

Digital Strategies for Business Transformation (Online)

Module 3: Platform Business Models

Quick Reference Guide

Learning Outcomes

1. Identify an opportunity for a platform business model.
2. Draw a platform business model map for a chosen business.
3. Describe lessons learned from using the Platform Business Model Map to design a new business concept.

What is a Platform?

A platform is a business that creates value by facilitating direct interactions between two or more distinct types of customers.

Definition of platform in different industries or departments:

- IT department: a technology infrastructure upon which other technologies are built
- Media organizations: a distribution channel for content
- Consumer goods organization: a successful product that can be extended to other related products

The three elements of a platform

1. They have two or more distinct types of customers.
2. It has direct interaction between different customers.
3. It facilitates interaction between customers.

Types of platforms

- Marketplaces/exchanges: they are designed for exchange between buyers and sellers
- Hardware/software standards: they bring together and facilitate value between users, software developers, and independent hardware developers
- Transaction systems: they bring together merchants, purchasers, and banks or issuers of credit
- Ad-supported content: they bring together audiences and advertisers. Search engine, social networks, and streaming content services are economically based on this model
- Hybrid model: they are a mixture of two or more models

How Digital Tools Have Led to the Growth of Platforms

Digital tools have solved many problems that hindered the growth of platforms by enabling:

- Frictionless acquisition of customers
- Scalable growth

- On-demand access and speed
- Trust

Types of network effects platforms can attract

Network effects are the driving force behind many platforms. There are different types of network effects such as:

- Direct or same side: these are common in communication networks such as fax machines or messaging apps, and the value of the network increases as there are more users of the same type
- Indirect or cross side: these are common in platforms or in multi-sided business models, and the value of the network increases as there are more users on the other side of the market

There are limitations to network effects, known as multi-homing costs, which is how easy is it for the customer to use multiple competing platforms of the same type. There are two categories with structural differences, home rental platform market and ride hailing business model.

Six affordances of platform business models

- They allow for economic efficiency.
- They create a lot of value for your offering.
- They keep assets off their balance sheets.
- They have a remarkable agility to adapt to changes.
- They lead to exponential growth rates.
- They provide an extraordinarily large market share to the winners.

How to Design a Platform

The key considerations for any business that plans to design its own platform are:

- Start local and then focus on value creation.
- Think of the different types of value that you can create for your customers:
 - Trust enablers
 - Interaction tools
 - Platform-added value
 - Network-added value
 - Open standards
- Ensure customers get enough value out of the platform and the experience, and also contribute enough value for themselves and others to keep their experience on the platform worthwhile.

The Platform Business Model Map

This is a tool that helps organizations wanting to build a platform business model to answer four important questions:

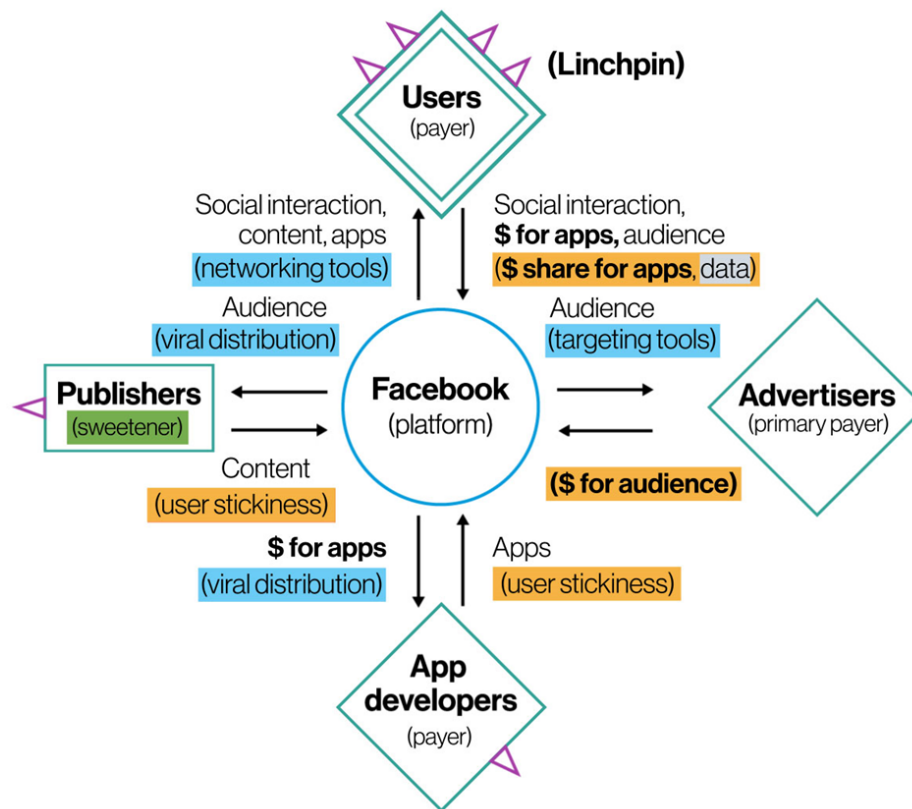
- What types of customers do you need?
- Is their value exchange in balance in terms of both giving and receiving value?

- How are you going to monetize this platform?
- Who are the most important customers to the success of your business?

The Platform Business Model Map: Facebook Example

Steps to draw the Platform Business Model Map:

- Draw the platform itself at the center, and around that the types of customers required
- Draw the customer value exchange in terms of both giving and receiving value
- Focus on the financial value of the platform
- Identify the most important customer to the success of your organization



Considerations for building a platform business model in a new area

Many organizations may start with an integrated business model and look for platform opportunities as they expand. So before moving into a new area ask yourself:

- Do you need to build the whole value offering yourself?
- Should you consider taking a more collaborative approach?