Turning Products into Valuable Platforms

Paying attention to the management of your company and nurturing customers is the key to transitioning a successful product into a robust digital platform.

Platforms can be a strong source of competitive advantage. But how do you build a successful platform if you only have products? Like riding a bike, it's easy to describe the physics but hard to actually do. Feng Zhu, assistant professor of business administration at Harvard Business School, and I recently **studied** 20 companies that aspired to become platform businesses to identify the fundamentals "best practices" of transforming products into platforms.

In our research, we found that platforms emerge and grow akin to companies, people, and products. They don't just appear – they evolve. Thoughtful management on both the demand side and the supply side can smooth the transition.

Demand-side evolution

Creating a new platform out of a product involves attracting a large number of users, but our research suggests that user growth isn't linear. It occurs in three stages:

1. Structuring an external product "love group"

When creating their 3D-printer platform MakerBot first attracted a group of devoted product fans, the "love group", among the maker community and convinced them of the benefits of making desktop

3D printing accessible to all. MakerBot structured and expanded this group through a series of projects, conferences and events that built momentum for the product. For example, many of the early product fans helped build printers for MakerBot when demand began to overwhelm the company's production capabilities.

2. Transforming the love group into early platform adopters

The enthusiasm of the love group propelled the growth of MakerBot's then-new Thingiverse – an online platform where makers can post designs and users can download them to print.

3. Leveraging early adopters to accelerate platform adoption

With the early platform in hand, MakerBot leveraged the work and devotion of early adopters to create broader momentum for their platform, their product and for 3D printing.

MakerBot's cultivation of its users as it moved from product to platform was immensely successful. As you consider the demand-side evolution, note the role of emotion and support: Companies nurture their users' enthusiasm and support them through these different stages. Both familiar players like

Google, Apple and Microsoft and lesser-known companies like Mojang, Valve and Id Software have worked through similar stages on the user side to get their platforms off the ground. MakerBot has faltered lately, however, due to the fact that its core product was difficult to defend – demonstrating one reason that so many product-to-platform attempts fail.

Supply-side evolution

As firms move from product to platform, the company also evolves through three stages:

1. Internal platform R&D + blended complementors + community management

During the first phase of company evolution, it is appropriate to have an internal development team focused on creating momentum for a great product through continuous refinement of the core product, inspiring customer adoption and enthusiasm. As companies start the move to platforms they often benefit from including outsiders in the process. For example, a Stanford graduate student saw the opportunities in opening up the code for Lego's Mindstorm robots to create a platform, transforming a toy into a tool for schools for education and experimentation. In these early stages, firms don't necessarily need to sweep out their development teams but they must engage external complementors to explore new opportunities in creating value through a platform.

2. Internal platform R&D + blended complementors + community management

In the second stage, firms typically have to expend a fair amount of internal R&D effort to create the platform itself from the initial seeds of ideas from complementors. Not all this effort is exclusively internally focused and platform project leaders will find themselves increasingly managing two key groups: complementors, who may be outside the company or transitioning to internal roles inside the company; and a growing community inside the company devoted to promoting and managing it.

Nest, the smart thermostat that has evolved into a home products platform, actively works with other companies to develop Nest-compatible products, deciding which complementors to keep outside the company (nurturing them without scaring them away) and which to bring inside. Nest recently acquired Dropcam, which produces cameras that allow customers to see and monitor their home, ensuring that Dropcam would become a complementor to Nest rather than a competitor.

3. Hybrid business model management

In the final stage, companies embrace a hybrid business model and reallocate revenue streams to optimise for total value creation and capture, rather than focusing on either the product or the platform at the expense of the other. Qihoo 360, one of China's most successful internet firms, started as a security software product that cross-subsidised the development of a new platform with products they gave away for free, creating more value in the end for the entire platform.

The real challenge is to create the business model flexibility to iterate on a well-established product and turn it into a platform. Several companies we studied appeared to have developed potentially viable platforms out of their products, but struggled to move from capturing value based on products to capturing value based on the combination of products and platforms through a hybrid business model that combined both product and platform elements.

Like many transformational strategic moves, the successful transition from product to platform should happen in stages that demand flexibility. The reward is that they are hard for others to imitate and create enduring growth.

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