The challenges of platform capitalism

Understanding the logic of a new business model

The platform business model is predicated upon a voracious appetite for data that can only be sated by disregard for privacy (and often workers' rights), and constant outward expansion. As they become ever more central to the global economy, **Nick Srnicek** argues that it's incumbent on us to understand how they function.

All around us, it seems that a nebulous series of entities called 'platforms' are increasingly shaping our world. Facebook is blamed for perpetuating fake news and changing the US election outcome; Amazon is radically transforming logistics and creating an automated jobless future; Google is rapidly developing new artificial intelligence techniques that are already changing how we interact with technology around us; while Uber sets out a new hyper-exploitative employment model. Yet what are these entities, and what sorts of commonalities do they share?

For the most part, critical reflection on these firms has focused on them as political and cultural actors. The uproar about fake news is only the most recent example, but the history of these firms is often laden with privacy violations and political lobbying. Similarly, when critics argue about how these firms should act, the arguments are often made in the language of values – of a Californian ideology, of libertarianism, of information wanting to be free. The appeals to act better or more humanely are made in cultural and political terms. Yet this common approach to these firms obscures the fact that they are first and foremost economic actors. Not only that, they are economic actors operating within a capitalist economy – a type of economy that imparts specific demands upon firms. By taking this into account, and looking at platforms as a new business model within capitalism, we can come to illuminate some of the more mysterious activities of these firms.

WHAT ARE PLATFORMS?

Essentially, they are a newly predominant type of business model premised upon bringing different groups together. Facebook and Google connect advertisers, businesses, and everyday users; Uber connects riders and drivers; and Amazon and Siemens are building and renting the platform infrastructures that underlie the contemporary economy. Essential to all of these platform businesses – and indicative of a wider shift in capitalism – is the centrality of data. Data is the basic resource that drives these firms, and it is data that gives them their advantage over competitors. Platforms, in turn, are designed as a mechanism

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for extracting and using that data: by providing the infrastructure and intermediation between different groups, platforms place themselves in a position in which they can monitor and extract all the interactions between these groups. This positioning is the source of their economic and political power.

That characteristic also helps us to understand a first mystery: why firms outside the technology sector are adopting platform elements. As data becomes a central resource for both tech and non-tech sectors in the economy, companies are having to rapidly develop ways to siphon off and aggregate this information. The platform provides a ready-made solution to this problem. The result is companies like John Deere, the largest agricultural machinery company in the world, are building a platform that links together farmers, seed producers, chemical producers, equipment sensors, tractors, and more. All the while John Deere itself extracts the data and uses it to improve its services to customers (such as making better predictions about when and where to plant a particular crop), to improve its products (reducing wear and tear on its machinery, for example), and ultimately to gain an advantage and beat its competitors, as capitalism demands.

Yet this drive towards more and more data has a nefarious consequence: impingement on privacy becomes a necessary feature of platform capitalism. As Shoshana Zuboff has argued, the fact that platforms require more and more data – just as the old railroad monopolies once devoured coal – means that there is an intrinsic drive for these companies to be pushing up against the limits of what we presently consider the private realm.[1] Google has been rebuked for collecting household wi-fi data as its Google Street View cars drove by; Facebook has been continually criticised for pressing too far into individuals' lives; and Vizio was denounced for spying on people via their smart TVs. Rather than seeing these incidents as accidental oversteps, we must see them as necessary consequences of platform capitalism: if data is a central resource, and capitalist competition places a high premium on getting that data, then our age will inevitably be filled with privacy scandals.

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EXPANSION, MONOPOLISATION, INVULNERABILITY

Platforms' appetite for data means that these businesses are also constantly expanding. Not only does this lead to privacy concerns, but it also means that these forms grow and expand according to a data-centric logic of capitalist centralisation. The surge in mergers and acquisitions by companies like Google, Facebook and Amazon attests to the ways in which data extraction forms a novel set of structural imperatives for these companies. They cannot remain content with their core businesses; rather, they must continually extend their data extraction apparatus into new areas. Innovative start-up firms that

1 Zuboff S (2016) 'The Secrets of Surveillance Capitalism', *Frankfurter Allgemeine*, 5 March 2016. http://www.faz.net/aktuell/feuilleton/debatten/the-digital-debate/shoshana-zuboff-secrets-of-surveillance-capitalism-14103616.html

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show potential in data extraction are rapidly bought up by these companies. Even second-tier platforms, like LinkedIn or Twitter, become fodder for the insatiable data appetites of the major platforms. All of this helps us to understand why a search engine company like Google is now investing in completely unrelated ventures around self-driving cars or the consumer Internet of Things – they are simply new ways to extract data. Unlike the classic vertical integration of Fordist firms, platforms take on a rhizomatic form of integration.

