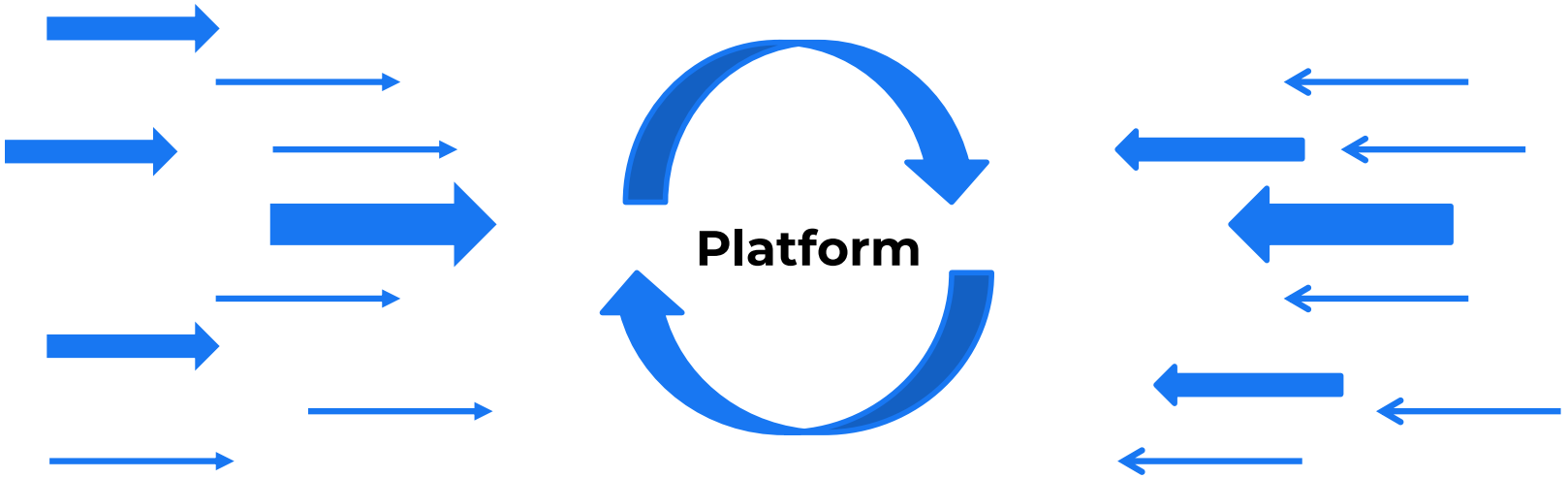
What is a Platform?

What is a Platform?

A platform creates value by facilitating transactions between **buyers** and **sellers** in an ecosystem and takes a piece of the pie in the transaction.



amazon airbnb Uber

Why are Platform Business Models powerful?

1. They are assets light
e.g. Airbnb does not own many buildings as Marriott does.

2. They have nearly zero marginal costs
e.g. Airbnb benefits from external resources (e.g. their hosts) rather than employing people.

3. They benefit from network effects
e.g. on Airbnb, the more hosts register on the platform, the more guests register, and the other way around.

Why are Platform Business Models powerful?

amazon

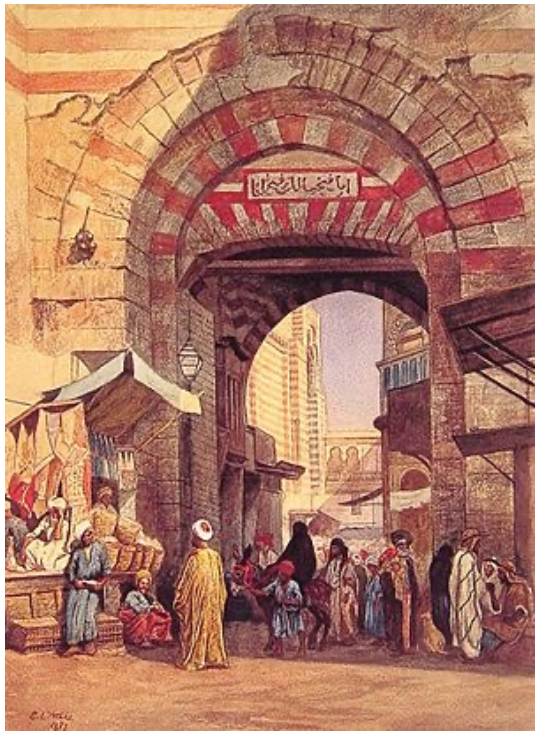
airbnb

Uber

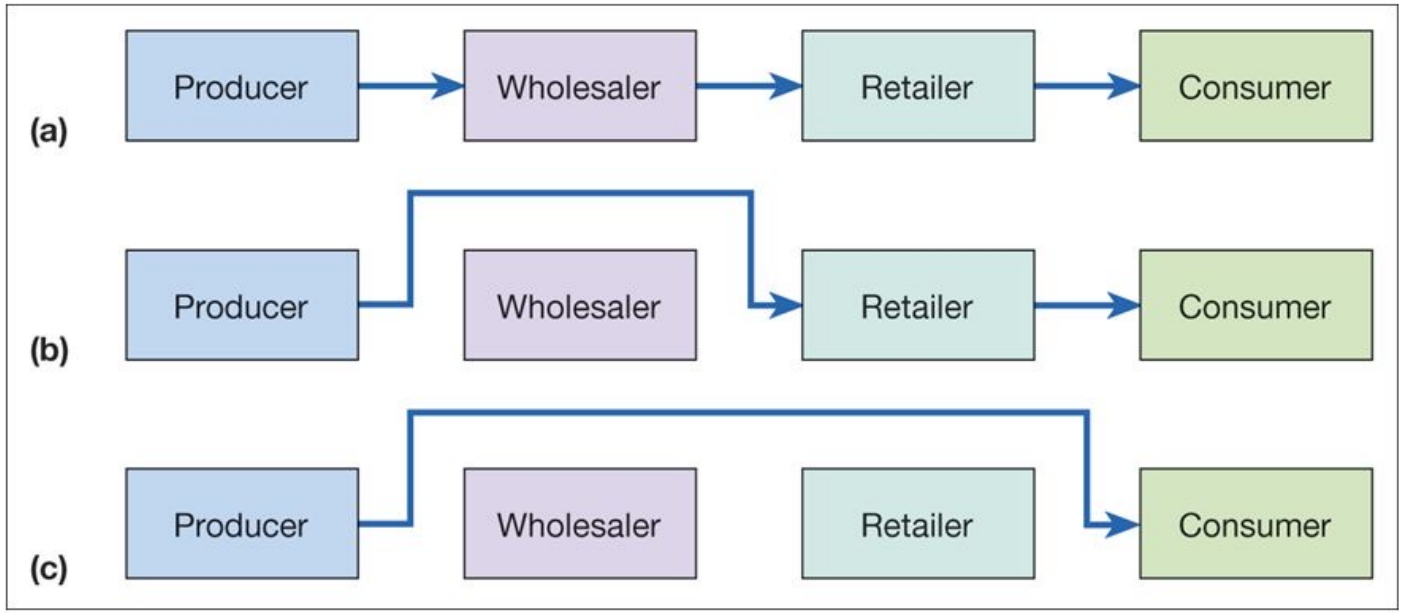
What is a Market Place?

What is a Market

A market is a place where people **buy or sell things.** There may be a special building for the marketplace, which may be held in an open space where the sellers can put up a stall (like a kind of tent).

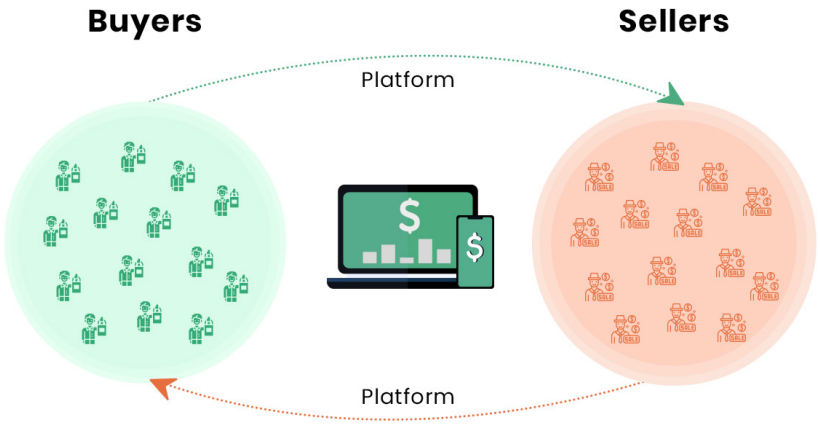


Online Vs Offline Market place



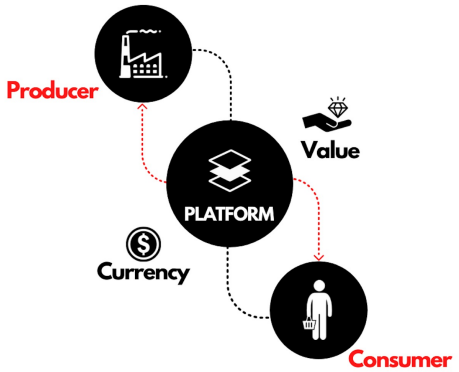
What is a Market Place?

Marketplaces create a trusted place for buyers and sellers to discover and exchange products and services.



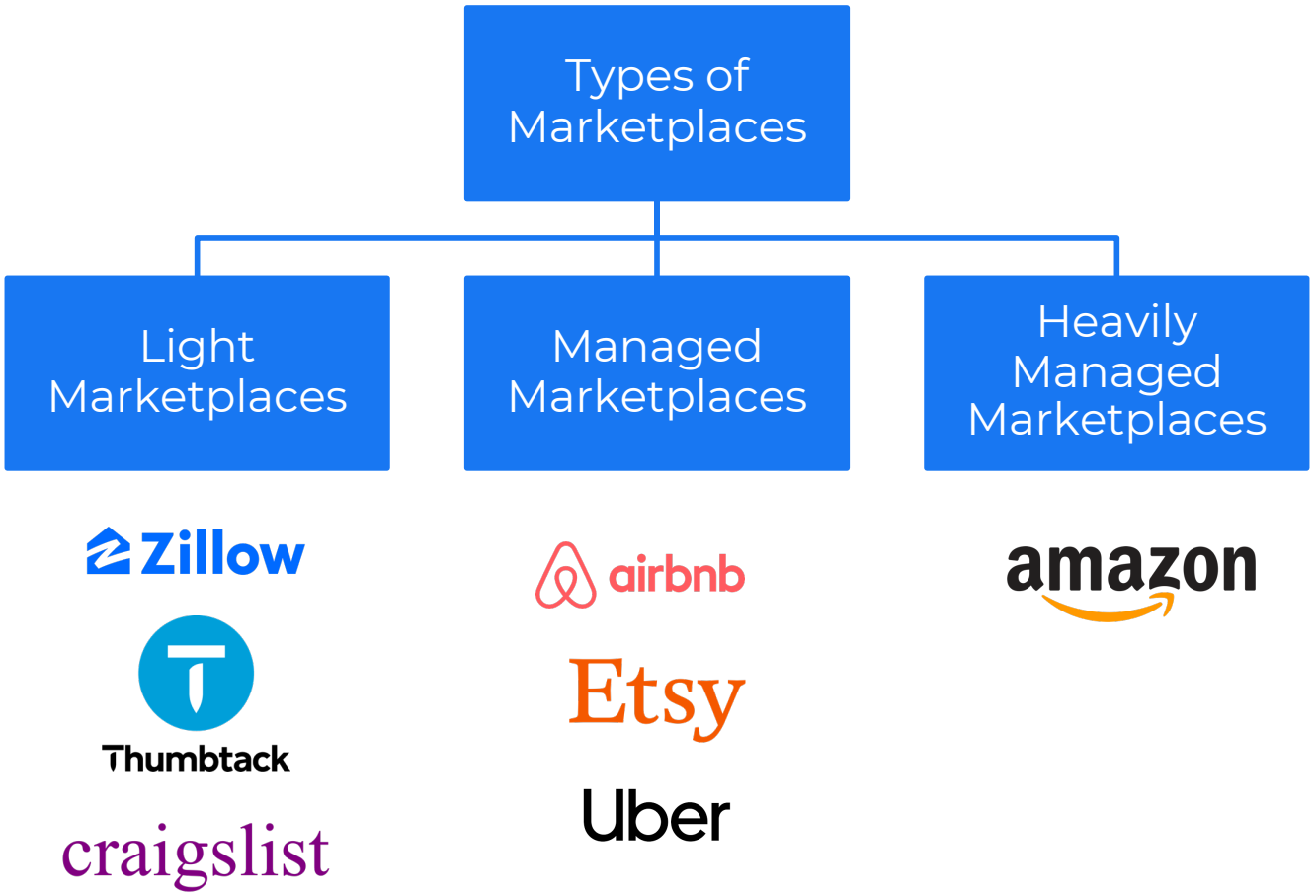
fiverr.

