



Multisided platforms

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Plan for today's lecture

- Platforms (definition, types, distinctions)
- Network effects
- Important drivers of the platform economy:
 - Multihoming
 - Niche players
 - Entry barriers
 - Network structure
 - Disintermediation

Multisided platforms



What names come to mind when we hear the words “digital platform”?



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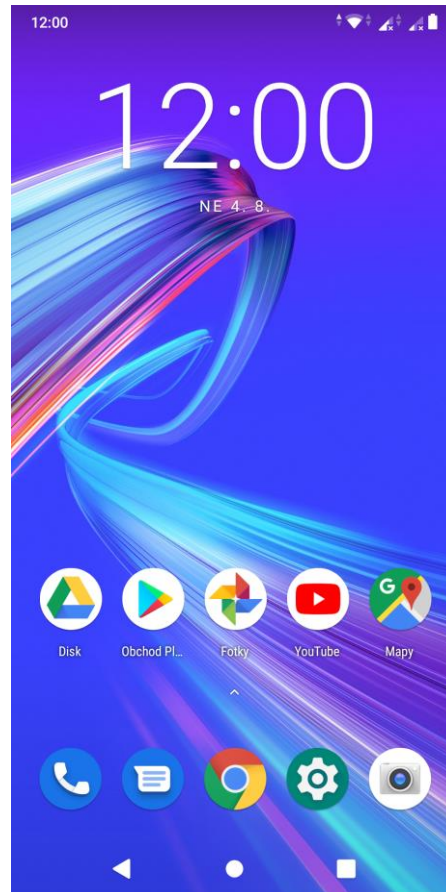
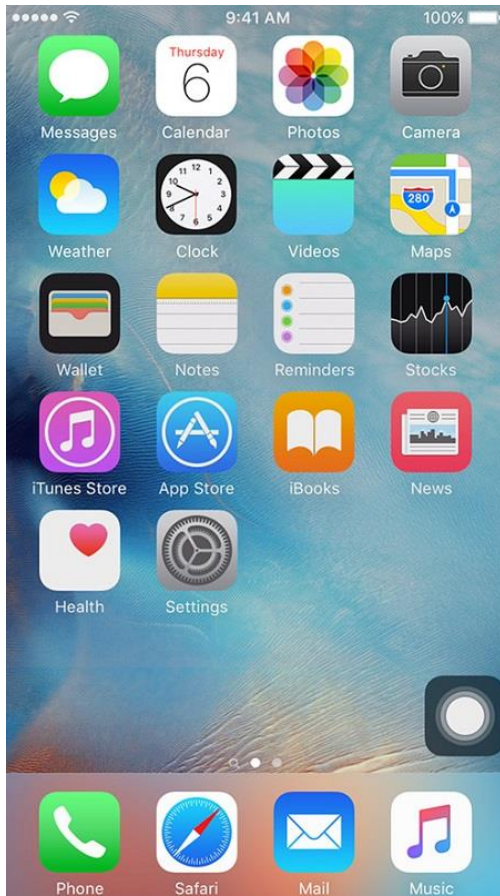


Økonomi



Feriehus & hytter

iOS, Android, Windows OS...



Platform ecosystems

- « [Multisided] platforms connect individuals and organizations so they can innovate or interact in ways not otherwise possible with potential for nonlinear increases in utility and value» (Cusumano et al. 2019: p.13)
- Multisided platforms can be regarded as ecosystems comprising multiple actor groups (individuals, organizations)
 - > when we say platforms, we mean «multisided platforms» or «platform ecosystems»

Side

- “Side” as a distinct group of stakeholders that the platform brings together. Each group of participants, i.e. side are customers of the platform in some meaningful way.

What are the sides of this platform?

Facebook

What are the sides of this platform?

Airbnb

What are the sides of this platform?

Android

What are the sides of this platform?

PlayStation and Xbox

What are the sides of this platform?

PayPal, Vipps

Are platforms a truly new idea?

- Are there any examples from the “pre-digital” world?

What about...

Shopping malls?



What about...

Job fairs?



What about...

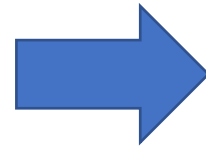
- Magazines?



Fundamental principles are the same

Many “pre-digital” lessons can be applied to digital platforms

- Platform thinking
- Platform revolution
- Platform strategy
- Platform business
- ...

