Is it anticompetitive for platforms to limit disintermediation?

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Platform disintermediation

- Jullien et al (2021) Handbook of Industrial Organization

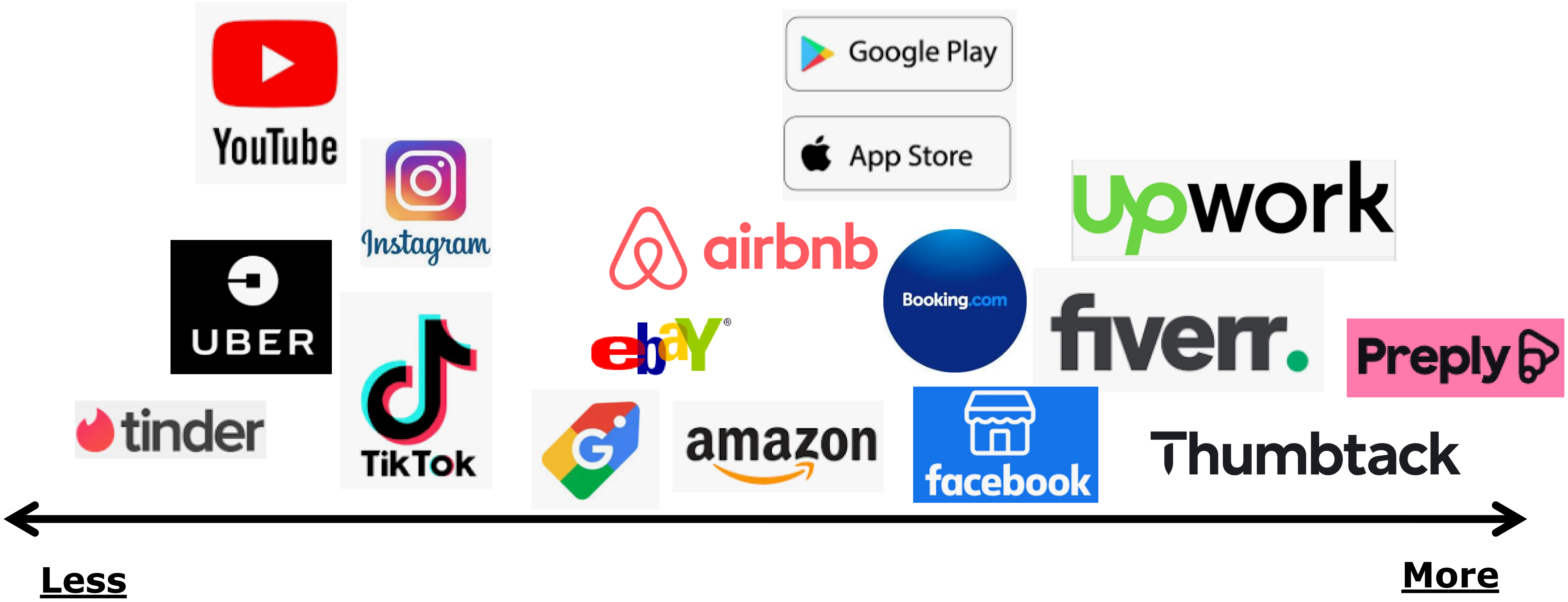
  "Platforms are firms, or services of firms, that connect market participants and allow them to interact or transact"

- Platform disintermediation arises because platforms want to extract revenue in part through fees for interactions/transactions

  - participants connect through platform, but given fees, some prefer to interact/transact directly

  - particularly pronounced if most of the value platform offers is for connecting participants, but optimal for platform to monetize through transaction fees

