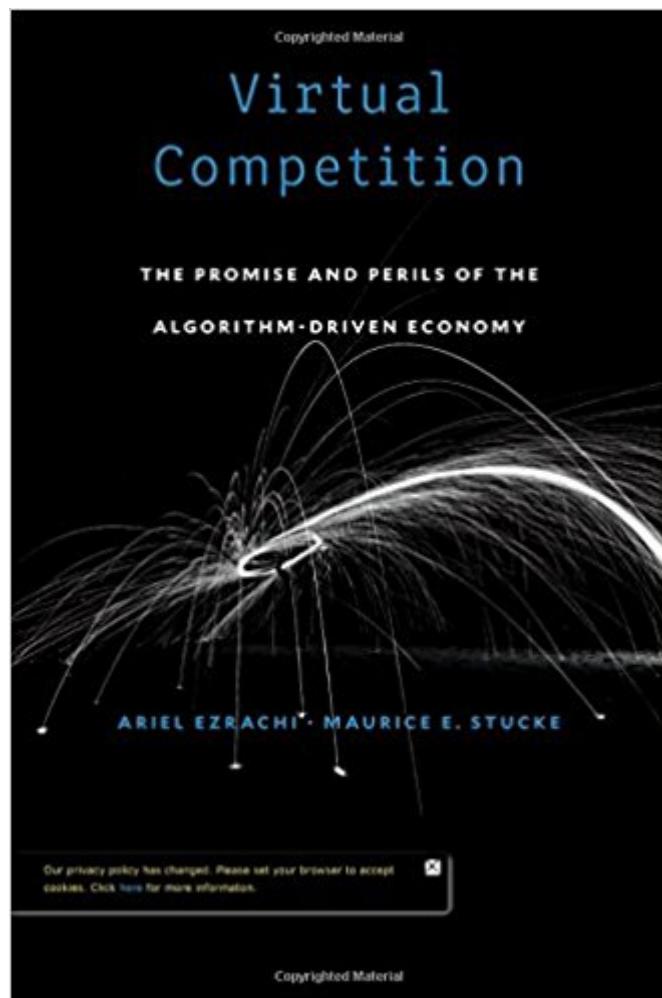


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Virtual Competition: The Promise And Perils Of The Algorithm-Driven Economy



Synopsis

Shoppers with Internet access and a bargain-hunting impulse can find a universe of products at their fingertips. In this thought-provoking exposé, Ariel Ezrachi and Maurice Stucke invite us to take a harder look at today's app-assisted paradise of digital shopping. While consumers reap many benefits from online purchasing, the sophisticated algorithms and data-crunching that make browsing so convenient are also changing the nature of market competition, and not always for the better. Computers colluding is one danger. Although long-standing laws prevent companies from fixing prices, data-driven algorithms can now quickly monitor competitors' prices and adjust their own prices accordingly. So what is seemingly beneficial—increased price transparency—ironically can end up harming consumers. A second danger is behavioral discrimination. Here, companies track and profile consumers to get them to buy goods at the highest price they are willing to pay. The rise of super-platforms and their "frenemy" relationship with independent app developers raises a third danger. By controlling key platforms (such as the operating system of smartphones), data-driven monopolies dictate the flow of personal data and determine who gets to exploit potential buyers. Virtual Competition raises timely questions. To what extent does the "invisible hand" still hold sway? In markets continually manipulated by bots and algorithms, is competitive pricing an illusion? Can our current laws protect consumers? The changing market reality is already shifting power into the hands of the few. Ezrachi and Stucke explore the resulting risks to competition, our democratic ideals, and our economic and overall well-being.

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Customer Reviews

[Ezrachi and Stucke] make a convincing argument that there can be a darker side to the growth of digital commerce. The replacement of the invisible hand of competition by the digitized hand of internet commerce can give rise to anticompetitive behavior that the competition authorities are ill equipped to deal with. Virtual Competition displays a deep understanding of the internet world and is outstandingly researched. (Burton G. Malkiel Wall Street Journal 2016-11-14)

Traditional competition law is about firms and their activities. The great insight underpinning Ezrachi's and Stucke's book is that, in a digital world, competition law will be mostly about algorithms and big data because these are the forces that now determine what happens in online marketplaces. The book focuses on three particular areas in which anticompetitive and manipulative behavior is possible and, in some cases, already evident. Ezrachi and Stucke dig deep into the ways in which algorithmic and big-data analytics combine to produce behaviors and outcomes that are—or could be—troubling for society. They then go on to discuss the extent to which existing competition law and legal precedents may—or may not—be able to address abuses. Ezrachi and Stucke have made a convincing case for the need to rethink competition law to cope with algorithmic capitalism's potential for malfeasance. (John Naughton The Observer 2016-12-04)

We owe the authors our deep gratitude for anticipating and explaining the consequences of living in a world in which black boxes collude and leave no trails behind. They make it clear that in a world of big data and algorithmic pricing, consumers are outgunned and antitrust laws are outdated, especially in the United States. We can hope the ideas discussed in Virtual Competition get on the political agenda. (Barry Nalebuff Science 2016-11-04)

This is a groundbreaking, critical work—a major contribution to the field of competition law. (Frank Pasquale, author of The Black Box Society) Ezrachi and Stucke provide a compelling analysis challenging the orthodoxy that modern technology empowers consumers. Their findings will send a shiver down the spine of consumers, businesses, public policy makers and anyone working in the competition field. Virtual Competition is a fast-paced, mind-boggling thriller that you can't put down; a thriller in which we are all set to be the victim. (Alan Giles, Saïd Business School, University of Oxford)

