

# Is industry concentration in video and platform industries a problem?

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*Building the Next Generation of Media: Online Platforms and Cloud Content*  
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## Three hypotheses tested with Latin American data

- **Subscription TV: a concentrated market does not necessarily mean that its structure is conducive to collective dominance in the form of tacit coordination and negative consumer welfare**
- **Video streaming: the most effective tool for controlling for market concentration is competition based on content diversity**
- **Search and digital advertising: in a highly concentrated platform market, network effects and scale make it difficult to create competitive substitutes; only options remain working around complements or create disruptive alternatives**

## Latin America: Pay-TV most economic monthly subscription (april 2015)

Country	Operator	Market position	Number of channels	Price in local currency	Price in US\$	Price in US\$ PPP	Position
Argentina	DirecTV	2	57	279.00	31.64	51.97	15
Bolivia	Entel	5	61	60.00	8.92	17.35	3
Brasil	Telefónica (VIVO)	5	34	39.90	12.55	12.47	2
Chile	Pacifico Cable	6	67	16,000.00	25.90	30.56	11
Colombia	Telmex	1	60	34.000,00	13.34	18.48	4
Costa Rica	Claro	4	76	12,500.00	24.00	28.83	9
Ecuador	Grupo TV Cable	3	58	16.73	16.73	30.73	12
El Salvador	Claro TV	N/D	51	14.13	14.13	27.21	8
Guatemala	Claro TV	1	55	100.00	13.40	20.79	5
Honduras	Tigo Star	1	86	302.84	14.50	31.13	13
México	Dish MVS	3	24	119.00	7.83	11.44	1
Panamá	Claro TV	N/D	47	19.26	19.26	24.20	6
Paraguay	Claro	1	81	79,000.00	16.89	24.47	7
Perú	Claro	3	74	58.00	19.05	28.86	10
Uruguay	DirecTV	1	59	835.00	33.03	37.11	14

Source: Katz (2015)

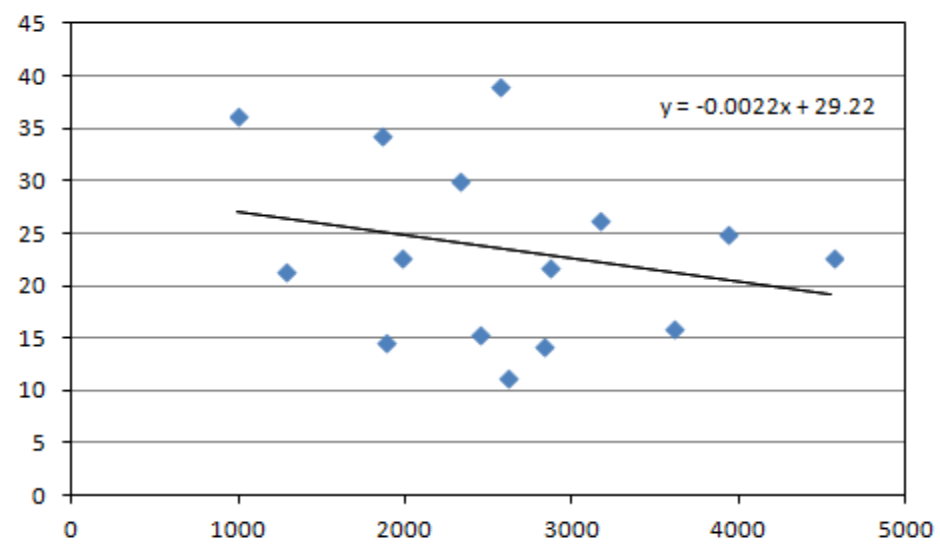
# Latin America: pay-TV market structure

Country	Market share					HHI	Date
	Operator 1	Operator 2	Operator 3	Operator 4	Other		
Argentina	41.00	28.00	7.00	7.00	17.00	2,563	12/2014
Bolivia	25.00	18.00	17.00	6.00	34.00	1,278	03/2015
Brasil	51.88	28.91	6.41	4.57	8.23	3,606	10/2014
Chile	36.20	20.70	17.00	16.20	9.90	2,316	09/2014
Colombia	43.38	21.16	20.56	7.92	6.98	2,821	01/2015
Costa Rica	30.00	24.00	14.00	9.00	23.00	1,850	12/2013
Ecuador	34.07	22.30	16.39	5.39	21.85	1,967	12/2014
El Salvador	58.94	32.55	3.50	3.09	1.93	4,555	04/2015
Guatemala	42.81	23.59	5.71	3.44	24.45	2,443	04/2015
Honduras	26.53	23.73	21.38	10.27	18.09	1,880	04/2015
México	39.20	24.80	15.50	14.60	5.90	2,606	10/2014
Panamá	46.61	28.91	10.15	6.60	7.73	3,156	04/2015
Paraguay	40.85	34.37	2.66	0.37	21.75	2,858	01/2015
Perú	58.60	16.40	14.80	- - -	10.20	3,922	04/2015
Uruguay	20.68	19.24	8.07	7.21	44.80	995	06/2014

