

# Some simple economics of internet platforms

November 10, 2016

# What is (and isn't) a platform?

A place to transact...



# ...where trade needs some extra TLC



# What is a platform?

- A market that is *designed, curated, and managed* to facilitate exchange that would otherwise not take place
- Platform objectives
  - Create market *thickness*
  - Limit *congestion*
  - Create *trust*
- To do so a platform must balance the interests of different sides of the market

# The need for market thickness

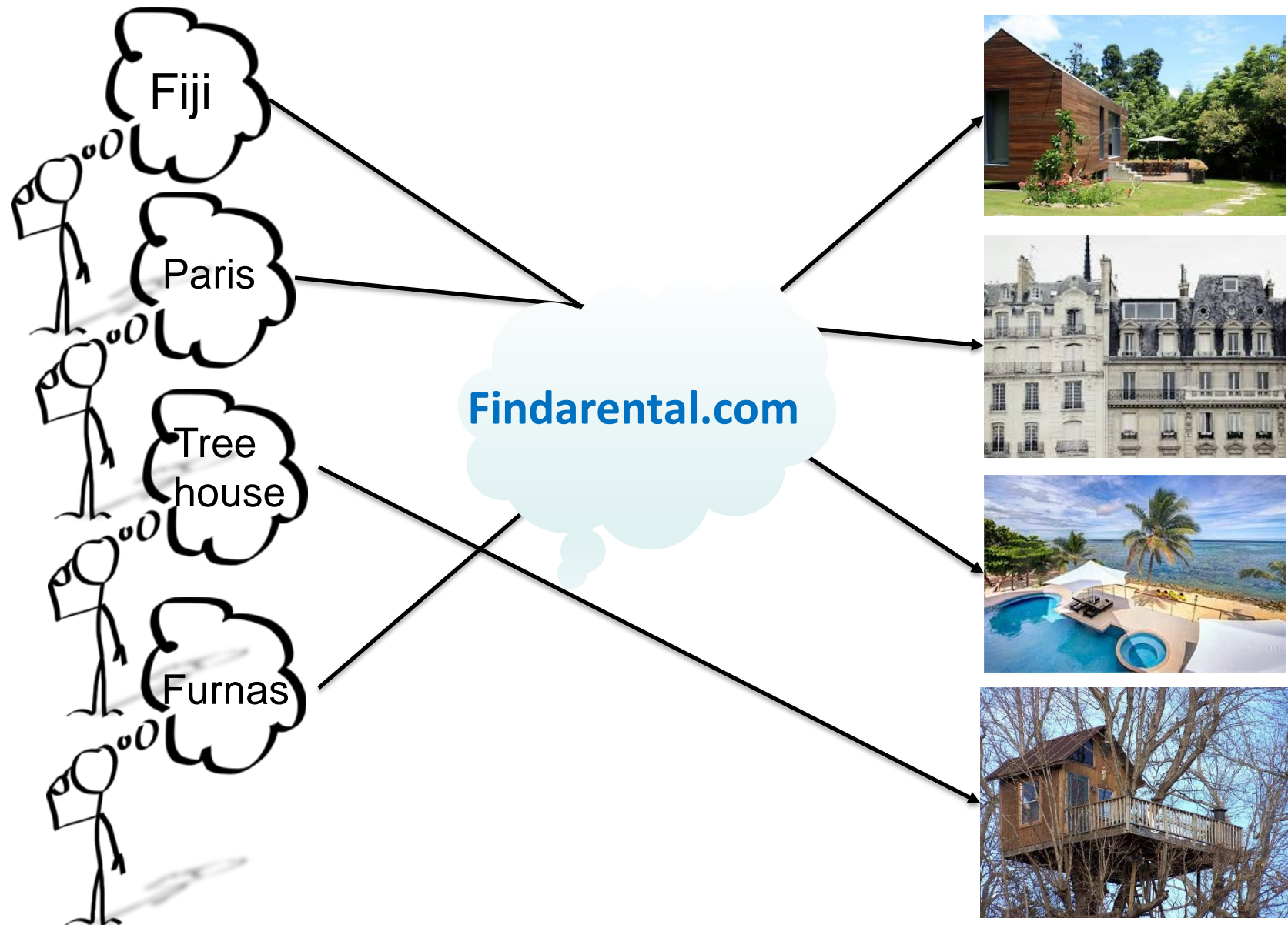


[Findarental.com](https://www.findarental.com)

