

## **DECODING THE VIRAL LOOP: AN EMPIRICAL ANALYSIS OF NETWORK EFFECTS IN DRIVING GROWTH OF PLATFORM-BASED BUSINESSES**

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### **ABSTRACT**

*The platform-based companies have taken over the modern digital economy but a thorough empirical investigation is needed to unveil the mechanisms ensuring their sustainable growth. The research is focused on understanding the viral loop, together with the network effects that form its close bond, the challenges that it brings along, and the implications of these for the company's survival and prosperity in the future. The key finding discloses that success of a platform does not depend on the number of users but on their engagement quality. Growth that is sustainable is caused by a "spark" of immediate user value, an intentionally devised moment of success that triggers the network effect. The study points out to a significant trade-off between the aggressive user acquisition and the deep user engagement, and it also recognizes that viral loops are limited by natural saturation points. Hence, there is a need for a transition in the metrics used from deceptive "vanity metrics" (e.g., total downloads) to enlightening "vitality metrics" (e.g., user retention, interaction density) that correctly reflect the health of a platform. The researchers with this paper agree that the sustainable growth of platforms is not something that can happen once and for all but rather a continuous effect of the so-called "flywheel". Platform strategists will have to change their focus to product- and community-centric models that put the user experience above the short-term acquisition tactics which are, in fact, the very opposite of what academia views. The latter will have to alter its thinking and regard the network effects as a hidden potential that will only be released through intentional and user-focused design.*

**KEYWORDS:** *Viral Loops, Network Effects, Platform Business, Vitality Metrics, K-Factor, Sustainable Growth.*

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## INTRODUCTION

In the contemporary digital landscape, the global economy has experienced a fundamental transition from traditional pipeline enterprises to platform-oriented models. With a valuation above \$5.5 trillion, platform-based enterprises account for approximately a third of worldwide economic transactions, driven by innovations in artificial intelligence, blockchain, and cloud infrastructure **(Marketplacer, 2024)**<sup>1</sup>. These platforms, which enable value-generating interactions across multiple distinct user groups, have become predominant economic forces, with companies such as Amazon, Airbnb, and Meta transforming entire sectors **(Parker et al., 2016)**<sup>2</sup>.

The internet giants' triumphs were not only attributed to the technological innovations but also to their distinctively fast and effective expansion capacity. The scalability has rendered the traditional business expansion methods insufficient and led to organic, user-centered acquisition approaches which are now part of the product being used **(Evans & Schmalensee, 2016)**<sup>3</sup>. One of the main ingredients of this inherent growth strategy is the viral loop.

A VL is a cycle that is continuously flowing, where the current users are motivated to bring in new users, thus leading to an exponential surge that is quantified by the viral coefficient, or 'k-factor', which is the number of users that each current user brings in **(Chen, 2021)**<sup>4</sup>. This approach has worked wonderfully for new companies and digital platforms that need to get to the market quickly. Virality increases adoption, but its efficiency gains when it is coupled with network effects which are vital for user retention and sustainable value creation **(Parker et al., 2016)**.

A VL fosters its platform growth through user referrals and feature-driven sharing. This approach not only cuts down on the costs of acquiring new users but also takes full advantage of the highest level of social trust **(Skok, 2011)**<sup>5</sup>; **(Croll, 2025)**<sup>6</sup>. Unrestrained virality might be a double-edged sword, nevertheless, temporarily or permanently, it would cause operational problems, a decline in quality and user fatigue thus emphasizing the importance of the strategic management **(Goldenberg et al., 2001)**<sup>7</sup>; **(Watts & Dodds, 2007)**<sup>8</sup>.

Concurrently, product and service are enhanced when there is new audiences in the market. This has a major influence in the virtual landscape as the marketers see this as a great interaction and strong point. At this point marketers are both explicit and implicit. **(Katz & Shapiro, 2025)**<sup>9</sup>; **(Rochet & Tirole, 2003)**<sup>10</sup>; **(Evans & Schmalensee, 2016)**. Still in present there are struggle as multi homing and market permeation, that delays the procedure. Therefore it is a significant aspect to have quick integration with resilient development **(Cennamo & Santalo, 2013)**<sup>11</sup>; **(Andrei Hagiu & Wright, 2015)**<sup>12</sup>.

