

VIVALDI\_

# IS PLATFORM THINKING RIGHT FOR YOU?

*/A Vivaldi Perspective/*



## INTRODUCTION

There has been a significant change in how companies drive value for customers.

Companies have already taken advantage of this change. Leading the way are the Frightful Five: Facebook, Apple, Alphabet (Google), Microsoft and Amazon. Following them are 16 of the top 32 global brands and 75% of the fast-growing unicorns—most notably, Uber and Airbnb.

In this paper, we explain how building a platform business can create new competitive advantage for companies, insulate it from competitive rivalry and disruption, and most importantly, provide massive and real value for customers.

## PLATFORMS VERSUS PIPELINES

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Platforms are valuable because they leverage an entirely new source of creating value. They build advantage through demand-side economies of scale, also called network effects.

These advantages occur when a product or service becomes more valuable to its users as more people use it. Tesla cars become more valuable the more miles are driven in Tesla cars by more consumers because every mile driven improves Tesla's Autopilot semi-autonomous driving capability, making driving safer.

Traditional sources of competitive advantage are built on supply-side economies of scale which create value by means of production along the value chain or pipeline through better sourcing, more effective R&D, and quality manufacturing. This leads to new products or more features for a product or service, and cost efficiencies. That is, as volume goes up, unit costs go down.

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*“Platforms scale exponentially, while pipelines or traditional value chain businesses scale in linear fashion.”*

Demand-side economies of scale are generated through entirely different processes. Value is created not by means of production but by means of interaction between consumers, customers, suppliers, experts, partners, and even competitors. The more they connect, the more interactions occur, the more value is created.

Platforms scale exponentially, while pipelines or traditional value chain businesses scale in linear fashion. By that we mean, if you take 30 steps linearly, you will walk 30 meters. But if you take 30 doubling steps, going 1 meter in the first step, then 2 meters, then 4 meters, then 8, and so on, by step 30, you will have traveled 1 billion meters, or 26 times around the world.

That explains why companies built with platform principles are so lethal. Netflix pushed Blockbuster into bankruptcy. Apple eliminated any advantage of Nokia mobile phones in a just a few years.

The question we like to answer in this paper is: how do platform help established companies respond to the tough competitive challenges they are facing today? Or how

can platforms help to compete in a world of every-rising customer expectations and intensive competitive pressures?

Three companies facing three competitive situations of insurgent competitive rivalry, imminent disruption and raising customer expectations illustrate the power of platforms:

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## PLATFORMS AS A WAY TO RESPOND TO RISING CUSTOMER EXPECTATIONS

Haier has been riding the real estate and appliance boom in China and elsewhere to great heights. It was so successful that it has become the largest high-quality home appliance manufacturer in the world, today.

But the digital era has changed customer expectations. High quality is no longer enough, the consumer of today demands extreme responsiveness to customer needs, high personalization and mass individualization.

Addressing these challenges is difficult for a very large company that relies on standardization, highly automated factories, efficient R&D, manufacturing and supply chain operations.

Haier's advantage of supply-side economies of scale and scope by producing standardized high quality products at reasonable cost actually turned out to be a liability in face of changing customer expectations.

Haier solved the conundrum by adopting platform principles as part of its latest effort to reinvent the company.

One of the major planks of its effort is known by the acronym HOPE or Haier's Open Partnership Ecosystem. HOPE is so many things today: a system, a platform, a portal and ecosystem. It connects consumers and their needs, it connects customer ideas with innovation solutions, and it links resources from Haier with those of technology partners. The reported numbers are staggering: 370,000 innovators participate regularly, 30 outside companies and third-party providers such as R&D companies are connected, and over a million customers engage with Haier every day.

Consumers engage through social media and post specific needs such as a mini-fridge for students, freezers with a slightly warmer compartment for keeping ice cream soft or two-tier drawers for people too lazy to dig to the bottom to get the product out, or a new product that keeps spinach fresh for seven days.

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*“The digital era has changed customer expectations. High quality is no longer enough, the consumer of today demands extreme responsiveness to customer needs, high personalization and mass individualization.”*

A second major plank is CosmoPlat. This is a large platform that links the needs from consumers just described and enables large-scale customization. Throughout the entire process from the product design, manufacturing, logistics, distribution, to product usage, CosmoPlat enables interaction and feedback between customers, factories, products, supply chain, R&D and marketing functions, and external ecosystems of partners and suppliers.

