Dominating Ancillary Product Markets via Self-Preferencing

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Question & Analysis

- Questions:
  - How does self-preferencing by dominant gatekeepers in the ancillary product market affect market structure and social welfare?
  - Does current regulatory interventions mitigate the harm of self-preferencing
- Simple theoretical model
- Empirical evidence: weekly data on advertising revenue and advertiser counts for the top 50 most popular domains in each European Economic Area (EEA) country

Model

- A monopolist selling a primary product to sellers and buyers

  Base model:

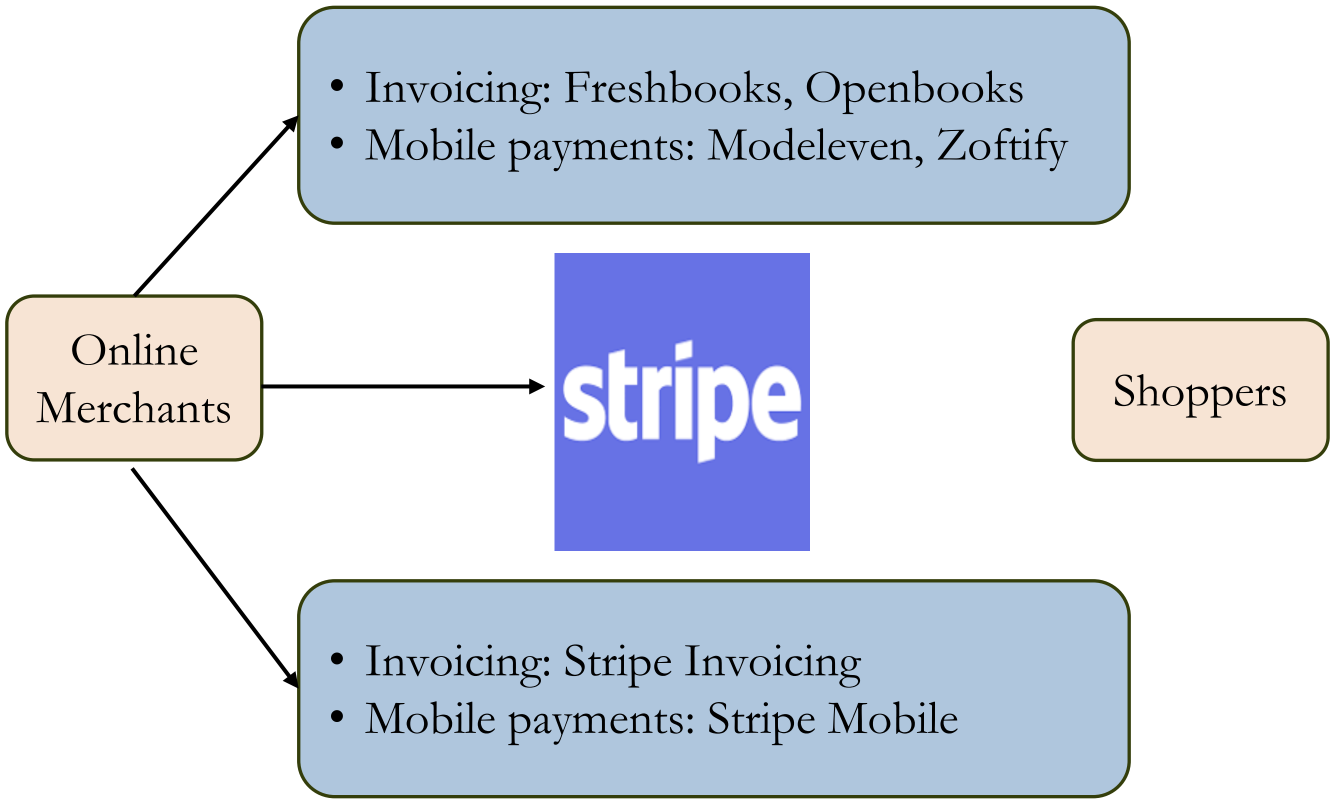
  – Zero revenues from buyers

  – No network effects

- The monopolist competes with other firms on selling an ancillary product to the sellers

