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Making Money Out of a Platform Business

Creating network effects alone is not sufficient to monetise a platform business.

Meetup, an online social networking platform, was launched in 2002 as a way for groups to organise offline gatherings ("meetups"). It started off as a free service, but the founders knew they eventually had to develop a credible monetisation model. Their first attempt at generating revenue was lead generation, charging fees to offline venues such as restaurants for sending users their way. But in a pre-smartphone era this didn't work very well. People didn't always show up as promised and Meetup had no way of counting those who did.

Meetup abandoned lead generation and tried advertising, but it failed to attract a significant number of advertisers. It then tried offering a premium product called Meetup Plus but the additional value generated little interest. Meetup was confronted with another dilemma: with such low barriers to entry, it had a rapidly growing user base, but many meetups were being started without a clear purpose or adequate planning, leading to disappointing experiences for users, who would sign up for a meetup, only to find few people showing up and little activity.

As we point out in our book, **Platform Revolution**, network effects are at the heart of platform businesses. The bigger the effects, the more value there is to be gleaned from the platform, but ironically as we see in the case of Meetup, this powerfully positive growth dynamic makes monetisation very tricky. Interactions must find a way of generating significant excess value than can be captured without negatively affecting the network effects that brought it to prominence. But any charge levied on users could discourage them from participating on the platform.

Monetising a platform

A smart monetisation strategy begins by considering the forms of value created by platforms, and then determining which sources of value can be exploited. These generally fall into four buckets: access to value creation, access to the market, access to tools and curation.

1. Charging a transaction fee can be a powerful way of monetising the value created on a platform without inhibiting network effects, because buyers and sellers are only charged when an actual transaction occurs. However, platforms must take care to maintain their facilitator position as buyers and sellers are naturally incentivised to take their newfound connections offline to avoid paying transaction fees. Fiverr, Groupon and Airbnb solve this problem by temporarily preventing each party from connecting, while providing the tools and information for both sides to make an informed transaction. However, to do this, they may need to provide additional value to keep activity on the platform. The global freelancing platform, Upwork,

does this by providing tools to monitor service providers remotely, enabling the buyer to monitor and make payments based on actual work completed by the vendor.

In a nutshell, platforms that want to capture and monetise interactions must create tools and services that benefit both parties by removing friction and mitigating risk to keep them on the platform.

2. Charging for access to a community of users who have joined the platform for other reasons than to interact with buyers/producers creates interactions that benefit both sides. LinkedIn, for example, allows recruiters to present job opportunities to its members and offers companies the ability to target candidates based on their resumes. This then encourages users to update their profiles more often, in turn encouraging recruiters to use the platform.

3. Charging for enhanced access can be a way to help producers stand out from the crowd on a busy platform. This approach generally doesn't harm network effects because all producers and consumers are still allowed to participate in the open platform. Yelp, for example, offers restaurants enhanced visibility and better branding by charging for premium listings. Another way to monetise access is to charge for lowering barriers. Dating websites often allow men to see profiles of women without revealing identifying details, until the user ponies up a subscription fee.

4. Charging for enhanced curation can ensure positive network effects, which are driven not simply by quantity but also quality. When quantity of information on a platform becomes overwhelming, consumers may be willing to pay for access to guaranteed quality, helping them find the content they want.

Meeting the challenge

Meetup eventually overcame its challenge of platform noise by taking a big risk. Its leaders decided to start charging meetup organisers, even though they knew this could weaken its network effects. They reasoned that charging would help them solve their monetisation problem, while weeding out insincere organisers. Despite a massive backlash, the strategy worked. The platform lost 95 percent of its activity but the quality of the interactions improved significantly and around half of all meetups were deemed "successful", up from 1-2 percent before the charges.

A platform's goal is not simply to pump up the numbers of participants and interactions, but to encourage desirable interactions and discourage undesirable ones. It's a mistake to assume that network effects can always be optimised by not charging users. A better approach is to ask, how can we generate revenues without reducing positive network effects? Can we devise a pricing strategy that strengthens positive network effects, reducing negative ones? And can we create a strategy that encourages desirable interactions at the expense of negative ones?

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