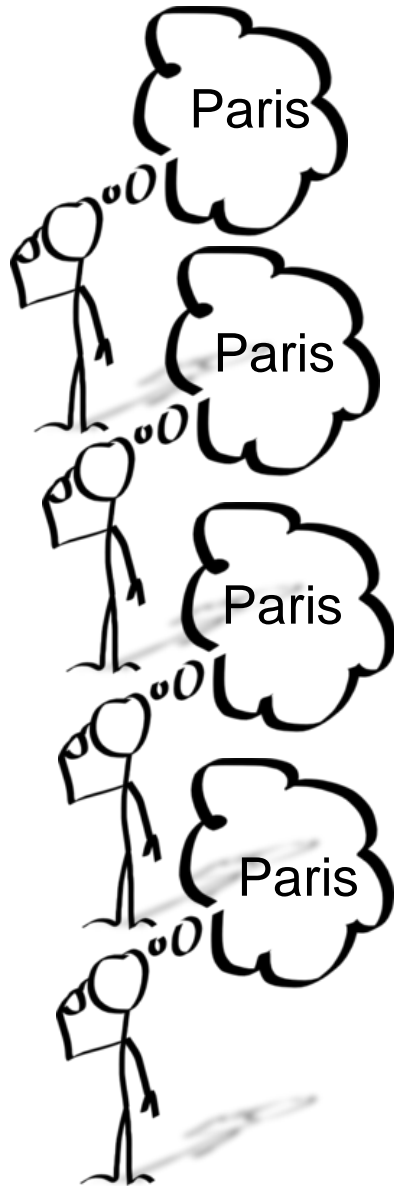




# The need for market thickness



# The need to deal with congestion



July rental market

[Findarental.com](https://www.findarental.com)



# The need to deal with congestion



January rental market

[Findarental.com](https://www.findarental.com)



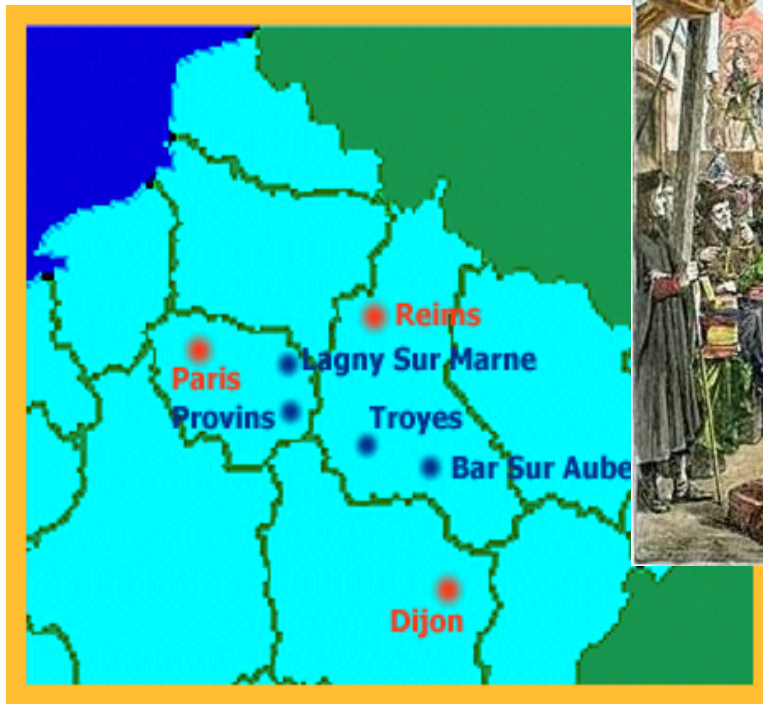


# Thickness and congestion

- The need for *thickness* is what drives platforms to burn through funding to grow big first and grow big *now*
- The value of different participants varies, which leads to their different benefits paid by the platform
  - Credit card retailer surcharges versus consumer bonus
  - Uber driver at peak hours

# Creating trust in a platform

## The Champagne Fairs

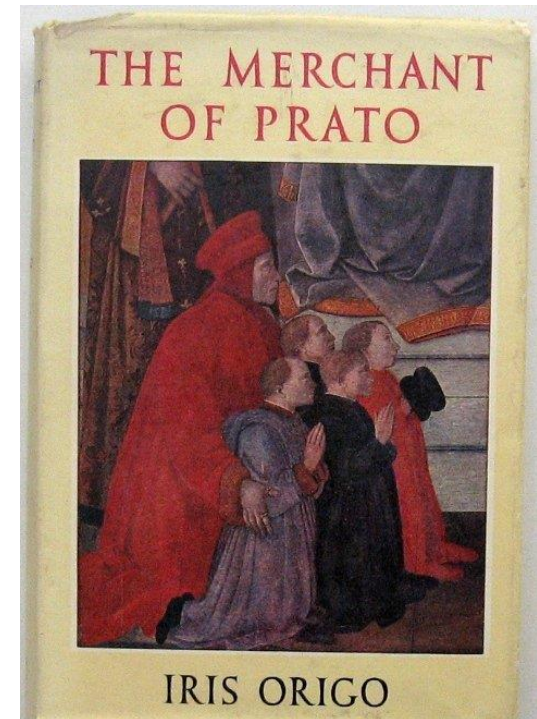


# The Champagne Fairs as Platform

- Created a safe meeting space for market participants
  - Prominence guaranteed thickness of participants on both sides of transactions
  - Counts of Champagne guaranteed safe passage of merchants within a wide radius of the fairs
  - The counts also guaranteed that transactions would be honored

