

Criticality of Scale - MOAT and Differentiation

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Network Effects

“

Network effects have been responsible for 70% of all the value created in Tech since 1994. Founders who deeply understand how they work will be better positioned to build category-defining companies.

- James Currier @NFX, SFO based VC

”



Learning Objectives

At the end of this session, you will be able to:

Explain Network Effects:

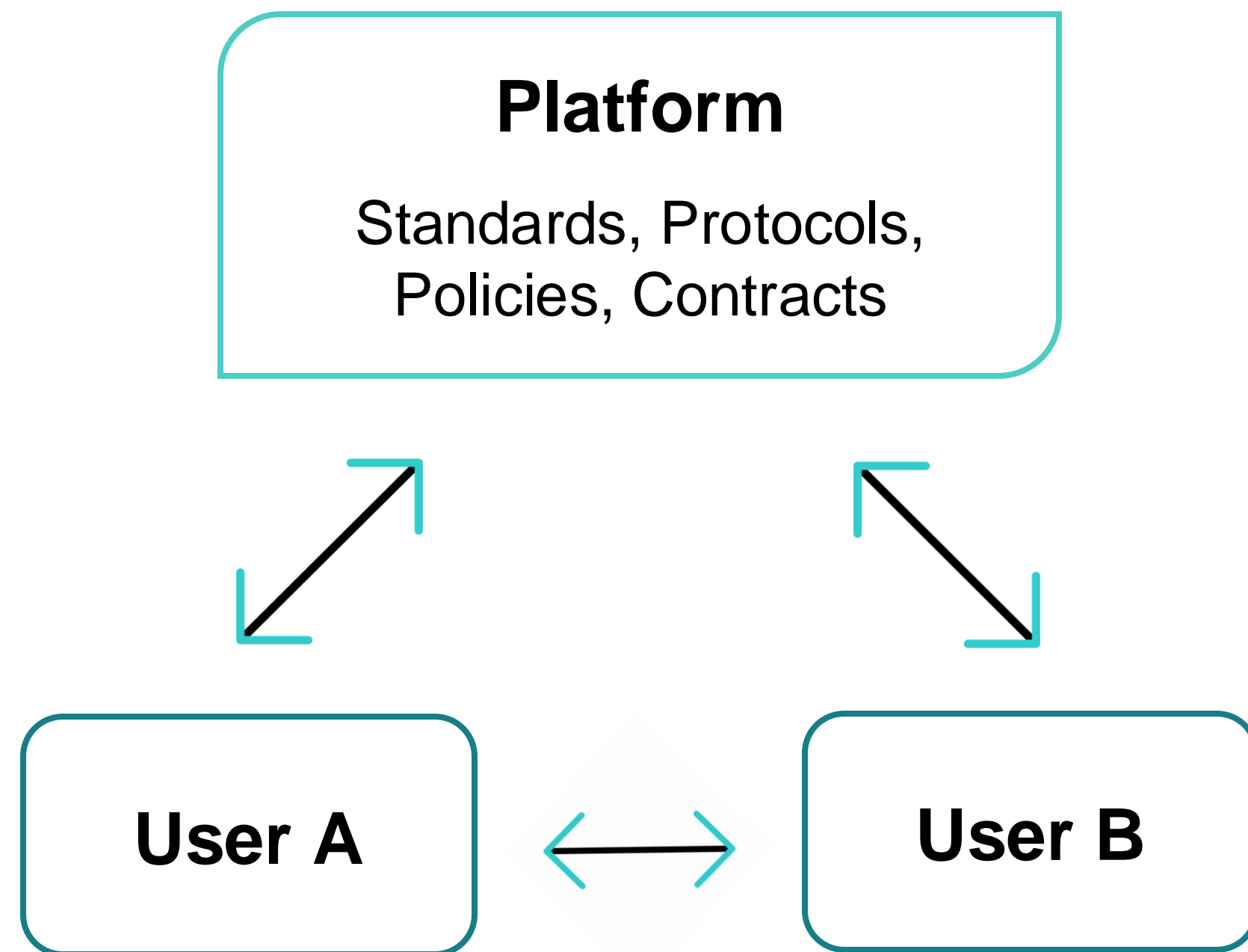
- Platform Mediated Networks and Types of Network Effect
- Evaluation of Network Effect MOAT
- Challenges in a Network Effect MOAT
- Strategies to Overcome the Challenges
- Unique Attributes of Platform Models of Competition

Discuss Case Study: Strategies for Two-sided Markets

Harvard Business Review by Tom Eisenmann, Geoffrey G. Parker, and Marshall W. Van Alstyne



