

TWO-SIDED MARKETS

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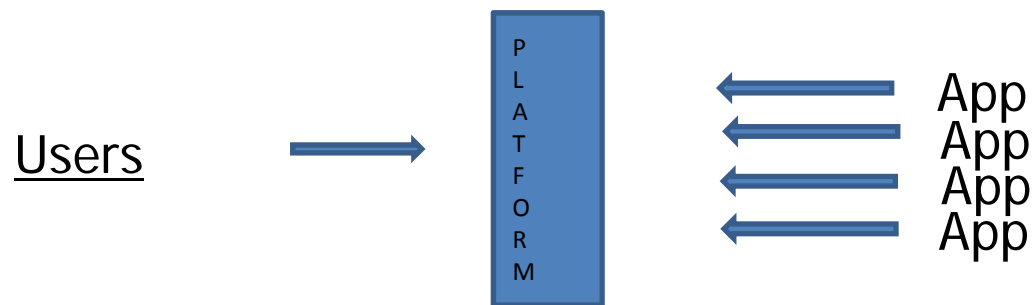
Two-sided Markets

- Markets with two types of participants, with benefits for 1 side being a function of number of players on other side (cross-side network externalities)
 - Credit Cards, Gaming consoles, Uber
 - Building 2-sided networks involves solving the classic chicken-and-egg



Technology Platforms as Two-sided Markets

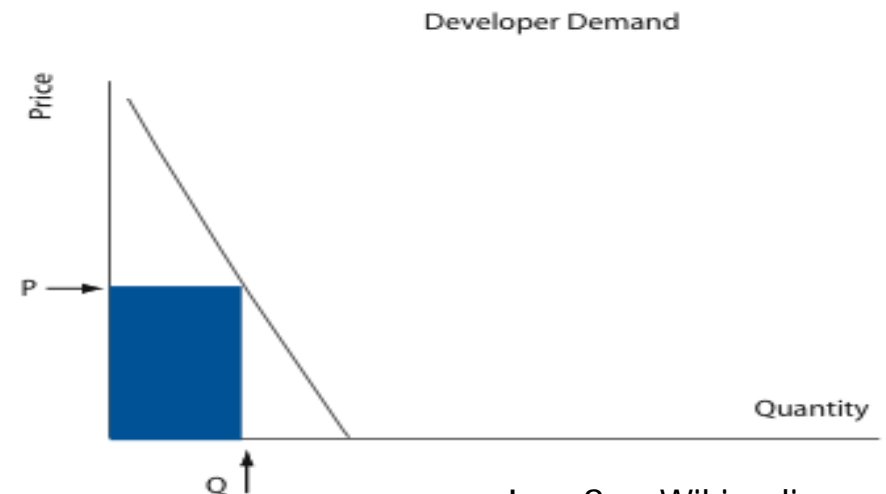
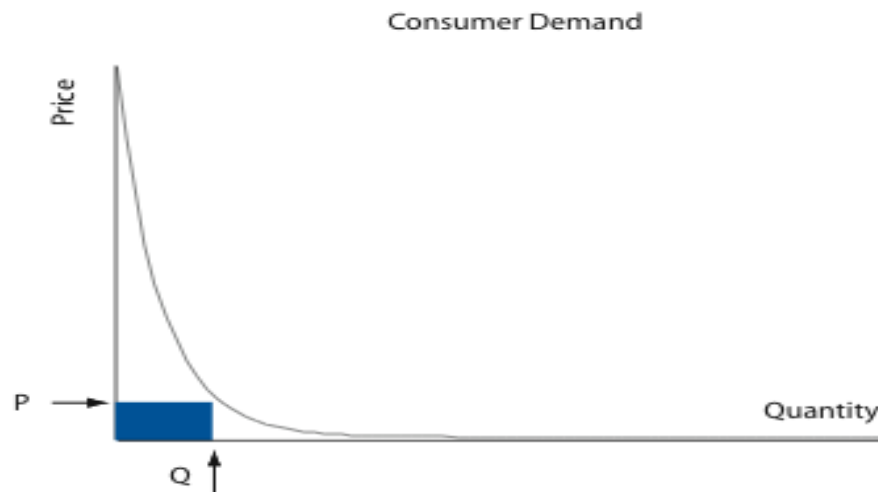
- Hardware/software system which can be (partially) programmed by outside developers



- Examples: Desktop/mobile OS, gaming consoles
- A variety of unique issues arise in the context of two-sided networks

