The new Merchants of Venice

Or: The end of platforms…as we know them

The merchant states of medieval Europe did business over long distances, sometimes at the edge of civilization. They grew their economies using fundamentals of platform organizations. The latest generation of distributed, devolved platforms could do the same for businesses, workforces and society.

Giant platform organizations increasingly own the digital infrastructure on which everyone else trades. The digital Titans – Amazon, Google and Facebook in the West and Alibaba, Tencent and Baidu in the East – publicly state that they want to take a cut of all our digital commerce. Already, their functions are essential: we rely on access to their search, social media and payment mechanisms to find, promote and trade most things. They determine our access to information. Workforces complain they are industrializing the gig economy. Economists, politicians and businessmen claim the profits of newly conquered markets are unfairly distributed. Regulators struggle to understand how these huge platforms work, let alone control them. Increasingly, policy makers, workforces and socially responsible business executives are asking how we can use their undoubted capabilities to the public good, to rebalance the interests of business, the workforce and society.

The answer could lie centuries ago in medieval Europe, when we last discovered a way to do business 'at the edge', using the economics and components of what we now call *platform organizations*.

Postcards from the world's edge

Trading in medieval Europe was hard. The primitive infrastructure meant travel was difficult and time-consuming, while unreliable communication hindered long-distance coordination. Merchants had limited knowledge of their new markets. Risks were high from dishonest traders, piracy and unpredictable weather. There was little sustained trust and almost no surety. Transacting in business was risky and inefficient, holding back economic growth. As Figure 1 shows, both parties had to spend a lot of time on verifying the counter party and determining the right transaction conditions. This effort, of customizing each transaction, made trade extremely inefficient.

Figure 1 – Trading in early mediaeval Europe

Things changed with the appearance of *guilds,* which effectively drove the first phase of *platformization* (see Figure 2). They acted as a boost to trust by ensuring agents (local merchants) obeyed an ethical code. Before guilds, individual agents had to build a network of contacts, establish their reputation and prove they could do business on a customer's behalf. This was a long and expensive process that few people could afford. It was difficult to enter the profession, and therefore overall growth was limited. Guilds helped individual merchants to gain trust, as it was shared across guild members. Misbehaviour was punished by removal from the guild, which meant you did not get any more business – comparable to banning a doctor or lawyer today. Guilds were, in fact, institutions that *productized trust*. Both sides, agents and merchants, knew exactly what they were getting from the guild.

