



With Massimo Motta

Thank you, Professor Motta, for granting this interview to CPI.

1. How can economics best help inform digital platform market definition when users do not pay obvious prices?¹

It is true that in markets where users do not pay a price (at least, explicitly) we cannot make use of such information as, say, cross-price elasticities and price correlations, and more generally an immediate application of the SSNIP test may not be possible: how can you ask whether a 5-10 percent increase of a hypothetical monopolist would be profitable, if the price is zero to start with? Nonetheless, one may ask similar questions. For instance, would a significant increase of the space occupied by (or the time we have to devote to watch) publicity in a website lead a small or large proportion of users to leave? And one may get a good feeling of possible competitive constraints by other products by investigating how users would behave if the product at issue were not available to them any longer – the kind of questions that customer surveys routinely ask when investigating market definitions in more standard industries.

In some digital markets there is not only the difficulty that users do not pay prices – at least, “traditional” prices – on one side of the market (but recall that there typically is another side of the market where merchants and advertisers do pay a price, and hence the usual tools can be applied) but also that the market is in continuous evolution, with new services and new technologies being developed.

For instance, in the *Facebook/Whatsapp* merger, the European Commission had to define the relevant markets when the services at issue were changing very fast. In particular, they had to understand the degree of substitutability between communication apps (such as Whatsapp) with telephone services (text messages, phone calls) on one side, and with social networking services on the other. To do so, they engaged in a detailed analysis of the services being offered, of the costs (if any) that customers had to incur in using those services, and the type of “experience” that users would have. All of this analysis was carried out at a qualitative level, and it is difficult to see how one could apply the SSNIP test in a direct way there, since Whatsapp (and most communication apps) at the time were neither charging prices nor using advertising.

However, sometimes there might be unexpected events that may help an authority make some more quantitative assessments of the substitutability among products. For instance, one day WhatsApp had a widespread four-hour service unexpected outage, and what users did in such circumstances may turn out to give hints at how they look at different products. In that particular case, the European Commission found that in the following 24 hours, competing communications apps (such as Telegram and LINE) gained millions of new users, information which was used to suggest low switching costs for users and low entry barriers. But had the data been readily available, the EC might have looked at how during those four hours users switched – if at all – also to traditional telephone services or to communication through social networks, to obtain some quantification of the substitutability between communication apps and alternative services. The message is that one can try to exploit exogenous events like the one which occurred to Whatsapp to identify to what extent customers switch to other services, and which ones...

¹ Thank you to Elisa Mariscal and John M. Newman for contributing questions to CPI.

2. Should competition authorities think differently about transaction platforms (like Visa) and non-transaction platforms like Google Search, Facebook, etc.? If so, how?

Probably I missed something, but I do not see any obvious difference between so-called transaction and non-transaction platforms. In both cases, they are two-sided markets, and I am not sure why a direct transaction between one side (e.g. the merchant) and the other (e.g. the card user) should make a difference. Perhaps in the case of transaction platforms it is easier and more transparent to see that there is a connection between the two sides, while in non-transaction platforms the connection is less obvious, but in both cases competition authorities should be equally aware of the interactions between the two sides when carrying out the economic analysis of the case.

Of course there are also lots of other differences between more traditional transaction platforms and other digital platforms, from the much more pervasive role of data to the fact that digital platforms may have the potential to expand to adjacent services, to the rapidity of technological changes, but this is another story...

3. Companies can use personal data in different ways. It can function as the medium of exchange, much like currency. But it can also be used as an input to improve product quality, making it unlike currency. How does that impact your thinking on data-centric digital markets?

To a large extent, I would regard data as an asset. And like most other assets it can be traded, and can also be used to improve quality of products and services. Of course the fact that data often include sensitive and personal information does matter, and has important privacy implications. Also, the sheer amount of data collected by digital platforms is new and allow firms to engage in practices which would have been unthinkable a few years ago. In most cases, availability of data will probably lead to better and more targeted products and services, in others they may lead to competition concerns.

But still, data and information have always been available and have raised competition issues in the past as well. Consider for instance the French Competition Authority which ordered energy giant GDF-Suez to grant access to data it collected while it was a public monopolist. Firms in traditional markets also collect and value data about customers, and this can give them an edge over rivals. And such information may also allow a company to engage in principle in personalized price discrimination: if you have a long history about your customers you may anticipate how they would react to price changes, for instance, or know if they are valuable enough to try to win them back when they are approached by a competitor. Data also were at the heart of the *Nielsen* case in Canada: Nielsen was dominant and had exclusive contracts for scanner data with all the major supermarkets in the country, thereby making it very hard for competitors to challenge its position.

