

## ORIGINAL ARTICLE

# Competition and coopetition for two-sided platforms

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## Abstract

Two-sided platforms have become omnipresent. In this context, firms compete not only for customers but also for flexible self-scheduling workers who can work for multiple platforms. We consider a setting where two-sided platforms simultaneously choose prices and wages to compete on both sides of the market. We assume that customers and workers each follow an endogenous generalized attraction model that accounts for network effects. In our model, the behavior of an agent depends not only on the price or wage set by the platforms, but also on the strategic interactions among agents on both sides of the market. We show that a unique equilibrium exists and that it can be computed using a *tatônnement* scheme. The proof technique for the competition between two-sided platforms is not a simple extension of the traditional (one-sided) setting and involves different arguments. Armed with this result, we study the impact of *coopetition* between two-sided platforms, that is, the business strategy of cooperating with competitors. Motivated by recent practices in the ride-sharing industry, we analyze a setting where two competing platforms engage in a profit sharing contract by introducing a new joint service. We show that a well-designed profit sharing contract (e.g., under Nash bargaining) will benefit every party in the market (platforms, riders, and drivers), especially when the platforms are facing intensive competition on the demand side. However, if the platforms are facing intensive competition on the supply side, the coopetition partnership may hurt the profit of at least one platform.

## KEYWORDS

choice models, coopetition, ride-sharing, two-sided platforms

## 1 | INTRODUCTION

The service industry has significantly evolved in recent years. Due to the emergence of online platforms, several types of services are now offered on-demand. Specifically, customers can use their smartphones to request services from anywhere at any time. These services include ride-sharing, food delivery, cleaning, and repair works, just to name a few. According to a survey by the National Technology Readiness Survey, in October 2015, the on-demand economy was attracting more than 22.4 million consumers annually and \$57.6 billion in spending.<sup>1</sup> This new trend has also made the market increasingly competitive. In each sector, several competing firms offer the same type of service (a list of companies that offer on-demand services can be found at <https://theondemandeconomy.org/participants/>). For example, in the U.S. ride-sharing market, one can find several competitors including Uber, Lyft, Via, Gett, and Curb. These plat-

forms compete not only for customers (riders) but also for workers (drivers). They often send enticing monetary incentives to attract both sides of the market. Traditionally, firms were competing only for customers while hiring permanent workers. In two-sided markets, platforms also compete for workers who can work for multiple platforms and seemingly switch back and forth between companies. As of 2017, 70% of on-demand U.S. drivers work for both Uber and Lyft, and 25% drive for more than just those two, according to a survey by The Rideshare Guy.<sup>2</sup>

The first part of this paper (Sections 2 and 3) studies the competition between two-sided platforms that compete for both customers and workers (e.g., Uber). We model this problem using an endogenous general attraction model (Gallego et al., 2006; Luce, 2012) that accounts for network effects in both sides of the market. In our model, the utilities of customers and workers are endogenously determined by the total demand and supply of each platform. Consequently, the behavior of an agent depends not only on the price or wage set by the platform, but also on the strategic interactions

among agents on both sides of the market. The customers belong to different segments with heterogeneous preferences over the platforms and different price sensitivities, whereas workers are endorsed with different types with heterogeneous preferences and wage sensitivities. Given that firms compete for customers and workers, the standard equilibrium analysis from the choice model literature should be revisited. The two-sidedness nature of our setting makes the objective function nondifferentiable, so that traditional arguments from the literature are not applicable. Instead, we use an approach based on analyzing the best-response strategy to characterize the equilibrium. We ultimately show the existence and uniqueness of the equilibrium market outcome.

Within the ride-sharing industry, a recent trend of partnerships has emerged. One such example is the partnership between Curb and Via in NYC. Curb<sup>3</sup> is an online platform that allows taxi rides to be ordered from a smartphone application and the payment can be completed either via the app or in person. Via<sup>4</sup> is a ride-sharing platform that allows riders heading in the same direction to carpool and share a ride. One can definitely view these two platforms as competitors. Yet, they decided to collaborate and engage in a joint partnership. Specifically, on June 6, 2017, they started offering a joint service through a *profit sharing contract*, under which Curb and Via each earn a portion of the net profit from the joint service. This type of partnership is often referred to as *coopetition*, a term coined to describe cooperative competition (see, e.g., Brandenburger & Nalebuff, 2011). The new service introduced by Curb and Via allows users to book a shared taxi from either platform (this is called Shared Taxi). Shared Taxi fares are calculated using the meter price and paid directly to the driver. If the matching algorithm finds another rider heading in the same direction, the two riders will carpool and save 40% on any shared portion of the trip.<sup>5</sup>

The recent partnership between Curb and Via is not an exception. Below, we report four additional similar examples:

1. In December 2016, Uber partnered with Indonesia's second largest taxi operator PT Express Transindo Utama Tbk. This partnership gave Uber access to express fleet of taxis and drivers. Express drivers who participate in the program can serve requests from Uber.
2. In October 2014, Uber partnered with For Hire taxis to expand pick-up availability in Seattle. In this partnership, riders can select multiple options directly from the Uber app (UberX, UberXL, Black Car, SUV, and For Hire).
3. In March 2017, Grab partnered with SMRT Taxis with the goal of building the largest car fleet (taxi and private-hire) in Southeast Asia. In this partnership, all SMRT drivers will use only Grab's application for third-party bookings (to complement street-hail pickups).
4. On January 31, 2017, Go-Jek partnered with PT Blue Bird Tbk in Indonesia. In this partnership, riders will simply be served by the closest driver.<sup>6</sup>

It is clear that both platforms have their incentives to engage in such partnerships. For example, it allows ride-

sharing platforms to expand their fleet of drivers and increase their market share. Platforms can also benefit from technological advances developed by other firms (e.g., efficient matching algorithms). At the same time, such partnerships can cannibalize the original market shares (customers who were riding with one of the platforms may now switch to the new service).

The second part of this paper (Sections 4 and 5) is motivated by the type of partnerships described above. We study the implications of introducing a new joint service between two competing platforms via a profit-sharing contract. Our goal is to examine the impact of the new service on both platforms, riders, and drivers. In conformance with recent partnerships (e.g., Curb and Via), we assume that the workers are coming from two separate labor pools. Although it is not a priori obvious whether coopetition will benefit the platforms, our analysis shows that—under the Nash bargaining framework—a well-designed contract is beneficial for both platforms, riders, and drivers (i.e., yields a Pareto improvement), in particular when the platforms are facing intensive competition on the demand side. However, if the platforms are facing intensive competition on the supply side, the coopetition partnership may hurt the profit of at least one platform.

## 1.1 | Contributions

Given the recent popularity of two-sided platforms, this paper extends our understanding on competition and coopetition models in this context. We next summarize our main contributions.

### 1.1.1 | Equilibrium in a two-sided general attraction model with network effects

This paper is among the first to study the (price and wage) competition between two-sided platforms. We use an endogenous general attraction model with network effects to capture the decision process of potential customers and workers. Our model explicitly captures the potential heterogeneity in customers and workers. We prove the existence and uniqueness of equilibrium under general price and wage (Theorem 1) and under a fixed-commission rate (Theorem 2). We also convey that the equilibrium outcome can be computed efficiently using a *tatônnement scheme*. Interestingly, the proof technique for two-sided markets is not a simple extension of the traditional (one-sided) setting. Instead, we show that the best-response strategy is a monotone contraction mapping, allowing us to prove the existence and uniqueness of equilibrium.

### 1.1.2 | Win-win coopetition using a profit sharing contract

Motivated by recent practices in ride-sharing, we study how introducing a new joint service affects the competing

platforms. We first show that there exists a unique equilibrium even after introducing the cooperation partnership. We also capture the strategic interactions between the platforms using the Nash bargaining framework. We show that the platforms will agree on a profit sharing contract that increases the profit of each platform. We then identify conditions under which the cooperation partnership is *strictly* beneficial for both participating platforms, namely, engaging in a cooperation is a win-win strategy when the platforms are facing intensive competition on the demand side. However, if the platforms are facing intensive competition on the supply side, cooperation may hurt the profit of at least one platform. Finally, we identify three main effects induced by the cooperation partnership: new market share, cannibalization, and wage variation.

### 1.1.3 | Pareto improvement under cooperation

As expected, riders will also benefit from cooperation. Interestingly, we show that one can design a profit sharing contract that will also benefit drivers. Consequently, when the cooperation terms are carefully designed, it will benefit every party (both participating platforms, riders, and drivers).

## 1.2 | Related literature

This paper is related to three streams of literature: price competition under choice models, economics of ride-sharing platforms, and cooperation models.

### 1.2.1 | Price competition under choice models

The first relevant stream of literature is related to choice models (for a review on this topic, see Train, 2009, and the references therein), and in particular price competition under the MNL model and its extensions (see, e.g., Aksoy-Pierson et al., 2013; Anderson et al., 1992; Gallego et al., 2006; Gallego & Wang, 2014; Konovalov & Sándor, 2010; Li & Huh, 2011). Talluri and Van Ryzin (2004) consider a revenue management setting under a general discrete choice model. The authors propose an exact solution and derive several structural properties. Using the MNL model, Gallego et al. (2006) show that a unique equilibrium exists when costs are increasing and convex in sales. In Li and Huh (2011), the authors consider the problem of pricing multiple products under the nested-MNL model and show that characterizing the equilibrium is analytically tractable. In this literature, the main focus is on showing the existence and/or uniqueness of the equilibrium outcome. In this paper, we extend the results of Gallego et al. (2006) and Li and Huh (2011) to show that a unique equilibrium exists in a two-sided market where firms compete for both customers and workers. As mentioned, the proof technique for two-sided markets is not a simple extension of the traditional (one-sided) setting and involves different arguments. To capture the fact that the decision of an agent depends on other agents' decisions, we consider a general attraction model that accounts for network effects. Specifi-

cally, our choice model is constructed in a similar fashion as the MNL-type models with endogenous network effects. Wang and Wang (2016) and Du et al. (2016) incorporate demand-side network effects into the standard MNL model and study the optimal pricing and assortment strategies. We extend this framework by endogenizing the network effects on both the demand and supply sides to examine the two-sided competition between platforms. The network effects considered in our model are threshold-based, which generalize the traditional linear network effects in the platform competition literature (e.g., Armstrong, 2006; Rochet & Tirole, 2003, 2006).

### 1.2.2 | Economics of ride-sharing platforms

The popularity of ride-sharing platforms triggered a great interest in studying pricing decisions in this context. Several papers consider the problem of designing incentives on prices and wages to coordinate supply with demand for on-demand service platforms (see, e.g., Bai et al., 2019; Benjaafar et al., 2021; Bimpikis et al., 2019; Chen & Hu, 2020; Hu and Zhou, 2017; Taylor, 2018; Yu et al., 2020). Our work has a similar motivation but is among the first to explicitly capture the competition between platforms using a general attraction choice model for each side of the market. The recent work by Nikzad (2017) also analyzes the competition between ride-sharing platforms but with a different focus. The author shows that the effect of competition on prices and wages crucially depends on market thickness (i.e., the number of potential workers). The author identifies an underlying mechanism that is quite similar to the one we advocate in our work: monopoly may soften competition (which may hurt workers and customers), but given the resource pooling on the supply side, it may actually benefit all parties. In Hu and Zhou (2017), the authors study the pricing decisions of an on-demand platform and demonstrate the good performance of a flat-commission contract. We will also consider the special case of flat-commission contracts.

### 1.2.3 | Cooperation models

As mentioned, when two competitors cooperate, this is often referred to as *cooperation* (see, e.g., Brandenburger & Nalebuff, 2011). Closer to our work, there are several papers on cooperation in operations management. For example, Nagaranjan and Sošić (2007) propose a model for coalition formation among competitors and characterize the equilibrium behavior of the resulting strategic alliances. Casadesus-Masanell and Yoffie (2007) study the simultaneously competitive and cooperative relationship between two manufacturers of complementary products, such as Intel and Microsoft, on their R&D investment, pricing, and timing of new product releases. In a strategic alliance setting with capacity sharing, Roels and Tang (2017) show that an ex ante capacity reservation contract will benefit both firms. In the revenue management literature, several papers have studied a common form of cooperation among airline companies, called airline alliances

(see, e.g., Netessine & Shumsky, 2005; Wright et al., 2010). Coopetition and its related contractual issues have also been studied in the context of service operations (as opposed to manufacturing and supply chain). For example, Roels et al. (2010) analyze the contracting issues that arise in collaborative services and identify the optimal contracts. In a recent work, Yuan et al. (2021) show that as price competition increases, the service providers may surprisingly charge higher prices under coopetition. Our contribution with respect to this literature lies in the fact that, motivated by recent partnerships, we are the first to study coopetition in ride-sharing.

Finally, our work is related to the economics literature on competition between two-sided platforms (see Armstrong, 2006; Rochet & Tirole, 2003, and the references therein). Our paper differs from this literature in two important ways. First, we explicitly consider a supply-constrained setting where the sales (i.e., matches between customers and workers) are truncated by both demand and supply. Second, we focus on a setting where each side of the market (customers and workers) follows a choice model to decide which platform to use and work. As a result, our model is especially applicable to the increasingly competitive environment between on-demand service platforms.

This paper is organized as follows: Section 2 presents our model of competition between two-sided platforms (in the absence of coopetition), and Section 3 reports our equilibrium analysis for this model. We next consider introducing the coopetition partnership: Section 4 presents our coopetition model, and Section 5 studies the impact of coopetition. We present computational experiments in Section 6. Finally, we consider an extension of our model with endogenous waiting times in Section 7, and we report our conclusions in Section 8. All the proofs of the technical results are relegated to the Appendix.