The establishment of guilds accelerated *network effects* and drove the evolution of *smarter contracts*. A merchant within a guild did not travel but entered into partnership with an overseas agent with local knowledge, reducing transaction risk and raising efficiency. Each agent was carefully selected by reputation, reducing transaction risk. Smarter contracts that used gainshare and fair return on investment brought risk down further. Over time, transactions became standardized and more efficient. Crucially, the practice of how to build and run a successful guild was codified, driving growth and yet more transaction efficiency.
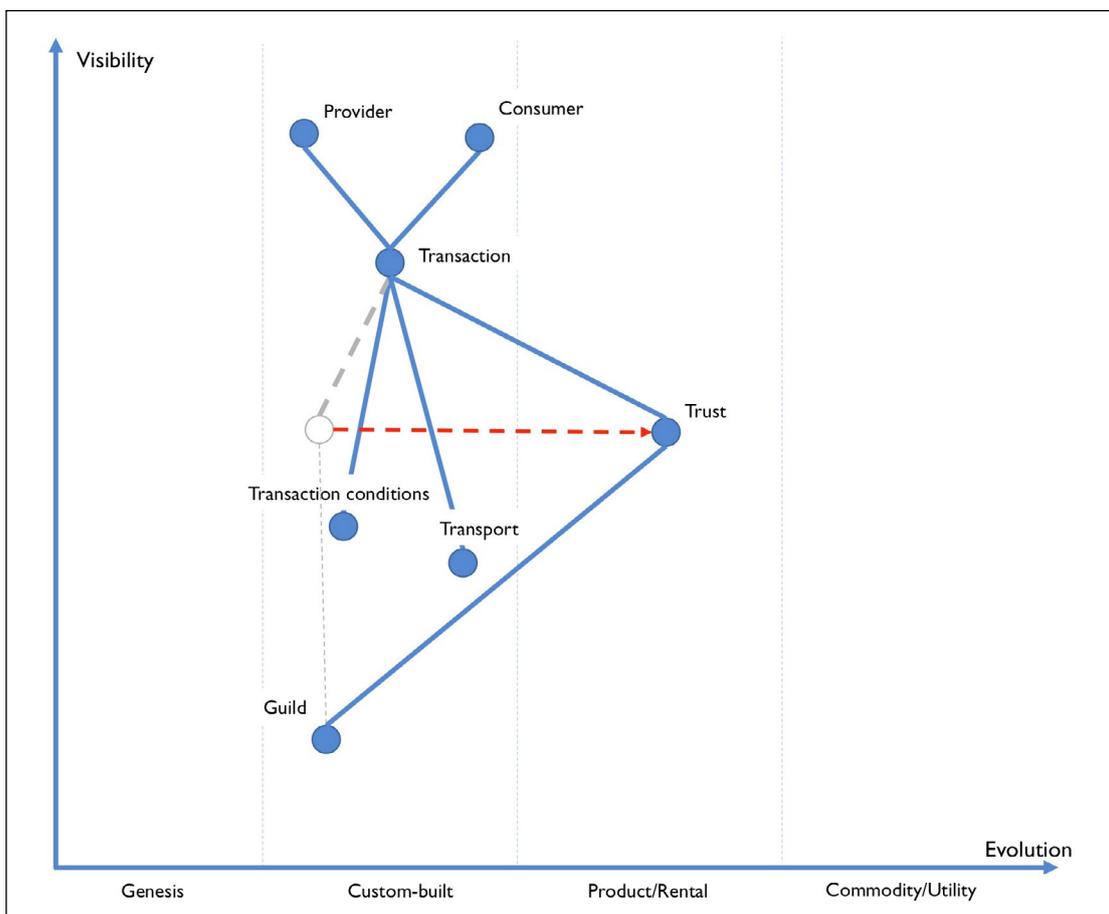

Figure 2 – First phase of platformization: the guild acts as a trust provider and ethics enforcer, by sharing (and guarding) reputations

Mercantile states such as Venice went further, creating a second phase of platformization: they provided long-distance coordination through the ships they contracted to merchants. By controlling these ships, they were able to coordinate the timing of trade expeditions, allowing them to optimize trade by regulating the goods traded at different times of the year across locations. Merchants contributed by improving flow through communications, sending copies of letters over different routes to ensure a pipeline of contracts and improve completion rates.

