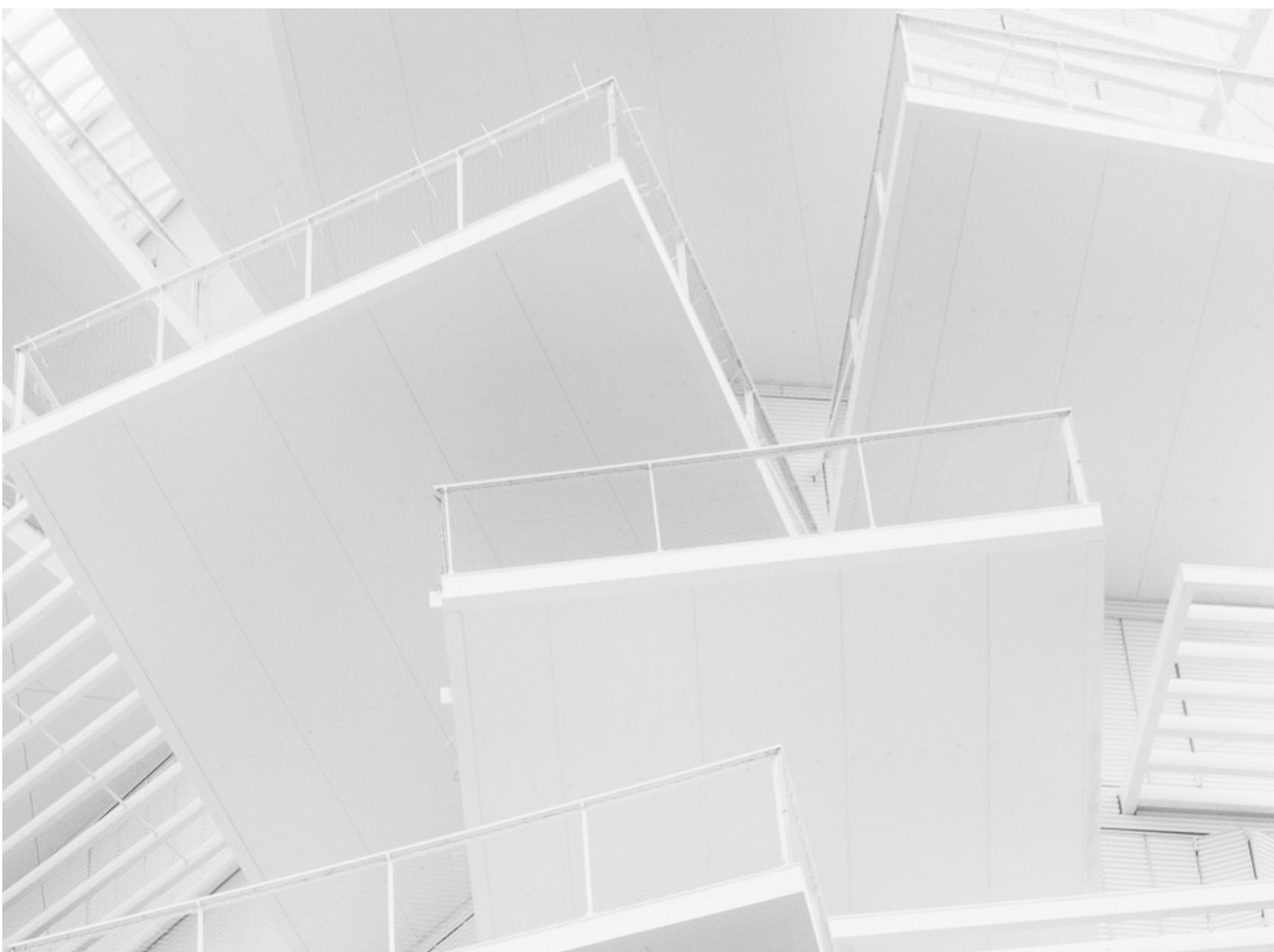




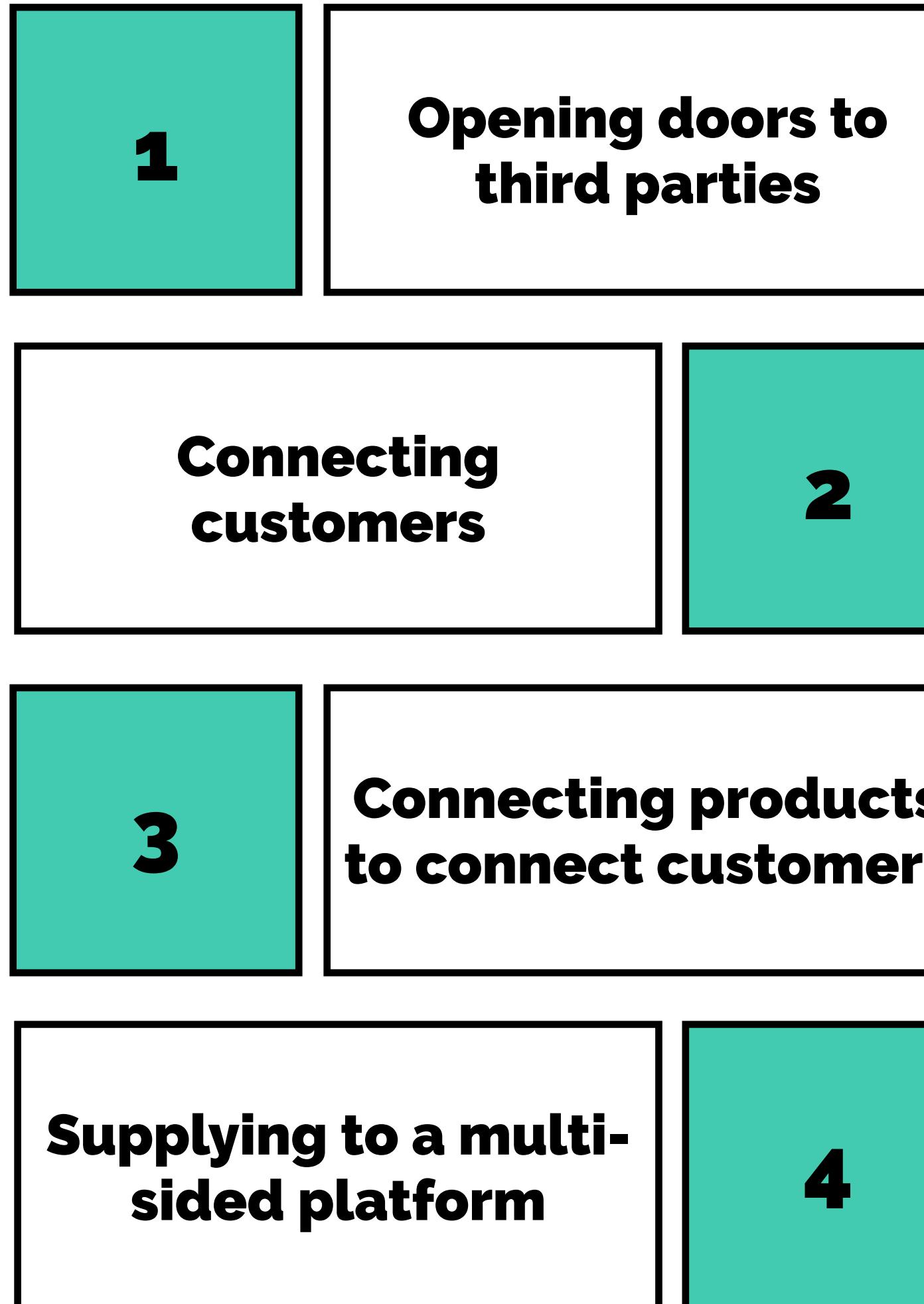
FINDING THE PLATFORM IN YOUR PRODUCT

FINDING THE PLATFORM IN THE PRODUCT

Four Strategies



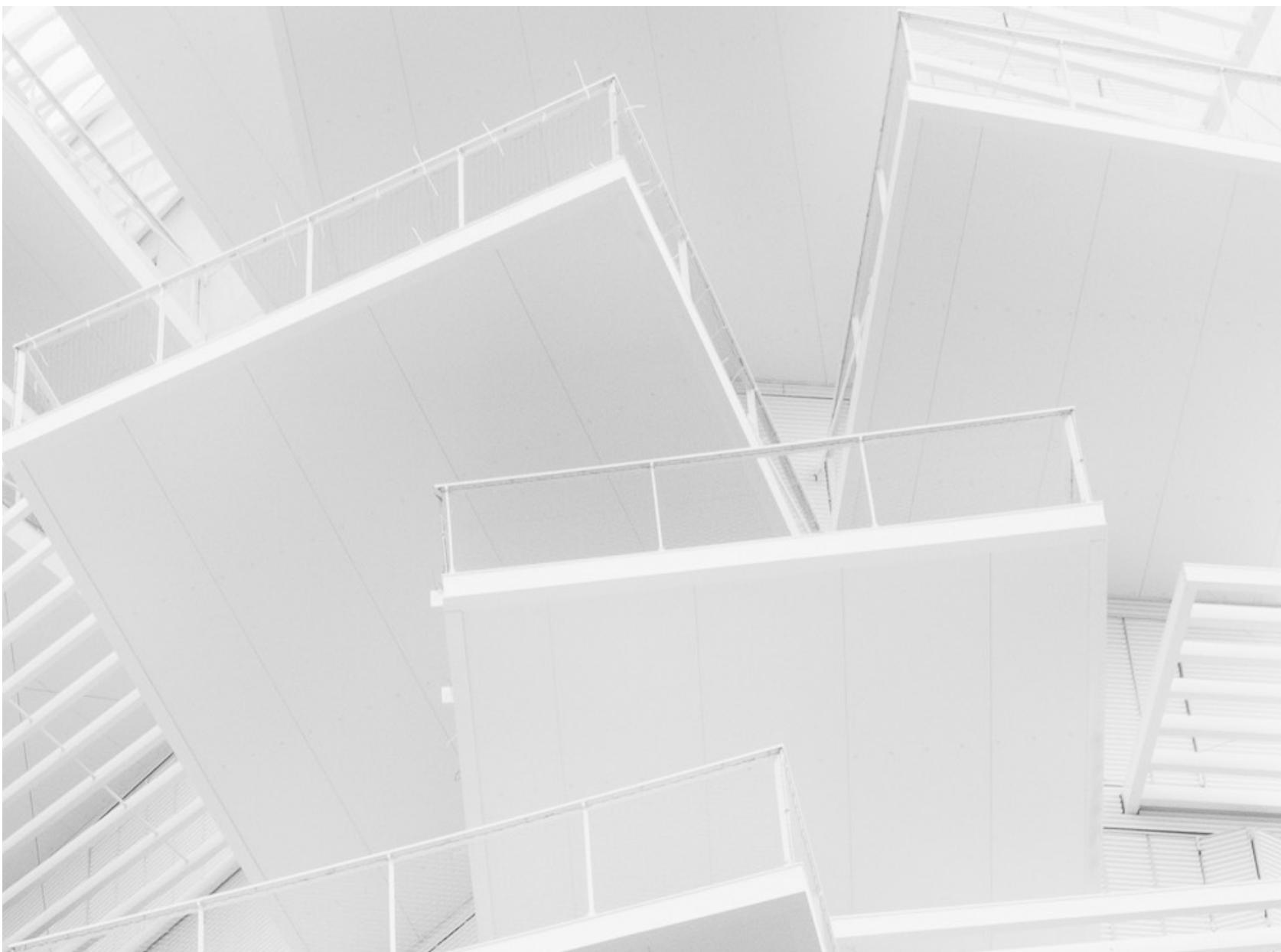
- Firm is selling a product or service to two distinct customer segments that interact or transact with each other outside the firm's offering.
- **MSP:** modifying or expanding offering so that at least some element of those interactions or transactions occurs through the firm's product or service.
- **MSP:** creating an offering for your customers' customers that enhances the value of the product or service they buy from your customers.



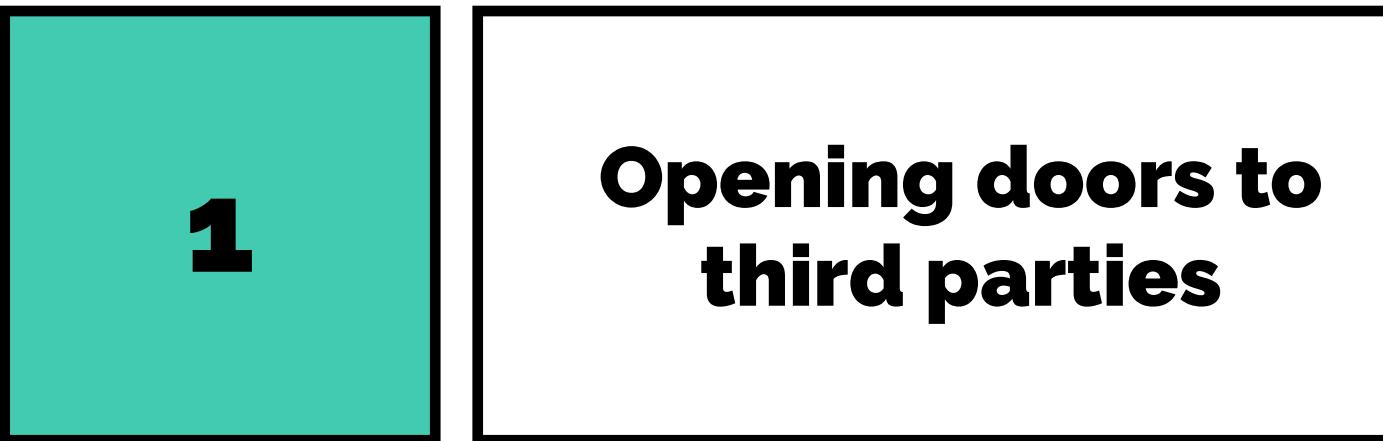
- The product or service has a big customer base that third-party sellers of other offerings are interested in reaching.
- **MSP:** making it possible for those third parties to connect with the customers.
- Firm is selling two products or services, each to a different customer base, and the two customer bases interact outside your offerings.
- **MSP:** modifying or expanding your offerings so that at least part of those interactions occurs through one or both of the firm's offerings

FINDING THE PLATFORM IN THE PRODUCT

Four Strategies



- Example: **Fitness wearables** - often used by both, consumers and personal trainers - could enable users to share their data with personal trainers, thereby enhancing the interactions between those two groups.



- Example: **Shopify** is a leading provider of e-commerce tools to online and retail merchants. It could, however, start offering a common log-in or loyalty program to users of its customers' sites.

- Example: **Health clubs** renting space inside their gyms to specialty studios so that latter can serve health club members.
- Example: **Nielsen** offers "watch" products to media companies (data on consumers' viewing habits) and "buy" products to consumer goods manufacturers (data on consumers' purchasing habits). One could easily imagine Nielsen's adding the ability for a consumer-packaged-goods company to connect with relevant media companies for advertising purposes.

