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When A Sales Platform Becomes A Competitor *Study Examines Amazon's Competition With Its Third-Party Sellers*

Many complementors with successful products and third-party sellers have been pushed out of their markets not by competition from counterparts but rather by competition from the sales platform owners they use.

In 2013, Amazon had more than 2 million third-party sellers, which accounted for approximately 40% of Amazon's sales. A new research paper by Feng Zhu of Harvard University and Qihong Liu of the University of Oklahoma and published today (August 29, 2018) in the Strategic Management Journal (SMJ) found that of the 163,853 products that were offered exclusively by third-party sellers in June 2013, Amazon began directly selling 4,852 or 3% within 10 months.

"While Amazon's entry discourages affected third-party sellers from subsequently pursuing growth on the platform, it increases product demand and reduces shipping costs for consumers," wrote the authors.

Other examples of platform-based markets include video game consoles, smartphones, online auction markets, search engines, and social networking sites. Thousands of entrepreneurs have built businesses and sell products and services on such platforms.

For example, by the end of 2014 more than 1.7 million and 1.4 million applications had been developed for two popular smartphone platforms, Google's Android and Apple's iOS, respectively, generating billions of dollars of revenue for each platform owner.

"Platform owners can exert considerable influence over complementors' welfare and appropriate the value from their innovations," write the authors. "Netscape and Real Networks, complementors of Microsoft's Windows platform, were extinguished by the rival Microsoft applications Internet Explorer and Windows Media Player. Apple makes some previously essential third-party apps obsolete with every new operating system it releases."

"Our results," write the authors, "although they may paint a gloomy picture for complementors in various platform-based markets, nevertheless suggest a number of strategies complementors can employ to mitigate the risk of value misappropriation. Whereas platform owners tend to target popular products, complementors that build their businesses around aggregating non-blockbuster products or services are less likely to face direct competition from platform owners.

"Complementors that choose to focus on popular products need to develop capabilities in new product discovery that enable them to continually bring innovative products to the platform. Our



results also show that complementors' platform-specific investments reduce the likelihood of entry by the platform owner.”

Complementors can initiate impediments to learning and procurement by platform owners, for example, by strategically increasing prices to make products appear less popular, concealing supplier information, seeking exclusive contracts with manufacturers as sole suppliers, or manufacturing or customizing proprietary complementary products.

The **Strategic Management Journal (SMJ)** is the official journal of the **Strategic Management Society (SMS)** and published by Wiley. The SMS is comprised of 3,000 academics, business practitioners, and consultants from 80 countries and focuses on the development and dissemination of insights on the strategic management process. SMJ, which publishes 13 issues per year, is consistently rated one of the top publications in the management area and publishes papers that are selected through a rigorous double-blind review process

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