Dilemmas of platform startups

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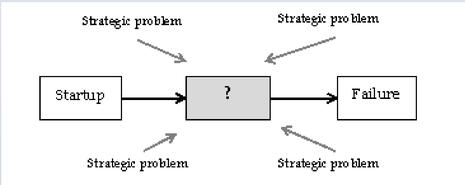
ABSTRACT

This paper explores the strategic problems of platform startups on the Internet: their identification and discovery of linkages between them form its contribution to the platform literature. The author argues that the chicken-and-egg problem cannot be solved solely with pricing in the online context - in fact, setting the price zero will result in a monetization dilemma, whereas drawing users from dominant platforms sets the startup vulnerable to their strategic behavior, a condition termed remora's curse. To correctly approach strategic problems in the platform business, startup entrepreneurs should consider them holistically, carefully examining the linkages between strategic dilemmas and their solutions.

Keywords: platforms, two-sided markets, startups, chicken-and-egg problem



The research problem can be formulated as the following research questions:

RQ 1: What strategic problems are encountered by early-stage online platforms?

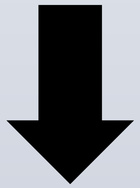
RQ 2: How can the problems be conceptualized as dilemmas?

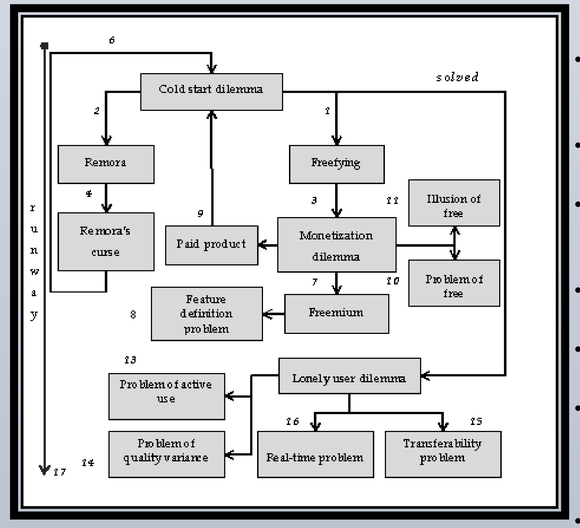
RQ 3: Are the dilemmas interrelated? If so, how?

- Method: Grounded Theory (GT)
- Data: 29 post-mortem stories by founders
- Source: Google, Hacker News, Quora

Identifying emerging themes from the post-mortem stories, selecting a core category (dilemmas), increasing the abstraction level, integrating findings with the literature.

FINDINGS





- **Pioneer's dilemma:** if the startup launches too early, it will pay the pioneer's cost and is likely to fail due to insufficient resources; if it launches too late, it is unable to capture users from incumbents.
- **Cold start dilemma:** without content, users are unwilling to join and generate content.
- **Lonely user dilemma:** without other users available at a given time, users are unable to use the platform.
- **Monetization dilemma:** if access and usage of a platform is provided for a fee, users are unwilling to join; if access and usage is free, the platform is economically non-viable.
- **Remora's curse:** if users or content is sourced from a host platform, the cold start problem can be solved; however, at the loss of power relating to customer relationships, monetization, and so on.
- **Pivot dilemma:** if the startup accommodates its user's wishes in product development, it loses focus; if it does not, it loses the user.
- **Peter Pan's dilemma:** if the startup accepts external funding, it loses decisive authority and becomes vulnerable to hasty decisions; if it does not, it loses against competitors with funding.
- **Juggernaut dilemma:** due to lack of legitimacy, the startup is unable to convert enterprise clients which would grant it legitimacy.

- **Illusion of scale:** the tendency of startup founders to assume online businesses require less effort to succeed than offline businesses.
- **Illusion of free:** the non-validated assumption that users are unwilling to pay for online products.
- **Technology bias:** the tendency of startup founders to assume that all startup problems can be solved by technological means.
- **Build it and they will come:** the tendency of startup founders to assume that the product will market itself.
- **Dog food blindness:** the refusal of accepting fault in one's product.
- **Sunk code fallacy:** the tendency of startup founders to refuse to make drastic business changes (i.e., pivots) due to the time and effort spent making the current version of the product.
- **Reference point bias:** the tendency of startup founders to assume that successful implementation of a particular strategy or tactic in another context would automatically work in their context (e.g., "because it works for x, it will work for us").

CONCLUSIONS

The study has shown that the problem 1) can take specific forms (i.e., cold start and lonely user) based on the type of coordination required (e.g., timeliness), and 2) is not isolated, although some of its potential solutions applied by the failed platforms startups are associated with further dilemmas; for example, the monetization dilemma and remora's curse. This is an important finding as most of the literature considers the chicken-and-egg problem in isolation, and focuses on pricing as a solution (not optimal in the online setting). It is argued here that potential solutions can aggravate the platform startup's problems in the big picture; for example, by denying monetization or making it dependent on the host platform's strategic choices. Hence, solving the cold start problem can come at a significant cost, and thus 3) potential solutions need to be considered in terms of their impact on cascading dilemmas and problems. **To help practitioners and scholars deal with this complexity, the study proposes a dilemma roadmap outlining particular challenges of young online platforms.**

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