



The business of platforms

The platform business model to survive in an ecosystem driven economy

Article 1

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Foreword

This article focuses on defining the platform business model and pointing out the strategic impact on financial services organisations that goes far beyond aspects such as capabilities, culture, skills, structures, technologies, infrastructure governance and operating models.

We have investigated numerous business models operating in a digital era and overlaid platform thinking to test the current understanding of platform as a business model. In the process it became clear that the platform business model definition published in our previous article "The Power of Platforms" only covers one of the three potential platform business models. When we tested each definition against the "Seven Strategic Questions" we found that all three platform business models have a unique DNA, and to achieve the desired future state, the organisation will have to shift to accommodate a new way of doing business that is potentially driven and incentivised in a different way.

The intention of this article is not to challenge the strategic decision of your organisation's platform model of choice, but rather create awareness that moving toward platform thinking has a significant impact on how you mobilise resources, operationalise and govern your organisation and monetise your products and services. This article also intends to prove that the "status quo business model" and the new platform business model cannot survive under the same roof. If these instances are not addressed they will cannibalise existing organisational assets, duplicate capabilities and waste investments that could have superior returns if used more efficiently.

In future articles in our Business of Platforms series, we investigate how to transform from the status quo to the new world of platform thinking. Topics include, amongst others, the role of the customer in the world of platform business, delivery and operating model including the IT operating model, data and analytics, risk including cyber risk, regulatory frameworks, payments and monetisation of platforms as well as support, partnership management and corporate functions.

For the full list of articles that will be published in the series visit www.deloitte.com

Introduction

The rise of platform as a business model is causing global disruption as it traverses industry and country borders to destroy the status quo. In this new world of doing business, the way we communicate and live our daily lives is completely different to what it was less than a decade ago. The customer is now engaging business with a mindset of digital first. Real-time, integrated and seamless personalised experience has become the norm. All of this leads to rapid enhancements in products and services that require flexible business models that can deliver the ask. This is exactly what platform as a business aims to provide. The focus has changed to facilitate business interactions between participants and role-players. These participants and role-players can interact across industry, or can share products and services within an industry, or even just focus on providing best in class products and services within a specific business in that industry.

For organisations to be successful in generating new growth, they will need to transform their value proposition to better take advantage of this increasingly ecosystem driven economy. This means engaging with clients, partners and suppliers through new business models.

But what exactly makes these business models different to those that we are accustomed to? In this paper we will explore the different business models available that will enable an organisation to become more of an ecosystem player. We will unpack the implications of the business models so that organisations that venture in this direction can understand the types of challenges they will face. But before we can explore the options and their implications, we need to be aligned on the definitions of a platform business...

“Exploring new frontiers,
embracing a *new platform*
and ecosystem reality”

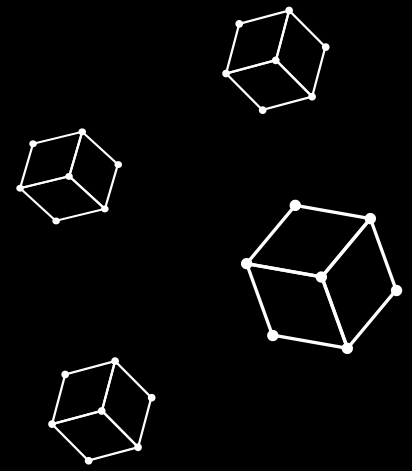
Defining a platform business model

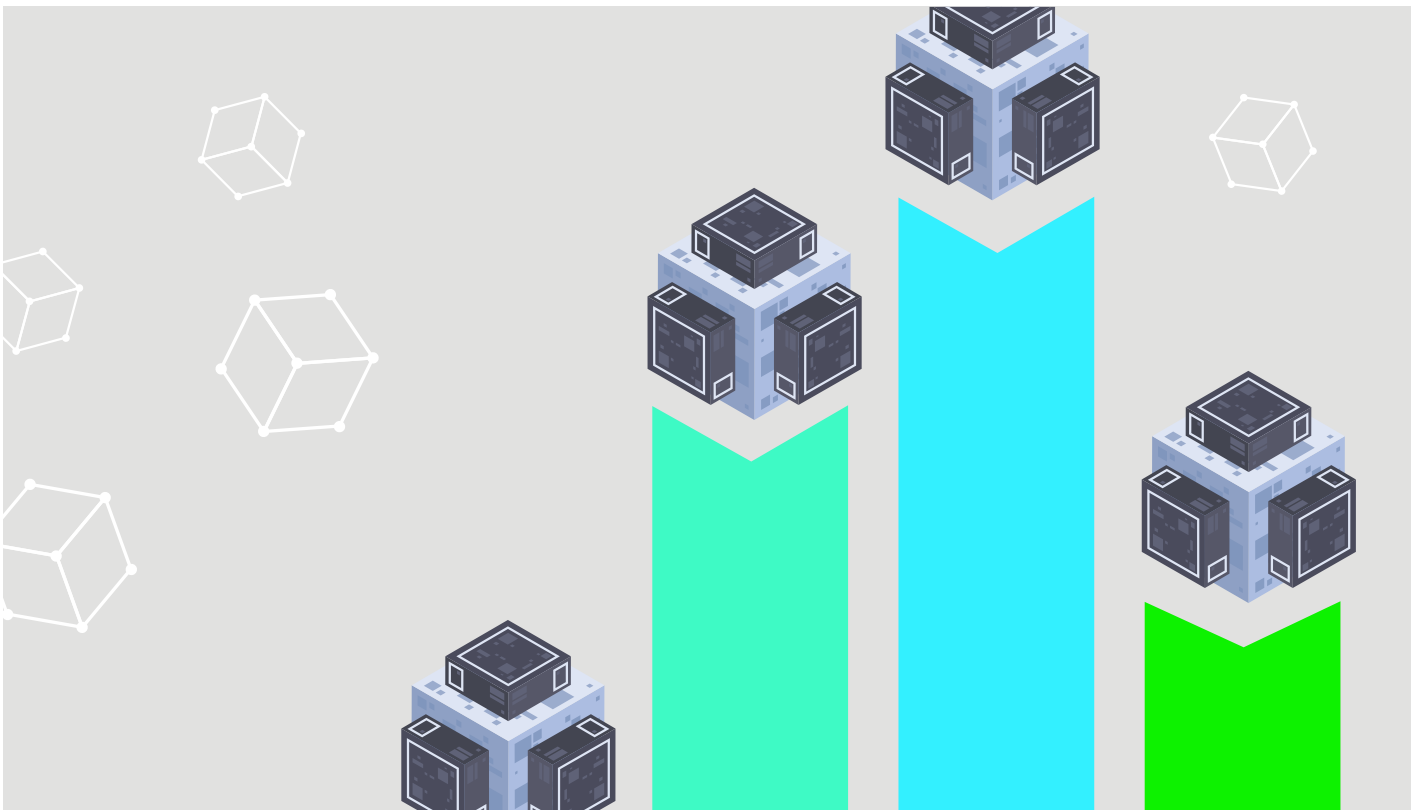
In our previous publication, "The power of platforms" (2015), we defined platform business as:

"a business model (not a technology solution) that focuses on helping to facilitate interactions across many participants. These interactions could take the form of short-term transactions like connecting buyers and sellers or they could involve formation of longer-term social relationships, longer-term collaboration to achieve a shared outcome or sustained efforts to accelerate performance improvement of participants by helping them to learn faster together."

The role of the platform business is to *provide a governance structure* and a set of standards and protocols that *facilitate interactions* at scale so that *network effects* can be unleashed.

While this definition still holds true, we have found that it is not complete in the world of digital businesses. We have cross-referenced this with the four business models of the digital era (MIT Sloane) and found that our definition of a platform business from 2015 is somewhat limited. Our definitions very clearly focus on facilitating interactions between suppliers and consumers in an ecosystem. The four business models of the digital era highlight two alternative business models available to organisations to excel in a world of ecosystem driven economies.





Four Business Models for the Digital Era

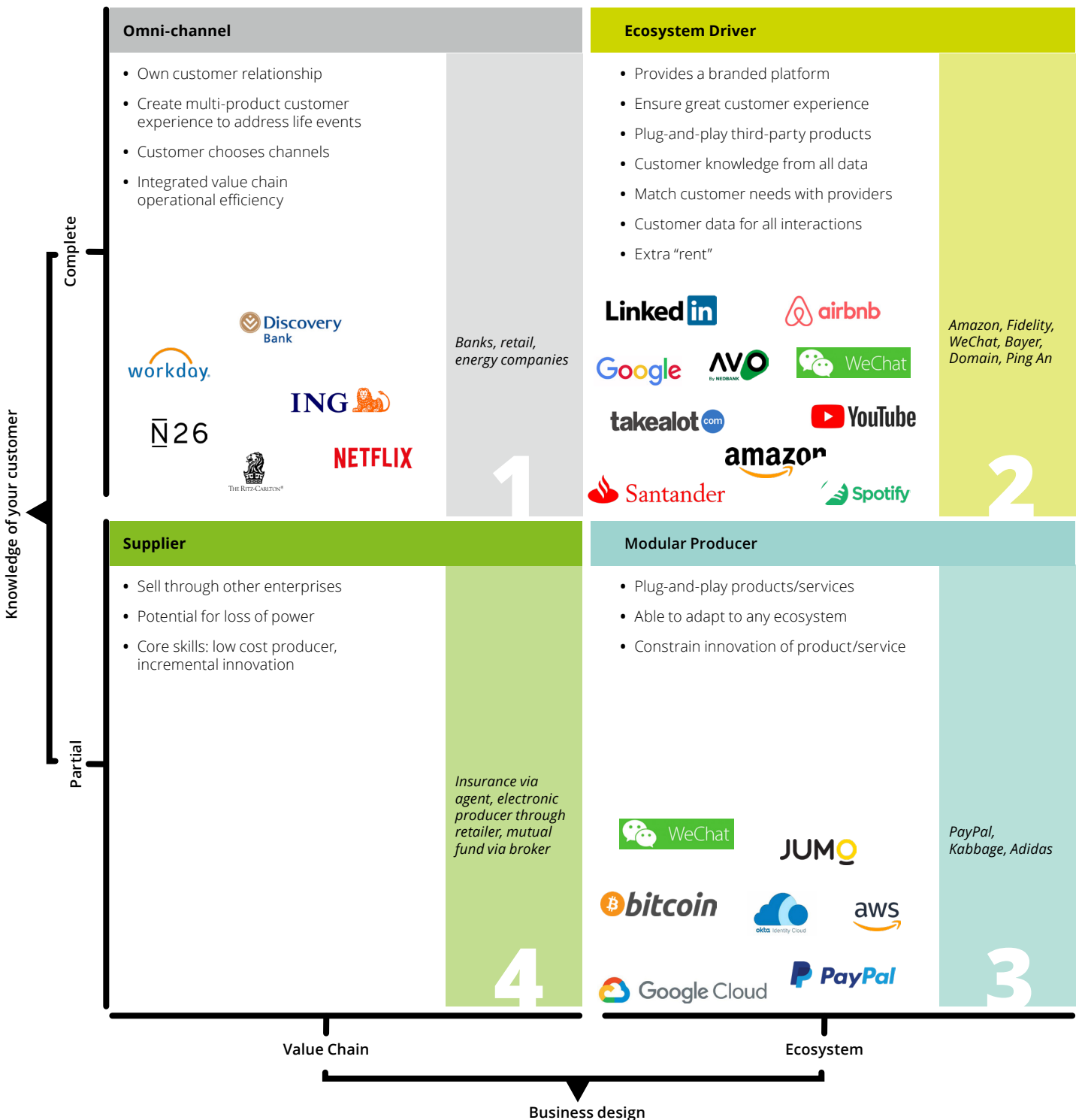
Given the amount of turmoil digital disruption is causing, it's time for organisations to evaluate the threats and opportunities – and start creating new business options for the future. In selecting the right business model, business leaders have four distinct options (alone or in combination), with associated capabilities and relationships.