These were the early platform organizations: developing networks, finding parties, filtering on reputation, facilitating transactions, communicating and coordinating over long distances.
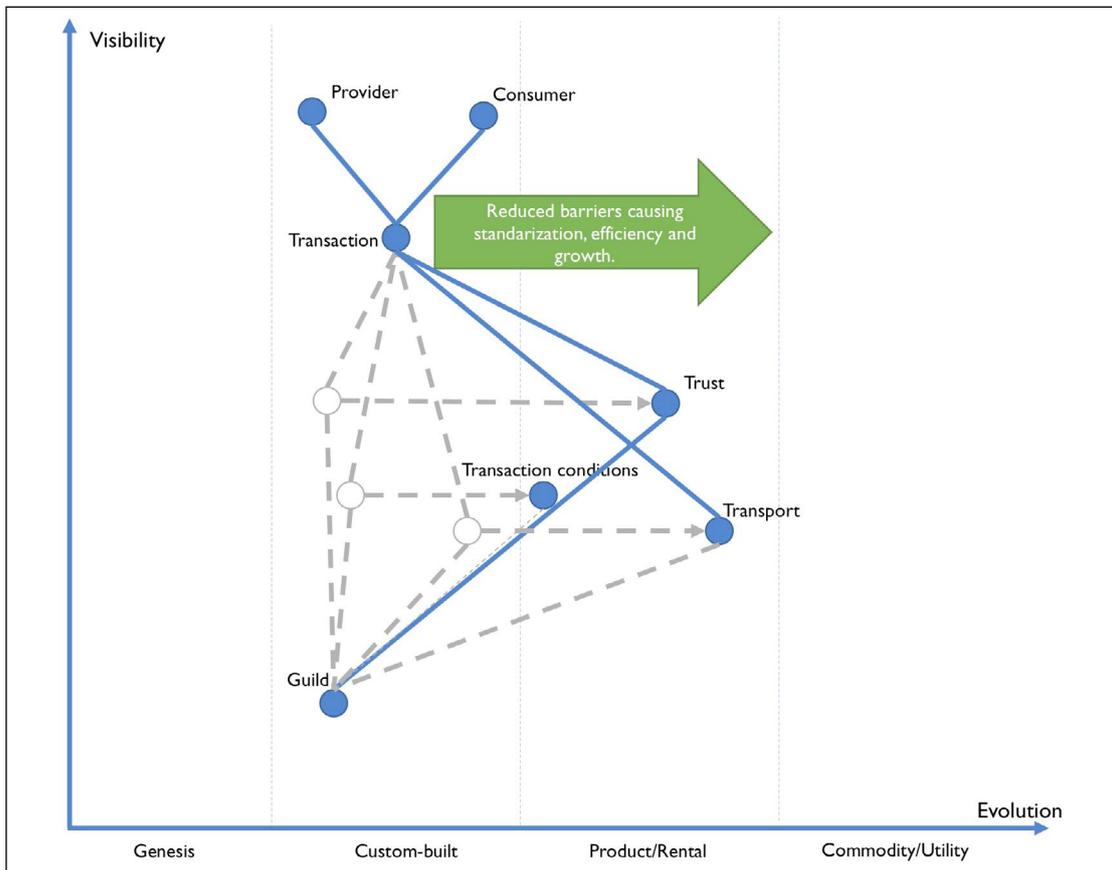
Figure 3 – Second phase of platformization: the guild helps coordinate and standardizes far more activities than it used to. It made a medieval platform possible. Note how the state started coordinating some of the key activities.

