Expert Insights

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Capturing rewards of platform business models

It’s time to tap into this transformational opportunity

IBM **Institute for Business Value**

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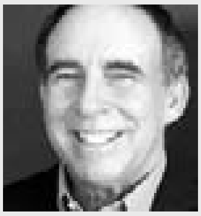
Experts on this topic



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Talking points

Changing the face of business models

Exponential technologies including AI, blockchain, robotics, IoT, and cloud enable new competitive dynamics, compelling every enterprise to decide now how it will participate in a world reshaped by platform models.

A platform strategy will determine relevance and viability

The platform economy is expected to expand to nearly a third of all global commerce by 2025.[1]

Start with decisions about creating value, partnering, and execution

We recommend three approaches for enterprises to consider when defining and implementing their platform strategy, and they can be used in concert with each other: Digital Reinvention®, becoming a Cognitive Enterprise, and the IBM Garage method.

There's something important happening: Platforms

Why do platforms matter to you? Platforms are already having a multitrillion-dollar business effect, making it critical for leaders to weigh the implications, consequences, and benefits, and fully explore the questions they should be asking.

Remember that less than 25 years ago, you could find plenty of business leaders who were certain the internet meant nothing to their strategies or operations. Today, substitute "platform business model" for "the internet," and then consider whether your enterprise has fully evaluated the platform opportunity.

Even if the impact hasn't infiltrated your segment yet, imagine the state of your enterprise in another 25 years. Understand that the rise of a platform economy didn't materialize spontaneously on the pages of business journals. In late 2018, the total market value attributed to platform economics was estimated at USD 7 trillion.[2] It's projected to expand to around USD 60 trillion by 2025, or nearly one-third of all global commerce.[3]

The basic concept is quite familiar. Big-box stores or mass-appeal retailers are physical platforms — a centralized locus of transactions, with a defined set of features and operating characteristics — where buyers and sellers find each other.

Individual airline reservation systems, and travel aggregators such as Expedia or KAYAK, are also platforms of exchange, either focused on selling their own offerings or acting as a marketplace for multiple sellers. So, too, are social media companies such as Facebook, Twitter or LinkedIn, but their emphasis is on interactions rather than transactions.

All these platforms trade information, enable commerce, drive social exchange, and offer a value proposition that attracts lots of participants. In turn, such circumstances generate value for the platform provider. These rewards can include greater revenue, profit, market share, and the disproportionate market influence that comes with acting as a "convener."

Amazon, Match.com, and Netflix are all digital versions of platform economics. Essentially, these companies are models of disruption. Much like the sale and distribution of traditional software products, the marginal costs in these models diminish, and in many cases, they trend toward zero.

That kind of economic effect is well-established in most industries as the composition of the core business—spanning all manner of transactions and processes—becomes increasingly digitized.

Tapping into the greatest possibilities of platforms will depend on thorough, realistic assessments of marketplace value shifts and future value propositions. And setting a platform strategy starts with deciding whether to initiate your own platform, or participate in existing or emerging platforms. Many companies will be able to grow by *participating* on platforms. A much smaller number are expected to *orchestrate and own* a major platform; organizations in this group clearly need the capabilities to be a first mover or major platform player.

Either way, a sustained competitive position will likely require a bold, definitive strategy based on a host of smart, strategic choices. These choices include: how enterprises create distinct value, establish required partnerships, and deploy, monetize, and scale their use of platforms.

Three primary considerations in developing a platform strategy

1. Disruption of existing sources of value, and existing boundaries

Platforms are disrupting traditional value pools. In many industries, value is shifting away from traditional companies that create and sell products and services. Value is moving toward owners of platforms that orchestrate players and facilitate interactions among different parties. New models create and sell products and services with digital platforms that facilitate limitless interactions among myriad players—most of whom may never cross paths in the physical world.