Introduction to Two-sided Networks



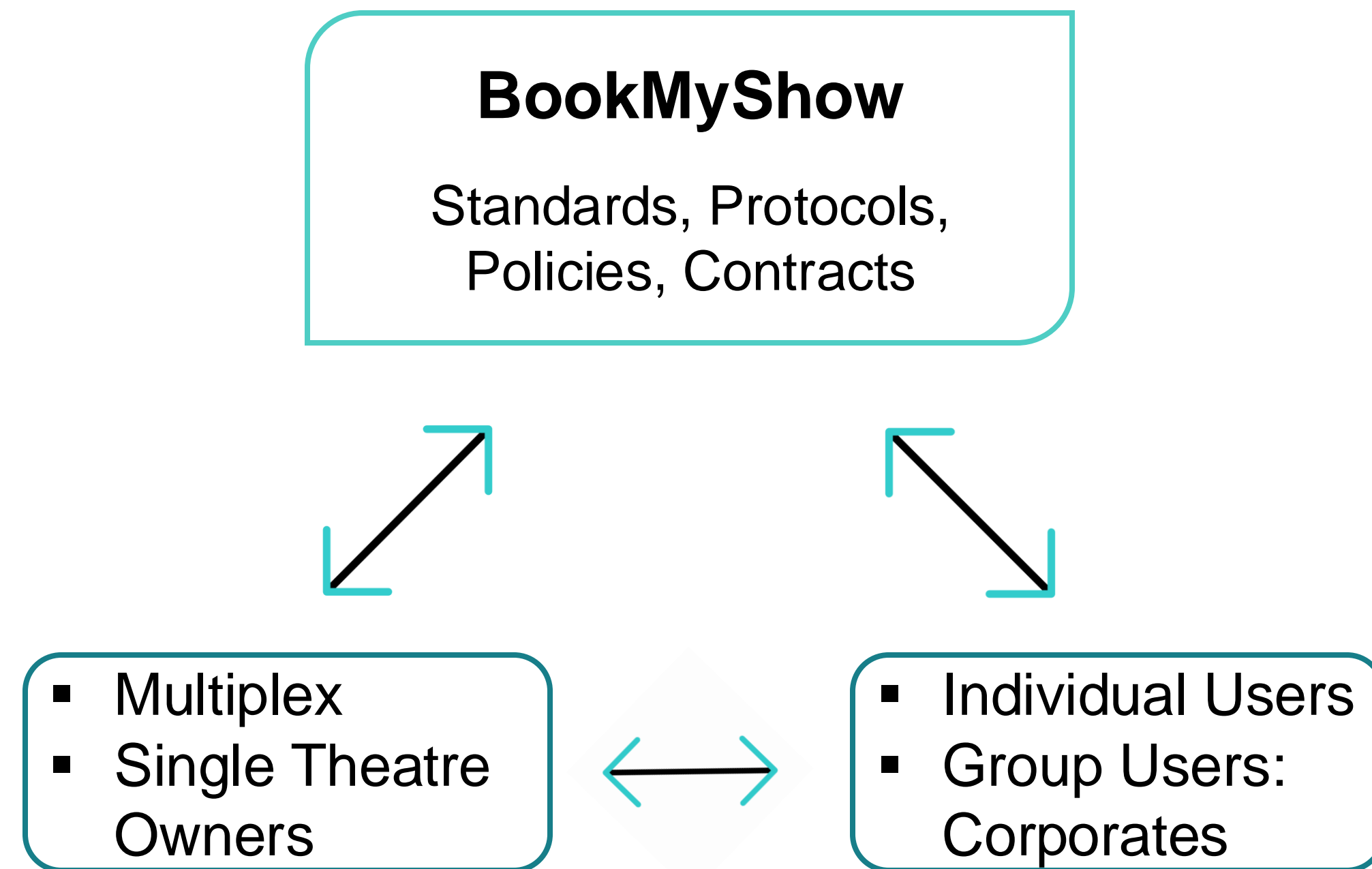
Platform:

- Offers products/services that bring together groups of users in two-sided markets.
- Provides infrastructure and rules to facilitate transactions between the two networks.
- Have to manage/grow two-sided markets differently than traditional business models.
- Value grows as the platform matches demand from both sides.

When successful, these platforms catalyse a virtuous cycle:
More demand from one user spurs more from the other



BMS: Introduction to Two-sided Networks

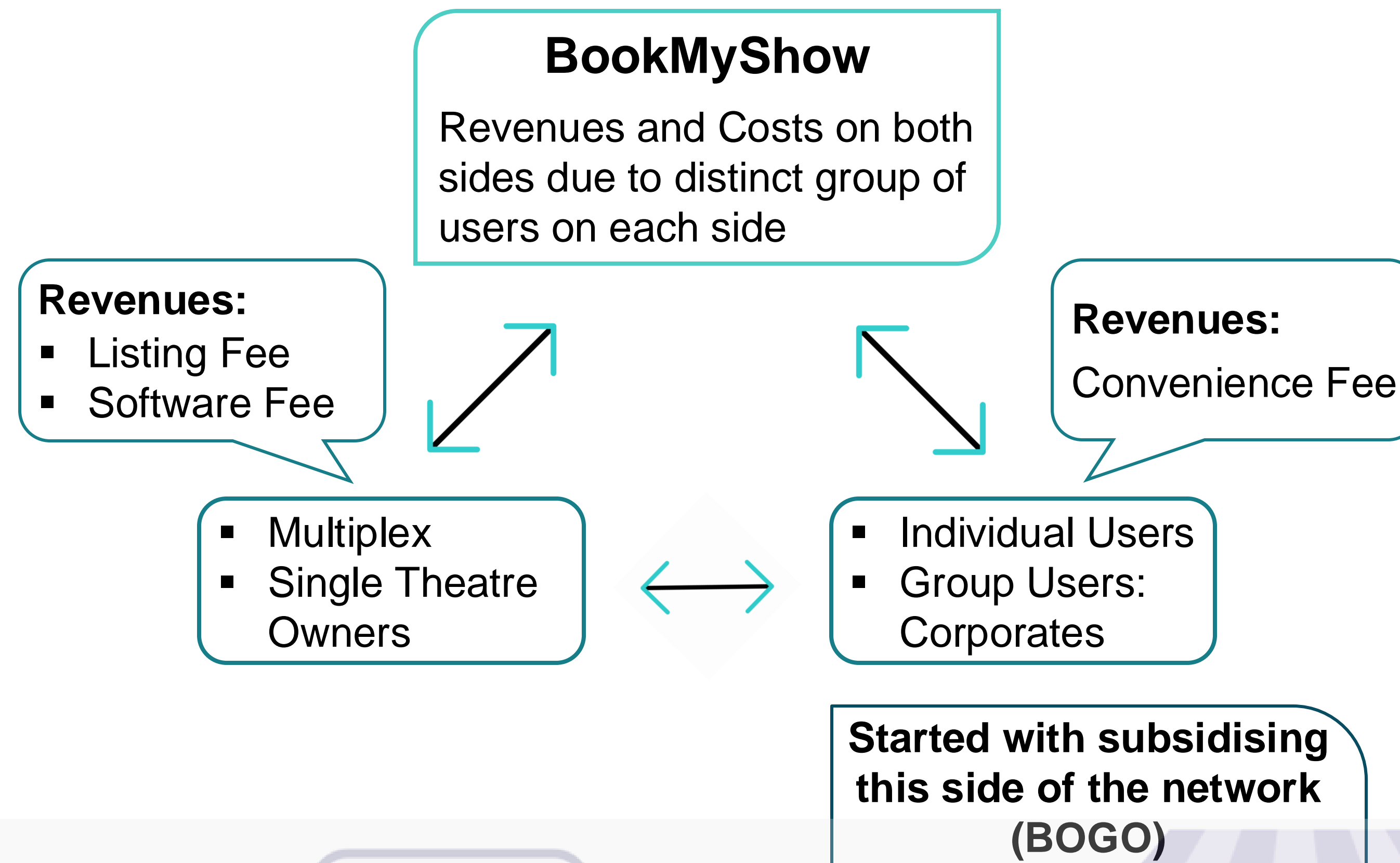



BookMyShow:

- Offers **booking services** that bring together **groups of users (exhibitors and cinema consumers)** in two-sided markets.
- Provides **Web/App booking** to facilitate **transactions between the two networks** (pre-book tickets, food/drinks at theatres, payments).