There are many other planks to Haier platform thinking, such as the well-known organizational transformation from a hierarchical organization of 60,000 employees, to 2,000 self-operating business units.

However, the key is to appreciate what Haier has achieved already. At Haier, it has created a much more intimate and closer connection with consumers. At Haier, it is called “zero distance.” This has significantly affected every aspect of Haier’s global operations and most importantly, it has become a very powerful basis of creating new value for consumers through mass customization and personalization.



Platform vs Pipeline Figure

**PLATFORMS AS A WAY TO DEAL WITH COMPETITIVE ATTACKS AND PRICING PRESSURES**

John Deere is clearly the worldwide market share leader in agricultural equipment such as combines and tractors. It also commands a price premium. Global competitors such as Japan’s Kubota provide significant challenges, sometimes with lower prices or at least lower price perceptions.

John Deere faces the toughest competition in some markets where higher quality and higher price points is a significant disadvantage. This includes markets where there is a greater use of smaller, lower horsepower tractors and combines such as for example Latin America.

When competitors are faced with this type of competition, one of the typical responses is to provide a lower-priced version of its flagship product. Kodak introduced a lower-priced Kodak Funtime film roll to compete with aggressive price competition from Fuji. IBM introduced Ambra, a clone personal computer to compete against emerging clone competitors such as Compaq.

John Deere though would never deploy any variation of a “cloning” strategy. As Tom

Peters used to say: Only fools compete on price, winners will find a way to create lasting value in customers' mind.

Instead, John Deere invested in its product, technology and its customers. How? One part that John Deere invested in was to enable its combines and tractors through technologies known as IoT or Internet of Things.

Combines and tractors were equipped with sensors and state of the art autonomous driving technology that improved the efficiencies of the farm equipment. It enabled real-time monitoring of data collected from users or farmers. It enabled precision agriculture that optimizes the yields per unit of farming land.

But beyond enabling its products with new technologies, John Deere also built an entirely new relationship with its customers and the larger business ecosystem in which it competes by adopting new platform principles that enabled even more productivity for farmers than its machines alone could realize.

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*“John Deere builds a global community or network of collaborators that includes customers or farmers as a lynch pin for creating new value.”*

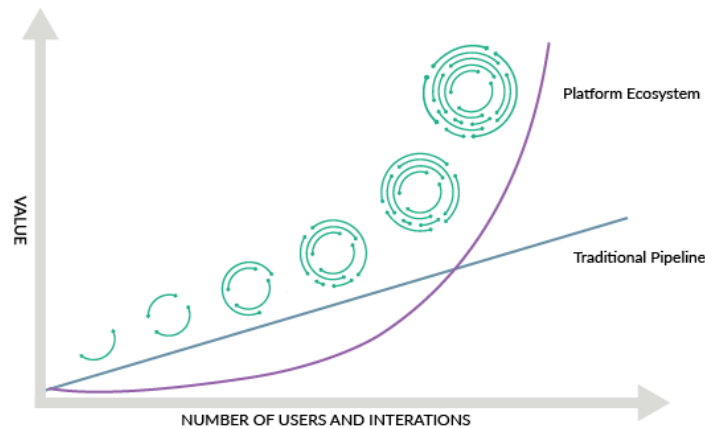
One part of this platform is an area where it collaborates with farmers and is known as the MyJohnDeere.com portal. It allows farmers to make better decisions about how to get the best results from their land by combining the data from the combines and tractors with weather and other data. For example, it is now possible to analyze agronomic data in real time, including average yield, total yield, average moisture, seeding variety and rates, and more.

The portal has further evolved into the John Deere Open Data Platform which let farmers share data with other farmers and also with third-party application developers that might create an app for example, or with other suppliers such as a seed or fertilizer manufacturer.

The SeedStar Mobile app for example captures row-by-row planting data which can be of help to optimize planter settings, diagnose potential problems, and scout fields.

The potential of these applications is rising enormously when farmers share their data not just with other farmers, but also with third-party application providers and indeed the entire agriculture ecosystems from the various suppliers and manufacturers contribute and even adjacent experts such as academics worldwide. When everyone focuses on the goal to improving the yield of agriculture, everyone profits.

As everyone profits from the same platform that has been enabled by John Deere, John Deere builds a global community or network of collaborators that includes customers or farmers as a lynch pin for creating new value. In the end, this will enable John Deere to even further strengthen its customer relationship and retain its competitive position worldwide.



