

Session 9:

Two-sided platforms vs. merchants II

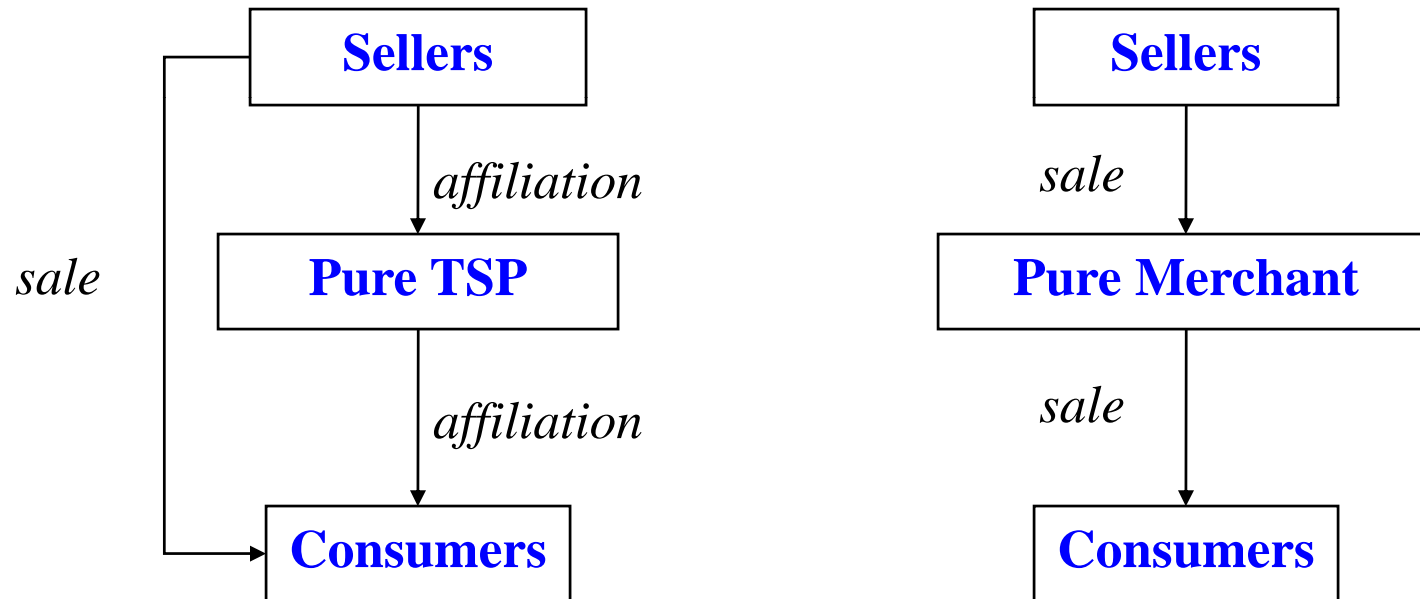
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Merchants vs. TSPs II

- Two polar types of intermediation:
 - Key economic differences
 - How to choose among the 2? (or what determines which model prevails in a given industry?)

TSPs vs. Merchants

| | |
|------------------------------------------------------------|---------------------------------------------------------------|
| Simple affiliation | Outright sale |
| <i>Sellers maintain <u>control</u> over sale to buyers</i> | <i>Merchant takes full <u>control</u> over sale to buyers</i> |



What exactly distinguishes merchants from TSPs?

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3 relevant dimensions

“Pure” TSP

“Pure” merchant

Who controls the sale to consumers?(pricing, advertising, etc.)

Sellers ←————→ Intermediary

Who bears risk? (inventory, demand, etc.)

Sellers ←————→ Intermediary

Who “owns” the consumer relationship?

Sellers ←————→ Intermediary

“Pure” TSP

“Pure” merchant

Who controls the sale to consumers?(pricing, advertising, etc.)



Who bears risk? (inventory, demand, etc.)



Who “owns” the consumer relationship?



eBay, Yahoo! Auctions |

“Pure” TSP

“Pure” merchant

Who controls sale to consumers?(pricing, advertising, etc.)



Who bears risk? (inventory, demand, etc.)



Who “owns” the consumer relationship?



Walmart



“Pure” TSP

“Pure” merchant

Who controls sale to consumers?(pricing, advertising, etc.)



Who bears risk? (inventory, demand, etc.)



Who “owns” the consumer relationship?



Amazon



Amazon: from merchant to TSP

- Advantage Program (\$29.95 annual membership fee plus 55% of sale price - decided by Amazon)
- Marketplace initiative (1999): storefronts on Amazon.com
- zShops, Merchants@Amazon.com, Merchants.com, syndicated stores and marketing deals:
 - varying degrees of control and inventory risk undertaken by Amazon: commission per item sold, ranges from 5% when Amazon does not take significant inventory functions and risks to 15% when it does
- Why move towards TSP model?
 - allows to increase variety of products

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More mini-cases

- IP intermediaries:
 - Tynax
 - Intellectual Ventures
- Firms:
 - Employees <-> customers
 - Coca-Cola; Lenovo; Sony
 - McKinsey; Goldman Sachs; other professional service firms

***Is this a two-sided platform or a merchant? Why?
Does it matter?***

Merchant vs. TSP choice

| <i>Economic driver</i> (<i>true only for monopoly intermediary!</i>) | <i>TSP model</i> | <i>Merchant model</i> |
|------------------------------------------------------------------------------------------------|------------------|-----------------------|
| Chicken-and-egg problem | - | + |
| Asymmetric information (sellers) or uncertainty (consumer demand) | + | - |
| Consumer demand for product variety | + | - |
| Strong complementarities or business-stealing effects between sellers | - | + |
| Economies of scale in aggregation, distribution, etc. | - | + |
| Suppliers have significant “contact” with consumers outside the intermediary (e.g. brand name) | + | - |
| Ongoing investments by sellers | + | - |
| Need to grow fast (capital constraints) | + | - |

Thank you for your attention.