Strategies for Evolution and Sustenance of Network Ecosystem

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Senior Product Manager, Amazon.com
Objective

- Expose different concepts involve in network platform ecosystem
- Build strategies about these concepts for evolution and sustenance of network platform ecosystem
- Illustrate things which every network platform owner should be aware of
- Develop systems level thinking of looking at network ecosystem differently and asking pertinent questions
Agenda

Strategies for Sustenance

Strategies for Evolution

- Multisided Platforms
- Network Effects
- Pricing
- IP and Absorption
- Multi-homing
- Exclusivity
- Control
- Bundling
- Tipping and WTA

Strategies

Core Concepts
Core Concepts
Network or Multi-sided Platforms

“Multisided platforms cater to two or more distinct groups of customers. Members of at least one customer group need members of the other group for a variety of reasons” (Evans, Hagiu, & Schmalensee, 2006)

Characteristics of MSP

1) Distinct users each with different needs
2) These users interact with each other
3) Platform Enables (and not interferes) the interaction between sides
4) All the involved parties have association with the platform

1 Hagiu and Wright
MSP - Examples

- eBay
- Facebook
- Xbox 360
- LinkedIn

MSP

Network Effects

\[ \text{Multi Homing} \]

\[ \text{Exclusivity} \]

\[ \text{Control} \]

\[ \text{Bundling} \]

\[ \text{Tipping \& WTA} \]
Network Effects

A network effect (sometimes also called network externalities, positive feedback or demand economies of scale) is defined as the phenomenon in which the value of the product of services increases as more users start using them.
Network Effects – System Dynamics Model

- MSP
- Network Effects
- $\$
- IP & Absorption
- Multi Homing
- Exclusivity
- Control
- Bundling
- Tipping & WTA

Network Effects
- Charging by external developers
- Revenue of external developers
- Downfall of platform
- Cross sided network effect
- Popularity of platform
- Same sided network effect
- Advertisers
- Increase of platform popularity
- Innovation of platform
- Tools
- Training
- Platform improvement
- Revenue of platform owner
- Coporate targets
- Control
- Bundling
- Tipping & WTA

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Pricing - $$$

Subsidy side

Monetary side

MSP

Network Effects

IP & Absorption

Multi Homing

Exclusivity

Control

Bundling

Tipping & WTA

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IP and Absorption

For the benefit of passengers using Apple iOS 6, local area maps are available from the booking office.
IP and Absorption

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Tipping & WTA
Multi-homing cost

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Logos of various companies such as Visa, MasterCard, American Express, Discover, Google, Amazon, eBay, Facebook, LinkedIn, Myspace.com, HBR, MIT Sloan Management Review, Forbes, Apple, Microsoft, Linux, Chrome OS, Android, BlackBerry.
Exclusivity

“Securing users’ exclusive affiliation – that is, their agreement not to affiliate with a rival platform - (Armstrong & Wright, 2005)
Control

• Openness (or closeness)
• Quality Control
• Revenue streams
• Business model
• Platform technologies
• Whitespaces and no development areas
• Sharing API
• Rewarding external developers
• Analytics
Bundling

Ability to include complimentary features in core offering, to create a portfolio

MSP  Network Effects  $$  IP & Absorption  Multi Homing  Exclusivity  Control  Bundling  Tipping & WTA
Tipping and Winner Take All

- Network effects
- Standardization
- High Multi-homing cost
- Lack to differentiation
- Walled garden approach
MSP
Network Effects
$\$
IP & Absorption
Multi Homing
Exclusivity
Control
Bundling
Tipping & WTA
Strategies for Evolution of Network Ecosystem

Strategies for sustenance

Define the governance
Identify the revenue model and define pricing
Solve the chicken and egg problem, retain the early adopters
Identify the sides and their roles
Identify the platform – MSP or Reseller or Both

Core Concepts
Identify the Platform - MSP or Reseller or Both?

