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Tipping of Markets. A Brief Analysis[1]

Authored by –
Apoorva Kaur

INTRODUCTION

In the simplest terms, tipping occurs when a critical mass is reached in a market. This is the major reason as to why network industries are concentrated with a dominant undertaking. [i] This paper outlines the factors which are responsible for tipping in the market. Network Effects, being one of the primary reasons for tipping in the market, which implies, the value of the product rises with number of users who are using the product. It gives a competitive advantage to people who have more users on their network. The product becomes a "must-use" product, simply because everyone owns that product regardless of the quality of the product. Tipping of the market is a situation where the "winner takes it all". This paper shall discuss that whether the tipping of the market is predictable, whether it can be measured or not?

This paper shall in detail discuss how market for search engine has been tipped in favour of Google. [ii] It shall also provide instances of Facebook, the market for social networking platform has been tipped in favour of Facebook.

This paper shall review the effects of tipping in the market. It shall broadly cover how tipping shifts the 'competition in the market' to 'competition for the market'. Competition is stifled, once a player achieves dominance in the market. How tipping is a barrier to a new entrant in the market

Digital platforms contain a number of characteristics, such as network effects, switching costs, and other entry barriers, that make them vulnerable to be skewed in favour of a single dominating undertaking. As a result, new entrants cannot compete with these networks, and the competitive advantage moves from 'competition in the market to competition for the market.".[iii] Network effects, in particular, trigger a lock-in effect that makes switching to another network difficult or impossible for users. Single homing and lock-in is typically prone to tipping of a market structure. Since Facebook is not interoperable with other social networks, users who choose to move to another site must pay a high fee, effectively locking them into Facebook's platform. High switching costs are also persisting in other markets. This shall be discussed in length in the paper.

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The paper tries to build a distinction between market success and tipping. It will debate on whether tipping is an anti-competitive practise?

This paper shall emphasize the factors which shall mitigate tipping in the market. The nature of inter-platform competition between platforms and one-sided rivalry in the market is strengthened by the presence of multi-homing on different sides of the platform, making the competitive game field more contestable and preventing tipping.[iv]

Multi-homing will also help new entrants attract clients even if they are already on a huge network, lowering the high barrier to market entry. Interoperability is the ability to exchange information from one portal to another. This enables to lower switching costs for users by ensuring that they do not lose access to their network as a result of switching.

FACTORS LEADING TO THE TIPPING OF MARKETS

There are certain factors which facilitate tipping and concentration of the markets which are discussed at length below: -

Role of Network Effects in Tipping of the markets

Network effects are the mechanisms in a product and business where each new user increases the value of productor service for all other users.[v] When one additional user boosts the value created by other users of the same platform, this positive externality between users is called a 'positive network effect'. More searchers improve the algorithm of a search engine, making it more valuable to other users. This structure leads to a positive feedback loop between the users, which in turn facilitates tipping. When consumers regard a product as a must-have because it has the most users, demand for that product may rise. There is no guarantee that the presence of network effects will result in monopoly or tipping. Markets that have substantial network effects may be prone to tipping.

The network effects have the potential to bolster the market position of the largest players in a short period of time. In reality this might raise entry barriers or generate a vicious circle where corporate giants grow huger, leaving smaller undertakings in a position to not to able to compete. This scenario could result a market equilibrium in which everyone joins only one of the networks and only one undertaking.[vi] For instance, the network effects can be understood with case of Facebook-WhatsApp and Instagram merger. How social media platform has been tipped in favour of Facebook and scrapped the existence of other messaging and social media apps. Earlier, there used to be Orkut, but now it has been scrapped in the market, with the means of positive network effects.

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Complementary Offerings: -

The complimentary offerings also generate tipping points in the market ecosystem. This mechanism attracts the consumers to stick to a single platform for a multitude of services. This can also lead to single-homing which indeed is prone to tipping of the markets.

This can be explained with the example of Microsoft's strategy, how it tipped the internet browser in its favour. In 1994, Netscape launched the first mass-market browser and dominated the ecosystem for quite a long time. Later, Microsoft came with its very own browser, 'Internet Explorer' and included it as a free download with Windows. As a large number of new personal computers were shipped with Internet Explorer over the span of time, and as Microsoft advanced its browser technology, Netscape's browser sank from around an 80 percent market share to a negligible presence in the market. Because it had such a large share in operating systems, Microsoft breached the antitrust laws by bundling a product for free that competitors provided for sale and occasionally for free as well.

The other instance of explaining this strategy of tipping can be dealt with the example of business model of google. Google induced complimentary offerings to use its platform for multitude of services, ranging from email to google photos, maps, drive, chrome, search and docs. This single-homing leads to tipping of the market in favour of google.

Economies of Scale

Corporations benefit from economies of scale when their production gets more efficient. Economies of scale have a tendency to massively accelerate the tipping of the market. They are one of the major factors which restrict the entry of the new entrants in the markets because of their cost advantage. The conventional market structure is expected to consist of a few major enterprises, each with great market power, where significant economies of scale exist. It implies that at competitors are less likely to enter or remain in the market if the dominant undertaking forecloses a major portion of the relevant market, resulting in market structure concentration as a result of the dominant player's conduct.

