Why platforms are so concentrated

- Network effects – more users attract more user to the platform
- The platform that has most users continues to draw more users in
- Self-reinforcing cycle
- Very challenging for new entrants

High Levels of Mergers and Acquisitions, and 'Killer' Acquisitions

- Digital platform firms have been very actively engaged in mergers and acquisitions.

- 2015- 2017, GAFAM acquired 175 companies, from small start-ups to billion-dollar deals.

- Since 2010, there are close to 500 acquisitions by these firms

- Google acquired 168 companies,

- Facebook 71 companies and Amazon 60 companies.

- Collectively, GAFAM has made 32 $1B+ acquisitions by 2020

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Winner-Take-All Markets

- Winner-take- all markets are platform markets in which there is **dominant platform that has a (quasi)-monopoly**

- Being in such a market is very advantageous for a platform as it **allows to set a higher prices** and **dictate** the contract **terms** - thereby **increase profitability**

Platform dynamics

- The dynamics of platform businesses encourage the formation of winner take all markets.

    - Network effects make the platforms to gravitate towards WTA markets

- In fear of losing their market position entirely, many platforms work to become the dominant platform.
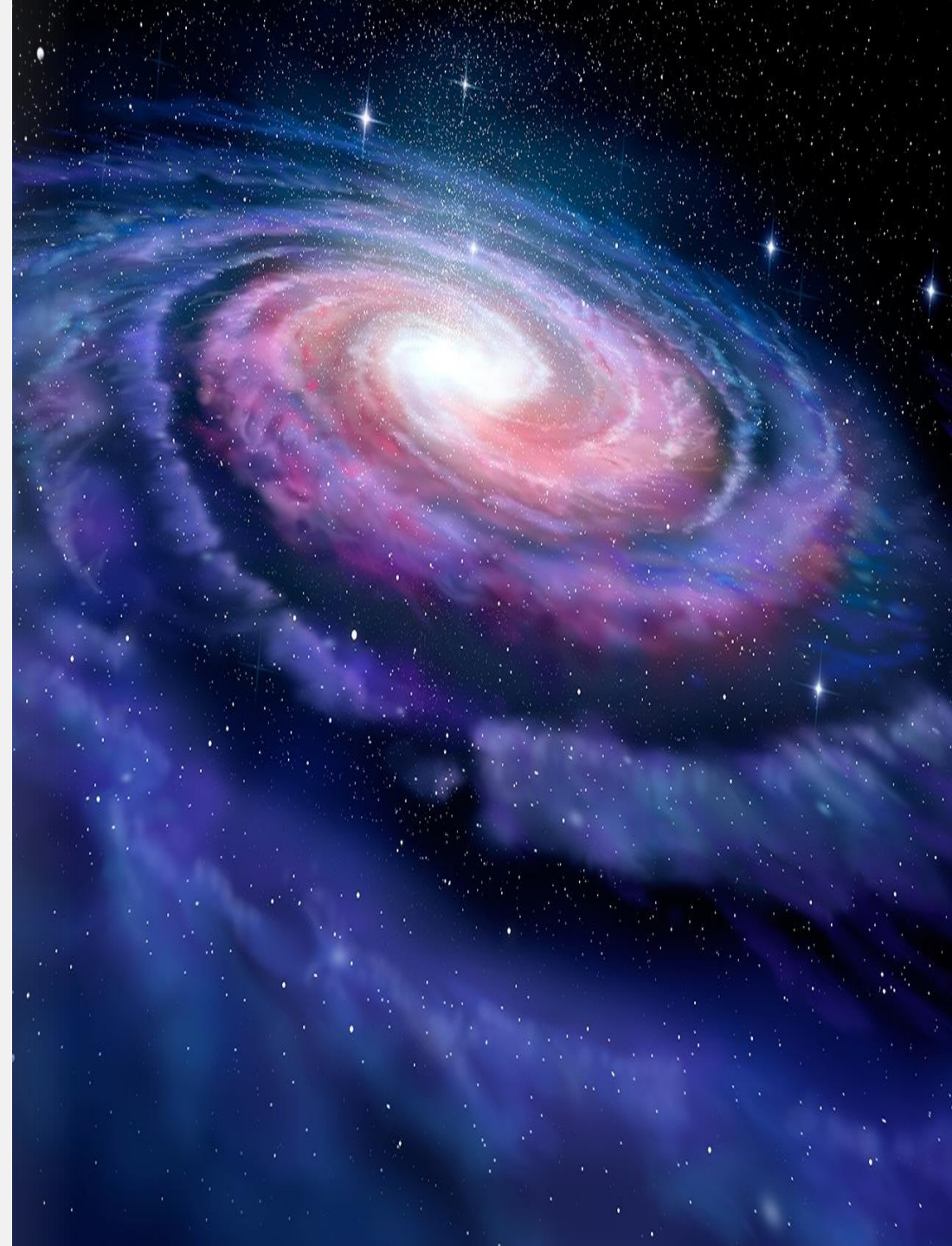
Winner-Take-Most Markets

