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## **Week 1 Platform Strategy**

Understanding Platform Business

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## INTRODUCTION

- It's clear to everyone that Amazon, Airbnb and Uber are extremely successful companies. What's not clear to everyone is that they're platform companies, what exactly a platform business model is and why it is so powerful.
- The world's 6 most valuable companies by market capitalization (Amazon, Apple, Alibaba, Microsoft, Alphabet, Facebook) and 70% of the \$1 billion+ unicorn startups (Didi, Airbnb, Uber) operate digital ecosystems that match buyers & sellers, and gain enormous market share from network effects. McKinsey forecasted that 30% of global economic activity (\$60 trillion) will be mediated by platforms and ecosystems in 10 years time. Yet, only 3% of established companies have adopted an active marketplace strategy.

Platforms are not just a piece of technology or a suite of software products. People typically confuse a platform with a mobile app or a website. Rather, it's a holistic business model that creates value by bringing together consumers and producers, allowing them to interact and transact.

A business model that creates value by facilitating transactions between buyers and sellers in an ecosystem, with the aim of capturing part of that value.

In short, platforms enable people to get what they need from each other!

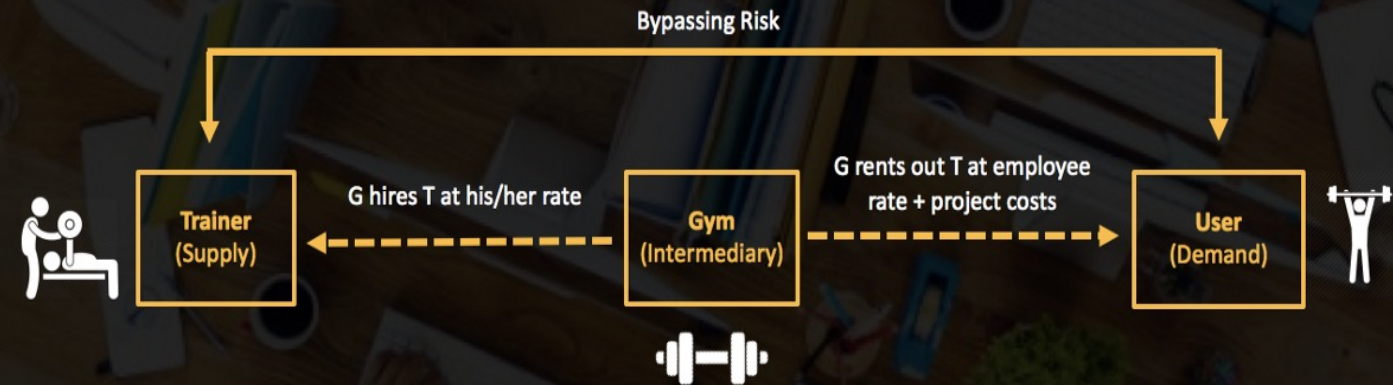


Here the gym is an intermediary, it hires trainers and rents them out to the gym users (pricing them as if they were its own senior staff) adding overheads on top of it. The customer, the gym user, is not negotiating the engagement nor in direct contact with the trainer. Most of the times, the user does not even know the trainer is an independent service provider of the gym.

This model bears one major risk which is called bypassing. The user and trainer may decide to circumvent the gym's payment and fees system, and make their own arrangements, separately. The gym here becomes redundant.

## Pipeline Model (Subcontracting)

Linear, centralised and one-way value creation. Labour extraction based.  
Value created by products. No network effect.



