How platforms create value for their users: implications for the Digital Markets Act

A study commissioned by the Computer and Communications Industry Association

The DMA risks over-enforcement by restricting a series of common business practices, found offline as well as online, that can have net positive effects for society.

In particular, the DMA’s ‘catch-all’ and ‘per se’ approach to prohibiting a range of value creating behaviours risks stifling the growth of Europe’s digital economy.
Platforms unlock benefits for users across three layers of value creation

The economics, management science, and information technology literature shed new light on how platforms compete by creating value for consumers and business users.

- Intermediation: connecting users to facilitate interactions, characterised by positive direct and/or indirect network effects.
- Aggregation: helping to unlock scale economies for businesses while reducing transaction costs and increasing quality and trust for consumers.
- Dynamic competition: realising economies of scope as they extend their user offering by adding new features and services, thereby fostering innovation and dynamic competition.
This value is created through practices that are common both online and offline

### Bundling and Tying

- **Supermarkets** bundle grocery and non-grocery services (e.g. bakeries, butchers, petrol stations) which increases convenience for users.

- **Facebook** provides continual innovation by bundling additional services and features to better match user needs.

### Self-Preferencing

- **Franchising contracts** typically require franchisees to purchase ingredients only from the franchisor to protect the brand and boost scale economies.

- **Apple** preferences its proprietary contactless payment technology, enabling an alternative hardware-based solution to ensure privacy and security for users.

### Leveraging

- **Credit reference agencies** combine data from various sources to provide more efficient oversight of borrowers and matching to lenders.

- **Netflix** and other streaming services use data to personalise the service and better match viewers with relevant content.
Case study: Google Maps

A richer search and mapping experience benefitting consumers and local businesses

- Helps local businesses to attract new customers and compete with other businesses.
- Reduces transactions costs by enhancing convenience for users.
- Increases trust in a safer online environment (e.g. with review features).
- Displays rich search results of a higher quality when displayed in Google Search.
- Offers superior quality services to a wider user base.
- Unlocks efficiencies from deeper cross-product integration.
- Provides a personalised experience with results that are most relevant to the user.
- Offers consistency and support for local businesses to achieve productive efficiencies.
- Contributes to improved information in the other parts of the ecosystem.
Case study: Apple Silicon

An innovative in-house design enhancing quality for users and opportunities for developers

Leveraging: Apple is transitioning the Mac line from Intel to its in-house ‘Apple Silicon’ chipsets. Users benefit from technologies developed for iPhones, such as energy-efficient chips which extend battery life.

This new design has a similar architecture to iPhone and iPad chips.

Self-preferencing: Apple gains flexibility and agility in adapting future products to changing consumer tastes.

Bundling and tying: developers can create Mac-specific apps by applying simple tweaks to pre-existing iOS apps. Mac users will benefit from better integration with iPhone apps.
The DMA creates a risk of over-enforcement
Restricting common business practices, found offline as well as online, risks stifling the growth of Europe’s digital economy

1. The ‘catch-all’ scope is inconsistent with the wide range of differentiated platform business models

2. The ‘per se’ nature of the obligations risks over-enforcement, restricting practices that can create significant value for consumers

3. The focus on contestability and fairness in the short run appears to be at the expense of long-run dynamic competition and innovation

Recommendations:

**Adopt a more flexible and tailored approach**
- *drop* the 'catch-all' and 'per-se' approach
- *align* with competition law principles
- *include* an effects-based assessment of the conduct and remedies
- *provide* a route to appeal on the merits
- *draw inspiration* from the European telecoms regulatory framework and the Digital Markets Taskforce's proposals in the UK
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Download our full report for CCIA at:
www.oxera.com/how-platforms-create-value