Potential for platform disintermediation



Actual platform disintermediation

Economics of platform disintermediation

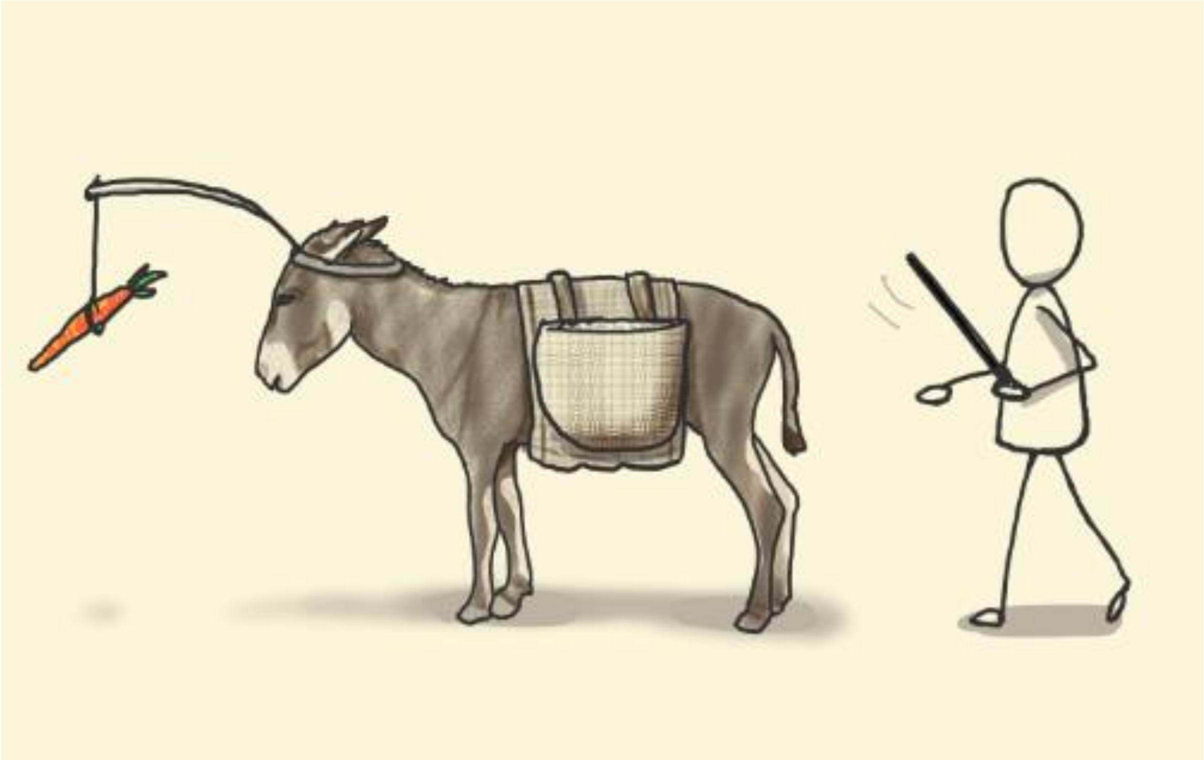
- Hagiu and Wright (2024) “Marketplace Leakage”
  - marketplace platform charges transaction fee to a seller
  - seller sets price on the platform and its direct channel
  - buyers go to platform to find seller, but face heterogeneous switching cost to use direct channel
  - the eqm fee induces a positive level of disintermediation

  - explores the tradeoffs of different platform strategies to limit disintermediation

Empirical literature

- Lin et al. (2024)
  - “Disintermediation and its mitigation in online two-sided platforms: Evidence from Airbnb”
- Gu (2024)
  - “Technology and disintermediation in online marketplaces”
- Xie and Zhu (2023)
  - “Platform leakage: Incentive conflicts in two-sided markets”
- Cai et al. (2023)
  - “Disintermediation governance and complementor innovation: An empirical look at Amazon.com”
- Karacaoglu et al. (2023)
  - “Disintermediation evidence from a cleaning platform”
- Gu and Zhu (2021)
  - “Trust and disintermediation: Evidence from an online freelance marketplace”
- Hunold et al. (2020)
  - “Rankings of online travel agents, channel pricing, and consumer protection”

Carrots vs sticks to limit disintermediation



Carrots – set appropriate fees

- Lower fees in line with benefits
  - percentage fees (with caps or tiered levels)
- Alternative instruments
  - referral fees
  - listing fees
  - sponsored listings
  - charge for downloads
  - sell ads on platform

Etsy Fee	Description
Listing fees	20 cents per listing. You are charged this fee when you create a new listing, or renew an existing one.
Transaction fees	6.5% of the total sale price, including shipping and taxes. You are charged this fee when an item is sold.
Payment processing fees	2.9% + 30 cents per transaction. You are charged this fee when an item is sold and the buyer pays using Etsy Payments or PayPal.

