Transcending digital dominance

Platform over platform strategies rising above and beyond

IBM Institute for Business Value

It found a voice

In 1995, the anime film *Ghost in the Shell* set in the year 2029 envisioned a world of total integration between digital and physical. This future in which people seamlessly interfaced with vast artificial intelligence (AI) networks has been a recurring plot of both literature and movies. From cyber-criminals that use technology to steal information, to super heroes who integrate with AI to save the world time and again, the potency of human/AI integration is a powerful literary device and metaphor. Human/AI interactions may soon become a powerful reality – and perhaps sooner than you think.

When worlds collide

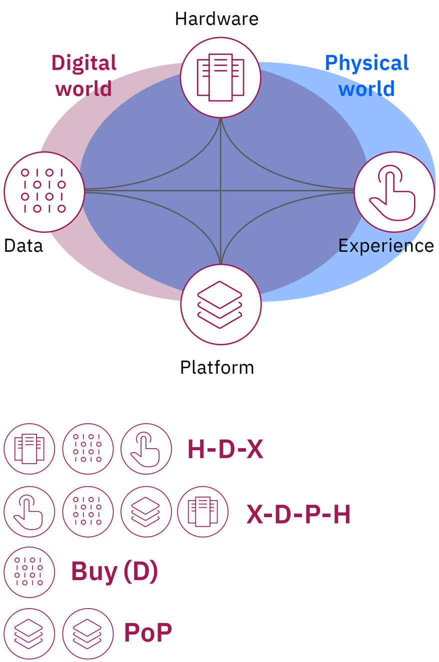
Interactions between technologies, such as the Internet of Things (IoT) and its resulting proliferation of digital data, and AI have accelerated business change. They have also created disruption and fostered the growth of overlapping and integrated digital and physical worlds.

Four intercorrelated front lines cross the digital and physical arena:

1. *Customer experience (X)* — The crusade for customer value is waged through experience, where the outcome is ultimately determined by integrated results in the three other front lines. Fifty-four percent of global industry executives say customer buying behavior is shifting from products and services to experiences.[1] Consumers, for example, do not purchase a smartphone based on hardware specifications alone, but also on their anticipated and desired overall experience.
2. *Data (D)* — Conflict in this space is generated by the fight for control of interests when searching, mining and refining data resources. The strategic use of data can improve the customer experience dramatically. In fact, 64 percent of global CEOs report using data and analytics to inform their business strategies.[2] Google, for example, became strong in this arena by having data contextualized to user IDs that enables buying behavior.[3]
3. *Service platform (P)* — This can be a strategic position or choke point in a large transactions flow, and it is the arena where users and merchants exist and participate. The conflict: who owns and controls the field? Recent evidence shows that a majority — 52 percent — of C-suite executives want to own the platform.[4] This percentage increases to 72 percent for organizations with revenues greater than USD 10 billion in annual sales.[5] Enabled by digital technologies, business platforms provide environments where organizations and people can communicate, collaborate and transact. A successful platform with many users and merchants typically results in massive amounts of data.
4. *Hardware (H)* — Digital success requires physical hardware. Hardware senses and generates the data that activates the physical world. It is a connection point between the digital space and physical space. The challenge is who controls hardware and how it's shared, from the install base to the connection point.

Winning formulas

Figure 1
Front lines and grand strategies



When it comes to integrated digital physical world, three winning integrated digital and physical strategies seem to have emerged (see Figure 1):

Hardware-data-experience (H-D-X) strategy is popular with manufacturers that sell hardware (H), analyze data (D) then use the hardware to improve client experience (X). For example, Komatsu — a manufacturer of construction, mining and utility equipment — delivers "Smart Construction" service using machines with sensors and GPS that can be controlled automatically.[6] H-D-X strategy has functioned well in the industrial machinery industry, but less so with consumer appliances.

In consumer businesses, *X-D-P-H* strategy has become more common. Since Amazon fulfills a vast and satisfying e-commerce experience (X), it has become a platform (P) for many other businesses. Amazon stores contextual data (D), the power of which is a key attraction to other merchants. Network effects kick in due to the scale and scope of the users the Amazon platform attracts. Amazon subsequently introduced new hardware (H) with its Echo personal assistant to offer an even deeper customer experience. Successful platformers have emerged across the digital and physical world by taking this strategy.

