How social platforms are transforming online publishing

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Online Media Is Tested When Social Platforms Come to Town

Online media companies are, once again, bracing for change. Now, the prospect facing them is audiences that don't just start on **social** media platforms — they never have to leave them.

Facebook now hosts articles created by outside publishers, as well as videos and live broadcasts. **Snapchat**, with its Discover product, has created a sort of online media in miniature, with TV, newspaper and magazine companies angling to have a channel on the platform. And, of course, media companies publish constantly to **Instagram** and **Twitter**, amassing giant audiences.

To publishers, the rise of platforms has been disorienting at best, as it threatens many of their business models. To Andrei Hagiu, a 38-year-old associate professor at **Harvard Business School**, the change has followed a familiar pattern. Mr. Hagiu is an economist who studies platforms and multisided marketplaces — like eBay and **Amazon** or **Airbnb** and **Uber** — that have, in similar ways, transformed, destroyed or expanded industries. (Multisided marketplaces are businesses that enable interactions between different types of customers. A credit card processor connects customers with merchants and collects fees; **Airbnb** connects renters with property owners and does the same.) In 2006, with David S. Evans and Richard Schmalensee, he wrote "Invisible Engines: How Software Platforms Drive **Innovation** and Transform Industries," a book on the subject.

Mr. Hagiu spoke at length with The New York Times about what changes when a platform comes to town, and what it might mean for online media. The interview was condensed and edited for clarity.

Would you define a publication as a multisided marketplace?

Yes — we can say it's a two-sided platform, if we count the two sides as being the readers on one side and the advertisers on the other. Now, there's a separate question — we can talk about the "third side," which would be the writers.

Something like a Tumblr or Medium — a place where people can just post?

Yes, where there's clearly a direct interaction, and there's a lot more control by the two sides — it's truly on the platform, not a lot of control exerted by the publication as an aggregator.

How would you then describe, in similar terms, what a company like Facebook is — or a company like Snapchat?

Facebook, I always say it's at least a four-sided platform. They have users, they have advertisers, they have third-party application developers, and then finally they have websites that use the **Facebook** Connect system — which is to say that you can log in with your **Facebook** credentials.

Where does a company that is producing professional video or journalism for Facebook — publishing those directly on Facebook and getting some kind of revenue — fit in?

So, basically they're adding one extra side, which we can call "premium content publishers," broadly. It makes sense, and it's very similar to the transformation that YouTube has gone through. They went from having pretty much one side — when they started off, for the first few years, everyone was a user. As a user you could watch videos or post videos. But everyone was the same. Sometimes I watch, sometimes I post; some people just watch, some people just post. But they are all the same users. Now they've become a lot more sophisticated, with **advertising** and revenue sharing, and with professional video producers.

If a publication-style business becomes a participant in a marketplace like Facebook, what has changed for it?

This has been an ongoing concern. Let's say you're an established company, and now there's a multisided platform in your business, what happens? And say you have to play on that multisided platform, because they're big and everyone else is playing, so you need to get on top of it. The concern is always commoditization. I think partly it's true — what a platform does, to some degree, is introduce a lowest common denominator. In particular, they make the substitution, or the switching cost, between the different players a lot lower. I think that's undeniable. It's much easier to switch between, say, The New York Times and The Wall Street Journal as a user, and as an advertiser by the way, if those are on top of **Facebook**.

One example that you've published on before is Toys "R" Us. I know this will sound ridiculous to some people in the publishing industry, to compare a toy retailer's relationship with Amazon to a publication's relationship with a social platform. But maybe it shouldn't?

When **Amazon** emerged as the pre-eminent e-commerce platform, a lot of big companies said, we need to find a way to play with them — it seems like there's a lot of e-commerce going on there, and we can't ignore it, so we need to do something. **Toys "R" Us** struck a deal that turned out later to be not very advantageous. Initially, it was a good deal for **Toys "R" Us**, and it gave them access to **Amazon**'s customers. But afterward what happened was **Amazon** found ways to take advantage of **Toys "R" Us**, using the relationship, and its presence on their platform, to start a toy category on **Amazon**, to figure out how to sell toys on **Amazon**, and then to invite a lot of competing companies on the same platform to compete with **Toys "R" Us**, which made it a lot less attractive for them to be there.

Essentially, they overlooked the possibility that **Amazon** would just use them as a way to start a category of toys — they somehow assumed it would be exclusive, without putting it in the contract. And, obviously, if I'm a platform, of course I don't want to be exclusive with anyone, right? I mean, that's the point of a platform. I want to have as much competition between whatever participants as possible.