The early platforms of the merchants of Venice drove growth in the regions and cities they did business with. Given the high costs of shipping and the inefficiency of communication, their standardization raised transaction efficiency still further.
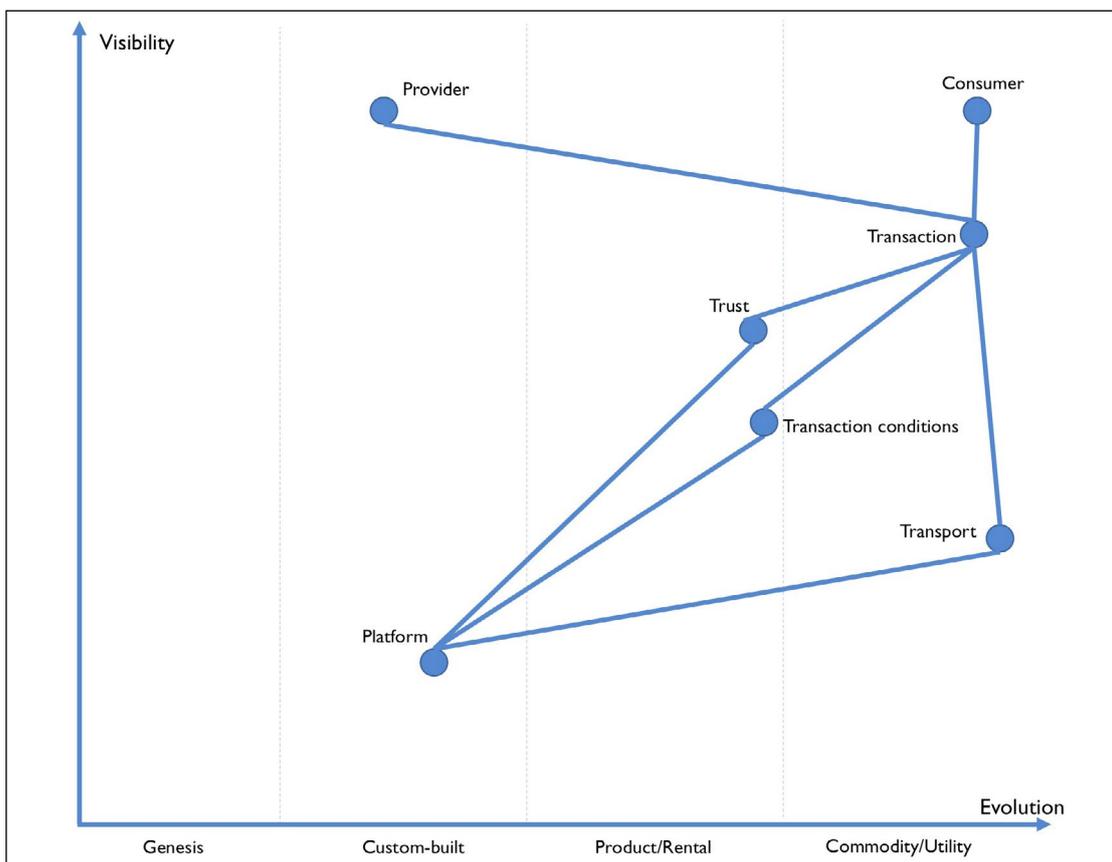
The tools of the trade

Figure 4 – Todays' s platforms play a similar role the state of Venice working with medieval guilds: standardized operations provide trust and orchestrate necessary services

Building a platform business today means finding two groups that cannot transact (or find it very difficult) and making their transactions possible and more efficient. Today's digital technologies have evolved to such a degree that many of the mechanisms that amplify network effects, find parties, filter on reputation, facilitate transactions and communicate/coordinate over long distances are available as easily found, easy-to-buy, inexpensive, well-performing software and hardware components. For example:

• *Network effects*. Today's many trust systems are built around search, filtering and reputation. Businesses gather a lot of data about us, and some use it (or even sell it) to predict our credibility.

• *Smarter contracts*. Blockchain-based smart contracts are now starting to be used. Also, our research partner Simone Cicero discusses how *crypto tokens* in financial and labour investment, Simple Means of Payment (SMoP), profit share and currency allow investors, advisors, founders, developers, producers and consumers to create and earn value from the platform.

• *Long-distance coordination and communication*. Software-as-a-Service (SaaS) can coordinate ordering and payments while distributed (mesh) computing and communications maintain transaction flow in distributed, devolved organizations.

