ABSTRACT

Advertising Strategies in an Online Marketplace

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Online marketplaces are increasingly adopting innovative and disruptive business models such as using paid advertising as a major revenue source. We study the effectiveness of two popular advertising tools, sponsored search and social media endorsement, from online sellers’ perspective. We find evidence that both sponsored search and social media endorsement can significantly increase traffic and sales for sellers, with sponsored search having a larger effect than social endorsement. In addition, sponsored search is more effective in increasing traffic for sellers with lower reputation scores. Moreover, sponsored search works more effectively in attracting traffic and generating sales for sellers with more repeat customers. Further, we find evidence that social media endorsement has a significant effect in generating traffic, but not sales, for sellers with less repeat customers. Our study provides important managerial implications to e-commerce platform organizers as well as sellers participating in e-commerce marketplaces.