



# The Platform Guidebook

Your one-stop guide to all things platforms

**SANGEET PAUL CHOUDARY**

Best-selling author of the books Platform Scale and Platform Revolution

# ABOUT THE AUTHOR

## SANGEET PAUL CHOUDARY

is the founder of Platformation Labs and the best-selling author of the books Platform Scale and Platform Revolution. He has been ranked as a leading global thinker for two consecutive years by Thinkers50, ranking among the top 30 emerging thinkers globally in 2016 (Thinkers50 Radar) and ranking among the top 50 thinkers of Indian origin in 2015 (Thinkers50 India).

He is the co-chair of the MIT Platform Strategy Summit at the MIT Media Labs and an Entrepreneur-in-residence at INSEAD Business School. He is also an empaneled expert on the global advisory council for the World Economic Forum's initiative on the Digital Transformation of Industries. His work has been featured as the Spotlight article on Harvard Business Review (April 2016 edition) and the themed Business Report of the MIT Technology Review (September 2015).

As the founder of Platformation Labs, Sangeet is an advisor to leading executives globally. He is also an empaneled executive educator with Harvard Business School Publishing, and has advised the leadership of Fortune 500 firms, family-owned conglomerates, and key government bodies.

He is frequently quoted and published in leading journals and media including the Harvard Business Review, MIT Technology Review, MIT Sloan Management Review, The Economist, The Wall Street Journal, WIRED Magazine, Forbes, Fortune, and others. Sangeet is a frequently sought after advisor to CXOs globally on the topic of digital transformation and also serves as a fellow at the Centre for Global Enterprise in New York.

He is a frequent keynote speaker and has been invited to speak at leading global forums including the World Economic Forum's Annual Meeting of the New Champions (Summer Davos), the WEF ASEAN Summit, and the G20 Summit 2014 events. Sangeet has a bachelors in computer science from IIT Kanpur and a masters in management from IIM Bangalore.

## CONTRIBUTING AUTHORS

Marshall Van Alstyne and Geoffrey Parker are contributing authors to the research published by Platformation Labs, including the books Platform Revolution (co-authors) and Platform Scale.

## ABOUT PLATFORMATION LABS

Platformation Labs is C-level executive advisory firm and think-tank, focused on the analysis and implementation of platform business models and network effects towards the digital transformation of industries. Platformation Labs has advised governments, Fortune 100 firms and high growth startups in 40+ countries across the Americas, Europe, Africa and Asia-Pacific. Our thought leadership and intellectual capital are commissioned and licensed by leading consulting firms globally and have been featured in leading global forums.



# THE RISE OF THE PLATFORM: A SEISMIC SHIFT IN BUSINESS MODELS

The definitive starting point for understanding why platforms are eating the world.

Sangeet Paul Choudary

Nokia just sold to Microsoft. [Blackberry](#) announced that it was considering putting itself up for sale. Google's Android, meanwhile, grows stronger and is moving beyond smartphones to power cars, home electronics, and wearable accessories. Twitter's heading for a strong IPO with the world's strongest platform for influence and dissemination. While Barnes&Noble is parting company with the Nook and struggling to survive, a thriving Amazon and Kindle continue to transform publishing, most recently with the launch of a fan fiction platform. In the hotel industry, Airbnb poses a [serious threat](#) to the revenues of established players and is disrupting the housing market.

## Platform Disruption

We used to live in a world where commerce flowed linearly. Firms added value to products, shipped them out and sold them to consumers. Producers and consumers held very distinct roles. Value was created upstream and flowed downstream.

Now, market upstarts are displacing market leaders faster than ever before as entire industries transform. We are in the midst of a seismic shift in business models, powered by the Internet and a generation of connected users.

Business leaders, today, [develop platforms](#) that connect diverse participants with one another and enable them to interact and transact. On the Internet, anyone can be a producer. Today's network platforms aid the creation of entirely new markets by [connecting producers and consumers](#) with each other.

Three forces are powering the rise of platforms: ubiquitous network access with ever-increasing mobile penetration, reputation systems that enable trust among distributed strangers, and access to low cost shared infrastructure with tools and data to capture and coordinate interactions.

## Three factors driving disruption

We predict three factors will drive this disruption:

**Platforms will displace high cost gatekeepers with meritocratic crowds.** YouTube and eBay flip the gatekeeping process used in media and retail. In lieu of professional editors and buyers, anyone can produce and the market itself decides what the market wants.

**Platforms will aggregate disconnected players in fragmented industries.** OpenTable is rolling up unconnected and unaffiliated restaurants. RedBus, the world's largest bus reservation platform, gathers India's fragmented bus schedules and reshapes the travel landscape.

**Platforms will unlock new value from spare resources and user-generated content.**<sup>1</sup> Airbnb hosts and RelayRides' cars are the spare rooms and idle rides of thousands of individuals. Much of Facebook's appeal is the newsfeed produced from constant user activity. Instagram's \$1 billion sale was a consequence of the work, not of 13 employees, but of more than 30 million contributors.

## The new rules of a platformed world

Ultimately, this transformation redefines competition. Firms that once sought advantage based on the strength of their internal resources and channel access now face competitors that harness armies of connected users and [ecosystems of resources](#). Apple's App Store, hosting nearly a million applications, offers a compelling testimony to the power of ecosystems. More buyers on eBay attract more sellers, which in turn attracts more buyers. More freelancers on Upwork attract more job postings and vice versa. Such feedback loops enable these businesses to grow into massive juggernauts. Businesses win based on their ability to captivate third parties and connect them to each other through creative interactions.

The rise of ecosystems also means that old linear rules no longer work given new platform realities. In operations, just-in-time inventory gets trumped by just-not-mine inventory. The IT function transforms from client server support to cloud service solution. In marketing, the profit maximizing price is often at or below zero. Charging every user can destroy network effects, yet data and network effects create critical competitive advantage.

Platforms aren't merely a Silicon Valley obsession. Walmart continues to invest in big data and is leading a retail evolution to the store-as-platform model. Nike+ is showing how the shoe can become a connected platform. Car manufacturers are building connected cars. And GE is forging ahead with its smart grid platform.

## Threats to Platform Innovation

But, for every GE moving forward, there is an incumbent resisting change, often relying on regulators to stave off emerging platforms. Uber's disruption of public transportation has had to contend with many regulatory hurdles. Airbnb has run afoul of housing laws. And Kickstarter crowdfunding has been caught by public securities laws. Since regulation often lags innovation, this can succeed for a time.

## So what should you do to thrive in a Platformed world?

Will you be the disrupter or the disrupted? To act on platform opportunities, consider the three factors transforming industry and embrace them:

*Remake the role that experts play inside your business to leverage user capabilities outside your business.* Build social curation and reputation systems to employ the collective intelligence and judgment of your users.

*Connect consumers to their best product options, regardless of source, through data-driven matchmaking.* The firm that builds an OpenTable for consumer finance, considering appetites for risk and reputations of products that deliver on promises, would help buyers make sense of the dizzying array of complex and disconnected products. The value would be enormous.

Finally, *solve a consumer problem in your industry by marshaling spare resources.* If you're in transportation, build systems that employ other people's trucks before expanding your own fleet.

Platform opportunities are all around us. Industries like [Education](#), HealthCare, Insurance, and Legal Services, are ripe for disruption. In an increasingly connected future, platforms will only grow in importance. We need to construct the frameworks and rules to allow everyone a fair shot at success in this new world.

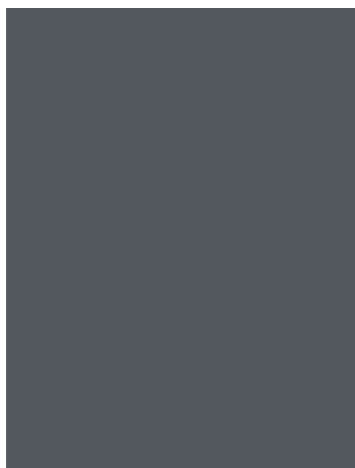
In 2011, Nokia's CEO Stephen Elop sent out the "[Burning Platform](#)" manifesto to his employees. It was too late; the rules had already changed. What happened to Nokia and Blackberry can happen to any business that doesn't leverage the power of platforms. But, for those willing to open their ecosystems and aid their consumers, the future looks bright indeed.