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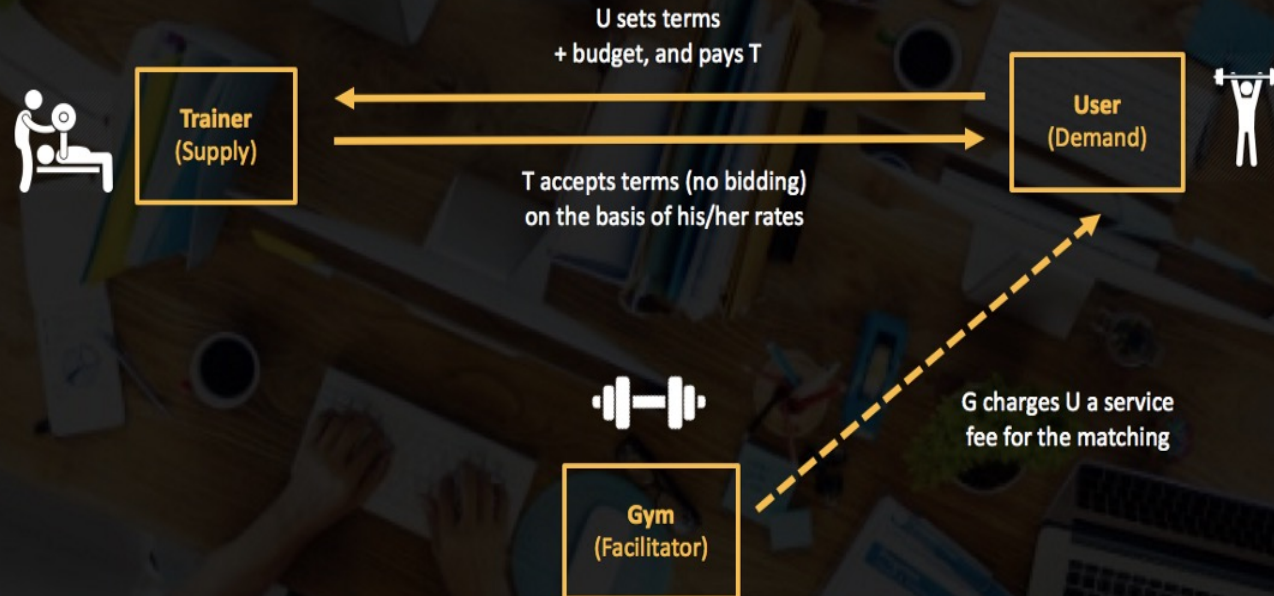
Example: Boeing (using as many as 13,000 subcontractors who are independent engineers building the smallest pieces of an aircraft. Boeing sells the aircraft to airline companies which only have to deal with Boeing, not the engineers.), Walmart, AT&T. (B2B and B2C )

Here the gym gets out of the way: trainers and gym users are in direct contact, choosing prices, negotiating engagements and setting conditions. This model is no longer based on fixed costs set by the gym, but on variable costs set by trainers.

The gym charges the user a service fee for the matching. The gym facilitates the exchange between user and trainer (hence it becomes facilitator), and acts as a helpful concierge, like in hotels. The gym manually guides users to trainers and the other way around, usually without the need of an algorithm matching, or payment system and without allowing trainers to bid.

## Transitional Model (Concierge)

Value creation is decentralised, two ways but discontinuous.  
Usually manual matching. Minimum network effect.

