

COURSE: BUSINESS MODEL INNOVATIONS

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Network Effects and Multisided Platforms



Multi-Sided Platforms: Powerbrokers In The Global Economy



LLOYD'S



Today's Discussion

1 What Is A Multi-Sided Platform?

2 When Do Multi-Sided Platforms Compete?

3 The Nature Of Competition

4 Search-Based Advertising

5 The Digital Music Business

6 The Catalyst Age

What Is A Multi-Sided Platform?

The Birth Of The Charge Card



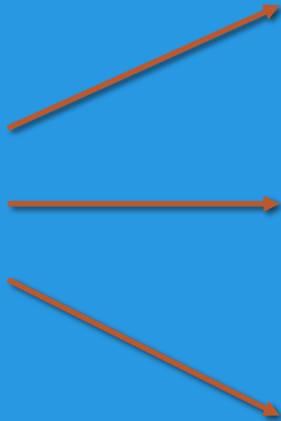
Merchants paid 7% fee

Cardholders paid small fee roughly equal to the value of the float

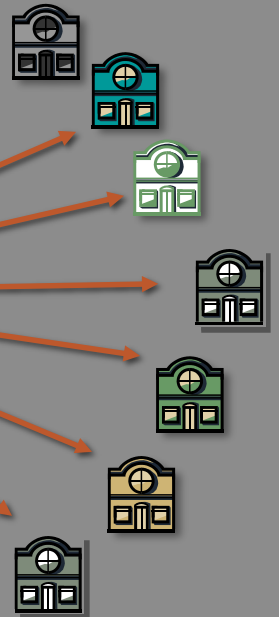
Profits entirely from the merchant side

Catalytic Reaction For Charge Cards

Card system signed up merchants to accept and consumers to use cards: a three-party system



14 restaurants and 200 consumers to start



330 restaurants and 42,000 consumers one year later

What Makes A Platform Multi-Sided



Reduces transactions costs between two or more groups of economic agents



Significant indirect network effects between groups



Uses pricing, design, and openness to optimize positive feedback effects

When Do Multi-Sided Platforms Compete?

How Many Multi-Sided Platforms Compete

Cause	Effect on Size/Concentration
Indirect network effects	+
Scale economies	+
Congestion	-
Platform differentiation	-
Multi-homing	-

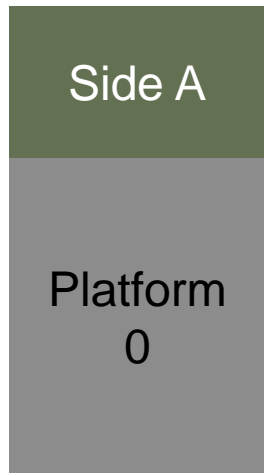
Core Functions Of Multi-Sided Platforms

Matchmakers	Audience builders	Cost minimizers
Objective To facilitate transactions	Objective To assemble eyeballs	Objective To increase efficiency
<i>eBay</i>	<i>Paris Match</i>	<i>Palm OS</i>
<i>Yahoo! Personals</i>	<i>Google</i>	<i>Windows</i>
<i>Marché Bastille</i>	<i>Condé Nast</i>	<i>Symbian</i>
<i>MySpace.com</i>	<i>TiVo</i>	<i>Sony PlayStation</i>
<i>Manheim Auto Auction</i>	<i>Reed Elsevier</i>	<i>Xbox</i>
<i>Odaiba</i>	<i>Wall Street Journal</i>	<i>SAP enterprise software</i>
<i>NASDAQ</i>	<i>BBC</i>	<i>Linux</i>