Virtual Competition provides an intriguing and provocative look at the potential dark side of big data and big analytics. The debate over digital competition is just beginning, and Ezrachi and Stucke have laid down a marker that is likely to capture wide attention. (Jonathan Levin, Stanford Graduate School of Business)

Ezrachi and Stucke's insights into data-driven opportunities, collusion scenarios, discrimination, and “enemies” will help authorities

distinguish between true efficiencies and anti-competitive problems, and ensure that most enforcement at least keeps up with technological developments. Forward-thinking competition authorities can use these insights proactively to help craft government policies that ensure that innovation and competition are real, while problems are addressed quickly and thus hopefully remain virtual. (Philip Marsden, Inquiry Chair, Competition and Markets Authority)A thought-provoking, clearly written examination of the coming effects on markets and competition of computer algorithms, big data, big analytics, and super-platforms, drawing on real-life examples, on neoclassical and behavioral economics, and on the authors' deep understanding of U.S. and EU competition law. (Harry First, New York University School of Law)This highly readable and authoritative account sets out the ways that platforms have replaced the invisible hand with a digitized one—a hand that is human-engineered, subject to corporate control and manipulation, and prone to charges of unlawfulness. It is becoming increasingly apparent that widespread deployment of algorithmic tools can intensify, rather than reduce, the chasm between the wealthy and the vulnerable. This is the issue Ezrachi and Stucke address as behavioral discrimination. Overall, they argue, this is corrosive to social welfare, because the more vulnerable among us end up paying more. The authors' assessment of where this is heading is of the most sober kind: absent legal intervention, perfect discrimination will likely become the new norm. (Julia Powles Times Higher Education 2017-01-05)Equal measures computer science, law, economics, and behavioral science, this book will appeal to all four groups and introduce the concepts in a very enjoyable way. Whether people shop online, on their phones, or in stores, companies track them. What they buy, where they shop, when they shop, and how they shop can all be analyzed by retailers, who can then offer different products, coupons, and discounts. Retailers not only collect and analyze this data but also sell the data and analysis to other companies, sometimes including their competitors. This book delves into the privacy and regulatory complications of this data and analysis. Though readers may be taken aback by just how much information is collected about their shopping habits, this book describes in detail how retailers and marketers use ambivalence to privacy to market products and services at prices consumers are willing to pay. (J. M. Keller-Aschenbach Choice 2017-04-01)

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This is good and alerts you about the future.

The U.S. Census estimates that 3o-commerce has increased from 2% of U.S. retail sales in 2004 to 6% in 2014, and growing at 16%/year in the U.S. - more than 3X the 5% growth rate in overall retail sales. The Internet has a number of platforms to reduce the time and expense of searching for what we want, and many have established themselves as significant players in the distribution chain - providing greater transparency (compare price and quality, reduce 'information asymmetries,' improve inventory management and marketing/advertising), efficiency, and ease of use. They also lower entry barriers - one no longer needs brick-and-mortar outlets to compete. A 2003 *BusinessWeek* story asked 'Is Wal-Mart Too Powerful?' Then, January 2016 Walmart announced the closing of 154 stores in the U.S. - attributed to more online commerce and comparison shopping. Walmart now plans to spend \$2 billion on its e-commerce in 2015-16, far more than the \$700 million spent in 2014. Despite Walmart revenues in 2014 being over 5X those of 's (\$486 billion vs. \$89 billion), 's stock value as of mid-2015 had eclipsed Walmart's by over \$70 billion, and its sales are accelerating - partly by allowing different retailers to use its services. has a far greater product assortment and inventory than any brick-and-mortar retail outlet. Today it sells far more books than any retail bookstore, and is expected to be the largest clothing retailer in 2017. As any retailer's product assortment grows, so does the impracticability of manually adjusting pricing. uses computer algorithms that harvest personal and market data to constantly adjust pricing for its millions of products. sometimes alters prices more than once/day in reaction to other retailers. And online sellers are now increasing the speed at which goods arrive at the customer. Bezos' latest move is adding Chinese vendors - pressuring American vendors to lower prices and making the first move to include the Chinese - before Alibaba invades the U.S. with its Chinese vendors. Larger and larger sums of money are being invested in data collection and analytics. Clearly Big Data (volume, velocity, variety, and value of the data) and Big Analytics (IBM's 'Watson,' self-learning, language translation) can promote a competitive online environment where we benefit. However, we cannot uncritically assume we will always benefit. At times, dynamic pricing is good, eg. 'smart' parking meters. But this also brings the possibility of greater collusion and behavioral exploitation. Sophisticated game theory can now be employed in real time. Ensuring competition will require looking at this new online e-commerce environment. Cartels, even when unsuccessful, are still typically condemned as illegal. But what happens when sophisticated algorithms are designed to follow cartel behavior? They could much more quickly detect cheating or deviations, and then

punish those deviations. The day after Easter in 2015, an online poster retailer named David Topkins became the first e-commerce executive to be prosecuted under antitrust law. He'd used Marketplace. Uber's algorithm can lead to horizontal collusion if the algorithm pushes up prices based on the perceived market value of a ride, rather than its actual market value. Smart machines pursuing self-learning and experimentation may collude without manual intervention. Two-thirds of online shoppers abandon their carts after initial 'purchase placement.' Sellers might then determine such buyers are more price sensitive - though buyers would quickly learn and act accordingly. Bottom-Line: "We cannot assume that the digitized hand will always protect our welfare."

Incredibly important work that is a must-read for anyone interested in competition policy online.

as expected

Dull and unremarkable. It's a (really boring) textbook. The writers certainly don't understand the purely technical bits and there are errors in the relevant section, although they do understand the implications.

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