

Digital Transformation (DT) : Platform Business Models

Wk-2

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Lecture Overview : Learning Objectives

1. Distinguish Business Models :

- Understand the fundamental differences between **pipeline** (linear) and **platform** (networked) business models.

2. Identify Platform Components :

- Recognise the **three essential parts** that make up any platform business.

3. Understand Growth Challenges :

- Master the **chicken-or-egg problem** and strategies to overcome it.

4. Explore Monetisation :

- Learn basic platform **metrics** and **revenue strategies**.

By the end of this lecture, you will be able to analyse and design platform business models.

Opening Question : The Uber Paradox

What Is a Platform? And Why Is It Different from a Normal Company?

1. Raise your hand if you've ever **used Uber**.
2. Now raise your hand if you've **ever driven for Uber**.
3. Now raise your hand if you've ever **built a car**.

Why is Uber worth billions even though it owns zero cars?

The Key Insight :

- **Platform businesses don't make products.** They create **systems** where groups interact.
- **Value is created through connections.** Not through ownership of assets.
- **The platform is the matchmaker.** Connecting riders with drivers.

Fundamental Comparison : Pipeline vs. Platform

The Fundamental Shift in Value Creation.

1. Pipeline Business : Linear Value Flow.

- **What it does :**

- ❖ Makes a product and sells it to customers.

- **Value flow :**

- ❖ Raw materials

- ❖ Factory

- ❖ Store

- ❖ You

- **Analogy: Bakery :**

- ❖ Buys flour → Bakes bread → Sells bread.

Fundamental Comparison : Pipeline vs. Platform, Cont.

2. Pipeline Business : Networked Value Creation

- **What it does :**

- ❖ Creates a **system** where groups interact and create value together.

- **Value creation :**

A
Group A

B
Group B

- **Analogy : Farmers' Market.**

- ❖ Doesn't grow vegetables—brings farmers and shoppers together.

Let go of control

Owns the match

Core Concepts : Key Platform Concepts

1. Multi-Sided Markets :

Every platform has at least **two distinct user groups** that interact through the platform.

- **Uber**

- ❖ Riders + Drivers

- **Airbnb**

- ❖ Guests + Hosts

- **YouTube**

- ❖ Viewers + Creators + Advertisers

2. Network Effects :

The platform becomes **more valuable** to each user as **more users join**.

Core Concepts : Key Platform Concepts, Cont.

The Secret Sauce

- A telephone is useless if you're the only one who has one.

10

Low value

1M

High value

3. Control Shift :

Pipelines **control resources**. Platforms **let go of control**. That's scary for traditional managers.

- **Walmart (Pipeline)**

- ❖ Owns trucks, warehouses, inventory—total control.

- **eBay (Platform)**

- ❖ Owns nothing but owns the match.

This shift requires new management mindset.

Simple Framework : The Three Parts of Any Platform

1. Producers :

- Create value on the platform
 - ❖ Uber drivers
 - ❖ Airbnb hosts
 - ❖ YouTube creators

2. Platform :

- Enables the interaction
 - ❖ App/Interface
 - ❖ Rules & Standards
 - ❖ Payment System

Simple Framework : The Three Parts of Any Platform, Cont.

❖ **Reputation System**

3. Consumers :

- Use the value created.

❖ **Riders**

❖ **Guests**

❖ **Viewers**

Any Platform = Producers + Platform + Consumers

PART TWO

**How Platforms Grow, Fail, and Make Money.
Understanding platform dynamics, challenges,
and revenue models.**



Growth Challenge : The Chicken-or-Egg Problem

What is the Problem?

- You need **producers** to attract **consumers**. You need **consumers** to attract **producers**.
- But you start with zero of both.

Classic Example: Uber in 2009.

1. No drivers

- Without drivers, there are no rides available.

2. No riders

- Without rides, no one uses the app.

3. No drivers

- Without riders, drivers have no incentive to join.

Growth Challenge : The Chicken-or-Egg Problem, Cont.

The Vicious Cycle

1. Empty Platform

- No value for anyone

2. No Users Join

- Why join an empty platform?

3. Platform Stays Empty

- The cycle continues.

