PLATFORM PARAMETERS

BRIAN WILLIAMSON continues our discussion of online platforms by highlighting appropriate policy and regulation that balances benefits and harms

Online platforms have gained prominence – as a way of facilitating market interaction, and in terms of competition and other policy concerns. Here I consider the underlying reason for the development of online platforms, the linkage to connectivity and the ongoing policy debate.

But first, what is meant by platforms? I adopt an economic perspective and focus on multisided markets where participants interact directly facilitated and governed by the platform operator. A medieval marketplace may have operated as a platform, but my focus is online platforms.

Online platforms include app stores, social networks such as Strava and peer-to-peer transport platforms such as Bolt. Others, such as Netflix, which provide a service to consumers but do not facilitate third-party transactions, are not multisided online platforms.

ONLINE ENABLERS

Early examples of online platforms, such as eBay, developed alongside the growing pool of potential users who were online. But it was really the advent of smartphones, mobile data connectivity and app stores after 2008 that accelerated their development. An illustration of their growth is transaction and platform revenues for one category of online platforms in Europe – peer-to-peer or collaborative economy platforms. Five key sectors of the collaborative economy – transport, accommodation, household and professional services and finance – are estimated to have grown rapidly, facilitating €28bn of transactions within Europe in 2015.[1]

Apps stores lower barriers to experimentation and support scaling, while mobility is essential for some online platforms, for example, peer-to-peer transportation apps. Connectivity, in particular mobile connectivity and associated developments, are necessary building blocks – but are not sufficient for platform-based business models to take off.

Lyft off: the ride-sharing service went public on the Nasdaq exchange in March this year

WHY HAVE ONLINE PLATFORMS GROWN IN IMPORTANCE?

Online platforms compete with one another and with other forms of market organisation and need to offer benefits to users to succeed. So why are platforms proving superior to alternative forms of market organisation and governance?

Competition and choice. Online platforms have opened up new possibilities and increased competition and choice in a range of markets, for example, in short-term accommodation. They have also lowered barriers to market integration and trade, thereby increasing choice.

Competitive market governance. Another part of the answer is that online platforms can use real-time data to govern markets to overcome information asymmetries which otherwise undermine trust and market participation. For example, peer-to-peer transportation platforms rely on users' smartphones to track their identity and location and ratings to encourage good behaviour (user access can also be denied). In contrast to regulation, private market governance is competitive (e.g. Lyft and Uber compete to offer improved governance) and can operate with real-time data rather than relying primarily on industry entry requirements – requirements – main means of regulation of the traditional taxi industry.

A reappraisal of the role of existing regulation in relation to platforms is therefore justified. Less centrally provided regulation, or regulation that is more supervisory in character with an outcomes-based focus, may be justified in comparison with conventional forms of market organisation. As Molly Cohen and Arun Sundararajan (2015) note:[2]

"...platforms should not be viewed as entities to be regulated but rather as actors that are a key part of the regulatory framework... For nonintermediated peer-to-peer exchange in the past, the primary solution to market failure was intervention by a government agency. But today, the existence of third-party platforms that mediate exchange fundamentally alters what the market is capable of providing on its own..."

The success of online platforms in supporting abundance and reducing information asymmetries to promote trust and benefit users is illustrated by the growth of peer-to-peer transport services in New York City.[3] Growth in the outer boroughs of New York has been more pronounced, illustrating distributional benefits for those who were previously in the most underserved areas.

User trust. No form of market organisation can offer complete trust for users. For example, despite relatively stringent requirements to become a Black Cab taxi driver in London, there have been recent examples of great harm. Peer-to-peer drivers have also harmed users, though real-time monitoring offers better protection against serial harm. An OECD survey also shows that peer to peer platforms are trusted more than conventional forms of business:[4]

"Only a small minority of users (on average 10% of users across the 10 OECD countries surveyed) trust their peer platform less than conventional businesses in the same market."

Further, for peer-to-peer transport services, 50% trusted them more, 45% about the same and 4% less than conventional services.

Managing abundance. Part of the answer is that as transport and communications costs fall, markets shift from the challenge of managing scarcity to the challenge of managing abundance (search is an early example and had to adopt new means of ranking as the volume of information grew). Online platforms perform a matching function in markets where there is abundance or where abundance can be fostered and is valued (such as in search, app stores and, with the incorporation of various modes of transport, peer-to-peer transport apps).

GOVERNMENT VERSUS REGULATORS

Additional competition from the growth of online platform-based business models has, not surprisingly, resulted in complaints by incumbent businesses that the competition is unfair, particularly if regulation is not applied to new and old in the same manner. However, differences in the application of centrally provided regulation may be appropriate given difference in the technology, business model and level of governance provided by platforms themselves.

In a number of instances regulators have also sought to protect the incumbent business model rather than the interests of customers and prospective market entrants. Both incumbent businesses and regulators are threatened by superior forms of market organisation and governance. Regulatory institutions are in part motivated by self-interest and may suffer from the same behavioural biases that it has been argued plague consumers, for example, status quo bias.[5] Regulators may not therefore be motivated to change their conduct, and may not in any case have the powers and responsibilities necessary to adapt.

Given the nature of the challenge, governments and lawmakers, rather than regulators alone, need to address the challenge of removing unnecessary regulatory barriers to online platforms – by reconciling law and governance provided by platforms themselves.[6]

LIMITS OF PLATFORM-BASED MARKET GOVERNANCE

Platforms are motivated to act in ways that benefit platform users, including in the provision of market governance – i.e. they seek to create a successful market. As Jean Tirole (2017) put it:[7]

"A two-sided platform interacts both with the seller and the customer. This means that it cares about the customer's interests. This is not philanthropy. A satisfied customer will pay more to the platform, will be more inclined to return. This underlies the uniqueness of the two-sided platform business model."

