

Social Utilities, Dominance and Interoperability: a Modest Proposal

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GikII 24 September 2008

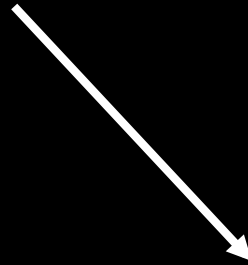
Oxford

Social utility competition concerns?



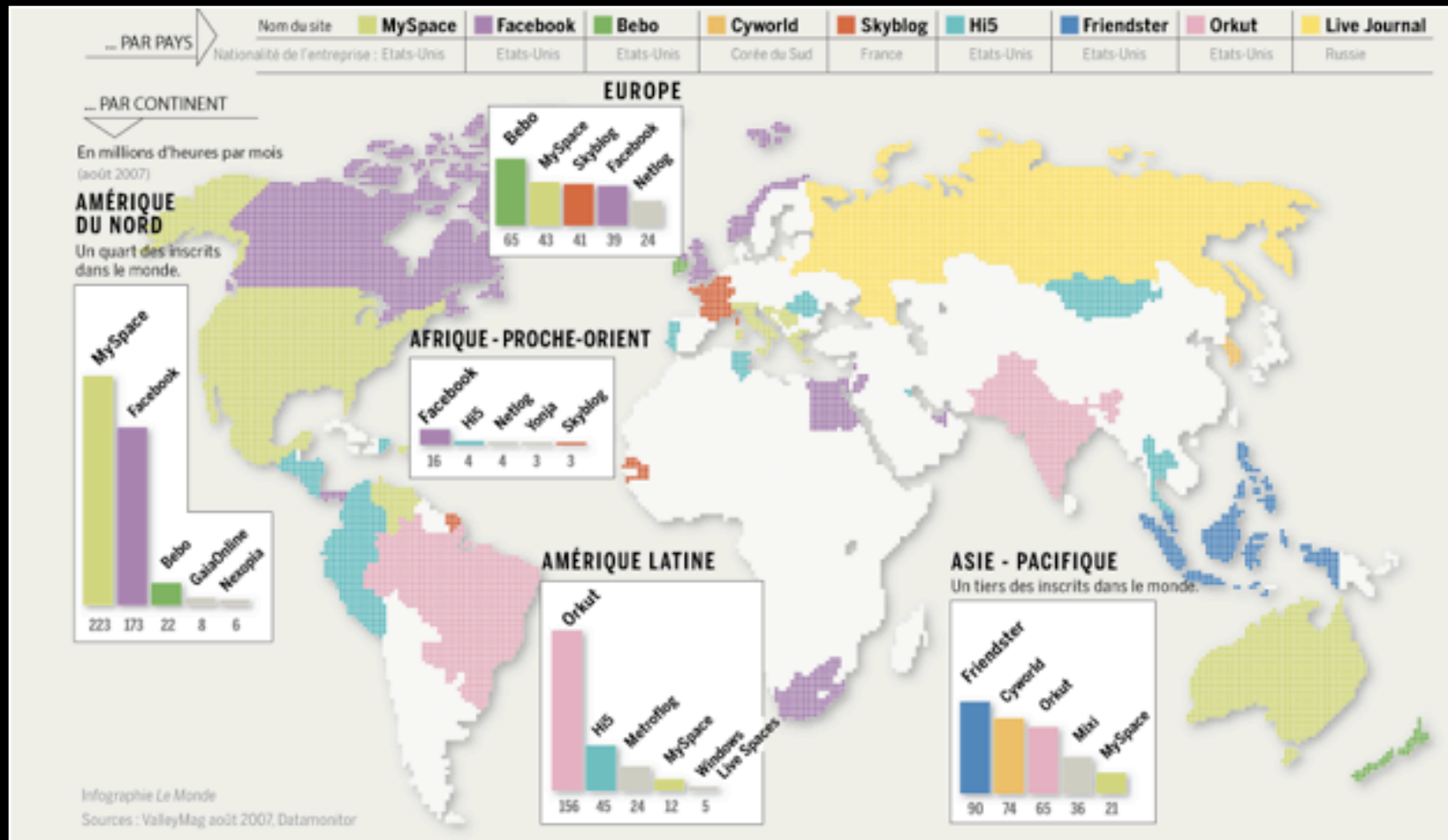
Whither market failure?

- strong network effects
- high switching costs



- dominance of social utilities
 - (SNS, IM clients etc)
- in various national markets

SNS market penetration



Source: Le Monde, 15/5/08

Mergers and acquisitions

- Dominant content providers in Internet or other content markets:
 - MySpace/News Corp.;
 - Orkut-Google-DoubleClick;
 - Amazon and Microsoft investments

Vertical integration and SNS

The behemoth SNS:

- Can influence negotiation with ISPs
- Absent net neutrality regulation
- Leading to a vertical value chain of dominance

BT and MySpace and News Corp

Orange and Google and Orkut

DTelekom and AOL and Facebook

Hypothesis

- OpenSocial and related efforts may reduce switching costs,
- but network effects will still act as a barrier to entry
- vertical integration will limit consumer choice

Proposal

Competition authorities should:

- impose *ex ante* interoperability requirements
- upon dominant social utilities
- between vertically integrated value chains
- to minimise network barriers

Three models

Model 1: Must-carry obligations

- on broadcasters and Electronic Programme Guides

Model 2: API disclosure requirements

- on Microsoft from DoJ and EC rulings

Model 3: Interconnect requirements

- on telcos, especially with SMP

Recommendation

- API disclosure requirements are necessary but not sufficient - ability to program platform apps is of little use if they cannot run
- Must-carry obligations enable one platform to “break in” to another (eg Flickr app on Facebook)
- Interconnect reqts most likely to lead to seamless user experience that will create real competition

