

Google-Android case

Discussion by Alexandre de Cornière

Toulouse School of Economics

ACE Conference, 2018, Bologna

Main arguments

Commission:

Pre-installation and exclusive deals:

- Reduce OEM's incentives to install rival apps
- Reduce rival apps' ability to become default

Google

- Dispute importance of status quo bias
- Google apps are better
- Tying allows licensing-free distribution

Post-Chicago Literature on Tying

- Rich literature on anticompetitive bundling/tying
 - Whinston 1990
 - Carlton & Waldman 2002
 - Choi & Stefanadis 2001
 - Etc.
- Most papers rely on « predatory logic » (Rey & Tirole 2007)
 - Bundling profitable only if successfully deters entry/forces exit
- Relevant, but does not tell the whole story of the Android case
 - Practices over several years
 - Existing rivals stay in market (Bing, Explorer, Firefox, Opera, Yandex, ...)

Conceptual framework

A1

B1

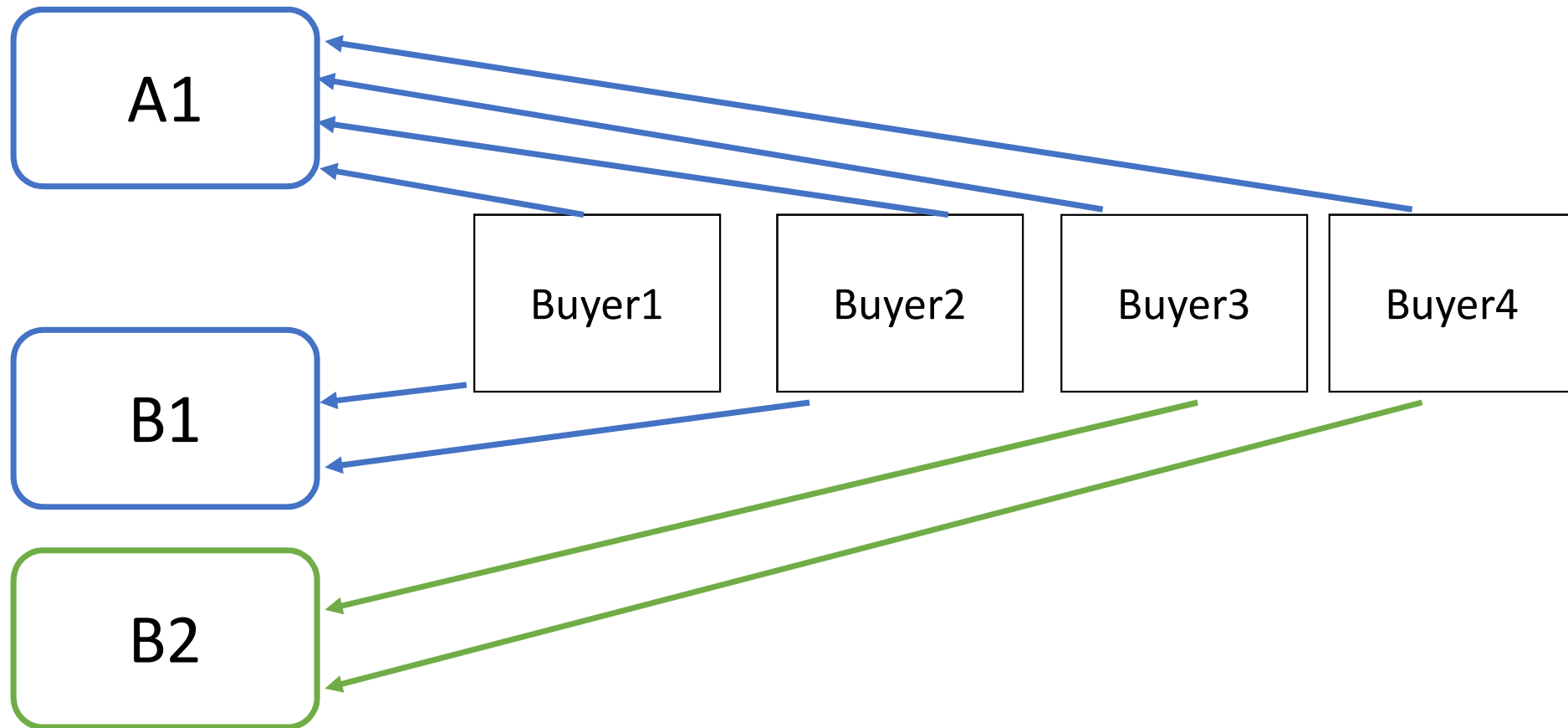
B2

Buyers

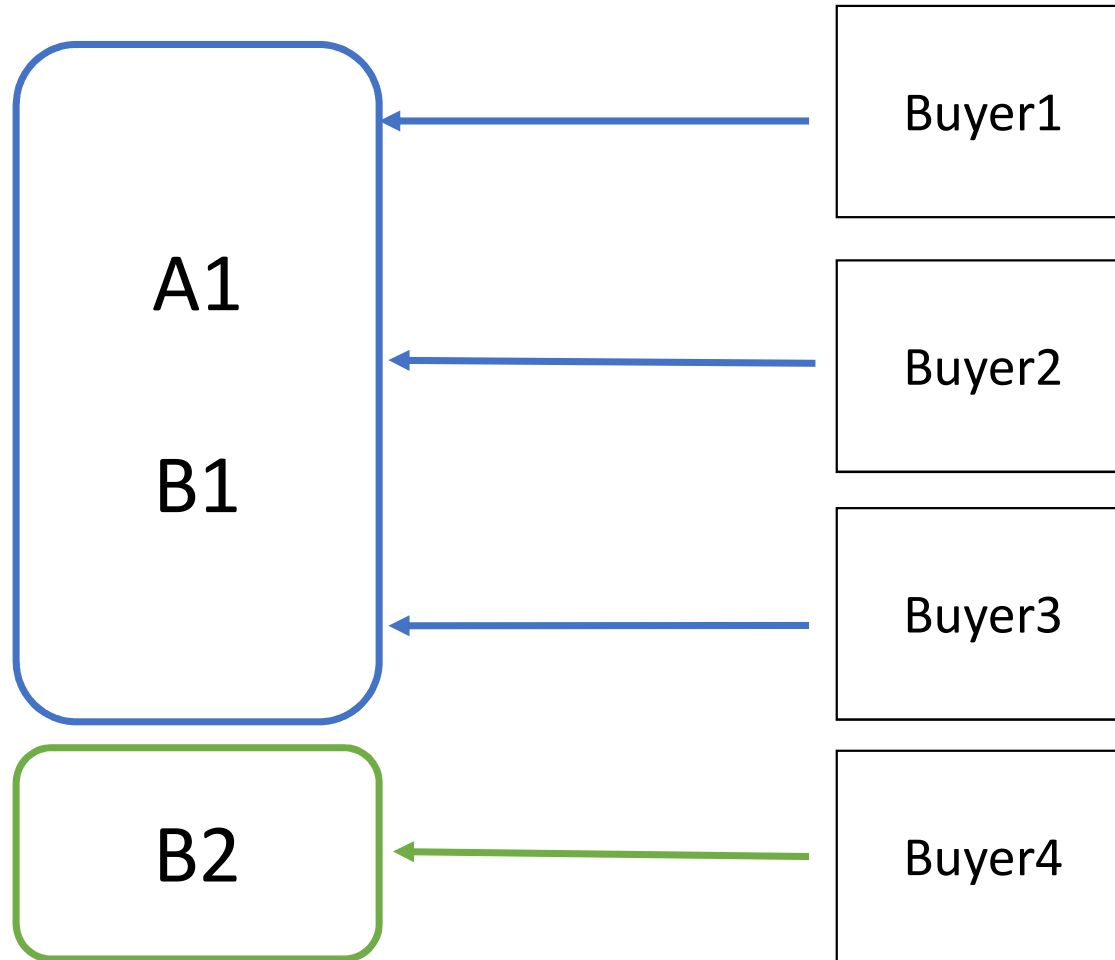
Tying and innovation, Choi 2004

- Paper written with Microsoft – Explorer case in mind
