

Creating platforms by hosting rivals*

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Abstract

We explore conditions under which a multiproduct firm can profitably turn itself into a platform by “hosting rivals,” i.e. by inviting rivals to sell products or services on top of its core product. Hosting eliminates the additional shopping costs to consumers of buying a specialist rival’s competing version of the multiproduct firm’s non-core product. On the one hand, this makes it easier for the rival to compete on the non-core product. On the other hand, hosting turns the rival from a pure competitor into a complementor: the value added by its product now helps raise consumer demand for the multi-product firm’s core product. As a result, hosting can be both unilaterally profitable for the multi-product firm and jointly profitable for both firms.

JEL classification: D4, L1, L5

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1 Introduction

Recently a lot of attention has been given to multi-sided platforms such as those operated by Airbnb, Alibaba, eBay, Expedia, Facebook and Tencent, to name a few. In part, this reflects that many of the most valuable companies in the world today generate a lot of their revenue from platform businesses, focusing on facilitating interactions or transactions between different parties (e.g. buyers and sellers) rather than selling products or services that they own or produce themselves.

However, in many cases, existing product (or service) companies have the potential to become (multi-sided) platforms too. The most straightforward way for a product company to do so is by

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