## 2 | COMPETITION BETWEEN TWO-SIDED PLATFORMS: MODEL

In this section, we present our model of competition between two-sided platforms. We consider a general model of  $n$  competing online platforms denoted  $P_1, P_2, \dots, P_n$ . Each platform  $P_i$  ( $i = 1, 2, \dots, n$ ) offers a service via its mobile or online application. Customers belong to  $m$  segments, where segment  $j$  has a total mass of  $\Lambda_j > 0$ . Workers belong to  $l$  types, where type  $k$  has a total mass of  $\Gamma_k > 0$ . Platform  $P_i$  charges a price of  $p_i$  to its customers and offers a wage of  $w_i$  to its workers. A summary of the notation can be found in Supporting Information Appendix A, Table A1.

### 2.1 | Demand side

We assume that customers follow an endogenous general attraction model (e.g., Gallego et al., 2006; Luce, 2012) that accounts for network effects. We denote the utility of the outside option of a customer of any segment by  $u_0$ . A customer in segment  $j$  can choose between  $n + 1$  alternatives:

$P_1, P_2, \dots, P_n$ , and the outside option. The utility derived by a segment- $j$  customer from the service offered by  $P_i$  endogenously depends on the aggregate behavior of all customers (captured by  $P_i$ 's total demand  $d_i$ ) and on the aggregate behavior of all workers (captured by  $P_i$ 's total supply  $s_i$ ). If  $P_i$ 's demand is dominated by its supply (i.e.,  $d_i \leq s_i$ ), then every customer who opts for  $P_i$  will be served. In this case, a segment- $j$  customer who selects  $P_i$  earns a utility of  $(q_{ij} - \kappa_j p_i)$ , where  $q_{ij}$  is the perceived quality of platform  $P_i$  for segment  $j$  and  $\kappa_j$  is the price sensitivity of segment  $j$ . If  $d_i > s_i$ , then the supply capacity has to be rationed. In this case, we assume that the platform randomly allocates its supply  $s_i$  to the customers who choose its service. If a segment- $j$  customer chooses  $P_i$ 's service and successfully receives it, its utility is  $(q_{ij} - \kappa_j p_i)$ . A customer who opts for  $P_i$  but does not get served will be forced to select the outside option, whose utility is  $v_j$ . Without loss of generality, we assume that  $v_j \leq u_0$  to capture the inconvenience of requesting but not receiving service from  $P_i$ . Thus, if  $d_i > s_i$ , a customer will have a probability of  $s_i/d_i$  to be served and a probability of  $1 - s_i/d_i$  to opt for the outside option. Consequently, the expected utility of a segment- $j$  customer who opts for  $P_i$  is  $u_{ij} = \min\{1, s_i/d_i\}(q_{ij} - \kappa_j p_i) + [1 - \min\{1, s_i/d_i\}]v_j$ . Recall that the expected utility of directly taking the outside option is  $u_0$ . Based on the general attraction model, the total demand for  $P_i$  from segment- $j$  customers is given by

$$\begin{aligned} d_{ij} &= \frac{\Lambda_j \exp(u_{ij})}{\exp(u_0) + \sum_{i'=1}^n \exp(u_{i'j})}, \\ &= \frac{\Lambda_j \exp[v_j + \min\{1, s_i/d_i\}(q_{ij} - \kappa_j p_i - v_j)]}{\exp(u_0) + \sum_{i'=1}^n \exp[v_j + \min\{1, s_{i'}/d_{i'}\}(q_{i'j} - \kappa_j p_{i'} - v_j)]}. \end{aligned} \quad (1)$$

Thus, the total demand for  $P_i$  is given by

$$\begin{aligned} d_i &= \sum_{j=1}^m d_{ij} \\ &= \sum_{j=1}^m \frac{\Lambda_j \exp[v_j + \min\{1, s_i/d_i\}(q_{ij} - \kappa_j p_i - v_j)]}{\exp(u_0) + \sum_{i'=1}^n \exp[v_j + \min\{1, s_{i'}/d_{i'}\}(q_{i'j} - \kappa_j p_{i'} - v_j)]}. \end{aligned} \quad (2)$$

To ease the exposition, we normalize  $u_0 = 0$  and hence the demand functions become

$$\begin{aligned} d_{ij} &= \frac{\Lambda_j \exp[v_j + \min\{1, s_i/d_i\}(q_{ij} - \kappa_j p_i - v_j)]}{1 + \sum_{i'=1}^n \exp[v_j + \min\{1, s_{i'}/d_{i'}\}(q_{i'j} - \kappa_j p_{i'} - v_j)]} \\ &\text{for all } 1 \leq i \leq n, 1 \leq j \leq m, \\ d_i &= \sum_{j=1}^m d_{ij} = \sum_{j=1}^m \frac{\Lambda_j \exp[v_j + \min\{1, s_i/d_i\}(q_{ij} - \kappa_j p_i - v_j)]}{1 + \sum_{i'=1}^n \exp[v_j + \min\{1, s_{i'}/d_{i'}\}(q_{i'j} - \kappa_j p_{i'} - v_j)]} \\ &\text{for all } 1 \leq i \leq n. \end{aligned} \quad (3)$$

## 2.2 | Supply side

Workers also follow an endogenous general attraction model with network effects to select the platform to work for. Similar to the demand side, the expected utility that a worker derives from working for  $P_i$  depends endogenously on the aggregate behavior of all customers (captured by the total demand  $d_i$ ) and on the aggregate behavior of all workers (captured by the total supply  $s_i$ ). Each worker chooses one of  $n + 1$  alternatives:  $P_1, P_2, \dots, P_n$ , and the outside option. We denote the attractiveness of  $P_i$  for a type- $k$  worker by  $a_{ik}$ , while  $a_0$  represents the attractiveness of the outside option for any worker. If demand dominates supply ( $d_i \geq s_i$ ), then any worker of type- $k$  who opts for  $P_i$  can serve a customer and will receive the wage  $w_i$ , so the utility is given by  $a_{ik} + \eta_k w_i$ , where  $\eta_k$  is the wage sensitivity of type- $k$  workers. If  $s_i > d_i$ , demand will be randomly rationed to the workers who opt for  $P_i$ . In this case, a worker will have a probability of  $d_i/s_i$  to be matched with a demand request (while earning a utility of  $a_{ik} + \eta_k w_i$ ) and a probability of  $1 - d_i/s_i$  to not be matched with any customer (while earning a utility of  $\omega_k$ ). Without loss of generality, we assume that  $\omega_k \leq a_0$  to capture the inconvenience associated with not being forced to work for the outside option. Thus, the expected utility of a type- $k$  worker choosing  $P_i$  is  $v_{ik} = \min\{1, d_i/s_i\}(a_{ik} + \eta_k w_i) + (1 - \min\{1, d_i/s_i\})\omega_k = \omega_k + \min\{1, d_i/s_i\}(a_{ik} + \eta_k w_i - \omega_k)$ . Based on the general attraction model, the total supply for  $P_i$  from type  $k$  customers is given by

$$s_{ik} = \frac{\Gamma_k \exp(v_{ik})}{\exp(v_0) + \sum_{i'=1}^n \exp(v_{i'})} = \frac{\Gamma_k \exp[\omega_k + \min\{1, d_i/s_i\}(a_{ik} + \eta_{ik} w_i - \omega_k)]}{\exp(a_0) + \sum_{i'=1}^n \exp[\omega_k + \min\{1, d_{i'}/s_{i'}\}(a_{i'k} + \eta_{i'k} w_{i'} - \omega_k)]} \quad (4)$$

The total supply for  $P_i$  is given by

$$s_i = \sum_{k=1}^l s_{ik} = \sum_{k=1}^l \frac{\Gamma_k \exp(v_{ik})}{\exp(v_0) + \sum_{i'=1}^n \exp(v_{i'})} = \frac{\Gamma_k \exp[\omega_k + \min\{1, d_i/s_i\}(a_{ik} + \eta_k w_i - \omega_k)]}{\exp(a_0) + \sum_{i'=1}^n \exp[\omega_k + \min\{1, d_{i'}/s_{i'}\}(a_{i'k} + \eta_k w_{i'} - \omega_k)]} \quad (5)$$

To ease the exposition, we normalize  $a_0 = 0$  and hence the supply functions become

$$s_{ik} = \frac{\Gamma_k \exp[\omega_k + \min\{1, d_i/s_i\}(a_{ik} + \eta_{ik} w_i - \omega_k)]}{1 + \sum_{i'=1}^n \exp[\omega_k + \min\{1, d_{i'}/s_{i'}\}(a_{i'k} + \eta_k w_{i'} - \omega_k)]}$$

for all  $1 \leq i \leq n, 1 \leq k \leq l$ ,

$$s_i = \sum_{k=1}^l s_{ik} = \sum_{k=1}^l \frac{\Gamma_k \exp[\omega_k + \min\{1, d_i/s_i\}(a_{ik} + \eta_k w_i - \omega_k)]}{1 + \sum_{i'=1}^n \exp[\omega_k + \min\{1, d_{i'}/s_{i'}\}(a_{i'k} + \eta_k w_{i'} - \omega_k)]}$$

for all  $1 \leq i \leq n$ . (6)

We note that our model naturally incorporates the heterogeneity in customers' and workers' perceptions of quality, attractiveness, and monetary rewards for the different platforms. Such heterogeneity factors are parameterized by the heterogeneous qualities and price sensitivities of different customer segments ( $q_{ij}, \kappa_j, \nu_j : 1 \leq i \leq n, 1 \leq j \leq m$ ) and by the heterogeneous attractiveness and wage sensitivities of different worker types ( $a_{ik}, \eta_k, \omega_k : 1 \leq i \leq n, 1 \leq k \leq l$ ).

Our analysis begins by formally showing the validity of the above endogenous attraction model. Specifically, we show that given a price and wage vector ( $p_i, w_i : 1 \leq i \leq n$ ), the demand and supply functions in Equations (3) and (6) uniquely determine a demand and supply vector ( $d_{ij}, s_{ik} : 1 \leq i \leq n, 1 \leq j \leq m, 1 \leq k \leq l$ ).

**Lemma 1.** *Given the price and wage vector ( $p_i, w_i : 1 \leq i \leq n$ ), there exists a unique demand and supply vector ( $d, s = (d_i, s_i : 1 \leq i \leq n)$ ) that satisfies Equations (3) and (6).*

Several remarks with respect to our endogenous attraction model are in order. As discussed, in our model, the utilities of both customers and workers are endogenously determined by the total demand and supply of each platform. Consequently, customers and workers account for the strategic interactions among themselves, which give rise to endogenous market outcomes. Our endogenous two-sided choice model is constructed in a similar fashion as the MNL model with endogenous network effects (see Du et al., 2016; Wang & Wang, 2016). In these papers, the utility (and the purchase probability) of choosing one product is endogenously determined by the demand of each product through network effects. In our model, the utility of a customer will increase if his/her chance of being served increases. Analogously, the utility of a worker will increase if his/her chance of working for the platform increases. Ultimately, the choice behavior of a customer (or a worker) depends not only on the price (or wage) set by the platform, but also on the strategic interactions among agents on both sides of the market.

In equilibrium, each two-sided platform exhibits *positive* cross-side network effects and *negative* same-side network effects. Namely, if we add one agent (a customer or a worker) to either platform, the utility of other agents from the same side of the market will decrease; conversely, the utility of agents from the opposite side of the market will increase. This extends the framework proposed in Wang and Wang (2016) and Du et al. (2016), which only considers (positive or negative) network effects on the demand side.

We also highlight that the positive and negative effects captured by our model correspond to threshold-type network effects, which will occur only if a certain threshold is attained (i.e.,  $s_i/d_i > 1$  for the demand side and  $d_i/s_i > 1$  for the supply side). As a result, our model generalizes the standard linear network effect model from the traditional two-sided platforms literature (e.g., Armstrong, 2006; Rochet & Tirole, 2003, 2006). In fact, the extension of our model to endogenous waiting times (see Section 7) can be viewed as a generalization of the network effects to a (quasi-)linear type,

because the waiting time of customers who select platform  $P_i$ ,  $\kappa(s_i - d_i)$ , is quasi-linear in both the total supply  $s_i$  and the total demand  $d_i$  of platform  $P_i$ . Thus, we are able to extend our results to other models with network effects.

