

Marketplaces and Control

Andrei Hagiu
Greymarket 2015

The control continuum

Pure marketplaces:

Integrated firms (services)
or resellers (products):

oDesk
Elance

infosys

HourlyNerd
consulting. on your terms.

McKinsey & Company

grubHub
seamless

spring

RelayRides

zipcar

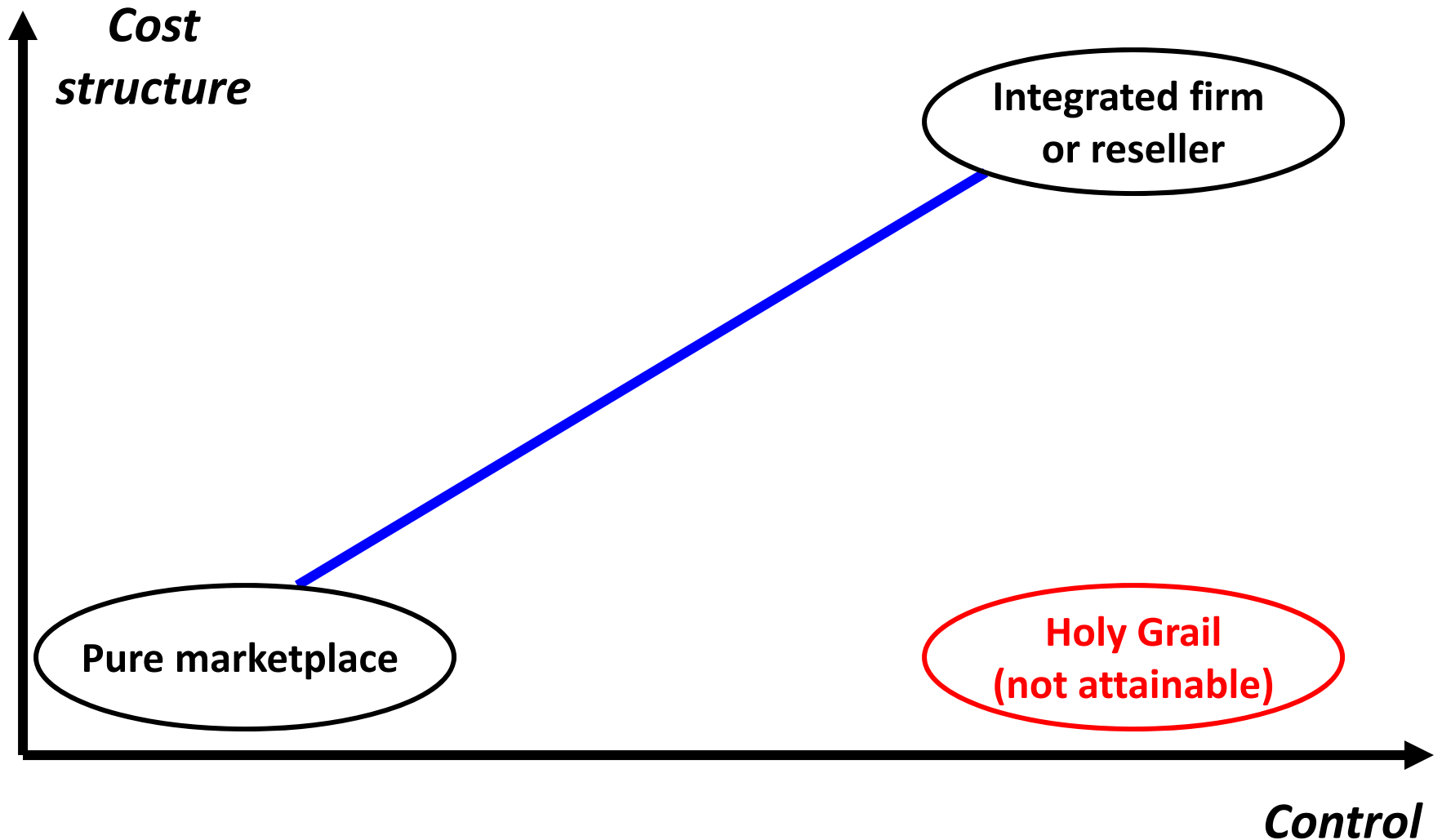
