

Criticality of Scale - MOAT and Differentiation

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Learning Objectives

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

Explain Network Effects:

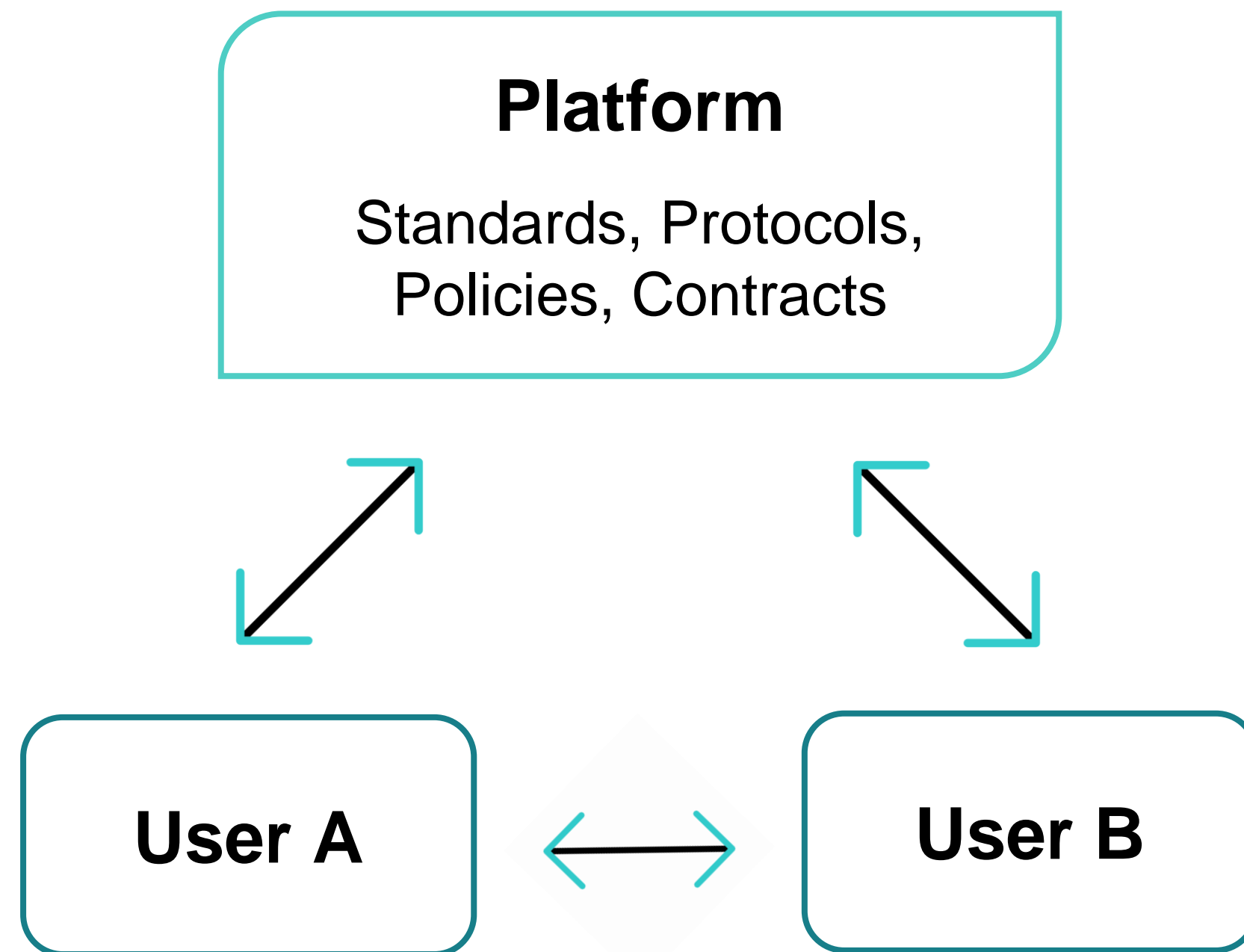
- Platform Mediated Networks and Types of Network Effect
- Evaluation of Network Effect MOAT
- Challenges in a Network Effect MOAT
- Strategies to Overcome the Challenges
- Unique Attributes of Platform Models of Competition

