

FOUNDATION OF DIGITAL BUSINESS

Surojit Mookherjee

Vinod Gupta School of Management

Indian Institute of Technology Kharagpur

Week 08

Lecture 18

Lecture 18 : Developing a Platform Business Model Map

Good morning. So, for the fifth module platform strategies, this will be the last section which is I will talk about how to develop a platform business model map. So, how to I just one topic to be covered here in this session today is how to develop. So, if you want to start a platform business using a platform business model, how should you start? So, how do you make a business model map?

So, this is an analytic and visualization tool and I will be again referring to the reference this book I was talking about in the previous class David Lodge's digital transformation playbook. So, I have taken this map from this book. So, analytic and visualization tool designed to identify all the critical parties in a multi-sided. So, we have talked about multi-sided platform. parties involved and analyze whether value creation and exchange takes place amongst the different customers and with the platform business itself.

So, at the center will be the platform business around will be all the customers various types of customers and they will be having either paying some revenue or getting some value out of the platform. So, to begin with you fill out a chart like this. by answering the 7 questions to fill in the 7 columns. You have customer, value received from other customers, value received from the platform, value provided to other customers, value provided to the platform, then the customers you are interacting with and your profile.

are who are the platforms distinct customer types, what value each customer type receive from the other customers. Make it bold if monitor, we will come to the details later that figure has to be put in bold, if it is a monitor easily and which customer is it from, what

value does each receive from the platform itself. Again any value or money wise you have to make that figure mark it out in bold font. What value does each provide to the other customer?

Again it is bold if monetary and which customer receives that value. What value does each customer provide to the platform? Again bold if monetary and for each customer which types of customers does it attract to the platform? So, some customers attract other type of customers. So, we will explain as we take up an example you will understand more of it.

But these are the 7 questions which you will have to answer when you are building the in the process of building the model map. What is the profile of each customer based on this criteria? So, if one customer attracts more customers than any other they are the lynch pin. So, lynchpin is the name given to a particular customer type which is attracting more customers than others. Any customer who provides monetary value to the platform is a payer.

So, if you are paying any money to the platform you are called as a payer. And if a customer provides the most monetary value to the platform they are the primary payer. So, you will have a one primary payer who is paying the most and there will be other small pairs will be known as just pairs. And any customer who provides no monetary value to the platform, but does provide value to other parties is called known as a sweetener.

So, these are just some of the terminologies which have been formulated by David Rogers in his book and I am using the same ones. So, that you can follow if required you can refer to the book also and get more details business model map for platform business. So, let us take example of Airbnb, lot of us understand the business very simple business nothing complicated. So, it will be easy to understand.

So, you have two types of customer guest and host as I told you earlier both are treated as customers from an Airbnb perspective. The for the guest that is ask people who are travelers, the value received from other customers So, what you receive from the other customer host? You receive an accommodation nothing in monetary terms. And the value received from the platform is the reservation tool, ratings, security, the due diligence etcetera whatever information you get about that house,

location etcetera all that you are getting from the platform. So, that is the value you are receiving. Value you are providing to other customers. So, you are providing value to the host. So, it is a dollar.

So, dollar for reservation. So, it is in bold. Value providing to the platform is your commission, the dollar at the guest fee which the Airbnb will recover from the host. So, about 6 to 12 percent. I give you that example of GST, CST and state and central.

So, it is something like that. Customers they attract host. Tell me why? see you are a guest if there are more travelers tourism increases in area. So, houses in that house owners in that area they will see that tourism has increased many people are traveling.

So, why not give my house or to Airbnb or even invest maybe I can buy a flat and give it on Airbnb rental that is a business model I can do that. guests are attracting hosts. So, more customers going to a place, visiting a place, travelers, tourists more hosts will crop up, they start open up the houses for business. So, what is the profile? You are a primary payer, you are paying the most money the guest.

Now, let us take the host perspective, you are receiving value from the guest dollar for reservation. From the platform you are not getting money, but you are getting listing tools, insurance, ratings, etc. Because of the platform you are being able to attract your guests. So, you are getting all these values, they are listing you, rating you, giving you insurance coverage and things like that. The value provided to other customers you are giving accommodation to the guest.

That is the value you are giving as a host you are giving the accommodation. Now, the value provided to the platform you are paying a host fee which is may be a smaller amount may be 3 percent. So, this will vary from company to company and this is just a figure I put Airbnb actually may be charging something else. So, this is nothing to do with like Airbnb is actual collection, but just to give an idea. So, 3 percent.