| | | | |
|---|---|--|---|
| <p>The Omni-channel Model</p> <p>Omni-channel businesses provide customers access to their products across multiple channels, including physical and digital channels, giving them greater choice and a seamless experience.</p> | <p>The Ecosystem Driver Model</p> <p>Some companies, such as Amazon, Fidelity, Aetna, Apple and Microsoft, establish an ecosystem by creating relationships with other providers that offer complementary (or sometimes competing) services. Ecosystem drivers provide a platform for the participants to conduct business; the platform can be more or less open. For example, Google has a very open platform, while Apple's is more closed.</p> | <p>The Modular Producer Model</p> <p>Modular producers, such as PayPal, provide plug-and-play products or services that can adapt to a variety of ecosystems. To survive, modular producers must be among the best.</p> | <p>The Supplier Model</p> <p>Suppliers have, at best, partial knowledge of their end consumer, and typically operate in the value chain of another powerful company. Companies that sell insurance via independent agents (for example, Chubb Group), electronic goods through retailers (such as Sony) or mutual funds through brokers (for example, Vanguard) are suppliers.</p> |
|---|---|--|---|

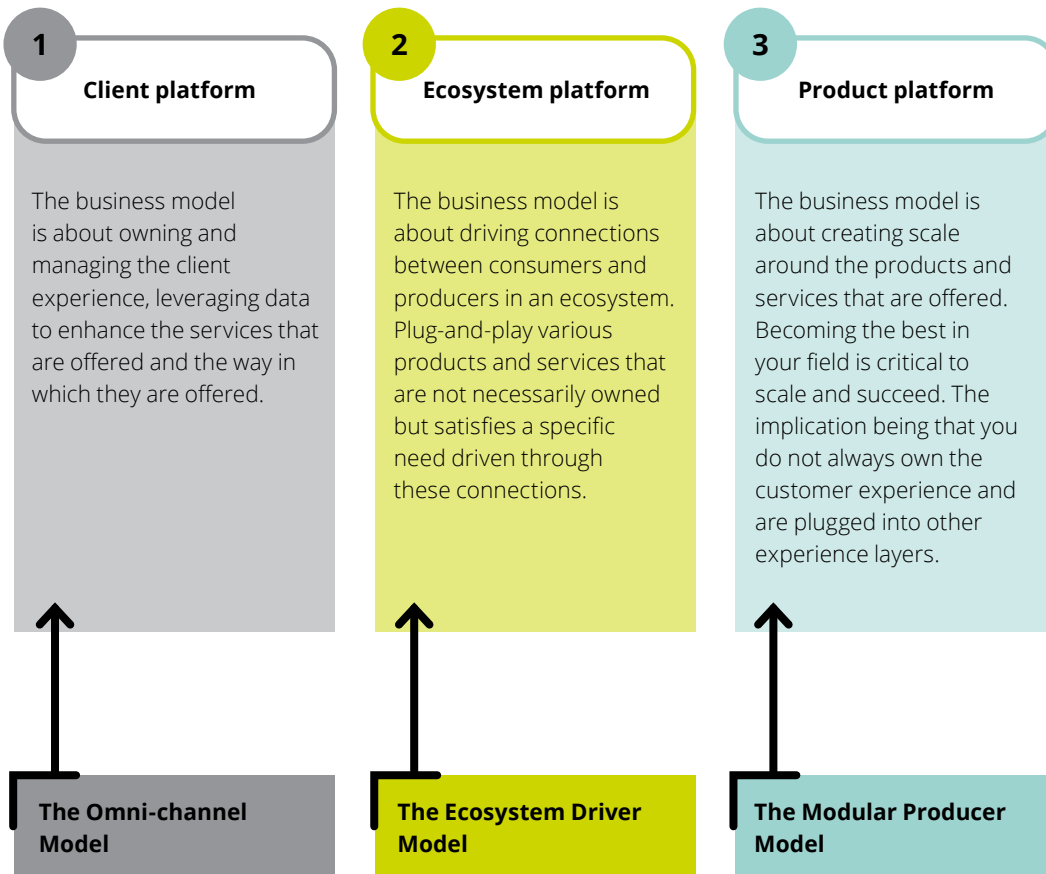
Platform business models in the context of the digital era

Platform business has been around for a while. When we look at some of the most successful and digital-savvy organisations in the market today and overlay them on the four business models for the digital era we start to see a pattern emerging in the business design of these organisations.

