The Funnel Framework

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For folks who weren't there, it's difficult to describe just how dominant Microsoft was at the end of the 20th century. It wasn't just that the company and its products were everywhere, both literally and figuratively, but also the longevity of said domination: Microsoft and Windows were the most important company and product in the industry for 23 years.

Platforms Versus Ecosystems

That longevity was built on the fact that Windows was not only a platform but also the cornerstone of a massive ecosystem. These two terms are often used interchangeably, but I think it's important to draw a clear distinction:

- A platform is something that can be built upon. In the case of Windows, the operating system had (has) an API that allowed 3rd-party programs to run on it. The primary benefit that this provided to Microsoft was a powerful two-sided network: developers built on Windows, which attracted users (primarily businesses) to the platform, which in turn drew still more developers. Over time this network effect resulted in a powerful lock-in: both developers and users were invested in the various programs that ran their businesses, which meant Microsoft could effectively charge rent on every computer sold in the world.

- An ecosystem is a web of mutually beneficial relationships that enhances the value of all of the participants. This is a more under-appreciated aspect of Microsoft's dominance: there were massive sectors of the industry built up specifically to support Windows, including value-added resellers, large consultancies, and internal IT departments. In fact, IDC has claimed that for every $1 Microsoft made in sales, partner companies made $8.70. Indeed, ecosystem lock-in is arguably even more powerful than platform lock-in: not only is there a sunk-cost aspect, but also a whole lot more money and

people pushing to keep things exactly the way they are.

Microsoft's dominance had a big impact on everyone, and today most people in technology still talk in the language of platforms and ecosystems. However, in today's era I'm not so sure either holds the sway it once did, particularly in the consumer market. Consider today's dominant operating systems: Android and iOS. According to platform logic, Android should have long ago achieved total dominance thanks to the network effect that is supposed to accrue to whichever platform has the most users. Android's advantage is arguably even stronger when it comes to its ecosystem: nearly every non-Apple OEM in the world and every carrier has good reason to push Android, and while it is by a comfortable margin the largest operating system and the closest thing we have to a modern Windows, it is nowhere near as dominant, powerful, or profitable.

The fundamental ideas of platforms and ecosystems also don't translate well to today's other giants: Internet companies like Google, Facebook, and Tencent. The latter two clearly benefit from network effects, but it is a one-sided network: users connecting to each other. As for Google, by platform and ecosystem logic, they should be the most vulnerable of all: competing search engines are simply a URL away. Clearly there is another factor at work.

Scarcity Versus Abundance

It's common to think of the modern computing era as having been launched by Windows and the IBM PC back in 1981 (or the Apple II in 1977): for the first time computers were for individuals, not just departments (minicomputers) or back-end offices (mainframes). The individual nature of computers has only intensified now that we carry them everywhere.

The structure of the PC business, though, while an order of magnitude larger than previous eras, wasn't that much different from minicomputers or mainframes: there was a defined market to sell to (primarily enterprise), and limited distribution channels. In other words, the opportunity for

software companies was scarce, which is why the biggest providers — Lotus, Ashton-Tate, Borland, etc. — all relied on large sales teams. Smaller outfits relied on getting shelf-space at hobbyist stores or a friendly contact with a value-added reseller.

This reality greatly magnified Microsoft's platform and ecosystem advantages by tying them together: the ecosystem, heavily invested in Windows' continued success, was the channel for the applications built on Microsoft's platform; application providers, forced to invest heavily in sales, could hardly spare the money to build for another platform (i.e. the Macintosh) that didn't have an ecosystem to sell their products anyways.

What ultimately broke Microsoft's stranglehold was the Internet: specifically, the fact that it made distribution free and freely available. While this didn't necessarily matter to Microsoft's core enterprise customers, there was an entirely new market developing: consumers. This, though, was a completely different kind of market: you couldn't reach consumers through a sales team — there were simply too many of them, and they were only valuable in the aggregate. To put it another way, the shift to Internet distribution and consumer markets meant a shift from scarcity to abundance. Instead of constricted channels and known customers there was a new world of free distribution and an effectively infinite-sized market.