Pricing

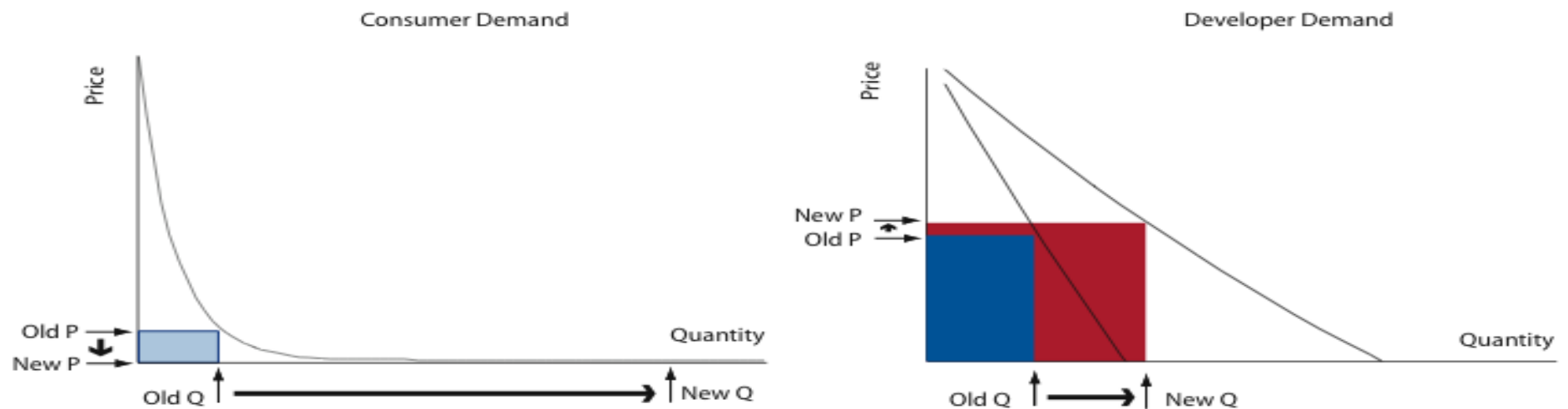
- Traditional pricing strategy seeks to set a price to maximize revenues from the customer type
 - E.g., surveys to assess response to different price points



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Pricing

- Subsidize one side and charge the “rent” to the other side



Subsidizing market 1 can increase demand and profits in market 2 more than the loss in market 1.

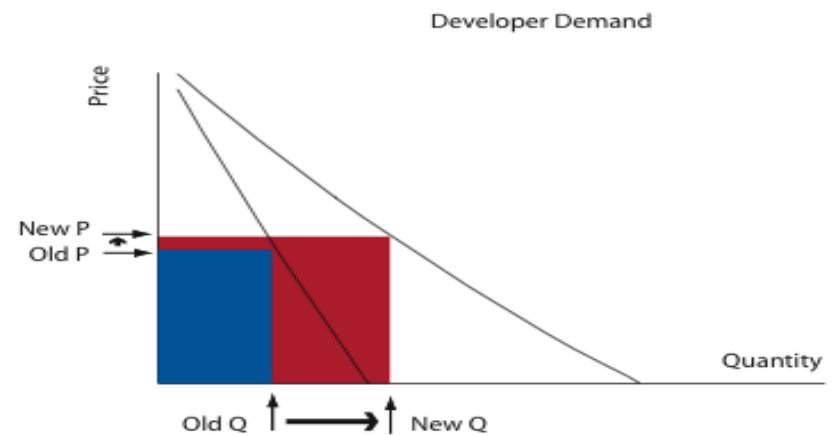
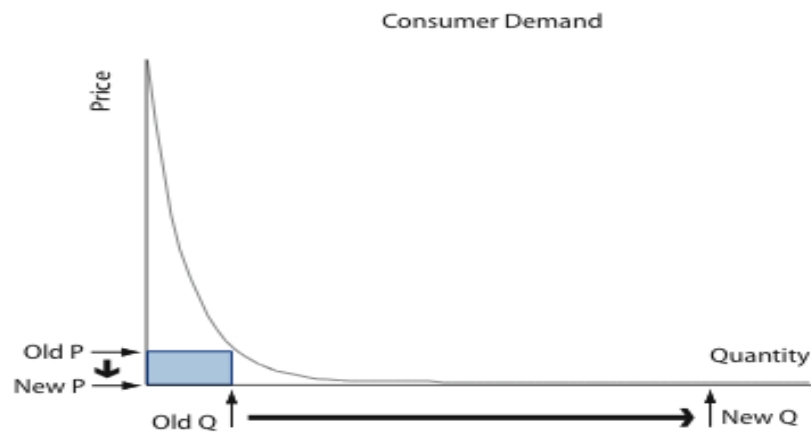
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Discussion

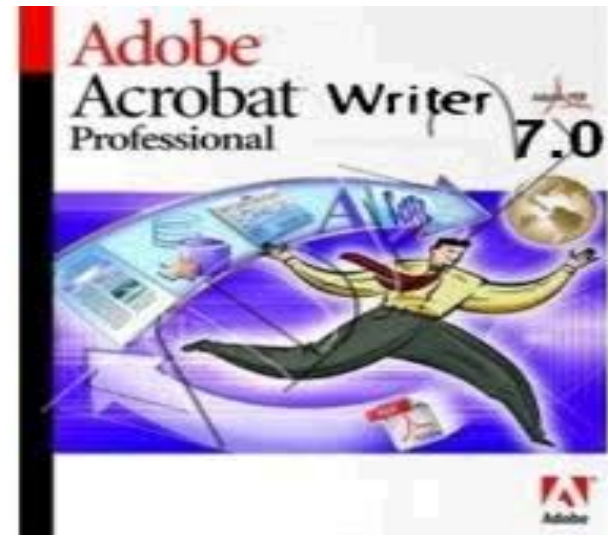
- Examples
 - [Adobe Acrobat reader versus writer](#)
 - Yellow pages
 - Note: Subsidies need not always price at zero
- But who do we subsidize?

Which Side to Subsidize?

- Price sensitive side
- Side with greater network value



Subsidize Price Sensitive Side



Adobe Acrobat Reader Vs Writer

Subsidize based on Network value



Building Liquidity in Marketplaces

- Other Strategies to address liquidity challenges include
 - Obtaining supply from other marketplaces (e.g. AirBnB originally obtained listings from Craigslist)
 - Leverage influencers with a large base of followers
 - Manual matching of supply and demand
 - Use one side to market to the other side (e.g. Etsy sellers bring many buyers to Etsy)



ONLINE