THE IMPORTANCE OF NETWORK EFFECTS IS WELL KNOWN.

LESS WELL ACKNOWLEDGED IS THE FACT

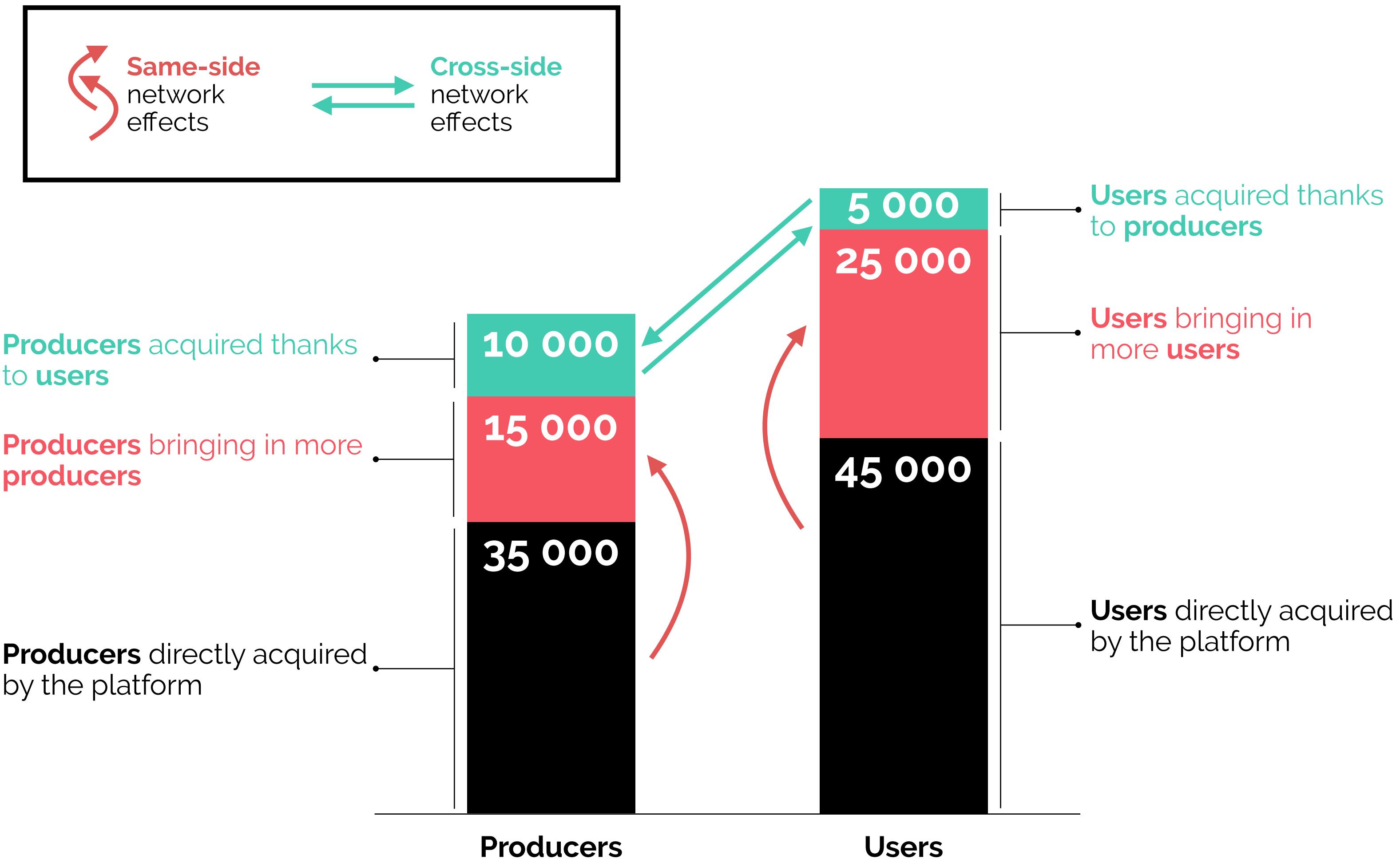
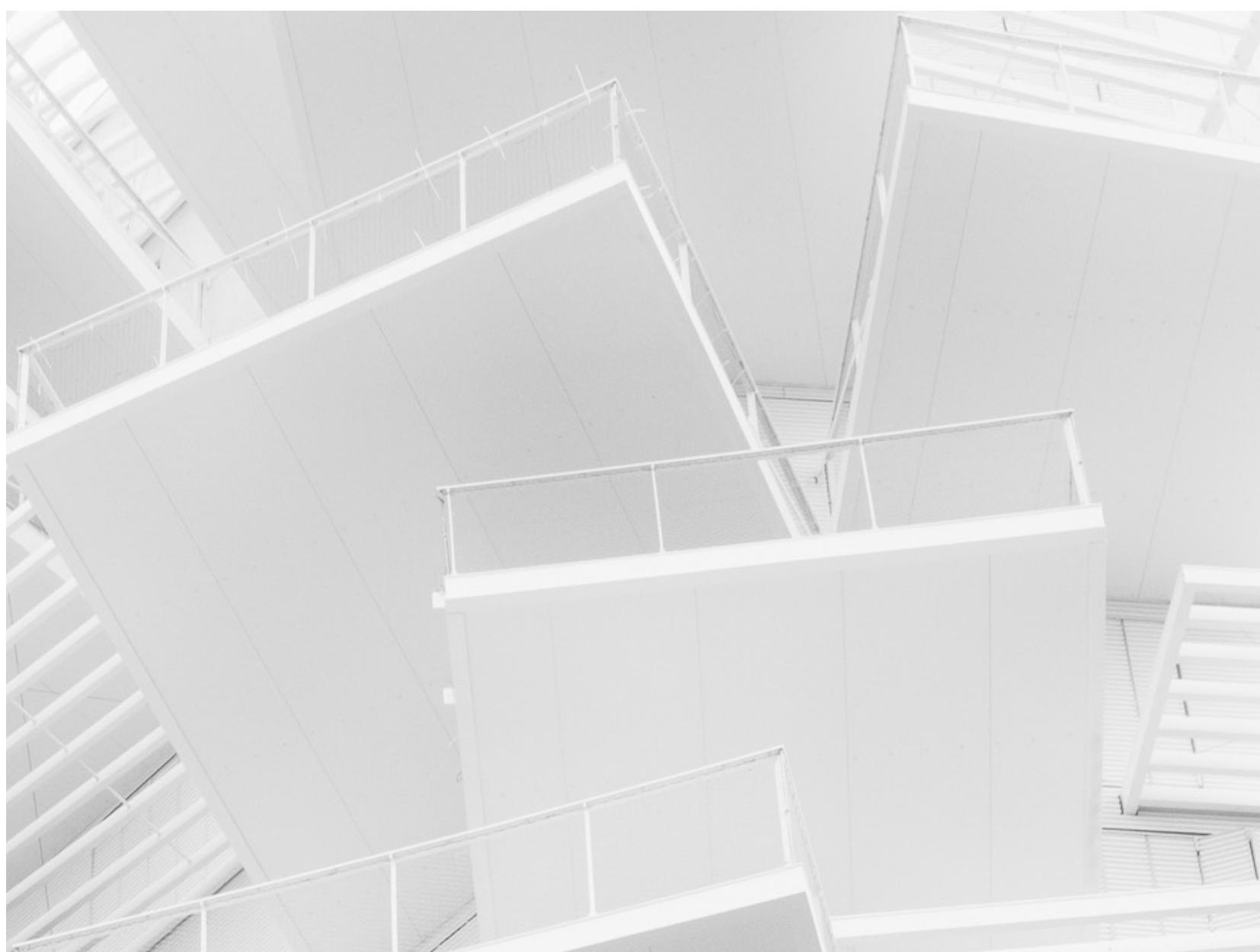
THAT THE STRENGTH OF NETWORK EFFECTS CAN VARY DRAMATICALLY

AND CAN SHAPE BOTH VALUE CREATION AND CAPTURE.

