When “vertically integrated markets” become “augmented markets”

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1. Understanding the new deal of « augmented market »

2. Situating the concept of « augmented market »

3. Identifying the reality of « augmented markets »
1. Understanding the new deal of « augmented market »

-> Stylized facts:

-> Troubling strategies of firms:

2010 – Citroën Multicity

2010 – Produce & provide clean energy

2010 - Identify & list EV charge points

Patents EV charge points

Freshmile
Better Place
1. Understanding the new deal of "augmented market"

-> Some definitions & precisions:

An "augmented market" is a new industrial structure, according to the properties of both its supply and demand sides.

A such structure is characterised by a **trans-sectoral integration of separated industries** that occurs at a single or multiple added value levels.

The strategy to "augment [its] market", mainly through an "organic growth", gives an advantage for a firm that become an "augmented firm" and which seeks a "trans-sectoral rent".
1. Understanding the new deal of « augmented market »

-> Some definitions & precisions:

The mastering of a common and shared technological, infrastructural, servicial or informational added value level:

- Lower the marginal cost of production (fix costs of investment are shared by a most important number of consumers);

- Allows some indirect « cross network effects » so that the value of a product for a class of agents is positively correlated with the required amount of an other good available on another market;

- Allows the subadditivity of costs functions \( \forall n, \forall Q : C(Q) \leq nC(Q/n) \), that drives the trans-sectoral integration;

Building datacenter / create databases
1. Understanding the new deal of « augmented market »

- The trans-sectoral integration comes from a « meeting » between separated industries and allows:
  - the creation of an « augmented product » that is still the same product but gains additional functionalities;
  - a bilateral market power that drives the principle of sponsorization, i.e. cross-subsidization between products of the separated sectors;
  - the creation of a « trans-sectoral rent ».

- Electric mobility operators & charges agregators managing EVs:
2. Situating the concept of « augmented market »

-> In the field of Business Economics:

In terms of Business Economics, an « augmented market » cannot be seen as:

-> Horizontal integration:

• Acquisition or economic development of activities at the same level of value chain -> same activity

-> nor Vertical integration:

• Acquisition or extension of the firm along the value chain, upstream or downstream -> same industry

-> Nor Diagonal integration:

• strategic acquisitions/alliances/information/partnerships between companies in order to improve access to consumers (market extension) and to achieve economies of scale and scope (cross benefits) (Oxford reference) -> same functionality
In terms of Industrial Economics, an « augmented market » cannot be seen as:

**Bundle / bouquets economics:**
- A bundle is a commercial offer which articulates goods &/or services that have their own markets but contribute to one homogeneous functionality (Moati & alii., 2006);

**Multi-sided market:**
- The value of a product is positively correlated with the required amount of an other good from a separate industry, which form the other side of a same market (Wauthy, 2008);

**Industrial convergence:**
- Industrial convergence is an industrial integration between 2 or more industries that create a new industry (Zhou, 2003);
3. Identifying the reality of « augmented markets »

-> Statistical identification:

Identifying dynamics of firms boundaries can be done by understanding the « corporate coherence », thanks to combinatorial statistics on activity portfolio of diversified firms (as Teece & alii, 1994);

\[
\begin{pmatrix}
\mathbf{a}_{11} & \mathbf{a}_{12} & \cdots & \mathbf{a}_{1n} \\
\mathbf{a}_{21} & \mathbf{a}_{22} & \cdots & \mathbf{a}_{2n} \\
\vdots & \vdots & \ddots & \vdots \\
\mathbf{a}_{m1} & \mathbf{a}_{m2} & \cdots & \mathbf{a}_{mn} \\
\end{pmatrix}
\]

The aim is to identify inter-industrial relatedness through the analyse of inter-relations between activities within firms, considering:

- The number of workers (Teece & alii., 1994),
- sales revenue (Bryce & Winter, 2009),
- added value, or other weighting keys;
3. Identifying the reality of « augmented markets »

-> Towards a typology:

After obtaining a “coherence degree” and identifying “outliers”, we can explain & describe the basic logic of the augmentation of the market.

- Existing : resource-based approach (Robins & Wiersema, 1995);
- Proposed : functionnal approach (in the field of Gallouj & Weinstein, 1997);

To build and obtain a typology, we need a structured, comprehensive and systematic analysis of “augmented markets”.

Scope
- Markets
- Sectors/industries
- Inputs/outputs
- Functions
- Actors

Architecture
- Principle of articulation
- Position in the value chain
- Integration degree
- Nature of interfaces

Economic engineering
- Nature of cross network effects
- Markets structure
- Price elasticity
- Type of competition
- Pricing principle
Thank you for your attention…and your questions!
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Bibliography