Customers they interact obviously, they are interacting with guests and your profile is you are a pair. Because you are paying 3 percent to Airbnb and the guest traveller is paying 6 to 12 percent is to Airbnb. So, they become a primary pair you become a pair. So, Airbnb is a classic example of the exchange type of platform. The business model is all about bringing together two parties or customers one with a service to offer the owner and the other side looking for that service.

So, we can see this 3 percent transaction fee paid by host and transaction fee by the guest making them a reservation, but because each customer is attracting the other there is no linchpin customer, but the guests are the primarily paid. Here there is no linchpin because there are just only two customers and each of them are attracting the other. So, there is no one customer attracting more another customer. So, creating the visual map. How do you do it?

So, there are some rules set up by Rogers, David Rogers. So, we will try to understand what are those rules so that you look like a platform map. So, this was the just the basic question answer table. Names, write the name of the platform itself in the middle of your map. If there is a linchpin write its name directly above the platform.

If there is a primary pair write the name directly to the right of the platform and the other pairs can be on the other side, then go clockwise writing the names of other pairs. So, start from right the primary pair then the other small pairs. Finally, further clockwise write the names of any sweetener. So, any sweetener is they are not paying anything, but they are adding value by attracting other customers. shapes draw a circle around the platforms name and diamond around any pair and a square around sweetener, this is just making a tool some design feature.

So, for a circle central is a platform, square is a pair and diamond and a pair, sweetener is a square. Attraction, on each customer's shape diamond square at a small spike for every other customer that is attracted by them to the platform. So, 1 spike, 2 spike, 3 spike depends over is that particular customer is attracting how many other customers. Value received, draw an arrow out from the platform to each customer, next to the arrow write the value it receives from the other customers. Then in parenthesis write the value it receives from the platform itself.

In both cases indicate monetary value in bold and in the local currency whichever currency you want dollar or rupees or whatever you want. And the value provided draw an arrow in from each. So, one was arrow out the value provided that is received and the arrow in is that is for the platform arrow in means it is receiving value from the customer. to the platform. So, next to the arrow write the value same way it provides to other customers and then in parenthesis write the value it provides to the platform itself.

In both cases indicate monetary value involved. So, we will take an example and we will see how the whole thing is made. So, now let us go back to Airbnb, we did that question

answer table the 7 questions. So, we have Airbnb is a platform in a circle and the paying customers are in a diamond. So, there is no sweetener, so there is no square box.

So, one side you have a guest, one side you have the host. So, for the guest it is receiving a value from the Airbnb in terms of accommodation, reservation tools, ratings, security etcetera all information related to that accommodation that is the value the guest is receiving non-monitoring. And it is paying a dollar for reservation the dollar guest fee. So, dollar for reservation and in parenthesis bracket this part guest fee this is the commission which

Airbnb is getting from the fee which the guest is paying and the rest of it goes to the host for the reservation, but it gets a commission Airbnb's commission is this one in parenthesis in bracket. And there is this symbol here it indicates that this guest is attracting one more customer it is attracting host that we have already discussed earlier and the host is also attracting one customer only type means one type of customer that is the guests and the host is paying its accommodation the host fee that 3 percent of what commission which is going to Airbnb and

it is receiving via Airbnb the dollar for reservation which the guest had paid minus the commission which Airbnb deducted. So, suppose you paid 100 rupees for the guest house for your stay Airbnb will be deduct what we said about 6 to 12 percent say 10 percent. So, 10 rupees. So, 90 rupees will be paid to the host. So, host gets 90 Airbnb gets 10 rupees.

So, here the dollar for reservation that 90 rupees will come here. And it is also getting from Airbnb listing tools, insurance, ratings etcetera. So, these are the non monetary value which the host is getting from Airbnb. Hope it is clear. This is a very simple model.

So, that we start with that so that you can understand the basic features. Now, let us take a bit complex platform model which is Facebook. Facebook brings together four different types of customers on its platform. Social network users that is us, advertisers, app developers and news and content publishers. So, the people public which is the social network users, advertisers, app developers and news and content publisher, these are the four type of customers which are there on the Facebook platform.

In terms of its business model, Facebook is actually a mix of two of the four types of platforms. It is an ad supported media and a software standard for the app developers, because the app developers have to follow Facebooks. protocols and standards for

developing their apps. Same with the media they have to follow Facebook's protocols. Its platform is fueled in part by cross-side network effects, different parties being attracted to each other like the

buyer and seller in Amazon that is a cross-side or eBay cross-side network effect, but is also driven by the same side network effect. Social network users are attracted by more customers of their same type. Social network users they are attracted by more customers. If I have more friends in Facebook, I would like to be there because they are posting, I would like to see what is happening and what who is doing what etc. So, you all want to stay connected and Facebook is the platform we use.