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



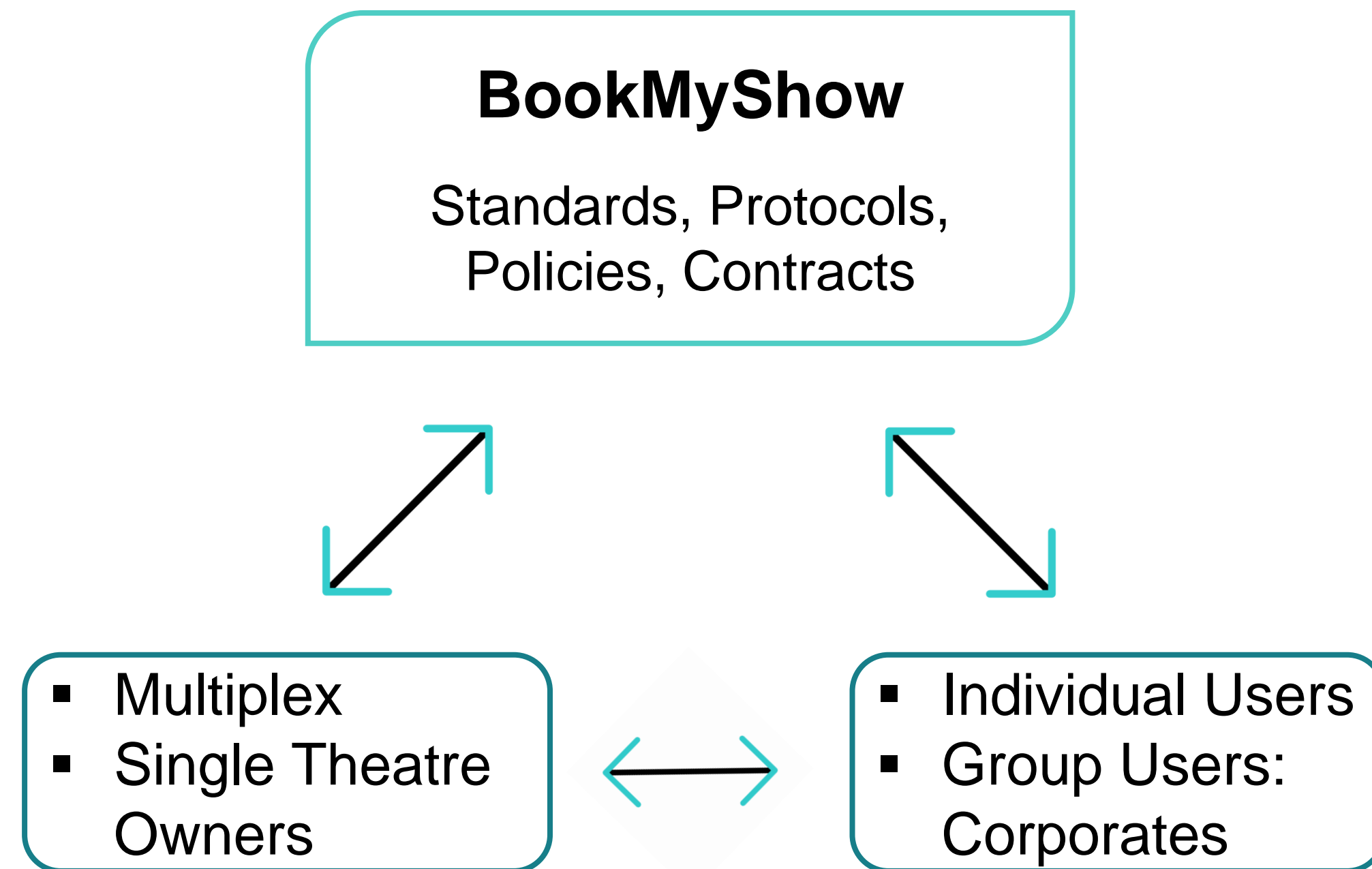
Platform:

- 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

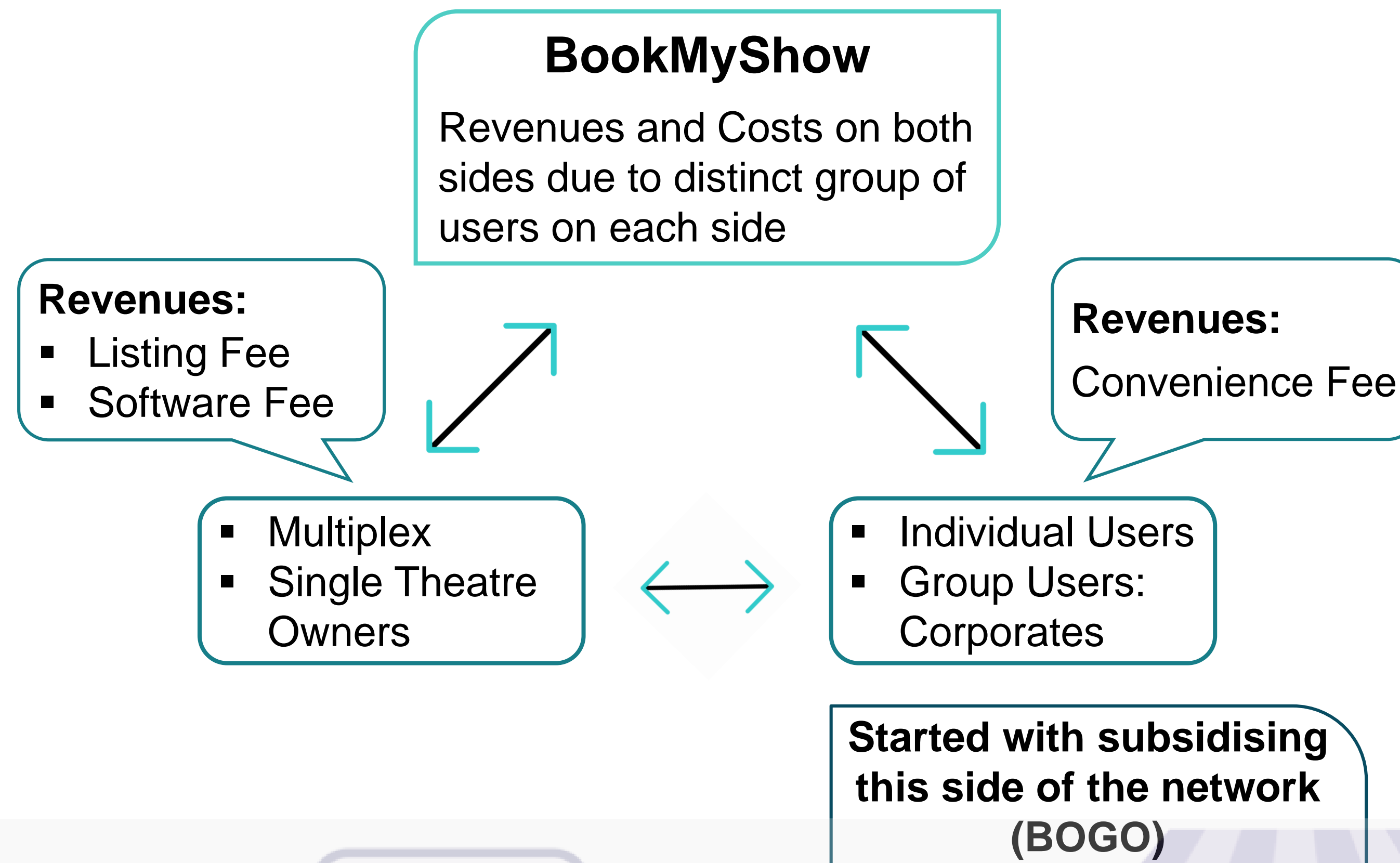



BookMyShow:

- 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

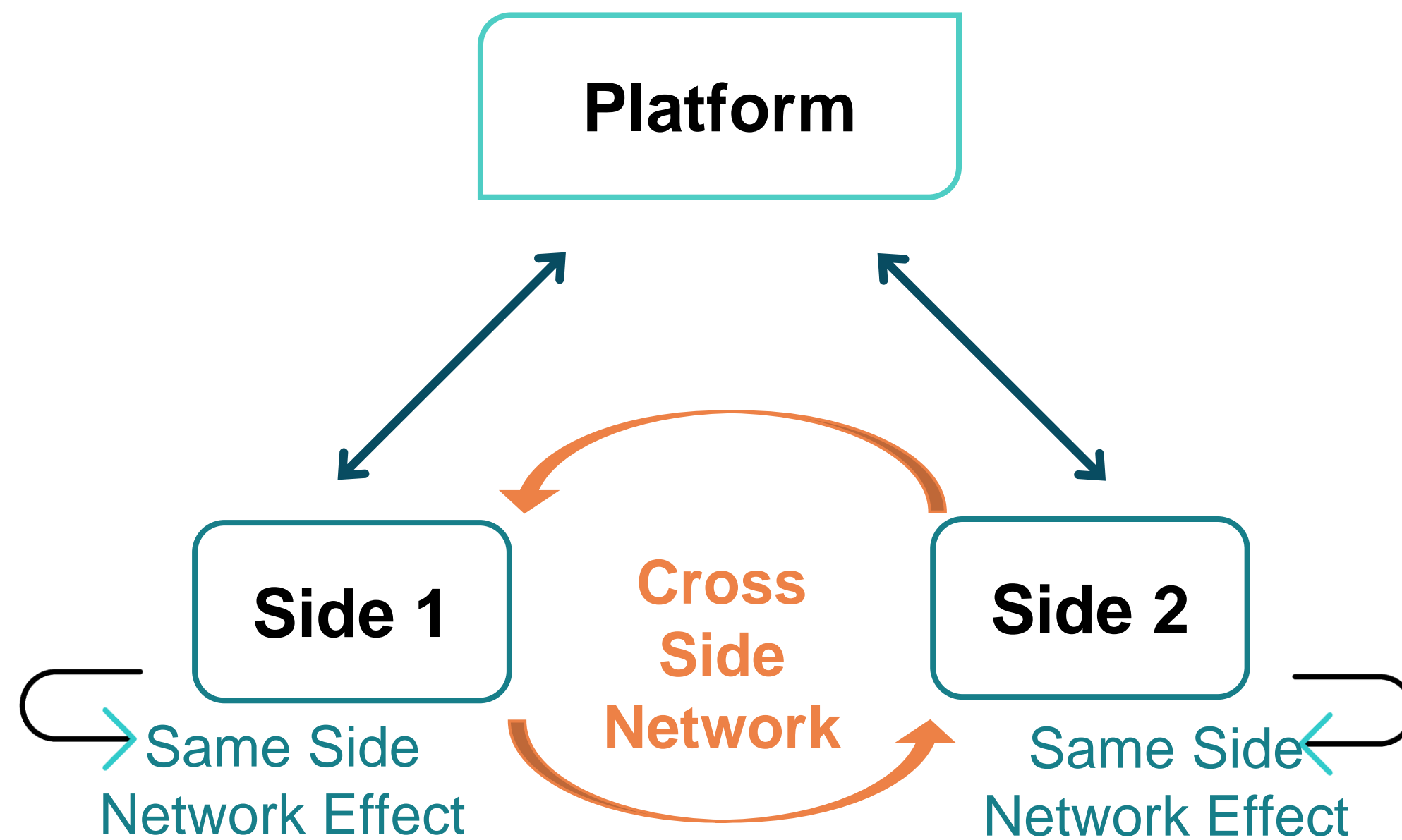
Started with subsidising this side of the network (Free Delivery)