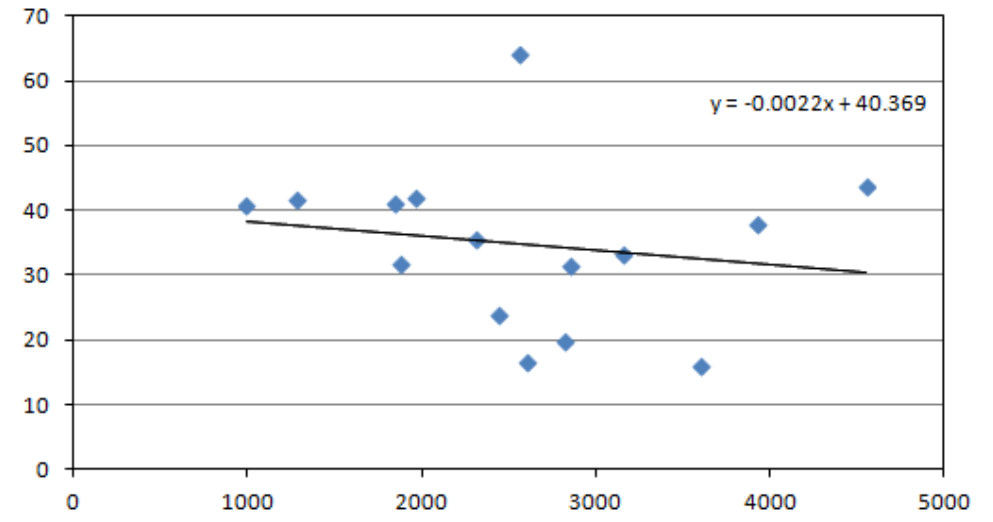
Source: Katz (2015)

# Latin America: Pay-TV market structure and pricing correlation (I)

**Market Structure and lowest monthly subscription**

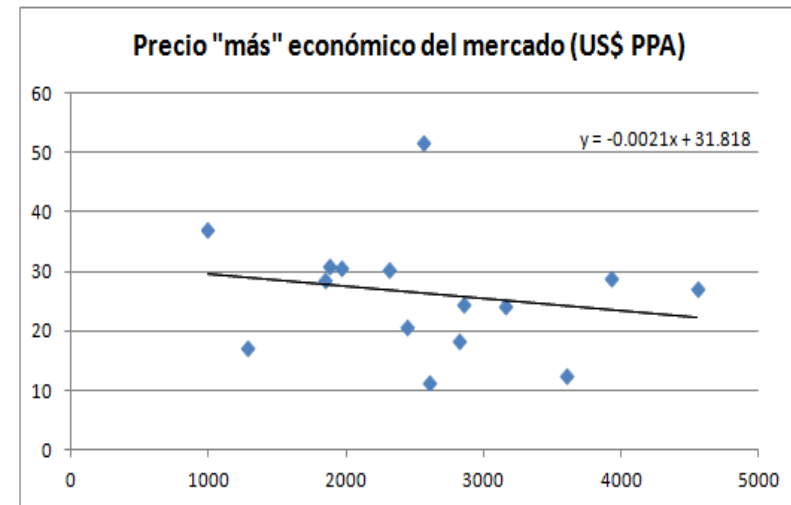
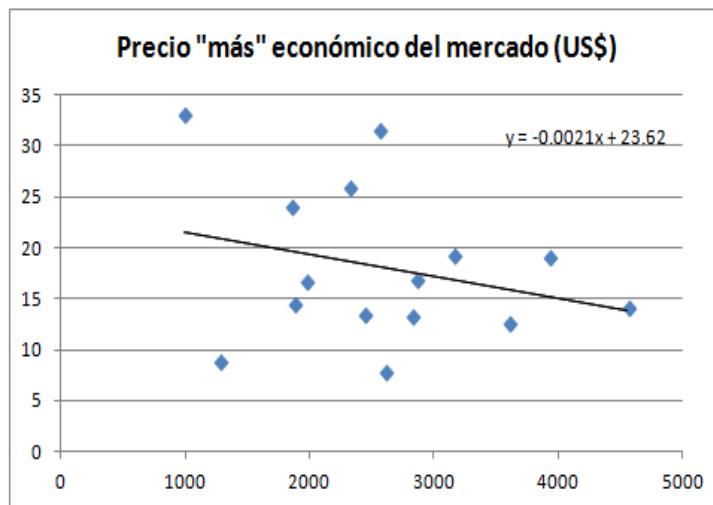
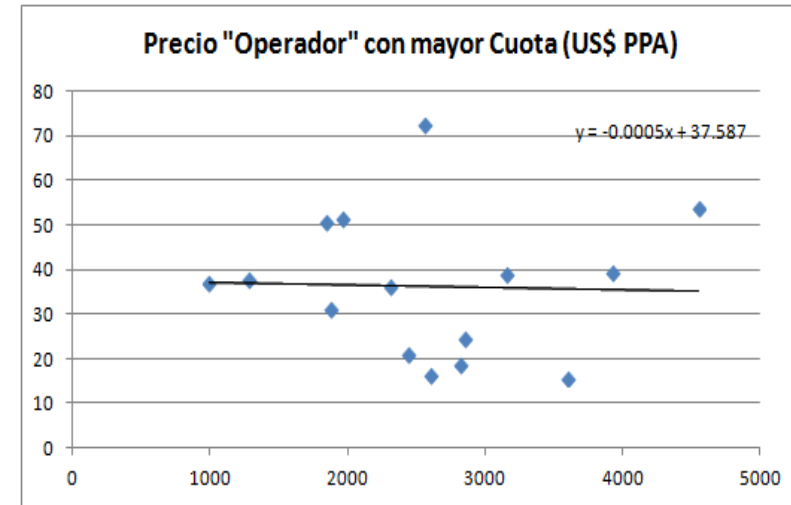
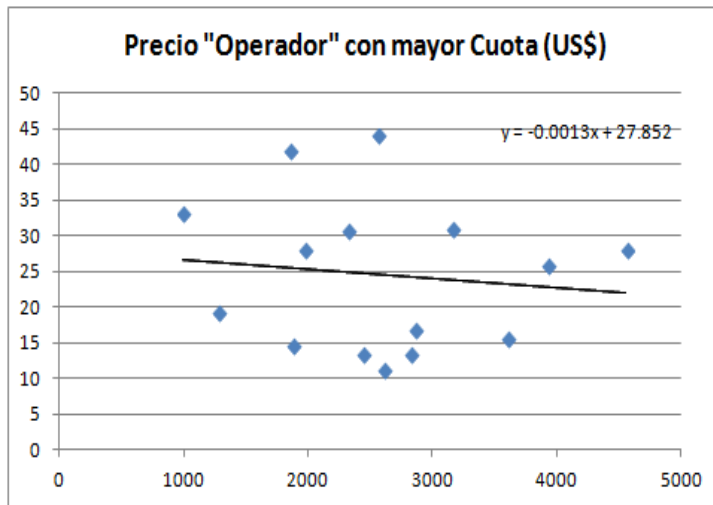


