

Regulating Platform Fees under Price Parity

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Abstract:

Online market places, such as Amazon's, or online travel agencies, such as [Booking.com](https://www.booking.com), greatly expand consumer information about market offers, but also raise firms' marginal costs by charging high commissions (which in some cases reach 25%). To prevent show-rooming, platforms adopted price parity clauses, which restrict sellers' ability to offer lower prices in alternative sales channels. Whether to uphold, reform, or ban price parity has been at the center of the policy debate, but so far little consensus has emerged. In this paper, we investigate a natural alternative to lifting price parity; namely, we study how to optimally cap platforms' commissions. The optimal cap reflects the Pigouvian precept according to which the platform should not charge fees greater than the externality that its presence generates on other market participants. Employing techniques from extreme-value theory, we are able to express the optimal cap in terms of observable quantities. In an application to online travel agencies, we find that current average fees are welfare increasing only if platforms at least double consumers' consideration sets (relative to alternative ways of gathering information online). This suggests that, in some markets, regulation capping commissions should bind if optimally set.