NEW PHOENIX CENTER STUDY FINDS THAT ON-LINE PLATFORMS ARE LESS BIASED IN THE PROMOTION OF THEIR OWN PRODUCTS AND SERVICES RELATIVE TO ONLINE SELLERS THAT DO NOT PERMIT THIRD-PARTY SALES

Analysis calls into question the core policy rationale for the American Innovation and Choice Online Act

WASHINGTON, D.C. — A central pillar of President Biden’s agenda is an expanded role for antitrust. Congress is playing along, drafting several antitrust reform bills targeting large digital platforms. At the forefront of the legislative effort is the American Innovation and Choice Online Act, which proposes a regulatory framework for digital platforms based largely on allegations of preferential treatment by platforms of their own products and services over those of independent sellers using the platform. This preference, it is often claimed, is implemented in the way search results are presented to consumers—a bias for the platform’s own products. With its size criterion, the bill covers only a handful of firms and, with little exaggeration, focuses almost exclusively on Amazon. In light of the motivations for the reform, it is worth studying the incentives of platforms to favor their own products and services over rivals.

In a new analysis released today entitled Retail Platform Bias? the Phoenix Center’s economists offer a simple analysis of a digital platform’s incentives to bias sales toward its own products and services. Their analysis reveals that a digital platform is less biased—not more biased—in the promotion of its own products and services relative to online sellers that do not permit third-party sales. Every seller has an incentive to promote its own products, but the presence of a platform component to the seller’s business reduces that incentive.

Specifically, the Phoenix Center’s economists construct a model under which they assume there is an information signal by which the platform retailer could potentially impact the purchases of consumers (e.g., a label of “Amazon’s Choice”). This signal has an adjustable bias that will marginally impact some (unsophisticated) consumer purchases in favor of the retailer’s product versus the competitor. Independent sellers pay a fee per unit of sales to the platform. The study’s authors find that the bias of the platform is reduced by this fee, implying that online sellers who are not platforms have a greater bias than do digital platforms. In other words, while critics highlight an alleged incentive that platform retailers may have towards their own goods, the Phoenix Center’s analysis reveals that retailers who do not offer platform services have much larger biases.

“Oddly, the American Innovation and Choice Online Act does not address the bias of non-platform sellers who lack the platform’s counterbalancing incentive to be truthful,” says study co-
author Phoenix Center Chief Economist Dr. George S. Ford. “While sellers always have an incentive to promote their own products, the presence of a platform that showcases rival goods reduces this bias.”

“In contrast to the typical story motivating such legislative efforts, our analysis reveals that a digital platform is less biased—not more biased—in the promotion of its own products and services relative to online sellers that do not permit third-party sales,” says study co-author Phoenix Center Senior Fellow Professor Michael Stern of Auburn University. “Every seller has an incentive to promote its own products, but the presence of a platform component to the seller’s business reduces that incentive.”

A full copy of PHOENIX CENTER POLICY PERSPECTIVE NO. 22-02, Retail Platform Bias?, may be downloaded free from the Phoenix Center’s web page at: https://www.phoenix-center.org/perspectives/Perspective22-02Final.pdf.

The Phoenix Center is a non-profit 501(c)(3) organization that studies broad public-policy issues related to governance, social and economic conditions, with a particular emphasis on the law and economics of the digital age.