



VOLUME 3 | NUMBER 1 | SPRING 2007

Competition Policy International

Introduction to the Symposium

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It is our pleasure to introduce this special issue of *Competition Policy International*, dedicated to the Two-Sided Markets Symposia organized in May 2006 at University College London and June 2006 at MIT in Cambridge, Massachusetts. The contributions presented in this volume are a good illustration of the incredible richness and depth of the challenges posed by multi-sided industries. Although some convergence can be acknowledged, there is still some debate among economists, lawyers, and regulators about several important issues. As a trivial illustration, several contributors to this special issue criticize the terminology itself: Evans and Schmalensee suggest that the denomination “two-sided markets” is misleading because the word “market” is not used in the antitrust sense and, of course, many platforms have more than two sides. The multi-sided platforms (or MSPs) nomenclature they and others propose is likely to become the new standard.

The contributions presented in this symposium show that the paradigm of MSPs is applicable to a growing number of industries. A first reason is that new (multi-sided) business models sometimes become successful in formerly one-sided industries. Professor Andrei Hagiu of Harvard Business School has pointed out that Japanese convenience store Lawson and the railway commuter card Suica entered new markets by going from one-sided to two-sided businesses. A second reason is that many existing two-sided platforms are expanding into other two-sided industries. For example, latest generation videogame consoles (e.g., PS2, Xbox, GameCube) offer DVD playing, Internet browsing, and computer capabilities. They have been termed the “Trojan horses” of the digital homes. Similarly, Brito and Pereira analyze how the development of mobile virtual network operators is bound to reduce considerably the costs of entry in the mobile telephone industry.

Another reason for the wider applicability of the MSP model is that it is now well-accepted that traditional network industries like telecommunications should, in fact, be viewed as two-sided. Even if, *ex ante*, two distinct sides cannot always be identified (in the sense that most people use their telephones both to call and to receive calls), any given call is initiated by a caller and that the receiver's utility is influenced (positively or negatively) by the call. Thus the "usage externality" model that we developed for payment cards also applies to telecommunications.¹ Even in mature networks where membership is almost universal (for example, almost everybody now has a debit card) the structure of usage pricing matters. This becomes particularly important in the context of expanding MSPs, which are going to lead to generalized multi-homing. For example, more and more people will have several devices that can provide payment services in their pockets. Similarly, more and more homes will be equipped with multiple devices allowing the access to music or movies through the Internet. In such a context, it is important to give the right price signal to the party that is in the driver's seat (i.e., who chooses which device to use). This shows clearly that relative prices matter.

Waverman gives an excellent illustration of the two-sidedness of the mobile telephone industry by showing that the different developments of this industry in Europe and in the United States can be explained by the use of different price structures. For historical reasons, European mobile operators essentially used the caller pays model while the United States, from the start, adopted a more balanced model where caller and receiver share the costs of each call. More generally, skewed pricing (that is, when one side pays most or all of the costs) is a fascinating and recurrent theme in two sided industries. As discussed by Bolt, theoretical models predict that skewed pricing is more likely to be the norm than the exception for MSPs. Surprisingly, skewed pricing has sometimes been used by competition authorities in completely opposed ways. In the case of payment cards, for example, skewed pricing has sometimes been viewed as evidence that dominant platforms distort the price structure. This incorrect view (small platforms adopt price structures that are more skewed than larger ones) results from insufficient attention paid to efficiency considerations related with usage externalities. By contrast, Wotton shows that media markets have sometimes been wrongly classified as one-sided because, in these industries, the bulk of revenues are often extracted from one side, the advertisers, only. This fails to recognize that absent readers (or viewers) to the newspaper (or TV channel), no advertiser would ever pay anything for access.

In any case, the views of competition authorities are changing rapidly. Initially, while acknowledging the inadequacy of the traditional antitrust doctrine to

¹ See J.-C. Rochet & J. Tirole, *Cooperation among Competitors: The Economics of Payment Card Associations*, 33 *RAND J. ECON* 549-70 (2002) and J.-C. Rochet & J. Tirole, *Platform Competition in Two-Sided Markets*, 1 *J. EUR. ECON. ASS'N* 990-1029 (2003).

MSPs, they also criticized economists for not offering applicable and empirically tested alternative models. This has now changed, thanks in particular to the empirical work of Rysman and collaborators which is reviewed in his contribution to this volume. Rysman recalls how he was able to establish empirically the reality of indirect network externalities in several industries (such as yellow pages directories and payment cards). Moreover, this empirical work has put forward a fundamental distinction between potential and effective multi-homing which might reveal itself to be of crucial importance in the assessment of inter-platform competition. Competition authorities now put emphasis on the possibilities to “enrich” the traditional antitrust analysis, to use the title of the contribution to this volume by Park and Rooney. Fletcher suggests for example that the traditional predation test could be adapted to MSPs by using the notion of “opportunity cost”. Similarly, Hesse argues that the U.S. Department of Justice found a way to adapt the traditional SSNIP test to the payment card industry to define the relevant product market of PIN-debit network services in a recent merger case. These arguments are well-taken for one category of MSPs, that Evans and Schmalensee call the “transaction systems”. These are the industries that can be described by the “usage externality model”, where the notions of transaction volume and total transaction price can be identified. Therefore, the SSNIP test and the predation test can easily be adapted (with two-sidedness remaining important for analyzing price structure). However other MSPs, like advertised supported media, do not fit within this category, since there is no natural notion of volume or total price. This calls for further research by economists.

A particularly interesting case is the real-estate industry discussed by Brown and Yingling. They argue that real estate agents perform two distinct functions: searching for clients and facilitating transactions (close to what Evans and Schmalensee call “building audiences”). In the absence of the first function, the restrictive practices that U.S. realtors have adopted in their cooperative management of the multiple listings platforms (in which they pool their information about their clients) could easily be viewed as anticompetitive. However, if the “building audiences” activities of realtors are taken into account, these restrictive practices might appear as a necessary ingredient for providing realtors with appropriate incentives to attract customers. Here again, further research is needed.

This special symposium is a must read for anyone (including business executives, lawyers, and economists) wanting to better understand the fascinating world of “multi-sided platforms”. ▼