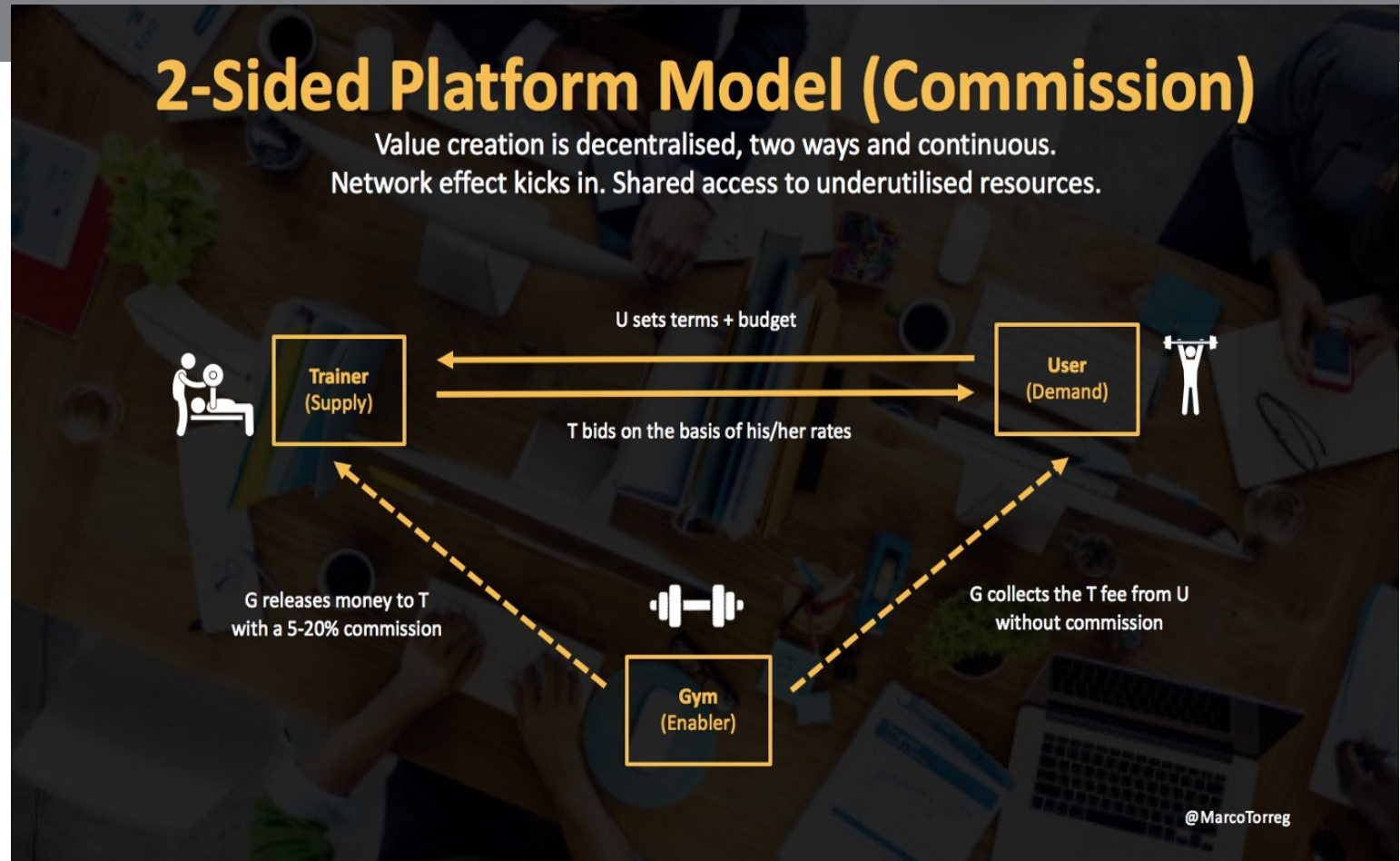


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Example: Timma, a platform to help consumers compare and choose among hairdressers salons and Jamifind, a platform that helps you to find members for your band, exchange instruments and make music. (B2C and C2C )

This is the **2-Sided Platform Model**, a fully developed platform model where the gym becomes the enabler, allowing gym users to set project costs, and trainers to bid for projects.

The gym does not own any inventory but owns the platform, as it sets rules regarding openness, governance, logistics and pricing. Trainers and users are in direct contact with each other, before the project starts, setting conditions about their engagement. The gym collects the trainer fee from the user, and then releases the money to the trainer once the job is done, charging the trainer a commission fee from the transaction or sometimes the commission is split between user and trainer. Usually, platforms should charge the side, that needs the other side the most, in this case the trainers.

