Exclusivity and Exclusion on Platform Markets

BACKGROUND

- A 'two-sided market' is a special type of market in which there are two distinct user groups of a particular platform, where a 'platform' is a product or service. Users benefit from the capacity of the platform to connect the two user groups. The platform is able to charge distinct prices to the two user groups.
- An example of this type of market is newspapers: advertising space is sold to advertisers and print copies of newspapers are sold to readers.
- Other examples of this type of market include credit cards, travel agencies, video games, and personal computer operating systems.

METHODOLOGY

- The authors focus on the newspaper market in modelling a vertically-structured two-sided market.
- Newspapers prepare some material for publishing in-house; the remainder is purchased from press syndicates. Therefore, players in this market are newspapers, readers, advertisers and press syndicates.
- An upstream firm (press syndicate) provides what for some consumers is an essential complementary consumption good to two downstream firms (newspapers) that supply differentiated platforms to two sides of the final market (advertisers and readers).
- The authors model the incentive of a press syndicate to offer an exclusive license to publish specialised material and the incentive of a newspaper to accept a license, exclusive or not, if offered.

KEY FINDINGS

- The impact of an exclusive dealing contract between the upstream firm and one of the downstream firms on market performance is shown to depend on the strength of consumer preferences for the products of the two downstream firms and the relative size of the market segment for which the complementary good is essential.
- When consumer preferences between newspapers are weak and few consumers regard the complementary good as essential, an exclusive deal with one newspaper might not result in exclusion of the other newspaper from the market and it increases the profits of both platforms.
- Strong preferences about the views expressed in a newspaper, and a sufficiently large fraction of the population that regards the complementary good as an essential component of a newspaper, can result in exclusion of the unlicensed firm from the market.
- Findings are relevant to regional markets, many of which will support at most a small number of firms. In such markets, an exclusive contract for a complementary product that a sufficiently large number of consumers view as essential can make unlicensed firms unprofitable, inducing exit, reducing consumer surplus and, in some cases, reducing net social welfare.

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October 2010

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