eBay
Motors

beepi

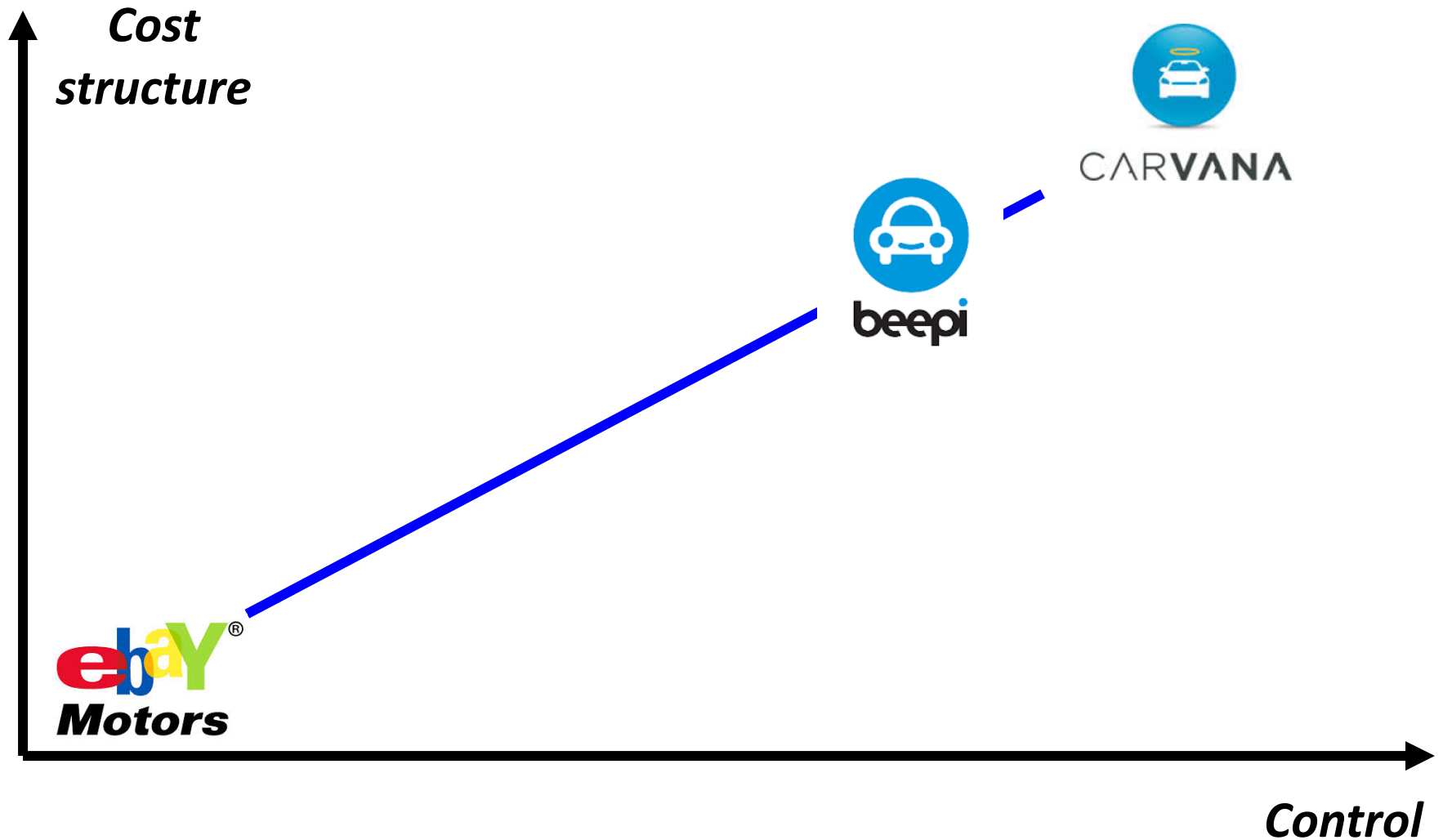
CARVANA

Extent of Control

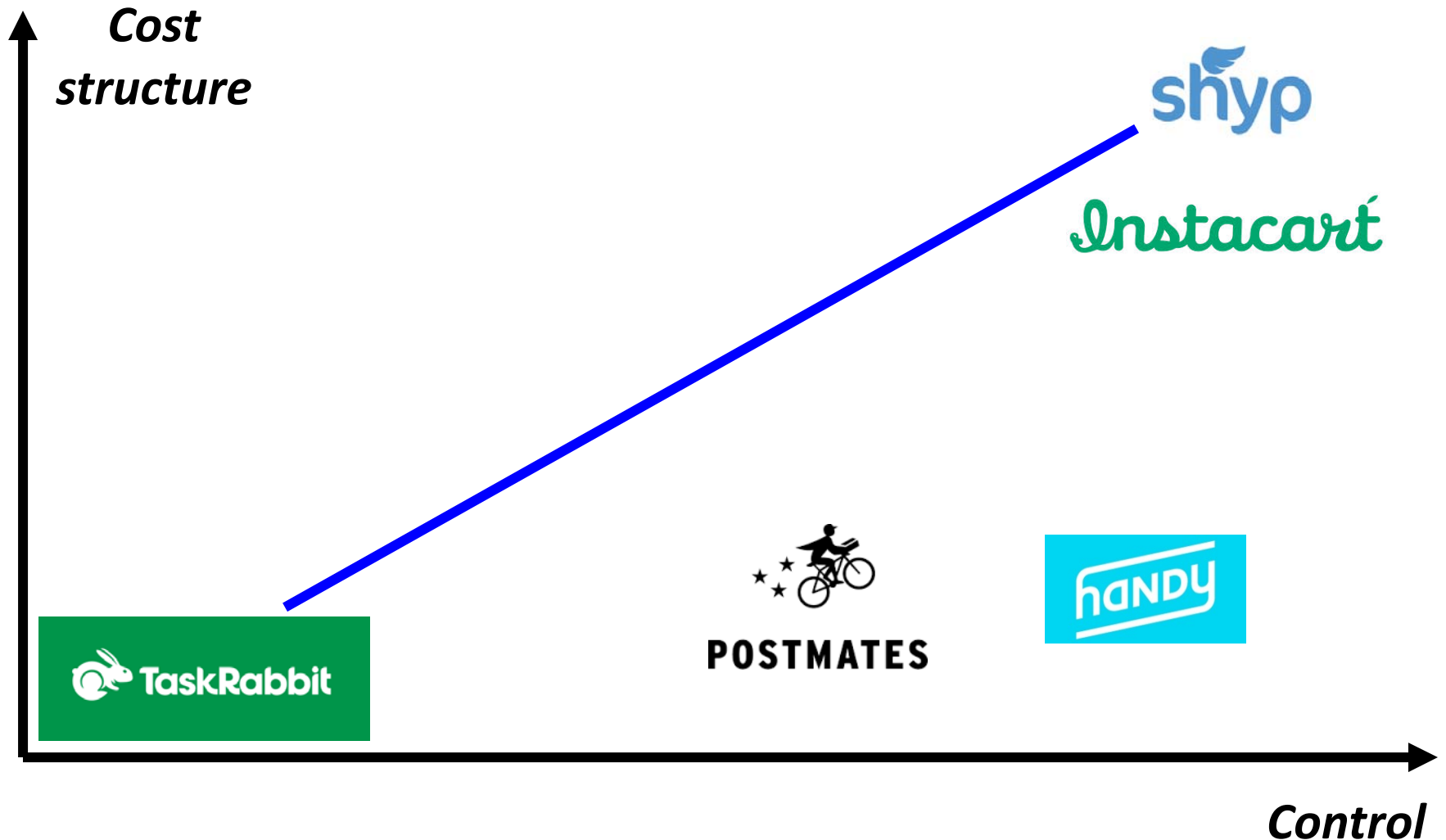
Control vs. cost



Control vs. cost (products)



Control vs. cost (services)



Control

...over interactions/transactions

Relevant decisions	Examples
<u>Price</u>	TaskRabbit, oDesk vs. Lyft/Uber
<u>Equipment (means of production)</u>	Postmates, Lyft/Uber vs. taxi
<u>Whom to serve</u>	Uber vs. TaskRabbit
<u>How service/product is performed/delivered</u>	TaskRabbit vs. Handy
<u>How service/product is presented/advertised</u>	eBay Motors vs. Beepi
<u>Work schedule</u>	Uber (surge pricing)

