

Let's Get a Two-Sided Platform Started: Tactics to Solve the Chicken and Egg Paradox

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ABSTRACT

Two-sided platforms are becoming more and more relevant in the modern economy, with leading examples like Airbnb or Uber. These companies can leverage several opportunities, which are intrinsic in their nature, but they also need to face severe challenges before reaching a critical mass and a mature stage. One of the greatest challenges is represented by the chicken and egg paradox, which refers to the need of the platform provider to convince both sides to join the platform even if it is worthless since the other side is not there. Previous studies provided examples of possible strategies to address it, but there is a lack of operational tactics that practitioners may use to directly tackle the challenges. Through the analysis of 16 case studies based on primary sources, this study presents seven tactics, then clusters in three groups. They are discussed according to previous literature drawing reflections on the characteristics of the two-sided platform and their business model implications.

KEYWORDS

Business Model, Chicken And Egg Paradox, Digital Apps, Digital Platforms, Network Externalities, Two-Sided Markets, Two-Sided Platforms

INTRODUCTION

We live in a tough era for traditional, established companies (Downes and Nunes, 2014). Start-ups may appear out of nowhere – with none of the resources traditionally considered essential for survival – and get relevant market share competing in a brand-new business model (Choudary et al., 2016; Libert et al., 2016; Magistretti et al., 2019). In this process, they often disrupt established companies as “collateral damage” (Downes and Nunes, 2013): it is a platform revolution.

The concept of ‘platform’ evolved significantly towards the decades in the management worlds, moving from product platforms to innovation platforms, and then transactional platforms (Cusumano et al., 2019). This revolution is now led by these transactional platforms that aim to reduce market frictions while enabling two (or even multiple) groups of customers to find themselves, in other words matchmaking various “sides” of the market (Evans and Schmalensee, 2016).

These platforms, studied in the academic literature as Two-Sided Platforms, are defined as an innovative business model that aims to connect people, organizations and resources in an interactive ecosystem where value is created and exchanged (Choudary et al., 2016).

Investors seem to appreciate this emerging model, as the vast number of platforms among the Unicorns can show (Trabucchi, Talenti, and Buganza, 2019; Urbinati et al., 2019). Users—whatever it means in these cases—seem to enjoy them as well, as the numbers on their market diffusion can easily show (Libert et al., 2016).

Uber and Airbnb are probably the two leading flags of this revolution, with their multi-billion evaluation and millions of customers around the world. They are not alone; there are dozens of

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successful examples that surround the success of this model, such as Coursera, Deliveroo, YouTube, Spotify, Etsy, and many more. Nevertheless, there are hundreds, probably thousands of companies that are trying to replicate this effective business model without reaching the minimum dimension to operate. This is due to the most significant challenge they need to face: they are worthless without both the sides of customers on board, which is famous as the “Chicken and egg” paradox (Caillaud and Julien, 2003).

This research aims to explore this paradox, which represents one of the fundamental characteristics of this kind of business, taking an operative and tactical perspective. In other words, the goal of the paper is to identify concrete managerial actions that the platform providers may choose to try to overcome the chicken and egg paradox.

THEORETICAL BACKGROUND

This research is grounded in the literature on two-sided platforms. The first section deals with the definition and the main characteristics of two-sided platforms. The second section focuses on the chicken and egg paradox.

Definition and Main Characteristics

Two-Sided platforms find their roots in the economic literature. Rochet and Tirole (2003) defined the concept of Two-Sided Markets as “[those markets] in which one or several platforms enable interactions between end-users and try to get the two (or multiple) sides “on board” by appropriately charging each side” (Rochet and Tirole, 2006, p. 645).

One of the first examples is the credit card system, where the two sides are cardholders (the demand side) and the merchants (the supply side), which are got together through companies like Mastercard or Visa (e.g., Rysman, 2009).

The chance to have (at least) two groups of customers is only the first necessary condition to be a two-sided market (Evans, 2003). Indeed, the existence of cross-side network externalities characterizes these businesses (Katz and Shapiro, 1985). In other words, the value of the service provided by the platform provider depends – for the first side (e.g., cardholders) – by the number of players on the second side (e.g., merchants) and vice-versa.

After a first phase - in which these businesses have been studied mainly for their pricing dynamics on the two sides (Parker and Van Alstyne, 2005) – scholars realized that “two-sidedness” is not necessarily a “market-characteristics” and that it may be an operational choice, moving to the broader concept of Two-Sided Platforms (Hagiu and Wright, 2015).

Over the years, the heterogeneity of two-sided platforms emerged. First of all, there are very different types of businesses that may be considered two-sided platforms. The first difference lies between transactional and non-transactional platforms (Filistrucchi et al., 2014). The first enables a direct transaction between the sides, while the latter exploits the value of the first side through the second, for example, through advertising or data exploitation strategies (Trabucchi et al., 2017).

Even considering only transactional platforms, there is still a considerable heterogeneity. Tauscher and Laudien (2018), focusing on marketplaces, which represent a typical example of transactional two-sided platforms, highlight various variables to classify different platforms. Among the others, they show the chance to have products or service platforms, digital or offline platforms, and so on. Interestingly, they show how very different kinds of players may represent the demand and the supply side, enabling various types of relationships (e.g., C2C, B2C, B2B).

Two-sided platforms have been considered peculiar kinds of resource configurations that lead to new types of value creation and capturing (Amit and Han, 2017), often relying on pre-existing technological architectures that are reconfigured to enable new services (Hein et al., 2019).

These platforms offer several opportunities, such as the chance to often rely on idle capacity (e.g., Constantiou et al., 2017; Trabucchi, Muzellec and Ronteau, 2019), or the opportunity to (usually)

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