amazon

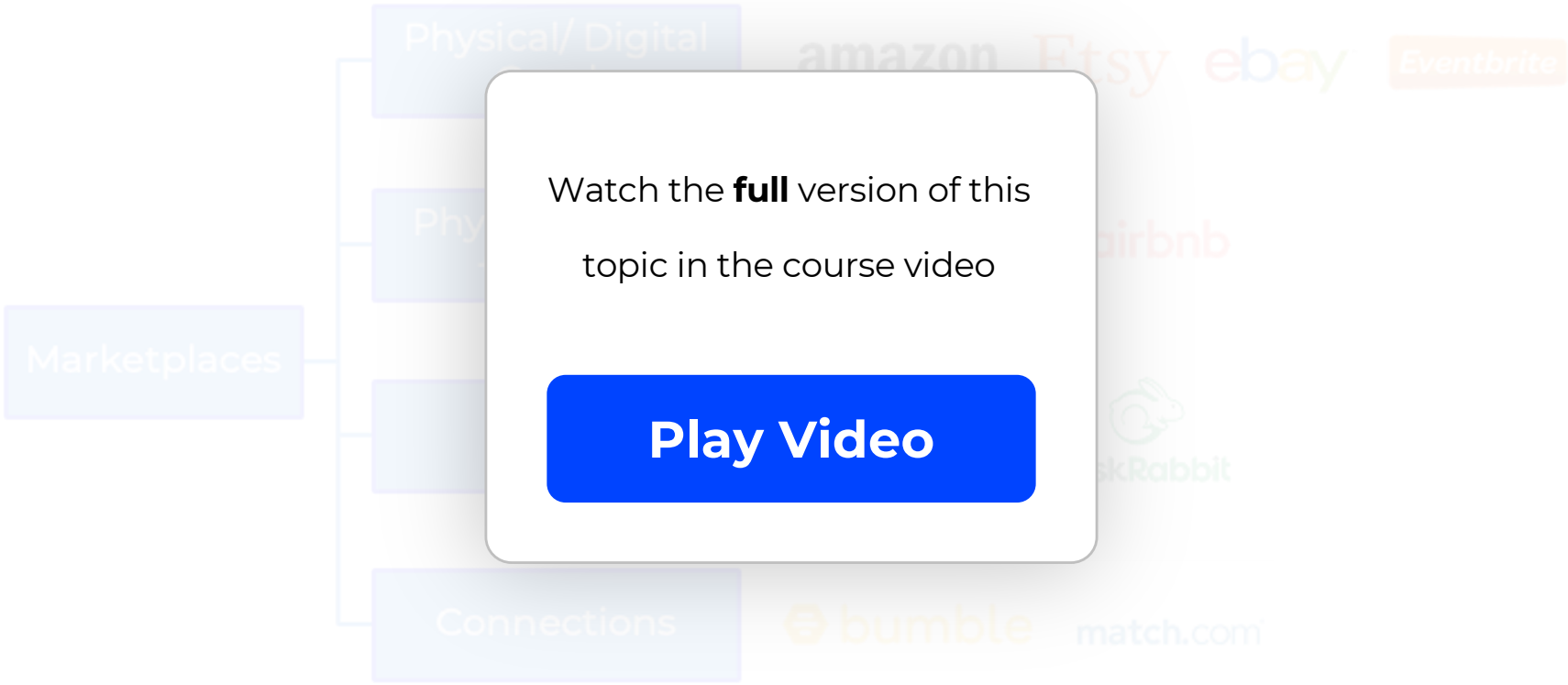


Their main role is to balance the supply and demand of products, facilitate transactions, and create a trusted and safe environment for users.

Types of Market Place based on control?

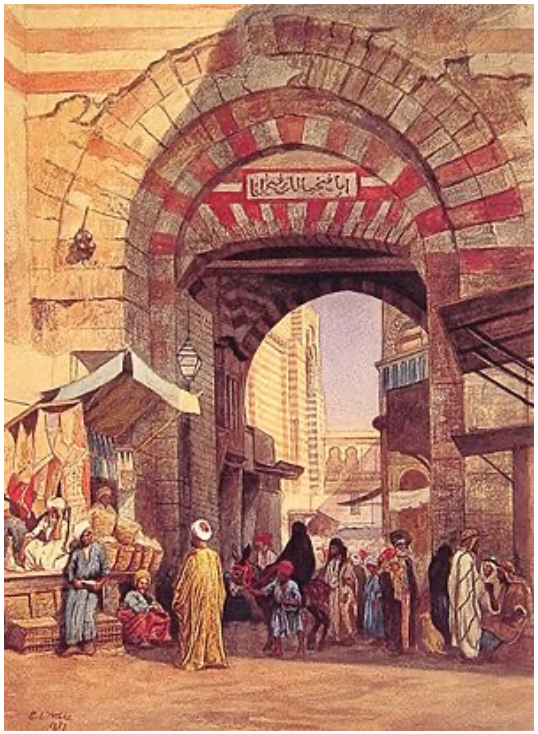


Types of Market Place based on the product type?

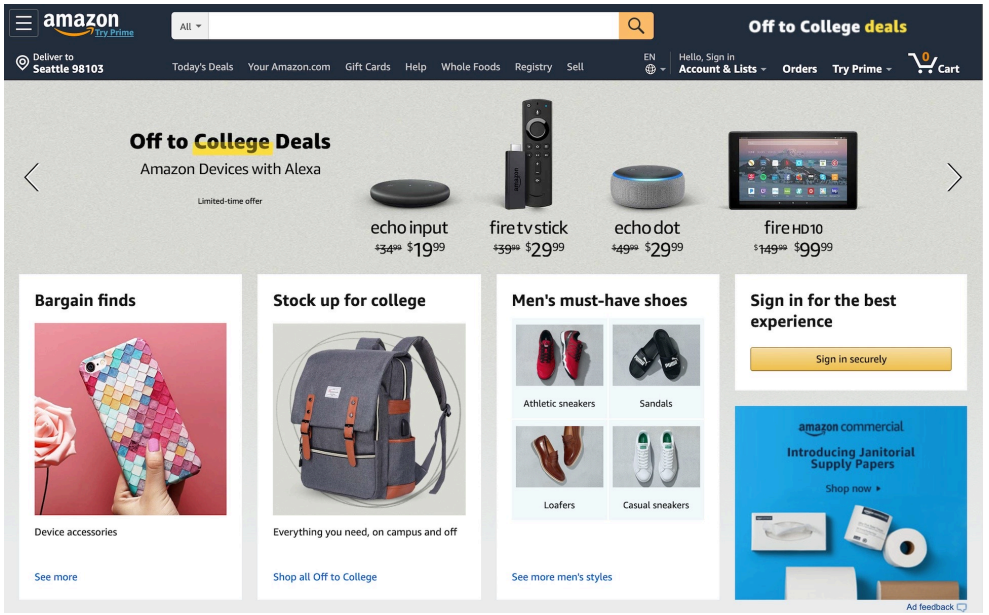


Things to understand in Marketplace business model?

Touch, Trust & Safety, Return and demand & supply

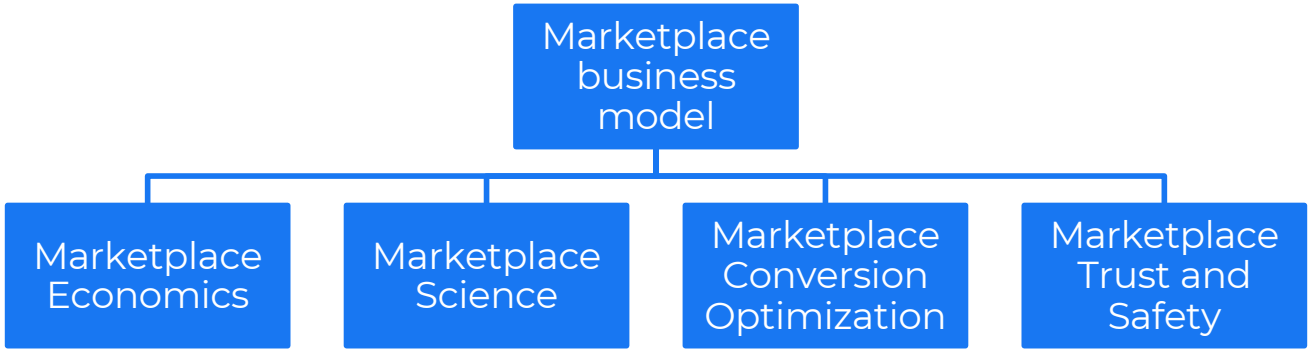


Vs



Things to understand in Marketplace business model?

1. **Marketplace Economics** – Helps us understand Growth, Supply-Demand Balance along with Price Equilibrium
2. **Marketplace Science** - Match and recommendations engines and marketplace liquidity.
3. **Marketplace Conversion Optimization** – Funnel optimization and Growth loops
4. **Marketplace Trust and Safety** – Disintermediation and Keeping bad actors out.



1.Marketplace Economics

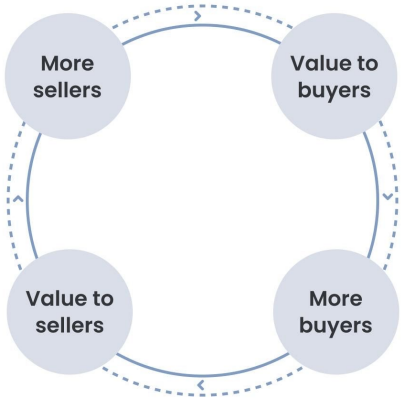
a) Growth and Supply-Demand Balance – Commonly know as a chicken and egg problem

“Do we have enough supply to meet demand?” and vice-versa. For happy customers your need to generate two-sided growth with a good balance.

amazon

Uber Eats

airbnb

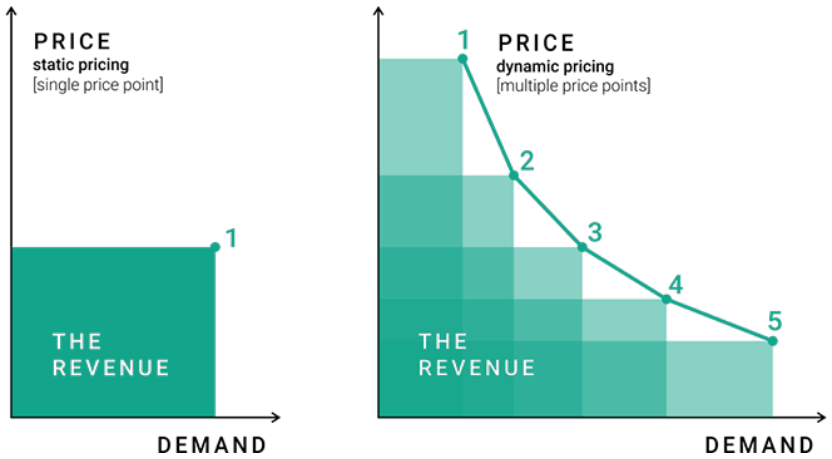


You need to measure this across categories, location in amazon and skills on Fiverr

1.Marketplace Economics

b)Price Equilibrium like Uber's surge pricing (price goes up during moments of peak demand).

