



Strategic Management

Master IREN

2023

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Last week session in the news

AI

OpenAI launches a ChatGPT plan for enterprise customers

Kyle Wiggers @kyle_l_wiggers / 7:00 PM GMT+2 • August 28, 2023

Comment



Image Credits: Bryce Durbin / TechCrunch

OpenAI lance une version de ChatGPT plus puissante et plus sûre pour les entreprises

Une formule d'abonnement payante au chatbot d'OpenAI vient d'être lancée par la start-up de Sam Altman. Les grandes entreprises qui s'en doreront auront accès à une version plus puissante et plus sécurisée de ChatGPT.

Aurélien Defer





INSTITUT
POLYTECHNIQUE
DE PARIS

Session 3

Business of platforms

Learning objectives of the session

After this session, you will be able to:

- Understand the importance of platforms in today's economy
- Know the main characteristics of platforms, in terms of business models and market dynamics
- Evidence the strategic choices of several known platforms

Agenda

1. Introduction and definitions
2. The drivers of platforms markets and dynamics
3. Platform business model specificities
4. Reactions to platforms (competition, society...)

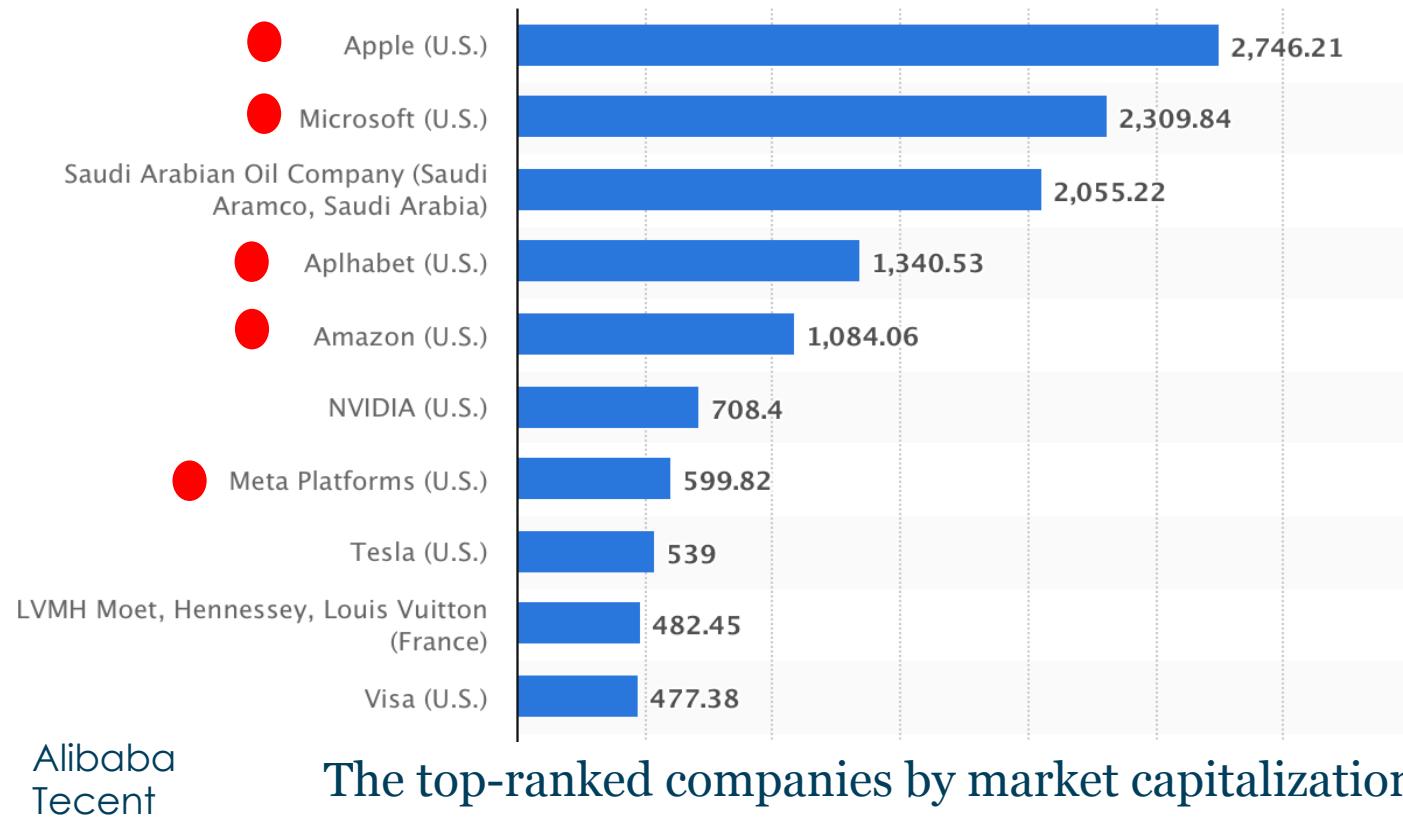
Break

Groupwork!