The total sales of  $P_i$  are truncated by both demand and supply, that is,  $\min\{d_i, s_i\}$ . Thus, the profit earned by  $P_i$  is given by

$$\pi_i(p, w) = (p_i - w_i) \min\{d_i, s_i\},$$

where

$$(p, w) = (p_1, p_2, \dots, p_n, w_1, w_2, \dots, w_n),$$

$$d_i = \sum_{j=1}^m \frac{\Lambda_j \exp[\nu_j + \min\{1, s_i/d_i\}(q_{ij} - \kappa_j p_i - \nu_j)]}{1 + \sum_{j'=1}^n \exp[\nu_j + \min\{1, s_{j'}/d_{j'}\}(q_{j'j} - \kappa_j p_{j'} - \nu_j)]}, \quad (7)$$

and

$$s_i = \sum_{k=1}^l \frac{\Gamma_k \exp[\omega_k + \min\{1, d_i/s_i\}(a_{ik} + \eta_k w_i - \omega_k)]}{1 + \sum_{j'=1}^n \exp[\omega_k + \min\{1, d_{j'}/s_{j'}\}(a_{j'k} + \eta_k w_{j'} - \omega_k)]}. \quad (8)$$

In the special case of a fixed-commission rate, each platform allocates a fixed proportion  $0 < \beta_i < 1$  of the price paid by customers to its workers, that is,  $w_i = \beta_i p_i$ . In this case, the profit earned by  $P_i$  for each  $i = 1, 2, \dots, n$  can be calculated as

$$\pi_i^c(p) = (p_i - \beta_i p_i) \min\{d_i, s_i\} = (1 - \beta_i) p_i \min\{d_i, s_i\},$$

where

$$p = (p_1, p_2, \dots, p_n),$$

$$d_i = \sum_{j=1}^m \frac{\Lambda_j \exp[\nu_j + \min\{1, s_i/d_i\}(q_{ij} - \kappa_j p_i - \nu_j)]}{1 + \sum_{j'=1}^n \exp[\nu_j + \min\{1, s_{j'}/d_{j'}\}(q_{j'j} - \kappa_j p_{j'} - \nu_j)]}, \quad (9)$$

and

$$s_i = \sum_{k=1}^l \frac{\Gamma_k \exp[\omega_k + \min\{1, d_i/s_i\}(a_{ik} + \beta_i \eta_k w_i - \omega_k)]}{1 + \sum_{j'=1}^n \exp[\omega_k + \min\{1, d_{j'}/s_{j'}\}(a_{j'k} + \beta_{j'} \eta_k w_{j'} - \omega_k)]}. \quad (10)$$

### 3 | COMPETITION BETWEEN TWO-SIDED PLATFORMS: EQUILIBRIUM ANALYSIS

Recall that the platforms  $P_1, P_2, \dots, P_n$  compete on both price and wage. More specifically, they engage in a simultaneous game in which  $P_i$  sets  $p_i$  and  $w_i$  to maximize  $\pi_i(p, w)$ . After

observing the platforms' price and wage decisions, customers and workers engage in a game where every agent selects an action (i.e., decide between one of the platforms and the outside option) that best responds to the aggregate decisions of all other players.

In this section, we characterize the equilibrium outcome of this game, which we call the *two-sided competition game*. A strategy profile of both platforms is an equilibrium, if each platform maximizes its own profit given the competitors' strategy, that is,

$$(p_i^*, w_i^*) \in \arg \max_{(p_i, w_i)} \pi_i(p_i, w_i, p_{-i}^*, w_{-i}^*), \quad (11)$$

where  $(p_{-i}^*, w_{-i}^*)$  is the equilibrium price and wage vector of all other platforms. We also denote the equilibrium demand and supply of  $P_i$  by  $d_i^*$  and  $s_i^*$ , respectively, where

$$d_i^* = \sum_{j=1}^m \frac{\Lambda_j \exp[\nu_j + \min\{1, s_i^*/d_i^*\}(q_{ij} - \kappa_j p_i^* - \nu_j)]}{1 + \sum_{j'=1}^n \exp[\nu_j + \min\{1, s_{j'}^*/d_{j'}^*\}(q_{j'j} - \kappa_j p_{j'}^* - \nu_j)]} \quad (12)$$

and

$$s_i^* = \sum_{k=1}^l \frac{\Gamma_k \exp[\omega_k + \min\{1, d_i^*/s_i^*\}(a_{ik} + \eta_k w_i^* - \omega_k)]}{1 + \sum_{j'=1}^n \exp[\omega_k + \min\{1, d_{j'}^*/s_{j'}^*\}(a_{j'k} + \eta_k w_{j'}^* - \omega_k)]}. \quad (13)$$

The following theorem shows that a unique equilibrium exists and that at equilibrium, supply matches with demand.

**Theorem 1.** *Consider the above two-sided competition game. Then, the following holds:*

1. *Under equilibrium, supply matches with demand, that is,  $s_i^* = d_i^*$  for  $i = 1, 2, \dots, n$ .*
2. *The two-sided competition game admits a unique equilibrium  $(p^*, w^*) = (p_1^*, p_2^*, \dots, p_n^*, w_1^*, w_2^*, \dots, w_n^*)$ . Further, the equilibrium can be computed using a tâtonnement scheme.*

In the two-sided competition game, if supply does not match with demand, one can always find a profitable unilateral deviation by increasing the price (when demand exceeds supply) or by decreasing the wage (when supply exceeds demand). See more details in the proof of Theorem 1 in Supporting Information Appendix B. In addition, based on the second part of Theorem 1, the equilibrium can be computed using a *tâtonnement* scheme, namely, if each platform uses the best-response strategy based on the price and wage of its competitor in the previous iteration, the sequence of price and wage strategies converge to the unique equilibrium  $(p_1^*, p_2^*, \dots, p_n^*, w_1^*, w_2^*, \dots, w_n^*)$ .

When establishing the existence and uniqueness of equilibrium in one-sided competition with logit-type demand models without network effects (e.g., MNL, nested-MNL, and mixed-MNL), existing results in the literature typically leverage the first-order optimality condition (FOC) of the profit function. A common approach is to show that the system of equations that characterizes the FOC has a unique solution (see, e.g., Aksoy-Pierson et al., 2013; Gallego et al., 2006; Gallego & Wang, 2014; Li & Huh, 2011). In the two-sided competition game with the endogenous choice model considered in this paper, the FOC turns out to be difficult to analyze. This is driven by the fact that the platforms have more flexibility in decisions (price and wage). Furthermore, the total sales of each platform is endogenously determined by the choice behavior of all customers and workers in the market and is truncated by both demand and supply. As a result, the objective function becomes nondifferentiable, making traditional arguments not applicable to our model. To overcome this technical challenge, we exploit the structural properties of the best-response mapping of each platform and prove that it is a contraction mapping. Consequently, a *tatônnement* scheme converges to the unique equilibrium. An important insight of price competition under MNL or nested-MNL models from the literature is the optimality of the so-called equal or adjusted markup policy (see, Gallego & Wang, 2014; Li & Huh, 2011). This property, however, no longer holds in our two-sided competition setting where demand and supply are endogenous and the platforms have the flexibility to adjust both price and wage.

The proof of Theorem 1 also helps us inductively characterize the desired properties of the *tatônnement* scheme in each iteration, implying that the same properties hold under equilibrium by taking the limit. We next exploit this technique to (i) compare the equilibrium outcome of our two-sided competition game to a monopoly market (i.e., both platforms are owned by a single entity) and (ii) characterize how the equilibrium strategy reacts to real-time demand changes. We denote the prices and wages under the monopolistic setting by  $(p^{m*}, w^{m*}) = (p_1^{m*}, p_2^{m*}, \dots, p_n^{m*}, w_1^{m*}, w_2^{m*}, \dots, w_n^{m*})$ , where  $(p^{m*}, w^{m*}) = \arg \max_{(p,w)} \sum_{i=1}^n \pi_i(p_i, w_i)$ .

**Proposition 1.** *The following comparative statics results hold:*

- (a)  $p_i^* < p_i^{m*}$  and  $w_i^* > w_i^{m*}$  for  $i = 1, 2, \dots, n$ .
- (b)  $p_i^*$  and  $w_i^*$  are increasing in  $\Lambda_j$  for  $i = 1, 2, \dots, n$  and  $j = 1, 2, \dots, m$ .

As stated in Proposition 1(a), in a competitive market, each platform will decrease (respectively, increase) its price (respectively, wage) to attract customers (respectively, workers). Traditionally, it was shown that price competition decreases the price of each firm relative to a monopoly (see, e.g., Li & Huh, 2011). Proposition 1(a) generalizes this result to a two-sided market by showing that competition not only decreases the price, but also raises the wage offered by each

platform. Once again, the method we use to prove Proposition 1 is different from the typical argument used in the literature. In the literature, the main argument relies on analyzing the FOC (see, e.g., Li & Huh, 2011), whereas in our model, we directly exploit the properties of the best response in each iteration of the *tatônnement* scheme. Specifically, we input the monopoly prices and wages as the initial variables of the *tatônnement* scheme and show that the prices (respectively, wages) will be lower (respectively, higher) relative to the monopolistic setting, for each iteration of the scheme. At the limit of the *tatônnement* scheme, the equilibrium prices and wages under two-sided platform competition will be higher relative to the monopoly.

Consistent with the ride-sharing business practice, Proposition 1(b) suggests that both platforms adopt a surge pricing strategy under equilibrium, that is, they react to real-time peak demand levels by increasing both their price and wage. This result generalizes the well-known optimality of surge pricing for a monopoly (see, e.g., Bai et al., 2019) to a competitive two-sided setting with endogenous supply and demand.

### 3.1 | Fixed-commission rate

Platforms often use a fixed-commission rate to pay their workers. Namely,  $P_i$  allocates a fixed share  $0 < \beta_i < 1$  of the price paid by customers to workers, that is,  $w_i = \beta_i p_i$  (see, e.g., Hu & Zhou, 2017), where  $\beta$  is a prespecified parameter that does not change with the state of the market. For example, for Lyft drivers who applied before 12 AM on January 1, 2016, they earn 80% of the passenger's time, distance, and base rates in each trip.<sup>7</sup> In the model with a fixed-commission rate, the equilibrium  $(p_1^{c*}, p_2^{c*}, \dots, p_n^{c*})$  is defined as follows:

$$p_i^{c*} \in \arg \max_{p_i} \pi_i^c(p_i, p_{-i}^{c*}), \quad (14)$$

where  $p_{-i}^{c*}$  is the equilibrium price vector of all other platforms (except  $P_i$ ) under a fixed-commission rate. We also denote the equilibrium demand and supply of  $P_i$  by

$$d_i^{c*} = \sum_{j=1}^m \frac{\Lambda_j \exp[\nu_j + \min\{1, s_i^{c*}/d_i^{c*}\}(q_{ij} - \kappa_j p_i^{c*} - \nu_j)]}{1 + \sum_{j'=1}^n \exp[\nu_j + \min\{1, s_{j'}^{c*}/d_{j'}^{c*}\}(q_{j'j} - \kappa_j p_{j'}^{c*} - \nu_j)]} \quad (15)$$

and

$$s_i^{c*} = \sum_{k=1}^l \frac{\Gamma_k \exp[\omega_k + \min\{1, d_i^{c*}/s_i^{c*}\}(a_{ik} + \eta_k \beta_i p_i^{c*} - \omega_k)]}{1 + \sum_{j'=1}^n \exp[\omega_k + \min\{1, d_{j'}^{c*}/s_{j'}^{c*}\}(a_{j'k} + \eta_k \beta_{j'} p_{j'}^{c*} - \omega_k)]} \quad (16)$$

**Theorem 2.** *Consider the two-sided competition game under a fixed-commission rate. Then, the following holds:*

- (a) Under equilibrium, supply exceeds demand, that is,  $s_i^{c*} \geq d_i^{c*}$  for  $i = 1, 2, \dots, n$ .
- (b) The game under admits a unique equilibrium  $(p_1^{c*}, p_2^{c*}, \dots, p_n^{c*})$ . Further, the equilibrium can be computed using a tâtonnement scheme.

Note that the first part of Theorem 2 is different from Theorem 1. Indeed, under a fixed-commission rate, the platforms have less flexibility in the decision-making process since the wage is tied to the price. Consequently, the argument of finding a profitable unilateral deviation does not hold anymore when  $d_i < s_i$ . When  $d_i > s_i$ , by increasing  $p_i$  (and thus also  $w_i = \beta_i p_i$  and the resulting profit margin  $(1 - \beta_i)p_i$ ), it will raise  $d_i$  and  $s_i$  so that  $P_i$ 's profit increases. However, when  $d_i < s_i$ , such an approach does not necessarily increase the platform's profit: by decreasing  $p_i$  (and thus  $w_i$  and the margin),  $d_i$  will increase while  $s_i$  will decrease, so that the impact on  $P_i$ 's profit is not clear. Consequently, as shown in the proof of Theorem 2, the model with a fixed-commission rate requires a different equilibrium analysis to carefully examine the case when  $d_i < s_i$ .

We next compare the equilibrium outcomes of the base model and those of the model with a fixed-commission rate. For technical tractability, we assume that the model is symmetric, namely, the model primitives are identical for all platforms, all demand segments, and worker types. In particular, the fixed-commission rate is the same across different platforms, denoted as  $\beta = \beta_1 = \beta_2 = \dots = \beta_n$ .

**Proposition 2.** Assume that  $\Lambda_j$ ,  $\kappa_j$ , and  $v_j$  are the same for all  $j$ ;  $\Gamma_k$ ,  $\eta_k$ , and  $\omega_k$  are the same for all  $k$ ;  $q_{ij}$  are the same for all  $i$  and  $j$ ;  $a_{ik}$  are the same for all  $i$  and  $k$ ; and  $\beta = \beta_1 = \beta_2 = \dots = \beta_n$ . We then have

- (a) For the base model, the equilibrium prices and wages are identical for all platforms, that is,  $p_1^* = p_2^* = \dots = p_n^*$  and  $w_1^* = w_2^* = \dots = w_n^*$ . For the model with a fixed-commission rate, the equilibrium prices are identical for all platforms, that is,  $p_1^{c*} = p_2^{c*} = \dots = p_n^{c*}$ .
- (b) The equilibrium profit of each platform in the base model is higher relative to the model with a fixed-commission rate, that is,  $\pi_i^* = (p_i^* - w_i^*)d_i^* \geq (1 - \beta)p_i^{c*}d_i^{c*} = \pi_i^{c*}$  for each  $i$ , where the inequality holds as equality if  $\beta = w_i^*/p_i^*$ .
- (c) If  $\beta < w_i^*/p_i^*$ , it follows that  $p_i^{c*} > p_i^*$ ,  $w_i^{c*} < w_i^*$ , and  $d_i^{c*} < d_i^*$  for each  $i$ .
- (d) If  $\beta > w_i^*/p_i^*$ , it follows that  $p_i^{c*} < p_i^*$ ,  $w_i^{c*} > w_i^*$ , and  $d_i^{c*} > d_i^*$  for each  $i$ .

