LAUNCH STRATEGIES OF DIGITAL PLATFORMS: PLATFORMS WITH SWITCHING AND NON-SWITCHING USERS

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Launch Strategies of Digital Platforms: Platforms with Switching and Non-Switching Users

Research paper

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Abstract
Due to two-sidedness and network effects, digital platforms face a coordination problem to attract producers and consumers upon launch. Scholars have suggested launch strategies for solving this problem with only limited empirical evidence. In this paper, we relate to the strategies of sequential and simultaneous entry of consumers and producers. We conducted a qualitative study interviewing 14 founders and CEOs of digital platforms. We used an analysis of 1st and 2nd order concepts to relate the emerging data to existing theory. We observe that the ability to switch between the producer and consumer side, (i.e., being producer in one transaction and consumer in another one), has so far remained unexplored in the platform literature despite its importance for the implementation of launch strategies. Our findings suggest that digital platforms with switching sides implement a simultaneous entry strategy, whereas digital platforms without switching sides implement a sequential entry strategy. We conclude by providing implications for researchers, entrepreneurs, and investors and by giving directions for future research.

Keywords: Digital platform, Chicken-and-egg problem, Launch strategy, Critical mass

1 Introduction

Physical marketplaces are moving into a virtual space, where they are also known as digital platforms. (Yoo et al. 2010). The economic potential of digital platforms has been demonstrated by a number of companies, such as Apple, Google, Facebook, Alibaba and more recently Uber, Airbnb and WeChat. However, despite these successful examples, scholars have acknowledged strategic challenges to launch platforms. Digital platforms face a coordination problem to attract producers and consumers in the first place (Evans and Schmalensee 2016, Parker et al. 2016). A central issue to the launch of digital platforms is caused by a two-sidedness of the market and cross-side network effects, which lead to the question of how to get both sides on the platform to trigger interactions (Boudreau and Hagi 2009, Katz and Shapiro 1994, Rochet and Tirole 2003). A digital platform can only provide value if producers and consumers interact. Moreover, the participation of one side depends on the presence of the other side (Boudreau and Hagi 2009, Hanseth and Lyytinen 2010, Parker and Van Alstyne 2005). In the literature, this phenomenon is sometimes referred to as the chicken-and-egg problem of launching digital platforms (Caillaud and Jullien 2003, Hagi 2006, Rochet and Tirole 2003). Founders of platforms need to carefully assess which side of the platform market is more important to address when launching the platform to initiate interaction and hence the creation of value (Van Alstyne et al. 2016a).

Evans (2009) recognizes the well-developed research body on mature platforms regarding complex pricing strategies. However, he raises the issue of persisting little attention that scholars pay to the actual launch of such platforms—even though successful launch and consequent viability of the business are imperative for research questions that concern mature platforms. In fact, most platforms fail because they do not succeed to solve the coordination problem between producers and consumers in a timely manner—Google Video and Yahoo Video are just two prominent examples (Webster and Evans 2016). To survive, platforms need to reach a critical mass of producers and consumers at a given time (Evans and
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Schmalensee 2016). Hence, the benefits drawn from an optimal pricing strategies remain unrealized if the launch phase is not designed to solve the initial coordination problem and to reach critical mass. Still, only a thin body of research describes strategic decisions taken before the launch to reach critical mass (see for example Cusumano and Gawer 2002, Eisenmann et al. 2006, Ondrus et al. 2015). Existing research proposes various strategies that aim at igniting interactions between users (i.e., producers and consumers of products or services), and that can be distinguished with regards to the entry order of users (Evans 2009, Parker et al. 2016). However, most of the discussion on launch strategies of digital platforms is purely conceptual. Only few strategies are supported by real-life cases (see for example Mas and Radcliffe 2011). Hence, the discussed launch strategies have rarely been empirically examined.

Evans (2009) points out that the dynamics of the coordination problem may vary depending on the nature of the platform business, which therefore determines the suitable launch strategy. However, the impact of the nature of the platform businesses on the choice of strategies is still unexplored. An evaluation of individual strategies or possible restrictions in their application regarding the platform context has not yet been made. Thus, the aim of this paper is to investigate how these strategies, which solve the initial coordination problem between producers and consumers, are applied in different settings. We empirically examine launch strategies of digital platforms in their specific context.

The unit of analysis is a selection of digital platforms launched between 2003 and 2016. They operate in different contexts and enable different interactions between their respective producer and consumer sides. The focus was on the strategies that solve the initial coordination problem. The data comprises 14 interviews with founders and CEOs. The material was analyzed by formulating first and second order concepts (Van Maanen 1979).

