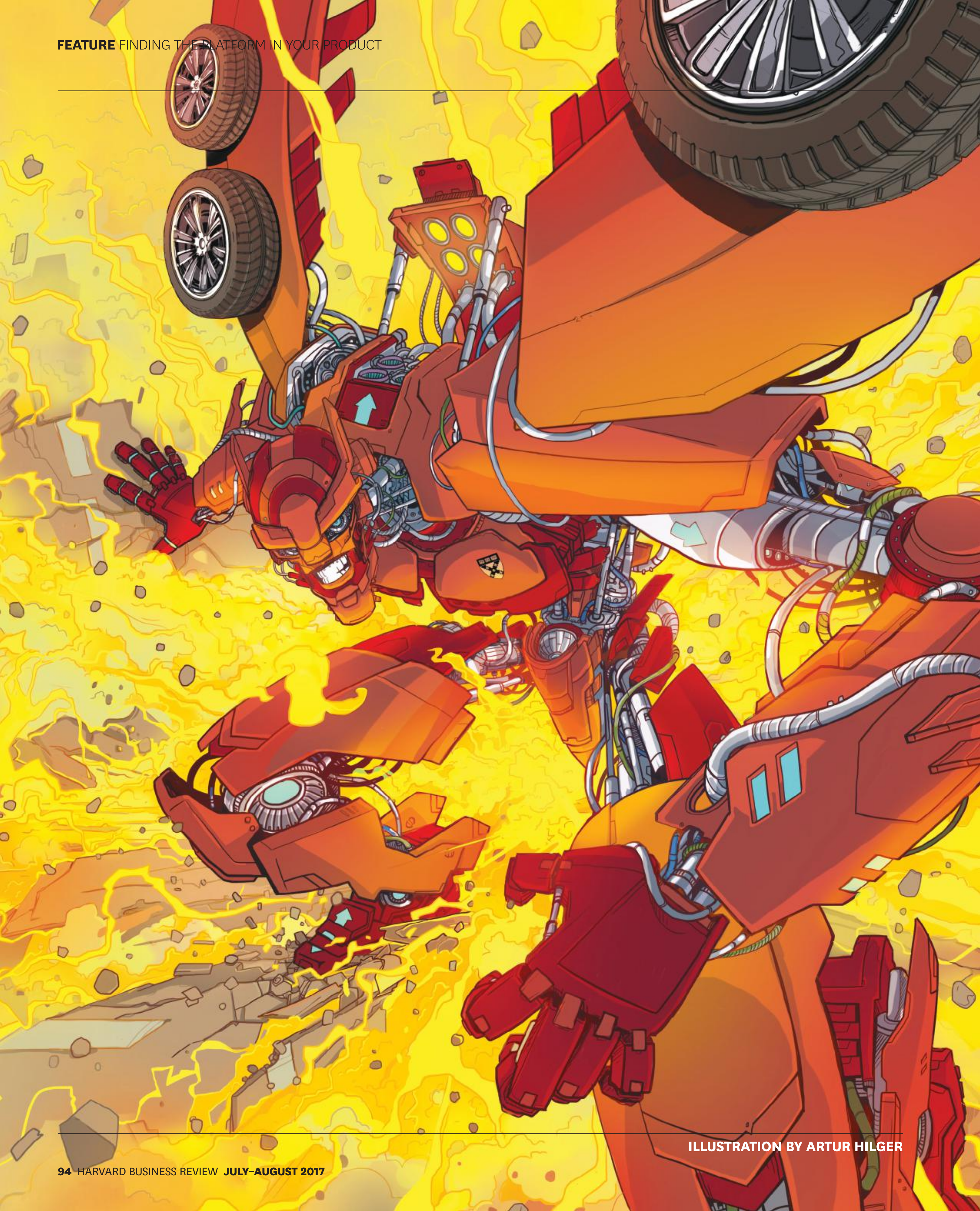

ILLUSTRATION BY ARTUR HILGER

SHARE THIS ARTICLE. HBR LINK MAKES IT EASY.
SEE PAGE 41 FOR INSTRUCTIONS.

FINDING THE PLATFORM IN YOUR PRODUCT

FOUR STRATEGIES THAT CAN REVEAL HIDDEN VALUE

BY ANDREI HAGIU AND ELIZABETH J. ALTMAN

Five of the 10 most valuable companies in the world today—Apple, Alphabet, Amazon, Facebook, and Microsoft—derive much of their worth from their multisided platforms (MSPs), which facilitate interactions or transactions between parties. Many MSPs are more valuable than companies in the same industries that provide only products or services: For instance, Airbnb is now worth more than Marriott, the world's largest hotel chain.

