ORIGINAL ARTICLE

INTERNATIONAL JOURNAL OF ARTIFICIAL INTELLIGENCE

ISSN: 2692-515-x, Impact Factor: 9.23

American Academic publishers, volume 6, issue 01,2026

Journal: https://www.academicpublishers.org/journals/index.php/ijai

DIGITAL ADVERTISING AND MARKET POWER

Khudoyberdiyeva Olima

Faculty of Economics

Karshi State University

Absract. The article examines how market power is defined and assessed in digital markets and its implications for competition policy. It highlights key sources of market power such as network effects, scale and scope economies, data advantages, and switching costs, and discusses whether these are unique to digital contexts. The note also reviews new concepts and regulatory terms used to describe power in digital markets and outlines policy challenges, including how new regulatory approaches relate to traditional concepts like dominance. It concludes that market power should remain a central principle in competition policy for the digital era.

Key words: Digital advertising, online advertising, market power, digital economy, tech platforms, advertising platforms, market dominance, targeted advertising, platform economy, market dynamics, behavioral targeting, economic impact of digital ads.

Introduction. Market power, the ability of a firm to maintain prices above, or quality below, a competitive level, 1 is a fundamental concept for competition law and policy: it can make the difference between procompetitive and abusive firm conduct, and the difference between beneficial and harmful mergers. In the wake of digitalisation, it has become a particular concern: evidence such as growing mark-ups suggests that market power is on the rise and potentially becoming more durable, in digital-intensive sectors ; . Assessing the degree of market power in digital markets can present a range of challenges for authorities. They must carefully scrutinise claims about the importance of data access and network effects as entry barriers, and thus sources of market power. Further, authorities must grapple with multi-sidedness and the need to incorporate the relationship between demand and competitive constraints in multiple markets. Such markets may also feature services provided at a price of zero, requiring non-price factors to play a particularly important role in the assessment. Proposals have also been made to adjust the way authorities approach market power in digital markets, namely addressing tipping risks in markets that do not yet feature a dominant player, and considering the risk of market power being leveraged into other markets. At the same time, there are questions about whether the concept of market power itself needs to be adapted to digitalisation. A range of concepts have been introduced to capture particular forms of, or alternative concepts to, market power, specifically the power held by digital platforms as intermediaries between firms and end consumers. They include terms such as gatekeepers, bottleneck power, platform power, intermediation power and strategic market status, among others. These related concepts have been a particular focus of recent regulatory proposals.

Methodology. This study adopts a mixed-methods research design combining quantitative market data analysis with qualitative institutional and policy analysis to examine the relationship between digital advertising and market power. The approach allows for both measurement of market concentration and deeper interpretation of competitive dynamics within digital advertising ecosystems.

