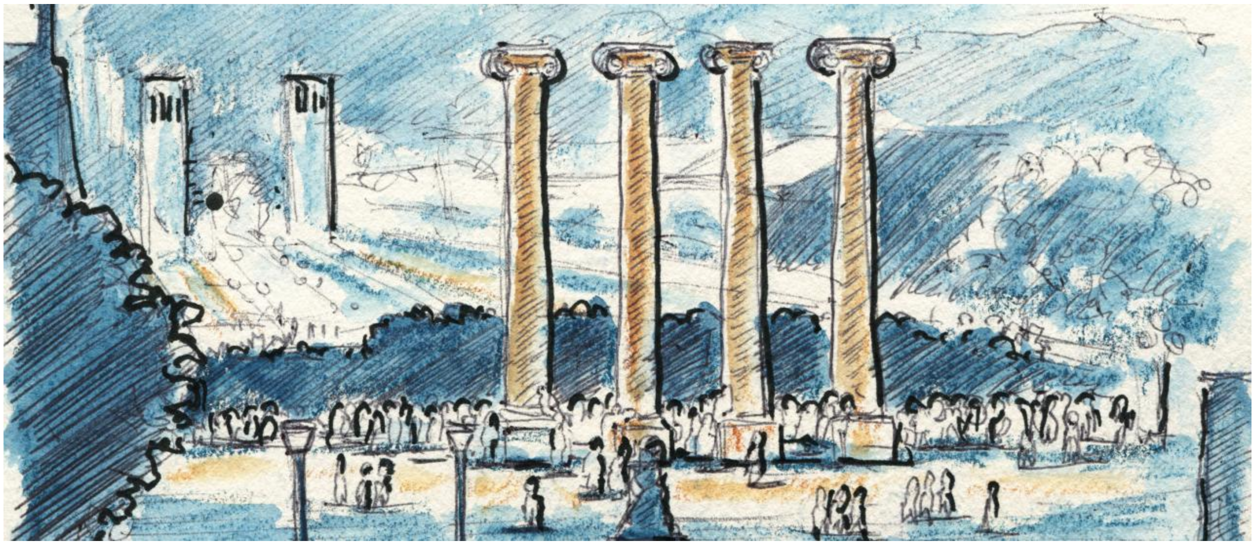
The Four Essential Pillars of Successful Platform Businesses



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To transition from pipeline to ecosystem business requires executive focus and strength building in four key areas.

The increasing prominence of the digital platform model poses a substantial threat to the traditional approach to business. One key challenge facing traditional businesses is transforming the way they think about creating value. The existing linear pipeline approach to aggregating value is very different to the networked business model where value exchange occurs between multiple participants through centralised infrastructure and governance mechanisms.

Indeed, few traditional firms have been successful in crawling out of the pipeline ocean and onto the platform landscape.

For many “traditional executives”, the seduction of tangible earnings from core businesses outweighs abstract valuations based on network effects. For others, the disruptive fear associated with the platform model is much more real.

Reconfiguring reality

In our work with executives managing this shift, we've identified four core pillars which are essential to managing this shift: Intention, Behaviour, Systems and Culture.