So if we grant some sort of comparison between a publishing partner's relationship with a large distribution platform and a retailer's relationship with Amazon, that might sound alarming?

So, with **Amazon**, just to make the comparison very clear — in the case of **Amazon** with **Toys "R" Us**, the first thing that happened that was bad for **Toys "R" Us** wasn't that **Amazon** started selling its own toys in their own name, it was that they invited third-party smaller sellers of toys to compete with **Toys "R" Us** on **Amazon**'s platform. And that competition is very fierce. In the case of **Snapchat**, what you're describing is pretty much the same thing — they may have tried, and realized producing high-quality and engaging content is not very easy, and they probably said, you know, we don't really have to. Because we have all these users, and if we get good at aggregating that, or inviting other third-party content publishers, that works just as well.

How do pre-existing companies typically make the transition from being an independent participant in a particular category to being, basically, a platform constituent? That's a broad question, but — is there an industry that might have useful parallels to the media industry with something like a major social platform?

I don't think it's true that transitioning from independence to life on a platform necessarily has to make things worse. One thing that I think a lot about — in conversations with venture capitalists and others — is the notion that platforms or marketplaces inherently commoditize. I think more likely what's happening is the following: I think platforms, or marketplaces, make it a lot easier for, say, the content providers or app developers that are very, very good to rise to the top, and pretty much commoditize everyone else. So if you're average, it's definitely going to be very bad. Life is going to be worse on a platform, because you're exposed to more competition. If you're very good, life on a platform is a lot better.

Among the luxuries that you have as a media company, when you have your coherent audience, is that you get to sort of self-define a little bit. A publisher might hear you say, "The best rise to the top," or, "It's good to be one of the best on a platform," and say, great, that's us! But I wonder if that fails to account for the redefinition of what your company *does* on a platform.

It's a little bit like, if you ask drivers how they rate their driving ability, you know, 80 percent say they're above average. The important qualifier to what I said earlier, about how the best rise to the top, is that, inherently, the platforms force a lot more specialization than before. Previously, in the independent world, players were able to afford to be a little bit broader. I think the problem is, now, you really have to think very deeply, a lot more carefully — what, exactly, are the one or two things we're really good at, and focus on those. So there's going to be a lot of forced specialization, because on a platform, competition will be vertical by vertical.

In a case like Facebook, the content was largely there before — in the form of links.

It makes perfect sense, right, to bring more of that content inside, because they can increase engagement.

Things load faster, it's a better experience, and posts and videos are created with Facebook in mind, which means they might feel better inside the platform.

Yes, and they want to do as much as possible — ideally, for them, they want to get as much content as they can to increase readership. There's probably a function between the well-being of the platform and the quality of the content that they have.

It seems like there's a great deal in common across the social platforms, in terms of how they're making money — I'll include Snapchat, Facebook, Twitter and Instagram as examples — since they're mostly advertising-supported. If they continue to become more dominant, it seems like these similarities could express themselves in a more direct sort of competition, perhaps *for*partners. Which celebrity chooses which; which company works on which.

This is harder — for video games, right now, the large game developers are nonexclusive. They used to be more exclusive, and I think this has decreased over time — it's become very hard to convince, say, Electronic Arts to give up the Xbox One market to work with the PlayStation. So that has definitely played against the platforms. Game platforms always try to buy or produce their own games for differentiation, but it's very hard.

A different example, the other way, is online video — **Netflix** and **Amazon**. The problem there is very similar. Everyone has, basically, the same movies by now. So this has pushed **Netflix** and **Amazon** to start producing their own content. If I'm one of the original providers — studios, I guess — then I'm not happy, because now you have this high-quality production from **Netflix** and **Amazon**, who are stealing viewers from you.

You take this down to the level of articles and shorter videos, and you have different considerations, no? Especially around exclusivity. I'm trying to imagine any sort of leverage.

Well, let's say the content in question requires a lot less investment. First of all, there's going to be a lot more competition. It's very hard to compete with the video game Call of Duty. It's a lot easier to come up with close substitutes for something that requires a lot less investment. The substitution concern on a platform is a lot higher.

The most profound piece of this — the trend that I find fascinating — is that every year, people look at this and say, these are the products and services that are right now being transacted on these multisided platforms, but there's a limit. There's always higher-level, higher-value products and services that are extremely out of reach. Now we're saying, oh, there are all these on-demand economy platforms like Taskrabbit, but, surely, this is limited to low-skill labor or things that very easily contractable. The reality is, there will be platforms for pretty much everything — pretty much any product or service that we can imagine. It's going to happen.

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