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COMPETITION IN DIGITAL PLATFORM MARKETS: a question of definitions

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tl;dr

Competition is strong in digital markets, but traditional antitrust tools may miss competitive nuances in these markets.

The Debate:

Critics argue that competition is weak in digital platform markets because each market tends to be dominated by a single player: Google in Search, Amazon in online retail, and so on.

But… digital platforms overlap significantly and are constantly expanding into each other's markets, and new entrants are a constant threat. Retrospective market definition, the tool that antitrust agencies use to determine the boundaries of competition, will frequently miss changes in the nature of the products and markets under review, and as a result miss much of the competition taking place. Features of that competition are discussed below.

KEY TAKEAWAYS

MANY DIGITAL MARKETS WILL HAVE ONE OR A FEW DOMINANT FIRMS AT A SINGLE POINT IN TIME.

Unlike many traditional markets, competition in most digital markets typically turns on product quality rather than price, and online competitors will often develop an entirely new product to supplant the alternatives altogether instead of trying to slowly expand market share.

BIG PLATFORMS ACT LIKE FIRMS THAT ARE COMPETING INTENSELY.

High levels of R&D spending, product entry and exit, and product development point to a high degree of competition even in markets dominated by one platform. Google recently scrapped fees for companies listing on Google Shopping in the face of strong competition from Amazon, despite the view of some competition authorities that Google Shopping does not compete with Amazon.

BECAUSE PLATFORMS ARE ABOUT MATCHING USERS WITH EACH OTHER, BIGGER PLATFORMS ARE TYPICALLY BETTER FOR USERS.

Although "network effects" are often seen as a barrier to user switching, one reason for this is that a larger network is better for users: more people on each side of a platform increases the platform's ability to match people with each other. The benefits of larger platforms are obvious to users but sometimes ignored in debates about competition.

PLATFORMS OFFERING DIFFERENT THINGS STILL COMPETE WITH EACH OTHER FOR USER ATTENTION.

Although sites like Instagram and Youtube offer different kinds of content, and may be dominant in their respective content areas, both compete for the time and attention of the same users who may treat them as substitutes.

BIG TECH PLATFORMS CANNOT EASILY DOMINATE OTHER MARKETS, AND WHEN THEY DO EXPAND INTO THEM THE RESULT IS MORE COMPETITION.

The success of Zoom in the face of similar offerings from Google, Facebook, Amazon, and Microsoft – whose video calling product Skype was a long-established incumbent – shows that size is often of no use in the face of a small rival with a better product, and how quickly users will adopt a new product if it suits their needs. Similarly, Google's acquisition of ITA, which makes travel booking software, has added a new option to the market for travel booking services but has failed to give Google anything like dominance in that market. And, of course, Google+ was a total flop, despite Google's large installed base of users.

For a fuller explanation of these and related issues, see Geoffrey Manne's recent submission to the U.S. House of Representatives Committee on the Judiciary, Subcommittee on Antitrust, Commercial, and Administrative Law, "Correcting Common Misperceptions About the State of Antitrust Law and Enforcement."

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