Carrots – invest in transaction benefits

Maximize value of keeping the transaction (or interaction) on the platform

- facilitate payment and/or delivery
- provide insurance/guarantee for the transaction
- escrow arrangement
- handle bookings, scheduling, appointment reminders
- handle refunds and dispute resolution
- provide proper online receipts, records, or reports
- allow users to provide feedback on other party if transact
- increase on-platform engagement through tools, analytics, integrations
- provide a mobile app for users to make the transaction easier

Examples: Amazon, Airbnb, Booking.com, …

Sticks

- Price-parity clauses
- Demote sellers that encourage disintermediation
- Limit “communication” between two sides

Price parity clauses (PPC)

Imposed on sellers on the platform

Wide-PPC: sellers must not sell for less through any other channel, including directly

Narrow-PPC: sellers must not sell for less directly but can discriminate across platforms

Sometimes referred to as MFNs (esp. North America)

Examples of PPCs

Hotel booking services (OTAs) like Booking and Expedia

Apple’s agency model and “MFN” for e-books

Amazon’s “Fair pricing policy” -> “anti-discounting tactics”

Global distribution systems (GDS) rules for airlines

Price comparison websites (especially in UK)

Grubhub, Uber Eats, Postmates, Deliveroo … on restaurants

Valve (Steam) for game developers on PCs

Meta for game developers

Meta's fine print for game developers

3. You may allow users to import your in-game virtual currency or items from your website or other platform that the user is connected to, but you must adhere to the following:
    1. You must offer the same price on Facebook that you offer to logged-in Facebook users on your own website or other platform app; and

    2. You may not incentivize logged-in Facebook users to make a purchase on your website or in an app on another platform by, for example, providing free or discounted goods or services that are not available to purchasers on Facebook.

16. But Amazon has done just that. It continues to use—and add—other anti-discounting tactics to discipline sellers who offer lower-priced goods elsewhere. The sanctions Amazon levies on sellers vary. For example, Amazon knocks these sellers out of the all-important "Buy Box," the display from which a shopper can "Add to Cart" or "Buy Now" an Amazon-selected offer for a product. Nearly 98% of Amazon sales are made through the Buy Box and, as Amazon internally recognizes, eliminating a seller from the Buy Box causes that seller's sales to "tank." Another form of punishment is to bury discounting sellers so far down in Amazon's search results that they become effectively invisible. Still another is to erase a product's price from public view, even if the offer is the best deal available on Amazon. For especially important sellers, Amazon keeps in place a targeted version of the contractual requirement it supposedly stopped using in 2019. If caught offering lower prices elsewhere online, these sellers face the ultimate threat: not just banishment from the Buy Box, but total exile from Amazon's Marketplace. As Amazon internally admits, these tactics have a "punitive aspect," and many sellers "live in constant fear" of them.