*Platforms Scale Exponentially*

## PLATFORMS AS A WAY TO CONFRONT BEING SQUEEZED OUT BY INTERMEDIARIES

Schibsted Media Group, is an international media group with headquarters in Oslo, Norway, and presence in 22 countries in Europe, Asia, Africa, and America.

In Norway, when five newspapers faced disruption and elimination of their major revenue streams of classified advertising through digitalization, the companies' initial efforts were tepid. Each of the five newspapers had unique strengths in Norway, and there was little geographic overlap. With five equal owners, though, there was little progress in going from analog to digital and establishing a credible online presence.

As the business situation deteriorated, the solution was to create a platform business by rebranding their classified section under a new common brand, Finn, with national Norwegian-wide ambitions.

To achieve scale in terms of number of users or subscribers, Finn leveraged the heritages of the existing brands such as Aftenposten and Bergens Tidende. If you opened your Bergens Tidende newspaper in the morning, you would find the same classified brand Finn as if you opened Stavanger in another region of Norway. This created the value of the platform for those who sought out classifieds or advertisers. This also gave Finn immediate trustworthiness and credibility, something emerging classified competitors would not have.

Finn became hugely successful. Within 18 months, it took the No. 1 position in real estate, and then in cars and later in jobs. Within seven years, it took 90 percent of the market in all major product categories of online classifieds. The success in Norway followed the international expansion to over 40 countries, becoming the global leader in classifieds.

In short, Schibsted avoided being disrupted and turned the threat into a hugely profitable business growth. One of the major reasons for the success of Schibsted is that it quickly acknowledged a few things:

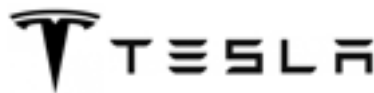
First was the differences between the news business and the classified business. One business creates supply-side economies of scale, the other creates demand-side economies of scale or network effects. Hence, it was necessary to separate out the classified business.

Second, it needed to respond in a somewhat contrarian way. It avoided the typical newspaper pathways as reflect in the oft-heard quotes such as “content is king” or “better content”. Instead, it created an entirely new non-print-based approaches to news.

Third, it needed to create an entirely new brand, a sort of branded platform, Finn, in the country of Norway, that leveraged the existing brand equity of its five legacy brands, while also establishing a new national digital brand.



Haier



## ADVANTAGES OF ESTABLISHED COMPANIES

Established companies have unique advantages which makes platform thinking so powerful for them.

- An established company starts with an existing customer base, and an established network of suppliers, partners and intermediaries. It can begin with building a platform business with a selected set of existing customers, and then grow the platform from there.
- Some companies have established a powerful brand based on deep trust with customers. John Deere has built this trust since 1837. Others have strong emotional bond such as Apple or Harley Davidson.
- Established companies also have a deep know-how of the inner workings of an entire industry or category.

Established companies can capitalize on these advantages and get a head start in building a platform business.

**QUESTIONS TO CONSIDER**

Companies should raise the following questions when considering a platform business:

- How can we take advantage of our existing assets and capabilities and develop competitive advantage through network effects?
- How can we enable deeper relationships with customers, and consumers and other stakeholders in our ecosystem so we can create more value for them?
- Which elements of a platform can we integrate into our products, services or business units to enable competitive advantage through network effects?
- Which elements of a platform business do we need to build ourselves, which do we need to acquire, and which should we provide through partnerships?
- What new capabilities do we need in order to collaborate and compete effectively in a platform world? How much of these capabilities do we have in-house and how much of these capabilities do we need to attract?
- What new business models should we deploy to capture the value and profit opportunities from platforms?

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Inquire about our customized workshop on platform strategy: [business@vivaldigroup.com](mailto:business@vivaldigroup.com).

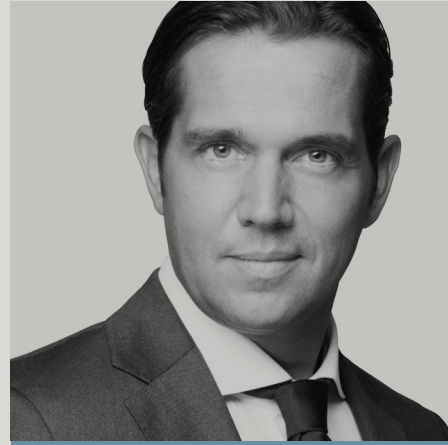


## THANK YOU



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