

**Comments on “Software exclusivity and the scope of indirect network effects in the US home video game market”;** *K. Corts and M. Lederman*

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# What the paper does

- Empirically estimates the scope of INE in the US home video game market
- Provides a very good description of how this market works
  - Hardware (console)
  - Software (games)
  - Source of INE:
    - 1) HW demand=  $f(\text{number of games})$
    - 2) SW supply=  $g(\text{user base})$
    - $(1)+(2)= \text{INE}!!!$
- Very careful empirical treatment: IVs, many robustness checks

# What is new

- Previous literature had already pointed out the existence of INE in this industry, BUT... coming from platform incompatibility
- They extend the cause of INE to non-exclusive SW (SW supply depends not only on the user base of the console but also on the installed base of platforms in the same generation). Non-exclusivity plays a role similar to compatibility in INE in this industry

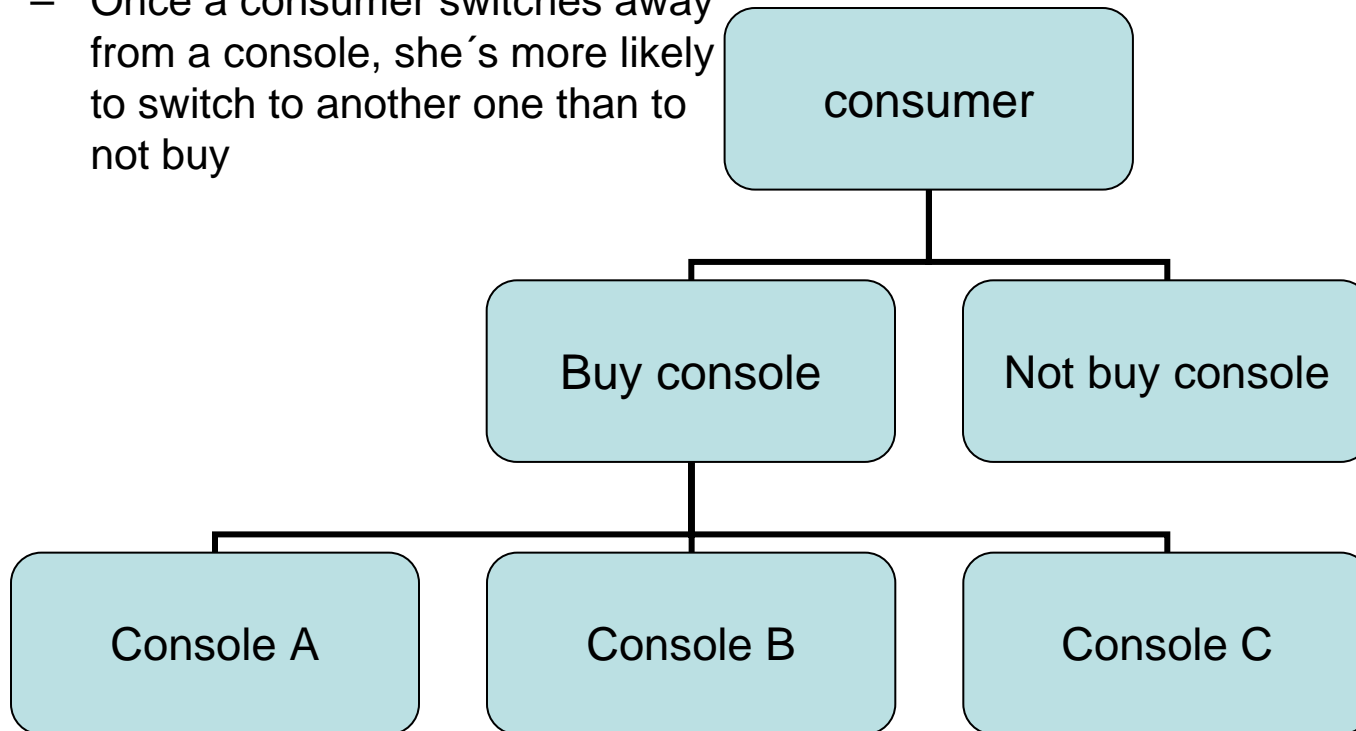
# What the paper does not do...

- Dynamics
  - There is some attempt to simulate how one round of this model would work
  - No conclusion on conditions for “tipping” towards a one single firm market.

# Empirical strategy

- Nested logit

- Once a consumer switches away from a console, she's more likely to switch to another one than to not buy



# Empirical Strategy (II)

(1st) Estimate demand of a console (as a function of SW) P1

(2nd) Estimate supply of SW (as a function of  $IB_j$ ,  $IB_{-j}$  and  $IB_{-j} * \text{generation}$ )



# Comments

- INE from  $IB_j$  is NEGATIVE!
- Table 6: include also Generation IB, Generation dummies and interaction
- Not many explanatory variables are time varying
- Information about the “parent”. Does it play any role?
  - Maybe non-exclusive SW is more likely across consoles with the same “parent”
    - (parent dummy?)
    - Maybe we could see more non-exclusivity across generations where there are more consoles that share the same parent (is this what is happening?)
- Robustness when we only look at third party titles only?
  - To avoid accounting for a decrease in the in-house games

# Comments

- What is the role of sequels? Do they behave differently?
- Quality control: number of top-10 hits of a console?
- Dynamics: neat attempt to show where the game goes with a simulation, but, what can we conclude about “tipping”?
  - Maybe we could see what happens if the biggest console gets the 10 next exclusive games vs it the smallest one gets them...

# Comments

- Steady state consoles? Maybe there are some that are already “mature”, that have reached their steady state of IB. Could we test whether these results still hold for this subset of consoles?