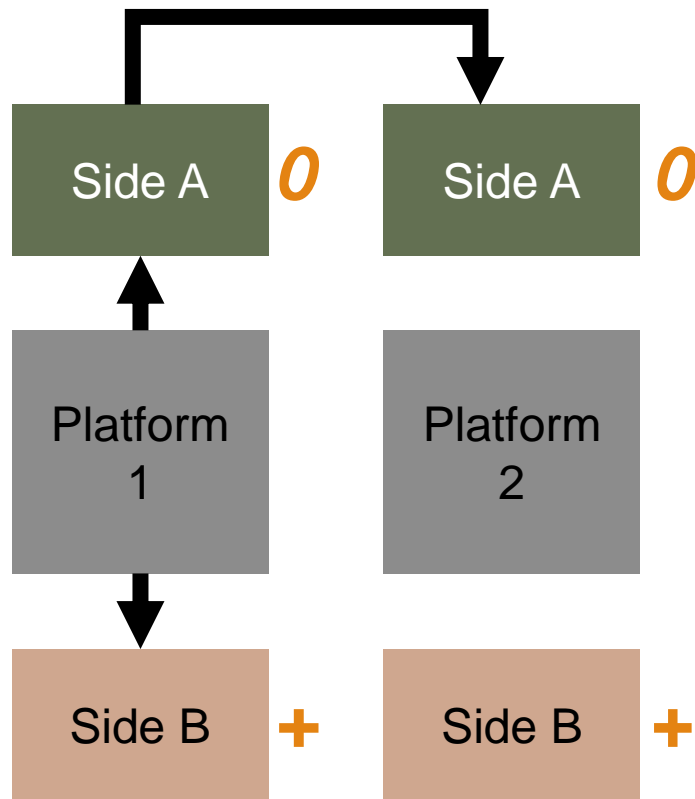
The Nature Of Competition

Competition When The Number Of Sides Vary

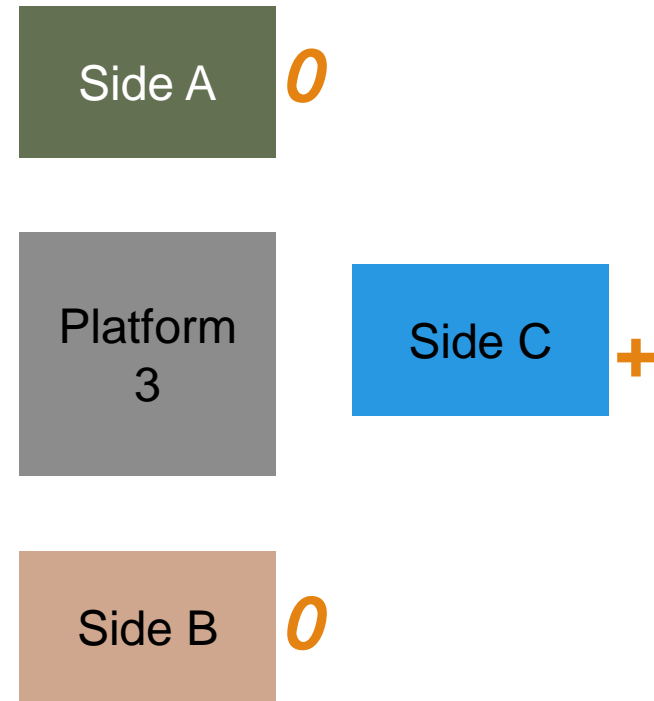
Single-Sided



Symmetric Two-Sided

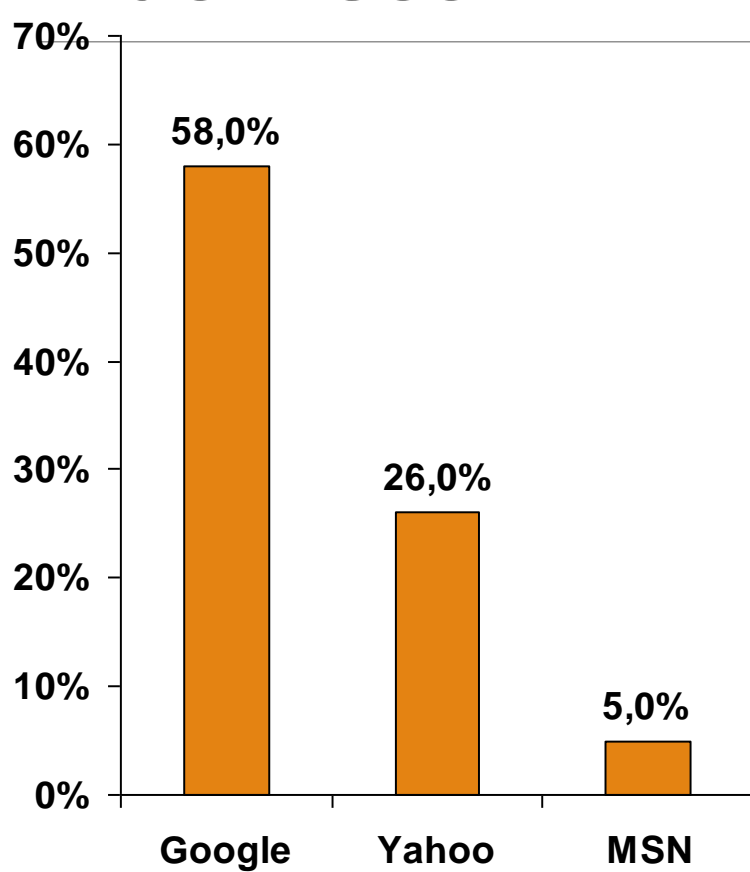


Three-Sided

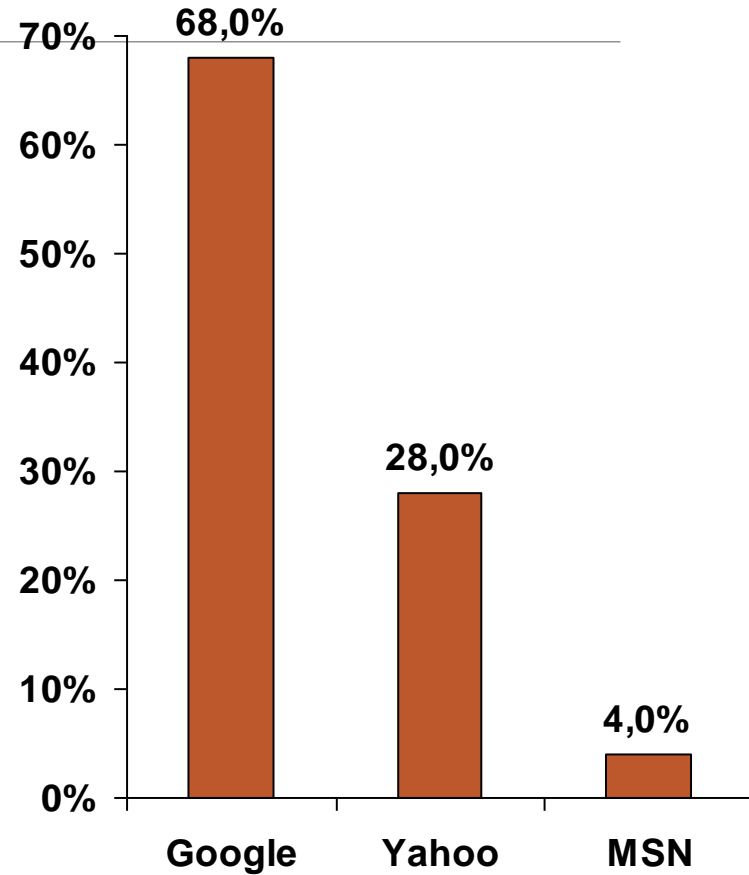


Search-Based Advertising

The Search-Based Advertising Business



Share of Searches



Share of Search-based Advertising Revenue

Search Pages

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How Bidding Works

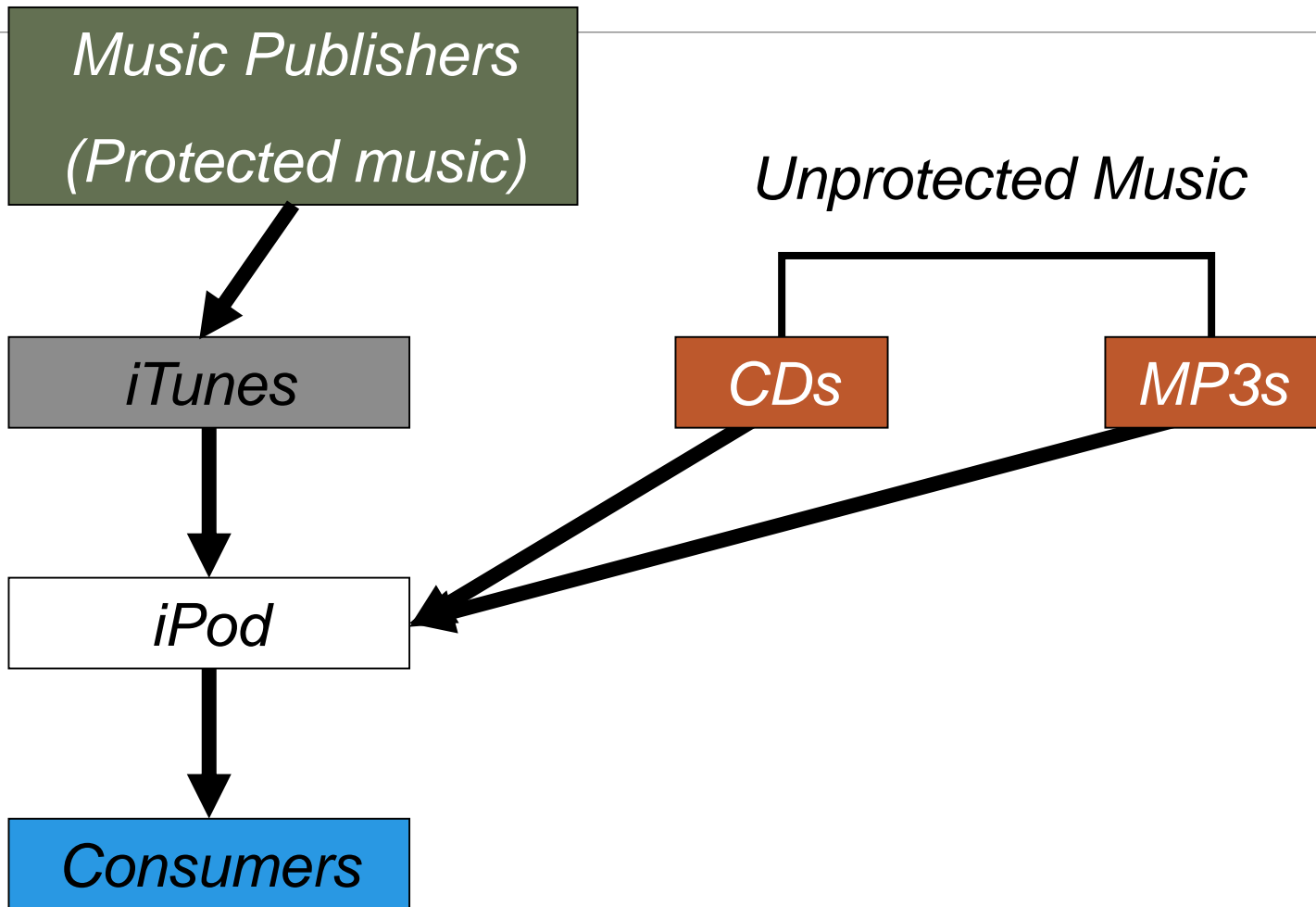
*Revenue Per Search (RPS) = Price per click * Clicks per search*