1. What are business platforms?



Platforms performance

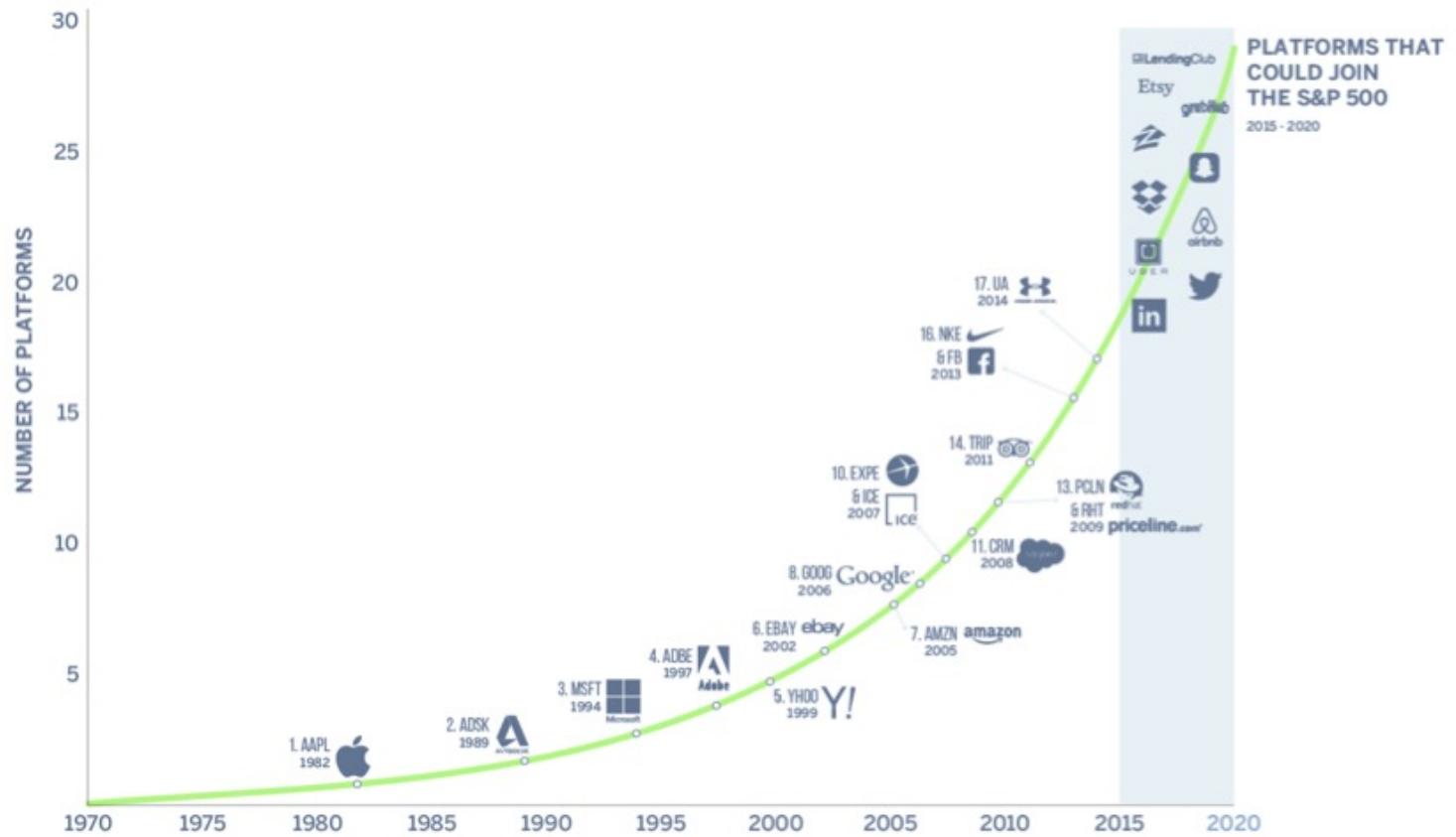


Total ● = more than \$6.3 trillion in market value

All of them are platform businesses

Number of platforms

■ TOTAL NUMBER OF PLATFORM BUSINESSES IN THE S&P 500 (BY YEAR)



Why such a high performance?

