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Revenue sharing or profit sharing? An internet production perspective

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A B S T R A C T

The booming of Internet economics brings new opportunities for small- and medium-sized product and service providers in e-platforms. Usually, the Internet platform (thereafter "platform") and Internet providers (thereafter "providers") operate under a consignment revenue sharing production model. Another production model is profit sharing, under which the platform undertakes part of the providers' operational costs. Intuitively, common sense conjectures that the platform prefers the revenue sharing model while the providers may prefer the profit sharing scheme. However, this is not the case. In this paper, we compare these two forms of emerging production models with a theoretical framework and investigate both market participants' performance under different schemes. Starting from the single provider case, we find that the provider has less incentive to operate under the revenue sharing contract when compared with the profit sharing contract. Counter intuitively, we identify the threshold of the cutting ratio above which it is more beneficial for the platform to choose the profit sharing mode. Our results are proved to be robust when the number of the providers increases. A numerical study is provided to illustrate this effect.

A R T I C L E I N F O

Keywords:
Horizontal competition;
Internet production;
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