TAKEAWAYS FROM CHAPTER FOUR

- ❑ Platforms are able to outcompete pipelines because of their superior marginal economics and because of the value produced by positive network effects. As a result, platforms are growing faster than pipelines and taking leading positions in industries once dominated by pipelines.
- ❑ The rise of platforms is also disrupting business in other ways. It is reconfiguring value creation to tap new sources of supply; reconfiguring value consumption by enabling new forms of consumer behavior; and reconfiguring quality control through community-driven curation.
- ❑ The rise of platforms is also causing structural changes in many industries—specifically, through the phenomena of re-intermediation, separation of ownership and control, and market aggregation.
- ❑ Incumbent companies can fight back against platform-driven disruption by studying their own industries through a platform lens and beginning to build their own value-creating ecosystems, as Nike and GE are doing.

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LAUNCH

Chicken or Egg? Eight Ways to Launch a Successful Platform

The fall of 1998 was a heady time in the world of business. Fueled by the astonishing growth of the Internet, technology-based businesses were being launched by the hundreds, and many were enjoying acclaim and soaring valuations out of all proportion to their actual revenues (often minimal) and profits (often nonexistent). Inspired by the early experiences of companies like AOL and Amazon, high-tech entrepreneurs and their cheerleaders in the media decided that the key to long-term success was growth at all costs—and many of them burned through millions of dollars in pursuit of that growth. Countless ambitious nerds in their twenties and early thirties were amassing giant fortunes—on paper, at least.

In this tumultuous atmosphere, a pair of young entrepreneurs entered the exploding Internet arena. Thirty-one-year-old Peter Thiel was born in Germany and raised in California, where he became one of the country's highest-ranked young chess players and went on to study philosophy and law at Stanford University. An avowed libertarian, Thiel helped found the *Stanford Review*, a conservative newspaper that challenged the university's dominant liberal culture.

Max Levchin, twenty-three years old, was born in Ukraine and granted political asylum when he moved to the U.S. with his family. Levchin grew up in Chicago and studied computer science at the University of Illinois at Champaign–Urbana, where he developed a passion for cryptography—the science of making and breaking codes.

By 1998, he was ready to apply his genius for crafting secure forms of computerized communications to the world of business.

Thiel and Levchin (along with a third partner, John Bernard Powers, who soon departed) launched Confinity, a startup aimed at enabling money transfers on Palm Pilots and other personal digital assistants (PDAs) equipped with infrared ports. At the time, the Palm Pilot was an exceptionally popular mobile device whose adoption rate was expected to grow, and launching a payment system on a mobile device that people carried with them everywhere made sense. The business logic behind Confinity seemed indisputable. The notion of a payment mechanism that could potentially liberate millions of people from reliance on government-sponsored currency also appealed to the idealistic Thiel's libertarian streak, much as another ambitious online payment platform—Bitcoin—would fire the imagination of libertarians a decade later.

Nonetheless, Confinity attracted few users. After two years, having gained only 10,000 signups, Levchin and Thiel shut Confinity down.

Along the way, however, they unlocked a much more promising business prospect. Back in October 1999, a Confinity engineer had cobbled together an online demo to accept payments via email. This side project represented a significant potential improvement in payments processing; unlike previous systems for online payments, it allowed anyone in the world to receive an online payment from anyone else without needing to use the unwieldy system for transferring funds from one bank account to another. Levchin and Thiel recognized that it might be possible to turn this new form of online payment into a significant business on its own—one that could serve millions of consumers and the online businesses they patronized.

They came up with a name for the service—PayPal—and set out to build a company around it. It was, at that point, an inauspicious moment in the business cycle to launch such a service; the possibility of a collapse of the so-called Internet bubble was looming over the high-tech industry, and within a few months a precipitous decline in the NASDAQ index would make the dot-com bust official. Adding to the pressure was the fact that Thiel and Levchin knew they would

have to make PayPal successful *fast*—they were spending some $10 million per month on the business, a large amount in the platform world, where huge capital expenditures are normally not required.[1]

They also realized they would have to overcome one of the toughest challenges associated with creating a business designed to serve two sides of a market—the chicken-or-egg problem. When trying to build a two-sided market in which both sides are equally essential, which comes first? And how do you attract one without the other?

In the case of a new payments mechanism, the chicken-or-egg problem is particularly obvious and acute. Without sellers who are willing to accept the new form of payment, buyers won't adopt it. But if buyers don't adopt the new form of payment, sellers won't invest time, effort, and money in accepting it. So how do you launch a new payments platform from a base of zero, starting with neither sellers nor buyers—when neither group has a reason to join until the other side joins first?

In terms of simple logic, the chicken-or-egg problem might seem insoluble. PayPal solved the problem through a series of ingenious strategies.

To start with, PayPal reduced the friction involved in accepting online payments. All a user needed was an email address and a credit card. This simplicity was in stark contrast to previous online payment mechanisms, which demanded multiple rounds of verification before an account could be set up, thereby discouraging early users. PayPal's user-friendly, almost frictionless system attracted a significant initial base of consumers—though not enough, in itself, to make the platform attractive to the universe of online sellers.