# The merchant of Prato & the villain of Florence

- In 1299, a merchant of Prato sold 1,600 pounds' worth of textiles to a Florentine trader, who absconded to London without paying his bill





# What 1,600 pounds bought in 1299



Rent every store on London Bridge for 10 years

# What 1,600 pounds bought in 1299



Throw a medieval wedding feast for 1400 guests...



and have enough left to buy 6 large stone homes, each with a courtyard

# The merchant of Prato & the villain of Florence

- In 1299, a merchant of Prato sold 1,600 pounds' worth of textiles to a Florentine, who absconded to London without paying his bill
- The merchant of Prato brought his case to the Wardens of Champagne, who found his case had merit
- The wardens in turn demanded that the Mayor of London force the Florentine to pay his bill in full

# The merchant of Prato & the villain of Florence

- The mayor (no doubt under influence of the Florentine) refused
- In response, the Wardens threatened the mayor to ban *all* London merchants from the fairs, at the same time informing London merchants of their ultimatum
- By the following year, the Florentine paid 1,600 pounds in full...no doubt encouraged by the merchants of London!



# Lessons from the Counts of Champagne

- Maintaining a reputation for safe transactions is essential
- Once a platform rules, it can wield immense power (recall need for market thickness)

# Platforms in the age of the internet

## The end of distance?



# Platforms in the age of the internet



# Platforms in the age of the internet

淘宝网  
Taobao.com





# Platforms in the internet age

- E-commerce platforms *have* totally transformed commerce...
- But they are still governed by the same basic platform rules:
  - Online marketplaces have created greater thickness and made possible transactions between much larger groups
  - But two important lessons Silicon Valley seems to keep forgetting...

# You need to be solving a market failure!



The internet of “stuff my mom won’t do for me anymore”

# Information problems are worse online



*"On the Internet, nobody knows you're a dog."*

# Platforms in the internet age

- It's enabled commerce for platform participants worldwide
- The technology is new but the rules are the same:
  - Solve a real market problem!
  - Create market thickness
  - Manage market congestion
  - *Deal with problems of trust*



# Establishing trust at eBay



It's seller beware as eBay's buyer guarantee is exploited by scammers



Rate this transaction

Positive  Neutral  Negative  I'll leave Feedback later

Tell us more

Great seller, fast shipping, amazing product! Very satisfied with the purchase!

1 character left

Rate details about this purchase

How accurate was the item description?	★★★★★	Very accurate
How satisfied were you with the seller's communication?	★★★★★	Very satisfied
How quickly did the seller ship the item?	★★★★★	Very quickly
How reasonable were the shipping and handling charges?	★★★★★	Very reasonable

Leave Feedback | Cancel

The most important part of the feedback is the stars.  
**PLEASE** leave **5** stars in all categories.

# Establishing trust at Airbnb

27 Reviews ★★★★★

Summary

Accuracy



Communication



Cleanliness



Location



Check In



Value



Guest threatens fake bad review to  
blackmail host to get a refund

# Establishing trust at Yelp

[CL](#) > [new york](#) > [manhattan](#) > [all jobs](#) > [writing/editing jobs](#)

1/7

Reply [yprpp-3797859002@job.craigslist.org](mailto:yprpp-3797859002@job.craigslist.org)

flag : [miscategorized](#) [prohibited](#) [spam](#) [best of](#)

Posted: 2013-05-10, 10:21PM EDT

## ★ Yelp review \$25 / \$50

We are looking for established Yelp accounts with over 50 reviews (please link Yelp account) to write well-written reviews for a restaurant. Many of these restaurants have a bi-polar review history (mostly positive 4's and 5's but a couple unfiltered 1's dragging them down, either from competitors or disgruntled ex-staff) and need a few 5's to rebuild their rating back. If this is something you'd be interested in, let us know.

The price is a Paypal transfer of \$25 for the review, and another \$25 to cut and paste that same review onto a couple other social media websites.

- Principals only. Recruiters, please
- Please, no phone calls about this j
- Please do not contact job poster a

## ★ Yelp review \$25 / \$50

Posting ID: 3797859002    Posted: 2013

We are looking for established Yelp accounts with over 50 reviews (please link Yelp account) to write well-written reviews for a restaurant. Many of these restaurants have a bi-polar review history (mostly positive 4's and 5's but a couple unfiltered 1's dragging them down, either from competitors or disgruntled ex-staff) and need a few 5's to rebuild their rating back. If this is something you'd be interested in, let us know.

The price is a Paypal transfer of \$25 for the review, and another \$25 to cut and paste that same review onto a couple other social media websites.



END