- Firms can invest in quality improvement / cost reduction
- Tying gives firm B1 larger scale: invests more than without tying
- B2 invests less

Choi, 2004 – No Tying



Choi, 2004 – Tying



Tying and innovation, Choi 2004

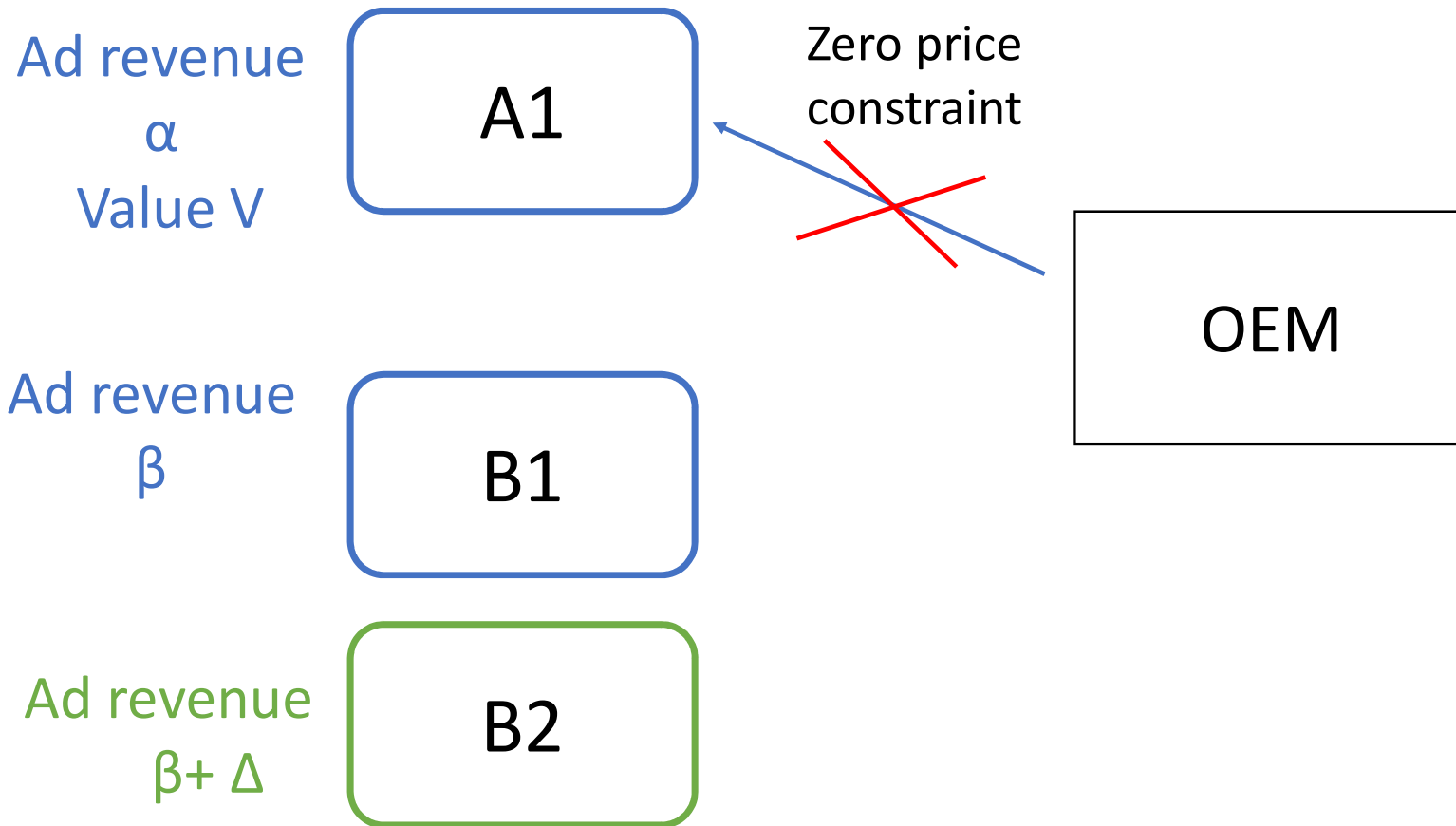
- More consumers => B1 better, not the reverse (in the model)
 - (in practice reverse causality is also important)
 - Observed market shares overstate B1's intrinsic quality advantage
-
- Welfare effects negative in paper, more ambiguous in general