In a lecture he later gave at Stanford, Peter Thiel explained what happened next:

> PayPal's big challenge was to get new customers. They tried advertising. It was too expensive. They tried BD [business development] deals with big banks. Bureaucratic hilarity ensued. . . . the PayPal team reached an important conclusion: BD didn't work. They needed organic, viral growth. They needed to give people money.
>
> So that's what they did. New customers got $10 for signing up, and

existing ones got $10 for referrals. Growth went exponential, and PayPal wound up paying $20 for each new customer. It felt like things were working and not working at the same time; 7 to 10 percent daily growth and 100 million users was good. No revenues and an exponentially growing cost structure were not. Things felt a little unstable. PayPal needed buzz so it could raise more capital and continue on. (Ultimately, this worked out. That does not mean it's the best way to run a company. Indeed, it probably isn't.)[2]

Thiel's account captures both the desperation of those early days and the almost random experimentation the company resorted to in an effort to get PayPal off the ground. But in the end, the strategy worked. PayPal dramatically increased its base of consumers by incentivizing new sign-ups.

Most important, the PayPal team realized that getting users to sign up wasn't enough; they needed them to try the payment service, recognize its value to them, and become regular users. In other words, *user commitment* was more important than *user acquisition*. So PayPal designed the incentives to tip new customers into the ranks of active users. Not only did the incentive payments make joining PayPal feel riskless and attractive, they also virtually guaranteed that new users would start participating in transactions—if only to spend the $10 they'd been gifted in their accounts.

PayPal's explosive growth triggered a number of positive feedback loops. Once users experienced the convenience of PayPal, they often insisted on paying by this method when shopping online, thereby encouraging sellers to sign up. New users spread the word further, recommending PayPal to their friends. Sellers, in turn, began displaying PayPal logos on their product pages to inform buyers that they were prepared to honor this method of online payment. The sight of those logos informed more buyers of PayPal's existence and encouraged them to sign up. PayPal also introduced a referral fee for sellers, incentivizing them to bring in still more sellers and buyers. Through these feedback loops, the PayPal network went to work on its own behalf—it served the needs of users (buyers and sellers) while spurring its own growth.

However, the company leaders didn't sit back and rely on the positive feedback loops to do all the growth work on their own. They looked for opportunities to jack up the growth rate still further.

In early 2000, they noted the growing popularity of PayPal on eBay, the most popular online auction site. It was a natural place for PayPal, since most of the sellers on eBay aren't full-time merchants but ordinary people without facilities for accepting credit cards or other forms of online payment.

PayPal's marketing team opportunistically refocused its efforts toward enabling payments on eBay. Among other techniques, they simulated consumer demand on eBay by creating a bot (an automated software tool) that bought goods on the site and then insisted on paying for these transactions using PayPal. Noting this apparent growth in demand, many eBay sellers signed up for the PayPal service—which in turn made PayPal even more visible and attractive to consumers. The sellers began posting PayPal icons on their sites, enabling buyers to access the payment system with just a single click of the mouse, reducing friction still further.[3]

Within three months, PayPal's user base grew from 100,000 to one million.

The leaders of eBay noticed how PayPal had built its own platform business partly on eBay's back. Concerned about the potential competitive threat posed by a company that was building an independent connection with eBay customers (and siphoning off a fraction of the revenues from eBay transactions to boot), eBay tried to fight back. It launched its own payment system, Billpoint, in partnership with Wells Fargo Bank. It promoted Billpoint aggressively, at one point requiring eBay merchants who accepted both Billpoint and PayPal to post *larger* icons for Billpoint on their sale pages. Despite these efforts, Billpoint failed to get traction among eBay users, partly because of its belated launch, partly because of ill-advised business moves by eBay—for example, the decision to squelch deals that would have promoted Billpoint's use by non-eBay merchants.

PayPal continued to grow. By the time Confinity shut down its Palm Pilot business in late 2000, its offspring PayPal had already garnered three million accounts—three hundred times the number achieved by its parent company. Not since the launch of the first credit card, Diners Club, has the world seen such rapid global adoption of a new payment instrument. In February 2002, PayPal went public.

In October 2002, eBay finally gave up on Billpoint and acquired PayPal in exchange for $1.4 billion in stock—a modest sum by today's standards but a significant one at the time. At the time of the sale, 70 percent of all eBay auctions accepted PayPal, and roughly 25 percent of closed auction purchases were transacted using the payment service. Today, PayPal produces a major portion of eBay's revenues and profits while enabling hundreds of thousands of small merchants to conduct business online more easily, efficiently, and profitably than ever before.

THE HEART OF PLATFORM MARKETING: DESIGNING FOR VIRAL GROWTH

As the PayPal story suggests, building a platform business differs from traditional product or pipeline marketing in a number of ways. For starters, in the world of platform marketing, *pull* strategies rather than *push* strategies are most effective and important.

The industrial world of pipelines relies heavily on push. Consumers are accessed through specific marketing and communication channels that the business owns or pays for. In a world of scarcity, options were limited, and getting heard often sufficed to get marketers and their messages in front of consumers. In this environment, the traditional advertising and public relations industries focused almost solely on awareness creation—the classic technique for "pushing" a product or service into the consciousness of a potential customer.

This model of marketing breaks down in the networked world, where access to marketing and communication channels is democratized—as illustrated, for example, by the viral global popularity of YouTube videos such as PSY's "Gangnam Style" and Rebecca Black's "Friday." In this world of abundance—where both

products and the messages about them are virtually unlimited—people are more distracted, as an endless array of competing options is only a click or a swipe away. Thus, creating awareness alone doesn't drive adoption and usage, and pushing goods and services toward customers is no longer the key to success. Instead, those goods and services must be designed to be so attractive that they naturally pull customers into their orbit.

