

BUILDING SUCCESSFUL PLATFORMS A PURSUIT OF INTER-BRAND COMPETITION



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1. Building Successful Platforms (through innovation and competition)

- Managing the varying interests of platform participants (consumers, app developers, mobile manufacturers, and platforms)
 - a. Innovation priority for competition in platform
 - b. Acknowledging demands of various groups of participants (Evans, 2015)

2. Governance Systems of Internet Services

- The enquiries on the tools or strategies for managing the trade-off between variety and compatibility
 - a. Compatibility first for innovation incentive in platform
 - b. Semi-open/closed source for inter-brand competition in the mobile market
 - c. Variety can be achieved when it is necessary (Samsung's Smart Watch OS)

3. Business Models in the Mobile Economy

- Differences between open and closed source ecosystems



4. The Choice of Anti-fragmentation or Fragmentation?

- Historical development of fragmentation
- a. Fragmentation harms innovation incentive (app developers and platforms)
- b. It also reduce consumer welfare & competition between manufacturers (in case of vigorous inter-brand competition)

5. Building Successful Platforms by Designing Competitive Environment

- No essential facility doctrine in platform (a mix of open/closed source eco-systems): criticisms on the concept of platform neutrality – low entry barriers; dynamism of online platform)
- The consideration of traditional trade-off between inter-brand and intra-brand competition
- a. Zero (non) price competition of semi-open source is important for inter-brand competition in the mobile market; consumers often get accustomed to free goods and services; so, improvement of quality is important in the absence of price competition
- b. Inter-brand competition (platforms/apps) is also important for consumer welfare; controlled open source system improves competition

1. Building Successful Platforms

- A management of various interests of platform participants
- Consideration of special characteristics of platform; multi-sided, non-price competition, quality competition, globalism & diversity, and innovation for new markets
 - a. App developers/platforms – compatibility/interoperability is important for innovation (anti-fragmentation); more apps (improving competition in the downstream), more consumer welfare
 - b. Consumers – no lock-in (low switching costs; consumer-friendly manuals for users)
 - c. Mobile manufacturers – zero price platform/more apps (better for inter-brand competition)
 - Who can design the allocation of various interests?
 - Public enforcement: a typical Type I error in a new field of economy; “free market and open competition”
 - It is not an easy task to define or categorise types of platforms nowadays; platform consists of various areas of businesses which are fast-moving
 - Building a successful platform for ensuring the interests of participants of platforms: less regulatory control, more welfare

2. Governance System in the Internet

- What tools or strategies do platform managers – whether firms, governments or voluntary standard organisations – use to manage the trade-off between variety and compatibility?
 - a. Governments: forcing the duty of variety; it may impede inter-brand (platform) competition
 - Inter-brand (platform) competition is better than that of intra-brand competition when the market is of low entry barrier
 - Why is the inter-brand (platform) competition important? The fast-moving area of economy; inter-brand competition enhances rapid improvement in overall platform ecosystem and results in new area of business (spill-over effects)
 - b. Firms/voluntary standard organisations: the converging view of self- and co-regulation for supporting industry; a fair and innovation-friendly business environment by preventing unfair terms and conditions (EU Commission, 25 May 2016)
 - Online platform is a new form of one-stop-shop; but not a monopoly by itself; thus, self-correction or self-governance is plausible
 - Implicit consortia of platform participants for compatibility: better-off for all

Open Source Ecosystem

- It enhances consumer welfare and competition (what if a change from open to closed source? Exploitative)
- It improves business values; thus, it is crucial for integration and compatibility; and standard (platform) is evolving
- It increases its value by attracting consumers – “the free (zero price) effect”; “Sign up: It’s free and always will be” (Facebook); ‘Free’ is a great thing for consumers
- No recoupment from open source strategy

Closed Source Ecosystem

- It is often designed by smaller undertakings: Recoupment for investment of a new platform development
- The existing dilemma in competition law and policy



- Some conclusions from the comparison between open and closed source ecosystems
- 1. Dynamism of business models in mobile: it improves business values; open / closed source ecosystems are increasingly converging – a mixed strategy of open/closed source, e.g., Android
- 2. However, there is no clear answer when open source ecosystem is better/worse for innovation and competition or to what extent closed source is better/worse
- 3. It is too early to decide the scope of bad or good ecosystems or to regulate business models in mobile
- 4. Because of the risk of choosing one system, a mixed strategy becomes popular: Android is semi-open source platform, an outcome of substantial convergence of open and closed innovation models (Barnett, 2011)
- 5. A question whether there are hidden costs of free goods? – free products may generate pro-competitive outcomes by encouraging undertakings to compete on quality as well as price (Gal and Rubinfeld, 2016)
- 6. Also, consumers already acknowledged possible hidden cost – a rational choice and no lock-in (technological ties?)
- 7. Firms choose the best methods for competition (e.g., Samsung chose ‘Tizen’ OS for smart watch)

4. Anti-fragmentation or Fragmentation?

- The development of fragmentation in historical perspectives
 - Fragmentation for developing a new area, creating its own value
 - Again, the problem of variety (diversification) and compatibility (integration); does the lack of variety harms consumers by limiting their choices? The preference of one-stop-shopping platform for users
 - The ex post and/or ex ante approaches (the choice of short-run and/or long-run)
 - Protection of competition by allowing anti-fragmentation (no cooperation with competitors) or protection of competition by allowing fragmentation, i.e., by protecting competitors
 - “[I]f different implementations of Android are not compatible with one another, Android’s value to app developers decreases, as it becomes harder to design apps that function correctly on different phones” (O’Connor, 2015); the chance to recoup investment through preventing fragmentation – incentive for innovation; a new and sudden fragmented product can inhibit incentives
 - The problem of *fairness* in competition policy; from the fear of Type 2 errors (a strong social norm for fairness; but it is a myth)

- Governance of fragmentation of platform is essential for ensuring overall social welfare
 - When consumers and manufacturers get used to zero price competition, semi-open sources and anti-fragmentation will increase inter-brand competition; is the vertical control impedes new entry to the platform?
 - No, firms choose the best methods for competition (e.g., 'Tizen' OS for smart watch); if the anti-fragmentation is inefficient, downstream entities choose their own technology
 - Where the platform participants respond to vigorous competition, self-correction or self-regulation is likely to happen (when there is no collusion between them); this is important for ensuring vigorous competition in the case of duopoly (agencies should consider competitive conditions)
 - When there is no price competition, then quality (creativity or innovation) competition is likely
 - The robustness of innovation depends on the level of the competition law enforcement
 - The issue of fragmentation involving duopolistic competition lies at the matter of law rather than technology (recent Statements of Objections by the European Commission); anti-fragmentation is crucial for maintaining platform control which is crucial for encouraging investments for innovation and inter-platform competition



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Thank You!