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:

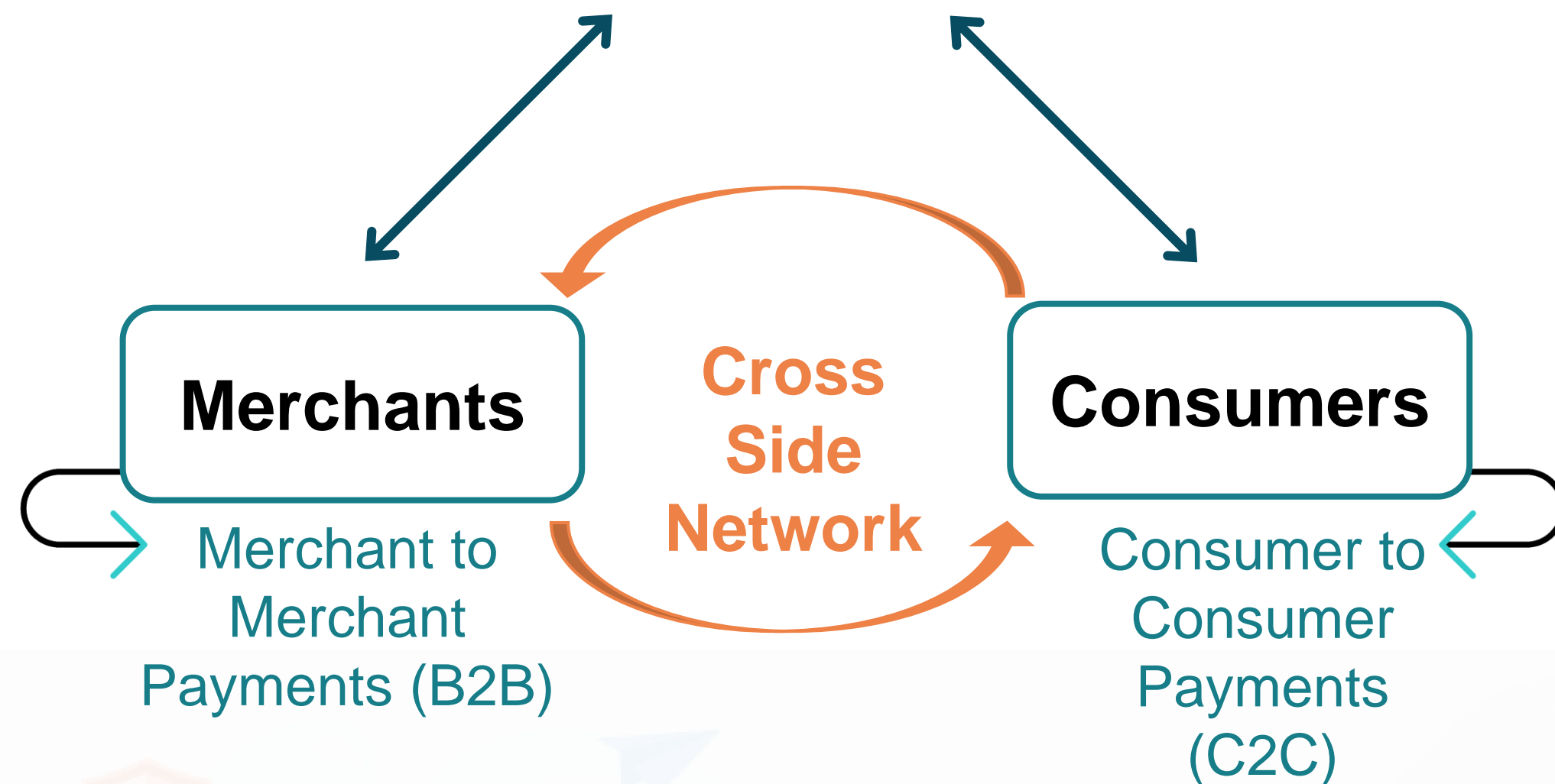
Increasing the number of users on both sides of the network often makes it more valuable.



