FOUNDATION OF DIGITAL BUSINESS

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Week 04

Lecture 16

Lecture 16: Platform Strategies – Sharing Economy

Hello everybody, and good morning. Welcome to Module 5, where we will talk about platform strategies. I will have three sessions in this module. The first one will be about the sharing economy. In this session, I will talk about the history of the sharing economy, and then I will discuss the classification of platforms. There are various types of platforms. I will tell you the various kinds, how we classify them, and where they are used.

And some companies that are using these different types of platforms, so you can understand how these companies operate—their working style and business model. We can correlate the platform type with the business model. Network effects will be the last topic in this session. Now, coming back to the sharing economy, it is a P2P (peer-to-peer) model, which means the same group of people—what we also call cohorts— that is, people with similar likes, dislikes, age groups, demographic features, etc. Basically, you can say a common interest group can be considered a P2P (peer-to-peer) network. And they believe in sharing things, like we do in social media—various pictures, files, audio, music, etc.

Now, from a business context, sharing is all about monetizing unutilized assets and avoiding owning assets. If I have an asset and some extra capacity or features available, which I can give to my peer or somebody else—my stakeholder or my customer—who can use it for a charge or a fee. So, I can monetize and earn revenue by utilizing my unutilized assets. The other option is not to own an asset at all. Can I do a peer-to-peer sharing model business without owning any assets?

We will talk about this in detail in subsequent slides, and this is also known as another way of calling it—the sharing economy is collaborative consumption. Keep in mind these are very commonly used terminologies: sharing economy, collaborative consumption, so that you become familiar with them. Now, to give a definition: the sharing economy is an economic model, defined as a peer-to-peer-based activity of acquiring, providing, or sharing access to goods and services that is often facilitated by a community-based online platform.

So, the key thing here is a platform. Everything is centered around a platform through which we can share and bring all stakeholders, peers, or partners onto a common platform. Like in English usage, we say 'coming on a common platform'; here, it is literally physical or hardware—we mean by hardware data center—we have a platform where people can log in and perform various operations; somebody is a buyer, somebody is a seller. This is a video link I provided—a small video which you can see in your spare time—but we will cover the features discussed in the video in the next few slides.

This is a video made by a very famous consulting company, PricewaterhouseCoopers (PwC). I am using a few slides from them just to explain the concept of the sharing economy. So, we also call it, as I said, collaborative consumption. Then we talk about something like access versus ownership and on-demand. On-demand again means something I get whenever I want.

I do not have to wait for anything. Something is available, like it is on the tap. I open the tap and I get water, etcetera. Then we talk about ownership. We can have access to features and hardware without even owning them. So, I can use them on a rental model as a service. So that I do not have to own or buy things and set up my own business or any hardware for that matter, or any software I do not need to buy.

The most valuable companies in today's world are digital platforms. They become a vehicle of wealth creation, which is greater than any other strategic set of policies. Sixty percent of greater than one-billion-dollar companies are platform businesses. We know Amazon, we know Google, we know Microsoft, we know all these large giants, we know even Apple—they all run platforms. The biggest challenge for traditional companies, which operate in a very hierarchical structure—normally, conventional companies work in a hierarchical structure— in a platform world, you are enabling and incentivizing parties to work together. You are removing all the middle layers.

So, you can directly bring a seller and a buyer onto a platform. Obviously, the interaction can happen very fast in the lowest possible time and also, incidentally, cost. Because the more middlemen you add, or middle-level features or entities you keep on adding, things become slower, things become bureaucratic, and things also become costly and expensive. This requires a different mindset, and the transition is not easy for most companies because then you are becoming kind of transparent to your peers and stakeholders. They can have direct access to whatever you have in your organization. The main challenge to overcome in the platform is that it cannot exist without trust. Since you are giving direct access to, say, outsiders—if I call them outsiders—

Not my own company people, then I have to have trust—there is a mutual trust. I have to have trust in them that they will not do anything wrong. I will give you a simple example. The simplest kind of platform which we all are familiar with—we use, say, let's Now, I can post anything on Facebook—nothing stops me. I can have a video, a picture, or an audio file, and I can simply upload it. Nobody will stop me from doing it; at least technically, nobody stops me. It is not edited, viewed, or reviewed—anything.

So, Facebook trusts me. I am completely unknown, and I am one of those few billion users of Facebook. So, it is not possible to know all your users, but I can upload anything. But uploading anything is obviously not ethical, permissible, or even legal. So, I cannot upload anything that spreads racism, hatred, religious stuff, political stuff—all those things. All of us, as educated people, know that these are not to be allowed to be published or shared in public, and it is not meant for public information at all. But how does Facebook prevent me from doing that?