Costs of control

Services

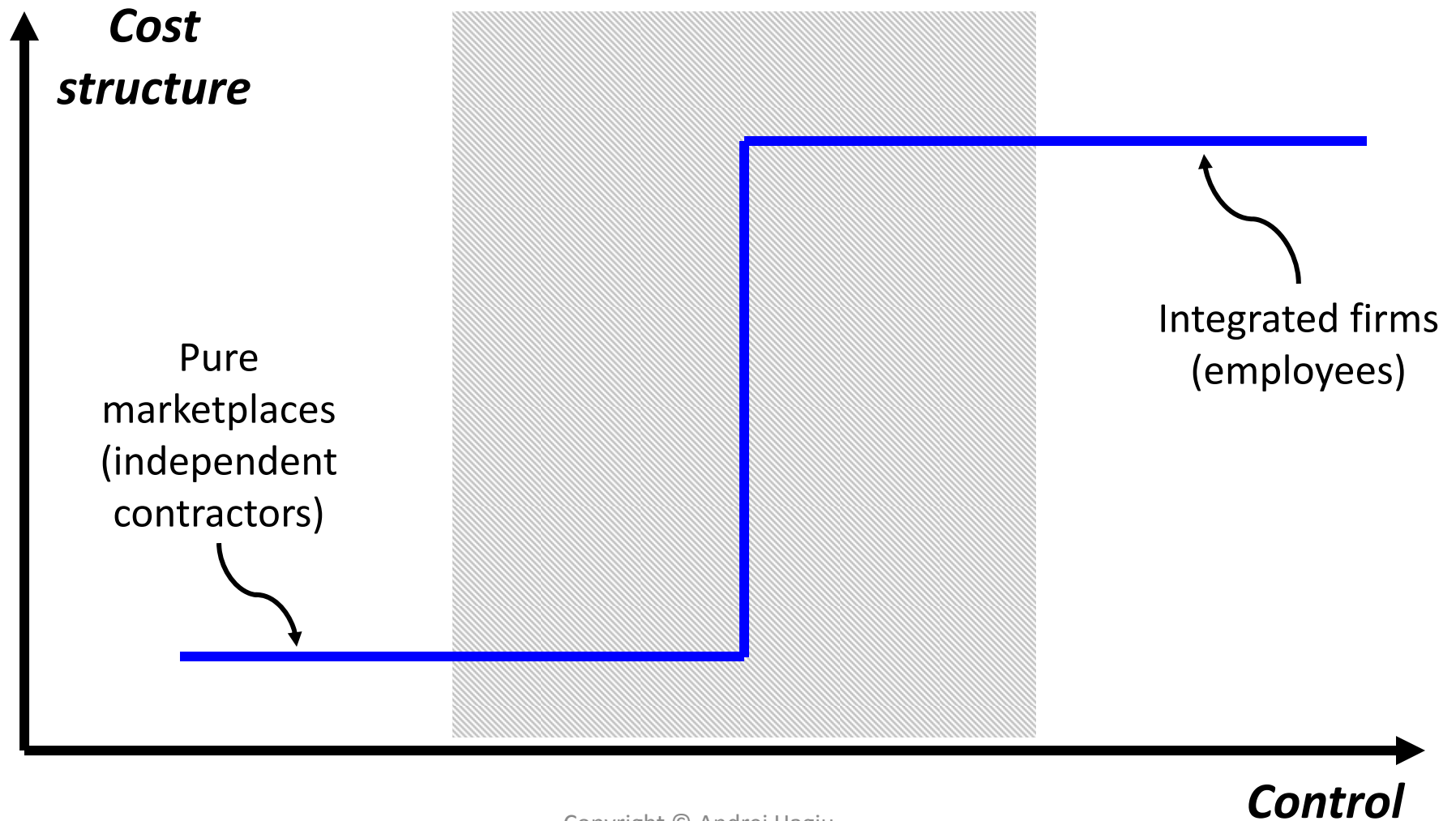
- Indep. contractors => employees
- Insurance, social security, taxes, expenses (all employees)
=> cost + ~15-20%
- Health benefits, overtime (full-time employees)
=> cost + 10-15%
- Reduced workforce flexibility
- Employer liability (e.g. accidents)

Products

- Facilitating => owning inventory
- Capital & operational expenditures
 - warehousing, product inspection & distribution, customer support & returns
- Example (\$100 item):
 - marketplace: \$10 rev. – \$5 SG&A
 - reseller: \$70 rev. – \$5 SG&A – \$40 ops
– \$X million facility (fixed)
- Product liability during and post-transaction