**Market Structure and lowest monthly subscription (PPP adjusted)**



Source: Katz (2015)

# Latin America: Pay-TV market structure and pricing correlation (II)



Source: Katz (2015)

# Latin America: Pay-TV pricing multivariate regression

Variables Control	VARIABLES DEPENDIENTES					
	Precio ponderado US\$	Precio operador con mayor cuota US\$	Precio acceso US\$	Precio ponderado PPA	Precio operador con mayor cuota PPA	Precio acceso PPA
HHI	0,0011774 (0,0014428)	0,0027982 (0,001665)	0,0009963 (0,0010997)	0,0018378 (0,00313)	0,0046598 (0,0038449)	0,0018261 (0,0017371)
Adopción TV Paga (abonados c/ 100 habitantes)	1,130509 (0,2685602)***	1,346759 (0,3446787)***	1,165287 (0,1857272)***	0,8686631 (0,8071186)	1,214913 (0,9534023)	1,142488 (0,5187232)*
Población (en millones)	-0,0779359 (0,0336213)**	-0,0967793 (0,0367889)**	-0,0603791 (0,0304647)*	-0,1395059 (0,0349714)***	-0,1693011 (0,0426903)***	-0,1070699 (0,0315326)***
Constante	11,60626 (5,848884)*	6,827693 (7,005395)	5,665011 (2,990182)*	26,0238 (14,13677)*	17,78211 (16,58948)	13,72781 (7,567095)*
R-Cuadrado	0,6267	0,5491	0,7380	0,4171	0,3726	0,5529

- Adoption: positive sign and statistically significant (99%)
- Population: negative and statistically significant (between 95% and 90%)
- HHI: positive sign but not significant

- Population: negative sign and statistically significant (99%)

Source: Katz (2015)

## Latin America: Pay-TV pricing and market structure interpretation

- Market structure has a marginal impact on pricing
- Pricing increases with adoption: if adoption is a proxy of income levels, higher affordability drives higher prices
- Population impact on pricing: economies of scale are such that a larger addressable market drives lower prices due to efficiencies in infrastructure and program acquisition
- In bilateral oligopolistic markets (more than one provider of programs, more than one video distributor), vertically integrated oligopolies are subject to competitive price pressure
  - Rival oligopolies can force the vertically integrated one to compete with other producers of inputs driving a price reduction
  - Alternatively, an oligopoly that purchases inputs (with sufficient scale) can threaten to integrate vertically if the provider of inputs does not reduce prices
  - Under these conditions, vertically integrated oligopolies do not have sufficient market power to respond to price moves of rival oligopolies



## Three hypotheses tested with Latin American data

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- **Search and digital advertising: in a highly concentrated platform market, network effects and scale make it difficult to create competitive substitutes; only options remain working around complements or create disruptive alternatives**

# Latin America: video-streaming market structure

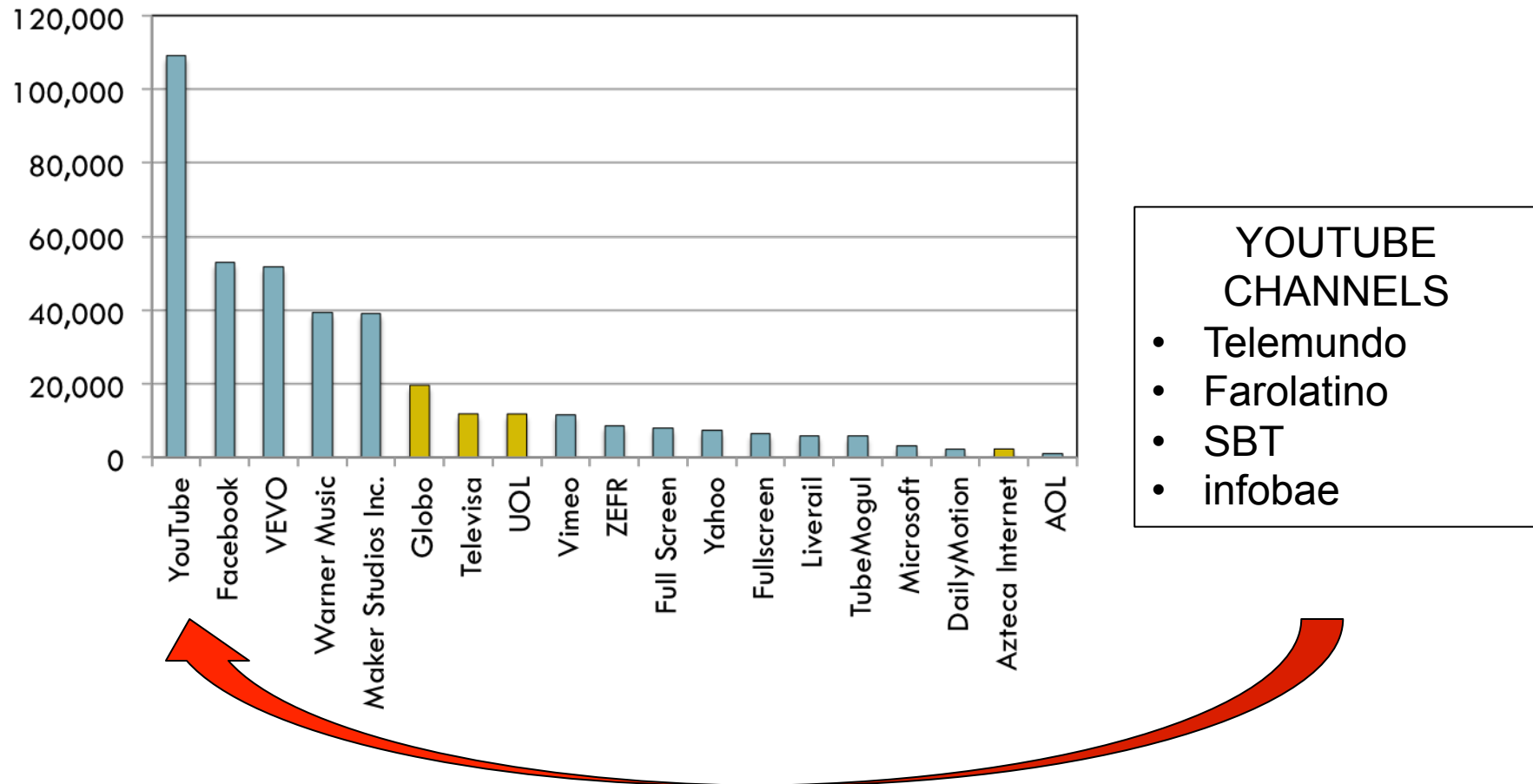
## VIDEO STREAMING: GLOBAL VS. LATAM SITES (2014)