Companies like Airbnb and Upwork don't engage in surge pricing to the extent that Uber



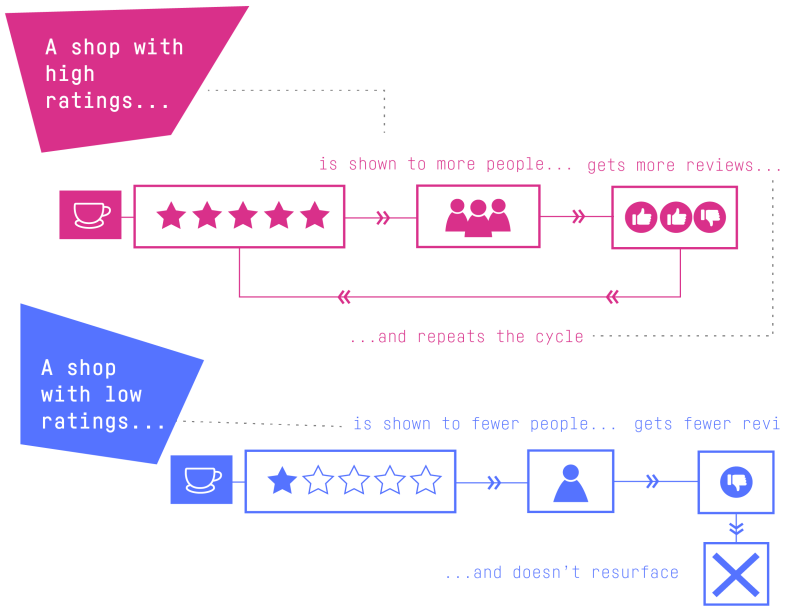
You need to measure this across dimensions, such as skill, function, location, etc.

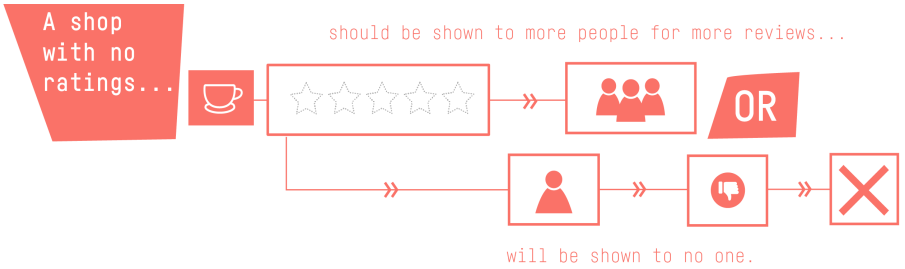
2. Marketplace Science

a) Marketplace Science

Marketplace science involves algorithms and data science models for **search**, **match** and **recommendations** to ensure users find what they need and make a transaction.

i)Cold start Problem

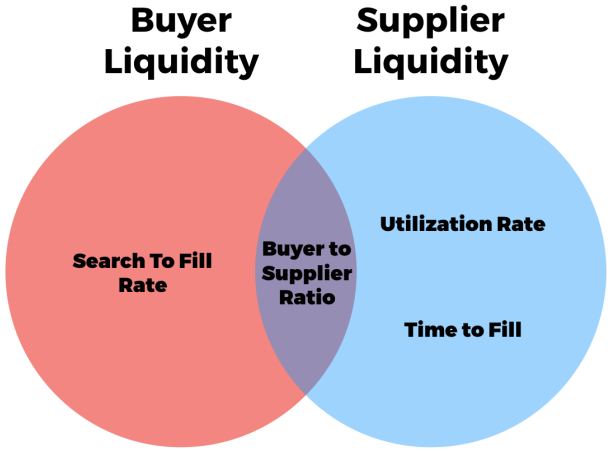




2. Marketplace Science

b)Marketplace Liquidity
Liquidity means a seller can quickly find a buyer without having to cut the asset's price to make it attractive.

Buyer Liquidity represents the likelihood that a request or a search leads to a transaction.



Search to Fill Rate.

- Amazon - The percentage of search sessions over a given month that results in a purchase.
- For Uber, this could be the percentage of requests per week that result in rides.

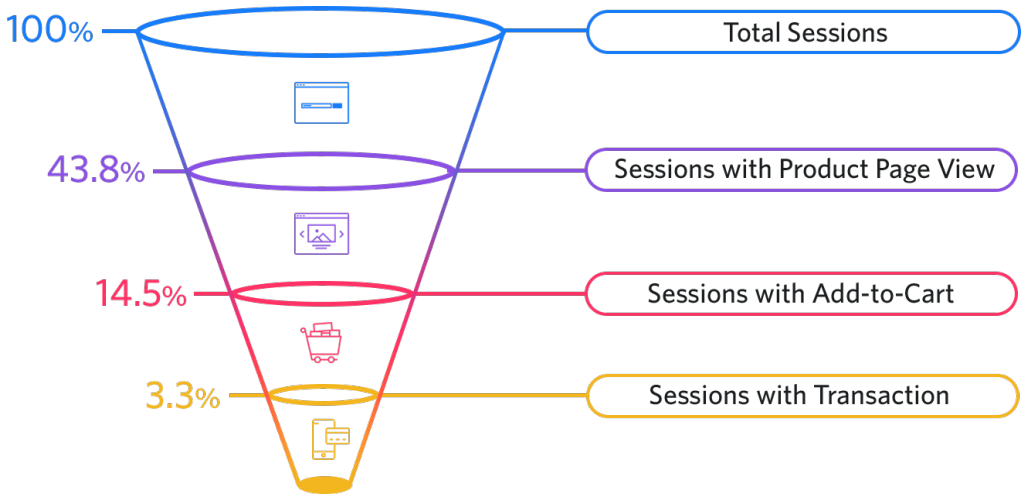
Supplier Liquidity
Supplier liquidity is by measuring the Utilization Rate of the supply side.

Amazon's - Percentage of stock at the beginning of the month that is sold at the end of the month.
Airbnb - Proportion of rooms booked every night i.e Utilization rate

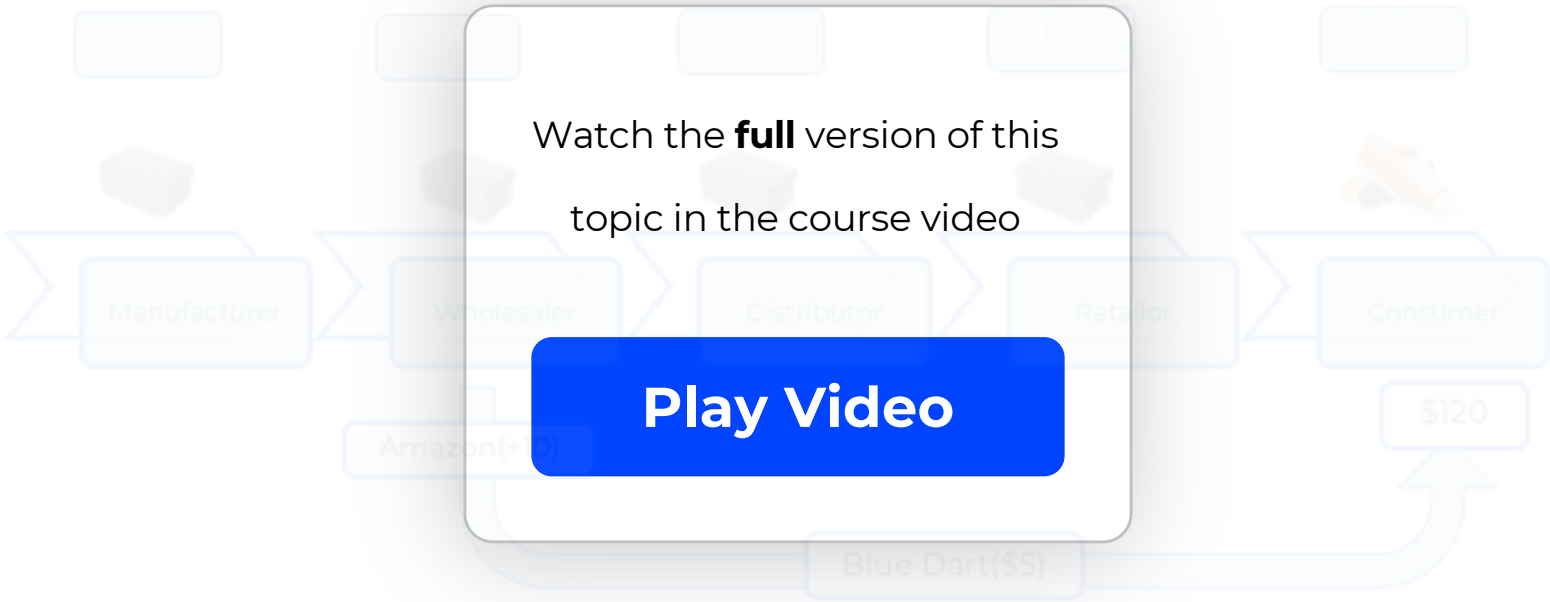
3. Marketplace Conversion Optimizations

Having laser-focused funnel optimization by optimizing User design, and purchase steps(payment flexibility) to track.

To compound optimizations, we need to think beyond funnels i.e., growth loops.