At the same time, platform approaches don't need regard for traditional industry boundaries. For example, disruption in the music industry shifted value, revenue, and profit away from studios, and toward platform providers, such as Apple and Spotify. French telecom company, Orange, leveraged mobile delivery to move aggressively into banking.[4]

The big opportunity is to unlock a new category of value by exploiting inefficiencies, or under-utilized capacity. Airbnb capitalizes on matching unoccupied housing units (supply) with travelers' desires for more home-like accommodations (demand). Lyft and Uber take advantage of under-utilized car fleets (supply), and users' needs for private drivers at a low price (demand). App stores create a meeting place for providers (supply), and buyers (massive demand) who frequently don't even imagine the need for a particular app until they see it and buy it, at both ultra-low cost and high convenience.

2. Winners usually take all (or most)

Early indicators suggest that successful first movers gain distinct advantage in the race for financial returns. They can define both the value and the terms of engagement for platform participants, along with creating the scale benefits of networked effects.

Since the value of a platform increases as more users join the network, new competitors can be hindered from entering the space. In fact, the first platform in the segment may well define or transform the competitive dynamics so completely that natural monopolies or duopolies form.

Smart phone industry data from 2018 shows that Apple captured an astounding 73 percent of the total industry profits.[5] Uber's revenue in 2018 was USD 11.3 billion, approximately five times the revenue of its nearest competitor.[6]

3. Traditional advantages may not suffice

The elements of market leadership today might not be enough to propel any business to a new position as platform owner. In a platform world, assets such as land, physical presence, and machinery are less important than

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networks and intellectual property. This means companies need an honest re-examination of how they create value today, and bold ideas about the new terms of engagement. Incremental tuning or half-hearted tinkering around the edges of today's model isn't recommended in any period of discontinuous change, including now.

And yet, this doesn't suggest that what's old is obsolete. In the recent IBM global C-suite Study, "Incumbents Strike Back," 72 percent of surveyed CxOs reported that it's the incumbent organizations—rather than new entrants—leading the disruption in their industry.[7] Integrating existing market advantages with new strategies and partnerships can enable incumbents to establish high-impact advantage in the platform world.

Creating a path into that world begins with a strategy that considers the unique characteristics of platform business models. Business leaders can begin an organizational self-assessment by answering five key questions to create an effective platform strategy for the industry they're in or want to enter (see Figure 1).

Figure 1

Key questions for developing a platform strategy

1	**What is the value creation plan for different players (for example, platform owner and users)?**
2	**What is needed to deliver the new value, and what are the key components?**
3	**Which participants are needed to deliver the value?**
4	**How should interactions among the platform participants be structured?**
5	**How can the value be captured and monetized?**

Creating value

Identify what role a company plays in the industry value chain. Does it have the reputation and standing to play the role of convener? Does the organization envision itself as that kind of prime-moving leader? Next, clarify how the platform play will create value. Answering that will help shape the roles of participants, and more fundamentally, identify how unmet needs can be addressed by and for the various players.

Delivering new value

Evaluate whether a business has the wherewithal to deliver the new value on all or some of the four primary components of platform value: search, trust, financial transactions, and delivery (see Figure 2).

Some platform providers set strategies to focus only on a subset of components. Expedia, for example, majors on *search, trust,* and *financial transactions*. The actual *delivery* of services that customers find and procure on Expedia's platform comes from the airline, hotel, or rental car provider.

By contrast, CEMEX, a USD 14 billion global heavy building materials company, plays across the full spectrum with its CEMEX Go platform, launched in 2017. In 18 months, 96 percent of its recurring customers were using the platform, which captured 45 percent of global sales.[8]

Identifying required participants

Next come the decisions about whether to "build, buy, partner, or participate," and where any individual business will play on the platform. Enterprises will identify which participants are required to deliver the desired value and make this platform a sustainable venue for providers and customers.

In brief, is the right choice to be the lone owner of the platform, both controlling the technology and executing the business model? Or does it make sense to assemble a consortium to collectively own and manage the platform? Increasingly, the so-called "unicorn" companies — those with private valuations of at least USD 1 billion — emerge as platform players, and the most successful grow at blistering rates.[9]

Figure 2

Four components of platform value propositions

Search	Trust	Financial transactions	Physical/ digital delivery
– Platform provides the functionality of searching for products and services – User can search for item of interest	– Platform provides feeling of security and enables it with technology (such as encryption) – Platform provides low-price guarantee – Users can transact with unfamiliar parties	– Platform facilitates transaction and payment – User saves time/effort and receives favorable prices	– Platform provides the buyer with full service for their transaction – Users get end-to-end service for their purchases