This study makes several contributions: First, the study is based on the empirical analysis of online start-ups rather than established firms, to follow the call by Evans (2009). Start-ups usually do not have the time or the financial resources to solve the coordination problem through a massive marketing campaign and do not have the history and reputation of an established brand. Although scholars recognize that context has an impact on the coordination problem, its implications have not yet been investigated. By looking at the contexts of different platforms rather than at a single one, we can generalize and build theory. Second, as the existence of a one-size-fits-all strategy is very unlikely, a categorization of platforms with regard to strategic implications is needed. Excluding unsuitable strategies ex-ante allows to save resources for more effective strategies. As an outcome of the data analysis we propose a new set of platform categories based upon users’ ability to switch between the producer and consumer side. Our findings suggest that users’ ability to switch sides is a key contingency factor for the suitability of different launch strategies. Further, our research is of significance for entrepreneurs and investors, who aim to avoid platform failure at an early stage. Even though the value proposition and technology are critical, both remain valueless without a network of interacting users.

The remainder of this paper is organized as follows. In the next section, we discuss properties of digital platforms and review the coordination problem of producers and consumers as well as launch strategies of digital platforms. We then categorize the status quo of strategies in the literature according to the order of entry. Section 3 describes the methods of data collection and analysis. Section 4 outlines the results. Section 5 discusses the results and provides theoretical and managerial implications.

2 Theoretical background

2.1 Digital platforms

Scholars have been framing different dimensions of digital platforms, leading to a widely-dispersed research body (Porch et al. 2015, Thomas et al. 2014) and ambiguous positions among practitioners and academics (Sørensen et al. 2015). Scholars have been classifying platforms according to different criteria such as business models (Boudreau and Lakhani 2008), social interaction structures (Spagoletti et al. 2015), ownership and sponsorship structures (Eisenmann et al. 2008), market models (Armstrong 2006), and organizational forms (Gawer and Cusumano 2014). Moreover, much research has been done on the
implementation of pricing strategies (Boudreau and Hagiu 2009, Rochet and Tirole 2003, Tan et al. 2005, Ambrus and Argenziano 2009), which are not sufficient to predict the viability of digital platforms.

Our study relies on the integrative view on digital platforms suggested by Gawer (2014) and Hanseth and Lytyinen (2010), who emphasize the technical and economic characteristics of a platform, where the management of heterogeneous IT capabilities allows for interaction among a variety of actors. The principal task of the platform is to establish a direct access to a common marketplace for producers and consumers (Hagiu 2007) by providing them with the necessary tools (Parker and Van Alstyne 2005). The physical product of the platform requires the use of a digital device such as a computer or smartphone to interact in the social sphere (Yoo et al. 2010). The physical platform further is an “extensible codebase of a software-based system that provides core functionality shared by the modules that interoperate with it” (Tiwana et al. 2010, p. 676). Modularity renders the platform scalable, which allows an increase of output without input by the platform provider, generative, flexible and recursive (Tilson et al. 2010), by further expanding a firms’ boundaries (Tiwana et al. 2010). Traditional businesses face a limited ability to create such generativity due to company-internal constraints and gatekeepers (Evans and Schmalensee 2016, Yoo et al. 2010). The combination of stability and variety enables a platform to evolve and adapt according to its environment and to unexpected growth (Baldwin and Woodard 2008, Wareham et al. 2014). Despite the fragmented literature on platforms, Baldwin and Woodard (2008) have emphasized one common aspect among all interpretations: “The conservation or reuse of a core component to achieve economies of scale, while reducing the cost of creating a wide variety of complementary components” (p. 3). In the economic viewpoint of platforms, the stable point in the architecture is the common place of interaction, which may be a physical location, contractual or technical convention (Baldwin and Woodard 2008). The interaction between producers and consumers takes place online or offline, but the initial match is induced in the digital environment (Parker et al. 2016). The viability of a digital platform requires a critical mass of volume or value. Once a critical mass has been reached, network effects emerge and ignition is triggered (Fichman 2004). The quality of the platform depends on the contribution of other users (Bhargava 2014). Unlike in traditional businesses, the value that can be reaped from operations on a platform is not fixed (Zhu and Furr 2016), since it increases with every joining participant (Van Alstyne 2016b).

Exchanges on a platform enable reduced transaction and search costs, and a more efficient allocation of resources (Rochet and Tirole 2003, Thomas et al. 2014). Airbnb and Uber are famous examples for the potential success of such innovative business model. In this paper, we use the terms platform and digital platform interchangeably.

