

## Press release

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# How do we stop digital market monopolies? New research from ESMT Berlin gives key insights for policy

**New research from ESMT Berlin identifies how digital markets become monopolies and offers key insights for policymakers to ensure that in the future digital markets are better regulated and do not ‘tip’ towards monopolies.**

The research, which was conducted by [Özlem Bedre-Defolie](#), associate professor at ESMT and CEPR research fellow, and [Rainer Nitsche](#), director at E.CA Economics and a research fellow at ESMT, reviewed existing literature, many current and past examples to identify the key market characteristics that facilitate tipping and those that mitigate it. They ultimately suggest a simple guide for competition policy intended to prevent tipping.

The researchers state that there are several fundamental reasons as to why some markets with multi-sided platforms (MSPs) ‘tip’ into a monopoly. For instance, in Europe, general search markets have tipped for Google, and many social media markets have tipped for Facebook. One reason for tipping is the barriers to entry caused by positive network effects within the same group of users. In many digital marketplaces, such as social networks and search engines, the benefits of using the platform increase as the number of users increase. For instance, the more people use Google, the more powerful their search algorithms become, and the more people use Facebook, the more interesting and valuable the content becomes. This causes a barrier to entry and expansion for competitors with less users that do not benefit from these positive network effects to the same extent.

The authors propose to identify network effects that are essential to the core value provided by an MSP. They argue that tipping is more likely if essential services are free, like free search services, free social media networks. However, if essential services are generated by matching two sides and at least one of these sides have to pay, like for job matching, dating, and real-estate platforms, tipping may be less likely.

They argue that besides positive network effects and free essential services, single-homing (using only one platform), and high switching costs facilitate tipping in markets with MSPs. They state “Many MSP markets of ridesharing, music and video-on-demand streaming, delivery services, and dating apps have not tipped yet, and competition commissions must follow these closely to ensure they do not become monopolies, too.”

The researchers emphasize that policymakers need to evaluate carefully platforms strategies that raise single-homing and make switching to competitors more costly. For instance, exclusive dealing provisions with popular product sellers or content providers could facilitate tipping by enhancing the competitive advantage of incumbents with a strong market presence. Similarly, platforms offering personalized

services (like recommendation systems, reputation mechanisms), lengthy sign-up processes, and complimentary services can also facilitate tipping by raising users' costs of switching to rival platforms. On the other hand, they identify factors that mitigate tipping as negative network effects (like the competition between sellers on an e-commerce platform), 'local' network effects (like local food delivery, real-estate markets), multi-homing, differentiation between platforms (for example, via curation of providers of products or services on one side of the market) and innovation.

The researchers present a tool, which market regulators and policymakers could use to assess the likelihood of tipping. The tool uses four relevant questions for the assessment: Are there factors that diminish the value of a growing multi-sided platform? Are there factors that make it easier for smaller platforms to acquire more users? Or make these smaller rivals attractive to at least some users? Are there platforms active in one market that benefit from activities or a strong position in another platform market?

Policymakers aim to ensure that competition stays healthy. However, the identification of markets that are likely to tip is a challenging task. "Competition authorities are increasingly concerned that their tools are not fit to deal with markets that have digital multi-sided platforms," says Rainer Nitsche. "The challenge for policymakers will be to avoid tipping and at the same time maintaining the many benefits of multi-sided platforms."

The four key questions proposed can support policymakers and competition authorities, like the European Commission, to identify which markets are close to tipping. This is prerequisite for policy intervention to stop monopolization before it occurs.

This study was published in the [Journal of European Competition Law & Practice](#).

#### **About ESMT Berlin**

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#### **About E.CA Economics**

E.CA Economics is one of the leading European competition economics consultancies, advising law firms, companies and authorities in the fields of competition policy and regulation. This includes work such as mergers, antitrust or state aid cases and economic analyses within regulatory procedures and studies on competition policy issues for international organisations. Our international team of over 40 economists works in a wide variety of sectors and in numerous European jurisdictions. We contribute substantial value for our clients by providing tailor-made advice built on robust economic analyses and thorough research. Our offices are based in Berlin, Brussels and Munich. E.CA Economics has been named in Global Competition Review's annual ranking of the Top 21 consultancies for antitrust economics advice since 2008. [www.e-ca.com](https://www.e-ca.com)

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