Managing Proprietary and Shared Platforms

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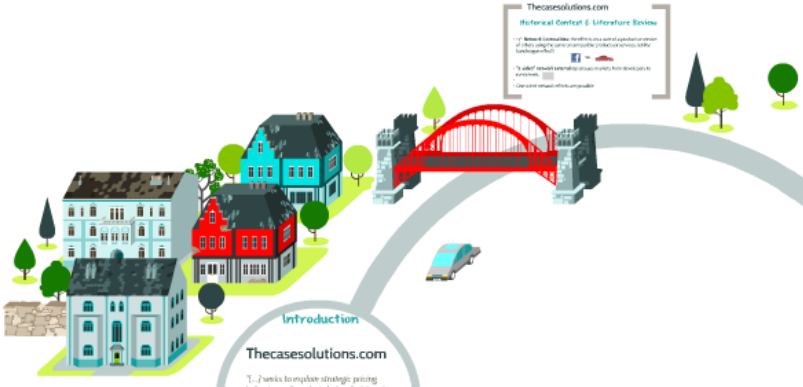
Conclusion

- 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



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Historical Context & Literature Review

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Multiproduct Pricing

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Markets

Introduction

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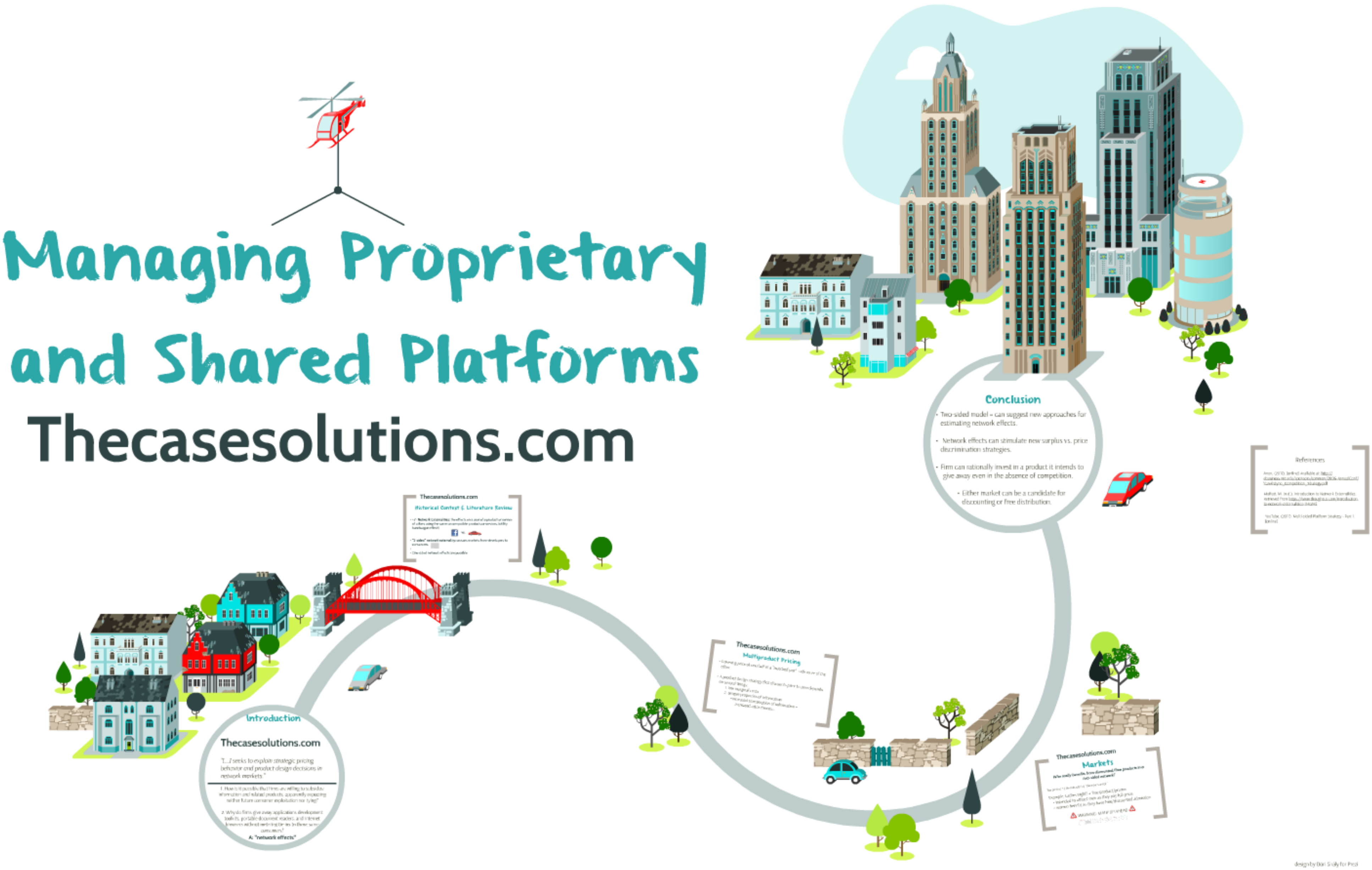
"[...] seeks to explain strategic pricing behavior and product design decisions in network markets."