Furthermore, for a platform business, user commitment and active usage, not sign-ups or acquisitions, are the true indicators of customer adoption. That's why platforms must attract users by structuring incentives for participation—preferably incentives that are organically connected to the interactions made possible by the platform. Traditionally, the marketing function was divorced from the product. In network businesses, marketing needs to be baked into the platform.

This new way of thinking about marketing is reflected in the strategies that the leaders of PayPal used to make their platform successful. Rather than pushing PayPal into the consciousness of users through, for example, television commercials, print advertisements, or email blasts, they created incentives that gave the platform itself a pull appeal—including both the ultra-simplicity of PayPal's service and the payments that rewarded those who delivered new sign-ups. They pulled sellers onto the platform by both creating demand for PayPal's service among buyers and simulating demand through the eBay shopping bot. As more users signed up, PayPal's attractiveness continued to intensify. In the end, competing payment services were swept away—testament to the power of pull.

Traditional push strategies continue to be relevant in the world of platforms. For example, Instagram received tens of thousands of downloads on the day of its launch when it was featured as the number one app on Apple's iTunes store—the kind of push strategy that pipeline companies have used for decades. And, as we'll discuss later, Twitter achieved liftoff largely because of a massively successful public relations event—another push type of strategy.

But in the world of platforms, rapid, scalable, and sustainable user growth is most often achieved through pull processes.

THE INCUMBENTS' ADVANTAGE: REALITY OR ILLUSION?

The chicken-or-egg problem and the difficulties of attracting a large user base may cause you to wonder: why shouldn't incumbent companies with huge existing customer bases take over the world of platforms? Perhaps it's just a matter of time before companies like Walmart, Samsung, and GE leverage their head starts to crush the competition.

Large enterprises do have some advantages when launching platform businesses. They have existing value chains, powerful alliances and partnerships with other companies, pools of talent to draw upon, and vast arsenals of resources—including loyal customer bases.

However, these advantages can create complacency. In the traditional business world dominated by products and pipelines, there is usually time to observe the rise of outside competition and to make adjustments. Most big companies have evolved metabolisms that reflect this relatively slow pace of change: their processes for strategic planning, goal-setting, self-evaluation, and course correction operate on leisurely schedules with annual or, at best, quarterly checkpoints. However, in the world of platforms, dominated by networks that interact rapidly and unpredictably, the market can change quickly and customer expectations can change even faster. Management systems need to change accordingly.

As incumbent companies reinvent themselves for the world of platforms, they will find themselves on the same playing field as lithe, fast-moving startup companies. In a world of democratized network access and pull marketing, the advantages once produced by size, experience, and resources have become less important.

So if you're an entrepreneur or a would-be entrepreneur, or if you help to run a small or midsized company that has its eye on a platform business opportunity, don't be intimidated by the prospect of a giant competitor encroaching on your space. The rules of the growth game have changed, and if you understand and master the new rules, you have as good a chance of surviving and thriving as anyone.

THERE ARE MANY WAYS TO LAUNCH A PLATFORM

It's tempting to assume that the launch strategy that works for Platform A will work for Platform B. But history shows it isn't so. In fact, even platforms that are direct competitors may need to adopt different launch strategies in order to carve out powerful and unique positions in the marketplace. The stories of three competing online video platforms—YouTube, Megaupload, and Vimeo—illustrate this point vividly.

YouTube was the first democratic (anyone can upload) video hosting platform to gain mainstream traction. It did this by focusing entirely on content creators. During its initial days, YouTube conducted contests incentivizing content creators to upload videos. Additionally, it allowed content creators to embed their videos off-platform, which rapidly spread the word about YouTube. Certain potential users found the new venue highly attractive. For example, much of the engagement on the then-popular social network Myspace was built around indie bands. YouTube improved on Myspace by creating the Flash-based, one-click video experience, making it easy for bands to upload videos of their music. This created an initial corpus of content for YouTube and simultaneously leveraged producers to bring in consumers, some of whom eventually converted to producers as well. Strengthening its focus on producers, YouTube even elevated top content creators to a partner status that entitled them to a share of ad revenue.

YouTube's unrelenting focus on producers helped in four ways. First, it seeded the platform with content. Second, it created a curation dynamic on the platform to identify quality content by letting viewers vote up or down on the videos they watched. Third, it leveraged producers to bring in consumers. Fourth, and most important, it created a set of content creators who had an investment in the platform, had a user following, and would not be easily incentivized to invest in another one.

Megaupload was faced with the *late-mover problem*. By 2005, when Megaupload launched, most content creators were already active on YouTube, and there was no incentive for them to participate in a new platform with a smaller market of viewers. As the second mover, Megaupload couldn't compete head-on following the same user acquisition strategy as the market pioneer. So it employed an alternative launch strategy. It focused exclusively on consumers (viewers) by seeding the platform with content internally, specifically creating content in categories that were increasingly being policed on YouTube, including pirated videos and pornography. Megaupload gained significant traction by addressing these seemingly underserved needs. However, in the process it exposed itself to lawsuits and negative publicity.

Our third player, Vimeo, was another late entrant (it was launched in November 2004)—but it succeeded with a producer-first strategy that competed directly with YouTube. The key was creating a set of higher-quality tools that appealed to a particular set of users who felt neglected by YouTube.