Figure 1: Business design



It is from this pattern that we can identify **3 platform business models** that seek to achieve very specific organisational aspirations.



This mapping of platform business models highlights a couple of important insights that we aim to unpack and demystify further in this article:

1. The platform business model is not defined by the technology. Thus, what is the difference between a platform business model and a technology platform?
2. Organisations with underlying products and services are able to span multiple business models (e.g. Amazon and AWS). Thus, how did organisations evolve and become successful in this space?
3. The different business models apply a very specific focus on how you orchestrate the operating model. Thus, what are the implications to an organisation if they embark on such a business model transformation?

Platform business model versus a technology platform

What is evident from the different platform business models defined is that it is not the technology that defines their business model, but rather the technology that is in many cases a key enabler of the business model and associated experiences that are enabled. It is important that when we embark on a platform business model strategy, there is a clear understanding of what the organisation means with its strategy and where the technology fits into that.

Technology as a platform to enable solutions

Gartner promotes a platform as an intentional set-up that is built on service-based principles and architecture. Gartner therefore recommends five areas through which a technology platform should support digital businesses:

1. Information systems, which support back office and operational areas, such as ERPs and core systems.
2. Customer experiences, which create and support customer-facing elements, like customer and employee portals, commerce channels, and consumer apps.
3. Data and analytics, which support information management, analysis and algorithms, allowing the automation of discovery and action to promote data-derived decision-making.
4. Internet of Things (IoT), which connects the physical assets of core and operational systems, in order to

promote connectivity, analytics, and integration by monitoring, optimising, controlling, and monetising.

5. Ecosystems, which support the creation and relation to any ecosystems, marketplaces, and communities that are external to the business – such as security and API management.

A platform business model enabled through technology

A platform business provides/enables an omni-channel tailored experience through which it facilitates the exchange of value. The technology used to enable such a platform business model are, in many cases, the same foundational technology elements that we find in a technology platform but orchestrated in a different way to deliver value through a different business model or typically in an ecosystem.

From our research and experience, we have identified the following technology elements that are critical to the enablement of a business platform:

- **Cloud** – Provides the financial impetus. However, the ability to build rapidly scalable infrastructure and components to enable a platform business may result in the use of a multitude of charge models that need to be carefully understood and managed to ensure a cost-effective platform with a uniform understandable cost model.

- **Data and analytics** – The glue. There are multiple data sources and data streams that flow through a business platform and the usual focus of analytics is on the data streams that relate to the business and its customers. However, using appropriate analytics makes it possible to detect incidents and also serve as sources of data for continual improvements to be made to the performance and security of the platform.

- **DevOps** – Provides the seamless. It provides the materialisation thread between the platform business strategy and innovation, and the platform and all its services. Modern IT practices, that include DevOps techniques and tools, make it possible to build, scale and maintain platforms in a way that allows incremental innovation and continual improvement of the platform.

- **Agile at scale** – The ability to incorporate customer feedback into your development lifecycle, making the necessary pivots quickly and getting this into market will enable you to scale and remain relevant to your customers.

- **Partnership** – The pace at which technology moves today makes it next to impossible to develop all services from within the organisation. Only by leveraging partners can you create the acceleration needed to remain relevant.

- **Cyber Security** – Cyber fraud is the biggest risk that platform businesses face. Combating cyber fraud in a platform business will require the participation of all parties. The insiders, the users, the service suppliers and the customers.

Evolution towards platform business models for incumbents

If platform business models are not as new and novel as we initially thought, and some of the platform businesses are well-known brands that have been around for a while, how did they end up in such a business model? Was it intentional? Was it natural evolution? Has it always been part of the plan? When we track back through history on some of these well-known brands and how their offerings evolved, again we see that there is a pattern that starts to emerge.

Across industries, this pattern seems to be the common evolutionary path that is followed and goes along the lines of:

- 1. The initial opportunity** – An organisation sees an opportunity in the market, launches a novel service to take advantage of said opportunity and reaches fast and unprecedented scale, becoming one of the main players (if not the only player). Examples: Amazon’s approach to selling books online, Google’s search engine, Apple’s different approach to computing.
- 2. Becoming more digital** – The organisation sees opportunity to advance their services and/or experiences through the adoption of digital/emerging technologies. The organisation becomes more successful not because of the technology, but because of the service offerings it is able to create on top of the technology. Examples: Amazon extends its e-commerce services beyond books, and Google added various features such as email and maps.
- 3. Doing more by owning less** – The organisation sees the opportunity to use its infrastructure in a smarter way, allowing external players to participate and create their own value. For each transaction/exchange of value made, the owner of the infrastructure takes reward, mostly in the form of commissions, transaction fees and data. Out of this we see the rise of some of the first platform businesses. Examples: Amazon.com opens their infrastructure to third party sellers, iOS and Android app stores etc.
- 4. Extending beyond your core** – By the time the organisations reach this point, they have been so successful in creating infrastructure and doing different types of business, that they start launching offerings that can either complement some of their existing services or leverage their infrastructure that they have created in a modular fashion. Examples: Amazon and Google launch Infrastructure-as-a-Service, Amazon launches content capabilities to complement their Kindle and e-book services.