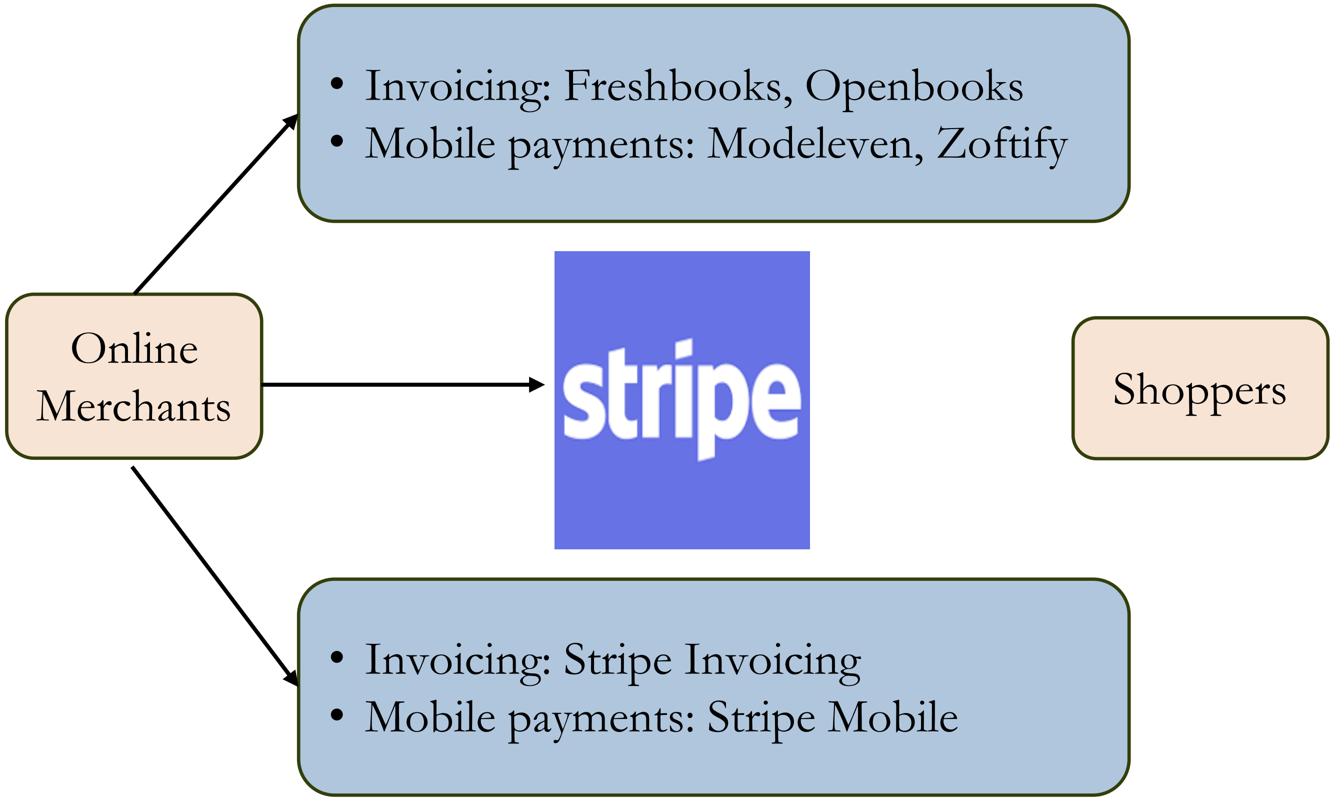
  – Ancillary products are vertically and horizontally differentiated

  – Quality of ancillary product affects buyers’ and sellers’ benefits



Model

- The tradeoffs the paper focuses on are different than in much of the literature on self-preferencing
  - Platform competes with the ancillary product firms not with its own sellers
  - Self preferencing does not change choice set
  - Rather, affects relative qualities



Key Finding

Market outcomes:

- Self-preferencing is not always profitable for the monopolist
  - Tradeoff: increases prices in the ancillary market which, in turn, negatively affects sellers' participation
- Still, sellers may benefit from self-preferencing
- Increases market concentration in ancillary markets.

Social welfare:

- Ambiguous effects depending on buyer and seller interactions.
- Negative long-term effects

Regulatory Implications:

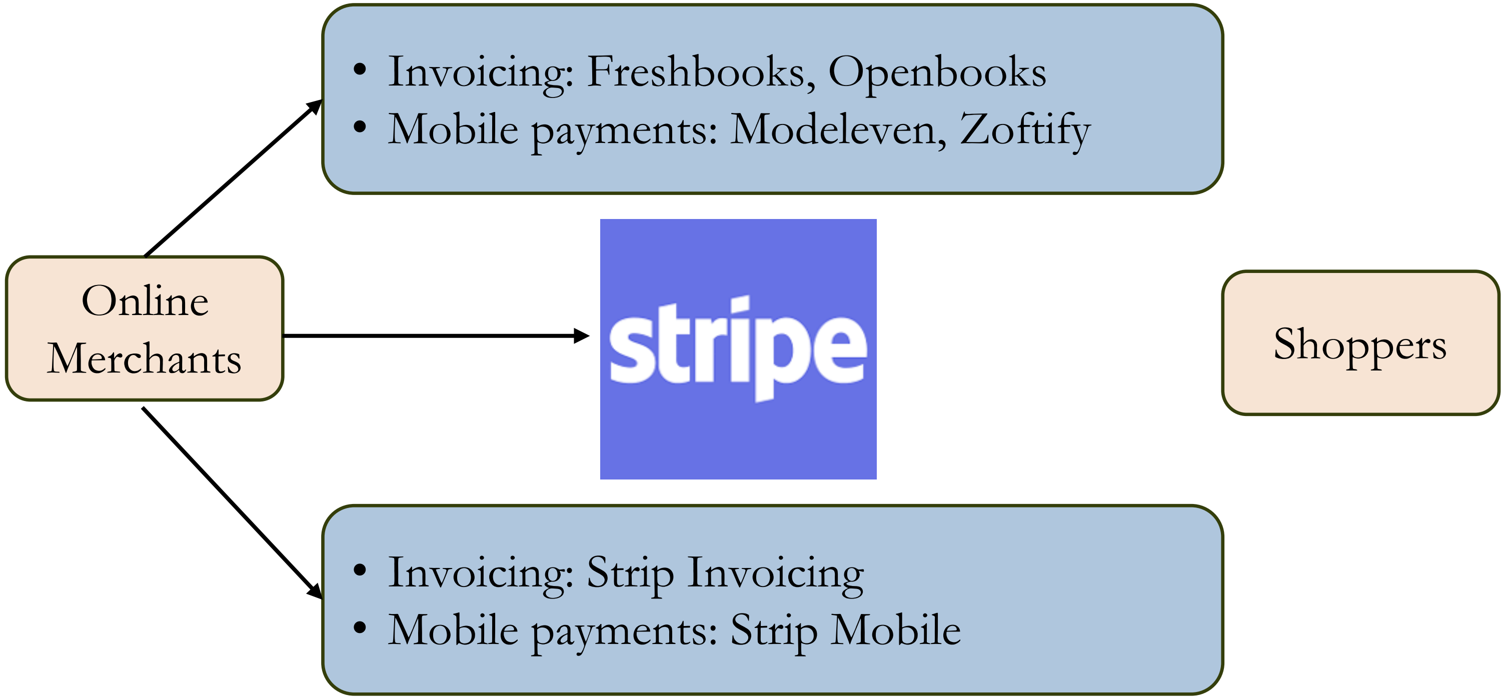
- Most current interventions correspond to matching the base quality of the gatekeeper's product with that of the competing ancillary products
- Divestment may increase or decrease welfare

Comments I

Structure of Adtech market is much more complex than the setup in the baseline model.

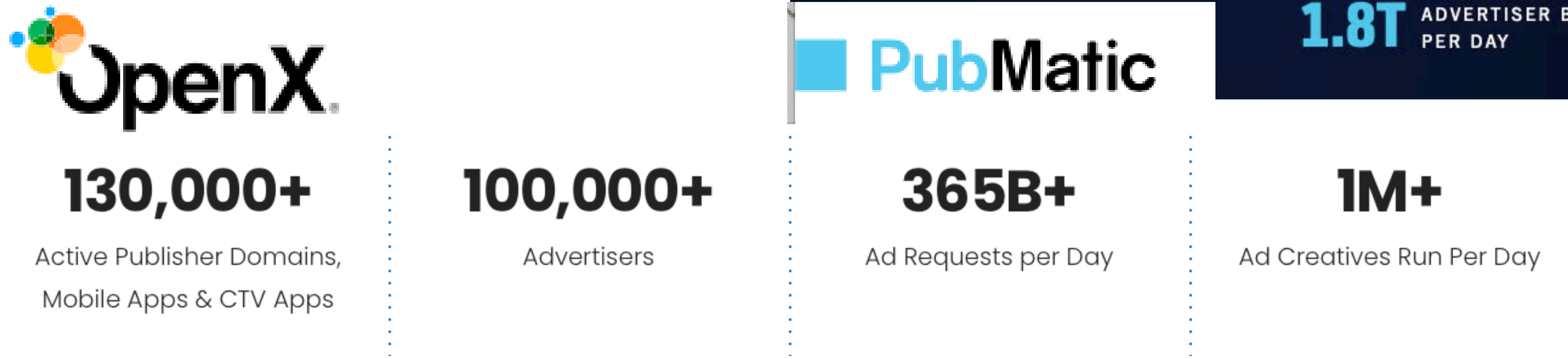
Consider going with another application that better fits the model and help readers focus on the main forces in the model; i.e.,:

