



The New Formula for Creating a Billion-Dollar Firm

Companies with a software ecosystem for their hardware to live in will be the next winners in the technology sector.

At the recent Consumer Electronics Show in Las Vegas, a defining feature underscored the most sophisticated creators of new devices: the platform. The car, the home, the person, all linked together in an ecosystem that gives customers a holistic vision of their worlds. We know that the ship, the space rocket, the airplane the train are all becoming platforms. These industries are all looking for entrepreneurs who are taking the system-level approach to the total customer experience with ecosystems built around platforms.

What defines an ecosystem or a platform? Well, in a multi-stakeholder world, an industry is an ecosystem. It's a system with a sense of order, natural allies or camps, but not an inherent hierarchy. Those who organise the economics for those ecosystems are the winners. I call those companies platforms.

Take Harry's, an internet shaving start-up, backed by hedge fund Tiger Global. It's not even a year old, but has just acquired a 93-year old factory near Nurembourg, Germany which makes razors. They have done this in order to control the entire customer experience, while allowing the company to change its products quickly. There are hints of Zara's model in their approach.

Nest, the so-called thermostat company, which set

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out to turn unloved items in your home into objects of desire, was recently acquired by Google for \$3 billion. Nest deals with the guts of houses and their pipes as well as customer design and user behaviour.

Andreas Raptopoulous, Founder of Matternet, is creating a vertically integrated drones company. It is the most loved and inspiring Unmanned Aerial Vehicle (UAV) business in an industry which is feared. He aims to create a total customer experience with drones, reimagining the delivery of necessary consumer goods.

What do all of these examples have in common? They are all defined by vertical integration. They are moving to control the entire experience and build an ecosystem for their customers. Raptopoulous is an expert in robotics as well as customer design. This system-level approach, combining hardware and software is giving the company huge momentum.

What a change!

There was a time when horizontal (not vertical) tech start-ups were the darling of the Valley Venture Capitalists. Once upon a time, the world was PC-centric and Wintel, the Windows-Intel alliance, ruled the PC Platform. Software was the greatest

invention to make people wealthy as the margins were massive once you sold the stuff. Niches had to be found amongst the horizontal layers above the operating systems. Nobody dethroned Microsoft until the world started to move beyond the PC. Infrastructure is a tough place to be. That's why the technology platform companies are winning – iPhone & iOS are in the ascendancy, not Vodafone or Telefonica. They leverage the investment that other people are making and organise the economics for the ecosystem. Upside without the pain.



The challenge for the CEO of a traditional larger enterprise, whatever the sector, is to reimagine their industry as an ecosystem, identify their natural allies, ask what they can do to make their interests work collaboratively and to open themselves up to consumer-orientated applications to run over them. British Gas could have created Nest. British Telecom could have created Skype. Volkswagen or General Motors could have created Tesla.

But they didn't. They didn't reimagine their industries as ecosystems, so an entrepreneur did.

The transportation sector is no different. Amazon's announcement that it was testing drone delivery forced the CFO of every DHL, Fedex, UPS and TNT to do two things before Christmas: reforecast their revenue downwards from Amazon and look for a dance partner in the UAV space.

Goliath doesn't have the clock speed and doesn't anticipate change, much less embrace change. That gives the David the opportunity. In 2003, when I had just started advising Skype, the CEO of a major incumbent Telco told me I would lose my shirt with Skype and they would go bust. I responded, 'how fascinating: you've decided to underestimate the entrepreneur who disrupted the entire music industry with Kazaa. Let me tell you – he is so glad you are underestimating him right now. You are buying him the time to change the world.'

So if you want to build a billion dollar company, a hardware & software combination is the winning formula. The Harrys, Teslas, Nests, and Matternets of this world show the way.

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