

Network Effects

Communications & Media

Why value rises with users, and why that produces very few winners.

A network effect exists when each additional user makes the service more valuable to existing users.

- Direct: more users, more people to reach.
- Indirect: users attract creators, who attract users.
- Data effects improve ranking as usage grows.
- Switching costs rise with accumulated history.
- Congestion and abuse can reverse the effect.

LOOK FOR IT

A rival network with better features fails because the people its users want are still elsewhere.

Network effects favour concentration but do not guarantee it: portability, multi-homing and declining quality all weaken the lock-in.