The most recent successful strategy, *Buy (D)*, works by an organization acquiring another business that possesses especially valuable data. Running shoe manufacturer ASICS, for example, acquired 100 percent of shares in FitnessKeeper, operator of the fitness tracking app Runkeeper, to leverage the data of millions of app users worldwide. [7]

More than half of the top ten companies with the greatest market capitalization globally are occupied by businesses executing a platform strategy.[8] And as platforms become even more dominant across industries and regions, the issue for other organizations is how to compete with them. Platform over platform (PoP) strategy is one answer.

Platforms are getting commoditized

Businesses are struggling to keep pace with platform businesses such as Amazon, Google, Alibaba and Tencent. Each of these organizations benefits from network economics and substantial cash to fund new investments. Indeed, platform owners tend to grow revenues faster and generate higher profits than those embracing other business models, earning market valuations as high as eight times revenue.[9] With the continuing advancement of new networks based around platforms — or platformization — concerns around oligopolization and monopolization are growing. For example, in the US, industry concentration has increased by 75 percent over the past two decades.[10]

However, the long-term impacts of platforms may be less dramatic than currently perceived. Experience suggests that reduced competition in the face of significant business model innovation is temporary. Twenty years ago, for example, internet access and bandwidth provisioning were believed to be creating uncompetitive flashpoints, reducing competition, raising prices and diminishing service quality. Many internet service providers (ISPs) were actively trying to orchestrate access, content and conduct. Once hugely popular, America Online (AOL) created a captive, unique and, in many respects, proprietary environment. But it turned out that customers ultimately perceived ISPs as homogenous.[11] ISP-related products, services and other offerings that seemed threatening and unassailable became commoditized.

In the case of the current ascendance of platform business models, a likely driver of commoditization of platforms is the idea of PoP strategy, the ability of non-platform entrants to create new platform environ¬-ments over existing platforms, or across various other platforms. For example, platform e-commerce sites, such as Rakuten and Alibaba, lower barriers to entry for smaller non-platform organizations by providing a simpler, less expensive way to distribute goods and find new customers. Consumers benefit, too, since they can choose from a wider range of often better products. Such activities go beyond the business to the customer space.

Taking the platform leap

The cure for ear worm

Music app Shazam can identify any song based on a short sample accessed through a user's device. It created a music engagement platform by positioning itself on top of and across platforms that many assumed were unassailable. Once users identify a song, they can purchase it on iTunes, stream it on Google Play or Apple Music, watch it on YouTube and see the lyrics on Google search. Shazam successfully built a platform on top of an ecosystem of other platforms, but retained a primary interface with its customers. In a platformer counter strategy, Apple purchased Shazam in late 2017 for a reported USD 400 million. [12]

It is quite possible that some of the technology titans of today may find themselves in much more highly contested markets tomorrow.

It is crucial that organizations become more imaginative in the way they approach their customers, markets and other platform operators. The leap to an effective PoP strategy can be achieved by being essential and unique in ecosystems:

- *Offer users a seamless and all-encompassing experience.* Move users through a full platform experience right before their eyes, without them even seeing it.
- *Keep user interaction close to home.* Becoming a platform over an existing platform helps further enhance the extended customer experience. Not surprisingly, servicers want to reach and better understand users.
- *Extend beyond traditional consumption categories.* From a user perspective, a variety of offerings is attractive, such as products and services and ease of search. Offer a broader range of services to complement customer experiences.
- *Realize and sustain the competitive advantage.* Keep contextual data close and share only transactional data with other platformers. Use a web-based service, such as If This Then That (IFTTT), to create chains of simple conditional statements.
- *Pursue integrated experiences using exclusive devices.* Devices run the gamut from personal assistants, such as Echo and Alexa, to interactive tools, such as smart scales, body composition analyzers and smart training machines in healthcare.
- *Keep a clean house.* While sharing and complementing contextual data with ecosystem partners, maintain an organized and pristine ecosystem.

Platform businesses are dominating more markets and industries, and not everyone can be the platform provider. But other innovations remain viable. PoP strategy provides a vehicle to innovation, differentiation and success.

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