And in the recent discussion about data portability, some digital platforms argue that they would have intellectual property rights on the data they have collected and organized. In some cases there may be some truth in this, but I also see a parallel with the well-known *IMS Health* case, where at issue there was that company's copyright on how to organize a database. And in my opinion IMS's "brick structure" success was due less to its investments and much more to the fact that since it was the first company to offer data, everyone in the industry wanted to organize data in the same way...

4. Are digital platform markets characterized by stable market power, Schumpeterian creative destruction, or something in between?

Like for any other market, I do not think one can generalize. In some cases it may be possible to contest the dominant platforms, and – who knows? – what seems today an unassailable position may one day vanish because of a new firm with some brilliant technology we cannot imagine right now. But in general I do not believe that "competition is just one click away." The suggestion that Google, Facebook, Amazon may be inherently fragile giants, and that any small start-up today may likely replace them tomorrow, is a myth. These giant platforms can count, among other things, on powerful network effects, a huge data endowment, and deep pockets that protect their leadership. (And sometimes not even huge rivals can do much against them, think of Microsoft's vain attempts to challenge Google search market dominance).

It also worries me that, even if there were challengers which may in principle overcome those disadvantages, dominant platforms might take actions aimed at making sure that this will not happen. I am thinking of all the takeovers that these companies have been making in recent years: as soon as some small companies come up with some good technology and business ideas that might conceivably develop into something bigger and potentially dangerous, it will be swallowed up. Think of Google buying Waze, or Facebook buying Instagram and Whatsapp, for instance, but there have been dozens of such takeovers in recent years. Sure enough, there often is a trade-off in such mergers, since they may result in synergies (a small firm with a great technology but poor financial assets and marketing resources may never find the route to market

without teaming up with a bigger firm), and may incentivize innovations (a start-up may expect monetization of its efforts come from being taken over). But still, it seems to me that antitrust authorities should become more daring and have a much closer look at some of these mergers. I am aware that so far, it is considered very hard to challenge a merger on the basis of potential competition, but the standards for using a potential competition theory of harm should be reconsidered if we do not want potential competitors to be eliminated before they can threaten dominant platforms. (And they could still be bought by larger companies, just not the one whose market they are more likely to threaten, as it was the case for Waze in digital maps and Instagram in social networks...)

And talking about actions which may thwart competitors, platforms may also engage in abusive conduct, and for this reason it is crucial that antitrust authorities keep vigilant. Let us also recall, for instance, that the European Commission has already fined Google in the *Shopping* case (Google appealed), and has been investigating its Android and AdSense practices.

5. Do you view a substantive difference in the approach to analyzing platforms from the U.S. and European perspective, or is this mostly driven by particular market circumstances and structure?

I think that the U.S. and European authorities somehow have a different attitude in general, not only with respect to digital platforms. Whether it is because of the impact of different “philosophical” backgrounds (the Chicago School in the U.S., the Ordo-liberal School in Europe), different objective market conditions (it may be more justified to rely on market forces in the U.S., where entry is easier and financial markets work better), or different institutional settings (the U.S. agencies need to convince the judges if they want to challenge a merger or stop a certain practice, and they may not go ahead with a case because they expect courts to be conservative), the European Commission has a more pro-active approach on abuse of dominance (or unilateral conduct) cases. As you know there have been many voices in the U.S. calling for a less “laissez-faire” approach (in particular, some think that lax antitrust policy may have contributed to growing market concentration), but for the time being the differences are there to stay.

6. Professor Motta, if there are any topics or issues that you would like to specifically discuss or address, you can do so here.

Just one last (probably obvious) thought: many potential issues related to digital platforms are not necessarily competition issues. So, when we worry about Google, Facebook & Co. having “too much” personal information about us or being potentially able to use their large datasets so as to bias political choices, we should not forget that it is mainly for data protection agencies or other regulators to intervene. And the same is true for other platforms such as Uber, AirBnB etc.: often they raise labor, fiscal, or local regulation issues which may be more for regulators or (local or national) governments than for competition authorities.

