Digital Platforms

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Platform Business Model

Internet Sales

Amazon takes a small % of the sale of each item sold through its website

Servers

# of Sellers
# of Products

Back Office
Functions

⬆ # of Sellers
# of Products → ⬇ Sever & Back Office Costs → ⬆ Revenue

The Digital Disruption Enabler

- First it sold only books. Soon it started selling everything.
- Offered Adjacent Services: AWS
- AWS: Scale/Scope brought down costs and improve features
- AWS lowered prices 45Xs improved features since 2006
- AWS added 108 new features during the same time
- In 2007 the company launched the Kindle.
- In 2010 it started publishing books to read on the Kindle.
- In 2011 it introduced the Fire, to compete with the iPad.
- The Fire brings everything together—shopping, reading, and consuming media—and introduces more e-commerce and social networking opportunities.
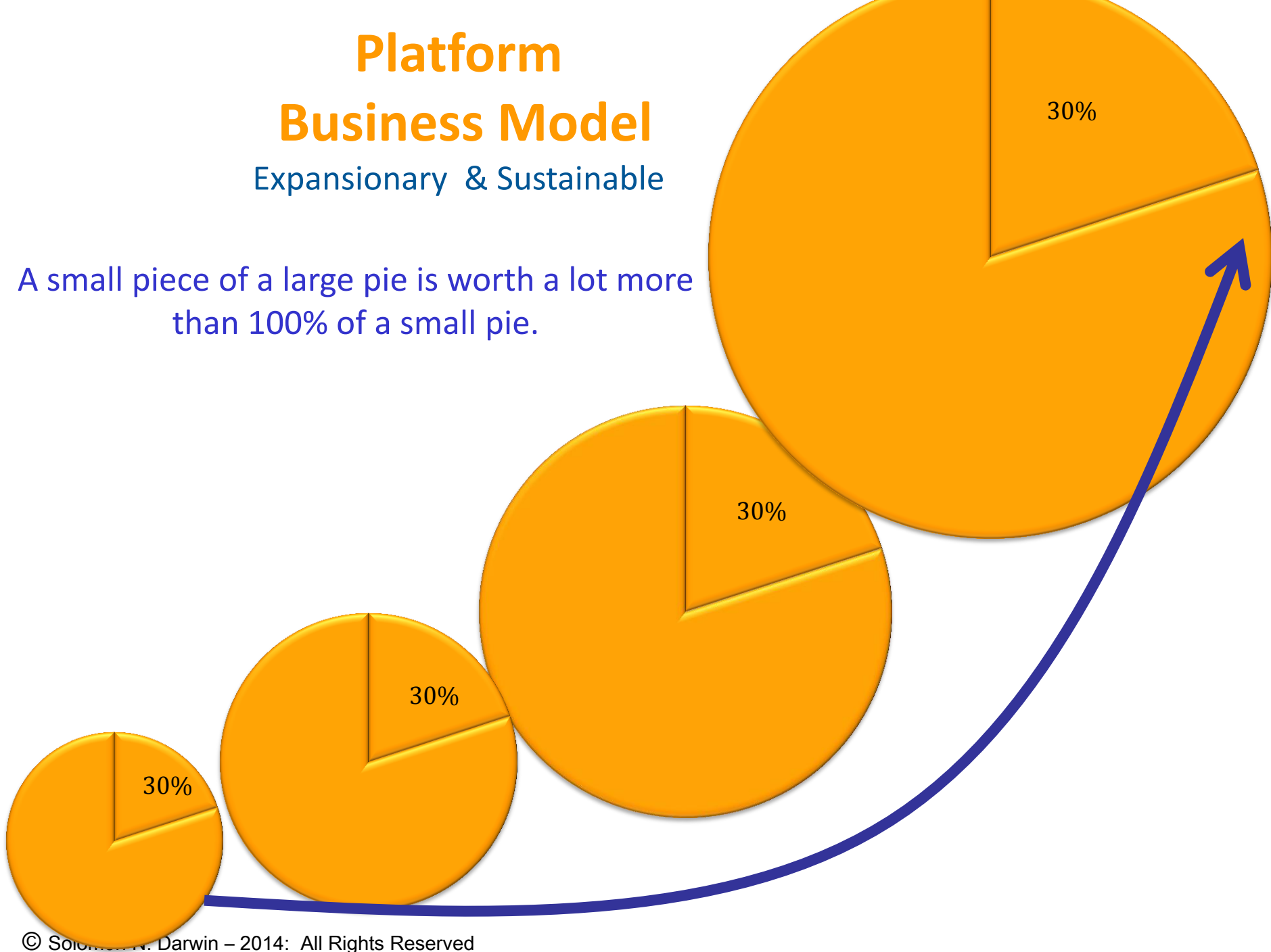
Platform Model

30% = the small Portion captured by the Creator

Partners&

Platform
Business Model
Expansionary & Sustainable

A small piece of a large pie is worth a lot more than 100% of a small pie.

30%

30%

30%

30%

Apple: Digital Disruption Enabler

- Open Innovation relies on outsiders both as a source of ideas and as a means to commercialize them.

