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Creating and Capturing Value Around the Core in Platform Markets

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Defining Platform Markets

- A foundation technology or set of components that brings multiple parties together in an **ecosystem** for a common purpose or to solve a common problem.

- A platform market encompasses **infrastructure** (e.g., hardware, software, communications networks), **standards** that ensure compatibility between infrastructure elements, and **rules** that specify transaction terms and the rights and responsibilities of ecosystem participants.

Example: eBay Commerce Platform

- Buyers, sellers, brands
- Browser and Internet access
- Registration process
- Category taxonomy
- Listing fees
- Bidding rules
- Bid tracking software
- Dispute resolution processes
- PayPal (payment platform)
- Feedback and review system
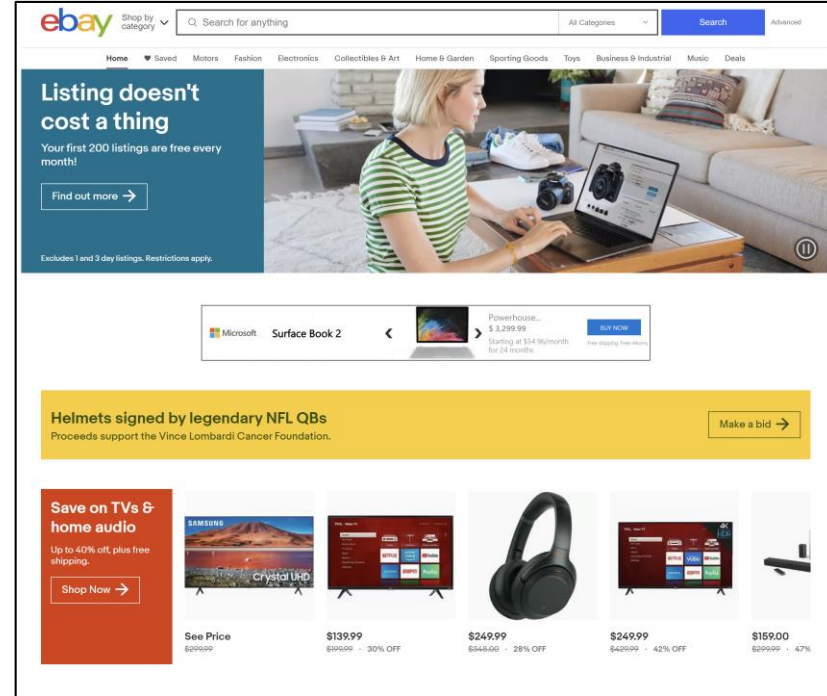
Challenges in Platform Innovation

- Differences between platform markets and product markets:
  - "Multi-sidedness" of platform markets
  - Bifurcation of platform roles: sponsor versus provider
  - Mixed motivations: cooperation versus conflict

- Challenges in ecosystem innovation
  - Creating a compelling value proposition for all stakeholders
  - Generating liquidity and overcoming network externalities
  - Deciding between the "money side" and the "subsidy side"
  - Balancing size of the pie with the share of the pie

