

Brand reputation, cooperation and intra-platform competition - Comments

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Digital platforms - competition issues

- ▶ Digital platforms - Abuse of market power
- ▶ Digital platforms - Selective distribution systems
- ▶ Digital platforms - General issues

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- ▶ Digital platforms - Abuse of market power

"Let platforms keep their freedom to choose their business model absent a coherent ToH (no general Chinese wall)"

- ▶ Digital platforms - Selective distribution systems

- ▶ Digital platforms - General issues

Digital platforms - Competition issues

- ▶ Digital platforms - Abuse of market power

"Let platforms keep their freedom to choose their business model absent a coherent ToH (no general Chinese wall)"

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"Give brands more freedom to choose their distribution channel (Coty is good)"

- ▶ Digital platforms - General issues

Digital platforms - Abuse of market power?

Dual role as market place and retailer raises concerns:

- ▶ Platforms have information on transactions of other retailers
- ▶ Even more so if they provide services such as logistics
- ▶ May use this information to their own advantage, to the detriment of third party

This has come under scrutiny of EU competition commissioner, Margrethe Vestager

Parallel to Google Case?

- ▶ Lower ranking of competitors on search results considered abuse of dominant position

Digital platforms - Abuse of market power?

Can firms escape this by not using market place?

- ▶ Small firms: not really
Market place provides visibility, support, and trust
- ▶ Large firms: depends
on brand name and visibility via search algorithm

Long-run perspective

- ▶ Small firms may lose business to platforms' own retailers
- ▶ Brand manufacturers face potential backward integration of platforms into brands' business?

Digital platforms - Abuse of market power?

Potential solution: **Chinese walls**

Nitsche: "Let platforms keep their freedom to choose their business model absent a coherent theory of harm (no Chinese wall)"

Tradeoff

Type 1 error: Chinese wall should be used - but is not

- ▶ Potentially large harm because monopolization may be irreversible

Type 2 error: Chinese wall should not be used - but is

- ▶ Potentially small efficiency loss from not using data on third parties

Speaks in favor of Chinese walls (Open question: Implementation?)

Digital platforms - Abuse of market power?

Share information with third parties?

- ▶ Schweitzer et al rule out this option: would lead to cartelization orchestrated by competition authorities
- ▶ Most likely not very feasible

Digital platforms - Abuse of market power?

Proposals for early intervention

§ 20 GWB: prohibits impeding competitor in unfair manner if you have relative or superior market power.

- ▶ Currently applies only if affected firm is small
- ▶ Schweitzer et al.: Extend protection against abuse to large firms

Nitsche: Focus on protection of consumers and competition - not on protection of competitors

But what if there are no more new potential competitors once competitors are gone? Regulate remaining monopolist?

Digital platforms - Selective distribution systems

Manufacturers restrict selling via platforms (Coty, Asics...)

Expected effect of sales via online platforms:

- ▶ higher searchability
- ▶ lower margins for retailers
- ▶ more demand for products

So why should manufacturers want to restrict selling via platforms?

Digital platforms - Selective distribution systems

(Anti-competitive) incentives for manufacturers to use SDS

- ▶ Reduce intra-brand competition

Rationale

- ▶ When contracts between manufacturers and retailers are secret, retailers' willingness to pay for franchise is low. This effect is stronger the more intense intra-brand competition (e.g. McAfee and Schwartz 1994)
- ▶ Weaker intra-brand competition lowers also inter-brand competition. If some manufacturers use SDS, others follow. This increases profits for all (Piccolo and Reisinger, 2011)

Digital platforms - Selective distribution systems

(Pro-competitive) incentives for manufacturers to use SDS

- ▶ Ensure service and quality investment (sampling of products, product advice etc.)
- ▶ Retain brand reputation
- ▶ Channel coordination

Digital platforms - Selective distribution systems

Coty case

- ▶ stressed pro-competitive effects
- ▶ brand image of luxury good is decisive
- ▶ high price is selling point
- ▶ anticompetitive effect less relevant

Asics case

- ▶ pro-competitive effect of enhanced service investment judged to be low
- ▶ searchability as competition enhancing feature deemed very important

Digital platforms - Selective distribution systems

Nitsche: "Give brands more freedom to choose distribution channel (Coty is good)"

Are SDS the only way to guarantee investments?

- ▶ Increase wholesale price and pay retailer for retail service

How relevant are service investments?

- ▶ Product advice: provided by online customer reports
- ▶ Product sampling: possible online (with much larger selection)

Digital platforms - General questions

Innovation: Difficult to regulate a moving target

- ▶ General principle "don't restrict distribution channels of your retailers" not tied to specific channels

Per se rules versus effect based decisions (more economic approach)

- ▶ Case by case decision gets it right more often, but creates legal uncertainty for firms
- ▶ Don't overestimate the capacity of firms to predict economic consequences of their actions
- ▶ Efficiency gains by case by case decision have to be weighed against legal cost of court rulings