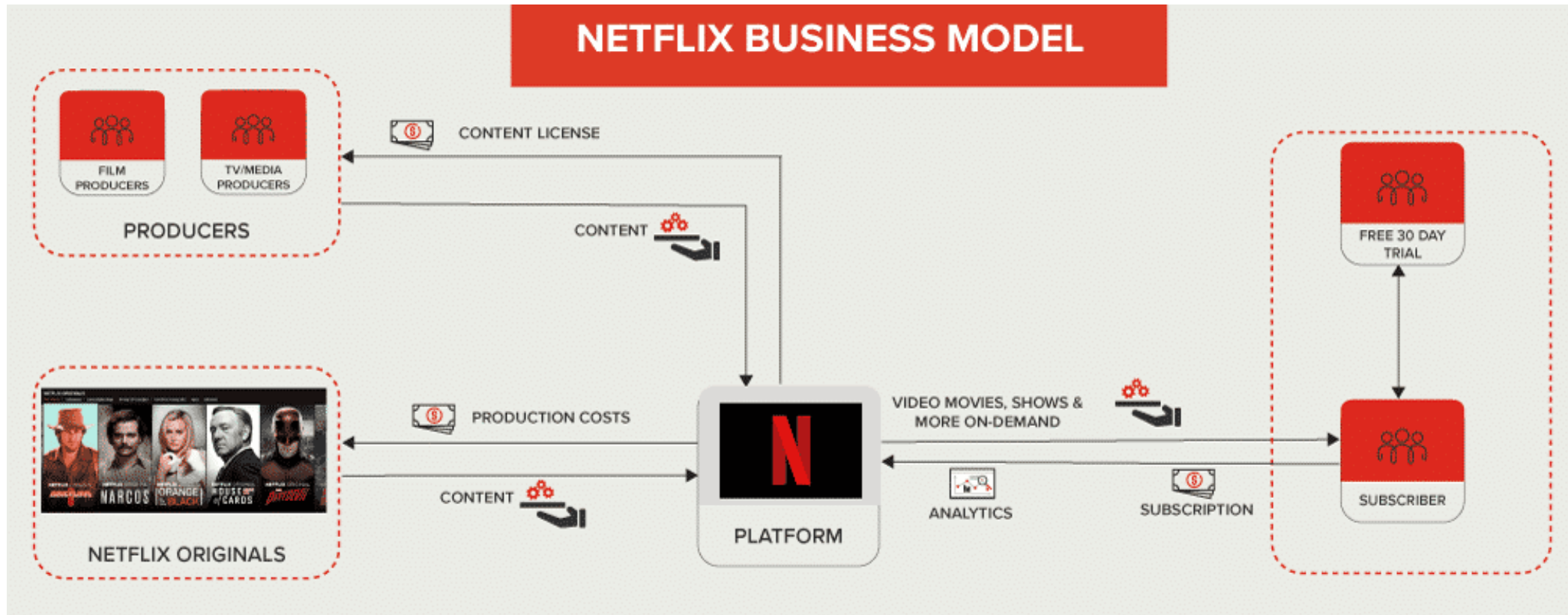


Multisided platforms

Technologies turbocharged platform business into new digital age

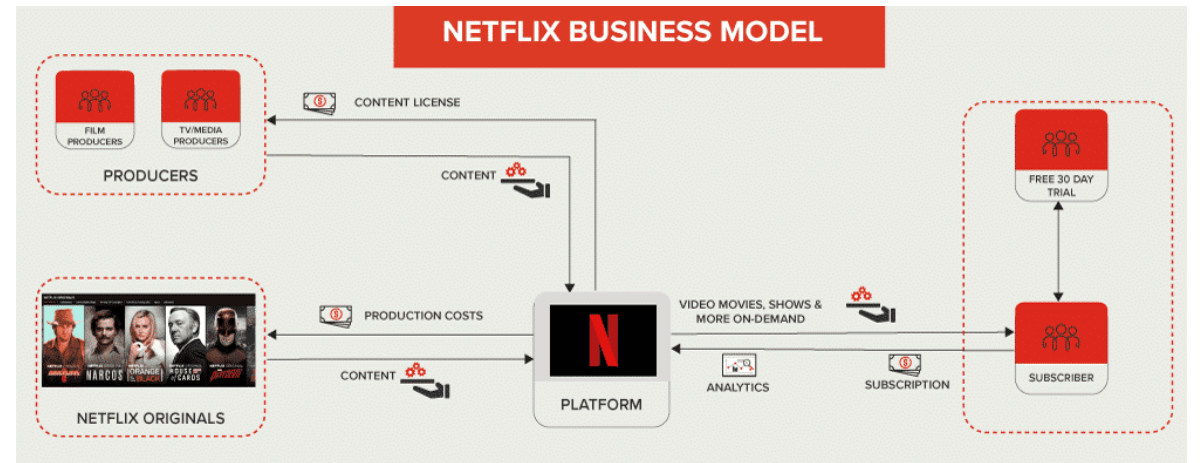
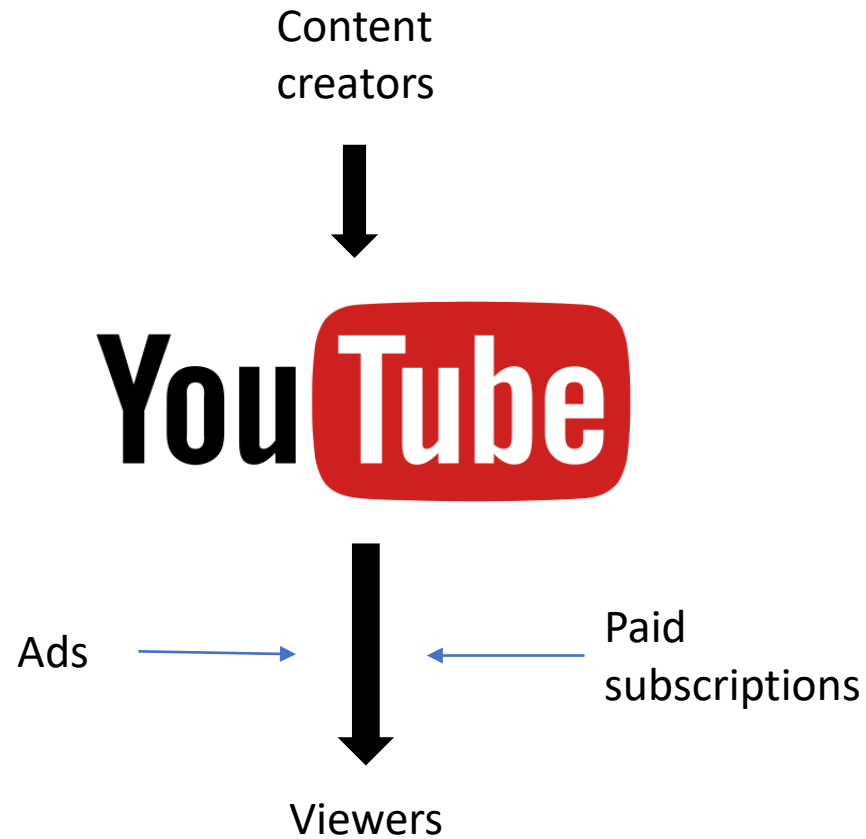
- Powerful chips
 - Internet
 - Mobile technologies and mobile broadband
 - Cloud...
-
- Digital platform $\neq$ Multisided business