Market place Business Model

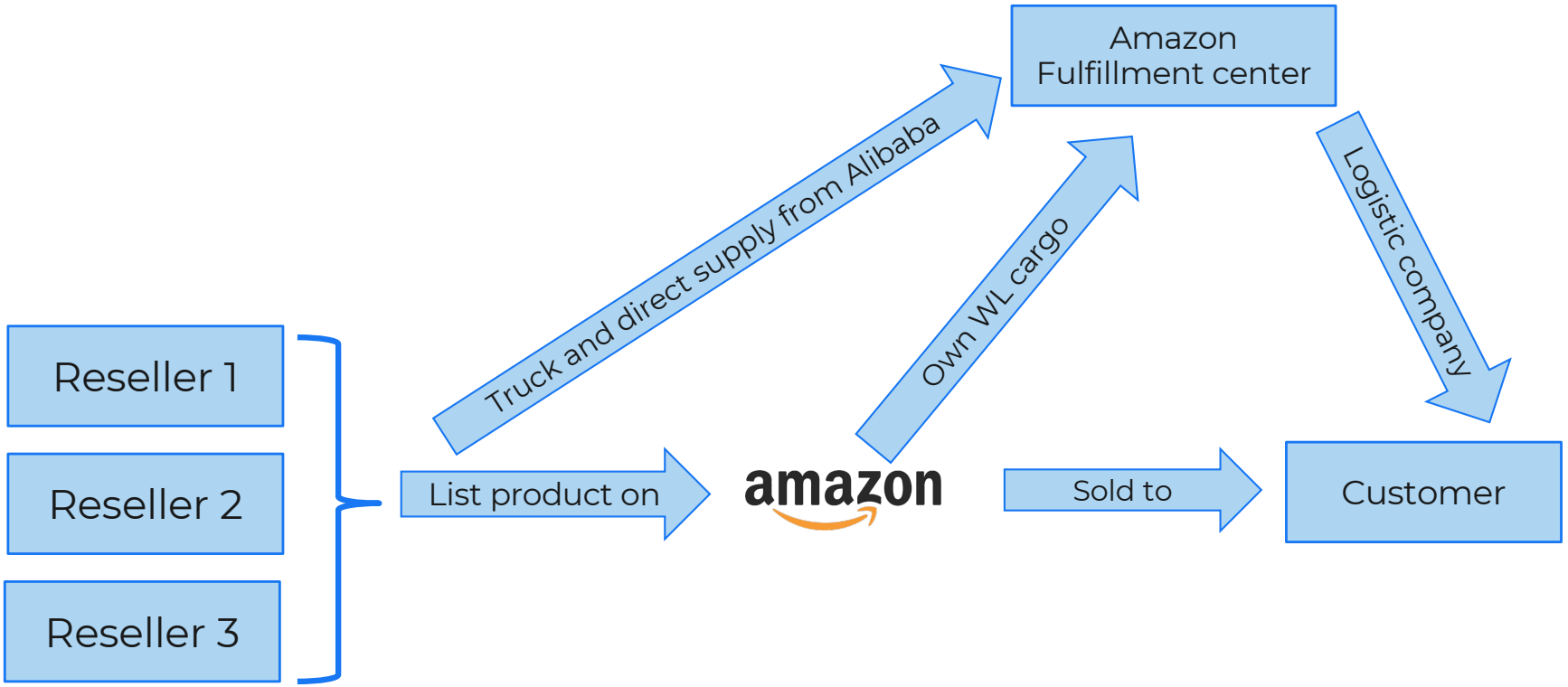


Watch the **full** version of this topic in the course video

Play Video

Market place Business Model

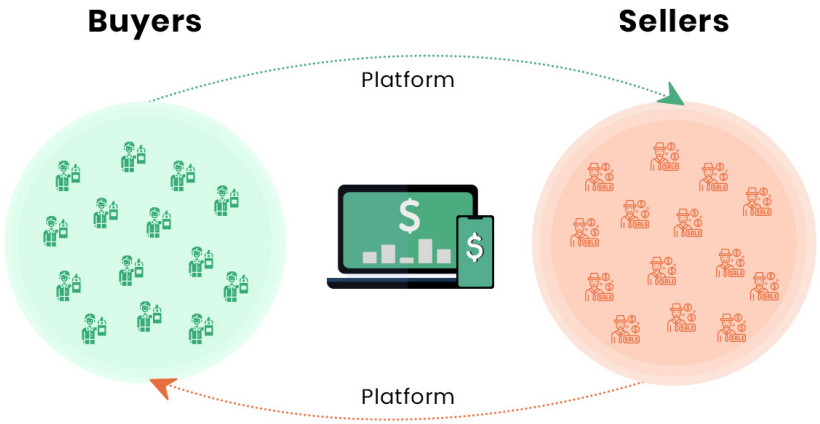
Marketplace is a type of e-commerce site where product or service information is provided by third party sellers.

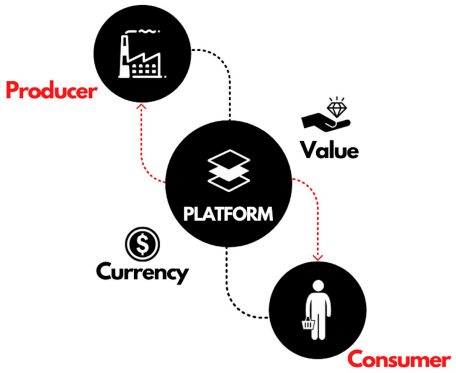


Aggregator Business Model

Aggregator Business Model

Aggregators create a trusted place for buyers and sellers to discover products and services under their brand.



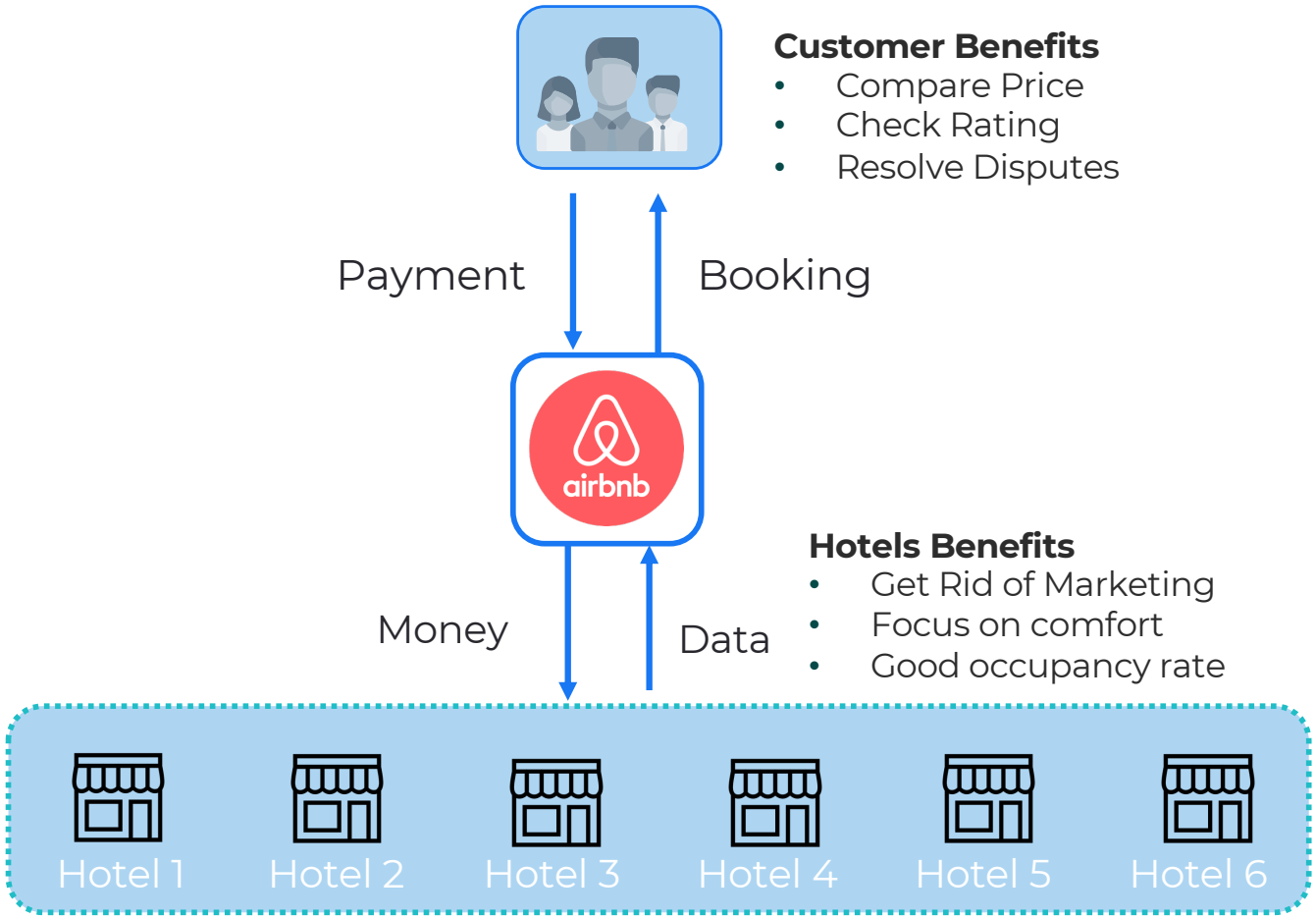


airbnb

UBER

Aggregators have a single brand name, single terms and conditions, and almost the same price range.

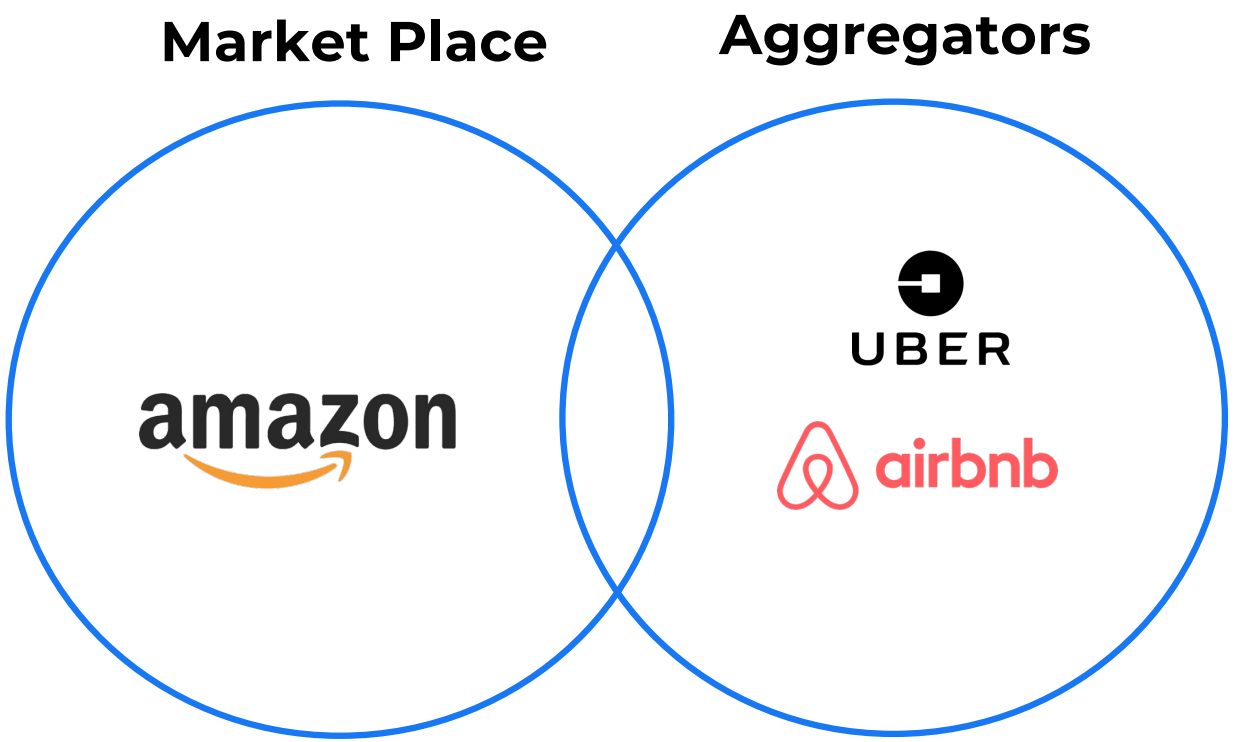
Airbnb Aggregator Business Model



Aggregators Vs Market Place

Vs

Aggregators Vs Market Place



Connect vendors and customers.

Onboard vendors & provide offerings under one brand.

