

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

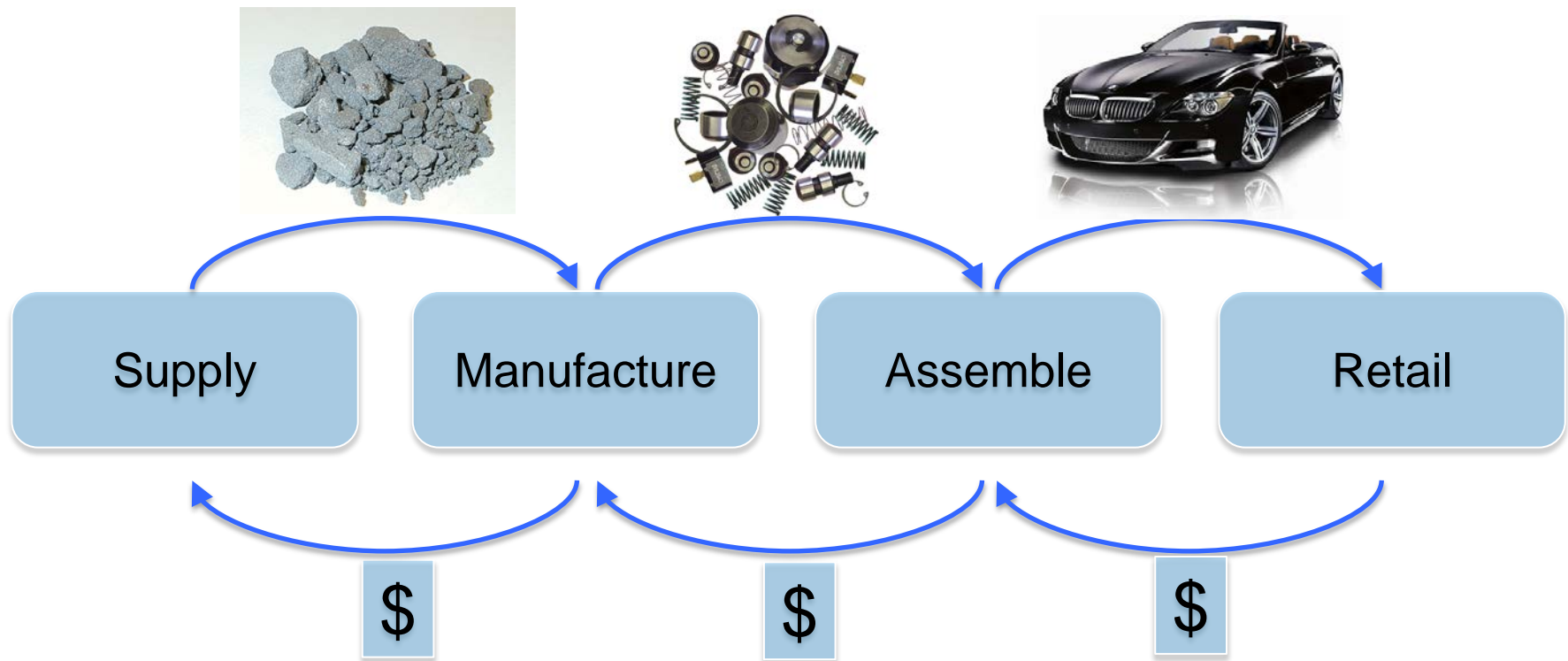
Pearson: match people to content, deliver content, certify learning

Your biz: match ... ?



How do traditional linear business models transition to platforms given network effects?