2.2 Coordination problem

Due to the two-sidedness and network effects a digital platform faces a coordination problem of producers and consumers upon its launch. This coordination problem is based on two phenomena: i) lack of users and ii) lack of interactions. Firstly, due to cross-side network effects, the value of the platform to user on side A is affected by the number of users on side B (Katz and Shapiro 1994). With the absence of users on one side, incoming users on the other side do not have an incentive to join either. Secondly, upon the launch of the platform users cannot find any content or activity, hence they cannot use the platform as intended. Thus, they are not willing to invest in further engagement and no value is created (Choudary 2015). If this problem is not solved, a vicious cycle unfolds and the platform continues to lack users and activity (Choudary 2015). To solve this problem, the platform needs to consider the limited timeframe. A platform that does not attract a sufficiently large audience in a certain period becomes less attractive to those participants who have already joined. As a result, they are likely to leave the platform. Evans (2009) calls this the “ignition phase of the product launch process.” Consequently, a timely acquisition of both producers and consumers is required to start interactions between them.
### 2.3 Launch strategies

Prior work recognizes the impact of the nature of the platform on the choice of launch strategy about the entry order of users (Evans 2009). The underlying coordination problem can be solved sequentially, such that the platform gets one side on board before the other (Evans 2009, Parker et al. 2016). Or else, the coordination problem can be addressed simultaneously, such that users of both sides, i.e., producers and consumers, are present from the start (Evans 2009, Parker et al. 2016). Prior work suggests that the type of platform and thus the specific nature of the coordination problem determine whether a platform needs to seek a simultaneous or a sequential entry of its users (Evans 2009).

Two recent publications distill launch strategies without focusing on the above-mentioned distinction of sequence (Evans 2009, Parker et al. 2016). We aggregate the proposed launch strategies from platform literature and propose a classification according to the users’ order of entry (see Table 1).

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Properties</th>
<th>Order of Entry</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two-step</td>
<td>Platform providers capture only one side of users before addressing the other side. This only works if the first side does not value the presence of the other side.</td>
<td>Sequential</td>
<td>Evans 2009</td>
</tr>
<tr>
<td>Single-side</td>
<td>Platform providers offer benefits to only one set of users. Once these are attracted, the business can be transformed into a platform by inviting the second set of users, who wish to interact with the first set.</td>
<td>Sequential</td>
<td>Parker et al. 2016</td>
</tr>
<tr>
<td>Commitment/Subsidy</td>
<td>One side of users receives financial guarantees when it is asked to make investments.</td>
<td>Sequential</td>
<td>Parker et al. 2016</td>
</tr>
<tr>
<td>Seeding/Self-supply</td>
<td>The platform itself creates value units by acting as a first producer to attract a set of potential consumers. Once they have joined the platform, other producers arrive who wish to interact with them.</td>
<td>Sequential</td>
<td>Evans and Schmalensee 2016, Parker et al. 2016</td>
</tr>
<tr>
<td>Producer evangelism</td>
<td>A platform can be designed in a way that allows producers to bring their consumers to the platform. This strategy is common among crowdfunding platforms: Project founders are incentivized to actively seek for investors. A platform may call producers to install a visual sign in form of a button on their website, which indicates that they are part of the platform’s ecosystem. Thereby the customers will be directed to the platform.</td>
<td>Sequential</td>
<td>Evans and Schmalensee 2016, Parker et al. 2016</td>
</tr>
<tr>
<td>Single-marquee</td>
<td>A platform provider starts by onboarding selected users, which are valuable to the prospective network: They are particularly appreciated by the crowd or influence others, which results in more users joining. Those marquee users can trigger direct and indirect network effects, when announced to the network. A single marquee is to be found on only one side.</td>
<td>Sequential</td>
<td>Evans 2009, Parker et al. 2016</td>
</tr>
<tr>
<td>Big-bang</td>
<td>The simultaneous onboarding of producers and consumers may be initiated by several classic push marketing means, triggering a high volume of awareness towards the platform.</td>
<td>Simultaneous</td>
<td>Parker et al. 2016</td>
</tr>
</tbody>
</table>

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1 Gawer (2009) distinguishes further between coring and tipping strategies. Since this paper deals with the establishment of platforms, we solely focus on coring strategies.
Launch strategies and their properties

| Micromarket | The launch starts in a small market, where participants already interact with each other, allowing an effective matching of interactions and the achievement of a critical mass within a smaller scope. The activity can later be scaled towards a bigger market. A micromarket can be a community within the overall target group as well as a geographic market. | Simultaneous | Parker et al. 2016 |
| Piggyback | Platforms start by addressing an existing community of users, which is already present on another platform. They are then directed to their own platform. | Simultaneous | Parker et al. 2016 |
| Zig-zag | Platform providers incrementally build a customer base on both sides through alternating marketing efforts to either side. Due to indirect network effects, the platform gains additional value with every new step. | Simultaneous | Evans 2009, Evans and Schmalensee 2016 |
| Double-marquee | Like the single marquee strategy, a platform provider starts by onboarding selected, particularly valuable users. In a double marquee strategy—as opposed to the single marquee strategy—a platform seeks for outstanding users on both sides. | Simultaneous | Evans 2009 |

