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Matchmakers: The New Economics Of Multisided Platforms



Synopsis

Many of the most dynamic public companies, from Alibaba to Facebook to Visa, and the most valuable start-ups, such as Airbnb and Uber, are matchmakers that connect one group of customers with another group of customers. Economists call matchmakers multisided platforms because they provide physical or virtual platforms for multiple groups to get together. Dating sites connect people with potential matches, for example, and ride-sharing apps do the same for drivers and riders. Although matchmakers have been around for millennia, they're becoming more and more popular—and profitable—due to dramatic advances in technology, and a lot of companies that have managed to crack the code of this business model have become today's power brokers. Don't let the flashy successes fool you, though. Starting a matchmaker is one of the toughest business challenges, and almost everyone who tries to build one, fails. In *Matchmakers*, David Evans and Richard Schmalensee, two economists who were among the first to analyze multisided platforms and discover their principles, and who've consulted for some of the most successful platform businesses in the world, explain how matchmakers work best in practice, why they do what they do, and how entrepreneurs can improve their chances for success. Whether you're an entrepreneur, an investor, a consumer, or an executive, your future will involve more and more multisided platforms, and *Matchmakers*—rich with stories from platform winners and losers—is the one book you'll need in order to navigate this appealing but confusing world.

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The concept is obviously simple, one that can be traced back to the ancient markets in Athens and Rome as well as throughout Egypt where goods and services were also exchanged on the same cashless premise: by barter. Establish a location (a "platform") where those in need of a product or service are able to connect with those who can provide it. Today the Web provides (by far) the best meeting place for buyers and sellers of almost everything. Payments are processed electronically. In *Platform Revolution: How Networked Markets Are Transforming the Economy--And How to Make Them Work for You*, Geoffrey Parker, Marshall Van Alstyne, and Sangeet Paul Choudary pose two interesting questions: How can a major business segment be invaded and conquered in a matter of months by an upstart with none of the resources traditionally deemed essential for survival, let alone market dominance? And why is this happening today in one industry after another? Here's the answer to both questions: "the power of the platform," a new business model embraced by Airbnb, Uber, Alibaba, and Facebook and previously by YouTube, Wikipedia, iPhone, Upwork, Twitter, KAYAK, Instagram, and Pinterest, among others. As is also true of the Worldwide Web that Tim Berners-Lee devised more than twenty years ago, the platform's core functions are connectivity and interactivity. Its overarching purpose is to "consummate matches among users and facilitate the exchange of goods, services, or social currency, thereby enabling value creation for all participants."

This is an excellent book. As a business school professor, my acid test for the value of a book on business is whether it helps me with teaching classes, getting students to think deeper and still yields practical insights for management. I requested an advance copy of *Matchmakers* to see if it would be useful in structuring a discussion of one of my favorite case studies: Uber. It did. Evans and Schmalensee have organized the book around six important issues for businesses operating multisided platforms: (1) reducing friction (transaction costs), (2) securing a critical mass for both sides, (3) using pricing strategically to balance the different sides of the market, (4) identifying other key players in the ecosystem (e.g. regulators), (5) designing the platform to enhance the value of interactions and promoting desired network effects, and (6) creating and enforcing the rules for using the platforms. Each of these perspectives is important to understand Uber's success and ongoing challenges. As a marketer, I would have liked more discussion of non-price strategies for balancing multi-sided demand. For example, Uber's use of marketing communications and word-of-mouth accelerants to attract new passengers at locations, times, and numbers that balances the recruiting of drivers is, I believe, at least as important as surge pricing. Also, I am not sure that the concept of platform fully captures what Uber has created. The drivers seem to me more like sub-contractors than independent suppliers or employees. The recent court

challenges to Uber for "price fixing" • may be one way to differentiate the Ubers from the eBays and Airbnbs of the world. The latter don't tell you what to charge for your products or services.

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