Aggregators Vs Market Place

amazon

Marketplace Business Model	VS	Aggregator Business Model
Goods on a marketplace presented under various brands	**Brand**	Goods on an aggregator are united under the brand of an aggregator
Goods on a marketplace may belong to a variety of industries	**Industry**	Goods belong to one industry
Products' quality may vary	**Quality**	Products' quality is almost equal
Wide price range	**Price**	Price of offered goods is almost equal
Terms & Conditions of each seller are different	**Terms & Conditions**	Terms & Conditions are the same
Marketplace is not responsible for shippping and products' features	**Responsibility**	Aggregator is responsible for shipping and products' features
	Commission	
Earnings from commission from goods have been sold		

UBER

airbnb

Platform Assignment

Reinvent Traditional Salon in a platform business

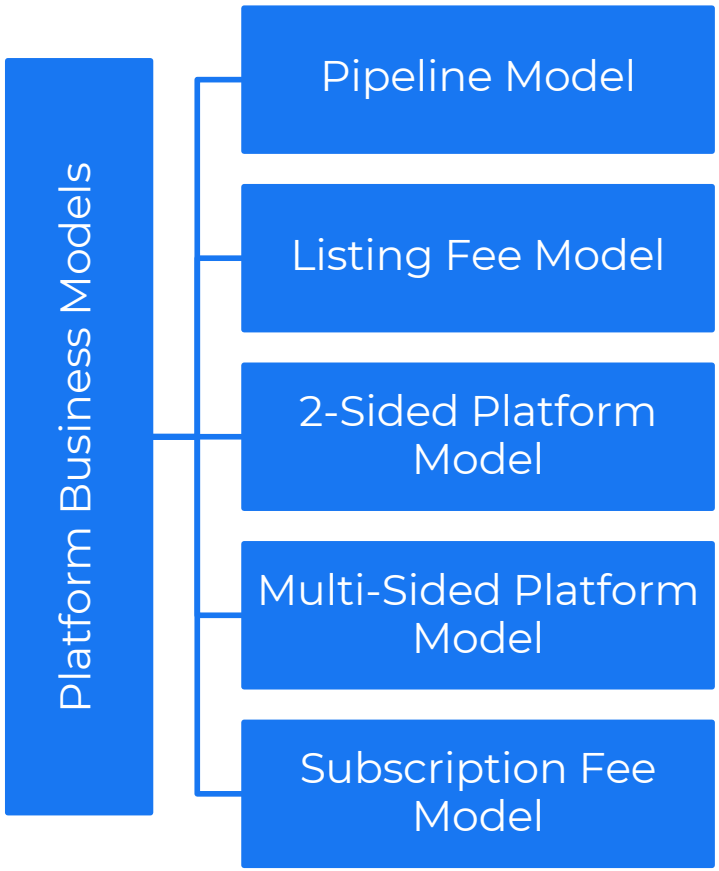
Hairdresser

Beauty Salon

User

Assignment Solution

Different ways to build a platform business



Directly give User to Hairdresser.

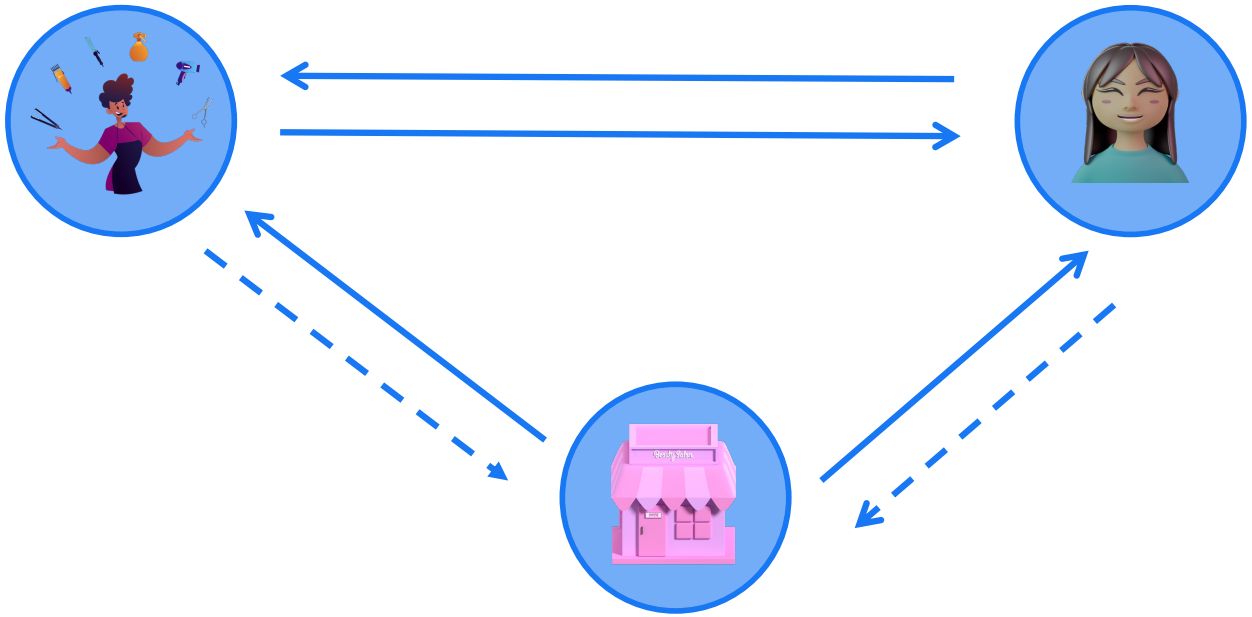
Beauty salon charges platform fee from Hairdresser.

Beauty salon charges platform cut from the Hairdresser.

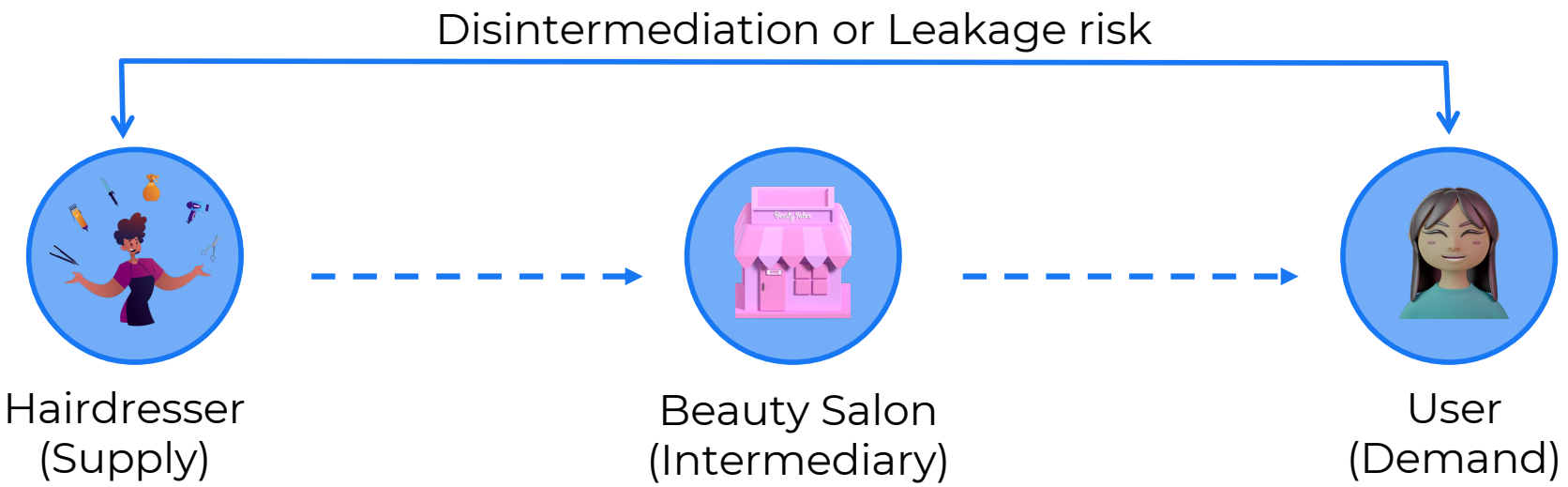
The Beauty salon takes a cut both from the Hairdresser and the user.

Subscription Fees from both sides.

Different ways to build a platform business



1. Linear or Pipeline Model

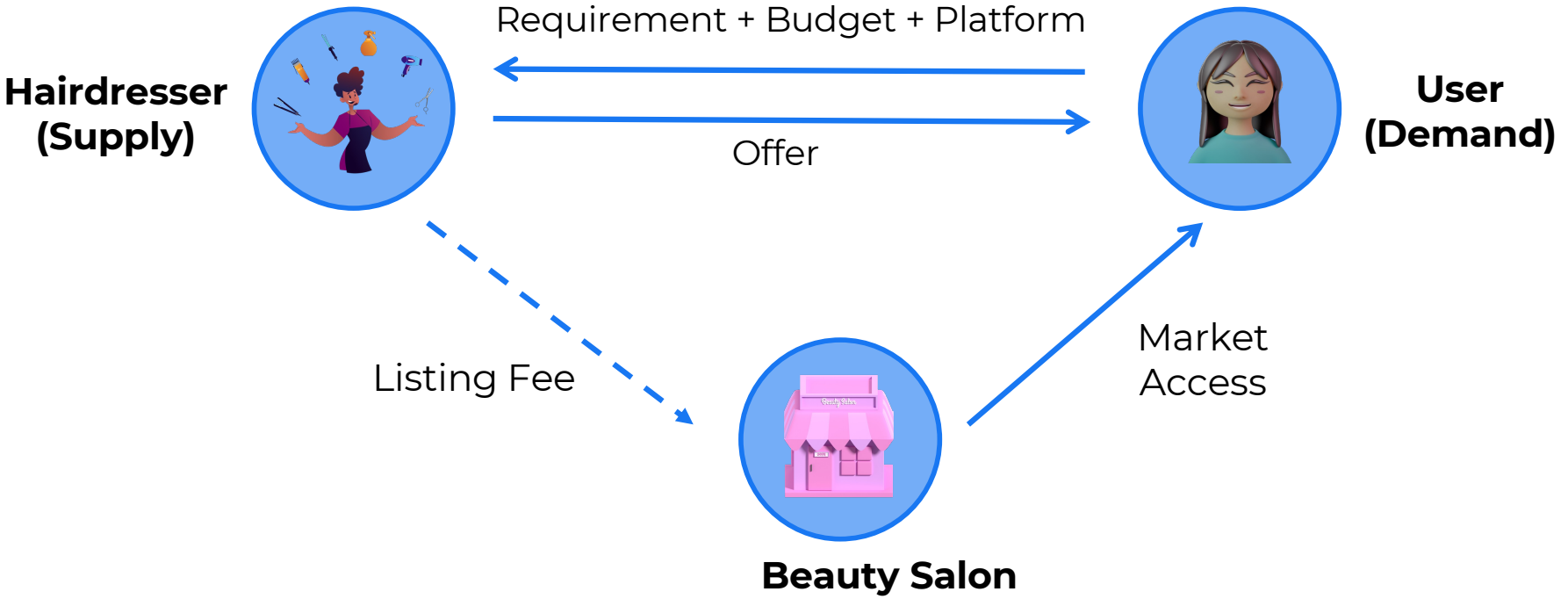


The beauty salon will hire an independent Hairdresser and rent them out to Users.

