

# Platform Strategies

Business Models for the Digital Economy

Master in Informatics and Computing Engineering

FEUP

October 2022

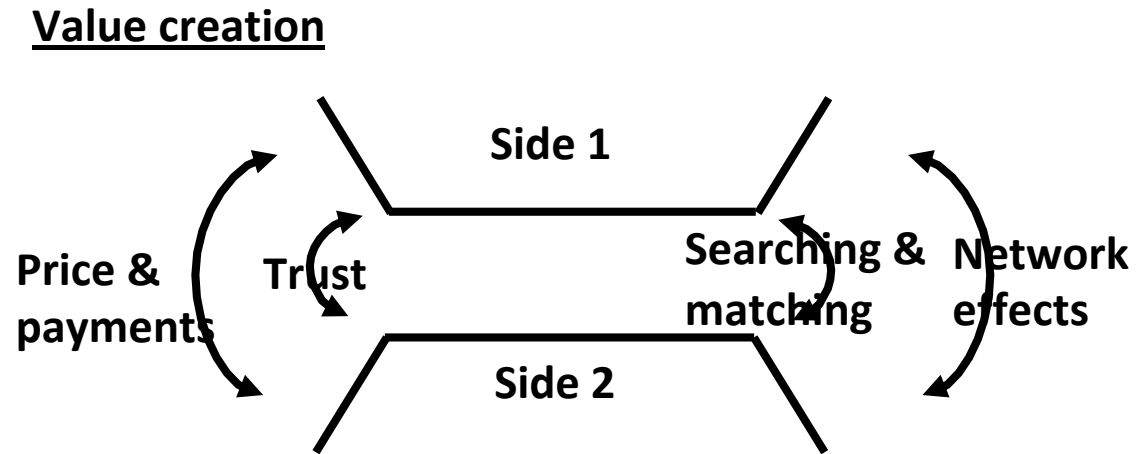
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# Agenda

A platform is a product or a service that enables two or more customer groups to interact or transact:

- Value creation
- Value capture
- Product to platform

# Value creation



# Value creation

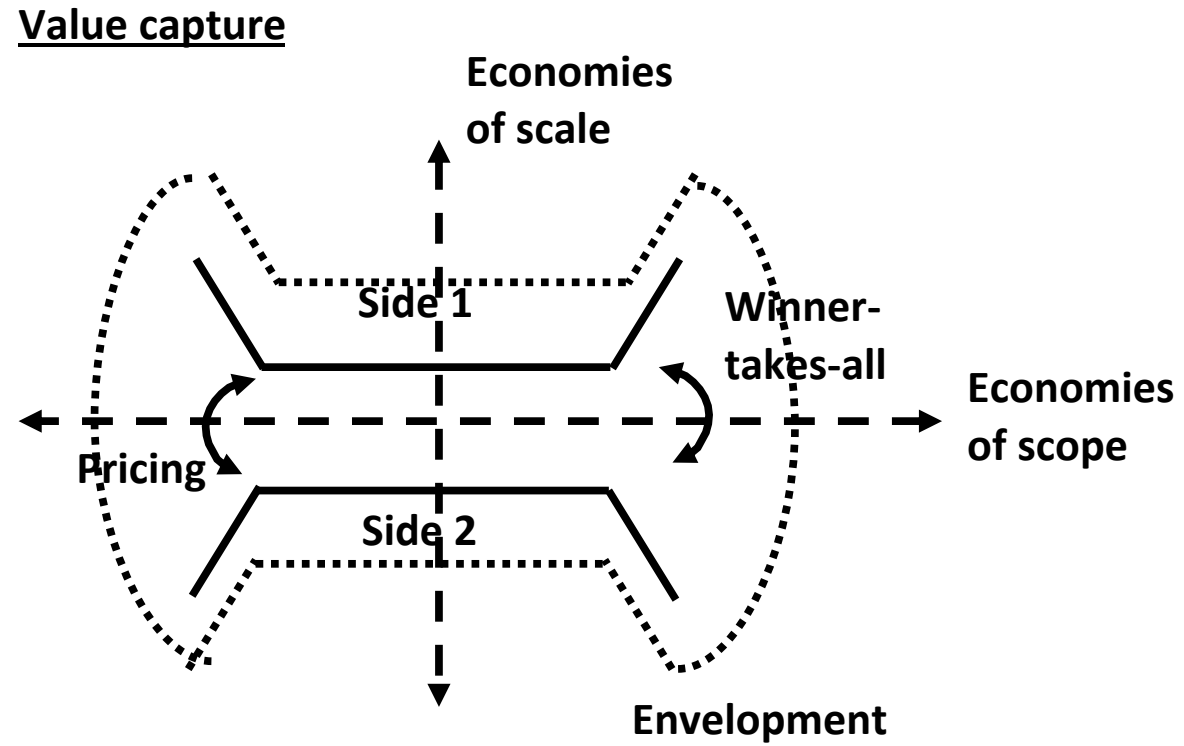
Example	Searching & matching	Price & payments	Building trust	Network effects
Ridesharing	Automatically matched	Set by platform	Background and criminal record checks; service transparency; refusal “insurance”; privacy	Driver availability, stream of rides; data improves algorithms
eBay	Customers search and sellers accept by default	Set by sellers or through auctions	Buyers rate sellers’ quality	Direct access to large base of buyers, fast and convenient purchase
Airbnb	One side expresses interest, both sides have to affirm acceptance	Set by sellers	Property damage insurance	Local accommodation availability, stream of guests
Upwork	One side expresses interest, both sides have to affirm acceptance	Initial quote, adjusted during service provisioning	Buyers and sellers rate each other’s quality	Direct access to large base of freelancers, stream of projects
Categories	<ul style="list-style-type: none"> <li>Centralized – automatic by proprietary algorithms; assumes known preferences and substitutability</li> <li>Decentralized – search participants, select preferred, acceptance by default or affirmative</li> </ul>	<ul style="list-style-type: none"> <li>Set by platform – requires enough relevant information; minimum friction and hassle</li> <li>Set by seller – costs differ; sellers have superior information; auctions</li> <li>Bilateral bargaining – buyers and sellers better positioned to know value (Evolve to platform with data)</li> </ul>	<ul style="list-style-type: none"> <li>External or internal screening – occupational licensing, checks</li> <li>Online rating system – useful but is a hassle and may be biased, manipulated or faked</li> <li>Protection should something go wrong – protect from transactions in which bad things happen</li> </ul>	<ul style="list-style-type: none"> <li>Indirect – cross-side</li> <li>Direct – same-side</li> <li>Data – positive feedback with quality</li> </ul>