- Apple opened up product development to the external world by providing free tools such as SDK, iBook Publishing and a platform to develop Apps and publish books etc.

- Thousands of external software developers have written complementary applications for the iPhone

- This greatly enhanced its value, transforming the product into a blockbuster becoming the center of a thriving ecosystem.

- Apple did not remain as a maker of: cool looking, portable, user-friendly, well designed, versatile products.

- Its multi-pronged digital platform extending into music, media, education, telecommunications, commerce and entertainment.

What Digital Platforms Do?

- Move faster than their traditional counterparts.

- Help build cost effective "Digital Bridges" to enable fast and effective feedback to iterate value creation

- Enable to embrace change quickly when your core products and services frequently change

- Bad habits are less likely to get ossified.

What Do Digital Bridges Do?

- **Improves Customer Engagement:**
  - Capture customers changing behaviors/patterns in real time
  - Measure early and often for data analytics
  - New, Complementary and Adjacent offerings
  - Iterate quickly based on feedback

- **Run Efficient Operations:**
  - Employee enablement - through digital tools
  - Real time collaboration time with partners
  - Diagnostics for operations for rapid innovation

- **Improve Products & Customer Experience:**
  - Better products - leveraging social feedback
  - Lower R&D via open collaboration/digital fabrication tools

Impact of Digital Models

- **Analog Innovators:**
  - Ideas + people + infrastructure = disruption (<u>High margins</u>)

- **Digital innovators:**
  - Ideas + digital infrastructure = disruption (<u>Low margins</u>)
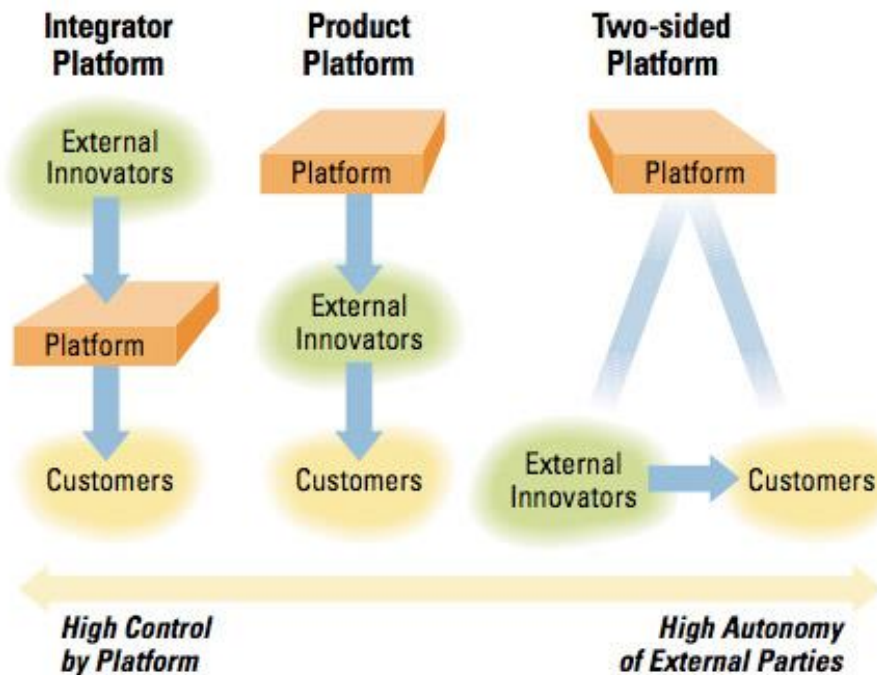 - Produce better products, cheaper with faster delivery time

- **Impact:**
  - Industry as a whole derives more social value in aggregate.

- **The Big Challenge:**
  - Mature companies resist investing in disruption.
  - Financial value will be destroyed than created
  - Economics don't add up for them

Digital Platform Models

Integrator Platform · **Product Platform** · **Two-sided Platform**

High Control by Platform → High Autonomy of External Parties

Source: MIT Sloan Review: Boudreau and Lakhani

Integrator:

Sells to customers, conferring upon the company a high degree of control.

Product:

External innovators build "on top" of a foundation technology and then sell

Two-sided:

External innovators and customers are free to transact directly with one another.

Platform facilitates the transactions and interactions between the two parties.

External innovators do not need to interact directly with the platform owner during design, development and manufacturing.

Google: Digital Disruption Enabler

- Google in 1998 wasn't a platform

- It was a really neat search engine.

- It became a platform by adding planks such as:
  - Gmail, Maps, Docs, Voice, YouTube, and countless others

- Adjacent Hardware Product Offerings (now several)
  - Help establish new markets
  - Product offerings become anchors to wrap more services
  - Offering an ecosystem of products, software services and devices

What Do Digital Disruptors Do?

- Bypass traditional analog barriers

- Eliminate the gaps and boundaries

- Reduce time between idea and product creation

- Lower investment: failure becomes the best teacher at no cost

- Give customers what they want and when they want it

- Leverage platform customers to promote their brand

- Grow customer bases -more products - more customers

Takeaways:

1. Firms can't just rely on doing one thing well any more.

2. Firms can't be successful unless it can offer an ecosystem of software, services and devices to run them all on.