

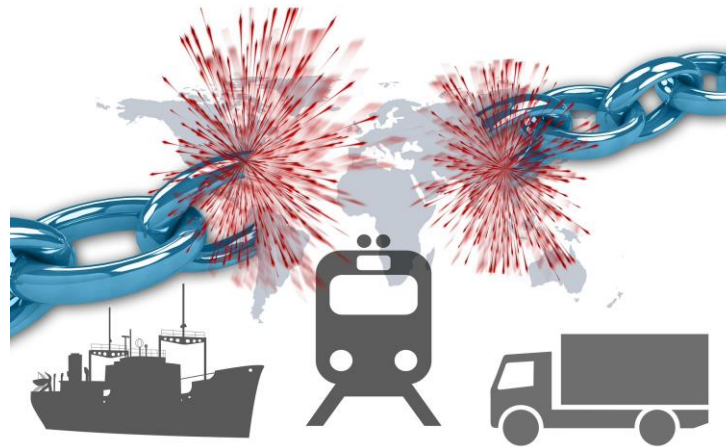
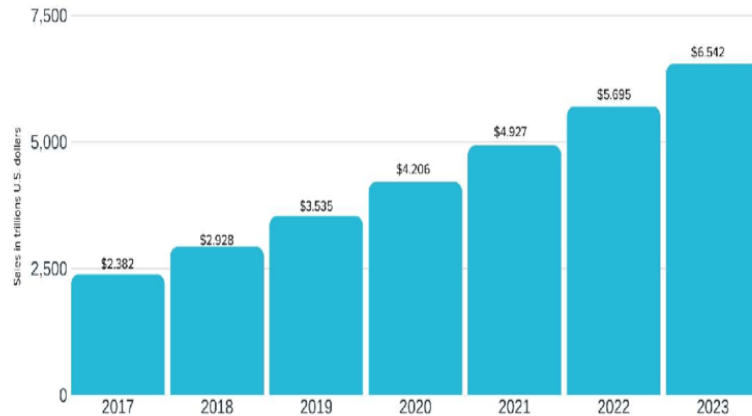


Competitive strategies of marketplaces vis-a-vis logistic choices: issues for competition policy

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Setting the scene

Global Ecommerce sales growth from 2017 to 2023



Disruption of international
delivery chains



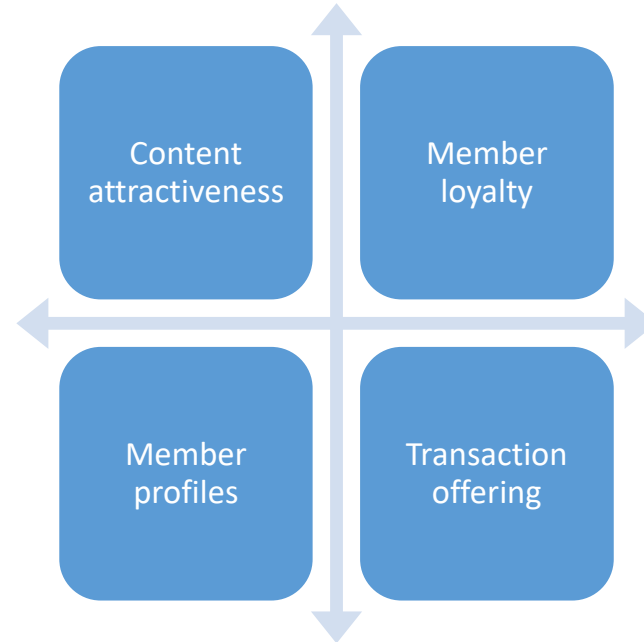
More sophisticated consumer
demand

Delivery infrastructure under pressure

Vertical integration and ecosystems

Four reinforcing loops that determine the growth of online markets (Hagel and Armstrong, 1975).

Firms that are able to deliver on all of them are expected to grow faster than their rivals (Oliva *et al.*, 2003).



Members' loyalty depends on a firm's attractiveness, which in turn depends on : price, product selection, site content, site performance, fulfilment accuracy and reliability, customer service, and brand equity (Oliva *et al.*, 2003).

Focus on fulfilment as timely, reliable and cheap delivery is one of the main factors that determine the user's choice of one e-commerce platform over another.

- **Much higher degree of complexity** of last mile delivery in B2C than of traditional B2B logistics: an enormous challenge for B2C retailers and delivery companies when it comes to offering consumers satisfactory logistic services.
- Higher degree of complexity implies, in turn, **higher transaction costs** if the activity is carried out externally, by other couriers than if it is done internally.
- Integration of last-mile delivery: very important not only because it can help reduce transaction costs, but also because it allows e-commerce platforms to gain end-to-end visibility and control over the entire supply chain. Entrusting the last mile to third parties cedes control over the most visible customer-facing part of the chain

Dominant e-commerce platforms are not just vertically integrated; they also tend to operate as ecosystems.

Platform ecosystems: an alternative framework to the traditional notion of “vertical integration” to explain the logistic choices and the business strategies related to value creation and value capture of these actors.

- It reflects the most significant paradigm shifts of modern business management: firms no longer compete as solely autonomous entities, but rather as supply chains (Lambert and Copper, 2000:65) in a business environment where the ability to control and orchestrate resources and capabilities is often even more important than owning them.

What are the most critical capabilities that e-commerce platforms need to thrive? (AGCM, Amazon case, para 49).