Netflix



By Gary Fox

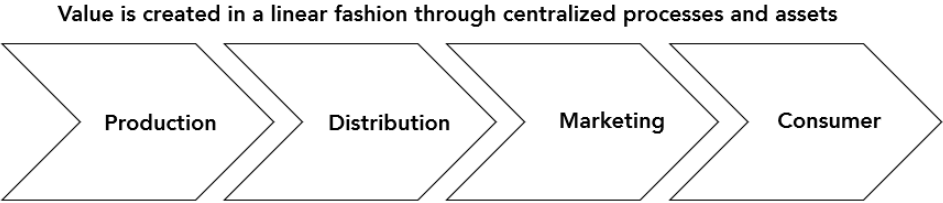
YouTube vs Netflix



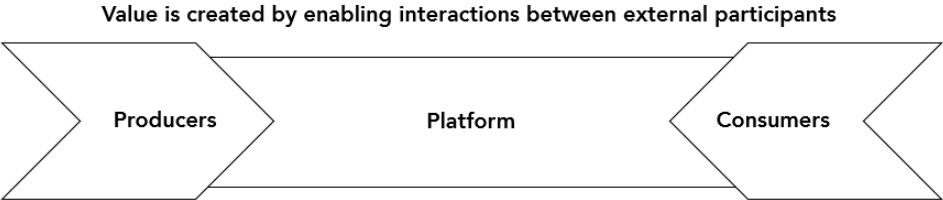
By Gary Fox

How do multisided businesses and traditional (“one-sided”, «pipeline», “linear” firms) differ?

Traditional Model



Platform Model



(Van Der Walt, 2020)

Examples:

NETFLIX
Negotiates licensing rates, packages the offerings, and sells monthly access

J.B. HUNT
Buys trucks, pairs them with skilled drivers, and offers full-freight solutions

Ford
Takes in components, manufactures a finished car, and sells to consumers

PHILIPS
Takes in components, manufactures a medical device, and sells to consumers

macy's
Purchases goods wholesale, presents in a retail location, and sells with markup

Vanguard
Purchases sector stocks, packages them, and sells as diversified asset class

Logos for platform companies: ebay, up, airbnb, uber, Hotel Tonight, and airbnb.

Distinctions between platforms & traditional firms

- Platforms often do not have any physical assets.
- Platforms scale in a way that traditional businesses cannot.
- Long-term success depends on the health and defensibility of the relations among the multiple sides, rather than purely on internal firm-level factors.
- Paying customers (rather than charging them) can be very profitable!

The subsidy side and the money side

- Platform commonly (not always!) do not charge enough to cover costs, charge nothing or even pay to one of the sides to use the platform.
 - The subsidy side of the platform
 - Not a short-term marketing offer but a long term (or even permanent).
- Platforms instead charge the other side prices that would cover the costs of the subsidy side.
 - The money side.

What is the money side for...?