In its initial days, YouTube's hosting and bandwidth infrastructure, coupled with its embeddable player, constituted a compelling value proposition to producers. However, as YouTube gained traction among producers, the focus of the platform moved from improving video hosting infrastructure (as a value proposition to producers) to improving matchmaking of videos with consumers (focusing on video search, and a video feed).

Vimeo responded to YouTube's shift by focusing its platform on the producers and providing them with superior infrastructure, including built-in support for high-definition video playback and a better embeddable player for installation on blogs. This enabled it to compete successfully with YouTube in pursuit of producers who would create a sustainable flow of videos.

As these varying examples illustrate, if you're launching a platform, knowing the value propositions offered by your competitors can help you structure your own, allowing you to claim a relatively untouched market niche—even if your basic value unit may appear similar on the surface.

EIGHT STRATEGIES FOR BEATING THE CHICKEN-OR-EGG DILEMMA

Understanding the importance of pull strategies in a platform market, as well as the need to analyze and respond to your rivals' business designs, are significant elements of launch strategy. But the dilemma we call the chicken-or-egg problem still looms for virtually all platform founders. How to begin building a user base for a two-sided market when each side of the market depends on the prior existence of the other side?

One way to address this conundrum is to avoid the chicken-or-egg problem altogether by building a platform business on the foundation of an existing pipeline or product business. This approach is known as:

1. The follow-the-rabbit strategy. Use a non-platform demonstration project to model success, thereby attracting both users and producers to a new platform erected on your project's proven infrastructure.

Consider Amazon. It never faced the chicken-or-egg problem because, as a successful online retailer, it operated an effective pipeline business that used online product listings to attract consumers. With a thriving consumer base, Amazon converted itself into a platform business simply by opening its system to external producers. The result is Amazon Marketplace, which enables thousands of merchants to sell their products to millions of consumers—with Amazon enjoying a small slice of revenue from every transaction.

In the B2B space, Intel faced the same challenge in demonstrating the value of wireless technology. No one wants a wireless laptop if no hosts provide wireless service; no hosts will spend on wireless routers if no users demand them. Intel partnered with the Japanese telecom company NTT to demonstrate that a market existed. Once NTT showed that money could be made by catering to this market, dozens of other firms followed suit. Intel, in fact, originated the term "follow the rabbit" to define this strategy.

It's not always possible to use the follow-the-rabbit strategy. Sometimes you have to start your platform from scratch, which means that finding a way to attract a base of users on both sides of your market is an unavoidable challenge.[4] There are a number of specific, effective strategies that have been developed and demonstrated for overcoming the chicken-or-egg problem. In general, these strategies involve three techniques:

1. **Staging value creation.** The platform managers arrange for the creation of value units that will attract one or more sets of users and demonstrate the potential benefits of participating in the platform.[5] Those initial users create more value units, attract still other users, and set up a positive feedback loop that leads to continuing growth.[6] The *Huffington Post* followed this strategy by hiring writers to create an initial array of high-quality blog posts for the site, thereby attracting readers. Some of these readers began contributing blog posts of their own, leading to the gradual development of a wider network of content creators and attracting even more readers.
2. **Designing the platform to attract one set of users.** The platform is designed to provide tools, products, services, or other benefits that will attract one set of users—either consumers or producers. The existence of a critical mass of users on one side of a marketplace attracts users on the other side, leading to a positive feedback loop. As we'll detail below, the restaurant reservation platform OpenTable used this strategy by creating useful electronic tools for restaurateurs. Once a large number of restaurants were on board, consumers began to discover the site and started using it to make their dining plans.
3. **Simultaneous on-boarding.** To start, the platform creates conditions such that value units can be created that are relevant to users even when the overall size of the network is small. It then strives to stimulate a burst of activity that will simultaneously attract consumers and producers in sufficient numbers to create larger numbers of value units and value-producing interactions, so that network effects can begin to kick in. Later in this chapter, we'll show how Facebook employed this strategy to make its fledgling social network attractive to users even when the universe of potential members was very small—limited, in fact, to students at a single university.

These three techniques can be used individually or together, and a variety of combinations can work effectively under the right circumstances. What follows are some of the specific variations that we've identified. If you're in the process of developing a new platform or hoping to launch one, you may find one of these an inspiring model for your own chicken-or-egg strategy.

2. The piggyback strategy. Connect with an existing user base from a different platform and stage the creation of value units in order to recruit those users to participate in your platform.

This is a classic strategy used in many successful platform launches. As we've seen, PayPal used this strategy when it piggybacked on eBay's online auction platform.

Justdial is India's largest local commerce marketplace, facilitating consumer transactions with more than four million small businesses. It seeded the initial database by borrowing listings from existing yellow pages as well as by employing feet-on-street soldiers who went door to door collecting business information. Using this data, Justdial was launched as a phone directory service. A consumer would call in looking for service providers—for example, caterers for a wedding banquet. Justdial would pass on the lead to the producers—in this case, appropriate caterers in the town where the consumer was located. Grateful for the lead, some of these service providers would become subscribers to Justdial. To encourage more active participation by local merchants, many of whom weren't previously listed anywhere online, Justdial made it easy for them to join the platform through human interfaces, telephone connections, and text messaging.

After a successful IPO in May 2013, Justdial continues to be the dominant platform in the local commerce space in India. Its humble origin was in a collection of business listings "borrowed" from an existing platform, the local telephone directory.