- A lighter version of that is the winner take most market

- In such a market there are usually 1-3 dominant platforms and a stable competition

Winner take all Criteria

- Strong cross-side network effects
- High multi-homing costs
- Low need for differentiation

In case of Winner-Take-**Most** markets

- Meet at least two of the above criteria

Criteria I -Strong cross-side network effects

Cross-Side Network effects are defined as the effect an additional user for one side has on the users on the other side

Strong Cross-Side Network effects; cross side network effects at least for one side must be strong

If those cross-side network effects are strong it is an indicator for a high value network

Cross-Side network effects are stronger the more users a platform has on each side

Criteria II - High Multi-Homing Costs

Multi-homing costs are defined as the costs to be on multiple platforms at the same time

Those costs can be monetary and psychological

Example: There are high multi-homing costs for PC operating systems; switching between macOS and Windows requires you to buy a new computer

Criteria III - Low need for Differentiation

In markets where there is a low/no need for differentiation most customers/users are satisfied with a uniform platform

Example: Search Engines, there is a very low need for differentiation for search engines, consumer stick to one as they do not have a need to differentiate

Issues in WTA markets

- Economic dependency arises and users can find their choices limited, or controlled, leading to exclusion and/or exploitation through changing terms of trade.

- End-consumers may well be blissfully unaware that their choices are even limited or controlled at all.

- An imbalance of power raises risks of reduced choice and innovation.

- Big platforms have started to build started to build 'digital ecosystems' around their most successful platforms, trying to keep users ever longer in their economic orbit.

- Thereby, more data could be collected, and more offers be channelled through the ecosystem with more possibilities to profit from transactions

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Power of the Giants

- **Their business practices** to determine how their power **affects the economy and democracy**

- Each platform now serves as a **gatekeeper controlling access to markets**, these giants can **pick winners and losers** throughout our economy.

- They not only wield tremendous power, but they also abuse it by **charging exorbitant fees**, **imposing oppressive contract terms**, and **extracting valuable data** from the people and businesses that rely on them.

- Each platform uses its gatekeeper position to maintain its market power. By controlling the infrastructure, they have surveilled other businesses to **identify potential rivals**, and have **ultimately bought out, copied, or cut off their competitive threats**.

- And, finally, these firms have abused their role as intermediaries to further entrench and expand their dominance. Whether through self-preferencing, **predatory pricing**, or **exclusionary conduct**, the dominant platforms have exploited their power in order to become even more dominant.

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From Market Dominance to Technofeudalism

- Once platforms achieve monopoly status, they transform from market participants into digital landlords and can:

Control the means of production: They own the digital infrastructure that businesses need to reach customers

Extract rent: Companies must pay platform fees, follow platform rules, and surrender data to access users

Set the terms: Platform owners unilaterally decide policies, pricing, and who gets acess

- Companies become digital vassals - they may own their products, but they need the platform lord's permission and protection to reach customers.

- This creates a new power structure where wealth and control concentrate in the hands of platform owners, while other businesses become increasingly dependent on their digital infrastructure.

Varoufakis (2024)

The Self-Reinforcing System

Market dominance through network effects

Infrastructure control over essential digital services

Rent extraction from dependent businesses

Wealth concentration among platform owners

Political influence to maintain favourable regulations

Further market consolidation through acquisitions and competitive advantages

Varoufakis (2024)

There are six dilemmas that platforms in WTA markets face

1. Pioneers Dilemma

2. Subsidization and Monetization Dilemma

3. Pivot Dilemma

4. Remora (piggy-back) Dilemma

5. Integration Dilemma

6. Relationship Dilemma

Pioneer's Dilemma

- Pioneer's dilemma refers to the timing of launch of a technologically superior product/service by a start-up.

- If a start-up launches early, it should focus on solving the penguin problem and attaining critical mass.