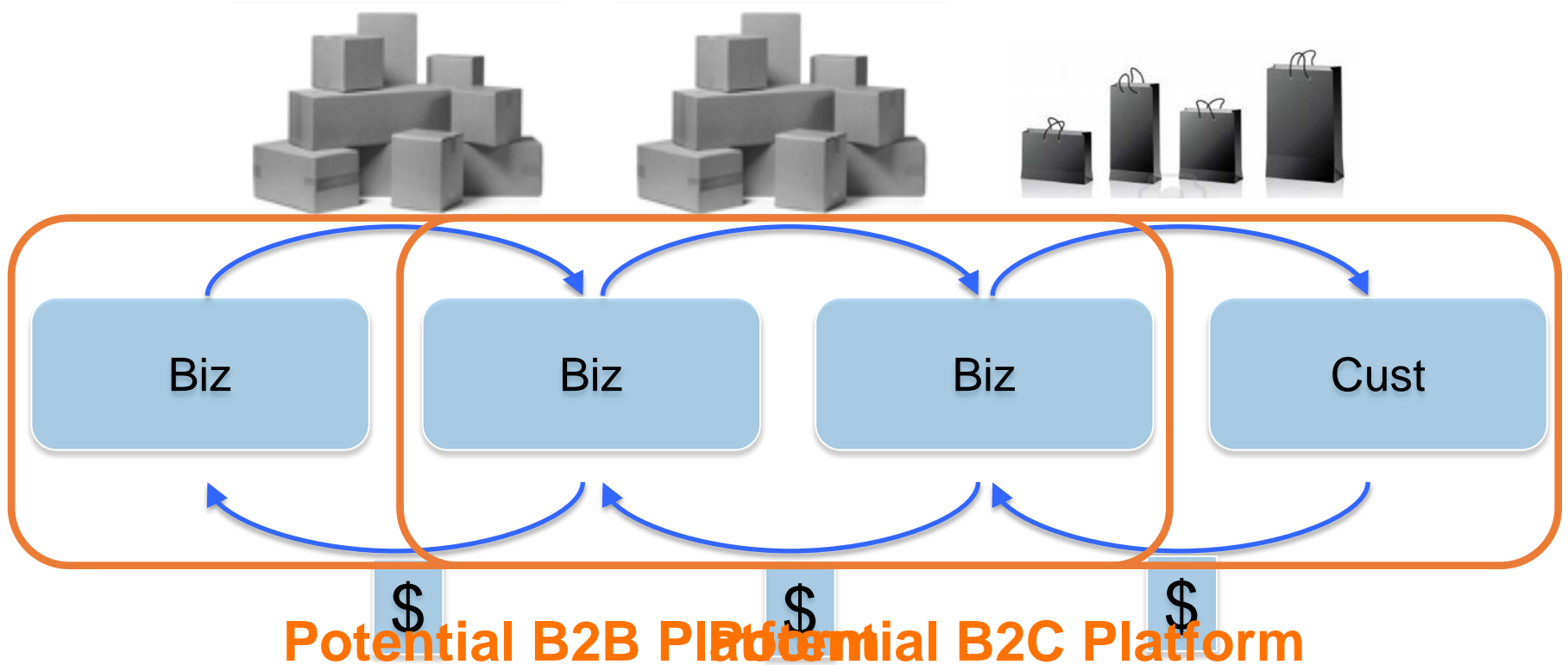
Traditional Supply Chain



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

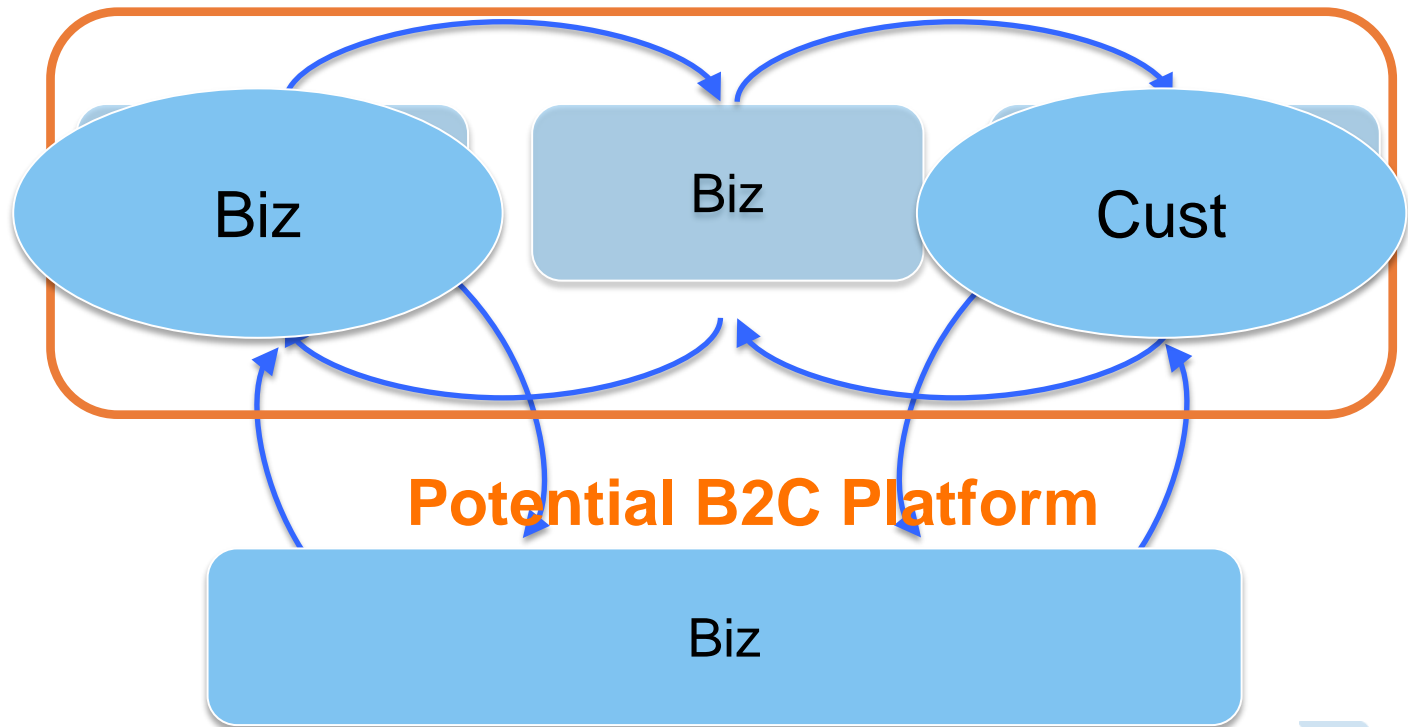


Traditional Supply Chain



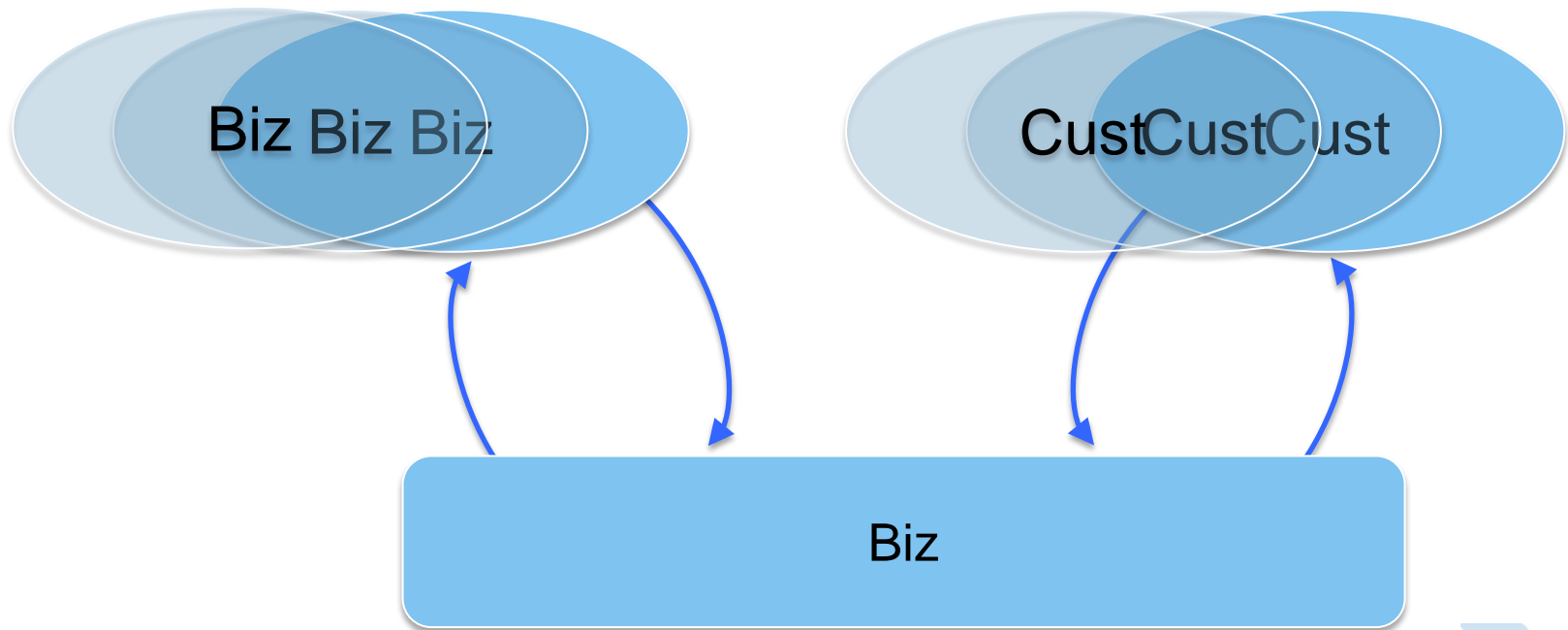
Potential B2C Platform

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?

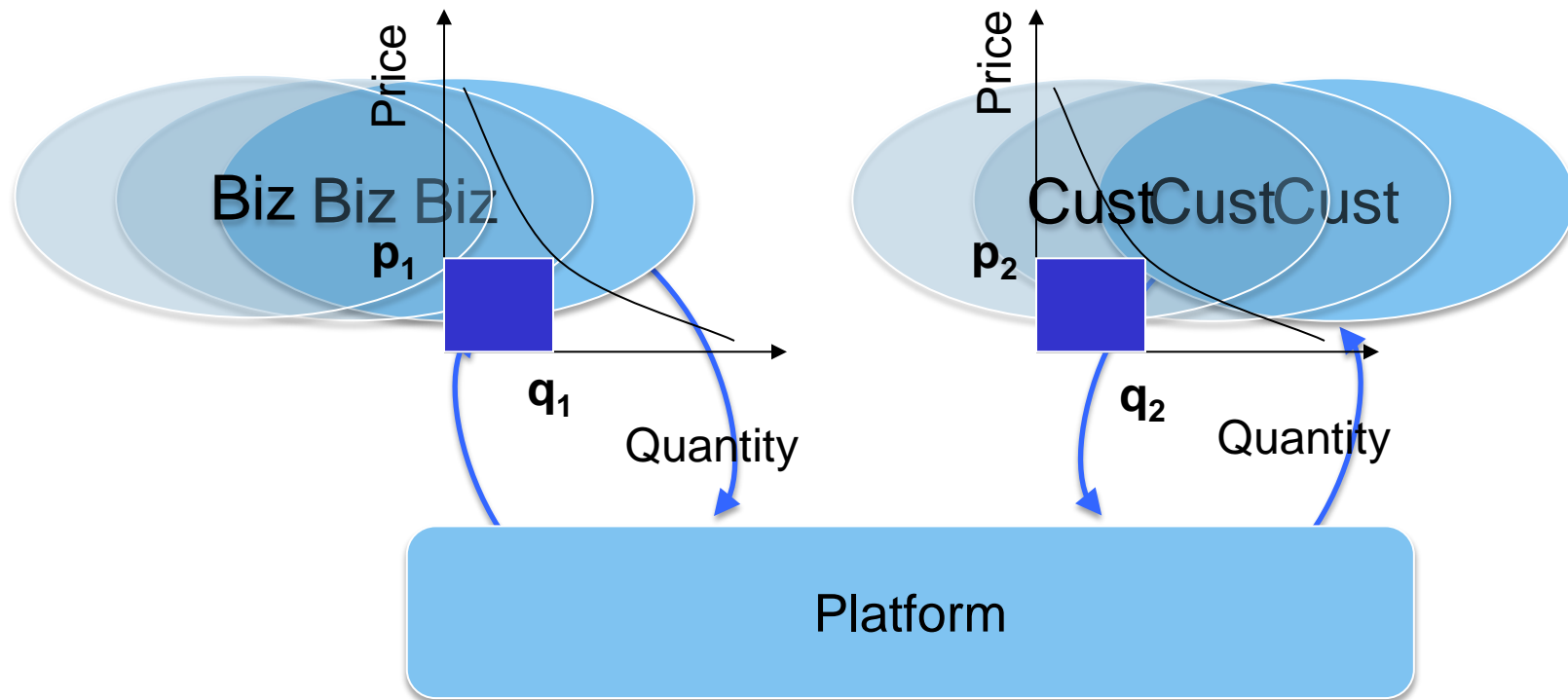


Each Side Attracts More of the Other

Creating a B2C Platform

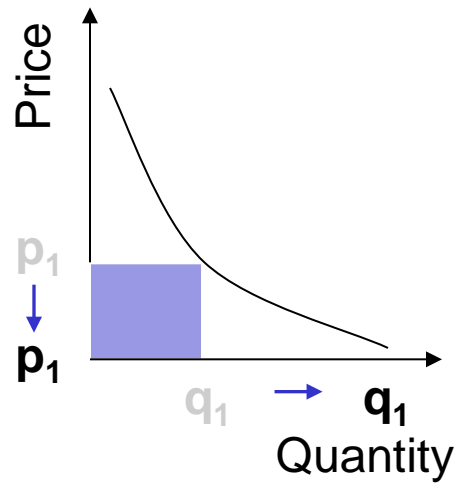
Market One

Market Two

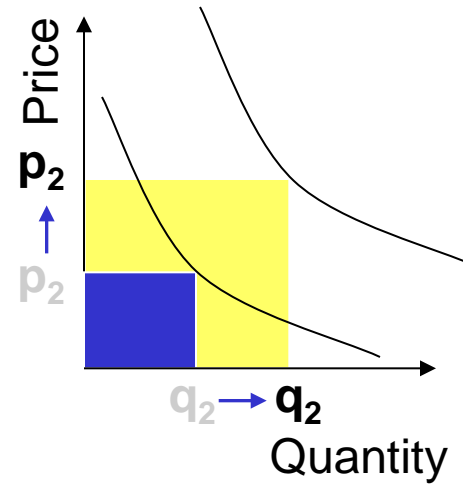


Creating a B2C Platform

Market One



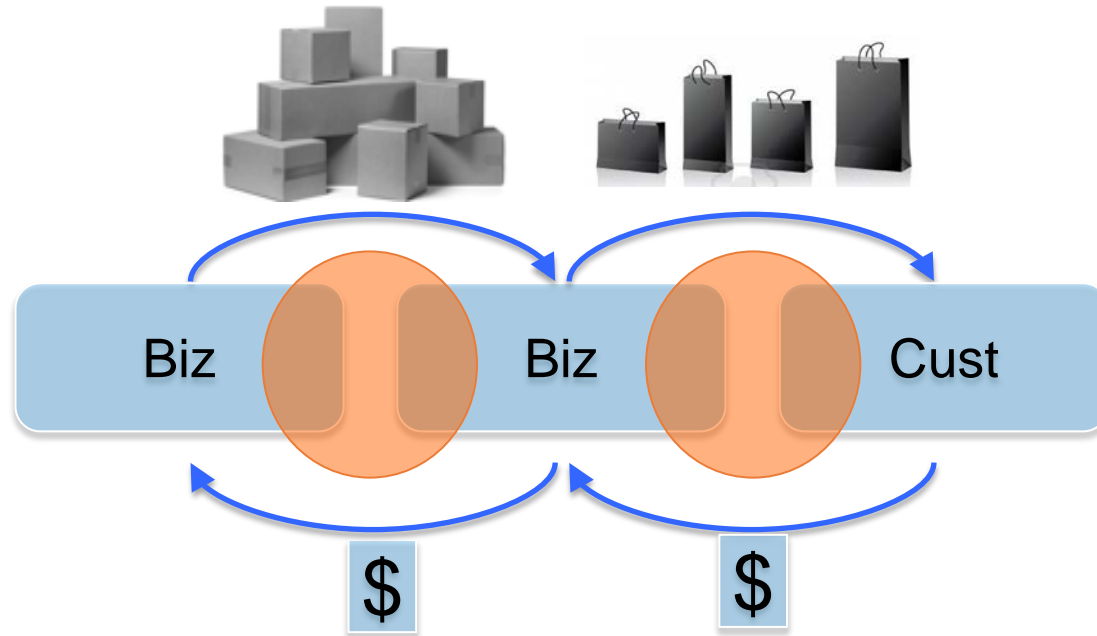
Market Two



Platform



If your supply chain has network effects then...