VIDEO STREAMING GLOBALES		LATAM SITES	
COUNTRY	Subscribers (LATAM)	COUNTRY	PROVDERS
Netflix	7.300.000	Argentina	Arnet Play, Speedy on Video, Cablevision VOD, Vesvi, Qubit.tv, Cinema Argentino, Conectate.gob, Personal (350.000)
Apple TV	1.800.000	Brasil	Claro Video, Telecine, Vivo VOD, GVT On Demand, Muu Globo
Amazon Video	N.D.	Chile	Claro Video, Movistar Play, Bazuca, VTR VOD
YouTube (monthly visitors)	71.000.000	Colombia	Claro Video, UNE (VOD), Caracol
Google Play	3.100.000	México	Claro Video, Cablevision VOD, Cinepolis Klic, VEO (Televisa) (3.400.000), Total Play
HBO Go internet	N.D.		

Sources: Netflix Annual Report, Business Bureau, Egeda

# Online video audience: fragmented structure and local complements

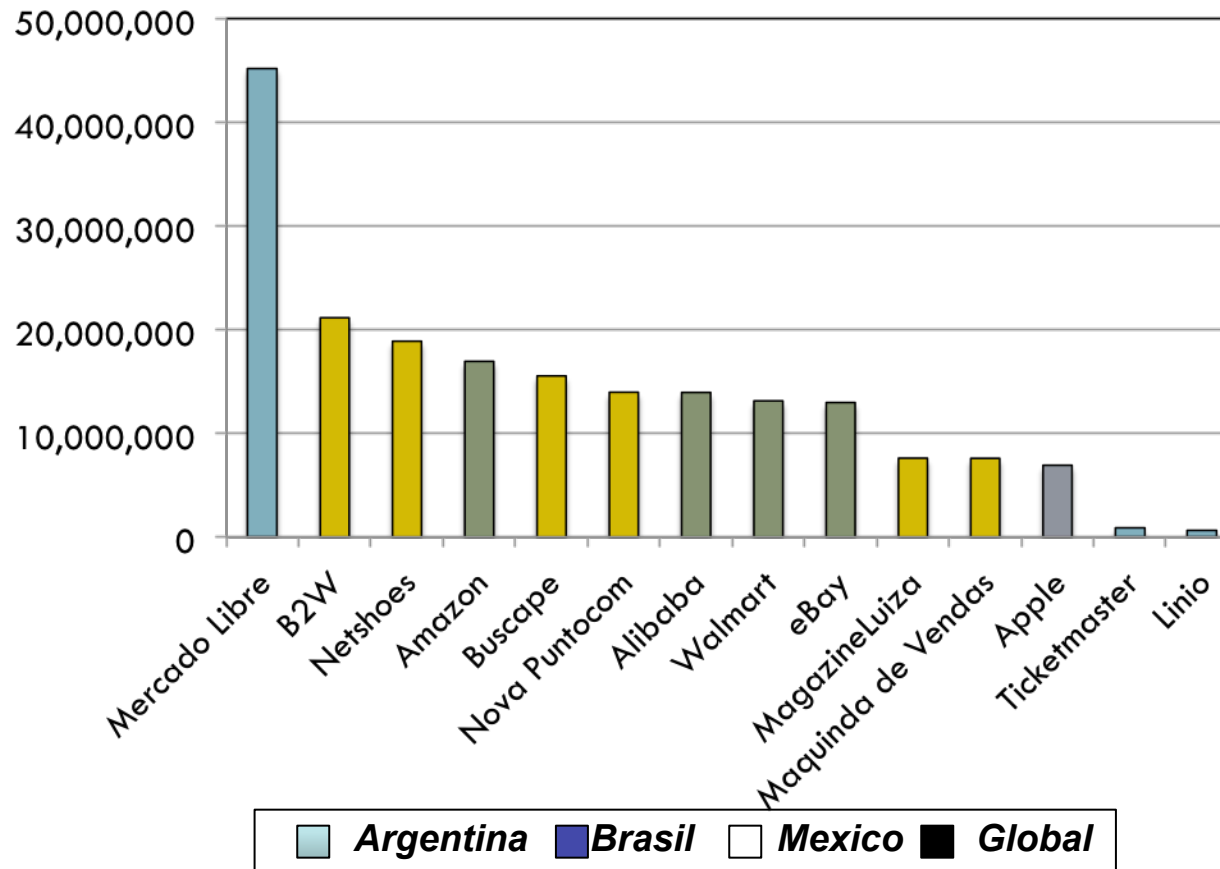
**LATIN AMERICA: MOST IMPORTANT ONLINE VIDEO SITES**  
(measured by number of unique viewers) (2014)



