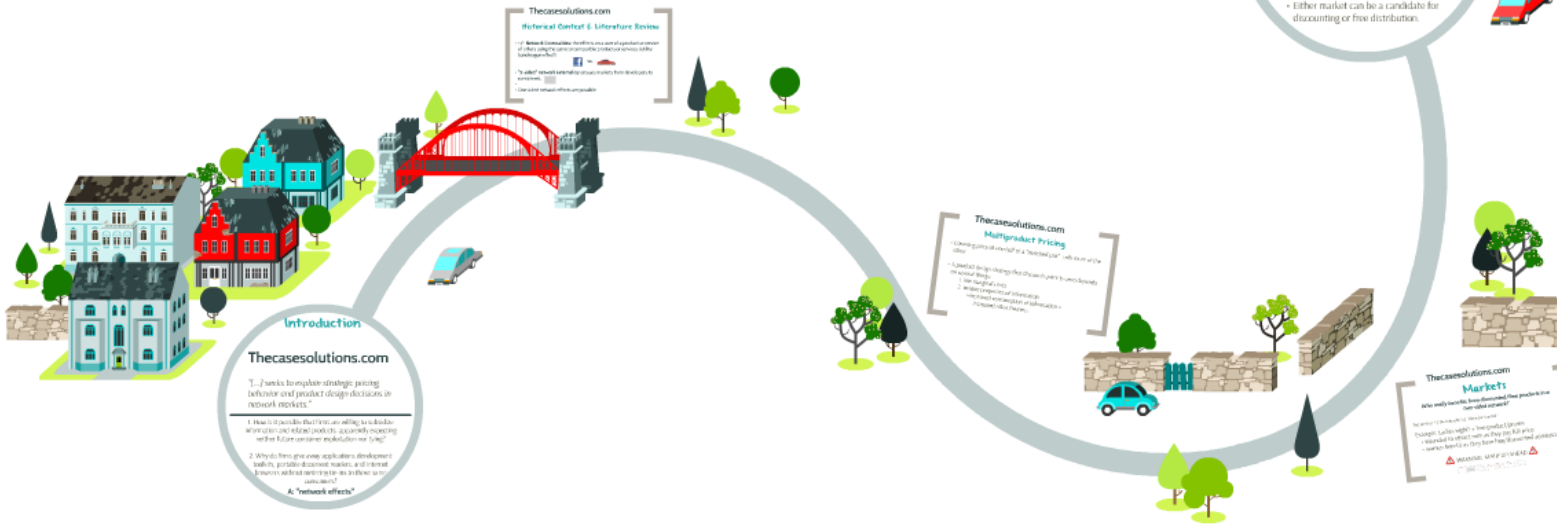


# Strategic Decisions for Multisided Platforms

## Thecasesolutions.com



**References**  
1. ...  
2. ...  
3. ...

# Strategic Decisions for Multisided Platforms

## Thecasesolutions.com



**Thecasesolutions.com**  
**Historical Context & Literature Review**

- 1. Network Externalities: The effect on a user of additional users of a network, which can be either positive or negative.
- 2. Network Effects: The effect on a user of additional users of a network, which can be either positive or negative.
- 3. The role of network externalities.

**Introduction**

**Thecasesolutions.com**

1. How is it possible for firms to exploit network effects in network markets?

2. Why do firms give away applications, developer tools, or other products to their users, and how do network effects affect their decisions?

A. "Network effects"

**Conclusion**

- Two-sided model = can suggest new approaches for estimating network effects.
- Network effects can stimulate new surplus vs. price discrimination strategies.
- Firm can rationally invest in a product it intends to give away even in the absence of competition.
- Either market can be a candidate for discounting or free distribution.

**References**

Allen, (2013), *Network Externalities in the Market for Software*, *Journal of Economic Surveys*, 27(4), 645-674.

Arthur, W. B. (1986), *Complexity in the Economics of Information*, *Journal of Economic Literature*, 24(4), 1353-1395.

Foray, D. (2012), *Network Externalities and the Economics of Innovation*, *Journal of Economic Surveys*, 26(4), 789-821.

**Thecasesolutions.com**  
**Multisided Pricing**

- 1. The effect of network externalities on pricing.
- 2. The effect of network externalities on pricing.
- 3. The effect of network externalities on pricing.

**Thecasesolutions.com**  
**Market**

How many markets have you entered from products in this market?

1. The effect of network externalities on pricing.

2. The effect of network externalities on pricing.

3. The effect of network externalities on pricing.



# Introduction

## Thecasesolutions.com

*"[...] seeks to explain strategic pricing behavior and product design decisions in network markets."*

---

1. How is it possible that firms are willing to subsidize information and related products, apparently expecting neither future consumer exploitation nor tying?
2. Why do firms give away applications development toolkits, portable document readers, and Internet browsers without metering tie-ins to those same consumers?

**A: "network effects"**

# Thecasesolutions.com

## Historical Context & Literature Review

- +/- **Network Externalities:** the effects on a user of a product or service of others using the same or compatible products or services. (utility, bandwagon effect)



vs.



- **"2-sided" network externality:** crosses markets from developers to consumers.

A small, low-resolution icon of a table with multiple rows and columns, representing data or a list.