BMS has scaled to become the largest entertainment platform in India and has gone beyond cinemas to provide bookings for sporting and live events, **catalysing a virtuous cycle.**

Platform: Costs and Revenues (BMS)



 The platform incurs costs in serving both groups and can collect revenue from each, although one side is often subsidised.



Platform: Costs and Revenues (Zomato)

Zomato

Revenues and Costs on both sides due to distinct groups of users on each side

400k Delivery Partners along with a large Tech, BD & Corporate team

247k Restaurant Partners

18 million Consumers

Revenues:

- Onboarding fees
- Commissions
- Ad Revenue

- Delivery fees
- Platform fees
- Rain fees, etc.
- Membership

Started with lower commissions to regional and national brands to attract them as anchor

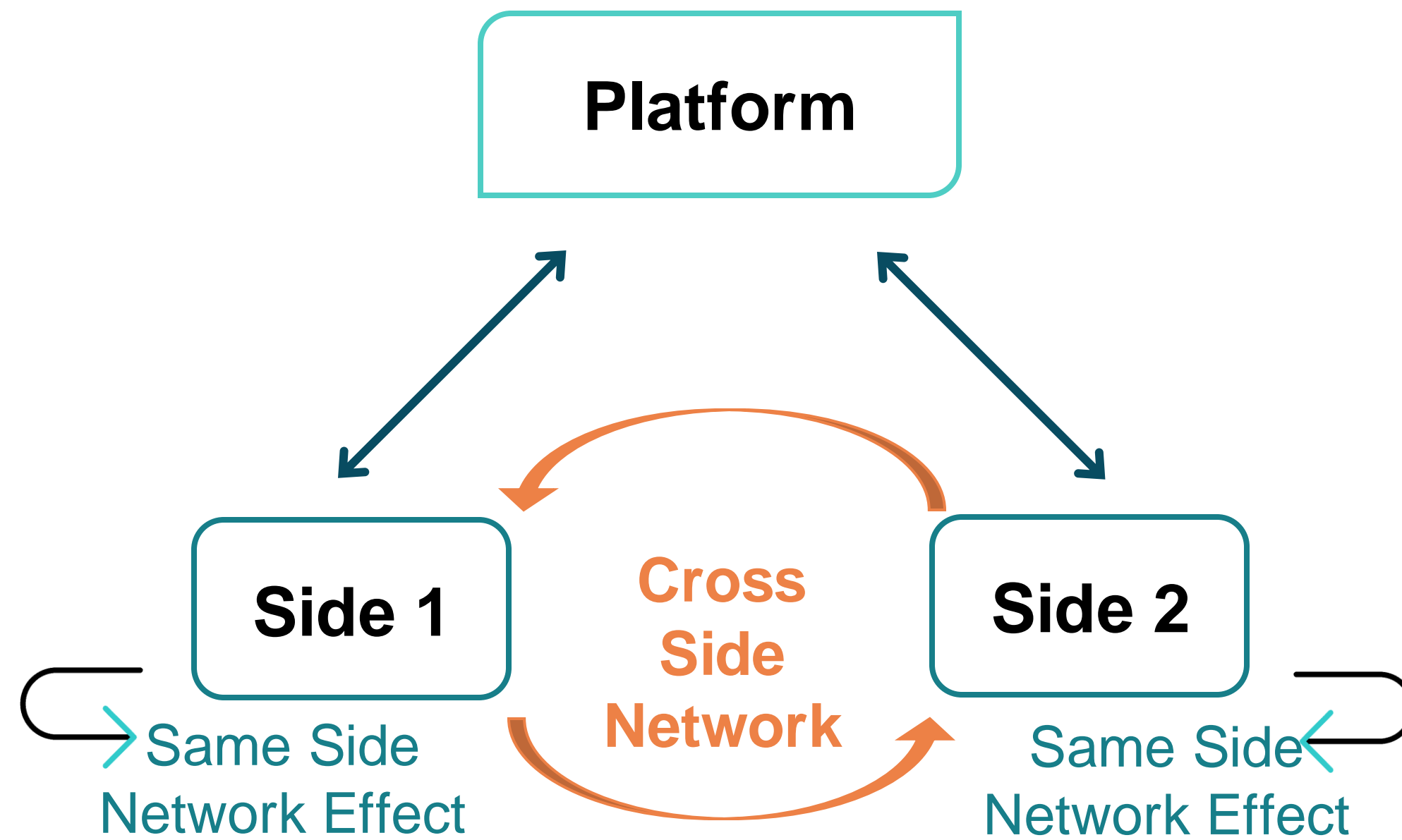
Started with subsidising this side of the network (Free Delivery)



The platform incurs costs in serving both groups and can collect revenue from each, although one side is often subsidised.



Cross Side and Same Side Networks



Same Side Network Effect:

Increasing the number of users on one side of the network makes it either more or less valuable to users on the same side.