One is the first thing is trust that we will not do it, but if somebody does it—and it happens, of course—we know from newspapers and all that it is happening. They have to have a set team of people or use AI. Technology to identify which of those posts need to be removed or taken off, and it works that way. That is another expense or headache for Facebook, but that is what we have to do because, in a platform model, otherwise, there is no other way to prevent people from doing whatever they are planning to do.

It has to be trusted to successfully carry out transactions between two parties who do not know each other. And the example I gave you about Facebook—most of you, I am sure, use Facebook—so you will be able to understand what I am trying to say, the point I am trying to make. Leadership insights: we heard about big business leaders like Steve Jobs, Bill Gates, and Andrew Grove. They are all giants in the tech industry, and they have

been promoting platform businesses. Look forward, reason back—what they did, what they thought about where the world was going in the future, and they reasoned back to what they needed to do today.

They could realize, they could foresee; they had the vision that this was something which was going to come, stay, and become essential for everyone's survival and business growth. Assuming that platforms like today's AI, for example, present a similar situation for all business leaders today. They know that AI is coming—it has already arrived—and it will grow significantly, becoming more successful, powerful, and feature-rich. I should start preparing today; otherwise, I will be left behind. The same reasoning they applied in the early 2000s. Steve Jobs introduced the famous iPhone; Bill Gates, of course—we all know Microsoft—realized they had to adopt this digital platform model.

They made big bets—all of them did—but without risking the company; mitigation was required. So, they took big risks, but they also had backup mitigation plans—that is what any sensible businessperson would do. You need to take business risks, of course, but have a Plan B in place—an alternative so that if things go wrong, you have a fallback measure. So, they were all very good at the judo strategy. Judo strategy, as we discussed in the last class, is about David versus Goliath—the blue ocean strategy—where a small player enters and disrupts existing players in the business.

For example, when Windows came in initially Bill Gates launched Windows Microsoft company and the Windows OS and they were competing with a giant those days IBM was only PC makers literally is only company was making PC personal computers, but when Windows came, because of the popularity of the Windows operating system, IBM in the race they lost to Microsoft and Microsoft became the biggest OS supplier to all personal computing practically all practical devices in the world. Execution, they had a deep knowledge of the strengths and weakness and built teams that mitigated their weaknesses. So, Steve Jobs knew that these are my strengths he was very good in design management etcetera, but then he was very arrogant he was very short tempered.

Those were his weaknesses and he is famous for that. What they do in this case is they identify the weaknesses and then they have built that team such that there are some people their partners or next level senior executives who can take care and manage the weakness part. So, you combine your strength with the strength of others so that you mitigate your negative part, weakness part which for you is a business risk. And learning new skills they showed that the skills you start with are not necessarily the skills you

would need 2 or 10 years down the road. Now, this is very fundamental to any digital technology, any developer, any executive, any resource, any people working with digital technology or in the IT domain or in the technology domain need to appreciate the technology is changing very fast if

new technologies are coming in like a tsunami and every 6 months or 1 year, year 2 you are facing with new and new and new technologies be it software, be it hardware, be it network whatever it is. We have to continuously keep learning new skills that is the essence for any person today in the digital world. Like today all of us know how to use an UPI app for example, all of us know how to call a taxi using a mobile phone, all of us know most of us know how to do net banking for example, all of us know how to operate an ATM take a card and go to a machine and take money out. Literate in the sense and we means it is going down to the grass root level because UPI is used by even an illiterate rickshaw puller or a vegetable seller or a fish seller or a small tea shop everybody is using UPI without any problem.

All of these big people were developers around the digital platform. What are platforms? A platform is a business model that creates value by facilitating exchanges between two or more independent groups, usually consumers and producers. One thing you should be clear about now is that when we talk about a platform, it is not just a hardware device. So, of course, physically it is a platform, but when we talk about a platform as a business, it is the entire ecosystem.

We consider not only the hardware and software but also the users, the stakeholders, the internet, the cloud—everything combined is what we call the platform business. We have producers or sellers, and then we have consumers or buyers on one side—the simplest way—and these are the interface providers. For example, your phone, the phone app, or even the network, etc., and here you have the physical platform, which is the hardware and the software hosting the application. Examples are Facebook, Amazon Marketplace, etc. These are applications hosted on a data center in the cloud, and the whole thing serves as a platform.

The key features of this ecosystem are that it is technologically enabled and increases the utilization of underutilized assets. When we talk about platforms and the shared economy, we mean sharing the capacities and features of this ecosystem. It can be monetary or non-monetary. From a business side, we are talking about monetary, but it could also be non-monetary. We know all of that. Collaborative consumption is what we

have been talking about—some other definitions include temporary access or ownership. What it means is that you do not have to buy anything; you can take things on rent, pay money per use, per time, or whatever the revenue model is.