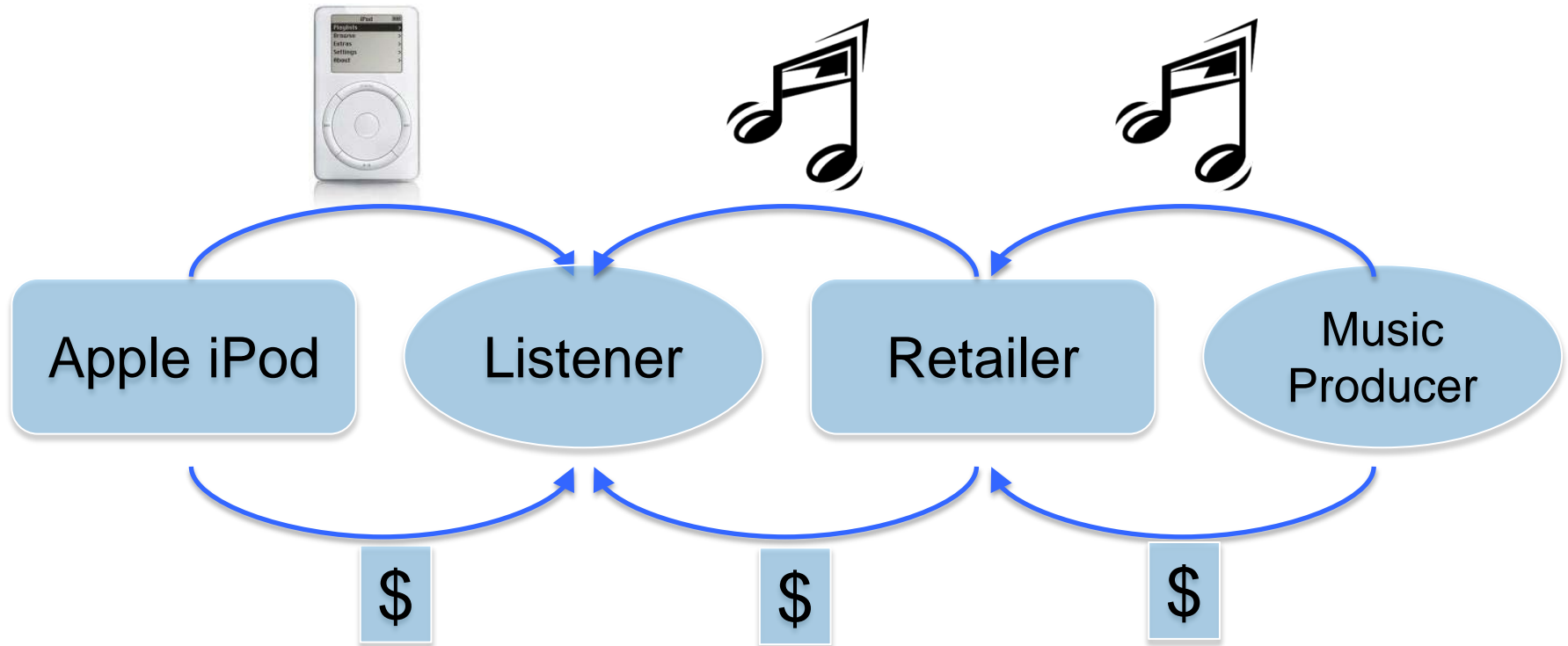


... you can price wrong
... manage the supply chain wrong
... get internal organization wrong, and
... mismeasure LTV of “free customers”
whenever you use linear product model practices.



Why do platforms beat products?

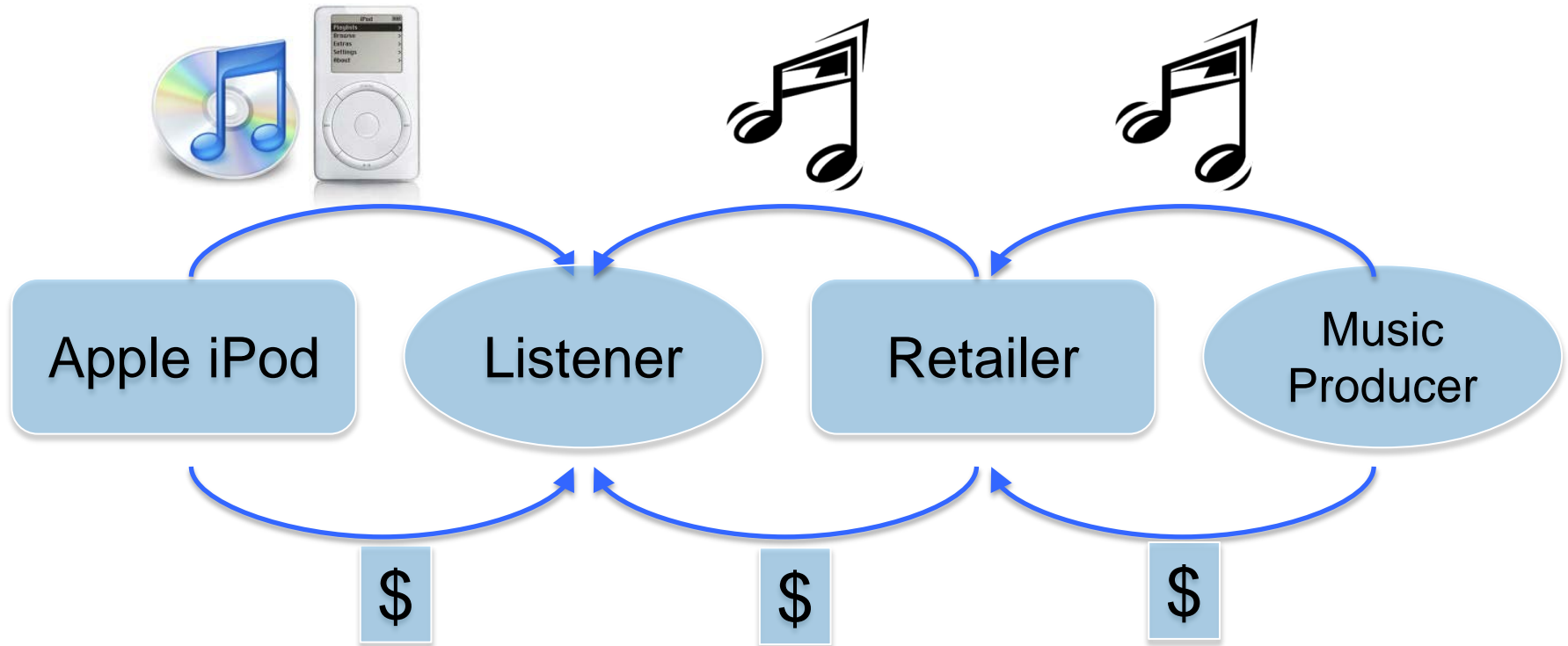
Apple iPod pre-Platform



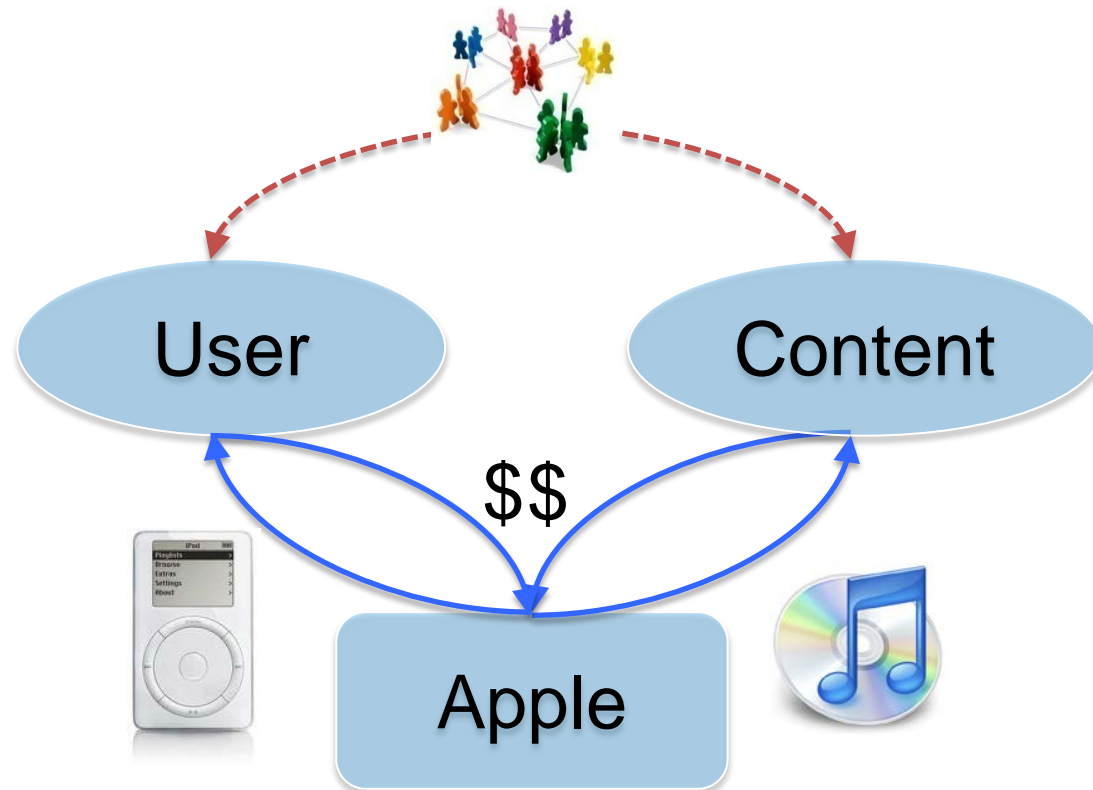
- (1) Product First Thinking
- (2) Standard linear value chain
- (3) User bought music retail (or P2P)
- (4) Minimal network effects