Proposition 2 shows that, in the symmetric setting, the equilibrium outcomes are also symmetric. Furthermore, due to the additional constraint, the equilibrium profit of each platform without a fixed-commission rate is lower relative to the base model. Depending on the magnitude of the commission rate, adopting a fixed-commission rate may have a different impact on the equilibrium price, wage, and demand of each platform. Specifically, if the commission rate is

lower (respectively, higher) than the ratio between the equilibrium wage and price from the base model, adopting a fixed-commission rate will result in a higher (respectively, lower) price, a lower (respectively, higher) wage, and a lower (respectively, higher) demand under equilibrium.

### 3.2 | Separate pools of workers

To conclude this section, we consider a two-sided competition model where workers come from different labor pools (e.g., Curb's taxi drivers and Via's self-employed drivers). This is different from our base model in which all workers belong to the same pool. In this case, a worker faces only two choices: working for the focal platform or selecting the outside option. As before, both customers and workers follow an endogenous general attraction model. Thus, the total demand and supply for  $P_i$  are given by

$$d_i^s = \sum_{j=1}^m \frac{\Lambda_j \exp[v_j + \min\{1, s_i^s/d_i^s\}(q_{ij} - \kappa_j p_i - v_j)]}{1 + \sum_{i'=1}^n \exp[v_j + \min\{1, s_{i'}^s/d_{i'}^s\}(q_{i'j} - \kappa_j p_{i'} - v_j)]},$$

$$i = 1, 2, \dots, n \quad (17)$$

and

$$s_i^s = \sum_{k=1}^l \frac{\Gamma_k \exp[\omega_k + \min\{1, d_i^s/s_i^s\}(a_{ik} + \eta_k w_i - \omega_k)]}{1 + \exp[\omega_k + \min\{1, d_i^s/s_i^s\}(a_{ik} + \eta_k w_i - \omega_k)]},$$

$$i = 1, 2, \dots, n. \quad (18)$$

As a corollary of Theorem 1, we show that a unique equilibrium exists for the model with separate pools of workers.<sup>8</sup>

**Corollary 1.** Consider the two-sided competition game with separate pools of workers. Then, the following holds:

- (a) Under equilibrium, supply matches with demand, that is,  $s_i^{s*} = d_i^{s*}$  for  $i = 1, 2, \dots, n$ .
- (b) The game admits a unique equilibrium  $(p_1^{s*}, p_2^{s*}, \dots, p_n^{s*}, w_1^{s*}, w_2^{s*}, \dots, w_n^{s*})$ . Further, the equilibrium can be computed efficiently using a tâtonnement scheme.

## 4 | COOPETITION BETWEEN TWO-SIDED PLATFORMS: MODEL

Inspired by recent practices in ride-sharing, we model the setting where a coopetition partnership is introduced via a profit sharing contract between two platforms. In particular, the two competing platforms  $P_1$  and  $P_2$  collaborate and offer a new joint service, which is available to riders from either platform. As mentioned before, one such recent example is the partnership between Curb and Via with the introduction of a taxi sharing service in NYC on June 6, 2017. For the rest of this paper, we use the terms "new joint service," "new service,"



and “cooperation” interchangeably. Since the cooperation partnership is mainly adopted in the ride-sharing market, we refer to customers as riders and to workers as drivers in the model with cooperation. As is clear from this model setup,  $P_1$  and  $P_2$  are also competing with the other  $n - 2$  competitors, where we assume  $n \geq 3$ . The intensity of competition is parameterized by the total number of platforms on the market  $n$ .

In this section, our main inspiration is the cooperation partnership between Curb and Via. We use the superscript  $\tilde{\cdot}$  to denote the different variables in the presence of cooperation. To be consistent with the business practice of Curb ( $P_1$ ) and Via ( $P_2$ ), we assume that  $P_1$  and  $P_2$  have separate pools of drivers. We denote the prices of the original services offered by  $P_1$  and  $P_2$ , after introducing the new service by  $\tilde{p}_1$  and  $\tilde{p}_2$ . The quality and price of the new service are denoted by  $\tilde{q}_x$  and  $\tilde{p}_x$ , respectively. In addition, we propose to capture the pooling effect of the new service by the parameter  $\tilde{n}$ . This parameter corresponds to the (average) number of customers per service (i.e., riders per ride) for the new service. If the new joint service does not offer a pooling option (i.e., only private rides),  $\tilde{n} = 1$  and otherwise,  $\tilde{n} > 1$  (which is the case for the Curb–Via partnership). Since the new service is a combination of the original taxi-hailing (Curb) and carpooling (Via) services, its quality for rider-segment  $j$ ,  $q_{xj}$ , can be interpreted as a convex combination of the qualities of the original services, that is,  $q_{xj} = \sigma q_{1j} + (1 - \sigma)q_{2j}$  for all  $j = 1, 2, \dots, m$  (where  $\sigma \in [0, 1]$ ). Furthermore, as in the competition model, the utility earned by a customer or by a worker depends on the decisions of all customers and workers. Namely, in the presence of cooperation, the demand and supply of each service are also endogenous market outcomes.

Inspired by the cooperation partnership between Curb and Via, we assume that the new service is solely provided by  $P_1$ 's drivers. Nevertheless, our results and insights extend to the situation where the new service is provided by workers from both platforms. Motivated by practice, we assume that Curb's drivers have no choice whether to accept requests for the new service. More generally, in most carpooling platforms, drivers need to serve all incoming requests. Moreover, both Curb and Via prioritize the new service in the same as their original services. In the presence of cooperation, the driver pool for  $P_i$  ( $3 \leq i \leq n$ ) will remain the same as without cooperation.

We use  $\tilde{\lambda}_1$  to denote the total demand for  $P_1$ 's drivers, which is the sum of the demand of its original service and the new service, namely  $\tilde{\lambda}_1 := \tilde{d}_1 + \tilde{d}_x/\tilde{n}$ , where  $\tilde{d}_x$  is the total number of demand requests for the new joint service. We also denote the total demand for  $P_i$ 's drivers as  $\tilde{\lambda}_i = \tilde{d}_i$  for  $i = 2, 3, \dots, n$ . We assume that  $P_1$ 's drivers are randomly assigned either to the original service or to the new service. More specifically, if  $\tilde{s}_1 > \tilde{\lambda}_1$ , where  $\tilde{s}_1$  is the total number of workers who choose to work for  $P_1$ , then  $P_1$  has enough drivers to fulfill all demand requests. Otherwise, we assume that drivers are proportionally allocated to the original service and to the new service (considering random arrivals and a first-come-first-serve allocation rule).<sup>9</sup> Recall that the demand of  $P_1$ 's

original service (respectively, new service) is  $\tilde{d}_1$  (respectively,  $\frac{\tilde{d}_x}{\tilde{n}}$ ). Thus,  $P_1$  will allocate  $\tilde{s}_1 \cdot \frac{\tilde{d}_1}{\tilde{\lambda}_1}$  drivers to its original service and  $\tilde{s}_x = \tilde{s}_1 \cdot \frac{\tilde{d}_x/\tilde{n}}{\tilde{\lambda}_1}$  drivers to the new service. For notational convenience, we denote  $\tilde{N} := \{1, 2, \dots, n, x\}$  as the set of services in the presence of cooperation.

As in the competition model, the utility earned by a consumer from choosing one of the services is endogenously determined by the aggregate demand and supply. The expected utility that a rider from segment  $j$  derives from  $P_1$ 's original service is  $\tilde{u}_{1j} = \nu_j + \min\{1, \tilde{s}_1 \cdot \frac{\tilde{d}_1}{\tilde{\lambda}_1}/\tilde{d}_1\}(q_{1j} - \kappa_j\tilde{p}_1 - \nu_j) = \nu_j + \min\{1, \tilde{s}_1/\tilde{\lambda}_1\}(q_{1j} - \kappa_j\tilde{p}_1 - \nu_j)$ , from  $P_i$ 's original service is  $\tilde{u}_{ij} = \nu_j + \min\{1, \tilde{s}_i/\tilde{\lambda}_i\}(q_{ij} - \kappa_j\tilde{p}_i - \nu_j)$  ( $i = 2, \dots, n$ ), from the new service is  $\tilde{u}_{xj} = \nu_j + \min\{1, \tilde{s}_x\tilde{n}/\tilde{d}_x\}(q_{xj} - \kappa_j\tilde{p}_x - \nu_j)$ , and from the outside option is  $\tilde{u}_0 = 0$ . Thus, the demand for each service is given by

$$\tilde{d}_i = \sum_{j=1}^m \tilde{d}_{ij} = \sum_{j=1}^m \frac{\Lambda_j \exp(\tilde{u}_{ij})}{\exp(\tilde{u}_0) + \sum_{i' \in \tilde{N}} \exp(\tilde{u}_{i'j})}, \quad \text{for } i \in \tilde{N}. \quad (19)$$

Consequently, in the presence of cooperation, the demand for  $P_i$ 's service ( $i \in \tilde{N}$ ) is

$$\tilde{d}_i = \sum_{j=1}^m \frac{\Lambda_j \exp[\nu_j + \min\{1, \tilde{s}_i/\tilde{\lambda}_i\}(q_{ij} - \kappa_j\tilde{p}_i - \nu_j)]}{1 + \sum_{i' \in \tilde{N}} \exp[\nu_j + \min\{1, \tilde{s}_{i'}/\tilde{\lambda}_{i'}\}(q_{i'j} - \kappa_j\tilde{p}_{i'} - \nu_j)]}. \quad (20)$$

Analogously, a type- $k$  driver working for  $P_i$  will earn an expected utility of  $\tilde{v}_{ik} = \omega_k + \min\{1, \tilde{\lambda}_i/\tilde{s}_i\}(a_{ik} + \eta_k w_i - \omega_k)$  ( $i = 1, 2, 3, \dots, n, k = 1, 2, \dots, l$ ), whereas the expected utility of the outside option is  $\tilde{v}_0 = 0$ . Thus, the total supply of  $P_i$ 's drivers is ( $i = 1, 2, \dots, n$ )

$$\begin{aligned} \tilde{s}_i &= \sum_{k=1}^l \frac{\Gamma_k \exp(\tilde{v}_i)}{\exp(\tilde{v}_0) + \exp(\tilde{v}_i)} \\ &= \sum_{k=1}^l \frac{\Gamma_k \exp[\omega_k + \min\{1, \tilde{\lambda}_i/\tilde{s}_i\}(a_{ik} + \eta_k w_i - \omega_k)]}{1 + \sum_{i' \in \tilde{N}} \exp[\omega_k + \min\{1, \tilde{\lambda}_{i'}/\tilde{s}_{i'}\}(a_{i'k} + \eta_k w_{i'} - \omega_k)]}. \end{aligned} \quad (21)$$

As before, the utility earned by a worker is endogenously determined by the aggregate demand and supply. We note that the introduction of the new service affects the realized utility of the platforms as well as the perceived wage of the workers. Moreover, the value of  $\tilde{n}$  affects the equilibrium price, wage, demand, and supply. We also note that the wage for the new service is the same as the original service. In our motivating example, this follows from the fact that Curb's drivers (who fulfill the new service) are compensated according to the meter price.

We consider a *profit sharing contract* under which  $P_1$  and  $P_2$  split the net profit generated by the new service. More precisely,  $P_1$  receives a fraction  $\gamma_1 = \gamma \in (0, 1)$  of the profit generated by the new service and  $P_2$  receives  $\gamma_2 = 1 - \gamma$ . For notational consistency, we denote  $\gamma_i = 0$  for  $i = 3, 4, \dots, n$ .

Under coopetition,  $P_i$ 's profit comprises two parts: the profit from its original service and the profit from the new service allocated to  $P_i$ . Specifically,  $P_i$ 's profit from its original service amounts to  $(\tilde{p}_i - \tilde{w}_i) \min\{\tilde{d}_i, \frac{\tilde{s}_i \tilde{d}_i}{\tilde{\lambda}_i}\} = (\tilde{p}_i - \tilde{w}_i) \tilde{d}_i \min\{1, \frac{\tilde{s}_i}{\tilde{\lambda}_i}\}$ , and  $P_i$ 's profit from the new service is  $\gamma_i (\tilde{n} \tilde{p}_x - \tilde{w}_1) \min\{\frac{\tilde{d}_x}{\tilde{n}}, \tilde{s}_1 \cdot \frac{\tilde{d}_x}{\tilde{n} \tilde{\lambda}_1}\} = \gamma_i (\tilde{p}_x - \frac{\tilde{w}_1}{\tilde{n}}) \tilde{d}_x \min\{1, \frac{\tilde{s}_1}{\tilde{\lambda}_1}\}$ . Putting everything together, the expression for the total profit earned by  $P_i$  is given by

$$\begin{aligned} \tilde{\pi}_i(\tilde{p}_i, \tilde{w}_i, \tilde{p}_{-i}, \tilde{w}_{-i}) &= (\tilde{p}_i - \tilde{w}_i) \tilde{d}_i \min\left\{1, \frac{\tilde{s}_i}{\tilde{\lambda}_i}\right\} \\ &\quad + \gamma_i \left(\tilde{p}_x - \frac{\tilde{w}_1}{\tilde{n}}\right) \tilde{d}_x \min\left\{1, \frac{\tilde{s}_1}{\tilde{\lambda}_1}\right\}, \\ &\text{for } i = 1, 2, \dots, n. \end{aligned} \quad (22)$$

## 5 | IMPACT OF COOPETITION

In this section, we analyze the impact of coopetition (i.e., introducing the new joint service) based on the model proposed in Section 4. We first consider the profit implications on both platforms, and then examine the impact on riders and on drivers.

