

Understanding Online Platforms – Common Misunderstandings

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Market definition is more complicated and competition online is not always like for like

- Online markets challenge traditional antitrust analysis - online services are often free
- Competition in a multi-sided market may emerge not from one platform but across different types of platforms to attract users
- In multi-sided markets, use of market shares for market definition should be carried out very cautiously

Success may be ephemeral because entry barriers are low

- Online markets are constantly transforming
- Challengers may overtake incumbent firms through new ideas and technologies
 - Examples: Facebook, Snapchat, Tinder, WhatsApp, Instagram
- Data requirements of new competitors are far more modest and qualitatively different than more established markets

Users multi-home and have low switching costs

- In online markets switching costs are often low because of multi-homing
 - General search
 - Vertical search sites
 - Apps
 - Social networks

Need to analyze all sides of a market when examining a multi-sided market

- Direct network effects
- Indirect network effects
- Benefits of indirect network effects can only be achieved when multiple agents are coordinated

Takeaways

- Antitrust intervention in online markets requires great caution because of a number of factors:
 - proper market definition, accounting for possible low entry barriers, multi-homing and low switching costs, need for analysis of all sides of a market
- Mistaken antitrust intervention in such markets threatens innovation.
- Antitrust agencies should ensure that case specific facts and economic analysis align well with legal theories