Example:

- Naukri vs. IIM Jobs vs. Native
- Sellers prefer fewer rivals in B2B exchanges/platforms

Cross Side Network Effect:

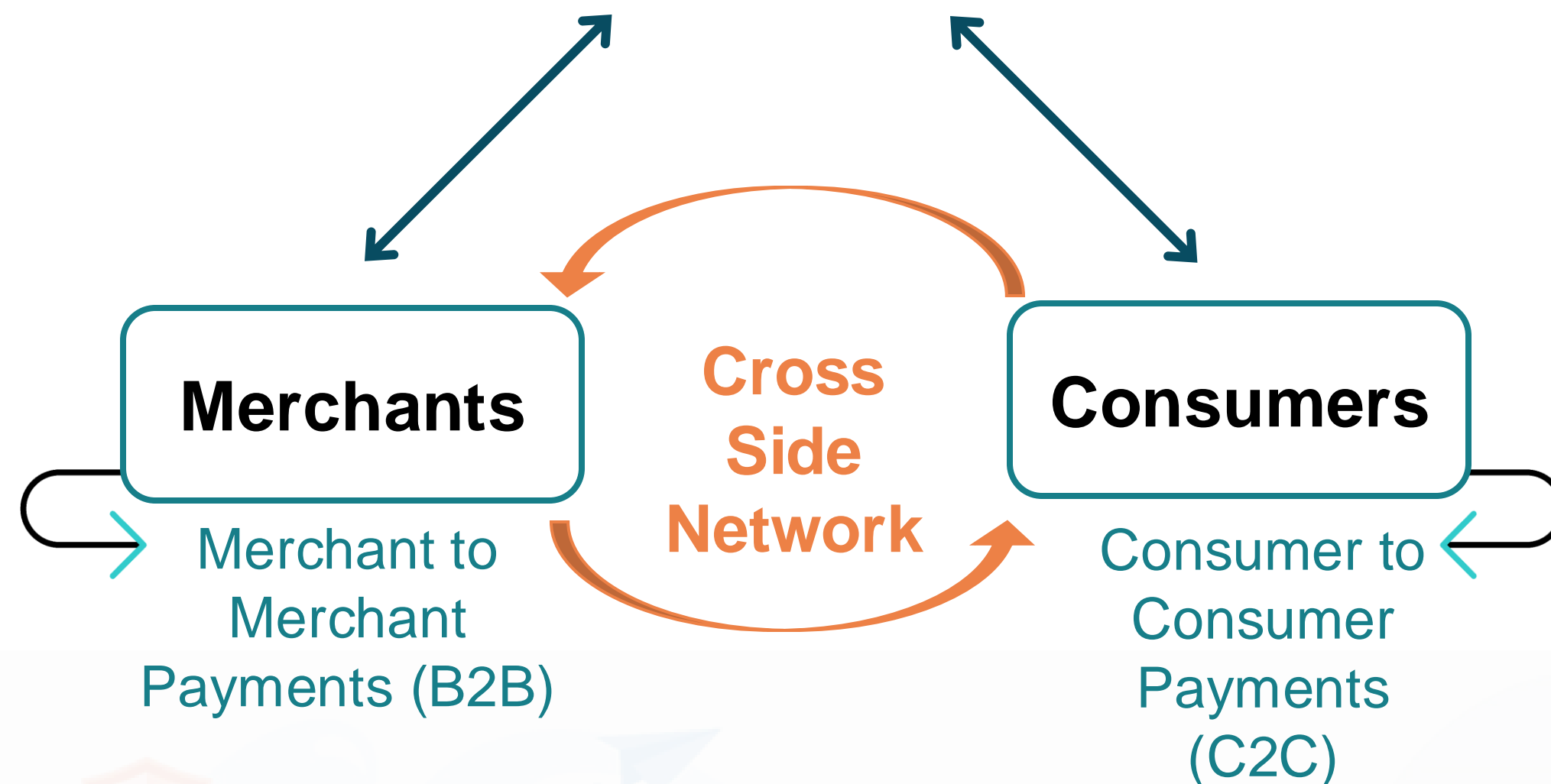
Increasing the number of users on both sides of the network often makes it more valuable.



UPI: Same Side and Cross Side Network Effect

UPI (Owned by NPCI)

Core Objective: A convenient payment stack for the unbanked or first-time digital consumers and merchants