# Amazon -> Amazon Marketplace

## Value creation

- Searching and matching – Customers search (A9, Google-like sophisticated system to connect shoppers with relevant products as quickly as possible) and sellers accept by default.
- Price & payments – Sellers set the prices, but Amazon monitors them. Payments with debit and credit cards through Amazon's proprietary payments platform.
- Trust – Price monitoring, business name and address required, customer reviews.
- Network effects
  - Value proposition for sellers – Direct access to massive consumer base not otherwise available; ability to access consumers without third-party sellers and potential to retain higher margins returns
  - Value proposition for customers – Convenient purchase process; fast and reliable delivery; customer service
  - Data effects – Recommendation system

# Value capture



# Value capture

Example	Scale & scope economies	Winner-takes-all	Pricing	Envelopment
Xbox, Playstation	<ul style="list-style-type: none"> <li>New consoles are a huge investment</li> </ul>	High: high switching costs; strong cross- and same-side network effects	Charge both sides, subsidize customers – console price below cost, leverage switching costs	<ul style="list-style-type: none"> <li>Amazon, Apple</li> </ul>
Spotify	<ul style="list-style-type: none"> <li>Leveraging investment in proprietary algorithms</li> </ul>	High: strong network effects enable advertising, lower costs and wider offering	Subscription – align how users experience with how they pay	<ul style="list-style-type: none"> <li>Amazon, Apple</li> </ul>
Uber Eats	<ul style="list-style-type: none"> <li>Uber’s user base and capabilities valuable in this scenario</li> <li>Leverage Uber’s investment in proprietary algorithms</li> </ul>	Moderate-high: network effects saturate locally; moderate costs to using multiple platforms	Commission	<ul style="list-style-type: none"> <li>Uber is the enveloper</li> </ul>
Categories/ Conditions	<ul style="list-style-type: none"> <li>Large investments in value creation features</li> <li>Increase variety of products &amp; services</li> </ul>	<ul style="list-style-type: none"> <li>High multi-homing costs</li> <li>Strong network effects</li> <li>Neither side values specialized feature (niching)</li> </ul>	<ul style="list-style-type: none"> <li>Who to charge and/or who to subsidize? Charge both sides and/or subsidize one side?</li> <li>When to charge? Charge before and/or with the transaction?</li> <li>What behaviours are incentivized?</li> </ul>	<p>Functionality included in multiplatform bundle</p> <ul style="list-style-type: none"> <li>Change Business Model – e.g., focus on higher-margin*larger-volume segment</li> <li>Find “bigger brother” – partner with threatened players</li> <li>Sue – antitrust</li> </ul>