Offers to buy or sell outside of eBay policy

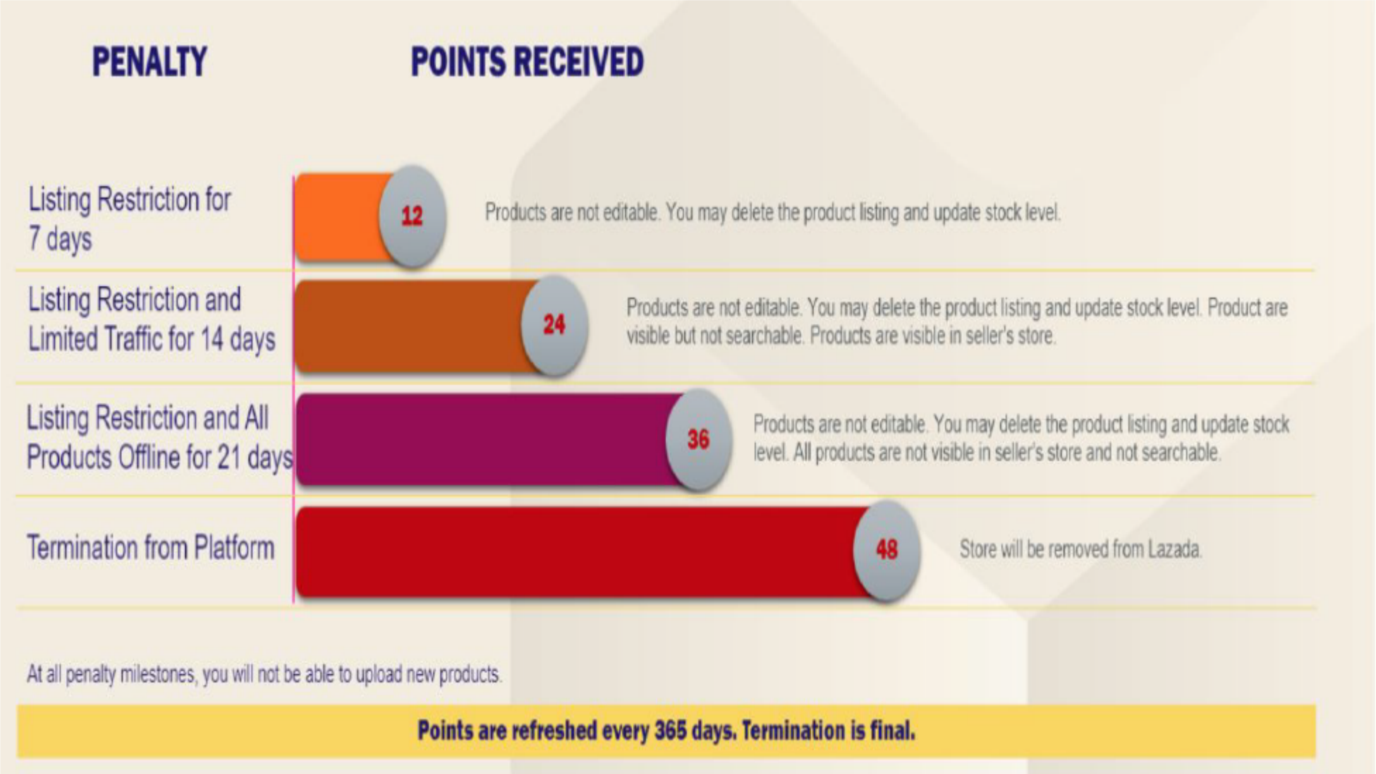
When a transaction that started out on eBay is completed outside of the eBay platform, the buyer and seller are no longer covered by eBay protection programs and the eBay Money Back Guarantee. As such, contacting another eBay member to discuss moving a purchase off eBay creates a risk of fraud, and is not permitted. Please see our full policy guidelines below for more details.

Buyers and sellers aren't allowed to share or request direct contact information prior to completing a sale. They also can't use information they've obtained on eBay to contact each other to buy or sell off eBay. Sellers who listed an item on eBay must pay all fees for the eBay services they've used, even if the sale is completed off eBay (such as cash on delivery, pay on pickup, or paid by check or money order).

If a seller or buyer asks you to complete a transaction outside of eBay, please contact us.

“Fair trading policy” on Lazada

Fair Trading Policy - Non-Compliance Points Chart	Possible Consequences
(1) Fraudulent Dealing	Up to 48 points
(2) Off Platform Transactions	Up to 48 points
(4) Anti-Competitive Behaviour	Up to 16 points per incident
(5) Self Promotion/Seller buy own products	Up to 16 points
(5) Voucher and Subsidies Abuse	Up to 16 points per incident
(6) Fulfilment Fraud	Up to 48 points per incident



“Off Platform Fraud” on Lazada

<table>
<tr><th>Off Platform Fraud – Seller Non-Compliance Points Chart</th><th>Possible Consequences</th></tr>
<tr><td>Sharing of contact information in PDP, IM and/or other Lazada UGC channels</td><td>Up to 2 points per incident</td></tr>
<tr><td>Asking the buyer an option to place the order on another platform (or offline store)</td><td rowspan="3">Up to 48 points depending on the severity of the violation

Please note that receiving 48 non-compliance points will result to account deactivation.</td></tr>
<tr><td>Asking the buyer that their order will be shipped item thru different courier outside Lazada</td></tr>
<tr><td>Asking the buyer to make payment directly to his bank account</td></tr>
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Competition cases

