Some thoughts on the merger SeLoger/Logicimmo

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Preliminary remarks

- The merger was cleared (in phase II) without committments

- Both parties agree.

- Having read it, I am quite convinced by the analysis and the decision

- Hence, I have a very hard task as a third speaker.

- I will focus on a few issues

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Outline

- One vs two markets

- Market Power and market shares

- Diversion ratio

- Indirect network effects

Two Types of Two-Sided Platforms

1) Two-Sided Non-Transaction Platform:

There is no transaction between customers of the platform

e.g. newspapers, TV

2) Two-Sided Transaction Platform:

There is a transaction between customers of the platform and it is observable to the platform

e.g. payment cards, auction houses, online marketplaces

Two types of two-sided markets

Distinction above corresponds roughly to :

1) usage (+membership) model - Rochet &Tirole(2003),
   Caillaud & Jullien(2001,2003)

2)membership model - Armstrong(2006), Parker&Van
   Alstyne(2005)

Two Types of Two-Sided Platforms-I

Note that

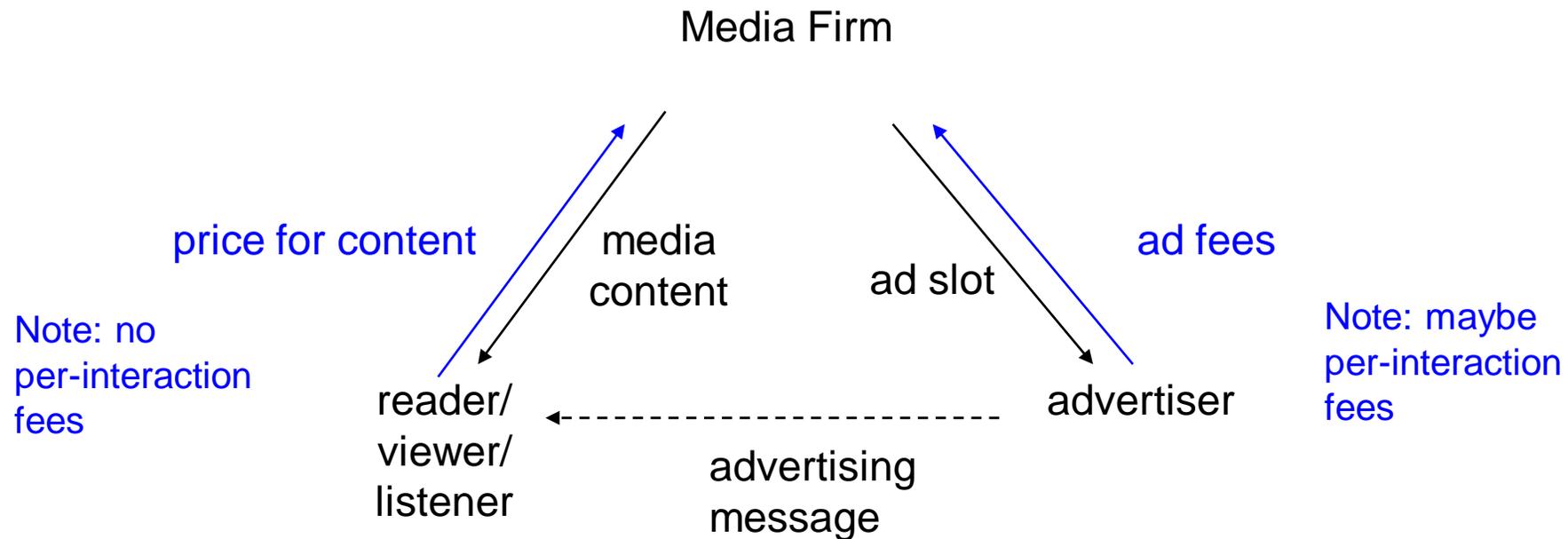**A non-transaction market is an extreme case of two-sided market (no pass-through)**