However, companies that weren't born as platform businesses rarely realize that they can—at least partially—turn their products and services into an MSP. And even if they do realize it, they often wander in the dark searching for a strategy to achieve this transformation. Here we provide a framework for doing so. It lays out four specific ways in which products and services can be turned into platforms and examines the strategic advantages and pitfalls of each. These ideas are applicable to physical as well as online businesses.

Why seek to transform products and services into MSPs in the first place? As one Intuit executive told us, it comes down to "fear and greed." Greed, of course, refers to the potential for new revenue sources that could speed growth and increase a company's value. Fear refers to the danger that existing and incoming competitors will steal market share from your product or service. Transforming an offering into a platform might enhance your company's competitive advantage and raise barriers to entry via network effects and higher switching costs. We're not suggesting that every company should try to emulate Airbnb, Alibaba, Facebook, or Uber. But many companies would benefit from adding elements of a platform business to their offerings.

Our goal is to help managers discern how their products or services could become multisided platforms—and what challenges and opportunities might arise—so that they can decide whether or not to make the change. Our framework derives from our combined experience studying and advising more than a dozen companies (including several mentioned below) during product-to-MSP transformations. Managers might want to use this article as the basis for a corporate-strategy offsite at which everyone is given the task of articulating MSP strategies around existing company offerings. That assignment should include answering questions such as: (1) Are there benefits to turning some or all of our products and services into MSPs? (2) Are there risks involved in doing so? (3) What key resources, relationships (including how we interact with customers), and organizational changes would be required for such a transformation?

The reason regular products and services are not multisided platforms is that they do not serve multiple groups or facilitate interactions between customers or groups. In this article we discuss four ways in which regular products and services can bridge this gap and become MSPs.

1. OPENING THE DOOR TO THIRD PARTIES

In this scenario your product or service has a big customer base that third-party sellers of other offerings are interested in reaching. You become an MSP by making it possible for those third parties to connect with your customers. "Connect with" can mean advertise or sell (or both) to them. The third-party products may be independent of your product or service or may be apps or modules that work in combination with your offerings.

Consider three examples:

INTUIT IS THE leading seller of financial management, accounting, and tax software products for consumers and small businesses in the United States. In the past six years or so it has taken significant steps to turn QuickBooks, its flagship financial-accounting product for small businesses, into an MSP. It opened up application-programming interfaces and introduced a developer program and an app store to allow third-party developers to build and sell software products to QuickBooks' customer base. Those products leverage data about small-business finances provided by QuickBooks. Since 2013 QuickBooks has also enabled its customers to apply directly to several third-party financial institutions for loans through a service called QuickBooks Financing.

HEALTH CLUBS ARE increasingly renting space inside their gyms to specialty studios so that the latter can serve health club members. This allows a club to offer a greater variety of classes, which helps it retain existing members and attract new ones. For instance, the Forum Athletic Club, in Atlanta, recently reached an agreement with Cyc Fitness, a national cycling-studio chain, which now operates a self-contained studio inside the Forum's 22,000-square-foot gym.

THE LAWSON CHAIN of convenience stores in Japan started in the 1990s to turn its shops into MSPs that facilitate transactions between its customers and third-party service providers. Today Lawson customers can pay utility bills and insurance premiums, ship and pick up parcels through postal service providers, and claim items ordered from e-commerce sites just by visiting their local convenience store.

For your product or service to become a true MSP in this scenario, at least some of the connection between your customers and third parties must be made through your product. Intuit could simply have sold aggregated (and anonymized) QuickBooks data to third-party developers and financial institutions. That would have added a potentially profitable new offering for Intuit, but it would not have turned QuickBooks into an MSP that could exploit network effects.

For this type of transition to make sense, your product or service must have an established brand and a large customer base—but that alone won't elicit interest from third parties. It must also meet one or both of the following conditions:

IN BRIEF

THE PROBLEM
Many companies that sell products or services either don't realize they could turn their offerings into a platform business or struggle to do so.

THE OPPORTUNITY
By becoming a multisided platform (MSP) that facilitates interactions between parties, a company may be able to provide new revenue sources while also preventing competitors from stealing market share from its product or service.

