

Competition in Platform Markets with Multi-purchasing Consumers

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Abstract:

We study a platform market where consumers first have to pay a hook-up fee to a monopolistic platform (ISP; Internet Service Provider) to purchase goods or services from horizontally differentiated firms (CPs; Content Providers) on the other side of the platform. By allowing for endogenous multi-purchasing decisions of potential consumers, we find conditions under which all consumers make the same decision of multi-purchase or single-purchase in the equilibrium. ISP has strong incentives to raise its price in order to induce all consumers to make multi-purchases whenever it is possible in two cases: i) consumers' utilities from multi-purchase are positively correlated with those from single-purchase or ii) they are irrelevant to their initial (single-purchasing) preference over the two products but the incremental utility from the second purchase exceeds the transportation cost. We also examine the effects of allowing consumers to make multi-purchases on profits for a platform and firms. More specifically, allowing multi-purchasing for consumers benefits ISP more than CPs when consumers have a high preference heterogeneity, whereas it is more beneficial to CPs rather than ISP when consumers' preference heterogeneity is relatively small. Consumer surplus might fall under multi-purchasing, but overall social welfare generally increases.

Keywords: Platform Market; Hotelling Model; Multi-purchase

JEL Codes: JEL: D21 (Firm Behavior: Theory); L13 (Oligopoly and Other Imperfect Markets)