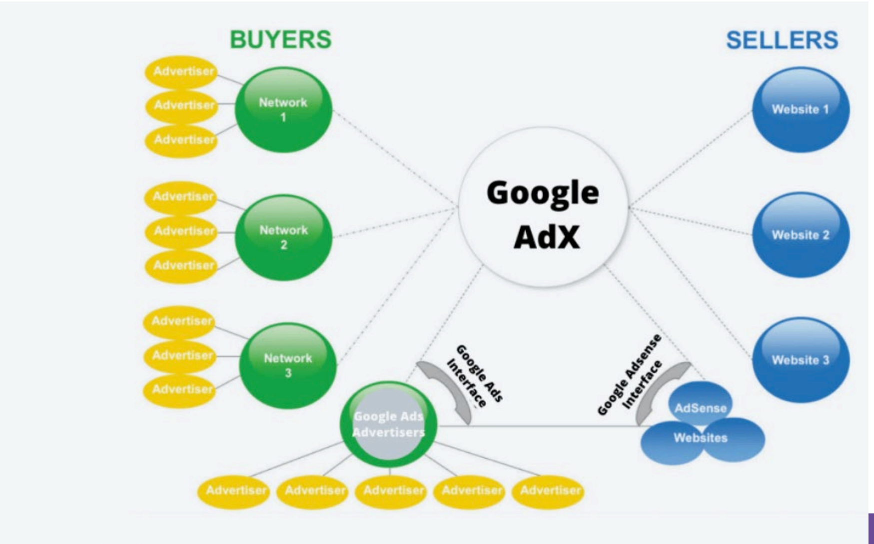
- No network effects
- No revenues from buyers
- No bidding



Alternatively:

Fit the model better to the Adtech market: 2-sided, network effects, buyers are active players





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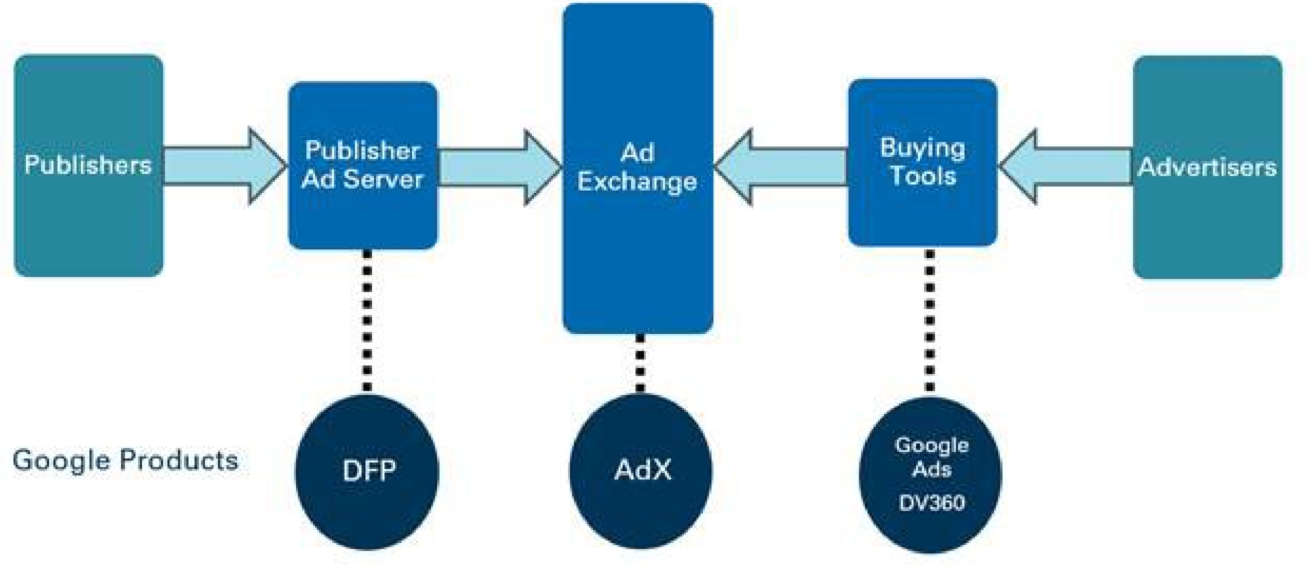

Comments I

- Reverse structure. Start with a base model with network effects (two-sided market) and possibly paying buyers. Show how the different features—network effects, paying, customers, etc.—affect the effects of self-preferencing
  - The paper analyzes so many different cases—possible regulations, extensions, appendixes.
  - Can then provide a table summarizing all the results and the effect of the different parameters

Comments II

- There is a positive benefit to competition—the gatekeeper and the other competitors have stronger incentive to invest in quality.
- The model, in a sense, always considers the difference in qualities. However, buyers enjoy absolute value and not just the difference.
- Mostly interesting if self-preferencing creates inefficient investment in quality.
  - Can result in over-investment or under-investment
- Platforms many times categorize 3rd party providers as “partners.” In this case, partners are preferenced over other 3rd party complementors.
  - Structure: divestment + preferencing
  - Would likely be an unintended outcome of divestment
  - Seems like the worst of all from surplus perspective

Comments III

- Talk about the assumption that the choice set is revealed only after participation by seller. Think about variety.

- Why is it the case that pre-regulation the number of advertisers in France is so much higher than in the control group?