**The platform Revolution (2016)**

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*Summary based on chapters 1 to 4 (page 1-79 and chapter 10 pages 184-229*

Airbnb, Uber, Alibaba, Facebook are seen as the new market leaders, disruptive because they changed the processes from analogue to digital, from selling goods to connecting people and business. This is the base of the platform revolution which will shape our lives and our businesses in the coming years. A change in budget spending, a different business model and new form of collaboration between people, people and companies and between institutions. An interactive ecosystem. Especially companies where information is the core business or where access of information is part of the sales process, customer needs and preferences.

A platform is a value creating interaction between external producers and customers it provides an open, participative infrastructure.

**From pipeline to platform interactions**

The classical business approach is a pipeline approach, inflexible, supply driven and lack of actual market information. This is why this linear value chain is being replaced by the more interactive platform structure based on relationships. The values may be created, changed, exchanged and consumed in a variety of ways and places all made possible by the connections that the platform facilitates.

Platforms beat pipelines because platforms scale more efficiently by eliminating gatekeepers! To eliminate gatekeepers also allows consumers greater freedom to select products that suit their needs.

The nature of supply changes, it unlocks spare capacity and harnesses contributions from community which used to be a source of demand.

A platform inverts a company from supply driven to demand and interaction drives with customers. The classical supply driven economy gave competitive advantages by supply economies of scale: production driven efficiencies. Now in the internet era competitive advantages are created by demand economies of scale. Now you can take advantage of technology improvements on the demand side like efficiency in social networks, demand aggregation and apps.

If prices fall, because of technology implementation, the networks effects work together with more attractive pricing to drive massive market adoption. The most powerful networks have a two-sided effect like Uber (driver and buyer) Airbnb (renter and lender), Facebook (connect and be connected). It is a matter of driving (attracting) visitors, and driving to profits.

**Network effects**

* Same-side effects.

What is de impact of one side of the market (consumers) on the other side (suppliers)? (cross side effects), but also what will be the impact on same side (suppliers on suppliers and consumers on consumers).

* Organisational effects

Organisations are turned inside out. This means that management of externalities becomes a key leadership skill. The focus on processes such as finance and accounting shifts from cash flows and assets you can own to communities and assets you can influence. The ecosystems of users are the new source of competitive advantage and market dominance.

* Design

Every platform must be designed to facilitate the exchange of information, not only for information driven companies but even platforms whose primary goal is the exchange of physical goods or services must enable the exchange of information. In every case the exchange of information takes place through the platform itself. The exchanges of goods and services can take place inside the platform and outside the platform although information about the delivery may be tracked and exchanged on the platform.

The design of every platform should start with the design of the core interaction that enables between producers and consumers: three key components: participants, values units (information/products)and the filter (selection).

Participants + Value Unit +filter=Core interaction

First define the core interaction then define the participants, the value units and the filters.

Pull (producers and consumers), match using information of each, and facilitate interaction.

**How platforms will disrupt traditional industries**

What will the impact be of Uber, drones and self-driving cars for the car industry, car insurance, car finance, parking and the ownership of cars?

Software is eating your business:

* Efficient pipelines ate inefficient pipelines: media, retail at first. But this is only the first stage of disruption:
* Platforms eat pipelines: taxis, hotels, real estate brokers, restaurant services at first, but also Nokia and Blackberry lose from platforms as Google and Apple.
* Internet is no longer a distribution channel but a eco system, an infrastructure and will create new business models.
* A convergence between physical and digital, a platform company leverage external ecosystems to create value in a new way.
* Significant economic advantages are: superior marginal economics of production and distribution. Compare Airbnb with a holiday park or hotel.
* Positive network advantages by connecting thousands or millions remote participants. They have access to more resources than a traditional pipeline company can command. Therefore, firms that continue to compete on the basis of resources that are owned internally are increasingly finding it difficult to compete with platforms.
* The rise of the world platforms, doesn’t simply mean the emerge of new business entities competing with traditional incumbent firms. It also means the appearance of new forms of business activity, as these changes in the modes of value creation, value consumption and quality control suggest.

