The one-party versus third-party question: How brands tackle the challenges of selling via online platforms

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Researchers from University of Missouri and University of North

Carolina—Chapel Hill published a new paper in the *Journal of Marketing* that examines the pricing and brand equity implications of brands selling their products on one-party versus third-party online platforms.

The study is authored by Zhiling Bei and Katrijn Gielens.

It is estimated that by 2025 four major online platforms—Alibaba Group, Amazon, Pinduoduo, and JD.com—will be among the top five retailers worldwide. In the U.S., Amazon currently captures 50% of online retail sales and has access to the information of 43% of the country's population. In China, Alibaba's Tmall holds 63% of online sales and caters to 64% of the population across its platforms.

Millions of brands aim to have a presence on these platforms; however, they fear the consequences of the platforms controlling access to consumers. One example of this is how online platforms tend to commoditize brands by steering customers' focus away from brand names. A widely popular brand like Nike is allowed to showcase only its name, photos of the shoes, and a short description on many of these websites. You are unlikely to see the Nike logos, colors, or other elements you may encounter on the Nike website. Additionally, many consumers are searching for "running shoes for women" or "tennis shoes for men"—and comparing price, features, and reviews—rather than looking specifically for brands like Nike, Adidas, or Puma. As a result, brands fear that online platforms could diminish brand equity.

This article looks at two alternatives available for brands online:

- using the platform as a one-party (1P) marketplace, or
- using the platform as a third-party (3P) marketplace.

While 1P platform operations imply selling directly to the online platform, 3P operations enable brands to sell directly to consumers for a fee. Brands depend on 1P platforms to stock, display, merchandise, and price their products. On 3P platforms, brands retain full control over pricing, product information, presentation, and assortment. As an example of the 3P model, Nike "rents" space on Tmall and controls the store layout and merchandising even as Tmall takes care of the order fulfillment.

This study aims to answer the following questions:

1. On online platforms, which model will benefit brands the most: 1P or 3P?
2. What type of brands stands to gain more or less from either 1P or 3P operations?
3. To what extent do platform-specific factors change the impact of 1P or 3P operations?

Using the Chinese online B2C market as the empirical context, the researchers analyze 1,719 brands in 102 consumer product categories and track whether they start 1P and/or 3P operations between 2008 and 2017.

Bei says that "We find that adding a 1P channel may increases unit sales, but these sales would mostly occur at a lower price point, which in turn could have a detrimental effect on brand perceptions. On 3P platforms, where products are sold directly to customers, brands retain full control over pricing, product information, presentation, and assortment." However, although 3P platforms do not get involved in brand management, they often create an environment where brands and their authorized sellers have to compete with unknown, potentially unauthorized sellers, also known as rogue sellers. Rogue sellers sell goods at a discount, undercut the authorized sellers, increase downward price pressure, and compromise brand value.

Gielens adds that "On average, brands bear a decrease of .25 percentage points in market share after starting 1P operations while brands encounter an increase of .42 percentage points following 3P operations—thus showing that that all brand-aggregator platforms are not created equal." The results also show that brands on 1P platforms, where rogue sellers cannot operate, are negatively impacted by the presence of rogue resellers on other online platforms. On 3P platforms, on the other hand, the mere presence of rogue resellers does not erode the potential benefits of operating on the platform, but potential gains are eroded when these rogue sellers offer products at substantially lower prices.

This study also sheds light on luxury brand management on online platforms. While platforms have been wooing luxury brands, many have been indecisive about selling their products on Amazon and other online outlets. Results indicate that luxury brands bear a sharper decrease in market share than their non-luxury counterparts after starting 1P operations, but they gain more in market share than their non-luxury counterparts after starting 3P operations. This shows the importance for the luxury industry of seizing brand control (which 3P platforms provide) to be successful in online platforms.

The authors state that "The most important takeaway for brand managers is that different online platforms vary in the degree of brand control and therefore lead to different brand performance implications. Managers need to balance the benefits and responsibilities (or risk) of brand control that come from different online platforms."

More information: Zhiling Bei et al, EXPRESS: The One-Party Versus Third-Party Platform Conundrum: How Can Brands Thrive?, *Journal of Marketing* (2022). DOI: 10.1177/00222429221116803

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