<table>
<thead>
<tr>
<th>MSP or Reseller</th>
<th>Who and What?</th>
<th>Chicken and Egg</th>
<th>Revenue model and Pricing</th>
<th>Governance</th>
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<tr>
<td>amazon.com</td>
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<td>Walmart</td>
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</tr>
<tr>
<td>Matchmaker</td>
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</tbody>
</table>
Identify the sides and their roles – Who and What?

MSP or Reseller | Who and What? | Chicken and Egg | Revenue model and Pricing | Governance

Chicken and Egg

Revenue model and Pricing

Governance
Solve the chicken and egg problem

• Identify the side that is critical to the platform to drive the network effects

  match.com  LinkedIn

• Reduce the Multi-homing costs

• Develop converters

• Develop in whitespaces

• Develop in niche area

• Launch the ecosystem by creating that “wow” application in house

MSP or Reseller  Who and What?  Chicken and Egg  Revenue model and Pricing  Governance
Retain the early adopters

MSP or Reseller
Who and What?
Chicken and Egg
Revenue model and Pricing
Governance
Identify the revenue model and define pricing

- Advertising
- Fees based model
- Transactional model
- Voluntary

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Identify the revenue model and define pricing (contd.)

- Subsidize the side which helps to generate revenue from other sides
- Subsidize side with high price elasticity
- Subsidize side which doesn't cost anything
- Identify the revenue side
Define the governance

- How open or closed should the platform be?
- How much should it be vertically integrated?
- What quality mechanisms need to be in place to ensure quality of the applications sold through it?
- Who will control the IP and patent rights of the applications sold through the platform?
- How the revenue will be shared among different stakeholders?
- Will the platform force exclusivity on the developers?
Strategies for Sustenance of Network Ecosystem

- Innovate and make platform attractive
- Reinvigorate business model and develop trust
- Acquire and absorption strategic companies
- Increase Multi-homing cost and create stickiness

Strategies for evolution
Core Concepts
Increase Multi-homing and switching costs

- Create stickiness
- Proprietary user interfaces and APIs
- Bundling applications and increasing dependency
- Getting/building exclusivity

**Recommendations**

- Increasing Multi-homing cost
- Acquisition and absorption
- New business model and develop trust
- Innovation
Acquisitions and absorptions

- Absorb the applications that are of high value to platform owners
- Absorb the applications that are involved at multiple places in the platform

Increasing Multi-homing cost

Acquisition and absorption

New business model and develop trust

Innovation

3rd Party Applications
Reinvigorate business models

- Freemium strategy (Free + Premium)
- “Pay as you go” model
- Indirect sales through partners or ISVs
- Encourage upselling/bundling by using active data mining techniques to recommend solutions to customers
- Increase partner margin as volume increases
# Develop trust

<table>
<thead>
<tr>
<th>Price + Shipping</th>
<th>Condition</th>
<th>Seller Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>$25.99</td>
<td>New</td>
<td>Amazon.com</td>
</tr>
<tr>
<td>$26.23</td>
<td>New</td>
<td>Amazon.com</td>
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<td>$26.38</td>
<td>New</td>
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</tr>
</tbody>
</table>

**Increasing Multi-homing cost**

**Acquisition and absorption**

**New business model and develop trust**

**Innovation**
Innovate and make platform attractive

- **Innovation of the platform** - The platform should provide innovative features that can make the whole ecosystem more attractive, competitive and robust.

- **Innovation of the complementors** – Innovation by complementors not only increases the value of the application but also makes the whole ecosystem more compelling.
Conclusion

- Network platform has distinct users, each having different needs and requirements
- Success of one side is closely linked to the success of the other
- The rate of success of platform is directly proportional to the rate of downfall
- First user advantage, unique business model, barriers to entry etc. are not key to success of platform
- Finally, next time you come across any place which has interactions among different sides, do ask questions – “Is it a MSP? Which is the subsidy side? Are multi-homing costs high? etc.”
Thank you

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