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: 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

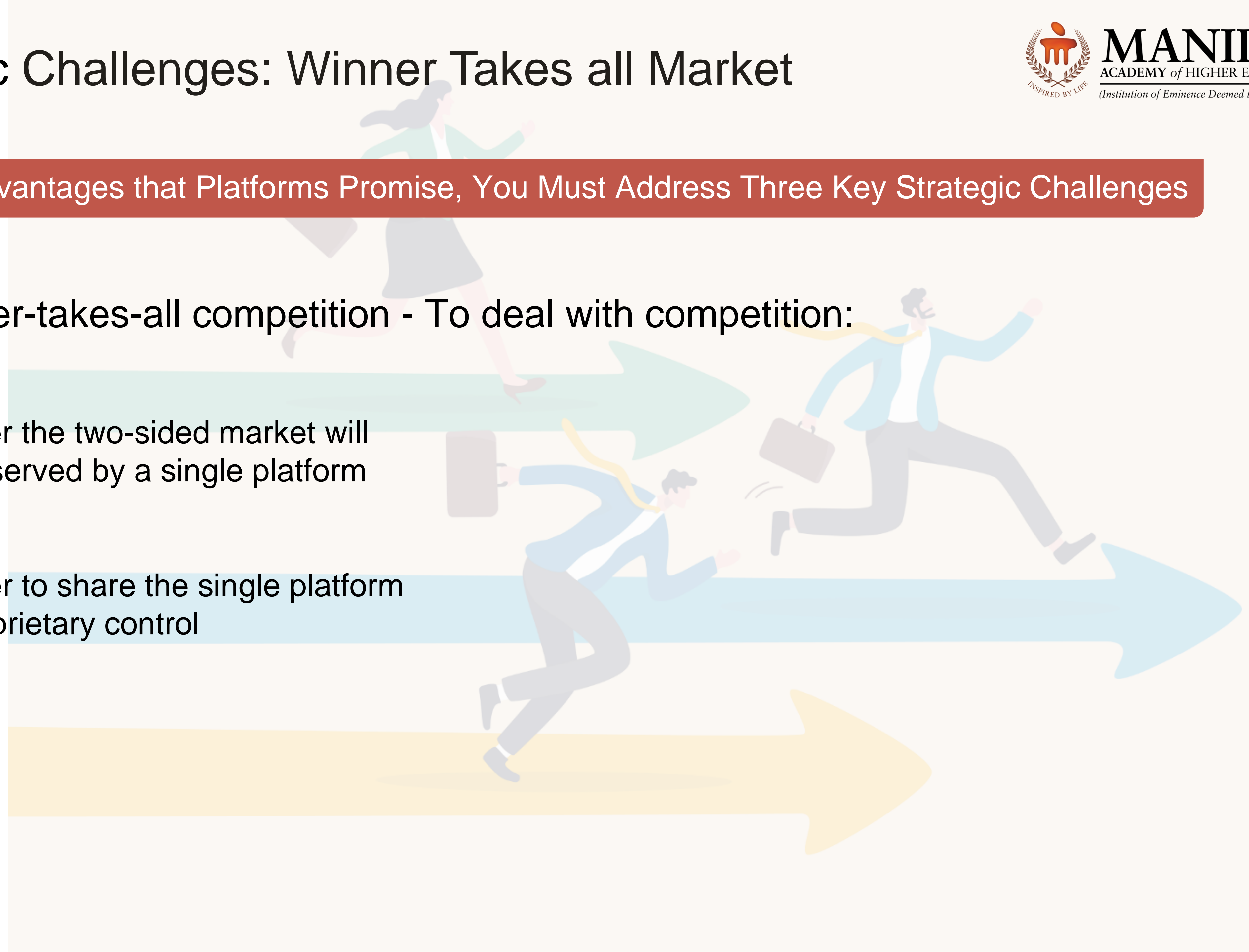
Cope with winner-takes-all competition - To deal with competition:



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



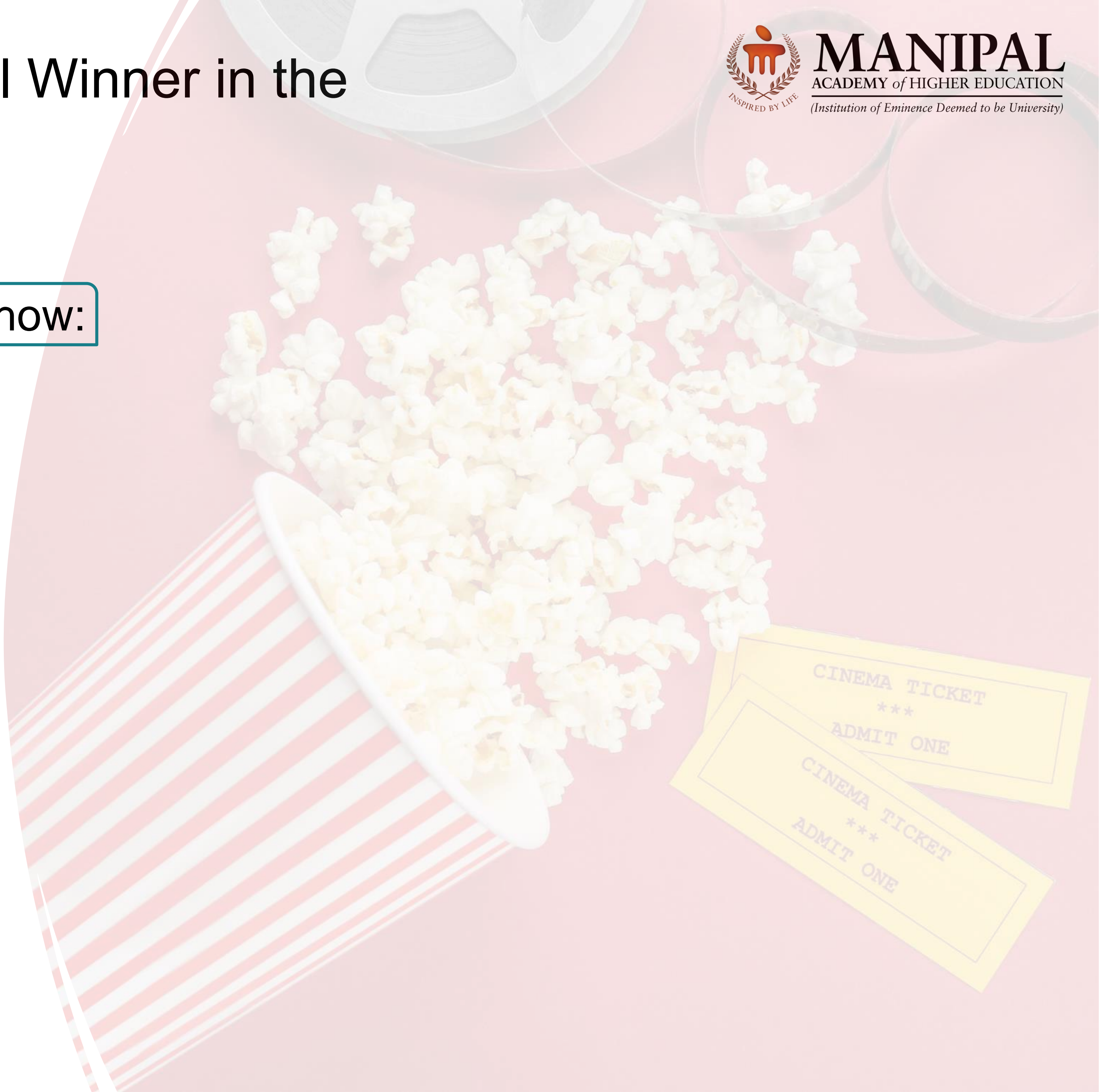
Decide whether to share the single platform or fight for proprietary control



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.





- 📱 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

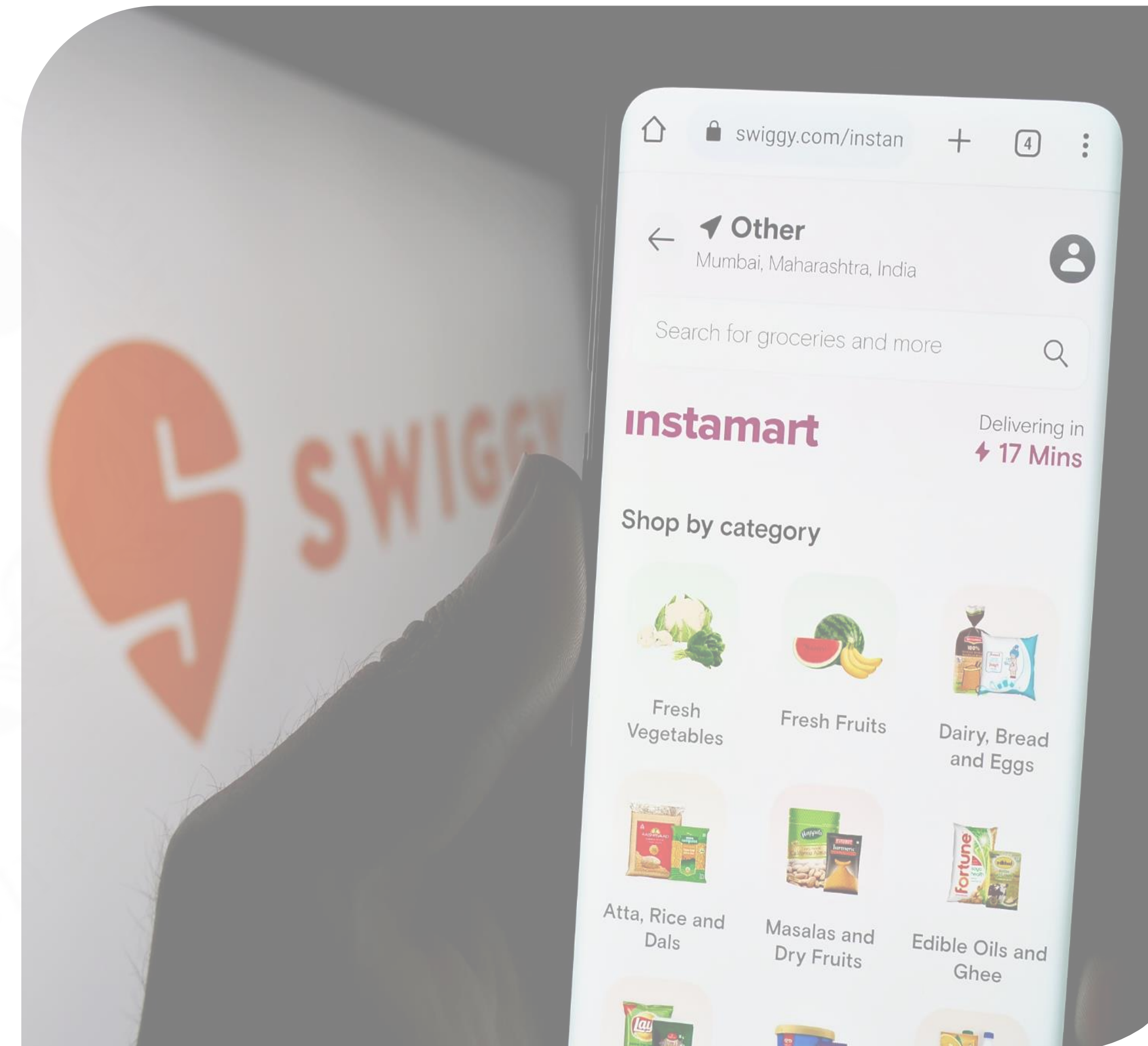
What is Envelopment?