***Welcome to the Platformed world!***



# THE LEPORE-CHRISTENSEN DEBATE: A REPEATABLE PATTERN FOR PLATFORMS AND DISRUPTIVE INNOVATION

A detailed breakdown of how platforms like Airbnb, YouTube, Wikipedia, and Upwork  
entire industries.



Sangeet Paul Choudary

Airbnb was recently valued at an eleven figure sum, which overshadows all, except the largest hotel chains. The usual criticisms to tech valuations aside, the impact of Airbnb on the traditional hotel industry is definitely being felt. But why did the industry fail to spot this threat for so long? How does something like Airbnb come out of the ordinary and change the rules of an entire industry? And how could something like this be repeated in another industry?

## Getting Blindsided By Platform Thinking

Airbnb is the latest in a series of disruptions brought about by internet businesses over the last ten years. The likes of YouTube, Wikipedia, the iPhone App Store, Amazon, Uber, Upwork, and even Twitter, restructure the value chain of traditional industries and threaten to put their traditional counterparts out of business.

The recent [Jill Lepore](#) – [Clay Christensen](#) debate notwithstanding, one has to admit that disruption is a reality, and Christensen's theory serves well to explain why incumbents, in general, get blindsided.

Long one of the most bastardized words in startup circles, disruption ironically has very little to do with the adoption of a radically new technology. Instead, a disruptive offering gives up some attributes that appeal to a core market, in order to gain advantages in a low-end market. The offering takes hold in this low-end market, continuously moves up-market through improving quality, and eventually disrupts established competitors.

Airbnb serves as an example of [how today's networked platforms compete with traditional industry behemoths](#) without appearing to do so, at all. Platforms connect producers and consumers – hosts and travelers in the case of Airbnb – and facilitate their interactions and exchange. Platforms often solve a problem that would traditionally have been solved by a manufacturer or a service provider, e.g. a hotel or a staffing agency, with one key difference: These platforms do not “own” inventory, and are, hence, seemingly incapable of controlling quality.



When a new platform comes up, it rethinks the four fundamental assumptions that govern business:  
How is value created?

1. How is value consumed?
2. How is quality controlled for the value creation?
3. How does value creation scale?

Any business must answer these four fundamental questions. Most sustaining innovation, in fact, is an improvement along one or more of these parameters.

Platforms like Airbnb rethink these assumptions and restructure the traditional value chain and operating model for the industry.

**1. Rethinking value creation:** Airbnb allows anyone with a spare mattress or room to run their own BnB, by giving them access and tools to market themselves to a potentially global market.

**2. Rethinking value consumption:** It wasn't common for travelers to stay at strangers' apartments in a new city. Airbnb created a new behavior and changed the very design of the traditional trip.

**3. Rethinking quality control:** Hotels are known for their service quality and the reliability of the customer experience. Airbnb, on the other hand, relies on a peer curation mechanism to ensure quality and reliability.

**4. Rethinking scale:** Traditional hotels would scale by adding more rooms through new properties. Airbnb doesn't own inventory. Instead, it scales by improving its ability to match users, leveraging better data.

At launch, platforms like Airbnb are dismissed as error-ridden experiments at best. They offer a new alternative by rethinking value creation and often create new behavior by rethinking value consumption. However, they fail to offer the quality and reliability that is offered by their traditional competitors. Apartments on Airbnb get raided; self-published books lead to a dip in quality and Wikipedia pages are vandalized. Eventually, [platforms succeed when they create a strong curation system](#) to separate the best from the rest. Over time, the platform scales by improving on its ability to match the right goods or services created on the platform with the right consumers. With strong curation and scalable matchmaking in place, the platform rapidly gains traction and develops the reliability needed to spill over to a mainstream market, blindsiding its traditional competitors in this process.

This pattern in platform-enabled disruption isn't specific to Airbnb. Platforms like YouTube, Wikipedia, Kickstarter, Upwork and the Android app store, all exhibit these characteristics to varying extent. We discuss this in further detail below.

## Rethinking Value Creation

Amazon allows anyone who has a story to tell to publish much like Airbnb allows anyone with a spare mattress to run a B&B. Wikipedia built a massive repository of knowledge without relying on experts. Kickstarter re-imagines an alternate model of venture funding, especially for creative projects.

By democratizing the tools of production and delivering access to a global market of consumers, these platforms unlock sources of supply that would otherwise not have existed.

Such supply explosion is usually accompanied by two key shifts:

**Reduction of friction in tools of production:** Every time [friction is removed in the production process](#) by making it easier or cheaper, it affords the possibility of an explosion in supply. Twitter's 140-character limit brought down the effort in creating content and opened up the market of content creators as compared to traditional blogging. Platforms like Behance, Dribbble, Threadless and 99Designs enable independent designers to serve a global market, benefiting from the fact that the tools of design and printing have been democratized over time. One expects a similar shift in industrial design as 3D printers become more popular.

**Access to a global market for the first time:** Word processing software had always been around, but only a small minority was self-publishing books. Amazon's Kindle publishing platform offered not just the tools but also access to a global market for the first time.

However, easier production and global access alone aren't sufficient to enable the creation of these new markets. Craigslist allowed anyone to run a B&B before Airbnb came along but it never quite powered the revolution in travel that Airbnb did. This brings us to our second point.

## Rethinking Value Consumption

The second step in disruption involves the creation of new consumption behavior.

Staying at a stranger's apartment in a new city would have been considered crazy a few years back. Airbnb didn't just reimagine the supply side of the market; it also created an entirely new user behavior by providing newer and cheaper alternatives. It isn't mere coincidence that much of Airbnb's initial traction was driven by conferences and events that forced users to look for cheaper accommodation alternatives. Over time, this usage spilled over from conferences and backpacking to leisure and family travel, and eventually even to business travel.

Creation of new user behavior is often seen with new platforms. Carpooling.com made car pooling with strangers acceptable. Zaarly is trying to make domestic help from strangers acceptable, while Kickstarter encourages people to look for funding among their Twitter followers.

Having unlocked new supply and created new user behaviors, the platform now needs to get its third and most important element right.

### Rethinking Quality Control

As anyone who's ever organized a party knows, more isn't always merrier. Platforms reconfigure supply and demand, but they end up with a problem of quality control. As the case study of Airbnb suggests, the average listing, initially, doesn't compare with established hotels in service quality. If the barriers to participation drop, the quality of participation suffers as well. Unchecked, poor supply leads to a poor consumption experience setting [a cycle of abandonment in motion](#), as in the case of Myspace and ChatRoulette. To avoid this fate, platforms need to get the third part right: Curation.

Curation separates the best from the rest by relying on social signals of quality. The Android app store, Reddit and Quora have a community voting or rating system that bubbles up the best content. Wikipedia's collaboration tools allow moderators to correct entries and resolve disputes on an article. Sittercity combines expert screening with social curation to differentiate the best babysitters from the rest.

Airbnb has invested heavily in its curation mechanism because of the high risks involved, one of the factors that [enabled it to disrupt Craigslist](#) and build a highly liquid, global travel market. In some cases, photographers certify listings. Travelers rate hosts and hosts rate travelers. Additionally, a central insurance encourages both sides to participate further.

Curation keeps the cycle of growth in supply and demand going. As the platform gets better at curation, it finds greater adoption among consumers and [consequently attracts mainstream producers](#) as well, setting a virtuous self-reinforcing cycle in motion.

The single most important reason platforms fail after getting traction is through an inability to curate effectively the production and consumption on the platform. But for platforms to truly disrupt traditional competitors, they need a final key element to operate at scale.

## Rethinking Scale

Platforms like Airbnb and Uber threaten their traditional competitors only at scale. To operate at scale, a platform needs to ensure that its ability to match suppliers and services with consumers keeps improving over time. It achieves this by gathering better data on its users and improving the algorithms that match the two sides. Often, on platforms like Airbnb and YouTube, users start off as pure consumers and start producing as well at some point. This further improves the platform's ability to scale.

