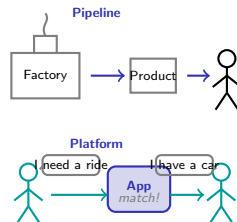


# Why Do Some Businesses Connect Instead of Produce?

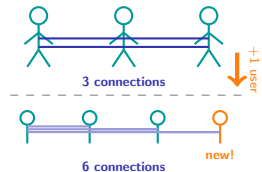
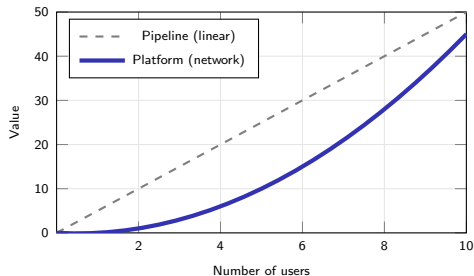
A bakery bakes bread and sells it. A ride-sharing app bakes nothing — it connects a rider with a driver. Both are businesses, but they follow entirely different economic logic.

	Pipeline	Platform
Does what?	Produces & sells	Connects groups
Grows how?	Linear	Non-linear
Owns 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.

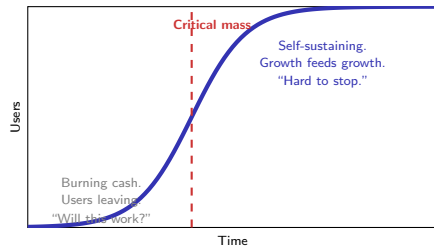
Six strategies the lecture works through:

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.

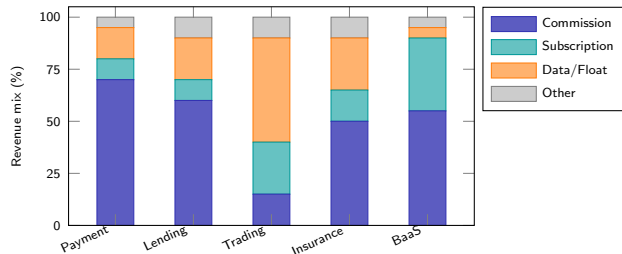
**When does a market “tip” to one winner?**

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)