Platform Strategy and Operations in China: A Perspective Based on Economic Frictions

by

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Date : 22 May 2019 (Wednesday)
Time : 11:00 am - 12:15 pm
Venue : Room 3001, LSK Business Building

Abstract: Platforms are critical components of China’s economic system and often help regulate the system performance. In the first part of the talk, we consider a taxi-hailing platform that provides free information to taxi drivers. Upon receiving a rider's request, the platform broadcasts that rider's origin and destination to idle drivers, who accept or ignore the request depending on profitability considerations. We show that providing such information may reduce drivers’ equilibrium profit. Hence information provision is a double-edged sword: drivers may strategically idle themselves to compete for the more profitable riders. We propose a dispatching policy under which, for large systems, broadcast information can achieve the first-best outcome. In the second part of the talk, we consider online platforms that enable service providers who offer customized services. The competition among the service providers may lead to a unique equilibrium under which all the service providers shirk. To address this opportunism problem, we propose a novel platform design where, from its inception, the platform deliberately limits the number of service providers below a certain threshold, even if they are homogenous.

Bio: Leon Zhu is an associate professor of Data Sciences and Operations at the Marshall School of Business. He received his Ph.D. in Industrial and Systems Engineering and M.A. in Economics from the University of Florida and the bachelor’s degree from Shanghai Jiaotong University. Before joining Marshall, he was a Postdoc and lectured at the University of California, Berkeley.