

Discussion on

The Evaluation of the Effects of Price Parity Clauses

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RBB

- Wide MFN: Hotels cannot put lower prices on other OTAs than on Booking.com.
 - ⇒ Competition between OTA harmed
- Narrow MFN: Hotels cannot post lower prices on own websites than on Booking.com.
 - ⇒ Hotels risk cannibalizing direct sales
- Meta-search Sites (MSS)
 - Records cheapest price of each hotel on each OTA.
 - Compares contemporaneous prices
 - Before-after analysis



RBB

– Tests:

- Evidence of higher prices on hotel websites than on OTAs?
 - ⇒ Yes, 10-15% of searches
- Is there price differentiation under narrow MFN?
 - ⇒ Yes, 35-40% of searches with price on at least one OTA ≠ price Booking.com
- Price differentiation between OTAs lower under narrow MFNs compare to no MFNs.
 - ⇒ DIF in DIF analysis seems to suggest the opposite



Potential caveats

- Limited visibility of data specificities (RBB).
- Econometric specification does not adequately take into account factors that may influence hotels' decision to differentiate their prices on different OTAs (AC).
- Mixed results, effects not robust and limited in scope
- Participation in preferred program endogenous.
- Inability to distinguish price differentiation from product differentiation (BKartA and ECN working group).
 - even harder in a before-after analysis?
- Attempt to provide empirical evidence from the share of searches than exhibit price differentiation looks like a fishing expedition.
- Causality?

