

Network effects in India's online businesses: A competition law analysis

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September 29, 2016

The Basics

- Market economy works best when firms in competitive markets continuously innovate to produce better quality products at cheaper costs
- What happens when a monopoly is set up or achieved?
- What is the role of competition law?

Part I

Characteristics of new economy firms

Key features

- Demand side economies of scale - **network effects**

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- High innovation and technological changes
- Average unit cost reduces with scale
- Availability of capital
- User data as an input

Understanding network effects

- First mover advantage
- Winner-takes-all markets
- Self-reinforcing nature of network effects
- Tipping point
- Money as the new raw material?

The case of India's radio taxi market

- Ola's net losses:
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 - 2014 - INR 342 million
 - 2015 - INR 7.9 billion

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- **What caused the losses?**
 - Fleet operator costs - INR 9.2 billion (82% of expenses)
 - Advertising and sales promotion - INR 998 million

Global Taxi Aggregation Business

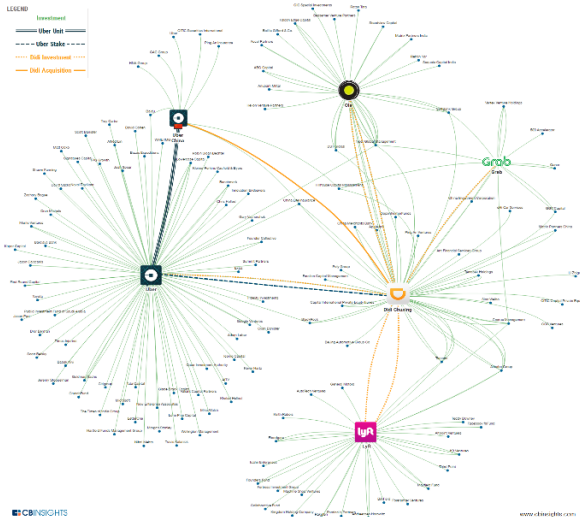
Top five ride hailing companies



The Uber-Ola-Didi Nexus

INVESTORS IN TOP 5 RIDE-HAILING COMPANIES

Up to 2016 YTD (8/1/2016)



e-commerce startups and their investors

- Common ownership of competing firms

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 - Tiger Global - Flipkart, Shopclues
 - Nexus Venture Partners - Snapdeal and Shopclues
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- **Investor-facilitated buyouts**
 - Tiger and Accel - Flipkart/Myntra
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- **Strategic investors**

Part II

Ambit of the Competition Act

Abuse of dominance

- **Three step process:**

- 1 Relevant market
- 2 Dominant position
- 3 Abuse

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- **Relevant market:**

- Offline/online markets
- Geolocation tools
- Unique products/service could be a “relevant market”

- **Predatory price v Unfair price**

Determination of dominance

- Sequential analysis of abuse of dominant position
- Lets question the current approach:
 - Can we deal with “imminent dominance”?
 - Reliability of data?
 - Double dominance?

Part III

The way forward

Suggestions on the way forward

- Proposed changes to the law
 - Position of **imminent dominance**
 - Recoupment of losses
 - Voluntary commitments

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- Proposed changes to the law
 - Position of **imminent dominance**
 - Recoupment of losses
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- Rethinking CCI's approach
 - Swifter enforcement procedures
 - Economic features of network industries
 - Closer look at role of investors
 - Dealing with double dominance

Thank you