

E.CA Economics

Digital dominance - Is there anything we can do?

Brussels, 8 May 2015

E.CA Expert Forum

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Overview

Working assumption

- Platform dominance
- Possibly harm, possibly in a number of different areas
- For concreteness sake: focus on search dominance and leveraging into related services

What can we do? Overview of some ideas and issues

- Access to visibility/ mandatory alternatives
- Non-discrimination
- Transparency (and non margin squeeze control)
- Sharing of big data
- Vertical separation

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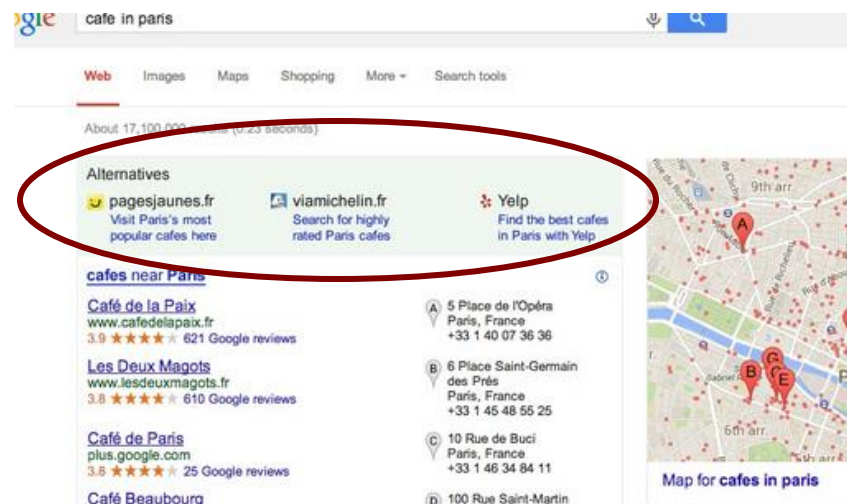
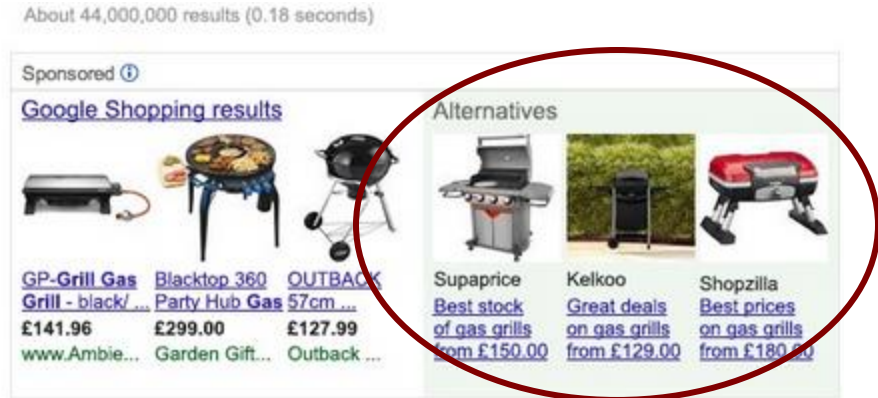
Access/ mandatory alternatives

Idea

- Organic search is a bottleneck to place vertical search
- Organic search must display competing vertical searches as prominently as own vertical search

Issues

- Intervention into website design
- Would new design benefit consumers?
- Probably hard to implement/monitor, given all search and design possibilities
- Innovation incentives (change of) hard to predict



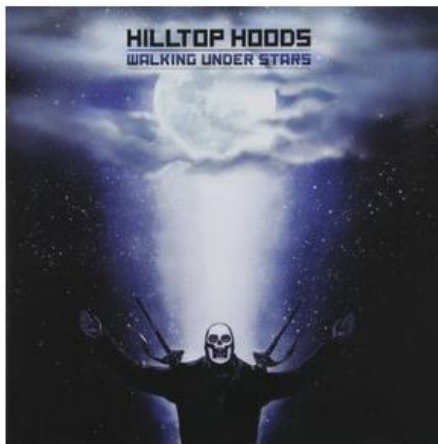
Source: European Commission, Memo/14/87, 5 February 2014

Non-discrimination (1) – example of an online retailer

Idea

- Give competing website access to prime space, s.t. similar conditions as own services
- No change in website design, no change of algorithms
- Appears less interventionist

Issues: What is discriminatory? ...