Apple iPod pre-Platform


APPLE	USER	CONTENT
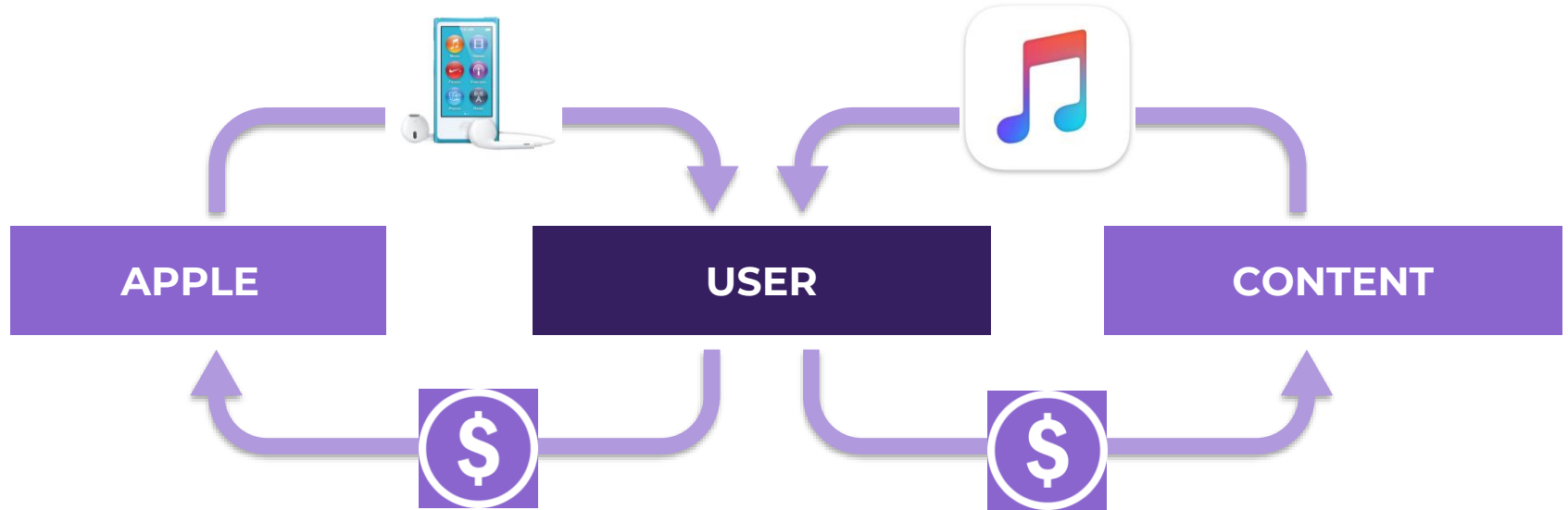
- Product First Thinking
- Standard linear value chain

