Attention Oligopoly

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In the study, "*Not Quite the Average: An Empirical Study of Web Use*," researchers determined that

the average human span in 2013 was only 8 seconds

the average goldfish can pay attention for 9 seconds

sorry, your attention is almost over and must stop my discussion here

[by the way another specialty of the Web, that was a fake news]

A flourishing report-era

- UK "*Unlocking digital competition*" Report of the Digital Competition Expert Panel (Furman)
- EU "*Competition Policy for the digital era*" special advisers to Commissioner Vestager
- US "*Report of the Committee for the Study of Digital Platforms*" (Scott Morton et al.)
- …
- There seems to be consensus about the need to review the approach to mergers in digital markets
  - E.g. hotly debated Facebook/WhatsApp and Facebook/Instagram
  - Or the more than 400 acquisitions by FB
- But "with the wisdom of hindsight things are always easier"

This is a timely and very useful paper

- A perfect timing for this paper
- And it has a lot to tell us about mergers in digital markets

- Two main messages with two mottos:

    "If you're not paying for the product, you are the product"

In digital platform mergers,

    "do not look at the finger pointing to the moon, look straight at the moon!"

- Even if there are no consequences for platform users, because prices are nil
- There may be significant consequences for users in other dimensions
- This paper investigates consequences on product market competition (the moon):
    - Platform mergers make entry in product market more difficult and consumers face more concentrated product markets (higher prices, fewer options, reduced quality)

Mechanism and implications

- Producers compete for advertisement slots, one in each of n platforms
- Entrant-producers need advertising on at least one of the n platform to compete
- Key is the presence of multi-homing consumers
- For multi-homers, incumbent-producers need to fight and obfuscate entrants in *each* of the *n* platforms Ad-slot
  - When n is large, n times the cost of obfuscation is too large, incumbents may give up and entry occurs
  - When n small and monopolist profit larger than industry duopoly, incumbent beats entrants

- Merger: in some cases the merged entity *optimally reduces Ads slots* (bundling those of its platforms)
  - Standard monopoly power argument: Ad revenue increases
  - But now incumbent may optimally fight the n-1 markets and successfully obfuscate entrants

- Policy: no need of radical changes, just look at the moon (product-markets) and not the finger (platforms per-se), and measure multi-homing users not user shares

Comments I

- A pleasure to read

- A novel, robust and clever mechanism (many extensions)

- The mechanism is a nice blend of
  - Gilbert and Newbery (1982) idea of R&D incentives: when incumbent has more incentives to invest than entrant, industry stays monopolized
  - Exclusion of entrants with no fixed-costs (differently from "Naked exclusion")

Comments: specific on model (1/2)

- The key result requires some (narrow?) conditions
  - $\pi_M \geq \pi_{d1} + \pi_{d2}$ but clearly it must be $U_M + \pi_M \leq U_d + \pi_{d1} + \pi_{d2}$
  - Number n of platforms s.t. $\bar{n} \leq n \leq \bar{n}+1$
  - Merged entity's optimal decision for bundling Ads requires knowledge of number of platforms used by each multi-homer
- Consumers are myopic. By introspection I cannot agree more...
  - In the model, platforms are the only channel to become aware of products, thus multi-homing (which is key for results) makes a lot of sense
  - But if this the case, with merger and ads-bundle, multi-homing may drop making bundling less profitable
  - Difficult to see the model as a long run equilibrium with fixed users' decisions
- As usual in merger models: non merging platforms gain too, then better not to merge and wait for others merging

Comments: specific on model (2/2)

- Ads are often placed by Ad-agencies (a market with mergers and increasing concentration), what would be their role in this model?
  - They may avoid profit dissipation at Ads-auctions
  - But this would reduce incentives to merge and its effects
- The model is meant to describe a long run equilibrium in omniscient digital platforsm, and monopolized product markets
  - Still, if this is the outcome, these stubborn Entrants that in the model always stand ready to compete, even if they never win, will disappear with the smallest fixed entry or development cost
  - But if this is the case platforms' profits will drop: better avoid merging and having some of the Entrants
  - [In general, as in post-Chicago models, thin line for having both monopolization and wasted surplus]

Comments: general (1/2)

- After this paper, effect on product market competition must and will be monitored
- However, it is difficult to asses if this effect is first order

- Does the mother of all mergers, Facebook/WhatsApp, fits mechanism well?
  - What was, is, and could have been WhatsApp business model?
  - WhatsApp never run ads, but it could at some point, had it be independent
    - And Zuckerberg even committed not to run ads on W! Ironically this was not a message to W users but to FB shareholders
  - So the argument of the paper goes: we should have blocked F/W merger because an independent W, probably, at some point, would have started to run Ads and this would have allowed more entry in the markets of products
- But then what about Facebook/Instagram?
  - Insta. did not run ads before merger, but started after, does not fit with F/W story
- In such evolving environment, I'm not sure the mechanism in the paper would have been, back in 2014, a strong line of attack against the mergers on its own
  - Probably one of the lines of attack, but the most important one?

Comments: general (2/2)

- Profitability and business models in digital markets difficult to understand and foresee ex-ante (both for business and a fortiori for authorities)

- Ex-post there may have been other reasons for merging (paper acknowledges for this), e.g.:
    1. preempting a competitor turning from simple chat services as it was W, into a platform such as WeChat, *that eats users and ads* (chats are most used app on phones, the most dangerous potential competitor)
    2. Or fully integrating W and I with Facebook as discussed these days, for *better information* on users (something they promised not to do…)

- In general, difficult to block ex-ante on the basis of long chains of "if", as required for the mechanism in the paper and others

- Still, now that we have many parallel arguments (1. 2. and this paper)…

… can we begin considering revoking mergers after probation period? Feasible? Effective? How to implement?