BIG TECH DOMINANCE

A barrier to technological innovation?

Fondation pour l'innovation politique

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Key take-aways

- **Big tech firms**, keen to maintain their hegemony, currently **abuse their dominant positions at the expense of technological innovation**
- As such, proactive regulations and antitrust policy should be used to **develop a fair competitive ecosystem for the tech industry**

The big tech cash hoarding

The symptom of an insufficiently competitive tech environment

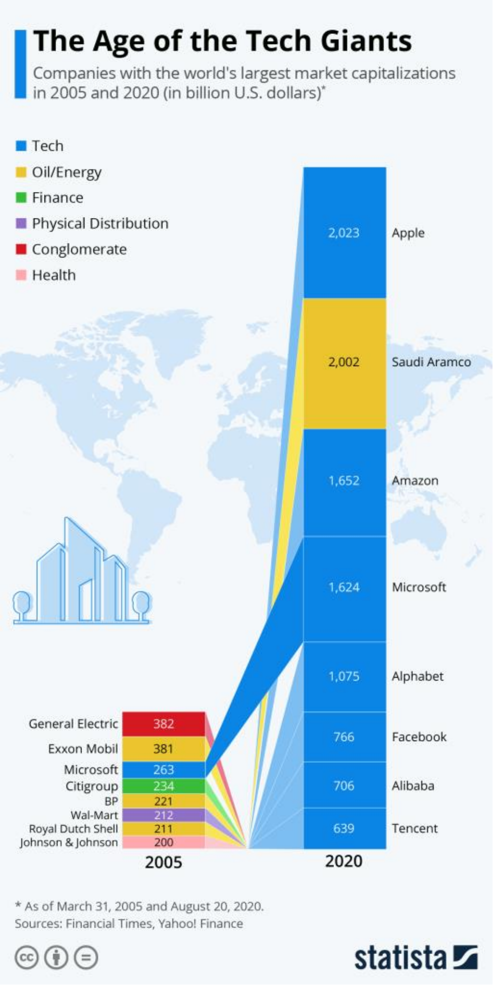
Where we are now

- Over the past two decades, major technological innovations have enabled a small group of American companies to top the global market cap rankings. Big 5/GAFAM
- They have a tendency to retain most of their profits in the form of cash instead of reinvesting the profits or distributing dividends to shareholders. Furthermore, they have ultra-conservative cash management, with an asset portfolio mainly made of risk-free or low-risk bonds.
- Far from their image as first-class innovators, the tech giants therefore allocate and manage their capital with an astonishing degree of risk aversion.

➔ **This situation is economically suboptimal as it deprives the productive economy of precious capital that could fund technological innovation and hence contribute to productivity growth.**

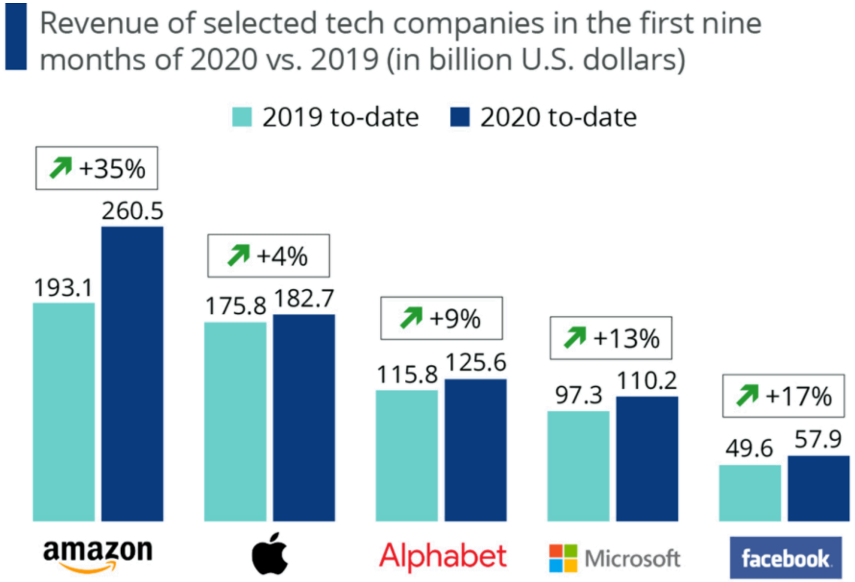
How we got there: declining competitive intensity

1. Persistently huge profits



2. Even bigger profit forecasts

Tech giants have immensely profited from the pandemic lockdown with a the acceleration towards a more digitised, tech reliant world

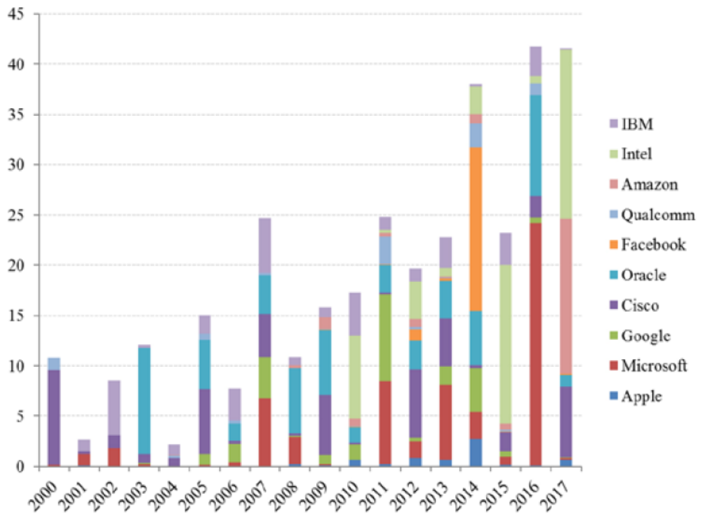


How we got there: declining competitive intensity

3. Trend for market concentration

- Av. 10 acquisitions per giant every year
- Skyrocketing value of these acquisitions
- Targets often operate within their respective markets

Kill and absorb all the smaller market incomers to consolidate dominant position or acquire highly innovative companies to secure access to promising new verticals



4. Declining entrepreneurial activity

- Many new innovative companies…
- … But few scale-ups

The entrepreneur's aspirations have gone from being the next Microsoft to having a lucrative acquisition from them.

