

li-jin.co /2019/01/19/fake-it-til-you-make-it-for-bootstrapping-marketplaces/

"Fake it til you make it" for bootstrapping marketplaces

2-3 minutes

Thread: "Fake it til you make it" is a key strategy for overcoming the chicken-and-egg problem of starting a new marketplace, popularized by companies like Uber and Yelp. The idea is to bootstrap one side of the marketplace inorganically in order to attract the other side.

There are a few tactics that fall under this umbrella of faking it in a marketplace—including paying guarantees or subsidizing transactions, managing supply, or producing the supply/demand yourself. Then, at a certain point, network effects kick in and organic growth takes over.

A few examples:

1) Uber launched by going to black car companies and paying drivers to be available on Uber during certain hours, ensuring that riders would be able to find a ride.

2) Relationship Hero, a relationship coaching marketplace, scaled to dozens of customers with just one coach—its cofounder! But the website listed 10 fake coaches, to give users the sense that it was a more active platform with diverse coaches who fit their particular situation. (Today, all the coaches listed on Relationship Hero are real)

3) Beepi, which was a used car marketplace, had a massive chicken and egg problem in attracting sellers and buyers initially. To solve this, the founders went out and purchased used cars to seed the supply side. After a few months, they moved to the marketplace model.

4) Managed marketplaces are also a form of "fake it til you make it," where the supply side is employed or otherwise managed by the company. This model is frequently applied to complex services, to create a radical improvement in the user experience.

Sometimes these managed marketplaces preserve the managed aspect while scaling, while others open up more broadly (e.g. the Bird platform).

"Fake it til you make it" can be applied not just to building marketplaces, but all sorts of new networks, like dating, social, etc. Creating new marketplaces from scratch and overcoming the cold start is challenging. We love seeing creative strategies here.

My partner @cdixon has also written about the "come for the tools, stay for the network" approach. Let us know if any others come to mind!