- Less employees
- Low costs structures (Airbnb vs Marriott)
- higher operating profits / higher market values
- higher ratio of market value to sales



- 50 employees
- 90% profit margins
- 1 billion \$ revenus in 2019
- No change of design in 15 years

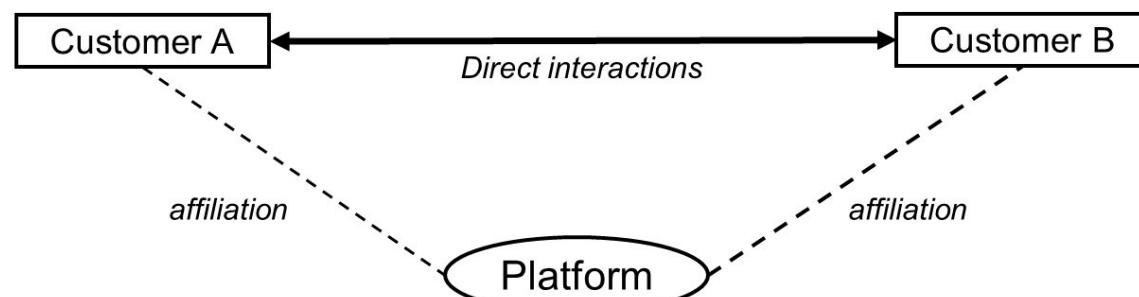
<https://www.craigslist.org>

<https://markets.businessinsider.com/news/stories/craigslist-cracks-1-billion-in-annual-revenue-aim-group-finds-1027885659>

Definitions of platforms

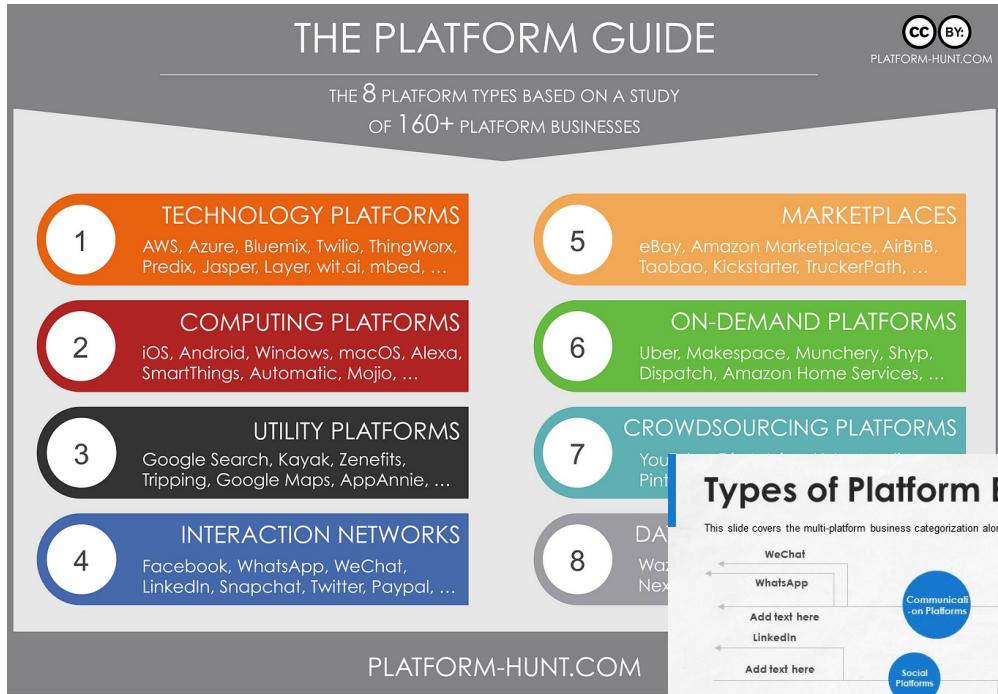
“Multisided platforms (MSPs) are technologies, products or services that create value primarily by enabling direct interactions between two or more customer or participant groups” (Hagiu, 2013, p.1).

“Platforms bring together individuals and organizations so they can innovate or interact in ways not otherwise possible, with the potential for nonlinear increases in utility and value.” (Cusumano et al. 2021)