Apple iPod combined with iTunes



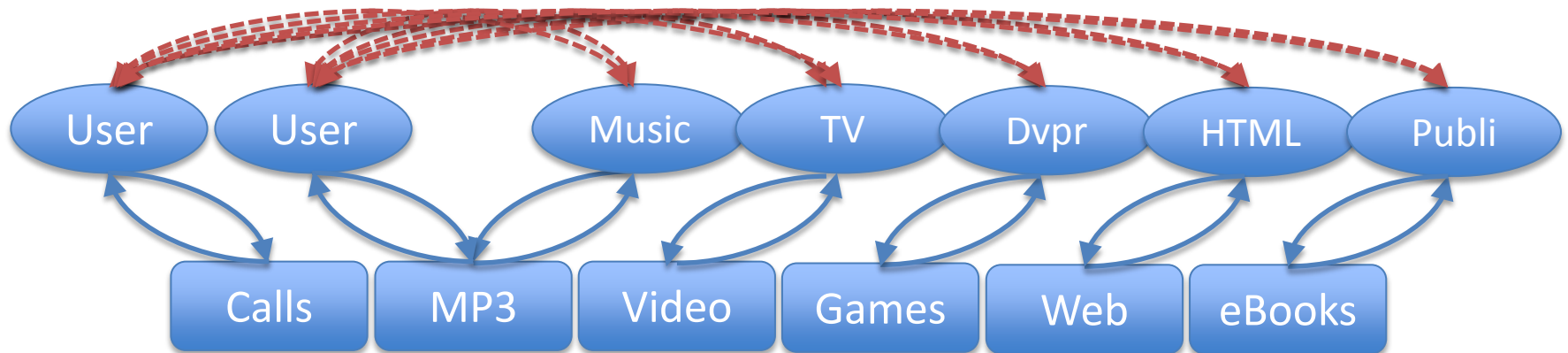
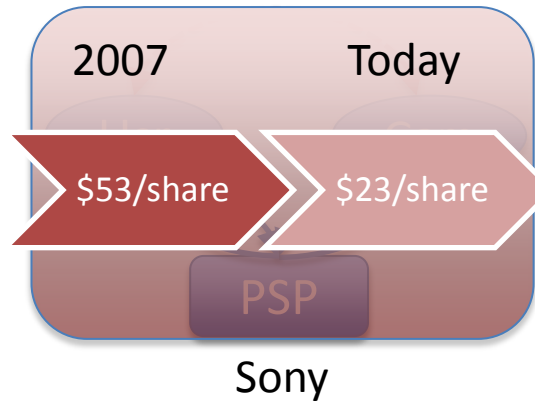
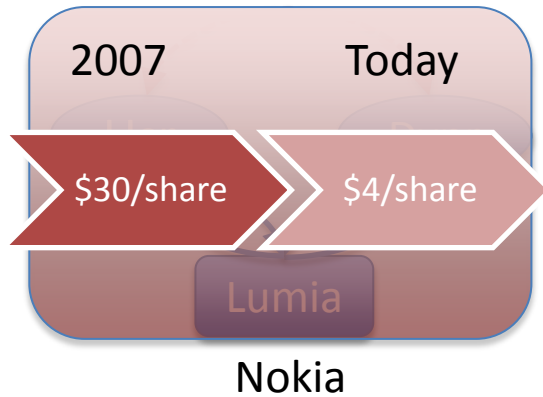
Apple iPod post-Platform



- (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

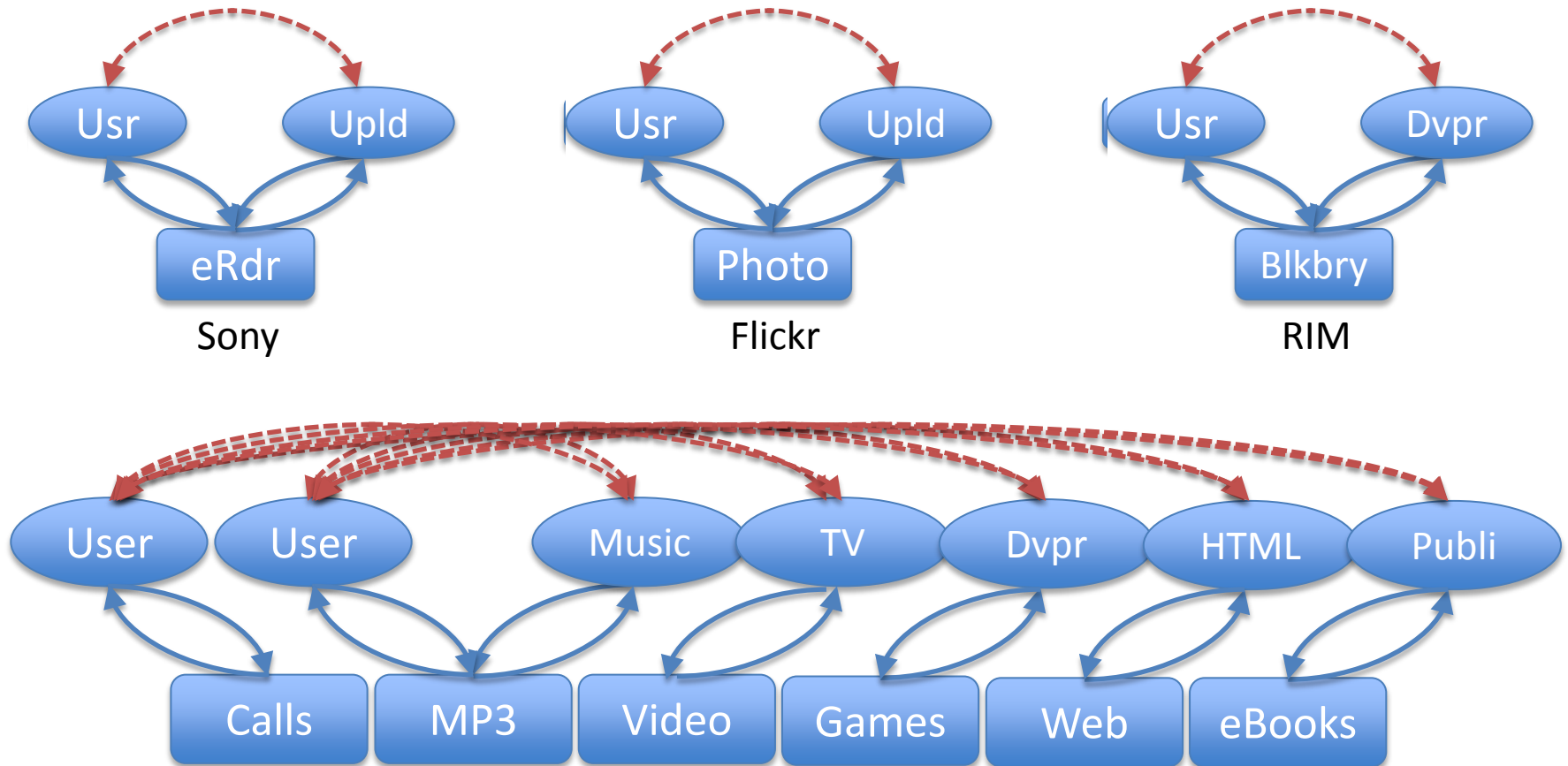


How Apple is killing standalone platforms



Apple has vastly stronger network effects.
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



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.*



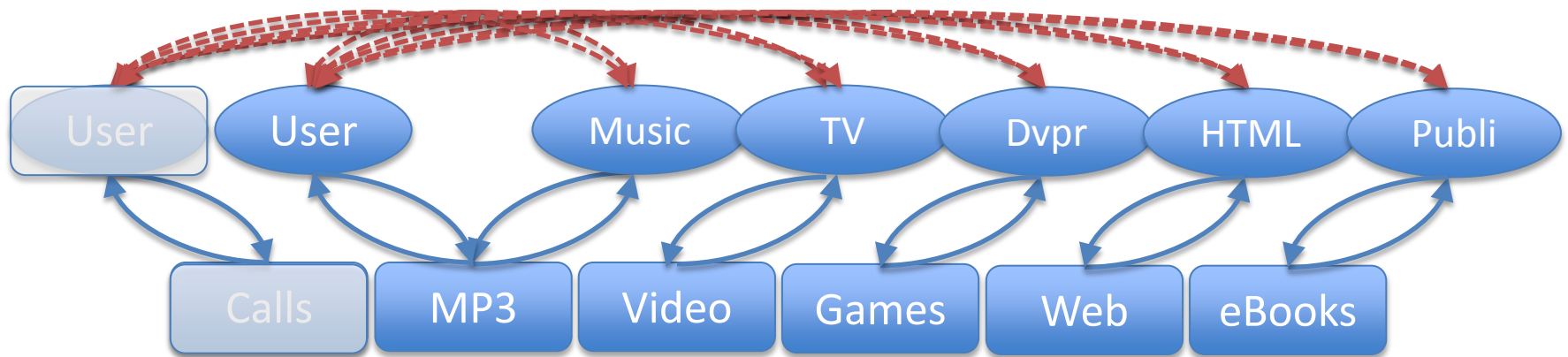
November 14, 2011: Amazon introduces the Kindle Fire