1. How is it possible that firms are willing to subsidize consumption (and related products, apparently expecting neither future consumer exploitation nor lying)?

2. Why do firms give away applications, development toolkits, portable document readers, and Internet browsers without seeming to rely on these as a source of revenues?

A: "network effects"

design by Dan Sisily for Prezi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"[...] seeks to explain strategic pricing behavior and product design decisions in network markets."

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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"

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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. 
-
- One sided network effects are possible

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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.

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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

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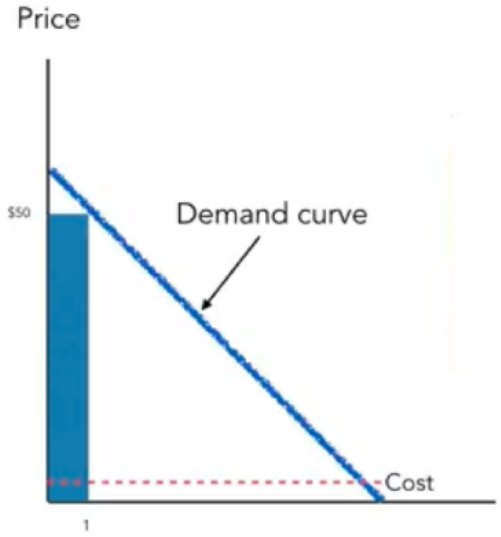
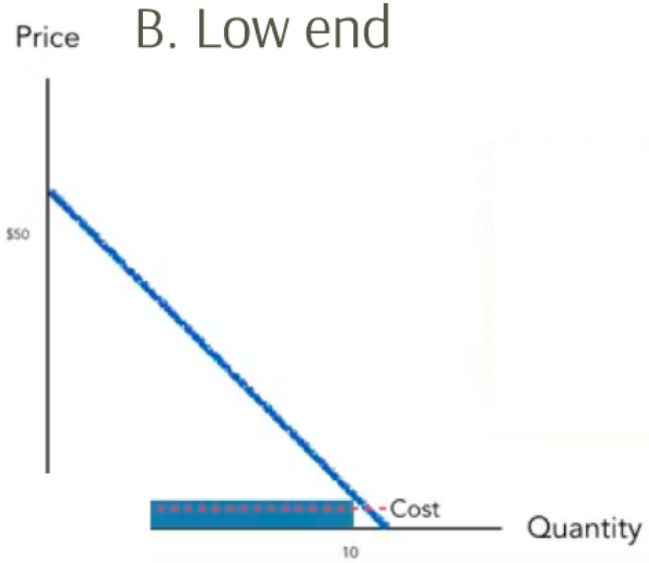
A. high end



