Bargaining Power in Two-Sided Markets

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- Call termination on mobile networks
- Supermarkets

Fixed-to-mobile termination on mobile networks

Dominant fixed network's MTF termination charge regulated, so no "negotiation" between fixed and mobile networks

Standard "competitive bottleneck" analysis:

- Fixed network obliged to accept whatever termination charge demanded by mobile networks
- Even "small" or "new" mobile networks have full monopoly power over termination to their subscribers
- Outcome as if mobile subscribers themselves set their own termination charge
- Market failure and rationale to intervene

Opposite polar case: fixed network free to refuse to send calls to a mobile network

What is the expected outcome here?

Simplest framework (Armstrong and Wright current work):

- Mobile firms offer homogeneous services, constant total number of mobile subscribers
- No MTM calls
- Fixed network prefers lower FTM termination charges
- Mobile subscribers value receiving calls from fixed network
- Mobile firms offer termination charges to fixed network, fixed network chooses which mobile network to connect with, and mobile firms then compete for subscribers

Results

If mobile firms offer distinct termination rates, fixed network will choose to connect only with those with the lowest rates

- mobile networks which offer higher rates will not be able to offer service to subscribers which includes the ability to receive FTM calls
- these networks will not be able to compete and will leave the market
- remaining mobile network(s) will serve the mobile market, and this outcome will minimize fixed network's outlay on termination charges

Mobile firms will compete to offer the lowest termination rates

Outcome approximates the efficient outcome

Removing fixed network's obligation to connect may be a substitute for direct regulation of FTM termination charges

Supermarkets

Two “shopping centres”, consumers choose to visit one *or* the other

Two selling institutions: *direct selling* by many individual suppliers, or *supermarkets*

With direct selling:

- pricing decisions by one supplier ignore the externality that its high prices have on other sellers in the same shopping centre, i.e., the impact on inter-centre competition for shoppers
- prices and profits are high

Suppose supermarkets make take-it-or-leave-it offers to suppliers

Bargaining power reversed

Outcome as if consumers themselves make offers to individual suppliers

Prices paid to suppliers inefficiently low (if suppliers have private information about their reservation price)

Outcome maximizes welfare of {consumers + supermarkets} but not total welfare

Industry profit reduced since all pricing decisions internalized

Welfare comparison between two institutions ambiguous (and depends on welfare standard)

Interesting to consider supermarket's incentive to enter “non food” markets previously characterized by direct selling (e.g., clothing)...