We first show that even in the presence of coopetition, there still exists a unique equilibrium. The sequence of events unfolds as follows:

1. The platforms agree on the price of the new service  $\tilde{p}_x$  and the profit-sharing parameter  $\gamma$  (see more details below).
2. Given  $(\tilde{p}_x, \gamma)$ , each of the  $n$  platforms simultaneously decides the price and wage of its original service  $\tilde{p}_i$  and  $\tilde{w}_i$  to maximize its own profit ( $i = 1, 2, \dots, n$ ).

Using backward induction, we start by characterizing the equilibrium of the second step. Given  $(\tilde{p}_x, \gamma)$ , the platforms engage in a price and wage competition using the model presented in Section 4. As before, the equilibrium outcome  $(\tilde{p}^*, \tilde{w}^*) = (\tilde{p}_1^*, \tilde{w}_1^*, \tilde{p}_2^*, \tilde{w}_2^*, \dots, \tilde{p}_n^*, \tilde{w}_n^*)$  should satisfy  $(\tilde{p}_i^*, \tilde{w}_i^*) \in \arg \max_{(p_i, w_i)} \tilde{\pi}_i(p_i, w_i, p_{-i}^*, w_{-i}^*)$  for each  $i = 1, 2, \dots, n$ . We next extend the result on existence and uniqueness of equilibrium in the presence of coopetition. Recall that the supply and demand of  $P_i$  are denoted by  $\tilde{s}_i$  and  $\tilde{\lambda}_i$ , respectively.

**Theorem 3.** *Consider the two-sided competition game in the presence of coopetition. Then, the following holds:*

1. *Under equilibrium, supply matches with demand for each platform, that is,  $\tilde{s}_i^* = \tilde{\lambda}_i^*$  for  $i = 1, 2, \dots, n$ .*
2. *For any  $(\tilde{p}_x, \gamma)$ , there exists a unique equilibrium  $(\tilde{p}^*, \tilde{w}^*)$  that can be computed using a tâtonnement scheme.*

Note that when  $\tilde{p}_x \uparrow +\infty$ , the model with coopetition converges to the original model (without coopetition) for any  $\gamma \in (0, 1)$ , because the demand for the new joint service shrinks to 0 in this case. We also remark that one can construct examples of coopetition partnerships that are detrimental to both partnering platforms. In other words, if the platforms do not carefully decide  $\tilde{p}_x$  and  $\gamma$ , introducing the new service may lead to an undesirable lose-lose outcome for the two platforms that provide shared services.

### 5.1 | Impact on platforms' profits

At a high level, the coopetition will induce three effects: (i) a new market share effect (i.e., capturing new riders who were previously choosing the outside option), (ii) a cannibalization effect (i.e., losing some existing market share to the new service), and (iii) a wage variation (i.e., adapting the wage to match supply with demand). Our goal is to study how the two focal platforms (which engage in a coopetition partnership) could use well-designed profit sharing contracts to balance these effects and ultimately benefit from coopetition. The other competing platforms, as expected, will be worse off in the presence of the new joint service. We first show that when the price of the new service  $\tilde{p}_x$  and the profit-sharing parameter  $\gamma$  are carefully chosen, coopetition will increase the profits of both focal platforms (i.e.,  $P_1$  and  $P_2$ ). To unlock the fullest potential of coopetition, we consider the case where  $\tilde{p}_x$  is jointly set by both platforms to maximize the total profit, that is,

$$\tilde{p}_x^* \in \arg \max_{\tilde{p}_x} \{\tilde{\pi}_1(\tilde{p}^*, \tilde{w}^*) + \tilde{\pi}_2(\tilde{p}^*, \tilde{w}^*)\}. \quad (23)$$

Note that, since the equilibrium outcome  $(\tilde{p}^*, \tilde{w}^*)$  depends on  $\gamma$ , then  $\tilde{p}_x^*$  will also depend on  $\gamma$ .

**Theorem 4.** *If  $\tilde{p}_x$  is set to maximize the total profit of  $P_1$  and  $P_2$ , then there exists an interval  $(\underline{\gamma}, \bar{\gamma}) \subset (0, 1)$  such that if  $\gamma \in (\underline{\gamma}, \bar{\gamma})$ ,  $\tilde{\pi}_i(\tilde{p}^*, \tilde{w}^*) > \pi_i(p^*, w^*)$  for  $i = 1, 2$ . In addition, for any  $(\tilde{p}_x, \gamma)$ , we have  $\tilde{\pi}_i(\tilde{p}^*, \tilde{w}^*) < \pi_i(p^*, w^*)$  for  $i = 3, 4, \dots, n$ .*

Theorem 4 implies that in the presence of coopetition,  $P_1$  and  $P_2$  can set  $\tilde{p}_x$  and  $\gamma$  so that introducing the new service will lead to a profit increase for each platform. As mentioned before, when the terms of the coopetition (i.e.,  $\tilde{p}_x$  and  $\gamma$ ) are not carefully designed, introducing the new service can yield lower profits for each platform. Recall that the coopetition induces three effects: (i) a new market share, (ii) an adverse cannibalization, and (iii) a wage variation. Theorem 4 shows that under a well-designed profit sharing contract, the new

market share effect dominates the cannibalization and wage variation effects for each platform. We will discuss in greater detail the implications of these effects later in this section. The other competing platforms  $P_i$  ( $i = 3, 4, \dots, n$ ) will always be worse off with the introduction of the new service jointly offered by  $P_1$  and  $P_2$ , since they do not benefit from the new market share effect but suffer from the cannibalization induced by the new joint service.

We next elaborate on how  $(\tilde{p}_x, \gamma)$  can be determined. In practice (e.g., the Curb–Via partnership),  $P_1$  and  $P_2$  negotiate to decide the values of  $\tilde{p}_x$  and  $\gamma$ . To model the negotiation process, we use the Nash bargaining framework (see, e.g., Nash Jr, 1950; Osborne & Rubinstein, 1990). We define  $\theta_i \in (0, 1)$  as the bargaining power of  $P_i$  ( $i = 1, 2$ ) with  $\theta_1 + \theta_2 = 1$ . Then, the equilibrium price and profit-sharing parameter  $(\tilde{p}_x^{**}, \gamma^{**})$  satisfy the following:

$$\begin{aligned} (\tilde{p}_x^{**}, \gamma^{**}) \in \arg \max_{\tilde{p}_x, \gamma \in (0, 1)} & [\tilde{\pi}_1(\tilde{p}^*, \tilde{w}^*) \\ & - \pi_1(p^*, w^*)]^{\theta_1} \cdot [\tilde{\pi}_2(\tilde{p}^*, \tilde{w}^*) - \pi_2(p^*, w^*)]^{\theta_2} \\ \text{s.t. } \tilde{\pi}_i(\tilde{p}^*, \tilde{w}^*) \geq \pi_i(p^*, w^*) & \text{ for } i = 1, 2. \end{aligned} \quad (24)$$

We know from Theorem 4 that there exists  $(\tilde{p}_x, \gamma)$  such that  $\tilde{\pi}_i(\tilde{p}^*, \tilde{w}^*) > \pi_i(p^*, w^*)$  for  $i = 1, 2$ . Thus, for any  $(\theta_1, \theta_2)$ , the parameters  $(\tilde{p}_x^{**}, \gamma^{**})$  are well defined. We next show that the equilibrium profit of each platform under Nash bargaining increases under cooperation.

**Proposition 3.** *Under Nash bargaining, that is, when the platforms set  $(\tilde{p}_x^{**}, \gamma^{**})$ , we have  $\tilde{\pi}_i(\tilde{p}^*, \tilde{w}^*) > \pi_i(p^*, w^*)$  for  $i = 1, 2$ . Furthermore,  $\tilde{\pi}_i(\tilde{p}^*, \tilde{w}^*) < \pi_i(p^*, w^*)$  for  $i = 3, 4, \dots, n$ .*

So far, we have shown that the focal platforms can set the price of the new service and the profit-sharing parameter to ensure that cooperation is beneficial. Nevertheless, we are interested in avoiding extreme cases and in identifying conditions under which cooperation yields a strict benefit for both platforms in the presence of a price constraint for the new service. For instance, it is always possible to set  $\tilde{p}_x$  to a large value, so that no customer will opt for the new service, and we are back to the original setting. We next assume that the value of  $\tilde{p}_x$  is bounded (i.e., the platforms cannot set the price of the new service to an arbitrarily high value). The following proposition shows that when the value of  $\tilde{p}_x$  is bounded, both platforms will be strictly better off only when the demand–supply ratio is not too high. Specifically, we denote  $\Lambda_j = \Lambda \cdot \tau_j$  for each customer segment  $j$ , where  $\tau_j > 0$  is the market proportion of segment  $j$  with  $\sum_{j=1}^m \tau_j = 1$ . Analogously, we denote  $\Gamma_k = \Gamma \cdot \xi_k$  for each driver segment  $k$ , where  $\xi_k > 0$  is the proportion of drivers from segment  $k$  with  $\sum_{k=1}^l \xi_k = 1$ . We then define  $r := \Lambda/\Gamma$  as the demand–supply ratio of the market.

**Proposition 4.** *The following statements hold:*

1. *If  $r \uparrow +\infty$ , then  $\tilde{p}_x^* \uparrow +\infty$  and  $\tilde{p}_x^{**} \uparrow +\infty$ .*
2. *Assume that the price of the new service is bounded, that is,  $\tilde{p}_x \leq \bar{p}$  for some  $\bar{p} < +\infty$ . Then, there exists a threshold  $\bar{r}(\bar{p})$  such that (i) if  $\bar{p}$  is sufficiently large and  $r < \bar{r}(\bar{p})$ , then, for each  $i = 1, 2$ ,  $\tilde{\pi}_i(\tilde{p}^*, \tilde{w}^*) > \pi_i(p^*, w^*)$  under some  $(\tilde{p}_x, \gamma)$  with  $\tilde{p}_x \leq \bar{p}$ , and (ii) if  $r > \bar{r}(\bar{p})$ , then  $\tilde{\pi}_1(\tilde{p}^*, \tilde{w}^*) < \pi_1(p^*, w^*)$  or  $\tilde{\pi}_2(\tilde{p}^*, \tilde{w}^*) < \pi_2(p^*, w^*)$  under any  $(\tilde{p}_x, \gamma)$  with  $\tilde{p}_x \leq \bar{p}$ .*

Proposition 4 shows that, when  $\tilde{p}_x$  is bounded, the demand–supply ratio has a critical implication on the impact of cooperation on the platforms’ profits. Specifically, if the demand–supply ratio is not too high (i.e.,  $r < \bar{r}(\bar{p})$ ), the platforms can design a profit sharing contract (by setting  $\tilde{p}_x$  and  $\gamma$ ) that will make the cooperation partnership strictly beneficial for both platforms (i.e., a Pareto improvement in the profits of both partnering platforms). However, if the demand–supply ratio becomes too high, at least one platform will be hurt by cooperation (assuming  $\tilde{p}_x$  is bounded). In this case, introducing the new service will make (at least) one of the platforms overdemand. This will in turn induce the platform(s) to increase their wage, and hence reduce profit. On the other hand, when the demand–supply ratio is not too high, introducing the new service expands the market share of both platforms, thus increasing revenues without imposing high additional wages. Proposition 4 provides evidence on why dominating ride-sharing platforms in the U.S. market, such as Uber and Lyft, do not engage in a cooperation partnership to offer joint services. Indeed, these platforms typically have sufficient customers but insufficient drivers,<sup>10</sup> and thus by Proposition 4(b), cooperation would decrease the profit of at least one platform.

We next study how the market competition structure affects the value of cooperation. We show that both focal platforms will strictly benefit from cooperation if they are facing intensive competition on the demand side (which is quantified by the attractiveness of the platforms to the riders). On the other hand, if the competition is intensive on the supply side (i.e., the platforms are highly attractive to the drivers), then either  $P_1$  or  $P_2$  will be worse off with the new joint service. For simplicity, we assume that  $n = 3$  to derive Proposition 5 (i.e., there is only one additional platform  $P_3$  that competes with the partnering platforms  $P_1$  and  $P_2$ ). Furthermore, we denote  $q_{3j} = q_3 t_j$  for all rider segments  $j = 1, 2, \dots, m$ , and  $a_{3k} = a_3 \psi_k$  for all driver types  $k = 1, 2, \dots, l$ . This facilitates us to parameterize the demand-side competition intensity with  $q_3$ , and the supply-side competition intensity with  $a_3$ .

