



Exploring "platforms":
An ecosystem approach for
competing in a changed world

Introduction

The COVID-19-induced social distancing norms have resulted in businesses looking for new ways to stay connected with their consumers. Increased use of online business models and digital opportunities have provided businesses with new market insights over the last year, where data-driven approaches could be pivoted to serve unmet consumer needs. While emerging technologies, e.g., AI and ML, have been touted as key drivers of change, it is far more important to broadly examine how one can rethink consumer interaction, understand behavioural changes through deep market insights, and drive further differentiation.

In India, a leading technology and telecommunications company launched an online grocery platform that integrates consumers, suppliers, brands, and local stores, in collaboration with an instant messaging application. It quickly ramped up to cover 200 cities and 1,700 kirana (neighbourhood) stores, and by September last year, was processing 500,000 orders per day, while the app saw 5 million downloads in the first six weeks.¹ With schools having moved to online classrooms, the pandemic has proved to be an accelerator for EdTech players. A global open source ed-tech platform witnessed a 444 percent growth in course enrolments since March 2020, with over 21 million

new learners joining the platform—353 percent higher than the same period in 2019.²

The emergence of platform-led models is not a recent phenomenon. In the past decade, platform-centric businesses have been altering the structure of traditional industries by rethinking value creation and consumption, while fundamentally transforming consumer behaviour. In fact, globally today, seven of the 10 most valuable public companies, by market capitalisation, are based on platform-centric business models and represent more than US\$6.3 trillion in market value.³

As the pandemic pushes businesses to innovate, it offers the opportunity for incumbents to invest in a platform-based model and shift the focus away from a core-product approach. Legacy organisations that are unable to spot new trends, innovate at speed, and leverage their position will leave white spaces for new entrants to disrupt and take over their dominance in the value chain. The realisation of placing the consumer at the core of the business and innovating around them, with the help of technology, will help businesses fight fierce competition.

What are platforms?

Platforms, when done right, have the power to organise much of the world around them. Think of them as coral reefs, an ecosystem where diverse life forms meet, self-organise, and self-optimize; the coral reef orchestrates the interplay between the organisms, creating a completely new ecosystem.

At its core, platforms can be defined as integrated offerings aimed at creating value and a holistic customer experience through a network effect.

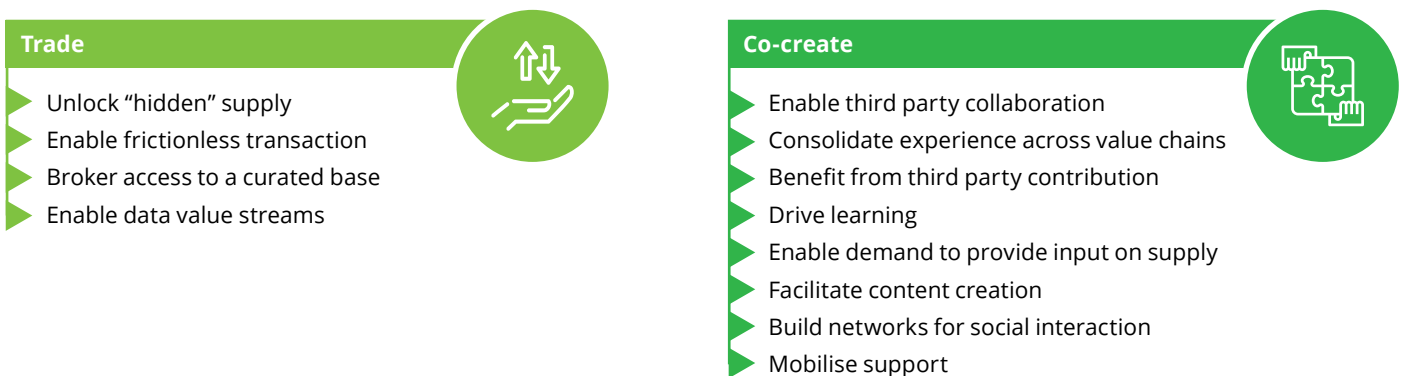
Living in a connected world has transformed what we design, how we design it, and the way it works. Platforms enable organisations to respond to the needs of the connected world by providing modular capabilities quickly and inexpensively. For instance, starting a business would need a payment collection system, a digital rights management system, and/or a database system with customer information. Commonly existing platforms allow the creation of fast, economical, smart, and robust solutions.