Fuente: Comscore; Google

# Ecommerce: local dominance of fragmented markets

**eCOMMERCE: MOST IMPORTANT SITES**  
*(number of unique visitors) (2014)*



Fuentes: Comscore; análisis Telecom Advisory Services

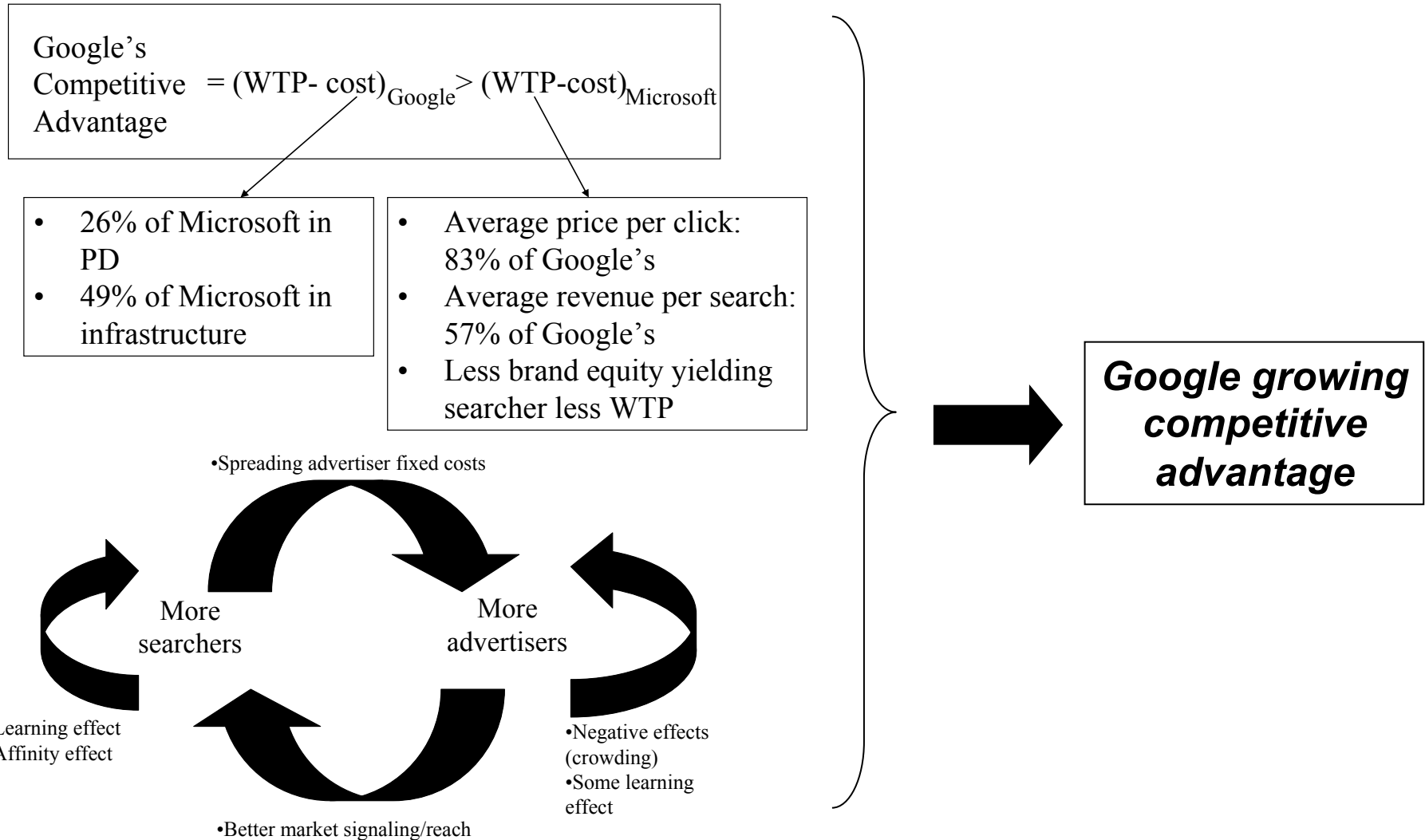
## Latin America: indirect network effects in bilateral markets

- Local content favors platform diversity
- Same indirect network effect applies to matching platforms (50+ recruiting sites operating with LinkedIn)
- Same effect exists in eCommerce where local platforms are dominant over Amazon and others
- Global platforms are limited in their capacity to fashion local “versions” of their global functionality
- Why can't Latin Americans develop dominant social networks and search platforms?

