Companies that operate in competitive markets dominated by network externalities, face distinct trade-offs regarding the choice of a technical standard. Holding on to a primary compatibility standard permits a firm’s product to capture the value added by a large network. Conversely, the firm loses direct control over the market supply of the good and faces (direct) intra-platform competition. This trade-off is a key strategic decision that depends in part on the control that firms have in making their output compatible with competitors’ outputs and complementary products. Industry output will be higher when there are network externalities and when standards are open. With incompatibility of standards market concentration, output inequality and price and profit inequality increase with the extent of the network externality. Where there are proprietary standards and strong network effects, there is no equilibrium in terms of network offerings. Competition as we know it can be compromised by the size consequences of winner-takes-all. The economic characteristics of network industries are dependent in large part on the interconnectivity that is characteristic of the technologies of information goods.

**Keywords**
Network industries, competitive market theory, critical mass, networks, network externalities

**Reference this article**