THE SOLUTION
Here are four scenarios whereby regular products or services can become MSPs. The authors take into account the advantages and pitfalls of each and the resources, relationships, and organizational changes that would be required.

TODAY LAWSON CUSTOMERS CAN PAY UTILITY BILLS AND INSURANCE PREMIUMS JUST BY VISITING THEIR LOCAL CONVENIENCE STORE.

It serves a baseline need for many customers, yet leaves a large number of heterogeneous customer needs unserved. You can encourage and enable third parties to fill those gaps with products and services that are typically complementary to yours. Most third-party apps in Intuit's app store target market niches and customer needs not served by QuickBooks on its own.

It generates frequent customer interactions. That makes it a good candidate to become a one-stop shop for other, not necessarily complementary products and services. The third-party services that Lawson's customers can access are largely unrelated to its own products and services, but customers find it extremely convenient to access all of them in the same location.

It's important to be aware of several pitfalls associated with this approach to an MSP. One is that customers who come to you primarily for a product or service may object to the advertising of third-party offerings, especially if they are paying for yours. Intuit faced this when it started exploring services to offer through QuickBooks. As a result, the company is very careful to allow only offerings that align well with the needs and desires of QuickBooks customers and to obtain explicit consent to participate in tests for targeted third-party offers. In addition, Intuit has rebranded QuickBooks as "the operating system for small business" precisely to change customers' perceptions and to minimize potential backlash.

Another possible pitfall is that because you have an existing provider relationship with your customers, they may hold you responsible for the quality of their interactions with third parties. By enabling those parties to interact with your customers, you are implicitly endorsing their offerings—to a greater extent than does a company born as a multisided platform. For instance, a customer taking a spinning class offered by a third-party studio in a health club's gym is likely to blame the health club for a bad experience. As a result, you must curate third-party products and services much more carefully than a company born as an MSP has to.

Finally, some third-party products and services may cannibalize your offerings. The natural inclination would be to allow only those that are either complementary or unrelated to yours. But that approach can be misguided. In some cases it may make sense to coopt offerings that compete somewhat with yours and capture some of the resulting value to your customers. The Forum Athletic Club has replaced its own cycling classes with the Cyc Fitness classes offered at its gym. Cyc's spinning classes have proved more popular with members and allow the Forum to focus its resources on other services while converting Cyc from a competitor to a complementor.

The underlying logic is that if substitution from third parties is inevitable, bringing them onto your platform may expand its overall appeal to your customers, resulting in more demand and opportunities to sell your own services. It may also encourage you to reevaluate your offering's core competitive advantages and focus on them, which may mean ceding ground to third parties in some areas.

2. CONNECTING CUSTOMERS

In this scenario you are selling a product or service to two distinct customer segments that interact or transact with each other outside your offering. You can become an MSP by modifying or expanding your offering so that at least some element of those interactions or transactions occurs through your product or service.

QUICKBOOKS IS USED by both small businesses and accounting professionals. Intuit is in the process of adding a matchmaking function within QuickBooks that would enable small businesses to find and contact accountants with relevant expertise in their geographic area and would allow already-matched business-accountant pairs to exchange documents through the product.

GARMIN AND OTHER fitness wearables are used by both consumers and personal trainers. Many companies that offer these products also host online systems (Garmin Connect, for example) to store fitness-training and health data. Garmin could enable users to share their data with personal trainers, thereby enhancing the interactions between those two groups. To further capture value from this strategy, Garmin could charge trainers for a "pro" subscription—software tools that would let them access clients' data to oversee activities and progress.

This scenario highlights how different customer segments of the same product or service can become customer groups on an MSP. For example, men and women are customer segments for a hair salon (no interaction between them is facilitated by the salon), but they are customer groups for a heterosexual dating service. An entrepreneurial hair salon that started offering matchmaking services to its customer segments could convert men and women into customer groups.

There are two pitfalls associated with this strategy. First, you run the risk of wasting resources on a feature that ultimately creates little additional value for your customers or your company. Worse, the MSP feature can be a detriment if customers perceive it as misaligned with the value of your underlying product or service. Some customers of a hair salon that provides matchmaking services might not want to risk encountering matches that didn't work out. Others might worry that offering a dating service means the salon isn't focused on giving the highest-quality haircuts.