VL and network are approached similarly. While, their partnership influence the growth of platform business sustainably. VL enhances the network effects, increase the process of acquisition rate, referral scheme add value to ecosystem and supports self-supporting growth cycles **(Büge & Ozcan, 2021)**<sup>13</sup>. When market penetration increases, return from investment may decline thus, it becomes necessary to maintain innovation in strategies like referrals or integrating ecosystem. **(Cennamo & Santalo, 2013)**. This research paper provides empirical evidence on combined influence of all these factors providing insights in this competitive digital landscape to achieve sustainable growth. **(Rochet & Tirole, 2003)**.

## **OBJECTIVE OF THE STUDY**

- To understand the notion of the viral loop and its relevance to platform-based business models.
- To find out how viral loops and network effects work together to increase users and business growth.
- To examine challenges and potential saturation points of viral loops.
- To provide recommendations for leveraging network effects to achieve sustainable growth.

## **LITERATURE REVIEW**

**(Zhelezniakova & Zmiivska, 2025)<sup>14</sup>** A digital platform is a foundational tool of modern business, acting as a virtual environment that integrates technology, society, and economics to drive digital transformation. This model of business is completely reliant on technology to provide a space for users to carry out exchanges of goods, services, or information, thus making the platforms the core of the sharing economy. The shift in the paradigm has effected a massive transformation in commerce, a change that has, as we discovered during the COVID-19 crisis, borne the imprint of seismic importance.

**(Liu & Yao, 2025)<sup>15</sup>** User behaviour is strongly influenced by network effects which in turn speed up the growth of platform data and content to an incredible extent. Positively, the platform could develop a feedback loop through the recommendation refining and user interaction enhancement which would result in increased engagement and revenue. The research indicates that understanding and leveraging network effects yield a major competitive advantage, thus improving the customer acquisition and retention strategies of the platforms

**(Moldovan et al., 2019)<sup>16</sup>** Viral marketing refers to the rapid spread of information through social media, enabling brands to achieve massive visibility without substantial advertising expenses. The authors emphasize that the success of such campaigns is not random; the primary outcome of their analysis is that creativity and informativeness are the critical drivers of a successful viral strategy.

**(Khalil, 2016)<sup>17</sup>** Most people consider virality to be a matter of luck because of the low success rate of viral tactics, but this study claims the opposite and says that it can be systematically engineered. It puts forth a model that has seven core components: product/market fit, large target audience, adequate resources, open cooperation, fast user success, a structure that is able to grow, and minimal resistance.

**(Adam Harahap & Osly Usman, 2025)<sup>18</sup>** This study identifies viral marketing as the primary driver of local brand development, finding that content quality has a significant positive influence while content type has only a marginal effect. The research has concluded that viral marketing is the single most influential factor for user retention and it has surpassed all other variables in this respect.

**(Leskovec et al., 2006)<sup>19</sup>** Viral marketing functions not as a single, massive cascade, but as a sequence of short recommendation chains that are most effective in smaller communities. As recommendations become more and more persuasive, the impact of 'super-spreaders' is eventually restricted. The positive aspect of the strategic directive is that it is a main output: for the platforms to be successful, they should not only stop using the standard viral methods but also personalize their method according to the individual structure and preferences of their user base.

(Soares & Nieto-Mengotti, 2024)<sup>20</sup> Network effects are the main driver of market dominance for digital platforms, but they create a "chicken and egg" dilemma where a large user base is needed to raise switching costs. Competition is further intensified by "multihoming" (users on multiple platforms). The study finds that in response, successful platforms develop complex ecosystems and subsidize one side of the market as a primary strategy to retain users.

(Justus Haucap & Ulrich Heimeshoff, 2013)<sup>21</sup> The competition between different online platforms is shaped by their network effects and switching costs. Their study shows that the online platforms can hold a strong market position as long as their users find it difficult to switch to other platforms and their reputation can't be transferred. But if the users find it easier to switch platforms then no platforms can stay dominant. Thus, continuous innovation is the key for survival.

(Rochet & Tirole, 2003)<sup>22</sup> Their study on two-sided online markets explains how they set prices to attract both group of users, especially in the case of multi-homing (using more than one platform at the same time). It is concluded that platforms lower their prices strategically to create a sense of exclusivity for their users which in turn increases the market competition.

(Santoro et al., 2025)<sup>23</sup> Time efficiency acts as a strategic factor that enhances user experience in the online platform business. At the same time it lowers the transaction costs. Despite that, some users prefer richer and more immersive experiences more than the speed of the platform. So, companies should know how to balance efficiency with user engagement, because focusing only on speed might drive the users away who value depth and quality of their experience.