At the other extreme there is a one-sided market (full pass-through)

Digital technologies tend to make it easier to be a transaction platform

Moving from non-transaction to a transaction platform can be a profitable strategy
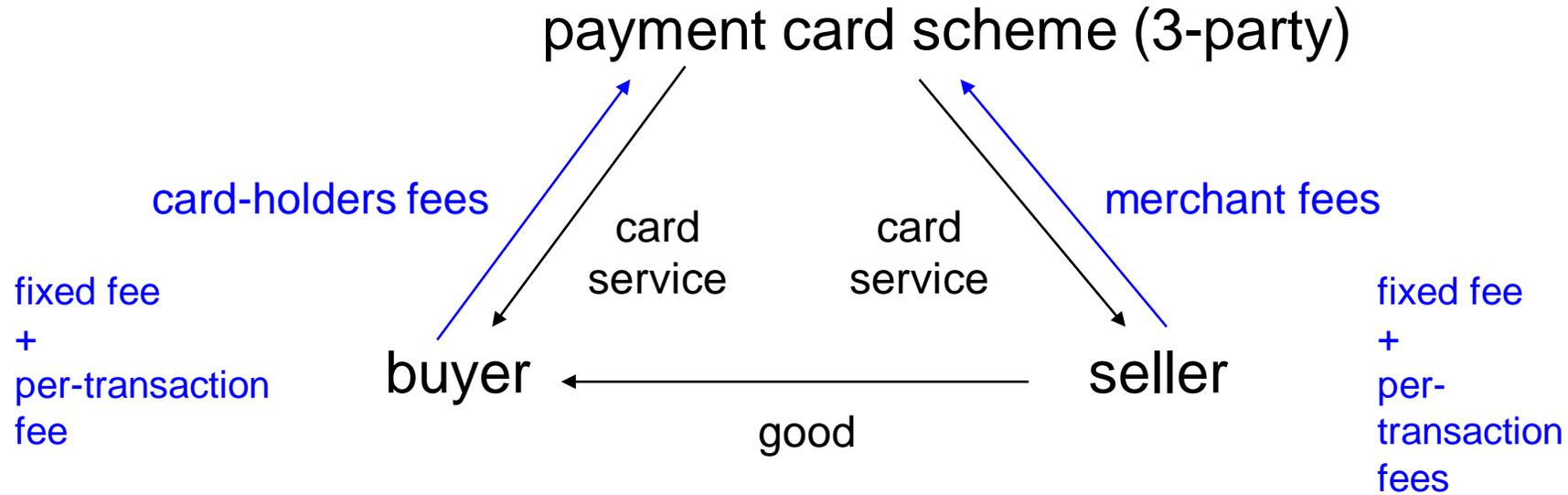
A Two-Sided Non-Transaction Platform

Newspapers, TV, Radio, Internet...

Media Firm

price for content

ad fees

media content

ad slot

Note: no per-interaction fees

Note: maybe per-interaction fees

reader/ viewer/ listener

advertiser

advertising message

Note: no transaction here, sometime interaction may be observable

A Two-Sided Transaction Platform

payment cards. auction house, virtual markets

payment card scheme (3-party)

card-holders fees

merchant fees

card service

card service

fixed fee
+
per-transaction
fee

buyer ← seller

fixed fee
+
per-
transaction
fees

good

Note: transaction here, usually observable

Two interrelated markets

- An online property ad portal is not a transaction platform
- The portal does not observe whether a transaction between the searcher and the estate agent takes place and cannot price accordingly
- In fact, it is very similar to a media platform or to phone directories

- Hence, in the case of online property ad portals two interrelated markets should be defined

- Implications for this case:
- It is not enough that customers on one side do not find some other channel a close substitute to exclude it from both markets
- The market definition could be different on both sides

