Lecture 07 - Platform Monetization

Platform Monetization

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📘 Plan for Today

1. The Dotcom Bubble
2. Platform Monetization
3. Surveillance Capitalism

📉 The Dotcom Bubble

What Happened?

- 1990 s: Internet hailed as a revolutionary technology.
- Massive investment in ". Com" companies based on **hype**, not performance.
- **Key driver**: Investors chased future growth over current revenue.
- **Result**: In early 2000 s, the bubble burst. Many firms failed.

Origins:

- **Netscape IPO (1995)**: Despite financial losses, reached $2.5 billion market cap.
- Sparked speculative investments in other tech companies.

📊 Dotcom-Era Startup Patterns

Key Traits:

- "Change the world" business plans.
- **Get big fast**: prioritize user growth over profitability.
- Aggressive marketing & brand building.

✈️ Priceline Case Study

Business Idea: Let users name a price for unsold airline seats.
Win-Win-Win:

- Consumers → Cheap tickets
- Airlines → Sell inventory
- Priceline → Facilitator fee

Early Success:

- IPO at $16/share → rose to $88 → market cap $9.8 billion (1999)
- Sold 1,000+ tickets/day by end of 1999

But...

- Lost $142.5 M in first few quarters.
- Subsidized ticket prices → lost ~$30/ticket.
- Burst of the bubble: stock dropped to $7, $1.1 B loss in 1999.

🐶 Pets. Com

- Goal: Sell pet supplies online.
- Spent $11 M on marketing → grew from 15 k to 300 k users.
- Amazon invested $60 M for a 30% stake.

Fatal Flaws:

- Lost money on every sale (deep discounts + heavy shipping costs)
- Lost over $20 M with revenue of just $619 k in year one.
- The more successful they were, the more money they lost.

🚴 Kozmo. Com

- Promised 1-hour delivery of small items via bikes/cars (no delivery fee).
- Attracted $60 M investment from Amazon (2000).

Issues:

- One-hour delivery = unsustainable
- 1999 revenue = $3.5 M, loss = $26.3 M
- Shut down in April 2001

⚠️ Why Did So Many Fail?

- **Irrational exuberance**: Investors ignored fundamentals.
- **Speculative valuations** without business viability.
- **"Growth over profit" mentality**
- Dysfunctional business models
- IPOs seen as cash-out opportunities
- Other factors: few users, weak service, high competition

💰 Platform Monetization

> **Monetization**: Turning usage or value into **revenue**. (Investopedia)

Challenge: Monetize without killing **network effects**.

🔄 Monetization & Network Effects

Risk of Charging:

- **Access fees** → discourage sign-ups
- **Usage fees** → limit engagement
- **Producer fees** → reduce content creation
- **Consumer fees** → lower consumption

Parker et al. (2016): 4 Value Categories

1. **Consumer Value**: Content/services on the platform
2. **Producer Value**: Access to markets/community
3. **Facilitation Tools**: Matchmaking, communication, payment
4. **Curation**: Quality control, trust systems

> Good platforms **create more value than they capture**

🧾 Monetization Strategies

I. Transaction Fees

- Fixed or percentage-based

- **Low barrier** to entry—no upfront fee
- Works well if platform processes many similar-sized transactions
- **Challenge**: Disintermediation (users bypass the platform)

Solution:

- Hide contact info until after transaction (e.g., Airbnb, Fiverr)
- Add value: tools for invoicing, reviews, project tracking

II. Premium (Enhanced) Access

- One side pays to "stand out" (e.g., sponsored listings)
- Must maintain **trust** and **relevance**
  - e.g., label promoted content to avoid user alienation

III. Access to Community

- Especially useful when users join for **community**, not marketplace
- **Communities of Practice (CoPs)**:
  - *Healthcare CoP*: Doctors share best practices
  - *Sustainability CoP*: Environmentalists discuss conservation

Example:

- **Dribbble**: Creative professionals share and inspire
  - Monetizes by charging **employers** for access to the talent pool
  - Better than ads—enhances value instead of disrupting it

IV. Extras (Add-On Services)

- Charge for value-added tools (not essential for core interaction)
- Must be:
  - **Helpful**, not critical
  - **Expected**, not deceptive

Example:

- **Uber's "Safe Rides Fee"**: Claimed to fund safety efforts but didn't benefit drivers
  - Criticized as masking core costs as optional extras

🧠 Monetization Tips

- Don't undermine **network effects**
- Avoid charging for services users already expect for free
- Monetization requires **early planning** and **creative experimentation**
- Not every platform is equally monetizable

👁 Surveillance Capitalism (Zuboff, 2021)

> "Monetizing user data is what most platforms do."

Data Monetization Examples:

- Sell to 3 rd parties
- Use in algorithmic recommendations
- Create targeted ads

🔍 Zuboff's Critique

- **Surveillance Capitalism**:
  - Uses behavioral data to **predict and modify** user behavior
  - Labels it a **"secret mass extraction"** and **"commodification of humans"**

Platforms Involved:

- Google, Facebook, Apple, Microsoft, Amazon

Ethical Concerns:

- Democracy, manipulation, privacy, mental health
- Data is treated as **resource**, users as **product**
- Zuboff advocates a **bottom-up social movement** to reclaim control

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📚 Google as a Case Study

- Survived dotcom crash by monetizing **behavioral data**
- Larry Page: "Your whole life will be searchable"
- Google's ad-based revenue model exemplifies surveillance capitalism

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🧠 Reflection: Is Data Monetization Ethical?

- It powers growth—but risks privacy, autonomy, and fairness.
- Can we afford **not** to monetize data in today's economy?
- Is there a balance between innovation and user rights?

📚 Recommended Reading

- **Zuboff, S. (2021)**: *The Age of Surveillance Capitalism*
- **Khan, L. (2017)**: *Amazon's Antitrust Paradox*
- **John Oliver (HBO)**: *Segment on Data Brokers*