BUSINESS & STRATEGY

Modern Monopolies

by Alex Moazed and Nicholas L. Johnson

The biggest companies do not sell products - they run platforms. This book explains how platforms win.

BEST POINTS FROM THE BOOK

01 **Own the means of connection, not the means of production.**

That is the book's core line. Uber owns no taxis and Airbnb owns no rooms - the network of producers and consumers is the asset.

02 **A linear business pushes value down a pipe. A platform lets outsiders create value for each other.**

In a linear business, value flows one way through a supply chain. On a platform, users on both sides produce and consume - the company just runs the exchange.

03 **Every platform runs on one core transaction: create, connect, consume, compensate.**

A producer makes something available, a consumer connects and uses it, then compensates the producer. Get this one repeatable exchange right before building anything else - and note that compensation is not just money: likes, ratings, and reviews count.

04 **Your real job is four functions: build the audience, matchmake, provide tools and services, and set the rules.**

The platform cannot control millions of users directly, so it attracts them, pairs the right producer with the right consumer, lowers the cost of transacting, and governs behavior with rules and standards.

05 **Network effects make each side worth more to the other side.**

More drivers mean faster rides, which draws more riders, which draws more drivers. Past a critical mass, growth starts feeding on itself instead of being bought.

06 **Platforms grow at near-zero marginal cost - linear businesses cannot.**

Users supply the inventory, so a platform's costs level off as its network grows. A linear firm's costs keep rising until growth stops paying, which is why platforms can expand toward the size of the whole market.

07 **Every platform is born with a chicken-and-egg problem.**

Riders will not join without drivers, and drivers will not join without riders. Winners solve it with subsidies, seeding one side first, single-user utility, or by tapping an existing network.

08 **Platform markets tip toward one winner - a monopoly of participation, not ownership.**

Once one network is clearly the biggest, users stay because everyone else is there. The moat weakens only when switching is easy and users happily spread across rivals.

09 **Growth is not the goal - a healthy network is.**

Network effects are mostly local, and bad users pollute the whole system; left unchecked, a big network's quality decays. Winners guard quality early, because the users you start with shape everyone you attract later.

10 **Trust has to move from strangers to the platform itself.**

Ratings, reviews, guarantees, and rules make people willing to transact with people they have never met. That trust machinery is a core product feature, not an add-on.

11 **Platforms do not just take share - they grow the pie.**

They unlock hidden supply and demand: spare rooms, idle cars, people who never took taxis. Far more people ride with Uber than ever hailed cabs, because the exchange became cheaper and easier.

12 **To spot the next platform, look for fragmented supply and expensive gatekeepers.**

The book's closing test: a large, scattered source of supply, middlemen charging high transaction costs, and an underserved network already waiting to be connected.

THE BOOK, IN SHORT

Alex Moazed and Nicholas L. Johnson of Applico, a firm that builds and advises platform businesses, argue that the most valuable companies of this century - Google, Apple, Amazon, Facebook, Uber, Airbnb - share one business model: they are platforms. A platform creates value not by making things, but by facilitating exchanges between two or more interdependent groups of users. It owns the means of connection, not the means of production.

That is the break from the linear business, where value flows in one direction down a supply chain from maker to buyer. Drawing on Coase's theory of the firm and Hayek's ideas about local knowledge, the authors show why linear companies cap out: as they grow, coordination and transaction costs rise until growth no longer pays. Platforms break that ceiling because users supply the inventory, giving the business near-zero marginal cost - the bigger the network, the wider the margins.

The middle of the book is the design playbook. Every platform is built around one core transaction - the repeatable set of actions by which producers and consumers exchange value - analyzed in depth through Tinder. Around it, the platform performs four functions: audience building,

matchmaking, providing core tools and services, and setting rules and standards. The book also maps the model into nine platform types: seven exchange platforms (services and product marketplaces, payments, investment, social networking, communication, social gaming) and two maker platforms (content and development).

Finally, the authors explain why these businesses become modern monopolies and why most attempts fail. Network effects make each side of a platform more valuable to the other, so markets tend to tip to a single winner - but only after the brutal chicken-and-egg problem of reaching critical mass is solved, and only if quality and trust are protected as the network grows. The book closes with advice on spotting the next platform opportunity: fragmented supply, costly gatekeepers, and networks waiting to be connected.

DO THIS WEEK

This week, take a business idea or your current work and write down its core transaction in four steps: what the producer creates, how the two sides connect, how the consumer uses it, and how the producer gets compensated (money, attention, ratings?). Then pick one chicken-and-egg solution - a subsidy, seeding one side, or a tool useful to one user alone - and write the first move you would make with it.

By Alex Moazed and Nicholas L. Johnson, first published 2016 (St. Martin's Press; full title: Modern Monopolies: What It Takes to Dominate the 21st Century Economy). Read it if you want to understand, build, or invest in the platform businesses that now run daily life.