The reason disruptive platforms take incumbents by surprise is that they often reach reliability and scale almost simultaneously. By that time, a strong network effect has already set in attracting more of the market around the platform. More and better producers attract higher consumer activity and vice versa. By this time, it's usually too late for the incumbents.

## Getting Blindsided — Understanding Disruption

The reason incumbents get blindsided is because they continue doing everything right but fail to assess a relatively inferior offering as competition. The disruptor isn't your typical competitor.

The hotel industry dismissed Airbnb when it launched. The new sources of supply didn't match up to the hotel industry's standards, which has traditionally innovated by constantly improving the quality of its rooms and its service. Leveraging a strong curation system and improving on its ability to scale using data, Airbnb has successfully booked more than 10 million nights and eaten a noticeable chunk of global travel.

While the past isn't a great predictor of the future, we can understand specific patterns in disruption in the past to better identify potential markets where such patterns play out in the future. In summary, there are four symptoms that we often see in this pattern of disruption:

1. A rapid democratization in the tools of production and market access leading to unlocking of new, often inferior, supply.
2. Improvement of supply over time as curation sets in.
3. Spillover from a niche initial market to mainstream consumer adoption as the curation becomes more reliable.
4. An inflection point in growth as the network effect sets in and adoption takes off.

For a resource-constrained startup, [a platform approach](#) is particularly appealing, especially when locking horns with incumbents in an industry dominated by service or product quality. This allows a startup to gain traction without attracting the attention of its traditional competitors.


Platforms rewrite the rules of the industries they enter. Contrary to conventional Silicon Valley wisdom, platforms don't win because of superior features or technology, they win on their ability to create entirely new markets and create new consumer behavior through curation and scalable matchmaking.



# HOW DISRUPTIVE PLATFORMS GET MAINSTREAM ADOPTION

How do platforms grow beyond early adopters?

Sangeet Paul Choudary



“What got you here won’t get you there.” Career advice that works equally well in the world of online platforms.

The single factor that separates a successful platform from a failed one is the development of network effects. Most platform businesses fail because they never develop network effects. Social networks without users, content platforms without content, marketplaces without buyers and/or sellers. Platforms are very rewarding once network effects are built but equally unforgiving without.

Hence, reaching that minimum critical mass, after which users find increasing value in the platform as it grows, is critical.

A platform business focuses entirely on building this critical mass, not only in its initial days, but also going forward. The critical mass is an indication of the fact that the platform has reasonable activity to deliver value to users. A marketplace where new products are listed often and get bought often, a discussion board where there is high daily activity and retention.

## **THE EARLY ADOPTER**

To appeal to an early adopter audience, the platform needs to differentiate itself from every other failed attempt by building this activity. Subsequently, as more early adopters join, the activity increases and a positive feedback effect is built.

Early adopters tend to be tinkerers. They want to be on the next big thing and play around with it. A platform gaining momentum with activity is a signal for early adopters to join in.

However, for a platform to gain broader adoption among a mainstream audience, activity alone may not be enough.

## **APPEALING TO THE MAINSTREAM**

Geoffrey Moore, in his seminal work ‘Crossing The Chasm’, explains how appealing to an early adopter crowd is different from appealing to a mainstream audience. The early adopters tend to be more comfortable embracing risk while the mainstream audience tends to be more pragmatic.

Critical mass and activity/liquidity is by far the most important factor for platform success. However, activity is a necessary but not a sufficient condition for mainstream adoption.

*To gain mainstream adoption, a platform has to be 'reliable'.* It should move beyond being an intriguing innovation to becoming a mechanism for reliably solving a pain point and/or delivering benefit.

## **PLATFORM 'RELIABILITY'**

How does one achieve 'reliability' on platforms?

A platform becomes consistently useful and reliable when it has a strong model for curation.

A few examples follow:

### **Why Trust rules Marketplaces**

A marketplace connecting buyers and sellers needs a reliable mechanism for managing trust. This is especially true for marketplaces with high risk. AirBnB allows travelers to stay at the houses of complete strangers. Early adopters and the backpacking kind would take to such a platform if it offered significant variety and price advantages. A more mainstream audience would want to have concerns regarding safety (Is the host reliable?) and service quality (Are the pictures representative of the actual apartment?) addressed first.

As a result, AirBnB has focused on developing a strong peer-based review system, not just for hosts but also for travelers. It also, additionally, curates certain listings by sending certified photographers to take genuine pictures of the apartment.

The importance of trust varies with the category (high-risk vs. low-risk) as well as nature of transaction (remote vs. local, buy vs. hire/rent).



## Why signal rules content platforms

Content platforms and social networks need to develop a high signal-to-noise ratio. While early adopters may enjoy tinkering with a new technology, a mainstream audience needs a reliable mechanism for consuming interesting content. Imagine YouTube with a poor search algorithm or without a voting mechanism to separate the good from the bad.

Some platforms like Twitter do not necessarily need curation because of the reverse chronological nature of the feed but most platforms need a reliable way of separating good content from bad for a wider audience to find it useful. A high signal-to-noise ratio ensures that users can use the platform efficiently to find what they're looking for and be served the most appropriate content.

A reliable mechanism for curation helps platforms gain widespread adoption. More often than not, the platform owner's focus needs to expand beyond catering to activity and liquidity alone. Building curation systems from the early days of the platform help make it more attractive for a mainstream audience as the platform grows.

### **In summary,**

To be effective, a platform needs to reach critical mass, develop the network effect and foster ongoing activity. This is where the Magnet and Toolbox roles of the platform come to the forefront.

To be efficient, a platform needs to have a strong curation system. This is enabled by the Matchmaker role of the platform.

To reach a mainstream population, a platform needs to achieve both effectiveness and efficiency. A strong trust or curation mechanism builds reliability into the platform, something that's frequently desired by mainstream audiences.

