Public interventions in platform industries: The role of interest groups and potential welfare effects

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We examine the public interventions towards the platform industries in Turkey. Through a regulatory and an antirust intervention, we emphasise the influence of interest groups and potential welfare effects and conclude that the public interventions benefit the relevant interest groups at the expense of other parties. Moreover, each of these interventions has potential negative effects specific to platform industries.

Introduction

The value created by platforms that operate as intermediaries between different customer groups has been increasing around the world. In parallel to their share in added value, their market power also increases. Entities that use these platforms to reach the final consumers have been troubled by such a distributional change as it causes their share in the value-added process to decline. They then call for public intervention to reverse it.

However, as the political economy literature suggests, public interventions generally benefit some parties at the expense of others (Krueger 1974). Moreover, any public intervention in platform industries may have unintended consequences (Tirole 2015). In this paper, we analyse the public interventions towards the platform industries in Turkey; in particular, we try to emphasise the influence of interest groups and potential welfare effects of the interventions through two cases.

Regulation for meal card platforms

In recent years, platform services have been on the agenda of Turkish authorities. Meal card platforms are examples of those services that have drawn attention and criticism from various actors. Currently, four platforms that dominate the Turkish market have been accused of charging high commission fees. A meal card platform is a multisided platform that operates as a payment intermediary. On one side of the platform are member restaurants that accept the card and on the other side are companies that load credits on the card for their employees. According to Turkish tax law, benefits paid to employees, such as meal payments, can be exempted from the corporate income tax. Such legislation has incentivised companies to work with meal card platforms.

A typical meal card platform charges a commission fee from the restaurants and subsidizes the companies. A typical meal card platform charges 10–12 per cent commission from the restaurants and subsidises the companies 5–6 per cent for their loaded credits. Overall, the platform receives revenue of 5–6 TRL for each 100 TRL spent on the platform.

In 2017, the association of restaurants and chambers of commerce of two big cities, Istanbul and Ankara, had started to complain via the media about high commission fees being charged by the platforms. The association of restaurants even decided to stage a day-long boycott against the platforms. After a series of meeting and negotiations with the platforms in the presence of the Ministry of Trade, a settlement was reached. In the Official Gazette on 22 May 2018, a regulation was enacted that capped the commission fees from the restaurants at 6 per cent and forbade the platforms from subsidising the companies.

Overall, the regulation preserves the revenue stream of the platforms, but changed its allocation. More concretely, the platforms still receive 6 TRL for each 100 TRL spent, but now restaurants pay less, and companies are no longer allowed to be subsidised. Accordingly, the welfare effects of this regulation indicate a situation in which the restaurants are better off, companies are worse off, and no welfare change occurs for the platforms.

However, effects on competition dynamics may potentially emerge in the long run. Before presenting our arguments on this issue, we will briefly mention a few concepts. A platform must create a feedback loop – called a network effect – in order to sustain its profitability in a multi-sided market. For instance, for a meal card platform creating a feedback loop there must be enough number of restaurants on one side and enough users (companies' employees) on the other side. This phenomenon is known as the chicken-and-egg problem (Caillaud & Jullien 2003) and requires the platform to achieve critical mass, in terms of numbers of customers, on each side of the market.

This point is more crucial for an entrant platform. The most common strategy for an entrant platform to achieve

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critical mass and solve the chicken-and-egg problem is penetration pricing (Katz & Shapiro 1994; Shapiro & Varian 1998). The fundamental mechanism of the penetration pricing strategy is based on applying lower prices for the money side and giving higher benefits to the subsidy side. Thus, an entrant platform utilises this pricing mechanism to gain ground in a multi-sided market. However, with the regulation, the penetration pricing becomes practically non-effective, since an entrant platform is not allowed to provide benefits to the company side. One can argue that applying lower commission fees for the restaurants may be sufficient for ignition. However, as David Evans and Richard Schmalensee (2016) put it, you can't have chickens without eggs but you need chickens to get eggs. Accordingly, a platform cannot attract restaurants without users, and no restaurant would be a member of the system that had no users available. Thus, we argue that, in the long-run, the regulation functions as an entry barrier and favours the existing platforms.