In the U.S., startups have used a similar strategy by piggybacking on Craigslist. The new platform starts by "scraping" Craigslist, using automated data-gathering software tools to obtain information about merchants and service providers. It then posts this information on its platform, giving consumers the impression that these merchants are actually participating on the platform. When a consumer requests a certain service provider, the platform passes on the lead while inviting the merchant to join the platform.

As described earlier in this chapter, another compelling example of the piggyback strategy is the way YouTube rode the Myspace growth wave by offering its powerful video tools to attract indie bands that were members of the social network. Once YouTube was exposed to millions of Myspace members, its adoption rate grew virally. By 2006, YouTube's reach outgrew Myspace's, and the adoption graphs have only diverged further since then.

3. The seeding strategy. Create value units that will be relevant to at least one set of potential users. When these users are attracted to the platform, other sets of users who want to engage in interactions with them will follow.

In many cases, the platform company takes the task of value creation upon itself by acting as the first producer. In addition to kickstarting the platform, this strategy allows the platform owner to define the kind and quality of value units they want to see on the platform, thereby encouraging a culture of high-quality contributions among subsequent producers.[7]

When Google launched its Android smartphone operating system to compete with Apple's, it seeded the market by offering $5 million in prizes to developers who came up with the best apps in each of ten categories, including gaming, productivity, social networking, and entertainment. Winners not only got the prize money but became market leaders in their categories, attracting large numbers of customers as a result.

In other cases, the value units may be "borrowed" from another source rather than created by the platform developer from scratch. Adobe launched its now-ubiquitous PDF document-reading tool in part by arranging to make all federal government tax forms available online. The size of this instant market was huge, encompassing any individual or business that might need to pay U.S. taxes. Adobe induced the IRS to cooperate by suggesting that millions of dollars in printing and postage costs could be saved. Taxpayers, in turn, got fast, convenient access to documents that everyone needs, at least once a year. Impressed by the value provided, many adopted Adobe as their document platform of choice.

In still other cases, seeding is done through simulated ("fake") value units. As we've seen, PayPal employed this strategy when it created bots that made purchases on eBay, thereby attracting sellers to the PayPal platform. This was especially clever, since a bot could then turn around and list for sale the item it had just bought, thereby covering both sides of the two-sided market—and precluding PayPal from ever having to warehouse and ship the item itself.

Dating services often simulate initial traction by creating fake profiles and conversations. Many skew their profiles to showcase attractive women, in a bid to attract men to the platform. Users who visit the site see the activity and are enticed to stay on.

Reddit is a highly popular link-sharing community that circulates vast amounts of Internet content. When it first launched, the site was seeded with fake profiles posting links to the kind of content the founders wanted to see on the site over time. It worked. The initial content attracted people who were interested in similar content and created a culture of high-quality contributions to the community. Over time, its members have learned to rely on one another for guidance as to what's worth scrutinizing and what is not. (The success of Reddit's launch and expansion have not shielded it from controversy, of course, as the 2015 battles over allegedly racist and bigoted content on the site made clear.)

Similarly, when Quora first started, the editors would ask questions and then answer the questions themselves, to simulate activity on the platform. Once users started asking questions, editors continued to answer them, thereby demonstrating how the platform was intended to work. Eventually, users themselves took over the process, and the "pump-priming" by Quora personnel could cease.

4. The marquee strategy. Provide incentives to attract members of a key user set onto your platform.

In many cases, there's a single group of users who are so important that their participation can make or break the success of the platform. It may, therefore, make sense for the platform manager to incentivize their participation, either through a cash payment or through other special benefits.

In the world of electronic gaming, companies like Microsoft (Xbox), Sony (PlayStation), and Nintendo (Wii) create devices that serve as platforms that connect consumers with content produced by game developers. The dominant sports game developer is Electronic Arts (EA), whose licensed games that simulate NFL football, NBA basketball, NHL hockey, and other sports (such as its Tiger Woods pro golf tour game) are annually updated and outsell all competitors. No producer of a gaming device can hope to survive without having an attractive array of games from EA available for its platform. Thus, Microsoft, Sony, and Nintendo have all been willing to provide especially sweet partnership deals to entice EA to develop or adapt games so as to be ready for release at the moment their new platforms are released.

In a variation on this strategy, a platform company may choose to purchase a marquee participant in order to obtain exclusive access to the seeds it produces. For a number of years, software producer Bungie specialized in games, like the popular Marathon, for use on Apple computers. In 2000, with the Xbox nearing launch, Microsoft bought out Bungie and repurposed a game then in development under the title Halo: Combat Evolved as an Xbox exclusive. Halo became the marquee app that sold hundreds of thousands of Xbox devices, as well as a billion-dollar franchise in its own right.

Sometimes, the marquee players whose participation is vital to platform success are consumers rather than producers. That was the case with PayPal, which is why the company gave cash incentives to entice shoppers to adopt their online payment mechanism.

In 2009, the Swiss postal service made the decision to transform itself into a digital message-delivery platform using scanning-and-archiving technology provided by Seattle-based Earth Class Mail.[8] Swiss Post soon recognized the importance of capturing and converting thousands of customers who were more comfortable with traditional mail delivery. To attract those holdouts, Swiss Post gave away thousands of iPads to households in remote neighborhoods. In the process, it encouraged these rural Swiss families to switch from physical mail to electronic messaging, thus greatly reducing the resources it had to dedicate to hand-delivering the mail. It also, not so incidentally, positioned Swiss Post to become the country's largest retailer of Apple products—a significant secondary benefit for the company.[9]

5. The single-side strategy. Create a business around products or services that benefit a single set of users; later, convert the business into a platform business by attracting a second set of users who want to engage in interactions with the first set.