## Three hypotheses tested with Latin American data

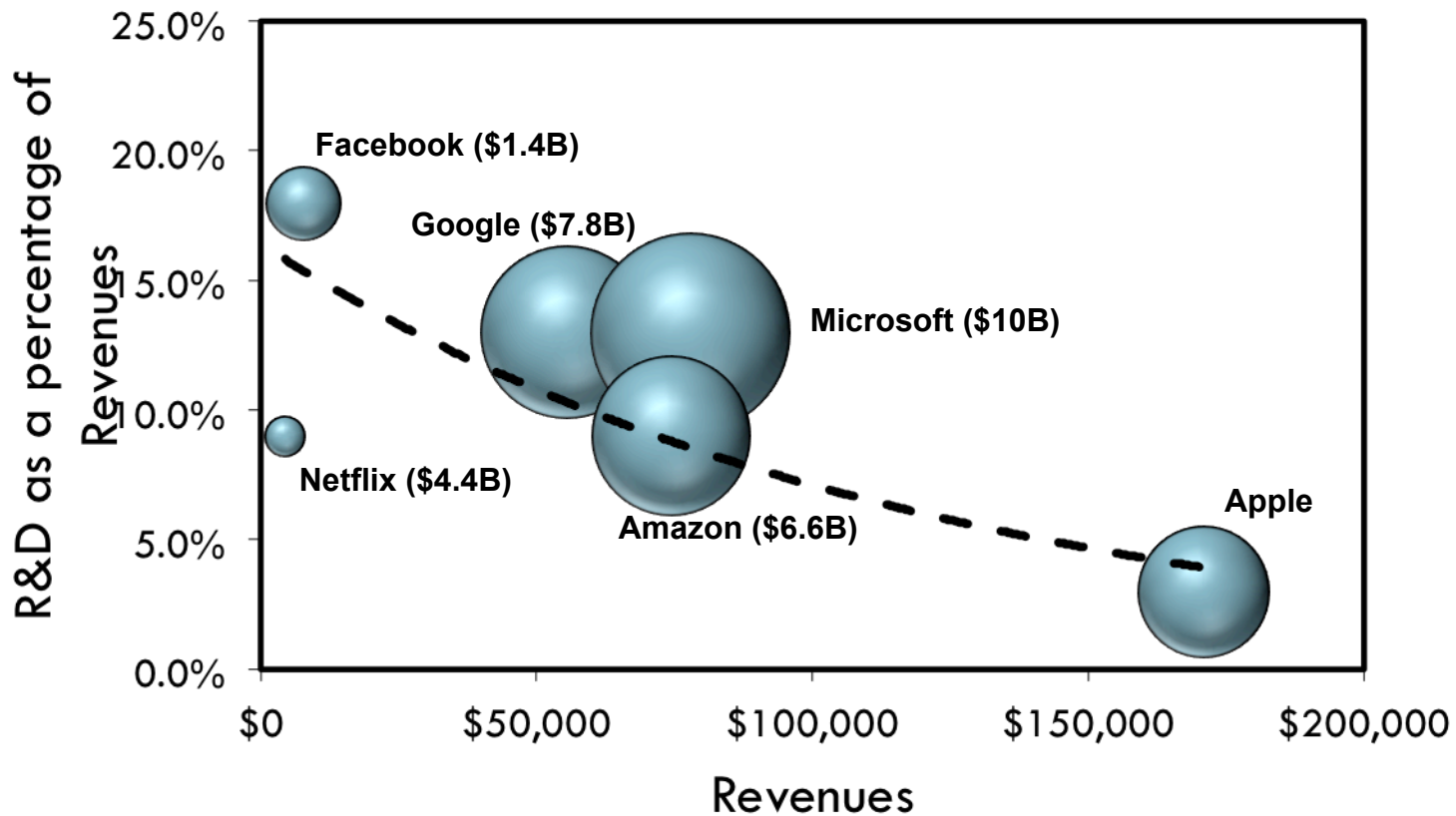
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# Search: demand side and supply economies of scale



