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Multi-Homing Revisited: Level of Adoption and Competitive Strategies

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Abstract

Aided by the increasing ease of use, lower adoption cost, and higher network benefits, in recent times consumers have demonstrated a strong propensity to concurrently use competing firms' products or services. Depending on their relative preference for a firm, such "multi-homing" consumers may adopt each firm partially, and therefore not fully contribute to network benefits of a firm as in the case of single-homing. A consumer's level of adoption of competing products is a key feature of multi-homing, which, while observed widely in practice, has not been studied in the literature. Through a series of analytical models, we demonstrate the important role of this construct in the pricing and capability related decisions of competing firms. Our results provide several new insights, which suggest that, as multi-homing (M) settings become common across industries, technology strategists and managers should exercise caution against simply extrapolating insights from single-homing (S) settings, where consumers adopt only one firm, or from M settings, where the level of adoption is not accounted for. Specifically, in markets where competing products are not well differentiated, contrary to intuition, we find that under price competition, a firm's profit can be hurt by high levels of adoption by multi-homing consumers; further, in markets where prices are inflexible, a firm with a higher level of adoption can succeed even with a lower level of capability innovation relative to that in an S setting. In contrast to single-homing, we show that a firm in M settings needs to mitigate uncertainty regarding network benefits, if the level of adoption is low. Finally, we explore the role of the level of adoption in two-sided markets and demonstrate that if one-side does not have a strong preference for a platform, then, contrary to prevailing wisdom, the latter need not strongly subsidize the other side of the market.

Keywords: Network effects, multi-homing, single-homing, level of adoption, competition