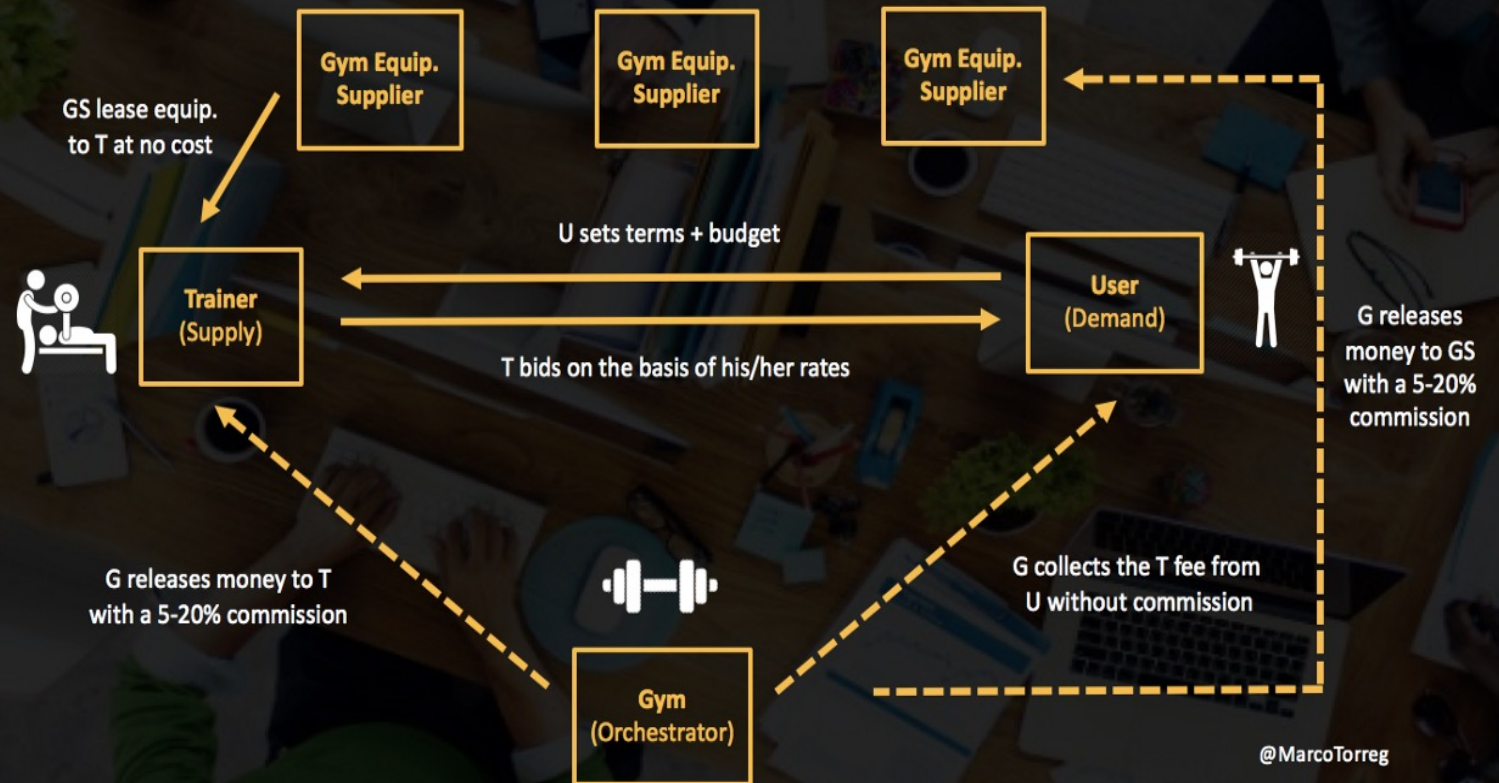


Example: Uber, Airbnb, Upwork (B2C, C2C and B2B).

In this model the gym becomes what I call the orchestrator because it deals with multiple distinct entities at once. This model is the same as the previous ones with the only difference that more entities in the ecosystem are participating in the transactions. In our example here, these parties are gym equipment suppliers. They lend their equipment to trainers for free and receive the payment from the gym minus the commission it has raised.