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

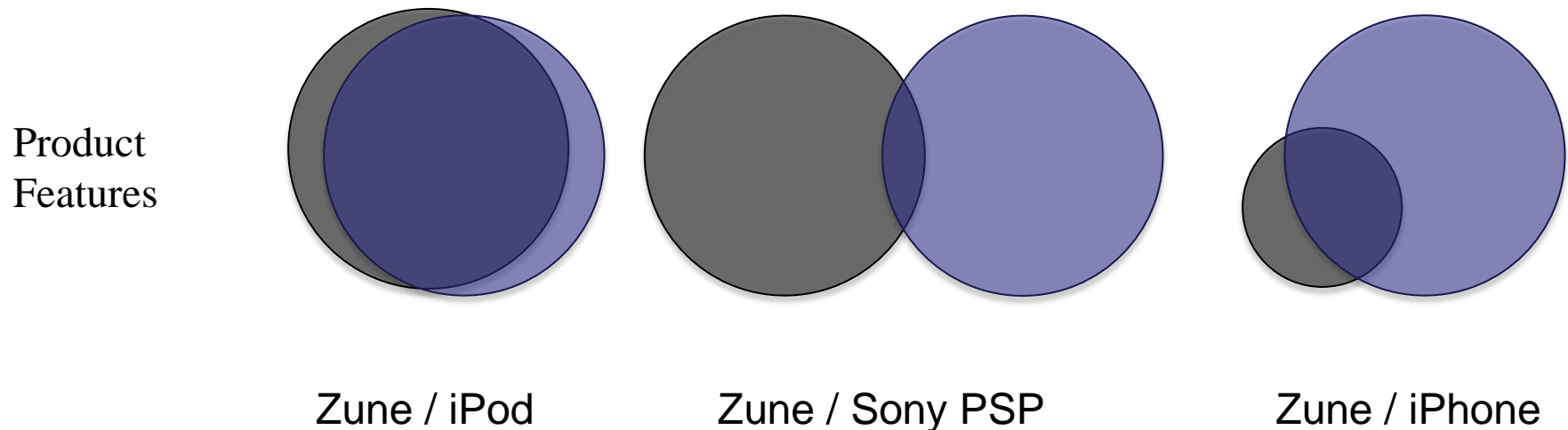
Why Apple isn't killing Kindle



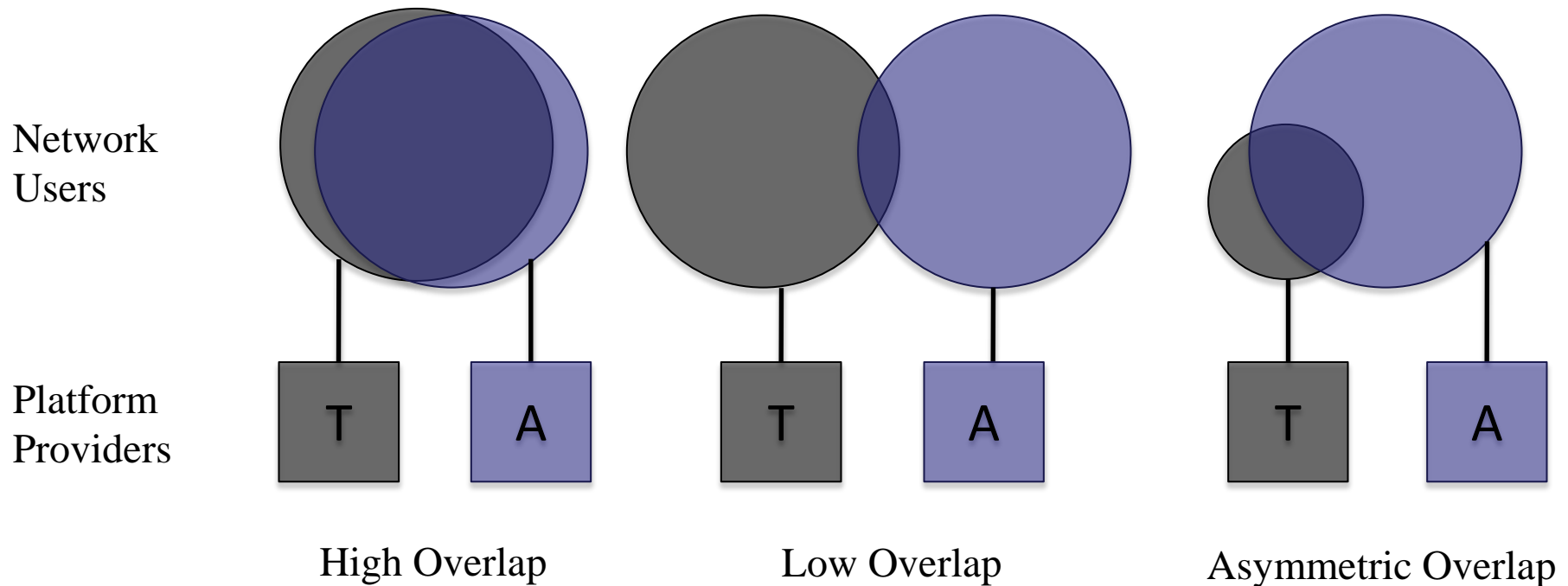
You can't make calls ... unless you load Skype.

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.*



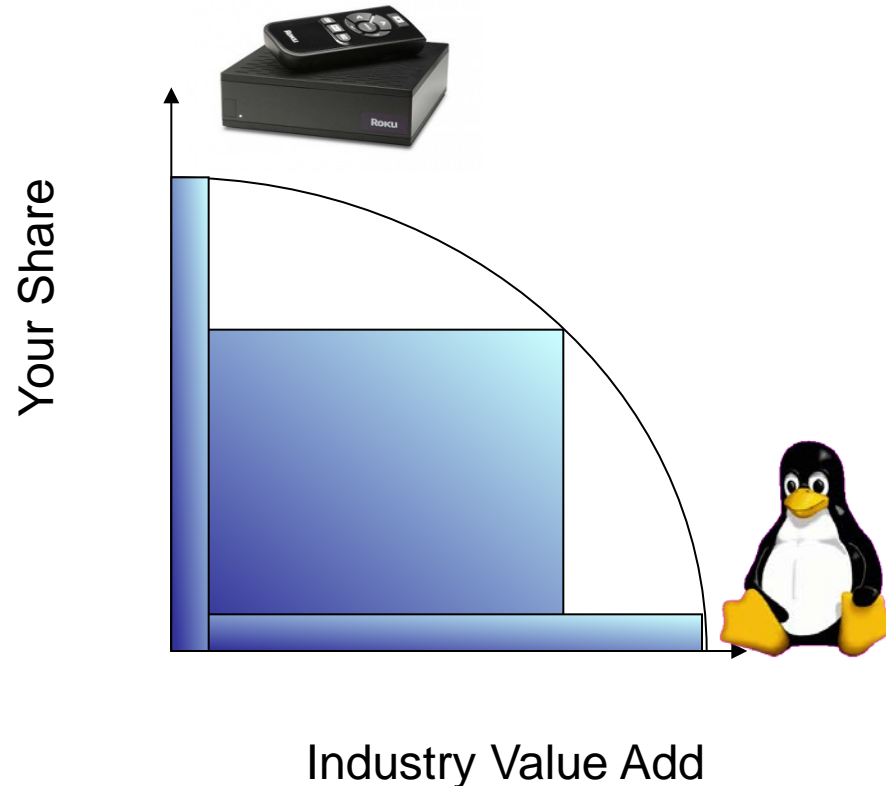
Open (fragmented) versus Closed (integrated)

?



Openness vs. Control

Maximum protection \neq Maximum Value



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

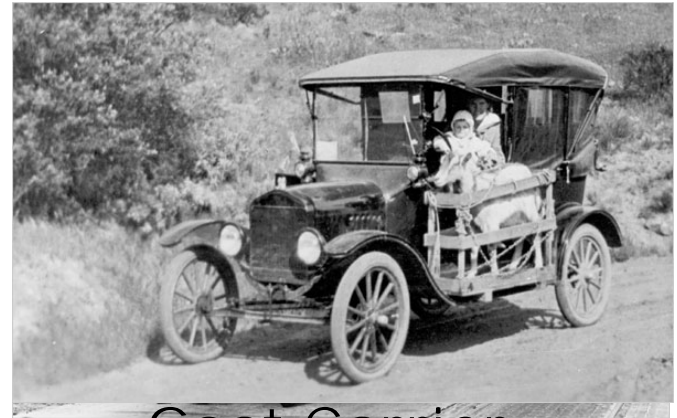
Does Openness Work?

