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SELF-PREFERENCING: building an ecosystem

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tl;dr

"Self-preferencing" is a normal part of how platforms operate, both to improve the value of their core product and to make money from it so that they have a reason to keep investing in it.

The Debate:

Digital platforms have been accused of unfairly favoring their own products over those of their competitors, most notably in the EU's case against Google for displaying Google Shopping results in relevant Search result pages.

But… platforms' incentives are to maximise the value of their whole ecosystem, which includes both the core platform and the services they attach to it. Platforms that preference their own products frequently end up increasing the value of the market overall by growing the total share of users of a particular product, and those that preference inferior products end up hurting the attractiveness to users of their 'core' product, weakening themselves to competition from rivals.

KEY TAKEAWAYS

THERE IS NO EMPIRICAL BASIS FOR A PRESUMPTION OF HARM WHEN PLATFORMS SELF-PREFERENCE.

Facebook's integration of Instagram and Google's release of Google Photos increased consumer demand for photo sharing apps as a whole, not just those products. Video games released by Sony, Nintendo and Microsoft for their consoles expanded the install base of those consoles, increasing demand for third party products, as well.

PLATFORM OPENNESS COMES AT THE COST OF REDUCED REVENUE FOR THE PLATFORM OWNER AND LESS CHANCE TOO CURATE THE PLATFORM TO USERS' BENEFIT.

Platforms that are more tightly controlled can be regulated by the platform owner to avoid some of the risks present in more open platforms. Apple's App Store, for example, is a relatively closed and curated platform, which gives users assurance that apps will meet a certain standard of security and trustworthiness.

PLATFORMS OFTEN REQUIRE SOME SELF-PREFERENCING IN ORDER TO MAKE INVESTMENT PROFITABLE.

Google's Android operating system, for example, makes very little money for Google directly, and its predominantly open design even facilitates its use by competitors. But Google makes money from people's use of products like Google Search that are pre-installed in Android, and that 'self-preferencing' is what makes it profitable for Google to invest in Android in the first place.

PLATFORMS MUST STRIKE A BALANCE WITH THIRD PARTY PROVIDERS TO SUCCEED.

Like most other large retailers, Amazon produces its own private label products. But it also has to be careful not to smother the profits that third-party sellers can make on its platform, or they will leave the platform altogether. This is also true on app stores, where Apple and Google have to strike a balance between promoting their own products and ensuring that there is a healthy amount of demand for third party apps, or risk losing the third party developers altogether.

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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