ORIGINAL ARTICLE

INTERNATIONAL JOURNAL OF ARTIFICIAL INTELLIGENCE

ISSN: 2692-515-x, Impact Factor: 9.23

American Academic publishers, volume 6, issue 01,2026

Journal: https://www.academicpublishers.org/journals/index.php/ijai

Analysis and Discussion of Results. Network effects have been a central theme of competition authority cases in digital markets.16 Specifically, network effects have been assessed as a contributor to market power both in reducing substitution by consumers and creating barriers to entry that limit competitive constraints. Illustrating this importance, the Japan Fair Trade Commission's updated merger guidelines make explicit reference to both direct and indirect network effects.17 Digital markets can exhibit certain characteristics that may amplify the impact of network effects on market power. In particular, the existence of positive feedback loops that strengthen network effects have been the focus of some authorities.18 These feedback loops can be observed with respect to both direct and indirect network effects. In the case of the direct network effects, an increase in usage of a digital service will increase the value of the service, thus attracting more users and creating a self-perpetuating cycle – a process the Australian Competition and Consumer Commission observed for example with respect to online search engines (ACCC, 2019, p. 66[14]). With respect to indirect network effects, the mechanism may be more complicated but involves the same dynamics: for instance, a growth of users on one side of a platform can increase the value to advertisers, which enables further investments in the platform, attracting more users on the original side, thus continuing the cycle . When sufficiently strong, these feedback loops can lead a market to "tip" into monopoly, in particular if no competitor or potential entrant can match the attractiveness of the platform (as enhanced through network effects). That being said, authorities have also recognised that the potential contribution of network effects to market power should be assessed in context. A recent Compendium issued by the G7 Competition Authorities emphasises that network effects can serve either as an incentive to compete aggressively and acquire scale, or as a deterrent to entry that insulates market power from competitive pressure. The German competition authority has also observed that network effects may in fact be a mechanism for small new entrants to expand rapidly, and have an "ambivalent" effect on competition . Thus, while most competition authority decisions refer to network effects as a contributor to market power, they have also explicitly recognised that this may not always be the case. Academic literature suggests that network effects can not only contribute to the growth of new entrants, but also incentivise vigorous competition in order to acquire users, leading to lower mark-ups . Further, the network effects observed in digital markets are different from those in traditional network industries, in the sense that they are not connected to specific network infrastructure and may therefore be more fleeting as a source of market power. In this vein, argues that network effects may even be a source of instability in digital markets. At the same time, many recognise that network effects may lead to tipping into a monopoly when sufficiently strong , echoing the concerns summarised above about durable market power. So what determines the strength of network effects for a given product? Several factors can be considered:

How important is the overall usage of a digital product or platform for the value it provides to consumers? This obvious first question requires understanding both what drives consumer decision-making (e.g. the presence of friends and loved ones on a given social media platform), and the inputs to the product (e.g. the importance of past queries in refining a search algorithm). This can determine if a new entrant without a user base will be able to produce a viable alternative product. The experience of past entrants can be instructive in this regard. Users' expectations and preferences can play an important role in making this barrier more formidable: if users believe none of their connections will try a new service, or resist being an early adopter, even services offering significantly better quality may struggle to enter a market.

ORIGINAL ARTICLE
INTERNATIONAL JOURNAL OF ARTIFICIAL INTELLIGENCE
ISSN: 2692-515-x, Impact Factor: 9.23
American Academic publishers, volume 6, issue 01,2026
Journal: https://www.academicpublishers.org/journals/index.php/ijai

How significant are switching costs, and is there interoperability between competing products? If network effects play a central role in determining the value of a digital product, they may not necessarily translate to market power if (i) there is a high degree of interoperability between digital products, meaning it is possible to benefit from network effects across competing products, and (ii) if it is easy and costless to try new services when users benefit from direct network effects. These characteristics will be discussed further below as contributors or limiters to market power in their own right, but they can also have a determinative impact on whether network effects translate to market power.

In what direction do externalities flow? Network externalities that flow in two or more directions on a platform (i.e. when more than one side benefits from participation on the other side) could constitute a more significant barrier to entry than externalities that flow only in one direction. This is because a new platform may find it exceptionally difficult to attract different groups of users whose demand depends on each other's usage – a "chicken and the egg" problem. In contrast, a platform where externalities run in only one direction (e.g. content services funded by advertising) may find it easier to enter by using subsidies or other benefits to lure users to the side of the platform that does not benefit from indirect externalities, which would then in turn lure users on the other side.

Do all firms' products exhibit the same type of network effects? If only some firms in a market can fully leverage network effects to improve service quality (e.g. because others do not have the capacity to use data to improve future quality), then the potential for network effects to result in tipping and market power may be enhanced. If all firms in a market can benefit equally from network effects, the emergence of potential challengers could be significantly more likely. Similarly, it may be worth asking whether there are any alternative business models for which some network effects are less important (e.g. those less reliant on advertising), which would suggest network effects are a less important potential source of market power.

Is there already one platform in the market with a significant lead in terms of user base? Network effects may be the most relevant for market power, and the most formidable entry barrier, when they translate into a significant advantage for a single incumbent that cannot be easily matched. In fact, the German competition authority has indicated that network effects would mainly be a focus in markets with two-sided network effects when there is a single platform with a clear lead over others .

