Eden McCallum seminar, 27 September 2017

The Platform Revolution

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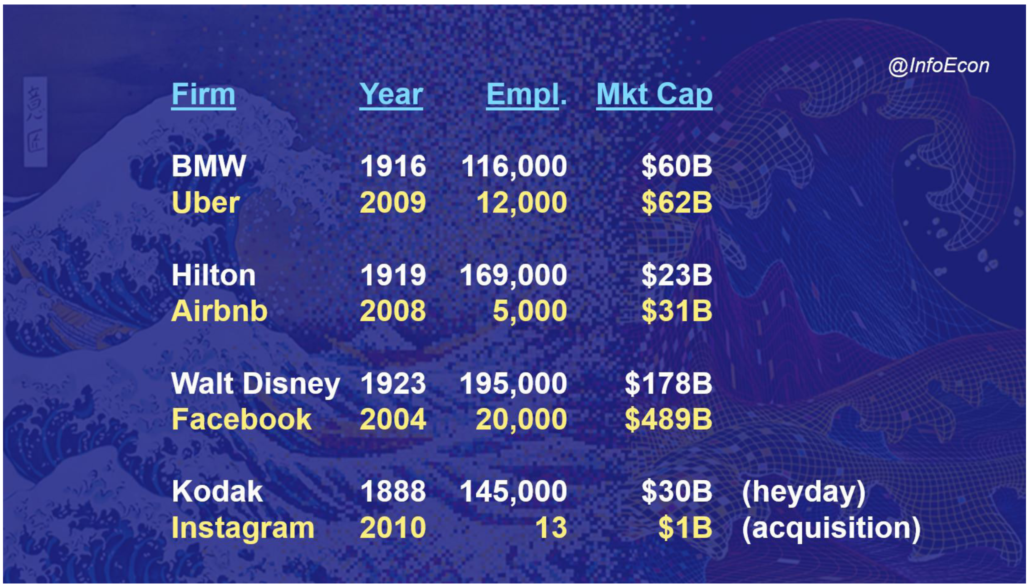
The Platform Revolution
Overview of Presentation

The key points from a presentation given by Marshall Van Alstyne, Professor of Information Economics and Everett Lord Scholar at the Questrom School of Business at Boston University, at a seminar hosted by Eden McCallum.

"Platform ecosystems" – businesses which build online networks and allow them to grow and flourish beyond the narrow confines of the corporation – have inverted the very nature of the firm.

A big claim, but there is evidence to support it:

- Uber, for example, with a tenth the number of employees as BMW, is valued more highly by its private equity investors than the stock market values the German carmaker.
- Airbnb, with its 5,000 employees and zero properties, is almost as valuable as Marriott with its global network of hotels and over 200,000 employees.
- Facebook is more than twice as valuable as Disney, with a tenth of its employees.



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Platform companies can achieve remarkable speed in value creation. They also seem to need vastly fewer staff to do it. "These platform business models beat product business models every time," he said.

Based on Interbrand 2017 data, 12 out of the 30 most valuable global brands were platform companies such as Apple, Microsoft, eBay and Amazon. The top five companies in the world by market capitalisation are platform companies.

"The product business model is broken," Van Alstyne asserted. In 2009 Blackberry had a 50% market share in the US, down to 2% four years later. "That's hard to do," he observed. Its conquerors were, of course, Apple and Google. But Apple itself had been beaten in earlier decades by Microsoft, whose open software ecosystem had been preferred to Apple's closed one.

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And this isn't just about tech firms:

- Nike has built a community of loyal customers using apps and sensors in their shoes to supply data to runners hungry for stats on their performance levels.
- The spice company McCormick also exploits network effects to build community. Recipes are shared between customers, product advice feeds back to consumer packaged goods producers, and local restaurants can offer special menus to customers based on their taste preferences. Valuable information is shared. "Users are adding value to users," Van Alstyne said. This is a network effect. Products become more valuable via use.

Successful networks are two-sided, in other words, users and providers interact and reinforce each other. "Each side attracts the other, they're both outside the core of the business, and they interact," Van Alstyne said.