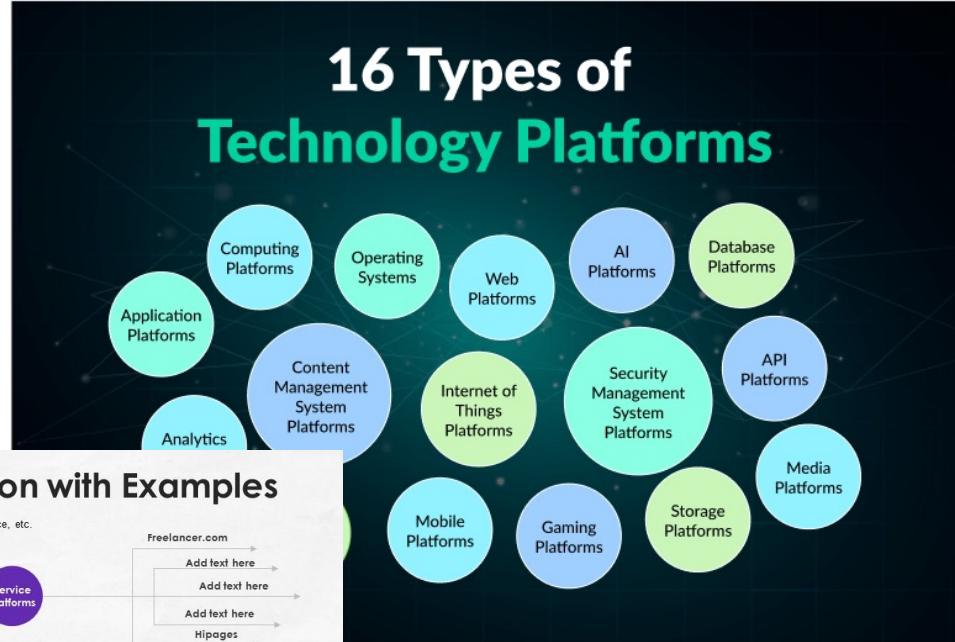
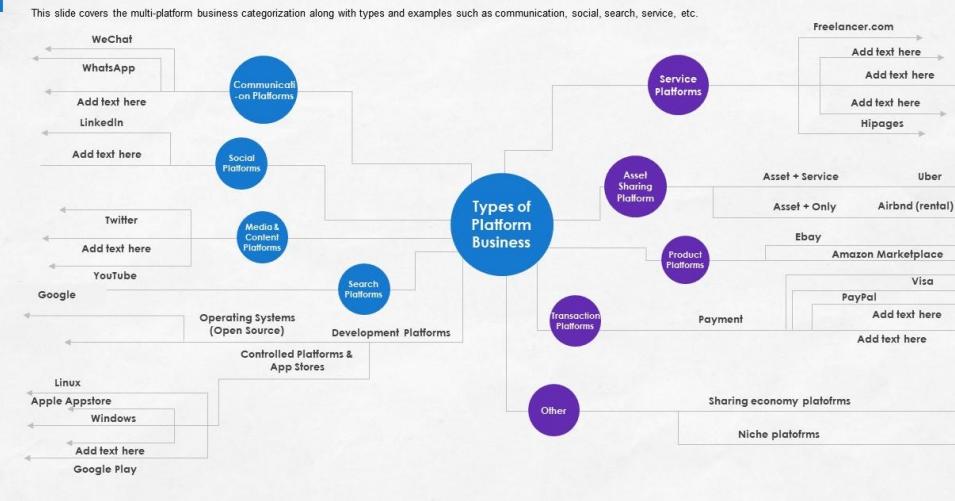


Source: <https://platformchronicles.substack.com/p/what-are-platform-businesses>

Many possible categorisations...



Types of Platform Business Categorization with Examples



4 types of platforms



Aggregation platforms

- Facilitate transactions
- Connect users to resources

Social platforms

- Facilitation social interactions
- Support engagement among people with common interests

