

Transformation of business model - from Pipe to platform (Platform)

Tubular models have appeared since we started having industries. They have dominated the world of business models for a long time. But we are moving from a linear business model to a network model, from simple pipes to smart platforms.

Why do most social networks never take off?

Why are there markets where business is so difficult?

Why do the best tech startups fail so often?

Talking about the business model, there are two types: the tube model and the platform model. You can run your startup completely wrong if you try to build a platform and use the tactics of the pipe model. First, take a look at the definition of these models.

See more: [Understanding the business model in just 2 minutes - Business Model Canvas](#)

Tube business model

Tubular models have appeared since we started having industries . They have dominated the world of business models for a long time. Businesses create products and sell them to customers. The value goes up and goes down in a linear flow like the water flowing through the tube.

We can see tubes everywhere. Every product we use comes to us through such a tube. All businesses use pipe models. Television and radio are tubes that bring content to the audience. The education system is the tube where teachers bring knowledge to learners. **Before the advent of the Internet, almost every service ran on such a tube model** .



Even on the Internet, the tube model still exists. Blog running by tube model. E-commerce stores like Zappos also run on tube models. SaaS (Software as a Service) a user also runs the pipe model when the software is created by the enterprise and delivered to consumers by the paid model and then used.

Platform model

When the Internet has not yet been born, we have not seen the birth of a platform-based business model. Unlike pipes, the platform not only creates and delivers products to users. They allow users to create and consume value. In the technology class, external developers can extend the functionality of the platform through APIs. In the enterprise class, users (manufacturers) can create value on the platform for other users (consumers). **This creates a dramatic change that has never been seen in business.** To understand more about building values ?? above the platform, refer to the article below.

See also: How small ideas create great value?

TV Channel works with the tube model but YouTube works with the platform model. Encyclopaedia Britannica using pipe modeling as Wikipedia chose to build value on the platform model. Our regular class still uses pipe modeling like Udemy and Skillshare to use the platform model.



The failure of business models

So what's important here?

The platform is a completely different business model. If you build a foundation in the way that you build a pipe, you are probably preparing for your failure. The media industry is facing the fact that the model has changed. Traditional style has been broken by emerging markets and in-store technologies, which can only work on a platform model.

Thinking tube and foundation thinking

Below is a summary of the different points of these two models.

Attract customers

Attracting customers on the tube model is relatively easy to understand. You have users and "convert" them into a transaction. As well as bringing customers into retail stores, online stores also focus on having customers and converting them.

Many platforms after birth also follow the strategy of the tube model as above, try to have users and turn them into a certain type of action. However, **the platform is often invalid when the first user appears**. They have the problem of "chicken and egg" again. Users (as producers) often create value for other users (consumers). Producers upload photos to Flickr and product listings on eBay, from which users "consume". Therefore, without a producer, it will not be valuable to consumers and no consumers will not be valuable to producers.

See also: Manufacturer - User - Customer - Who are they?

The platform faces two main challenges, namely:

1. Chicken and eggs to get both producers and consumers on the platform.

2. Make sure that the producer will create the product, ie create value.

If you can not solve these 2 problems, try to increase page traffic or application downloads can not help you attract more customers. Startups often fail when they build platform apps but use pipe thinking to attract customers.

Tube thinking - Optimizing conversion hopper for growth.

Single platform - Build network effects before optimizing conversions.

See also: Breeding strategy for the platform - solving chicken and egg problems

Product design and management

Pipe creation is very different from foundation creation. Pipe making requires that we always think of consumers. Kayak.com online travel agent is a tube that allows users to use air tickets. All features are built to help consumers easily find and use airline tickets.

Meanwhile, **the foundation requires us to build and always think of both producers and consumers** . Building YouTube, Dribbble or AirBnB requires us to create a tool for producers (such as hosting videos on YouTube) and consumers (for example, watching videos). Looking through both prisms will help to build reasonable features for the product.

Summary of possible cases (Use case terminology is used in system analysis, describing how outsiders interact with the system in different scenarios) when using common pipe models available while For platforms, they can appear during use, just like Twitter has developed use cases over time. Initially, the application allows you to type 140 characters to express yourself, then it transforms into a platform for sharing information and eventually becomes a completely different model to search for hot topics (trending topic). **Users often take the platform to completely new directions.** User development can not help you much.

Tube thinking - Users interact with the software we create. Product value is in itself.

Foundation thinking - Users interact with each other using the software we create. The product is of no value if the user does not use them.

Currency issues

Currency in tube model is also very easy to understand. You calculate the cost per unit of product going through the pipe to the customer, ensuring that $Price = Cost + Expected\ profit$. This is a simplified model of the art of valuation that is very complex, but it also captures the fact that users are the value users create.

With the platform model, this problem is not so simple. When producers and consumers deal with each other (on AirBnB, SitterCity or Etsy), either side or both create a transaction on the platform. When producers create content and attract consumers (on YouTube), the platform can make money by attracting customers (through advertisements). In some cases, the platform also grants permission to use the API.

So is the economic activity on the platform. Usually at least 1 party will be assisted to join the platform. Producers are even encouraged to participate. With the tube model, a simple formula will help you understand currency issues.

Customer Acquisition Cost (CAC)

Cost to attract customers

This formula is very true for e-commerce stores or Subscription models. With the foundation, it is necessary to have a look at the system to balance prices and differences, calculate the deductions on each side of the formula so that the business model is effective.

Pipe thinking - We charge customers for the value we create.

Foundation thinking - We need to determine who creates value and who will charge because of that value.

But . Thinking platform applies to every Internet business

Without the Internet, our world is still dominated in the tube model. The Internet, as a connected network, is itself a platform and allows businesses - based on it - to leverage the attributes of the platform.

Any business on the Internet has some basic attributes . E-commerce stores and single-user SaaS also operate as pipe models. But because they are also used over the Internet, they also have elements of the platform model. Blog allows commenting, discussion. Interaction is the viewer who reads the blogger's article but the side interaction (such as commenting) makes the blog also has the element of the platform model. Readers also cooperate to create value. Sales pages rated by users, ranked also carry the element of the platform.

The end of the tube model

In the future, every company will be a technology company. We saw this change when many businesses restructured their business model to use value-creating data.

We are moving from a linear business model to a network model, from simple pipes to smart platforms. All businesses need to switch to this new model at some point or face the risk of being "disruptive" platforms.



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