**Proposition 5.** *Assume that  $n = 3$  and that the price of the new service is bounded (i.e.,  $\tilde{p}_x \leq \bar{p}$  for some  $\bar{p} < +\infty$ ). Then, there exist a threshold  $\bar{q}_3(\bar{p})$  for  $q_3$  and a threshold  $\bar{a}_3(\bar{p})$  for  $a_3$  such that*

1. If  $q_3 > \bar{q}_3(\bar{p})$ , then  $\tilde{\pi}_i(\tilde{p}^*, \tilde{w}^*) > \pi_i(p^*, w^*)$  for  $i = 1, 2$  under some properly chosen  $(\tilde{p}_x, \gamma)$ .
2. If  $a_3 > \bar{a}_3(\bar{p})$ , then either  $\tilde{\pi}_1(\tilde{p}^*, \tilde{w}^*) < \pi_1(p^*, w^*)$  or  $\tilde{\pi}_2(\tilde{p}^*, \tilde{w}^*) < \pi_2(p^*, w^*)$  under any  $(\tilde{p}_x, \gamma)$ .

Proposition 5 shows that, when the price of the new service is bounded, the market competition intensity plays a critical role in the impact of coopetition on the focal platforms' profits. Specifically, if the market competition on the demand side is intensive (i.e.,  $q_3 > \bar{q}_3(\bar{p})$ ), then the focal platforms  $P_1$  and  $P_2$  can design a profit sharing contract (by setting  $\tilde{p}_x$  and  $\gamma$ ) that will make the coopetition partnership strictly beneficial for both platforms (i.e., a Pareto improvement in both profits). In this case, introducing the new service would expand the market share of both platforms, thus increasing revenues without imposing high additional wages. However, if the market competition is intensive on the supply side, then at least one platform will be hurt by the coopetition. In this case, introducing the new service will make (at least) one of the platforms overdemand. This will in turn induce the platform(s) to increase their wage, and hence reduce the profit. This insight has also been confirmed and illustrated in our numerical study in Section 6 (Figures 3 and 4).

We next revisit the three effects induced by the coopetition on all three platforms and discuss how a well-designed profit sharing contract can help balance these effects to benefit the focal platforms.

### 5.1.1 | New market share

The new service may attract customers who would otherwise leave the market. Mathematically, the new market share effect for  $P_i$  ( $i = 1, 2$ ) can be quantified as the profit portion generated by the new service that is allocated to  $P_i$ , namely,  $\frac{\gamma_i \tilde{p}_x \tilde{d}_x^*}{\tilde{n}} = \gamma_i \tilde{p}_x \tilde{d}_x^*$ . It can be shown that, under equilibrium, the new market share effect for  $P_i$  is increasing in  $\gamma_i$  for  $i = 1, 2$ .

### 5.1.2 | Cannibalization

Introducing the new service will cannibalize demand since customers may switch from the original services to the new one. The cannibalization effect for  $P_i$  is captured by  $\tilde{p}_i^* \tilde{d}_i^* - p_i^* d_i^*$  ( $i = 1, 2, 3$ ), which is always negative (i.e., decreasing the profits from the original services) unless  $\tilde{p}_x = +\infty$ . We can show that the cannibalization effect will gradually shrink to 0 as  $\tilde{p}_x \uparrow +\infty$ , as expected.

### 5.1.3 | Wage variation

To match supply with demand in the presence of coopetition (which is the equilibrium condition), the platforms will adjust their wages. Although the new market share effect is beneficial and the cannibalization effect is harmful to the platforms, the wage variation effect may go either way. Specifically,

the wage variation for  $P_i$  amounts to  $\tilde{w}_i^* \tilde{d}_i^* + \gamma_i \tilde{w}_1^* \frac{\tilde{d}_x^*}{\tilde{n}} - w_i^* d_i^*$ . We can show that the wage variation effect shrinks to 0 as  $\tilde{p}_x \uparrow +\infty$  and is strengthened as  $\gamma_i$  increases.

To summarize, our results show that a well-designed profit sharing contract can successfully balance these effects and lead to an overall positive benefit for the focal platforms, regardless of whether the coopetition parameters  $(p_x, \gamma)$  are jointly set by both platforms or determined through bargaining. The other competing platform  $P_3$ , however, does not capture any benefit from the new market share of the joint service, but its original service gets cannibalized. As a result,  $P_3$  is always worse off in the presence of a coopetition partnership between its competitors. We next turn our attention to the impact of coopetition on riders and on drivers.

## 5.2 | Surpluses of riders and drivers

We investigate the impact of coopetition on riders and drivers. Note that the surpluses of riders and drivers are not (explicitly) dependent on the profit-sharing parameter  $\gamma$ . We use  $RS$  to denote the expected rider surplus of the benchmark setting (i.e., without coopetition):

$$RS = \sum_{j=1}^m \frac{\Lambda_j}{\kappa_j} \log \left( 1 + \sum_{i=1}^n \exp(\nu_j + \min\{1, s_i/d_i\}[q_{ij} - \kappa_j p_i - \nu_j]) \right). \quad (25)$$

Analogously, we let  $\tilde{RS}$  denote the expected rider surplus after introducing the new service:

$$\begin{aligned} \tilde{RS} = & \sum_{j=1}^m \frac{\Lambda_j}{\kappa_j} \log \left( 1 + \exp[\nu_j + \min\{1, \tilde{s}_x \tilde{n}/\tilde{d}_x\}] \right. \\ & \times (q_{xj} - \kappa_j \tilde{p}_x - \nu_j) + \sum_{i=1}^n \\ & \left. \times \exp[\nu_j + \min\{1, \tilde{s}_i/\tilde{\lambda}_i\} (q_{ij} - \kappa_j \tilde{p}_i - \nu_j)] \right). \quad (26) \end{aligned}$$

For more details on consumer surplus under MNL-type models and on the derivation of the above expressions, see, for example, chapter 3.5 of Train (2009). We use  $\tilde{RS}^*$  and  $RS^*$  to denote the equilibrium rider surplus with and without coopetition, respectively.

**Proposition 6.** For any  $(\tilde{p}_x, \gamma)$ ,  $\tilde{RS}^* > RS^*$ .

Proposition 6 shows that introducing the new service will increase the expected rider surplus, regardless of the price of the new service and of the profit-sharing parameter. This result is expected given that riders can now enjoy an additional alternative for service.

We next examine the impact of cooperation on drivers, which appears to be more subtle. Since  $P_1$  and  $P_2$  have separate pools of drivers, we need to evaluate the effect of cooperation separately. Let  $DS_i$  denote the surplus of  $P_i$ 's drivers before the cooperation partnership ( $i = 1, 2, \dots, n$ ):

$$DS_i = \sum_{k=1}^l \frac{\Gamma_k}{\eta_k} \log(1 + \exp[\omega_k + \min\{1, d_i/s_i\}(a_{ik} + \eta_k w_i - \omega_k)]), \quad i = 1, 2, \dots, n. \quad (27)$$

Analogously, the surplus of  $P_i$ 's drivers with cooperation is given by

$$\tilde{D}S_i = \sum_{k=1}^l \frac{\Gamma_k}{\eta_k} \log(1 + \exp[\omega_k + \min\{1, \tilde{\lambda}_i/\tilde{s}_i\}(a_{ik} + \eta_k \tilde{w}_i - \omega_k)]), \quad i = 1, 2, \dots, n. \quad (28)$$

Finally,  $\tilde{d}S_i^*$  and  $DS_i^*$  denote the equilibrium surplus of  $P_i$ 's drivers with and without cooperation, respectively.

**Proposition 7.** For any  $(\tilde{p}_x, \gamma)$ , the following holds:

1. There exists a threshold  $\tilde{n}_d > 1$  such that  $\tilde{D}S_1^* > DS_1^*$  if and only if  $\tilde{n} < \tilde{n}_d$ .
2.  $\tilde{D}S_i^* < DS_i^*$  for all  $i = 2, 3, \dots, n$ .

As shown in Proposition 7,  $P_1$ 's drivers may not necessarily benefit from cooperation. When the average number of riders per trip for the new service is not too high (i.e.,  $\tilde{n} < \tilde{n}_d$ ), there exist profit-sharing contracts that will strictly benefit  $P_1$ 's drivers. Indeed, when  $\tilde{n}$  is small, the platform needs to increase its wage to attract additional  $P_1$ 's drivers to satisfy the demand for the new service. When  $\tilde{n}$  is large, however,  $P_1$ 's drivers will be worse off in the presence of cooperation. In this case, fewer drivers are needed, so that the platform can reduce its wage. This finding explains partially why several cooperation partnerships either have no carpooling option for the new service (i.e.,  $\tilde{n} = 1$ ) or impose a restriction on the number of riders per trip. For example, in the case of Curb and Via, the platforms imposed a limit of at most two riders who can share a ride for the new taxi-sharing service (i.e.,  $\tilde{n} \leq 2$ ). Note that when  $\tilde{n} = 1$ ,  $P_1$ 's drivers will always benefit from cooperation. Proposition 7 also shows that introducing the new service will always decrease the surplus of the drivers from the platforms that do not offer the new joint service (i.e.,  $P_2, P_3, \dots, P_n$ ). This follows from the fact that the drivers from any platform except  $P_1$  are directly affected by the market share reduction ( $\tilde{s}_i^* < s_i^*$  for  $i \neq 1$ ) induced by the cannibalization effect.

We next propose a simple and realistic way to address the issue that some drivers working for  $P_1$  and  $P_2$  may be hurt by cooperation. In particular, the platforms  $P_1$  and  $P_2$  can reallocate some of their profit gains to their drivers. In practice, the incentives can be provided to the drivers through promotions,

bonuses, or other monetary compensations. For example, the platform Grab started subsidizing its trip fares on June 19, 2018, to boost driver earnings.<sup>11</sup> In fact, bonuses are widely used in practice as a competitive lever in two-sided platforms (see, e.g., Allon et al., 2018; Chen et al., 2020). We denote the total surplus (i.e., platform and drivers) of  $P_i$  with and without cooperation as  $\tilde{\pi}_i + \tilde{D}S_i$  and  $\pi_i + DS_i$ , respectively. We next show that the platforms can reach an agreement on  $(\tilde{p}_x, \gamma)$  that will guarantee a strict total surplus gain for each platform.

**Proposition 8.** For any  $\tilde{n}$ , there exist  $(\tilde{p}_x, \gamma)$  such that under equilibrium,  $\tilde{\pi}_i^* + \tilde{D}S_i^* > \pi_i^* + DS_i^*$  ( $i = 1, 2$ ). However, for any  $(\tilde{p}_x, \gamma)$ ,  $\tilde{\pi}_i^* + \tilde{D}S_i^* < \pi_i^* + DS_i^*$  ( $i = 3, 4, \dots, n$ ).

Proposition 8 shows that under a well-designed profit sharing contract, the cooperation partnership between  $P_1$  and  $P_2$  can strictly increase the total surplus (i.e., the sum of the platform's profit and the driver surplus) of each platform. Consequently, if each platform redistributes a portion of its profit gain to its drivers (e.g., by offering bonuses), then both platforms and all their drivers will be better off. This will also result in more drivers joining each platform. Ultimately, the platforms can design a profit sharing contract  $(\tilde{p}_x, \gamma)$  that will benefit all the stakeholders of  $P_1$  and  $P_2$  (i.e., both platforms, riders, and drivers). We note that since both the platform's profit and the driver surplus for  $P_i$  ( $i = 3, 4, \dots, n$ ) are lower in the presence of the cooperation partnership between  $P_1$  and  $P_2$ , a similar strategy to redistribute the total surplus to its drivers cannot be used by the other platforms.

## 6 | COMPUTATIONAL EXPERIMENTS

In this section, we investigate computationally how the competition intensity on either side of the market impacts the platforms' equilibrium profits under competition, as well as the benefit of cooperation. As in Proposition 5, we consider a market composed of three competing platforms. We parameterize the competition intensity faced by the focal platforms (i.e.,  $P_1$  and  $P_2$ ) on the demand side using the quality of the third platform  $P_3$  (i.e.,  $q_3$ ). Similarly, we parameterize the competition intensity on the supply side using the attractiveness of  $P_3$  (i.e.,  $a_3$ ). By conducting a sensitivity analysis with respect to  $q_3$  and  $a_3$ , we can isolate the effect of demand- and supply-side competition intensities on the equilibrium profit as well as on the profit improvement from cooperation for the focal platforms.

Our numerical experiments cover a wide range of model primitives, hence ensuring that our results and insights are robust. Specifically, we vary the platform quality parameters  $q_1$  and  $q_2$  in the set  $\{0.5, 1, 1.5\}$ , and the platform attractiveness parameters  $a_1$  and  $a_2$  in  $\{-1.5, -1, -0.5\}$ . Thus, the quality and attractiveness of  $P_1$  may be either higher or lower than  $P_2$ . We normalize the total mass of workers to  $\Gamma = 1$  and vary the total mass of customers  $\Lambda$  in  $\{0.5, 1, 1.5, 2\}$ . The quality of the new joint service is given by  $q_x = (q_1 + q_2)/2$

for each instance, whereas the average number of customers per service for the new service under cooperation,  $\bar{n}$ , takes a value in  $\{1.2, 1.5, 1.8\}$ . Following the analysis in Propositions 4 and 5, we set the upper bound for the price of the new service as  $\bar{p} = 3$ . Therefore, there are a total of  $3 \times 3 \times 3 \times 3 \times 4 \times 3 = 972$  parameter combinations examined in our numerical experiments.