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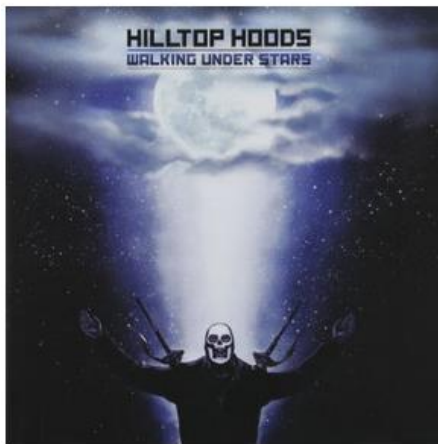
Source: amazon.co.uk, 4 May 2015

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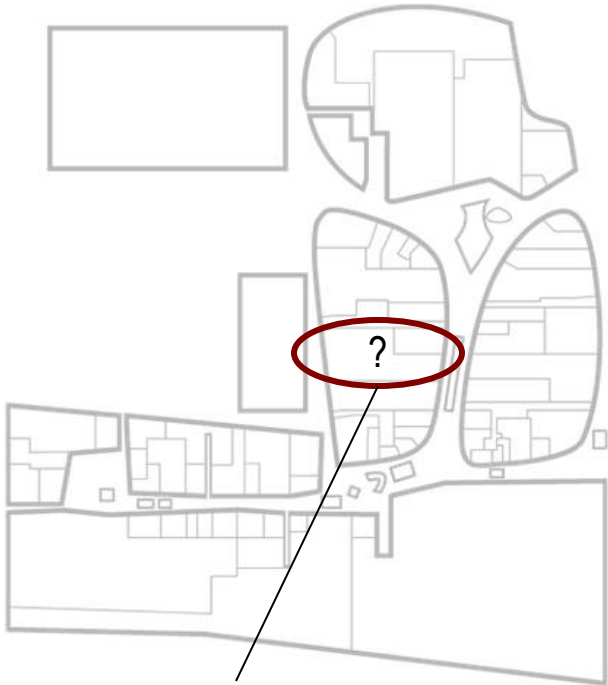
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Non-discrimination (2) – example of an offline retailer

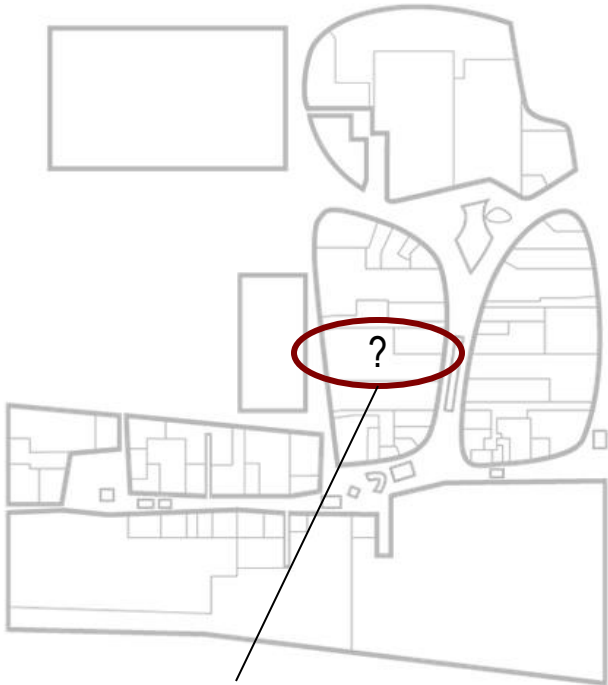
Retail chain controls (regionally) dominant shopping mall