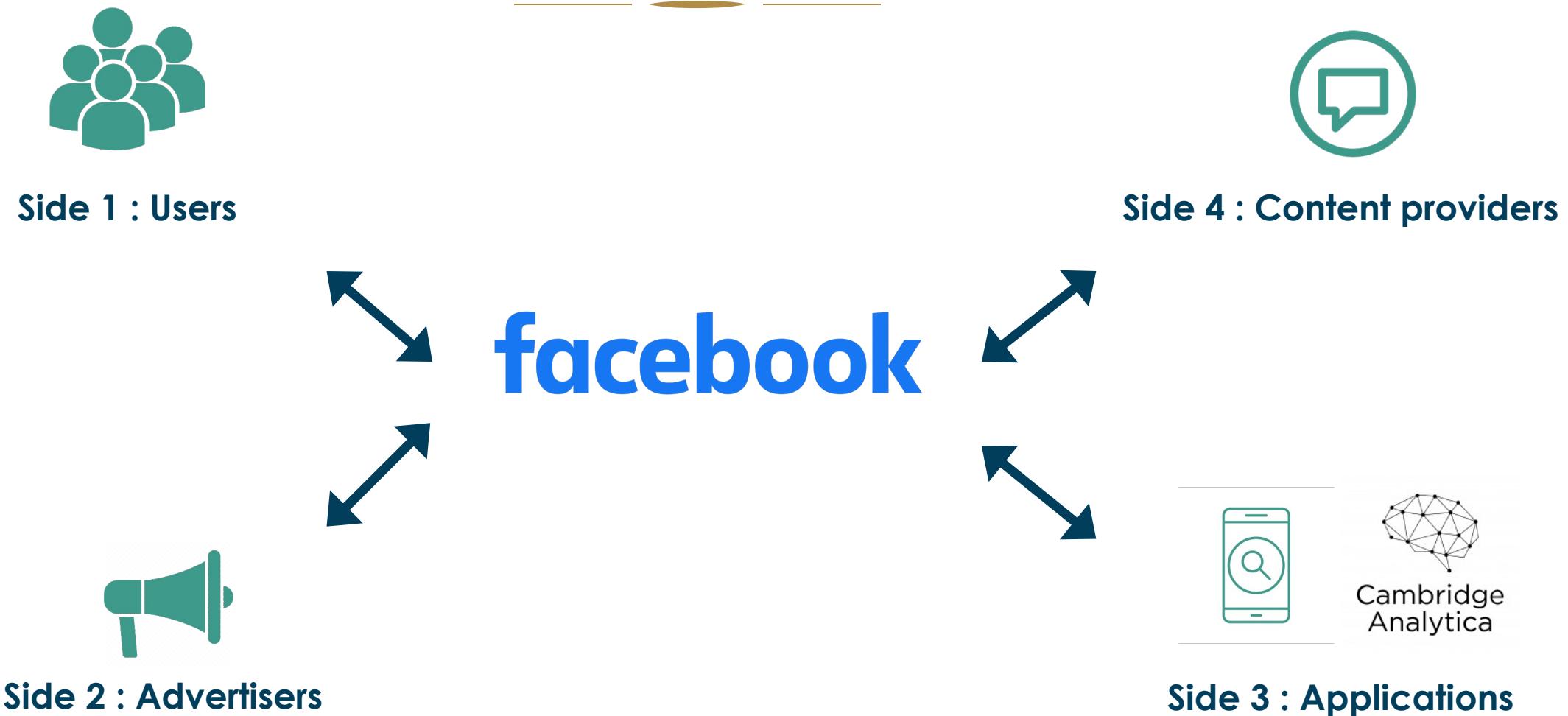
Mobilisation platforms

- Facilitation mobilisation
- Move people to work and act together

Learning platforms

- Facilitate learning
- Bring together participants to share insights over time

Two-sided, three-sided, multi-sided... platform evolution



Adapted from Cusumano et al., 2021 p. 15

When to prefer a platform strategy?

You are a textbook publishing company and you want to diversify your activity in the educational sector by developing a course offer.

You have two possibilities:

1. Create a course catalog and sell course hours.
2. Build a platform where teachers and students can connect

What do you choose and why?



When to prefer a platform strategy?

- Is it more economical to enable transactions rather than to own assets and deliver products or services directly?
- Is it possible to enhance value by using the innovation capabilities of external actors?
- Does it create new connections and new opportunities for trade?
- What do you do with the data?
- Is there a possibility of network effect?

Platforms strategy

“Platform strategy is, in some sense, one of the most ambitious ways of entering a market you could have, because it requires coordinating the behaviors of multiple parties that might not know each other, that might not even want to know each other. You’re sort of this orchestra conductor, and as a result of being very ambitious, it also fails very often.” (Pierre Azoulay, MIT).



Drivers of platforms markets and dynamics

What drives platforms markets?



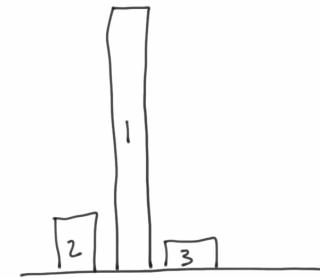
Business of platforms are subject to specific market dynamics:

1. Winner-take-all effect
2. Network effect
3. Multi-homing
4. Chicken and egg

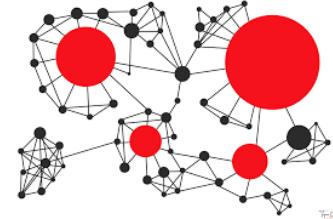
1. The winner-take-all effect

Platforms are prone to winner-take-all effect

=> a handful of competitors controls a majority of the market.



2. Network effect



Example 1

Marie wants to join a social network.

40 of her friends are on Facebook.
3 are on MySpace.

Which one should she pick?

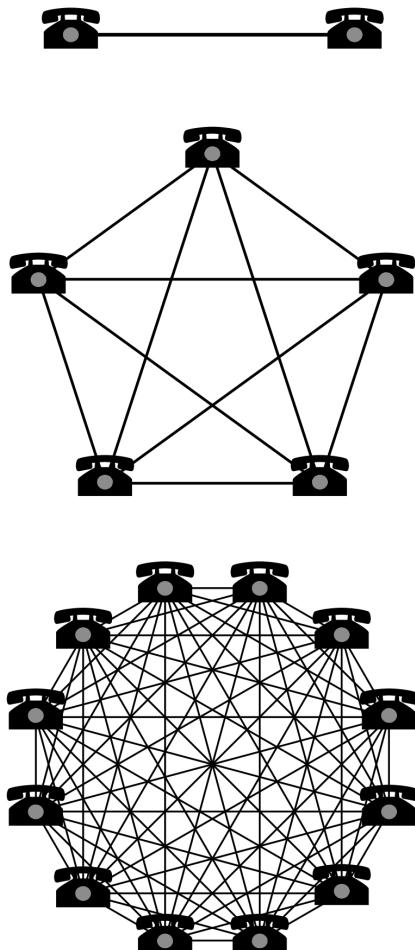
Example 2

We are a small tech company.

We decide to renew all our staff's computers.

