Games Infrastructure Firms Play

- **STAGE 1: DISTRIBUTION CAPACITY**
  - **WHERE** to place conduits, cables, or antennas
  - Industry-specific / geographically specific investment
  - Unaffected by bankruptcy (Hadley 1885)

- **STAGE 2: TRAFFIC AND PRODUCT CAPACITY**
  - **WHICH** products (TV, telephone, content alliances)
  - **HOW MANY** routers, nodes, etc. to carry traffic

- **STAGE 3: PRICE COMPETITION**
  - **HOW MUCH** to charge consumers for subscriptions

Stage 1: Captive Customers

- Exclusive geographic territories
- Or substantially different service offerings in different locations

Stage 2: Product Differentiation

- Extra services: telephone, TV, etc.
- Content alliances
  - Open access / network neutrality could be an obstacle

Stage 2: Limit Capacity

- Network architecture is not just an engineering problem
- 2-3 firms in "Cournot competition"
- Resale regulation could be a problem

Avoiding Ruinous Competition

- Build networks in different locations
- Or build them differently in different locations
- Differentiate the product
  - Extra services
  - Exclusive content
- Limit capacity
  - Then undercutting on price is less tempting

Stage 3: Ruinous Competition?

- At stage 3, most costs are SUNK
- Why not just undercut competitors on price?
- Try to achieve price stability / avoid price wars