ZHU & IANSITI, 2019, P. 121

NETWORK EFFECTS AND SCALING OF THE PLATFORM

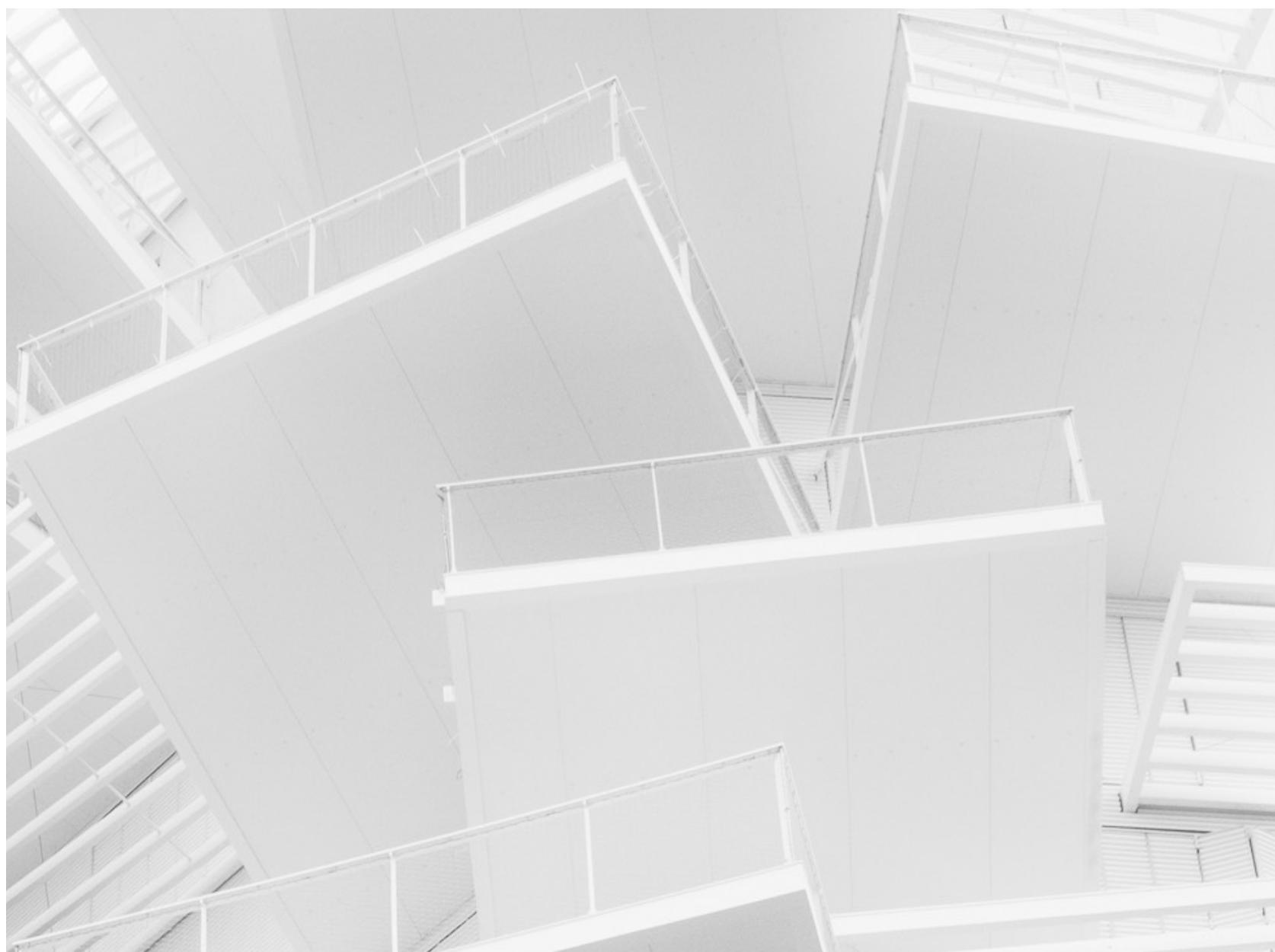
A Quick Reminder



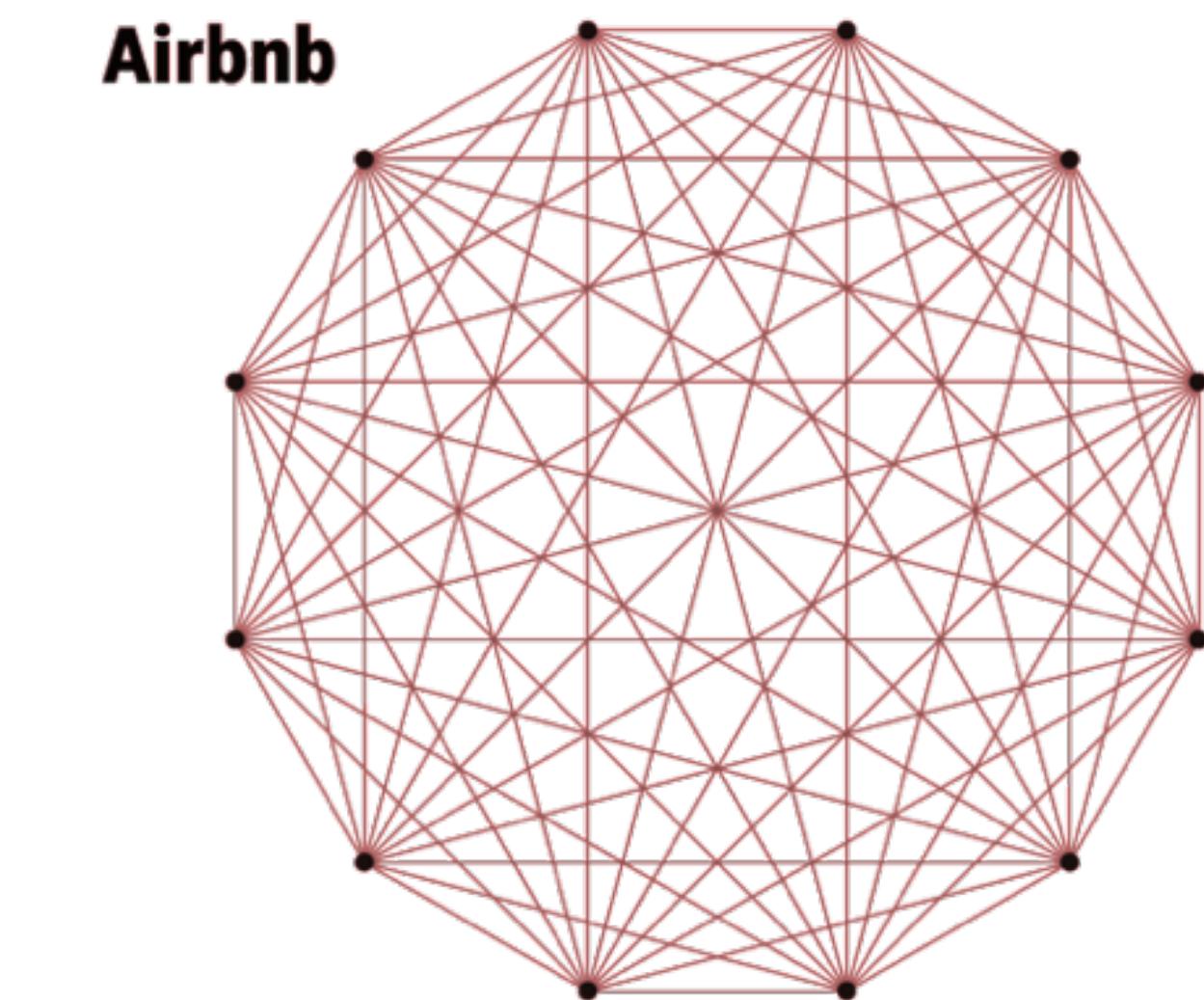
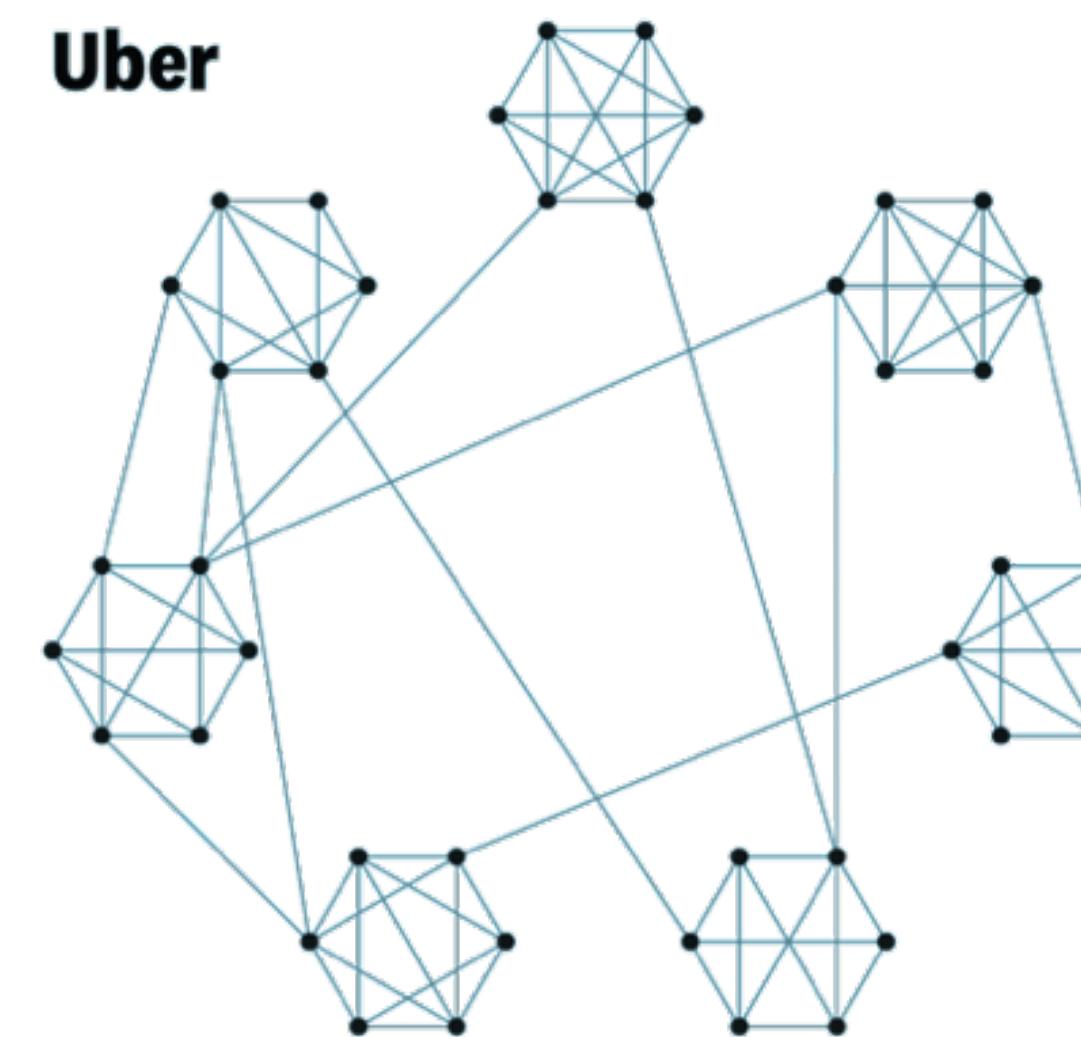
Source: Reillier, L.C. & Reillier, B. (2017): Platform Strategy, Routledge, p. 109; Eisenmann, T., Parker, G., & van Alstyne, M. (2006): Strategies for two-sided markets, Harvard Business Review, 84(October), pp. 92 et sqq.

