Chapter 9

Metrics

Platform Revolution: Policies That Increase Value and Enhance Growth

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Platform Revolution: Chapter 10 – Monetization

1. Introduction: Welcome to Platform World
2. Network Effects: The Power of the Platform
3. Architecture: Basic Principles for Designing Successful Platforms
4. Disruption: How Platforms Conquer & Transform Traditional Industries
5. Launch: Chicken or Egg? 8 Ways To Launch Successful Platforms
6. Monetization: Capturing the Value Created by Network Effects
7. Openness: Defining What Platform Users/Partners Can & Cannot Do
8. Governance: Policies That Increase Value and Enhance Growth
10. Strategy: How Platforms Change Competition
11. Policy: How Platforms Should (and Should Not) Be Regulated
12. Future: Industries Facing Imminent Change

(click to order on Amazon)
METRICS

LAUNCH
Interaction value/volume (not revenue, margin, cash flow, inventory turnover).

GROWTH
Monetization after critical mass, new sources/types of interaction value/volume

MATURITY
Who/what/how to innovate, how to prevent adjacent platforms from pulling interactions/data off platform
LAUNCH

LIQUIDITY
• % of posts that generate interactions in given time
• Ratio of active to inactive users, growth rate active users
• Time between interactions
• Level of network effects, amount of spillover value from user to user

MATCH QUALITY
• Type I & II search errors
• User search effort
• Presentation to conversion rate

TRUST
• Rate of producer/consumer fraud, cheating risk
• % posts ex post ruled inaccurate
• % interactions that generate ex post conflict
GROWTH

MONETIZATION
• % of value enabled by platform captured by platform
• How does the platform monetize without killing network effects – only after critical mass.

USER EXPANSION
• Virality: % existing user types attract more of the same user type
• Envelopment: # different groups off-platform would benefit from interacting with existing groups on-platform (going multisided)
• Market access: (ease of joining) # of existing user types not on platform
• Producer / consumer ratio (balance)

INTERACTION EXPANSION
• Frequency of consumption, searches, conversion to sale
• Level of curation (employee, crowd, algorithm) increasing existing interaction quality
• # ways current users could interact that they are not interacting
• Interaction capture (like revenue capture), of the ways partners interact what % are on platform
• Interaction failure
MATURITY

INNOVATION

• % of value enabled by platform captured by platform
• How does the platform monetize without killing network effects – only after critical mass.

ECOSYSTEM MANAGEMENT

• Benchmarking partners: reinforce positive/reduce negative feedback loops. (use data!)
• Benchmarking partner cooperation/conflict. (use data!)
• % interactions requiring exception handling. Where should governance be opened to partner input
CONSUMMATING MATCHES & INTERACTION

Which matches should occur?
How?
Which do you prefer: Reach vs. Engagement?
Which do you prefer: Retweets vs. Clicks?
Which do you prefer: Traffic/day vs. Traffic/posts?
HOW DO WE ASSESS PLATFORM OPPORTUNITIES?

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<th>Value</th>
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<td>Volume</td>
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Transaction

- corbis
- Sotheby’s
- eBay
- PayPal
- iStock
MATCH TYPE & SCALE

1. MANUAL MATCH (DOES NOT SCALE)
   • To launch oDesk (Upwork), two friends matched an offline labor market. One beat on startup doors in Silicon Valley to find talent needs. Another beat on engineering school doors in Greece to find talent supply.
   • Consulting firm Eden McCallum hand matches boutique client needs to boutique expert consultants.

2. ALGORITHMIC MEDIATED MANUAL MATCH (PARTIAL SCALE)
   • Online labor market Upwork notifies a handful of freelancers of newly posted work based on skill match, availability & quality. Freelancers then bid for the job and negotiate with the client.

3. ALGORITHMIC MATCH (SCALES EASILY)
   • Uber automatically sets a price and notifies drivers within a given radius of a new rider. Match is then 1st come 1st served.
   • NYSE & NASDAQ perform a buy/sell stock match based on price alone.
Consider how matching occurs in stock markets...
ANALYTICS:
CONSIDER NUMBER OF TRANSACTIONS & AMOUNT OF NET SURPLUS

Which matches should your platform encourage?
What’s your platform’s pricing?
ANALYTICS:
CONSIDER NUMBER OF TRANSACTIONS & AMOUNT OF NET SURPLUS

Exact Match?
3 Transactions, 0 Surplus
With 0 surplus, can’t charge!
ANALYTICS:
CONSIDER NUMBER OF TRANSACTIONS & AMOUNT OF NET SURPLUS

Next in Line?
2 Transactions, 2 Surplus
ANALYTICS:
CONSIDER NUMBER OF TRANSACTIONS & AMOUNT OF NET SURPLUS

Reverse Match (highest buyer <-> lowest seller)?
2 Transactions, 2 Surplus
IN GENERAL, REVERSE MATCH IS BEST

More robust.
Ensures highest possible surplus (royalty!) from each match
1 Transactions, 1.5 Surplus

Buyers

Sellers

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WHAT IF THERE ARE MANY MORE BUYERS?

Charge buyers for access (friction on too much interest)
Raise prices
Prefer royalties to fees
Generate new sellers
New product development
TAKEAWAYS FROM CHAPTER NINE

Since platforms derive value primarily from interactions, metrics should focus on interaction success and failure, enhancing the interaction successes and mitigating the interaction failures.

Interactions must be counted for all sides of a multi-sided platform, from consumer to producer, producer to consumer, consumer to consumer and producer to producer.

During launch phase, metrics emphasize the quality and strength of core interactions, including liquidity, matching, and trust.

During growth phase, metrics emphasize enhanced value creation such as sizes of sides of the platform, engagement, lifetime value of producers and consumers, and interaction conversion rate.

During maturity, metrics should emphasize driving innovation via new types of interactions, new sides of the platform, and new ways partners can add value. Metrics should now also watch for strategic threats by partners who would seek to siphon value or tip the relationship off platform.

Borrowing from stock markets, the most surplus is created by matching sellers who are willing to part with a good at the lowest price with buyers who are willing to pay the highest price. That surplus is your margin.
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