

Hybrid Platform Model

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Abstract

We provide a canonical and tractable model of a trade platform which enables buyers and sellers to transact and charges commission for hosting third party products. We extend it for "hybrid" platforms (like Amazon), which also resell their own products. The hybrid platform controls both the number of differentiated products (variety) it hosts and their prices via its own product price and commission. We micro-found the model by engaging three key recent conceptual innovations: a mixed oligopoly demand model where a large player (the platform's product) interacts with a monopolistically competitive fringe (3rd party sellers); long-run aggregative games with free entry to model seller entry; Weitzman's optimal search rule adapted to where buyers choose to participate on-board the platform depends on both heterogeneous outside options and joining costs. Allowing the platform sell its own product (hybrid mode) hurts consumers. The larger the market share of the platform's product, the higher the platform's commission on 3rd-party sales and the lower are consumer benefits. We support our theoretical predictions with some evidence from Amazon.