If I am going somewhere, I want my friends or relatives to know that I am travelling. So, I can announce there, I can send pictures from that place and they will know yes I am going to I have been travelling in say Goa or Puri or Darjeeling or wherever. Multiple parties contribute monetary value, but the primary one by far is advertisers. User payments for apps remain relatively small in comparison, because we hardly pay, we do not pay anything. So, we are a customer, but we are not a payer.

And so, by far the advertisers are the primary one. Users of Facebook are a classic example of a linchpin customer. The presence of ample users attracts all three of the other types of customers along with more users themselves. So, why the social network users are called linchpin because for them because we are there we are getting into the Facebook logging into Facebook that is what is attracting the other customers namely advertisers, content publishers and also the app developers.

And it is very obvious right unless you have viewers what do you want to advertise for whom do you want to advertise in a television program there is no viewer will anybody come and advertise in that program and spend money obviously no. So, you need viewers who will engage with your work advertisement. Similarly the app developers, the product they develop should be purchased by the viewers, the customers, the social network users, unless they are there in large numbers

what is in it for the app developers, why should he spend his time and knowledge to develop a product which there is no buyer for it. And same is true for the news and content publishers. Now if you now let us go to in this making this table we start with that. So, you have this four type of users, customers, users, advertisers, app developers and publishers. So, users are the value received from other customers, social interaction from other users,

then the content from the publishers many people many publishers publish their articles in Facebook for you to read or get knowledge from or get information from. So, you get that as a value and then you can see lot of apps from the developers that is the value you receive. The value received from the platform is the networking tool because the platform is there with all these networking tools you can access various features of that platform which makes it more attractive for you to use Value provided to other customers. So, your social interaction is something value you are providing to your friends, peers, relatives, colleagues etcetera.

And you are paying dollar for apps if you buy any apps you are providing some buying spending some money giving some dollars to the developer. And you are providing a value in terms of audience because you are reading what somebody If somebody has published a blog or an article and you are reading it then you are providing that value audience because why should you otherwise publish if there is no reader. So, just by reading you are giving accepting that value of that article or the content whosoever has authored that. Value provided to the platform is the dollar share for apps.

and if you are buying any data. So, if you are buying any app, the app developer gets some money, Facebook gets some commission. So, that is the dollar share for apps and you can buy some data also from Facebook, Facebook sells data and that creates lot of problems, but that is one of the major business model. The customers they attract. So, they attract other users we have already discussed if I join my friends will join everybody join.

So, it is a like a becomes a kind of a pool for others. You are attracting advertisers, you are attracting developers and you are attracting publisher that I already was I explained in the previous slide how because users are there they are also there if users are not there they would not be there very simple. And the profile is that of the user is a linchpin and the same answer is this because the user is there the other 3 customers are there in the platform. So, this customer type name user is attracting by far large all the other 3 customer.

Now, the next customer type is users sorry advertisers. So, the value received from other customers is audience means you are going through that app checking it out reading it whatever. Then the value received from the platform is the targeting tools, because the platform is help you to market that product which you have produced. The value provided to the other customers is information, the value you are giving to the users is the

information and the value you are providing to the platform is your dollar for audience because when you are getting money from the user you are getting some giving some commission to the platform.

And customers they attract is of course, users and your profile is a primary pair because you are paying some money to Facebook platform from whatever you are earning from the user as a commission. The third customer is app developers. So, app developers are dollars for the apps you are getting from the users, this is the value you are receiving from the other customer. Then the value received from the platform means it is helping you to go viral there to spread out the viral distribution of your apps.

The value provided to other customers is the value itself the app itself is the value you are giving it to the users and then the value provided to the platform is user stickiness. What is meant by user stickiness is that you are getting because of the apps are there many users are getting attracted to this platform namely Facebook. And they stay there because they know this app will come the other new app will come there is a lot of new apps are coming then the apps get upgraded etcetera. So, that is what it is meant by stickiness first you get attracted to the platform and then you stick with the platform stay. you do not leave because this app is amongst other things this platform is also providing lot of apps useful apps.

So, customers they attract obviously, they attract users and profile is fair because app developers also paying money to them. platform Facebook whereas, the advertisers are the primary pair because they are paying the major share of the money revenue for Facebook primarily comes from the advertisers. And the fourth category is the publishers same value received from other customers is the audience because audience they read that is the value they receive other that is why they The value received from platform is again viral distribution and value provided to other customers is the content. So, whatever you are writing that is the content that is the value you are giving.