BLIZZARD ENTERTAINMENT'S ill-fated Auction House for its popular Diablo video game provides a cautionary tale. Having noticed that Diablo players were routinely trading digital items on eBay and other external platforms, Blizzard created the Auction House in 2012 to make those transactions easier. It allowed players to buy and sell digital items in exchange for "gold" (digital currency in the Diablo game) as well as real

INTUIT IS ADDING A MATCHMAKING FUNCTION WITHIN QUICKBOOKS THAT WOULD ENABLE SMALL BUSINESSES TO FIND AND CONTACT ACCOUNTANTS WITH RELEVANT EXPERTISE IN THEIR GEOGRAPHIC AREA.

dollars—and Blizzard was able to charge a transaction fee. It quickly became clear, however, that this feature created perverse incentives. Many players decided that buying items at the Auction House was an easier way to reach the game's advanced stages than devoting several hours to killing monsters and searching for loot inside the game. Other players strove to accumulate game items for the sole purpose of selling them in the Auction House. Realizing that this behavior was undermining the value of the game itself, Blizzard shut down the Auction House in 2014.

It is imperative that you conduct market research or run experiments to answer the following questions: Would significant proportions of our offering's various customer segments derive substantial benefits from interacting or transacting with one another? If yes, can our product or service enhance those interactions in a significant way? How will our customers react to the addition of an MSP feature, and how will that feature affect the way they interact with the original offering?

The second pitfall, as in scenario number one, is that although your offering is now simply facilitating a connection or a transaction between two parties, if one party is dissatisfied with the other, you may be held partly responsible. That means you need to put governance mechanisms in place to minimize (if not eliminate) the likelihood of unsatisfactory interactions. Intuit will have to carefully curate the accountants it recommends to QuickBooks customers through its matchmaking feature.

3. CONNECTING PRODUCTS TO CONNECT CUSTOMERS

In this scenario you are selling two products or services, each to a different customer base, and the two customer bases interact outside your offerings. You can become an MSP by modifying or expanding your offerings so that at least part of those interactions occurs through one or both of your offerings.

CARDS AGAINST HUMANITY is a popular game in which players complete fill-in-the-blank statements with humorous (and often tasteless) words or phrases printed on physical playing cards. Its creators continue to sell the game and its numerous expansion packs to consumers, but they have also created Blackbox, a separate website through which they sell back-end fulfillment services (credit-card processing, customer service, shipping) to independent artists who want to sell their products—including third-party developers of other card games. Currently these are separate offerings, but the company could create an MSP by linking them. For instance, it could allow Blackbox customers to advertise their games to Cards Against Humanity's users with expansion packs. A more sophisticated implementation would allow Blackbox customers to test game concepts on willing Cards Against Humanity users, who would provide feedback.

CREDIT BUREAUS SUCH as Equifax, Experian, and TransUnion offer a suite of services for consumers (access to credit scores, identity theft protection, and so on) and a suite of services for financial institutions (credit reports on consumers and businesses). These suites are based on the same data, but the two types of customers interact outside the services (as when a consumer applies for a mortgage); the credit bureaus do not directly facilitate those interactions.

Credit bureaus could create online MSPs where consumers could obtain their credit scores and receive targeted offers from financial institutions. (This is the business model of start-ups such as Credit Karma and Lendio.) These MSPs could go further and enable consumers to create and manage a digital data profile that they could then use to apply directly for financial products at participating institutions (similar to the way Intuit allows QuickBooks customers to apply for financial products through QuickBooks Financing).

NIELSEN OFFERS "WATCH" products to media companies (data on consumers' viewing habits) and "buy" products to consumer goods manufacturers (data on consumers' purchasing habits). One could easily imagine Nielsen's adding the ability for a consumer-packaged-goods company to connect with relevant media companies for advertising purposes.

This scenario highlights how a multiproduct company can become a multisided platform that benefits from network effects. For example, by increasing sales of credit and identity-theft-protection products to consumers, credit bureaus can improve their offerings for financial institutions (which leverage consumer data), thereby achieving greater cross-product economies of scope. While that alone might be valuable, credit bureaus could create and capture even more value by linking the two kinds of products to facilitate interactions between consumers and financial institutions (as described above). This would create an MSP and generate network effects: If more consumers use the credit and identity-theft-protection products, that

FURTHER READING

For more on multisided platforms, see these articles on **HBR.org**:

"Pipelines, Platforms, and the New Rules of Strategy"
Marshall W. Van Alstyne, Geoffrey G. Parker, and Sangeet Paul Choudary
APRIL 2016