- If it launches late, with already established competitors, it should focus on differentiating its services or products.
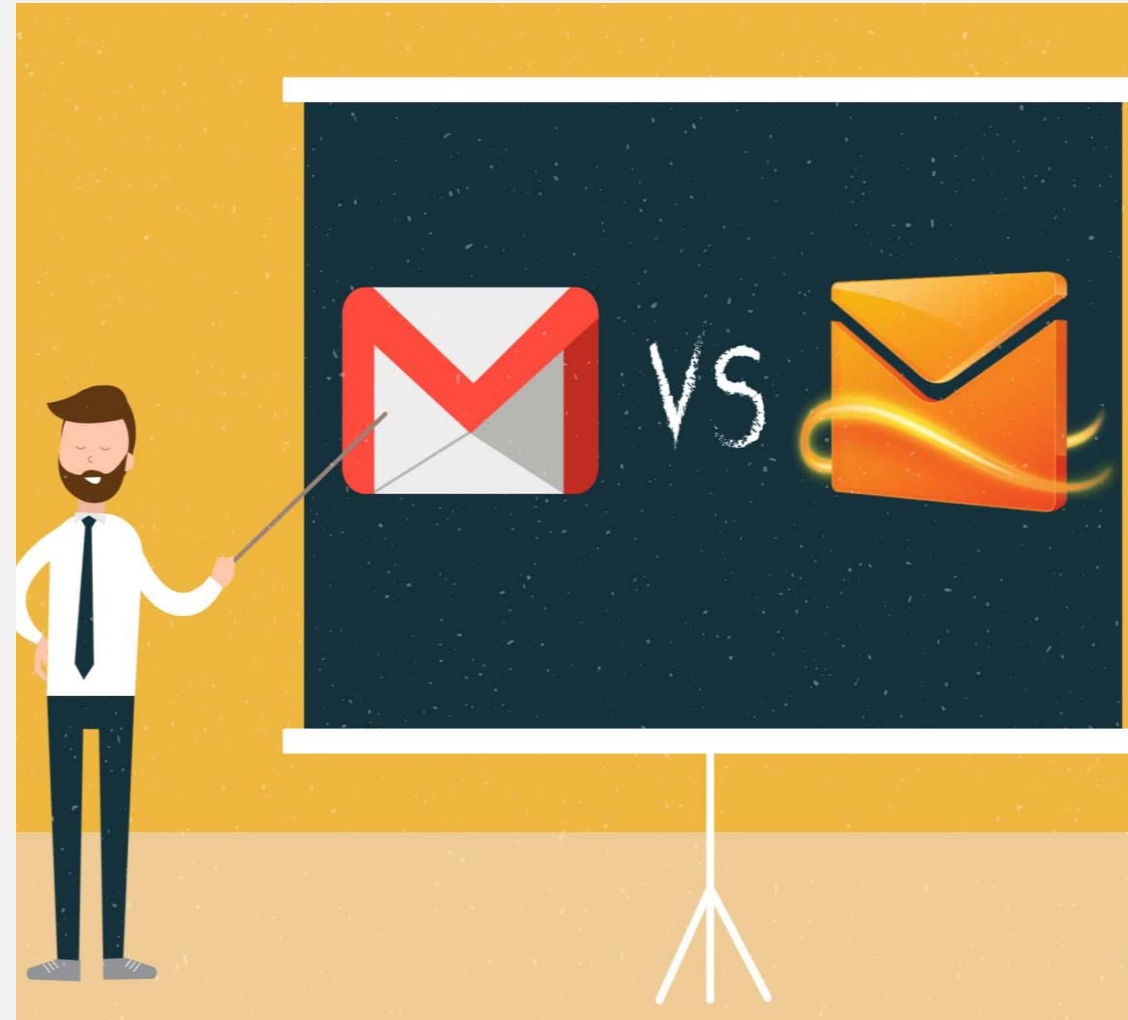
Subsidization and Monetization Dilemma

Platforms can subsidize one side of their business by either taking on heavy external funding or funneling the profits from another part of their business into a new market.

Subsidizing is expensive but can lead to explosive growth. The risk of subsidizing long-term is that users may grow to expect your service at a reduced price.

Pivot Dilemma

- Large and diversified platforms sustain an advantage over small and focused platforms.

- Platform start-ups have to be very careful regarding when they diversify. Unlike traditional businesses, platforms may benefit from earlier diversification.

Remora Dilemma

Some platforms do better early on if they attach themselves to a more established platform early on.

Platforms considering this strategy should think about five risks that arise due to the shark's dominant position:

1. Hold-up risk
2. Monetization control
3. Access to user data
4. Risk of brand commoditization
5. Exit costs

Integration Dilemma

If an established platform finds that their core users are gaining a high value from your integration, they may try to purchase your platform.

If this doesn't work, they may duplicate your service. Leaving you little choice.

Relationship Dilemma

- This refers to the bargaining power that a platform holds over its complementors.

- In WTA markets, complementors often have very little power and do not have direct access to consumer or transaction data.