# Multi-Sided Platform Model (Commission)

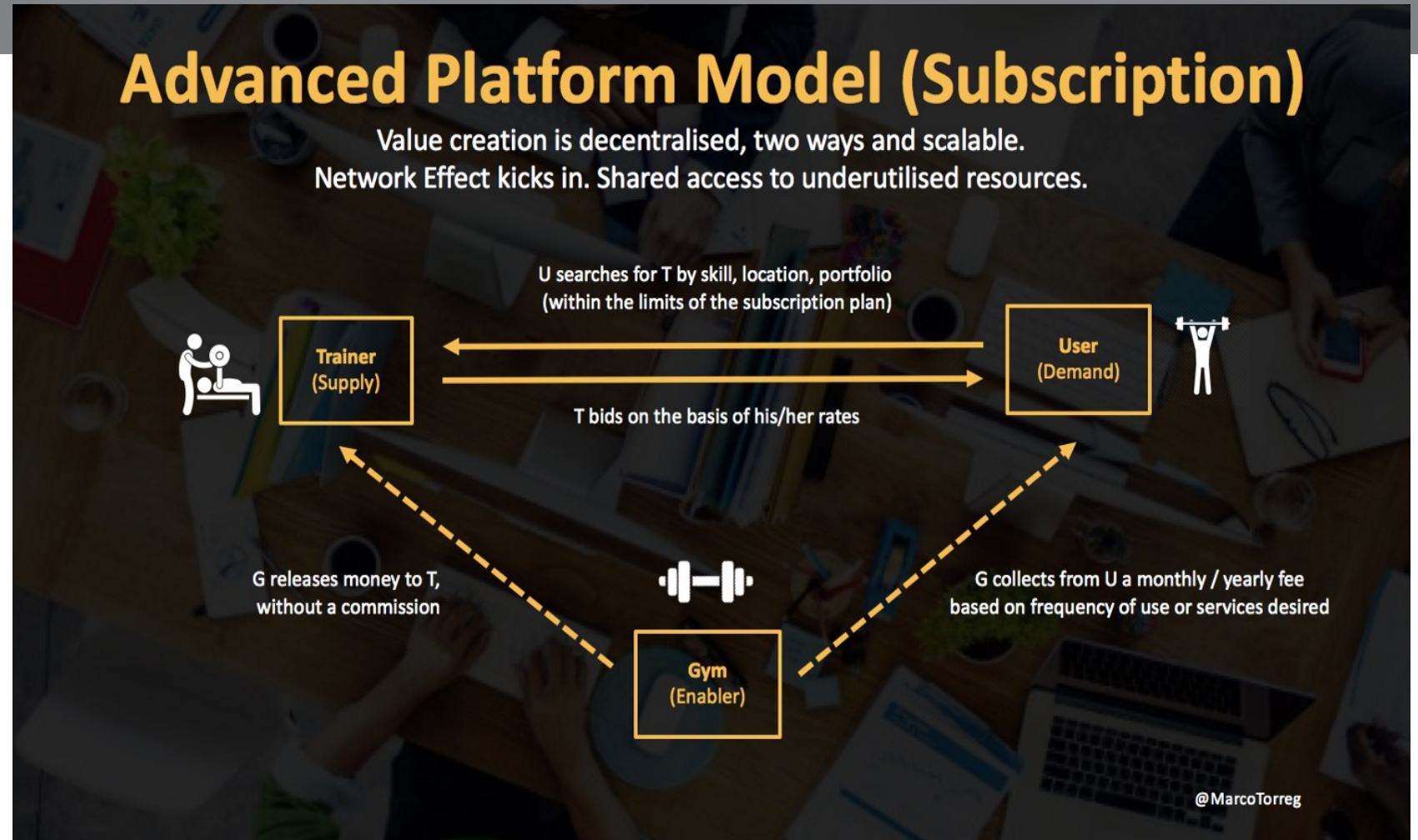
Value creation is decentralised, multiple ways and continuous.  
Network effect kicks in. Shared access to underutilised resources.



Best example of this model are Deliveroo or Foodora. They charge the ones who order food and then release the money to both the riders and the restaurants, taking a commission from the transaction. Other examples include: Apple IOS and Amazon (both B2B and B2C).

This model works best once the number of trainers increases on the platform. Here the gym charges users per month or per year according to the subscription plan chosen based on frequency of usage, on specific trainers services or number of trainers requested. The basic plan is usually free, which is the so called freemium model that combines well with the subscription.