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

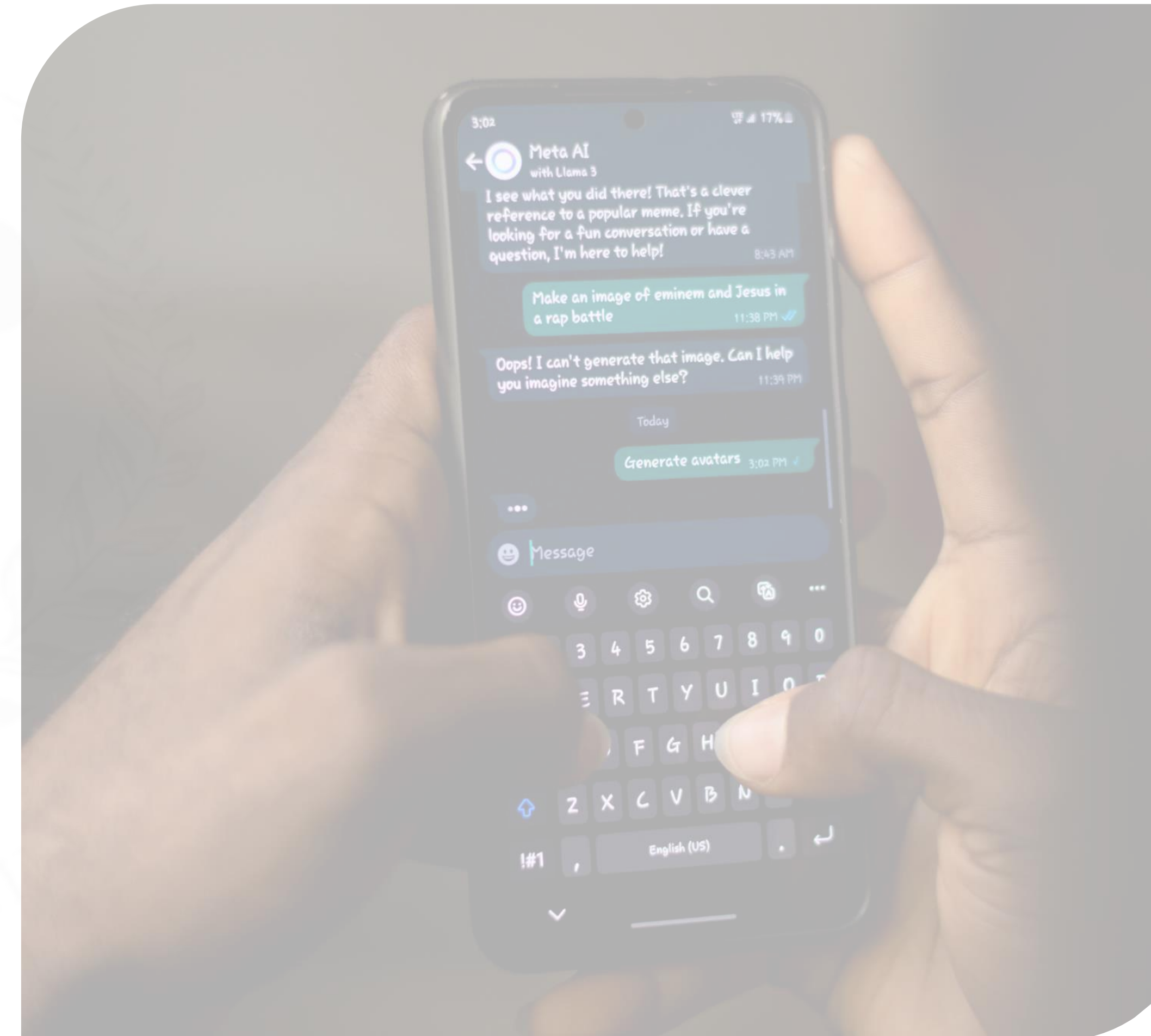
What is Envelopment?

