Defining Relevant Markets in Evolving Industries: What’s the value of the future?

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Basic Challenge 1

• Traditional analyses are static
  – Ignore duration of market structure
  – Changes from…
    • Technologies
    • Customers
• Future changes are unknown
Recall: Consumers’ and Producers’ Surplus
But what if…

- **Market power**
  - Made tech adoption more economical?
  - Made creative destruction more profitable?
- **Competition oversight has costs?**
Dynamic Surplus

- **Sum of consumers’ and producers’ surpluses over generations of products**
  - Migrating: Customer or producer substitutes old for new
  - Supplementing: Customer or producer continue with old and add new
  - Mixed: Customer or producer decreases old and adds new
Dynamic Surplus

- Sum of consumers’ and producers’ surpluses over generations of products
  - When customers migrate, they give up old NCS and gain new NCS
  - Migrate only if better off if given choice
  - When producers migrate, they give up old profits
Dynamic Surplus: Base Case
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Dynamic Surplus: Product Innovation

Note: Keeping MC constant
Dynamic Surplus: Product Innovation

Note: Keeping MC constant
Dynamic Surplus: Comparison

What happens to surplus?

Note: Keeping MC constant
Dynamic Surplus: Producer Comparison

Note: Keeping MC constant
Dynamic Surplus: Consumer Comparison

Note: Keeping MC constant
What’s true about Dynamic Surplus?

• **Operators give up (some) old profit for new**
  – Always improves profit unless fixed costs of innovation too high

• **Customers give up (some) old NCS for new NCS**
  – Always improves unless MCs are much higher
What are the tradeoffs?

• More competition decreases profit gain
  – Decreases probability of innovation

• More competition increases NCS
  – And increases customer gain

• Value of innovation vs value of static competition
Basic Challenge 2

• Traditional analyses and decisions take time
  – Change already occurring
    • Makes enforcement moot?
    • Makes enforcement counter productive?
Basic Challenge 3

- Two sided markets with market concentration
  - Forward compatibility
    - Decreases exercise of market power in current market
  - Cross market interoperability
    - Decreases exercise of market power in both markets
    - Increases quality of interconnectivity
Contact

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