



Yale SCHOOL OF MANAGEMENT

Digital Strategy

MGT 857 Fall 2022

Session 9

(Platform Strategy — Part II)

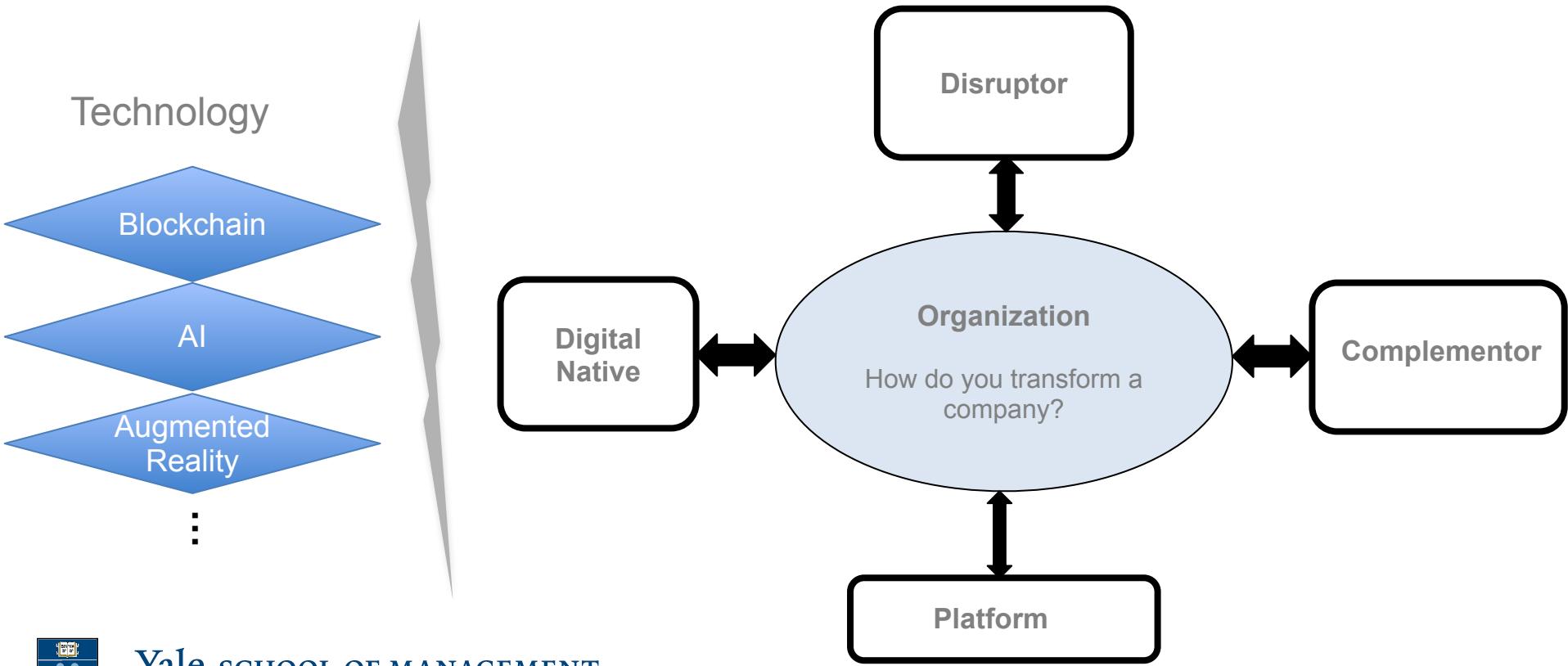
*Vineet Kumar
Yale School of Management*

Logistics

- New Excused Absence Process
 - Need to submit through Canvas
 - Can see link upon clicking on course
- Guest Speaker David Rubin (NYT)
 - Friday **Oct 7** (Evans 2200, 11:40 am - 12:40 pm)
 - Boxed lunches (will send announcement)
- S10 and S11 are switched, updated in syllabus
- **S10 (Oct 4): New York Times (CASE)**
- **S11 (Oct 6): Blockchain**



Digital Strategy Framework (Paths to Digital Value)



Agenda for Platforms

Platform Thinking - Part II

- Introduction to Platforms
- Strategic Issues in Platforms
- One-sided versus Multi-sided Platforms (MSPs)
- S1: Solving the Chicken or Egg problem
- S2: Early Growth (Non-scalable)
- S3: Network Effects
 - Platform Value Matrix
- Platform Curation



Agenda for Platforms

Platform Thinking - Part II

- S1 (Chicken or Egg) ► S2 (1 to 1000) ► S3 (1000+)
- Identify role of network effects in platforms
- Differentiate direct and indirect
- Platform Value Matrix
 - What is it?
 - How to use it?
- Platform Curation
- In class exercise on Platforms



S2: Non-scalable activities

What non-scalable activities do you need to do to get early growth?