- Google search engine

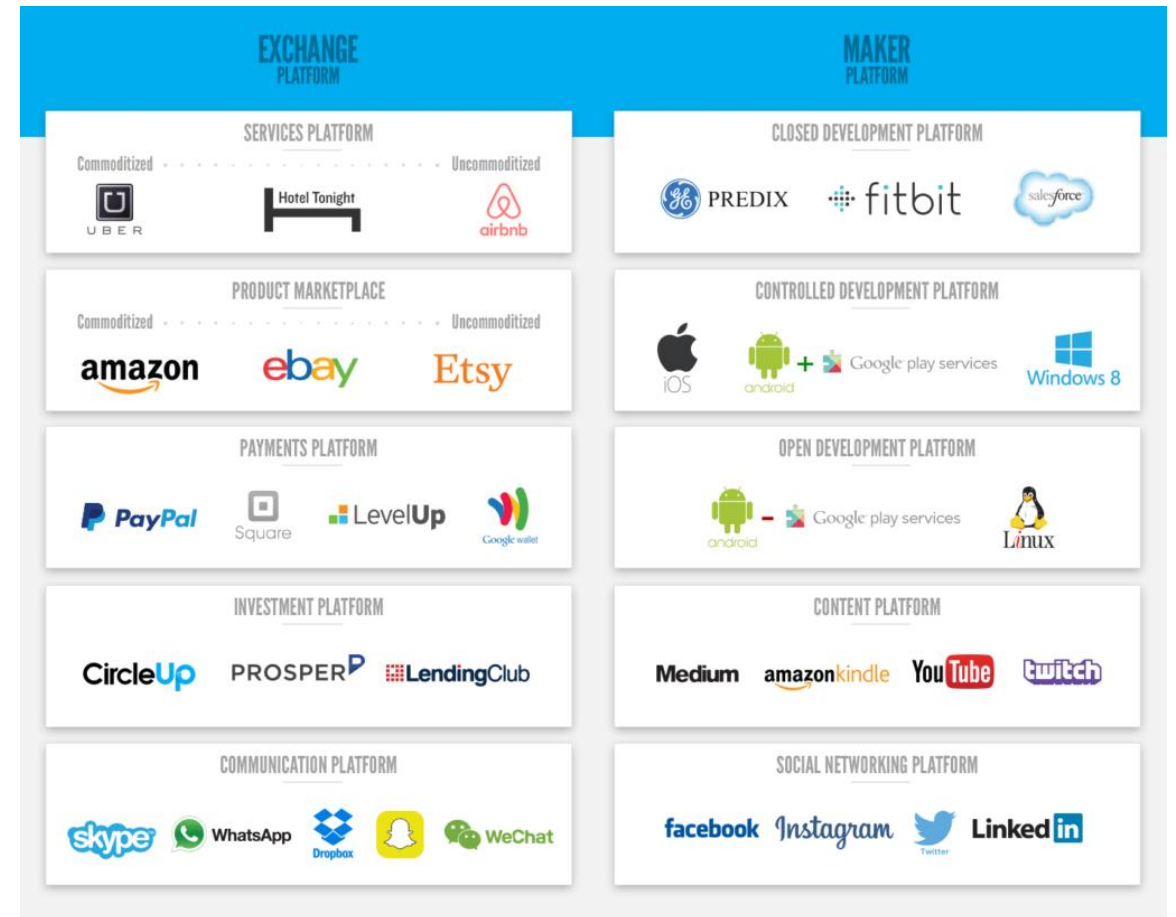
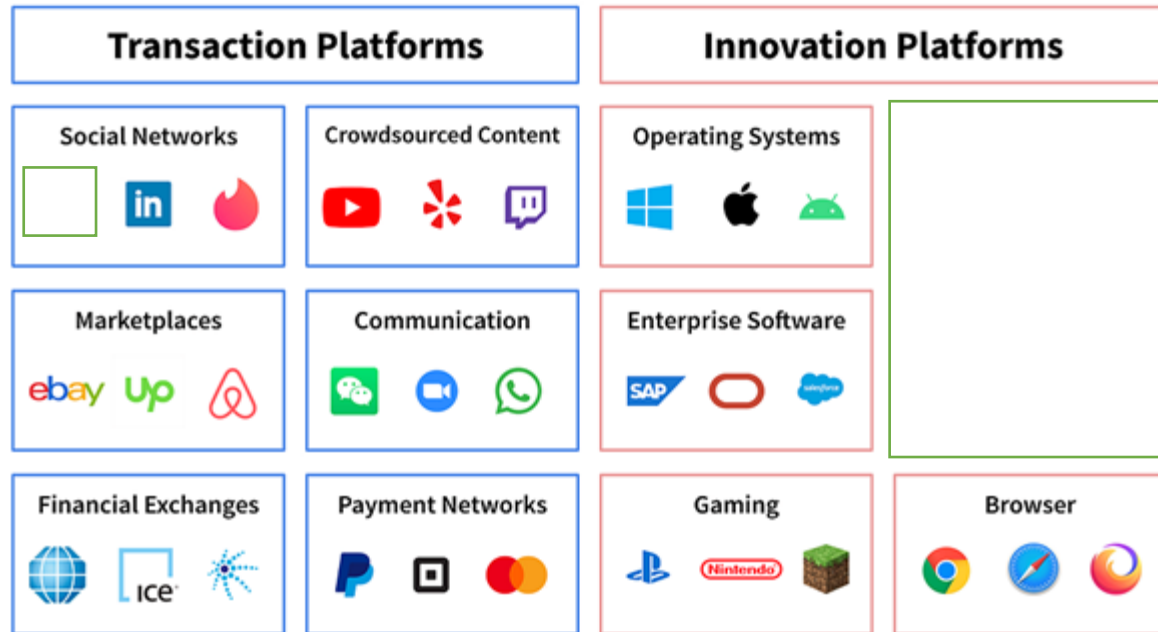
What is the money side for...?

- Finn.no (job market)

What is the money side for...?

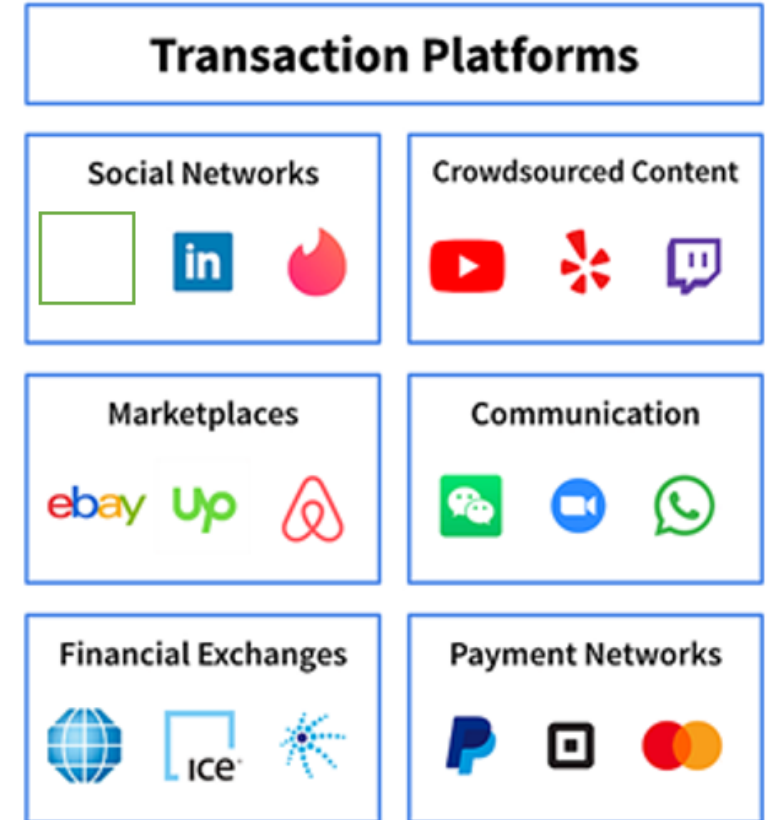
- Foodora (food-delivery)