Increasingly, we see that contemporary digital innovations are less about the invention of something new, but a combination of existing building blocks resulting in customer value.

The appeal of a platform is compelling. Compared with products that create a single revenue stream, platforms can generate several. A platform that has a defensible offering, creates customer value and seamless user experiences and extends to players across the ecosystem to allow them to leverage the network for competitive advantage. It reduces transaction costs, time, cost and opacity, captures huge amounts of data, and encourages access and expansion into parallel markets.

Companies create value through platform tactics by delivering creative mechanisms to attract, engage, retain, and co-create with potential participants. A combination of tactics from the 12 outlined below can be utilised by firms to aggregate disconnected participants and introduce a collaborative mechanism to co-create value.

Figure 1: Platform tactics to aid in collaboration and co-creation of value



While companies can deploy any combination of these tactics, by now, enough platforms have been deliberately designed to categorise them into four broad types – aggregation platforms, social platforms, mobilisation platforms, and learning platforms.

Conducive conditions: In our experience, certain prevailing conditions allow platform-based eco-systems to thrive and flourish:

- Markets with a diverse set of customers but served by a limited number of standardised offerings

- A defined core offering without which, it will be difficult to operate, leading to vendors supporting an open platform
- When players within the same (or adjacent) industries utilise a common and high-cost infrastructure utilised by same (or adjacent) industry

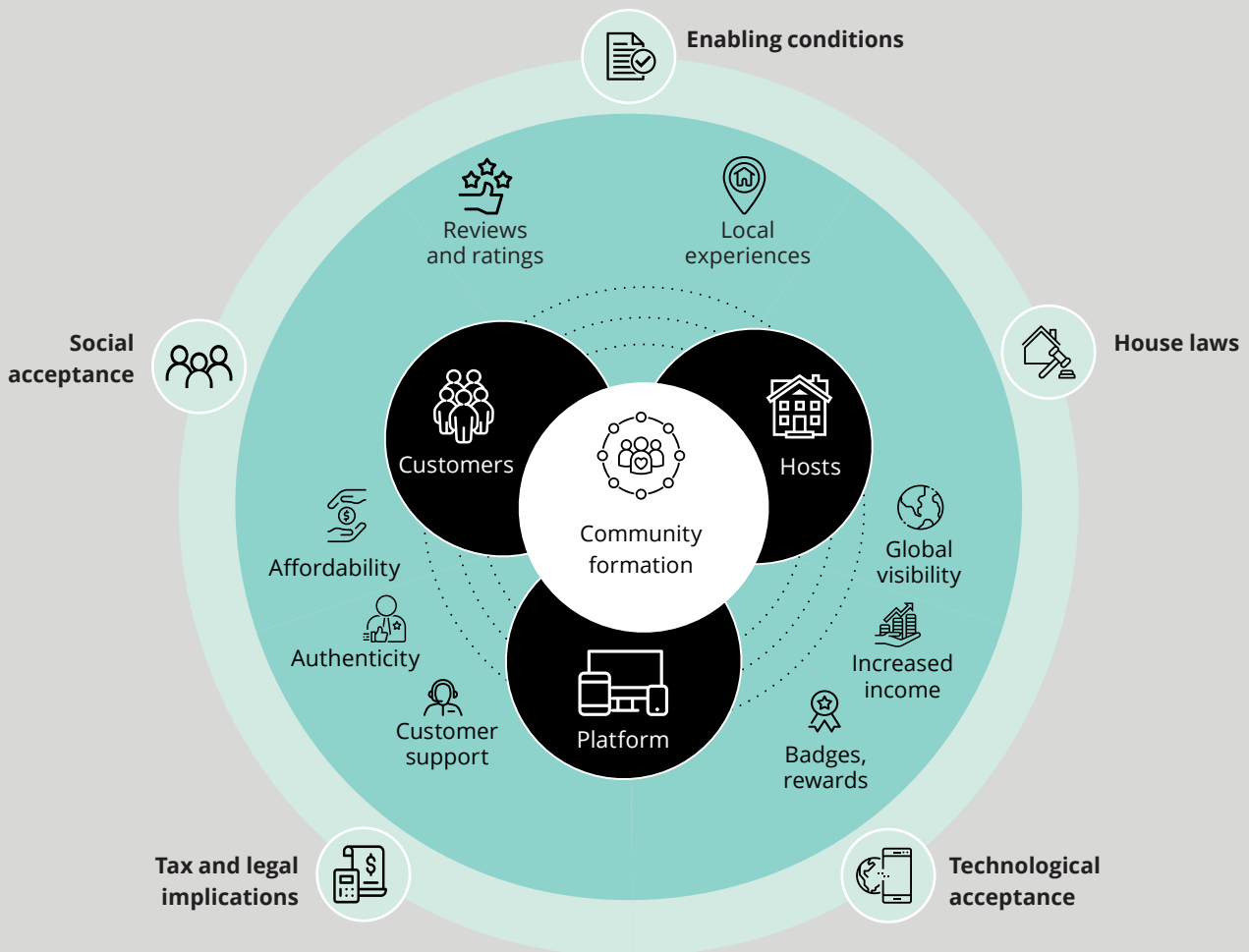
While certain sectors are more conducive to the aforementioned conditions (e.g., retail, home appliances, automotive manufacturers, and furniture sellers), recent experiences and experiments reveal the model to be transcending industries.