- Time ① Airbnb → reach CL posters
 ↳ get feedback
- Money ② Uber : Driver incentives
- Effort ③ Grubhub : Salesforce to reach restaurants
- ④ App Store: Initial content
- ⑤ Etsy : Influencers



How can platforms curate?

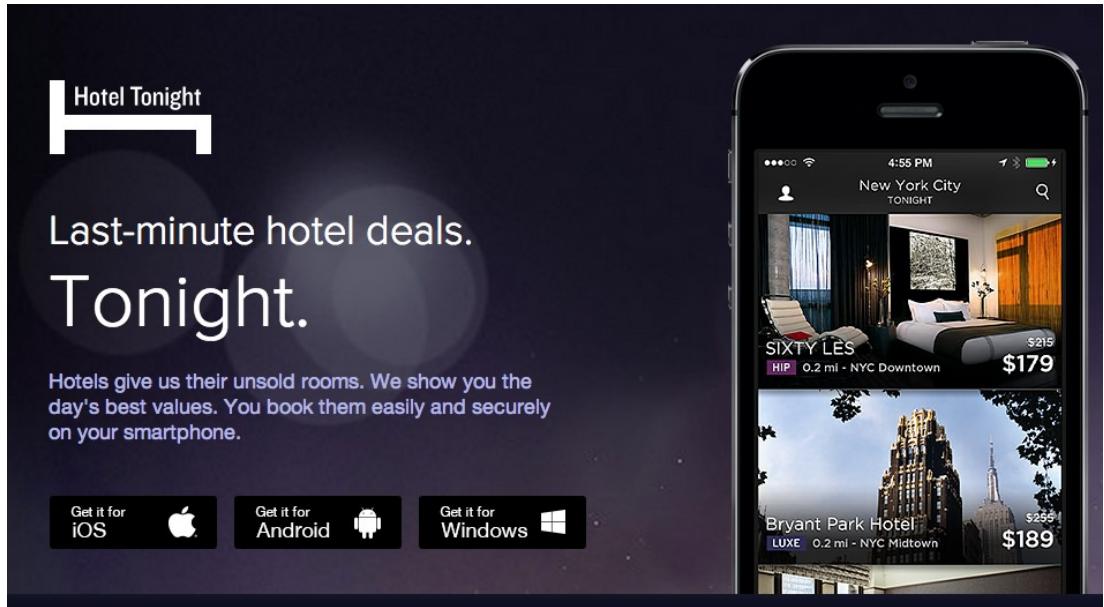
Curation:

The action or process of selecting, organizing, and looking after the items in a collection. (Oxford Dictionary)



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Curation as an Entry Strategy



Hotel Tonight chose a small number of Hotels in each city

Hotels are more willing to sign up since they have a higher conversion rate

Reduced competition

Need to choose: How many hotels should you select in each city?



Things to Do in Sintra

When are you traveling? [Top Things to Do](#) [Tours & Tickets](#) [Day Trips](#)[View map](#)

Browse by Category



Nature & Parks (17)



Sights & Landmarks (36)



Outdoor Activities (37)



Museums (10)



Bike & Mountain Bike Tours (5)



Private Sightseeing Tours (135)

Recommended for You

DAY TRIPS
Full-Day Sintra and Cascais Tour
 77 reviews\$39
per adultPRIVATE SIGHTSEEING TOURS
Sintra, Cascais and Estoril Private Tour
 11 reviews\$58
per adultPRIVATE SIGHTSEEING TOURS
Cascais-Sintra Beach Hiking Tour
 1 review\$139
per adultDAY TRIPS
Full-Day Sintra Palaces Small-Group Tour from Lisbon
 3 reviews\$84
per adult

Cultural Tours

DAY TRIPS
Sintra and Cascais Small-Group Day Trip from Lisbon
 1,327 reviewsDAY TRIPS
Sintra Small Group Tour from Lisbon
 261 reviewsDAY TRIPS
Sintra Small-Group Tour from Lisbon with Cabo da Roca and Cascais
 146 reviewsCULTURAL TOURS
Semi-Private Tour Of Sintra & Cascais
 53 reviews

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Curation Strategy

Role: Activities and Decisions

| Platform | Platform's Role | Participants' Role |
|------------|---|--------------------|
| craigslist |     | |



Platform Curation

| | | |
|--------------|--|--|
| | Platform | Participants (All sides) |
| Craigslist | Category Product City Spam | Description, Product offering, Price, Transaction outside plat. |
| App Store | Category, Ranking, Transaction (Payment) Quality - Reject Approve Commission, Promotion | Value (Features), Price User Ratings, Promote Description, Updates |
| Retail Plat- | Ranking, Quality control Warehousing (Inventory) Delivery, Commission, Payment, Recommendation, Customer Support. | Product offering, Price Returns, Promotions, Descriptions, |
| Uber | Price, Matching Passenger to Driver Customer support, safety Product categories Design of Rating system Payment | Product, Origin, Dest. Ratings (2-sides) Accept / Reject Value, Delivery, Experience ROUTE |

Curation provide a value differentiation opportunity for Platforms



Platform Disintermediation



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PLATFORM DISINTERMEDIATION

Both sides connect outside platform



When is bypass more likely?