Launching a service booking platform like OpenTable, the restaurant reservation system, poses a classic chicken-or-egg problem. Without a large base of participating restaurants, why would patrons visit the OpenTable site? But without a large base of patrons, why would restaurants choose to participate? OpenTable solved the problem by first distributing booking management software that restaurants could use to manage their seating inventory. Once OpenTable had enough restaurants on board, they built out the consumer side, which allowed them to start booking tables and collecting a lead generation fee from the restaurants.

The Indian bus reservation platform redBus gained traction in a similar manner. It provided bus operators with a seating inventory management system, then opened the platform to consumers once bus operators had started using the software.

Delicious is a social networking site that allows users to share lists of web bookmarks—links to Internet content that individuals love and that they want to revisit again and again. Delicious gained initial traction by allowing early users to produce valuable content in stand-alone mode, using Delicious to store browser bookmark lists in the cloud for their personal consumption. Once the user base hit critical mass, the social bookmarking features started getting used, and the value of the network expanded rapidly as the number of users increased. Now Delicious has become a popular tool for spreading Internet memes and trends as people share their bookmark lists.

6. The producer evangelism strategy: Design your platform to attract producers, who can induce their customers to become users of the platform.

Platforms that provide businesses with tools for customer relationship management (CRM) can often solve the chicken-or-egg problem simply by attracting one set of users—producers—who then take on the task of bringing along the other set—consumers—from their own customer base. The platform helps the producers cater to their existing set of consumers, and over time, the producers benefit from data-driven cross-pollination as other consumers on the network become interested in their products and services.

Crowdfunding platforms such as Indiegogo and Kickstarter thrive by targeting creators who need funding and providing them with the infrastructure to host and manage the funding campaign, making it easier for them to connect effectively with their customer base. Education platforms such as Skillshare and Udemy also grow through producer evangelism. They sign up influential teachers, allowing them to easily host online courses and prompting them to get their students on board.

In a similar fashion, expert marketplaces can build their consumer base by starting with customer lists provided by their producer members. For example, Clarity, which bills itself as an online marketplace that provides expert advice for entrepreneurs, enables bloggers and other experts to monetize their following through a Clarity widget that lets readers book paid calls with them. With every call, the producer helps Clarity sign up a new consumer who can then be directed to other producers.

Mercateo, a German B2B platform for business and industrial supplies, employs a producer evangelism strategy with a novel twist. It shrewdly offers producers this invitation: "Bring us your customers, and you will have the last word in any bidding competition . . . but only for the customers you bring." Thus, suppliers are incentivized to invite their customers to join Mercateo, and to do so promptly, before a competing company can claim them and enjoy the advantage of final-offer bidding.

7. The big-bang adoption strategy. Use one or more traditional push marketing strategies to attract a high volume of interest and attention to your platform. This triggers a simultaneous on-boarding effect, creating an almost fully-developed network virtually instantaneously.

As we've noted, in today's crowded, networked, and ultra-competitive arena, push strategies have become increasingly ineffective at enabling companies to achieve rapid, large-scale growth. But there are occasional exceptions. Twitter's breakout moment occurred at the 2007 South by Southwest (SXSW) Interactive film, music, and tech festival. Twitter had launched nine months earlier, but wasn't getting heavy adoption. Jack Dorsey and Twitter's other founders needed a way to get a critical mass of users on the platform. Given the real-time nature of activity on Twitter, they realized they needed to build concentration in time as well as in space.

Twitter invested $11,000 to install a pair of giant flat-panel screens in the main hallways at SXSW. A user could text "Join sxsw" to Twitter's SMS shortcode number (40404) and find his or her tweets instantly appearing on the screens. Seeing the feedback on large screens in real time and watching as thousands of new users jumped into the fray created enormous excitement around Twitter and helped make it the hottest networking site in cyberspace. Twitter received the festival's Web Award for the year's best online innovation, and by the end of SXSW, Twitter usage had tripled, from 20,000 tweets per day to 60,000.

Other networks have modeled their breakout strategies on Twitter's. Two years later, blogging platform Foursquare achieved a comparable breakthrough at the 2009 SXSW festival. In 2012, Tinder, a location-based dating app, achieved its breakout by launching during a frat party at the University of Southern California—a hotbed of young men and women who were already looking for ways to hook up. Tinder made the task easier and, in the process, achieved critical mass during a live party in a small, contained location.

Not every platform can take advantage of the big bang strategy, as Twitter, Foursquare, and Tinder did. As South by Southwest has grown, the number of companies trying to use it as a platform launch vehicle has reached a point where there's virtually no way to be heard above the roar of the crowd.[10] And there isn't always a relevant opportunity for an explosion of real-time publicity interest that is capable of attracting thousands of potential users.

Nonetheless, when such an opportunity exists—as it did for Tinder—the smart platform manager will grab it.

8. The micromarket strategy. Start by targeting a tiny market that comprises members who are already engaging in interactions. This enables the platform to provide the effective matchmaking characteristic of a large market even in the earliest stages of growth.

The odds were heavily stacked against Facebook. Friendster had gathered more than three million users within a few months of its 2002 launch, and Myspace was growing fast. Of all platform businesses, social networks are probably the least forgiving of late market entrants. Users won't readily move to a new social network unless it offers something remarkably different. That's the power of the network effect.