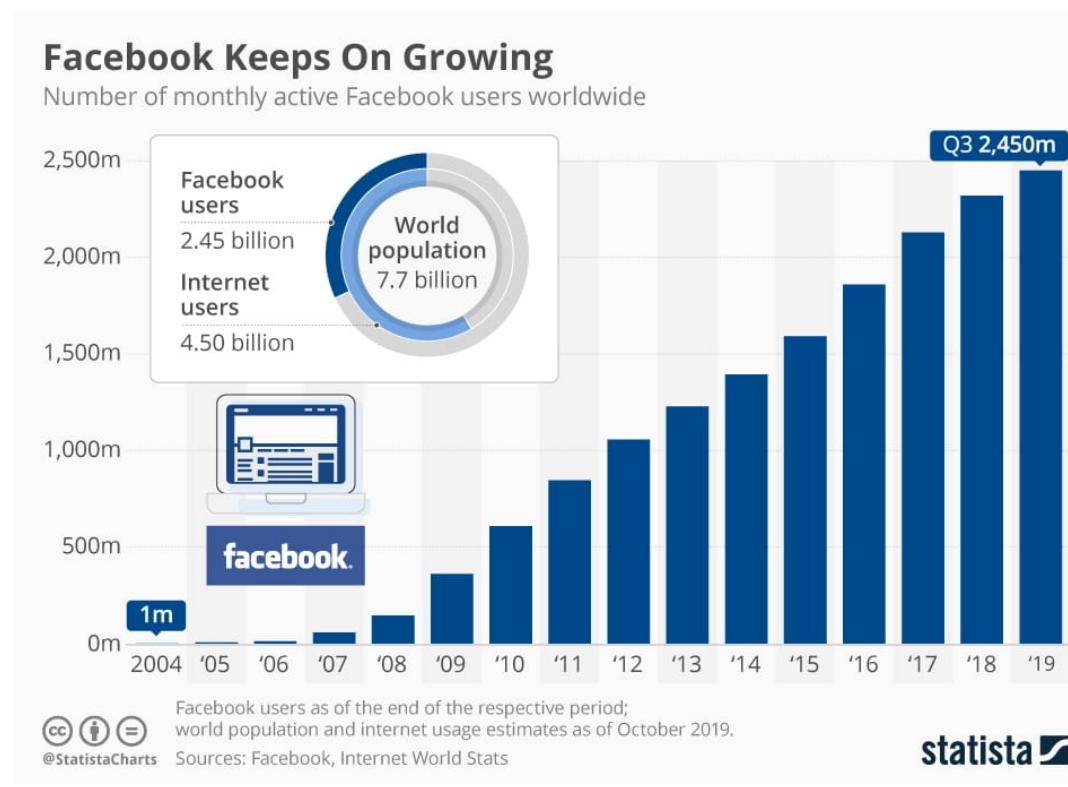
Should we go for Mac OS, Windows or Linux?

Definition of network effect



Metcalfe's law,
1980

The value of one user experience potentially increases as more people or organizations use the same product or service, and as more complementary innovations appear.



<https://www.statista.com/chart/10047/facebook-s-monthly-active-users/>

Network Effect can
generate revenue and
benefits without having
to build products or
deliver services.

Direct / indirect network effects

Direct network effect:

The utility a user receives from a particular service increases as the number of other users increases (Duch-Brown, 2017).



Indirect network effect:

The value of a service increases for one user group when a new user of a different user group joins (multi-sided platforms) as more people from one group joins, people from the other group profit from it.



Negative network effects?

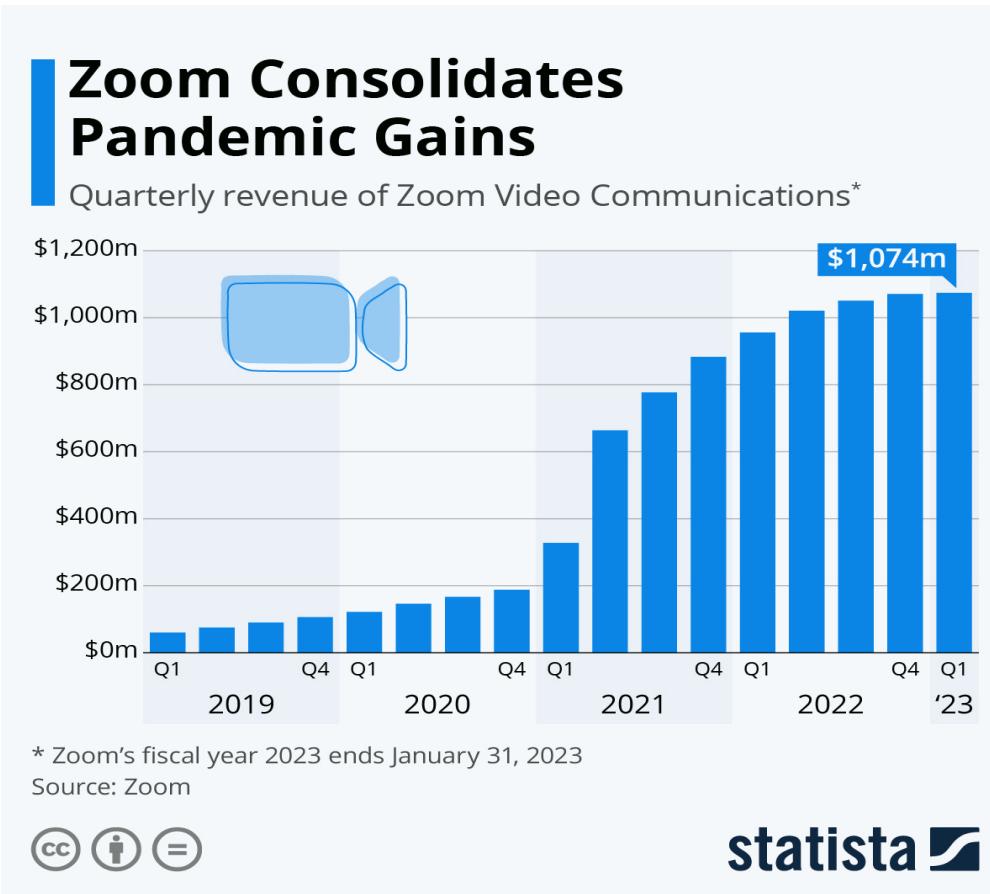
Network effect can be positive... **but also negative.**

