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Overview

• Context: Recent Google investigations in EU and US

• Almunia “Dominance on the internet is difficult to establish [...] Even the basic concepts such as the definition of a market can become quite tricky in these markets.”

• Market definition and assessment of market power need to account for the particularities of these markets, known as two-sided markets

• Facebook and Google: possible competitors?
Two-sided markets: key concepts

- Indirect network effect & positive feedback between the user groups.

- Price-cost margin on one side also depends on the elasticity of demand & price-cost margin on the other side.

- Role of the intermediary/platform: internalise externalities, reduce transaction costs: Matchmaking (nightclub), Building audience (advertiser based platforms).

- Some fallacies of applying one-sided logic to Two-sided markets.
Google & Facebook, examples of two-sided markets.

Indirect network effects
Google & Facebook, examples of two-sided markets.
Assessment of market power

- Market definition
  - Issues of market definition on each side taken separately: 1) users and 2) advertisers.
  - Market definition of the platform as a whole

- Assessment of market power
  - Barriers to entry
  - Switching costs
Market definition issues: user's side

• **Online search**
  – Google, general search engine
  – Different from 'vertical search engine' and from integrated search tool.
  – No 'offline' equivalent.

• **Social-networking**
  – Facebook, 'general' social-networking website.
  – Different from 'vertical' social-networking
  – No offline equivalent.'
Market definition issues: advertiser's side

- Offline and Online advertising in the same market?  
  *Do offline and online advertising constrain each other's pricing?*
  - Empirical studies (Goldfard & Tucker): probably YES.
  - European Commission: NO

- Search – advertising v. non-search advertising in the same market?
  - European Commission: probably YES
Market definition for the platform as a whole

• Avoid too formalistic approach and focus on competitive constraints on each side of the platform

Possible relevant markets:
• Online search/social-networking: NO
• Online advertising: probably not as it ignores the user's side

• Monetization of general users information (e.g. identity, interest, purchase aims..) to advertisers: probably? ..but not in the near future.
• D. Evans: « market for attention »
Assessment of market power: contestability.

- **Barriers to entry**
  - Indirect network effects more than cost of technology?
  - Dynamic rather than static competition: entry over time. eg. MySpace and Facebook.

- **Switching cost**
  - Multihoming and 'competition one click away'
  - User's loyalty to Google, difficulty to close one FB's account.
  - Advertisers: few incentives to switch to smaller platform?
Conclusion

- Need for a two-sided market approach to market power in online search and social-networking industries

- Facebook and Google? 1 or 2 markets?

- D. Evans: « The Attention Market is a great place to make a fortune but to lose it as well.»