To sum up, the regulation for the meal card platforms, which was urged by the association of restaurants and chambers of commerce of two big cities, favours the main interest groups in the market. The short-run effects of the regulation indicate a situation in which the restaurants are better off, the companies (and, indirectly, their employees) are worse off, and the incumbent platforms secures their revenue stream. In the long run, the regulation restricts potential entries through limiting the pricing behaviour of entrant platforms.

Excessive pricing intervention: Sahibinden.com antitrust decision

Another interesting intervention to the platform industries is the Turkish Competition Authority's (TCA) sahibinden.com decision in 2018 (TCA 2018). The TCA decided that sahibinden.com – the largest classified advertisement platform in Turkey – abused its dominant position through applying excessive pricing in the market for online classified ad services for car dealers and real estate agencies.

The investigation started with a complaint by associations of car dealers and real estate agencies. Then the relevant general directorate of the Ministry of Trade became involved in the case as an additional plaintiff. Despite the opposing view of the majority of the reporters, the board decided that the platform had abused its dominant position by applying excessive pricing. This was, to our knowledge, the first ever antitrust decision for excessive pricing in online platform services. According to the TCA, sahibinden.com has a dominant position in the relevant market and abused this position by applying significantly higher prices than its competitors. The TCA also added that the price increases are non-proportional to the rise in company's cost. More interestingly, the TCA ruled that, in order to stop the violation, sahibinden.com should apply a price increase that is 'reasonable' and can be explained by the rise in its cost.

From the competition policy perspective, prohibiting excessive pricing is not an unusual application, especially for monopolies or de-facto monopolies. However, for the platform industries – in which commercial innovation plays a significant role to gain a competitive advantage – it is hard to figure out the objective of the decision. Moreover, the guidance in the decision for a lawful pricing (being cost basis and a 'reasonable' price increase) is odd for such a dynamic market in which frequent entries and exits occur.

When we look at the potential short-run effects the decision, we argue that the car dealers and the real estate agencies are better off and the platform is worse off. However, for the other side of the market (users/viewers) it is difficult to make an assessment at first sight. To elaborate the possible effects on them, we need to introduce a specific concept.

Pricing mechanism and its functioning in platform industries are more complex than in a single-sided market. In multi-sided markets, any price intervention may have further effects than initially anticipated. For instance, if a price intervention occurs on one side of the market, the platform offsets its loss from other side(s). In other words, the platform compensates its loss by charging the other side(s) of the market more or by subsidising them less. This phenomenon is known in the economic literature as the waterbed effect (Schiff 2008).

As a classified ad platform, sahibinden.com charges advertisers and provides free services to users/viewers. Those free services include innovative services such as customisable search, individual pricing alerts, historical price/rent indexes, etc. In this respect, the platform implicitly subsidises the users/viewers. As the theory and empirical findings related to the waterbed effect put it, a limit on pricing on one side has the potential to decrease the quality of the free services given on the other side (Genakos & Valletti 2012). Thus, we argue that the price intervention indicates a situation where users/viewers are worse off.

The possible long-run effects of the decision are beyond the relevant market. The guidance in the decision for a lawful pricing may have a potential negative effect on innovative business models. In platform industries, the value (and hence the pricing) of the product is not closely related with the cost of production. The friction solved in the market and the magnitude of the network effects are the main determinants of the value of the product (Parker et al. 2016). Moreover, the commercial innovations adapted as novel business models have both cost-saving and value-creating effects. Considering the guidance in the decision, we argue that such guidance will disincentivise the creation of innovative services.

To conclude, the TCA's sahibinden.com decision takes an unusual antitrust approach towards the platform industries. While the decision favours the interest groups, the possible effects on the ultimate consumers are ignored. Moreover, the guidance in the decision for a lawful pricing creates uncertainty for the invention of novel services.

Conclusion

This paper has examined the public interventions towards the platform industries in Turkey. Through a regulatory and an antirust intervention, we emphasise the influence of interest groups and potential welfare effects. We conclude that the public interventions benefit the relevant interest groups, which urge for these interventions, at the expense of other parties. Moreover, each of these interventions has potential negative effects specific to platform industries.

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