Different typologies



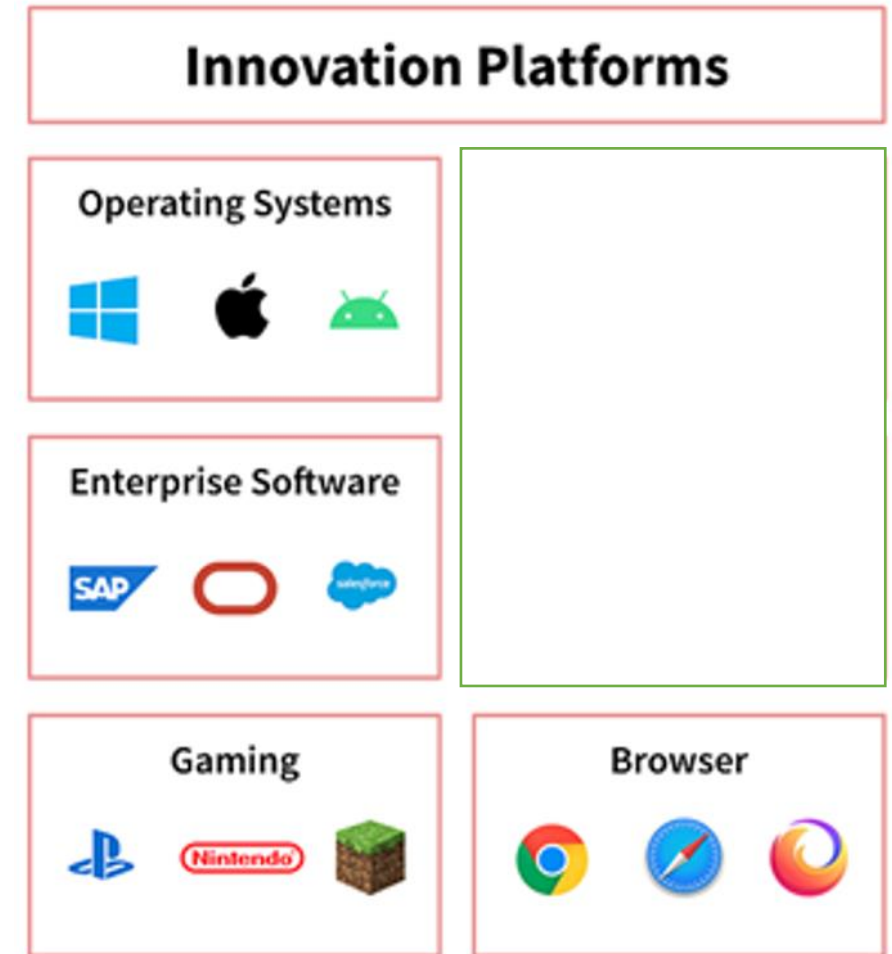
Transaction platforms

- Transaction platforms (aka multi-sided markets or exchange platforms) facilitate transactions between distinct customer groups such as connecting buyers with sellers, drivers with passengers, artists with fans etc. (Koskinen & Bonina, 2019)
- Transaction platforms makes it easier for these different agents to find each other and engage in a transaction (reduce frictions).



Innovation platforms

- Innovation platforms are formed of technological building blocks that provide a basis for developing complementary products and services like smartphone apps (e.g., Windows, Android), add-on modules (e.g., Autodesk Maya, Adobe Photoshop), games (e.g., Playstation, Xbox).
- Third-party developers create new products and services, usually without supplier contract.