The gym again acts as the enabler. It collects the subscription fee from users and then release the money to the trainers without a commission. In this model the customer, so the gym user, is usually charged and not the trainers. However, there are also subscription models where the provider is charged (e.g. freelancer.com).



Example: On Netflix you can choose different subscription plans depending on the size and frequency of digital content you want to consume. This is also the business model of LinkedIn (B2C) or Tinder (C2C).

- **1-Sided Model:** Platform where suppliers switch roles into customers and the other way around (e.g. tinder)
- **Re-Sale:** Buy unwanted good and re-sell them at higher value (e.g. second hand or recycling marketplaces)
- **Crowdsourcing,**
- **White Label:** Sell/license a platform that buyers can customize and use (e.g. gettable)
- **Freemium:** Core offering is free, but after users hooked, you offer paid value-adding features (e.g. LinkedIn)
- **Listing Fee:** Fee charged to suppliers when they post new listings or when listings are featured on top (e.g. Ebay)
- **Lead Fee:** Customer posts a request on the platform, and providers will pay a fee to bid for the customer (e.g. Homelight)
- **Flat Membership,**
- **Membership Plus,**
- **Platform Cooperative:** Financial value of the platform is own and distributed among users and workers (e.g. Fairbnb)
- **API Monetization:** A platform charges customers for the use of its API (e.g. Zapier)
- **Third Party Ads:** Charge advertisers to publish ads in promotion of their products, services or websites (e.g. reddit)
- **Affiliate & Referrals:** Let third party advertisers promote your platform or let existing members refer new members to your platforms (e.g. foodora)
- **Token Based:** Crypto incentives and blockchain governance (e.g. Open Bazaar)

### Common denominators:

- You, as platform owner, should at first **aim for high liquidity** (transactions taking place on the platform) **and to generate network effect**, rather than high monetisation.
- You should **help customers set the right project costs** by providing them with pricing ranges for specific services of the providers and **help providers set the right bids/quotes for projects.**
- You should **use flexibility in charging fees**, i.e. lower fees for larger transactions and for power users, those that generate most transactions, or for early adopter users.
- You should be prepared to **change and combine several revenue models at once** during the lifecycle of the platform.

# 10 Signs You Are Platform Ready

1. Productivity gains through automation and use of data
2. Manual processes / high transaction costs
3. Fragmented value chain (both supply and demand)
4. Frequency of usage
5. Bad customer experience (quality, speed, costs)
6. Inefficient assets utilization and spare capacity (by suppliers)
7. Inefficient satisfaction of market demand (by suppliers)
8. Low visibility / discovery of supply (by customers)
9. Low regulatory compliance
10. No disintermediation possible

