Optimal Assortment on an Integrated Platform*

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Abstract

Consumers rely on platforms to access goods and services in many industries. Platform firms are often integrated, including their own goods in the menu of products offered to consumers. With the ability to impact both pricing and product assortment, these integrated firms face a trade-off between foreclosing third-party competitors to promote their integrated products and maintaining the value of the platform as a whole. This paper studies the pricing and assortment decisions of internet service providers (ISPs), which sell broadband internet access and TV packages. The ISP’s network connects consumers to third-party online video, which increases the value of internet access, but also competes with the ISP’s TV packages. I develop a model of consumer choice over ISP and third-party subscriptions and estimate the model using a novel household-level dataset of ISP subscriptions and usage. Next, I use a model of bundle pricing to study alternative pricing strategies in which internet prices vary with access to online video. I find that a strategy of blocking access to online video is not profitable due to an imbalance in the profit margins of TV and internet access. Restricting online video usage leads to increased TV market share, but is offset by lower willingness-to-pay for internet access. When the ISP sets an additional access charge for online video, new surplus is generated, benefiting both the firm and consumers.

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