# Platform businesses: economies of scale

## R&D ECONOMIES OF SCALE



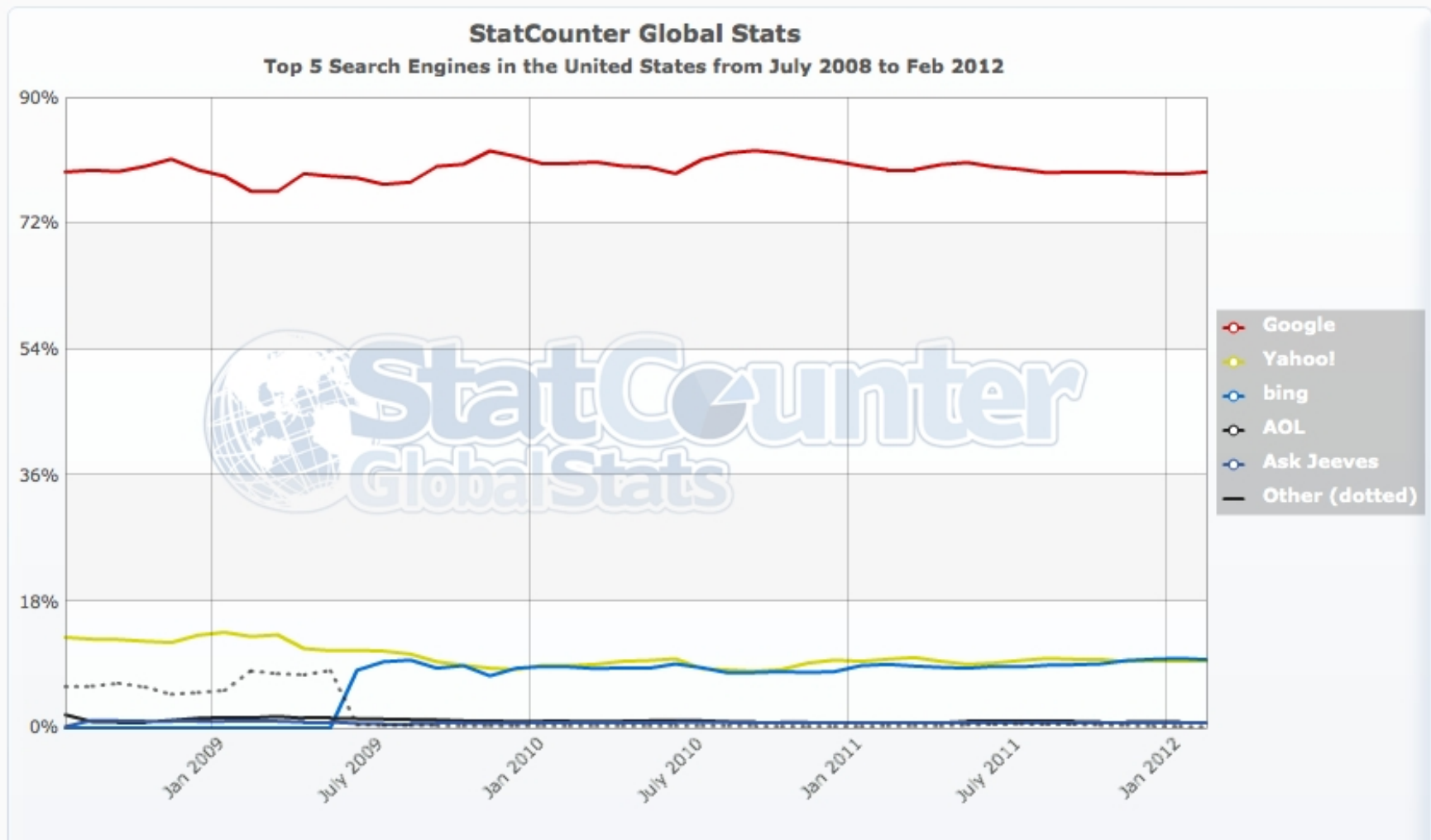
Note: Size of circle indicates total R&D budget



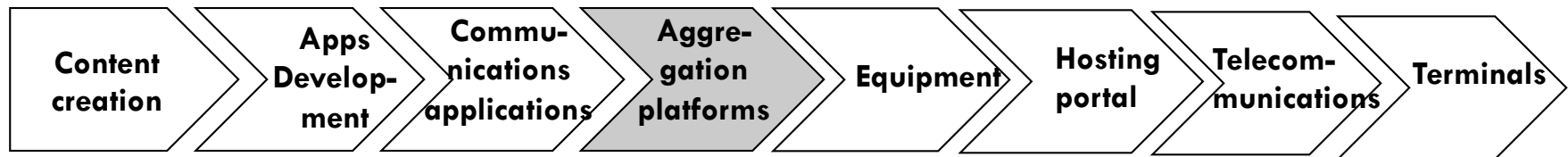
## Search: a Winner-Take-All market

Market is a natural monopoly	NO	<ul style="list-style-type: none"> <li>•Fixed costs are not a barrier to entry, given the size of market</li> </ul>
OR		
Network effects are strong and positive	YES	<ul style="list-style-type: none"> <li>•Cross-side network effects exist, although do not grow linearly</li> <li>•Direct network effects do not exist with two caveats (more advertisers: competition for top spot for advertisers, more users: social network impact)</li> </ul>
Multi-platform costs are high	NO, BUT	<ul style="list-style-type: none"> <li>•For searchers multi-platform costs are nil</li> <li>•For advertisers costs are low, all things being equal</li> <li>• AdWords API Terms prevent importing data across platforms</li> </ul>
Platform differentiation	YES (but low)	<ul style="list-style-type: none"> <li>•Limited opportunities to generate a non-imitated platform</li> </ul>