We base our numerical experiments on a setting with two customer segments and two worker types. For the first customer segment, their platform quality sensitivity is  $t_1 = 1$  (i.e., the perceived quality of the first customer segment for  $P_i$  is  $q_{i1} = q_{it_1} = q_i$  for  $i = 1, 2, 3$ ) and their price sensitivity is  $\kappa_1 = 1$ . We set the market size of the first segment as  $\Lambda_1 = 0.25\Lambda$ , which depends on the total mass of customers  $\Lambda$ . For the second customer segment, their quality sensitivity is  $t_2 = 0.8$  (i.e., the perceived quality of the second customer segment for  $P_i$  is  $q_{i2} = q_{it_2} = 0.8q_i$  for  $i = 1, 2, 3$ ) and their price sensitivity is  $\kappa_2 = 0.75$ . The market size of the second segment is  $\Lambda_2 = \Lambda - \Lambda_1 = 0.75\Lambda$ . For the first worker type, their platform attractiveness sensitivity is  $\psi_1 = 1$  (i.e., the perceived attractiveness of the first worker type for  $P_i$  is  $a_{i1} = a_i\psi_1 = a_i$  for  $i = 1, 2, 3$ ) and their wage sensitivity is  $\eta_1 = 1$ . The total supply of the first worker type is  $\Gamma_1 = 0.375\Gamma = 0.375$ . For the second worker type, their platform attractiveness sensitivity is  $\psi_2 = 0.85$  (i.e., the perceived attractiveness of the second worker type for  $P_i$  is  $a_{i2} = a_i\psi_2 = 0.85a_i$  for  $i = 1, 2, 3$ ) and their wage sensitivity is  $\eta_2 = 1.3$ . The total mass of the second worker type is  $\Gamma_2 = \Gamma - \Gamma_1 = 0.625$ . We highlight that the set of parameters we consider in this section encompasses a wide range of realistic instances and hence, it allows us to quantify the practical impact of the cooperation partnership.

For all problem instances, we first evaluate the profits of  $P_1$  and  $P_2$  under equilibrium without the cooperation partnership. For the setting with cooperation, we assume that the price of the new service is set to maximize the total profit of  $P_1$  and  $P_2$  (i.e.,  $\bar{p}_x^*$ ). Without loss of generality, we assume that  $P_1$  and  $P_2$  equally share the profit of the new joint service (i.e.,  $\gamma = 0.5$ ).

Our first set of results quantify the impact of competition intensities from both sides of the market on the equilibrium profits of the focal platforms ( $P_1$  and  $P_2$ ). Specifically, Figure 1a and b presents the box plots of the equilibrium profits of  $P_1$  and  $P_2$  under different values of  $q_3$  for all 972 problem instances. It is clear from Figure 1 that when the competition on the demand side becomes more intense, the equilibrium profits of  $P_1$  and  $P_2$  decrease. In fact, for each problem instance, the profit of both  $P_1$  and  $P_2$  decrease with  $q_3$ . A similar insight also applies to the supply-side competition. Figures 2a and 1b illustrate the box plots of the equilibrium profits of  $P_1$  and  $P_2$  under different worker attractions of their competing platform  $P_3$ . As for demand-side competition, we find that a more intensive competition on the supply side will decrease the equilibrium profits of both  $P_1$  and  $P_2$ .

We next examine the benefit of cooperation for the focal platforms. Our numerical results complement our theoretic-

cal analysis (Proposition 5) and confirm the finding that the cooperation benefits the focal platforms under intensive competition on the demand side, but may be detrimental when the competition on the supply side is intensive. Figure 3 (respectively, Figure 4) shows the box plots of the profit improvements for  $P_1$  and  $P_2$  under different competition intensities on the demand side (respectively, supply side). Comparing Figures 3 and 4 reveals a contrasting effect of the competition intensity on both sides of the market. More precisely, cooperation always improves the profits of the focal platforms regardless of the competition intensity on the demand side, whereas cooperation may be detrimental to the platforms when the competition on the supply side is too intense. As discussed after Proposition 5, when the competition on the demand side is intensive, introducing a new joint service will help the focal platforms expand their market shares. In this case, the new market share can be covered by  $P_1$ 's workers without offering a high additional wage. Ultimately, the cooperation partnership will benefit both platforms. When the competition on the supply side is intensive, however,  $P_1$  has to offer a high additional wage to attract enough workers to satisfy the additional demand. If the price of the new service is upper bounded, the cooperation partnership may lead to a negative profit margin, thus making both platforms worse-off. In closing, we remark that the above insight holds when the price of the new joint service is upper bounded by  $\bar{p} < +\infty$ . Otherwise, as we have shown in Theorem 4, the focal platforms that are engaged in cooperation can always set the price of the new service high enough to avoid the negative effect of cooperation.

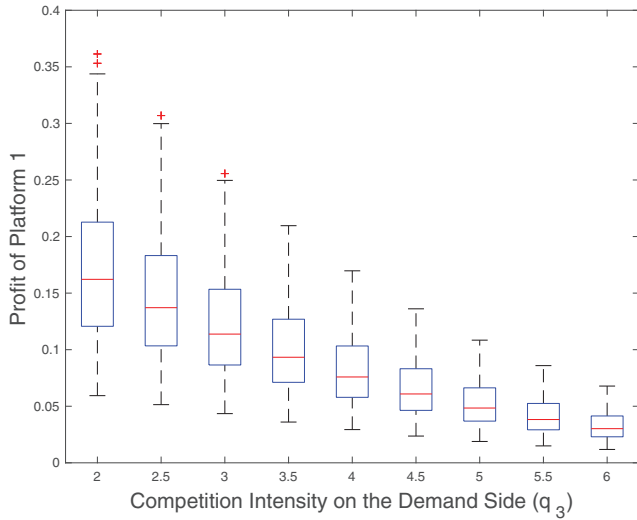
## 7 | EXTENSION: ENDOGENOUS WAITING TIMES

We extend our model by explicitly considering a key feature of ride-sharing platforms: the waiting time experienced by riders. We assume that the expected waiting time depends on the number of available drivers. Specifically, the expected waiting time for  $P_i$  (without cooperation) is given by

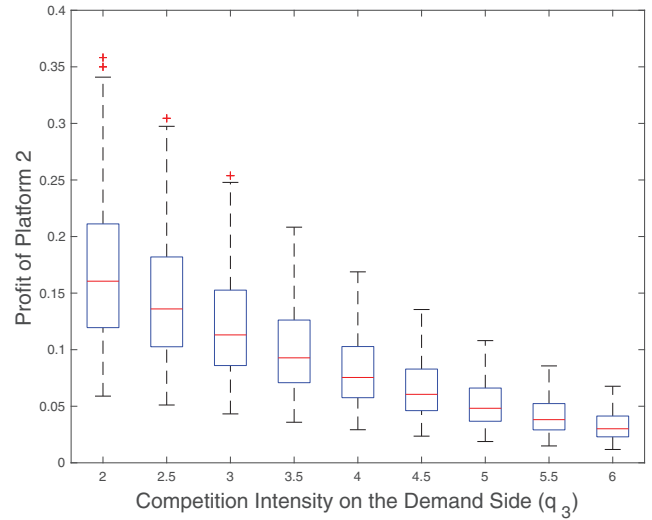
$$T_i = \kappa(s_i - d_i), \quad (29)$$

where  $s_i - d_i$  is the number of available (or idle) drivers and  $\kappa(\cdot) > 0$  is a strictly decreasing and convex function on  $(0, +\infty)$  with  $\lim_{x \downarrow 0} \kappa(x) = +\infty$  and  $\lim_{x \uparrow +\infty} \kappa(x) = 0$ .<sup>12</sup> Note that this includes as special cases the  $M/M/k$  queuing system and the situation where idle drivers are uniformly distributed on a circle so that the expected travel time to pick up a new rider is  $c/(s_i - d_i)$  for some constant  $c > 0$ . Similar modeling approaches have been used in the literature on ride-sharing platforms (see, e.g., Bai et al., 2019; Benjaafar et al., 2021; Nikzad, 2017).

Following a similar approach as Cachon and Harker (2002), we assume that the platforms compete on the

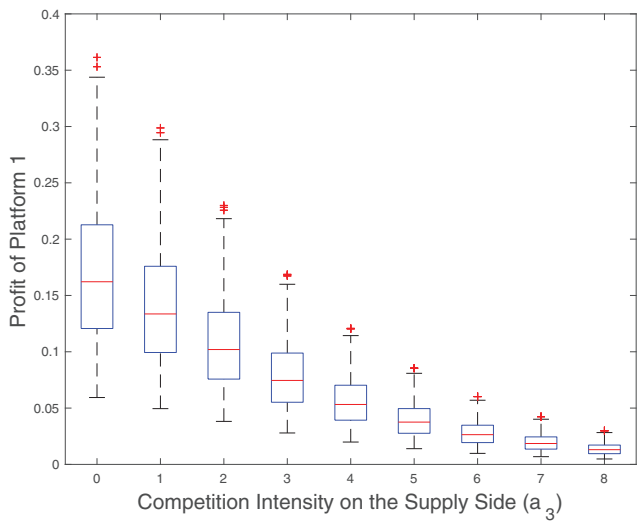


(a) Equilibrium profit of  $P_1$  without competition

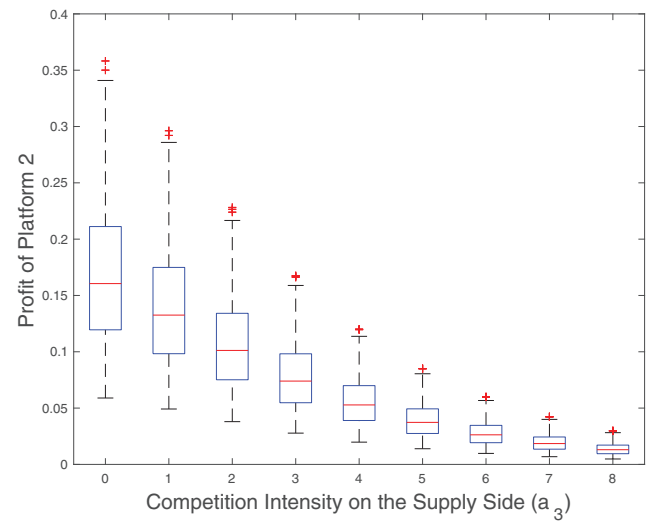


(b) Equilibrium profit of  $P_2$  without competition

**FIGURE 1** Impact of demand-side competition intensity on equilibrium profits ( $a_3 = 0$ ) [Color figure can be viewed at wileyonlinelibrary.com]



(a) Equilibrium profit of  $P_1$  without competition



(b) Equilibrium profit of  $P_2$  without competition

**FIGURE 2** Impact of supply-side competition intensity on equilibrium profits ( $q_3 = 2$ ) [Color figure can be viewed at wileyonlinelibrary.com]

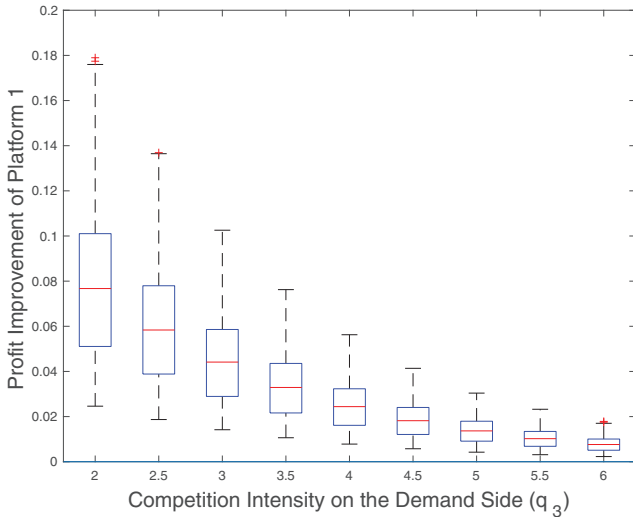
total price,  $f_i = p_i + g_i$ , where  $g_i$  is the operational performance of  $P_i$ , which we define as  $g_i = T_i$ . Hence, the actual price charged by  $P_i$  to its riders is  $p_i = f_i - g_i = f_i - \kappa(s_i - d_i)$ .