- Platform creates little value (beyond matching).
- Too much information (Zocdoc)
- Fee too much
- Customer service is better directly
- Relationship Versus Transaction
- Real time Needs
 - Location
 - Time
 - Product



What can Platforms do to avoid?

- Technical barriers (AppStore)
- Informational barriers (AirBnB)
- Loyalty Programs → Relationship.
- Create value that participant
 - Security
 - Fraud protection
 - Insurance
- Flexible Pricing
- Value drivers → Choose Platform
- Payments through Platform (Frictionless)



Stage 3: 1000+ to Millions+: Network Effects



Network Effect

- Direct (OSP)
- Value of product to a user depends on how many other users there are
- Metcalfe's Law



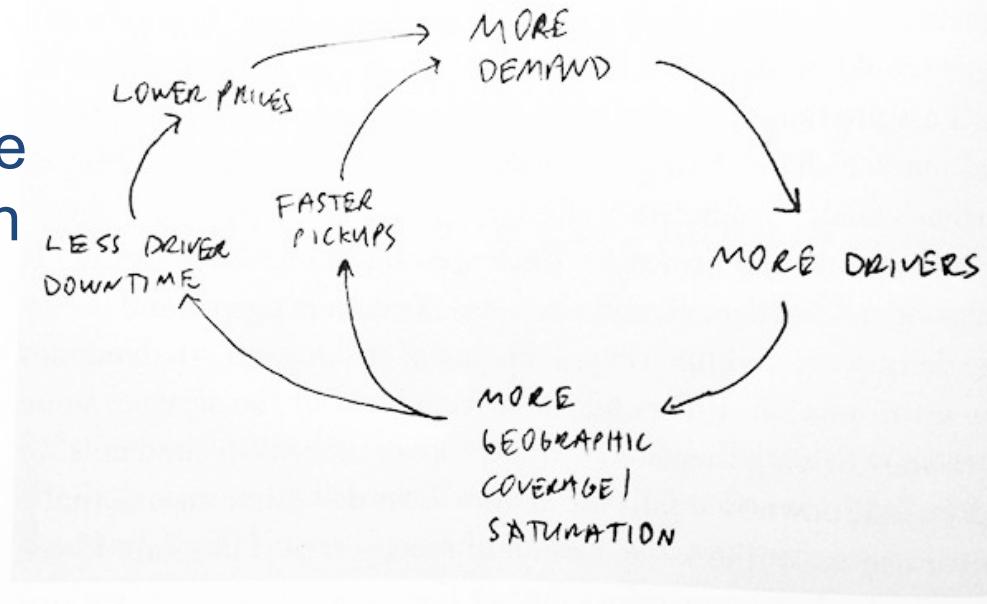
Indirect (MSP)

Value of platform to a user depends on how many users or products are on other side



Impact of Network Effects Investor's Perspective

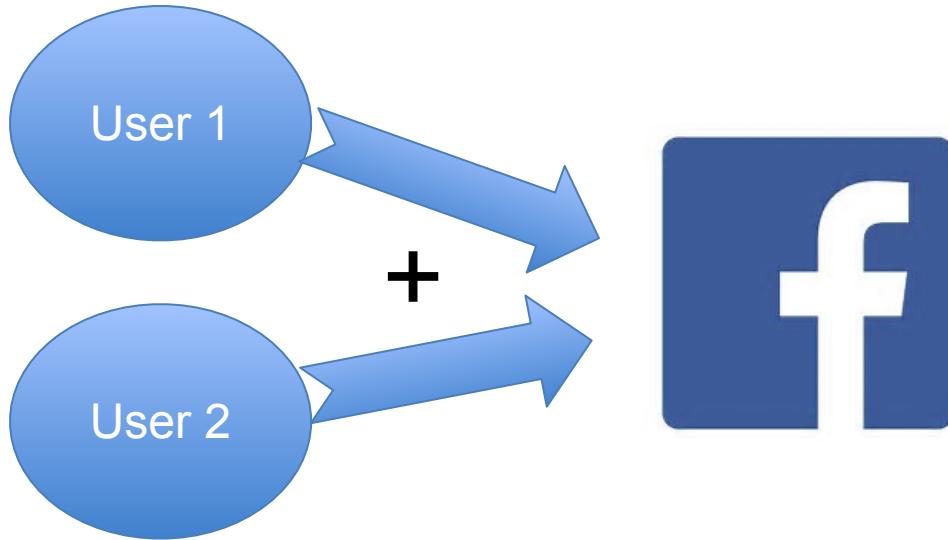
- What is the impact of network effects?
 - Network effects can have huge impact on valuation
 - Investors expect strong network effects implies limited competition
 - winner-take-all market
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Source: Platform Revolution book

