Platform Strategy & Open Business Models

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In building a business ecosystem, how do you set strategy?

How do old line business models transition to platforms?

What can be a platform (Windows, PayPal, Facebook ... Bauxite, Coca Cola)?

What does an open business model look like?

Can you predict unexpected competition?
Platform Ecosystem Rules

- Platforms beat products every time.
- Remake the supply chain to “consummate the match.”
- Open the top or the bottom of your platform to unexpected innovation, but don’t open both.
- Look to your overlapping users to see where tough competitors will attack.
To be a platform

The system must provide a useful *function or service* and should provide 3rd party access + governance.

**Examples:**

- **iTunes:** get musing onto iPod
- **SAP:** execute ERP systems
- **Facebook:** connect family, friends & acquaintances
- **Smart Grids:** capture AC/DC sources, route power
- **Nike Fuel:** motion capture and social benchmarking
- **Pearson:** match people to content, deliver content, certify learning

**Your biz:** match ... ?
How do traditional linear business models transition to platforms given network effects?
Traditional Supply Chain

(1) Value accumulates from stage to stage
(2) Standard linear value chain
(3) Logistics optimize stuff (usu. not incentives)
(4) No network effects
Traditional Supply Chain

Potential B2B Platform
Potential B2C Platform
Potential B2C Platform

1. Make your business a platform by facilitating transactions across your systems.
Creating a B2C Platform

1. Make your business a platform by facilitating transactions across your systems.
2. Expand the biz partners who can reach your customers.
3. Expand the customers who can reach your suppliers.
This is a *really, really* different business model due to network effects...
How are these related?

eBay Sellers
Airlines/Hotels
Xbox Developers
Visa Merchants
Doctors
YouTube Videographers
AirBnb Rooms
Electric Car Charge Stations
Mechanical Turk Laborers
Monster Employers
Android Developers

Each Side Attracts More of the Other
Creating a B2C Platform

Market One

Market Two

Biz Biz Biz

p_1

q_1

Quantity

Price

Cust Cust Cust

p_2

q_2

Quantity

Platform
Creating a B2C Platform

Market One

Market Two

Platform
If your supply chain has network effects then…

… you can price wrong
… manage the supply chain wrong
… get internal organization wrong, and
… mismeasure LTV of “free customers”
whenever you use linear product model practices.
Why do platforms beat products?
(1) Product First Thinking
(2) Standard linear value chain
(3) User bought music retail (or P2P)
(4) Minimal network effects
Apple iPod combined with iTunes

Apple iPod → Listener → Retailer → Music Producer

$ → $ → $
Apple iPod post-Platform

(1) Remove supply chain inefficiency
(2) Triangular *platform* supply network
(3) Apple owns financial chokepoint
(4) Apple helps users find content
(5) Stronger network effects
How Apple is killing standalone platforms

Sony could have done this – has many great standalone products.
Google is not making this mistake with Android

Message for you: A great standalone product might not be sufficient.
How Apple is killing standalone platforms

Message for you: A great standalone product might not be sufficient.
Why Apple isn’t killing Kindle

We asked ourselves: “Is there some way we can bring all of these things together [web service, Prime, Kindle, instant video and the app store] into a remarkable offering customers would love?” Yes, the answer is Amazon Kindle Fire.

November 14, 2011: Amazon introduces the Kindle Fire
Kindle Fire Offering

- 18 million movies, TV shows, songs, magazines
- Amazon Appstore - thousands of apps and games
- Cloud-accelerated web browsing - Amazon Silk
- Free cloud storage for Amazon content
- Color touchscreen with extra-wide viewing angle
- Priced at $199 for 7-inch Wi-Fi Version
- Fast, powerful dual-core processor
- Amazon Prime members get unlimited, instant streaming of 10,000 popular movies and TV shows
You can’t make calls ... unless you load Skype.

Amazon is also being much more sophisticated about giving free data storage service, which allows them to better “consummate the match.”
Firms generally consider *product feature overlap* (differentiation?) to find and benchmark competition.