This is the #1 challenge every platform must solve.

Strategic Solutions : Solving the Chicken-or-Egg Problem

Strategy 1 : Piggyback

- **How it works :**

- ❖ Use an **existing platform's users** to bootstrap your own platform

- **Example: PayPal**

- ❖ PayPal launched on **eBay**, which already had millions of buyers and sellers.

- ❖ Instant access to active users.

Fast growth

Lower risk

Strategy 2 : Single-Rent

- **How it works :**

- ❖ Build a tool for one side first, then add the other side later.

Strategic Solutions : Solving the Chicken-or-Egg Problem, Cont.

- **Example : OpenTable**

- ❖ Gave restaurants **free software** to manage reservations **before** dinners arrived.
- ❖ Built producer base first.

Controlled growth

Strong foundation

Most successful platforms use a combination of both strategies.

Trust Mechanisms : Building Trust Between Strangers

- **The Trust Imperative**

- ❖ You won't transact with a **stranger** unless you trust them.

- **No trust = No transactions**

- ❖ Platforms must solve this to function.

Airbnb's Trust System

- ❖ **Verified ID** : Government-issued ID verification for all users.

- ❖ **Host Reviews** : Detailed feedback from previous guests.

- ❖ **Property Photos** : Verified photos of the actual accommodation.

Uber's Trust System

- **Driver Rating** : Passengers rate drivers after each trip.

Trust Mechanisms : Building Trust Between Strangers, Cont.

- **Rider Rating** : Drivers also rate passengers (mutual accountability)
- **Background Checks** : Driver screening and vehicle inspections

The Solution :

- **Reputation Systems**

- ❖ Ratings

- ❖ Reviews

- ❖ Verification

Revenue Models : Platform Monetisation Strategies

1. Transaction Fee :

- Take a **cut of each sale** or transaction that occurs on the platform

- **Example: Uber**

Ride fare	\$20
Platform fee (25%)	\$5
Driver receives	\$15

Scales with usage.

2. Access Fee :

- Charge **one side** to join or access premium features.
- **Example: LinkedIn**

Revenue Models : Platform Monetisation Strategies, Cont.

❖ **Free Tier** : Basic profile and limited connections

❖ **Premium Tier** : Advanced features, InMail, analytics

Freemium model

- **3. Advertising**

- Charge a third side (advertisers) to reach your users.

- **Example: Instagram**

- ❖ **Users (Side 1)** : Create & view content

- ❖ **Advertisers (Side 3)** : Pay to reach users

Attention economy

Revenue Models : Platform Monetisation Strategies, Cont.

- Charge Producers : **eBay listing fee.**
- Charge Consumers : **Uber booking fee.**
- Charge Third Party : **Facebook ads.**
- Or Any Combination : **Hybrid models.**

Apply your Knowledge: In-Class Exercise

The Challenge :Design a platform for MBA students.

- **Textbook Exchange Platform :** Create a platform where MBA students can **rent textbooks from each other** instead of buying new from the bookstore

Student A

Textbook

Student B

1. Identify the Sides :

- Who are the **producers**?
- Who are the **consumers**?
- Can someone be both?

2. Solve Chicken-or-Egg :

- Do you recruit **sellers first** or **buyers first**?
- What strategy will you use?

Apply your Knowledge: In-Class Exercise, Cont.

3. Build Trust :

- What if a seller **never ships the book**?
- What if a buyer **never returns it**?

Make Money :

- Pick **one of the three models**: Transaction fee, Access fee, or Advertising?

Work in teams of 3-4. You have 15 minutes to develop your platform concept.

Lecture Summary

The 5 Questions Every Platform Builder Must Answer.

1. Who are my producers and consumers?

- If you can't name both, you don't have a platform.

2. How do I solve the chicken-or-egg problem?

- If you start with zero, you need a specific strategy (piggyback, single-rent, etc.)

3. How do I create liquidity?

- A platform with 10 users is worthless. A platform with 10,000 is valuable.

4. How do I build trust between strangers?

- No reputation system = no transactions

5. Who pays and why?

- If you don't know this by month 3, you will run out of money.

Thank you



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