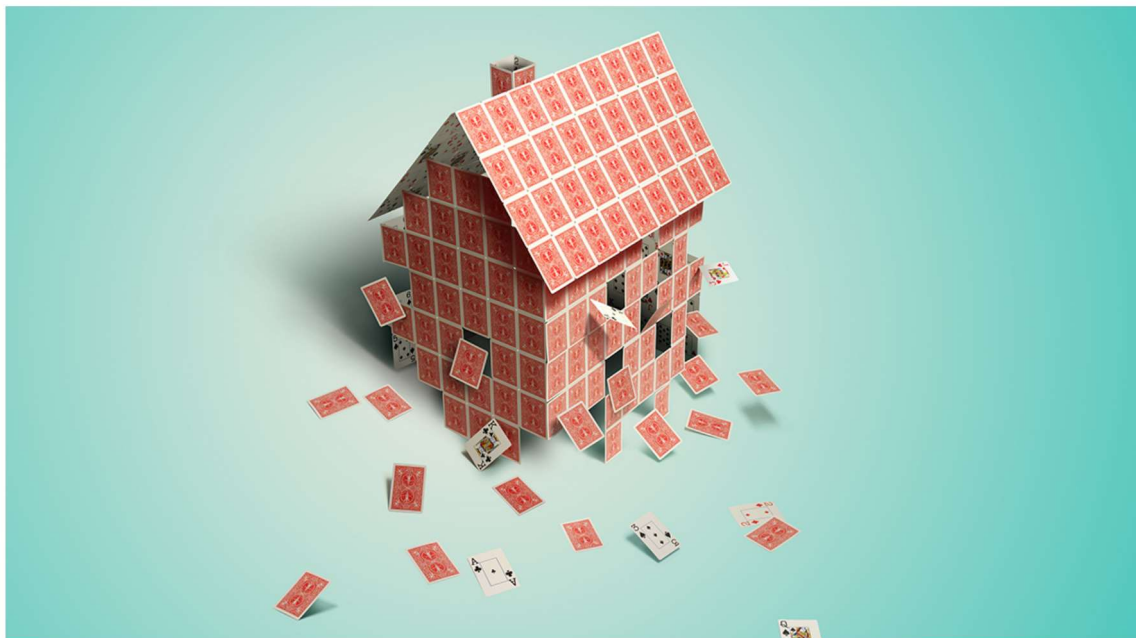


A Study of More Than 250 Platforms Reveals Why Most Fail

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Summary. Platforms have become one of the most important business models of the 21st century. The problem is that platforms fail at an alarming rate. By identifying the sources of failure, managers can avoid the obvious mistakes. To understand why and how... [**more**](#)

Platforms have become one of the most important business models of the 21st century. In our newly-published book, we divide all platforms into two types: *Innovation platforms* enable third-party firms to add complementary products and services to a core product or technology. Prominent examples include Google Android and Apple iPhone operating systems as well as Amazon

Web Services. The other type, *transaction platforms*, enable the exchange of information, goods, or services. Examples include Amazon Marketplace, Airbnb, or Uber.

Five of the six most valuable firms in the world are built around these types of platforms. In our analysis of data going back 20 years, we also identified 43 publicly-listed platform companies in the Forbes Global 2000. These platforms generated the same level of annual revenues (about \$4.5 billion) as their non-platform counterparts, but used half the number of employees. They also had twice the operating profits and much higher market values and growth rates.

However, creating a successful platform business is not so easy. What we call “platformania” has resembled a land grab, where companies feel they have to be the first mover to secure a new territory, exploit network effects, and raise barriers to entry. Uber’s frenetic efforts to conquer every city in the world and Airbnb’s desire to enable room sharing on a global scale are the two most obvious recent examples.

The problem is that platforms fail at an alarming rate. By identifying the sources of failure, managers can avoid the obvious mistakes.

To understand why and how platforms fail, we tried to identify as many failed American platforms as possible over the last twenty years that competed with the 43 successful platforms. The 209 failures allowed us to extract some general lessons about why platforms struggle.

The average life of the failed platforms is only 4.9 years. Many gig economy platforms collapsed within 2-3 years because they did not have enough users or funding. Given the need for deep pockets, it should not be surprising that standalone firms tended to have shorter lives than those that were acquired or launched as part of a larger firm or consortium of firms. Standalone firms had an average duration of only 3.7 years. Acquired firms, which

generally had stronger balance sheets, were capable of fighting longer (averaged 7.4 years), while firms that were part of larger entities were just average in length of survival.

