



# What Are Digital Platforms?

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Digital platforms are online businesses that facilitate commercial interactions between at least two different groups—with one typically being suppliers and the other consumers. Airbnb, Amazon, BlaBlaCar, Deliveroo, Facebook, Google, TaskRabbit, Uber, and Xing are all platforms, but they have different business models and they interact with end users and other businesses in different ways. Consequently, each platform has created different rules to optimize these interactions. Some important distinctions are the degree to which a platform relies on advertising revenue versus fees, its rules for managing suppliers and content, and its relationship with consumers.

## Why Now?

Platforms themselves are not new. For example, shopping malls, job placement services, and newspaper classified ads have long been part of the economy. There is a well-established literature on the nature and role of these platforms, with the consensus being that they offer both sellers and buyers tremendous benefits, largely by reducing the transaction costs of finding other parties to interact with.

Digital platforms have experienced significant growth in adoption, diversity, and innovation in the past decade. Platforms have grown for several reasons, including increases in Internet adoption, the maturation of the online advertising industry, and the growth of cloud computing. A rapid rise in smart phone ownership also has provided consumers greater access to platforms.

## Prospects for Advancement

The dynamic nature of technological innovation exposes platforms to competitive pressure, forcing them to innovate constantly. This competition exists on all sides of the market. For example, social networks like Facebook face competitive pressure from other social networks, which are also trying to attract and retain users, from other online services, which are offering competing services for news and entertainment, and all are competing for advertising dollars.

However, the presence of network effects often pushes digital platforms toward concentration. This is not because these firms are more prone to collude or because competition is less intense. It is because the value of their services increases as the size of their network grows. For this reason, regulatory attempts to artificially constrain the size of digital platforms will reduce social welfare even if they increase competition. Moreover, such efforts may prove to be fruitless since the market contains a built-in tendency for concentration. The reason there is one major social networking

platform (Facebook), one major professional networking platform (LinkedIn), and one major micro-blogging platform (Twitter) is because consumers benefit greatly from the network effects involved, as they do not have to post twice to share information with their personal networks.

Digital platforms will also grow as they harness more data. Data enables platforms to better match users on different sides of a market, reducing transaction costs. Data also allows platforms to deliver personalized services to users, spot trends, and optimize services.

## Applications and Impact

Digital platforms enable much of the digital economy. Globally, platform companies have a combined market capitalization of \$2.6 trillion, and they have a wide-ranging impact on businesses, workers, and consumers. Digital platforms make it easier for companies to find customers, monetize underutilized assets, and reduce transaction costs. Digital platforms have many pro-competitive effects, such as reducing barriers to entry and making it easier for small, flexible suppliers to reach consumers. By reducing the fixed costs needed to participate in the market, digital platforms also reduce prices and increase consumer choice.

Digital platforms have enabled the sharing economy, by making it easier to put underutilized assets to work, and the gig economy, by making it possible to hire temporary workers for specific tasks. For example, ride-sharing applications such as Uber and Lyft give drivers the flexibility to set their own schedules. Moreover, digital platforms are creating a more global labor market by keeping virtual teams connected. Upwork, a global freelancing platform, has connected clients with over 9 million freelancers from 180 countries for assignments. Online talent platforms—including both online services that match job seekers with employers, such as Monster.com and LinkedIn, and digital marketplaces for services, such as Uber and Upwork—could add \$2.7 trillion to the global economy by 2025.

Digital platforms have dramatically reduced the cost and increased the ease of many transactions. For example, 360 million people have taken part in a cross-border e-commerce transaction. More specifically, rural WhatsApp users in India use the app to send pictures of their products to potential customers far away. Companies like Amazon and eBay have helped tens of millions of small and medium-sized businesses sell their goods in foreign countries.

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## Policy Implications

There are many calls to regulate digital platforms. The motivations for regulation include fears of market power, exploitation of workers, dangerous content (e.g., fake news), data security and privacy, and national or regional competitiveness. By and large, these calls for new regulatory action are misplaced, and any new regulations should be narrowly tailored to deal with specific problems as they occur, such as addressing copyright infringement. That said, policymakers should consider the following points:

First, regulators should consider that they already have the ability address clear cases of anticompetitive or anti-consumer behavior. There is always the possibility that a firm will engage in undesirable activity, whether from lack of capacity, misunderstanding, error, or fraud, but platform businesses do not pose a unique risk in these regards. Regulators should keep their focus on consumer welfare, not producer welfare. Platforms that provide more choice to consumers and offer lower prices usually lead to some disruption on the producer side. For example, a company like Amazon competes with both small and large sellers. But its success, or lack thereof, comes from its ability to provide more choice, better consumer experience (e.g., faster delivery), or lower prices. Any harm to existing sellers is not an issue for competition policy authorities, unless the company gained that advantage unfairly.

Second, policymakers should not prevent disruption. To the extent that this disruption occurs, it is often made possible by inefficient regulation of the traditional industry that serves to limit supply and raise prices. Disruption, whether in the form of deregulation of traditional suppliers, or their replacement by new ones, increases social welfare and should be welcomed.

Third, policymakers should recognize that platforms possess strong motivations not to abuse the trust their users place in them, for doing so can result in rapid loss of customers. It is also important to remember that data has an economic value that accrues not just to the company but its users and to society as a whole and that overly stringent rules governing the collection and use of that data, however appealing they are to certain privacy groups, will reduce overall economic welfare.

Fourth, the unique nature of online platforms will require regulators to change how they analyze potential problems. Standard measurements, such as market size and price, are less valuable because scale is incredibly important for both sellers and buyers on platforms and because many services are free to the consumer. Therefore, regulators should use a more comprehensive market analysis, including recognizing that in many cases the relevant market is the ad market.

Finally, digital platforms can often show how specific markets, such as taxis and lodging, can operate more efficiently. Regulators should consider where greater use of platforms could reduce the need for regulation.

## Recommended Reading

- Robert Atkinson et al., “Comments to the Federal Trade Commission on Competition and Consumer Protection in the 21st Century” (Information Technology and Innovation Foundation, August 2018), <http://www2.itif.org/2018-ftc-competition-consumer-protection.pdf>.
- Daniel Castro, “Shaping Competition Policy in the Era of Digitisation” (Center for Data Innovation, September 28, 2018), <http://www2.datainnovation.org/2018-competition-policy-era-digitisation.pdf>.
- Joe Kennedy, “Don’t Regulate Internet Platforms, Embrace Them,” *EURACTIV*, November 13, 2015, <https://www.euractiv.com/section/digital/opinion/don-t-regulate-internet-platforms-embrace-them/>.
- Joe Kennedy, “Why Internet Platforms Don’t Need Special Regulation” (Information Technology and Innovation Foundation, October 2015), <https://itif.org/publications/2015/10/19/why-internet-platforms-dont-need-special-regulation>.
- Nick Wallace, “Policymakers Must be Careful on ‘Platform Regulation’,” *EUobserver*, April 30, 2018, <https://euobserver.com/science/141714>.