Facebook grew from one million members in 2004, the year it was founded, to over 350 million members in under five years, reaping the benefit to increased returns to scale.[vii] Google, too, benefited from economies of scale and the self-reinforcing benefits of data, as well as aggressive business strategies used to hinder competition at important points. As a result of these factors, Google today has a long-term monopoly in the broader internet search business.[viii]

Higher Switching Costs

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Switching costs refer to the expenses in terms of time, effort, or money incurred when switching from one incompatible product to another. When switching costs are high, customers are more likely to continue with the same supplier throughout their life cycle, resulting in customer ***lock-in.*** This also creates significant barrier to entry to other competitors in the market, leading to monopolized market. Apple, for example, creates a lock-in effect for its customers by requiring them to purchase everything from Airpods to Apple TVs in order to keep their electronic devices in sync.

Barriers to Entry

The presence of high barriers to entry in the market results in more market concentration and increases the chances of tipping towards one or a small number of players. Factors such as single homing, higher switching cost, lock-in of customers lead to barriers to entry for the new entrant in the market. This further results in tipping of the market and winner taking it all in the structure.

Amazon's rampant growth in private label brands and its reach to almost sector is the tipping point for creating the e-commerce giant into a monopoly. It has expanded its wings into spectrum of services in the digital economy. Right from Kindle to amazon webservices, it is has almost become a one-stop station for all requirements of a consumers, it facilitates amazon pantry, amazon pay, amazon firestick, amazon prime, alexa, Echo, amazon drive, music what not. It has literally become a giant with a to z in the market. This business model is interesting to study which is likely creating barrier to entry from other small undertakings.

Competition for the market

The struggle of generating a new ecosystem, or to establish a new benchmark, which is usually related to the advent of innovation is implied as 'competition for the market'. Whereas, competition in the market means the conventional approach of competition where there are players in the well-established markets. Strong network effects can generate tipping points, which in turns leads to tipping of the market. For example, Facebook and its family of products have tremendous network effects, and there are strong tipping points in the social networking market that produce competition for the market rather than competition in the market.[ix] When the markets reach tipping point, it is no longer contestable by new entrants, hence, it switches the competitive process from 'competition in the market' to 'competition for the market'. This shift undermines the competitive process and promotes the abuse of dominance of the monopolistic player in the ecosystem.

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FACTORS MITIGATING TIPPING IN THE MARKET

Platform Differentiation

Platform differentiation is when platforms differentiate or set apart themselves from their competitors by targeting and focusing on a specific set of user groups. The market will tip if both user groups single-home on many platforms and platforms offer non-differentiated offerings to each group. The only manner in which a new platform may dilute the position of the leading platform is to differentiate itself from it and to target on a specialized market niche, taking leverage of the user heterogeneity. Example of Apple's iPhone is perfect to understand product differentiation. Platforms also provide services that entice customers from one side regardless of the steps taken by the other side. For instance, smart phone. The market in this segment is competitive and co-existent. Furthermore, platform differentiation, along with low switching costs, leads to multi-homing, which leads to customer desire for many platforms.[x] The less network effects matter for the competitive process, the more distinctive platforms are, at least in the eyes of consumers, allowing numerous platforms to survive in the market.[xi] For example,

Snapchat, for example, was able to set itself apart from Facebook by developing a product focused at a younger population, and as a result, it was able to attract marketers looking to reach that audience.[xii] As a result, increased differentiation between competing platforms reduces tipping.

Multi Homing

If the two platforms are substitutes, multihoming may be a factor in reducing the likelihood of tipping.[xiii] Tipping is less likely in a market where users can easily split their time over multiple platforms than it is in a market where each user stays to one platform. (single-homing) Multi-homing can reduce a network's defensibility and attenuate network effects, but only to a certain degree.

The more multi-homing there is at the different sides of the platform, the more is promoting the dynamics of inter-platform competition or competition between platforms and one-sided competitors on a product market thus making the field of the competitive game more contestable and can thus mitigate tipping.[xiv] This can also help new entrants overcome the high barrier to market entry by allowing them to win over consumers who are already on a major network.[xv]

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Inter-Operability

Interoperability is a mechanism which can intensify competition in the market. It is one of the parameters which can mitigate tipping of the market. Interoperability is the ability of different platforms / devices to share technology or information. Greater interoperability will mean it is less likely for markets to tip in favour of a player as it reduced the barriers to entry and growth of competitors. As, a result, greater inter-operability can also reduce the tipping of the market in favour of a player. Facebook has made its platform inter-operable with WhatsApp and Instagram, the data and images can be inter-operated from one platform to another. But this has tipped the social media platform in favour of Facebook.

Another instance of inter-operability can be seen is in the case of telecommunications, where there is inter-operability amongst the players of this segment, hence the market is at the competitive edge in this segment of the industry.

MEASURING OF TIPPING AND UNDERSTANDING THE NATURE OF TIPPING

Tipping point is predictable only when it can be seen in the market that an incumbent is contributing to competition of the market by introducing a variety of products on its platform to induce single homing and attract more consumers to its platform. As soon as it is realized, the ship has already sailed to abuse its dominance in the market structure.