Hybrid companies

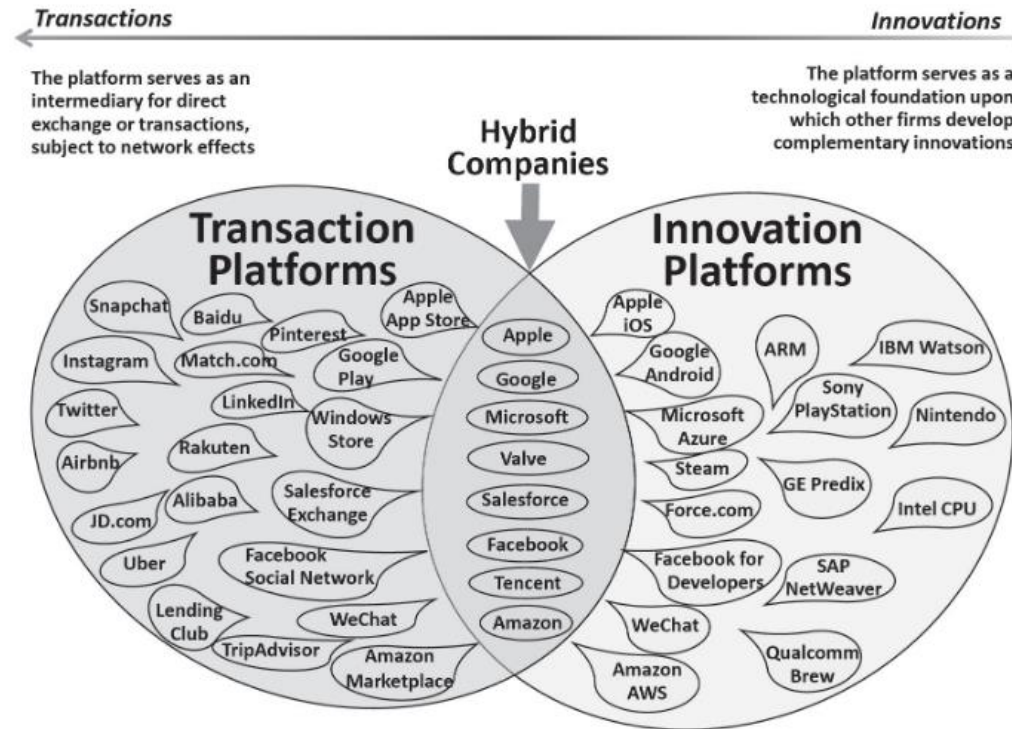
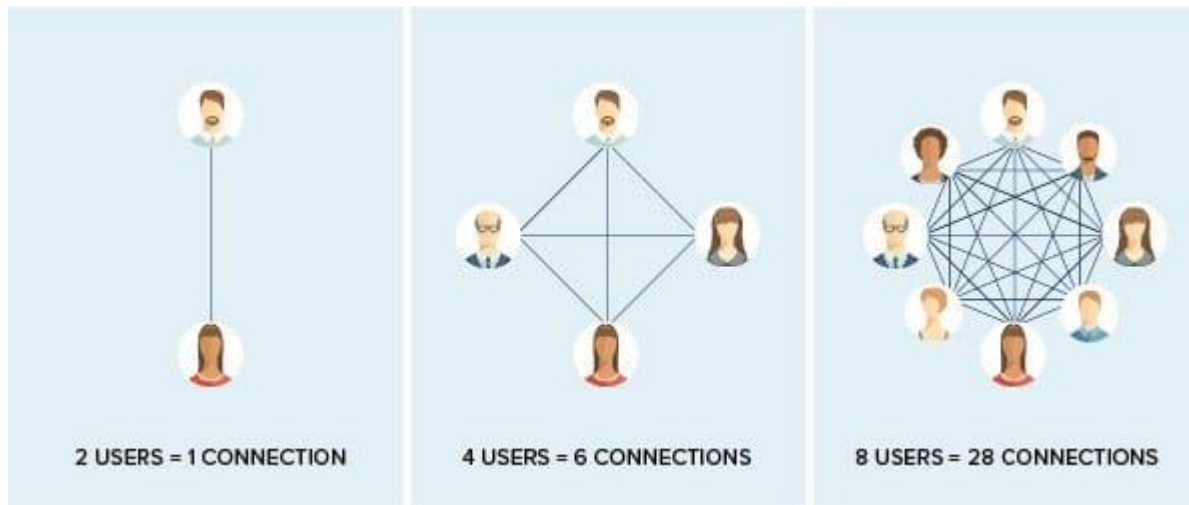


FIGURE 1-2: TWO BASIC PLATFORM TYPES*

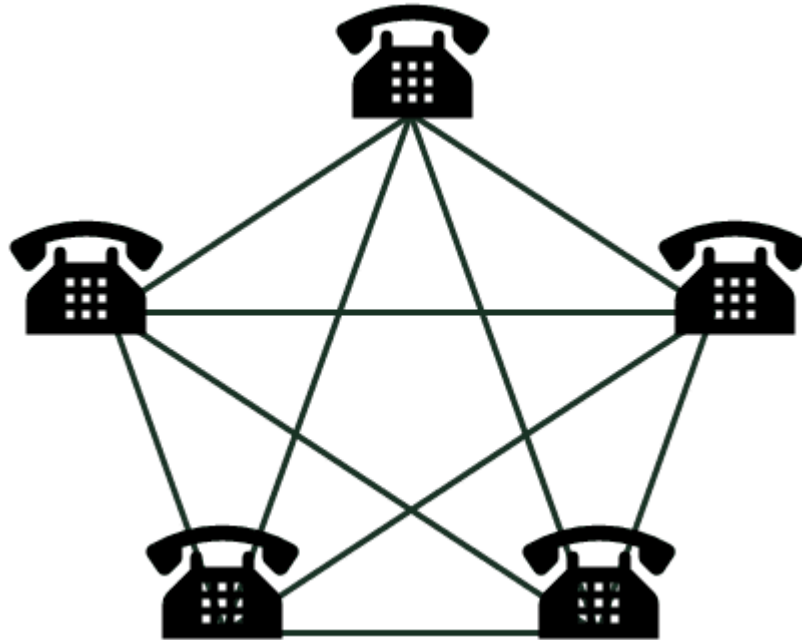
Network effects

- (Direct or one-sided) Network effect refers to «*the degree to which every additional user of a platform or app makes it more valuable to every other existing user*» (Tiwana, 2016).
- Telephone, Internet, Social media...



