

Quality of sellers critical to growth, revenues for online platforms

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Online shopping platforms have changed the way we shop for everything from household items to holiday gifts. These firms – think Amazon, eBay or Etsy – provide a market space for buyers and sellers, and are the growth engines of the online economy, said Ju-Yeon Lee, an assistant professor of marketing in Iowa State University's Ivy College of Business.

Platforms are often valued two to four times higher than other companies based on industry analysis, but success is not as simple as establishing a website for virtual transactions, Lee said. It requires the right pairing of buyers and sellers. According to new research from Lee and her colleagues, platforms that maintain quality sellers and understand buyer traffic generate more [revenue](#). The work is published in the *Journal of Retailing*.

The researchers analyzed data from 18 million buyers and sellers of a global business-to-business platform company to determine how marketing strategies affect growth and revenue. The company, like many platforms, makes money from advertising and membership fees. Based on their results, Lee says the key to increasing revenue is an upmarket repositioning strategy, which removes low-quality sellers from the platform.

"Platform companies must enforce certain standards to maintain the quality of the marketplace. Doing this minimizes time consumers spend verifying a [seller](#), and it minimizes perceived risk," Lee said. "We found the company generated more revenue because it was effective at maintaining quality sellers."

This may seem counterintuitive given that platform companies yield more revenues from membership fees when more sellers sign up. However, the researchers found once a platform takes this step, it enhances profits from advertising and value-added services offered to

sellers. Lee says reliable, trustworthy sellers increase consumer confidence in the platform and also lessen the risk of legal challenges stemming from counterfeit products.

Why repositioning is necessary

Lee and her colleagues recognize that startup platforms need time to build a critical mass of buyers and sellers, but as it matures it must improve the quality of products available and overall reliability of the platform. For example, in an effort to maintain the trust of buyers, eBay's anti-counterfeiting campaign banished tens of thousands of sellers not meeting new standards, the researchers wrote in their paper.

Platforms that fail to take similar steps risk losing customers as well as high-quality sellers, Lee said. The most profitable buyers are loyal customers familiar with the platform who come directly to the site to shop. A [company](#)'s reputation influences whether customers make a purchase and return to the site in the future, which is why Lee says it is critical to foster this relationship. In turn, a solid base of buyers attracts new sellers and encourages existing ones to pay for value-added services the platform offers.

Insight from analytics

The research offers insight on how platforms can boost advertising revenue. Lee says buyers respond differently to ads depending on how they arrive at the site. The study found organic traffic (buyers using a search engine) generated more search advertising revenue than direct traffic ([buyers](#) typing the web address). Lee says direct traffic led to more display [advertising revenue](#) than organic.

"By recognizing these differences, platforms can use their own analytical

data to be more strategic with their advertising," Lee said. "Buyers responded similarly regardless of a [platform](#)'s decision to reposition, but doing so can increase revenues."

Understanding that platforms rely on a mix of revenue streams, the researchers recommend companies use this study to find the right combination to meet their specific needs.

More information: Ju-Yeon Lee et al. The Effect of Online Shopping Platform Strategies on Search, Display, and Membership Revenues, *Journal of Retailing* (2018). [DOI: 10.1016/j.jretai.2018.06.002](https://doi.org/10.1016/j.jretai.2018.06.002)

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