Platform (Network) Value Matrix

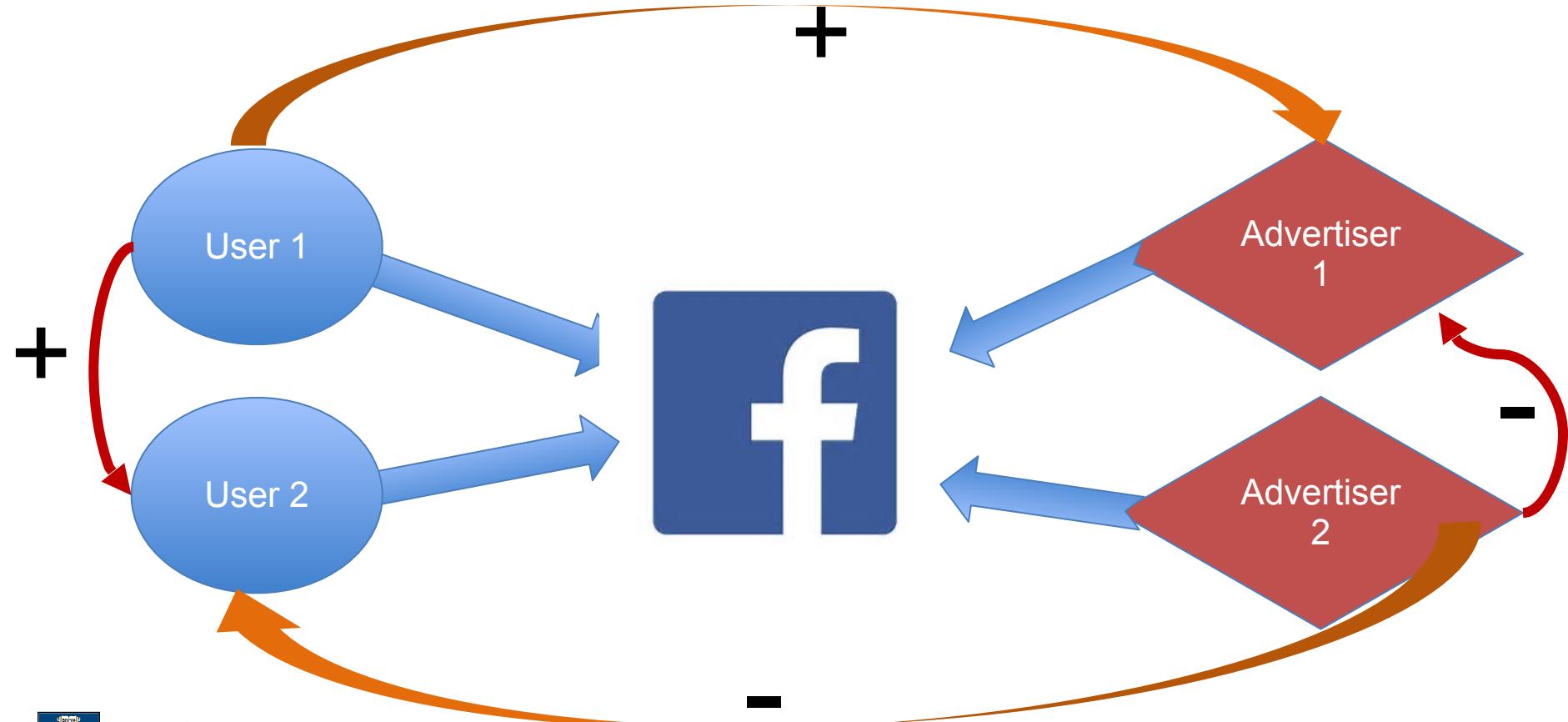
Identify how many sides



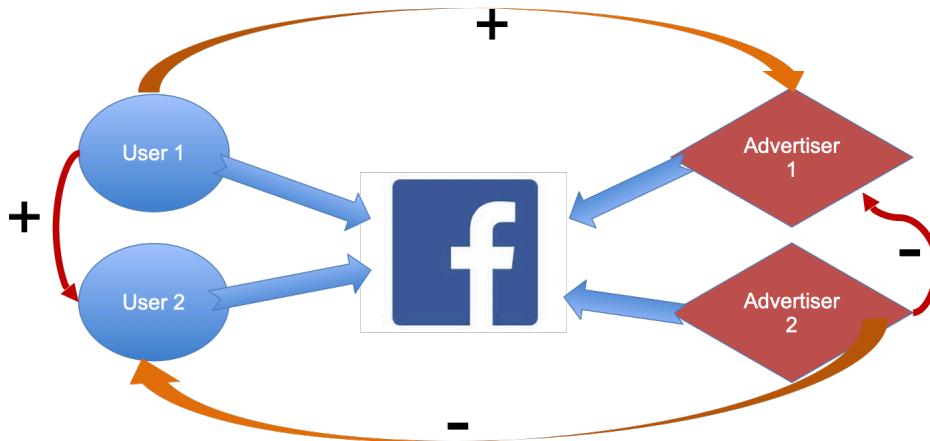
When Facebook started out, was it
OSP or MSP?



Platform Value Matrix



Platform Value Matrix



If we have more participant of type A, does participant of type B benefit??

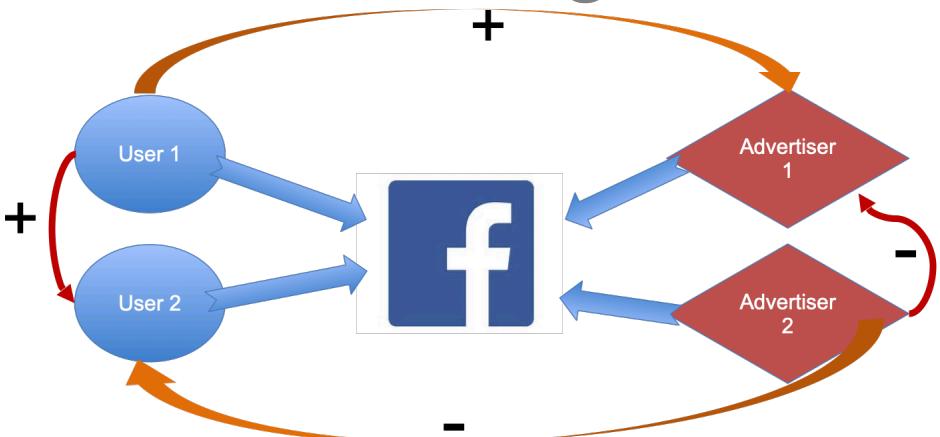
With N sides,
number of effects:

$$N^2$$