Case in point

An online vacation rental platform disrupts the hospitality space⁴

A global online vacation rental platform illustrates the value that platforms can create. With a marketplace of more than four million properties globally, the platform provides users with access to a variety of options, ranging from large villas to single rooms. Instead of going for standardised compact hotel rooms, users can enjoy a truly local experience, with authenticity and safety guaranteed by the platform and at a cost close to half of that of leading hotel chains in the world.

Figure 2: Enabling conditions for a successful rental platform



On the other side, the firm connects homeowners from over 190 countries on a single platform, helping them earn an additional source of income at a very low investment, with the flexibility to list and de-list their offerings per their choice. It provides convenient transactions, minimises risks, and helps them gain access to a global market. Homeowners can also become super-hosts by which they enjoy priority support, higher trust, and yearly rewards.

The platform further adds value by implementing governance policies, safety standards, insurance possibilities, controlled messaging, certain standards and protocols, and reviews and ratings. It ensures that background checks are conducted on homeowners. Users are able to contact hosts directly with KPIs on response rates for owners.

Given its asset-light model, the firm has been able to scale up rapidly in the last five years due to its platform model, with more property listings than the top five major hotel brands combined. The platform has seen a 30 percent YoY growth in bookings over the last few years, while leading hotel chains see only a 5-6 percent growth in bookings.

Why are platforms gaining prominence?

The growth in platforms has been driven by a combination of changes in consumer preferences, developments in enabling technology infrastructure, and a shifting business and competitive landscape. Each of these trends has been detailed in the subsequent paragraphs.

Changing consumer preferences: Several organisations are attempting to transform their portfolio from a product-only offering into a platform-based organisation that connects users to a host of third-party services or products systems. One can point to several overarching trends accelerating these behavioural shifts and, at the same time, the ability of platforms to more effectively cater to emerging needs, namely:

- The evolution of consumer preferences away from ownership of goods and towards experience and access (e.g., moving away from ownership to pay per use: ride sharing, furniture renting)
- Increased demand for transparency, aided by user reviews, price comparison engines, self-adopted guidelines on ingredients and supply footprint. Consumers are now willing to go through a more informed process of discovery, selection, comparison, and decision-making. Platforms reduce search times and costs while allowing for frictionless interaction between the consumer and seller (e.g., a major e-commerce player displays all product and seller information, user reviews and ratings, and personalises the comparison process through features such as "frequently bought together", "customers choice", and "customers who viewed this also viewed")
- Expectations of product and experience personalisation that a platform can facilitate (e.g., a music platform curates and customises playlists for a user by developing her/his "taste profile")

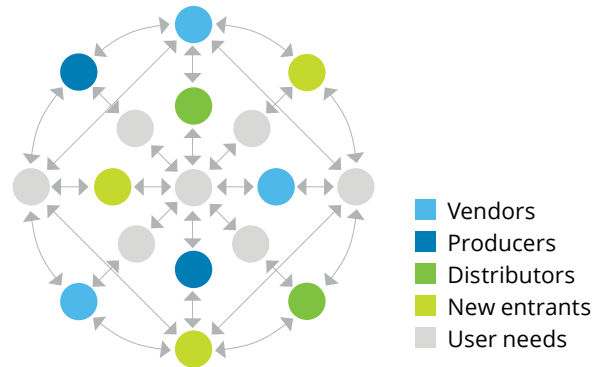
- Preference for niche and specific products and services from around the globe, beyond mainstream options. This has resulted in the emergence of platforms that allow small and medium-sized businesses to participate in global trade

Growth in enabling technology infrastructure: Sustained investments have resulted in rapid technological advancements for an enriched customer experience.