REFINING THE POWER OF NETWORK EFFECTS

Network Clustering



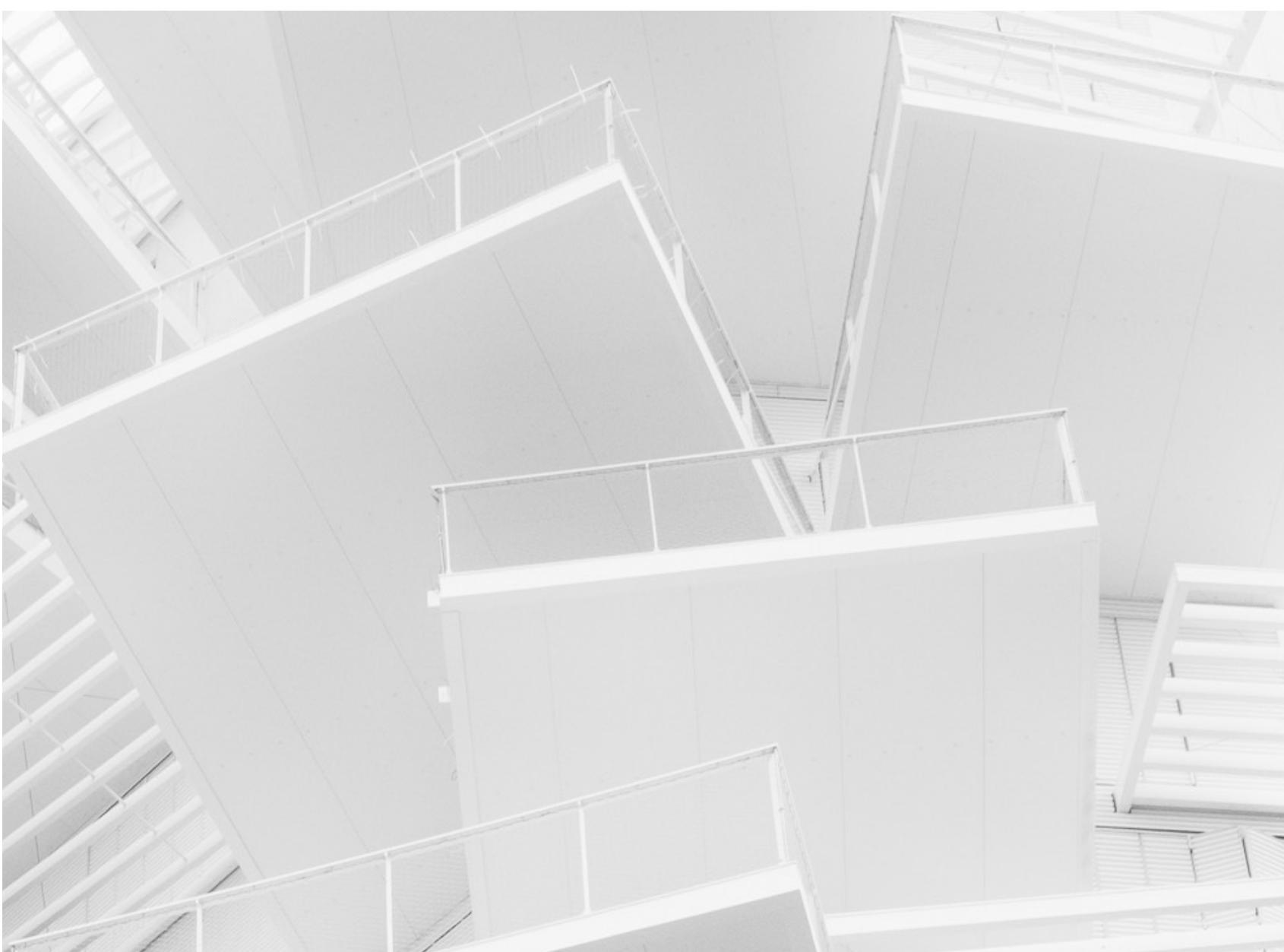
- The **structure of a network** influences a platform business's ability to **sustain** its scale.
- The more a network is **fragmented** into local clusters— and the more isolated those clusters are from one another — the **more vulnerable** a business is to challenges.



