

# Information Economy

## 37E00100

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# Summary of Esko's previous lecture: Core Concepts

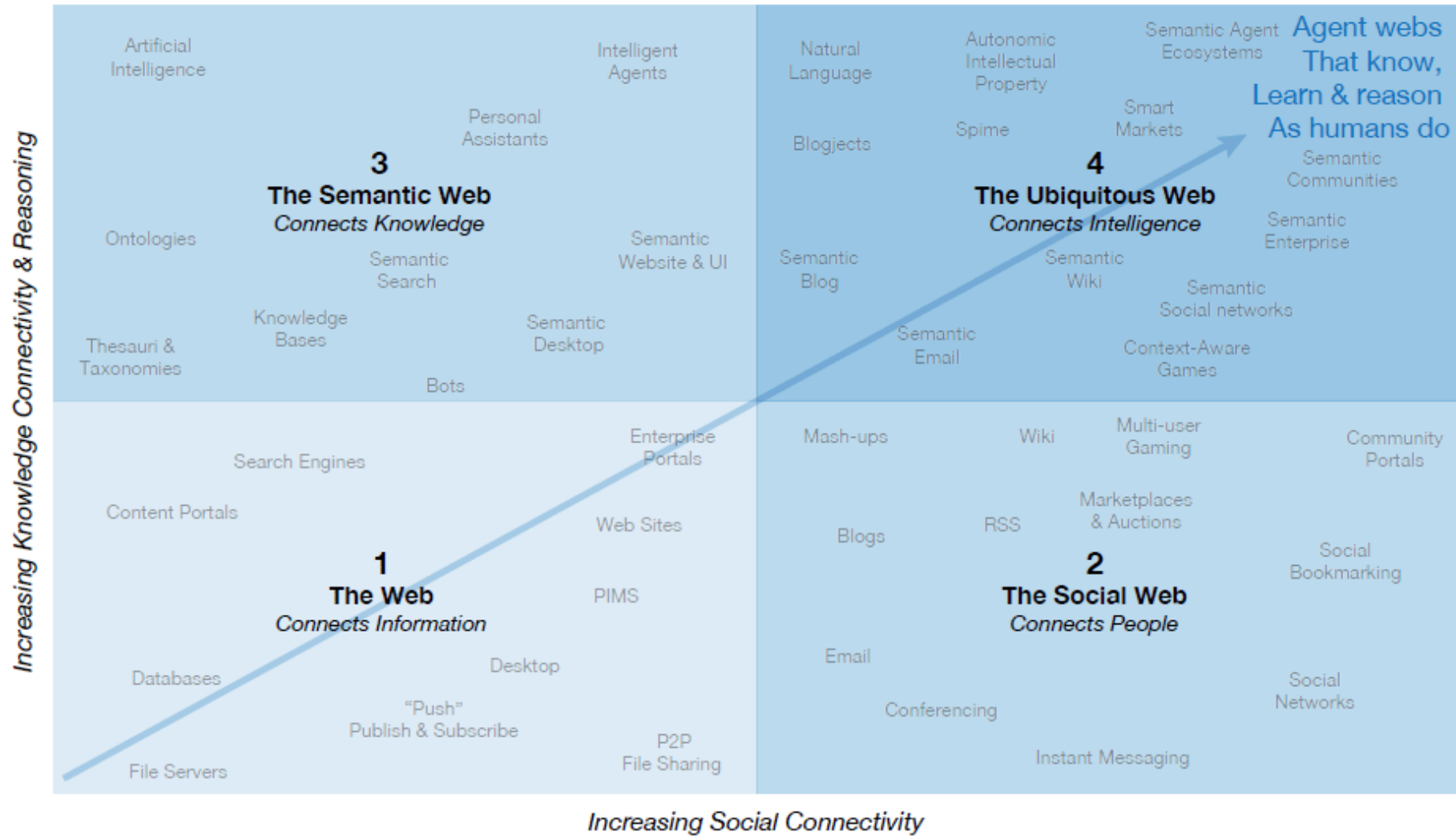
- Platform-mediated networks
- Network effects
- One- and Two-sided networks
- Switching costs and homing costs
- Mono-homing and multi-homing
- “Winner takes all”-dynamics