Market Power and Market shares

- **Market power is the ability of a firm to profitably raise the price above the (perfectly?) competitive level**
- **A firm's market share is traditionally viewed as an indicator of the firm's market power**
- **Both are justified in markets that function *à la Cournot* when products are homogeneous, since then**

$$L_i = \frac{p_i - c_i}{p_i} = m_i \, \frac{1}{\varepsilon_p^q}$$

- **The relationship holds in Cournot also when products are differentiated (not for L and the HHI though)**

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Market Power in a Two-sided Market

- **In a two-sided market, there is no competitive benchmark for the price on one side and it is not true that competition pushes the price on each side down.**

- **However, it is true that competitive pressure brings the price level down towards the marginal cost level.**

- **While what is the competitive benchmark is still unclear, it is possible to redefine market power as:**

- **the ability to raise <u>the price level</u> above <u>the marginal cost level</u>**

The Lerner index in two-sided non-transaction markets

- The overall Lerner index should then be measured as

$$L_i = \left(\frac{p_i^A - c_i^A}{p_i^A} \right) + \left(\frac{p_i^B - c_i^B}{p_i^B} \right) \frac{q^B}{q^a}$$

- which is a weighted sum of the Lerner indexes on each side of the market.

- How does this depend on market shares?

The Lerner index and marketshares

In a two-sided oligopoly à la Cournot without horizontal product differentiation, the Lerner index on side A will be:

$$L_i^A = \frac{p_i^A - c_i^A}{p_i^v} = -m_i^A \frac{1}{\eta_{p_i^A}^{q^A}} - m_1^B \frac{1}{\eta_{p_i^B}^{q^A}} \cdot \left(\frac{p_1^B \cdot q^B}{p_i^A \cdot q^A} \right)$$

So that:

- L_i^A increases as m_i^A increases but may either increase or decline as m_1^B increases (depending on whether side A bears a positive or negative externality from side B)

Similarly for side B (but, if side A bears a negative externality, then necessarily side B bears a positive one)

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The Lerner index and marketshares

- Then, in the case of a two-sided Cournot oligopoly, the overall Lerner index for platform *i*

$$L_i = \left(\frac{p_i^A - c_i^A}{p_i^A} \right) + \left(\frac{p_i^B - c_i^B}{p_i^B} \right) \frac{q_i^B}{q_i^a}$$

- may increase as marketshares on both sides increase (but may also decline if one side exerts a negative externality on the other)

- Hence, in general, in a two-sided market, there is no clear relationship between the marketshares and the Lerner index

The Lerner index and marketshares

- However in this case, if we assume that searchers on the online property ad portal will never be asked a price, there will always be only one mark-up

- $L_i = L_i^A = \dfrac{p_i^A - c_i^A}{p_i^v} = -m_i^A \dfrac{1}{\eta_{p_i^A}^{q^A}}$

- and an increase in the marketshares on the real estate side is <u>as valid as in one-sided markets</u>

- (note however that the elastiity in the formula includes all the feedback effects)

- Implications for the case:

- Marketshares in number of ads or in revenues from ads are as valid as in one-sided markets

Diversion ratios

- The diversion ratios that one should use are the ones which include the feedback effects. They may be different from the ones that seem to have been used.

- In any case, it is unclear in the decision what is the benchmark for diversion ratios to be relevant

- Why not use UPP? Or CLA?

Indirect network effects

- The claim that indirect network effects are not important does not seem well-substantiated

- It is true that even in a theoretical model what matters is not only the network effect (endogenous vertical product differentiation) but also (exogenous?) (horizontal?) product differentiation

- But I am not sure what reputation of an online property ad portal could be for searchers if they could not find enough of the type of property they look for

- However it is not surprising that if they multi-home it matters less if advertising switches platform.

- What I missed in the decision is then some discussion of why some users multi-home (full versus partial multi-homing)

Conclusions

- Overall I find the decision correct

- THANKS FOR YOUR ATTENTION!