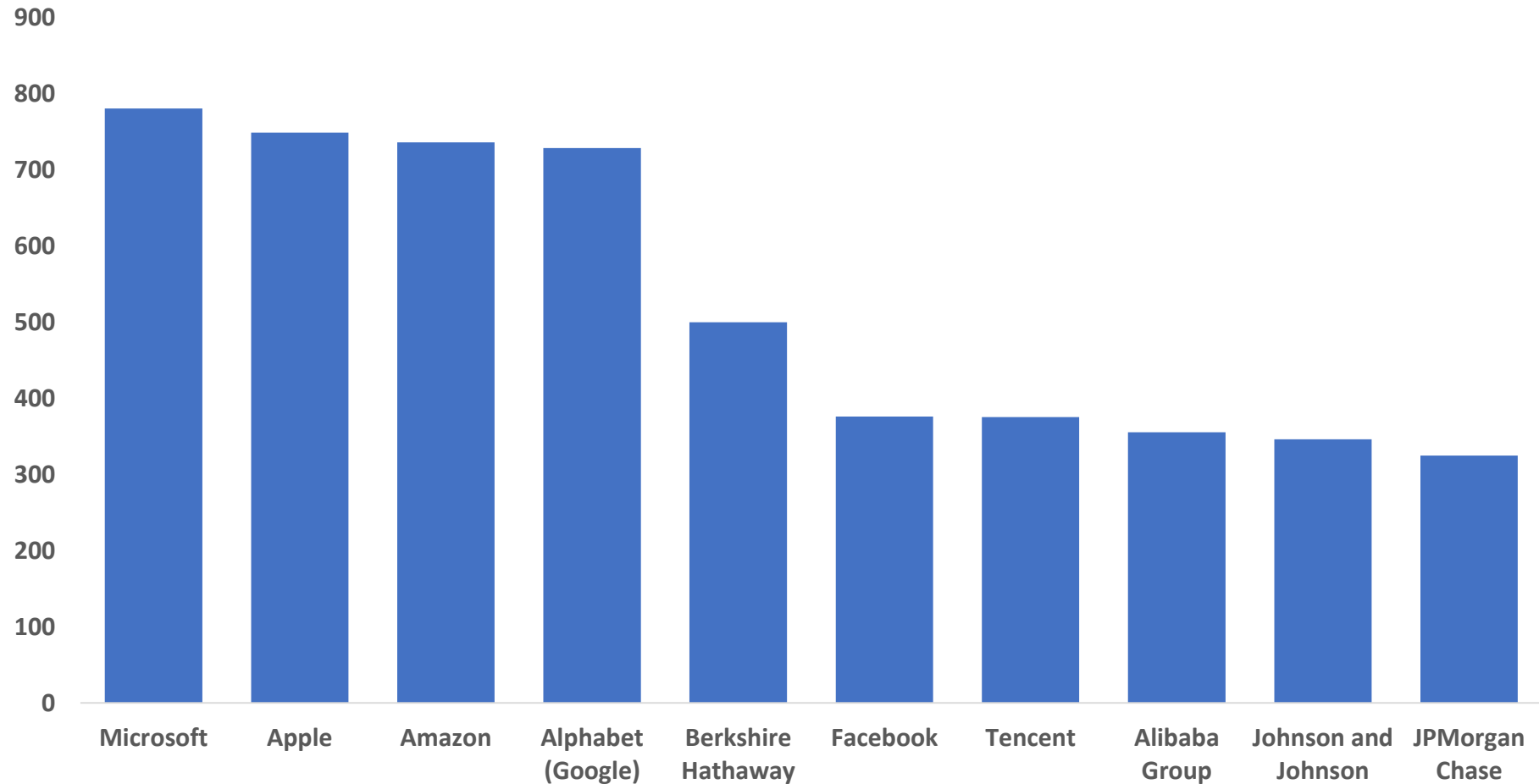


Competition in digital era and platform economy

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Top market capitalization as of 4Q18

Billion USD



Structure of presentation

- Compare and contrast platform and linear businesses
- Why platform emerges as prominent organizational structure in digital era?
- Determinants of winner-takes-all
- Pro and con of winner-takes-all in digital era
- Digital platform and competition policy

Compare and contrast platform and linear businesses

- Linear businesses: Supply chain
 - GE, Walmart Toyota ExxonMobile
 - Big innovation happens at supply chain: Assembly line (Henry Ford) and Just in Time (Toyota)
- Platform: Network
 - Network across different types of users to meet
 - With platform resources, they transact or make new things
- Big tech companies are using platform business model
 - Microsoft/Apple: Window/iOS
 - Google: search engine
 - Facebook: social network
 - Amazon: E-commerce

Why do platform emerge as prominent organizational structure in digital era

- Platform already exist for a long time. Think of flee market
- Platform before digital era run into congestion problem. This problem has been much alleviated in digital era with numerous data-centric tools
 - Prior to digital era, platform are relatively small. In digital era, platform can be very large. Think of things being sold in Amazon
- Demand side economics of scale
 - Same side network effect
 - Cross side network effect
- Danger of winner-takes-all: Large platforms → a lot of benefit to users
→ even larger platforms

Determinants of winner-takes-all

- Ability to differentiate and find niche → winner-takes-all become less likely
- More multihoming with less switching cost → winner-takes-all become less likely
- More (demand- and supply-side) economics of scale → winner-takes-all becomes more likely

Pro and con and modern winner-takes-all market

- Pro
 - Good for consumers
 - Creation of new market
 - Continual innovation on threat of entry by platform in adjacent market
- Con
 - Increase in inequality
 - People manipulation
 - Numerous anticompetitive behaviors
 - Prevent multihoming
 - Acquisition or creation of me-too products
 - Absorption of platform by other platforms

Platform and competition policy

- American. Microsoft case 20 years ago. Quite thereafter. Too focused upon prices (Facebook and Instagram/Whatsapp)
- EU. A lot of fine by European commission in the past decade
- Four ways to regulate large technology company (The Economist, 2018)
 - Break up
 - Regulated utility
 - Customer union
 - Competition by force
- Need more research into this esp related to impact of numerous “anti-competitive” performed by tech companies

Conclusion

- Platform is about network not supply chain
- Digital platform expanding rapidly with demand side economics of scale
- Fear of winner takes all. Depend on ability of platform to differentiate and find niche, switching cost and different types of economics of scale
- Winner takes all have both pro and con
- Recently EU is more active than US in competition policy
- Need more research to determine how best to regulate tech companies in the future