The evolution of an incumbent towards a platform business is complex. Incumbents must invest, build and acquire the necessary infrastructure where, new entrants have an easier path to leverage utilities available.

Figure 2: The evolution towards platform business models for incumbents

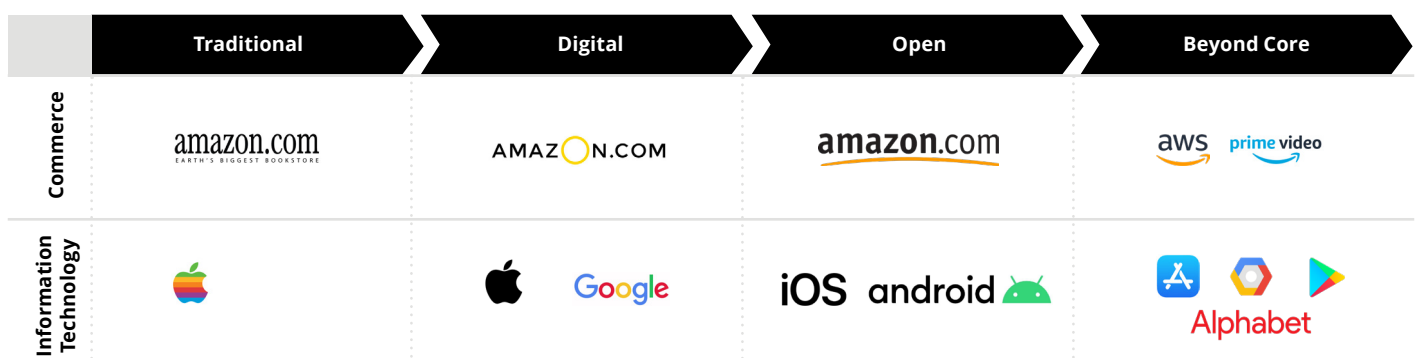
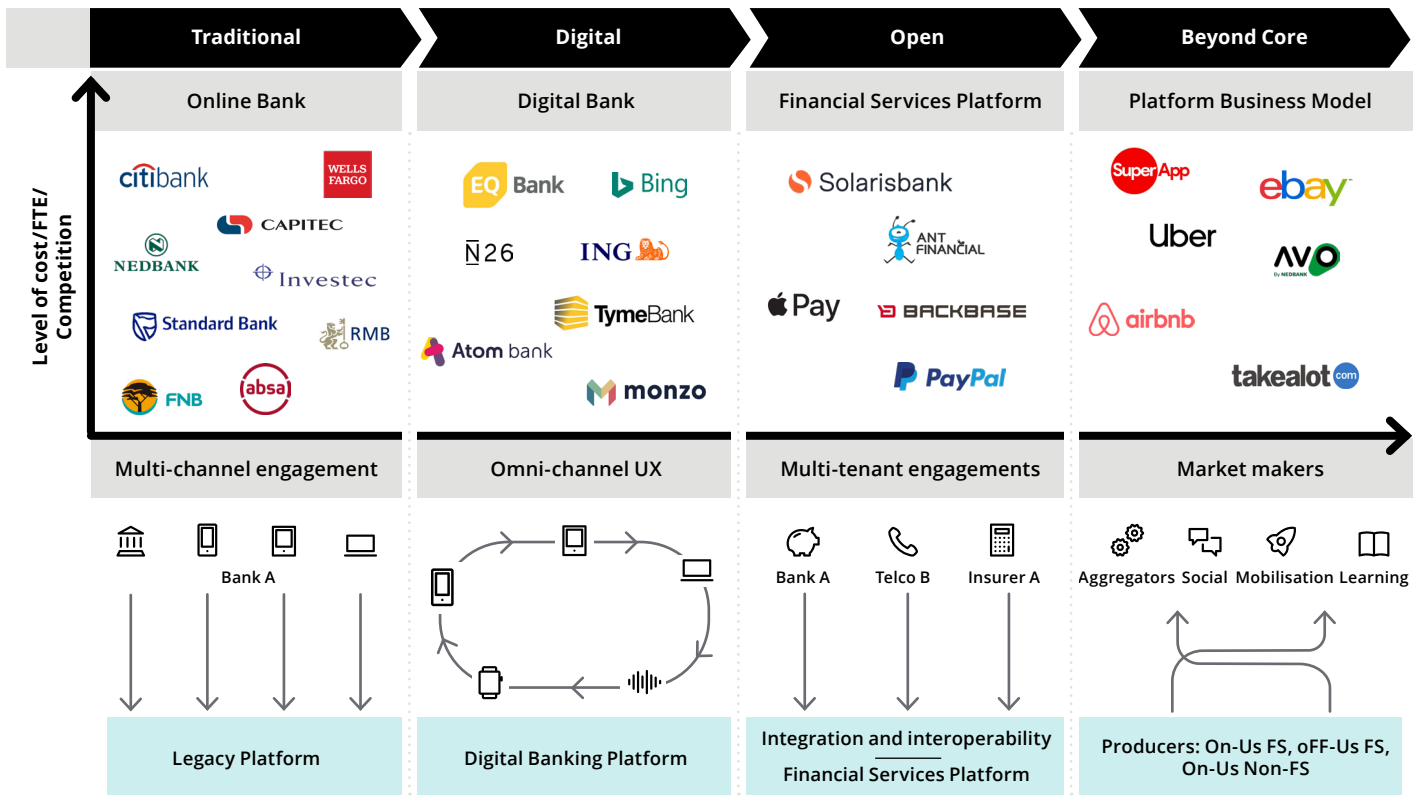


Figure 3: The predicted evolution for financial services



The predicted evolution for financial services

Over the past 5 to 10 years we have all witnessed the digital evolution of financial services. It started with the launch of internet banking and applications that allowed customers to do more self-service using electronic channels. Soon each financial services provider had a set of multi-channel engagements that were giving access to a quickly ageing legacy technology platform.