User overlap between Platforms predicts competitors. Size (usually but not always) predicts victor.

Open (fragmented) versus Closed (integrated)?
Openness vs. Control

Maximum protection ≠ Maximum Value

Your reward = (Value added to industry) x (Your share)

Based on: Shapiro & Varian '99
Does Openness Work?

While Facebook focused on creating a robust platform that allowed outside developers to build new applications, Myspace did everything itself. ``We tried to create every feature in the world and said, `O.K., we can do it, why should we let a third party do it?' " says (MySpace cofounder) DeWolfe. ``We should have picked 5 to 10 key features that we totally focused on and let other people innovate on everything else."
Historical Open Innovation

Mobile Methodist Church

Gray Carrier

Sawmill

Snowmobile
Platforms get enormous value from 3rd party developers.

Most firms can only concentrate on most valuable apps. Profits increase when others add to platform’s “Long Tail.”

Consider an operating system like MS Windows, Apple Mac, or Google Android.
What does controlling openness mean?

Split IP rights from point of customer contact.

1) Open Access
2) Extend Platform
3) Touch Customers
4) Change Platform
Models for Organizing Platforms

One Provider

- Users
- Dvprs
- Provider
- Sponsor

1) Proprietary: e.g. Mac

Many Providers

- Users
- Dvprs
- Providers
- Sponsor

2) Licensing: e.g. Google Android

One Sponsor

- Users
- Dvprs
- Provider
- Sponsor

Many Sponsors

- Users
- Dvprs
- Provider
- Sponsors

3) Joint Venture: e.g. Orbitz

- Providers
- Users
- Dvprs

4) Shared: e.g. Linux

- Dell
- Acer
- Red Hat
- Debian
- Ubuntu
Apple tried to control too much of the original Mac

- Remember MacWrite, MacPaint?
- Charged ~$10,000 for SDKs.
- Controlled OS & HW and dominant Apps.
- Vertical integration choked network effects.
Microsoft opened much more of its ecosystem

- Microsoft had 6-10X developers
- Open APIs / Cheap SDKs
- Controlled OS, licensed.
- Strong network effects.
For real profits, control full layer

**Linux:**
No one driving the bus.
Limited scope of control.

**Joint Venture:**
e.g. Orbitz airline collaboration

**Licensing:**
e.g. Google Android
Danger!

Watch for new control points closer to customer.

- Microsoft fear of Netscape
- SAP fear of ADP
- Facebook fear of Instagram
- Apple fear of Google Maps
- AT&T fear of Apple
Should Apple have opened the iPod?

No! It does 1 thing only, so make it “insanely great” and own it.
Should Apple have opened the iPhone?

Most firms can only concentrate on most valuable apps

Profits increase when others add to platform’s “Long Tail”

Of Course! It has video, wifi, camera (scanner), accelerometer, mobile, MP3, web browsing, etc. Platforms benefit from broad contributions. But control the top several complements.
Which applications to absorb?

Apps offered by Platform Sponsor

Apps offered by Developers

Rule 1: Absorb the highest value applications from the ecosystem. This adds value for users and mitigates threat of disintermediation.

Example: Apple iPad absorbed e-books
Example: Microsoft Windows absorbed web browsing
Example: Google added Gdrive to absorb functions of DropBox
Anything else to absorb?

Apps offered by Platform Sponsor

Apps offered by Developers

Price

Application 1
App. 2
App. 3

Layer 2
Layer 1

Quantity
Rule 2: Absorb features that emerge in multiple places in the ecosystem. This increases compatibility, ensures efficient implementation, and benefits other apps. Examples: Operating systems support for (i) spell check (ii) cut & paste (iii) PDF.
Why Platforms Beat Products

- Based on owned resources, innovation occurs at a given rate.
- Harnessing 3rd party resources, innovation can occur at a higher combined rate.
- Even if a platform starts behind or has higher variability, its value can overtake the product leader.
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Thank You!

Questions & Discussion

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