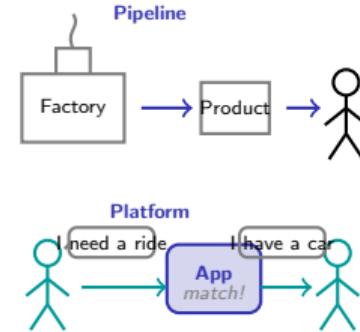


Why Do Some Businesses Connect Instead of Produce?

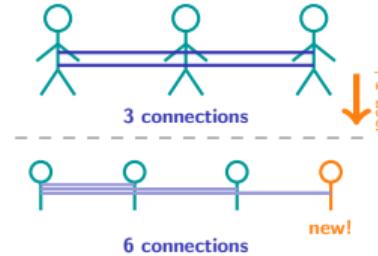
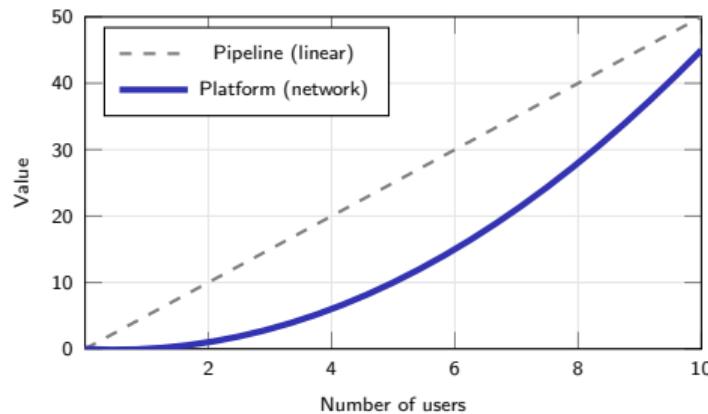
A bakery bakes bread and sells it. A ride-sharing app bakes nothing — it connects a rider with a driver. Both are businesses, but they follow entirely different economic logic.

| | Pipeline | Platform |
|---------------|------------------|-----------------|
| Does what? | Produces & sells | Connects groups |
| Grows how? | Linear | Non-linear |
| Owes what? | Inventory, IP | User base, data |
| Protected by? | Cost, brand | Network effects |

This distinction matters because it changes how businesses scale, price, compete, and fail. The lecture works through the economics behind each row of this table.



Your Group Chat Proves a Point About Network Effects



A group chat with 3 friends has 3 possible one-on-one conversations. Add a fourth friend and it jumps to 6. Add a fifth: 10. Each new person adds more connections than the last. This is the same force that drives platform growth.

Four types in the lecture: direct (same-side, like your group chat), indirect (cross-side, like cardholders and merchants), data (usage improves algorithms), and negative (congestion, spam, fraud).

Day One: Nobody Shows Up — Now What?

You launch a marketplace. On day one you have zero sellers and zero buyers. Sellers will not list if nobody is browsing. Buyers will not browse if nothing is listed. This **chicken-and-egg problem** faces every two-sided platform at launch.

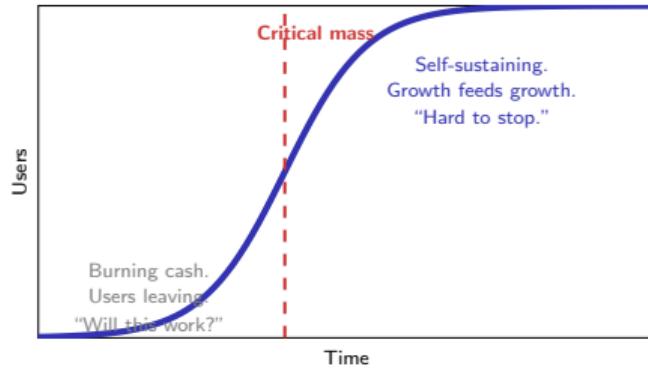
Six strategies the lecture works through:

1. **Subsidize one side** — pay people to show up
2. **Single-player mode** — be useful alone first
3. **Seed supply** — create the first listings yourself
4. **Piggyback** — launch inside an existing community
5. **Marquee user** — attract one big name that draws the rest
6. **Micro-market** — dominate one small niche, then expand

Each has trade-offs. The lecture covers when each works, when it backfires, and real cases of both.