- a) greater guarantees of reliability of the seller, thanks to the verification and control carried out by the platform;
- b) greater security of payments;
- c) the possibility of concluding the transaction directly;
- d) more accurate and faster deliveries; and
- e) better customer care services, including efficient handling of complaints and returns.

It is the reinforcing nature of these capabilities that drives online marketplaces towards vertical integration and the expansion of the ecosystem toward the delivery activity.

Competitive strategies and logistic choices

- The business models of three different e-commerce platforms (Amazon, Alibaba and Allegro) show that there is no “one size fits all” organizational choice for delivery but that improving delivery experience for customers is a key area of competition for all of them.

	AMAZON	ALIBABA	ALLEGRO
<i>Main area of activity</i>	Expanded well beyond e-commerce	Expanded well beyond e-commerce	Mostly focused on e-commerce
<i>Delivery model</i>	Horizontal and vertical integration	Asset-light model, with Cainiao as logistics arm of the Alibaba Group	Asset-light model, supported by its own smart logistics platform
<i>Last mile</i>	Different strategies: see DSP programme in the US vs upstream logistics infrastructures’ in Europe	Limited investment in the infrastructures but huge investments in the logistic technology	Some investments (i.e. One Box)

Competition issues (1): Leveraging through tying/bundling

- Tying and bundling are pervasive business practises, which often have a valid efficiency justification.
- When a platform engages in tying or bundling, such behaviour can be directed at either consumers or third-party sellers and, in each case, it will have **different implications**.
 - **For the consumer**: delivery is an essential element of the bundle (the advantage of one stop shopping)
 - **For the third-party seller**: delivery is just a complementary service, not an essential one.
- The competitive impact of tying/bundling of a complementary service depends on the nature oof the benefits/functionalities to which it is tied.
 - If those benefits are essential for ensuring a level playing field between third-party seller's products and those of the platform, then joint provision practically forces third-party sellers to rely on the delivery managed by the platform. This restricts third-party sellers' free choice of delivery couriers, which in itself could turn out to be anti-competitive.
- **Does limiting in certain circumstances third-parties sellers' choice of delivery couriers, online marketplaces merely protect the quality of delivery, which is essential for the protection of its commercial interest?**
- **Can the same objective could be achieved through less restrictive means?**

Competition issues (2): Transaction costs

- Increasing concerns about platforms' ability to exploit dependencies of its complementors and consumers by inducing non-generic co-specialization that restricts competition and entry (Jacobides and Lianos 2021).
- Useful for understanding the degree of dependency is the concept of **sunk investments**. These can be:
 - nonspecialized (generic) or
 - specialized (non-generic) sunk investments (Teece, 1986; Jacobides, et al. 2018).
- Non-generic complementary investments are one of the defining features of ecosystems.
- According to Biggar and Heimler (2021), enforcement of competition law should encompass **the transaction cost approach and the analysis of sunk investments** together with the threat of holdup. **Under this approach, a firm would have market power if it could engage in holdup of its trading partners.**
 - Necessary to distinguish economic relationships between the platform and third-party sellers on the one hand, and the platform and delivery companies, on the other. The risk of holdup for delivery couriers and postal service providers in the e-commerce delivery market seems to be acute considering that demand is highly concentrated as significant part of online shopping takes place on just a few marketplaces (AGCOM, 2021). This grants dominant platforms significant countervailing buyer power.

Competition issues (2): Transaction costs

Chilling effect on investment: the primary concern that exercises of market power raises under the transaction cost approach.

- Particularly relevant concern as digital platforms do not only bring value to the market by aggregating demand, but also because they act as catalysts for complementary innovations that expand the ecosystem (Vezzoso, 2020).
- Online marketplaces have driven innovation both in last mile delivery and e-commerce, making it more accessible for SMEs.

Considering impact on innovation/investment in medium- to long-term perspective:

- First, e-commerce has driven innovation in logistics, enabling new forms of distribution and retailing (Hortacsu and Syverson, 2015).
- Second, delivery costs vary across customers: they are higher for rural than for urban areas (Borsenberger et al., 2018).
- Thus, e-commerce platforms might prefer to limit integration of last-mile delivery activities only to urban areas, and relying instead on independent delivery operators in high cost rural areas.
- Such geographic differentiation of expansion into last mile delivery may be quite problematic if scale of operations is important and because it may restrict the scale of contestable markets to less profitable areas.

Conclusions

- Success in online markets is driven by the control of various capabilities: the reinforcing nature of these capabilities drives, almost naturally, marketplaces towards vertical integration and the creation of ecosystems.
- Within multi-product ecosystem, platforms have clear incentives to bundle their different products as it allows them to achieve various types of efficiencies.
- E-commerce platforms play special role as system orchestrators: they not only aggregate demand, and offer scale that individually third-party sellers would not be able to achieve, but assume full responsibility vis-à-vis consumers, which explains the relevance of brand visibility and quality delivery for their success.
- Efficient delivery becomes not only a parameter that allows platforms to differentiate from competition but an essential component of their offer.
- Reduced transaction costs and improved quality for both consumers and third-party sellers: a positive effect which comes at a price: competition along the supply chain that may be seriously reduced. This seems the major concern of antitrust authorities and postal and delivery sector regulators.
- Hence, the need for further research on whether the positive results of orchestration of the e-commerce value chain may be achieved through less stringent means, or at a lesser costs for competition.