

Two-sided Platform Pricing Strategy: Subsidizing or Charging

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Abstract

Considering an online platform with developers on one side and users on the other side, a two-stage model is developed to analyze how the two-sided platform makes optimal pricing strategy: subsidizing or charging developers. We derive the platform's optimal prices and uncover the conditions under which the platform should subsidize or charge the developers in different stages when the platform charges membership fee from users or not. Furthermore, impacts of changing in the two-sided network effects or the platform's standalone value on the optimal decision are investigated. Our results highlight that when the platform charges no membership fee from users, it is better off charging the developers in the first stage if the intensity of network effect from users to developers is sufficiently weak. And as the membership fee increases, the platform will raise up access fee or reduce subsidy until the intensity of network effect is strong enough.

Keywords: Two-sided platform, two-stage pricing strategy, Subsidize or charge