The regulatory problem... (service marketplaces)

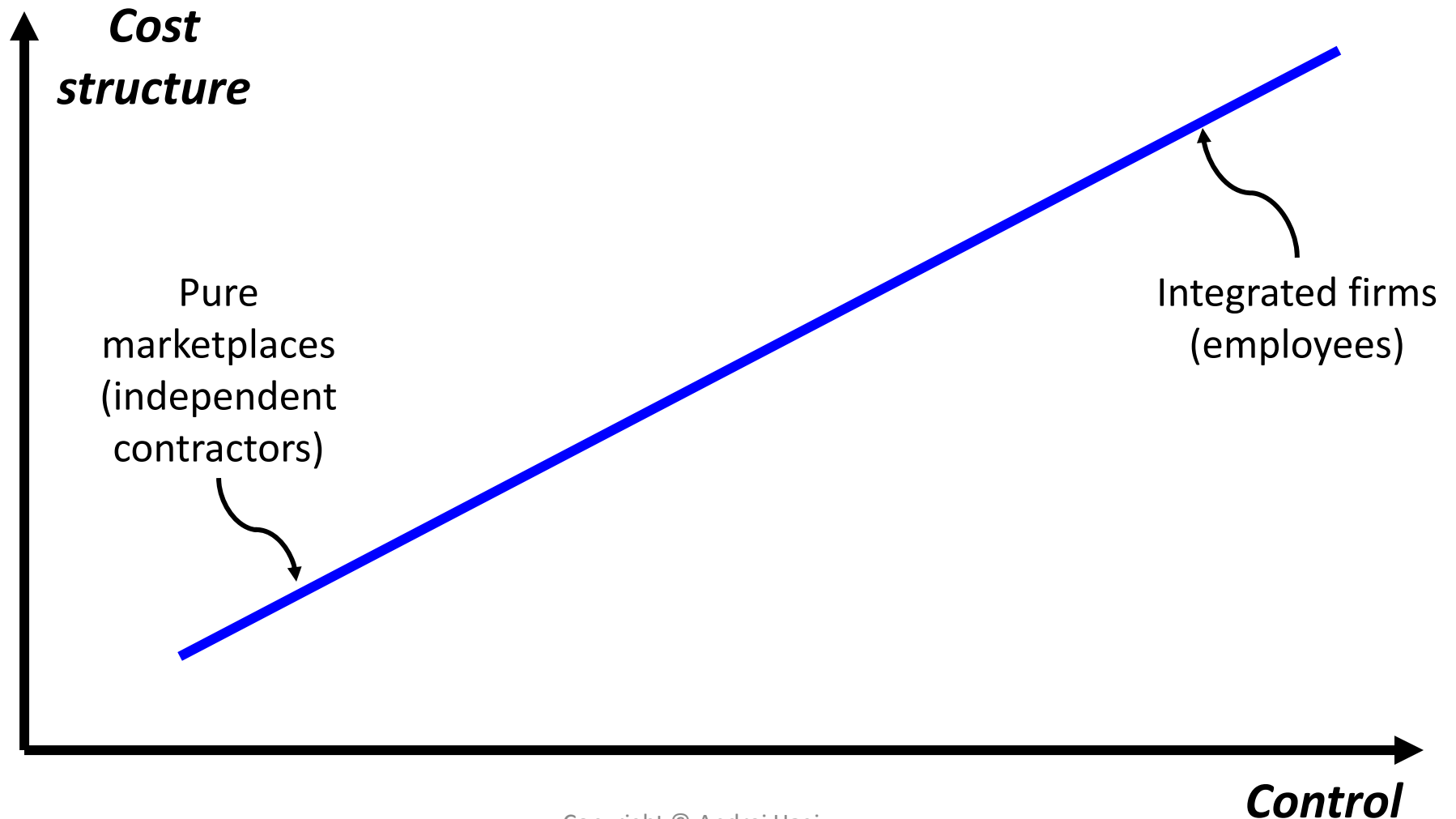
How the cost-control relationship looks today (regulation)