However, there will be circumstances in which costs and benefits fall on non-platform users; i.e. are not internalised to the market. Some externalities will be best addressed in a horizontal manner across all economic activity. For example, traffic congestion and greenhouse gas emissions have the same incremental costs independent of the source and are ideally addressed independent of the technology or business model generating harm.

Other externalities may require an approach specific to a particular class of online platforms, for example, in relation to the appropriate application of electoral law relating to the funding and conduct of political campaigns to social media. Given the potential of platforms to monitor and police conduct, the appropriate response may be co-regulatory.

MARKET POWER

The debate on technology and technology platforms has tended to conflate concern regarding market power with specific concerns in other areas such as externalities and shifts in the advertising market which may, in particular, have impacted traditional journalism. While any competition problems can and should be addressed via the framework of competition law (with the toolkit adapted to the characteristics of online platforms), it is far from clear that a range of other issues, for example concerning the application of electoral law, are related to a lack of competition. Intervention should be problem driven, focused and proportionate.

Further, in relation to competition and online platforms, the focus should not solely be on the appropriate application of competition law, but also on removing unnecessary regulatory impediments that impede the ability of platforms to enter markets and compete with existing businesses.

COMPLEMENTARITY WITH CONNECTIVITY

Network access and online platforms are complements. It is not helpful, as some have suggested, to think that some elements of the broader market are "free riding" on other elements.

Platform-based services stimulate demand and willingness to pay for network access, while improved network access stimulates demand and willingness to pay (by consumers or advertisers) for platform-based services.

Mobile peer-to-peer services, in particular, provide a stimulus for ubiquitous mobile data coverage since all parties need to connect for the platform to function – for example, using social media in real time, or connecting with a ride hailing service.

Policies which remove barriers to network infrastructure investment, and platform-based innovation, should be implemented and are complementary to one another.

RELATIONSHIP TO TELECOMS REGULATION

In relation to the cross over with telecoms regulation, the policy linkages are likely to be limited. As Jean Tirole commented:[8]

"With rapidly changing technologies and globalisation, traditional regulatory tools have become less effective, causing competition policy to lag. Breaking up monopolies or regulating public utilities requires identifying a stable competitive bottleneck or essential facility (the counterpart of the local loop in telecoms, the tracks and station for railroads, or the transmission grid for electricity).

"Regulation demands detailed accounting in a world of global companies without any supranational regulator. And it requires following firms over their lifecycles to measure the profitability of capital—an impossible task. We must develop more agile policies, such as business review letters (giving limited legal certainty to firms for a practice, subject to conditions set by the authorities) or regulatory sandboxes where new business models can be tested in a 'safe' environment."

Core elements of telecoms regulation including access price controls and uniform standards-based interoperability are unlikely to readily map across to online platforms. Telecoms regulation is also, at least implicitly, based on an assumption of predictability. An assumption of predictability is increasingly inappropriate for telecoms as network competition develops and with the ongoing transition to new networks and services. It would be wholly inappropriate in relation to online platforms.

Telecoms regulation is also imposed on operators, but as I noted about the context of market governance and reappraising regulation, platforms should been see as actors that are part of a regulatory framework, and not to be directly regulated.[2] At the very least, this is likely to require a different culture of regulation. Moreover, telecoms regulation exhibits "hysteresis" – the status quo bias noted earlier, An example is market entry facilitated by local loop unbundling, which may now prove an impediment to the transition to fibre broadband and closure of copper lines. This tendency is antithetical to the creative destruction which has characterised the development of online platforms.

Uniform standards-based interoperability for communications services has facilitated any-to-any communication for voice and SMS (text messaging) but has also inhibited service evolution. Switched voice and SMS stood still while their potential successor, the rich communications services (RCS) protocol, took over a decade to develop and agree and with negligible adoption.[9] Meanwhile, free from uniform industry standards, app-based services have introduced innovations including communications using images, video and emoji coupled with features such as group chat, read receipts and encryption. Consumers value these features and migrated to app-based services.

Finally, a number of the challenges in relation to online platforms involve political trade-offs, e.g. hate speech versus free speech, that should at least initially be considered within a framework of more direct political accountability than that offered by independent regulation. So there are technical and cultural reasons why the practices and institutions established in relation to telecoms regulation are unlikely to be an appropriate template for online platforms.

CONCLUSIONS

Online platforms have grown rapidly as a means of matching market participants and facilitating transactions. Their growth and comparative success reflect the preferences of participants for multisided online platform markets in competition with alternative forms of market organisation and governance – online platforms have grown because they benefit users.

Platforms were enabled by connectivity, mobile devices and the low entry barriers to developing and distributing apps. They offer advantages over conventional business models and regulation in terms of discovery and matching in markets characterised by abundance and in providing effective market governance to participants – online platforms reduce information asymmetries.

To realise the full potential of online platforms, policymakers should first seek to do no harm. While platforms have created some harms alongside benefits, the challenge is to address these in an evidence-based, targeted and proportionate manner in order to preserve their substantial benefits while mitigating those harms.

Policymakers should also remove unnecessary regulatory barriers to the development of online platforms, taking account of the market governance that platforms themselves provide. Not only would this benefit users directly, it would also increase competition in the economy as a whole as online platforms provide a competitive challenge to existing businesses, including in areas that previously saw limited competition.

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