Tying in multi-sided markets

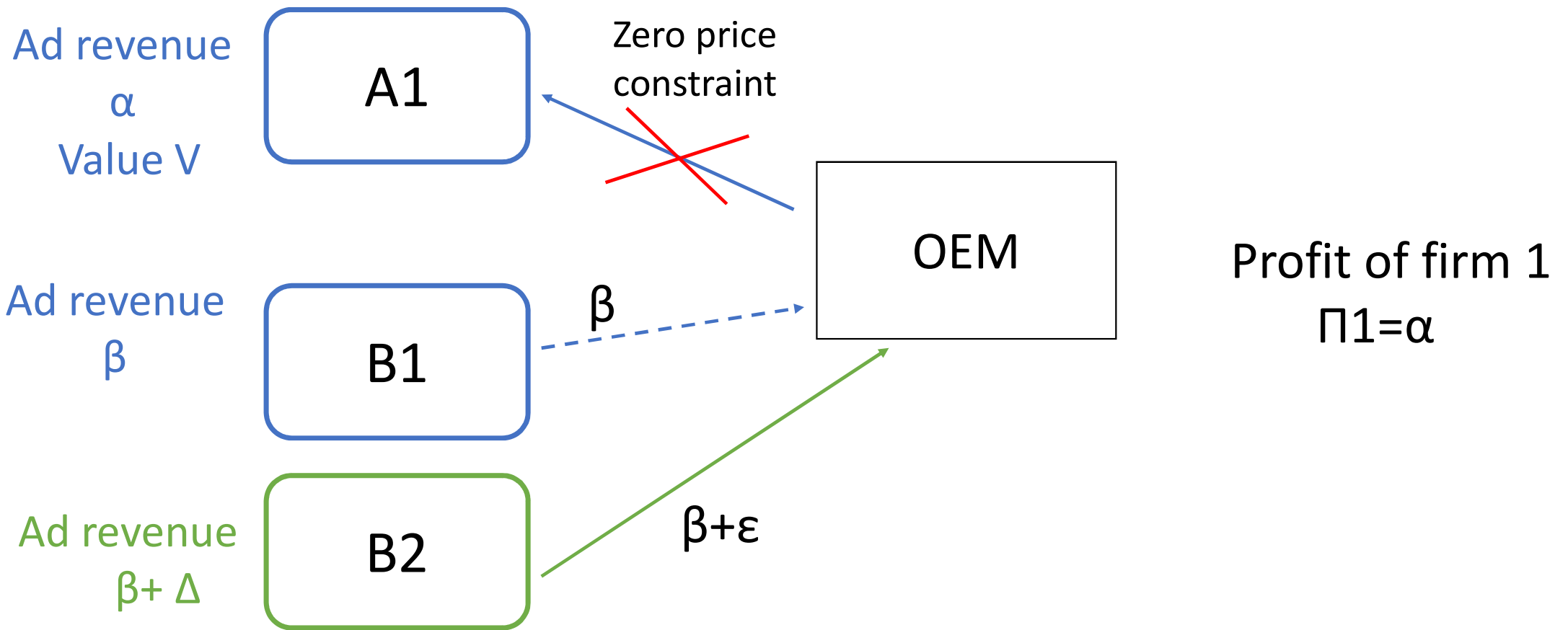
- Important feature of the case: applications generate revenues
 - Cross-group externalities
 - Incentive to offer payments to be installed (related to lit. on slotting fees)