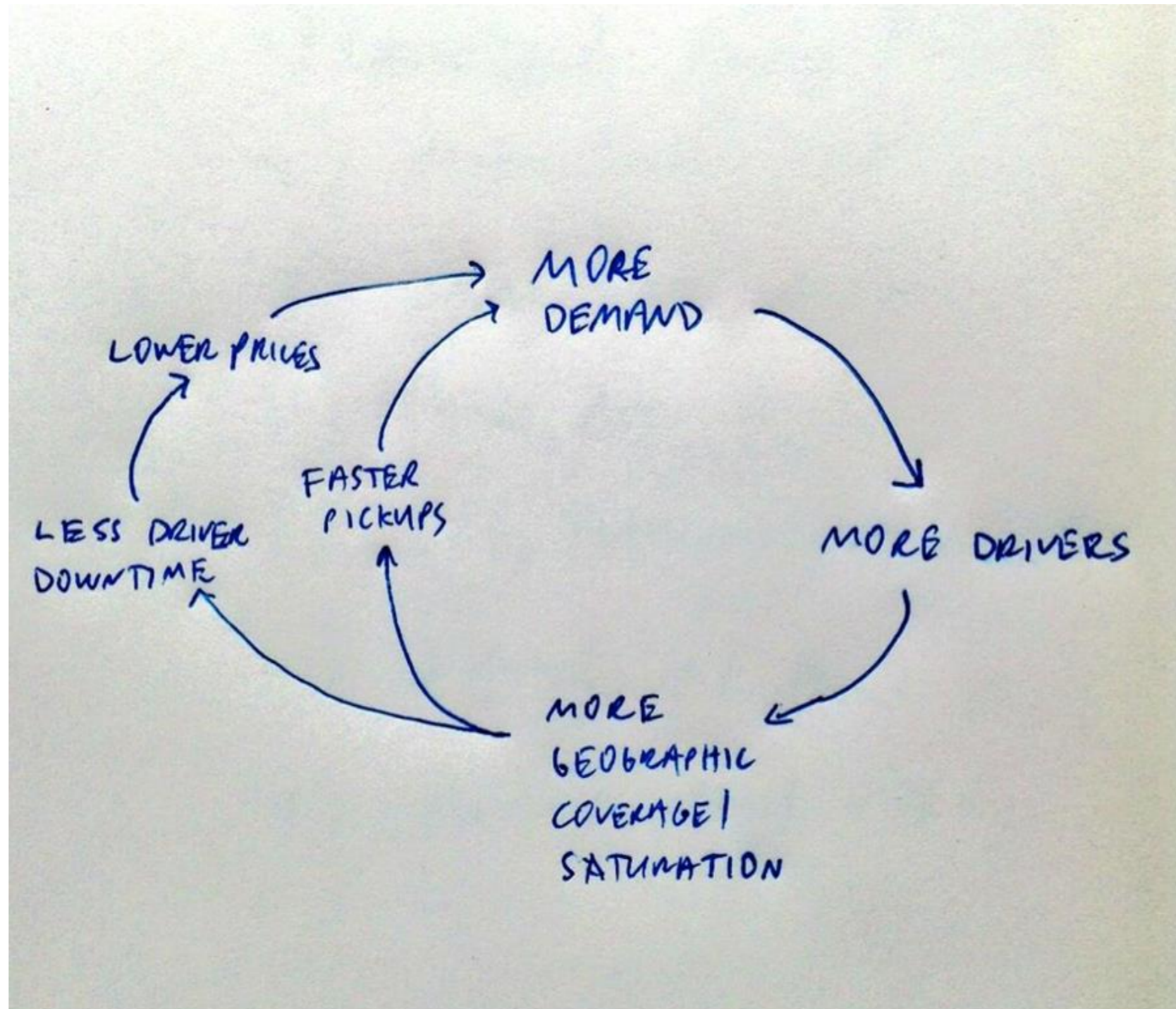


# UBER: THE FEEDBACK LOOP DISRUPTING TRANSPORTATION

Understanding the feedback loops that drive Uber's rapid growth and business model.

Sangeet Paul Choudary

When Uber was valued at tens of billions of dollars, there was significant criticism from valuation experts (Aswath Damodaran, no less) and an equally compelling response from one of Uber's earliest investors, Bill Gurley. One of the best things that emerged from these discussions (in conjunction with a back-of-the-napkin sketch tweeted by David Sacks, founder of Yammer) was a much more nuanced discussion of the feedback loop that drives Uber's network effect.



Uber is a classic two-sided marketplace where more cars on the network attract more travelers and vice versa. But as with any network effect, it isn't simply the number of cars and travelers that attract each other but the levels of participation of both sides. A higher participation from drivers is useful only if it results in higher availability, and consequently, lower waiting time for passengers. Similarly, a higher participation from passengers is useful to drivers only when it means lower downtime and, potentially, the ability to charge higher prices, thanks to Uber's much-maligned surge pricing. (Surge pricing increases rates as demand overtakes supply)

Uber's feedback loop works in the following way:

### **More drivers equal shorter pickup times**

More drivers available at any given point in time result in shorter pickup times as the probability of matching a request to a driver in the vicinity is that much higher. Shorter pickup times, in turn, lead to greater and wider usage.

### **More usage leads to higher coverage**

As more drivers fuel more usage, more usage, in turn, brings in more drivers on the road. Uber's network is a city-level network and usually starts from the center of the city. Over time, as this feedback loop picks up, demand starts sparking up in the fringes and drivers start getting onto the platform and serving the fringes as well. Hence, greater usage increases saturation within the city, since the city has a finite limit. With greater saturation, the pickup times further fall, thereby attracting more demand, leading to a positive feedback.

### **Greater liquidity leads to better prices**

As more demand and supply flood in, the waiting time for drivers falls. With lower waiting times as well as higher availability of drivers, the platform can offer better prices to travelers. This, in turn, brings in more travelers into the system and the virtuous feedback loop gets strengthened further.

Uber has a fairly nuanced feedback loop. As with the case of the [data-driven feedback loop in peer lending](#), and [the curation-driven feedback loop for many market-making platforms](#), it pays to understand the factors that contribute to a positive feedback loop. Paying close attention to these factors and architecting the conditions that encourage these factors strengthens the network effect over time.

Network effects don't simply happen. They are most often the result of carefully building and fueling a feedback loop.



# WILL PEER LENDING PLATFORMS DISRUPT BANKING? FEEDBACK LOOPS MAY HOLD THE KEY

Platforms may leverage implicit social and usage data to challenge traditional industries like banking.

Sangeet Paul Choudary

Earlier this week, I had an interesting tweet exchange with Giles Andrews, the founder of Zopa, one of the leading peer lending platforms.



Clearly, Zopa and peer lending platforms of its ilk are going strong. The strong growth notwithstanding, they are a drop in the ocean of traditional lending models, as is often the case with emerging platforms. Will such platforms ever pose a compelling alternative to the banking industry? The answer to this question may lie in their ability to build a data-driven feedback loop.

## Feedback Loops

A platform's ability to use data often has a direct impact on the value proposition and benefits delivered to users, and consequently on the network effect. A platform that can deliver greater efficiencies through better utilizing data about its users may, in turn, attract more users (as well as more participation from existing users), which further increases the data that the platform captures about them and further strengthens its ability to deliver value to users. If the above statement sounds convoluted, that is because most descriptions of feedback loops are.

## Data and the Banking Industry

Peer lending platforms like LendingClub, OnDeck and FundingCircle are out to disrupt traditional lenders and financial institutions. Unlike banks which borrow and lend, while acting as gatekeepers that benefit from the spread, peer lending platforms connect buyers and lenders directly, bypassing the inefficient gatekeeper, much like Amazon's Kindle Publishing bypasses the traditional editorial control of publishing houses. To their disadvantage, though, peer lending platforms do not have the trusted brands that regulated financial institutions do. But a data-driven feedback loop in peer lending may hold the key to ultimate disruption of the banking industry.

The single most significant and intensive process in the business of lending out loans is the act of underwriting loans. Underwriting refers to the processes a financial institution engages in to determine the eligibility of a borrower and the probability of his returning the loan. Naturally, underwriting requires data. And banks aren't great at using data. Anecdotally, banks have refused loans to people with high net worth (and hence the ability to repay loans), but with no current salary. This is where feedback loops become important. We noted another feedback loop in the disruption of the hotel industry by Airbnb in the last post, where better curation leads to higher participation, which in turn leads to better curation. The ability of peer lending platforms to ultimately disrupt the banking industry also lies in their ability to deliver on such a feedback loop.

## Usage data – A unique advantage

Peer lending platforms look at all the traditional sources of data while determining a borrower's ability to repay a loan. They even look at data sources that a bank may never look at, like the Yelp score of a restaurant that is borrowing or the length of time a borrower has used the same email address, as signals for potentially fraudulent requests. But above this, they have the added advantage of looking at correlation patterns gleaned from actual usage data on the platform to determine the ability of a borrower to repay loans. As an example, most peer lending platforms have a slider allowing the borrower to decide what loan they would like to take. [In an excellent whitepaper](#) by Foundation Capital on the state of peer lending, Charles Moldow shares that the longer a borrower spends moving the slider up and down (and hence, potentially, debating her ability to return the loan), the more likely is she to return the loan. Such correlations help platforms improve their ability to curate participants over time.

## Zopa loans

Zopa offers low rate loans with no early repayment fees.

I want to get a loan for £

-  +

Term	APR	Monthly cost
<input type="radio"/> 2 years	5.7%	£278.09
<input checked="" type="radio"/> 3 years	5.8%	£190.58
<input type="radio"/> 4 years	6.4%	£148.68
<input type="radio"/> 5 years	6.7%	£123.34

[Get a quote today](#)

A loan of **£6,300** over **3 years** will cost you **£190.58** per month. The APR is **5.8%**. The total cost after **3 years** is **£6,860.84**, which includes **£450.84** interest at **4.6%** fixed and a **£110.00** fee. The total amount of credit is **£6,410.00**. This is a representative example.

The rate you are offered will depend on your individual circumstances



At large numbers, such correlations have high predictive power.

## The data-driven feedback loop

Traditional FIs do not have the luxury of such data. As the platform gathers more data, two positive effects emerge:

- 1) The manual effort required to underwrite loans falls as algorithms take over
- 2) With better data, the platform gets better at predicting high quality borrowers, and hence, reducing risk. With lower risk, the platform is able to offer loans at lower rates.

This is where a nice feedback loop sets in, [similar to the one we saw with Airbnb and the hotel industry in the previous article](#).

