

The Value of Market Intelligence: Evidence from Online Lipstick Sellers

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Abstract

We study the impact of market intelligence data on online seller performance, product choice and market outcomes. To do so, we exploit a unique setting in which an e-commerce platform provides its sellers with a market intelligence tool named “Market Insight”. Our main findings are four-fold. First, Market Insight helps online sellers choose better products and increases their sales. An exogenous policy change of Market Insight that gave some sellers more information led to 40% higher revenue among treated sellers, raised their rate of introducing new products by 20%, and, notably, resulted in them selling more profitable products. Second, Market Insight is valuable for consumers and for the platform; it increases consumer welfare and total sales by 0.8% and 8%, respectively. Third, platform sales and consumer welfare are not monotonically increasing in the amount of information provided; when sellers are more aware of market trends, they drop unprofitable products, which could reduce product variety and harm consumers and the platform. Finally, we solve the optimal design of Market Insight that maximizes platform sales, and then compare it to the socially optimal design. They are very close to each other, showing in this case, the platform acts like a benevolent social planner.

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