

Chapter 1 Platform Economy

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"No matter who you are or what you do for a living, it's highly likely that platforms have already changed your life as an employee, a business leader, a professional, a consumer, or a citizen."

Geoffrey G. Parker, Marshall W. Van Alstyne, Sangeet Paul Choudary,
authors of *Platform Revolution*

Introduction

The most impactful companies of the past decade have been platforms: Airbnb, Alibaba, Alphabet (Google), Amazon, Apple, and many more that do not start with the letter "A."

Platform businesses have transformed entire industries: Amazon vs. retail, Airbnb vs. hotels, Apple vs. record companies, Uber vs. taxis, Instacart vs. grocers, DoorDash vs. restaurants, Craigslist vs. newspaper classifieds, etc. In just a decade, many of these newly formed platform companies unseated century-old incumbents as leaders in their categories.

Most unicorns (private start-up companies worth over \$1 billion) are platforms. They are asset-light, so some are able to grow at 300% to 500% annually. On the other end of the spectrum, the seven most valuable public companies (Apple, Microsoft, Alphabet, Amazon, Facebook, Alibaba, and Tencent) are all platform businesses and also are growing rapidly. A decade ago only one of these public companies (Microsoft) was on the top ten list.

Marketplaces are a type of platform that promotes and enables transactions between multiple parties, such as a customer and a third-party seller. Marketplaces generally do not fulfill the products or services purchased. Marketplaces generally charge fees for enabling the transaction.

Many platforms are selling services (car rides, lodging, food delivery) not just products like traditional retailers. Services platforms have enabled an estimated 75 million American "gig workers" to earn a living without standard fulltime employment. For example, roughly 1% of American household income comes from ridesharing platforms (Uber, Lyft, etc.), according to the Federal Reserve.

Platforms selling digital goods have also become very profitable. For example, the Apple App Store and the Google Play store respectively sell \$60 billion and \$30 billion in digital goods and earn roughly a 30% commission on each sale. That equals \$20 billion and \$10 billion in profit from enabling others to sell on their platform.

The monetization of some platforms may not be as visible as that of e-commerce marketplaces. For example, although most users of Facebook, Twitter, YouTube, LinkedIn, WhatsApp, etc. do

not pay for those services, those platforms collect vast amounts of data and profit from very lucrative advertising revenue. The focus of this book is marketplaces which are platforms based on a clear system of payment (monetization) for goods or services.

Platforms have transformed how suppliers and consumers interact. A decade ago, before Uber, Airbnb, and DoorDash became popular, who would have felt comfortable getting into a stranger's car to go stay in another stranger's home, and then eating a meal prepared and delivered by other strangers?

1.1 The Platform Revolution

In 2016 the ground-breaking book *Platform Revolution: How Networked Markets are Transforming the Economy—And How to Make Them Work for You* defined the fundamentals of platform businesses and how they are transforming the world. The three authors, Geoffrey G. Parker, Marshall W. Van Alstyne, and Sangeet Paul Choudary, continue their thought leadership in association with the MIT Initiative on the Digital Economy (IDE). Further details on the concepts presented in this chapter are available in their book.

This book was a milestone in documenting how the platform economy is disrupting many legacy industries. Venture capital firms began focusing investments on platform business startups. The word *platform* started being used as a verb as business executives began asking how they can “platform their business.” Phrases like “the platformization of ...” introduced new buzzwords. Investors often say, “Platforms beat products.”

According to Parker, Van Alstyne, and Choudary, a platform includes these characteristics:

- It is a nexus of rules and architecture.
- It is open, allowing regulated participation.
- It actively promotes (positive) interactions among different partners in a multi-sided market.
- It scales much faster than a pipeline business because it does not necessarily bear the costs of external production.

Platforms are matchmakers that facilitate the exchange of goods, services, or social currency which enables value creation for all participants. This accelerates growth by leveraging the assets or services of others.

Andreessen Horowitz, one of the venture capital firms focused on platform businesses, offers this definition:

A Platform is a network of users and developers; the multi-sided feedback loop between those users, developers, and the platform itself creates a flywheel effect increasing value for each of those groups. It can also be thought of as a network that can be programmed, customized, and extended by outside users—it often meets needs and creates niches not defined by its original developers at the outset.