Since  $\kappa(\cdot)$  satisfies  $\lim_{x \downarrow 0} \kappa(x) = +\infty$ , we must have  $s_i > d_i$  under equilibrium, that is,  $\min\{s_i, d_i\} = d_i$ . Thus, the profit earned by  $P_i$  when waiting times are endogenous is

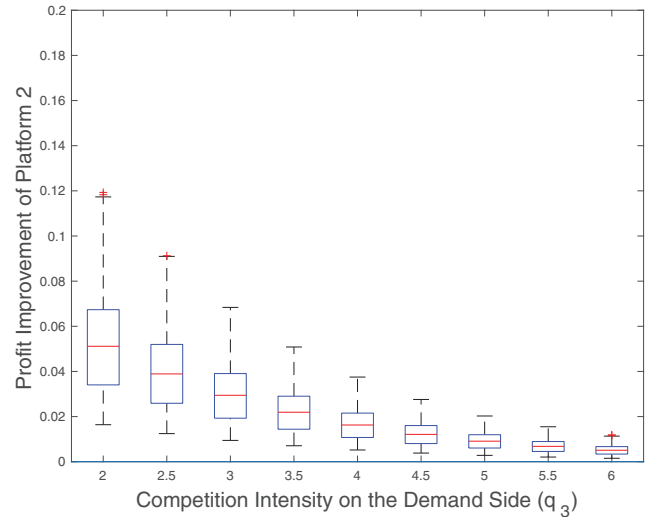
$$\pi_i^e(f, w) = [f_i - \kappa(s_i - d_i) - w_i]d_i, \quad \text{for } i = 1, 2, \dots, n, \quad (30)$$

where

$$\begin{aligned} d_i &= \sum_{j=1}^m \frac{\Lambda_j \exp[v_j + \min\{1, s_i/d_i\}(q_i - \kappa f_i - v_j)]}{1 + \sum_{j'=1}^n \exp[v_{j'} + \min\{1, s_{j'}/d_{j'}\}(q_{j'} - \kappa f_{j'} - v_{j'})]} \\ &= \sum_{j=1}^m \frac{\Lambda_j \exp(q_i - \kappa f_i)}{1 + \sum_{j'=1}^n \exp(q_{j'} - \kappa f_{j'})}, \\ s_i &= \sum_{k=1}^l \frac{\Gamma_k \exp[\omega_k + \min\{1, d_i/s_i\}(a_{ik} + \eta_k w_i - \omega_k)]}{1 + \sum_{j'=1}^n \exp[\omega_k + \min\{1, d_{j'}/s_{j'}\}(a_{j'k} + \eta_k w_{j'} - \omega_k)]}, \end{aligned}$$

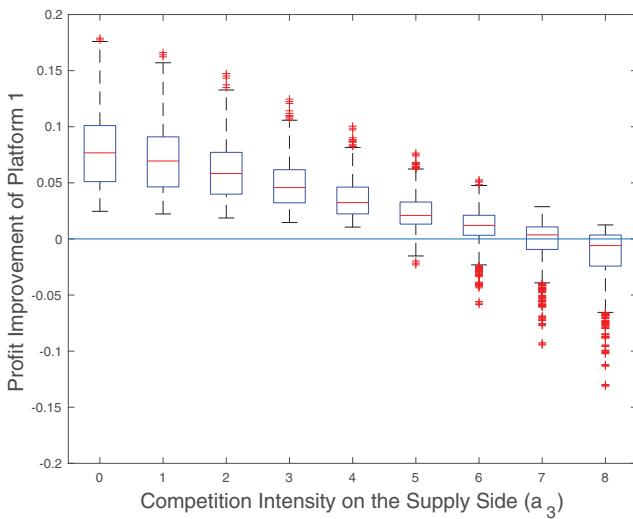


(a) Profit improvement of competition for  $P_1$

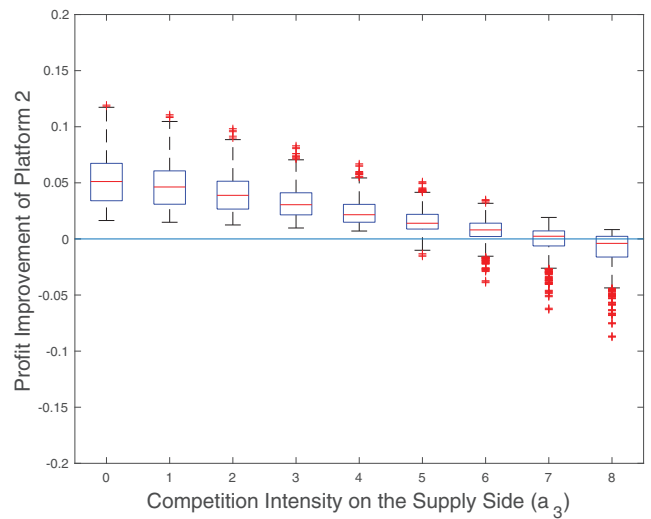


(b) Profit improvement of competition for  $P_2$

**FIGURE 3** Impact of demand-side competition intensity on the profit improvement of competition ( $a_3 = 0$ ) [Color figure can be viewed at wileyonlinelibrary.com]



(a) Profit improvement of competition for  $P_1$



(b) Profit improvement of competition for  $P_2$

**FIGURE 4** Impact of supply-side competition intensity on equilibrium profit ( $q_3 = 2$ ) [Color figure can be viewed at wileyonlinelibrary.com]

and  $(s_i, d_i)$  is such that  $s_i > d_i$ . An equilibrium  $(f^{e*}, w^{e*})$  should then satisfy

$$(f_i^{e*}, w_i^{e*}) \in \arg \max_{(f_i, w_i)} \pi_i^e(f_i, w_i, f_{-i}^{e*}, w_{-i}^{e*}). \quad (31)$$

We next extend Theorem 1 to the setting with endogenous waiting times.

**Theorem 5.** *The two-sided competition game with endogenous waiting times admits a unique equilibrium  $(f^{e*}, w^{e*})$  that can be computed using a tâtonnement scheme.*

As in the original setting, we can study the impact of competition for the model with endogenous waiting times. We denote the total prices of the original services offered by  $P_1$  and  $P_2$  after introducing the new service by  $\tilde{f}_1$  and  $\tilde{f}_2$ , respectively. We also denote by  $\tilde{f}_x$  the total price of the new service. Under competition,  $P_i$ 's demand ( $i = 1, 2$ ) is  $\tilde{d}_i = \sum_{j=1}^m \tilde{d}_{ij}^j$ , where (since  $\tilde{d}_i < \tilde{s}_i$  for each  $i$ )

$$\tilde{d}_{ij}^j = \frac{\Lambda_j \exp(q_i - \kappa_j \tilde{f}_i)}{1 + \sum_{i'=1}^n \exp(q_{i'} - \kappa_j p_{i'}) + \exp(q_x - \kappa_j \tilde{f}_x)}. \quad (32)$$



Recall that the total number of requests for  $P_1$  and  $P_2$  drivers are  $\tilde{\lambda}_1 = \tilde{d}_1 + \tilde{d}_x/\tilde{n}$  and  $\tilde{\lambda}_2 = \tilde{d}_2$ , respectively. Since the number of idle drivers in  $P_i$  is  $\tilde{s}_i - \tilde{\lambda}_i > 0$ , the expected waiting time on this platform is  $\kappa(\tilde{s}_i - \tilde{\lambda}_i)$ . Consequently, the actual price charged by  $P_i$  for its original service under cooperation is  $\tilde{p}_i = \tilde{f}_i - \kappa(\tilde{s}_i - \tilde{\lambda}_i)$ . We note that the expected waiting time of a customer who requests the new service is the same as in the original  $P_1$ 's service, that is,  $\kappa(\tilde{s}_1 - \tilde{\lambda}_1)$ . As before, the actual price of the new service is the difference between the full price and the expected waiting time:  $\tilde{p}_x = \tilde{f}_x - \kappa(\tilde{s}_1 - \tilde{\lambda}_1)$ . We can now write  $P_i$ 's profit as

$$\begin{aligned}\tilde{\pi}_i^e(\tilde{f}, \tilde{w}) &= (\tilde{p}_i - \tilde{w}_i)\tilde{d}_i + \gamma_i(\tilde{p}_x - \tilde{w}_1)\tilde{d}_x \\ &= [\tilde{f}_i - \kappa(\tilde{s}_i - \tilde{\lambda}_i) - \tilde{w}_i]\tilde{d}_i \\ &\quad + \gamma_i\left[\tilde{f}_x - \kappa(\tilde{s}_1 - \tilde{\lambda}_1) - \frac{\tilde{w}_1}{\tilde{n}}\right]\tilde{d}_x,\end{aligned}\quad (33)$$

where

$$\begin{aligned}\tilde{d}_i &= \sum_{j=1}^m \frac{\Lambda_j \exp(q_i - \kappa_j \tilde{f}_i)}{1 + \sum_{i'=1}^n \exp(q_{i'} - \kappa_j p_{i'}) + \exp(q_x - \kappa_j \tilde{f}_x)}, \\ \tilde{d}_x &= \sum_{j=1}^m \frac{\Lambda_j \exp(q_x - \kappa_j \tilde{f}_x)}{1 + \sum_{i'=1}^n \exp(q_{i'} - \kappa_j p_{i'}) + \exp(q_x - \kappa_j \tilde{f}_x)}, \\ \tilde{s}_i &= \sum_{k=1}^l \frac{\Gamma_k \exp[\omega_k + \min\{1, \tilde{\lambda}_i/\tilde{s}_i\}(a_{ik} + \eta_k w_i - \omega_k)]}{1 + \exp[\omega_k + \min\{1, \tilde{\lambda}_i/\tilde{s}_i\}(a_{ik} + \eta_k w_i - \omega_k)]}, \\ \tilde{\lambda}_1 &= \tilde{d}_1 + \tilde{d}_x/\tilde{n}, \tilde{\lambda}_i = \tilde{d}_i, (i \neq 2),\end{aligned}$$

and  $(\tilde{s}_i, \tilde{\lambda}_i)$  is such that  $\tilde{s}_i > \tilde{\lambda}_i$  for all  $i = 1, 2, \dots, n$ .

As in the model without cooperation, the platforms first jointly decide  $\tilde{f}_x$  and  $\gamma$ . They then engage in a competition game to maximize their profits by setting the equilibrium  $(\tilde{f}^{e*}, \tilde{w}^{e*})$ , which satisfies  $(\tilde{f}_i^{e*}, \tilde{w}_i^{e*}) \in \arg \max_{(f_i, w_i)} \tilde{\pi}_i^e(f_i, w_i, \tilde{f}_{-i}^{e*}, \tilde{w}_{-i}^{e*})$ . We can show the existence and uniqueness of equilibrium in the model under cooperation with endogenous waiting times. Furthermore, all the results of Section 5 also extend to this model (the proofs are omitted for conciseness).

## 8 | CONCLUSIONS

The ubiquity of two-sided platforms has increased significantly over the past few years. These platforms compete not only for customers but also for flexible workers. In the first part of this paper, we study the problem of competition between two-sided platforms. We propose to model this problem using an endogenous general attraction choice model that accounts for network effects across both sides of the market. In our model, the behavior of a customer or a worker depends not only on the price or wage set by the platform, but also on the strategic interactions among agents on both sides of the market. The two-sidedness nature of our setting makes the objective function nondifferentiable, and hence traditional arguments from the literature are not applicable. Instead, we

use an approach based on analyzing the best-response strategy to characterize the equilibrium. We ultimately show the existence and uniqueness of equilibrium.

Recently, several cooperation partnerships emerged in the ride-sharing industry. Examples include Curb and Via in NYC and Uber and PT Express in Indonesia. The second part of this paper is motivated by such partnerships that can be implemented via a profit sharing contract. It is not clear a priori whether the competing platforms will benefit from cooperation. We present a rigorous analysis to show that—when properly designed (e.g., using the Nash bargaining framework)—such cooperation partnerships are beneficial for both platforms, especially when the platforms are facing intensive competition on the demand side. We convey that riders and drivers can also benefit from cooperation. In summary, our results suggest that when the cooperation terms are carefully designed, it will benefit every party (both participating platforms, riders, and drivers).

This paper is among the first to propose a tractable model to study competition and partnerships in the ride-sharing industry. It allows us to draw practical insights on the impact of some recent partnerships observed in practice. Several interesting extensions are left for future research. For example, what is the long-term impact of such partnerships? Shall the platforms consider more complicated contracts such as two-part piecewise linear agreements (i.e., allowing two different profit portions depending on the scale of the new service)? A second direction for future research is to study an alternative form of cooperation, known as joint ownership of a subsidiary. For example, Uber and the Russian taxi-sharing platform Yandex.Taxi merged their businesses in Russia under a new company.<sup>13</sup> It could be interesting to compare the two different forms of cooperation.

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## ENDNOTES

- <sup>1</sup> <https://hbr.org/2016/04/the-on-demand-economy-is-growing-and-not-just-for-the-young-and-wealthy>
- <sup>2</sup> <https://docs.google.com/document/d/1QSUFsQasfjM9b9UsqBwZlpa8EgqNj6EBfWybFBSHj3o/edit>
- <sup>3</sup> <https://gocurb.com/>
- <sup>4</sup> <https://ridewithvia.com/>

- <sup>5</sup> The partnership between Curb and Via in NYC was the topic of extensive media coverage. See, for example, <https://www.nytimes.com/2017/06/06/nyregion/new-york-yellow-taxi-ride-sharing.html>, <https://techcrunch.com/2017/06/06/curb-and-via-bring-ride-sharing-to-nycs-yellow-taxis/> and <https://qz.com/999132/can-shared-rides-save-the-iconic-new-york-city-yellow-cab/>
- <sup>6</sup> <https://www.techinasia.com/go-jek-launches-blue-bird-partnership-now-on-iphone>
- <sup>7</sup> <https://thehub.lyft.com/pay-breakdown/>
- <sup>8</sup> By conducting computational tests, we find that the market equilibrium under separate pools of workers has the following properties relative to a joint pool of workers: (i) The equilibrium volume of transactions and profit of each platform are higher, (ii) the equilibrium price of each platform is lower, and (iii) the equilibrium wage of each platform is lower. These properties are due to the softened competition on the supply side and the cross-side network effects (the computational results are omitted for conciseness).
- <sup>9</sup> For analytical tractability and to isolate the effect of interest (i.e., studying the impact of competition and cooperation in two-sided platforms), we do not consider the spatial heterogeneity of riders and drivers. This extension is an interesting avenue for future research.
- <sup>10</sup> <https://www.businessinsider.com/uber-lyft-fares-price-driver-shortage-travel-ride-hailing-app-2021-6>.
- <sup>11</sup> <https://www.rappler.com/business/205322-grab-philippines-drivers-subsidy-fares-earnings>
- <sup>12</sup> The expected waiting time is defined only when  $s_i > d_i$ , as otherwise, the system is not stable.
- <sup>13</sup> <https://www.nytimes.com/2017/07/13/technology/uber-russia-yandex.html>

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