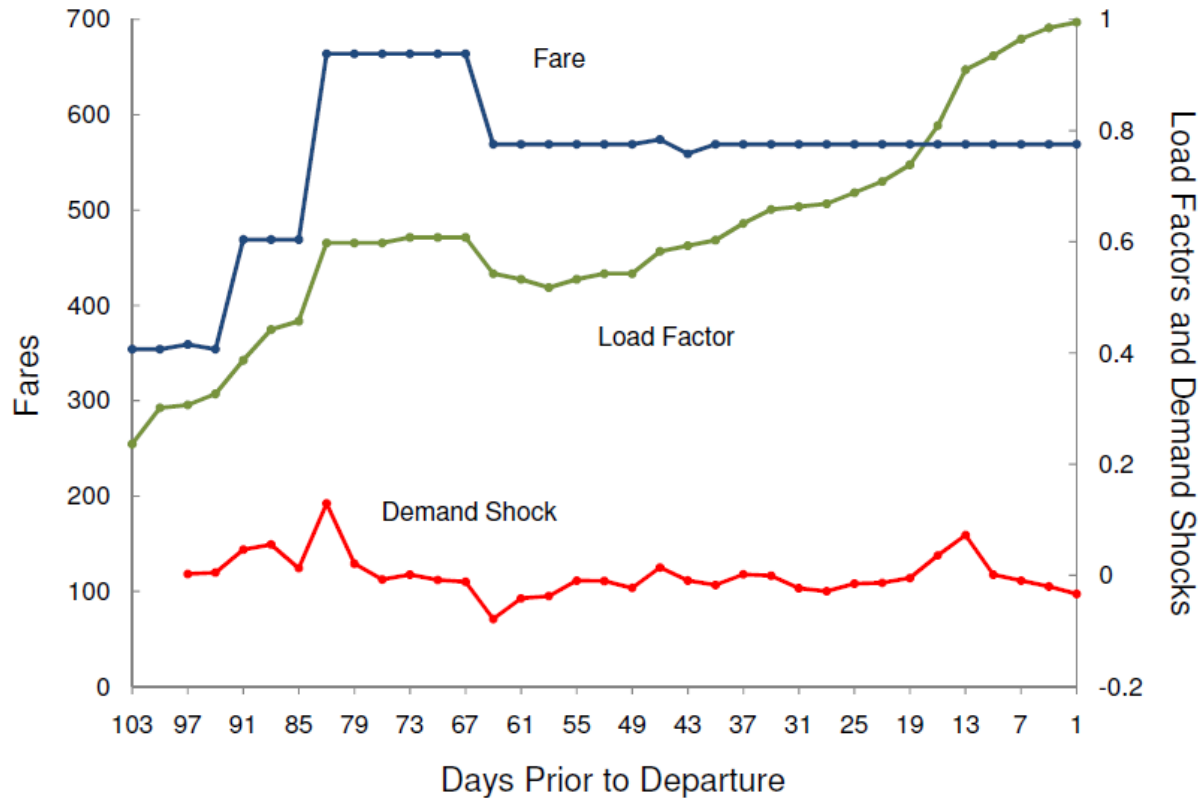


Yield management

- Static view: compare cheapest prices at any time period under different scenarios.
 - Demand shifts over time
 - Hotels have a specified number of rooms available and empty rooms are worthless.
 - To increase their revenues, hotels give customers incentives to book in advance.
 - Incentives are adjusted in response to the realized demand by opening and closing the various fare classes available at any given point in time.
 - Yield management is now used by all major airlines and major hotel chains (Gallego and van Ryzin, 1994).
- ⇒ Dynamic pricing.



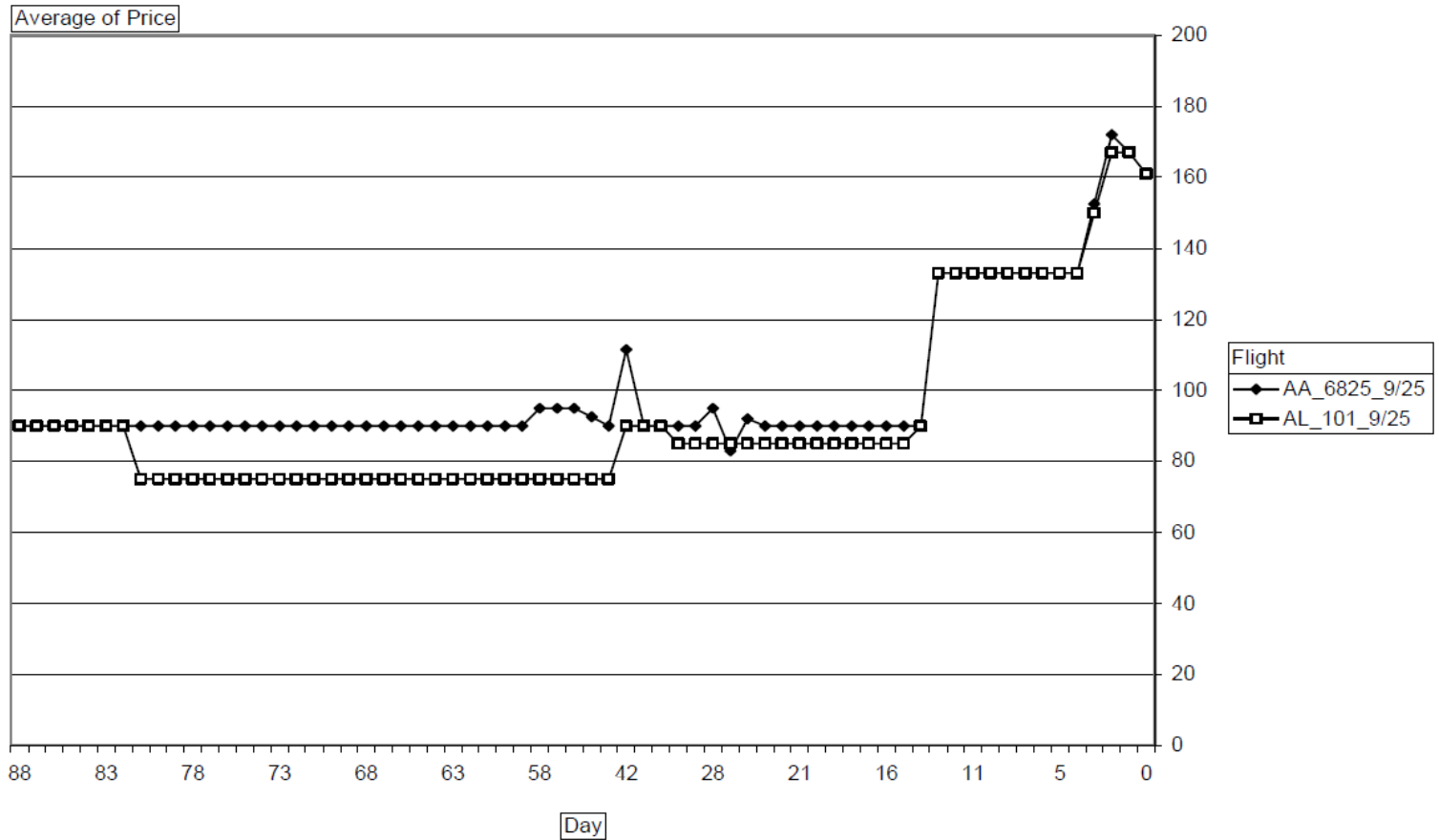
Yield management



Source: Escobari (2012)