- User matches MP3 player to library
- Minimal network effects

Apple iPod post-Platform
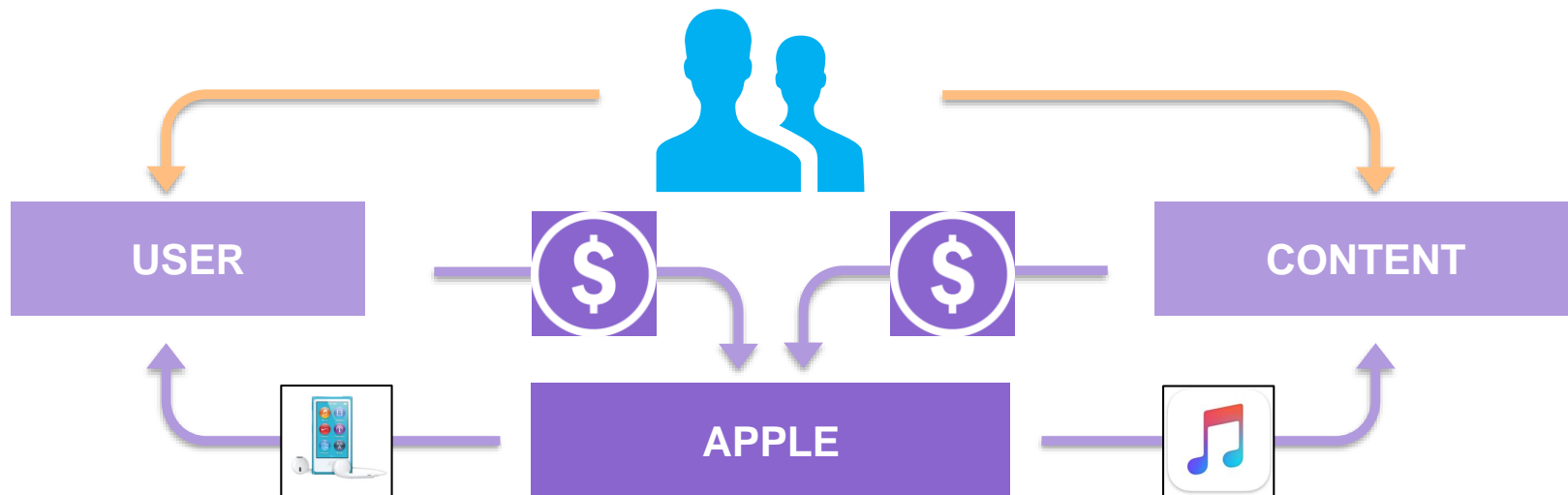
USER · CONTENT

APPLE

- Triangular *platform* supply network
- Apple owns financial chokepoint

- Apple matches users to content
- Stronger network effects

Services to Platforms: Facebook

USERS

Advertisers

App Developers

Partners
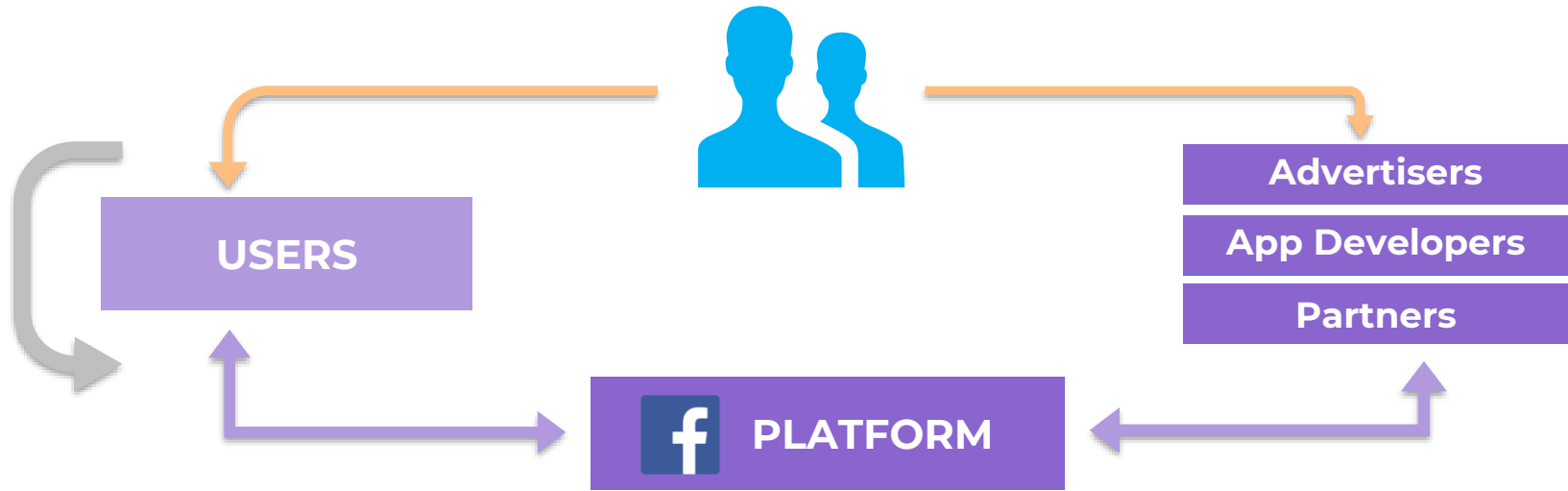
f PLATFORM

- Core service helps users stay connected or reconnect

- Monetization: We need the other side (advertisers)

Successful Platforms: Health Insurance

PATIENTS

PROVIDERS

EMPLOYERS

Failed Platform: Microsoft Phone

- Windows Phone OS was incompatible with Windows Desktop so there were no apps

- Failed to attract developers – "chicken and egg" problem

- Fought the "battle for the device" but lost the "war of platforms"