Table 1. Launch strategies and their properties

3 Method

To extend the existing theory on launch strategies of platforms we carried out a qualitative study, which is informed by the extant literature on launch strategies of digital platforms. Figure 1 shows the research process we adopted. We seek to inductively generate new theory by conducting expert interviews with founders of digital platforms. The procedure serves to “discover relevant concepts for the purpose of theory building that can guide the creation and validation of constructs” (Gioia et al. 2013, p. 16). Within the scope of this research, there was no well-defined research hypothesis set up before the data collection, as its relevance is only to be confirmed by the emerging data (Gioia et al. 2013). The study was conducted based on the ground assumption that the organization, i.e., the digital platform, is socially constructed and that the people, who are in charge of its construction, are “knowledgeable agents” (Gioia et al. 2013., p. 17). This means they know what they try to achieve and are able to clarify the reasoning behind it. It is assumed that the founders consciously or unconsciously apply strategies that aim at solving the coordination problem. Further, we suppose that the strategies were implemented to prevent failure during and after the launch phase.

Figure 1. Research process

The digital platforms were selected after a search on the database Crunchbase. Generally, we aimed at learning about a broad variety of launch strategies with regard to the order of entry. We therefore focused on all types of platforms that exhibit a triangular structure, connecting a consumer side and a producer side. We restricted our data collection to two European countries.

The data were collected in expert interviews and through capturing secondary data. The semi-structured interviews were conducted in May and June 2016. As the research question addresses the respective
launch strategy of each digital platform, the founders of the businesses were selected as interview partners whenever possible. In one case, where the founders had already left the company, it was ensured that the CEO was familiar with the start-up phase, even though the CEO had not worked for the company during that specific time. All interviews were conducted via a videoconference tool. The duration of the interviews were 30 minutes on average.

In total, the data set is comprised of 14 expert interviews with founders and CEOs of digital platforms. In line with a suggestion by Yin (2009), the conducted interviews were written up as thoroughly as possible and subsequently sent out to the respondents for correction and confirmation. In sum, the interview protocols deliver more than 41,000 words of qualitative data. To gain insights into real-time accounts in addition to the retrospective view from the interviews, multiple data sources, e.g., companies’ websites or mobile applications, were consulted (Gioia et al. 2013).

One of the goals of this study is to reinforce empirical substantiation in the field of launch strategies of digital platforms. To ensure the fit of existing theory with emerging data from the real world we constantly reiterated between literature and collected data (Eisenhardt 1989, Glaser and Strauss 1967, Yin 2009). The analysis was conducted using the qualitative data analysis software RQDA and by systematically applying an analysis of 1st and 2nd order concepts (Van Maanen 1979). The 1st order analysis allows a coding according to the terms and notions used by the experts (e.g., “low hanging fruits”), whereas the 2nd order analysis stems from researcher-centric thinking (e.g., “first joiners”). This “tandem reporting of both voices” (Gioia et al. 2013, p. 18) allows a rigorous link between the collected data, existent research literature, and the evolving propositions (Gioia et al. 2013). The link between the existent literature and collected data is shown in Figure 2.

Conducting an open coding process (Strauss 1987) and sticking to the experts’ vocabulary, the 1st order analysis allowed to identify potentially important themes and phenomena (Glaser and Strauss 1967). However, it also yielded an unmanageable variety of codes. Hence, axial coding (Corbin and Strauss 2008) was conducted looking for similarities and differences among the codes to create overarching categories. Axial coding aims at identifying conditions under which concepts may take place (Corbin and Strauss 2008). Hence, the categorization of the numerous codes into fewer groups of codes using the Gioia methodology allowed to detect the dominant strategic elements (see Figure 3, Gioia et al. 2013). The coding of the transcribed interviews and the data structures allowed for an in-depth qualitative assessment and the clear identification of variations between cases.
Results

The examined platforms serve a variety of market segments (see Table 2). Among the examined platforms, five platforms enabled interactions between businesses and individuals (business-to-consumer or B2C), five platforms enabled interactions among businesses (business-to-business or B2B), and four platforms linked individuals (peer-to-peer or P2P). The value propositions differ, except for two, as two business models were represented twice: BLOGSEARCH1 and BLOGSEARCH2 connect bloggers and readers. RENTOFFICE1 and RENTOFFICE2 link companies which have spare office space to other companies, which look for a flexible solution to rent an office. However, the platforms operate in geographically distinct markets.
Table 2. Description of studied platforms