# Search: Google dominant position



# Platform: value chain asymmetries

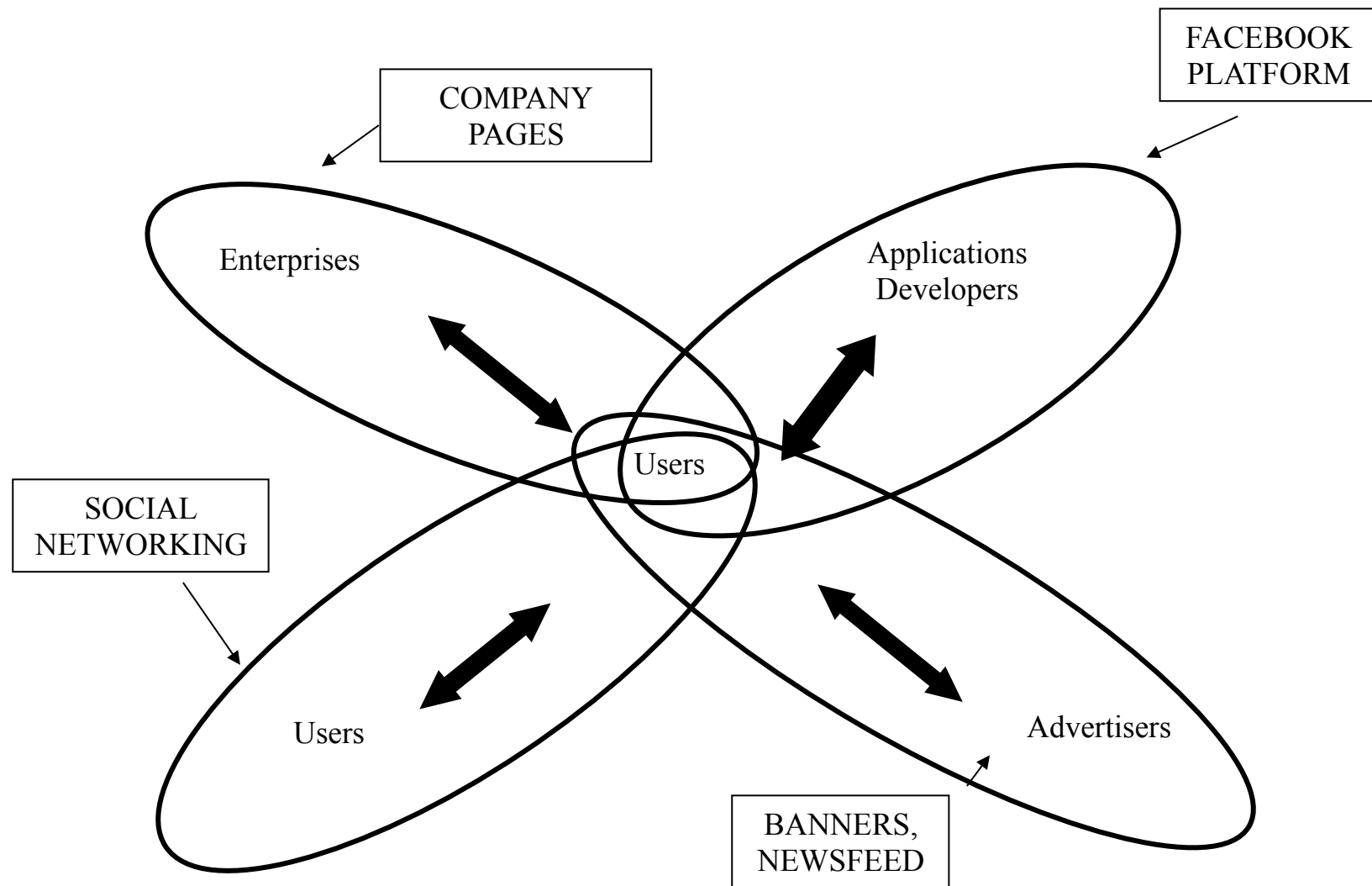


EBIT (%)	•Average: 22.65% (range: 23.64% - 21.67%)	• Average: 1%	• Average: -0.8% (*)	• Average: 24.12% (range: 7.31% - 40.06%)	•Average: 9.62% (range: 7.37% - 11.87%)	•Average: 1.0%	•Average: 17.63% (range: 16.56% - 18.71%)	•Average: 22.40% (range: 16.08% - 28.72%)
CAPEX/ REVENUES	• Average: 32.86 % (range: 34.64% - 31.07%)	• Average: 3%	• Average: 0%	• Average: 20.78 % (range: 40.12 % - 0.09 %)	• Average: 19.12 % (range: 29.52 % - 12 %)	•Average: 31.82%	• Average: 25.09% (range: 20.88% - 29.29%)	• Average: 16.07 % (range: 26.13% - 12%)
EFFECTIVE TAX RATE (%)	•Average: 32.85% (range: 31.07% - 34.64%)	• Average: 3%	• Average: 0%	• Average: 20.78% (range: 40.12% - 0.09%)	•Average 19.12% (range: 12% - (29.52%))	•Average: 31.82%	•Average: 25.08% (range: 29.29% - 20.88%)	•Average: 19.06% (range: 12% - 26.13%)

## Facebook: Taxation asymmetry

Metric		Source
<b>REVENUES</b>		
• Monthly Active Users	24,000,000	
• Revenues per MAU (ROW adjusted)	\$ 0.86	Estimate based on Annual Report
• Total	\$ 20,640,000	
<b>OPERATING EXPENSES</b>		
• Staff (marketing, sales, administration)	40	Estimated based on staffing of a typical office
• Average yearly salary (fully loaded)	\$ 70,000	Fully loaded salaries
• Total	\$ 2,800,000	
<b>GROSS INCOME</b>	\$ 17,840,000	
• Interest	\$ 0	Annual Report
• Corporate taxes	\$ 535,000	Corporate tax on gross profits
• Social contributions	\$ 896,000	32% rate
<b>NET INCOME</b>	\$ 16,400,000	
• Net margin	80%	

# Platform: multi-sided businesses



## Search: complement of platforms effect

### *Latin American: Platform complement industries*

Country	Number of enterprises	Number of employees	Sales (US\$ '000'000)	Year
Argentina	75	3.000	\$ 55,0	2013
Brasil	133	1.133	\$ 98,7 (e)	2013
Chile	28	420	\$ 12,8	2014
Colombia	62	1.500 (e)	\$ 24,0	2014
México	93	N.A.	\$ 36,0 (e)	2013
Perú	15	N.A.	\$ 6,0 (e)	2013
Uruguay	12	N.A.	\$ 5,0 (e)	2013
Total	418		\$ 237,5	

<b>Facebook apps programmers</b>	20,000	\$ 788 million
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Source: Katz (2015)

# Take-aways

Market	Industry	Regulation
Pay-TV	<ul style="list-style-type: none"><li>• Do nothing different strategically</li></ul>	<ul style="list-style-type: none"><li>• Nothing more than what has been done so far</li><li>• Monitor dominance in advertising</li></ul>
Video-streaming	<ul style="list-style-type: none"><li>• Actively promote local streaming sites</li></ul>	<ul style="list-style-type: none"><li>• Taxation asymmetry</li></ul>
Platforms	<ul style="list-style-type: none"><li>• Emphasize platform complements development</li></ul>	<ul style="list-style-type: none"><li>• Oversee interoperability and fairness</li><li>• Privacy and data protection</li><li>• Monitor sustitubility</li><li>• Taxation distortions</li></ul>