| Impact on: | User | Advertiser |
|------------|------|------------|
| User | + | + |
| Advertiser | - | - |



Using Platform Value Matrix



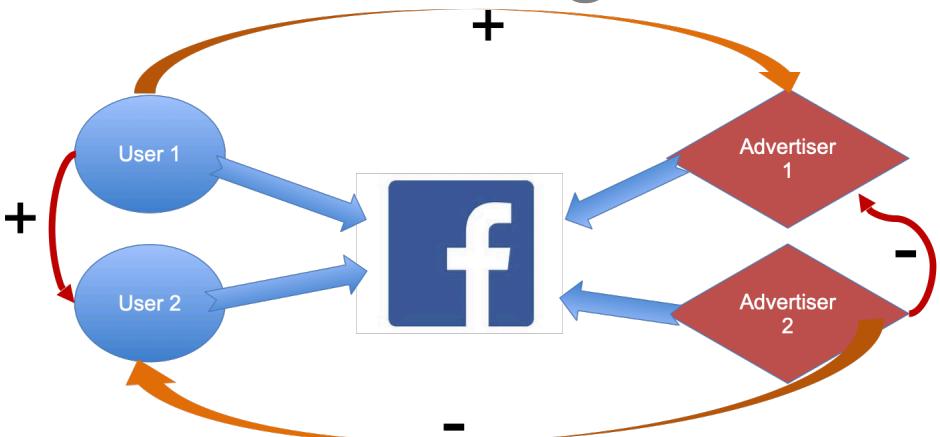
1) Evaluating feasibility

If all sides you have identified have mostly negatives, then platform may not be a good idea

| Impact on: | User | Advertiser |
|------------|------|------------|
| User | + | + |
| Advertiser | - | - |