What's more, because the value of a social network is so heavily based on network effects, achieving critical mass is especially important. If Facebook had launched worldwide and quickly achieved a few hundred signups—or even a few thousand—it wouldn't have taken off, since those widely dispersed, random users coming in wouldn't have interacted.

So Facebook's decision to launch in the closed community of Harvard University wasn't simply a matter of convenience. It was a masterstroke that enabled Facebook to solve the chicken-or-egg problem. Attracting an initial five hundred users in the geographically and socially concentrated community of Harvard University ensured the creation of an active community at launch. Facebook leveraged Harvard as an existing micromarket and gained traction by improving the quality of interactions among its members. Focusing on a micromarket reduces the critical mass required to start interactions and makes matchmaking much easier.

When it expanded beyond Harvard, Facebook had to build a user base in every new campus it opened up to, often competing with existing intra-campus networks. Initially, these campuses were unconnected nodes on the Facebook network. Growth took off when Facebook started allowing cross-campus friend connections. This eliminated the need to solve the chicken-or-egg problem afresh in every new campus. Users coming onto the network at a new campus had an existing list of connections across other campuses to keep them engaged while they waited for others from their own campus to join.

Geographic focus isn't the only way to define a micromarket. Stack Overflow started out as a question-and-answer community for programming topics (category focus). Later it expanded into a second category that users requested—cooking. Now Stack Overflow has a voting mechanism that allows the community to choose topics they are interested in.

VIRAL GROWTH: THE USER-TO-USER LAUNCH MECHANISM

One of the most powerful ways to accelerate the growth of a platform is by achieving *viral growth*. The viral growth strategy complements any of the launch strategies we've discussed in this chapter.

Viral growth is a pull-based process based on encouraging users to spread the word about the platform to other potential users. When users themselves encourage others to join the network, the network becomes the driver of its own growth.

The term "viral growth," of course, contains a built-in metaphor: it analogizes the growth of the platform to the spread of an infectious disease. In nature, a disease spreads when four elements interact: a host, germs, a medium, and a recipient. An infected host sneezes or otherwise spreads germs that carry infection out into the environment. These germs are then spread through a medium, such as the atmosphere. Then, a recipient inhales, ingests, or otherwise absorbs the germs and becomes infected in turn. Now the recipient becomes the host, and the cycle repeats. If it happens often enough, an epidemic results.

Similarly, four key elements are necessary to begin the process of viral growth for a platform business—the *sender,* the *value unit,* the *external network,* and the *recipient.* Let's consider the viral growth of Instagram:

- **The sender.** A user on Instagram shares a picture that he has just created. This launches the cycle that will eventually bring in a new user.
- **The value unit.** On Instagram, the value unit is the picture that the user shares with friends.
- **The external network.** For Instagram, Facebook serves as a very effective external network, allowing value units (photos) to spread and be exposed to potential users.
- **The recipient.** Finally, a user from Facebook gets intrigued by the picture and visits Instagram. This user may create her own photo and start the cycle all over again. Now the recipient is acting as the sender.

Everyone has heard of Instagram's rapid growth—over 100 million active users in less than two years—which led to its billion-dollar acquisition in April 2012 by Facebook. What is less well known is that Instagram achieved this rapid growth *without employing a single traditional marketing manager.* It happened because the company's platform was carefully designed to make viral growth organic and practically inevitable.

Unlike its competitor Hipstamatic, Instagram didn't simply allow users to save, organize, and filter pictures. It encouraged them to share their photos on external networks like Facebook, converting

a single-user activity into a social, multi-user activity. Every time users engaged the app, they shared their creations. Every point of app usage became an instance of app marketing. In essence, Instagram converted all its users into marketers.

The same cycle of viral growth—a form of growth impossible in the industrial economy of pipelines and products—helps to explain the success of many other platform startups. Airbnb encouraged users with rooms to rent (hosts) to list their offerings (value units) on Craigslist (external network). Those who saw the room listings (recipients) and were motivated to rent those rooms became Airbnb users—and many subsequently began renting out rooms of their own, fueling the growth of the platform. OpenTable similarly encourages diners (hosts) to share their dinner reservations (value units) over email or Facebook (external networks) with their friends and colleagues (recipients) who are joining them for dinner.

If you're a platform manager hoping to achieve the same kind of viral growth as Instagram, Airbnb, and OpenTable, you need to design rules and tools that will jumpstart the cycle. Your goal is to design an ecosystem where senders want to transfer value units through an external network to a large number of recipients, ultimately leading many of those recipients to become users of your platform.

Let's look at these four design elements in greater detail.

The sender. Getting senders to spread value units is *not* the same as word of mouth, which is a familiar tactic in traditional marketing. Word of mouth happens when users like your platform so much, they can't stop talking about it. When users become senders and spread value units, they aren't talking about your platform—they are spreading their own creations, and indirectly generating awareness of and interest in your platform.

In general, users spread self-created value units to get social feedback, which in turn may bring them fun, fame, fulfillment, or fortune—or some combination of these rewards. Channel owners on YouTube spread the word about their videos on multiple external networks in order to gain an audience; survey developers on SurveyMonkey spread their surveys via email, blogs, and social networks to get responses, which provide insight into the question the survey developers are trying to answer; creators seeking funding on Kickstarter spread their project page on their social networks in order to attract the money they need to complete their works as well as the audience they hope will appreciate the finished product.