 - Recent literature on tying in 2SM
 - Choi 2006
 - Amelio and Jullien 2012
 - **Choi and Jeon 2018**
 - **Etro & Caffarra 2017**
 - **de Cornière & Taylor 2018**
- Common theme: contractual frictions

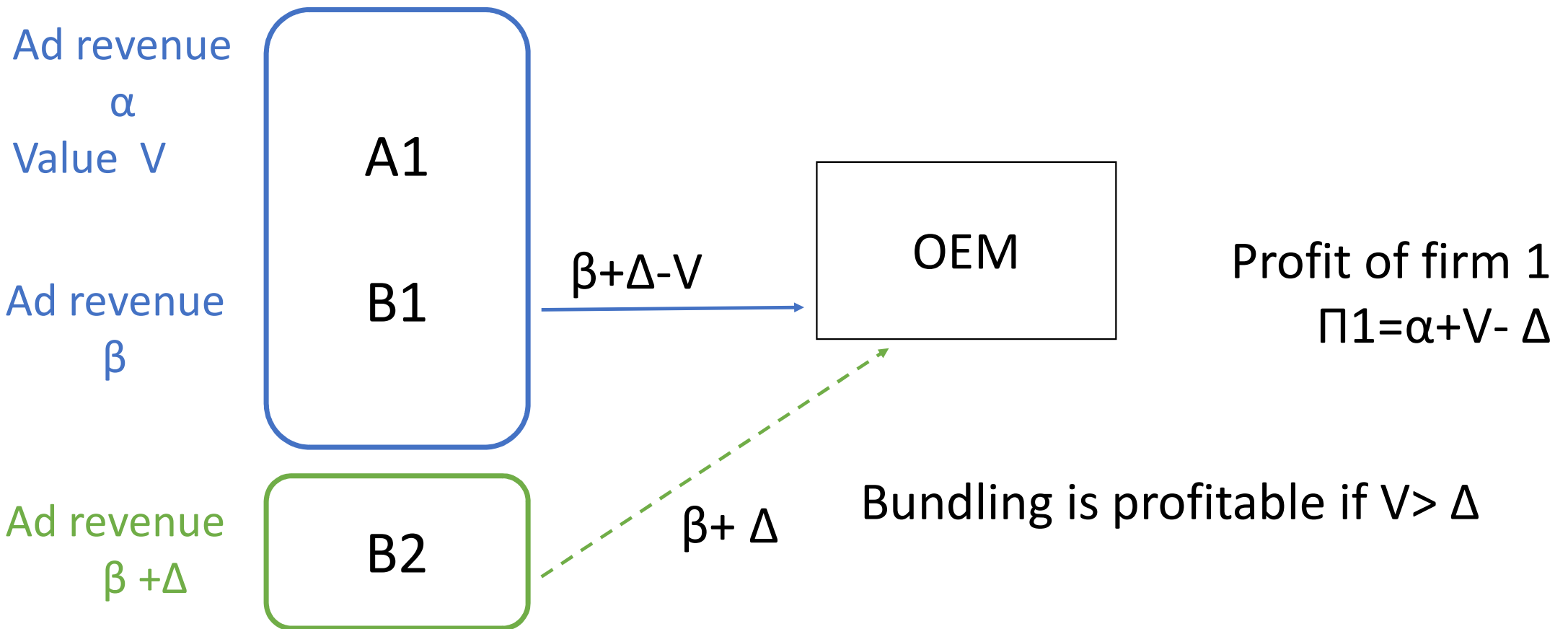
Etro & Caffarra (2017), Choi & Jeon (2018)