Using Platform Value Matrix



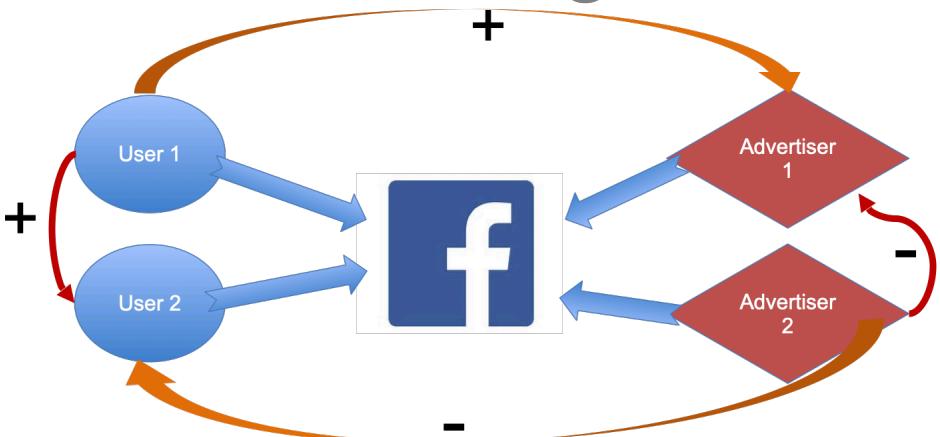
How does this apply to
ridesharing?

2) Which side to bring on board first?
First bring on board the side that has
mostly positives.
Can you create a product? OSP?

| Impact on: | User | Advertiser |
|------------|------|------------|
| User | + | + |
| Advertiser | - | - |



Using Platform Value Matrix

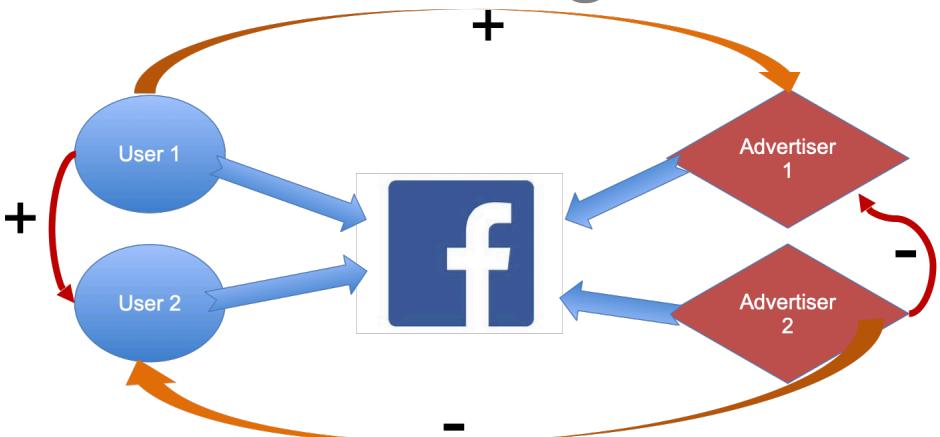


3) Understanding resource challenges
What resources are required to bring each side on board?

| Impact on: | User | Advertiser |
|------------|------|------------|
| User | + | + |
| Advertiser | - | - |



Using Platform Value Matrix



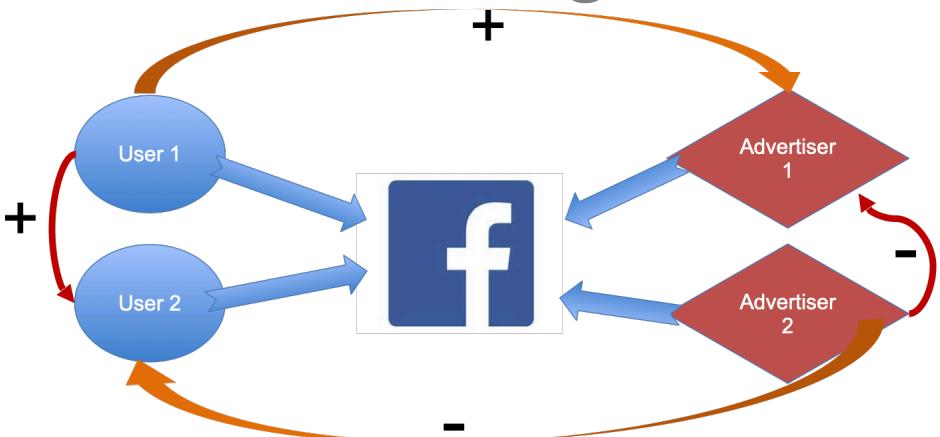
4) Segmentation

Are there segments where effects are more positive or less negative?

| Impact on: | User | Advertiser |
|------------|------|------------|
| User | + | + |
| Advertiser | - | - |