Which network structure is more defensible?

REFINING THE POWER OF NETWORK EFFECTS

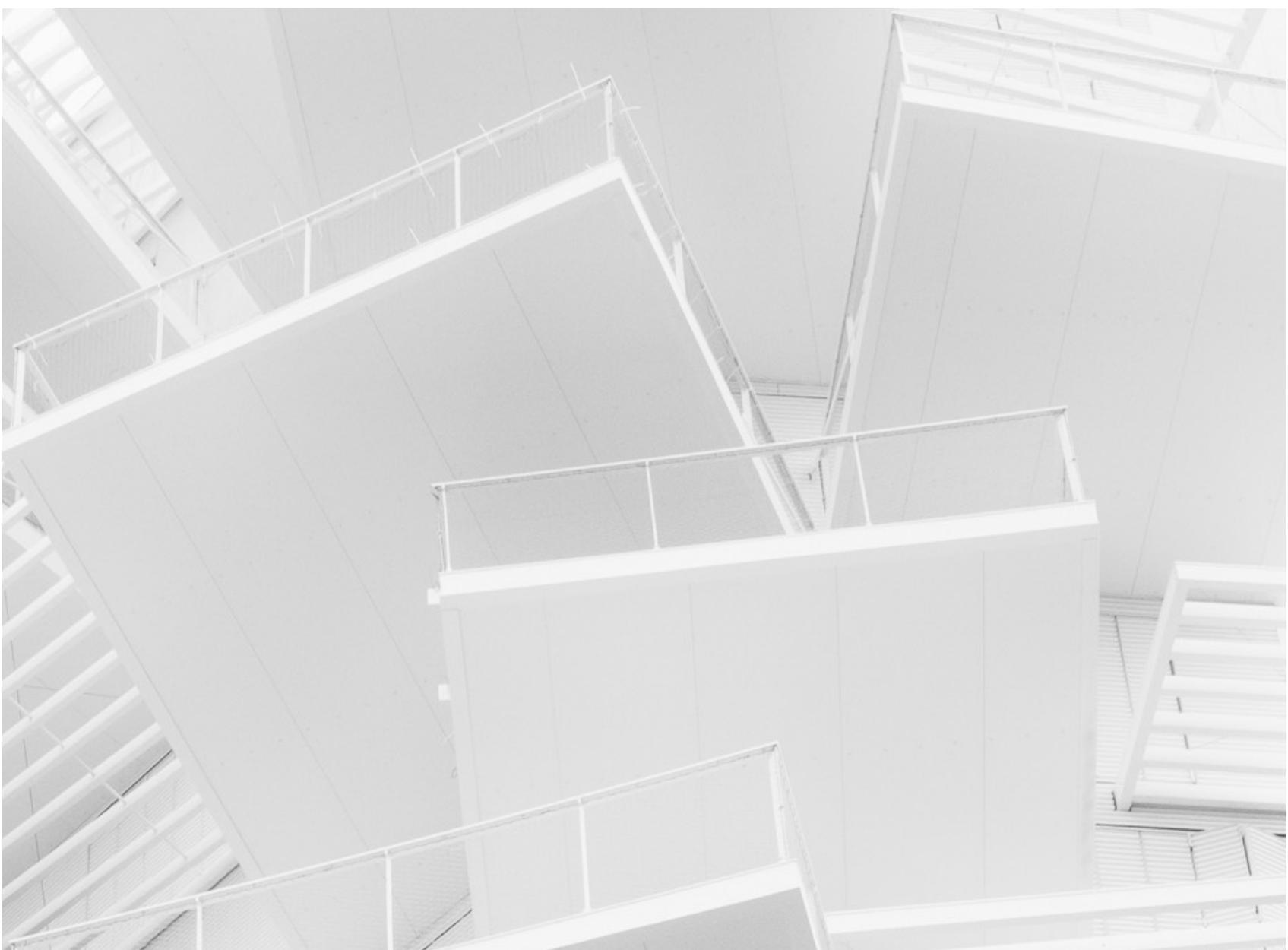
Risk of Disintermediation



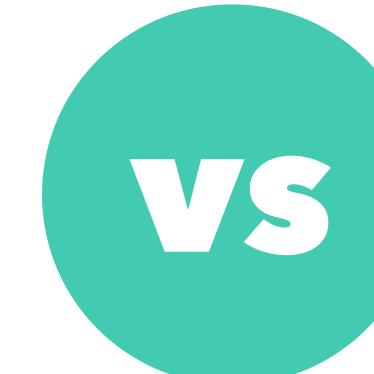
- **DISINTERMEDIATION**, wherein network members bypass a hub and connect directly, can be a **big problem** for any platform that captures value directly from matching or by facilitating transactions.
- Platforms have used **various mechanisms** to deter disintermediation such as:
 - ▶ **Terms of service**: prohibit users from conducting transactions off the platform, and blocking users from exchanging contact information (e.g., **Airbnb**) → **potentially works only once**.
 - ▶ **Enhanced value**: such as facilitate transactions by providing insurance, payment escrow, or communication tools; resolve disputes; or monitor activities → **become less valuable once trust develops among platform users**.
 - ▶ **Value caption**: revenue model design to avoid disintermediation - e.g., platform mediates communication prior to contract closure (e.g., **Thumbtack**) → **worked only once, does not prevent disintermediation in the long run** or through transaction fees and preventing direct communication before sale (e.g., **EachNet** - Alibabas initial competitor in C2C e-commerce → **vulnerable to competition**).

REFINING THE POWER OF NETWORK EFFECTS

Vulnerability to Multi-Homing



- **Multi-homing** happens when users or service providers (network “nodes”) form ties with **multiple platforms** (or “hubs”) at the same time.
- This generally occurs when the **cost of adopting an additional platform is low**.