Price goes up with scale because a platform with more advertisers:

- has greater likelihood of having advertisers who value a search highly
- has more competition among advertisers for valuable searches
- clicks go up with scale—platform has the right ads to deliver to searchers

The Digital Music Business

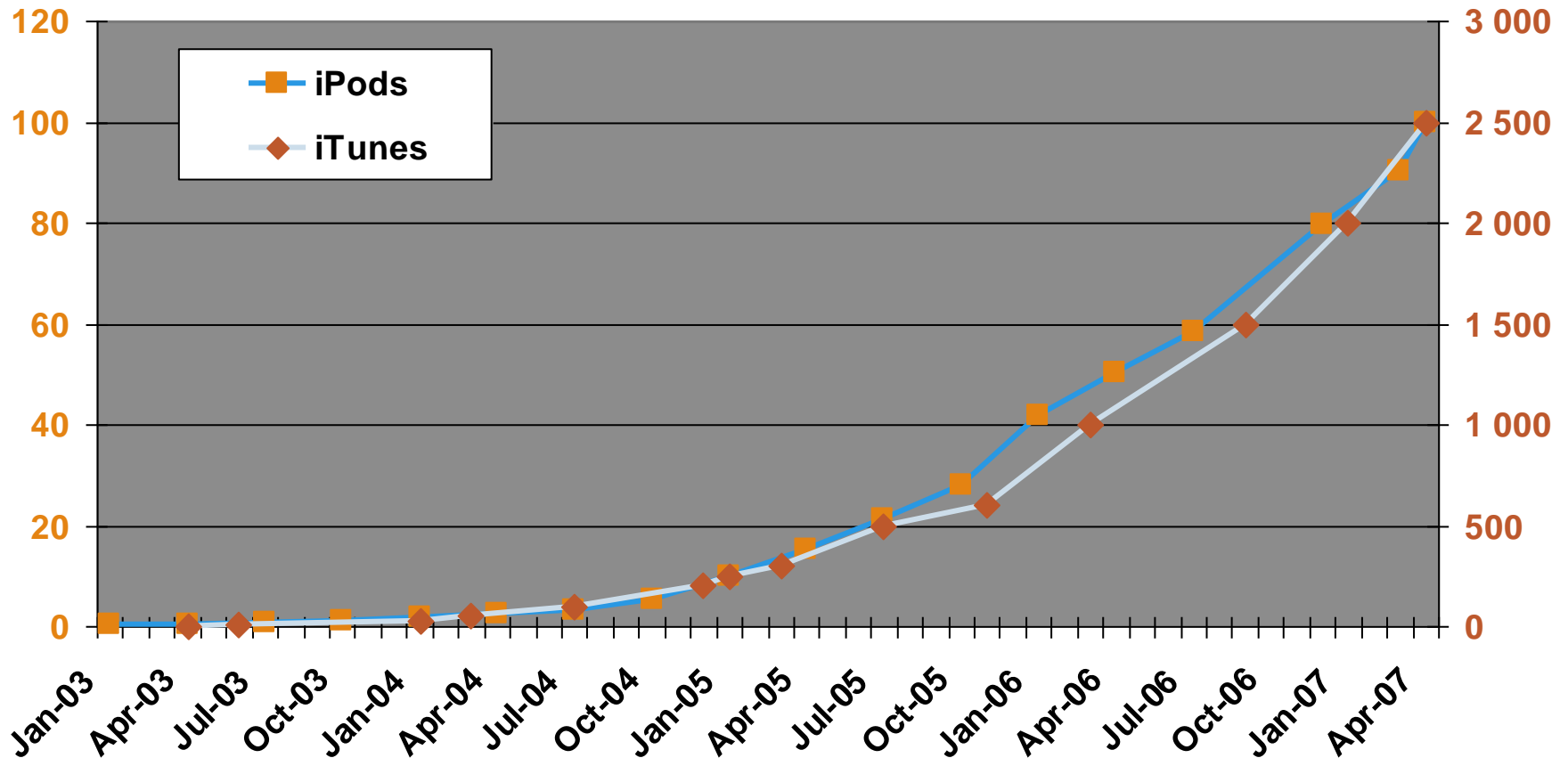
iTunes-iPod Business Model



Growth In iPod And iTunes

Number of iPods shipped (millions)

Number of iTunes sold (millions)