The Moment a Platform Becomes Unstoppable



Critical mass: the point where organic growth exceeds churn without subsidies.

Before this point, the platform is fragile — one bad quarter can trigger a death spiral. After it, network effects compound and growth becomes self-reinforcing.

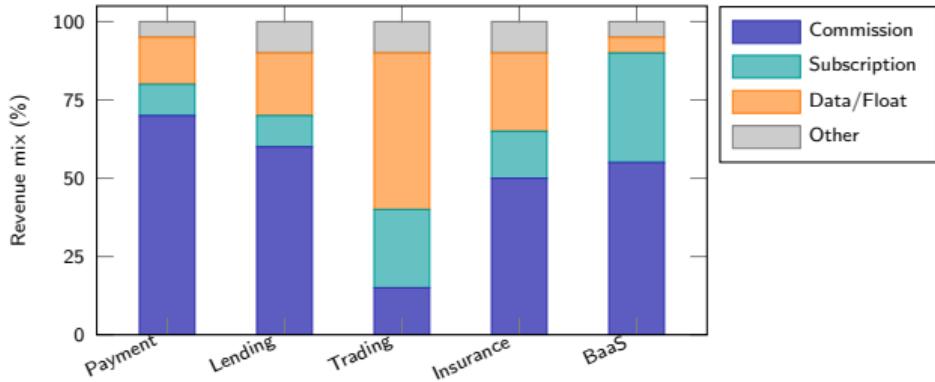
When does a market "tip" to one winner?

All three conditions must hold:

1. **Strong network effects** — each new user meaningfully increases value
2. **High switching costs** — leaving is painful
3. **Hard to multi-home** — using two platforms at once is difficult

If any condition is weak, competition survives. The lecture covers how to diagnose each.

Follow the Money: How Platforms Actually Get Paid



Illustrative revenue mix by FinTech platform type.

Notice: trading platforms earn most of their revenue from data and float — not commissions. If you pay zero commission, someone else is paying.

Four revenue models:

| | |
|--------------|----------------------------------------------------|
| Commission | % of each transaction |
| Subscription | Monthly or annual access fee |
| Freemium | Free basic tier, paid premium |
| Data/Float | Selling order flow, earning interest on held funds |

The health check — three numbers:

- Does each customer pay back more than it cost to get them? ($LTV > 3 \times CAC$)
- How long until they do? (payback < 18 months)
- How many leave each month? (churn < 5%)

The lecture uses these metrics to separate real businesses from venture-subsidized ones.

What the Lecture Covers: Eight Sections

| # | Section | Central Question |
|---|-------------------------|----------------------------------------------------------|
| 1 | What is a Platform? | What makes a platform different from a regular business? |
| 2 | Two-Sided Markets | Why do networks grow explosively — or collapse? |
| 3 | Strategy & Competition | How do you launch when nobody is there yet? |
| 4 | Business Models | Where does the money actually come from? |
| 5 | Data, Trust, Governance | Who controls the platform, and why does it matter? |
| 6 | Regulation & Failures | What kills a platform, and can regulation prevent it? |
| 7 | Platforms in Finance | How does this apply to payments, lending, and trading? |
| 8 | Synthesis | What happens when platforms decentralize? |

Lecture format

- 59 content frames, 13 diagrams
- 4 in-class discussion exercises
- 2 self-assessment quizzes
- 1 group workshop (you present)

Academic references

- Rochet-Tirole (2003/2006)
- Parker, Van Alstyne, Choudary (2016)
- Eisenmann, Parker, Van Alstyne (2006)
- Evans and Schmalensee (2016)