<table>
<thead>
<tr>
<th>Platform</th>
<th>Activity</th>
<th>Consumer</th>
<th>Producer</th>
</tr>
</thead>
<tbody>
<tr>
<td>BLOGSEARCH1</td>
<td>Blog search engine</td>
<td>Reader</td>
<td>Blogger</td>
</tr>
<tr>
<td>BLOGSEARCH2</td>
<td>Blog search engine</td>
<td>Reader</td>
<td>Blogger</td>
</tr>
<tr>
<td>BOOKDOCTOR</td>
<td>Online appointment booking</td>
<td>Patient</td>
<td>Doctor</td>
</tr>
<tr>
<td>CARSHARE</td>
<td>Car sharing</td>
<td>Individual</td>
<td>Individual</td>
</tr>
<tr>
<td>EXPAND</td>
<td>Consulting</td>
<td>Start-up</td>
<td>Expert</td>
</tr>
<tr>
<td>LEND</td>
<td>Crowdlending</td>
<td>SME</td>
<td>Individual</td>
</tr>
<tr>
<td>PAY</td>
<td>Mobile payment</td>
<td>Individual</td>
<td>Merchant</td>
</tr>
<tr>
<td>RENTITEM</td>
<td>Marketplace for physical goods</td>
<td>Individual</td>
<td>Individual</td>
</tr>
<tr>
<td>RENTOFFICE1</td>
<td>Office sharing</td>
<td>Business</td>
<td>Business</td>
</tr>
<tr>
<td>RENTOFFICE2</td>
<td>Office sharing</td>
<td>Business</td>
<td>Business</td>
</tr>
<tr>
<td>RENTSTORE</td>
<td>Marketplace for promotion locations</td>
<td>Business</td>
<td>Landlord</td>
</tr>
<tr>
<td>STUDY</td>
<td>Online survey tool</td>
<td>Market Research Institute</td>
<td>Individual</td>
</tr>
<tr>
<td>TASKSHARE</td>
<td>Marketplace for freelance workers</td>
<td>Getter</td>
<td>Giver</td>
</tr>
<tr>
<td>WEDDING</td>
<td>Marketplace for wedding planners</td>
<td>Bridal Couple</td>
<td>Wedding vendor</td>
</tr>
</tbody>
</table>

4.1 Launch strategies and side switching

All platforms used a combination of different launch strategies (see Table 3). During each interview one strategy emerged as the crucial one, which all other strategic actions were based upon. We classified the platforms according to the users’ order of entry and we conducted an analysis of the different platform contexts in each category. Strikingly, the platforms in the respective categories differed according to one characteristic: the ability to switch between the user sides. On some platforms, user sides remain restricted to one side. The major part of platforms that implemented a sequential entry strategy constrain their users to being either consumer or producer (i.e., side switching “No” in Table 3). The case of BOOKDOCTOR is a good example. The platform allows individuals to make appointments with physicians who have the booking system installed. Another example is WEDDING, which connects the providers of wedding-related services with bridal couples. The examined platforms are aggregators of a professional group, for instance doctors, or organizations, like start-ups or SMEs. The producer side usually supplies a good, service or information, which is not freely available to the public, but core to the group of producers.

On other platforms, user sides can act both as producer and consumer (i.e., side switching “Yes” in Table 3). Most platforms that applied a simultaneous entry strategy allow users to switch from one side to the other. To do so, the user groups need to belong to the same market segment. This means that the platforms with switching user groups serve either a B2B market or a P2P market. For instance, CARSHARE is a peer-to-peer car lending platform. Its fleet consists of vehicles of the participating car owners. The founder of TASKSHARE, an online marketplace matching freelance workforce with local demand, points out: “A person can be both. It's not Uber, where you either drive or ride. Here you can do both. (...) So, the default thing, when you open the app, is about ‘Who around me needs help?’ But in the same breath you can post that you need help.”

Table 4 conceptualizes the distinction between platforms with and without switching user sides, which emerged as an important contingency factor for the choice of launch strategies.
Twenty-Fifth European Conference on Information Systems (ECIS), Guimarães, Portugal, 2017

<table>
<thead>
<tr>
<th>Platform</th>
<th>Key Strategy</th>
<th>Order of Entry</th>
<th>Side Switching</th>
</tr>
</thead>
<tbody>
<tr>
<td>BLOGSEARCH1</td>
<td>Producer evangelism</td>
<td>Sequential</td>
<td>No</td>
</tr>
<tr>
<td>BLOGSEARCH2</td>
<td>Seeding</td>
<td>Sequential</td>
<td>No</td>
</tr>
<tr>
<td>BOOKDOCTOR</td>
<td>Producer evangelism</td>
<td>Sequential</td>
<td>No</td>
</tr>
<tr>
<td>CARSHARE</td>
<td>Micromarket with self-supply</td>
<td>Simultaneous</td>
<td>Yes</td>
</tr>
<tr>
<td>EXPAND</td>
<td>Two-step</td>
<td>Sequential</td>
<td>No</td>
</tr>
<tr>
<td>LEND</td>
<td>Zig-zag</td>
<td>Simultaneous</td>
<td>No</td>
</tr>
<tr>
<td>PAY</td>
<td>Single-marquee</td>
<td>Sequential</td>
<td>No</td>
</tr>
<tr>
<td>RENTITEM</td>
<td>Two-step</td>
<td>Sequential</td>
<td>Yes</td>
</tr>
<tr>
<td>RENTOFFICE1</td>
<td>Piggybacking with self-supply</td>
<td>Simultaneous</td>
<td>Yes</td>
</tr>
<tr>
<td>RENTOFFICE2</td>
<td>Micromarket with self-supply</td>
<td>Simultaneous</td>
<td>Yes</td>
</tr>
<tr>
<td>RENTSTORE</td>
<td>Seeding</td>
<td>Sequential</td>
<td>No</td>
</tr>
<tr>
<td>STUDY</td>
<td>Two-step</td>
<td>Sequential</td>
<td>No</td>
</tr>
<tr>
<td>TASKSHARE</td>
<td>Micromarket with self-supply</td>
<td>Simultaneous</td>
<td>Yes</td>
</tr>
<tr>
<td>WEDDING</td>
<td>Single-side</td>
<td>Sequential</td>
<td>No</td>
</tr>
</tbody>
</table>