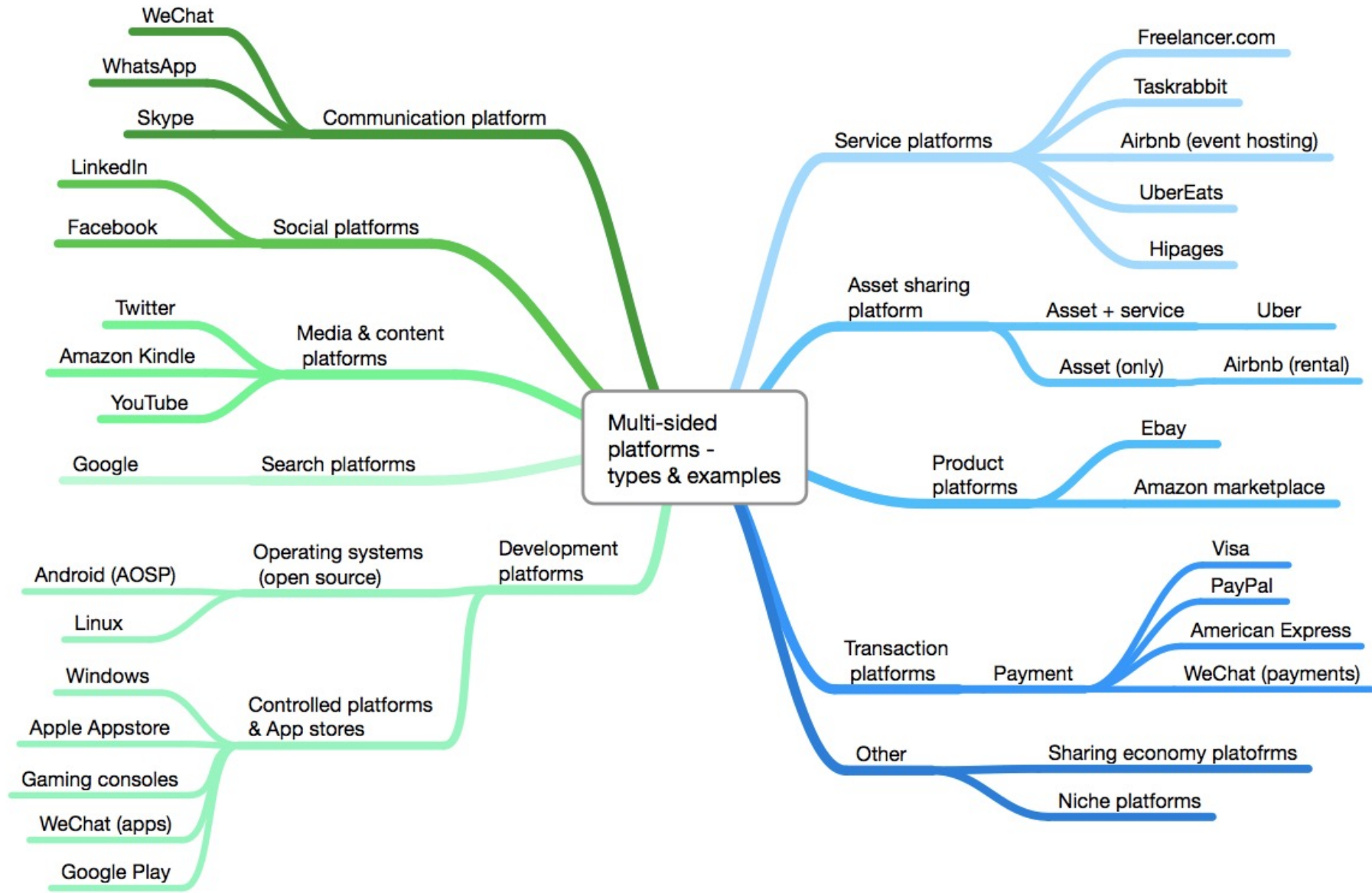
# Takeaways: Pipes Vs Platforms

- ✓ **Ecosystem** is the new supply chain
- ✓ **Network effect** is the new economy of scale
- ✓ **Data** is the new currency
- ✓ **Community management** is the new customer service
- ✓ **Trust and reputation** are the new quality control
- ✓ **User experience** is the new sales funnel
- ✓ **Engagement** is the new loyalty program
- ✓ **Escrows** are the new payment systems
- ✓ **Algorithms** are the new decision makers