# Article of the day

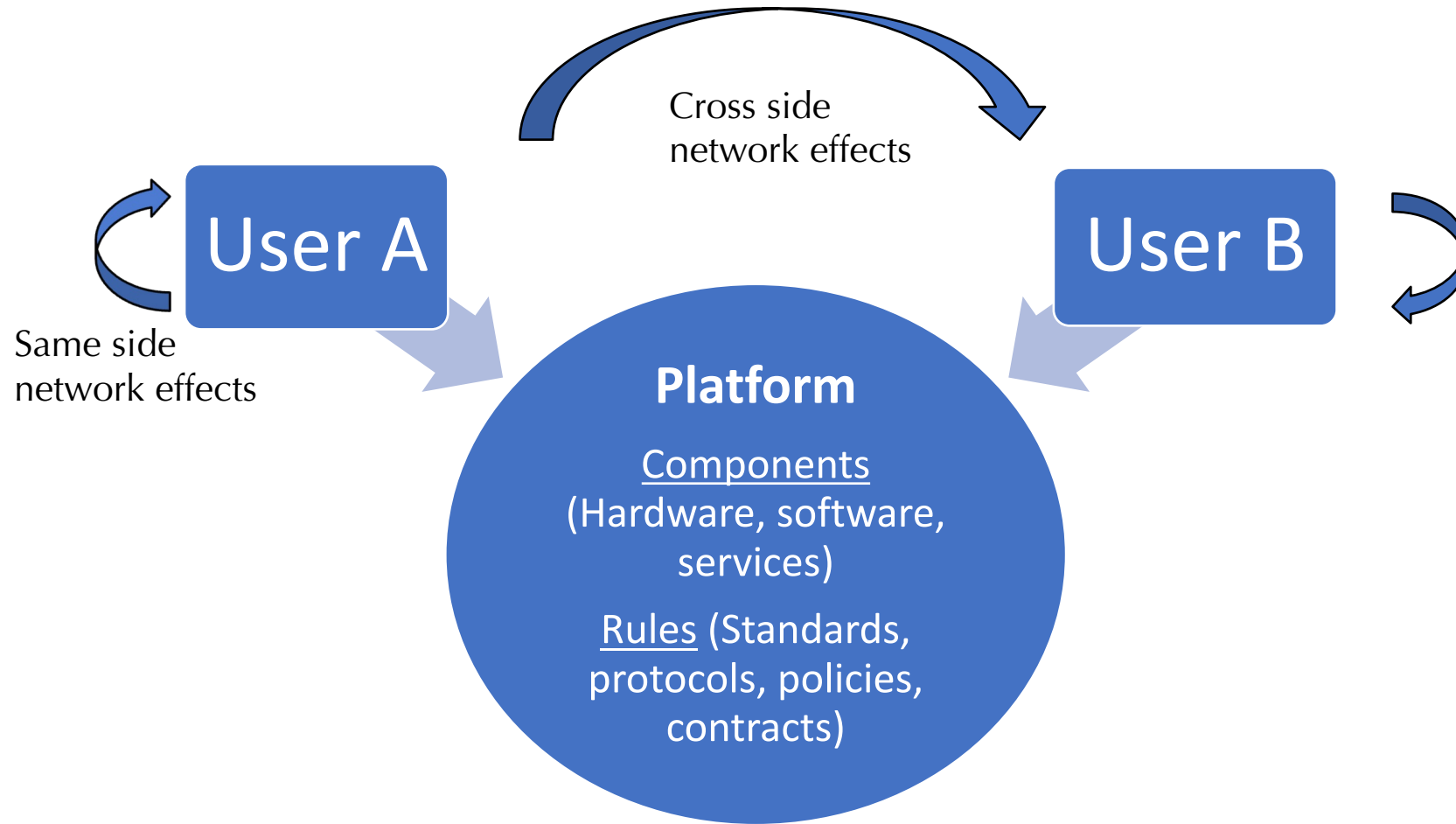
Cusumano, M.A., Yoffie, D.B. & Gower, A. (2020), "The Future of Platforms", MIT Sloan Management Review

- What did you like about the paper? Dislikes?
- New insights from the article?
- What not clear?
- What would you like to learn more about?