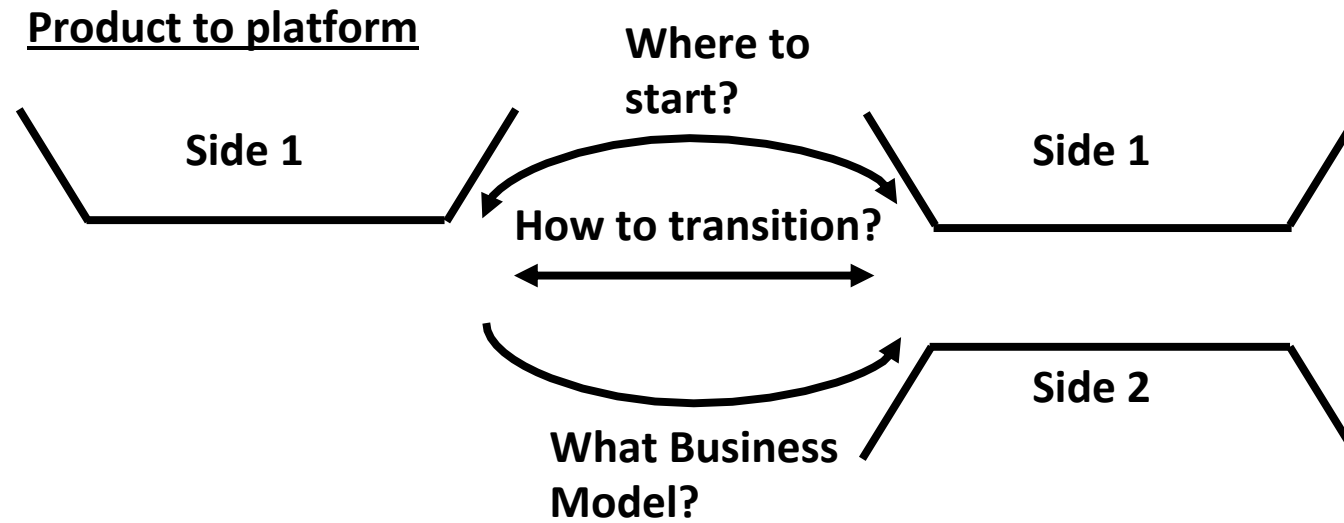
# Amazon -> Amazon Marketplace

## **Value capture**

- Pricing – Sellers are charged fixed and variable closing fees, as well as referral fees; subscription available for purchasers
- Winner-takes-all – Moderate-high – relevant network effects, niching possible, multi-homing costs may be higher for sellers, lower for buyers
- Scale & scope economies – Huge for Amazon
- Envelopment – Amazon is the enveloper