It can lead to :

- Saturation of servers
- Choice overload
- ...



The example of Zoom



Does Zoom have network effect?

Source: <https://blogs.cornell.edu/info2040/2020/11/13/network-effects-zoom-and-skype/#:~:text=In%20this%20sense%2C%20Zoom%20has,FaceTime%2C%20Google%20Hangouts%2C%20etc.>

3. Multi-homing

How many social networks are you using?



Multi-homing: use different products for the same purpose at the same time

4. Chicken and egg problem

- Without buyers, sellers have no reason to join
- Without sellers, buyers have no reason to join



An insurmountable problem?

Some options:

- **Single-side mode:** attract an initial base on one side (make it easy to sign up, pay users to join, hire the supply side, offer free service, a product)
- **BYO demand (or supply):** suppliers bring their own customer to the platform (with incentive)
- **Fake one side:** pretend you have one or the other side (or even perform!)
- **Change expectations:** create an advantage to join early



Platforms business models

What is the difference in terms of BM between Airbnb & Netflix?



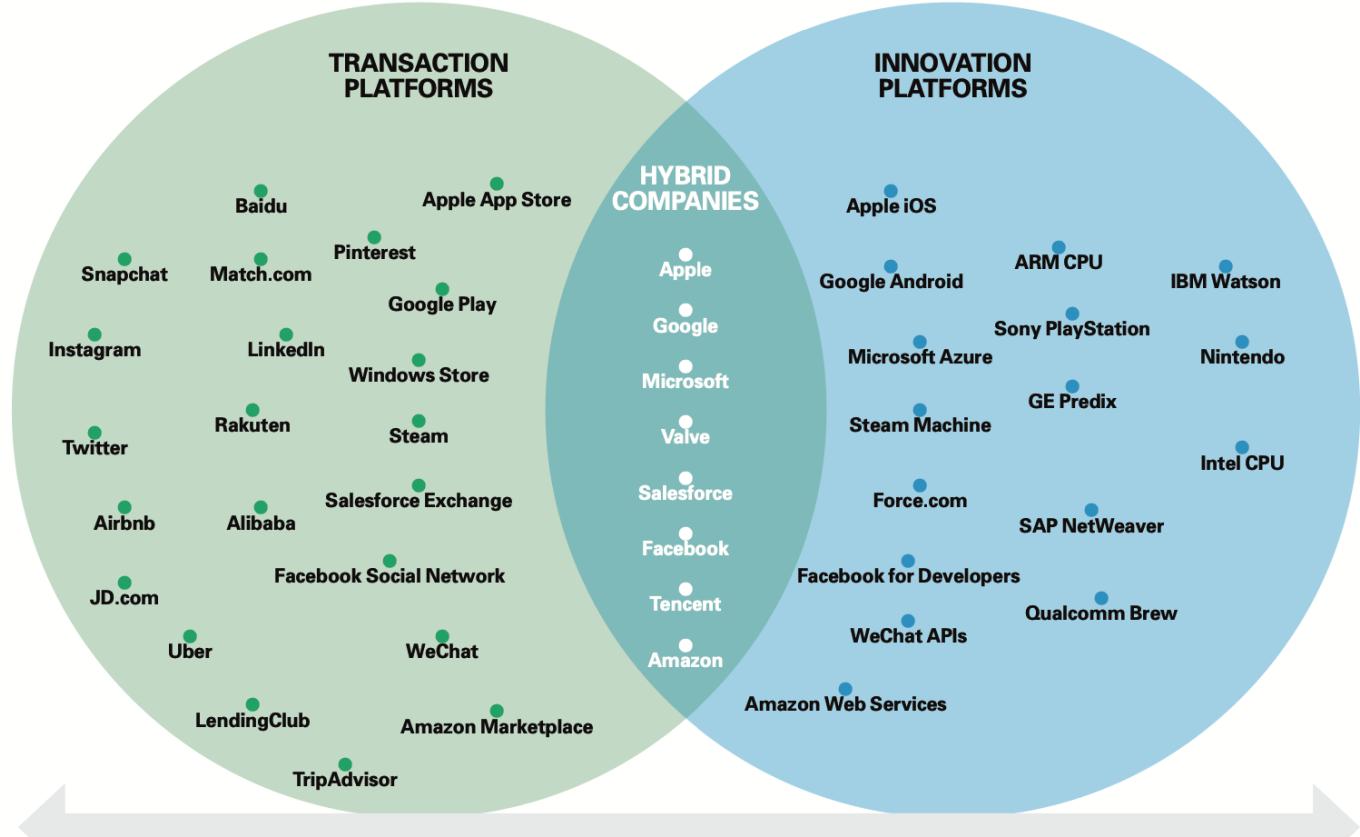
NETFLIX



“intermediaries or online marketplaces that make it possible for people and organizations to share information or to buy, sell, or access a variety of goods and services.”

Collecting transaction fees, charging for advertising

Two types of platforms business model



Transactions

The platform serves as an intermediary for direct exchange or transactions, subject to network effects.

Innovations

The platform serves as a technological foundation upon which other firms develop complementary innovations.

SOURCE: THE BUSINESS OF PLATFORMS: STRATEGY IN THE AGE OF DIGITAL COMPETITION, INNOVATION, AND POWER (HARPER BUSINESS, 2019)

“common technological building blocks that the owner and ecosystem partners can share in order to create new complementary products and services, such as smartphone apps or digital content”

Selling or renting a product

Reactions to platforms

And how do conventional businesses react?

For many traditional enterprises, platforms challenges its core business

How should traditional firms compete with platforms?

Several options:

1. Belong to a competing platform