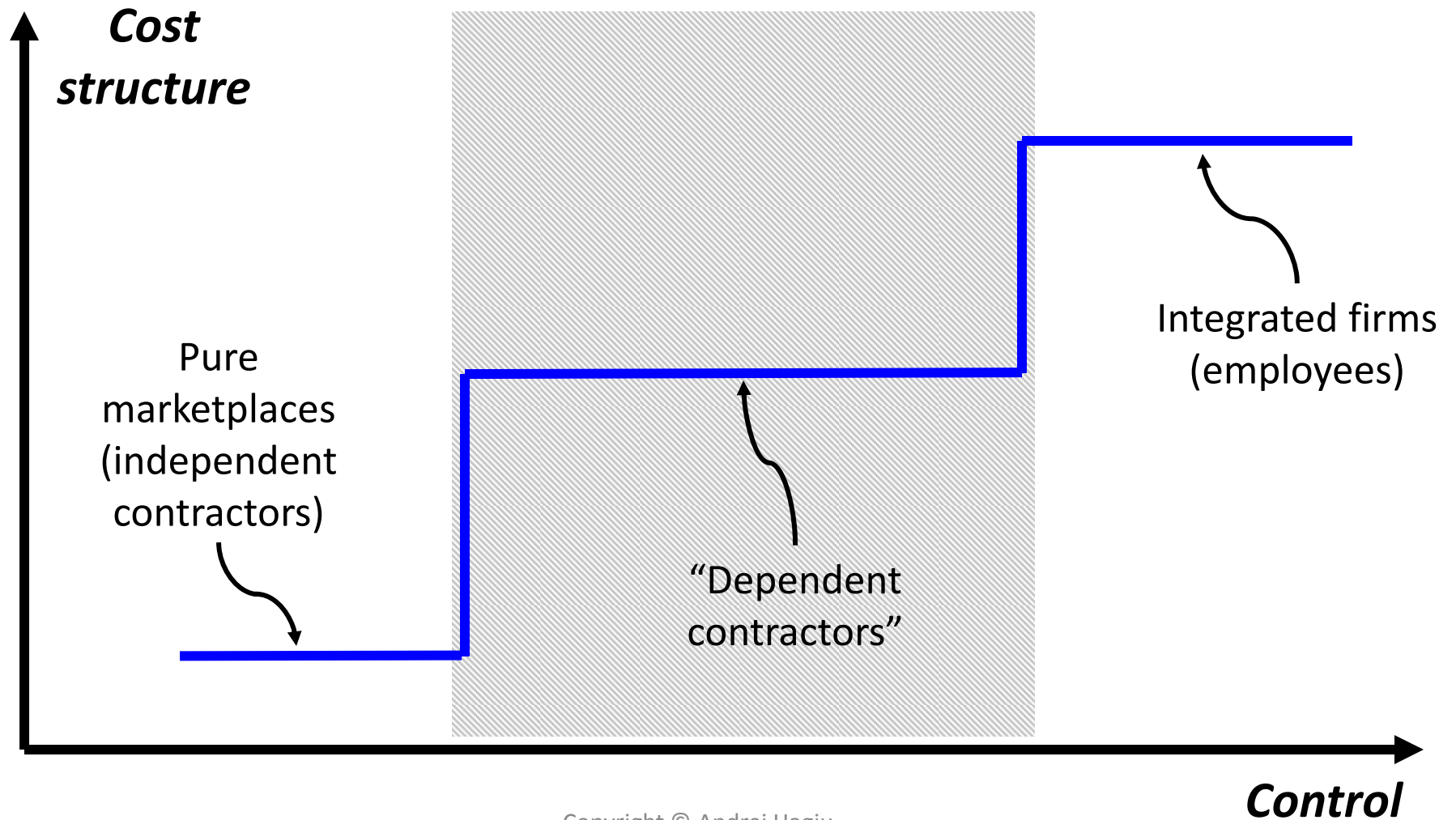
Employee vs. independent contractor classification

- Extent of [behavioral control](#) by firm
 - when, where & how work is performed
 - [training](#)
- Extent of [financial control](#) by firm
 - investments, un-reimbursed expenses, profit/loss
 - flexibility to work elsewhere
 - fixed wage vs. fee/job or fee/hour
- [Perception of relationship](#) by workers & firm
 - written contract, benefits (?!), “permanency”
 - “worker provides services that are key to the business” (?!)
- [Level of skill](#) required: less skill => employee more likely
- [Comparable firms](#) in local market (?!)
- For details, see
 - [Employee vs. Independent Contractor – Seven Tips for Business Owners](#)
 - [Independent Contractor \(Self-Employed\) or Employee?](#)
 - [Uber vs. Berwick decision](#)