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



Model Model Th



Goat Carrier

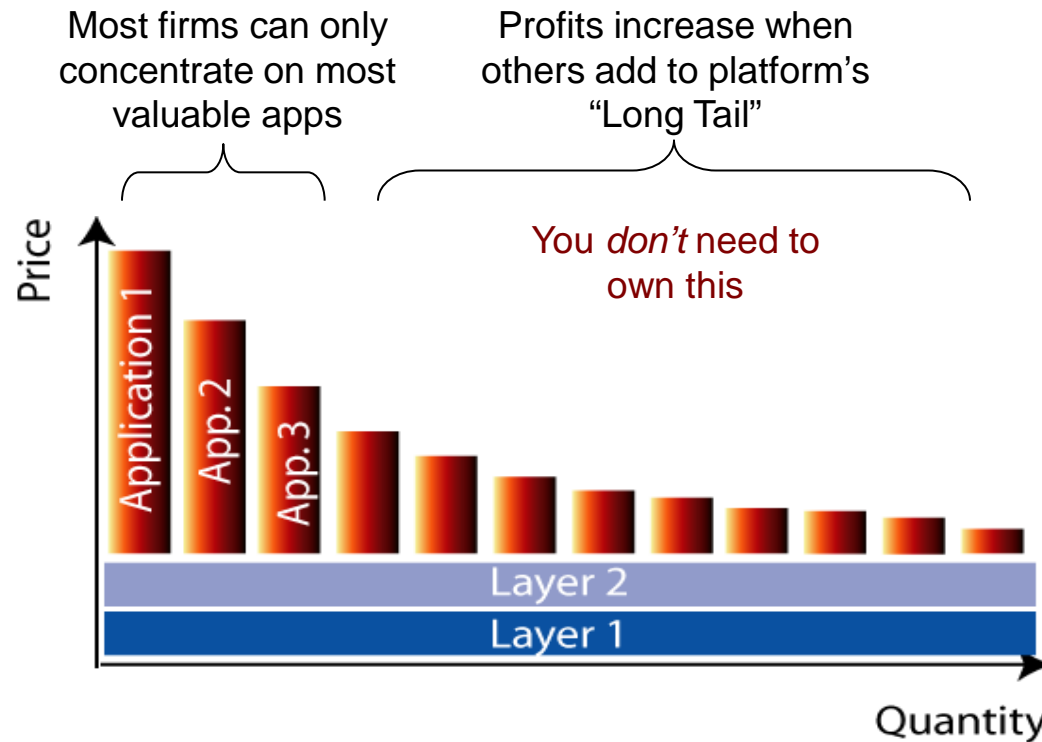


Sawmill



Snowmobile

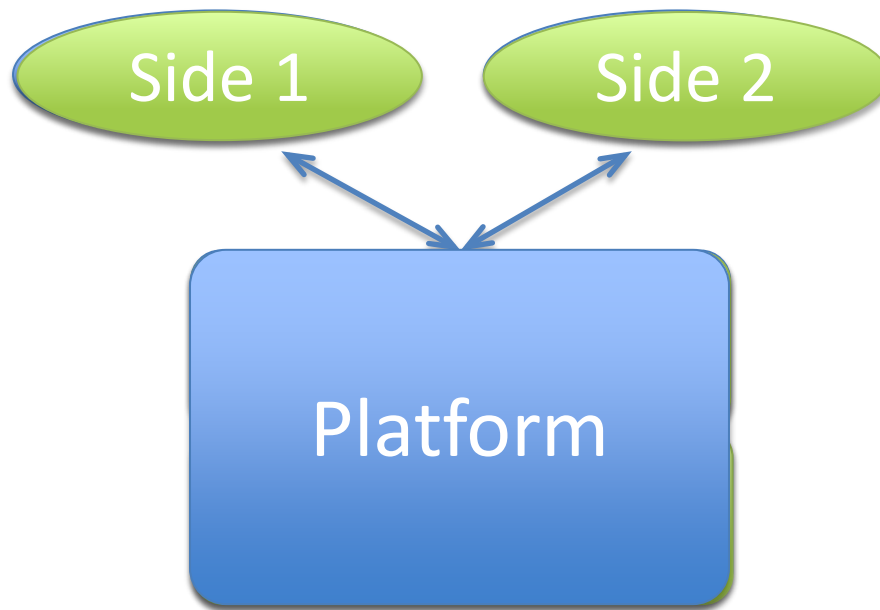
Platforms get *enormous* value from 3rd party developers



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.



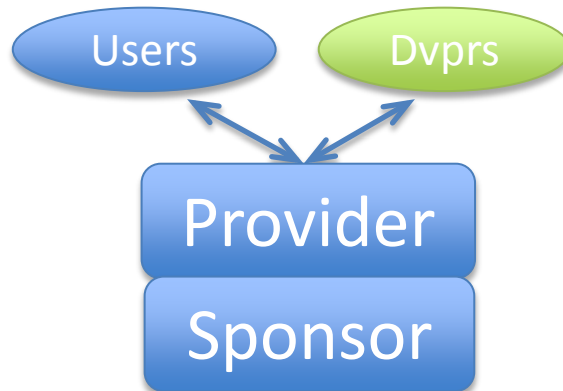
- 1) Open Access
- 2) Extend Platform
- 3) Touch Customers
- 4) Change Platform