Three Factors Will Lead To More Catalysts

1

The web is a convenient meeting place

2

It is easy and cheap to communicate

3

Software platforms power many catalysts

The Catalyst Age And Competition Policy



More dominant firms in sectors as multi-sided platforms form and grow

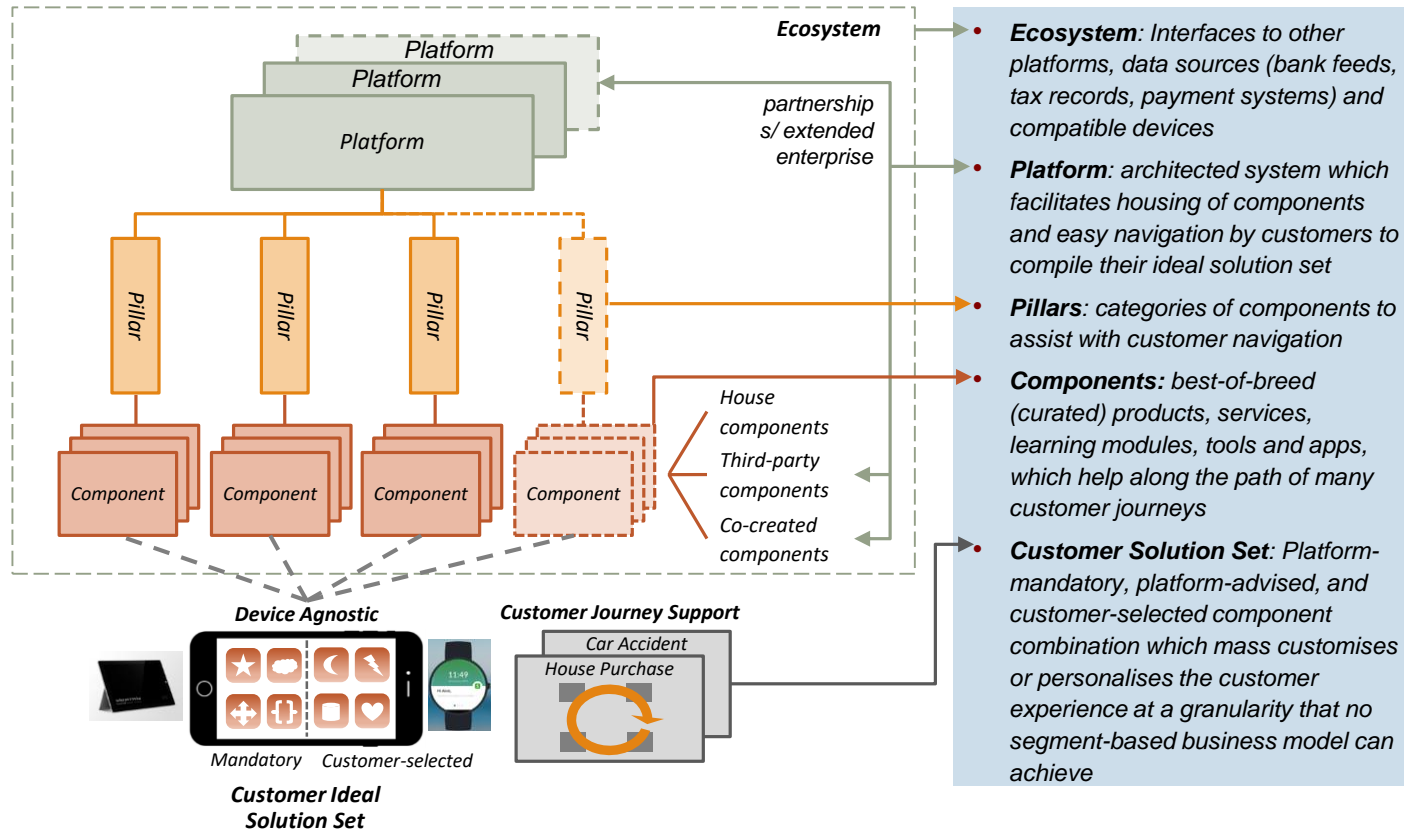


More dominant firms as high-tech, multi-sided platforms displace low-tech

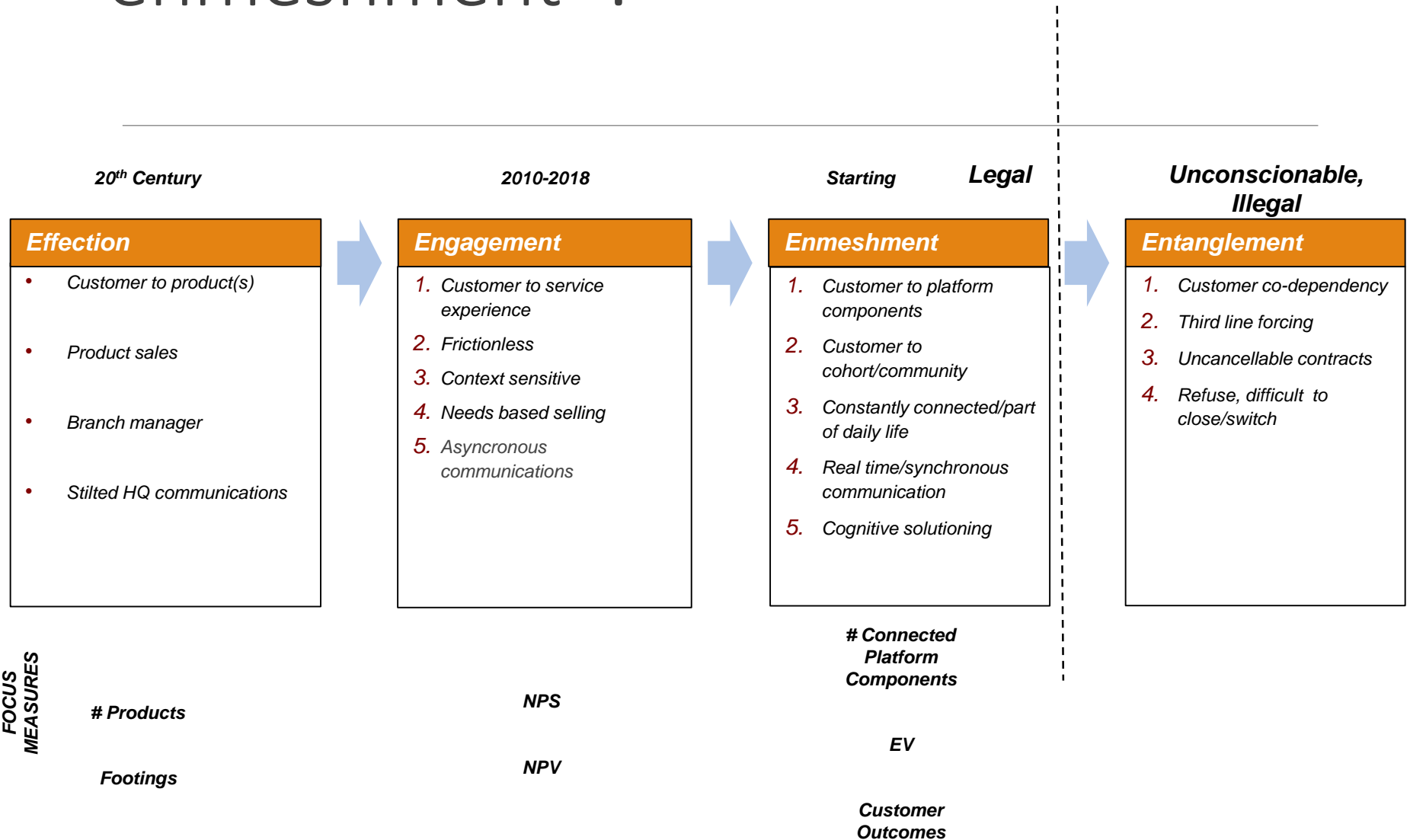


More consolidations as multi-sided platforms seek demand and cost-scale economies made possible by technology

What does a platform-based ecosystem look like?



