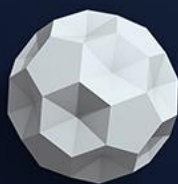


Antitrust Concerns in Digital Markets: A Selection....

Integrating Complements, and the Role of Data

Bruegel Discussion, 29 November 2017



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The underlying anxiety around Big Tech and platforms...

They are big, move fast, protected by “network barriers to entry”, occupy new territory all the time by swinging their user base into adjacent services, allocating internet traffic and buying nascent competitors

Dilemma

Benefits of “competition for the market” between platforms in terms of innovation, vs competition/innovation “nipped in the bud” by super-dominant platforms?

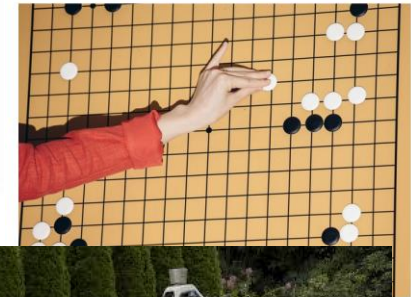
Pace of innovation on new frontiers needn't mean there isn't a problem:

- Are incumbents in existing fields leveraging their position to win the race into new ones?
- Could tech firms be distorting competition / outcomes in markets where they aren't even present (e.g. news)?

But, how do we intervene? Competition is cumbersome and takes ages...

Google
20%
Time

GOOGLE'S AI WINS FIFTH AND FINAL GAME AGAINST GO GENIUS LEE SEDOL



A few selected issues for discussion...

Massive opportunities for integrating complements: *foreclosure risk*?

- Economic insights/presumptions remain sound: integrating products is pro-competitive
- But huge scope for foreclosure claims - how do we tell the good from the bad?
- Android vs Microsoft/LinkedIn as *illustrations*

Should we be worried about platforms ability to “allocate traffic” in a way that favours their businesses over that of competitors?

- What is the benchmark for what constitutes anticompetitive conduct?

How is the concern about “Big Data” evolving over time?

- We have moved on from “lots of data” as a barrier to entry
- Value is in the ability to obtain and aggregate multiple “data signals” into superprofiles for targeted advertising, and protect *preferential access* to those
- Incentives to adopt conduct that helps protect this “holy grail”? If so, is this an abuse?
- Could “fake news” be pursued as a competition issue?

1. Foreclosure risk? Integrating complements and “traffic allocation”



Fundamental trade-off between pro-competitive benefits of “integrating complements” vs. foreclosure risk

Foreclosure issues “powered up” in digital environments by *huge complementarities*, and innovation through “integrating” complements



Rivals in the complement claim they are being foreclosed, and network effects and risk of tipping make this urgent and more real.

Fundamental issue is how to trade-off efficiency benefits against foreclosure risk.

Do we need new economic theory/tools? **No.**

- **Starting presumption that bringing together complementary products is good remains.** Needs to show credible mechanism to generate exclusionary incentives
- **Models/mechanisms that break this presumption have been around for some time:** e.g. dynamic leveraging stories based on network effects (Microsoft). New innovations (e.g. zero price constraints in two-sided markets), but remains case that foreclosure exception not the rule

Proliferation of complaints does not mean the risk is higher.

Distinguishing between problematic and unproblematic cases

Applying existing tools rigorously. Claims of “network effects” and “distribution advantages” should not be enough to extract “me too” remedies

Need a proper theory of harm:

Microsoft/LinkedIn



Vs.

Android



- Why doesn't the “one monopoly profit” theorem apply? Why doesn't allowing consumers to mix and match raise the dominant firm's profits?
- Theories are out there, but need to be applied to the facts while acknowledging foreclosure exception not the rule

Once we agree appropriate standard is *anticompetitive* foreclosure empirical screens exist to separate the good from the bad:

- **How important is the tying good as a distribution channel?** Difference between obtaining default status on ~100% of mobile devices, vs. an advantage in desktop in a mobile-focussed world
- **How effective is the tie at driving behaviour?** Default bias is well documented, would a “sign up now” prompt in Windows do the same?
- **How prone is the market to “tipping”?** Need to distinguish between markets with significant differentiation and multi-homing from those without
- **How important are any efficiency benefits?** Bigger the benefits from integration the greater the risk of false positives

Traffic allocation as a theory of harm?

“Equal treatment” might be an appropriate remedy, but not an economic basis for intervention in the first place.

Is there a plausible theory of harm? No doubt platforms could have ability/incentive to “divert traffic” in way that forecloses rivals & harms consumers

- Clear that search rankings influence traffic (even for established sites). Explanations focussed on reverse causality implausible/unsupported
- Literature (e.g. de Corniere & Taylor) shows ad revenue can provide static incentive to “divert traffic” in way that harms consumers.
- Also dynamic incentives if certain business models threaten search ecosystem

Difficulties mostly relate to avoiding false positives and retaining dynamic incentives:

- **Causality?** How to unpick the impact of conduct from other factors that might cause businesses to decline/fail? Easier if conduct changes abrupt
- **Efficiencies?** What if downgraded sites less efficient/lower quality? What if aspects of the conduct generated new functionality?
- **What is the benchmark for pro-competitive behaviour?** We allow some profitable distortions to search results (all ads are distortionary). So where should we draw the line?