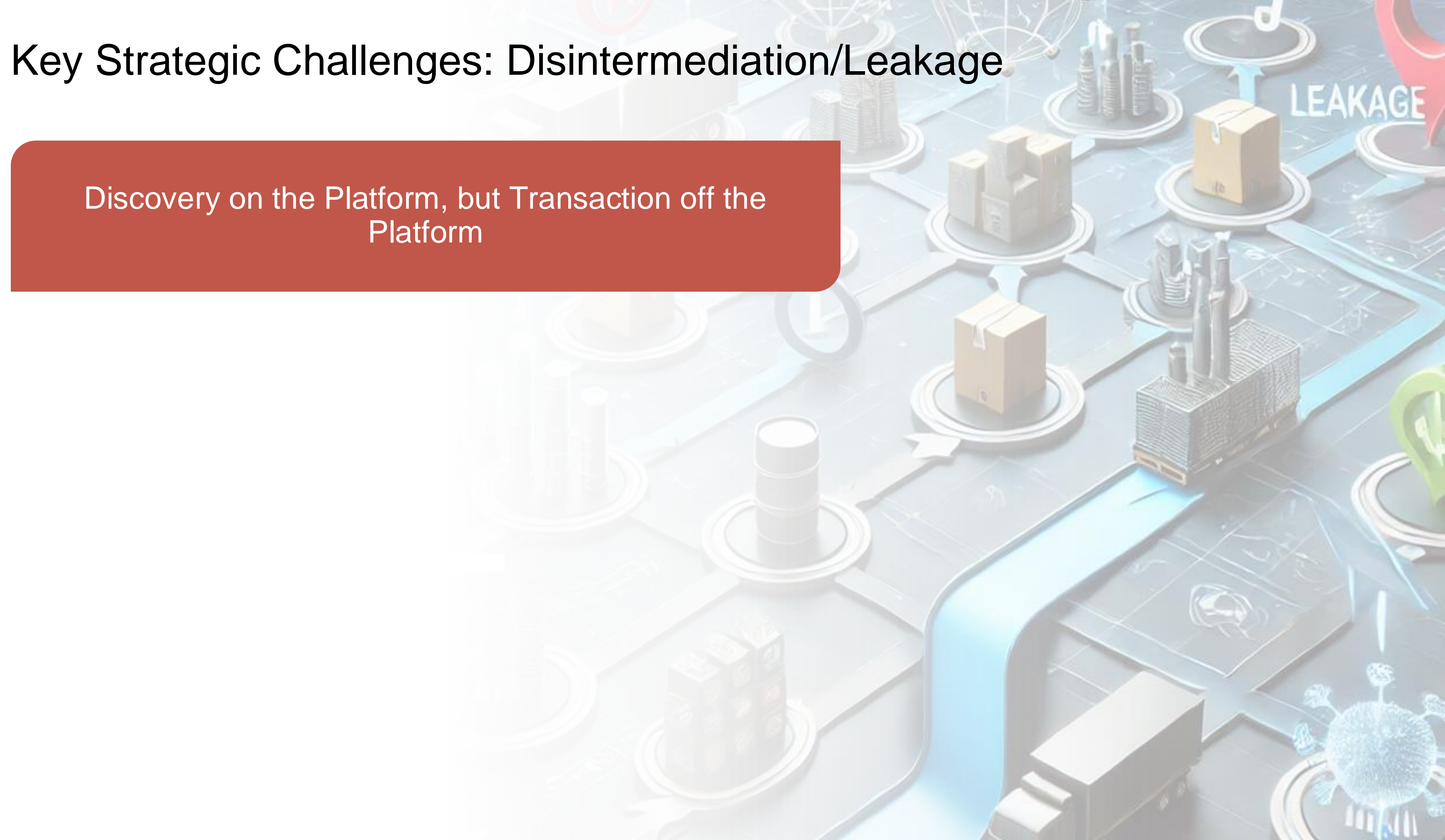


Same Side Network Effect:

- UPI stack has displayed a positive network on both sides.
- Example:
 - B2B payments** happening seamless without having to visit the bank, NEFT or RTGS.
 - C2C payments** have reduced the burden on the banking system for small payments without having to visit banks.

Key Strategic Challenges: Disintermediation/Leakage

Discovery on the Platform, but Transaction off the Platform



Key Strategic Challenges: Pricing

Subsidising One User Network to Scale Users

Get Pricing Right - Consider the following strategies:

- ⚙️ Subsidise quality and price-sensitive users
- ⚙️ Secure **marquee** users exclusive participation in the platform

PRICING

Key Strategic Challenges: Winner Takes all Market

To Capture the Advantages that Platforms Promise, You Must Address Three Key Strategic Challenges

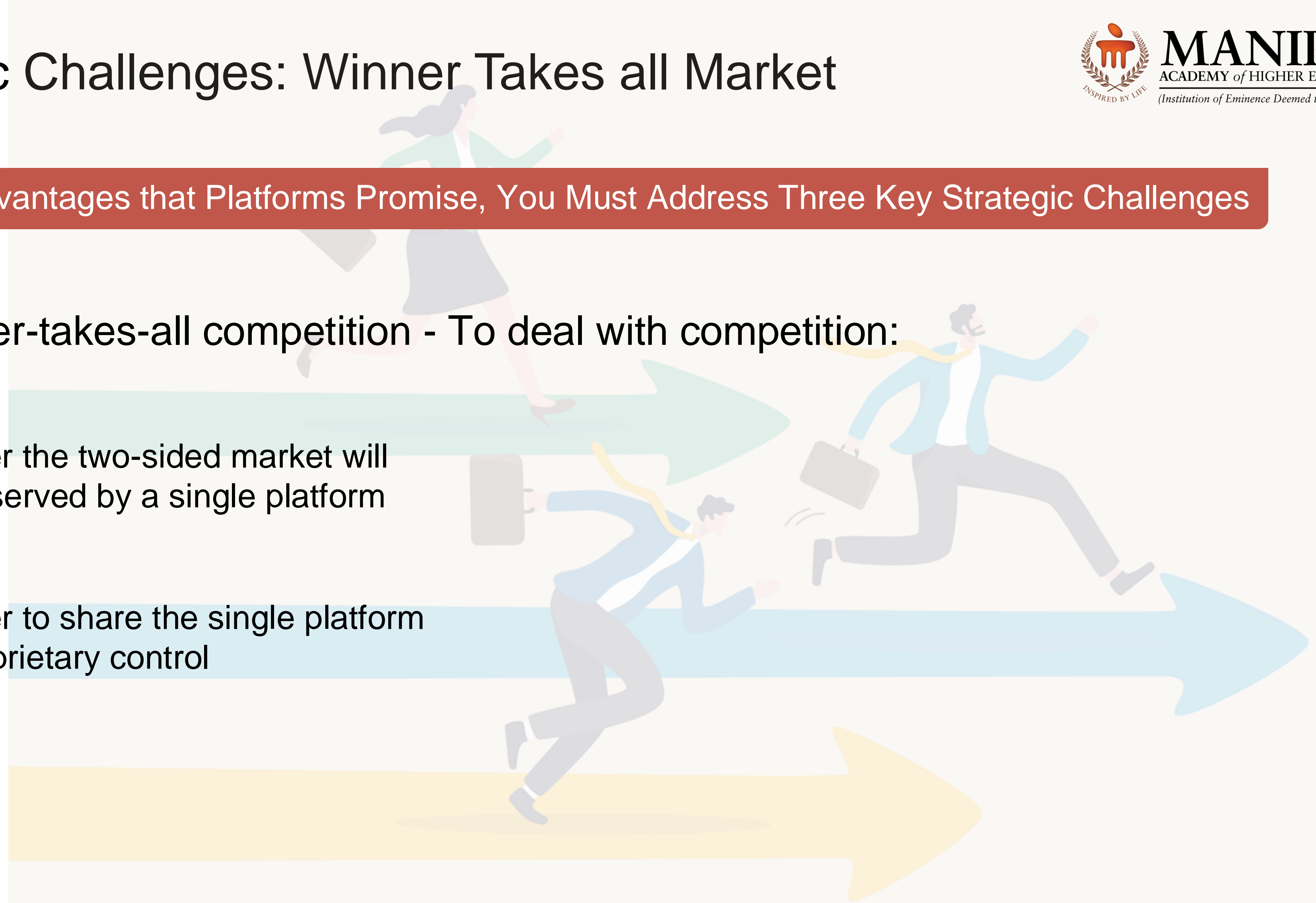
Cope with winner-takes-all competition - To deal with competition:



Decide whether the two-sided market will eventually be served by a single platform