But this model has one major risk of bypassing, also called platform leakage

2. Listing Fee Model

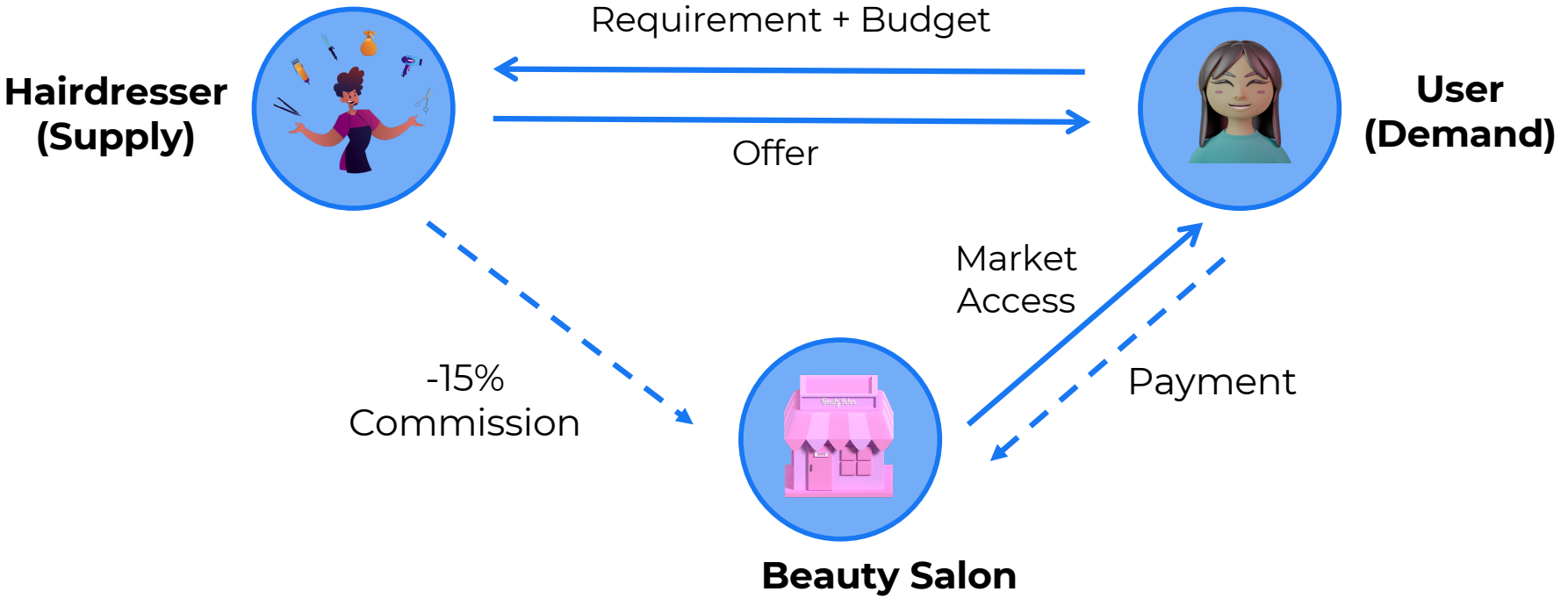
The platform (Beauty Salon) charges a fee from hairdressers on their listings and connects them with customers.



The platform Gets out of the way after connecting the Hairdresser with the User.

3. 2-Sided Platform Model.

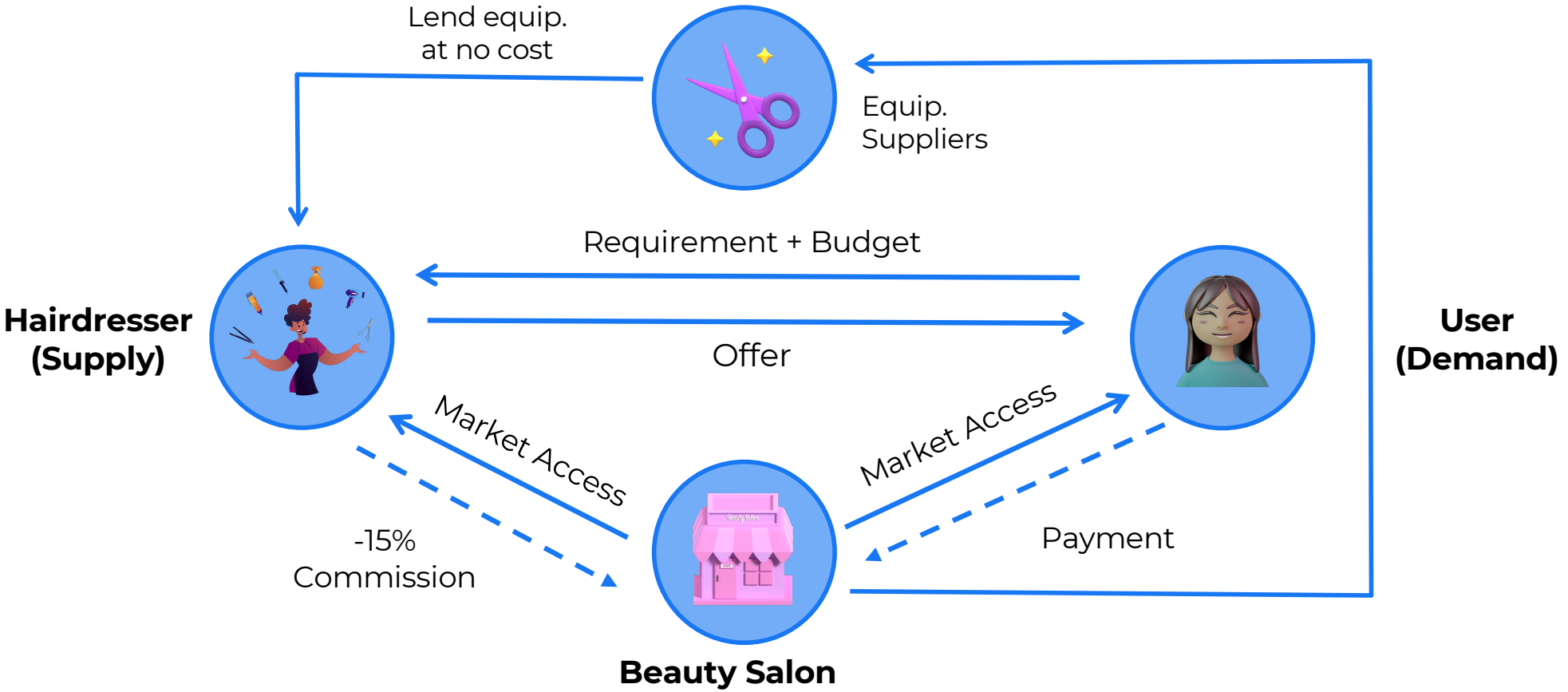
Here the platform (Beauty Salon) takes a commission (10%-15%) from the **hairdressers** and payment from the **customers** with no customization.



Network effect can make this business model extremely defensible.

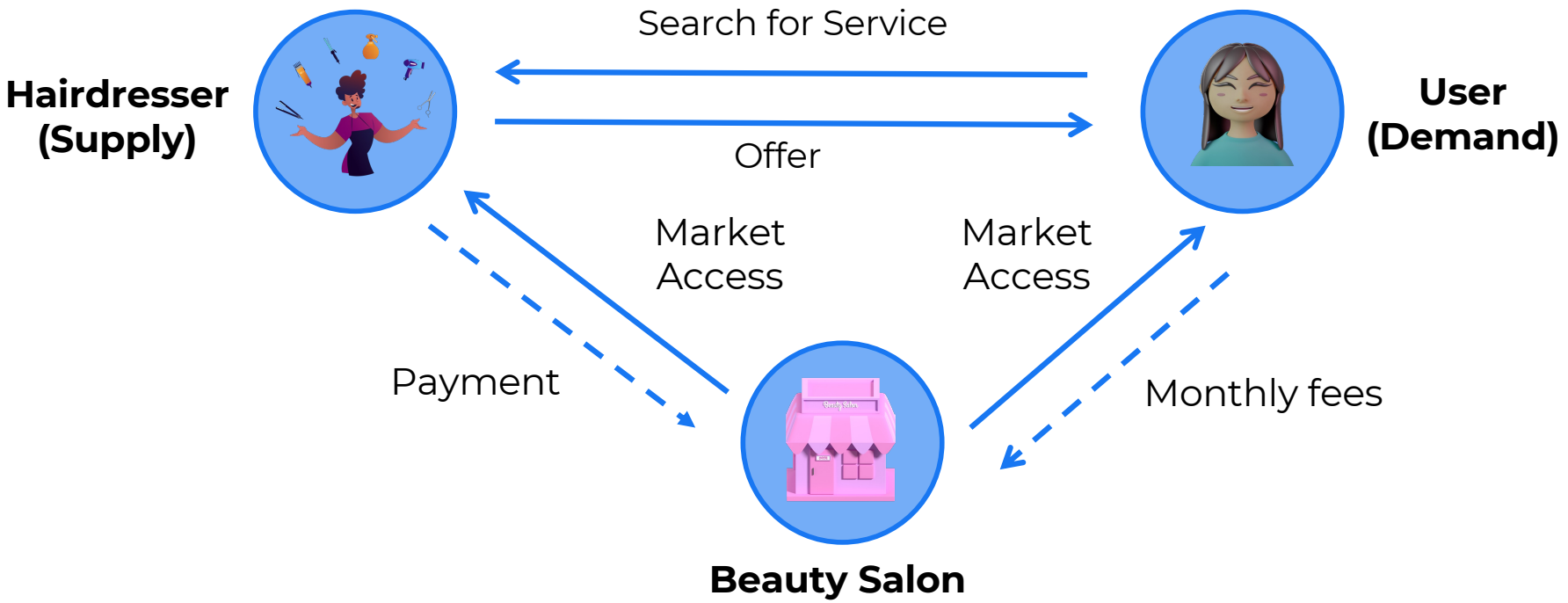
4. Multi-Sided Platform Model

Here the platform (Beauty Salon) takes care of everything from landing equipment to providing a hairdresser etc.



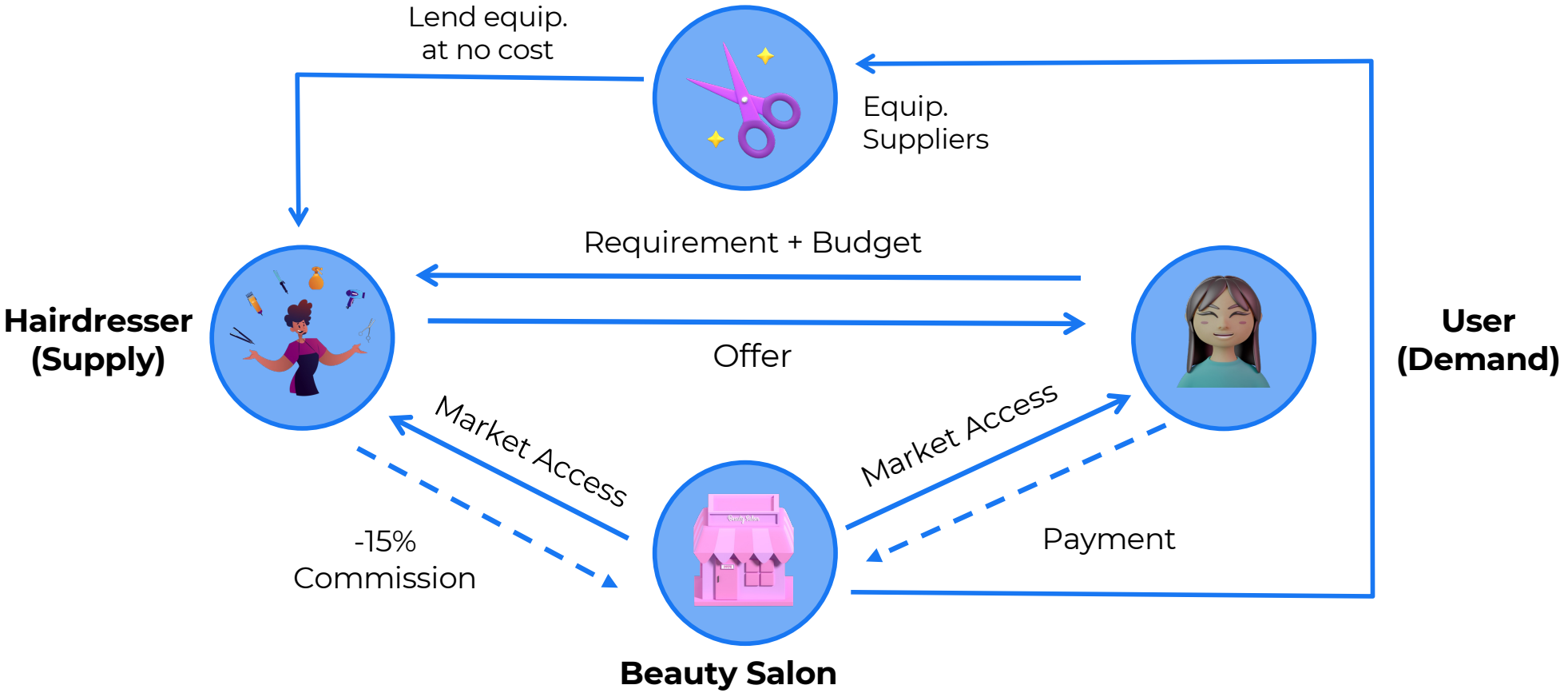
5. Subscription Fee Model.