1. The peer lending platform leverages usage data to predict quality of borrowers
2. Higher predictability lowers risks involved, and as a result allows the platform underwriting these loans (curating borrowers) to offer better terms to borrowers.
3. Better terms (read lower interest rates) attract more borrowers as well as greater participation from existing borrowers.
4. Greater participation across new and existing borrowers leads to greater usage data being generated.
5. Better usage data further improves the platform's ability to to predict quality of borrowers. And, in this manner, the cycle continues.

## Feedback loops and disruption

[As we saw with Airbnb](#), feedback loops of this kind simultaneously improve the quality and the quantity of the core interaction that the platform enables. With greater curation, the quality of the core interaction improves. And with greater reliability (as in the case of Airbnb) and higher value generated (as in the case of peer lending platforms), [the platform moves from an early adopter group and gains mainstream adoption](#). We've already seen it work out for platforms like YouTube, Airbnb, Elance-oDesk etc. I expect emerging platform that focus on improving curation and leveraging data in such feedback loops to become increasingly important going forward and pose a significant challenge to their traditional industry counterparts.



# THE WAZE-IFICATION OF THE PHYSICAL WORLD

The Internet of Things will become big only when it embraces sociality over connectivity.

Sangeet Paul Choudary



Mark Bonchek is the founder of SHIFT Academy.

We are moving from a world in which physical products are separate to one in which they are connected. Computers were just the beginning. Appliances and engines now send alerts when they need to be serviced. Cameras upload their photos automatically. Vending machines trigger their own restocking. Crops feed and water themselves.

This shift has many monikers: “The Internet of Things” and “The Internet of Everything” are two of the most popular. But the history of the Internet suggests that this is just the beginning. The real change will happen when products aren’t just connected, but social. Instead of the Internet of Things, we should be thinking about the Social Network of Things. To take advantage of this shift, you need to start thinking about the social life of your products.

What makes the Internet of Things possible is the confluence of multiple technologies: inexpensive sensors, wireless networks, and cloud computing. The ability to access data and computing resources from anywhere means that products don’t need to have computers and memory built into them. They can just use the cloud. Put sensors, a simple processor, and a wireless connection together and you have the makings of an intelligent and connected product.

The Internet of Things is already expected to [transform customer service](#), [business models](#), and [advertising](#). But we should remember the evolution of the Internet. The early days (Web 1.0) was about computers talking to computers. A few years later (Web 2.0), people started talking to people. The Internet was disruptive as a connected infrastructure, but it became explosive when it got social.

Today, most of the discussion about the Internet of Things is about products being connected. But just because your product is connected doesn’t make it social. For products, the real revolution will come when objects aren’t just passing information back and forth, but [collaborating around a shared purpose](#).

## Waze-ifying beyond cars

This insight is behind Google’s recent acquisition of Waze for \$1.1 billion. Google already has the best map and traffic program, so why would they want another one? Was it just to keep it out of the hands of Apple or Facebook? We think not.

Among other things, Waze cracked the code on social products. Google Maps is a data network, while Waze is a social network, in this case of cars, phones and people. Waze creates a constantly updating repository of traffic information, much like Wikipedia creates a dynamic repository of encyclopedic information. However, in this case, it is cars, phones and people who are collaborating to create the body of knowledge. Waze provides a glimpse of how the car can become a social device by using the [little data](#) created by each individual car and driver. [According to the head of Google Maps](#), the goal is “to harness the power of Google technology and the passion of the Waze community to make it easier to navigate your daily life.”

Waze shows us how the cars of the future will not only connect to each other but also leverage the collective intelligence of that community of connected cars. We can see this in other areas as well. Connected e-readers already help every individual reader benefit from the actions of the community. Nike is betting on a future with connected shoes, where each individual shoe learns from the data aggregated from a network of connected shoes. Social products leverage the power of the community to learn from other products.

So how do you create a social product?

First, you need **a product that is smart and connected**. You can build your own (like the thermostats and home alarms from Nest) or use someone else’s device. It might be a smartphone (think Waze), a consumer device with [open APIs](#) (like Nike’s FuelBand), or a commercial device with a strategic alliance (like Opower and electric utilities).

Second, you need to **make the product social**. This requires a platform where people and products are connected in a collaborative network. Each individual product and each user benefits from being part of a community of fellow products and users. For example, Nest’s thermostat and smoke detector work together. When the alarm detects carbon monoxide, it tells the thermostat to turn off the furnace.

In the case of Waze, each car and driver benefits from the information gleaned and aggregated from the community of cars and drivers. That’s not all. A [Department of Transportation study demonstrates](#) how cars of the future will talk to each other. Cars within 1,000 feet of one another will send out their speed and location to the others, which will then notify the driver as needed. Google’s driverless cars will be able to make adjustments automatically. In this future state, is it the cars that are driving, or the social networks?

## A Social Strategy for the real world

If you are considering building a strategy around social products, you have a few choices. You need a connected product, a social network of people, a social network of products, and a collaborative platform for interaction, data exchange, and analytics. The good news is that you don't have to do all of this yourself.

Instagram leveraged an existing connected product (smartphone camera) and an existing collaborative platform (Facebook) to create a social network of connected camera-phones.

[Qualcomm Life](#) is creating a new collaborative platform to transform existing connected devices (for mobile health and fitness) into social products. Recognizing they also needed a social network of people, they recently purchased HealthyCircles to help physicians, patients, and families coordinate care and support.

Nike is creating an entire ecosystem of connected products ([Hyperdunk+ shoes](#)), a social network of products (FuelBand), a social network of people (Nike+), and collaborative platform (Digital Sports). The Age of Social Products will change the basis of competitive advantage. Companies have traditionally focused on product supremacy, outdoing their competitors with better features and attributes. In an age of social products, competitive advantage comes not from product features but from network effects. Companies succeed by having products that better leverage the intelligence of the network of other connected products. This is a shift in mindset from standalone-product thinking to [connected-platform thinking](#).

The Age of Social Products is dawning. Companies that create products that are smart, connected, and, most importantly, social, will not only survive, but thrive.

[Craigslist](#), that ugly set of electric-blue links that still stands around like an exhibit from the museum of early web design. Poor design and a general lack of features haven't come in the way of the site's popularity. Not only is the site an eyesore, it's a regular destination for scammers and spammers, alike.

How does an ugly, stuck-in-the-nineties product continue to enjoy success in an industry where design and user experience are so important?

Three factors governing platform adoption

Craigslist is a platform that connects buyers and service seekers with sellers and service providers. Platforms that connect two or more diverse groups have no value for users without a critical mass of users using it. Beyond the critical mass, the platform gains strength on account of network effects becoming more useful as more users use it.

[The success of such platforms](#) depends on the following three factors:


**1. The network effect:** The single most important factor for a platform is its ability to [build the network effect](#). Without a minimum number of buyers and sellers, platforms simply aren't valuable enough. With network effects, a winner-takes-all dynamic sets in and the platform continues to grow on the strength of its network effect.

**2. Curation of content:** The platform should have a mechanism for separating signal from noise.<sup>1</sup> Platforms that encourage user-generated content often have an abundance of content and users need a mechanism, like search or personalized news feeds, to sift through the noise.

**3. Curation of participants:** Platforms may need to have a mechanism for determining [reputation of participants](#). This is especially true for transactions that may involve the risk of fraud.

Being largely free (no transaction cut, no subscription cost for most categories) and on account of having started in the early years of the web, Craigslist has built tremendous network effects.

While many believe that technology makes or breaks an internet business, Craigslist clearly demonstrates that platforms win through the value that the community creates.



However, Craigslist's real weakness lies in the third parameter: Trust. Marketplaces are built on trust and thrive on trust. Transactions require participants to trust each other. Parents looking for a babysitter need a mechanism to ascertain their credibility. Hosts need to know that travelers camping at their home are reliable, and vice versa.

Craigslist, the king of liquidity, ironically, doesn't have a reliable method of determining a user's reputation. While this may be acceptable for certain categories (e.g. selling low-value goods), it can be an important decision criterion for categories with high risk (e.g. babysitters, dating, apartment sharing) or high ticket investment (e.g. trading used high-end goods).