- Platforms can leverage complementors' generated data and monetize it, leaving complementors in the dust.
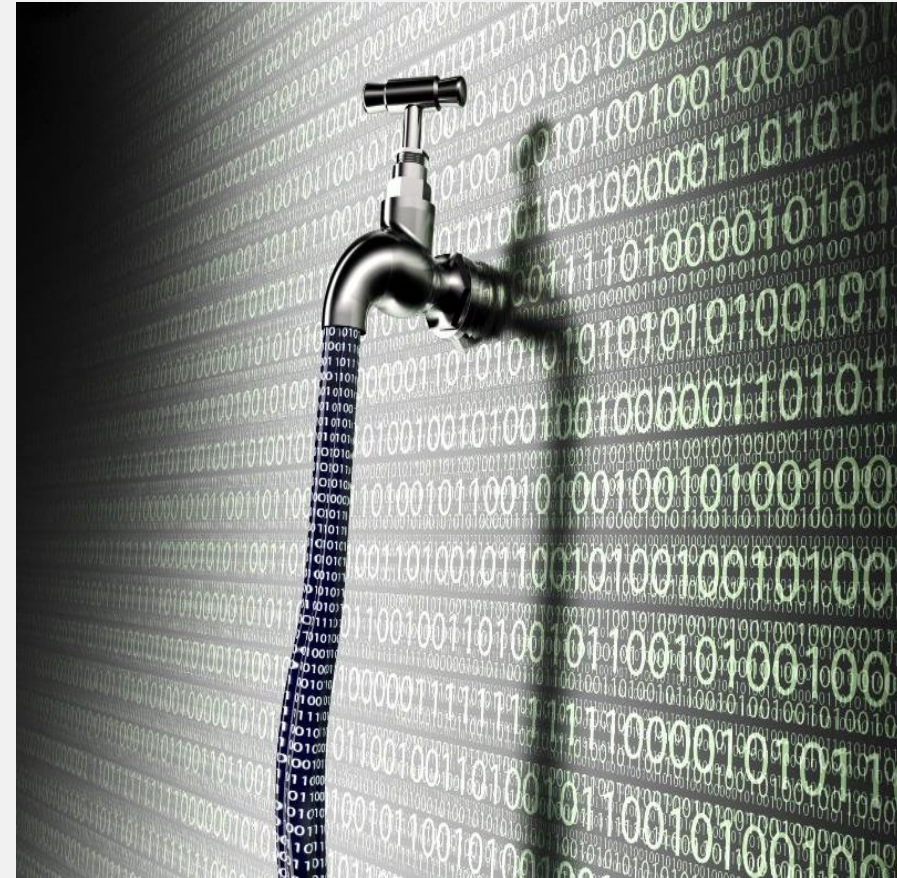
What is expected from excellent reflective answer

- The answer produces excellent syntheses, i.e., analytical summaries in relation to the course materials and brings various examples.

- The text forms a cohesive analytical whole and goes deep into a couple of the most central subject areas. (quality over quantity)

- The answer analyses the given question profoundly and considers even opposing viewpoints and arguments.

- The answer meets the formal criteria and learning outcomes and is additionally excellent in terms of readability and structure.

- Uses the technical vocabulary and concepts from the course and referencing

Helpful points to think when reflecting and writing about your experiences/challenges/decision making

- 1. Recognizing a situation as problematic

- 2. Considering the difference it makes to define the problem one way rather than another (evaluating the situation from different perspectives)

- 3. Developing a possible line of action as a response to the problem

- 4. Evaluating potential actions in terms of their likely consequences

- 5. Taking actions that are felt to be likely to address the problematic situation

Dewey (1922/2008)

Example: How did you make sure your platform idea was viable and what we the important matters to take into consideration? Describe main challenges and how you overcame those.

We developed our idea further thinking about the potential network effects our idea could generate. To have a viable idea we needed to think how we get users on both sides of the market since digital platforms are two sided markets and they need network effects to grow (Reference). This means that users on the one side attract users on the other side. Ideally platform should be able to create cross side network effects which means that both sides attract more users to the other side (reference). This proved to be our main challenge. We saw the motivation for the other side of users to be on the platform so our value proposition there was very clear – convenient, access to cheap services- however we struggled with our value proposition for the users on the other side and could not find strong enough motivation for the user group we first aimed to target. This means that we wouldn't have achieved cross-side network effects and thus could not scale (reference).

To overcome this challenge, we pivoted our approach by redefining our target user segments and strengthening the value proposition for the weaker side through additional incentives and features that addressed their specific pain points. We also considered the chicken-and-egg problem typical for platform businesses and developed a strategy to bootstrap initial user adoption on both sides simultaneously (reference).