A Critical Look at Multi-Sided Platform Business Models

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Multi-sided platform (MSP) business models have recently drawn considerable attention. When listening to their proponents, MSPs are the future in a wide array of industries. But they cannot survive on their own. They are embedded in an ecosystem of consumers and producers with distinct needs, value characteristics, resources, and capabilities. The *Lightweight Business Model* helps understand what makes MSPs successful.

Multi-sided platform (MSP) business models have become more prominent in the recent years. Even though they are not fundamentally new, MSPs have received new meaning with the emergence of the internet and web technologies. As of this writing, seven out of 10 of the most valuable companies by market capitalization—Alibaba, Alphabet, Amazon, Apple, Facebook, Microsoft, and Tencent—operate one or more platform business models.

MSPs seek value from network effects and emerge as intermediaries. The academic literature distinguishes between two types of platform business models: *innovation platforms* and *transaction platforms*. Innovation platforms create value be offering their customers a technology foundation and building blocks to deploy novel, creative solutions. Linux, Innocentive, or the Apple Store are such innovation platforms. Transaction platforms focus on serving as an asset-light intermediary between consumers and producers, supporting the exchange of goods or services for money. Platforms in this category include Amazon, eBbay, and Visa.

To better understand the commonalities and differences between MSP models and traditional business models, consider the four components of their *Lightweight Business Model*: 1) customers, 2) capabilities, 3) financials, and 4) offerings.

CUSTOMERS

MSP business models have at their core two distinct categories of customers—*consumers* and *producers*. In contrast with traditional business models where producers are suppliers, MSP producers have the same customer status as consumers. MSPs focus on connecting consumers with producers through the creation of network effects rather than on producing and delivering offerings to consumers. *Customer acquisition and retention* play a key role. Scale is a driving factor. To ensure sustained network effects, MSPs build switching costs into their business model.

Delivering offerings to customers is not typically part of the activities performed by MSPs. For example, Airbnb is not involved in customers checking in to the booked properties. Similarly, eBbay is not involved in shipping goods. Some platforms include distribution channels in their value proposition, such as Amazon Marketplace fulfilling orders for producers.

CAPABILITIES

Creating and delivering value requires performing activities by deploying resources. MSP business models outsource most of the value-creating activities to producers. In contrast with traditional outsourcing, MSP businesses also outsource most of the responsibilities to producers and only impose minimal standards through their governance model. The reason for doing so is that producers have lower costs of capital for owning the assets and resources required to perform the activities. For example, Uber is a taxi firm platform that owns no cars because the cost of owning cars is lower for taxi drivers than for Uber.

MSP firms implement an outsourcing model that goes beyond the typical franchise model, such as is found in fast-food or hotel industries. They impose *what* producers have to offer or which activities they have to perform but leave the *how* in the hands of the producer. MSP firms focus on

- providing a *technology platform* for connecting with customers and deploying offerings,
- *acquiring and retaining consumers and producers*, and
- imposing a *governance structure*.

In most cases, MSP firms also manage payments and sometimes, but not always, perform fulfillment activities.

FINANCIALS

Handling revenues is a challenging component of MSP business models. Strategic decision to be considered take regarding pricing are whom to charge how much and whom to subsidize by how much. Too high prices drive away customers (consumers and producers), while too low prices leave money on the table. To retain the customer relationship, MSP firms handle payments for a fee. However, they are not the owner of the transaction. For example, PayPal receives a fee for its service of transferring funds from the consumer to the producer in return for the producer transferring goods or services to the consumer outside of the PayPal platform.

MSP business models focus on minimizing the capital required to perform activities, in contrast to traditional firms, where owning rare and inimitable assets is considered part of the competitive advantage.

Successfully handling financials means *understanding value* from both the consumer and producer perspectives. Uber, for example, has an edge in pricing because it is capable, through artificial intelligence and big data, to dynamically optimize pricing based on demand availability.

OFFERINGS

The offerings and value propositions of MSP firms are significantly different from those of traditional companies. Platforms offer value by *connecting consumers and producers through the creation of network effects*.

CONCLUSION

MSP business models are in some ways not significantly different from traditional-firm business models. However, the key differences are found in the re-interpretation of the value chain and the role of stakeholders in producing and delivering value. In addition, MSP business models shift the focus from the service producer to the customer; they are the enablers that provide network effects to its customers.

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