With the emergence of cloud technologies and X-as-a-Service, existing and new entrants started building omni-channel user experience layers that operated on a far more advanced technology platform. This opened the door to a significantly reduced cost to service for these organisations, but client scale remained a challenge as incumbents struggled to make the transition.

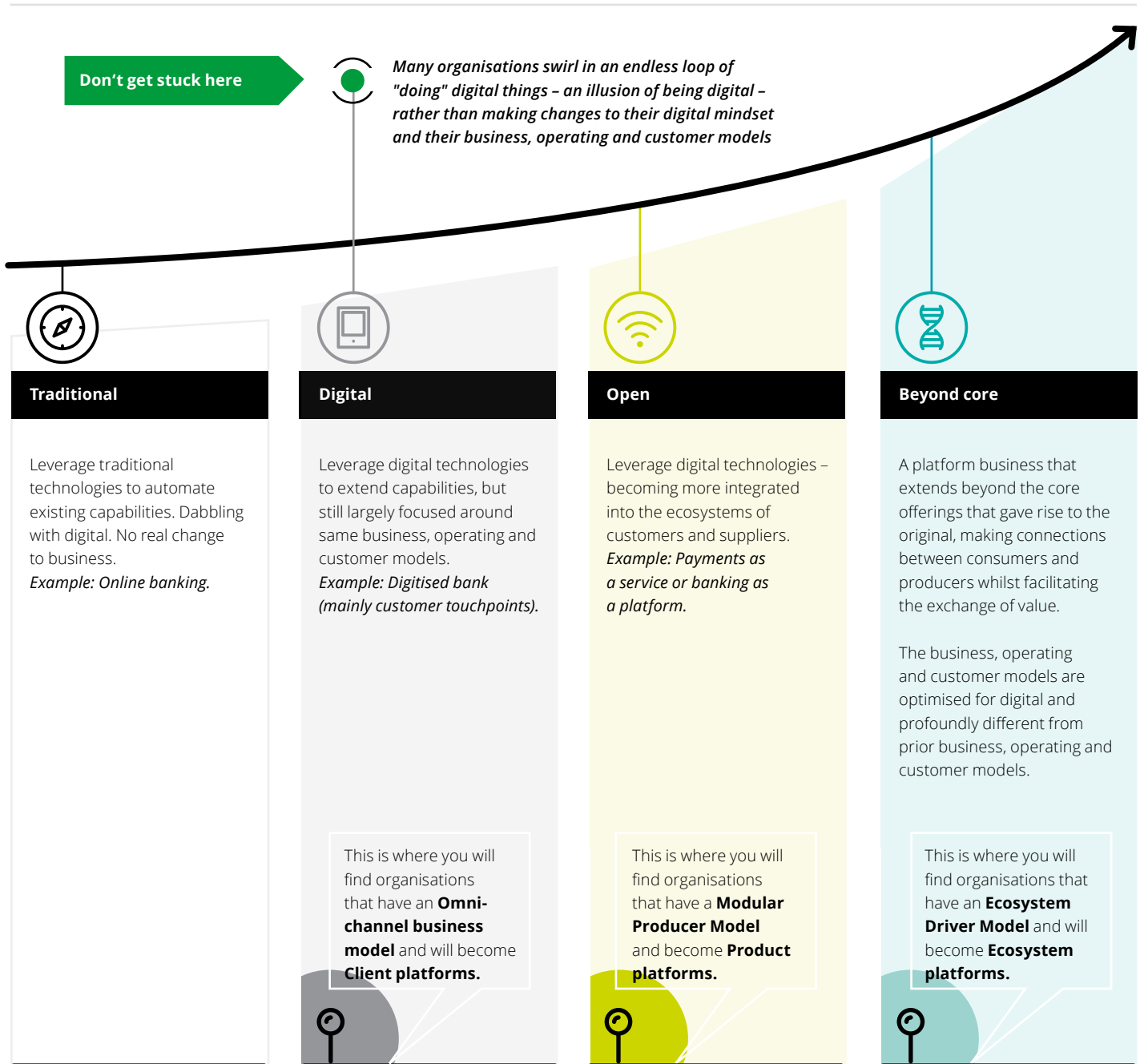
Next was the opening of technology platform capabilities and the rise of Banking-as-a-Service where multiple financial services providers are able to use the same underlying platform to expose various financial offerings. The ability to plug and play into an ecosystem was what set them apart from competitors and, in many cases, these players started to play at the edge of the value chain where they are not as constricted by regulations as a fully-licensed financial services provider. Fast-forward to the here and now, we see financial services players and other industries making their plays for the ecosystem and extending beyond their traditional service offerings. Many call this the convergence of industries. The start-ups seem to be the most successful to create scale without the legacy to inhibit their efforts. But more and more we are seeing various incumbents across the world making plays that will open their services up to other players and enable them to launch offerings beyond their traditional value propositions.