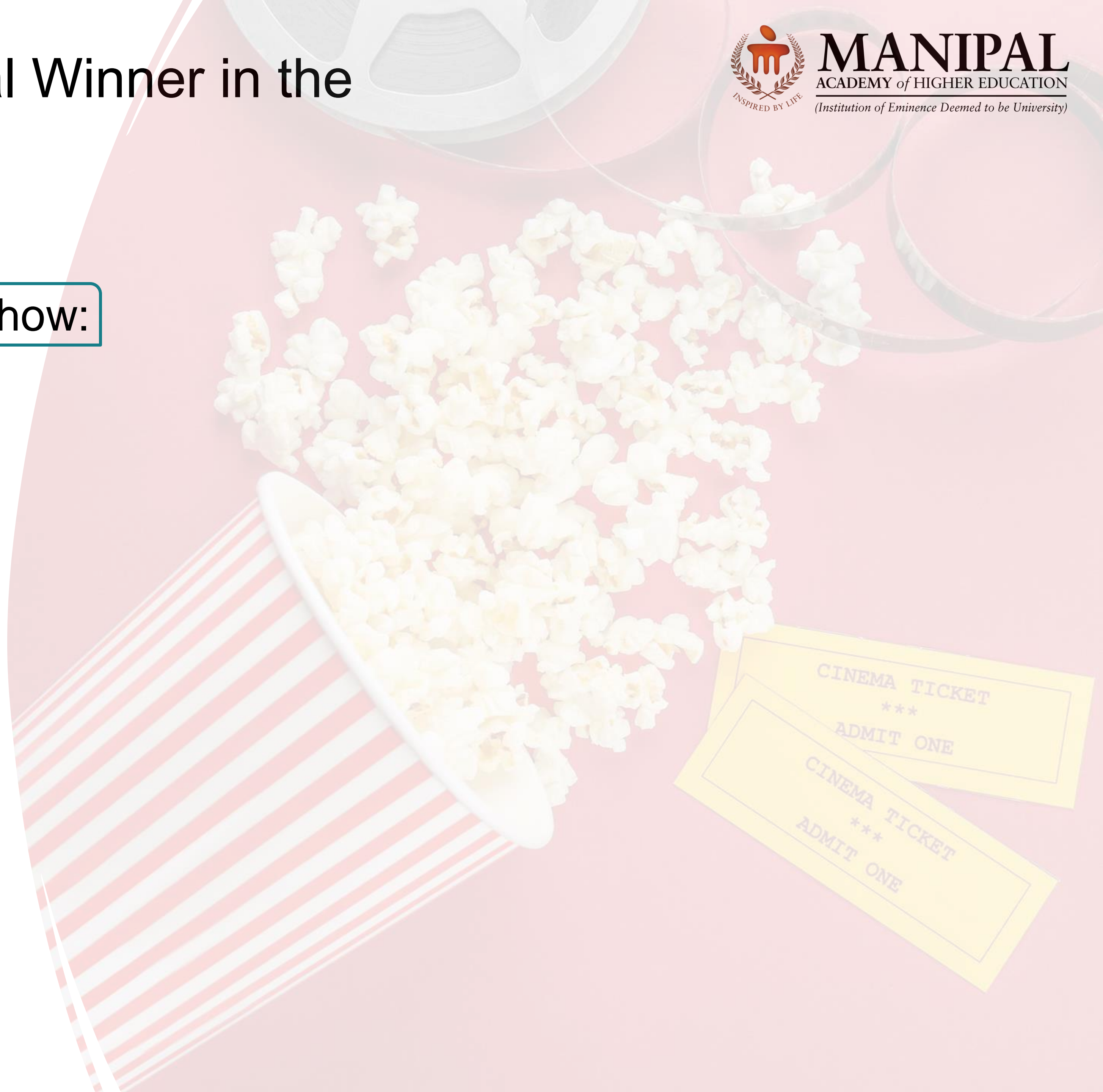
Decide whether to share the single platform or fight for proprietary control



Is “Book My Show” the Eventual Winner in the Ticketing Space?

PVR decided to give way to BookMyShow:

-  PVR decided to cope/partner with BMS
-  BMS moved to a near monopoly **Winner takes all Market**
-  Paytm a far second with near zero or negligible market share.



To Counter “District” will “BMS” go back to Subsidising One Side of the Network or Both Sides?

BookMyShow

Revenues and Costs on both sides due to distinct group of users on each side

Revenues: ?

Revenues: ?

- Multiplex
- Single Theatre Owners


- Individual Users
- Group Users: Corporates


What incentivize will this “User Base” get? Introduce a Minimum Revenue Guarantee??

Will it go back to dropping the convenience Fee to near Zero??

Now comes Zomato: Can it dent BMS with its “District”?

 Acquired Paytm’s ticketing for ₹2000+ crores

 Launching a “resale feature”

 Will it subsidise both sides of the network??



What is Zomato Doing?