- Price parity clauses:
  - 2015/2021: German Federal Court of Justice ruling against Booking.com on narrow PPCs
  - 2020/2022: CAT’s rejection of CMA vs Compare the Market on wide PPCs
  - 2024: FTC (and 17 states) vs Amazon (for “especially important sellers”)
  - 2024: Class action case against Grubhub, Uber Eats, and Postmates in US
  - 2024: Class action case against Valve (Steam) in US

- Demoting sellers:
  - 2024: FTC (and 17 states) vs Amazon

- Limiting communication:
  - 2021/2023/2024: Epic vs. Apple on anti-steering in US
  - 2024: Epic vs. Google on anti-steering in US

Disintermediation is an old problem

Traditional manufacturer-retailer context

- Manufacturers impose exclusive territories or minimum price (RPM) or minimum advertised price (MAP) to ensure retailers have incentive to invest in "showrooms"

- Economic theory generally supports efficiency defense for such vertical restraints
  - Tesler (1960) and Mathewson and Winter (1984)

What’s different in these platform cases?

- The “distributor” imposes the restrictions on suppliers (not vice-versa)
  - suppliers are often the ones complaining about these restrictions
  - reflects “distributor” holds the bargaining power in platform case

- Analogy of PPC is retailer requiring its suppliers impose minimum RPM on all retailers that distribute their products (based on the price it charges)

- Economics is different, both theories of harm and discussion of efficiencies

Edelman & Wright, 2015
Boik & Corts, 2016
Johnson, 2017
Wang & Wright, 2020

Platform's demand is less responsive to its fees under PPCs

because price of alternatives must also be higher

Fees only constrained by seller participation constraint

constraint is weak if consumers rely on platform for discovery

Hard for new low-fee platform to enter

consumers are not attracted because prices aren’t lower

High fees lead to high prices on all channels

Theories of harm across different “sticks”

- PPCs
  - stop low-cost rival platform entering since can’t compete on price
  - limits price competition across channels

- Demoting sellers
  - similar effects to PPCs, but weaker (not all consumers rely on platform recommendations)

- Limiting communication
  - limits information about rival channels and so cross-channel competition
  - by limiting direct sharing of relevant information, may also reduce demand

Efficiency defenses for price parity clauses

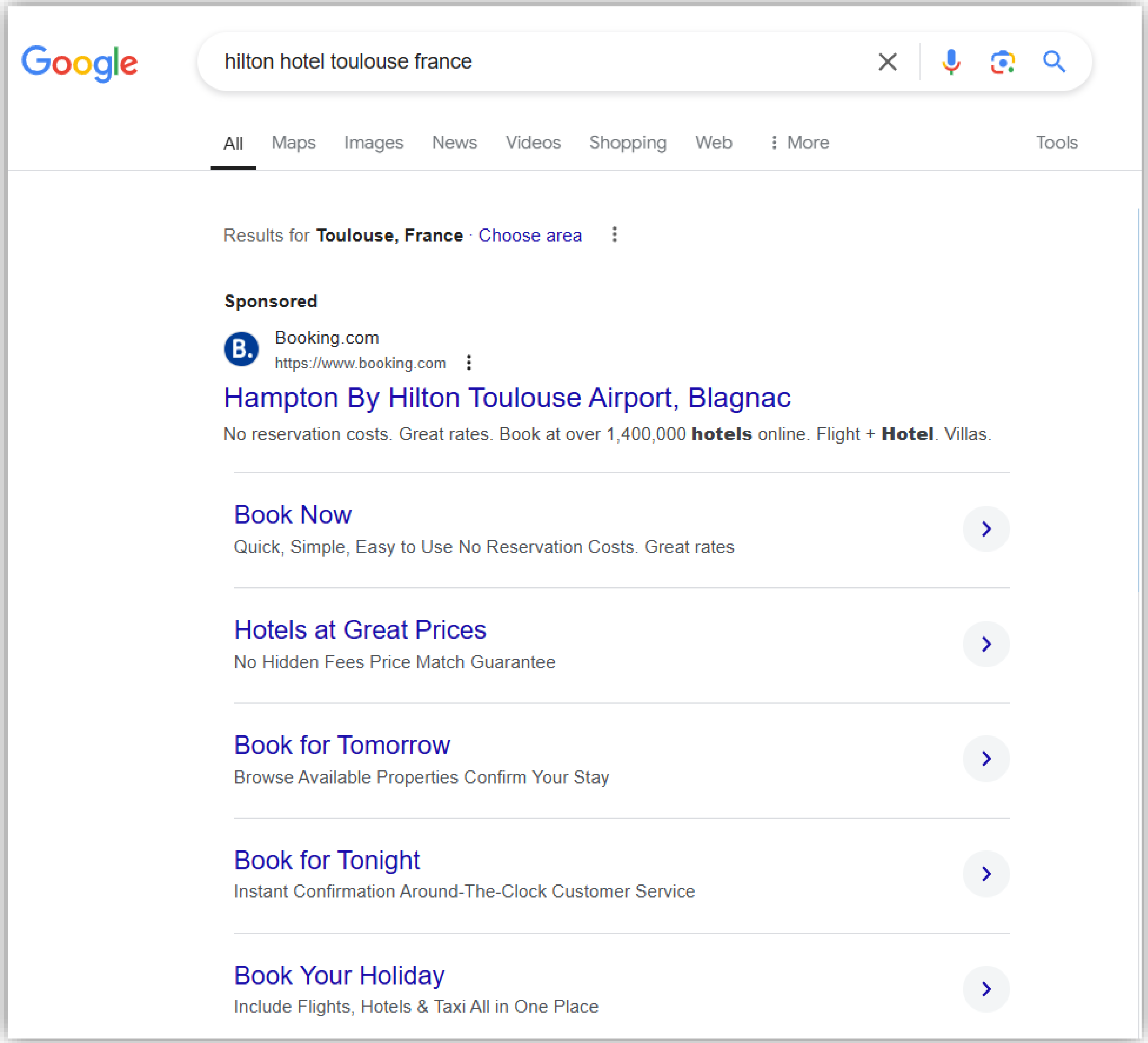
- Prevent free-riding on platform’s investment
- Allow consumers to save on search costs
- Avoid inefficient disintermediation
- Prevents platforms using other more distortionary ways to limit disintermediation