Models for Organizing Platforms

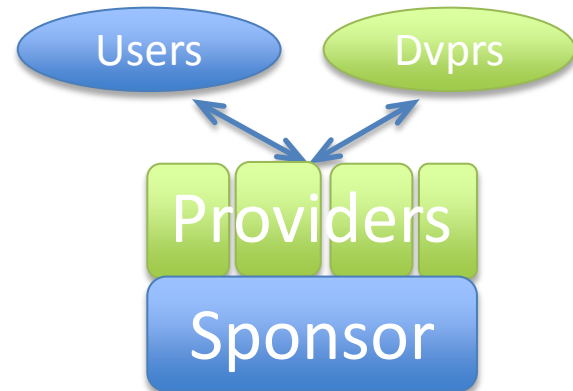
One Provider

Many Providers

One Sponsor

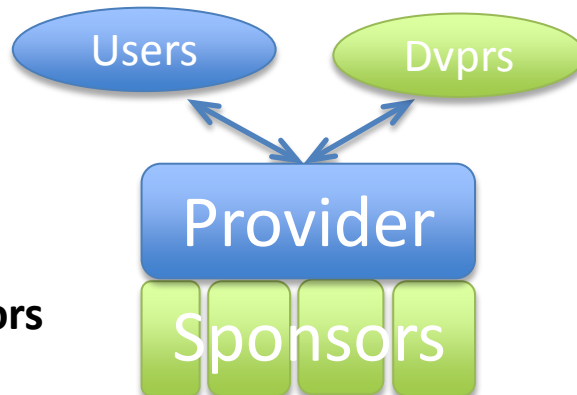


1) Proprietary: e.g. Mac

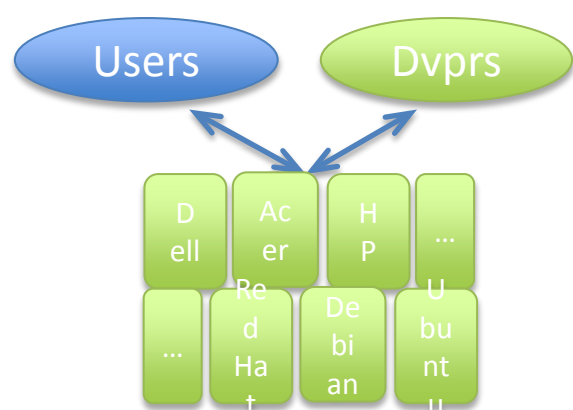


2) Licensing: e.g. Google Android

Many Sponsors

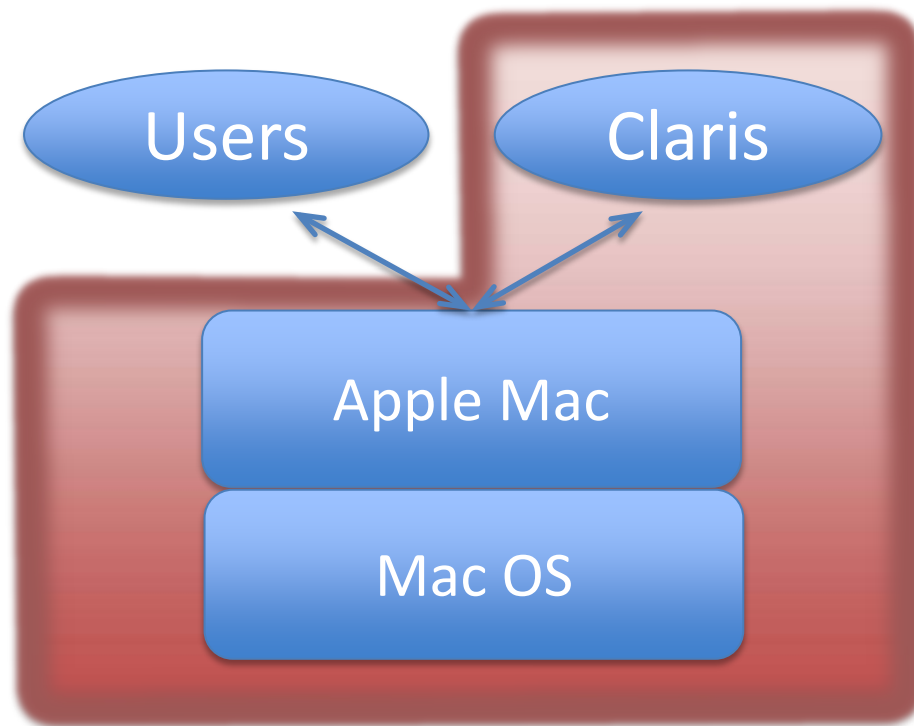


3) Joint Venture: e.g. Orbitz



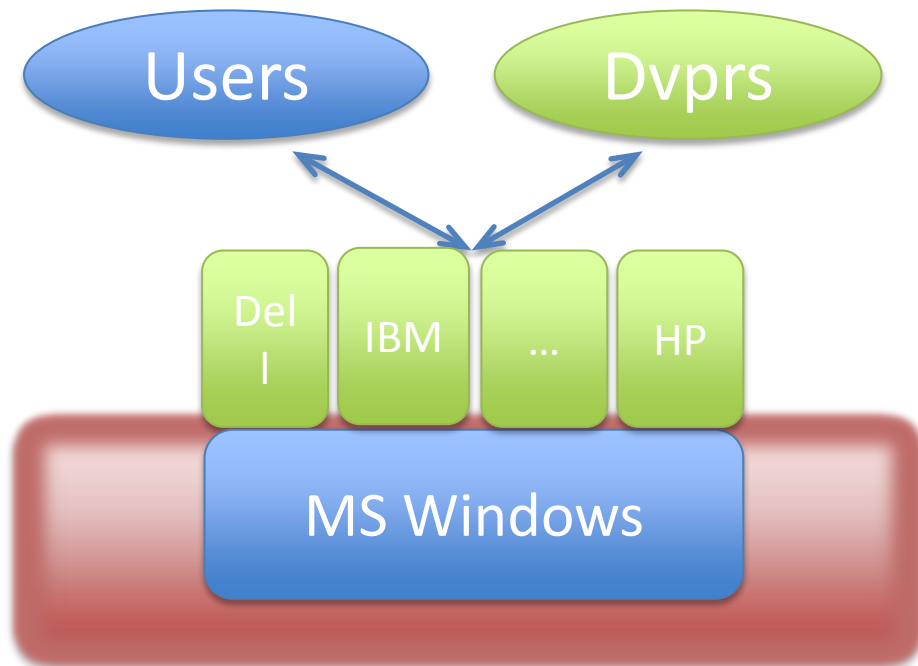
4) Shared: e.g. Linux

Apple tried to control too much of the original Mac



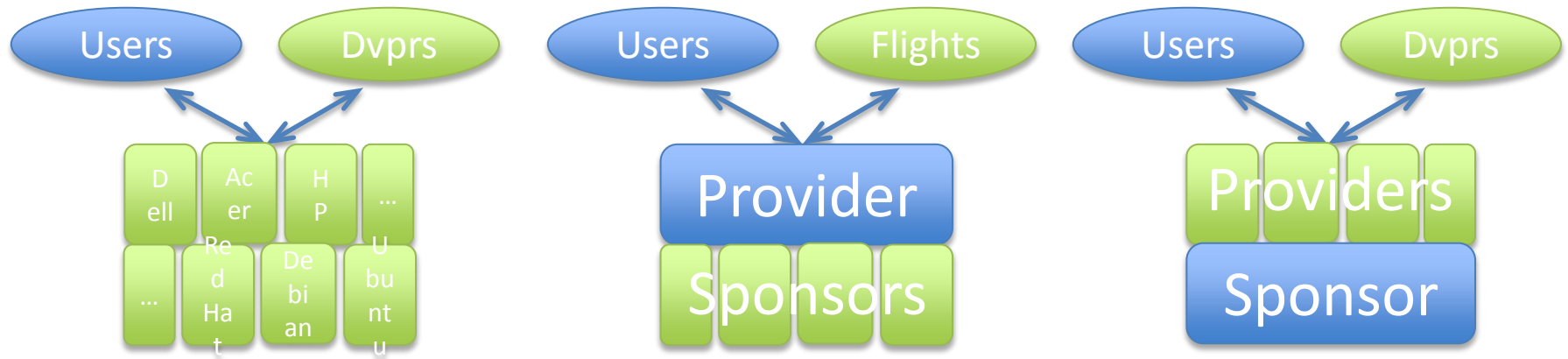
- Remember MacWrite, MacPaint?
- Charged ~\$10,000 for SDKs.
- Controlled OS & HW and dominant Apps.
- Vertical integration choked network effects.

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

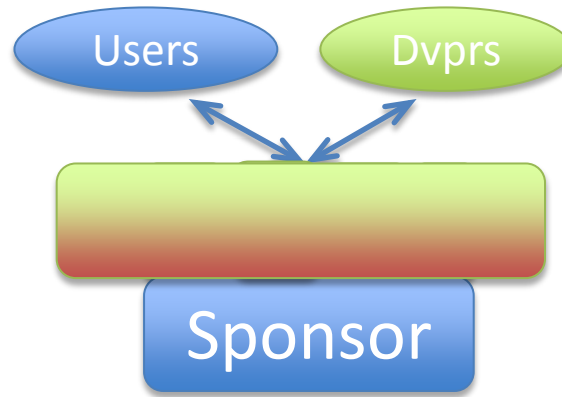
Licensing:
e.g. Google Android

Danger!

AT&T fear of Apple

Microsoft
fear of
Netscape

SAP
fear of
ADP

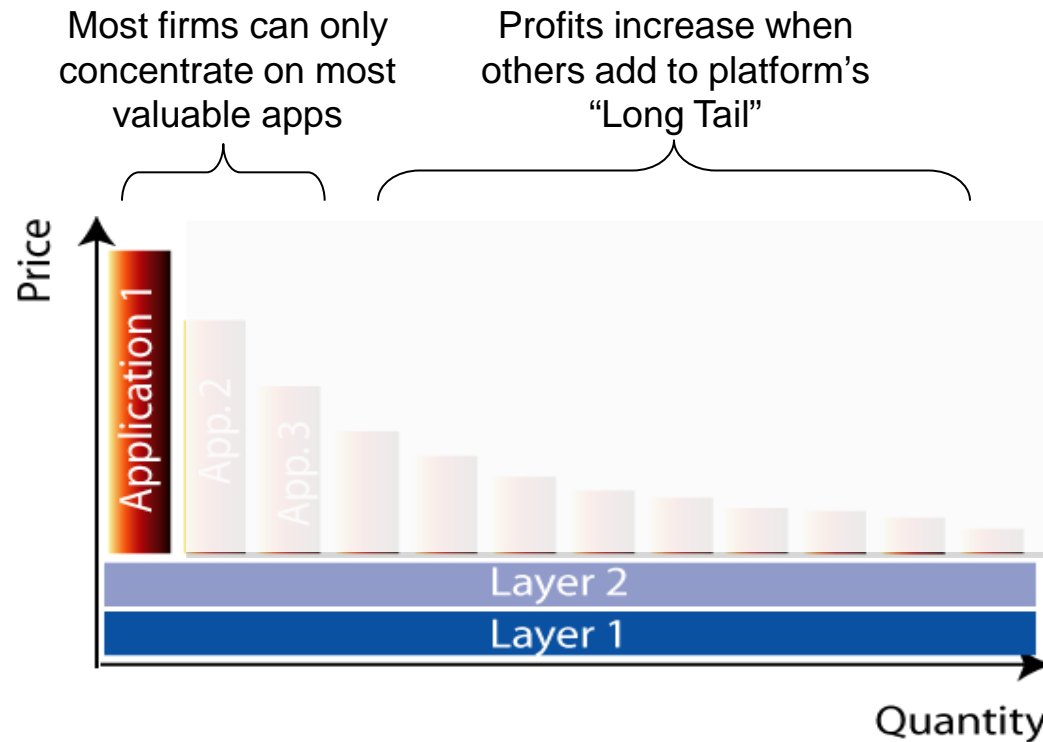


Facebook
fear of
Instagram

Apple
fear of
Google Maps

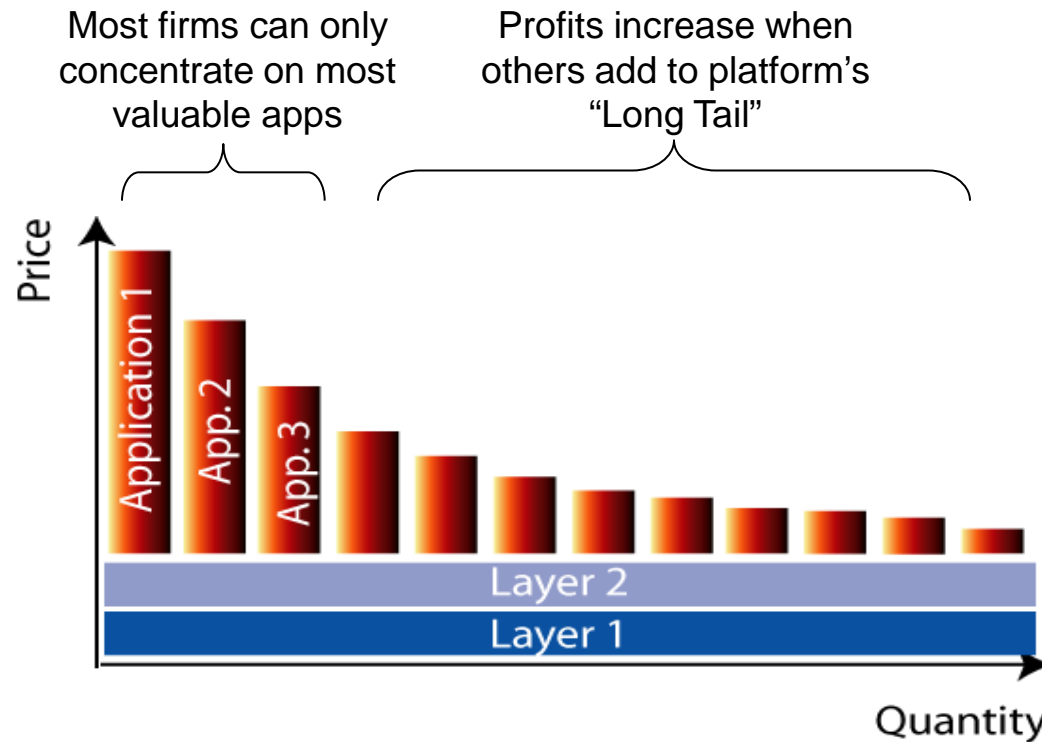
Watch for new control
points closer to
customer.