# WWW development



# Platform-Mediated Two-Sided Network



# Examples of Two-Sided Networks

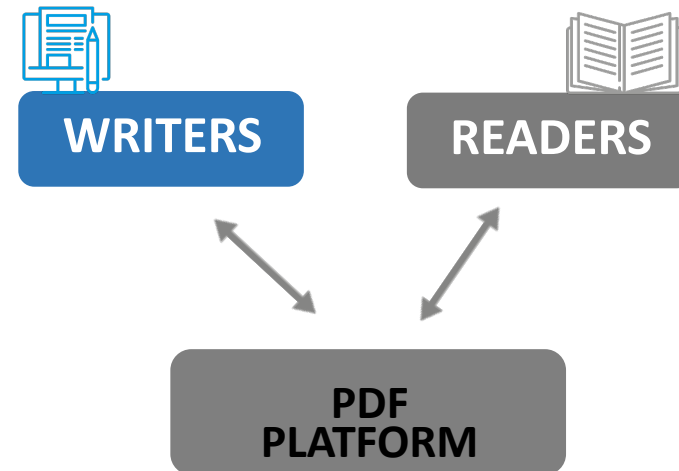
- Credit cards (merchants, consumers, platform e.g. VISA)
- Internet auctions (buyers, sellers, platform e.g. eBay)
- Physical retail (buyers, sellers, platform e.g. shopping center)
- Match-making (men, women, platform e.g. nightclub)
- Travel services (travellers, airlines/hotels/car rentals, platform e.g. travel agencies)

# Strategies for Network Mobilization

- Subsidizing and product giveaways
  - Should one side be subsidized?
- Marquee strategy
  - Focus on onboarding key users on either side
  - Should platform providers seek exclusive relationships with some users?
- Seeding strategy and staged strategy
  - Aim to create immediate value to one side of the platform, others will follow
- Platform envelopment
  - Leverage power from another platform

# When does free make sense?

- People understand the razors & blades strategy (same as printers & ink)
  - Give away one thing, charge for another
  - The SAME person gets both items
- People often misunderstand 2-sided network pricing
  - Subsidize one party in order to attract, then charge another party
  - Subsidy side and money side of the market are different parties
- Monetization is trickier for 2-sided networks
  - Charging the wrong side (or both) reduces growth and network effects





# Subsidizing consumers vs. developers

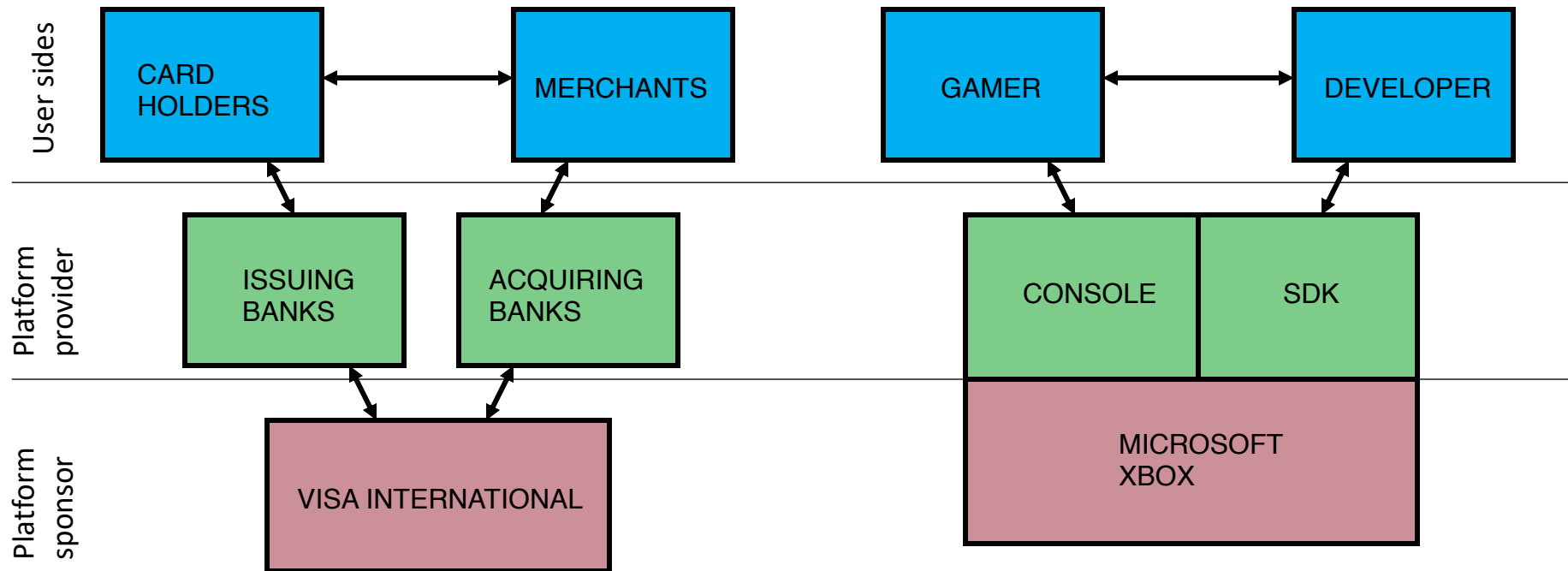
- Subsidize consumer side when
  - Highly price sensitive
    - Acrobat Reader, streaming audio, streaming video
  - Presence is the main requirement
    - Ad markets, credit cards, auctions, search engines
- Subsidize developer side when
  - Critical for adding value
    - Applications development, operating systems, computer games
  - Stronger persuader or gatekeeper
    - Trend setters, textbooks