Platforms create digital “enmeshment”?

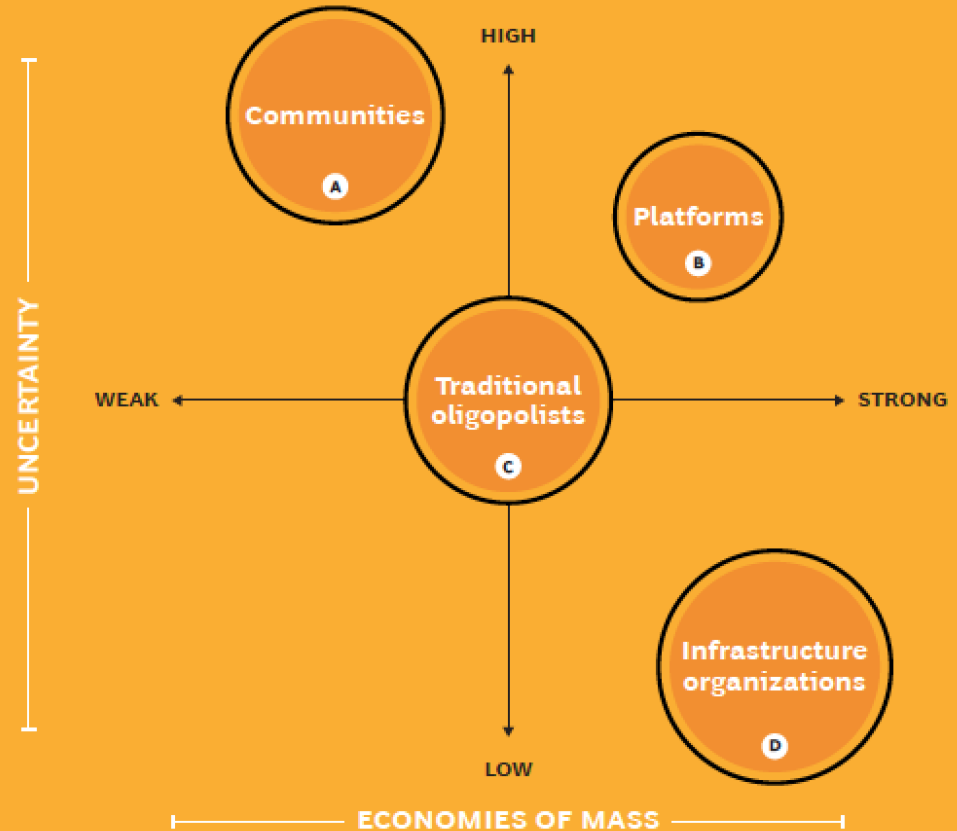


institutional options with distinct economics

TWO DIMENSIONS DEFINE STACKED ARCHITECTURES: UNCERTAINTY AND ECONOMIES OF MASS

STACKED ARCHITECTURE

- A Communities**
Accelerate innovation through many small, trial-and-error bets by individuals fueled by diverse motivations.
- B Platforms**
Provide support to communities, enabling them to scale. Subject to network effects and thus tend toward "winner takes all" fragile monopolies.
- C Traditional oligopolists**
Seek innovation and efficiency through vertical integration, incremental improvements to products and services, and averaged economies of mass.
- D Infrastructure organizations**
Provide open access to the benefits of hyperscaling in scale- and utilization-sensitive activities. Focus on efficiency, not innovation.

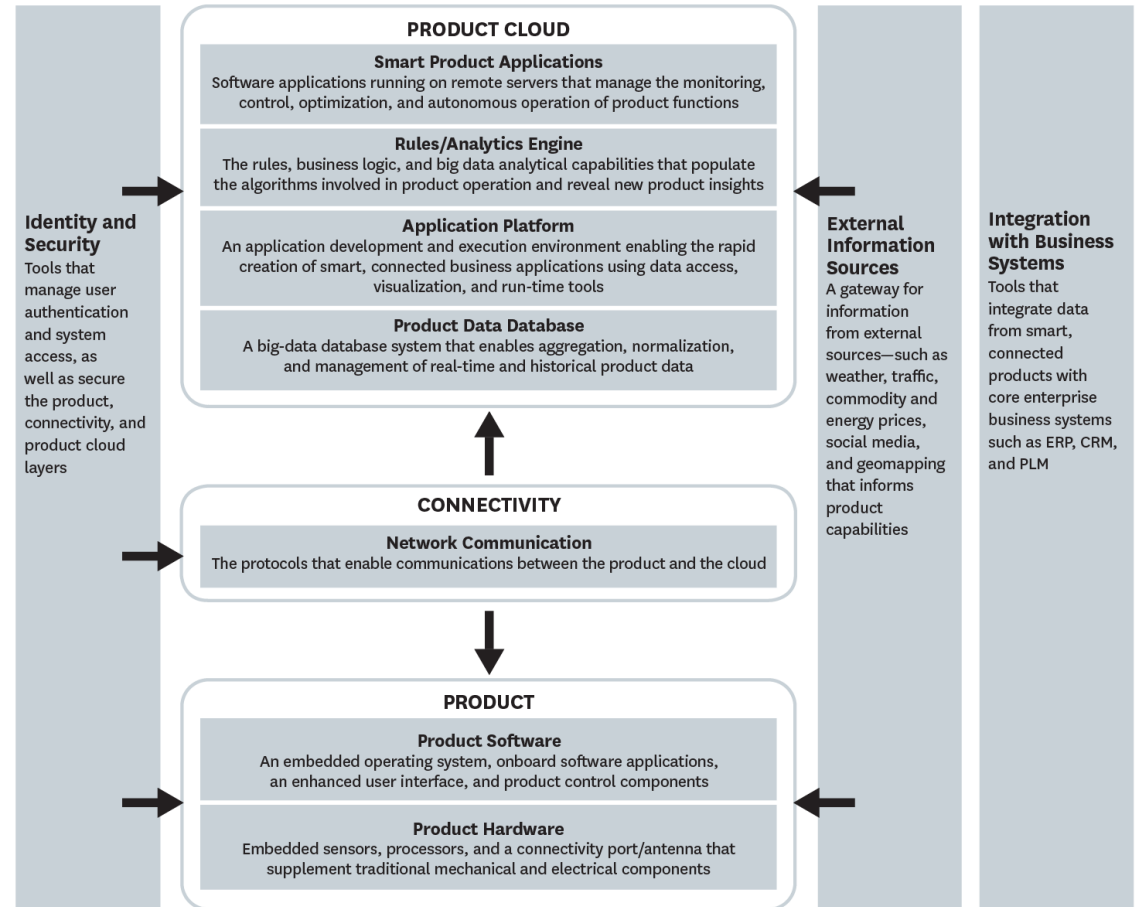


platforms and ecosystems is the norm rather than the exception

KEY POINTS

- *Smart, connected products require companies to build and support an entirely new technology infrastructure*
- *This “technology stack” is made up of multiple layers, including new product hardware, embedded software, connectivity, a product cloud consisting of software running on remote servers, a suite of security tools, a gateway for external information sources, and integration with enterprise business systems*
- *In a smart, connected world, companies face key new strategic decisions. A firm’s choices will have a major impact on every activity in its value chain*

