Platform Revolution: Chapter 10 – Strategy

1. Introduction: Welcome to Platform World
2. Network Effects: The Power of the Platform
3. Architecture: Basic Principles for Designing Successful Platforms
4. Disruption: How Platforms Conquer & Transform Traditional Industries
5. Launch: Chicken or Egg? 8 Ways To Launch Successful Platforms
6. Monetization: Capturing the Value Created by Network Effects
7. Openness: Defining What Platform Users/Partners Can & Cannot Do
8. Governance: Policies That Increase Value and Enhance Growth

10. Strategy: How Platforms Change Competition

11. Policy: How Platforms Should (and Should Not) Be Regulated
12. Future: Industries Facing Imminent Change

(click to order on Amazon)
ONLY 7 FIRMS CONTROLLED 99% OF HANDSET PROFITS IN 2007

- Economies of Scale
- Famous Brands
- Regulatory Protection
- World Class Logistics
- Global Sales Channels
- ≥ $40B twenty yr
- R&D by Nokia alone

Source: Asymco
Is it likely all 7 incumbents had failed strategies, run by clueless management, lacking execution capabilities?

Or was something more fundamental happening?

Source: Business Insider
Insight: Henry Tirri, former CTO Nokia
What Changes :: Strategy

Goal shifts from control, entry barriers, and differentiation to more valuable market exchanges.
in an age of “hypercompetition,” sustainable advantage is illusory. Technological advances drive shorter and shorter cycle times on everything from “microchips to corn chips, software to soft drinks, and packaged goods to package delivery services.

To compete with Union Pacific Railroad in 1915, a firm would have needed investments in locomotives, booking agents, tracks, and legal right-of-way. By contrast, to compete with any of the Global 500 firms in 2015, a startup can buy production resources from Alibaba, cloud and computer services from Amazon, and labor from Upwork all near marginal cost.

Succeed not by battling competitors in bloody red oceans but in uncontested blue oceans. Innovate in value in order to create new product or service markets.
COMPETITIVE STRATEGY

Michael Porter

Succeed via cost leadership (no frills), differentiation (uniquely desirable products & services), and focus (clear niche). Mitigate threats from five forces.

Kim & Mauborgne

Succeed not by battling competitors in bloody red oceans but in uncontested blue oceans. Innovate in value in order to create new product or service markets.
PORTER’S FIVE FORCES & RESOURCE BASED VIEW

1. Goal is a protected market niche, emphasizing industry barriers
2. Categories are sharp
3. Weapon is cost leadership or product differentiation
4. Inimitable resources you own provide sustained advantage
5. Core competence: focus what you do best
1. Goal is interactions that yield NW effects - partner to partner value. NW effects provide sustainability
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2. Boundaries can be altered as consumers can be producers
1. Goal is interactions that yield NW effects - partner to partner value. NW effects provide sustainability

2. Boundaries can be altered as competitors can be complementors
1. Goal is interactions that yield NW effects - partner to partner value. NW effects provide sustainability

2. Boundaries can be altered

3. Competition is multi-layered, more like 3D chess.
1. Goal is interactions that yield NW effects - partner to partner value. NW effects provide sustainability
2. Boundaries can be altered
3. Competition is multi-layered, more like 3D chess.
4. Don’t need to own inimitable resources. Have them join you!
PLATFORM FIRMS NEED LESS M&A THAN PRODUCT FIRMS

1. Not acquiring preserves innovation incentives
2. Compartmentalizes business risk if better value proposition arises
3. Compartmentalizes technology stack
4. Test Drive – See sales data more effectively than auditing books (resolve value info asymmetry)

Can still enter markets the way Google did with Android for tech or Facebook did with Instagram for community.
WHY PLATFORMS BEAT PRODUCTS EVERY TIME
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
Listener
Retailer
Music Producer

Apple 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

SONY COULD HAVE DONE THIS. IT HAS MANY GREAT STANDALONE PRODUCTS.

APPLE HAS VASTLY STRONGER NETWORK EFFECTS.
HOW APPLE IS KILLING STANDALONE PLATFORMS

So what happened?
HOW APPLE IS KILLING STANDALONE PLATFORMS

Message for you: A great standalone product is not sufficient.
Message for you: A great standalone product is not sufficient.
It is far easier to add a product to a platform than to add a platform to a product.
WHY APPLE ISN’T KILLING KINDLE: AMAZON ECOSYSTEM

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<table>
<thead>
<tr>
<th><strong>PRODUCT</strong></th>
<th><strong>PLATFORM</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Distinct: Buyers, Suppliers, Substitutes, Entrants, Rivals</td>
<td>Market Forces</td>
</tr>
<tr>
<td>Core Competencies</td>
<td>Focus</td>
</tr>
<tr>
<td>Supply Side</td>
<td>Scale Economies</td>
</tr>
<tr>
<td>Own Inimitable Resources</td>
<td>Assets</td>
</tr>
<tr>
<td>Cost Leadership / Product Differentiation</td>
<td>Goal / Metric</td>
</tr>
<tr>
<td>Barriers to Entry, Boulevards for Exit</td>
<td>Access</td>
</tr>
<tr>
<td>By Firm</td>
<td>Innovation</td>
</tr>
</tbody>
</table>

@InfoEcon
## Takeaways from Chapter Ten

Platform competition is like 3D chess, involving competition at 3 levels: platform to platform, platform to partner, and partner to partner.

Strict competition becomes less important than value co-creation. Control over relationships is more important than control over resources. Control over data is essential.

Among methods platforms use to compete: encourage competitors’ partners to multihome but your partners to monohome, build partnerships at least as much as M&A, promote side-switching and user innovation to create stronger network effects on your own platform.

Use platform envelopment to absorb adjacent markets. Note it is easier to add a technology to a community than a community to a technology.

Winner take all markets are characterized by large supply or demand economies of scale, expensive multihoming, and low levels of niche specialization. WTAM competition is especially fierce at the beginning as firms try to subsidize their future win.

Platform strategy flips many of the tenets of traditional strategy, from entry barriers for competitors to frictionless entry for producers/consumers, from core competencies to core interactions, from supply to demand economies of scale, and from owning tangible assets to orchestrating a community.
Platform Revolution: Chapter 11 – Policy

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