“market”

- Two products are in the same market if raising one product’s price boosts the other’s sales.

“platform”

- Facilitates user interactions on one network
- Different roles
  - Sponsor
  - Provider
- Platforms are in the same “networked market” if
  - Raiding costs to connect to one platform influences transactions on other platform

Varieties of Networked markets

- One Sided
  - Homogeneous users
  - Chat users
- Two Sided
  - Two distinct groups that play the same role in transactions
  - Video game makers vs. game players
- Three Sided
  - Ex: You tube
  - Viewers, advertisers, content providers

If it is not WTA, then

- Multi-Homing - users affiliate with more than one platform
- Mono-homing - users pick 1 platform
- Mixed-mode
  - Some multi-home
  - Some mono-home

Factors that determine outcome

- Supply economies of scale
  - (Whether there is a “natural monopoly”)
- Multi-homing costs
- Strength of network effects
- Users’ preference for differentiated functionality
Supply Economies of Scale

- Average cost declines with volume
- In some markets, fixed costs so high that the market can only support one player
- More often, player with higher volume has cost advantage that can lead to positive feedback

Multi Homing costs

- How much more does it cost a user to affiliate with multiple platforms?
  - Monetary costs
  - Search costs
  - Setup costs
  - Etc.

Network effects

- The sum of expected values from potential partners

\[ \sum V_p \]

Users Choice:

Connect to platform if

\[ \sum V_p + I \geq H \]

\[ \text{Homing Cost} \]

\[ \text{Independent value} \]

Platform Differentiation

- Some platforms increase the value derived from transactions over rival platforms
  - Sometimes increase is transaction specific
  - Sometime across the board better

Multi Homing

- A user that chooses to connect to platform A also connects to platform B if:

\[ \sum |V_{pB} - V_{pA}| + I_B \geq H_B \]

Value derived from interacting with p on platform B Versus Platform A.
WTA Scenarios
Scenario 1:
- Multi-homing costs are high on both sides
- One or more sides want many transaction partners
- Neither side wants differentiated platform functionality
Scenario 2
- Multi-homing costs are high on one side
- That side wants many transaction partners
- Neither side has strong preference for differentiation in platform

WTA Scenarios Examples
Scenario 1
- Example: DVD
Scenario 2
- PDF

Mono Home outcomes
- Online music services
- Typically
  - Mono-homed user side
    - High multi-homing costs
  - Multi-homed content provider side
    - Low multi-homing costs

Mixed Mode outcomes
- 802.11g vs 802.11a ??