The platforms will transform the structure of business:

* De-linking assets from value: de-link ownership of the physical asset from the value it creates.
* Re-intermediation. In the first stage of internet the expectation and changes where in disintermediation, elimination middlemen. The fact is now that platforms re-intermediate introducing new kinds of middlemen. Replacing non-scalable and inefficient agent intermediaries with online, often automated tools and systems that offer valuable new goods and services to participant on both sides of the platform. Networked platforms serve as these middleman, the platform offers services to the end consumer.
* Market aggregation. Providing information and power to platform users, access to products and services which where before not controlled or shattered.

**They incumbent fight back: pipelines becoming platforms**

Platforms are disruptive not only by displacing some of the world’s biggest incumbent forms but also by transforming familiar business processes line value creation and consumer behaviour as well as altering the structure of major industries. Some of the major questions which should be asked:

Which processes can be outsourced?

* How can we empower outside partners to create products and services that will generate new forms of value for our existing customers?
* Are there ways we can network with current competitors to produce valuable new services for customers?
* How can the value of the goods and services we currently provide be enhanced through new data streams, interpersonal connections and curation tools?
* Vertical integration, horizontal integration or otherwise?

Examples are Nike, Apple, but also applications linking to the internet of things like Samsung, Haier, Siemens and many car firms have done.

The leaders of incumbent companies who understand the new business model can begin building tomorrow’s platforms in a way that not only leverages their existing assets but strengthens and reinforces them.

Platforms are eating the world, we see already in media, services and telecom but retail, city transportation, hospitality, housing and holidays are on the way. It is not a primarily a technology challenge, but there is a need to focus on the core interactions in the marketplaces and analyse the barriers that limit them. Companies should focus on their own industry through a platform lens and beginning to build their own value creating ecosystems.

**Strategy**

The swiftness of Alibaba’s ascent is largely a function of the new realities of platform competition: explosive networks and strong economies of scale. Alibaba has compressed the whole middle layer of retail.

Alibaba is shrewdly leveraging another enormous competitive strength of platforms, the ability to seamlessly incorporate the resources and connections of outside partners into the activities and capabilities of the platform.

The nature of competition has transformed from the classical approach that many business people take for granted.

Porters five forces model (1983) is used to control these five forces in a way as to build a moat around the business and thereby render it unassailable. The aim is creating barriers to keep competitors out. In this model the firm maximizes profits by avoiding ruinous competition for itself but encouraging it for everyone else in the value chain. Horizontal and vertical integration strategies of companies have been analysed and implemented based on the strategic implications of the five forces. Resource-based views is based on effective barriers to entry.

**Peter Drucker dictum is well known: the purpose of business is to create a customer. In a world where sustainable advantage is an illusion, a company’s relationship with customers are its only lasting source of value.**

* Networks remake markets not just respond to them. Rather than re-diving a pie more-or-less static size, platform businesses often grow the pie. (like Amazon with publishing, Airbnb alongside the traditional hotel industry and Uber with the taxi industry
* Platforms turn businesses inside out, moving managerial influence from inside to outside the firm’s boundaries.

Those two points add a dramatic layer of complexity to business competition. It creates competition on three levels:

* One platform with another (like in the music word (Apple against Sony)
* A platform competes with its partners, like amazon and bol.com within the marketplace. This is a delicate and dangerous move; it can strengthen the platform but it can be a short term gain.
* A third level is the competition between partners for positions within the platform eco-structure.

The shift from protecting value inside the firm to creating value outside the firm means that the crucial factor is no longer ownership but opportunity, while the chief tool is no longer dictation but persuasion.

In contract with Porters five forces in platform markets, a winning strategy blurs the boundaries among market participants thereby increasing valuable interactions on the platform.

The resource-based view assumes that a firm must own or control the inimitable resource. In the world of platforms, the nature of the inimitable resources shifts from physical assets to access to customer-producer networks and the interaction that results. In fact it can be better for a firm not to own physical resources, since eschewing ownership enables it to grow more quickly.