What is the scope of the network effects? For some platforms, network effects are generated between all users, whereas in other cases, network effects are narrower in scope. Take the example of a hotel booking platform and a ride-hailing platform (as described by Martens . The addition of new cities or countries to the hotel booking platform can generate broad benefits, since travellers have a greater selection of destinations, whereas the addition of a city to a ride hailing network may be of limited value to customers located in cities already served by the platform (unless they travel frequently between destinations). Similarly, users of a social networking platform only care about the presence of their connections or those they wish to connect to, rather than the overall user base of the platform . Thus, some argue that platform services are becoming more personalised (for consumers) and narrowly tailored (for advertisers), meaning that the scope of network externalities is becoming narrower and thus less important for market power (Tucker, 2018[18]). One implication of this could be narrower market definitions that are more reflective of the pattern of network effects, however it would

ISSN: 2692-515-x, Impact Factor: 9.23
American Academic publishers, volume 6, issue 01,2026
Journal: https://www.academicpublishers.org/journals/index.php/ijai

not rule out the potential for significant market power across multiple such markets – particularly given the potential for strong economies of scope and conglomerate effects, described below.

How are network effects generated? In particular, if network effects are generated simply by a user signing up to a service or installing an application (e.g. a messaging application that allows the user to be contacted), then they will be a much less significant entry barriers than when they could.

Market power has been the lodestar of modern competition policy, and recent developments regarding digital markets are no exception to this. The influence of this concept can be found even in new competition-focused regulatory proposals and initiatives, which focus, even if indirectly, on conduct by firms with market power on competition. This is not to say, however, that the application of market power concepts to digital markets is without challenges. This note has reviewed the evolving concept of market power in the digital economy by first exploring how competition authorities have assessed indicators of, and contributors to, the market power of digital firms to date. In particular, it has explored the unique nature of network effects in digital markets, and identified the situations in which network effects contribute to market power (based on the extent of interoperability, whether externalities flow in more than one direction, whether all firms benefit from network effects equally, and whether network effects are localised or broad in scope). It has set out the situations in which data and multi-homing contribute to market power, and emphasised the particularly important role that economies of scope and linkages between products play in digital markets. In their case experience to date, competition authorities have grappled with several core conceptual questions when assessing market power in digital markets. They have clearly determined that market power can exist even if firms offer products at a price of zero. The question of whether ecosystems lead to market power has been addressed by a more limited set of competition authorities, and remains highly case-dependent. In addition, the question of whether competition-for-the-market dynamics are sufficient to discipline market power is of growing interest, and has been answered in the negative in at least some cases when consumers are locked in for extended periods.

Conclusion and Recommendations. Digital advertising has not only transformed the way businesses reach consumers but has also significantly shifted the balance of economic power toward a few dominant tech platforms. Companies like Google, Meta, and TikTok wield unprecedented influence over markets, shaping consumer behavior, controlling advertising pricing, and limiting opportunities for smaller competitors. While these platforms drive innovation, efficiency, and targeted marketing, their concentration of power raises serious questions about market fairness, data privacy, and long-term economic sustainability. To ensure a healthy digital economy, policymakers must implement effective regulations that promote competition, enhance transparency, and protect consumers' rights. At the same time, businesses and consumers need to understand how digital advertising affects choices, prices, and market dynamics. Ultimately, managing the power of digital advertising is not just about regulating technology—it is about safeguarding a competitive, equitable, and innovative economic future.

References:

ISSN: 2692-515-x, Impact Factor: 9.23
American Academic publishers, volume 6, issue 01,2026
Journal: https://www.academicpublishers.org/journals/index.php/ijai

1. OECD (2022), The Evolving Concept of Market Power in the Digital Economy, OECDCompetition Policy Roundtable Background Note

2. Anderson, Simon and Stephen Coate, 2005. "Market Provision of Broadcasting: A Welfare Analysis", Review of Economic Studies, 72: 947-972

3. Australian Competition and Consumer Commission (ACCC), 2019. Digital Platforms Inquiry.

4. https://platformpapers.substack.com/p/rethinking-market-power-in-the-digital

5. https://www.stlouisfed.org/on-the-economy/2024/oct/rise-digital-advertising-economic-implications

6. https://www.phcc.gov.ph/storage/pdf-resources/1737107374_PCC-Market-Study-2024-01-Digital-Platforms-and-Online-Advertising_compressed.pdf