Positive network effect (or positive direct network externality)

- The more people connect to a network, the **more** valuable that network becomes to each participant.



Negative network effect

- The more people connect to a network, the **less** valuable that network becomes to each participant.
 - Network congestion (e.g., Bandwidth)
 - Network pollution (e.g., Facebook feed)

Multisided platforms rely on the indirect network effect (cross-side)

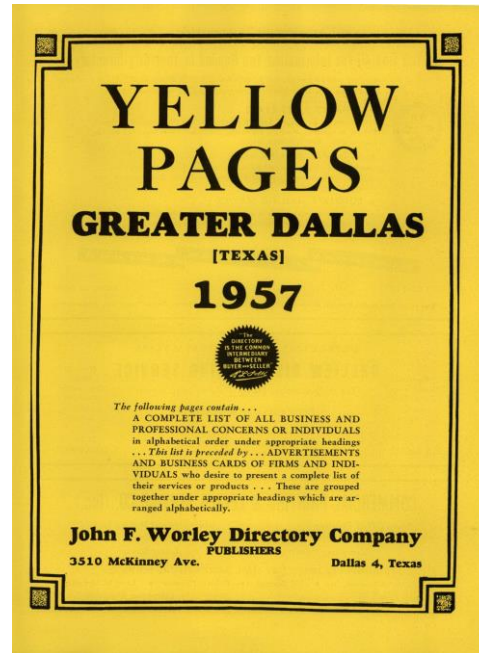
- The network effect is indirect when the value of a platform to one customer group depends on the size of another customer group (Evans and Schmalensee, 2016).
- Example: Nearly all multisided platforms (YouTube, OpenTable, Uber, Foodora...)
 - viewers -> content creators -> viewers -> content creators...
 - passengers -> drivers -> passengers -> drivers...
 - customers -> restaurants -> customers -> restaurants...

Case study: Telephone & Yellow pages



Diversifying business: The yellow pages

Individuals



Businesses

Strategic decisions:

- Identify different segments of their customers
- Make a decision of which side to charge
- How to trigger the cross-side network effect

Does it sound familiar?

- Which other company pulled off a similar feat?

facebook

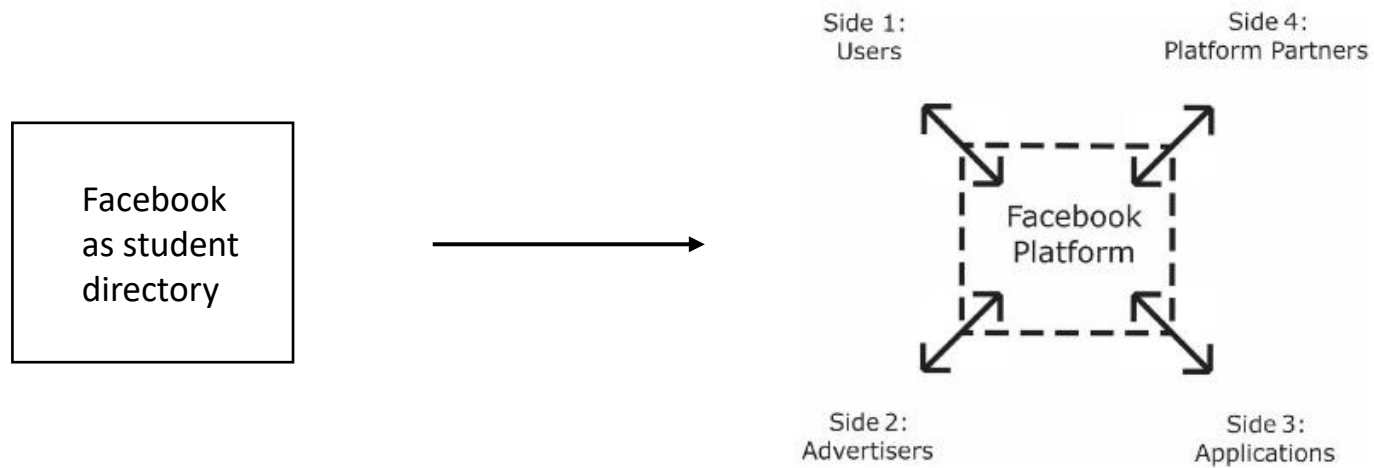
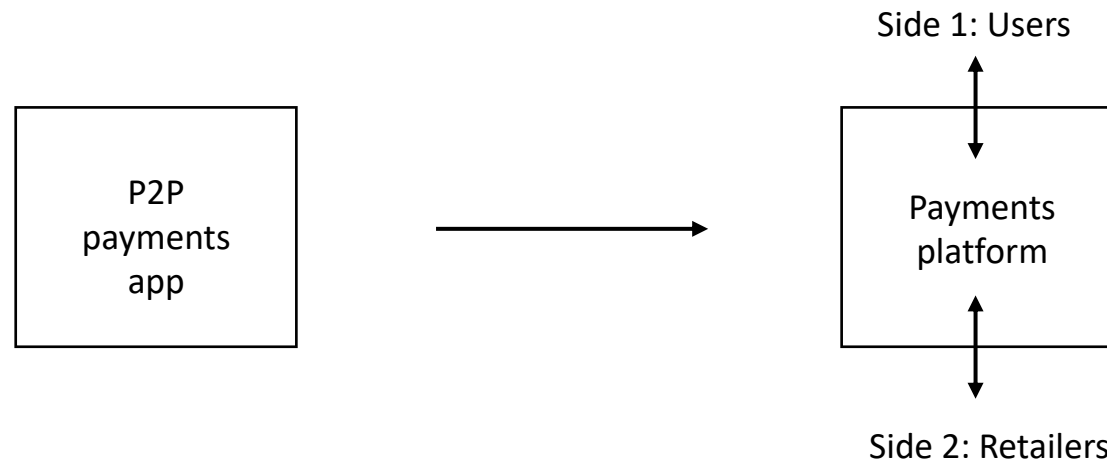