The most recognisable play in this convergence would arguably be the launch of a marketplace by an incumbent that is not traditionally known for its e-commerce capabilities. Also, the expansion of telcos towards financial services to explore alternative revenue streams is something we are all very familiar with.

The journey towards "being" a platform business

So, many will ask whether they are not already on this journey? The truth is that organisations are on the evolutionary path of becoming more efficient and remaining relevant to their customers. Organisations will find themselves at various points of maturity when they reflect on their efforts. We know that most organisations are at least on the journey to being more digital. This has been the most talked about business transformation theme of the past couple of years.

Figure 4: The digital evolution of platform thinking



But how do organisations stay ahead and not get stuck in being just a digital organisation? Organisations have two options at their disposal:

- **Open organisation** – Organisations can firstly open their assets in the form of a modular producer. This will move the organisation into the space of a product platform where third parties can consume these services and create

their own experiences. By doing this, organisations also open the opportunity to consumer services from other third parties which they can incorporate into their own experience layers, providing customers with more options and value.

- **Go beyond your core** – Organisations also have the option of introducing products and services to their customer base that are beyond their core offerings.

This projects the organisation into the convergence of industries space. Doing this successfully and at the speed that the market demands today, requires an organisation to consume various services from modular producers instead of building everything in-house. Only by partnering with third parties will you be able to create the scale and agility to lead the market.

The implications of different platform business models on your organisation

It is important to understand that once an organisation chooses a platform business model strategy, there are significant implications to the organisation. The whole notion of a platform business model already implies that the business model is changing from what your organisation knows today. The DNA of the organisation will have to shift to accommodate a new way of doing business that is potentially driven and incentivised in a different way.

Making such a significant change is not the same as introducing a new product, service or solution within the existing organisation. Depending on your choice of business model(s) to pursue, there will be significant changes that will have to be made across the organisation.

Most importantly, if more than one business model is targeted (e.g. product platform and ecosystem platform) careful consideration will have to be given to how the operating model, will have to be constructed to make these business models successful. The different business models will be competing for finite resources in the organisation and a decision will have to be made if one takes precedence over the other or are they orchestrated in such a way that they operate on their own terms and allowed to be successful in their own right, playing by their own rules. As an example, an ecosystem business model will be driven by client experiences and this will lead their trade-off decisions in the organisation. In contrast, a product platform business

model will be led by product efficiencies and trade-off decisions will be made in favour thereof. Significant tensions and friction can be created in the organisation if the business model is not operationalised in the right way, driving the right outcomes.

It is important to keep in mind that the implications of your business model decision will stretch far into your organisation, covering various aspects such as capabilities, culture, skills, structures, technologies, infrastructure, governance etc. Looking inward to your organisation and cataloguing the existing assets available to you will allow you to identify opportunities and transition plans that will accelerate your transformation. If not done, you risk cannibalising existing organisational assets, duplicating capabilities and wasting investment that could have superior returns.

