

# **Facebook as a two- or three-sided platform**

**Lapo Filistrucchi**

**University of Florence  
and  
TILEC, Tilburg University**

**FCP Annual Training - Block II  
Florence, 15-12-2018**

# Outline

- **What are two-sided platforms?**
- **How should the market be defined in cases concerning two-sided platforms?**
- **Is Facebook a two- or three-sided platform?**

# **A Two-Sided Platform - I**

**A two-sided platform is a firm that sells two different products to two different groups of buyers**

**taking into account that demand from one group of buyers depends on demand from the other group of buyers (so that these are not externalities for the firm)**

**while buyers of the two groups do not take this indirect network effects into account (so that these are in fact externalities for buyers)**

**(see Armstrong, 2006)**

**So that a two-sided platform**

- is a particular two-product firm**
- is different from a firm selling complement products**

# **A Two-Sided Platform - II**

**An additional condition is that customers on one side should not be able to pass through completely to customers on the other side an increase in the price they are asked by the platform.**

**In the case of two-sided platforms one can distinguish**

**a) the price level (roughly the sum of the two prices)**

**b) the price structure (roughly the ratio of the two prices)**

# Two Types of Two-Sided Platforms-I

## 1) Two-Sided Transaction Platform:

There is a transaction between end-users and it is observable to the platform

e.g. payment cards, auction houses

## 2) Two-Sided Non-Transaction Platform:

There is no transaction between end-users

e.g. newspapers, TV

### Note that

A non-transaction platform is an extreme case of two-sided market

At the other extreme there is a one-sided market

# Two types of two-sided markets

Hence:

- > In a transaction market, one should define a single market encompassing both sides
- > In a non-transaction market, one should define two interrelated markets

Filistrucchi L., Geradin D., van Damme E., and Affeldt P., 2014, Market Definition in Two-Sided *Markets*: Theory and Practice, *Journal of Competition Law and Economics*, vol. 10 (2), 293-339.

**The US Supreme Court in Amex agreed to this. The ECJ in MasterCard seems not to have agreed.**

# **From two-sided to multi-sided markets**

**Some platforms may sell more than two products**

**As long as there exists a link in demand between them, the two-sided market theory applies**

**More precisely, what is needed is that demand on each side is linked to at least another demand on another side (e.g. side A to side B and side C is ok)**

**Clearly any analysis becomes potentially more complex as the number of sides increases**

# Facebook as a two-sided platform

Facebook sells at least two different products to two different groups of buyers: users of the social network and

taking into account that demand from advertisers of buyers depends on demand from users

and that users may be affected by advertisers

while buyers of the two groups do not take this indirect network effects into account (so that these are in fact externalities for buyers)

(see Armstrong, 2006)

# Facebook as a three-sided platform

**Facebook also sells users data to third parties (also non-advertising?)**

**taking into account that demand from these third parties depends on demand from users**

**and**

**possibly demand from users may be affected by the number of third-parties who have access to their data**

**At the centre of the Italian case there is the reaction of users to the sale of these data**

**While Facebook has no possibility to avoid some reaction of users to advertising, it seems to have more room to avoid a reaction of users to the sale of their data**

# Facebook as a three-sided platform

**Facebook also sells users data to third parties (also non-advertising?)**

**taking into account that demand from these third parties depends on demand from users**

**and**

**possibly demand from users may be affected by the number of third-parties who have access to their data**

**At the centre of the Italian case there is the reaction of users to the sale of these data (one possible externality)**

**While Facebook has no possibility to avoid some reaction of users to advertising, it seems to have more room to avoid a reaction of users to the sale of their data**

# Facebook as a three-sided platform

**If we believe that the reaction of users to the sale of data would be negative not informing them would have positive effects for the business of Facebook**

**Because users would not perceive the negative externality that in practice works as a “price” for the users (same as advertising does for TV)**

**Hence, not informing customers about the use of their data is a consumer protection issue, but also affects pricing strategies of the platform**

**This has to be kept in mind when discussing whether competition policy or consumer protection should be used**

# How many relevant markets?

**Facebook is a two- or three-sided non-transaction platform (for the moment at least)**

**Hence, two- or three-interrelated but separate markets should be defined:**

**-the market for users**

**-the market for advertisers**

**and, possibly, the market for data**

**It does not matter that one market has no price.**

**And, in my view, as the Italian case shows, it is not true that users pay with their data**

**Exactly because they do not have enough information**

# Thanks

Thank you for your attention

For comments and/or questions:

[lapo.filistrucchi@unifi.it](mailto:lapo.filistrucchi@unifi.it) or [l.filistrucchi@uvt.nl](mailto:l.filistrucchi@uvt.nl)

For my papers:

[www.lapofilistrucchi.com](http://www.lapofilistrucchi.com)