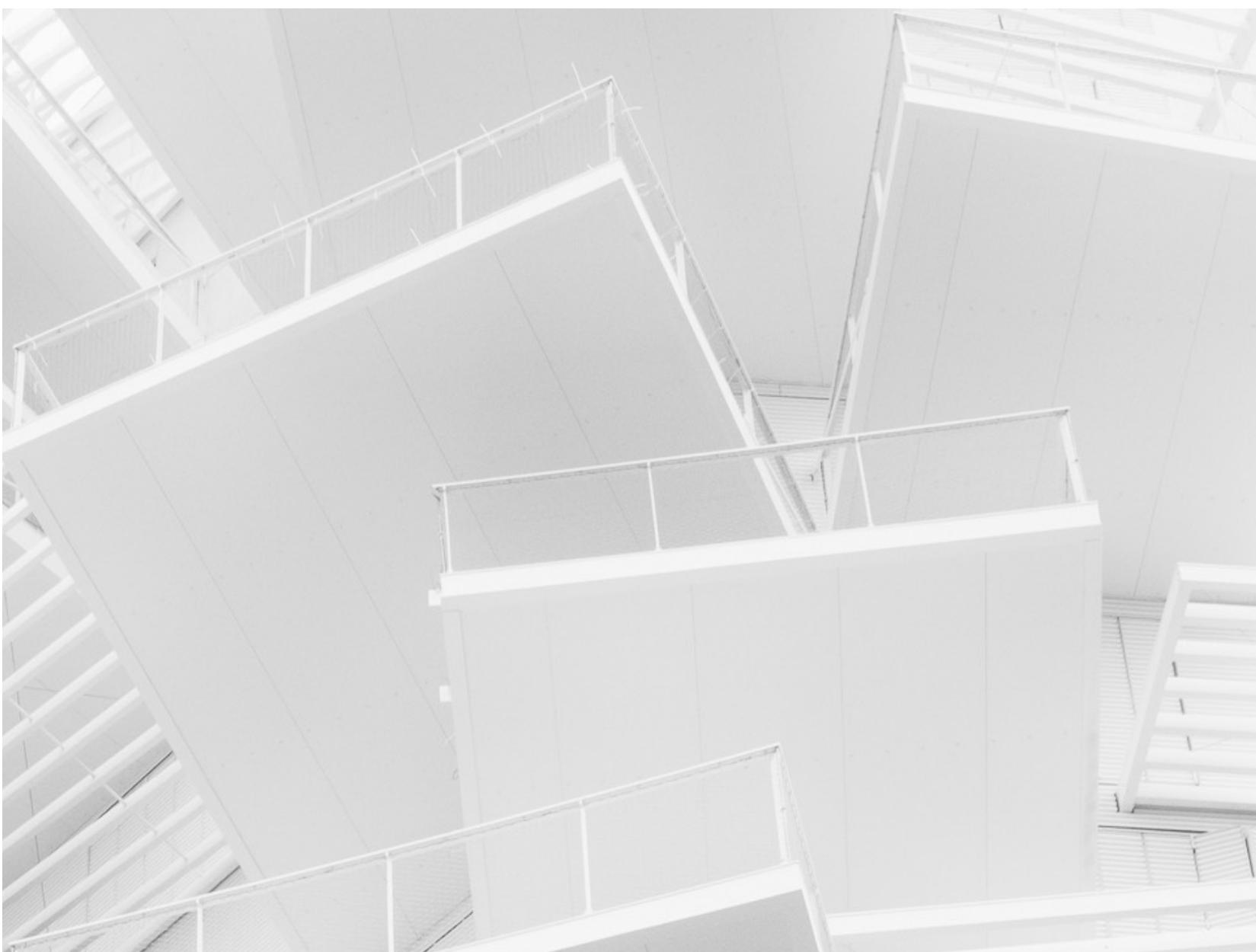
Uber  lyft

Potential solutions:

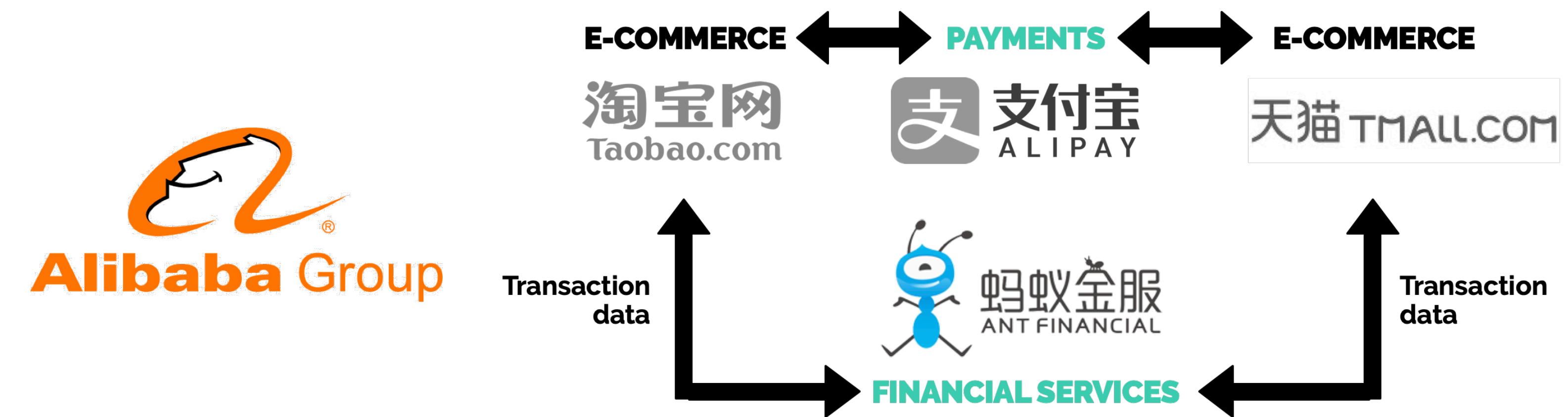
- **Locking in** one (or several) sides of the market (e.g., through loyalty programs, bonus point systems).
- **Exclusive contracts** (e.g., *supplier-side*: console makers sign exclusive contracts with game publishers in the video game industry).
- **Pricing strategies and subscription services** (e.g., *user-side*: high prices of consoles and subscription services, such as Xbox Live and PlayStation Plus, reduce players’ incentives to multi-home).

REFINING THE POWER OF NETWORK EFFECTS

Network Bridging



- In many situations the **best growth strategy** for a platform may be to **connect different networks to one another**.
- In any platform business, success hinges on acquiring a high number of users and amassing data on their interactions.
- Such **assets** can almost invariably be valuable in multiple scenarios and markets.
- By leveraging them, **firms that have succeeded in one industry vertical often diversify into different lines of business and improve their economics**.
- When platform owners connect with multiple networks, they can build **important synergies**.



WHEN EVALUATING PLATFORMS, WE SHOULD ANALYSE THE BASIC

PROPERTIES OF THE NETWORKS IT WILL USE

AND CONSIDER WAYS TO STRENGTHEN NETWORK EFFECTS.

