

The octopus effect: when and who platform companies acquire

After their launch, Amazon, Apple, Airbnb, and Google, giant platforms of the digital economy, all followed a similar pattern. They quickly bought competing platform companies in their same market niche before growing tentacles through acquisitions in other sectors. Margherita Pagani, Milan Miric, and Omar El Sawy call this phenomenon “octopus effect” and wonder what the next evolutionary stage of platforms will be.

The success of digital platforms such as Uber or Airbnb, which serve as intermediaries between suppliers and consumers, is mainly due to their network effect: the platform that identifies the largest panel of suppliers will attract the largest number of customers and vice versa. But how do these platforms make acquisitions? We conducted a study of 3 062 acquisitions by digital companies and compared their acquisition strategies with that of non-platform businesses.

How platforms acquire

“Airbnb’s business model worked well enough in the beginning... Competition in those days was based largely on attracting more and more hosts and travellers in order to make the market thicker. That’s why the big fish acquired the little fish.” (Alvin Roth, 2015, P. 102).

Let’s take the case of **Airbnb**. The platform has made 12 acquisitions since its launch in 2011 and is still growing at a rate that most businesses can only dream of. From its inception, Airbnb started acquiring a number of similar online “personal rental” companies in order to absorb the acquired companies’ suppliers.

They realised early on that the key to success would be getting hosts to list their properties. As is the case with most two-sided marketplaces, without suppliers the entire thing falls apart. They focused on bringing onboard new properties as part of their marketing strategy.

Since then, Airbnb acquired some new ventures, including transportation and entertainment ones, and hunkered down to focus on its core strength.

Similar acquisition patterns in the early stages can be observed for numerous platform companies such as TripAdvisor, Expedia, Uber, eBay or Match.com, a leading online dating site that has acquired more than twenty-four other identical apps.

Differently from non-platform companies, we observed early in their existence, platforms are likely to make acquisitions of companies operating in the same market and then, once mature, they start acquiring companies operating in other niches.

Balance between “intermediation” and “control”

One of the notable characteristics of competition in the digital economy is “winner takes all”, whereby platforms that are successful in their market tend to be the only leader after a certain period of time. This is the case of Airbnb, which is now the biggest player in the short-term rental market, with more than 7 million listings in over 220 countries,

Once a platform matures, it is possible that the number of other platform companies in the same market niche gets smaller and the profits from such acquisitions get lower, which may explain the big players' move to acquire firms from other sectors. This is the case of Amazon moving beyond its e-commerce roots and progressively acquiring companies from 76 different businesses such as IMDb (film), Twitch, and Goodreads, but also companies in health (Health Navigator) and autonomous vehicles (Zoox), robotic companies assisting workers, and artificial intelligence providers to grow the capabilities of its Alexa virtual assistant service. At the same time, it may be that platform companies are less interested in acquiring companies located in the same niche because these actions would limit their capacity for growth after a while, as well as their power to attract suppliers and customers.

As the examples of Google suggest, when launching its applications in the Android market, or of Amazon in competition with its own resellers, moving the platform towards the heart of the market can dissuade some suppliers from joining. Likewise, Facebook's acquisition of Instagram reduced demand for Instagram-like products. This seems to highlight the issues that platforms face in order to maintain the balance between "intermediation" and "control", rather than intervening as a pure intermediary, because they often need to keep control of other companies within their ecosystem.

