

Digital Platforms Monetization

PMDE

NEENA PANDEY, IIMV

Platform Monetization

- A listing service for firms to find ad agencies
 - How should this be monetized?
 - Charging either side for access
 - Charging per listing?
 - Charging on completion/non-completion of a deal

Why to Charge?: Sources of Excess Value

- Consumers: Access to value created on the platform
 - E.g., YouTube
- Producers/Third-party providers: Access to community or market
 - E.g., Airbnb, LinkedIn
- Both Consumers & Producers: Access to tools and services that facilitate interaction
 - E.g., Uber, HackerEarth
- Both consumers & Producers: Access to curation mechanisms that enhance the quality of interaction
 - E.g., Bharatmatrimony.com, Airbnb
- *Monetization Strategy*: Which sources of excess value can be exploited by the platform without inhibiting the continued growth of network effects

Why to Charge?

- Goal – to create value for all participants of the platform
- Monetization & network effects
 - Charging for access – may discourage participation on the platform
 - Charging for usage – may inhibit frequent participation
 - Charging for production or consumption – may reduce value creation or consumption
- So, should a business where value creation is collaborative not charge for anything?
 - It should figure out the excess value it is creating and tax that excess value!

Whom to charge?

- Money-side and subsidy-side
 - Subsidy-side: Group of users, who when affiliated with a platform in large numbers, are highly valued by the users on the other side of the platform
 - Money-side: Group of users, who demonstrate high willingness to affiliate, willingness to pay, willingness to remain loyal to a platform due to continued affiliation and usage/engagement of users on the other side
- Criteria for making the decision on money side and subsidy side
 - Relative strength of cross-side network effects
 - Relative Price sensitivity
 - Marginal costs of user addition

How to charge?: Transaction Fee

- Charging a Transaction fee
 - When monetary transaction is involved – e.g., Uber, eBay, Upwork etc.
 - As per the transaction value or fixed amount per transaction
 - Will it impact network effect? If transaction fee is too high?
- What if the transactions cannot be captured by the platform?
 - Can the deals be made off-platform? – Some examples
- Solution
 - Platform may extend itself as an interaction facilitator
 - Tools and services that benefit both the parties by removing friction, mitigate risk, and otherwise facilitate interactions – monitor work, integrated payments and invoicing services
 - Shift the connection between the two sides unless the decision of transaction is made
 - may not work for platforms like HackerEarth; Just Dial

Monetization: Charging for Access

- When platform may not be able to monetize financial transactions that it facilitates
- Charging for Access
 - May not be for interaction, but just for access to different set of users
 - For e.g., Naukri.com, LinkedIn
- Charging for Enhanced Access
 - One important principle – Enhanced access should be clearly distinguishable
 - Usual curation mechanisms shall be applied rigorously to producers who pay for enhanced access
 - Should also ensure to not give an impression that user access is restricted, i.e., nurture the non-enhanced users' access too
 - Bharatmatrimony, Google Ads

Monetization: Charging for Enhanced Curation

- Is more always better?
 - Network effects need quantity as well as quality, in some cases more so
- Curation may be required for some platforms
 - Then can charge for subscription
- E.g., Sittercity, Uber (drivers based on riders' feedback)