# Product to platform



# Product to platform

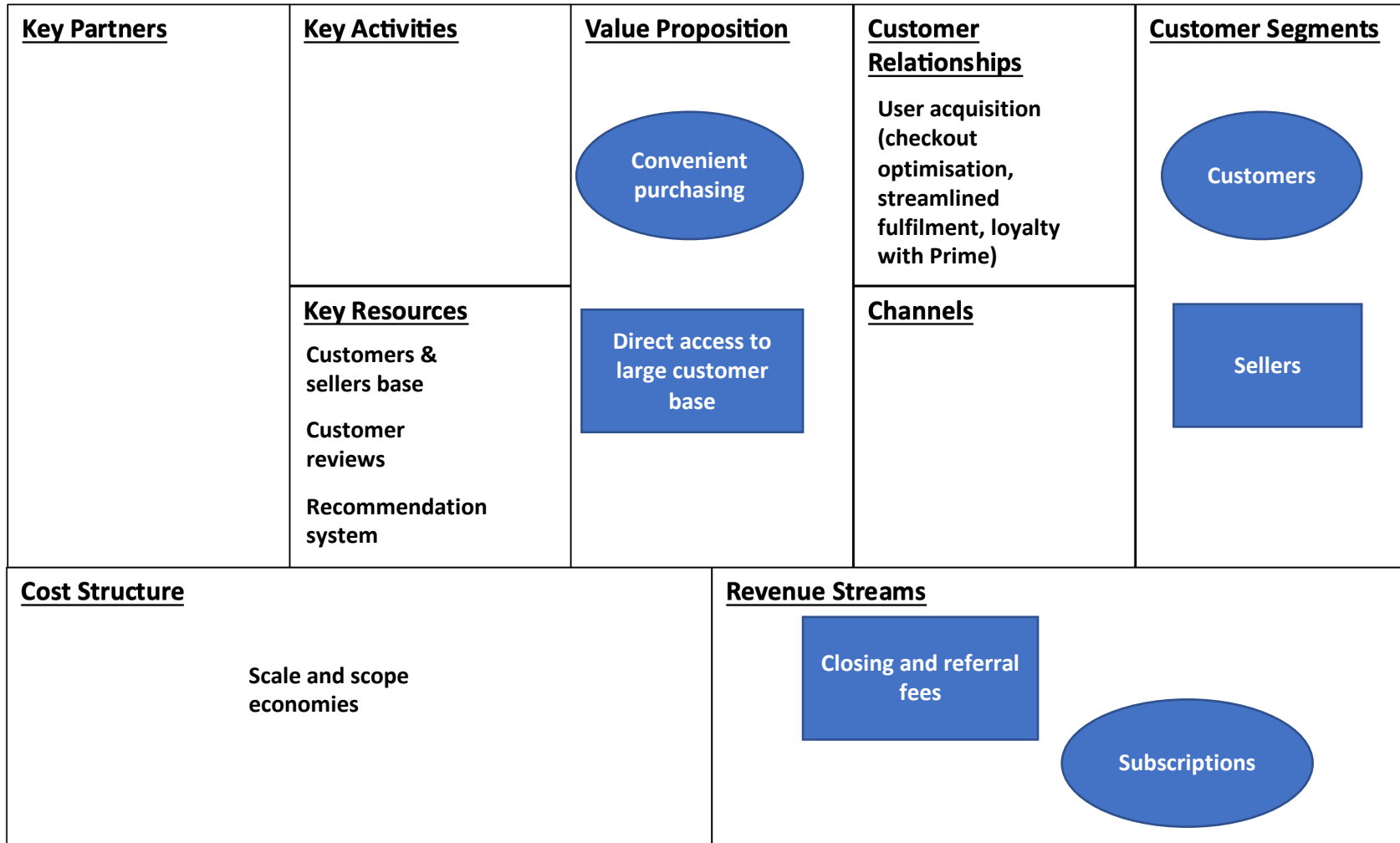
Where to start?	What business model?	How to transition?
<ul style="list-style-type: none"> <li>Defensible product – enough value rooted on unique core competences, to keep users from defecting to competition</li> <li>Critical mass of users – enough frequent users</li> <li>Flexible? Side with weaker need for other side</li> </ul>	<ul style="list-style-type: none"> <li>Hybrid – product remains primary attraction; keep open mindset, turn hacks into opportunities</li> <li>More of the same – product does not remain primary attraction – mixed for 3<sup>rd</sup> party – more customers, less costs, rival control (favouring own offerings)</li> <li>Something different – more may be infeasible; may require more investment on capability and users (value and trust)</li> </ul>	<ul style="list-style-type: none"> <li>Rapid customer conversion – adequate value; brand consistency; involve users in improvements; communicate closely</li> <li>Lead company “conversion” – cultural re-education to serve two different sets of customers</li> <li>Avoid competitor “conversion” – manage scope of control/offer; exclusivity with “choking” partners; continue to add value to platform</li> </ul>
<ul style="list-style-type: none"> <li>Valve (game producer) &gt; Steam (digital game distributor): popular game producer with proprietary updating and rights management system</li> <li>LinkedIn &gt; LinkedIn Jobs - passive candidates are interesting, but not interested</li> <li>Google Search mid-90s &gt; Search advertising 2000</li> <li>iPod 2001 &gt; iTunes Store 2003</li> </ul>	<ul style="list-style-type: none"> <li>Valve and Steam (from product feature as patch distribution to platform as game distribution): initially hybrid, increasingly more of the same.</li> <li>Google after search engine</li> <li>iPhone jailbreaking and App Store</li> </ul>	<ul style="list-style-type: none"> <li>Valve and Steam               <ul style="list-style-type: none"> <li>Value and consistency as online software distributor; marketplace to interact and trade game items</li> <li>Adding digital game distributor to traditional game producer</li> <li>Proprietary software; items marketplace</li> </ul> </li> </ul>

# Amazon -> Amazon Marketplace

## **Product to platform**

- Where to start? Online store with huge scale and scope economies, strong value proposition, huge mass of users, with online store having weaker need for the other side.
- What business model? Hybrid, more of the same, rival control (central in US and EU investigations into Amazon)
- How to transition?
  - Conditions for rapid conversion – adequate value, brand consistency.
  - Sellers who were suppliers and competitors are now customers and there are two sets of customers – Amazon's obsessive customer focus required re-education
  - Amazon continued to add value to the platform

# Amazon -> Amazon Marketplace



# References

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