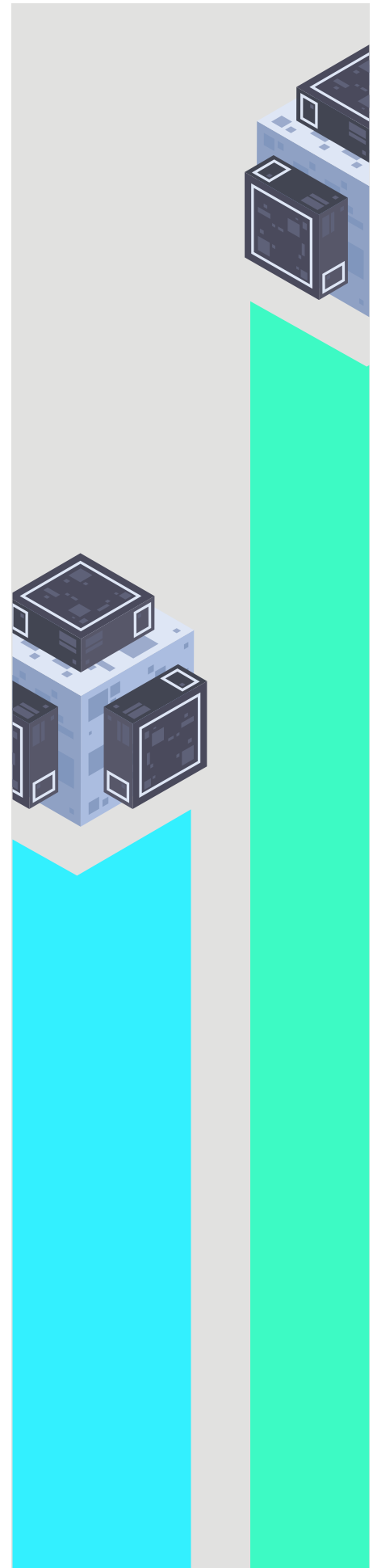
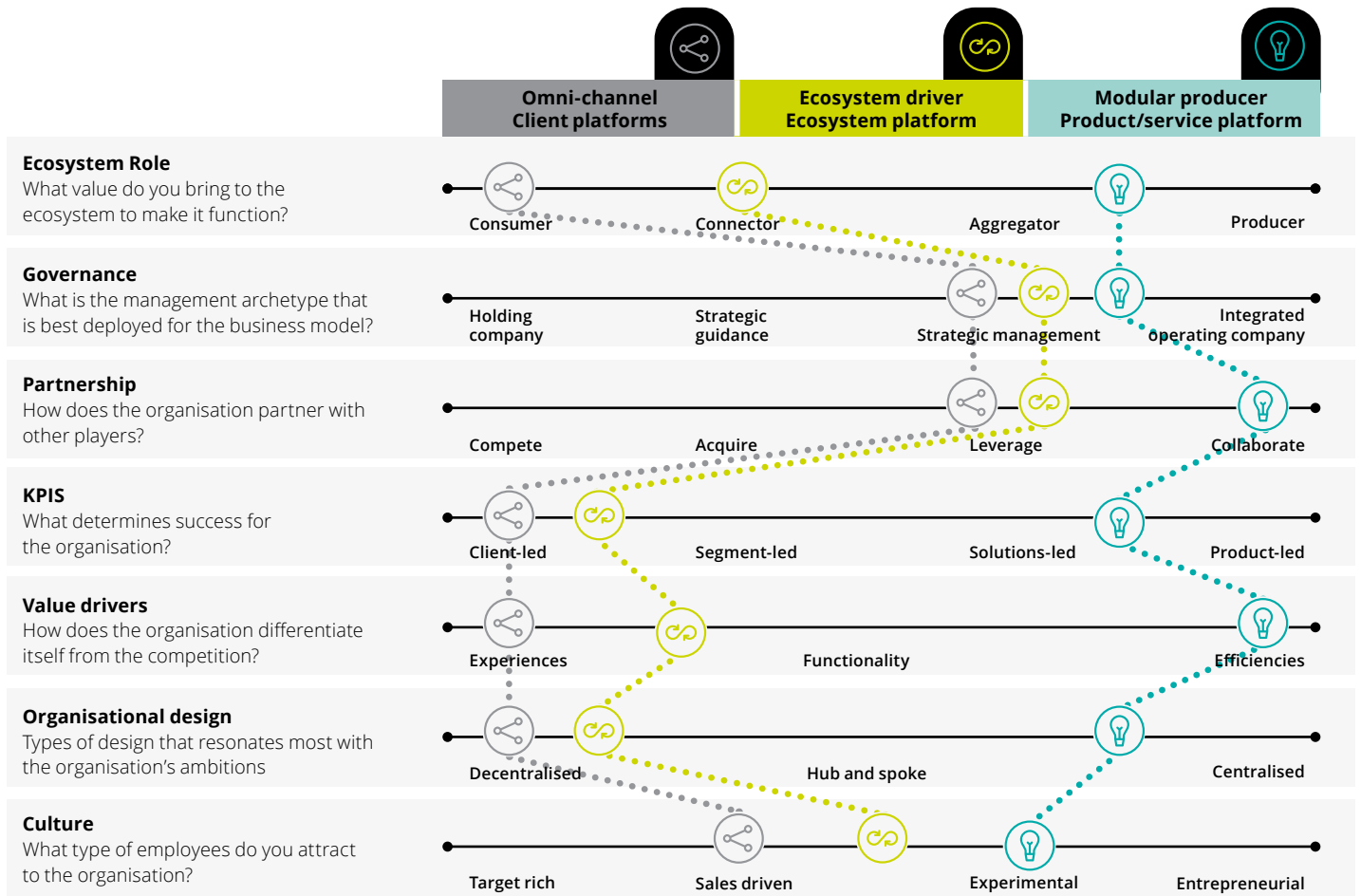


Figure 5: Platform business models – strategic implications

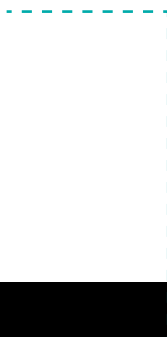


When mapping out the three business models using "the seven strategic pillars" it became very clear that the DNA of the organisation will vary depending on the strategic decision of your organisational platform model of choice.

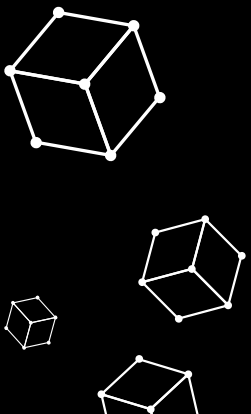
Conclusion

The path towards becoming an ecosystem player is complex and competitive. But understanding the different business models available to organisations to make this a reality helps in taking the first step and gaining momentum. The challenge with the business model decision is understanding and dealing with the implication of that decision in your organisation in order to successfully deliver on the strategy. It is easy to get stuck in a world where you have adopted some digital technologies and believe that these technologies will bring a sustainable advantage and relevance in the market. Only by moving beyond your digital transformation towards becoming more open and beyond your core will you be ready to weather the storms of the future and battle it out with the new entrants and start-ups of tomorrow.

There is significant value for organisations to embark on a platform business strategy. Clients, digital evolution, revenue, cost, diversifications are just some of the organisational benefits that can be achieved from such a transformation. But most importantly it is about obtaining/sustaining market advantage and relevance in an increasingly globalised world.



Only by moving *beyond your digital transformation* towards becoming more open and beyond your core will you be ready to *weather the storms of the future* and battle it out with the new entrants and start-ups of tomorrow.



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