5. High barriers to entry for most promising innovations

- **Driverless cars and AR/VR:** need high R&D
- **AI:** Require big data
- **Drones and IoT**: Small margins, unsustainable for emerging player

Unlikely that new tech giants emerge in the next decades. Technologies will rather be acquired early.

Huge market power

Enormous market share

Google's supremacy in online searching in Europe: **90%** market share
Microsoft's global domination of operating systems for computers: **80%** market share
Amazon's monopoly on e-books in the United States (**83%** market share).
Google and Facebook account for **90%** of ad sales growth in US

- EU considers market share >40% to be an indicator of dominant position
- US suspects monopolies when >50%

Conceptual difficulties around the definition of market share:

- Can market be conceptually defined if there are no financial transactions or price variations?
- Should we speak in terms of an online search, social media, or user data market?
- Is there an 'online attention' market that measures the proportion of time spent by users on each service?

Anti-competitive behaviours

Abuse of power

Google fined **€2.42B in** 2017 for favoring its own online comparison shopping service on Google Search over rival services. Then fined **€4.34b** by EC for google play for anticompetitive practices concerning its licenses for the Android mobile operating system.
Microsoft pre-installed Internet Explorer in Windows, favoring its own web browser over its competitors such as Opera and Netscape. They were Ordered to separate software and hardware entities in 2000. and paid $1.1b damages.

Lobbying

Skyrocketing big tech political lobbying spending in US and Europe
Direct access to all of their customers

Other abuse of dominant position

Amazon v Zappos: When Zappos refused Amazon's takeover, Amazon slashed the price of its shoes ($10m losses self inflicted) to kill Zappos and subsequently purchase it

Facebook v Snapchat: After Snap's refusal to sell, Facebook copied its innovation and leveraged its network effects to drive consumers away from Snap and towards instagram

Google v Yelp: When Yelp refused Google buyout offer, Google is suspected to have consciously reduce the visibility of Yelp reviews on its search engine to favor its own online review service

Tech giants are not natural monopolies

- Trend for concentration indisputably exists
  - Supply side: high fixed costs and economies of scale
  - Demand side: Network effects
- But there are also deconcentration forces
  - ➢ **Techs are not natural monopolies**
  - ➢ **We should pursue antitrust policies that penalise abuses of dominant positions and prevents mergers that are detrimental to fair competitive dynamics**

Recommendation: Fostering competition and innovation

With strong antitrust policies and regulatory frameworks

Adapting European antitrust legislation to the realities of the digital economy

1. **New assessment protocols and metrics**

authorities incorporate other dimensions than price, such as service quality in their analysis
=> A company that require more personal data to supply the same service should be perceived as reducing its quality

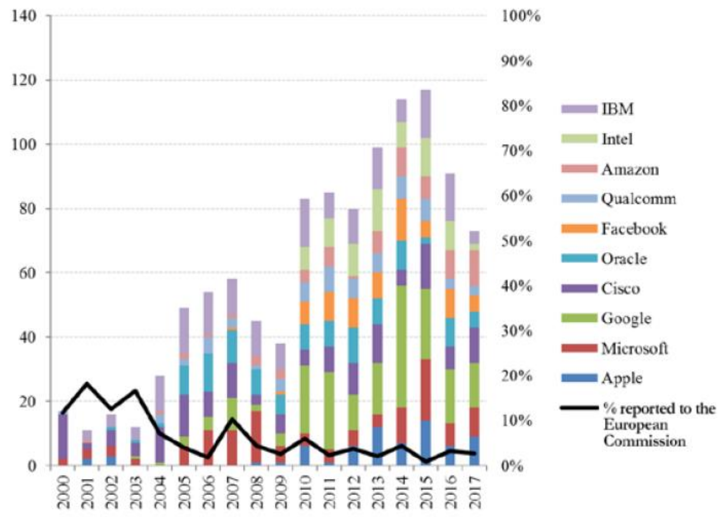
2. **More robust powers to penalize abuses of dominant position & restoring credibility of the administrative authority**

It took Microsoft 3 fines ($1.5bn) and 7 years to comply with the European Commission's orders to restore fair competition

3. **Lower thresholds for reporting M&A and closer monitoring of minority investments**

⇒ In the US, criteria are based on deal value whereas in Europe it is dictated by revenue
⇒Most M&A deals are not investigated in the EU

Graph 8: Identified mergers and acquisitions versus those reported to the European Commission (number of deals)



Other regulatory recommendations

A. Favouring users in terms of the right to data ownership

i. Ensure that the GDPR is properly applied to transfers of personal data among data controllers.

ii. Examine the possibility of making portability of users' 'social graph' between social networks a legal requirement.

B. Increase interoperability of platform economy companies

i. Legally impose interoperability between service providers in key segments of the platform economy – e-commerce, online music, social media, etc.

ii. Setting up working groups of industry representatives per segment with a view to setting standards for such interoperability

C. Adapt the patent system

i. Shortening the term of patents for new technologies, especially in the software sector.

ii. Making it compulsory for patent holders to grant fair and non-discriminatory license agreements.

Thank you.

Any questions?