Examples are:

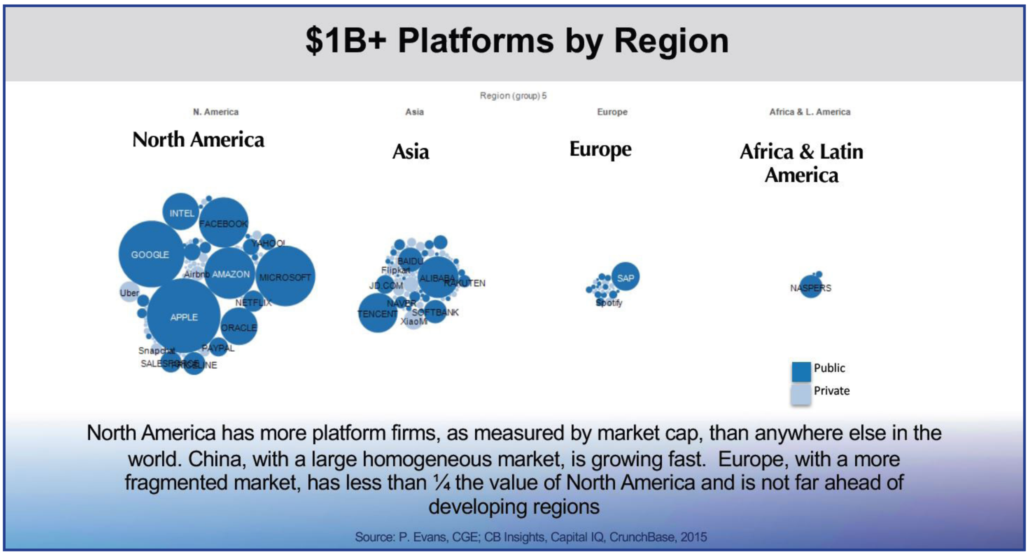
- Uber drivers and riders
- eBay sellers and buyers
- Android developers and users
- YouTube video makers and viewers
- Airbnb room providers and renters

> *"Users create value for users and build value in the ecosystem."*

Users create value for users and build value in the ecosystem.

This is an inversion of the industrial era firm. Then corporate giants achieved supply side economies of scale. They grew big, unit costs fell, they reduced prices, and beat the competition. Platform companies with network ecosystems achieve demand side economies of scale – bigger networks create more value, which attracts users, which creates more value. Value grows disproportionately relative to size (in terms of employees or buildings).

They innovate faster because their open systems attract ideas from users to serve other users. And these can be winner takes all marketplaces. The rewards for success can be huge. This can be seen most clearly in the homophone (i.e., one main language spoken) markets of the US and China – in contrast to polylingual Europe, where platform development has been slower.



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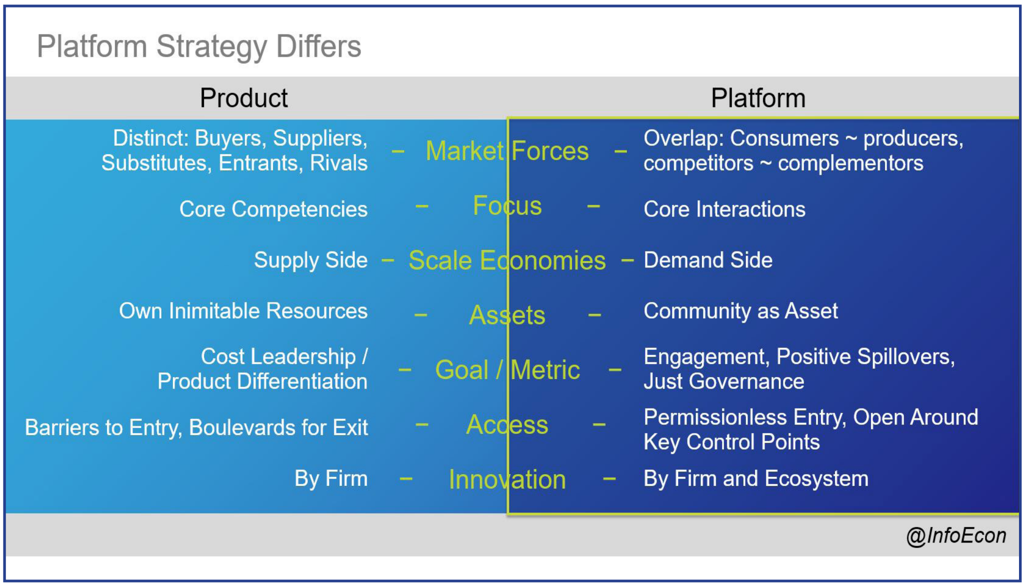
The focus for business leaders wanting to build networks of this kind has to be outside the firm: "You cannot scale network effects inside the firm, to orchestrate that value."

Platform businesses are different in other ways:

- Uber owns no taxis
- Facebook creates no content
- Alibaba has no inventory
- Airbnb owns no property

They have virtually a zero marginal cost of production. This makes platform companies hard to value with traditional measures. Network effects are harder to quantify, and their strategies differ from product firms on almost every dimension.



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Platform companies orchestrate their networks and invite users to make their own contributions. As the venture capitalist Marc Andreesen has observed:

"A platform is a system that can be…adapted to countless needs and niches that the platform's original developers could not possibly have contemplated…"

Ends

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