Trust has been a thorn in the flesh for Craigslist. People have [lost their lives](#) while engaging in Craigslist transactions. While con artists abound, asking buyers to part with their credit card numbers, a more widespread problem lies in the fact that users cannot build reputation on the platform over time. Hence, the platform does little to aid a buyer's decision making.


So why doesn't Craigslist set up a reputation system?

Craigslist is a horizontal platform, a one-stop source for listings across categories. Trust and reputation are very contextual. The parameters worth considering when sharing a lawn mower are very different from the parameters considered when hiring a babysitter. Craigslist, arguably, may not have high activity per category outside the top few verticals so a category-specific trust system may work only for a few categories. A horizontal reputation system, on the other hand, while feasible, wouldn't be very useful because of the contextual nature of trust.

[Trust and reliability are key factors in online platforms gaining widespread mainstream adoption](#) for high risk verticals.

Too many Airbnbs spoil the party

Craigslist understands the importance of online reputation in transactions. Its paranoia stems from a constant threat from other networks, which may provide better trust and curation mechanisms. These competitors can leverage its community and content to build network effects of their own, while adding the security and trust layer to gain larger adoption.



As we've seen with Friendster, Myspace and Digg, when users start leaving a network, a feedback loop sets in that creates increasing loss of users. Getting enough users away from the platform may potentially dethrone the currently invincible Craigslist.

## **Conclusion**

Craigslist is justifiably paranoid about competitors leveraging its own liquidity to compete against it. Whether it can legally claim rights over user-generated content is open to debate. But the fact that Craigslist doesn't own reputation systems of its own is a key opportunity for competing marketplaces.





# HOW TO DISRUPT CRAIGSLIST

Everyone wants to challenge Craigslist but it continues to grow. What gives?

Sangeet Paul Choudary

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While many believe that technology makes or breaks an internet business, Craigslist clearly demonstrates that platforms win through the value that the community creates.

## **But doesn't the UI suck?**

A platform connecting buyers to sellers, like Craigslist, tends to be extremely transactional in nature. Users use Craigslist to get a very specific job done. Content-intensive platforms like YouTube or Pinterest, or social networks like Facebook are engagement-intensive and need a good user experience to engage users long enough.

A poor user experience can often spell failure. In contrast, Craigslist is a platform that is focused on helping buyers find sellers. And as long as there are more buyers and sellers on board than on competitors, users continue to find value, despite the ugly interface.

Essentially, Craigslist is unlikely to be disrupted purely on the strength of a cleaner UI, better features and superior technology.


## **So why is Craigslist so paranoid about protecting its data?**

Craigslist has played villain with the startup community in recent times, mercilessly doling out [cease-and-desist letters](#) to any startup attempting to build a better transaction experience leveraging its data.

If Craigslist's network effects are so strong, and a competitor with better features and design isn't reason enough for users to switch, why has it been so paranoid about other emerging platforms leveraging its data and content? Network effects, after all, would prevent users from moving to a new platform en masse, in spite of better features.

## **Achilles heel: When trust trumps liquidity**

To answer this question, let's revisit the three parameters mentioned above. Craigslist scores very high on liquidity and network effects. It could definitely improve its signal to noise ratio by curtailing spam but that is less of a product design problem and more a curation problem. The platform has been taking some measures towards that by curbing sexually explicit listings and cutting spam in some categories by making them subscription-based.



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[Airbnb](#) famously [allowed](#) hosts to post their listings to Craigslist and directed travelers back to Airbnb for the transaction. Additionally, Airbnb also lured sellers on Craigslist to list on Airbnb, offering a better transaction experience.

Emerging networks often [piggyback on the activity on established networks to gain traction](#). PayPal grew on top of eBay, YouTube grew on top of Myspace and Flickr gained initial traction on the blogosphere. Airbnb effectively piggybacked Craigslist's network to build its own.

More importantly, Airbnb has built a strong reputation system to build a worldwide community of travelers and hosts. It allows both parties to rate each other and has focused on building a huge corpus of reviews. Additionally, it offers verification services to verify hosts where a photographer visits the actual listing and takes representative photographs.


## **A brief guide to the end of Craigslist**

Craigslist's paranoia and crackdown are understandable. Airbnb has effectively created [a playbook of sorts to build a marketplace](#) with network effects. Here's how that reads:

1. Use Craigslist's network to build liquidity and
2. Build a reputation system contextual to your vertical

The combination of liquidity and vertical-specific reputation offers greater value than a horizontal platform.

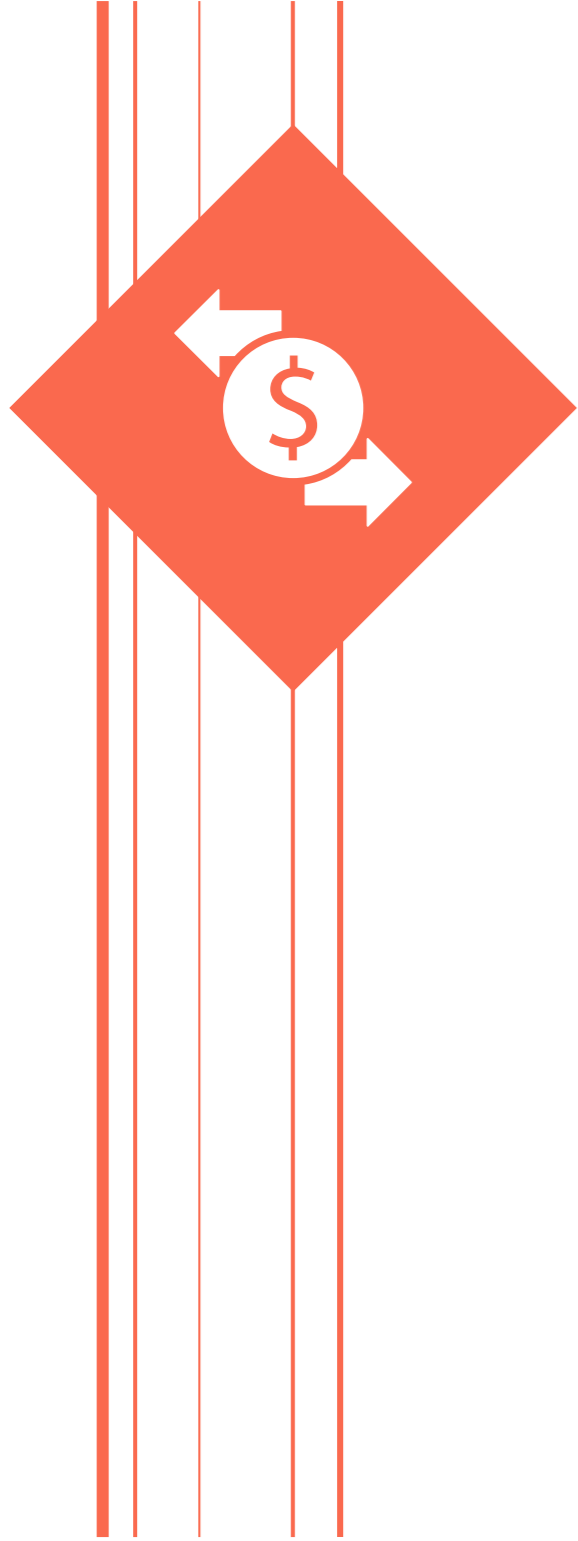
[Zaarly](#), [Swappel](#), [Krrb](#) and many others have used these strategies to get traction on their own network. If an emerging platform can own a category with the effectiveness that Airbnb has, it is potentially creating a dent in Craigslist's user base, and a very small dent in its network effect. Craigslist understands that ten startups repeating this feat in ten different categories could potentially create a dent sizable enough to weaken Craigslist's network effects entirely.



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# DISRUPTION, FAILURE, AND METRICS: EXPLAINING PLATFORM THINKING

An interview detailing the common patterns in platform disruption.

Sangeet Paul Choudary

Excerpts from an interview with YourStory.com earlier this year. The original interview is available [here](#). Also, Part 1 is available [here](#).

