

Platformization - An International Perspective

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Interviewed by **Ansgar Baums**

Paul – You are consulting companies worldwide on questions of how digital platforms transform business. On a very general level: Which companies typically approach you? And what do they want to know?

Typically, two types of companies approach me: Startups, that are building platforms ground-up, and traditional enterprises, which have strong legacy businesses but understand the need to move to a platform model. Both types of companies have very different contexts and constraints. Consequently, executing on a platform model involves very different strategic and architectural considerations for the two. Companies that have strong legacy businesses need to build out a platform business in a manner that leverages their existing assets and is strategically aligned with their existing business. Also, the very principles that helped them succeed with a legacy business, most often come in the way of success with their platform business.

When clients approach me, they do so with a vision of what they want to build. However, most of them do not have a good starting point. They reach out to me to lay out the business architecture of the platform. Platform businesses are complex systems that benefit from positive feedback loops and gain value through network effects. They involve important considerations of openness, curation and governance, which often do not exist in traditional businesses to the same degree. Launch and monetization of platforms is also much more complex than that of a linear business. My engagements help the clients lay out the business architecture and create and execute a platform roadmap.

How are platforms usually created from the point of view of a company? It seems that cornering a small market and growing from there is a very successful strategy.

Companies win platforms in two broadly different models: Bottom-up and Top-down. A lot of platform implementations that we see today won with a bottom-up model. Airbnb moved from the sharing of mattresses to challenging hotels. Youtube moved from home video to challenging movie houses and becoming a compelling channel for them. In these cases the disruption was bottom-up. The initial use cases would never have served an indication of disruption.

In contrast, one would argue that Uber's disruption of the taxi industry has moved top-down. They started at the high-end of the market and increased market liquidity in that segment, and gradually, with UberX and UberTaxi, migrated lower.

We've seen both models work fairly well. But I see a lot more bottom-up disruption happening because of platforms. This is because a new and unproven model that benefits from self-serve, gains traction in the lower end first, gradually builds liquidity and then develops the reliability that lets it disrupt the higher end.

Germany is one of the strongest-performing economies worldwide. After the financial crisis, there has been an emphasis on the »classic« industry as a solid foundation for an economy and a general mistrust with regard to service-based economies. Platforms shift emphasis from products to service platforms. Do you sense a greater reluctance in Germany to engage in the platform debate?

I would expect reluctance because moving from products to outcome-based service models has had very mixed success. Companies like GE have made significant strides in this direction. However, for most companies, I believe that the case for a shift from products to services should be made in a phased out manner.

A great starting point is to continue leveraging the existing product business but use the usage data collected from the product to provide value-added services, including outcome management and guarantees. As the value-added services gain wider acceptance, companies will improve margins, which will help them drive down initial pricing of products. This is important because in a platform-based model, the company that sells the most products starts benefiting from network effects. Hence, moving pricing from products to usage-based outcomes helps benefit from network effects in the long run. A phased approach like this will likely lead to lower resistance.

As an example, auto manufacturers today use the data streamed from the car to determine and recommend after-sales services, thereby capturing more from the customer than they did when they only sold products.

Imagine you are a highly successful producer of high quality manufacturing tools, which have some «smart» features on the factory floor, but not beyond. You sense that platforms change your business, but you have neither the strategic expertise in-house nor any experience in platform building. What would you look for? Who would be a strategic partner to start with?

Smart features are infrastructural improvements but building business models around smart products is more than just an infrastructural change. The very factors that drive the business model change. Moving from selling products to outcome-based service models shifts the core capabilities that drive your business. Data management and data strategy become important. While product design and manufacturing efficiency determine monetizability of a product-based business, data science and management as well as service design capabilities and platform architecture capabilities become important. The first priority would be to build these capabilities internally for executives, through partnerships, carving out or hiring new innovation teams and through executive education.

Let's have a look at governments. Are you aware of a properly defined economic policy program which tries to build on the platformization process? What are the best cases?

Governments are taking a few different approaches to leveraging and supporting platformization. The first approach is towards leveraging platformization to manage citizen data and serve them more targeted services, a theme that is often broadly painted with the smart government brush. City-states like Singapore and cities like San Francisco and New York have taken several significant steps in this direction.

Governments also have a major role to play in enabling platformization by creating favorable regulation. I believe we are still at a very early stage in that journey. The impact of platforms on the economy is being seen in its very initial manifestations. We hear of the Uber and Airbnb crackdowns in different markets, but there are many other challenges with regulating platform businesses.

Global labor platforms that grow the freelancing market potentially take tax dollars away from local markets to more central platform jurisdictions. Country-level marketplaces like Amazon eat into the business of local merchants thereby impacting local taxes again. I expect regulation to change in response to this. Data residency is another important issue. As usage data becomes more central to managing platform-enabled markets, countries will want to claim ownership and residency of usage data flowing from their citizens. We haven't seen a lot of thinking around this yet, but I expect these to be critical issues for governments to handle in the coming years.