Identifying the tipping point and measuring the market structure is quite a tricky question. To begin, we must evaluate the nature of the competition and pinpoint the market where the theory of harm is likely to emerge. The method for determining market power will be unique to the conduct under inquiry. Second, while evaluating a multi-sided market, a sequential method should be used, meaning that all sides of the market should be evaluated at the same time. Finally, while calculating market tipping, the player's behaviour is a critical factor to consider. To evaluate tipping using empirical data, is very tough task since it is a comparison of expected concentration and hypothetical concentration of market structure. It should more of a utility and customer satisfaction test.[xvi]

In my opinion, when a dominant player reaches the tipping point in the market structure, that can be the market success for that undertaking, but as soon that very dominant player exploits the position, it becomes an anti-competitive practise. Tipping is essentially distinctive from the concept of market success because, it is point where the market success is exploited by a dominant undertaking. The market success's exploitation drives to the tipping point in a market

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structure. However, in order to properly see why this market is so concentrated, one needs consider the significance of tipping in markets with indirect network effects.

COMPETITION COMMISSION' S STAND ON TIPPING

There are multiple instances when Competition Commission of India (CCI) took cognizance of abuse of dominance of players in the market and imposed penalties upon them. Let us discuss the two cases in brief.

Competition Commission of India took a note of complaint against Ola and Uber taxi service providers for cartelization and ordered investigation, however these providers won the case. An unprecedent move was seen when CCI exercised its power to issue interim order to redress competitive injury in the Online Travel Agencies (OTA) market structure in India.

In 2019, the Competition Commission of India launched an investigation against Online Travel Agencies (OTA) players, namely, MakeMyTrip Private Ltd. (also known as MMT) and Ibibo Group Pvt. Ltd. (also known as Go-Ibibo) (jointly, MMT-GO). The probe was initiated against them under Section 3(4) and Section 4 of the Competition Act, 2002. The allegations mainly pertained to MMTGO's exclusive agreement with Oravel Stays Pvt. Ltd. (also known as OYO) which allegedly resulted in foreclosure of the market for hotels / accommodations.

On 9th March 2021, while the investigation is still on-going, the CCI awarded interim relief to two franchisee budget hotels namely, FabHotels and Treebo by ordering MMT-GO to immediately relist both hotels on its web portals. Denial of market access in any way that restricts an enterprise's ability to compete successfully in the market is in violation of the Act. More specifically, in dynamic markets where the winner takes it all, denying market access can have the irreversible consequence of shifting the market in favour of market incumbents with strong market strength. OYO, here is dominating and enjoying this position.

While this interim order will set the tone for future investigations into digital marketplaces, how the CCI ends its investigation into MMT-GO and OYO remains to be seen.

INDIAN HEALTH MARKET AT A TIPPING POINT

The health sector is witnessing an exciting tipping point during Covid-19 crisis in IndiaDuring the COVID lockdown, there was a considerable rise in demand for online health services. Pharmaceutical companies rushed to produce coronavirus testing, treatments, and vaccinations. The demand for injections like remedesivir, fabiflu, demand for oximeters, respirometers and pharmaceutical drugs raised multiple challenges in the market structure, higher demand also led

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to bombing prices and also the fabricated market. The regulatory mechanism shall be imposed in the market structure at the earliest to protect the consumers from facing further anti-competitive destruction.

CONCLUSION

Tipping can also be defined as a mechanism that leads to a market being served by only one undertaking, with the remaining players exiting the structure. Tipping, in essence, wins platform wars by generating market momentum.

To re-establish competition, consumers and companies may need to work together to transition to a different platform. Competition in the market promotes consumer welfare, and public interest clearly points out that maximizing consumer welfare should be at the forefront of both competition policy and law.

Competition authorities and regulatory bodies need to recognize the tipping points of the markets that might lead to concentration of market where a dominant player shall abuse its position and eliminate the competition from the market. Timely intervention of authorities is very crucial to assess tipping and behaviour of player. The *toolkit approach*[xvii], that is combining different fields of law and regulation and act as a regulatory compass. Another way suggested by this report is to regulate tipping is by advent of *principle of social responsibility*. It can also be interpreted as, with great power comes great responsibility. This principle was recognized in the case of *Michelin v. Commission*.[xviii] In this case, the Court had a finding that a dominant player has a specific obligation to ensure that its conduct does not obstruct real competition in the market.

Certain traits such as booming growth patterns and multi-market presence can indicate the tipping players in the market. However, success of a player in the market must be interpreted differently from a tippy market. The rampant growth of the digital platforms has served the consumers, but it also has raised the stress of competition strategies in the market.

Consumer welfare and competition in the market shall be preserved for striving a balance in the market structure. Antitrust enforcements require the constant ability to adapt to unprecedented and severe threats to the competition. The continuous evaluation and amendment of the competition law shall be the task of the legislators. The scope of competition policy should be expanded to inculcate digital platform business to promote free and fair competition. Also, tools for detection of anti-competitive practises should be included in the policy. A transparent, pro-competitive and non-discriminatory market structure must be ensured in the market structure.

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