Table 3. Entry strategies and side switching

<table>
<thead>
<tr>
<th>Platforms with switching sides</th>
<th>Platforms without switching sides</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allow users to switch easily, repeatedly and at no costs</td>
<td>Constrain users to being either consumer or producer</td>
</tr>
<tr>
<td>Users must be part of the same market segment: Business-to-business (B2B), peer-to-peer (P2P)</td>
<td>The market segment is not significant</td>
</tr>
<tr>
<td>Enable a P2P market, the re-distribution of costs, or a collaborative lifestyle</td>
<td>Aggregate a professional group of users or organizations</td>
</tr>
</tbody>
</table>

Table 4. Platforms with and without switching sides

4.2 Platforms with switching user sides

Digital platforms whose users can switch sides launched both sides simultaneously to grow organically. For instance, RENTOFFICE2 started onboarding both sides within its own existing network of start-ups. As these start-ups were already interacting for other purposes, RENTOFFICE2 built on this network to establish first interactions for the purpose of office sharing. The start in a micromarket is particularly useful when producers and consumers meet physically in the context of an interaction. In the case of RENTOFFICE1 and RENTOFFICE2 both sides would share an office if the interaction was successful. The interactions on CARSHARE equally build on physical proximity of users. The peer-to-peer car sharing platform “(…) started in one location. So, at the very beginning we focused on airports.” Similarly, TASKSHARE connects a local community: “We go into the markets, or plug into gyms, schools, churches. Where are people from the neighborhood already gathering? I think, that's one thing to go into the existing communities.” Users who experienced successful interactions in this micromarket may then spread to an adjacent area and allow the platform to scale. Otherwise platform providers begin targeting new geographic markets. This procedure may be sustained by the analysis of data: “When (…) we started to open locations—we analyzed the flow of our travelers, where the travelers were going. (…) Because we wanted to build a network following the main flows.” (CARSHARE) Having both sides physically present in one location increases the chances of a successful interaction, enhances the efficiency of matchmaking and avoids that the invested effort fizzes (Parker et al. 2016).
RENTOFFICE1 used the piggybacking launch strategy, which allows to draw a concentrated prospective user base from another platform towards the own platform. “We focus first on the low hanging fruits. Those who are present on other platforms. The platforms that normally provide other things. For example, people offer their offices on eBay classifieds” (RENTOFFICE1). If a platform is not particularly created for matching office providers with renters, they are perceived as inefficient by users. This makes the onboarding of the individuals towards the specialized platform easier. RENTOFFICE1 on the other hand may find a concentrated and heterogeneous producer base on the generic platform, who can be redirected to its own platform. Further, RENTOFFICE1 used other online platforms to promote its supply side to guide demand towards its own service.

Four of the five interviewed platforms with switching user groups implemented the self-supply strategy. The strategy solves the problem of lack of initial activity and reduces the uncertainty about the functioning of the platform (Parker et al. 2016). This strategy avoids early joiners to think “Hey, there is nothing on there.” (RENTOFFICE1) In the examined cases, the founders refer to the help of family and friends next to their own engagement: “If they [demand-side] send me an email, I will come and help them (...) So what I am trying at the moment is—without the app, without any technology—to get first of all getters on board by me saying ‘I am a giver. What do you need?’” (TASKSHARE). In the case of CARSHARE, the first cars were provided by the founders and their family members: “It was to (...) ensure the availability and to start.” RENTOFFICE1 and RENTOFFICE2 used contacts from former business operations to start first interactions. The self-supply strategy was solely applied by platforms with switching sides, because the value unit is a good or service which could be supplied by the platform.

Taken together, our empirical analysis suggests that platforms with switching user sides tend to get users on board simultaneously to reinforce network effects and enable faster ignition (see Figure 4). They implement a simultaneous entry strategy for three reasons. First, users are potentially the same on both sides. This is why a distinction between producer and consumer side is generally not made and prospective users are considered as potential producers as well as consumers. Second, a platform does not know upfront which side a user will engage in first and is therefore advised to promote engagement on both sides equally. This rules out that a prospective user is targeted on the wrong side: Even if a company is not looking for a free office space when targeted by RENTOFFICE, it may well be possible that it has some space available for rental. Third, a user who acts as producer and consumer simultaneously creates two-fold indirect network effects for the entire network and therefore allows for faster ignition of the platform. This leads to our first proposition.