Retail chain not to discriminate competing retailers with regard to prime location in mall

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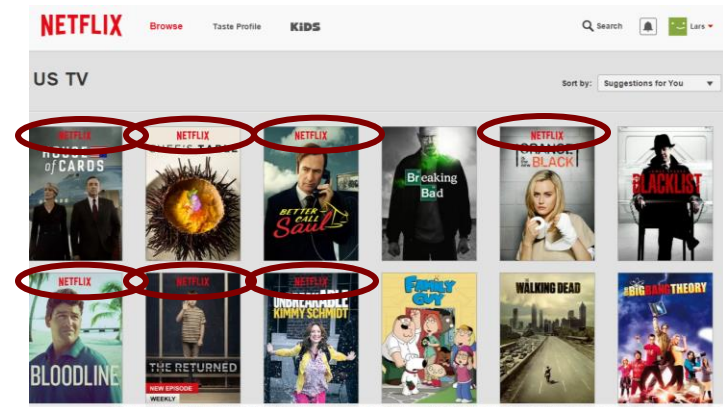
Issues (cont'd)

- Where does (harmful/ illegitimate) discrimination start?
Where does it end?
- Hard to control
 - Search algorithms can be changed in general, whilst impacting players differently
 - Platform with best understanding of algorithm
- Incentives for dominant firm
 - Website design
 - Investment in consumer side, provided that competitor advantage is envisaged?

Transparency

Idea

- Don't interfere with either website design, nor prioritisation
- But ensure that consumers can distinguish between organic results and other results
- Trust that consumers will make good decisions, at least, if they can distinguish



Issues

- 'Wrong' short-term decisions by consumers
- 'Wrong' long-term decisions by consumers: no account of lack of competition in the future

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Transparency and margin squeeze control

Idea

- Organic Search faces two options:
 - Promote own vertical search and generate advertising revenues from own vertical search site
 - Sell space to competing vertical search and earn advertising revenue
- Test whether promoted own vertical search would be profitable if it had to pay *but for* advertisement revenue
- Conceptually clearer threshold of abuse, coherent with profit sacrifice test
- Established framework

Issues

- Established framework, but with devil in the details
- Non-trivial computation of relevant own revenue and advertisement figures
- Particularly challenging dynamic perspective

Sharing of big data

Idea

- Big data is important asset of Internet giants
 - Consumers, preferences, reviews
 - Search precision and reliability
 - Re-enforcing mechanism
- Possibly main (structural) barrier to entry
- Obligation to share sufficient data (e.g. search correlations) to accommodate as efficient entrants

Issues

- Data and privacy protection
- Who may obtain access?
- Technically feasible?
- Sufficiently immediate impact (if entrant can't utilise data as efficiently as incumbent)?

Vertical separation

Idea

- “Separation of search facilities and other commercial activities”
 - All advertising activity?
 - Only in terms related (vertical search) services?
- Upon full separation: SearchCo has no incentive to benefit own CommerceCo
- Unbiased search results ~ better search results
- Relatively easy to monitor

Issues

- If separation for all advertising: Who will pay for search?
 - vertically related markets (telecoms): cost based access to network
 - two-sided markets: destruction of optimal pricing structure
- If separation only in terms of related (vertical search) services: blurry line between structured results and other activities
- Innovation and investment incentives

Summary and no conclusion

Two competing threats

- Intervention too little, too late
 - Dominant platforms to abuse market power, reinforcing and expanding their position
 - Later intervention at even higher cost and risk
- Intervention to the detriment of consumers
 - Quality of search and services
 - Innovation and investment

**No easy fix: (some) remedies may sound promising at the outset...
... but seem to involve severe risks**

- Specific case at hand
- As precedent

Hopefully (and likely) my fellow panellists will have stronger views

Thank you!

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