

Retailer-led marketplaces*

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October 13th 2019

Abstract

We study the incentives of an online retailer to open up its storefront by operating a marketplace for third party sellers. The marketplace can expand the product assortment offered on the storefront but exposes the retailer to competition. We develop a novel model of marketplace entry and price competition to analyze the interactions that arise, where third party sellers benefit from private information about the potential demand for some products but the retailer has two distinct advantages: it charges an ad-valorem fee on the sales of marketplace sellers and has a captive segment of consumers who are inattentive or loyal to the retailer. Our analysis reveals various non-trivial implications of fees in online marketplaces. On the one hand, lower fees increase the profitability of seller entry into products that are a priori unprofitable for the retailer to supply, and this provides an opportunity for the retailer to learn about the demand for these products. On the other hand, higher fees soften price competition between the retailer and sellers when they both supply the same product. We examine the implications and anticompetitive effects of marketplace fees, explain why the properties of retailer-led marketplaces contribute to soften price competition, and show how the retailer manages his own product entry choices and those of third party sellers to maximize marketplace profits.

Keywords: Observational Learning, Entry, Price competition, Marketplace Management, Assortment Depth

*We thank participants at the UPF Brown Bag seminar series for helpful comments and discussion.

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