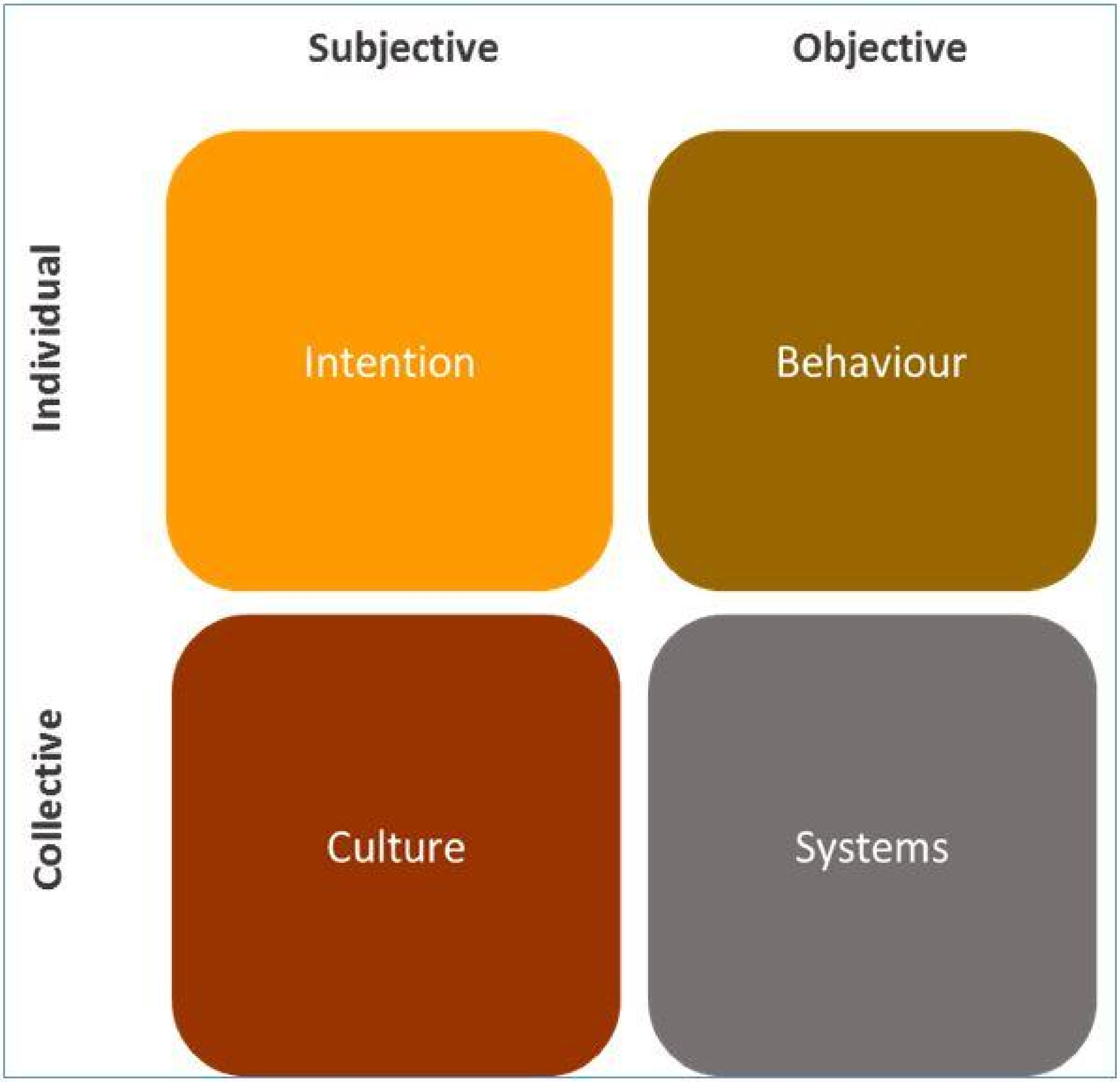

Figure 1: Adapted from Ken Wilber's model

From a business perspective, a firm's reality can be viewed from two dimensions (Figure 1). The first dimension splits reality into its subjective (mind-sets, commitments, attitudes and cognitive limitations) and objective – business tangibles such as physical assets, connective processes and the hard measures such as KPIs – components.

The second dimension highlights the tension between individual interests and the business need for collective, collaborative performance. For the most part, senior executives expend a considerable amount of their time trying to effectively navigate the environment that arises from the interplay of these dimensions.

Furthermore, the overall performance of business is ultimately constrained when one quadrant is weak. For instance, how many times have you heard executives say the following about their failed change initiatives:

- *“We had a solid business case, well-prepared materials and solid roll-out plans, but couldn’t change the mind-set of our own people.” (weak Systems quadrant)*
- *“She was unconvincing about the initiative she was promoting. There was no excitement or passion there.” (weak Intention and Behaviour quadrants)*
- *“The Leadership said one thing but their actions spoke another language.” (weak Behaviour and Systems quadrants)*

Managing the digital shift

When a business moves from a linear, pipeline-centred model to a networked platform model, it needs to execute change along all four pillars laid out in the framework above. In doing so, it must craft strategies along all four pillars that impact not just the firm but also the ecosystem that builds around the platform.

Intention: A platform brings together participants with different mind-sets and motivations. Value creating exchanges can ensue only if the platform structures the right incentives for these various participants. As an example, when Yelp was launched in the United States, it attracted a strong community of high quality reviewers because of a well-structured community management programme. The top reviewers – known as the Yelp Elite – would get exclusive access to specific events in the city. Further down the line, Yelp tried scaling its reviews by offering inorganic incentives like a US$5 Starbucks card. Instead of driving quantity, it led to a sharp dip in quality of reviews as the incentives attracted students with free time who wanted to earn a few quick coupons. Yelp had to change its incentives to attract the right intention and removed all inorganic incentives and paid reviews.

Behaviour: Platforms often create new behaviours in the ecosystem by aggregating new markets. Airbnb, for example, created a new behaviour among both hosts and guests, encouraging hosts to unlock spare capacity and guests to trust strangers enough to live with them.

Systems: Effecting change along the systems dimension is crucial. While traditional firms largely deal with internal systems and leverage supply side economies of scale, digital platforms benefit from externalities and demand side economies of scale. Platforms need to architect new systems and understand the sources of delay and feedback that lead to coordination of the ecosystem and reinforcement of behaviours across the collective.

Culture: Culture shapes cohesive action in firms. In ecosystems, culture shapes the trust and implicit contract between participants. Platforms that enable ecosystem interactions involving high risk or sensitive information need to invest in their ecosystem's culture. While systems enable explicit contract, culture creates the environment for value exchanges to occur repeatedly. Finally, culture is emergent on a platform owing to the lower control that the firm has in shaping culture outside its boundaries. To create culture, platforms must constantly track patterns of usage in order to detect early signs of collective emergent behaviour. MySpace, while a successful social network, failed to scale because it failed to create a culture of trust and security. Facebook, and more recently Snapchat, have successfully created a more secure culture.

The weakest quadrant

The sustainability of an ecosystem strategy is often determined by its weakest quadrant. Platforms that fail to gain adoption, often fail to create the right behaviours for members of their ecosystem. Many healthcare companies today are getting into the wearables race in a bid to digitise and track key health indicators for patients but most fail to do so because of an inability to create new behaviour.

In contrast, many platforms create behaviours successfully at the individual level but fail to adequately scale systems at the collective level. MySpace cashed in on the rise of social media, but eventually failed to create the right systems of quality control, leading to harassment and bullying on the social network.

Other platforms, still, may build successful systems but fail to create culture. Wikipedia, for example, scales through an excellent system of curation based on the wiki technology but is often criticized for having an insular core community of creators that prevents new users from gaining influence.

Sense and focus

Competitive advantage arises from the ability of the executive team to detect and effectively address the particular configuration of the opportunity and constraints specific to their business.

In practice, the failure of many firms to shift from pipelines to platforms can be traced to the ineffective management of the ecosystem along one or more of these dimensions. When executing platform strategies, it is essential for managers to determine the unique forms of value that the platform will create, how it will moderate and enhance ecosystem behaviour and what type of infrastructure is critical to success. For the organisation starting the platform, the big hurdles are deciding how a workforce can transition from pipeline to ecosystem model and finding the right capabilities by developing them or bringing them in.

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