



**For Official Use**

**DAF/COMP/WD(2009)63**

Organisation de Coopération et de Développement Économiques  
Organisation for Economic Co-operation and Development

**02-Jun-2009**

**English text only**

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS  
COMPETITION COMMITTEE**

**ROUNDTABLE ON TWO-SIDED MARKETS**

**-- Note by the Delegation of Germany --**

*This note is submitted by the delegation of Germany to the Competition Committee FOR DISCUSSION at its forthcoming meeting to be held on 9 - 11 June 2009.*

**JT03265818**

Document complet disponible sur OLIS dans son format d'origine  
Complete document available on OLIS in its original format

## **TWO-SIDED MARKETS**

### **-- Note by Germany --**

#### **1. Introductory remarks**

1. The concept of two-sided markets, though relatively new, has already been relevant in several competition cases in Germany. It seems worth mentioning, however, that the underlying idea of the two-sided market model already had some practical relevance even before the academic debate in industrial organization literature gained significant momentum some years ago. This is most evident in the newspaper sector. The so-called “circulation spiral” is a phenomenon that has been known well before this phenomenon was discussed under the heading of two-sided platforms and indirect network externalities.<sup>1</sup>

2. Of course, it is helpful to have an economic theoretical framework at hand that is more general and applicable to all sectors of the economy. Such a model may be refined and adapted to numerous situations. Another benefit of having a consistent theoretical framework that is applicable to different sectors of the economy is that it also allows for a more consistent policy across sectors.

3. The following contribution will focus first on some important issues to be considered in the course of the practical implementation of the current theoretical debate on two-sided markets. In a second step, the practical relevance in recent enforcement practice of the Bundeskartellamt will be described briefly.

#### **2. The concept of two-sided markets: issues to be considered**

4. Though the discussion on two-sided markets in the academic world and between academics and practitioners is very fruitful, it turns out that even the definition of two-sidedness is not unambiguous. In addition, the development of suitable investigatory tools as well as a consistent analytical framework to assess the competitive relevance of two-sidedness in individual competition cases is still at its very beginning.

##### **2.1 Defining two-sidedness**

5. Defining what a two-sided market is and – related to that – which markets are two-sided and which markets are not, is far from trivial. A definition that focuses on the fact that there are two different customer groups and that there are externalities between these two turns out to be too general. Basically, any undertaking that is active on an upstream market and a downstream market can be seen as the supplier of a platform, because demand on both the upstream and the downstream market depends on the turnover of the other market. An often-cited example is supermarkets. On the upstream market, supermarkets offer shelf-space. On the downstream market, they offer goods placed on these shelves to the final consumer. Obviously, network effects are crucial in order to understand the functioning of a trading platform. The more sellers there are, the more attractive the platform for (potential) buyers, the more buyers there are, the

---

<sup>1</sup> An indication of the impact of the “circulation spiral” is the fact that there is a similar technical term for the phenomenon in German that has been used in numerous merger cases, “Auflagen-Anzeigen-Spirale”.

more attractive the platform for (potential) sellers. However, these effects stem exclusively from direct network externalities because the role of a trader (whether he/she is a buyer or a seller) is not predetermined and may change for each transaction.

6. Against this background it seems appropriate to stick to a more narrow definition of a two-sided market such as the one brought up by Rochet and Tirole<sup>2</sup>. Accordingly a market should only be considered to be “two-sided” if the volume of transactions generated on both sides markets of the platform depends not only on the level of prices on both sides but also on the price structure. According to this definition, pure trading platforms would not be considered as two-sided markets.

## **2.2 *Assessing the relevance of two-sidedness in case handling***

7. Due to the very nature of indirect network externalities, two-sidedness may have an impact on the assessment of the effective competitive constraints on the company under scrutiny. Whether the economics of two-sided platforms can assist in determining whether a merger or business practice is anticompetitive, however, is an empirical question. As with market power generally, two-sidedness is a matter of degree. A detailed analysis should be confined to cases in which indirect network externalities are so strong that it is clear that ignoring them would mean to miss some of the core elements of the competitive assessment. In this regard, besides the level also the degree of symmetry of the indirect network externalities should be taken into account. The externalities may be positive or negative. Possibly, they are positive in the one, negative in the other direction. With respect to symmetry, in an extreme case it may even be that no externality exists in the one, but large and positive/negative externalities in the other direction.

8. As the theory of two-sided markets is relatively new, there are not, as yet, any simple recipes, proved and tested for application. In particular, there is still very little experience of how to gather the relevant evidence needed to assess whether and how a certain level of indirect demand externalities translates into effective competitive constraints. Accordingly, the empirical knowledge on case scenarios in which the explicit recognition of two-sidedness is decisive for the competitive assessment of a single case has not yet been established.

## **3. *Practical cases***

9. In August 2008, the Bundeskartellamt blocked a merger between two professional journals in cosmetics.<sup>3</sup> Besides the high level of concentration and the relevant market share increment of the merger in both relevant markets (i.e. the reader market and advertising market), the Bundeskartellamt based its conclusion on several elements derived from the concept of two-sidedness. In this regard, the Bundeskartellamt considers the markets for print media to be an example of two-sided markets in which network externalities are extremely asymmetric. Readers care only to a very limited extent about the sort and the amount of ads in a newspaper or journal. Thus the network externality coming from the advertising market can most likely be neglected. Advertisers, however, do care for the number (and selection) of readers, which is also reflected in the pricing structure for ads which typically set prices as a sum per thousands of readers, possibly in a certain age range. The Bundeskartellamt furthermore concluded that barriers to entry are higher in two-sided than in conventional markets. In order to enter either market, it is necessary to successfully enter the corresponding market of the platform as well. In particular, the Bundeskartellamt stressed that entering the advertising market for professional cosmetic journals was only

<sup>2</sup> This definition was first elaborated in the pioneering work by Rochet and Tirole, which began circulating as a discussion paper in 2001; the final version of the paper is published in: Rochet, Tirole, Platform Competition in Two-Sided Markets, in: Journal of the European Economic Association, 1 (2003), S. 1 – 22.

<sup>3</sup> <http://www.bundeskartellamt.de/wDeutsch/download/pdf/Fusion/Fusion08/B6-52-08.pdf?navid=74>

feasible if it was possible to quickly gain a considerable market share in the reader market. In addition, the Bundeskartellamt took into account that the parties to the transaction were also the leading providers of specialized trade fare services for cosmetics, i.e. another very important platform were the two relevant customer groups for professional cosmetic journals regularly interact.

10. The concept of two-sidedness also played a role in a merger case in the TV sector. In January 2006, the Bundeskartellamt blocked a merger between *Springer*, a large German publisher, and *ProSieben/Sat1*, a large German TV broadcasting company.<sup>4</sup> The decision was based – among others – on the conclusion that the merger would strengthen the collectively dominant position of *RTL* and *ProSieben/Sat1* on the German market for TV commercials. Both companies currently have a joint market share of 80 % to 90 % on the German market for TV commercials. In December 2008, the decision of the Bundeskartellamt was upheld by the Higher Regional Court of Düsseldorf; the court in its decision i.a. confirmed that the fact that both companies may to a certain extent compete for viewers is not sufficient to conclude that the possibility of a collectively dominant position on the other market side of the platform (i.e. the market for commercials) is excluded.

---

<sup>4</sup> The full text of the decision (in German) can be downloaded here: <http://www.bundeskartellamt.de/wDeutsch/download/pdf/Fusion/Fusion06/B6-103-05.pdf?navid=72>