**Disruption: What advice would you give to startups and entrepreneurs starting a business today? How can they identify industries that are ripe for disruption?**

The best way to identify an industry for disruption is not to do something of that sort at all. Focus on solving a real inefficiency and you're bound to replace the guys who're thriving on account of the inefficiency, namely the incumbents.

In the process of solving such a problem, the startup often needs to figure out structural characteristics of the industry that give rise to inefficiency. That's when a knowledge of industry structure helps.

There are three structural characteristics of industries that are ripe for disruption:

**1. These industries have inefficient gatekeepers:** Look at the media industry. The entire editorial model is breaking down as community curation tools become more widespread. YouTube changes how we discover new talent. Amazon allows anyone to self-publish. Gatekeepers thrive on controlling market access. The internet just blows that out of the water allowing startups to disrupt such industries.

**2. Companies in these industries compete because of privileged access to supply:** Just as gatekeepers have privileged access to market demand, some industries have privileged access to supply. Hotels, for example, are the only entities that have spare rooms to let out. Taxi companies are the only ones with fleets of taxis. Both these models are being disrupted by startups that allow anyone to market a spare room or a spare car or even spare space in a car.

**3. These industries are extremely fragmented:** Internet startups often aggregate highly fragmented industries. Look at what LinkedIn is doing to the hiring industry or what Yelp and OpenTable did to the restaurant or local information industry. Or what redBus has done to the bus industry and CommonFloor is trying to do to the apartment/condominium landscape. This aggregation is typically impossible without the internet, and that's where these startups create unique value.



Failure: What do you see as major problems facing startups and entrepreneurs building platforms?

Regulation, as I mentioned, is a major problem facing startups trying to compete with large incumbents. Traditional incumbents tend to lobby well with regulators and force them to protect their interests.

The other problem that comes up especially while building platforms is the fact that the management and administration of the platform can be very tricky. Every platform has users trying to game the system. Houses get ransacked on Airbnb, copyright infringement happens on YouTube, naked hairy men start appearing on ChatRoulette and people actually die while using Craigslist.

So what all is a platform responsible for and how much can it control? If the platform doesn't give a minimum guarantee on quality of service and safety, it risks losing users. But often, giving a minimum guarantee may destroy the business proposition that makes the platform approach viable in the first place. Hence, governance can be a challenge, especially for small startup teams with low funds.


Failure: Why do you think most internet businesses with network effects fail and so few succeed?

I believe most such businesses fail because they erroneously believe that their job is to build and ship technology and that technology is the end product. Building technology is definitely a critical part of running an internet platform, but a startup's work doesn't end there. Enabling users to create value and interact with each other is an extremely important and poorly understood part of building internet businesses with network effects.

Consider Twitter. The technology itself doesn't provide value. Twitter is a tool to write 140 characters, not much value for anyone using it. The value is in the community and the content it creates. The value of a marketplace, similarly, lies in the network of buyers and sellers, not in the technology itself.

If your business relies on network effects, as a lot of internet startups do, technology alone has no value until a network of interacting users is created.

Secondly, running an internet business with network effects is not just about finding customers for your products, it's about building interactions on top of your product. You need to rethink how you market your product if you're building a platform business model.



**Curation of Participants (Reliability/Trust):** [Building trust is central to marketplaces](#) where transactions carry risk. Focus on the trust metric is very important to move from appealing to an early adopter audience to appealing to a mainstream audience. While early adopters use new marketplaces because of the novelty, opening up to a larger market requires the trust and reputation management systems to be alive and kicking.

[I've written in greater detail on all three aspects.](#)

### **Tweetable Takeaways**

Optimize for Liquidity, Quality and Trust while building a platform business.

The value of a platform lies in the community and exchange, not in the technology.

Industries with gatekeepers and supply hoarders are most prone to platform disruption.

# THE NEXT BIG THING THAT MOST VENTURE INVESTORS WILL MISS

Why the future of SAAS isn't SAAS, it's network effects.

Sangeet Paul Choudary



There's a pattern that we've seen played out in the consumer internet space over the last 8 years and the template plays out as follows:

1. Offer tools to facilitate a new form of communication between two parties.
2. Allow the two to communicate without formation of an explicit network
3. Gather data about the two parties based on their exchanges
4. Build out a graph at the backend using this data to identify affinity between two users
5. Use the graph to enable explicit connections among users

Myspace and Friendster never did this. They stopped at Step 1.

Facebook did most of this but required users to connect before they could exchange. It added friction to step 2.

Twitter made these connections slightly easier by allowing single-sided following, but it still required an explicit connection to enable movement of content between two parties.

But most social systems that have emerged over the last five years have had connection take a backseat in favor of exchange. Instagram followed the playbook above and enabled exchange (of content and attention) before requiring connection. Whatsapp and Snapchat did the same. [We explore this new playbook in greater detail in this article here.](#)

One common theme that tied all of these startups leveraging the new playbook was the fact that all of them piggybacked on an existing network: Instagram on Facebook, Whatsapp on the phone's address book. [We've explored that in detail here in the past.](#)

So what's the new new thing?

I'm seeing the same pattern play out in the enterprise now.

Most SAAS companies have used the Myspace or Friendster playbook so far. Invoicing, supplier management and payments SAAS companies focus on step 1 above and stop.

Increasingly, we will see the best SAAS companies moving all the way down the chain mentioned above. The ones that get to step 4 will be the ones that will dominate an entire industry to the extent that they could even enjoy a winner-takes-all advantage.

These companies will use their SAAS tools as inroads towards building out the “commercial graph”, much like Facebook used its social tools to build out the social graph. The commercial graph will connect companies with each other, show their affinities and also add a reputation layer. Reputation will be derived not from expert ratings and reviews but from data captured during the exchanges that happen between companies using these tools. The reputation will form the basis for creating an entirely new marketplace for buyers and suppliers.

SAAS products that allow companies to interact with each other will be at a disadvantage if they ignore steps 3 to 5 in the playbook above. The ones that realize the importance of moving down this path will have a greater shot at owning and retaining customers across an entire industry vertical.

Most venture investors who understand network effects focus overtly on the consumer space. The same embodiment of network effects, in the form of commercial graphs, is an insufficiently tapped opportunity, thus far, in the enterprise space.


In a recent Harvard Business Review article, I break down this evolution in greater detail.



## FROM SOCIAL MEDIA TO THE SHARING ECONOMY: THE THREE DRIVERS OF BUSINESS DISRUPTION

What's common between social media, the sharing economy and the internet of things?  
This post helps create a lens for the future.

Sangeet Paul Choudary



First we went wild about social media disrupting the world of business communications and media. Then the Sharing Economy sprang up, and we talked about how the traditional ownership model was getting disrupted. We're looking at the 3D printer as the democratization of manufacturing much like Twitter and blogging democratized publishing, and YouTube democratized broadcast.

Disruption isn't over yet. In fact, it's just getting started!

But irrespective of which phenomenon you look at ( and even if you dismiss all of these as fads), the enduring shift that underlies all these disruptions is the sudden shift of the respective industries from linear to networked business models – [from Pipes to Platforms](#).

Let's look at a few examples that illustrate this shift.

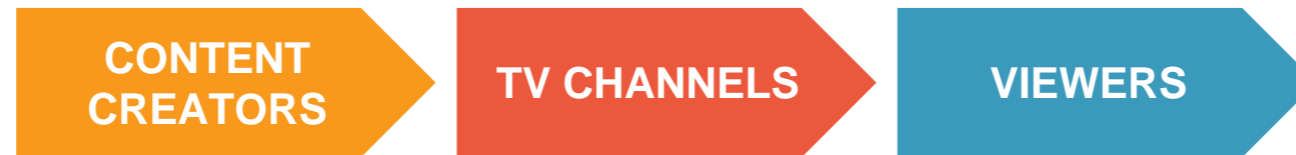
From Traditional Media to Social Media

This is what happened to media while it was caught sleeping.

Traditional Media worked like a pipe. There are few better representations of a pipe than TV, radio and newspapers.

YouTube, podcasts, and Huffington Post change this model to a platform model.

## TV Channels



## YouTube



## What changes?

1. The tools of production get democratized, unlocking a new market of producers.
2. The source of value creation shifts from employees in-house to a network of partners and users outside.
3. As in the case of YouTube, the business may relinquish ownership of the content and allow producers and consumers to interact directly.