Yield management



Source: Mc Afee and Te Velde (2006)



Global effect of price parity clauses

- Price competition is not the only issue.
- MFN clauses can help solve the free-riding problem.
 - They may increase total welfare by encouraging investment and making development safer for the OTAs.
- They may help reducing delays in transactions (Akman, 2015).
 - In developing projects, buyers may wait until the price goes down to purchase. The developer can promise the initial buyer that the price will not sink (otherwise a refund is paid).
- They help reducing transaction costs (Baker and Chevalier, 2013).
 - There is no need for negotiation when a MFN is in place.



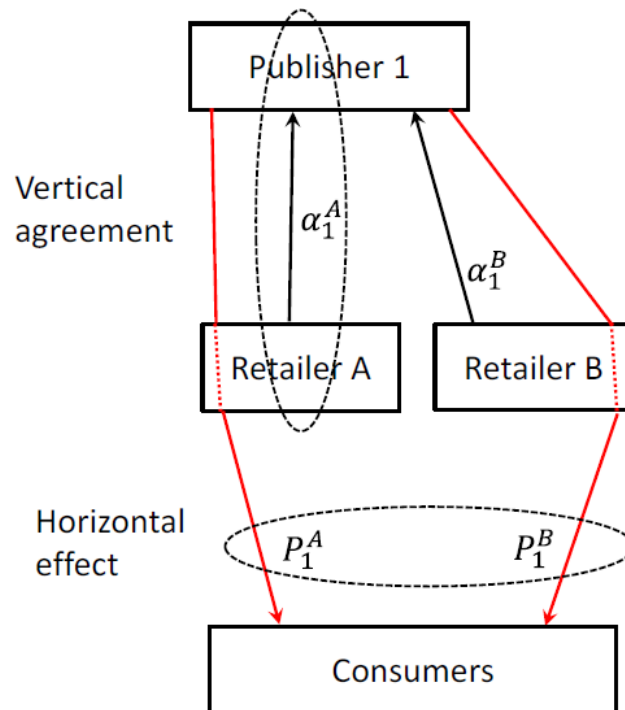
Global effect of price parity clauses

- Price parity clauses may lead to higher profits for platforms and suppliers, and increase consumer surplus (Johansen and Vergé, 2017).
 - A supplier charges the same price in all OTAs, which increases the supplier's average cost of distributing the product.
 - ⇒ Better to be active in only one platform.
 - ⇒ The supplier is able to reduce its costs and undercut its rivals.
 - Extremely profitable strategy if suppliers are close substitutes.
 - Narrow price parity clauses have the same impact as wide price parity clauses.
 - Results are valid if commissions are linear (which is a valid assumption in the case of online booking).



Examples of vertical agreements with horizontal effects

- Hviid (2015).
- Apple and five major book publishers agreed that the publishers would not sell their ebooks through Amazon.com at a lower price than through Apple's iBookstore.



Examples of vertical agreements with horizontal effects

- Price parity clauses relating to Amazon Marketplace: They prohibited firms selling through Amazon Marketplace from offering their products at a lower price through other internet marketplaces or through the producers' own websites.
- Narrow and wide restrictions on price setting in the relationship between private motor insurance providers and price-comparison-websites.
- In each one of these cases:
 - The retail platforms cannot compete on prices
 - The retailer has incentives to demand higher fees
 - Agreements limit entry/increase prices to consumers



Conclusion

- There is not a clear consensus on whether narrow or wide MFN clauses have impeded price differentiation across OTAs.
- However, collecting data through MSS is problematic as it may create a confusion between price and product differentiation.
- Focus on a limited number of products.
- Dynamic price patterns in a sector where yield management is particularly relevant.
- Whether price parity clauses imposed by intermediation platforms are pro or anticompetitive is ultimately an empirical question.
- Price competition may not be the only issue.
- Need for a more structural analysis.

