Rana Plaza: Workplace Safety in Bangladesh (A)
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Metcalfe's Law

When the value of a product becomes more valuable the more number of users you have interacting with the system, also known as "Metcalfe's Law" or "Network Externalities".

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Industry Example

Video Game Markets

Two sided market: markets comprised of distinct categories of users, both of which are needed to deliver value for the network to work.

In the video game industry Xbox and Playstation design their consoles understanding what great games can be made for their system. Conversely, video game designers design such great games because they know the system they are writing code for is going to sell in the market. If neither of these two agents believe in the system, or themselves, than the effect cannot work.

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Metcalfes Law

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The earliest Network Effects...
One of the first recognized working network effects came from the creation of the telephone pole network by Theodore Vail. The diagram illustrates that with an increase of just one more user you can have an additional 100, 1000, 10,000, or 100,000 more connection depending on the size of your existing network.
Staying Power

Network Effects innately produce what is considered staying power; a product with a high staying power has a long term viability.

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Switching Costs

These costs are incurred when a consumer decides to change from one firm's product to a competitor's.
High switching costs allow for companies to have strong staying power as well.

Companies looking to facilitate a network effect will be able to leverage it's power much easier with high switching costs.
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**One-sided Market:** a system that derives its value from a single class of users

**Two-sided Market:** network with two distinct groups that both need to add value to the network

**Same-side exchange benefits:** benefits that arrive from the interaction/exchange of a single-class of users

**Cross-side exchange benefits:** when an increase in one side of users facilitates for the increase in the other side of users.

**Total Cost of Ownership (TCO):** economic measure of total cost of owning a product
Interaction/exchange of a single-class of users

Cross-side exchange benefits - when an increase in one side of users facilitates for the increase in the other side of users.

Total Cost of Ownership (TCO) - economic measure of total cost of owning a product

Complementary benefits - products or services that add value additional value to the primary product or service that makes up the network

Platforms - products and services that allow for the development and integration of software and other complementary products.

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