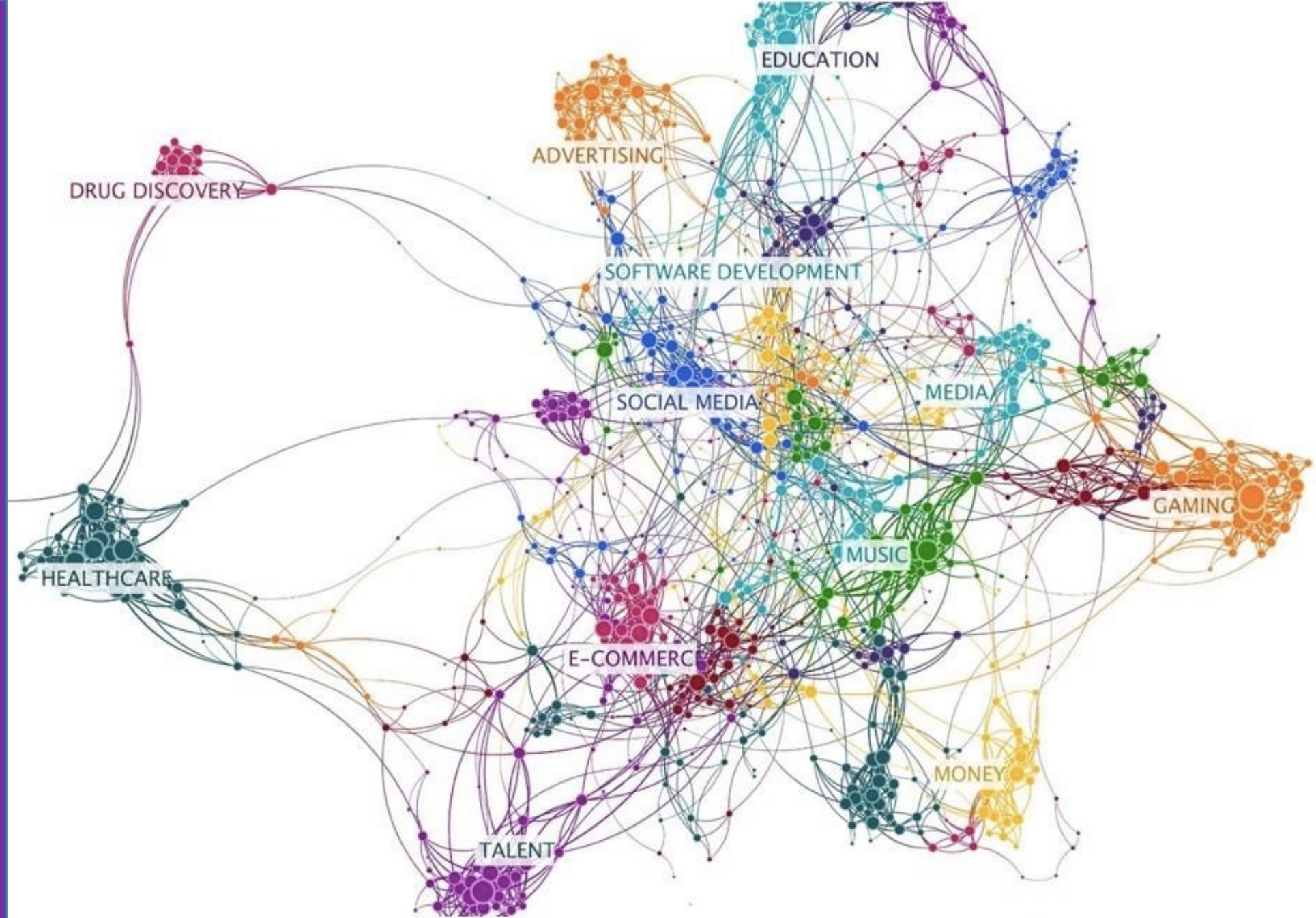
# Multisided Markets Definition

*definitions of multi-sidedness are controversial and no consensus*

- A market with network externalities is a two-sided market if platforms can effectively cross-subsidize between different categories of end users that are parties to a transaction (*Rochet and Tirole, 2003*)
- Multi-sided platforms coordinate the demand of distinct groups of customers who need each other in some way (*Evans, 2003*)
- (1) Multisided businesses enable direct interactions between two or more sides, (2) Each side is affiliated with the platform (*Hagiu & Wright, 2015*)
- Two-sided market is one of which 1) two sets of agent interact through on intermediary of platform, and 2) the decisions of each set of agents affects the outcomes of the other set of agents, typically through an externalities (*Rysman, 2009*)
- There are three features of multisided markets: there is a multi-product firm, there are cross network effects, and bilateral market power (*Filistrucchi et al., 2012; Weyl, 2010*)



# Emerging Global Platform Economy



Source: P. Evans, Center for Global Enterprise with data and visualization from Quid, 2015