Etro & Caffarra (2017), Choi & Jeon (2018)



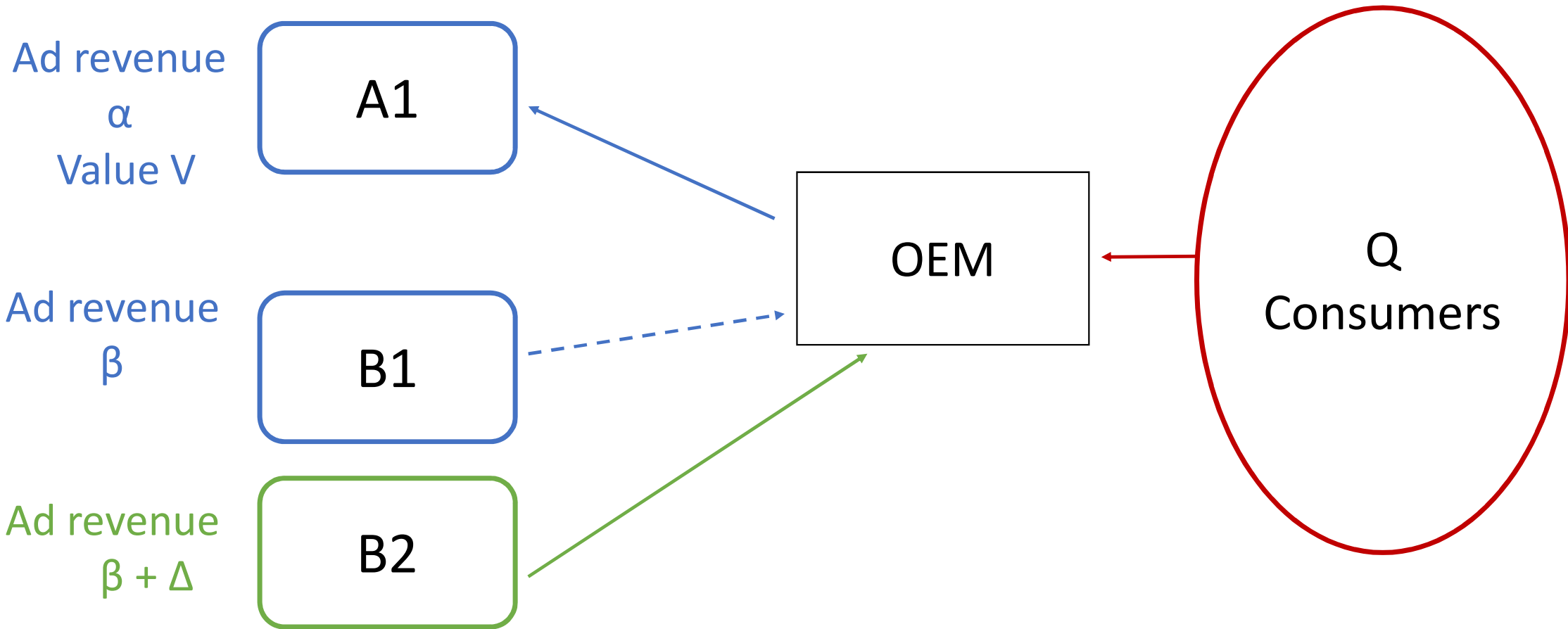
Etro & Caffarra (2017), Choi & Jeon (2018)



