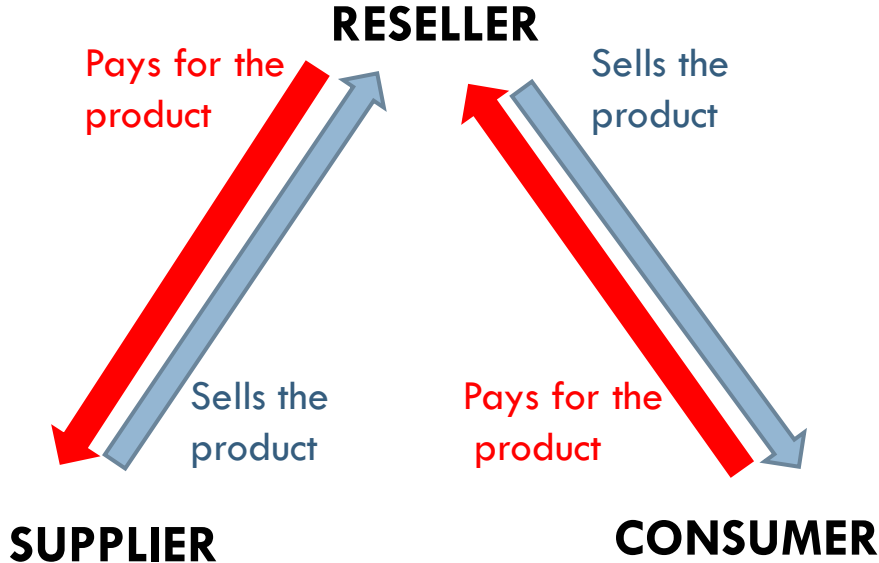
TO CONSUMERS: offer access to sellers (often for free)

TO SELLERS: offer access to consumers

Direct transaction consumer-seller



Are platforms two-sided markets?



Are platforms two-sided markets?

- Yes!
- In traditional markets
 - ▣ Suppliers do not set final retail prices: they sell products or services at wholesale prices to downstream retailers
 - ▣ Retailer set final retail prices and are remunerated through the difference between retail and wholesale prices
- In platforms
 - ▣ Suppliers set final retail prices and pay a fee to the platform for access services
 - ▣ The platform is remunerated through the fee

Common features of platforms

- All based on software/algorithm
- Marginal cost of participants is virtually zero
- Dynamic competition is intense (low cost of capital and product innovation relatively easy)
- Low switching costs for participants
- In the midst of a massive technological change from PC browser to mobile apps...



