



## Episode 10 - What is a two-sided marketplace?

This is the transcript for Episode 10 of the Smart Startup English Podcast.

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Welcome to the Smart Startup English Podcast, episode 10!

I'm Mickey, I'm your host, and in this episode, we're talking about a few words you need to know if you're interested in online marketplaces.

**But first, let me ask you this:**

Can you think of a time when you bought something online from another person, and you did so using a platform? Let's say you bought something on Etsy from an artist.

The platform that you're using for such transactions is called a two-sided marketplace. This type of platform connects the people who offer a product or a service to the people who would like to buy it. In more technical economic terms, it connects the supply with the demand.

As a user, it's a great way to find and compare products before you make a purchase. But as a startup founder, a two-sided marketplace is one of the hardest business models to get off the ground. To get something off the ground means to start something, to get it running, to get it working.

Can you think of a reason WHY this business model is hard to get started?

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As a two-sided marketplace, also known as a platform business, you have to attract both the sellers and the buyers.

But which one do you focus on first? This is also known as the chicken and the egg problem. Which one comes first?

Do you focus on customer acquisition - getting people on your site who want to buy?

Or should you get sellers on board first?

The answer is, predictably, in the middle. You have to do both. You need a large base of dedicated users on both sides.

One way to do this is to seed the marketplace. What does “seeding the marketplace” mean?

Well, let's take Kickstarter for example. It's a two-sided marketplace that connects people who are creating products with people who want to sponsor their creation process in exchange for getting the product once it's ready. It could be a movie; it could be a physical product; it could be a music album.

In the beginning, Kickstarter founders seeded the marketplace themselves, by reaching out to artists and asking them to put their projects on the site.

A lot of two-sided marketplaces follow the same strategy. They reach out to the sellers first to convince them to join the platform.

Often, they will also offer incentives, such as not taking any commission on sales for a few months. When you offer someone an incentive, it means that you're trying to motivate them to act in a certain way, often by using financial rewards, such as cash, discounts or coupons.

So in this business model, it's common for one side to be a subsidized participant - to get something in exchange for participating. It doesn't necessarily need to be money. For example, in the early stages, Airbnb sent professional photographers to take photos of rooms that were for rent on the platform, at no expense to the owner. Having professional photos taken benefitted both the platform and the people who were renting out their homes on Airbnb. The trick is to give sellers multiple reasons to join.

The same goes for buyers. You could give them discounts, coupons for future purchases, and even give them a commission if they refer someone else to the platform.

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Your goal is to increase the number of users on both sides until you create a network effect. A network effect refers to when a product becomes more valuable as more and more people use it.

Think of Facebook, if you want. Or think of the early days of the telephone. The more people had access to a telephone, the more valuable it became.

But how do two-sided marketplaces make money?

The business model of the platform startup is to take a percentage of the transaction, sometimes at both ends. Airbnb, for example, charges both sides. They charge the people who rent out their homes, and they also charge the users who are renting a room or an apartment from the owner. Some platforms only charge the seller, and other platforms only charge the buyer.

The challenge with starting a two-sided marketplace now is that it's a "winner takes most" business model. That is, once a platform has gained momentum in a certain market, it's hard to compete with it.

Think of Spotify, for example. It would be hard at this point to launch a similar product. Spotify has cornered the music streaming market. If a company has cornered a market, it means that it has a very large market share, and it's way ahead of its competitors. It's unlikely that any other platform will challenge their market share any time soon.

**Before we move on to your speaking practice question, let's review some of the words we've learned in this episode.**

The topic of this episode was **two-sided marketplaces** - that is platforms that connect the people who offer a product or a service to the people who would like to buy that product or service.

**To get something off the ground** means to start something, to get it working, to get it functioning.

**Customer acquisition** refers to getting people on your site who actually make a transaction, who make a purchase.

When you're first starting a two-sided platform, you have to **seed the marketplace**. That means you have to reach out directly to sellers and buyers to convince them to use your platform.

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**A network effect** describes the process when a product becomes more valuable as more and more people use it.

When you **offer incentives**, it means that you're trying to motivate someone to act in a certain way, often by using financial rewards. Again, they don't always need to be financial rewards, but the user has to perceive them as valuable.

**A subsidized participant** is someone who is getting something in return for participating - it can be a discount or even a reward.

The phrase **winner takes most** refers to a situation when a business has gained momentum in a certain market, and that makes it really hard to compete with it. We can also say that the company has **cornered the market**, it means that it has a very large market share,

**Finally here's my speaking practice question for you:**

In this episode, we've mentioned a few big names such as Etsy, Airbnb and Spotify - as good examples of two-sided marketplaces. But these markets are already pretty crowded. Can you think of another two-sided marketplace that isn't so crowded? Are there any other two-sided other two-sided marketplaces that you've used successfully?

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