Google search rankings can change abruptly



Ranking changes significantly drive traffic even for established sites

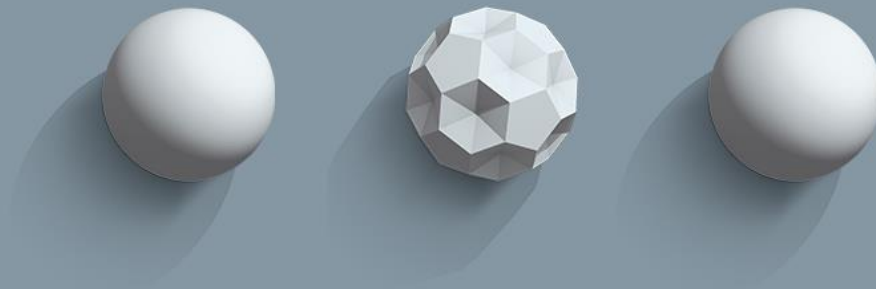
Wall Street Journal's Google traffic drops 44% after pulling out of First Click Free

Despite less traffic, paid subscriber conversion said to be up fourfold.

Danny Sullivan on June 5, 2017 at 4:48 pm



2. We are beginning to understand the role of data...



Data as a competition problem?

Original story (a la Microsoft/Bing) was that data was a barrier to entry. More data means better search results (better ability to answer “tail queries” leads to scale effects).

But, hard to articulate as a competition problem:

- How much of benefits are due to volume of data per se, and how much due to analytics? Can't data be gathered from other sources?
- A lot of effort goes into generating these datasets and techniques to interrogate them: “forced sharing” risks treating “learning by doing” as a competition problem

This approach didn't get traction in Shopping.
Concerns arise around using existing market power to entrench data collection and aggregation capabilities, and preserve asymmetric access to it



Not just a buzz word: big data is already having profound effects on content producers

Google/FB's core business remains advertising where data is key

- Advertisers want measurable impact: need to know ads targeted at the “right” eyeballs
- Platforms' data allows them to better target ads and also demonstrate performance
- Improved analytics reduces need to target ads indirectly based on content (beer ads on sports pages)
- Advertising increasingly *programmatic* and impersonal (allocated via ad exchanges) with advertisers agnostic as to where ads are shown

Ability to use data from search and SNs to identify relevant consumers and build “super profiles” shifts value added from content producers to firms with greatest data/analytics capability

Old paradigm: use content to target advertising



Decathlon
Caperlan Lure ...
£11.99
Decathlon UK

New paradigm: advertising allocated using ad exchanges and targeted using personalised data



So the story is changing.....

Platforms add value for advertisers by better targeting ads at the right consumers...

- ...so content producers need to adapt: either find ways to improve own targeting (e.g. by improving their own analytics/data collection abilities) or alternative ways to monetise (e.g. subscriptions, micropayments)

Relevance to antitrust? There may be incentives for platforms to protect / preserve the data generation process through various forms of coercive behaviour

- Dominant platforms may have incentive to push services on third parties that enhance or preserve their data collection capabilities. **Abuse?**
- Or push complementary providers into adopting business models that maximise the value of their services. **Abuse?**
- Or take steps that restrict data access for third parties (e.g. rival intermediation services) maximising “data asymmetry” and preventing rivals from emerging. **Abuse?**

Facebook Instant Articles



Google AMP



Not just a simple story that “big is bad” or that data is a barrier to entry. Rather a more complex mechanism where platforms take actions to reduce access/traffic/data for others in way that harms consumer welfare

Fake news as an antitrust problem?

Desire to keep users within their ecosystem and maximise opportunities to serve ads/collect data may introduce a disconnect from consumer welfare

For example, incentives could contribute to issues around fake news:

- Platforms benefit from a fragmented media landscape.
- Have incentives to target metrics (e.g. shares, likes, impressions) that may not correspond with quality
- This in turn gives publishers incentives to adapt to new paradigm by “chasing traffic”
- Platforms unlikely to internalise negative impacts on consumer or social welfare

Suppose platforms used their market power in ways that distorted competition between publishers in ways that exacerbated these social problems? Would that be grounds for intervention?

“Publishers that are funded by algorithmic ads are locked in a race to the bottom in pursuit of any audience they can find – desperately binge-publishing without checking facts, pushing out the most shrill and most extreme stories to boost clicks. But even this huge scale can no longer secure enough revenue.”

On some sites, journalists who learned in training that “news is something that someone, somewhere doesn’t want published” churn out 10 commodified stories a day without making a phone call.”

Katherine Viner
(Guardian editor-in-chief, 19
November 2017)

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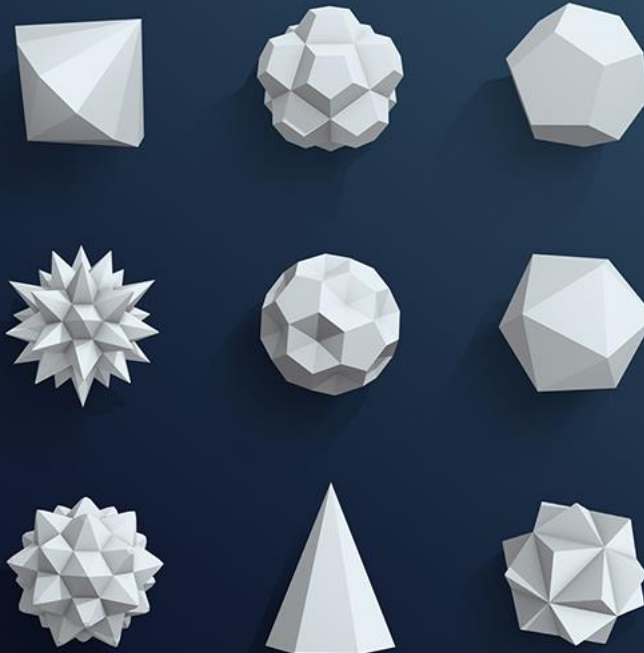
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