Duplicating the success of platforms such as Netflix in the offline world

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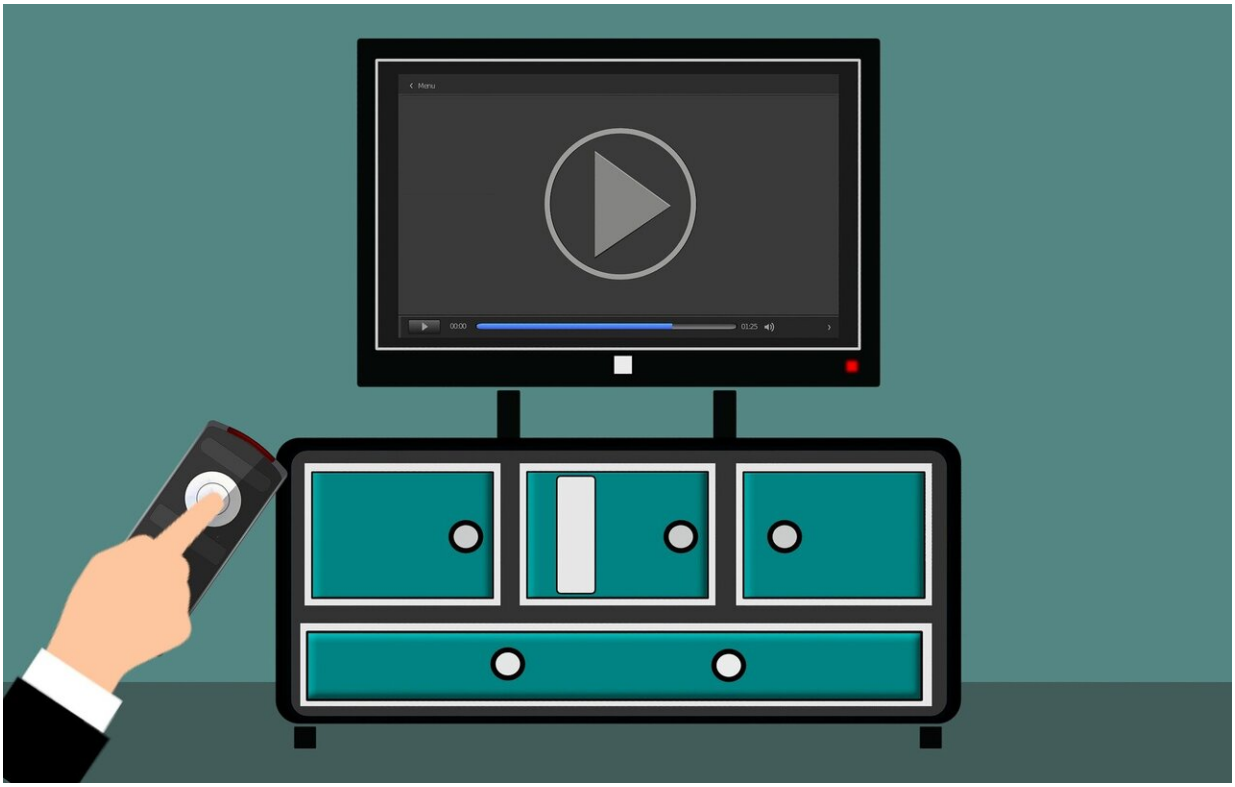

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Ensuring the presence of variety-seeking customers in the targeted local market, recruiting vendors with a differentiated and only slightly overlapping offer, and alleviating price competition between platform and vendors are key to success of offline subscription platforms,

according to a recent paper by Qiaoni Shi, Assistant Professor at Bocconi University, Milan, and Esther Gal-Or (University of Pittsburgh).

Platforms like Spotify and Netflix are already popular. The most notable platforms usually offer online services, but in some countries, subscriptions are emerging for new product and service categories to be consumed offline. For instance, in the U.S., ClassPass offers subscribers access to fitness services, while MealPal offers a subscription for lunches at restaurants.

Unlike online subscription platforms like Netflix, physical ones are influenced by the location. In fact, the paper shows that the first important factor to consider is the local market condition. Market structure differs across cities. For example, the competition between vendors may vary due to transportation costs. In one market, consumers may like to visit different stores due to low transportation cost, but in other cities, people may only visit one or two stores close to due to high transportation cost.

The paper recommends entering markets where sellers are differentiated. In such markets, consumers can benefit from the added variety. Moreover, managers should also consider markets where competition between the vendors is relatively weak because in this case, the subscription contract is likely to attract new customers who are not active in the absence of the platform, allowing both parties to benefit from the surplus derived from platform customers.

Another important issue is that platforms do not make products. By charging subscribers a fixed fee, platforms provide services from many sellers. Therefore, the platform and sellers are in a dual relationship. On the one hand, they collaborate in the sense that the platform will help sellers attract consumers, but at the same time, they are also competing

on price to attract consumers.

Shi and Gal-Or suggest some tools to platform managers to alleviate price competition between the platform and sellers. One of them is negotiating over an appropriate transfer fee per customer to pay the seller, and another is restricting the number of platform customers that the seller serves.

Professor Shi also warns against lowering the quality of the product offered by sellers. "When a vendor offers lower quality to platform customers than the quality they offer to his own direct customers," she says, "the platform is forced to compete even more fiercely on prices. In the end, neither the platform nor the seller can profit from the situation."

The research was published in *Management Science*.

More information: Esther Gal-Or et al, Designing Entry Strategies for Subscription Platforms, *Management Science* (2022). DOI: 10.1287/mnsc.2021.4251

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