

Platform Monetization and Unintended Consequences on its Ecosystem: Evidence from a Two-sided Market for Books

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Abstract

Digital platforms have significantly changed the operation of markets for many products. They sustain network effects for positive feedback loop and increase information dissemination to both producers and consumers. How could a platform monetize the value it created without damaging the health of its ecosystem? In this study, we examine the possible intended and unintended consequences of monetizing certain feature that the platform offers to its user by leveraging a natural experiment on Goodreads - a digital platform for books. Goodreads enacted a policy change in January 2018, where it monetizes its main marketing tool for book discovery: the Giveaways program. We collect large-scale data on the two-sided market of Giveaways program to analyze both supply side (i.e. authors and publishers) and demand side (i.e. consumers) responses to the monetization. We find that the mix of authors and publishers became skewed in favour of larger publishers and more established authors after monetization. As a result, the diversity of book genres decrease: genres that are popular further gain market share at the expense of niche genres. Finally, on the demand side, we find that the mismatch due to promotional effects are amplified after monetization: books are adopted more and hence attract more ratings, but these ratings are more negative on average. Overall, our findings highlight a more subtle and complex view of evaluating monetization and have important managerial implications for digital platforms.

Keywords: *Digital Platform; Monetization; Two-sided Market*

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