Most research on viral loops and network effects focus on large global platforms or niche industries. The mechanisms behind these phenomena in different platforms and markets are understudied. In many cases, viral loops are treated as a mere tool to measure customer engagement and customer lifetime value which misrepresents their actual purpose. Also issues like over- participation, declining content quality and triggers that reduce the potency of the viral loops are overlooked. This uncertainty around the growth of platform businesses, driven by viral loops and network effects highlights a significant research gap, which is addressed by the aims of this study by analysing multiple online platforms by using a more comprehensive set of metrics and examining not just how viral loops drive growth but also their inherent constraints.

## **DISCUSSION**

Indian platform - based business significantly rely on virtuous cycle reinforced by strong network effects. Rather than focusing solely on increasing their user base they should aim to achieve user engagement. Enhanced user engagement encourages retention of old user as well as attracting new ones creating positive cycle in which more active results in higher engagement. Ultimately, this forms competitive advantage in sustainable growth even in highly saturated market.

The shift in digital strategy from waiting for viral growth to deliberately creating it has profound change in thinking. Studies suggest that even little user success and smaller interaction are essential generation for network effect. Like a spark ignites the fire, network effect needs that initial spark where user instantly recognises value without effort. When passive visitors are converted into parts of active and committed partner that point is where utility of medium is demonstrated. A platform power and ability to create network effect arise from user - focused

design and value provision providing the essence of success is depend on user experience rather than technology alone.

One key takeaway is the tension between rapid user acquisition and long-term engagement. Platforms that invest heavily in marketing see quick spikes in visibility and number of users, but those users lose interest very soon. In contrast, platforms that focus on a smaller and loyal group of users i.e. strong initial customer engagement tend to grow more slowly but steadily and sustainably. Here, word of mouth plays a crucial role. So platform strategists must balance between using marketing to attract users and then focus on product development and user experiences to deliver real value and keep the users engaged over time.

Also, viral loops are not infinite. They eventually lose their potency when all the potential target audience has joined. The viral co-efficient (k-factor) also tends to decline as the user experience fatigue develops once the platform's novelty fades overtime. This implies that viral loops can be used as a tool for the launch mechanism that is useful for user attraction at the initial stage but not as a tool for long-term growth mechanism. To sustain the momentum, platforms need a clear plan for what comes next and focus on maturity phase, where continuous product development, customer engagement, customer retention by building trust plays a crucial role and drive long-term success.

These implications suggest that it's necessary to rethink the way how we measure online platforms' success. Vanity metrics like number of users, total likes etc are impressive but they don't reveal what's actually happening. Vitality Metrics like user retention rates, daily active users etc gives a clear picture of the platform's true health and sustainable growth potential.

The study ultimately comes to a conclusion that sustainable growth is not a one time achievement, it's a continuous process backed by a strong feedback loop. A successful viral loop is comparable to a flywheel, demanding a steady, long-term investment to keep it rotating. Though smart marketing strategies attract users and build initial excitement, long-term growth of the business depends on the building trust and relationships with their users. To sustain in a highly competitive market, it is necessary to commit to community engagement and improve user experience over time. To increase customer loyalty and credibility, companies should give equal importance to product development and community management as they give to marketing. This type of marketing approach is more authentic and promotes steady growth than short-term, aggressive advertising campaigns.

## **IMPLICATIONS**

### **IMPLICATIONS FOR PLATFORM STRATEGISTS AND ENTREPRENEURS**

- **Shift Focus from User Quantity to Engagement Quality:**Entrepreneurs should shift their mindset that the user acquisition is the only means of growth. Instead, they should focus on instant value creation for their users. This implies that designing onboarding and core features ensures that users succeed fast, which keeps them coming back and the viral loops rotating.
- **Adopt a Balanced, Phased Growth Model:**Platforms shouldn't fall into the confusion of selecting between aggressive marketing and organic growth. The smart approach is to use the mix of both which is to use strong branding strategies to attract users at initial stage at the same time invest more resources in building features and form a community that creates a deep engagement and convert the first users into loyal supporters of the business.



