Marketplaces and Control

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Greymarket 2015
The control continuum

Pure marketplaces:

- oDesk
- Elance
- HourlyNerd
- grubHub
- RelayRides
- eBay Motors

Integrated firms (services) or resellers (products):

- Infosys
- McKinsey & Company
- Sprig
- Zipcar
- beepi
- CARVANA

Extent of Control
Control vs. cost

- Pure marketplace
- Integrated firm or reseller
- Holy Grail (not attainable)
Control vs. cost (products)
Control vs. cost (services)
### Control

...over interactions/transactions

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<th>Examples</th>
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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)

Cost structure

- Pure marketplaces (independent contractors)
- Integrated firms (employees)

Control

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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

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How the cost-control relationship should look (regulation)

Cost structure

Pure marketplaces (independent contractors)

Integrated firms (employees)

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...or, at least...

Cost structure

Pure marketplaces (independent contractors)

“Dependent contractors”

Integrated firms (employees)
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 ⇔ “short tail” product

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• **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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