Case studies

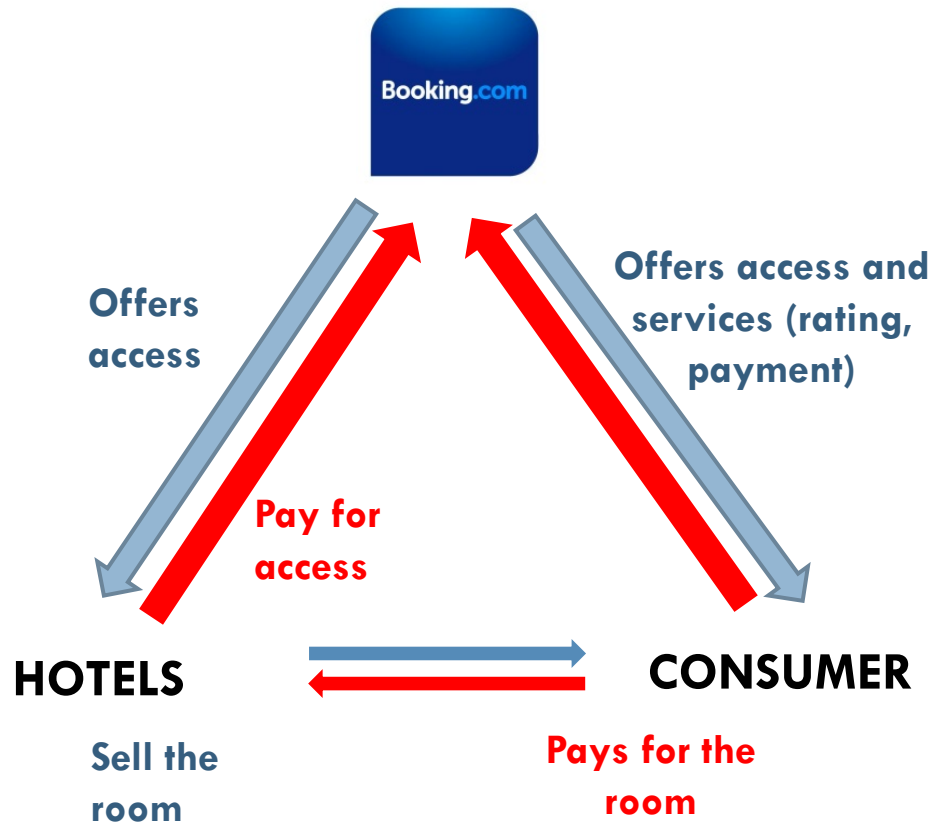


Merger Facebook/Whatsapp (EC, 2014)

- Acquisition of WhatsApp by Facebook
- Relevant markets
 - Consumer communications services (narrower, consumer communications apps for smartphones)
 - Social networking services (enable users to connect, share, communicate and express themselves online or through a mobile app)
 - Online advertising services

Booking.com/Expedia case (Italy, 2015)

- Possible restrictions of competition related to the use of Most Favored Nation clauses (MFN) in contracts between the online travel agencies (OTAs) and hotels
- Relevant market: online hotel booking services



□ Competition concerns:

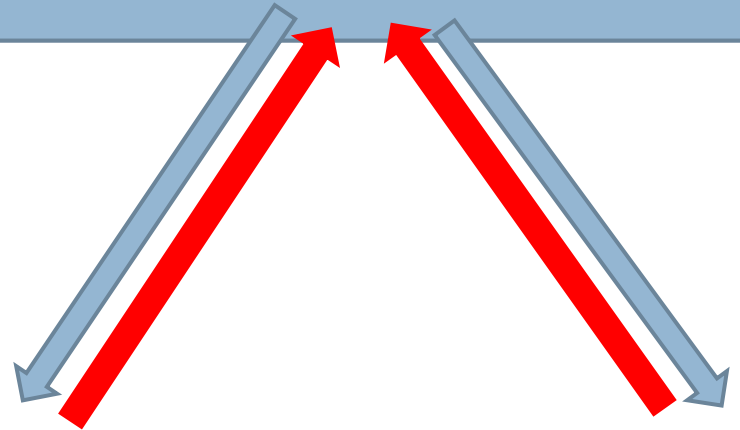
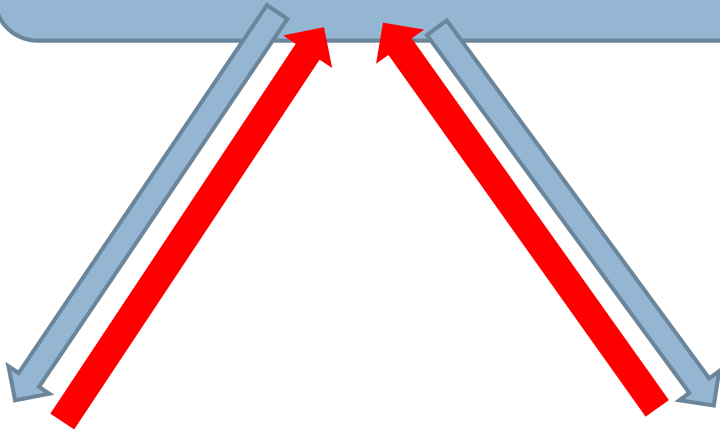
- no incentives for other OTAs to offer lower fees (lower costs for the hotels cannot be translated in lower room rates => higher fees and market foreclosure)
- no possibility for hotels to offer better rates offline

□ Commitments

- Revised MFN clauses only apply to prices publicly offered by the hotels through their own direct online sales channels (not on other OTAs or offline channels)



COMMITMENT TO "FREE"
PRICES ON OTHER OTAs



HOTELS



CONSUMER

HOTELS



CONSUMER

COMMITMENT TO "FREE" PRICES OFFLINE

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Issues for market definition

