

Interoperability in Digital Markets: Boon or Bane for Market Contestability?

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Discussion

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The research question

- One key goal of the DMA is the promotion of **contestability** in digital markets
- Among the provisions that are supported is the **interoperability** (IO) among platforms and ecosystems
- Is IO **always desirable**?
- More specifically, when there is an **alternative** way to reach other platforms' customers by **multi-homing** (MH), what is the impact of IO on MH and market contestability?
- A rich and non-univocal set of results

The set-up

- Infinite horizon game, with overlapping **cohorts** of customers living 2 periods
- **Customers** in the first period choose to join one (single-homing – **SH**) or both (**MH**) platforms, becoming captive to their choice in the second period
- Strong **network effects heterogeneous** across consumers
- The entrant (E) offers a **higher quality** product than the incumbent (I)
- I has initially a **larger installed base** of clients.
- MH is **costly**
- IO is **partial** (access to a quality lower than that of the accessed platform)

Results

- Customers that value more the network effects **choose MH** if E's quality sufficiently higher than I's
- **Trade-off:** MH, at a **cost**, allows access to a network at the **platform quality**, IO, at **no cost**, gives access to the platform network at a **lower quality**.
- **Effects of improved IO:**
 - **Competitive:** reduces importance of network effects, quality matters more, E can win the market more easily
 - **Anti-competitive:** improved IO reduces incentives to MH
- Outcomes depending on **degree of IO** and **quality** of the entrant's platform:
 - **I market tipping** (all new customers SH on I)
 - **I partial market tipping** (all SH customers choose I, but some customers MH)
 - **E market tipping** (all new customers SH on E): market contestable, efficient outcome.

Comments

- My favourite narrative:
 - **Network effects and no IO:** substantial (unfeasible) quality advantage of E to contest I, entrenchment and **no contestability**
 - **Network effects and full IO:** quality is all that matters, E tips, **efficient**
 - **Network effects and partial IO:** lower quality advantage to contest I dominance (partially protected)
 - **Network effects and costly MH:** a chance for E to enter and expand
 - **Long run effects:** even when in the short run I tips the market, if there is MH there is room for E to tip in the long run.
 - IO imperfect substitute of MH: **IO displaces MH**
 - **Counterveiling effect:** when E close to tip, entering IO may reduce MH and maintain I's dominance.

Extensions

- Interesting analysis, focus on **customers' choice**
- **Comparative statics** on degree of IO and quality of the entrant
- Why not on degree of IO and cost of MH?
- **No room for firms' decisions** (quality, pricing,..)
- Enter firms strategic decisions: **endogenous quality by the entrant.**
- How **MH and IO** affect the quality chosen by the entrant?