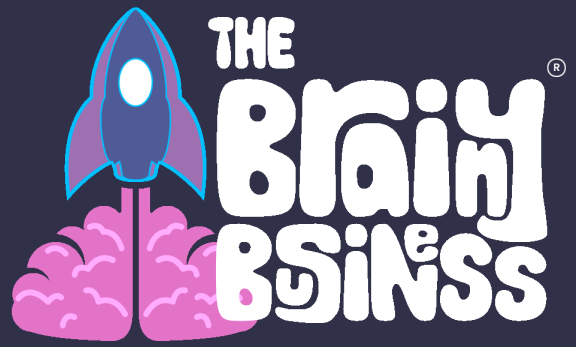


NETWORK EFFECT

WORKSHEET



6 of the 10 biggest companies in the world today use the Network Effect for a reason. It can be profitable, but you need to be very thoughtful when setting one up.

Direct Network Effect

Each new person added has a positive impact on everyone who is already in the network

(think telephone: each new person is someone you can call)

VS

Two-Sided Network Effect

Adding a new user in one category is good for those in the other category and possibly bad for others in its own category

(think Uber riders vs. drivers)

Local Effects

- Not necessarily down the street
- Affinity groups (subsets) that make the network stronger
- Think knitters vs gamers on YouTube

VS

Global Effects

- Not necessarily around the world
- Global changes impact everyone on the network (all local groups)
- Think Facebook while only at Harvard

Consider Critical Mass

Network effect businesses often lose money before hitting critical mass - when the value of joining exceeds the cost to do so. These companies need to understand when they will hit critical mass, what it looks like when they get there, and how to get there quickly.

IMPORTANT BE CONCEPTS: Incentives, Social Proof, Herding, Framing of Value

How could a platform business (think social media) use the 5 Cs?

Connection

Communication

Collaboration

Curation

Community