Demand

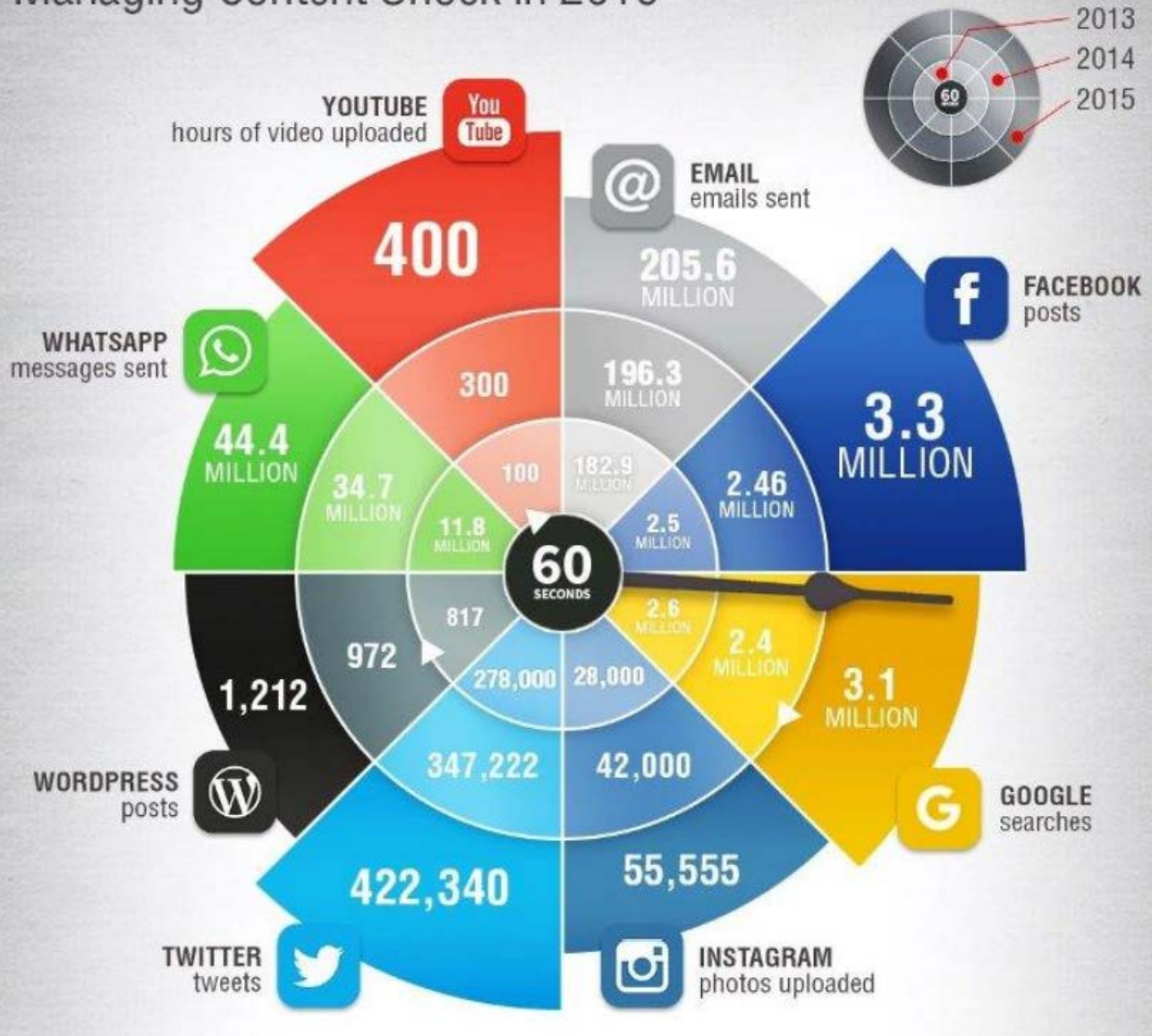
- How many market should be defined?
 - All relevant markets should be considered
- The demands of the two groups are interdependent
 - Should market definitions and the assessment of market power consider these interdependencies?
 - Yes, to have a more accurate definition
- Many platforms make one side «free»
 - Many of the traditional tools (e.g. SSNip test) do not work with free prices
 - Use the rationale

Market contestability

- The role of reputation
 - Can a dominant player increase the price or reduce the quality (e. g. the quality of information)?
- The assessment of entry barriers
 - Huge network effects, but...
 - Low cost of capital and product innovation relatively easy
 - Low switching costs for participants
- Online platforms engage in constant innovation to attract participants on multiple sides
 - Is market definition stable?
 - Disruptive innovation should be taken into account

What Happens Online in 60 Seconds?

Managing Content Shock in 2016



The future

□ New developments

- From PC platforms to mobile apps
- The Internet of things

□ The role of data

- Privacy concerns do not fall within the scope of competition law
- Can data be considered in competition analysis when they are a crucial input?