THE NEW TECHNOLOGY STACK

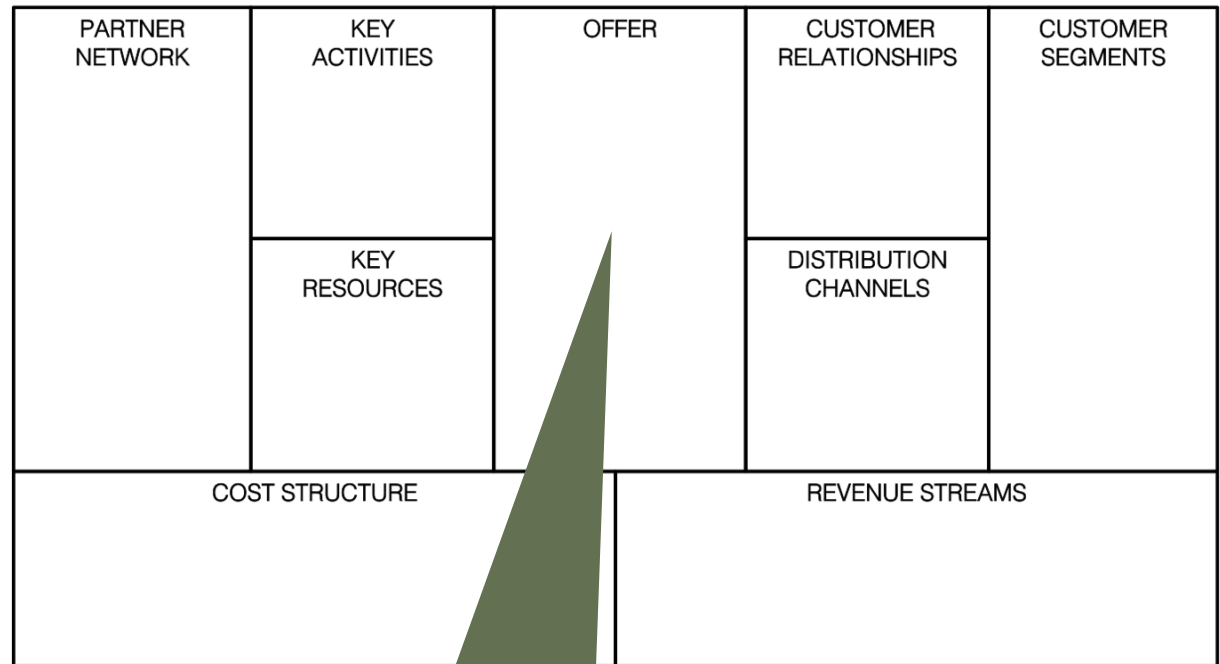


The Business Model Canvas has become the “standard” visual representation of business models

Key points

- The Business Model Canvas has become the “standard” visual representation of business models
- Business model is here defined as “A business model describes the rationale of how an organization creates, delivers, and captures value”, clearly identifying the three key area of the canvas
- **Multi-sided platforms** (or multi-sided markets):
 - A credit card company needs a large base of credit card holders and a large base of merchants who accept those credit cards
 - An enterprise offering a free newspaper needs a large reader base to attract advertisers. On the other hand, it also needs advertisers to finance production and distribution. Both segments are required to make the business model work
 - Multi-sided platforms can use aspects of other business models, such as **freemium business models** and **open business models**

Business Model Canvas



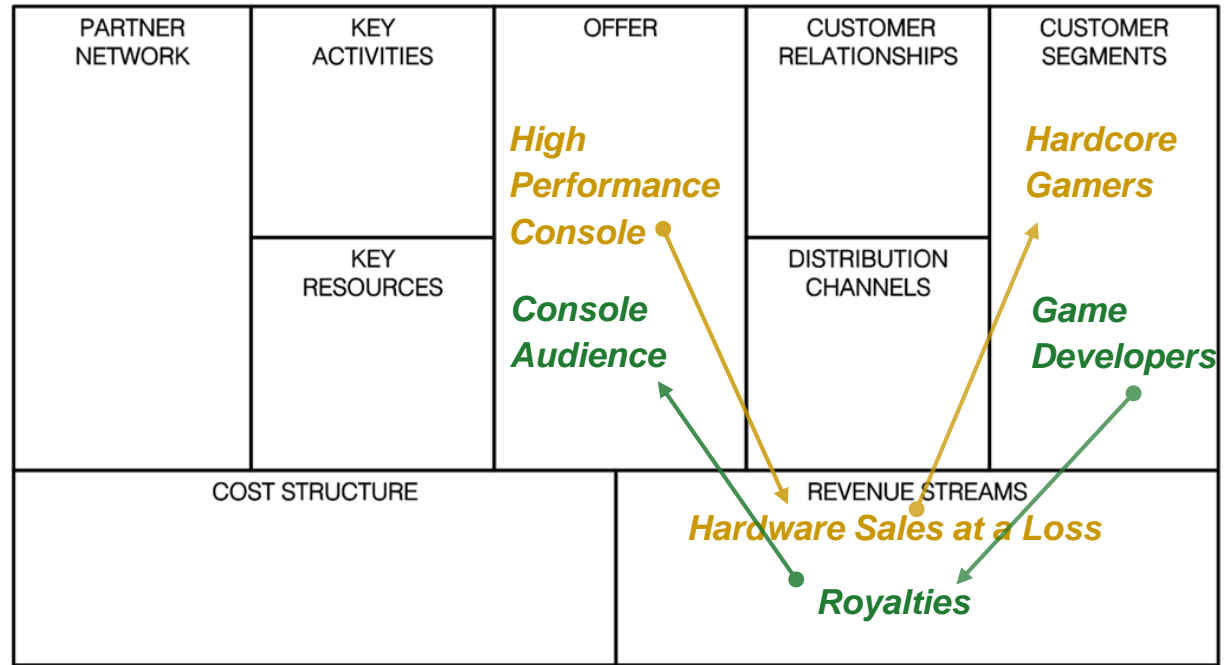
In a multi-sided business model, the offer (or value proposition) and the customer segments are tightly linked

PSP/Xbox “give away” expensive consoles to hardcore gamers and obtain royalties from game developers

Key points

- Targeted gamers are very demanding and require high quality game experiences
- Thanks to a platform business model, PSP/Xbox guarantee that only the best game developers participate on the platform because only the “good” ones are willing to pay the expensive entry fees.
- Game players are subsidized by the “other side of the market”. Note that PSP/Xbox also develop their own ‘house’ games to seed the platform