**How do platforms compete?**

1. Platforms seek exclusive access to essential assets. They do this by developing rules, practices and protocols discourage multi-homing. Multi-homing, facilitates switching when an user abandons one platform in favour of another. Limiting multi-homing is a cardinal competitive tactic for platforms. (An Apple strategy, but also adopted by Alibaba).

Over the long haul it is in the interest of platform managers to take control of the major sources of value created by and for users in their ecosystem.

1. A platform business need not own all the inimitable resources in its ecosystem, but it should seek to own the resources whose value is greatest.

This is the reason why Alibaba owns search on their platform, and Facebook owns search on their platform rather than Google, why Microsoft owns Word, PowerPoint and Excel on its platform.

1. Platform businesses can use data to improve their competitive performance tactically and strategically. Like A/B testing. This kind of tactical data usage is quite effective and largely used by Amazon. Strategic data analysis is broader in its scope. It searches who else is creating, controlling and siphoning value both on and off the platform. Some notable platform strategy battles have been won by companies that took advantage of data supremacy to outcome their rivals. Searches are important to help clients find the right solution, better matches facilitated by enhanced data make both sides happier. But also by identifying unsuccessful user searches reflecting the existence of potential clients in need of business (or product) solutions. Finally, to look for new business opportunities and service capabilities. This way the platform will generate value for users. If competitors don’t have the data, they can create the value, which means they cannot create the interactions which further limits their access to the data.
2. Acquisitions should add value to the users of a platform by means of services, interactions or profitability. Platform businesses don’t need to own all the critical assets as long as they have access to them in their ecosystems, platform companies can pursue fewer M&A deals than many traditional firms feel compelled to do. They enjoy at least two significant benefits: claiming a portion of the value creating is far less than buying a partner. Secondly keeping a partner at arm length reduces the platform’s technological complexity. A platform builds on a lean architecture that conducts all its business activity through clean interfaces will offer a much better customer experience.

By comparison with traditional pipeline businesses platform companies are able to move very rapidly to response to competitive moves and to mount competitive assaults of their own.

In traditional businesses companies compete by attempting to create higher-quality products and services. Platforms compete by trying to improve the quality of the tools they provide to pull in users, facilitate interactions and match producers with consumers.

Airbnb allows a person to search through options organized not only according to their own characteristics, but also by quality, number of rooms, price and mapping geolocations. A user can strike deals immediately through Airbnb without going off platform. This makes Airbnb far easier to use and enabled the platform to rapidly outgrow others.

When advantage is sustainable: winner takes all market

The four forces that most often characterize winner-take-all markets are: supply economies of scale, strong network effects, high multi-homing or switching costs and lack of niche specialisation. When more users join the ecosystem the value created and the profit margins enjoyed both increase. Because positive network effects attract more users to whichever platform is larger they are a second force that is likely to strengthen a market’s winner take all tendency. Another factor is the high multi-homing and switching costs. This might be monetary by paying a fine or non-monetary by inconvenience to move like in Facebook or Twitter.

Both higher multi-homing costs and higher switching costs tend to push a market toward higher concentration, dominated by fewer larger companies.

See the dominance of Apple and Android. To have both does not add value, to use a third like Microsoft/Nokia is a nonstarter.

A market with little or no niche specialisation is particular susceptible to the winner-takes-all effect. This explains the fierce competition between Uber and Lyft.

**In conclusion**

The nature of competition in the world of platforms is very different from that in the world of traditional pipeline business. The competition is no longer based on the five forces of Porter to protect vital parts of the company, but is concentrated on customers, interactions and value creating. This competition will change the market structure, market competition and will lead to new market leaders. Too late in changing or to reluctant to adopt to market changes or use the new opportunities on an effective way will lead to failure to compete. Pipeline efficiency is not a competitive force anymore for the future. Start-ups are more flexible and more focused on creating value for customers. Interaction is the bases of a platform and of the future.

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