This didn't affect Microsoft immediately: all those Internet applications ran on a browser that ran on Windows. But while the PC-era Microsoft was king, the post-Internet Microsoft was the proverbial emperor with no clothes: its old platform and ecosystem lock-in were gone, even if the company didn't know it. That reality would only manifest itself after both consumers *and* enterprise customers abandoned Windows Mobile as soon as something better came along.

The Rise of "User-First"

Referring to iOS (as well as Android) as "something better" may sound blasé, but the idea of a new offering winning on the substance of its user

experience was a profound change: instead of convincing a centralized buyer via a limited distribution channel, winning products had to appeal directly to widely dispersed independent *users*. And, as [I've discussed at length](), in the case of Apple and the iPhone in particular, the implications of winning via the user experience were profound: no matter how much cheaper "good-enough" modular Android alternatives have become, the integrated iPhone retains a (growing) hold on the high end.

What is interesting, though, is the impact on platforms and ecosystems of a user-first approach. iOS has maintained a platform lead, just as Windows did, but unlike Windows said lead is not based on owning the ecosystem (and thus distribution);

rather, iOS *owns the best customers*, i.e. the customers who are most willing to pay. This is [hardly a revelation](), but I think there is a larger lesson to be drawn: success no longer depends on platforms or ecosystems; rather, platforms and ecosystems themselves depend on access to desirable customers. By extension, the companies who own that access — who own the funnel, to use a marketing term — are the ones who gain outsized influence and, in the long run, outsized profits.

Consider Google; the basis of the company's success is very simple: their search engine was, and is, superior. They didn't have a sales team pushing their product to CIOs, or a revenue-sharing plan with resellers; they built an Internet application that was available to everyone and that everyone (eventually) used because it was the best. And, now that they own access to the most consumers looking to buy something online — now that they own the funnel — they have outsized influence and outsized profits.

Facebook fits the same mold: the company built a superior product that connected an extraordinary number of people, all generating content that made the product even more attractive and able to capture even more attention. And, now that they own an outsized amount of consumer attention — now that they own the funnel — they have outsized influence and outsized profits.

The Funnel Framework

All three companies succeed with very different product focuses, but all share the ability to capture a specific type of customer and funnel them to someone who is willing to pay:

	Product Focus	**Captures**	**Funnels To**
Apple	Superior UX	Willingness-to-pay	Apple (and developers)
Google	Superior Search	Motivated Users	Direct Marketers
Facebook	Personally Important Content	User Attention	Direct and Brand Marketers

Note the critical link is *first* delivering a superior user experience and *then* leveraging that into owning a funnel to a specific type of customer. To put it another way, in contrast to the PC era, distribution and access is no longer the means of control but the end result.

If you look around you can see the funnel framework everywhere:

- Taxis used to dominate because they owned distribution; Uber delivered a superior user experience, captured the most desirable customers, and leveraged that into dominance of the transportation market
- Hotels used to dominate because they owned supply; Airbnb delivered superior value to end users and created a virtuous cycle that resulted in a two-sided network
- Messaging apps deliver huge value to end users and monopolize attention; LINE and WeChat are leveraging that by pushing users to pay-to-play games in particular, while Snapchat is delivering advertising
- Newspapers used to dominate because they had geographic dominance; BuzzFeed and other successful Internet publishers attract readers by first figuring out what they want and then giving it to them, and then sell either that skill (in the case of BuzzFeed and Vice) or the

attention they gather (everyone else)

- Broadcast channels used to dominate because they owned the airwaves; Netflix and HBO earn consumers' attention by delivering superior programming and capture the value directly via subscriptions

It's hard to not be excited about the long-term implications of the funnel framework; I know that a lot of pre-Internet companies are struggling, and I sympathize with employees caught out by failing business models, but it's worth noting that most of these doomed enterprises were based on something other than providing a superior product. On the Internet, on the other hand, being the best is a first order concern; as a consumer — and as a wholly independent entrepreneur — that makes me pretty happy.

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