Platform Price Parity Clauses with Direct Sales *

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Abstract

We present a model with two differentiated platforms that compete by offering commissions to two differentiated suppliers. The suppliers set prices and sell their products to final consumers both indirectly, via the two platforms, as well as directly via their own sales channel. We use this framework to analyze the effects of price parity clauses. In contrast to the prevailing theory of harm that has been developed in a series of recent antitrust investigations, and also in some recent contributions to the academic literature, we find that commissions and (final) prices do not necessarily increase when price parity clauses are introduced. Importantly, we find that price parity clauses may simultaneously benefit the platforms, the suppliers and the final consumers – even in the absence of any efficiency arguments (i.e., reduction of search costs, protection from free-riding on services, etc).

[VERY PRELIMINARY DRAFT - PLEASE DO NOT CIRCULATE]

1 Introduction

A price parity clause is an agreement between a seller (e.g., a hotel) and an agent (e.g., an online booking platform) that the seller will not offer its product at a lower price elsewhere.[1]

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[1] Depending on the context, these are somestimes also referred to as "rate parity" clauses, "retail price MFNs" or just MFNs (for "most-favored nation"). However, an MFN clause often applies more generally to a sellers "terms of trade" with its agent/retailer, and will usually cover the wholesale terms, and not the final price.