## From the Ownership Economy to the Sharing Economy

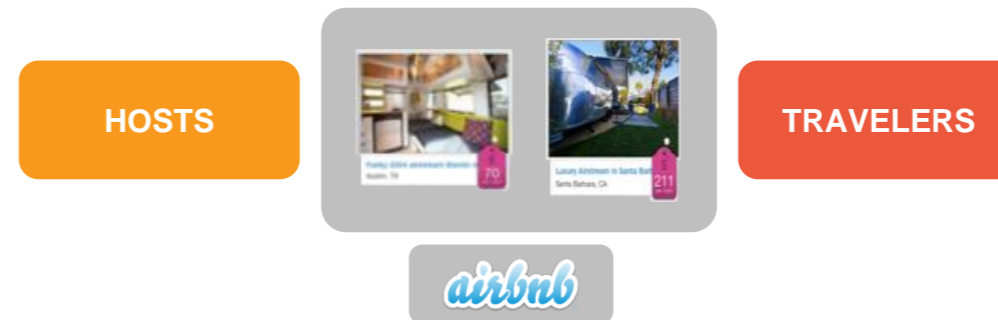
Let's look at how hotels have worked traditionally. A hotel is in the business of selling accommodation. Hence, to scale, a hotel usually invests in creating more rooms. It owns all the rooms and optimizes its business to maximize occupancy.

Airbnb is in the same business, except that it doesn't own any rooms. This is how the platform shapes up for Airbnb.

### Hotels



### AirBnB



### What changes?

1. The business relinquishes ownership to the ecosystem.
2. A primary goal of the business is creating better mechanisms of trust to identify and differentiate good behavior<sup>1</sup> from poor behavior.
3. The value is not in owning resources but in managing the marketplace.

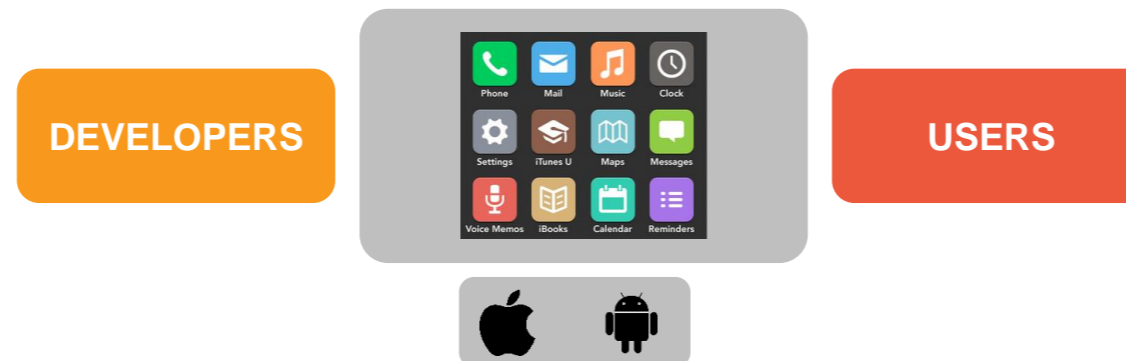
## The Rise of the App Economy

We see the same patterns in the rise of the app economy. Handset manufacturers decided which apps to preload. They controlled the process like a pipe. Apple and Google changed the rules of the game in much the same way that Airbnb and YouTube did; by using a networked platform to disrupt a controlled pipe.

### Nokia, BlackBerry, Telcos




### iPhone, Android



## From Traditional Manufacturing to 3D printing

While manufacturing has increasingly relied on crowdsourcing platforms, especially for sourcing design, there has never been a concerted shift towards distributed manufacturing because the cost of manufacturing at these individual locations across the world would just be too high (per unit) compared to manufacturing centrally. Manufacturing was, hence, owned inside a factory.



However, with the rise of the 3D printer, there are an increasing number of indicators that manufacturing is going to get much more democratized, leading to the creation of entirely new markets. Industrial designers will sell directly to consumers in every way that graphic designers currently do. Collaboration models in industrial design and assembly will become networked as well, as explained in further detail in the next section.

## **And finally... the Wikipedia of everything**

We saw an important shift take hold with Wikipedia. It wasn't just a new way of organizing the world's information; it was a new way of organizing a supply chain. For all its apparent inadequacies, Wikipedia was our first glimpse into a future where value creation didn't need a supply chain, it could be orchestrated on a network of connected users. While creation gets distributed whenever access to creative tools gets democratized, this was the first widespread case of editing getting distributed as well. A linear process could now happen cyclically on a network through edit wars.

I believe the real potential of platforms will come to the fore when we see the Wikipedia of Everything playing itself out. Diverse processes that currently need a controlled supply chain to be coordinated will be run on a platform. We're already seeing successful early experiments with the likes of Quirky. The rise of 3D printing obviates the need for a controlled distribution chain as well.

I was recently a forum guest at the THINK School of Creative Business, Amsterdam where I discussed these shifts in some detail: [https://www.youtube.com/watch?v=fbhVVx\\_b26w](https://www.youtube.com/watch?v=fbhVVx_b26w)

## **The three shifts characterizing movement from Pipes to Platforms**

There are fundamentally three characteristics that differentiate the THEN businesses from the NOW businesses, the Pipes from the Platforms.

### **MARKET: SHIFT FROM CUSTOMERS TO PRODUCERS**

The traditional view of the market has been of a customer sitting at the end of the Pipe waiting for products and services to be spewed out. The customer's relationship with the business was fairly straightforward. The business built what the customer wanted and the customer paid for that.

## **The customer was king!**

That changes with Platforms where the business doesn't 'build' the end value in the first place. The business only enables value creation. The value is 'built' by Producers on the Platform.

The Producer is now king! If you cannot get a happy group of producers onto your platform, you may never have any consumers and no revenue.

If you mess around with the Producer, you mess around with the network effect.

## **COMPETITIVE ADVANTAGE: SHIFT FROM RESOURCES TO ECOSYSTEM**

The traditional view of competitive advantage has broken down. The traditional view was—"big is beautiful." The more you own, the better you win. This led to the rise in popularity of vertical integration of business as well as to many mergers and acquisitions. Resources were how you competed.

Increasingly, resources are not the definition of scale anymore. Airbnb and Uber aren't multi-billion dollar businesses for the employees and resources they control in-house but for the ecosystem they succeed in attracting.

Ecosystems are the new scale and the new source of competitive advantage.

## **VALUE CREATION: SHIFT FROM PROCESSES TO INTERACTIONS**

Media companies rely on a process of sourcing and disseminating media. This is replaced by interactions between users on Twitter and Facebook. The role these two platforms play is largely of matching the right content with the right consumer based on certain parameters.

Lack of resource ownership works in tandem with the movement from processes to ecosystem interactions. On Airbnb, the resources are owned by hosts. On Uber, the resources are owned by cab drivers. But value is created when the right resources can be matched with the right needs.

While hotels and traditional cab companies owning their own fleet would get a team of MBAs working on maximizing capacity utilization, Airbnb and Uber focus on getting data scientists to improve algorithmic matching of supply and demand. Nowhere is the shift from process to interactions better exemplified than in the shift from process re-engineering to data science as the highest paid skill in companies.

# ENGAGE FURTHER



## C-level Executive Education

C-level and business leadership-level executive education towards a platform implementation at a client organization. It may also include workshops for execution and implementation teams. For larger teams, this may be done as webinars remotely.



## Commissioned Research

In-depth research, commissioned by the client, to create thought leadership material, layout future industry scenarios or study business model transformation.



## Corporate Speaking

Keynote speaking at sales events, executive briefings for C-level executives, and speaking and briefings at executive planning sessions and offsites.



## Platform Architecture and Strategy

Engagement on a specific platform strategy and implementation. Includes: platform business design, layout of feedback loops and network effects, monetization scenarios, management of curation and governance of the ecosystem, data strategy, roadmap creation and metrics definition, among other things. This may be done remotely or in-person or through a combination.



## Retained Advisory

Retained advisory relationships with a specific project (or multiple projects) at a company, or advisory boards, typically structured as 6-12 month retainers.

To engage further, please write in at the following:

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