5 Platform Strategy Questions

1 What is the customer problem to be solved?

2 How can you overcome the "chicken-and-egg" problem?

3 What is the optimal level of value sharing?

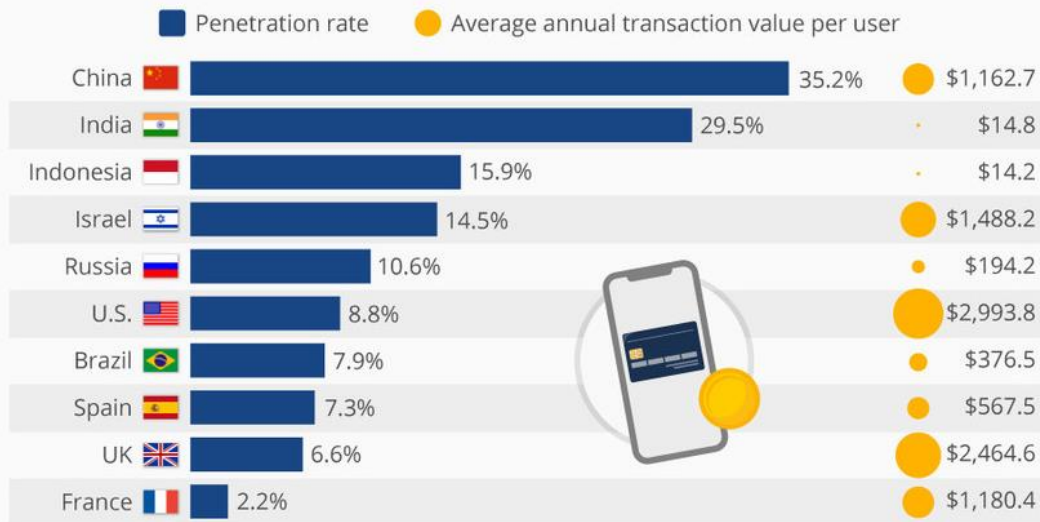**4** How do you decide to make/buy/ally?

5 How should you attack and disrupt an incumbent platform?

1. Solve a viable customer problem with a compelling solution

- The **customer problem** should be viable:
  - How many customers have the problem?
  - How frequently do they face the problem?
  - How dissatisfied are they with current solutions?
- The platform solution should be a **compelling whole offer**:
  - Should offer customer benefits that are compelling and significantly superior to current solutions
  - Should include hardware, software, services, ease of use, ease of access, compelling economic value

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Mobile Payment Adoption: Friction = Value

User penetration in the mobile point-of-sale segment in 2019* (selected countries)

■ Penetration rate   ● Average annual transaction value per user

Country	Penetration rate	Average annual transaction value per user
China	35.2%	$1,162.7
India	29.5%	$14.8
Indonesia	15.9%	$14.2
Israel	14.5%	$1,488.2
Russia	10.6%	$194.2
U.S.	8.8%	$2,993.8
Brazil	7.9%	$376.5
Spain	7.3%	$567.5
UK	6.6%	$2,464.6
France	2.2%	$1,180.4

The Mobile POS Payments segment includes transactions at point-of-sale that are processed via smartphone applications (so-called "mobile wallets").
* projected figures, selected countries

@StatistaCharts   Source: Statista Digital Market Outlook

statista

Advice for digital payments value prop.

- Find an underserved segment with a pain point
  - Square and small merchants
- Combine payments with loyalty and rewards
  - Starbucks Rewards program
- Innovate on user experience and ease of use
  - Apple Pay
- Embrace disruptive payment systems
 - Bitcoin and other digital currencies

2. Overcoming "chicken-and-egg"

- **Subsidize** the side that:

  – Is more price-sensitive

  – Must provide quality

  – Must invest more in fixed costs

- **Monetize** the side that

  – Is less price sensitive

  – Consumes quality

  – Invests less in fixed costs

- **Inject liquidity** on the supply side to prime the pump
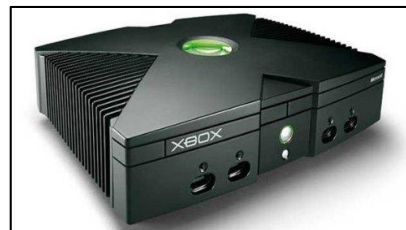
3. Optimize Value Sharing

- Avoid being a "Value-Greedy" architect: Leave money on the table for partners to motivate them to join your ecosystem

- Reduce Partner Costs: Make investments that reduce the cost of developing, using, promoting and supporting the platform