We grouped the most common mistakes into four categories: (1) mispricing on one side of the market, (2) failure to develop trust with users and partners, (3) prematurely dismissing the competition, and (4) entering too late.

Researchers have extensively studied pricing decisions, yet managers still get them wrong. A platform often requires underwriting one side of the market to encourage the other side to participate. But knowing which side should get charged and which side should get subsidized may be the single most important strategic decision for any platform.

Firms may have to throw commonsense pricing out the window when two or more platforms are racing to create a network effect. For example, Sidecar pioneered the peer-to-peer ridesharing model before Uber and Lyft, but it never became a household name. It deliberately pursued innovation and a conservative slow-growth strategy in order to be financially responsible. The fatal flaw was not recognizing the importance of attracting both sides of the platform. Sidecar also raised much less venture capital than Uber and Lyft, and was unable to attract enough drivers and riders to survive much beyond the startup phase. Of course, Uber and Lyft have lost billions of dollars and, even though both have now gone public, they may never generate a profit or survive as viable businesses.

Getting the price right is necessary in any platform, though it is not sufficient for success. Platforms also require two or more parties, who may or may not know each other, to connect. Therefore, *building trust* is essential; this is typically done through rating systems, payment mechanisms, or insurance. In the absence of trust, the players on the platform have to make a leap of faith. One of the biggest failures in this category was eBay in China. eBay was the first mover, with a dominant share in China in the early 2000s. But Alibaba took over the market. The

biggest source of the failure, confided the CEO of eBay China in an interview, was that “eBay’s single biggest problem... was trust.” eBay relied on PayPal, which was designed as a payment system, much like a bank. For Chinese consumers unfamiliar with ecommerce, that was not enough. Alibaba’s Alipay used an escrow model (which did not release payment until the consumer was satisfied). This neutralized eBay’s early mover advantage, and Alibaba quickly captured the bulk of the market.

A common misconception about platforms is that once the market tips in your favor, you will be the long-run winner. Often this is true. But there is a better way to think about tipped markets: *it is the winner’s opportunity to lose*. Hubris, along with overconfidence and arrogance, to name a few misdirected traits, can produce spectacular failures. For example, browsers were a classic innovation platform: web masters had to optimize their websites to exploit key features in a browser. When Microsoft’s Internet Explorer captured close to 95% of the market by 2004, pundits proclaimed the browser wars were over, the market had tipped, and Microsoft had won. It would require a monumental screw up for Microsoft to lose, but this is exactly what happened. It took Microsoft almost a decade to lose its leading position: extremely poor product execution between 2004 and 2008 enabled the emergence of Firefox; and then inferior product innovation between 2008 and 2015 opened the door to Google’s Chrome.

Perhaps the most classic platform mistake is *mistiming* the market. The smartphone market illustrates how great products plus all the resources in the world can still lead to failure when *entry is too late*. Here again, Microsoft was the poster child for failure. Despite billions and billions of dollars of investments over a decade, Microsoft’s Windows phone died. Entering the business five years after Apple, and three years after Google, meant that Microsoft missed the platform window and never recovered.

Here are the key takeaways from our research into why platforms fail:

First, since many things can go wrong in a platform market, managers and entrepreneurs need to make concerted efforts to *learn from failures*. Despite the huge upside opportunities that platforms offered, pursuing a platform strategy does not necessarily improve the odds of success as a business.

Second, since platforms are ultimately driven by network effects, *getting the prices right and identifying which sides to subsidize remain the biggest challenges*. Uber's great insight (and Sidecar's great failure) was recognizing the power of network effects to drive volume by dramatically lowering prices and costs on *both* sides of the market. While Uber is still struggling to make the economics work (and it may yet fail as a business), Google, Facebook, eBay, Amazon, Alibaba, Tencent, and many other platforms started by aggressively subsidizing at least one side of the market and made the transition to high profits.

Third, it is important to *put trust front and center*. Asking customers or suppliers to take a leap of faith, without history and without prior connections to the other side of a market, is usually asking too much of any platform business. eBay's failure to establish mechanisms for building trust in China, like Alibaba did with Taobao, is an error that platform managers can and should avoid.

Fourth, although it may sound obvious, *timing is crucial*. Being early is preferable, but no guarantee of success: remember Sidecar. Being late can be deadly. Microsoft's catastrophic delay in building a competitor to iOS and Android is a case in point.

Finally, *hubris can lead to disaster*. Dismissing the competition, even when you have a formidable lead, is inexcusable. If you cannot stay competitive, no market position is safe. Microsoft's terrible execution with Internet Explorer is an obvious example.

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