Platform Competition in Two-Sided Markets

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Abstract

Many if not most markets with network externalities are two-sided. To succeed, platforms in industries such as software, portals and media, payment systems and the Internet, must "get both sides of the market on board ". Accordingly, platforms devote much attention to their business model, that is to how they court each side while making money overall. The paper builds a model of platform competition with two-sided markets. It unveils the determinants of price allocation and end-user surplus for different governance structures (profit-maximizing platforms and not-for-profit joint undertakings), and compares the outcomes with those under an integrated monopolist and a Ramsey planner.

1 Introduction

Buyers of videogame consoles want games to play on; game developers pick platforms that are or will be popular among gamers. Cardholders value credit or debit card only to the extent that these are accepted by the merchants they patronize; affiliated merchants benefit from a widespread diffusion of cards among consumers. More generally, many if not most markets with network externalities are characterized by the presence of two distinct sides whose ultimate benefit stems from interacting through a common platform. Platform owners or sponsors in these industries must address the celebrated "chicken-and-egg problem" and be careful to "get both sides on board". Despite much theoretical

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