The Agency and Wholesale Models When a Platform Can Charge Entry Fees

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Summary

Main topic: Compare two business models in a intermediation setting where a platform connects buyers and sellers

Wholesale Model (WM)

- Platform sets entry fee $\rightarrow$ seller decides to enter $\rightarrow$ seller decides the wholesale price paid to platform $\rightarrow$ platform sells to buyers

Agency Model (AM)

- Platform sets entry fee and commission rate $\rightarrow$ seller decides to enter $\rightarrow$ seller directly sells to buyers

Differences between WM and AM

- Timing/commitment
- Delegation of the final price
- Pricing instruments (wholesale unit price vs. revenue sharing)

Summary

With respect to Johnson (2017)

- Platform can also use fixed fees
- But the ability of fixed fees to capture the seller's profits may be limited
  - $\beta = 1$: platform can capture all the seller's profit
  - $\beta \in [0, 1)$: platform can capture only a fraction of the sellers' profit
  - β is unknown

$\rightarrow$ Two very interesting extensions

Results

- When $\beta = 1$, AM is better for buyers and sellers because it eliminates double marginalization
- When $\beta \in [0, 1)$, AM is still better for consumers (under certain conditions on the demand), WM is better for sellers
- When β is unknown, platform sometimes sets no entry fee; if fixed fees are positive, AM remains better for consumers (under certain conditions on the demand)

Comments

1. The limit on the ability to capture profit through fixed fees is modeled in a somewhat unusual way. Alternatively:
   - sellers have random outside options/fixed costs of production
   - sellers have a second channel for sales (direct to consumers), whose profitability may be uncertain for the platform $\rightarrow$ platform's contract impacts the use of the second channel
2. Platform sets the wholesale and the final price (intermediation à la Spulber): worth investigating?
   - More generally, not clear that sellers have enough bargaining power relative to platform to dictate the wholesale price
3. Other configurations could be studied, depending on which pricing instruments (fixed fees, wholesale price, commission, final price) is chosen by who (platform vs. sellers) and when (ex ante vs. ex post)
   - Why restrict to WM and AM?
   - When comparing WM and AM, it would be nice to understand what comes (i) from a change in timing and (ii) from a change in pricing instruments
4. Analysis would have more a "platform-flavor" with network externalities $\rightarrow$ Which model is better when network effects increase?