How to Effectively Use Platform Ecosystems to Create Value in Companies

1. Introduction

According to a McKinsey study, the average lifespan of S&P Top 10 companies twenty years ago was at 85 years, however, in 2018, it has shrunk to 33 years, and is expected to drop even further to 12 years in 2027 (Hillenbrand et al., 2019). Hence, many companies are introducing platforms and ecosystems in an endeavor to establish competitive advantage and extend lifecycles (Allio, 2021; Pooya et al., 2021). However, the use of ecosystems do not automatically confer economic value to an organization (Pooya et al., 2021) and success depends on firms executing an effective ecosystem strategy (Allio, 2021; Pooya et al., 2021).

Specifically, Jacobides et al. (2018) indicates that the value proposition in platform ecosystems rely on the existence of complementarities. While several literature echo this concept (Chen & Sun, 2021; Li et al., 2021; Mancha et al., 2021; 2021; Stonig et al., 2022), Das & Dey (2021) and Nambisan & Luo (2022) state that the innovations must be adopted to suit local operations in order to maximize value. Meanwhile, Chen & Sun (2021) add that corporations must embark on a customer centric approach to develop a healthy and stable ecosystem.

In that regard, the aim of this paper is to examine the previously mentioned literature to draw out how to effectively use platform ecosystems to create value in companies.

2 Literature Review

2.1 Complementarities

Jacobides et al., (2018) through theoretical framework review in literature, broadly anchors the definition of ecosystems around economical relationships where providers of complementary innovations, products, or services, have considerable interdependence, regardless of these firms possibly belonging to different industries or lacking contractual agreements. The study approach focuses on the type of complementarities amongst players in an ecosystem and posits that the value of ecosystems relies on creating either a supermodular complementarity where the production of a product or service directly benefits another product or service; or through unique complementarity where joint consumption of a product or service provides more value than when consumed separately (Jacobides et al., 2018). Similarly, Chen & Sun (2021), through interviews and analysis of secondary data from three high-tech industries, present a similar school of thought. They argue that the cooperation between members of a platform ecosystem influences their survival and eventual development. Members can face internal and external risks more effectively if they enable collaborative value creating activities. Mancha et al. (2021) also highlights that the success of platform companies relies on a volume of providers, otherwise, the platform will be unattractive to customers, and in turn, without enough customers, there will be no incentives for providers to offer platform services.

In contrast, Pooya et al. (2021) expounds to say that the success of ecosystems require not just cooperation with partners such as by linking with stakeholders like suppliers, distributors, and customers, but also cooperation with rivals. They emphasize that creating a successful ecosystem means taking a longer-term approach by considering that the ecosystem value also creates gains for their competitors. An illustrative case would be when mobile phone app developers seek partnerships, mutual product certifications, technological integration, and joint research and development, while denoting these in their sites as partners, friends, or collaborators (Li et al., 2021). These examples show that generating positive system dynamics rather than gaining immediate advantage over competitors will create more value to companies as these activities can support the growth of ecosystems within and across industries (Pooya et al., 2021).

2.2 Localization

According to Das & Dey (2021), globalization has added an extra layer of complexity when devising an effective ecosystem strategy driven by uneven degrees of digitalization caused by varying levels of regional investments, skills, and capacities worldwide. Further, they state that an effective business model should be able to leverage its platform ecosystem across borders through localization by tailoring it using country specific advantages and allocating out specialized activities to others in the ecosystem.

Meanwhile, Nambisan & Luo (2022) expound on the concept by illustrating that firms can tailor their approach depending on the global environment they are facing. Digital innovation partnerships are more suited for tight coupling and is compatible with ecosystems situated in markets where globalized trade policies and regulations, such as Intellectual Property Laws, are followed. In this type of environment, firms have secure spaces where foreign partners can share innovation data and assets. In contrast, where firms are in ecosystems where policies are more ambiguous or where business practices with foreign collaborators are more uncertain, then ecosystems should be tailored as a lose coupling with limited sharing of innovation assets and driven by localized and specific goals (Nambisan & Luo 2022).

This argument expands more on Jacobides et al.'s (2018) broader school of thought that suggests that the extent of an ecosystem member's complementarities are what governs their relationships and behaviours towards each other, but focuses more on how much investment each firm has brought forward into the ecosystem. Rather, Nambisan & Luo (2022), as well as Das & Dey (2021) seem to take on Jacobides et al.'s (2018) future suggestion for the need to examine ecosystem governance and regulation as part of rules of engagement for an ecosystem to succeed. This also corresponds to Chen & Sun, (2021)'s study that link both school of thoughts by indicating that while platform ecosystems need complementary products, the health of an ecosystem is also directly affected by governance and cooperation which is influenced by situational environments.

2.3 Customer-centricity

Chen & Sun, (2021) highlight that the driving force of an ecosystem is its particular product of service. As such, to meet market demand and enhance value, players must establish user communities or forums so that the ecosystem as a whole can understand the requirements of users and in turn, create competitive products and services. They posit that through this, the ecosystem's health is improved and as a result enhance customer experience and stickiness. This view is also supported by Das & Dey (2021) who indicate that customers need to be participants in a platform in order to create value by localization. In the same vein, Allio (2021) agrees that a successful firm will need to adopt a user experience mindset where players in ecosystems maintain a relationship with customers to improve its competitiveness. An illustrative example the study used is the case of Haier where all new products are created with end-users in mind. Here, the company validates offerings by taking advance orders before embarking on funding and production.

3 Conclusion

Collectively, these studies outline the critical role on how ecosystems need to be structured to confer value to companies. Overall, the studies indicate that cooperation in firms within ecosystems by finding complementarities (Chen & Sun, 2021; Jacobides et al., 2018) even if firms need to work with rivals (Li et al., 2021; Pooya et al., 2021) will help add value to ecosystems. These should then be coupled with localization where firms tailor their ecosystems to leverage regional or localized specific advantages and partnerships (Chen & Sun, 2021; Das & Dey, 2021; Nambisan & Luo, 2022) to enhance value. Finally, customer-centricity is needed within ecosystems so that end-users and customers are consulted so firms can provide personalized experiences that can increase stickiness and improve competitiveness (Allio, 2021; Chen & Sun, 2021; Das & Dey, 2021). When used together, the studies are able to provide a framework on how to successfully establish ecosystems to create value in companies.

4 Limitations

The literature reviewed uses purely qualitative methods to explain theoretical concepts. Since the review revolves around value conferred onto companies, quantitative research methods may be more indicative in examining whether strategies identified have causation to a company's success. Thus, it would be meaningful for future studies to include additional comparative review from literature that uses quantitative methodologies.

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