- Capture Value Elsewhere: Find alternative ways to monetize the platform rather than licensing fees, to reduce the cost of working with the platform
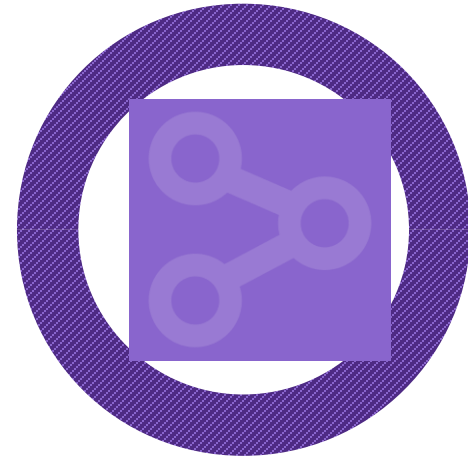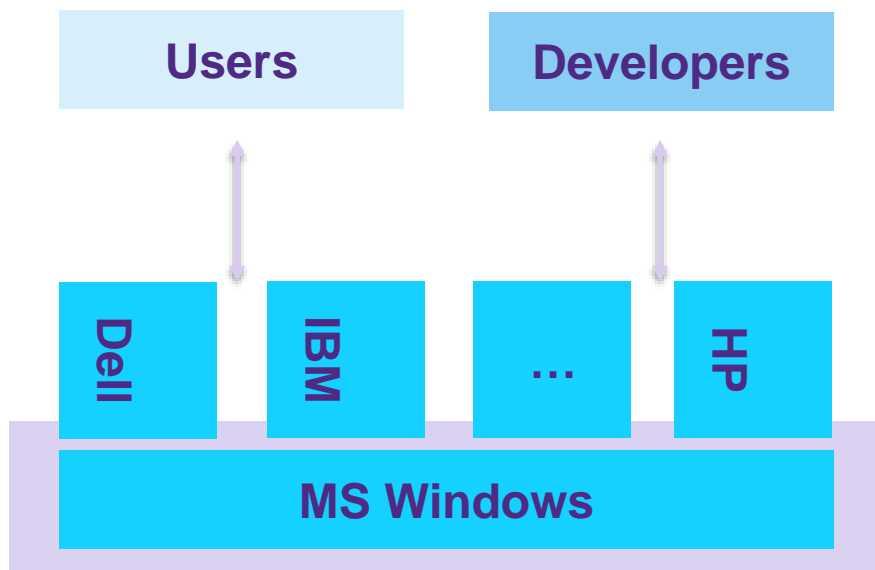
Apple Tried to Control Too Much of the Original Mac

Users	Claris

Apple Hardware

Mac OS
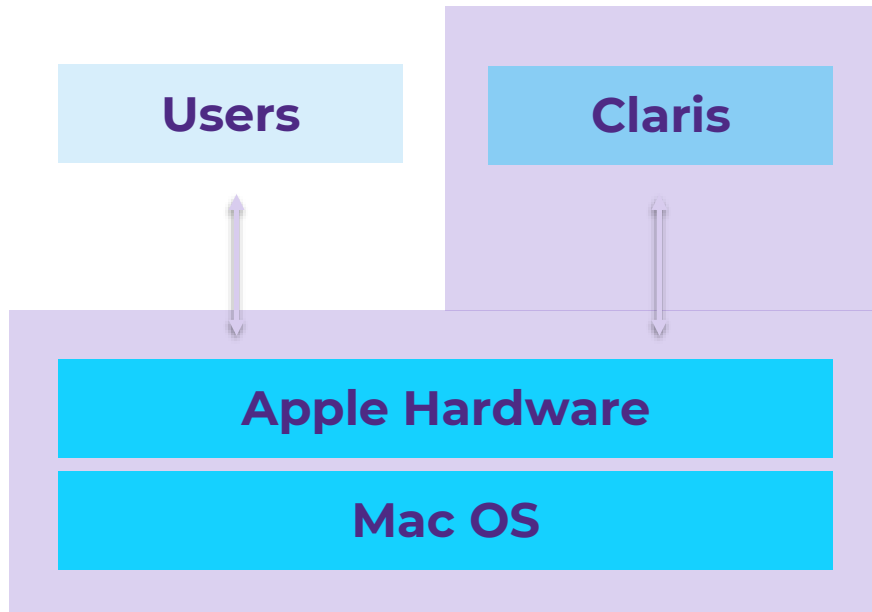
- Remember MacWrite, MacPaint?