Here the beauty salon acts as the enabler who collects the subscription fee from the Users and then releases the money to the Hairdresser without a commission



Multi-Sided Platform Model

Here the platform (Beauty Salon) takes care of everything from landing equipment to providing a hairdresser etc.



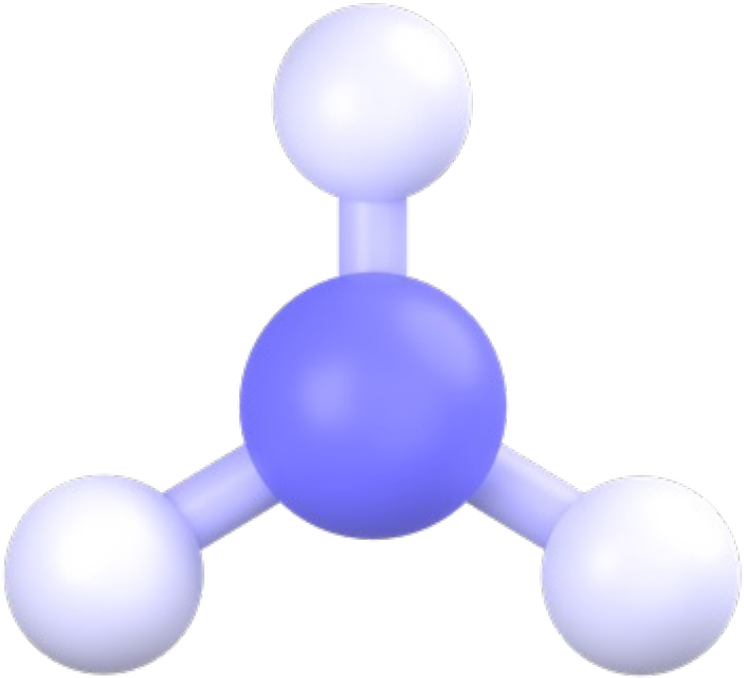
Why does everyone use WhatsApp & Amazon?

Vs

amazon

Vs

What Are Network Effects?



What Are Network Effects?

Take a second and think about few large companies that are booming right now.
Examples: Apple, Google, Microsoft, Facebook, Uber, Airbnb, or Amazon.

A phenomenon whereby a product or service gains additional value as more people use it.

Telecom companies, software companies, social media platforms, and blockchain almost 70 per cent of the value in tech is driven by network effects

The network effect in Amazon Marketplace

What Are Network Effects?

We get value out of network effects

- Such as cost reduction (in user acquisition)
- higher liquidity (in a marketplace)
- deeper relationships (in social networks).

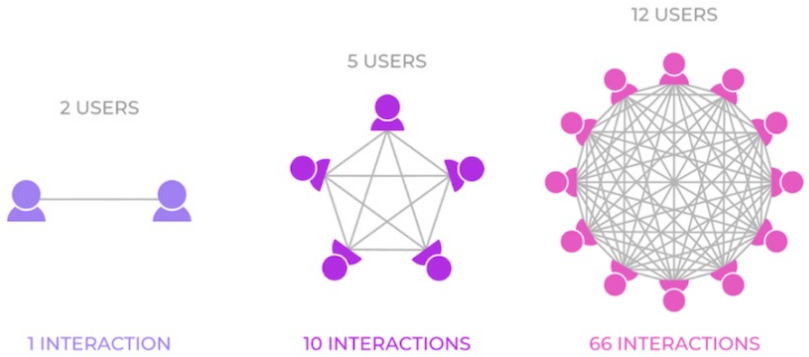
Many of us are on Instagram because by leaving it we lose connections to people whom we cannot find elsewhere.

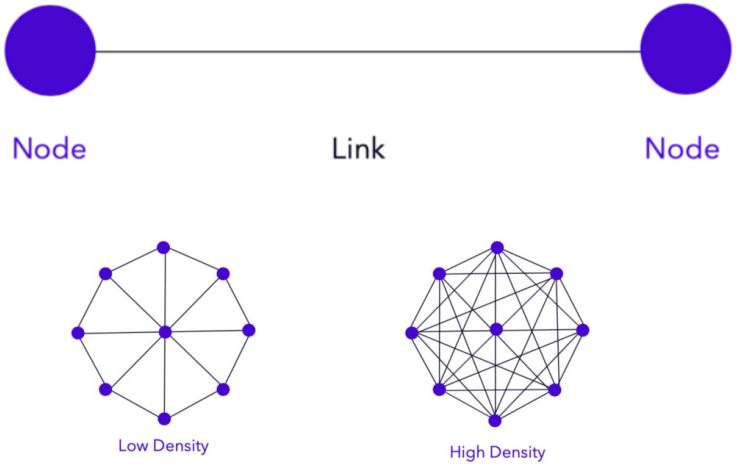
amazon

There is no replacement except amazon where you can find a large variety of products shipped to your doorstep in a day at the cheapest price.

How these network effects are built?

All networks are formed by nodes and links. These nodes participate and the central node has a high number of links and tends to have a high value, then marginal nodes

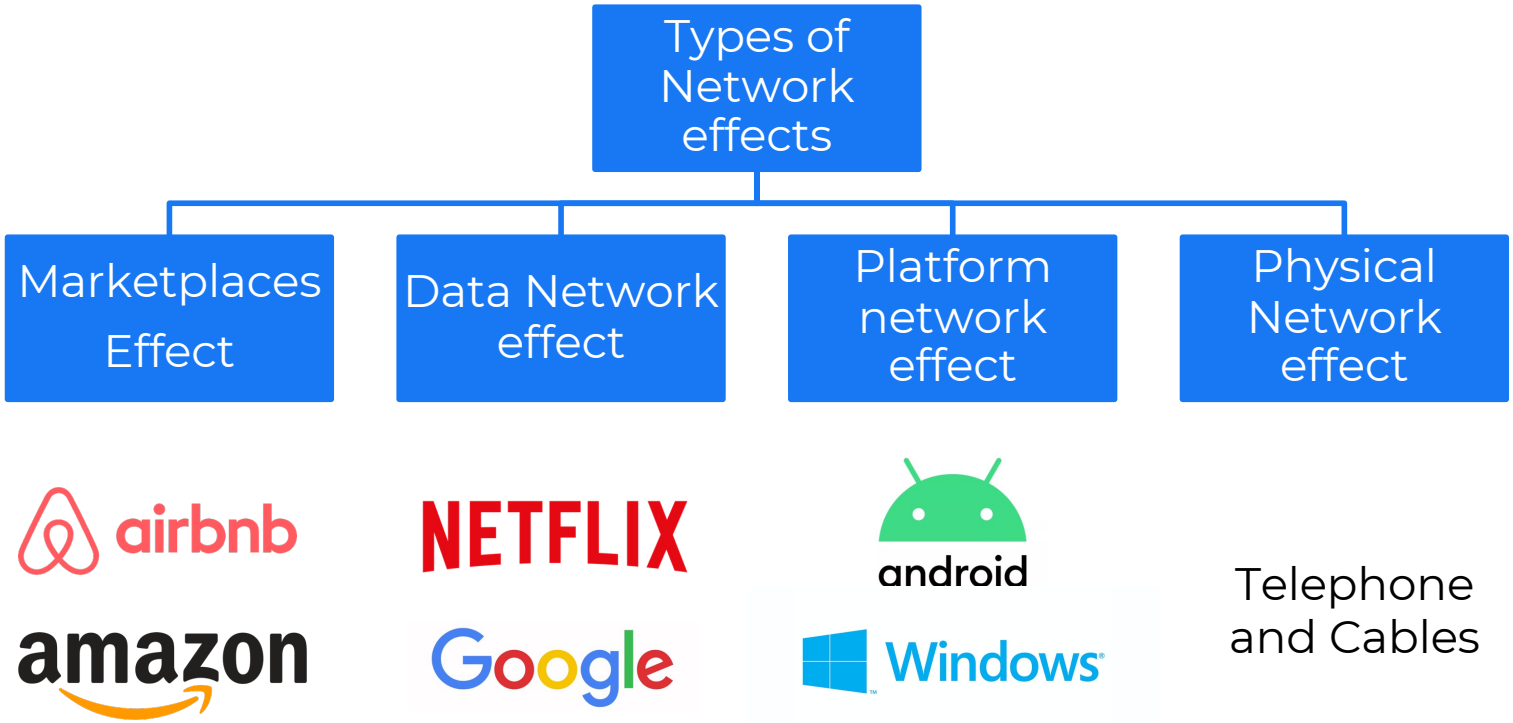




The network strength can be measured by the "*total number of nodes*" in a network and the "*value of the network*".

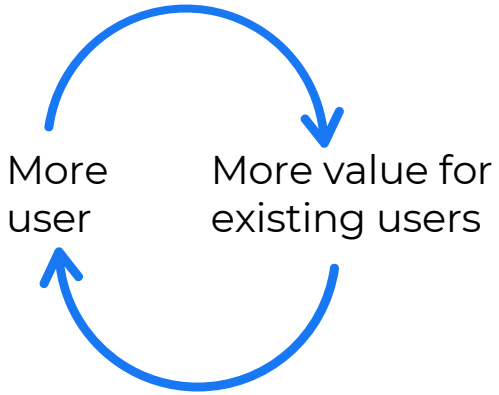
LinkedIn network Strength = 100 Connection + 10 CEO **>** LinkedIn network Strength = 100 Connection + 10 Employee