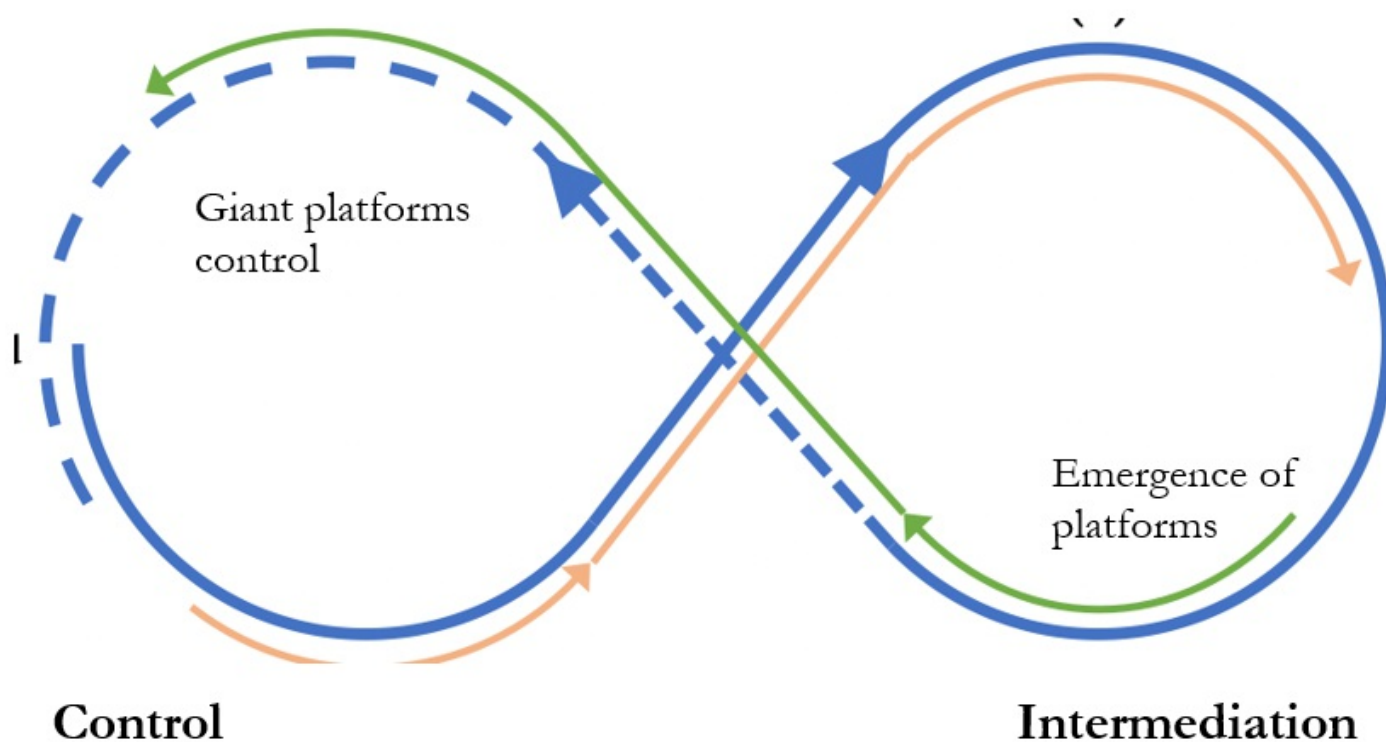
Long run: platforms in the future

As our study confirms, the total number of platforms has been exploding in the past years, and dominant market shares have been increasingly difficult to attain because of *multihoming* (the ability of platform users and complementors to access more than one platform for the same purpose). **We observe that once a platform company becomes dominant in its market niche it starts growing tentacles through acquisitions in other markets, broadening the field throughout their development (this is the case of Amazon acquiring companies from 76 different sectors, Apple from 96 different sectors, Google from 187 new sectors Facebook from 77 new sectors, according to the Federal Trade Commission, as published in The Washington Post, April 21, 2021). This concentrates market power in a smaller number of large platform companies.**

This paradoxical situation may be explained by the recursive evolutionary cycle of each industry moving from a more intermediary structure (with platforms) towards a more vertically integrated one (high concentration). In the past decade, the number of markets that appear to have tipped to a few dominant players has expanded, with Amazon, Alibaba, Apple, Airbnb, Google, Facebook, Microsoft, Tencent, and Uber, among others, achieving market shares well over 50%.

Is this situation stable? We may expect that different forces (such as regulation or technology) may trigger a pushback to a more intermediate structure of the market where maybe different ecosystems may compete in different ways.

Figure 1. Illustration of the double helix framework



Notes:

- This blog post is based on [When and Who Do Platform Companies Acquire? Understanding the Role of Acquisitions in the Growth of Platform Companies](#), MIS Quarterly, forthcoming.
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