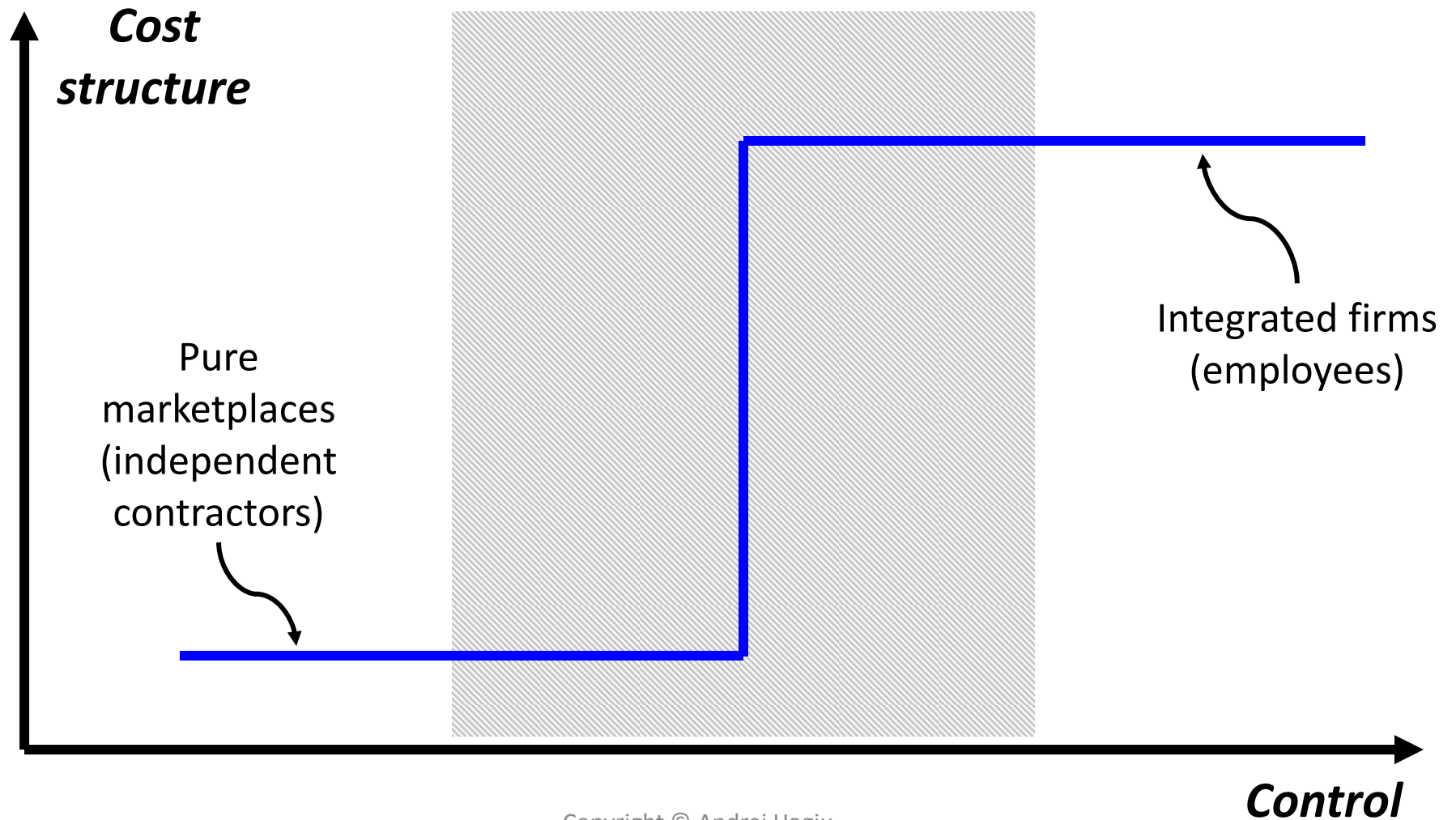
How the cost-control relationship should look (regulation)



...or, at least...



