

Managing Proprietary and Shared Platforms

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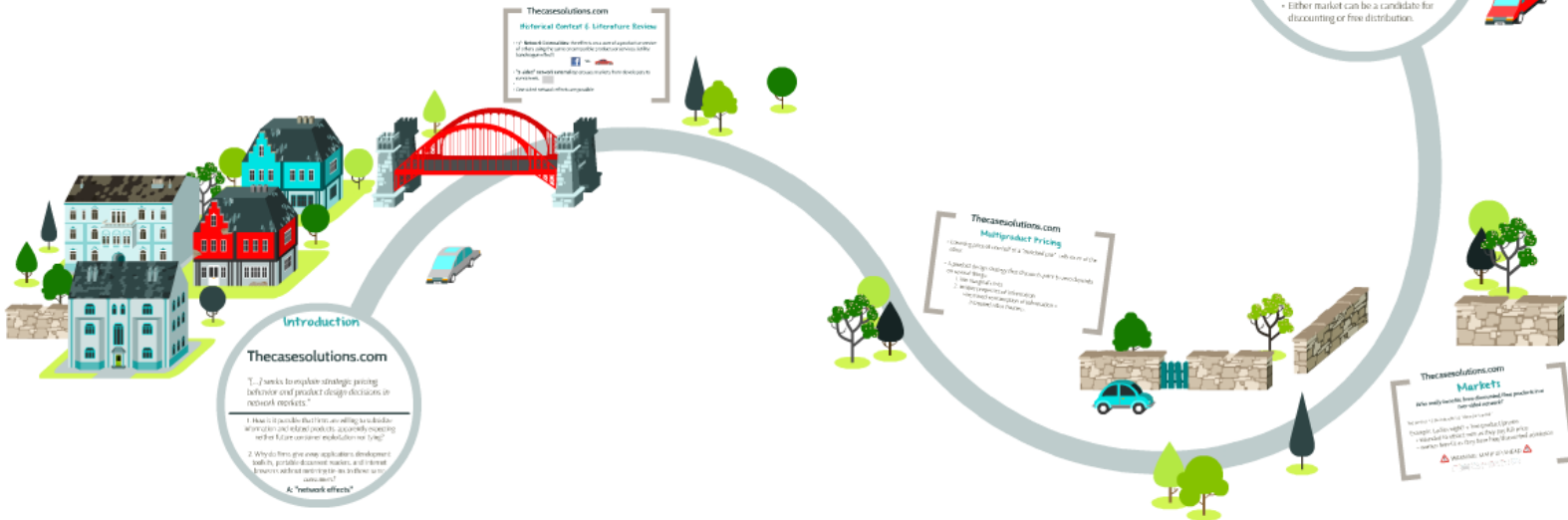


Conclusion

- 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.

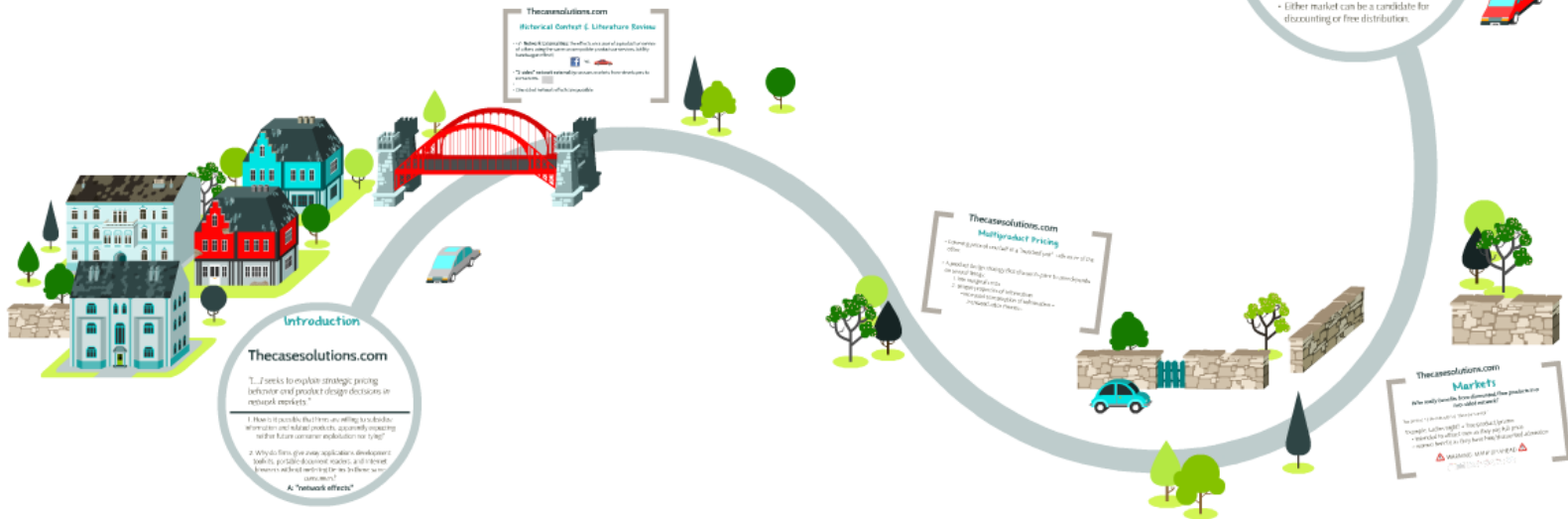
References

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Introduction

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"... seeks to explore strategic pricing behavior and product design decisions in network markets"

1. How is it possible for firms to exploit network effects and future consumer exploitation not yet?"

2. Why do firms give away applications, developer tools, product developer training, and direct business without receiving the in-between revenue?