Key Strategic Challenges: Envelopment

Platforms suffer the highest risks with common overlapping user groups

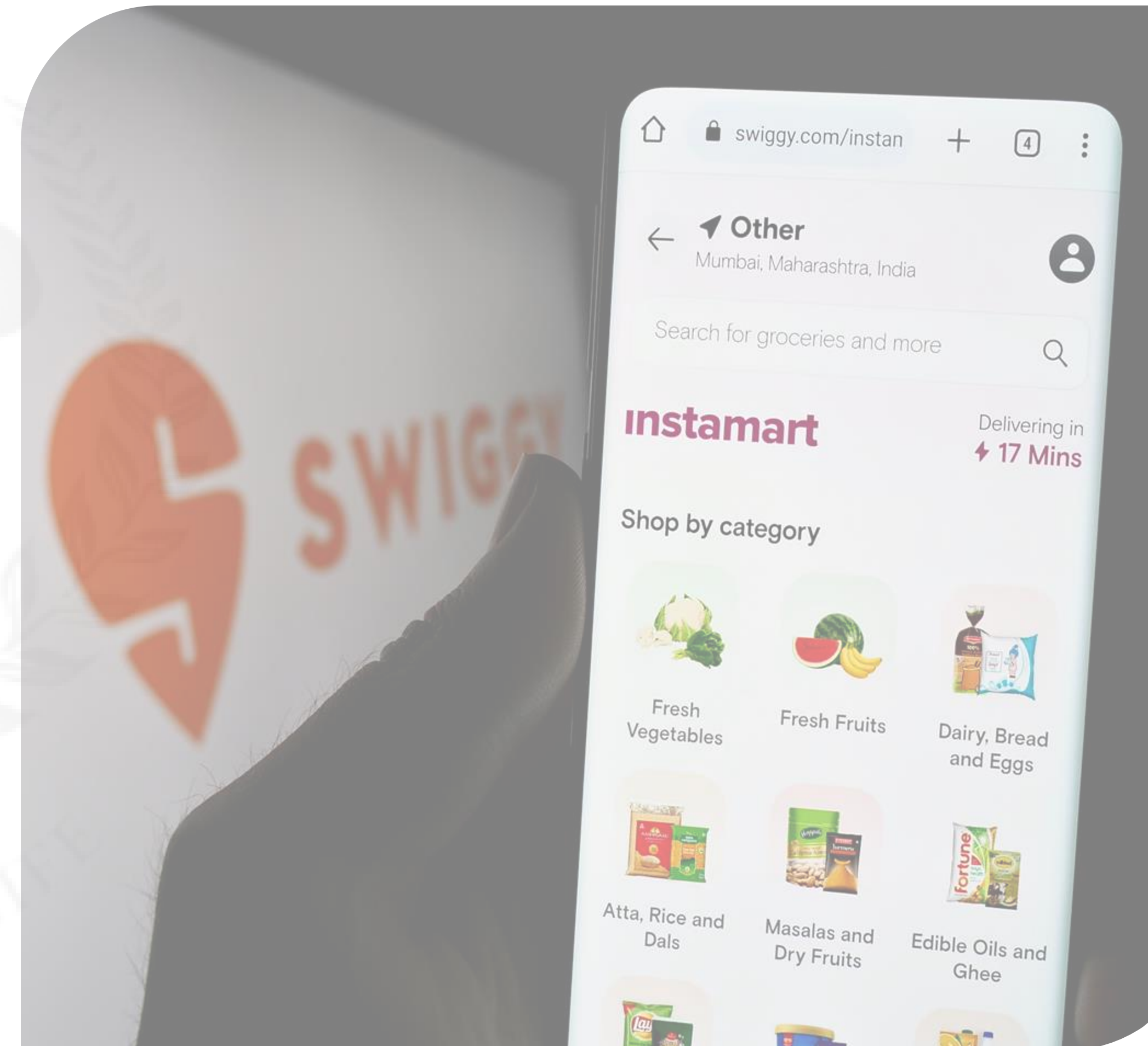
What is Envelopment?

Many platforms have overlapping user groups, tempting some related platform providers to swallow other users

Examples

Swiggy

Swallowing users of Big Basket (Instamart), Dunzo (Point to point delivery) using its infrastructure



Key Strategic Challenges: Envelopment

Platforms suffer the highest risks with common overlapping user groups

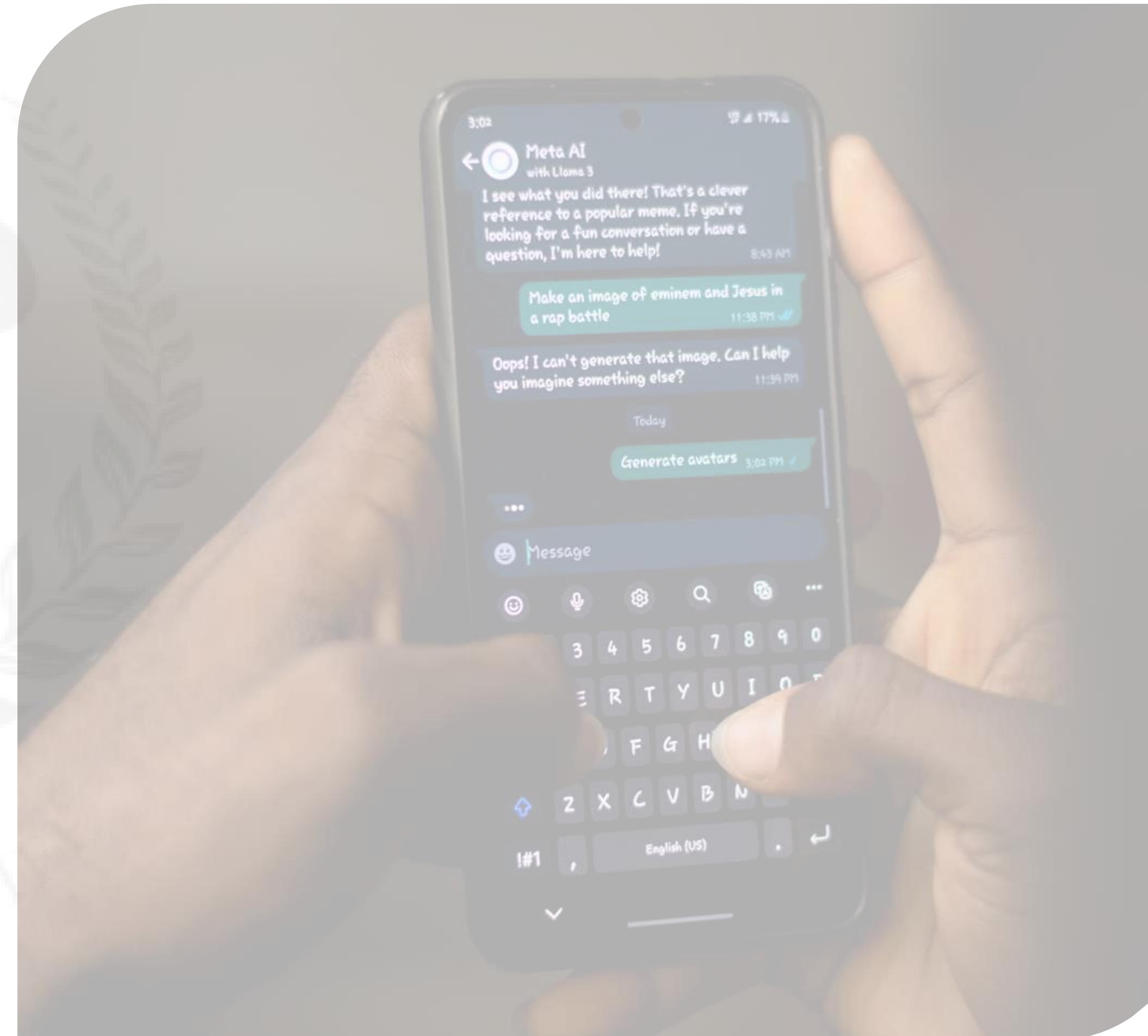
What is Envelopment?

