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Research on the open strategy of platform considering brand loyalty

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Abstract

With the rapid development of e-commerce, platforms gradually launch their own branded products thus enhancing profits, when platforms face whether to expel the same type of products sold by manufacturers on the platform. The open closure decision of the platform is explored in terms of consumer loyalty ratio and neutral consumer ratio.

Keywords

Platform opening, platform closing, brand loyalty.

1. Introduction

With the spread and proliferation of the new crown epidemic, consumers turned to online consumption on a large scale, stimulating the rapid development of the global e-commerce retail industry, with 13 consumer-focused e-commerce companies, including Alibaba, Amazon, Jingdong, and Jindo, experiencing a significant increase in revenue during the epidemic. 2020 saw a record high in transaction volume on Chinese e-commerce platforms and a national online shopping substitution rate of 81.0%. Consumers in online transactions cannot directly understand the product information through face-to-face, but consumers who have purchased or used the category in the past have some experience and understanding of it, which may result in a certain degree of customer loyalty to the platform or brand [1]. For example, customers who have purchased Apple cell phones will subsequently prefer Apple brand products when shopping for products, and consumers who have purchased products in Jingdong will prefer Jingdong's own products. In addition, in the heterogeneous environment of consumer demand, in order to enhance the flow of platform customers and maximize market share, platforms with private brands do not only sell their own products, but also products of other manufacturers are sold on the platform, e.g., Watsons online and offline platform will reserve 25% of the store space for private brands and 75% for products of other brands [2]; at this time, products of other manufacturers' brands exist as complementary products. products exist as complementary products role.

As the platform grows, it will gradually develop new products to complement the product line, thus covering a wider consumer base. However, when new products of the platform are introduced, the relationship between the platform and the manufacturer evolves from a complementary relationship to a competitive relationship due to the close positioning and similar functions with the manufacturer's products. At this time, the platform has two different strategies in selling products: one is to open the platform, allowing manufacturers to sell products through the platform, i.e. the platform sells two products that are competing with each other at the same time, but manufacturers need to share their own revenue with the platform according to certain commission rates; the second is not to open the platform, the platform only sells the platform's own brand products, without considering the competition from manufacturers' products, the platform has stronger pricing power, but The platform has stronger pricing power, but also loses the manufacturer's share of revenue.

Because consumers tend to buy familiar brand products, the two strategies have their advantages and disadvantages for the platform under different conditions. At this point, it is not yet known whether platforms with their own brands will still adopt the open platform strategy. In view of this, joint consideration of consumer loyalty ratio, neutral consumer ratio, and the impact of consumer trade-offs on platform decisions due to the gap between the product and the product consumers expect to obtain becomes a new issue in theoretical research and practical management.

2. Literature References

This paper investigates the choice of platform openness strategy when launching new products on platforms with private brands, covering two aspects of platform openness strategy and brand loyalty, from which the review of existing literature is also conducted.

In the current study of platform open strategy, some scholars have explored the reasons why retailers' platforms invite third-party sellers to sell on their platforms [3-6].Mantin et al [3] found that when a retailer provides a platform for third-party sellers, this choice will improve its bargaining position in negotiations with manufacturers.Chen and Guo [4] showed that the low cost of advertising on social media can induce leading retailers to open their platforms to smaller third-party sellers.Song et al [5] study that when the platform effect and the asymmetry of online reviews are high enough, retailers can not only induce third parties to sell on their platforms, but also benefit in both quality-driven and fit-driven situations.Ander et al [6] study the competing relationship scenario where two competing platform owners selling horizontally different products may welcome each other's products on their own platforms. Some other scholars have studied the effects of channel factors [7], product factors [8], retailer or manufacturer factors [9], and information factors [10-11] on the mode choice of platforms. abhishek et al [7] showed that e-retailers prefer agency sales when sales in electronic channels negatively affect demand in traditional channels, while e-retailers prefer agency sales when sales in electronic channels generates a substantial stimulus, e-retailers prefer reselling.Jerath and Zhang [8] find that within a product category, substitutability among competing products, the effectiveness and cost of in-store services, store traffic effects, and the intensity of competition at the retail level can drive retailers to favor store-within-a-store arrangements.Yan et al [9] also consider online spillovers, commission rates, and manufacturer's sales efficiency, etc., to investigate when to include a platform model in a traditional distribution model.Hagiu and Wright [10] investigated how information on market activity influences the business model choice of intermediaries, wholesale, agency, or hybrid.Kwark et al [11] investigated how third-party information influences upstream competition and further influences the retailer's business model choice, wholesale or agency.

In recent years, a number of scholars have focused on the fact that customer loyalty is influenced by store branding [12], reward programs [13], and advertising [14].Corstjens and Lal [12] investigated the role of store branding in building store loyalty through a game theory analysis.Kim et al [13] considered reward programs as a promotional tool for fostering customer loyalty, which is based on consumers' cumulative purchases of specific products or services from the company.Agrawal [14] found that weaker brands are best served by investing more money in advertising to defend their loyal franchises. Since then, scholars have begun to explore the impact of customer loyalty on competition, with some citing customer loyalty as a favorable influence [15-16].Erdem et al [15] found that brand loyalty helps reduce consumers' price sensitivity and proposed a demand function that includes brand loyalty.Wang et al [16] found that customer loyalty in a quality-sensitive market with a high desire for innovation affects channel structure, while in equilibrium, vendors with high customer loyalty always earn greater profits than their competitors. Subsequently, no shortage of scholars found that loyal customers are not always beneficial to firms.Chen and Xie [17] showed that in the presence of cross-market network effects, a moderate loyalty advantage in primary product markets may lead to an overall profit disadvantage.Gandomi and Zolfaghari [18] showed that depending on the level of customer satisfaction, not offering loyalty rewards may be optimal.

3. Conclusion

In recent years, the new crown epidemic has prompted the development of e-commerce to a new level, and platform competition has become more intense. In order to dominate the market and gain more benefits, more and more platforms are launching their own new products. When there is competition between the platform's new products and the manufacturer's products sold on the platform at the same time, and when there is brand preference among consumers, how the platform can coordinate the product competition situation through the strategic choice of opening or closing in order to maximize profits becomes the key to win.

The platform should clarify the proportion of its own loyal consumers and make appropriate strategic choices. It can be found that as the proportion of loyal consumers increases, the price of the platform's own brand products rises. Moreover, since other products of the same type on the platform have certain market awareness and are mature products, the price of new products launched by the platform at this time should preferably not be higher than those of the same type, so as to obtain more market at the beginning of product implementation and thus attract neutral consumers who have no special brand preference. Finally, both open and closed platforms have their own advantages, and platforms need to weigh multiple factors when making decisions.

To sum up, this paper gives the conditions for choosing the open (closed) strategy when launching new products for platforms with private brands, which has some practical and theoretical value. Since this paper mainly considers the impact of customer loyalty on price competition and platform strategy choice, but in real life, competition in quality between private label products and other manufacturers' products is also more common, and these competitions may also affect platform strategy choice as well. Therefore, considering the influence of both loyalty and quality, the open strategy choice of platform will be one of the next research directions.

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