2. Buy a platform
3. Build their own platform



Cabs turned to competing
ride-sharing platforms



And how do conventional businesses react?

For many traditional enterprises, platforms challenges its core business

How should traditional firms compete with platforms?

Several options:

1. Belong to a competing platform
2. **Buy a platform**
3. Build their own platform



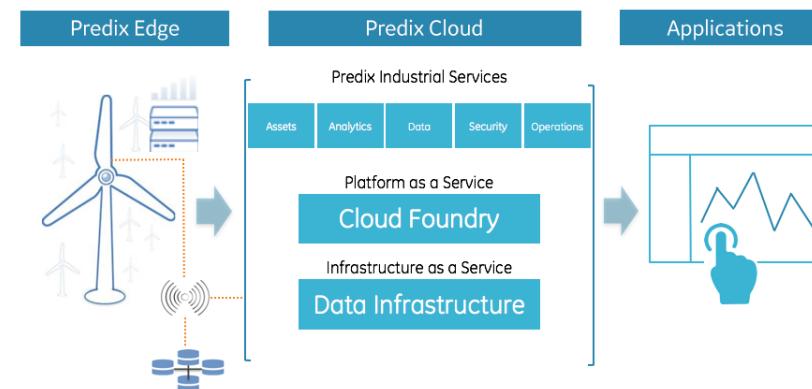
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Platforms: out of control?



Antitrust concerns



Data use and privacy



Workforce

Conclusion

- Platform already transformed many aspects of our daily lives and markets
- Platform businesses play a central role in today's economy (*platformania?*)
- However, the success of a platform venture is not easy nor guaranteed.
- Platforms success is helped by interlinked phenomenon of network effects and winner-take-all (few very powerful actors dominate)
- They face strategic challenges: fierce competition, multi-homing, chicken and egg problems, social protest and governmental regulation
- What is next?

What is next?



Cusumano, M. A., Yoffie, D. B., & Gawer, A. (2020). The future of platforms. *MIT Sloan Management Review*, 61, 26-34.

What is next?



Voice wars:

- Classic platform battle between Apple, Google, Amazon
- Strong network effects
- Possible strong multi-homing effect

Cusumano, M. A., Yoffie, D. B., & Gawer, A. (2020). The future of platforms. *MIT Sloan Management Review*, 61, 26-34.

What is next?



Self-driving cars:

- Disrupt the auto-industry AND the ride-sharing platforms
- Very costly development
- Risk of multi-homing
- Not 100% digital

Cusumano, M. A., Yoffie, D. B., & Gawer, A. (2020). The future of platforms. *MIT Sloan Management Review*, 61, 26-34.

What is next?



Quantum computers:

- Requires huge investments
- Niche market
- Strong regulation questions

Cusumano, M. A., Yoffie, D. B., & Gawer, A. (2020). The future of platforms. *MIT Sloan Management Review*, 61, 26-34.

Group work

Objectives for this session

- For those who haven't done it: analysis of the environment/the industry/the key success factors
- For everyone: reflection on the business models
- Integrate the feedback you received