

**Moazed, Alex and Johnson, Nick – Modern Monopolies**

*St. Martin's Publishing Group, 2016 [Business] Grade* ★★★★★

Companies loved by their customers, with exponential growth, low capital needs and strong barriers to entry. A mouth-watering combo for investors. Enter the world of the modern monopolies! Apple, Amazon, Alphabet, Microsoft and Facebook have been crushing it. All of them have created and bought platforms where they take a cut of the proceeds when producers and consumers interact and exchange value. A few examples: The Apple Appstore where 3<sup>rd</sup> party developers create apps to users, Amazon's 3<sup>rd</sup> party Marketplace where businesses sell goods to customers within the network. In *Modern Monopolies* Alex Moazed and Nicholas Johnson bring light to this special business model.

Moazed (CEO) and Johnson (Head of Platforms) co-founded the company Applico in 2009. Their business initially focused on building apps at Blackberry, AppStore and Android but they are now adapting companies to the platform model. There is time for incumbents to evolve but they are running out of it according to the authors. Applico has licensed its data model "Platform Insights" to WisdomTree who have launched an ETF "PLAT" based on it.

The book is structured in two main parts. Chapters 1-4 describe the evolution of the linear business model, where a company creates a service or product and sell it to customers - to platform businesses. These chapters bring a historical and theoretical background to how businesses have evolved and how they have been measured. The "Modern Monopolies" are not as the traditional monopolies who squeezed out as much profits as they could, instead these natural monopolies are loved by the customers as they offer a lot of value. At scale, every new customer adds value to others in the network which creates a virtuous cycle. In chapters 5-8, and the conclusion, the authors go

more into depth into how to create and measure the viability of platform businesses. These are essential chapters for entrepreneurs as they describe how to use the insights. The authors have even created their own framework called "The Network Effects Ladder" to guide entrepreneurs through their platform journeys.

The key theme of the book is that platform businesses who enable producers and consumers to connect are the best businesses today. Scale economics and value chain analysis backed by Henderson and Porter were the holy grail during the 20th century, but it has been dethroned by "the strongest moat of all" (according to Bill Gurley) - network effects. Why are not all launching platform businesses then? It's very difficult to reach critical mass, measured by when the value to onboard the platform is greater than the cost, and there is only place for one or two in a niche. This explains why these types of companies raise huge amounts of cash in the early days as it normally takes up to 10 years to reach that stage. They disrupt whole industries and the incumbents lobby the regulators to stop them. It's what you can expect when you try to take a bone from a dog's mouth (spoiler alert: you will get bitten). So far the incumbents have failed because of the strong communities in companies such as Uber and Airbnb who rally behind the businesses cause.

If you as an investor haven't grasped why Shopify, Airbnb and Uber etc. have become such successful businesses, you lack a mental model for how to judge platform businesses. After reading this book it will be clearer. Maybe you will still think many of these businesses are too expensive now (and possibly they are), but platform businesses are here to stay and if you don't learn about them now you will wake up one day having missed a lot of opportunities.

Niklas Sävås, April 17, 2021