Using Platform Value Matrix



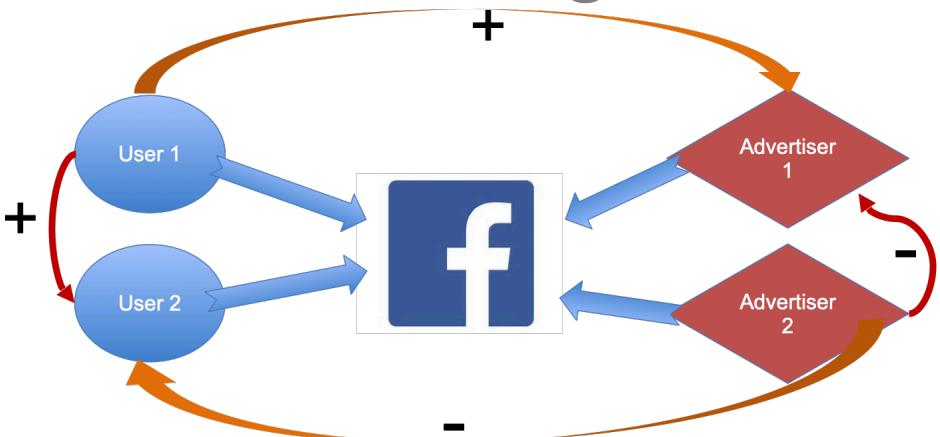
5) Value Capture (Revenue)

Which side should I capture value from in the form of revenue?

| Impact on: | User | Advertiser |
|------------|------|------------|
| User | + | + |
| Advertiser | - | - |



Using Platform Value Matrix



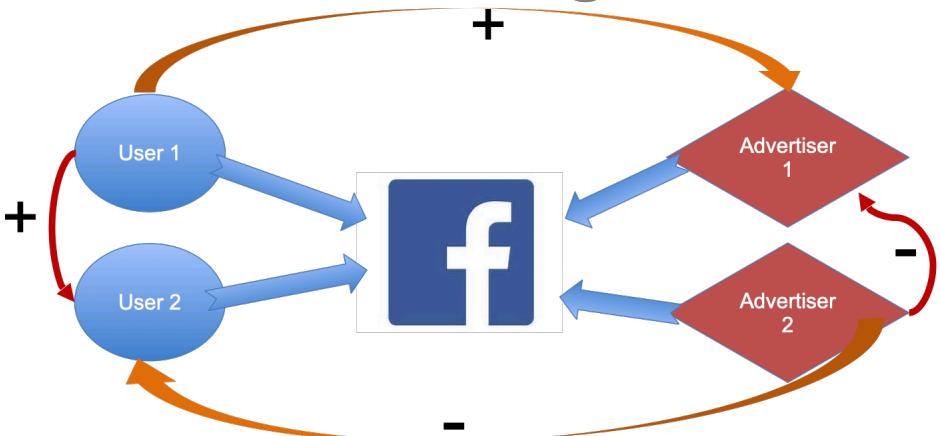
6) Monetization Timeframe

How long will it take to monetize the business model?

| Impact on: | User | Advertiser |
|------------|------|------------|
| User | + | + |
| Advertiser | - | - |