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)



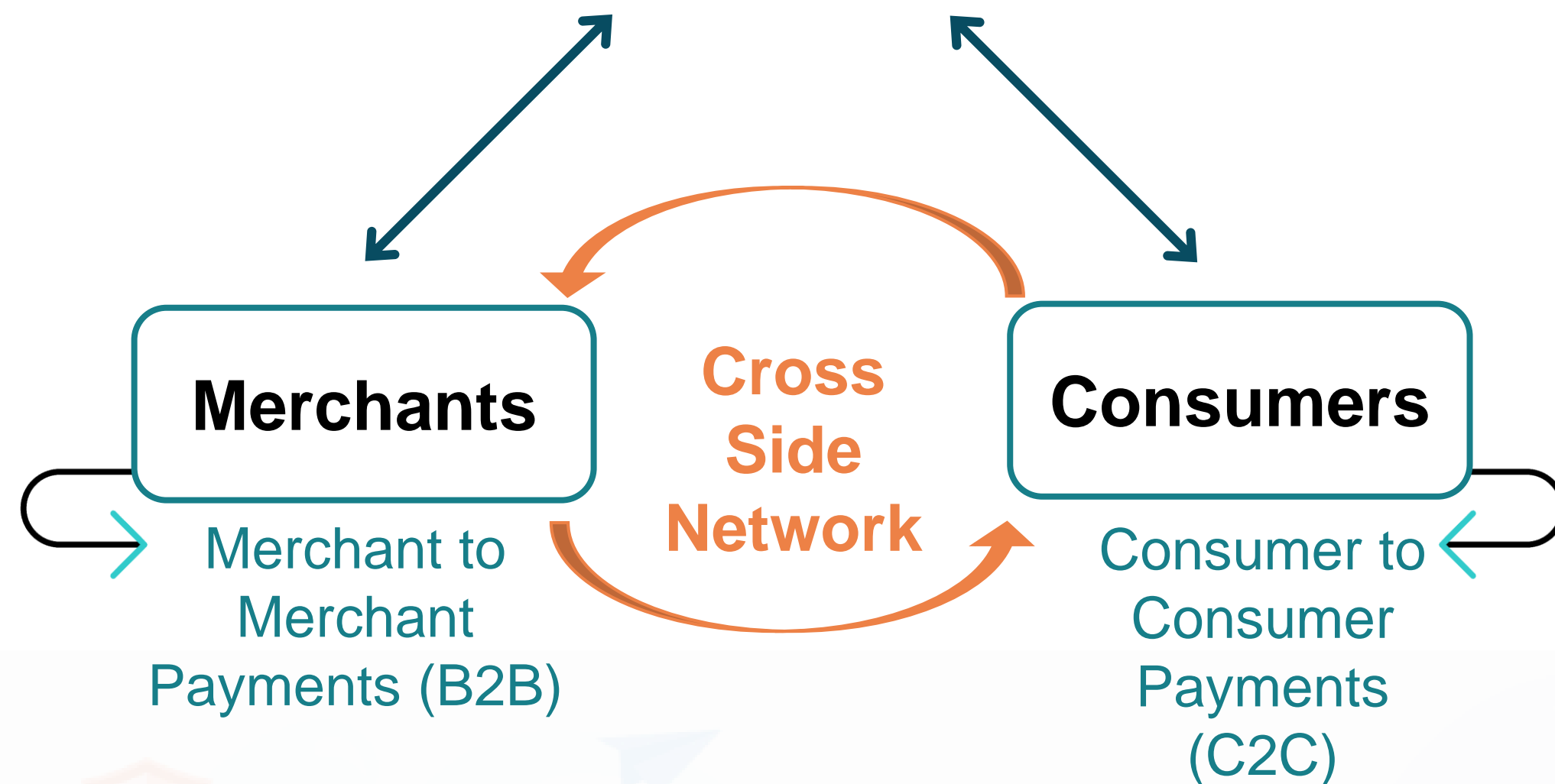
The background is a complex network diagram with white lines and circular nodes on a blue-to-purple gradient. Nodes contain various icons: a rocket, a line graph, a lightbulb with gears, a cloud with a refresh symbol, a target, a globe, a handshake, a bar chart, a speech bubble, a group of people, and a dollar sign with a circular arrow. A central node with two interlocking gears is highlighted with a bright, multi-colored glow.

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












The background features a smooth gradient from a light tan on the left to a dark brown on the right. Large, semi-transparent circular arcs are visible on the left side, and a solid orange circle is partially visible in the bottom right corner. A thick white arc is also present in the top right corner.

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

