Platform Thinking

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CSE 190
Case Studies
HOW AIRBNB STARTED
Or How 3 Guys Went From Renting Air Mattresses To A 10 Billion Dollar Company

2007

two guys in San Francisco can’t pay rent

they think to rent out 3 air mattresses on floor to people and serve breakfast

they make a simple website (a blog with maps) airbedandbreakfast.com

2 men, 1 woman showed up, paying $80 each

2009

after guests left they thought this could be a big idea

2008

they invited former roommate as a co-founder to build the site

launched at SXSW - got two bookings

one week later

went door-to-door in NYC and took photos of listed houses

realized photos of places were not pretty

2010-2011

were making $200 a week for months, not growing

got $20,000 in first funding from Paul Graham’s Y Combinator

2014

sold “Obama O’s” cereal before the election, for $40 each making first money $30,000

made $400 a week started to grow

were rejected by a famous VC in New York (Fred Wilson)

Barry Manilow’s (a famous singer) drummer rents an entire house

raised $600,000 seed round from Sequoia

raised $7.2 million, then $112 million from many investors and Ashton Kutcher

$10 BILLION VALUATION

based on reports in Telegraph, WSJ, and The Atlantic
Uber’s Dynamic Pricing

• Increase cost based on
  – Wait times
  – # unfulfilled requests
• Incentive to increase supply
• Intentionally decrease demand
• Maintain quality
• Lead to 70-80% increase in supply
What’s with Groupon’s model?

- Too much focus on short term growth
- It’s not a win-win-win situation
  - Customers never come back to deal places
  - Owner ends up loosing money
- Current evaluation lower than Google’s offer
A story of Pivots
Autowale
Business Model 1

• Transaction cut per trip – convenience fee
• Pros
  – Low liability
  – Easy entry to market
• Cons
  – Low driver engagement
  – Low profit margins
Business Model 2

- Driver pays upfront deposit and Autowale guarantees business to driver
- Pros
  - Increased revenue compared to 1
  - Drivers engaged
- Cons
  - Optimization of trip allocation doesn’t lead to profits
Business Model 3

• Buy driver miles at 50% rate and lease autos
• Pros
  – Improvements in allocation leads to profitability
  – High profit margins
• Cons
  – Low demand leads to loss
Platform Startups

Content from
Sangeet Paul Choudhary’s website
Traditional Biz. – Pipeline Model

• Linear model
• Producers – create a valuable product
• Consumers – pay a price for the value
• Optimize process to make profits

• Eg. Encyclopedia, Television
The Internet is Changing this!

Diminishing gap between producers & consumers
Platforms - Networked Model

USERS create value
Firm just provides infrastructure
Eg. Wikipedia, Youtube
Example – App Market
Example – AirBnb
Example – YouTube
Example – Twitter

TWEET CREATORS

Tweets

TWEET READERS
Interactions are key

Producers (Supply)

Interactions

Consumers (Demand)

Platform
Key Components

Producers (Supply)  Interactions  Consumers (Demand)

1. Magnet

Get the two roles on board!
Magnet

- Chicken and egg problem
- Think of the first user
- Convert consumers to producer
- How do producers produce more
- Incentives – fun, fame, money
Key Components

1. Producers (Supply)
2. Interactions
3. Consumers (Demand)

2. Toolbox

Build the right technology to ease interactions
Toolbox

• Focus on interactions
• Reduce friction from production to consumption
• Go iteratively one interaction at a time
• Eg. Linkedin
  – Professional to professional – adoption
  – Professional to recruiter – monetization
  – ToughtLeaders - enagement
Key Components

3. Matchmaker

Use data to match the two roles
Monetization

• Transaction Cut
  – AirBnb
• Pay for access
  – Dating websites
  – Spotify
• Pay for attention – Ad
  – Facebook
  – YouTube
References

• http://abovethecrowd.com/2014/03/11/a-deeper-look-at-ubers-dynamic-pricing-model/