IT'S ALSO CRITICAL TO EVALUATE THE FEASIBILITY OF

MINIMISING MULTI-HOMING, BUILDING GLOBAL NETWORK STRUCTURES,

AND USING NETWORK BRIDGING TO INCREASE SCALE WHILE

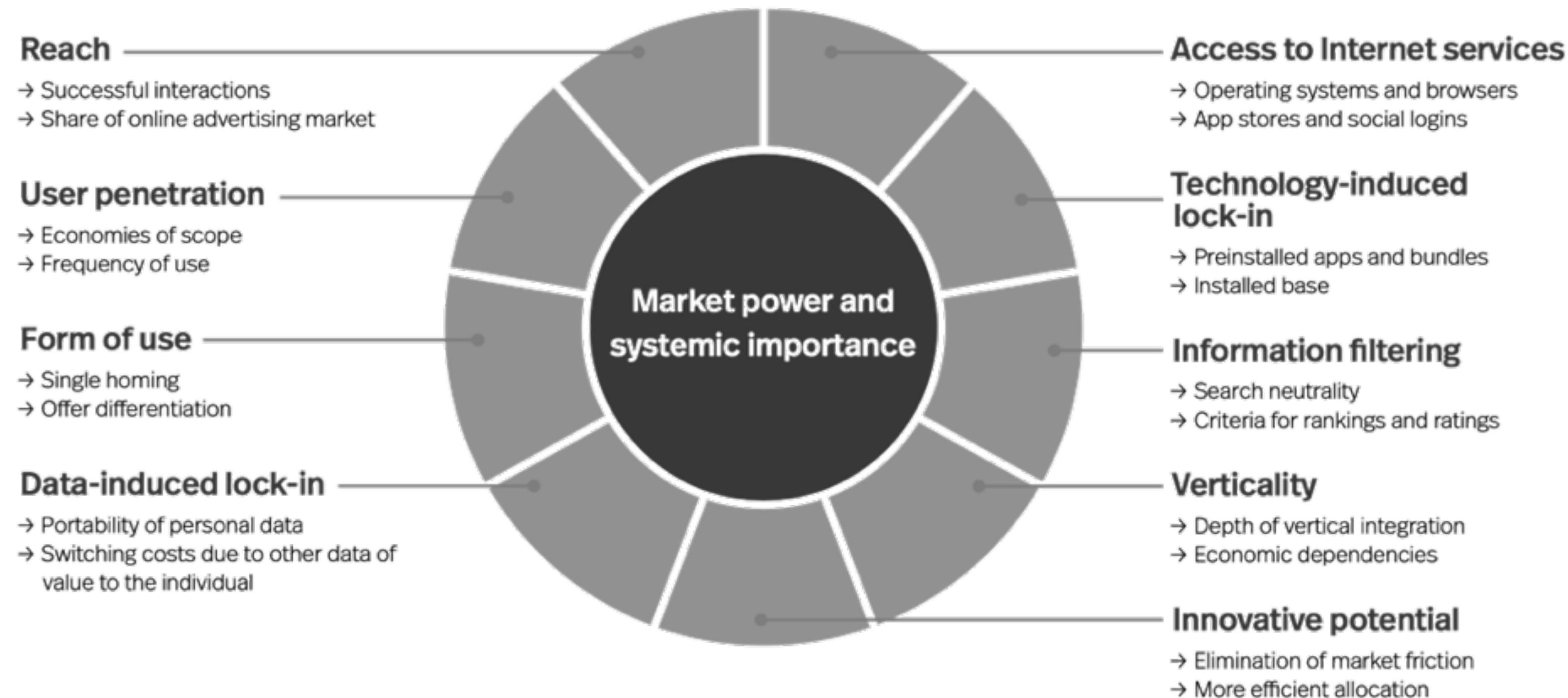
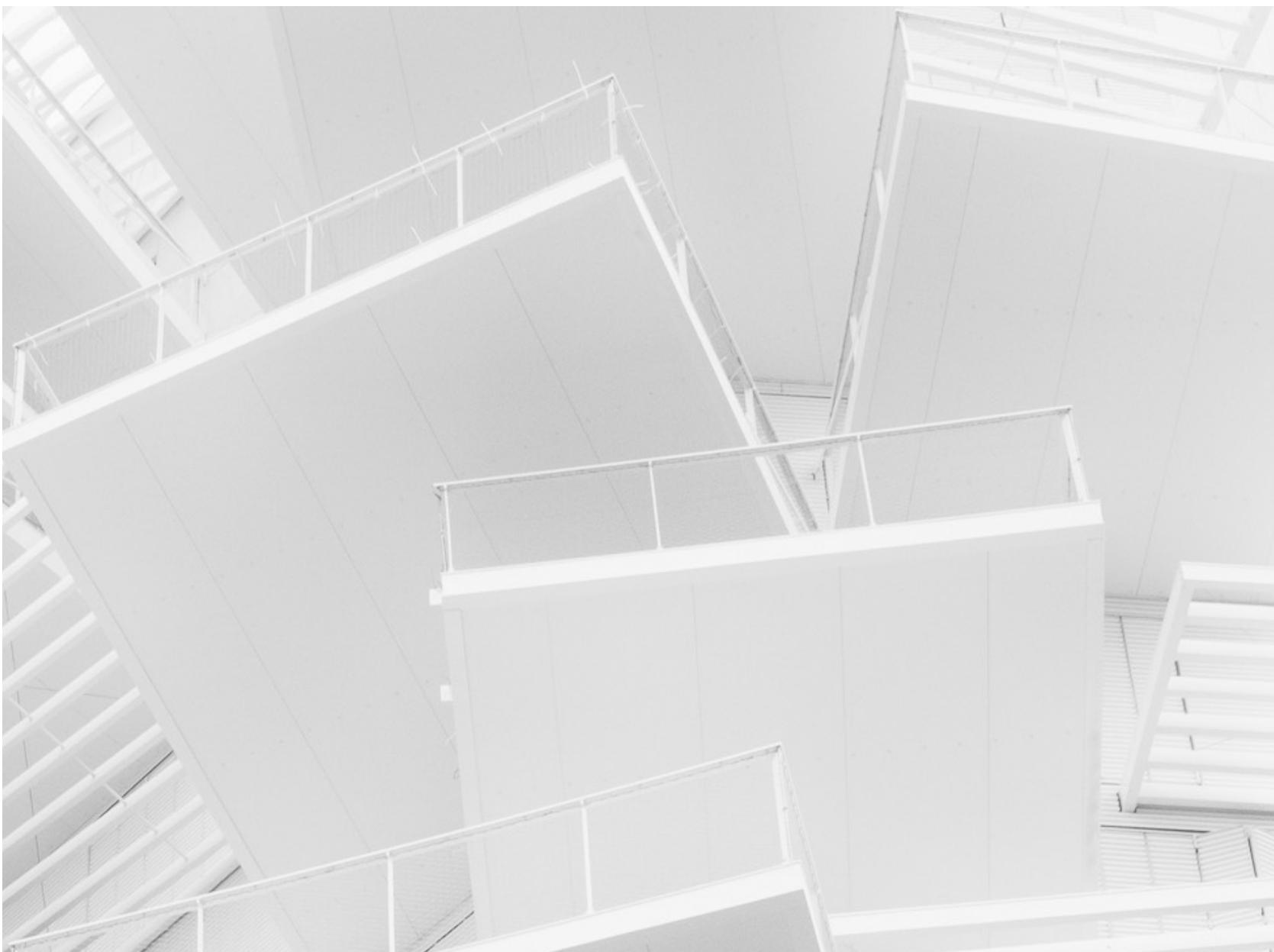
MITIGATING THE RISK OF DISINTERMEDIATION.

**GOOGLE, APPLE, AND AMAZON DESERVE TO BE HIGHLY PROFITABLE
AND SUCCESSFUL. BUT THE OPPORTUNITY TO COMPETE MUST REMAIN
OPEN FOR NEW ENTRANTS AND SMALLER COMPETITORS
THAT WANT THEIR CHANCE TO CHANGE THE WORLD AGAIN.**

**ELIZABETH WARREN
US SENATOR**

MARKET POWER AND SYSTEMIC IMPORTANCE OF DIGITAL PLATFORMS

A Balanced Analysis



Source: Internet Economy Foundation & Roland Berger (2016): Fair play in the digital arena - How Europe can set the right framework for platforms, p. 71, accessed via : https://www.rolandberger.com/publications/publication_pdf/roland_berger_ief_plattformstudie_en_final.pdf.