- Charged ~$10,000 for SDKs.

- Controlled OS & HW and dominant Apps.

- Choked off network effects.

Microsoft opened up its Ecosystem

Users		Developers

Dell	IBM	...	HP

MS Windows

- Microsoft had 6-10x developers

- Open APIs / Cheap SDKs

- Controlled OS, licensed

- Strong network effects

4. Make, Buy or Ally?

MAKE

Off-the-shelf solutions don't serve specialized needs

Custom solution can create competitive advantage

Skills required to build the capability exist in-house

Integration with other products/services is key to success

BUY

Good solutions exist outside and can be acquired cost-effectively

Time to build is too long relative to urgency

Building doesn't guarantee competitive advantage

First mover advantage is evident and is difficult to overcome

ALLY

Need to hedge bets among competing platforms
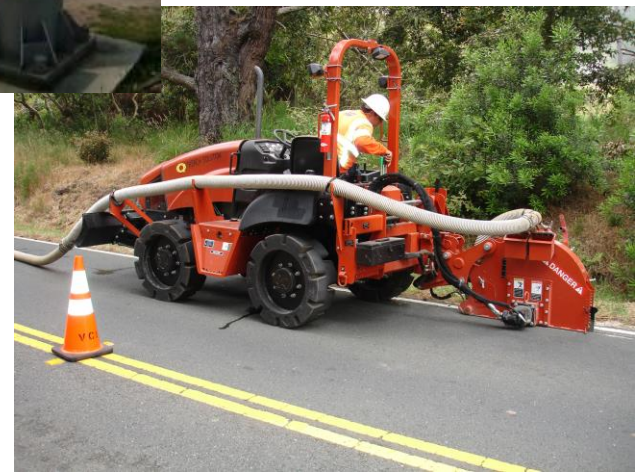
Partners can significantly accelerate time to market

Alliances can be used as a stepping stone for acquisitions

Startups who need access to customers and channels

1　　**2**　　**3**

Jio: Owning Infrastructure Capabilities

- Telecom towers doubled as lampposts to reduce right-of-way problems
- Two days to set up a tower including connecting the fiber, power supply, LTE module installation as well as making the ground base for the tower."
- Concrete piling used to dig 17 feet in 6 hours with far smaller footprint than conventional towers.
- Electrical 6KVA battery backup instead of diesel generators requiring no maintenance, no diesel and no manpower to guard the towers.
- Horizontal Directional Drilling (HDD) and micro-trenching technology for laying optical fiber without digging up streets
- Captive unit to manufacture ducting for optical fiber.

Partnering for Market Access: Jio

GOOGLE WILL INVEST RS 33,737 CRORE IN JIO PLATFORMS

FACEBOOK-RELIANCE DEAL WORTH $5.7 BILLION

5. Competing with platform incumbents

- Don't play Sumo strategy by taking on incumbents head on. Play Judo by turning their strengths into weaknesses

- Envelop the incumbent by offering a broader offering that includes their offering at a reduced or zero cost

- Focus on a different customer segment or a different customer problem that is underserved by the incumbent

- Leverage adjacent platform assets to acquire customers and acquire scale

JioMoney versus Paytm in India

Incumbent (PayTM)	JioMoney/Reliance
• Focus on digitally-savvy urban customers • Focus on payment products • Focus on digital payments • Spend heavily on short-term promotions to acquire customers	• Focus on rural customers and differentiate on physical payments • Focus on adding transit billers and long-tail billers • Onboard small merchants with "Jio Mart" and "Jio POS" • Commoditize payments - monetize savings, credit/protection products

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Summary: Platform Strategy Questions

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4 How do you decide to make/buy/ally?

5 How should you attack and disrupt an incumbent platform?