Moving on to the classification of platforms, so they can be classified as either by business model based or activity based or something like an internal versus external and then transactions versus innovation. So, we can have categorize classify platforms by in this four types of groups. So, give you an example of say business model based elements. Here we talk about efficient product transaction, digital product transaction, or a product aficionados.

And then the participants here will be it will be C to C, B to B, consumer to consumer, B to C is business to business and B to C is business to consumer. These are the two stakeholders of the platform, the receiver and the buyer and the seller or whatever you want to look at it. Value proposition means on the demand side it is a large product variety, efficient product transactions means you can bring in a huge amount of number of products being part of a primary non-commercial community, if you are looking at it as a digital product community. So, it can be primarily a non-commercial community like the examples here is eBay for used cars

platform called VP it is eBay for use second hand car selling buying etcetera. So, large you can have large product variety. This is selfie connecting neighbors to share durable goods with each other. So, it is a pure kind of non-commercial you are not selling things for money like you do on eBay. But, you can have your neighbors sharing, I have something this spareable I can give it to you and you can take.

So, it is works in a non-commercial mode within a closed community. Our product Aficionados, HobbyDB, eBay means means IMDB where Wikipedia for hobbies and So, it is kind of a similar to Wikipedia and it is called hobby DVD. You can get all sorts of content for hobbies and collectibles etcetera. You can exchanging knowledge about niche products within community of like minded people.

These are you can exchange or get physical products. This is again B to C or even C to C. So, within consumer to consumer you can do this transaction. Further on a business model based we have on demand offline services. You can access large service variety in a novel form like style sheet for example, connecting a beauty salon and consumer. Offline service is not online.

So, you get the information about the beauty salon and then you physically go there. You are connecting various beauty salons to your consumer. It is called name is one of the product is style sheet. Online services it is providing novel online services with social networking like italki connecting language learners with teachers for one and one online lessons. If I want to learn language for example, I can get in touch with suppose I want to

I can get into touch with somebody who is in Japan as a teacher and I can learn Japanese on an online mode. So, I am in India he or she is in Japan and we are doing the teaching session online mode. And peer to peer offline services provide novel services with community feeling within and outside the digital platform. So, the example classic example is Airbnb which is connecting people to houses on rent where they can stay and book private accommodation.

So, people can list you can upload your house you want to be a host and you want to be a traveler. So, this Airbnb is connecting both the traveler and the house owner, but obviously, it is offline because you have to physically go and stay in that place. That is the whole business is about how to connect this to so that you can get that offline service. If you are not talking about activity based, so classification of platform not the business model the next one is the activity based. You have got something called aggregation platform and then you have social platform.

Who are the aggregation platforms like Amazon, Airbnb, Booking.com etcetera. So, they are gathering a broad range of products or services or resources from various competing source and making it available to customers like you me and us. So, it is completely transaction oriented and the platform owners only broker the transaction. So, they get a commission. So, Amazon is not producing anything buyers and sellers they do an exchange of buying and selling and Amazon gets a commission same with Airbnb.

So, the house owner gets the rental you pay, and Airbnb gets about 10 to 15 percent from that as a commission, same with Booking.com, etc., for booking hotels, etc. So, various hotels are hosted on this Booking.com site. They are the aggregators; you go and select a hotel wherever you want to go and stay, and you pay the money to the hotel through Booking.com, and they take their own commission. The other is the social platforms, which focus on long-term relationships, like Instagram and Facebook—classic examples that all of us know. The social platforms we use—the platform owner is not involved in most of the transactions. So, we are not really influenced by the platform owner.

That is, Facebook does not interact with us. So, I directly post pictures, comments, etc., and others similarly post comments, etc. The same is true for, say, WhatsApp. We keep exchanging messages, pictures, and videos, but the platform owner—WhatsApp or Facebook—is not influencing any of our transactions. The third one is a mobilization platform based on activity. So, the common interests of platform participants are mobilized for actionable activities.

Again, they are used for long-term relationships; they can exit with or without a profit motive. In a business context, you have an open-source platform like GitHub, where about 83 million developers shape the future of software together. They have open-source software available and exchange knowledge and information among community members. The other one I talked about yesterday in the last class was the SAP community, where SAP is an ERP product. For their numerous SAP developers, they have created a community where they can share or seek answers to problems they face while working on or implementing SAP. They are stuck somewhere; they want some clarification, they want some clue, and they can post their problem in the community, and anybody in the community can pick up the problem.