Proposition 1: Simultaneous entry strategies are especially suitable for platforms with switching user sides.

![Simultaneous entry of a platform with switching user sides](image)

Figure 4. Simultaneous entry of a platform with switching user sides

4.3 Platforms without switching user sides

Among the non-switching platforms, a sequential strategy was applied to solve the coordination problem. Hence the strategy targeted either the consumer side or the producer side first. This was possible because one side could extract value from the platform without the other side.

To attract the first side, WEDDING applied the single-side strategy by creating an informational blog for consumers before it attracted the producer side and turned the business into a platform. “Strategically,
because we are obviously not really well funded. We are not a start-up that raised a million and is then able to throw a lot of money to Google AdWords or to social media. (…) On the contrary, we had to grow very organically, which is a bigger challenge.” The consumers could therefore extract value from the blog. Then, with enough consumers, the producer-side would be willing to pay a subscription fee. The founder of EXPAND recognized the difficulty to onboard both sides simultaneously and consequently faced the question of which side to onboard first. The founder stated that “it was easier to delay the start-ups’ problems by telling them that we would find experts.” Hence, the platform addressed first its consumers (i.e., start-ups), and presented the cases to prospective producers (i.e., experts). The experts were onboarded on the demand of start-ups.

When the platforms focused on the onboarding of the producer side first, they either simulated fake demand (RENTSTORE) or offered financial subsidies (BLOGSEARCH2). BLOGSEARCH2 offered its first bloggers a free premium membership for two weeks upon its launch. Only after an adequate number of bloggers had joined the platform, the attention turned toward the consumer side. BLOGSEARCH1 implemented the producer evangelism strategy. The platform asked its bloggers to install a button on their blog, which redirects the readers to BLOGSEARCH1. Further, the bloggers naturally attracted their readers to the platform through their activity: “Something which worked well in the beginning. Many bloggers talked about us. This was positive for the launch” (BLOGSEARCH1). PAY started by recruiting marquee users (i.e., influential students), to test and promote their service. Once the marquee users had convinced more students on their side, PAY observed a natural trend of evangelism. The individuals expressed to merchants their wish to be able to pay their purchases with PAY. Merchants then asked PAY to install a point-of-sale in the respective shop. Similarly, physicians on BOOKDOCTOR were incentivized to guide their patients towards the booking platform. Physicians on BOOKDOCTOR refer to the platform on their answering machines, when the doctor’s office is not occupied.

However, the producer evangelism strategy was only observed among the platforms without switching user sides. This may be because these platforms primarily represent additional sales channels of the producers’ core business operations. It distinguishes them from platforms with switching user sides, where also individuals sign up who would not even know the addressable group on the other side without the infrastructure of the platform.

One start-up had sufficient financial means at its disposal to acquire the respective users. STUDY concentrated on the acquisition of the producer side (i.e., individuals), through Facebook ad targeting. This was only possible because the individuals valued to support a charity organization whilst answering surveys. The market research institutes that would be interested in the collected data were only approached when the initial acquisition of individuals had proved to be successful. As the model appeared to be value creating, further market research institutes were targeted. Only upon their demand, STUDY onboarded new individuals and hence grew its customer base.

Platforms without switching user sides tend to implement a sequential entry strategy. Platforms without switching user sides get users on board sequentially (Figure 5) for two reasons. First, the interviewed platforms without switching user sides offer producers to distribute their core product or service in an additional sales channel. Due to existing other sales channels, they are reassured about their consumers’ existence and only need to wait until they arrive on the corresponding platform. Hence, producers may be more patient to wait for the arrival of the consumer side. In the meantime, platforms make sure that the first side has nothing to lose while waiting for the second side. Second, the goal of a sequential entry strategy is to build up a solid mass of users on one side, which attracts the opposite side. This allows to establish successful interactions as soon as the second side arrives. Initial successful interactions are particularly important. User who do not find what they are looking for in the first place are unlikely to come back a second time.

**Proposition 2:** Sequential entry strategies are especially suitable for platforms without switching user sides.
5 Discussion

Our goal was to refine the existing theory on the initial coordination problem from a strategic perspective and to enhance existing theory with empirical findings. Solving the coordination problem during the launch phase is crucial for the success of a digital platform. Platforms are only able to reach a critical mass of users if interactions between the first joiners can be initiated rapidly. To analyze the launch phase, we investigated the launch strategies of 14 digital platforms. As a result, we state that the relationships of user groups are decisive for the implementation of a sequential or simultaneous entry strategy. Platforms with switching user sides tend to onboard both sides simultaneously, whereas platforms without switching user sides did so sequentially.