Many platforms have overlapping user groups, tempting some related platform providers to swallow other users

Examples

WhatsApp in India

- Trying to swallow users of Paytm/PhonePe (WhatsApp pay)
- Trying to swallow users of Google on Customer retention strategy (Business WA chat)
- Trying to swallow users of Google Search (Meta AI)



Key Strategic Challenges: Envelopment

Platforms suffer the highest risks with common overlapping user groups

What is Envelopment?

Many platforms have overlapping user groups, tempting some related platform providers to swallow other users

Examples

Zomato

Attempting to swallow users of BookMyShow (District), Big Basket (Blinkit)



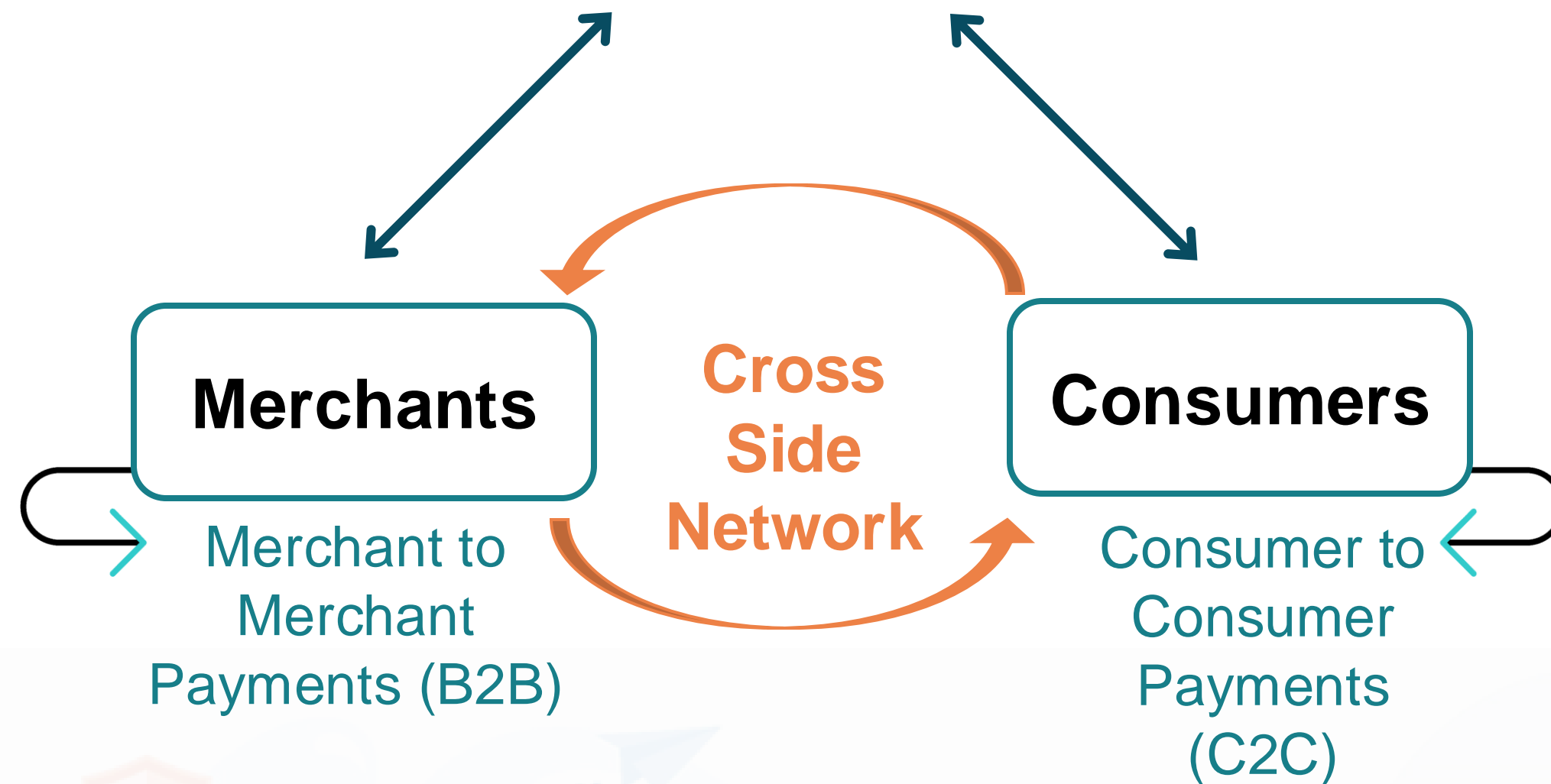


Avoid Envelopment?
Consider changing your **Business Model**




Envelopment: Products for the Same User Base (UPI)

UPI (Owned by NPCI)

Core Objective: A convenient payment stack for the unbanked or first-time digital consumers and merchants



Success & Scale of UPI is enabling other (envelopment) products for the same user base:

-  Commerce: ONDC
-  Credit: OCEN
-  Mobility: Namma Yatri or the likes



Key Questions to Evaluate the Strength of Network Effects



To what extent do users really care about how many other users also buy the same product or service?



How quickly does the extra value created for users diminish as additional users are added?



For marketplaces, do buyers view suppliers as distinct/differentiated, or do they view them as interchangeable providers of the same product or service?



Is the network effect global (e.g. Airbnb, Upwork) or local (e.g. Task Rabbit, Uber)?



How difficult is it for buyers/suppliers/users to “multihome” (i.e. be active on multiple competing platforms)?



How easy is it for users to coordinate their adoption decisions?












Does the matching of buyers to suppliers (or between users) have to be synchronous or can it be asynchronous?

The background is a gradient of brown and tan colors. It features several large, overlapping circular and semi-circular shapes. Some are solid colors (like a bright orange circle in the bottom right), while others are white outlines (like a large semi-circle in the top right and another in the bottom left).

HAPPY LEARNING!



Some Famous Frameworks

-  Porter's 5 Forces
-  Porter's Generic Strategies
-  BCG matrix
-  SWOT
-  McKinsey's 7S Framework
-  4Ps
-  5Cs
-  Value Chain Analysis
-  CAPM, NPV