Using Platform Value Matrix



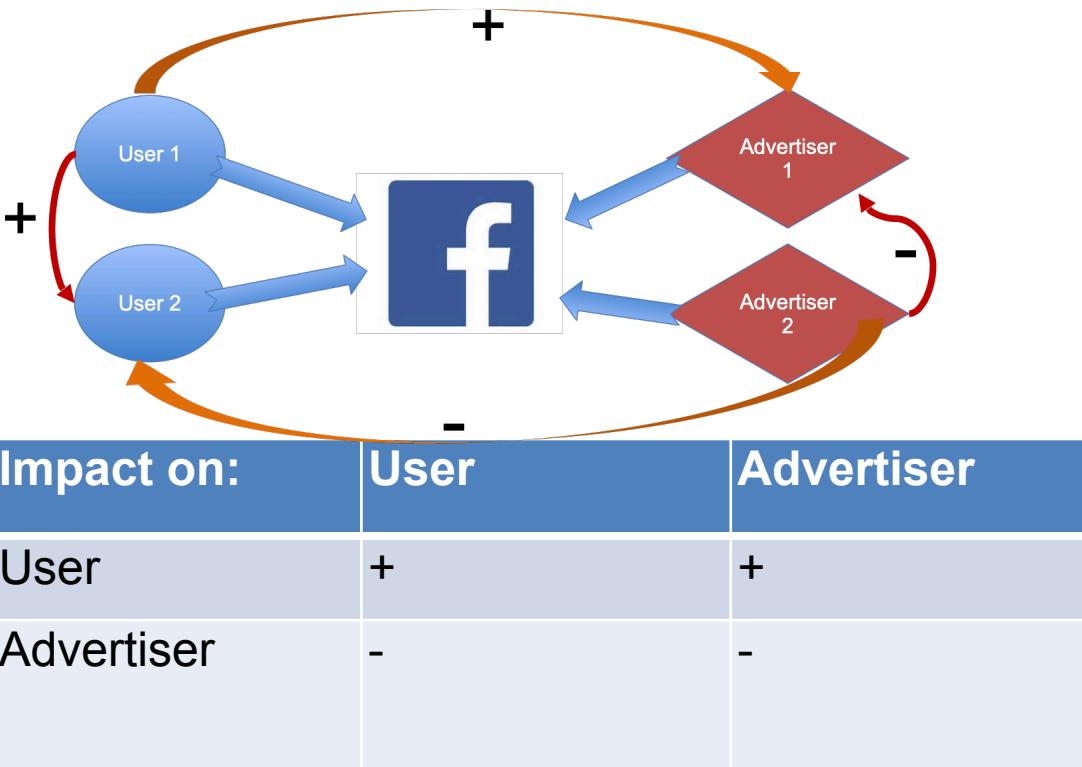
7) Business Model Design

Where should we try to redesign the business model?

| Impact on: | User | Advertiser |
|------------|------|------------|
| User | + | + |
| Advertiser | - | - |



Platform Value Matrix



How does this help?

- Evaluating feasibility
- Understanding the challenges (resources)
- Are there segments where the interaction effects are more positive?
- Which side should I start with?
- Value Capture (Pricing)
- Tells you whether monetization might take a long time
- Can you create more sides that add more positives?
- Identify BM elements that create negative effects



Business Model Matters

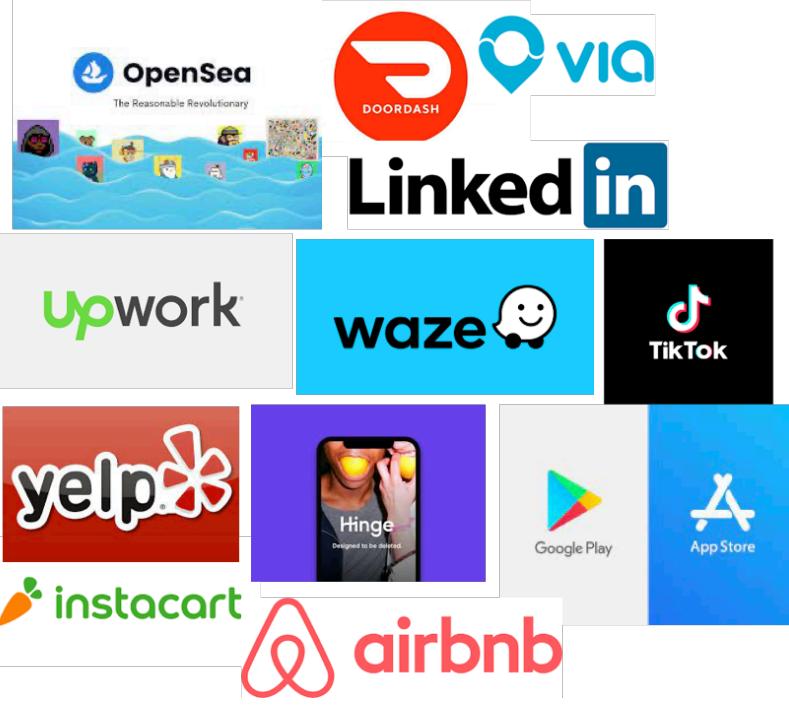


| Impact on: | Buyer | Seller |
|------------|-------|--------|
| Buyer | - | + |
| Seller | + | - |

ebay

Identify business model elements that create negative effects





Questions

- 1) Which strategy would work well to solve S1?
- 2) What non-scalable activities do you need in S2?
- 3) Identify current sides. Write out Platform Value Matrix (PVM)
- 4) Consider 1-2 other sides to add.
- 5) What curation does platform do? Should participants be doing this instead?
- 6) Identify factors that encourage and discourage disintermediation
- 7) Are there any switching costs? Organic or Strategic?
- 8) Can business model design impact network effects?



Platform Summary

- Platform businesses are highly attractive – why?
- Distinct stages:
 - S1 (Chicken or Egg) ► S2 (1 to 1000) ► S3 (1000+)
- Solving “Chicken or Egg” problem biggest early-stage decision
- S1 and S2 are almost always non-scalable
- Always ask whether you can build product before platform
- If not, can use one of the other strategies we examined
- S3: Evaluate the Platform Value Matrix
 - (PVM) with same-side and cross-side effects
 - Can tell you viability, how to get started, where to focus efforts
 - Every platform should think through curation carefully
 - Strategies can help deal with disintermediation