Because interesting articles get published that is why we stick like we subscribe to a journal. Because, that journal comes up with a nice articles or articles which I like. So, I stick to that journal say online journal or whatever. Same here if in Facebook they keep publishing interesting articles updated news and blogs and etcetera discussion threads we like that. So, we try to stay with Facebook.

So, that is user stickiness. Customers they attract is obviously users and they are a sweetener in the sense they Facebook they only publish. So, that is the value they are

giving to Facebook is user stickiness. So, that is why Facebook wants good quality publishers because then they will attract the main linchpin customer that is the user

and because of user the advertisers will come and because advertisers will come they will be the primary pair. So, that will give them maximum revenue. But they individually by themselves these publishers they will not be paying any dollar. So, there that is why they are being called as sweetener. Now, see how this it will look like on a pictorial format for you to understand. So, Facebook at the center primary users here is a linchpin should be on the top on the right side should be the primary payer it start with primary payer advertisers.

then you come to another pair which is app developer and then the publisher which is a sweetener. So, all these things we have explained already. So, it attracts 4 types of customers the primary is a major source of revenue and then if you see the follow the arrows Facebook if you see social interaction value users give to the platform dollar for the apps they are buying. So, there is a dollar share for the apps and the value the users are receiving our social interaction content apps networking tools etcetera.

For the advertisers the value they are receiving is the audience of the targeting tools and the targeting tools and what they are paying is dollar for the audience Facebook. So, that is why it is in the directly paying it to the platform. So, that is why it is in parenthesis. is the value giving to the Facebook is apps which is user stickiness the results in user stickiness and they are receiving dollar for the apps. Because users are paying dollars for the apps from this minus the commission of Facebook they are give coming to the app developers.

Similarly, here publishers is the audience is the value they are receiving and the content is what they are giving to Facebook to increase stickiness. And if you see this symbol here one each of them are attracting one customer, publishers attracting user, app developers attracting user, but if you come here users they are attracting four customers publisher, other users, app developers, advertisers. So, you have four symbols like this to indicate that this user that is why it is called linchpin, it attracts four types of customers advertisers, app developers, publishers and other users. The ways it can be used this business model map is anytime you are building your own platform as a new business as a new venture in a business or as a strategic shift in an existing business venture.

The logic of multi-sided platform is quite different from that of a traditional product service or reseller business. It is therefore, very important to understand in advance the

value exchange which your platform will be based upon. The strategy questions that can be clarified with a platform business model map include, what do you need to bring on board to make your platform work? See each of the features are very important not only the money, you need a customer who will attract others customer the linchpin. How will you monetize the platform?

Who are your most important customers to prioritize? Likely both the primary pair and the linchpin. So, you have to focus on these two primary pair and linchpin. Is your business model in balance? Does each party receive enough value to attract their participation?

Does each party contribute enough value to justify their inclusion? Will the platform be sustainable? So, these are the questions we need to review for each other party are they receiving enough value? So, they will stay. Or are they contributing enough value to justify why I am having them as a my customer at all.

So, once you get the answer of this then it will you can be able to decide where this model will be sustainable now, because if some customers they leave the part then the platform will not work it will collapse. Also you can use the platform business model as a tool to analyze other multi sided platforms For example, you want to get into a competition with Airbnb or Facebook. So, you analyze their model map and to find out who are the players, who are the customers, So, this could include competitors or partners in the industry platform in another industries best practices you wish to analyze

or a platform that is currently acting as a intermediary between you and customers. So, any other platform which are either a competitor or your partner and you want to analyze their best practices. So, that you want to learn. the tricks what they are doing and how they are succeeding. So, you can do it yourself. Analysing another firm's platform will help you to answer important questions including who are their key customers, what is the role or value contribution of each customer type,

what draws each party bring to the platform. How does the platform monetize? So, what is attracting to the platform and then how does they do the monetize and what value do you provide if you are a party to the platform? So, it is another platform there you are trying to analyze that and you find want to find out what value you are providing to that platform. So, that is why understanding this map is so important and you should be able to do it on your own and that is why this is can be seen as a tool a platform business model map de

veloping tool and you can use it for these purposes competitor analysis to start a new business basically. Fundamentally you want to start new platform that is one you should immediately go for this try to this. And also if you want to analyze your partners platform business model so that you can find out the best practices, key customer types or where they are making the revenue etcetera all those inside details. So, you have to do an analysis in this structured manner. With that I will end this module, module number 5 which was about the platform strategy, platform business.

Thank you very much.