A. "network effects"

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Historical Context & Literature Review

1. Network Effects: The effects on a product or service of other people using the product or service. (Wilder, 1984)

2. Why? Network externalities can create a free-rider problem.

3. The social network effect is complex.

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Multi-product Pricing

1. A firm can exploit network effects by offering a multi-product bundle.

2. A firm can exploit network effects by offering a multi-product bundle.

3. A firm can exploit network effects by offering a multi-product bundle.

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Market

How many markets have developed from products in this market?

The price is a function of the number of products in the market.

Market is a function of the number of products in the market.

Market is a function of the number of products in the market.

Conclusion

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- 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 Effects in Business*. Cambridge University Press.

Wilder, M. (1984), *Introduction to Network Externalities*. Harvard Business School Press.

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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 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.

A small, faint icon of a table with multiple rows and columns, likely representing a data table or spreadsheet.

-
- 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?

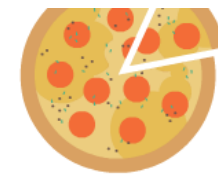
Two parties: 1.) the intended 2.) "there for the ride"

Example: Ladies night! → free product/promo

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

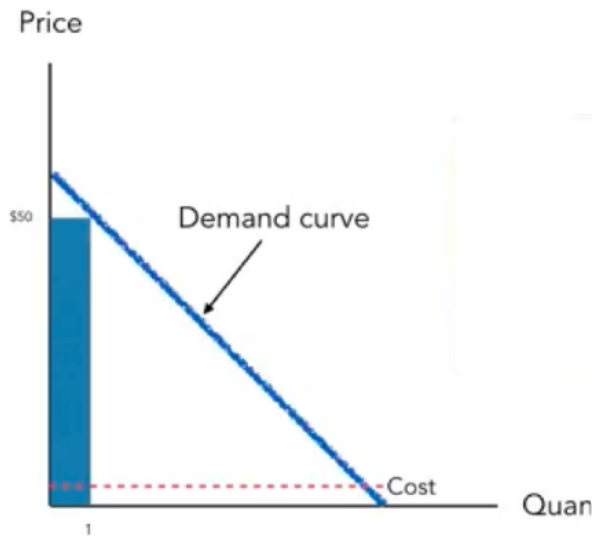
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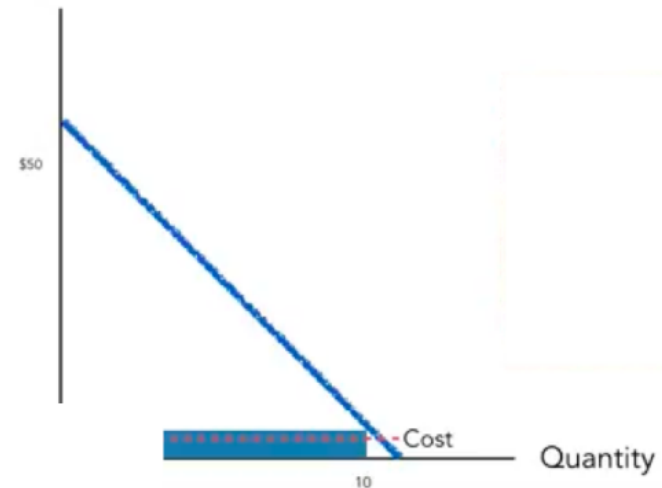


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A. high end



B. Low end



C. Optimal



~ Demand positive & negative shift.

Two-sided Market

Customers
(Demand for goods/services)



Vendors
(Supply of things to sell)



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Network Effects

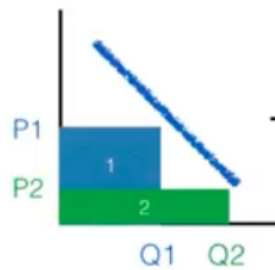
Cross-side

Same-Side

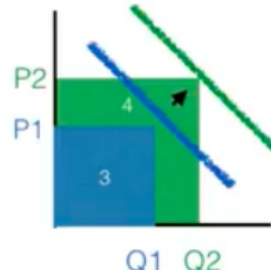
II

Companies want to advertise on FB because wide consumer base.

More Buyers

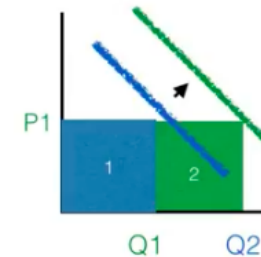


More Sellers



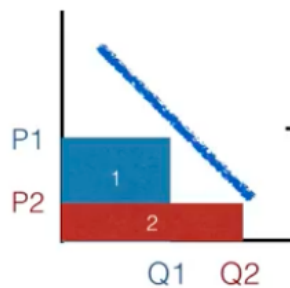
Fellow gamers want friends to have the same system to play together.

More Gamers

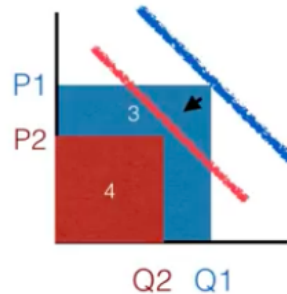


I

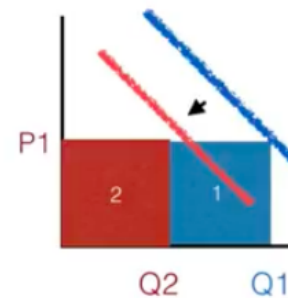
More Ads



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