"Network Effects Aren't Enough"
Andrei Hagiu and Simon Rothman
APRIL 2016

"Products to Platforms: Making the Leap"
Feng Zhu and Nathan Furr
APRIL 2016

"Spontaneous Deregulation"
Benjamin Edelman and Damien Geradin
APRIL 2016

"When Platforms Attack"
OCTOBER 2015

"How to Launch Your Digital Platform"
Benjamin Edelman
APRIL 2015

"Do You Really Want to Be an eBay?"
Andrei Hagiu and Julian Wright
MARCH 2013

"What's Your Google Strategy?"
Andrei Hagiu and David B. Yoffie
APRIL 2009

"Strategies for Two-Sided Markets"
Thomas R. Eisenmann, Geoffrey G. Parker, and Marshall W. Van Alstyne
OCTOBER 2006

increases the value of the offerings for financial institutions, which can then transact with more consumers more effectively and vice versa.

Two risks are associated with this strategy. First, as with scenario number two, you may waste resources on a feature that ultimately creates little value for your customers or your company relative to the underlying product or service. Second, optimizing for interactions between customers of different products may lead to design choices that limit the growth potential of one or the other product on its own. Once again, it is imperative to use market research and experiments to answer a few questions: Would considerable proportions of your offerings' respective customers derive significantly greater benefits from interacting or transacting through you? If yes, can your offerings substantially enhance those interactions? How will the customers of your two offerings react to the addition of an MSP feature? How will that feature affect the way customers interact with the original products?

4. SUPPLYING TO A MULTISIDED PLATFORM

In this scenario you become an MSP by creating an offering for your customers' customers that enhances the value of the product or service they buy from your customers. (Although this strategy is logically possible, we are not yet aware of examples of its successful implementation.)

It is important to emphasize that this strategy goes beyond the more traditional "ingredient brand" strategy, which is also a "customers' customers" approach. Indeed, some (essential) ingredient suppliers have created brands in the eyes of their customers' customers (for example, Intel's "Intel Inside") that allow them to extract more value from their customers. But because these ingredient suppliers offer no products or services directly to their customers' customers, they are not MSPs.

The major pitfall with this scenario is that your customers are likely to react negatively to any attempt to go after their customers. Nevertheless, we believe this strategy could work under certain circumstances. The key is to convince your customers that the product or service you provide to their customers is truly complementary to—rather than competitive with—their own offerings.

SHOPIFY IS A leading provider of e-commerce tools to online and retail merchants. Currently the company has no direct connection with its customers' users. It could, however, start offering a common log-in or loyalty program to users of its customers' sites. Whether such an initiative would be successful would hinge on whether Shopify could persuade its merchant customers that the offering was a valuable added service rather than simply an attempt to take control of their customer relationships.

The decision whether and how to convert an offering into an MSP should be informed by who your current customers are, how you currently interact with them, and how they interact with one another. The most fundamental challenge associated with this endeavor is transitioning from a world in which you have 100% control over what your customers are offered to one in which you can only influence the value that is created for them (by third parties or by interactions among themselves).

A final consideration is organizational and leadership challenges. If a company has a solid reputation that is rooted in creating and offering products, shifting to an MSP-focused strategy might be difficult for employees who deeply identify with those products. And companies that sell successful products or services often have strong research and development operations and many engineers in leadership roles; shifting to an MSP strategy that depends on the adept management of third-party relationships might require putting business-development and marketing professionals in significant leadership roles, generating internal conflict. Furthermore, as a company's strategy moves from a product or service orientation to being more MSP-centric, boards, CEOs, and senior management teams may find it difficult to deal with multiple or hybrid strategies, adopt and track new performance metrics, and enforce some degree of technological or customer experience consistency between previously separate products and services.

Nevertheless, if you decide that creating a platform will provide great opportunities for growth and increased profitability and thwart potential competitive threats, the effort to make the transformation may well be worthwhile.

HBR Reprint R1704G

ANDREI HAGIU is a visiting associate professor of technological innovation, entrepreneurship, and strategic management at the MIT Sloan School of Management. Follow him on Twitter: @theplatformguy. **ELIZABETH J. ALTMAN** is an assistant professor of strategic management at the Manning School of Business at the University of Massachusetts Lowell and a visiting scholar at Harvard Business School. She was formerly a vice president of strategy and business development at Motorola. Follow her on Twitter: @lizaltman.