Business Model Canvas



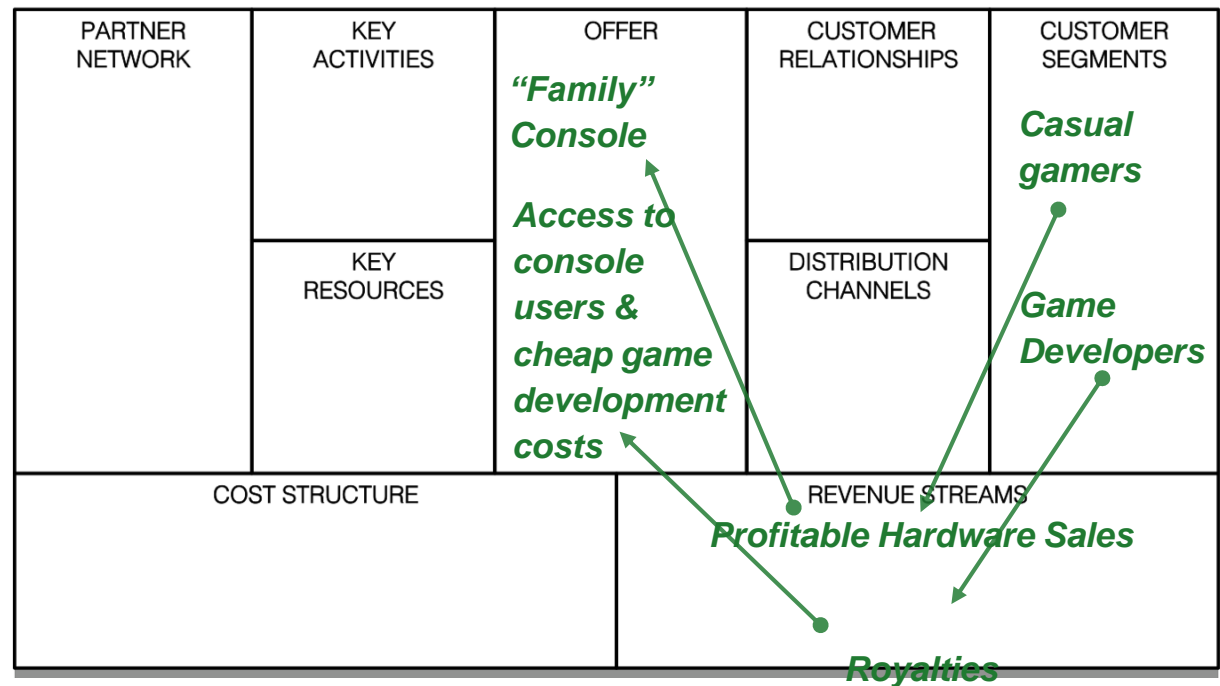
Wii attracts a large group of casual gamers with relatively inexpensive consoles and royalties from game developers



Key points

- Originally, Nintendo's Wii value proposition was attractive to non professional gamers because of the "fun factor" and "social interactions" – especially younger children, retirement home communities and families
- These didn't need a sophisticated and expensive technology like hardcore gamers but wanted a simple intuitive interface model

Business Model Canvas



Freemium as a business model: providing the service for free to some customer segments to subsidize other customer segments



Key points

- Skype is an example of platform business model with a freemium component
- A large base of free users is subsidized by a small base of paying users

Business Model Canvas

PARTNER NETWORK	KEY ACTIVITIES	OFFER	CUSTOMER RELATIONSHIPS	CUSTOMER SEGMENTS
	KEY RESOURCES		DISTRIBUTION CHANNELS	
	<i>Infrastructure development & maintenance</i>	<i>Free basic service</i>	<i>Automated and mass customized</i>	<i>Large base of free users</i>
	<i>Platform</i>	<i>Premium service</i>		<i>Small base of paying users</i>
COST STRUCTURE			REVENUE STREAMS	
<i>Fixed costs</i>	<i>Cost of service for premium users</i>	<i>Cost of service for free users</i>	<i>Free basic services</i>	
			<i>Paid premium services</i>	

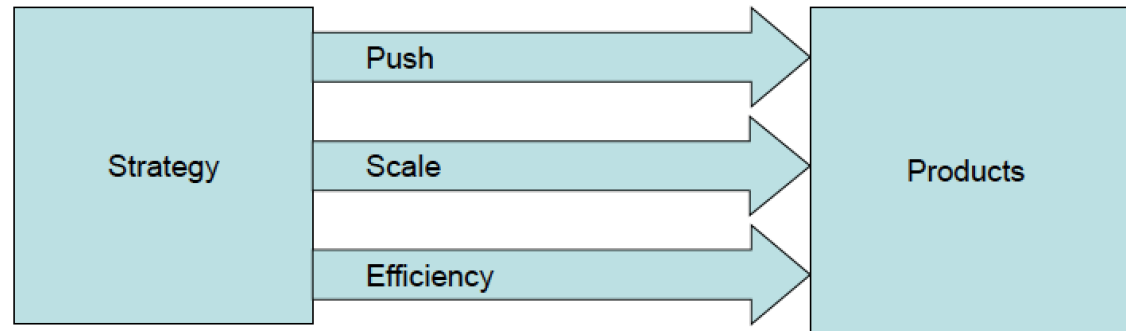
Managing strategy and innovation in an uncertain world requires executives to think in terms of platforms rather than products

KEY POINTS

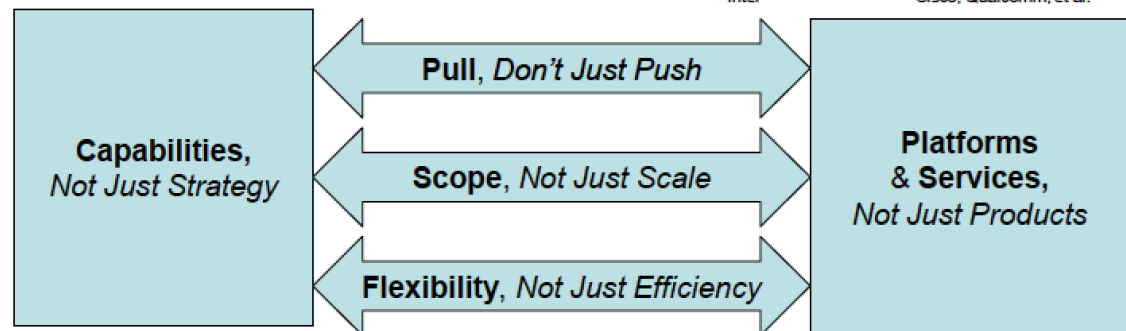
- To strive for competitive advantage in an uncertain world, platform thinking should replace product thinking I
- Key capabilities to develop to succeed in a platform based competition are:
 - **Pull:** link each step in a company key operations backwards from the market in order to respond in real time to changes in demand, customer preferences, competitive conditions or internal difficulties
 - **Scope:** seek efficiencies in activities not suited to conventional economies of scale, such as research, engineering, and product development as well as design and delivery
 - **Flexibility:** companies should be flexible not only in manufacturing product development and other operations, but also in strategic decision making and organizational evolution