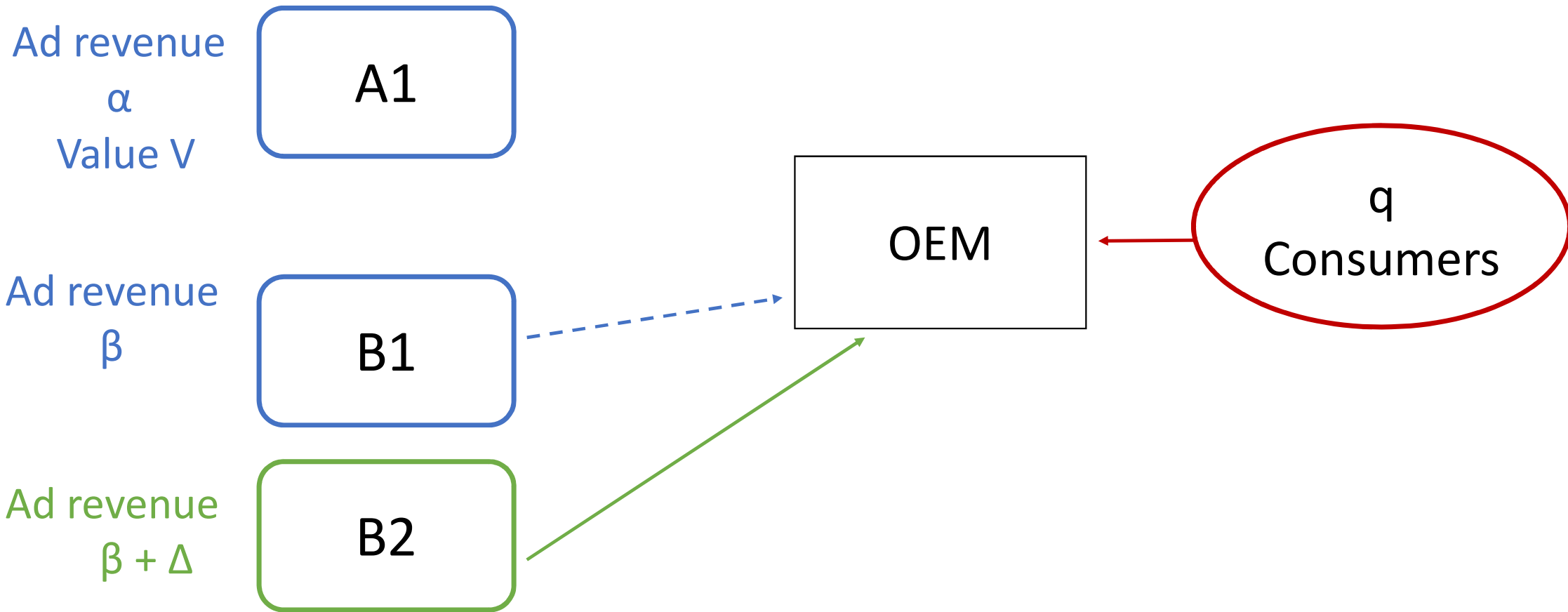
Discussion of Etro & Caffarra

- Tying allows firm 1 to capture value from its application A
- Zero pricing constraint critical: without it, firm 1 prefers no bundling

De Cornière and Taylor (2018)



De Cornière and Taylor (2018)



De Cornière and Taylor 2018

- With tying, B2 expects fewer consumers if it wins
 - Phone will be without A
- B2 becomes less aggressive (unlike E&C)
- Firm 1 can offer less money to the OEM for B1
- Tying profitable if the demand expansion effect of A is large

De Cornière and Taylor 2018

- Applied to Android case:
- Google would offer higher payments for Search to OEM without tying
 - Goes against the cross-subsidization argument
- “Empirically”, Google seems to offer higher payments to Apple than to Android OEMs...

Pro-competitive effects of tying de Cornière and Taylor 2018

- OEMs could use applications to differentiate their products and relax competition.
- Tying prevents this, and intensifies price competition
- Can benefit consumers
- Would benefit Google : more Android users.