As a result, we can now reuse industrialized platform components and codified approaches to design, build and launch in order to create our own efficient, increasingly distributed platform organization. This becomes cheaper and faster every year, so smaller market opportunities can now recoup their initial investments, and harder problems (such as localized healthcare, employment and inclusion in society) can feasibly be brought within reach of tight public or third-sector budgets. The only thing preventing more *platformization* is the lack of skill to identify these opportunities. That is changing. Simone Cicero has developed a Platform design toolkit and runs masterclasses to make it easier to identify such opportunities.
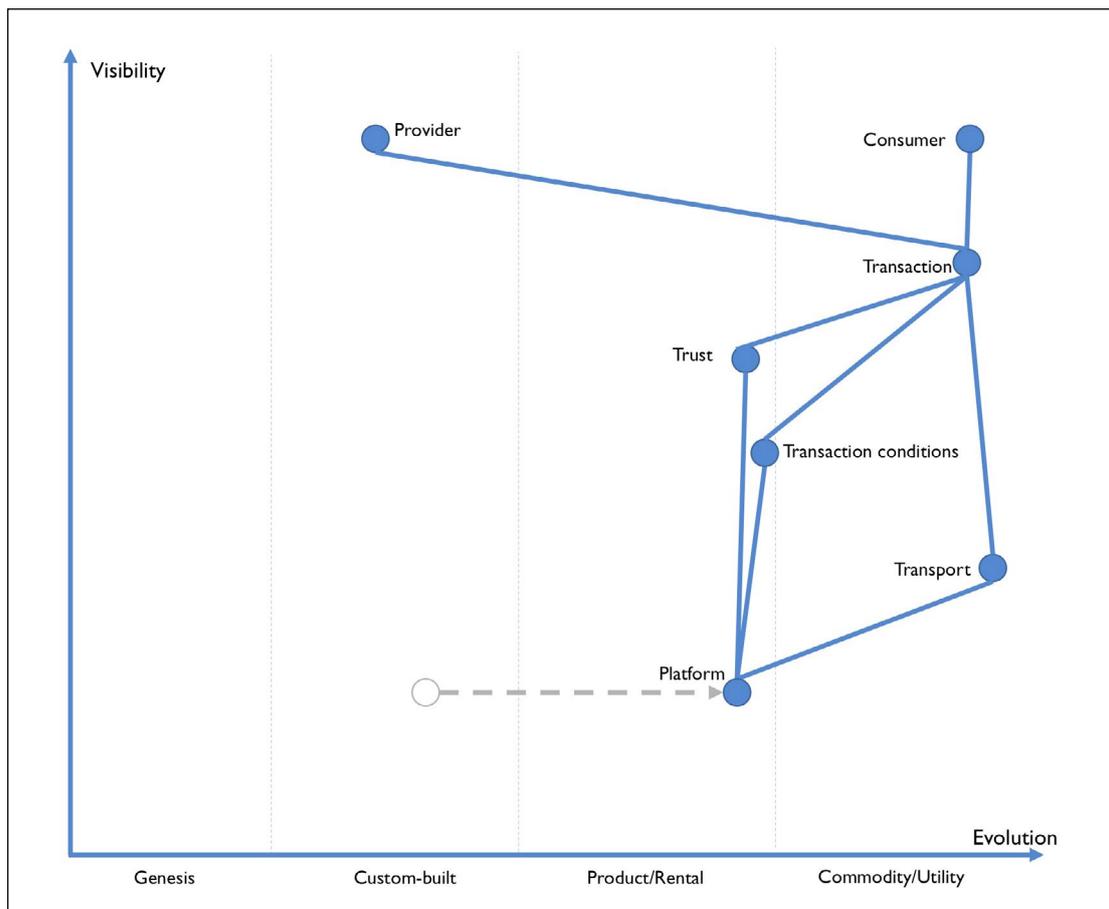

Figure 5 – A final change: soon, creating a platform will easy enough to be viewed as just a cost of doing business.

The revolution will not be centralized

Today, there is increasing frustration with the behaviour of the digital Titans, resulting in a growing movement of public-, private- and third-sector startups that are reinventing the centralized, top-down platform organization as a bottom-up, distributed, self-organized business network. This movement is known as *platform cooperativism* and was explored in our report *Liberating Platform Organizations*. Platform cooperatives are the latest generation of platform organizations and are still in the early stages of development, though there are already platform cooperatives in finance, healthcare, freelancing, goods marketplaces, research, software development, transportation and more. As Simone Cicero explains, many of them utilize blockchain-based tokens to democratize decisions and distribute value to the various classes of investors, producers, partners and external stakeholders.

Like the merchants of Venice, today's platform cooperatives use the increasingly affordable, easily usable basic components of platform businesses to explore new market niches and solve wicked societal problems. The decreasing cost of building a platform for a particular market niche means many more niches will be explored and wicked problems addressed. The race for the 'long tail' has started.

The new 'merchants of Venice' could create a Renaissance.

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