Expedia, Vitality

Amazon, CEMEX Go, Netflix

Uber

Already, longstanding competitors are joining together in new models of collaboration — as with cross-border shipping, or management of our supply chains for food. BMW and Mercedes have launched a USD 1 billion collaboration to address electronic vehicle and ride-sharing trends.[10] Microsoft and Sony are creating a joint gaming platform.[11] These are examples of models enabled by technologies like AI, cloud and blockchain that allow participants to share what makes sense, protect what they consider proprietary, and concentrate on points of distinct differentiation of their core products and services.

Structuring interactions

Interactions among platform participants will be structured, based on one of several primary platform archetypes (see Figure 3).

- Sales/service. Promoting its own products or services.
- Marketplace. Acting as an exchange place.
- Peer-to-peer. Driving connectivity and exchange between users.

Monetizing the platform

As also described in Figure 3, there are two basic monetization models: direct and indirect. Direct user monetization refers not just to commission-based business models, but also to subscription- or transaction-based models, such as Uber or Netflix. Indirect value capture starts with advertising, but increasingly includes monetizing client data (for example, Facebook or Twitter).

Companies might also bundle third-party products and services, charging fees to those providers for access to the platform's customer base. In practice, companies can leverage both direct and indirect models.

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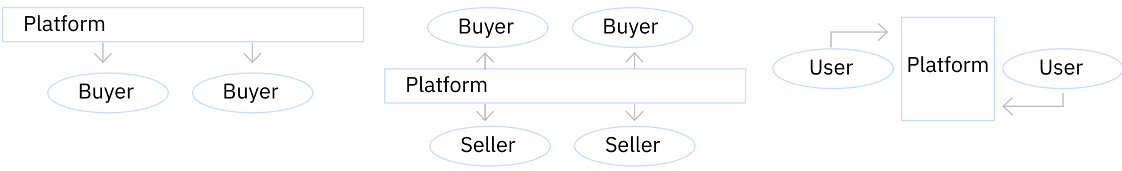
Figure 3

Main types of platform archetypes and participants, including methods to monetize a platform

Archetypes	**Sales/services**	**Marketplace**	**Peer-to-peer**



Monetization model	– One to many – Focus on transactions	– Many to many – Focus on transactions	– Many to many – Focus on interactions
Direct *Subscription or commission based*	**Netflix** **Dropbox**	**Vitality** **Expedia** **ebay** **Amazon**	**Linkedin** **Match**
Indirect *Ad-based, client data, other benefits*	**CEMEX Go** **Nike+**	**Craigslist** **eCRATER**	**Twitter** **YouTube** **Facebook**

Tapping into platform opportunities

Cloud-based platforms will be central to the value chains of every industry. Those companies that create or shape them can gain new advantage from the associated economic and competitive shifts. If the history of tech-led business change proves anything, it's that the traditional, familiar ways can't ensure organizational survival. Advantage typically flows to those who embrace and exploit the next possibility. For entrenched industry players and new entrants alike, the platform opportunity exists now.

We believe that companies should pursue platform opportunities through bold new thinking that is supported by a structured plan. There are three approaches we recommend enterprises consider when defining and implementing their platform strategy, and they can be used in concert with each other:

- Digital Reinvention. Business leaders will face a stark choice–either digitally reinvent their enterprises or watch as their businesses decompose around them. They'll need to pursue a new focus, build new expertise and establish new ways of work. To learn more, read "Four steps to Digital Reinvention to take now."
- The Cognitive Enterprise. A new era of business reinvention is dawning with a next-generation business model we call The Cognitive Enterprise. To learn more, read "Reinventing your company with artificial intelligence."
- The IBM Garage approach. A co-creation experience that drives purposeful innovation and transformational change with the speed of a startup—at the scale of an enterprise. To learn more, read "What is the IBM Garage?"

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Expert Insights represent the opinions of thought leaders on newsworthy business and related technology topics. They are based upon conversations with leading subject matter experts from around the globe. For more information, contact the IBM Institute for Business Value at iibv@us.ibm.com.

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