As a potential limitation of our findings, it is important to note that the ground for our analysis was generated through founders’ retrospective sensemaking of past actions and experiences, which may be subject to ambiguity (Weick et al. 2005). It is also important to note that we found two exceptions that did not follow the propose order of addressing user groups. RENTITEM and LEND relied on external financial means during their launch. They were therefore less dependent on organic growth. RENTITEM onboarded the supply side with the help of a sales team. This ensured that the first joiners supplied value units of high quality. Subsequently, the platform acquired the demand side through Google AdWords. The CEO underlined that it is hence easier to generate demand depending on the amount of money spent. LEND arranged a media-for-equity deal\(^2\). In exchange for equity, the platform advertised its business for free in journals published by the contracting media group. The advertising campaign addressed both lenders and borrowers simultaneously: “We addressed both, lenders and borrowers. Let’s say the first week we had it dedicated to lenders, the second week we dedicated to borrowers (…).” In this case, the balance of both sides played a particular role: To exploit the willingness of lenders to invest the acquisition of borrowers had to be adjusted accordingly. “At the beginning, we had much more lenders than borrowers. And so, we decided to shift the message that we were giving to the press to focus on borrowers.” This zig-zag strategy allowed a balanced growth on both sides and required the trading of equity.

Our study has several implications for theory. First, our study adds to prior conceptual work that has proposed several launch strategies but has rarely empirically examined the launch strategies (Eisenmann et al. 2006, Evans 2009, Evans and Schmalensee 2016, Parker et al. 2016). We review these launch strategies and classify them according to the entry order of users and consumers. We investigate how these strategies were put into practice by different online start-ups. Second, we add the ability to switch between producer and consumer side as a contingency factor which impacts the entry order of users. The ability to switch user sides has been acknowledged by prior work. For example, Parker et al. (2016) and Gazé and Vaubourg (2011) recognize that on some platforms groups of producers and consumers can be in “perpetual reformation” (Gazé and Vaubourg, p. 159). Evans (2009) recognizes that on some platforms user groups remain distinct, while on other platforms users can become part of any of the two sides at different points in time. Being able to switch between sides means that users may equally consume and produce depending on their needs, while the platform does not impose any constrains on them. Switching is therefore “reversible and costless” (Gazé and Vaubourg 2011, p. 159). This implies that a platform may serve the same agents on the two different sides of the market (Evans 2009). Although scholars have classified platforms according to numerous criteria, a distinction based on the ability to

\(^2\) A media company trades advertising space in their publications to start-ups in exchange for equity. Thus, the start-up obtains media coverage instead of cash to increase its customer base.
switch user sides remains widely unexplored despite its significance for the implementation of launch strategies. Examples of B2B and P2P businesses with and without switching user sides can be identified among current existing digital platforms. By empirically exploring the contingent role of side switching regarding the suitability of launch strategies, our study contributes to the existing body of knowledge on platform characteristics, launch strategies, and the interaction between the two.

Our study also has implications for practitioners. A platform with switching user sides faces reduced user acquisition costs, as the users to both sides might be the same. Once onboarded to one side, they already know the platform. Using the platform, they learn about the opportunity to engage with the other side. Intuitively, platforms with switching sides should address a user base that potentially can engage as both producers and consumers to maximize network effects. We saw that the micromarket strategy is especially suitable in the case of side-switching. Nevertheless, it decelerates the global growth of the user base. An established user base in location A cannot be transferred to a location B (Salminen 2014). This problem was also recognized by the interviewed founders: “Every time we target a new city, we start at zero. When someone needs an office in city X, he won’t be interested in our 70 offices in city Y” (RENTOFFICE1). However, to test the business model, starting at one location might be useful. Once the critical mass has been reached there, the platform can expand into several further markets simultaneously.

Platforms without switching user sides must consider the uncertainty that arises from a sequential entry strategy. The first joiners do not know when and even if the second side will show up (Gazé and Vau-bourg 2011). Therefore, a sequential entry strategy often involves an incentive for first joiners. For example, free premium accounts for a trial period or other material subsidies are provided to first users (Parker et al. 2016). These subsidies convey confidence about the success of the business and shape expectations among first joiners (Evans and Schmalensee 2016). However, if the sequence before onboarding the second side is too long or even unsuccessful, the first side becomes impatient and will leave the platform again. One possible solution to minimize the impatience is to communicate openly when the platform plans to onboard the second side.

This study is a first step toward a better understanding of launch strategies of digital platforms. Future research could build on our insights and explicitly conceptualize and consider the success of digital platforms. The dependent variable could therefore be the achievement of a critical mass, which can be approximated by various measures of growth. Examples are the amount of venture capital raised or the increase of the number of employees, both signs for predicted growth of a business (Davila et al. 2003).
References