FROM PRODUCTS TO PLATFORMS

Narrow Way of Thinking About Focus and Competitive Advantage at the Product Level



Broader Way of Thinking About Agility and Competitive Advantage at the Ecosystem Level

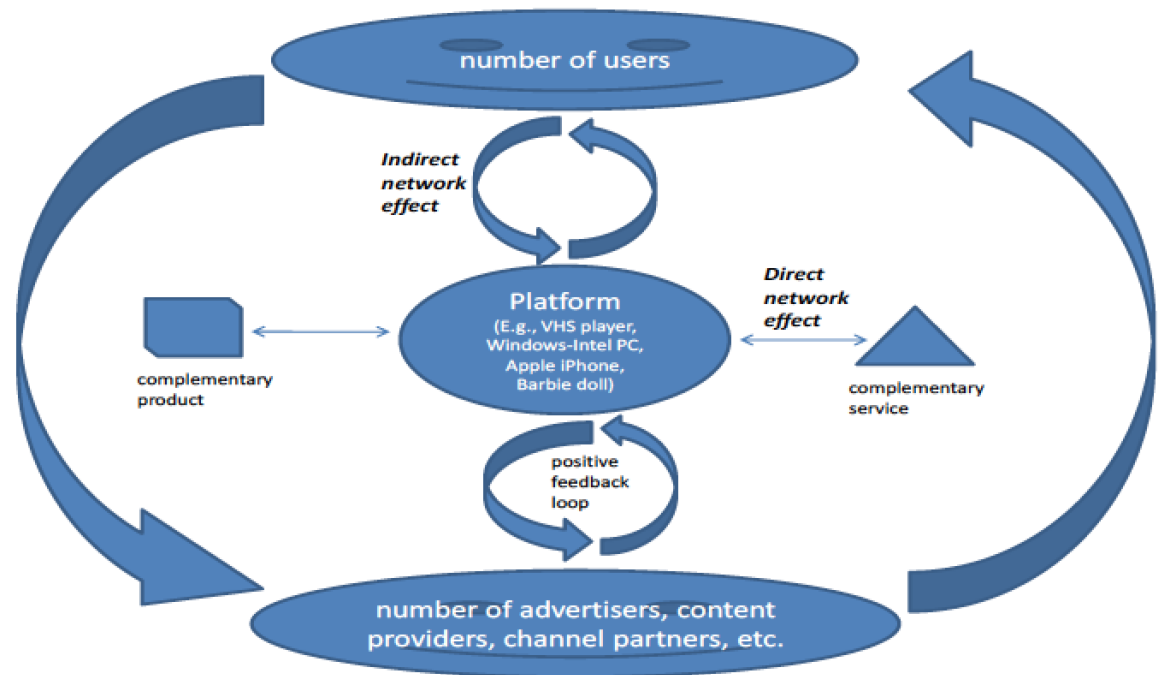


A Platform Ecosystem is comprised of the Platform, its Complements and the Network Effects

KEY POINTS

- To compete effectively in a platform market, a company needs to have
 1. open (but not too open) interfaces
 2. modular architectures (easy to build on/extend)
 3. compelling complements (generally result of most vibrant ecosystem)

THE PLATFORM ECOSYSTEM

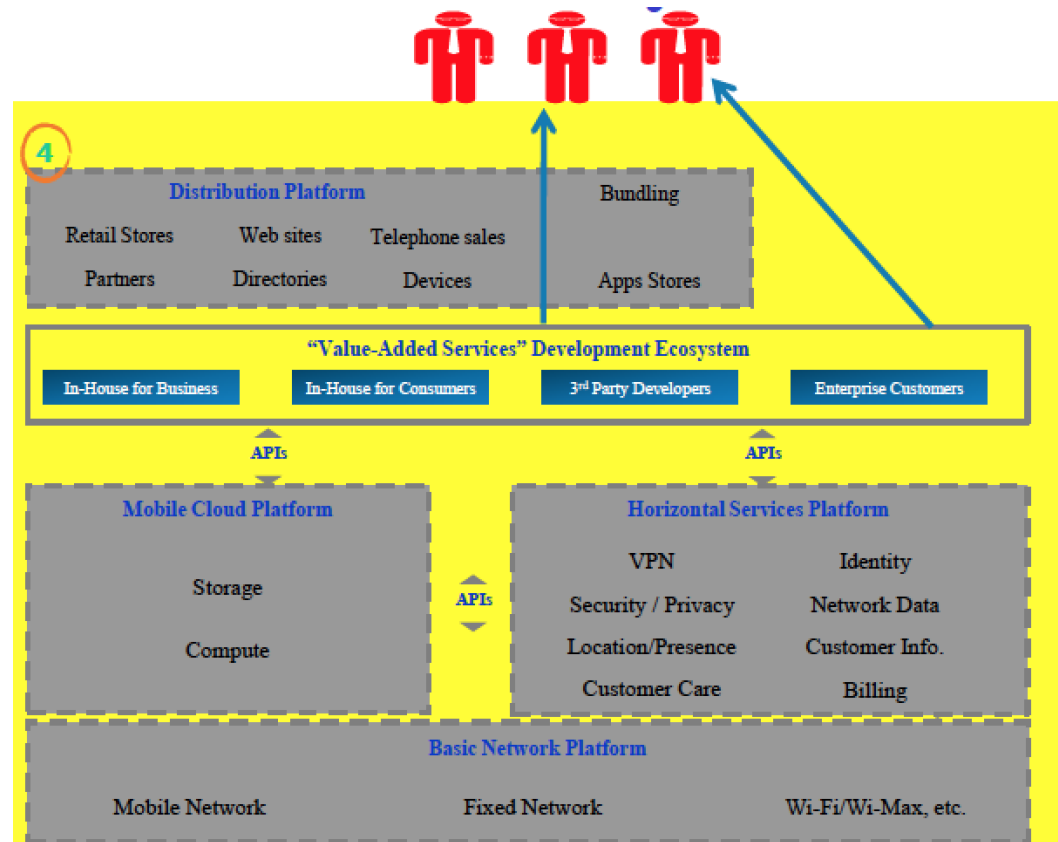


Types of Platforms and “Platforms within Platforms”

KEY POINTS

- There are several types of platforms, and the last one is the most important nowadays
- 1. In-house product platform:** set of common components or modules around which an organization can create a family of related products or services
 - 2. Retail distribution platform:** network of distribution channels, including physical outlets or web sites, through which an organization can distribute a variety of products or services
 - 3. Supply-chain platform:** network of suppliers who provide components (or “content”) that enable an organization to create new products or services
 - 4. Industry-wide platform:** one of the above but opened to outside organizations to create an “ecosystem” of partners

EXAMPLES OF FOUR INTERCONNECTED PLATFORMS



Reference and source

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