How the cost-control relationship looks today (regulation)



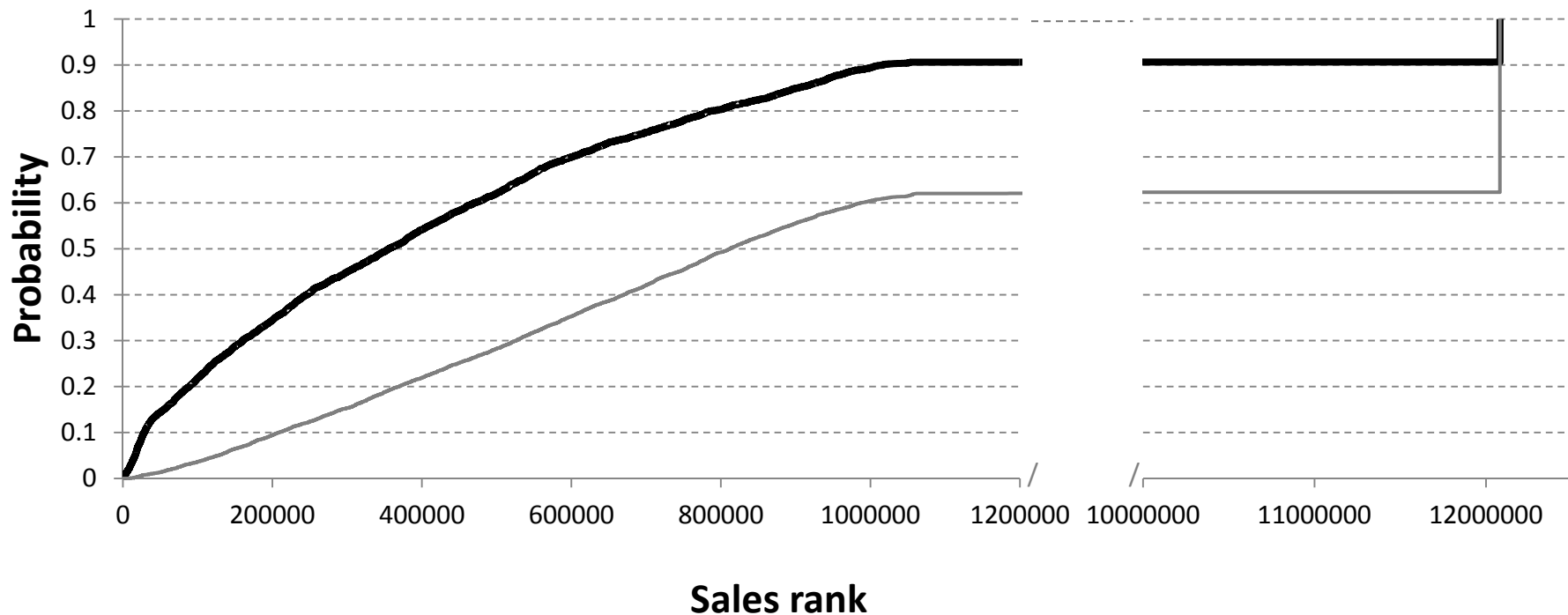
When is control worth the cost (risk)?

Benefits of control

- Consistency, speed & convenience => buyer & seller experience
 - e.g. iTunes; Beepi vs. eBay Motors
- Coordination, aggregation & scale => price arbitrage
 - e.g. thredUP (today) vs. thredUP (2011), Poshmark
 - long-tail vs. short-tail (e.g. Amazon)

How much control do we really need to minimize market failures?

Cumulative distribution functions of sales rank for DVDs sold by Amazon vs. DVDs sold by 3rd party merchants



Note: low sales rank \Leftrightarrow “short tail” product

Source: Hagiu and Wright (2015) “Marketplace or Reseller?” *Management Science* 61 (1), 184-203.

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 - e.g. thredUP (today) vs. thredUP (2011), Poshmark
 - long-tail vs. short-tail (e.g. Amazon; Task Rabbit vs. Handy, Instacart)
- Information:
 - Data aggregation & mining vs. supplier idiosyncrasies & local knowledge (e.g. Lyft & Uber vs. Airbnb, oDesk, TaskRabbit)

How much control do we really need to minimize market failures?

Concluding thoughts

- If goal = marketplace then minimize control
 - Subject to good buyer/seller experience
- If considering full spectrum then:
 - *Highest gross margin we can deliver if we take full control?*
 - If margin < XX% then marketplace (cf. above)
 - If margin > XX% then can we afford full control?

Thank you for your attention.

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