Should Apple have opened the iPod?



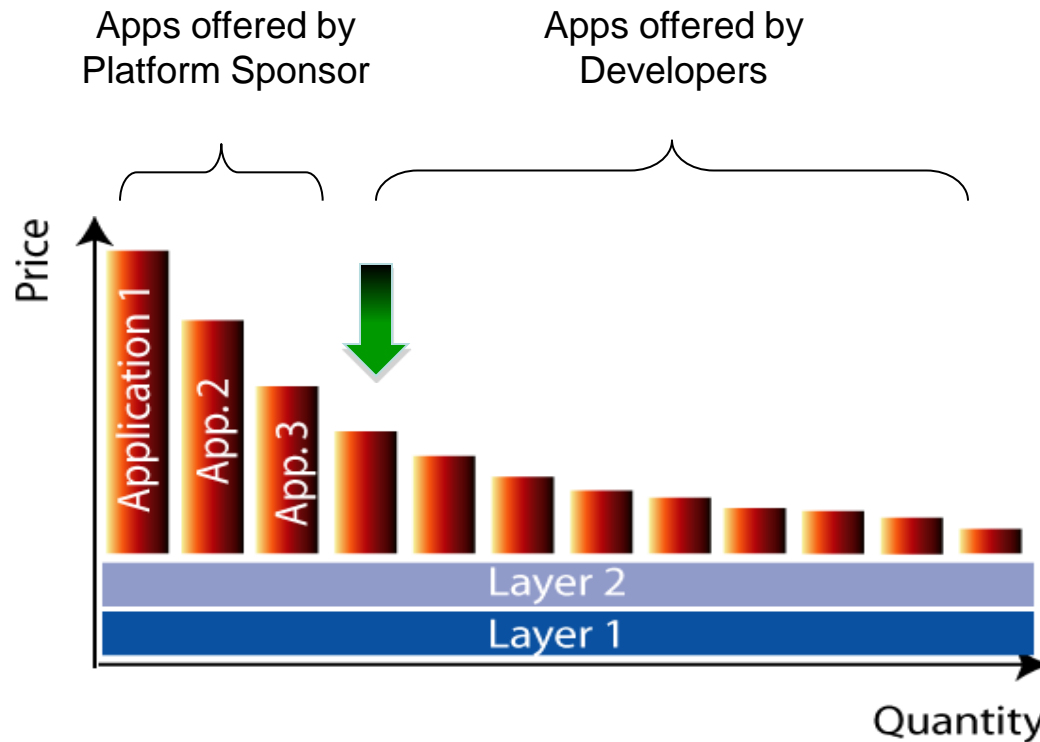
No! It does 1 thing only, so make it "insanely great" and own it.

Should Apple have opened the iPhone?



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?



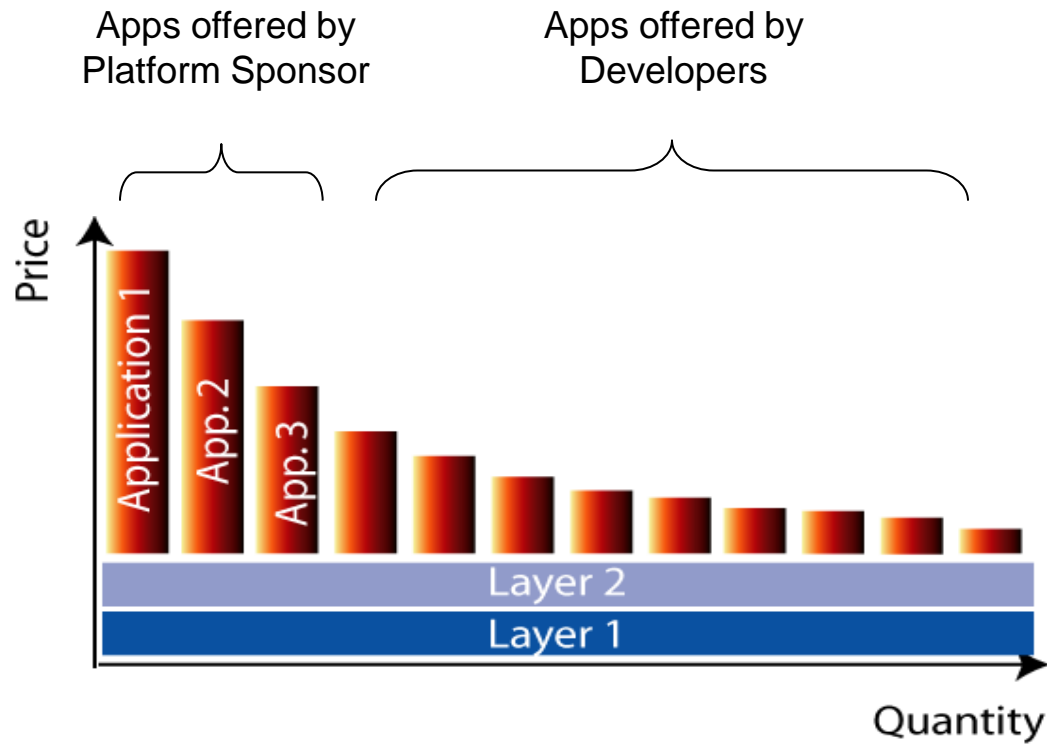
Rule 1: Absorb the highest value applications from the ecosystem. This adds value for users and mitigates threat of disintermediation.

Example: Apple iPad absorbed e-books

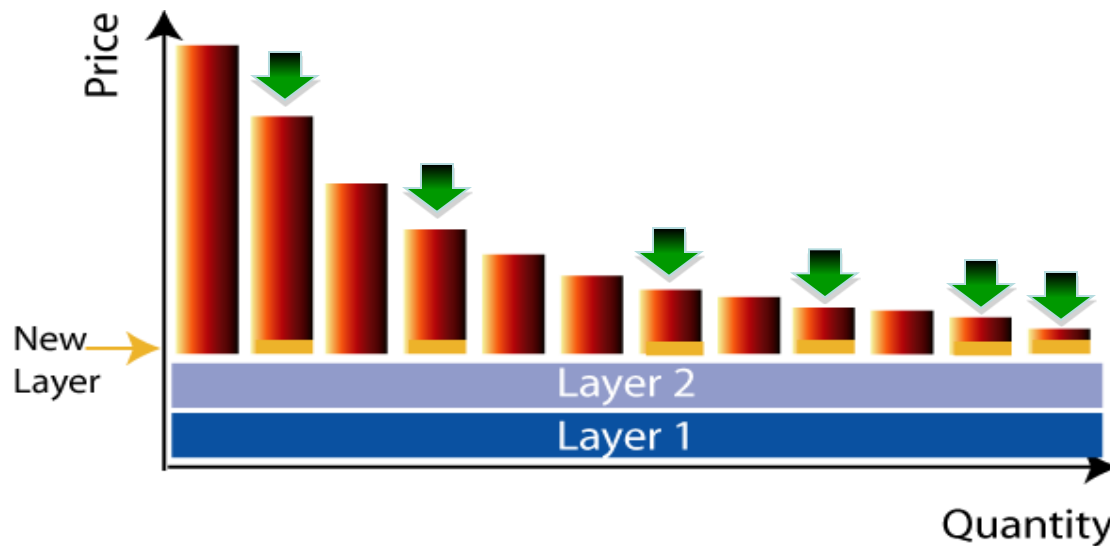
Example: Microsoft Windows absorbed web browsing

Example: Google added Gdrive to absorb functions of DropBox

Anything else to absorb?



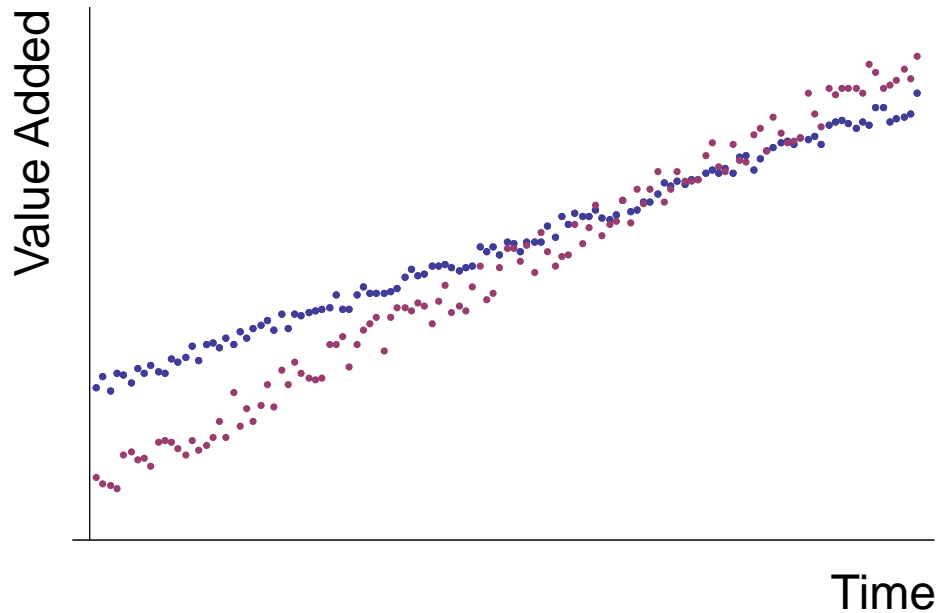
Anything else to absorb?



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.

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

Thank You!

Questions & Discussion

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