And respond. So, it goes on like that. It has been working for several years. I have personally used it when I was an SAP implementer. So, I know it is very useful for all SAP consultants. Similarly, there is another called Change.org, which comes up with some change matters, and then you are required to sign up. So, when they get adequate signatures—maybe a few thousand—that policy change suggestion can be presented to the government or anybody else to influence them,

so that the change can be done or carried out. They can also be leveraged for social movements. So, many times, many things can go viral, and then it can impact the population, and there could be certain disturbances, troubles, etcetera. So, these platforms can be used in both a positive way and a negative way. Mobilization platforms and crowdsourcing and crowdfunding are the other ones where, if you have—you must have seen that—such things are coming to your inboxes or WhatsApp chats where people ask for money. Somebody is sick, and there is a platform called Ketto and other platforms where they can host your request and spread it out to various groups

requesting money. You do not know the receiver or the recipient—I mean, you are unknown to any of them—but you can volunteer to donate some money for some cause: somebody's treatment, some medical expenses, and things like that. So, that is again

known as crowdfunding. Why? Because we call it 'crowd'—because we are not. So, it is not that you are helping a friend, a colleague, an acquaintance, or a relative. You are extending help to somebody completely unknown. You do not even know where they stay, location, etcetera, but you are doing that voluntary, beneficial work as a part of this community. Similarly, crowdsourcing is useful when you want to get ideas from the public, the mass, or the crowd. And you can float some ideas. You can be Starbucks, you could be Burberry, you can be any organization looking for ideas, and people give ideas.

The third category is classification internal versus external. So, internal is of course, within the company for company employees used by company employees and the external is where you open it up to your customers and other stakeholders where they can participate in your say development work and you want them to like crowdsourcing, you want their ideas where you want the ideas etcetera. So, you can open up the platform then it becomes an external platform. The internal versus external platforms is product services technology that is similar in some ways to the former, but provide the foundation upon which firms like organized as business ecosystem can develop the complementary product technology or services. So, the industry platforms for the technology space are for example, iTunes, Spotify, App Store, Apple and Android Play Store.

All of us know we have heard about Android Play Store or the Apple Play Store where developers can join the platform and work for free to develop their apps. The incentive for them is that when the apps become popular they can earn money when users buy those apps. And the incentive for Apple or Android the owners Google is that the more developers you can bring in the more apps you have the more apps you have the more customers you will have you will be buying your phone with those operating system. So, it is a straight away competition between iPhone and the Android phones. The more developers more apps you have people will get attracted to that particular operating system.

The degree of openness can vary as follows, platform governance roles, access cost and the level of access of to information and capabilities of the platform. So, this is all about the governance part, how much freedom you will give them, how much access you will give them and whether you will charge, not charge etcetera. Google for example, has a app engine called GAE it is providing developers with a fully managed environment to build deploy scale web applications it is very similar to what Apple is doing through their iOS platform. Transactions versus innovation platform. So, if you see on the left.

These are all platforms where we do transactions—buying, selling, booking a taxi, chatting, sending messages, etc. Examples for day-to-day use include Snapchat, Instagram, Twitter (now X), Airbnb, JD.com, Uber, Tripadvisor, Amazon, Marketplace, WeChat, Facebook, Alibaba, LinkedIn—you name it. All of them present us with transaction platforms. The other side is innovation platforms. These are platforms for developing new things, like the external platform I mentioned earlier, where companies share their platform with outside developers so that products can be developed on their system. Examples include Apple iOS, Google Android, IBM, WhatsApp, Nintendo (for computer games), Sony PlayStation, Intel CPU, and Microsoft Azure.

Others are SAP NetWeaver and Amazon Web Services. These are platforms where people can join to innovate and develop new products, apps, etc. Now, there are hybrid companies that do both transactions and innovation, like Apple, Google, Microsoft, Salesforce, Facebook, Tencent, Amazon, etc. They are on both sides of the scale—participating in innovation development and facilitating transactions. To conclude the session, let's briefly touch on how one develops confidence to buy things online.

Normally, I pose this as a question in my regular class for discussion, but here I'd like you to take your time, read about it, and try to understand how we develop confidence to buy things online—trust is key. The main factor is knowing we have the power to return the product at no cost. Since I'm buying something I haven't seen, touched, or verified—with no details beyond what's displayed in the online catalog— I proceed, knowing it could be clothes (shirt, pants, jeans), a product, food, etc.

I know that if something is wrong, I do not like it when it comes. I do not like it, and I can return it within a certain time frame at no cost to me. I will get my money refunded. So, this is one of the main things—this return policy—which has really driven e-commerce to such a successful level because people can buy things confidently, as they do not have a chance to lose. my money. So, that is what really gives me confidence. Therefore, of course, there are many other features of the e-commerce platform which are helping the e-commerce business to flourish. Thank you.