# Platform Roles: Sponsors and Providers

- Providers are users' primary point of contact with platform
- Sponsors do not deal directly with users; rather, sponsors hold property rights that determine:
  - Who may change platform technology
  - Who may participate in network as a platform provider or network user

VISA =  
JOINTLY SPONSORED  
SHARED PLATFORM

XBOX =  
SOLE SPONSORED  
PROPRIETARY PLATFORM



# Different ways to categorize platforms

- Principal activity:
  - Innovation platforms, transaction platforms, hybrids (Cusumano et al. 2020)
- Structure/ownership:
  - Proprietary, shared, joint venture, licensor
- Function:
  - Connectivity, variety, matching, price setting
- Type:
  - Exchange, advertiser-supported media, software platform, transaction device (Evans & Schmalensee 2008)

# Categorization Based on Platform Function

- **Connectivity:** platform facilitates point-to-point exchange of information, physical goods, or passengers (e.g., e-invoicing)
  - More points connected  $\Rightarrow$  more valuable network  $\Rightarrow$  more points  $\Rightarrow$  etc.
- **Variety:** platform elicits supply of a variety of complements from one network side and promotes complement consumption by the other side (e.g., console + games)
  - More complements  $\Rightarrow$  more demand-side users  $\Rightarrow$  more complements  $\Rightarrow$  etc.
- **Matching network:** platform matches transaction partners with heterogeneous needs and offers (e.g., online real estate platforms)
  - More buyers  $\Rightarrow$  more sellers  $\Rightarrow$  improved odds of suitable transaction  $\Rightarrow$  more buyers  $\Rightarrow$  etc.
- **Price-setting network:** platform facilitates exchange of well-defined items valued differently by trading partners (e.g., stock exchange)
  - More buyers  $\Rightarrow$  more sellers  $\Rightarrow$  reduced price volatility  $\Rightarrow$  more buyers  $\Rightarrow$  etc.

# Key Challenges in Network Mobilization

<h2>Connectivity</h2> <ul style="list-style-type: none"><li>•Ensure <i>reliability</i></li><li>•Optimize <i>reach</i> (infrastructure investment to extend network vs. incremental revenue)</li></ul>	<h2>Price Setting</h2> <ul style="list-style-type: none"><li>•Balance users' different needs for:<ul style="list-style-type: none"><li>–<i>Anonymity</i></li><li>–<i>Transparency</i> with respect to most recent price and best current offer</li><li>–<i>Transaction speed</i></li><li>–<i>Flexibility</i> to trade with preferred partners</li></ul></li></ul>
<h2>Variety</h2> <ul style="list-style-type: none"><li>•Optimize <i>price structure, exclusivity</i></li><li>•<i>Elicit complement supply</i> despite:<ul style="list-style-type: none"><li>–Risky platform-specific investments</li><li>–Conflict with large users over rent division, end user relationship control</li><li>–Concerns about platform provider integration into user role</li></ul></li><li>•Help end users <i>find complements</i></li></ul>	<h2>Matching</h2> <ul style="list-style-type: none"><li>•Optimize <i>price structure, exclusivity</i></li><li>•Build user <i>trust</i></li><li>•Address worries about business stealing</li><li>•Manage concerns about conflicts of interest, ownership of data, etc.</li><li>•Avoid <i>disintermediation</i>, off-exchange trading</li></ul>

# QUESTIONS?

Slides and video recording on MyCourses

Cusumano, M.A., Yoffie, D.B. & Gower, A. (2020),  
"The Future of Platforms", MIT Sloan Management  
Review