Types of Network effects



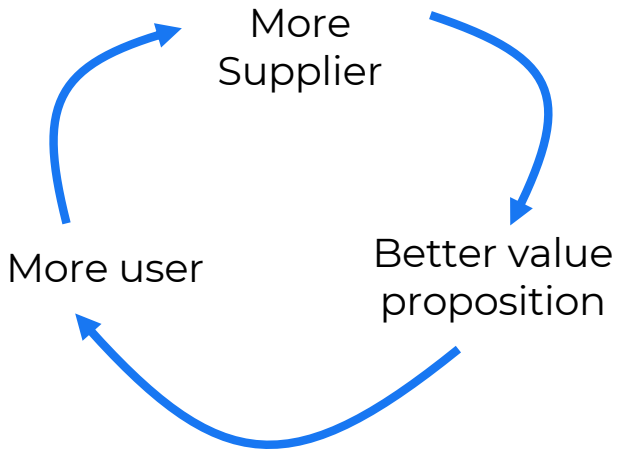
Types of Network Effects

Direct network effects



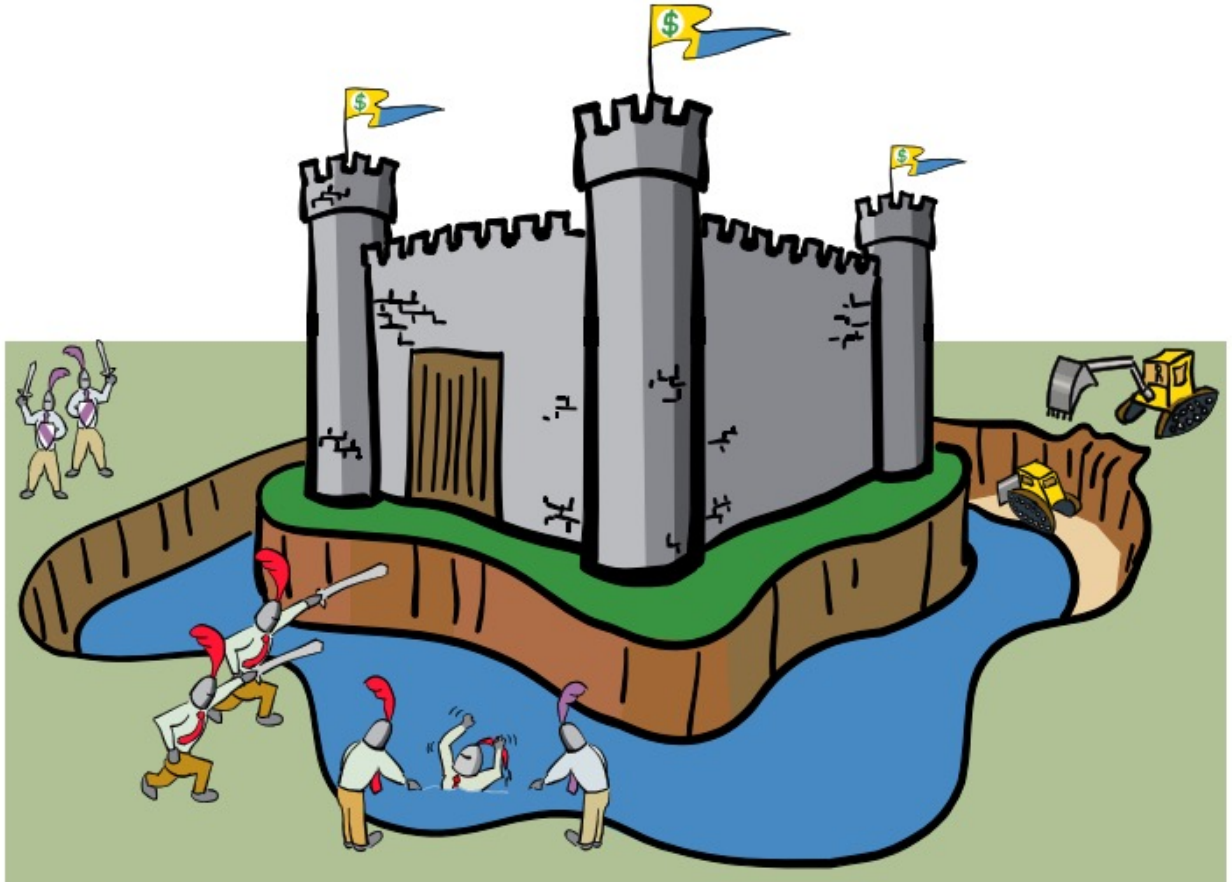
Ex-Facebook, What's app

Two-sided network effects

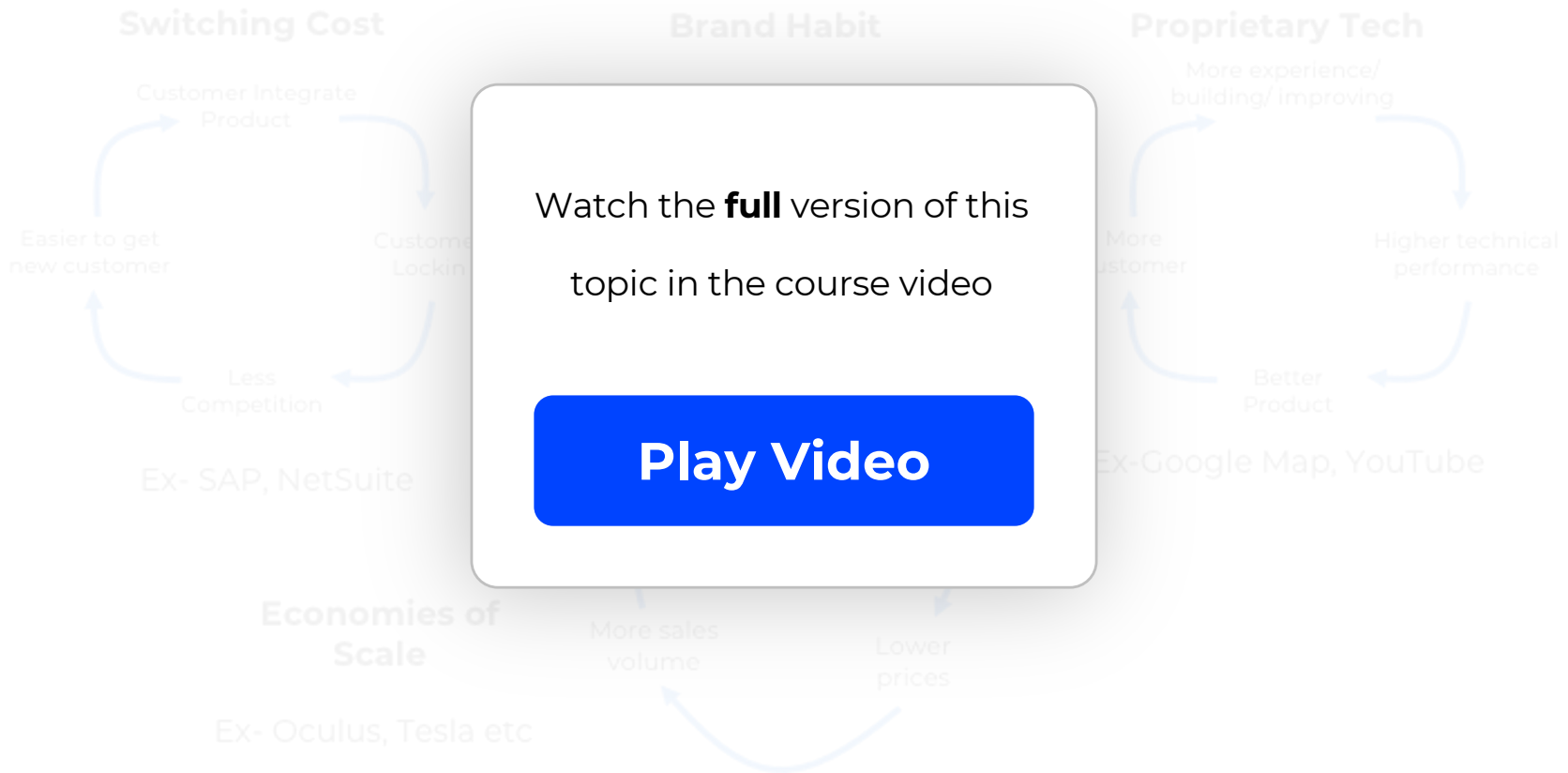


Ex: Amazon , Uber

What is business Moat



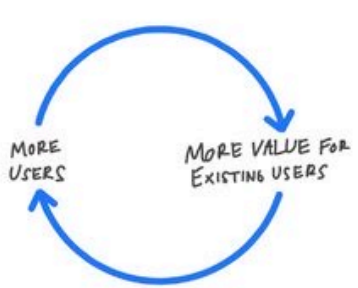
Types of business Moats



Watch the **full** version of this topic in the course video

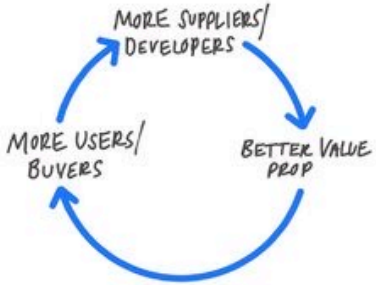
Play Video

The network effect in Amazon Business Model



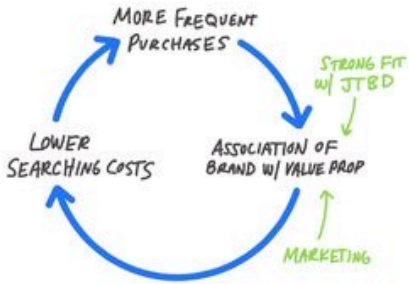
DIRECT NETWORK EFFECT

ECONOMIES OF SCALE



2-SIDED NETWORK EFFECT

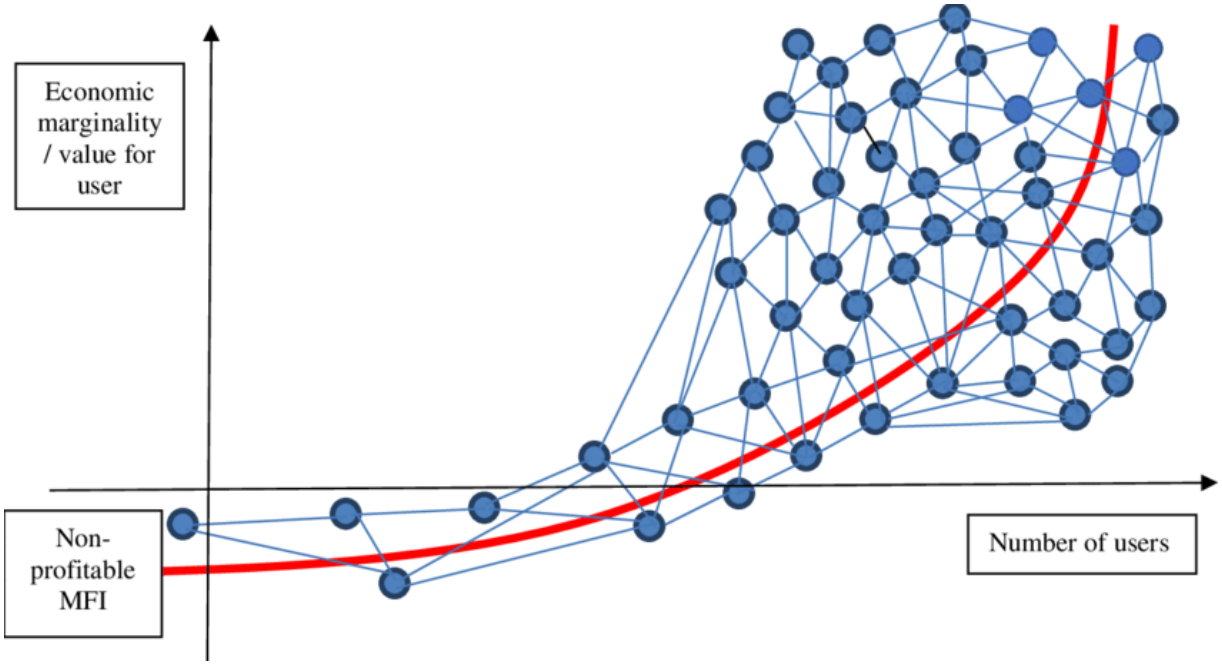
SWITCHING COSTS



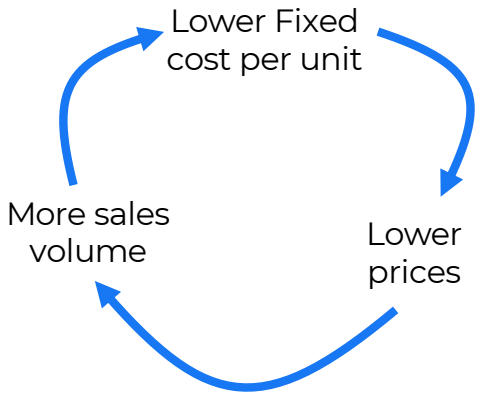
BRAND HABIT

PROPRIETARY TECH

Value for the User according to Metcalfe's Law



Economies of Scale



But not all network effects are equal — not only can they be strong or weak, but there are also many different types depending on the business.

Top Rated business course on Udemy

Complete MBA course: Marketing and Business Strategy

ENROLL NOW

★★★★★ 112,806

31 Start-up Business Model: Best Course for Entrepreneurs

ENROLL NOW

★★★★★ 67,658 Students

MBA: Supply Chain and Operation management

ENROLL NOW

★★★★★ 49,040 Students

SaaS Marketing, Metrics for Managers and Founders

ENROLL NOW

★★★★★ 11,696 Students