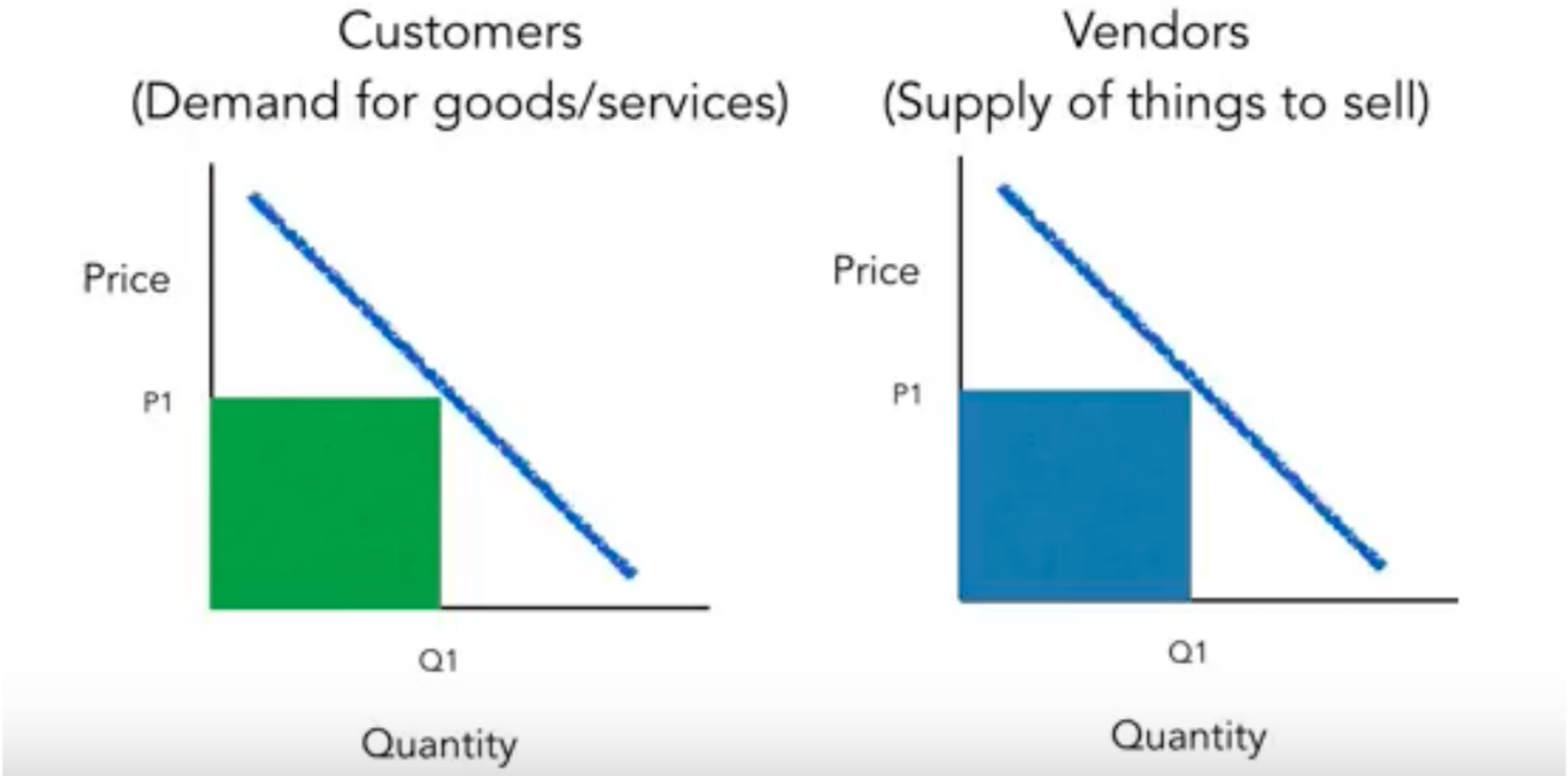
B. Low end



C. Optimal

~ Demand positive & negative shift.

Two-sided Market



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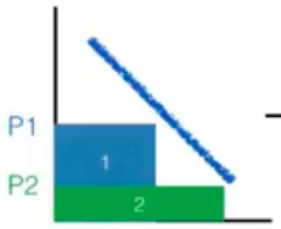
Network Effects

Cross-side | **Same-Side**

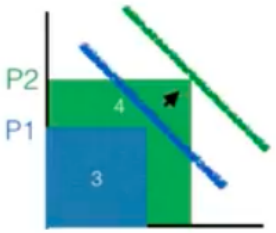
II

Companies want to advertise on FB because wide consumer base.

More Buyers



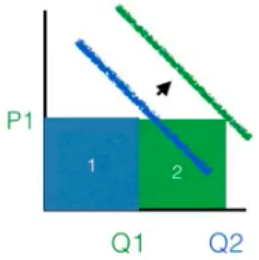
More Sellers



I

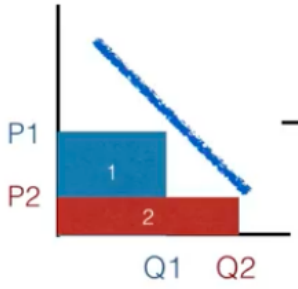
Fellow gamers want friends to have the same system to play together.

More Gamers

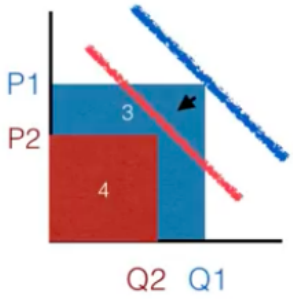


III

More Ads



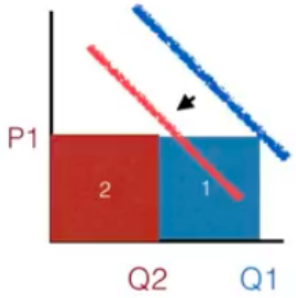
Less Viewers



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

IV

More Seller Competition



Exclusive/private clubs lose value as people join.