



A 2012 progress report on The Antitrust Analysis of Multi-Sided Platforms

David S. Evans
GlobalEcon/UChicago

&

Richard Schmalensee
GlobalEcon/MIT

Adapted from the Introduction and Conclusions to [The Antitrust Analysis of Multi-Sided Platforms](#) by David S. Evans and Richard Schmalensee, which is forthcoming in Roger Blair and Daniel Sokol, eds., Oxford Handbook on International Antitrust Economics, Oxford University Press.

Since the birth of the multi-sided platform literature, three noteworthy developments have taken place.

- First, there has emerged a large and rapidly expanding literature on multi-sided platforms in economics, antitrust, and strategic management. We have identified more than 150 articles on multi-sided platforms that have appeared in print or in working paper form since we last [surveyed](#) this area in 2007 for an ABA compendium on antitrust. It is still early in the development of this corner of industrial organization, and by no means have all important questions been answered.
- Second, competition authorities around the world have used the multi-sided platform framework to evaluate cases and reach decisions. The OECD [2009 survey](#) examined how various authorities were approaching cases involving platforms. The multi-sided platform literature is regularly cited in submissions in legal and investigative proceedings.
- Third, a number of large global multi-sided platforms have emerged as a result of ongoing revolutions involving the Internet, mobile devices, and information technology more broadly. These platforms have garnered considerable attention from antitrust authorities—for example the U.S. Federal Trade Commission’s and the European Commission’s investigations of Google—and private complainants—such as Qihoo 360’s lawsuit against Tencent in China and the Consumer Watchdog complaint against Facebook in the U.S.

Experienced antitrust practitioners know that no two businesses or markets are alike. They may wonder why one class of businesses – multi-sided platforms – deserves a chapter in a prestigious volume on antitrust. After all, grocery stores and copper mines also differ in fundamental ways. Indeed, early in the emergence of the economic literature on multi-sided platforms, some commentators argued that there was nothing new in the economics of multi-sided platforms and thus no reason for competition analysis to treat them differently from grocery stores or copper mines.

Few hold this view today. The economics literature that has developed since 2000 shows robustly that many results derived from models of one-sided businesses generally do not apply to multi-sided platforms that serve different interdependent customer groups. The clearest example of this involves price. When competition is imperfect, long-run equilibrium prices exceed marginal cost in traditional models but not necessarily in multi-sided platform models. Similarly, many of the analytical methods that are commonly used in antitrust matters, such as the SSNIP test or models for evaluating exclusionary abuses through tying, do not necessarily apply, without significant adaptation, to industries with multi-sided platforms. Nor do theories of exclusion, such as those involving exclusive dealing.

An additional reason for a separate focus on multi-sided platforms is that there are important similarities in the business models adopted by multi-sided platforms in different industries, and the literature has already identified some important sources for both those similarities and for differences of the sort that distinguish grocery stores from copper mines. In this sense, surveying multi-sided platforms is similar to considering franchises. The economics and the case law related to one kind of franchise or multi-sided platform are relevant to other kinds of franchises or multi-sided platforms, but in both cases it is important to pay attention to sources of differences between individual businesses and markets.

As we noted above, some early commentators argued that the economics of multi-sided platforms was old wine in new bottles: just a new label for industries with indirect network effects that economists had written about since the mid-1980s. Others claimed that these platforms did not raise any issues that required significant modification to traditional antitrust tools.¹ We have asserted above and will demonstrate below that the burgeoning economics literature on multi-sided platforms has shown that there are new wines here—particularly good, complex vintages in fact—and that one-sided tools often do not apply, at least not without substantial changes, to multi-sided platforms. Much of the work discussed below is making its way into the interactions among authorities, complainants, defendants, and courts. And there is more to come.

It would be malpractice to ignore the learning from multi-sided platform literature at this point in its development. Many economically significant industries, and particularly ones that are subject to considerable antitrust scrutiny, are based on multi-sided platforms. One can't simply take traditional economic models that do not consider interdependent demand among linked sides and assume that their

¹ See Plaintiffs' Pretrial Brief at 17-24, *United States v. First Data Corporation*, No. 03-2169 (D.D.C. December 10, 2003).

results apply to these platforms. We have learned that in many cases where careful analyses have been done that these results do not apply.

Correct economic analyses of multi-sided platforms are more complicated than correct analyses of single-sided firms. Moreover, the relevant theory, at least in its current stage of development, yields fewer clear predictions, and there is relatively little empirical work from which one can draw general lessons. Thus it does not now seem possible to come up with many guidelines that can be used to structure rule of reason inquiries, let alone sharp lines that would justify per se rules.

But the world and the economic literature are what they are, to paraphrase a successful professional football coach. Multi-sided platforms are more complicated than single-sided firms. Analysis or policy rules that ignore this complexity are prone to commit serious errors. Just because the economic literature on multi-sided platforms does not have simple extensions of existing single-sided tools does not provide a license to apply the wrong tools to multi-sided platform issues.

In the meantime, we can provide some bits of general guidance. Perhaps the most important is to consider all sides carefully and to understand the indirect network effects that link them. Understanding that newspapers are two-sided platforms does not make analysis of them simple. But it does serve to structure the analysis in sound and sensible ways. Understanding that OpenTable, for example, is a two-sided platform leads the way to understanding how giving away services to consumers could be profit maximizing, not predatory. Recognizing that there are multiple customer groups with interlinked demand may help competition policy analysis identify anticompetitive strategies and identify possible efficiencies that would not be apparent from applying a traditional analysis. Finally, recognizing these multiple customer groups is critical for ensuring that antitrust enforcement does not have the unintended consequence of reducing consumer welfare by causing more harm on one or more sides of a platform than it provides benefit on another side.