These examples illustrate how well-designed platforms create natural incentives for users to share. As a rule, platform designers must avoid discouraging the spread of value units. The act of sending these units onto an external network like Facebook should not distract a creator from using the platform; instead, it should fit integrally into the workflow of the platform. The more closely this is aligned to the main use of the platform, the more likely the platform is to go viral.

A platform may also provide inorganic (artificial) incentives to encourage value-spreading behavior, but these need to be carefully structured. A monetary incentive, for example, can become a cash drain if the platform achieves viral growth. Dropbox, the popular cloud-based service for storing and sharing data files, does a good job of structuring inorganic incentives; it offers free storage space to the sender as well as the recipient when the recipient signs up to become a Dropbox user. Thus, the perk for spreading the word about Dropbox is not a cash payment that would only serve to empty the company's coffers, but rather an opportunity to use Dropbox's service even more, thereby stimulating further growth and encouraging users to make ever greater use of the Dropbox platform.

The value unit. This is the fundamental unit of virality—an embodiment of platform usage that can spread on an external network and demonstrate the platform's value. But not every value unit that exists on a platform is spreadable. For example, the users of a business platform designed to enable the exchange of proprietary documents among company partners will not want to spread their confidential information the way Instagram users share their snapshots. So designing *spreadable value units* is a crucial step toward virality.

A spreadable value unit may be one that helps to start an interaction on an external network, the way Instagram photos create conversations on Facebook among users intrigued by the images they've seen. Or it may create the opportunity to complete an incomplete interaction, the way an unanswered question on Quora demands social feedback in the form of an answer, or a fresh survey on SurveyMonkey invites responses. Making it easy for users to create and disseminate spreadable value units helps you build a platform that has high growth as well as high engagement.

Of course, as the example of a business platform for exchanging confidential documents indicates, not every value unit is spreadable. Platforms that don't lend themselves to the creation of spreadable value units are unlikely to go viral. Managers of such platforms will have to use other approaches to achieve growth.

The external network. Many platforms grow on top of other networks. Instagram, Twitter, Zynga, Slide, and other platforms have achieved viral growth by leveraging Facebook as an underlying network. Airbnb spread on Craigslist; OpenTable spreads on email.

However, leveraging an external network is not as simple as introducing a "Share on Facebook" button and waiting for users by the million to show up. External networks often introduce restrictions when more and more applications use them for growth—for example, Facebook has enforced limitations on the gaming apps that outside companies offer its users. In other cases, users overwhelmed by a constant flow of invitations sent by outside producers urging them to sample their goods or services become jaded over time and stop responding. To avoid this result, the managers of startup platforms need to be strategic about identifying the external networks they can use to build their growth and finding creative, value-adding ways to connect with their users.

When LinkedIn was launched in 2003, most social networks gained traction by integrating with a new user's Hotmail or Yahoo contact list and prompting him or her to send invites to the platform over email. Originally devised by Michael Birch (best known as cofounder of the short-lived social network Bebo), this simple hack helped generate growth for many early social networks. LinkedIn chose instead to engineer a more technologically challenging integration with Microsoft Outlook, the software that housed most of the business connections that LinkedIn wanted to access. The integration was time- and cost-intensive, but it helped LinkedIn establish itself as the premier social network for business.

The recipient. When the user of a platform sends a value unit to a friend or acquaintance, the recipient will respond if he or she finds the value unit relevant, interesting, useful, entertaining, or otherwise valuable. When the value units are intriguing enough, the recipients spread them further, sometimes giving rise to new interactions on another network. Media companies like Upworthy and BuzzFeed have grown almost entirely on the strength of consumer-initiated viral spread.

Unfortunately, since value units are created by users, managers of platforms have limited control over them. Instagram doesn't select photos or retouch them to make them more attractive, YouTube doesn't direct or edit user videos, and Facebook doesn't curate member posts to eliminate boring ones. However, sometimes a platform can nudge users in directions that will make seeds more attractive to recipients. For example, Instagram provides photo editing tools to help users enhance the attractiveness of the images they post, and it encourages users to label their photos with hashtags that are specific and relevant—#vwbus for a photo of a Volkswagen van rather than the more generic #van or (worse yet) the self-explanatory #photo.[11]

In addition, platform managers can connect the value unit to a call to action—a message that ensures the recipient recognizes the platform from which the value unit has been delivered and understands the opportunity to join. When the communications platform Hotmail first went viral, it affixed to the bottom of every email the message, "P.S. I love you. Get your FREE email at Hotmail." Free email for consumers was a new and compelling offer at the time, and this simple message attracted thousands of user adoptions.

Not every budding platform has an opportunity to achieve viral growth. But if it does, it can help turn slow but steady expansion into the kind of skyrocket growth that makes a platform into a national or global phenomenon with the potential to dominate its market for years to come.

TAKEAWAYS FROM CHAPTER FIVE

- ❑ One difference between platform businesses and traditional pipeline businesses is that, in the world of platforms, pull strategies designed to encourage virality are more important than the push strategies (such as advertising and public relations) used in conventional marketing.
- ❑ Successful platforms use one of eight proven strategies for solving the chicken-or-egg problem: the follow-the-rabbit strategy; the piggyback strategy; the seeding strategy; the marquee strategy; the single-side strategy; the producer evangelism strategy; the big bang adoption strategy; and the micromarket strategy.
- ❑ The speed of a platform's expansion can be accelerated through viral growth. This depends on four key elements: the sender, the value unit, the external network, and the recipient.