The expansionary nature of these platforms means that firms that were operating in completely different areas are now converging together under the pressures of competitively extracting data. Google, originally a search engine company, is now competing with Facebook, a social networking site when it began, and they are all competing with Amazon, which was once only an e-commerce company. While overt antagonism between these major platforms is at a low ebb for now, as they expand into new areas they will increasingly come into direct competition. The consumer Internet of Things is a good example here, with Amazon and Google making major plays in an effort to dominate this arm of their data extraction empires. Online commerce forms another friction point, with Facebook aiming to bring more and more business transactions onto its platform, in more or less direct threats to Google and Amazon. As these businesses expand, we should expect them to become more aggressive towards each other as the capitalist imperative to compete takes hold.

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This dynamic is balanced by a counter-trend towards monopolisation. One of the key features of platforms is their reliance on (and ability to generate) network effects. The more users are using a platform, the more valuable that platform becomes for everyone. The result is a virtuous circle that leads to a winner-takes-all market. For example, we join Facebook simply because so many of our friends and family are already on it – but this simultaneously reinforces the centrality and monopolistic nature of Facebook in the social network domain. We are seeing this tendency towards monopolisation occur across the spectrum of major platforms: Google, Facebook and Amazon, not to mention their non-Western rivals Alibaba and Tencent. Each seeks to have absolute dominance over its core business area – and, once they are ensconced in this position, they become virtually unimpeachable by competitors ranging from state-supported platforms to worker-owned platform co-operatives.

THE SHARING ECONOMY'S DEATH DRIVE

The outcome is a tendency towards monopoly-like platforms competing in increasingly aggressive ways – a path which will undoubtedly lead to some significant casualties. In fact, the most hyped-up type of platform – those associated with the sharing economy – is also the most unsustainable. These companies, like Uber, Airbnb and Deliveroo, operate by outsourcing as much of their costs as possible. Workers take on the costs of fuel, maintenance, insurance, and so on for Uber, while hosts take on the costs of cleaning and insurance for Airbnb. For most of these companies, employees are also hyper-exploited, with low wages

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and no benefits. The platforms, meanwhile, simply siphon off a rent from every transaction they facilitate. Yet despite all these advantages, these firms are still unprofitable and survive only on the back of venture capital welfare. Funding from Silicon Valley (and elsewhere) flows into these companies, enabling them to continue operating at a loss for years at a time. While Uber has managed to become profitable in some cities, it was still losing US$1 billion annually while it tried to fight off an (unprofitable) Chinese competitor.[2] (Uber has since given up that fight and admitted defeat.[3]) More broadly, these firms have been 'successful' only by leaping ahead of regulations and workers. As cities and countries catch up and start making appropriate regulations, and as workers mobilise against their exploitative practices and secure better wages, these firms will only become less rather than more financially viable. The result is that the sharing economy will be a short-lived phenomenon. Most of these firms will go bankrupt, or turn into luxury services for the rich, or transform themselves into a different type of business model altogether. (Incidentally, the latter is Uber's strategy, with their efforts to develop and own a fleet of self-driving automobiles.) In any case, sharing economy platforms are not long for this world.

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The challenge facing us today is to grapple with these intrinsic tendencies of the data-centric platform model and their often counterintuitive consequences, and to strategise ways to counter their power. An underestimation of their dominance serves only to enshrine their position, and as they become increasingly central to the global economy it becomes even more important to understand their functioning.

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2 Reuters (2016) 'Uber losing $1 billion a year to compete in China', 18 February 2016. http://www.reuters.com/article/uber-china-idUSKCN0VR1M9

3 Stone B and Chen L Y (2016) 'Uber Slayer: How China's Didi Beat the Ride-Hailing Superpower', *Bloomberg Businessweek*, 6 October 2016. https://www.bloomberg.com/features/2016-didi-cheng-wei

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