- One sided network effects are possible

# Thecasesolutions.com

## Multiproduct Pricing

- Lowering price of one half of a "matched pair" sells more of the other.
- A product design strategy that discounts price to zero depends on several things:
  1. low marginal costs
  2. unique properties of information
    - ~increased consumption of information = increased attractiveness.

# Thecasesolutions.com

## Markets

***Who really benefits from discounted/free products in a two-sided network?***

*Two parties: 1.) the intended 2.) "there for the ride"*

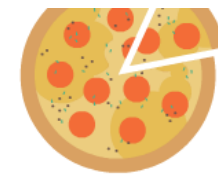
Example: Ladies night! → free product/promo

- intended to attract men as they pay full price
- women benefit as they have free/discounted admission



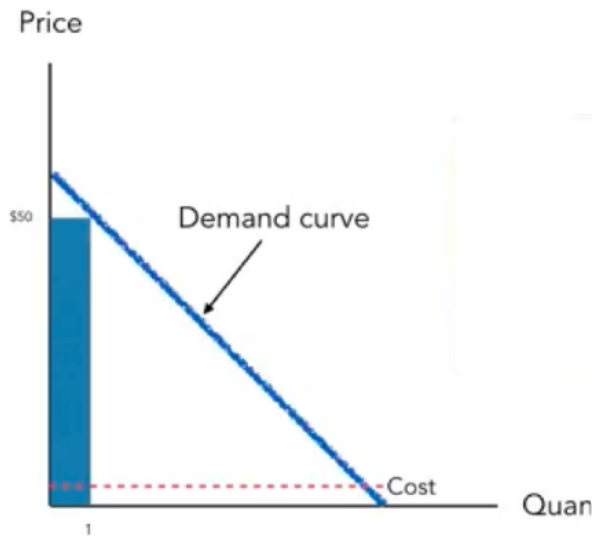
**WARNING: MATH UP AHEAD**



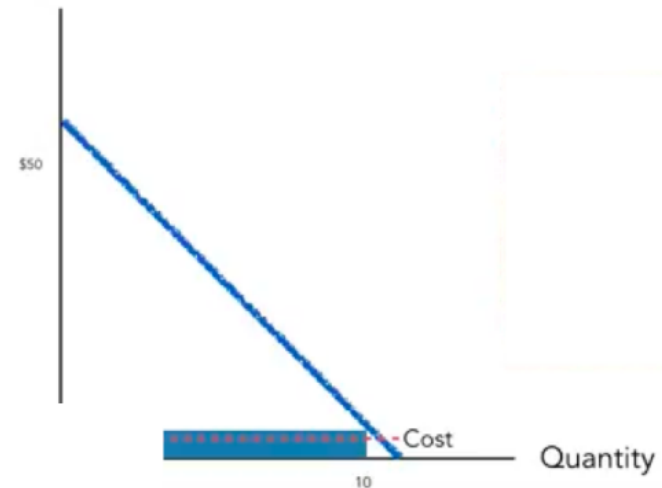


# Thecasesolutions.com

A. high end



B. Low end



C. Optimal



~ Demand positive & negative shift.

## Two-sided Market

Customers  
(Demand for goods/services)



Vendors  
(Supply of things to sell)





# Thecasesolutions.com

## Network Effects

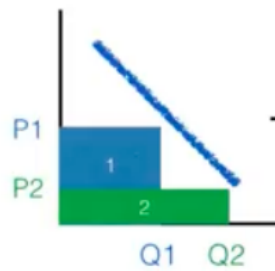
Cross-side

Same-Side

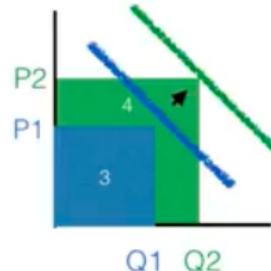
II

Companies want to advertise on FB because wide consumer base.

More Buyers

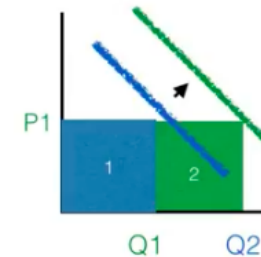


More Sellers

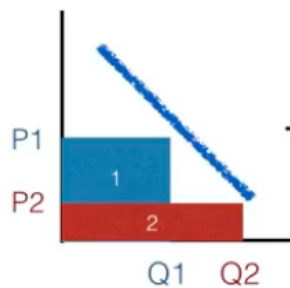


Fellow gamers want friends to have the same system to play together.

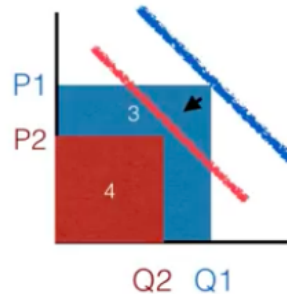
More Gamers



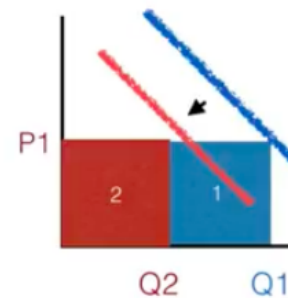
More Ads



Less Viewers



More Seller Competition



III

Too many companies trying to advertise on radio/tv, customers will change channel.

Exclusive/private clubs lose value as people join.

IV