CHAZEN INSTITUTE **RESEARCH BRIEF**

The Marketplace for Consumer Attention

KEY TAKEAWAYS

- ✓ The current evaluation of online mergers allows for the concentration of market power to the detriment of new and innovative businesses because they cannot compete with established brands for ad space.
- ✓ This concentration of market power ultimately results in less competition and leaves consumers with less product choice and potentially paying higher prices.
- ✓ Online platforms do not compete for consumer dollars, they compete for consumer attention. This new marketplace requires a different set of metrics.

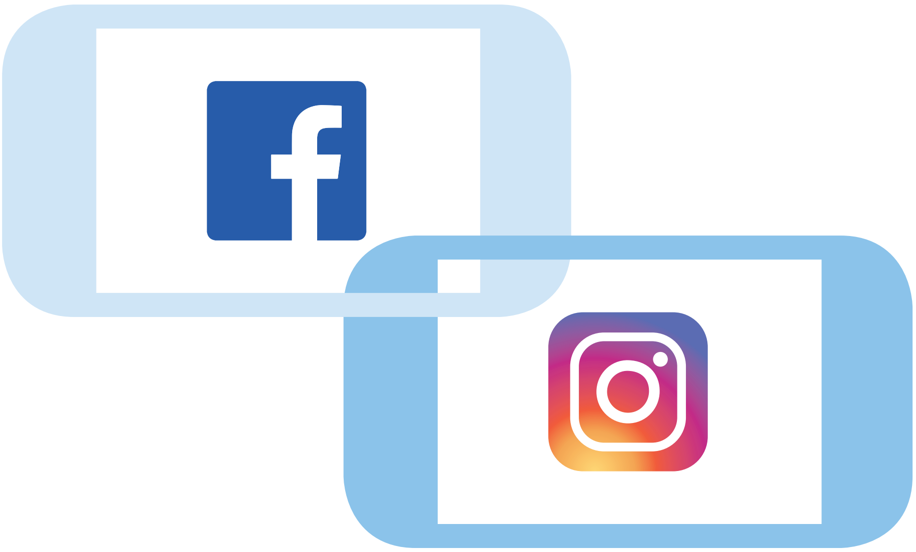
Antitrust laws were first established during the Industrial Revolution to combat the unethical consolidation of market power. But in the age of social media, where every consumer is a market of one, is it time for a new definition—and new measurement—of monopoly?

In "Attention Oligopoly," **Andrea Prat, Chazen Senior Scholar at Columbia Business School**, and Tommaso Valletti, professor of economics at Imperial College London, find the legality of online mergers, such as the one between Facebook and Instagram, are evaluated based on price-based competition models that, in the marketplace for consumer attention, do not apply.

Research

Prat and Valletti establish that each consumer (or user of a social media platform) can be seen as an individual market; to the extent that every platform used by a particular individual sells the right to run targeted ads to that individual through a competitive selling mechanism.

The researchers distinguish between incumbents (well-established brands) and entrants (new businesses and startups) that compete for this ad space. They also evaluate how the consolidation of such brands affect incumbents and entrants differently, and interpret what those differences can teach us about how we define monopolies in the modern era.



OVERLAPPING USERS

This concentration of market power excludes entrant companies from being able to compete and indirectly hurts users as they end up having less product choice and paying potentially higher prices.

Since there is virtually no price variation on the users' side for applications like Facebook and Instagram, the researchers offer a different measure for evaluating the impact of such mergers on the consumer and the marketplace. Namely, they focus on how these platforms, instead of competing for consumer dollars, are competing for consumer attention. Where the attention of a consumer is controlled by a small number of entities, those entities may increase their ad revenues by restricting the number of ads they sell. This consolidation of market power impacts the ability of small businesses and startups to compete, and, by extension, impacts the level of awareness and choice available to consumers.

Results

The researchers find that the probability that a consumer will become aware of a startup's product increases with the number of independently-owned platforms utilized by that consumer. Hence, when platforms consolidate or merge, they can become bottlenecks for producers who want to reach new users. This can be problematic from a business ethics standpoint, where platforms favor incumbents over entrants for ad space.

Where platforms have merged and have overlapping users (someone who is an Instagram and Facebook user), the problem emerges. Now, that consumer is seeing a limited number of ads, biased toward incumbent businesses and restricted by increased ad revenue. This excludes entrant companies from being able to compete and indirectly hurts users as they end up having less product choice and paying potentially higher prices.

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