- **Implement "Vitality Metrics" for True Performance Measurement:** This study suggests that the businesses should avoid relying on vanity metrics like total users or sign-ups which can be misleading. Instead, they can track vitality metrics such as customer engagement and retention. For instance, they can measure daily vs monthly active users, interaction level of the users etc which will give a better picture of the platform's health and sustainable growth potential.
- **Planning for the "Post-Viral" Phase:** Viral loop cannot run forever without recharging. It will eventually reach its limit once the most potential users have joined and the initial excitement fades. Entrepreneurs should treat viral loops as a way to quickly attract initial users, not the ultimate goal. Long-term success can be achieved through continuous innovations and user engagement that promotes the platform. This creates a self-sustaining flywheel effect where the existing users keep coming back, attracting new users and maintaining momentum even after the initial hype slows down.

## IMPLICATIONS FOR ACADEMIC THEORY

- **Reframing Network Effect Theory:** This study contradicts the traditional idea of network effects which states that a platform automatically becomes more valuable as more users join. The findings of this study suggest the opposite, a platform's value doesn't grow just because of numbers but through the quality experiences it creates for its users. The "network effect" requires a spark of deliberate user value creation through design and usability to set the viral loops in motion. In other words, it's not a built-in feature but something that should be actively created by the platforms.
- **Transforming the Product-Led and Community-Led Growth Models:** This research supports the idea of models like Product-Led Growth (PLG) and Community-Led Growth (CLG) drives sustainable success. They are not just theories. It replaces the older belief that marketing alone fuels expansion. It proves that when a product provides true value and there is high user engagement there will be organic growth in the business.
- **Integrating Saturation Models with Virality Theory:** The study highlights that viral marketing is short-lived and has a saturation point. To understand this in depth, academic theories on virality should merge models of market saturation and technology adoption. It should closely examine how the viral effects weaken over time (for example, when the viral coefficient or k-factor drops) so that more sustainable models supporting the platform growth can be developed.

## 5.3 IMPLICATIONS FOR FUTURE RESEARCH

- **Cross-Sector Analysis of Viral Loop Mechanics:** This study provides insights about how different platform business models work. The future research should expand by comparing how viral loops function in different sectors like social media, e-commerce and SaaS. As each of these sectors have different "sparks" that trigger user engagement and growth. It is significant to understand these sector specific differences to design effective strategies tailored to each industry.
- **Longitudinal Studies on "Flywheel" Momentum:** This study highlights the flywheel effect i.e. the ability to maintain platform stability even after the viral phase is the key to long-term success. Future studies should track platforms and identify the activities that truly sustain the

momentum of virality. For example, tracking feature updates, user experience, engagement rate etc shows which factor keeps the platform thriving even after the initial buzz.

• **Investigating the Threshold of Negative Network Effects:** While this study focuses on the positive effect of the viral loops, there is a scope for future research to explore the point at which it creates a negative effect. Platforms can reach a stage where they face issues like spam, toxic behaviour or declining user satisfaction which is caused when there are too many users or poor quality interaction. Future research could identify early signs of these negative effects and develop strategies or policies to prevent them, helping platforms maintain healthy growth and keep the viral loops rotating.

## CONCLUSION

The main aim of this study was to evaluate viral loops as a primary growth mechanism in the dynamic Indian online platform-based business. Sustainable growth is not achieved by chance or merely acquiring a large user base. It is a result of a well-engineered viral cycle. This cycle is strengthened by network effects and depends on the quality of user engagement rather than the number of users, which marks a major shift from traditional growth strategies focusing only on customer acquisition.

This study suggests that viral loops or virtuous cycle needs to be ignited by a "spark" of quick user advantage. To satisfy users and kickstart growth, platforms should offer smooth interactions and quick benefits. This suggests the businesses to focus less on aggressive user acquisition and more on building a loyal, engaging community that helps in organic growth of the platform. This research also highlights the limitation of viral loops i.e. the platforms eventually reach a saturation point. It emphasizes the importance to use the "vitality metrics" like user retention and engagement that offers better insights of the platform's health instead of relying on "vanity metrics" like number of users and number of likes which are misleading.

The findings of this study are very significant. Founders and Platform designers are made aware that user acquisition strategy should focus on long-term value creation rather than short-term gains. Here, the quality of user experience acts as the most powerful competitive advantage. From a theoretical perspective, the study suggests that the full potential of the network effects is realized only when a platform actively supports user success and fosters meaningful engagement.

While this research provides a solid foundation, future studies can look across different industries to examine how viral loops work in various platform models. Ultimately, it is asserted that the platforms that are resilient and create the most value are those that view growth as a flywheel rather than a one-time campaign. In today's digital economy, success goes to those who are willing to invest in the continuous improvement of their product and nurture their community.

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