**FIGURE 1-1: FACEBOOK
PLATFORM AND ECOSYSTEM**



First mover -> Network effect - > Winner take all (or most) of the market ?

Markets where network effect plays a prominent role are often viewed as «winner-takes-all markets».

~~First mover → Network effect → Winner take
all (or most) of the market ?~~

- Not always

Failed first movers

- Social media:
 - Friendster and MySpace vs Facebook
- Browsers:
 - Netscape and Internet Explorer vs Google and Mozilla
- Mobile operating systems:
 - Symbian and BlackBerry vs. iOS and Android

~~First mover → Network effect → Winner take all (or most) of the market ?~~

- Network effect does not happen automatically
- Network effect alone does not lead to the market dominance
- Platforms need to make the right strategic choices and policy decisions

Important drivers

- Multihoming
- Niche competition
- Entry barriers
- Network structure
- Disintermediation

Multihoming

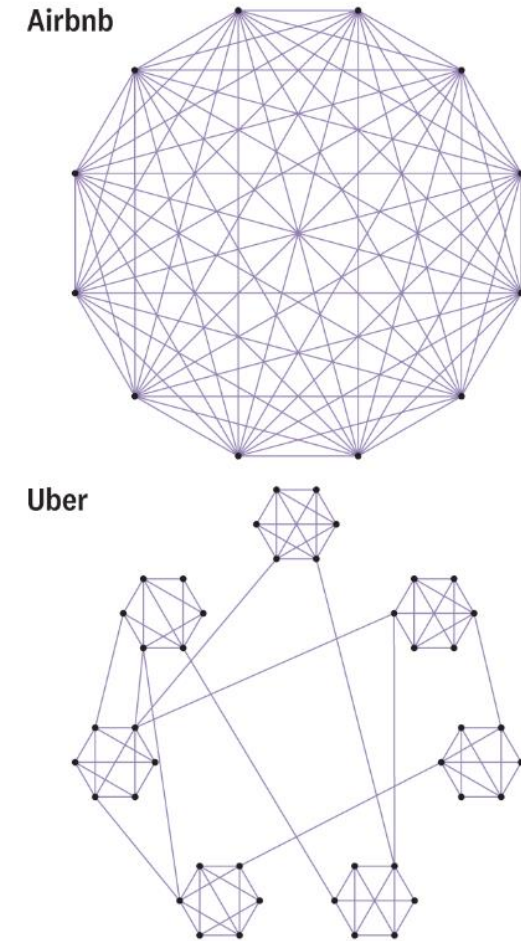
- Multihoming refers to users being able to easily use multiple platforms at the same time for the same purpose.
- Examples?
- Multihoming can inhibit a platform even with strong same-side (direct) network effects from fully monetizing cross-side indirect network effects.
- How to reduce or limit multihoming?
 - Build proprietary standards and product ecosystems (Microsoft Windows, Apple iOS)
 - Offer complementary services to the platform (Google Android, Play Store)
 - Loyalty programs (Expedia)

Niche players & differentiation

- Niche players create fragmentation of the market that reduces network effects and likelihood of a winner take all (Cusumano et al., 2019)
- Apple vs Android
 - Still, differentiation matters – Apple has majority of the industry profits while having less than 20% of the market share.
- Upwork (strong cross-side network effect, 5 mln. Corporate clients, 12 mln. freelancers) vs. niche more specialized players (geographic, specific industries, job types etc.).

Network structure

- The structure of a platform's network affects its ability to maintain its dominant market position.
- The more fragmented the network is, the more isolated those clusters are – the more vulnerable a business is.
- Uber – isolated markets (e.g., some people travel either in New York or in Toronto).
- Airbnb – the whole network is one large cluster (people don't care about apartments in their own city, instead - in cities they want to visit).
- Easier to challenge Uber than Airbnb.



Zhu and Iansiti (2019)

Risk of Disintermediation

- If you are happy with your piano teacher/cleaner/baby sitter, would you hire this person again and again through the platform?
- Disintermediation happens when two sides start doing business directly, bypassing the platform.

Barriers to entry

- Entry barriers are the obstacles that make it challenging for new firms to enter a given market.
- 4 types of entry barriers (legal, strategy, technical, brand loyalty):
 - High entry costs, patents, predatory pricing, geography, economies of scale, brand loyalty).
- Low entry barriers encourage more competition; High entry barriers can contribute to the creation of monopoly.

Summarizing

- The winner-takes-all-or-most outcome in a platform business would depend on these important market drivers and considerations:
 - Strength of network effects
 - Difficulty or ease of multi-homing
 - Opportunities for niche competitions and differentiation
 - Defensibility of the network structure
 - Risk of disintermediation
 - Low or high entry barriers