Free-riding defense not so clear cut

- Platform investment is in terms of search, advertising and transaction benefits

- Search and matching
  - free-riding usually not existential
  - Hagiu and Wright (2024) – equilibrium disintermediation
  - still want to provide high-quality search and matching
- Advertising
  - is platform advertising (which competes with suppliers' ads) an efficiency?

- Transaction benefits
  - Hagiu and Wright (2024) – maximum investment when switching is easy


Google
hilton hotel toulouse france
All
Maps
Images
News
Videos
Shopping
Web
More
Tools
Results for Toulouse, France · Choose area
Sponsored
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https://www.booking.com
Hampton By Hilton Toulouse Airport, Blagnac
No reservation costs. Great rates. Book at over 1,400,000 hotels online. Flight + Hotel. Villas.
Book Now
Quick, Simple, Easy to Use No Reservation Costs. Great rates
Hotels at Great Prices
No Hidden Fees Price Match Guarantee
Book for Tomorrow
Browse Available Properties Confirm Your Stay
Book for Tonight
Instant Confirmation Around-The-Clock Customer Service
Book Your Holiday
Include Flights, Hotels & Taxi All in One Place

Other efficiency defenses?

- Economizing on cross-channel search
  - efficiency seems to rest on anticompetitive effect
  - meta-search (AI agents) diminishes the value of this

- Avoiding inefficient disintermediation
  - uniform pricing across channels can be more efficient (Liu et al., 2021; Peitz and Sobolev, 2024)
  - are these settings empirically relevant?

- Avoiding inefficient platform circumvention
  - banning PPC leads platform to demote sellers (distorting recommendations)
  - arguably less distortionary still
  - rulings could come with platform circumvention provisions

Policy thoughts and takeaways

- Widespread use of sticks by platforms to limit disintermediation

- When platforms have substantial market power, can be anticompetitive

- PPCs are not the only stick being used

- Banning one type of stick may not be enough
  - may need to explicitly ban circumvention (Franck and Peitz, 2024)
  - banning PPC may suffice if meta-search available

- The theories of harm and efficiencies are different from earlier literature
  - for platforms, harms greater and efficiencies less obvious than in traditional settings

- AI-agents to the rescue?

Thank you

Questions?