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Opinion

Book Review: Machine, Platform, Crowd

A timely exploration of three powerful trends unleashed by the digital revolution.

Andrew McAfee and Erik Brynjolfsson have done it again. 'Machine, Platform, Crowd' is a lucid and timely exploration of three powerful trends unleashed by the digital revolution. They describe the 'three rebalancings' as:

1. Machine learning either complements or supplants human minds,
2. Secondly, platforms drive the selection, production and distribution of products and services
3. Thirdly, on-line crowds increasingly augment or surpass the core functions of companies

Although the authors don't put it this way, there are essentially three economic drivers of the 'triple revolution'. First, the "free, perfect and instant economics of digital information goods in a time of pervasive networks" which means that "the marginal cost of an additional digital copy is (almost) zero". Second, the positive network effects from the growth in user interaction. As they put it, "Networked goods can become more valuable as more people use them. The result is 'demand side economies of scale', giving an advantage to bigger networks".

The third driver is the unique ability of multi-sided platforms to subsidise one or more set of users to incentivize the participation of other sets of users. Digital technology allows many platforms to offer free or discounted services which draw in consumers. This encourages ecosystem growth by attracting more producers or advertisers who pay for the privilege, in turn making it more attractive for other consumers and users.

The book is structured into three sections discussing the title themes, with handy summaries at the end of each chapter. Although the three themes are given equal billing, in the end, what dominates is the potential for platforms to capitalise on machine learning and crowd mobilisation. Chapter 7 observes that platforms compete on drawing in users' contributions and curating them effectively, "but it becomes much harder to build a vibrant platform if at least two are already in place". Network effects and the reluctance of consumers to switch or use more than one platform (or "multi-home") allows successful platforms to dominate their markets. McAfee and Brynjolfsson are curiously reluctant to use the word, but the tendency of platforms towards monopoly is evident. The potentially adverse effects of this on competition and innovation are left unexplored, although they would probably need another book to do them justice.

The book also glosses over another distinctive feature of the growth of platform companies: many of today's giants spent years losing money. Investors have tolerated this, placing faith in the platforms' ability to turn rapid growth in their user base into longer term profits. They perceive market dominance arising from investing in network effects has long term value. The problem for incumbent companies facing digital disruption is how to secure similar investor indulgence in seeking to transform themselves. The authors argue that there is room for incumbent companies to co-exist with platforms, but they leave little room to doubt that the momentum is with the latter.

The authors end on an optimistic note, saying "the next few decades should be better than any other [...] so far", although they are careful to describe this as "possibility and a goal". Indeed, they are suitably humble throughout about making predictions of the disruptive

trend they describe. Amusingly, while the publishers describe the book as a “toolkit” MacAfee and Brynjolfsson say at the outset that they are not offering a “playbook” and that “we suspect that people who offer such a playbook are kidding either themselves or their readers. Nevertheless, they have done us all a great service in explaining some of the powerful trends that will shape our future.

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