- Most countries now offer data at affordable rates, with the average cost of 1 GB data costing about US\$1. Further, smartphones are now available at less than US\$50 in developing countries.
- The proliferation of online and digital solutions has led to availability of large pools of data on which we can build intelligence
- Advancements in Artificial Intelligence (AI), deep learning, and Internet of Things (IoT) have enabled real-time decision making and empowered data/service/product organisations to curate their offerings for customers

Evolving business landscape: Increasingly, traditional businesses have been disrupted with a move towards aggregation and a partnership-based approach. New economic value chains are emerging that are complex, dynamic, co-evolving communities of diverse participants and comprise connected loops, often referred to as "value webs". This shift towards non-linear value webs is fundamentally changing the role of stakeholders in the ecosystem and the way they create value and interact with one another.

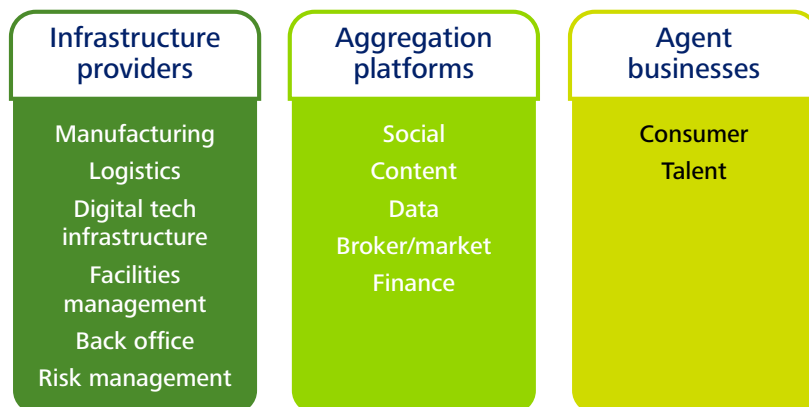
Figure 3: Value webs – The new economic value chain



In the context of value webs, we often see innovators amongst large incumbents play one of the three roles:

01. Infrastructure providers, utilising their far-reaching networks and high-capex infrastructure and scaling intensive processes to serve both B2B and B2C consumer needs
02. Aggregators, connecting fragmented players or connecting players to data and other resources
03. Agents facilitating recommendations, access to and exchange of goods, services, or even talent

Figure 4: Scale and scope operators



Source: Deloitte University Press | DUPress.com

Case in point

A leading health care platform in China allows patients to easily find and engage with physicians

The platform enabled virtual diagnosis and treatment, scheduling appointments, filling prescriptions, and health-care-related purchases for patients. The development of the platform helped the insurer win favour and drive engagement amongst relevant customers, earning direct upside from platform subscription, and bolstering its core business with an online-to-offline (O2O) approach. The following factors contributed to the immense success of the platform:

- The insurer understood its customers' pain points and helped them reduce their net spend (subscription cost vs. cost of in-person care)
- The insurer was well-versed in the regulatory barriers of health care and, therefore, positioned well to address execution-related challenges
- The insurer utilised its strong global medical network to deliver a solution for its customers

How can companies innovate to build successful platforms?

Critical success factors for platform businesses are typically different from traditional models. The platform should have features to create a strong network effect, as the value provided rises with increasing participants or users. A network that comprises local and fragmented clusters is often open to disruptions by third parties. Most successful platforms connect multiple markets and customer segments and sometimes, even cut across industries to create cross-group network effects.

However, it is insufficient to grow a large network alone. Platforms must defend themselves against a risk of disintermediation, wherein network participants bypass platforms and connect directly. On the other end, there are multi-platform participation risks, where a player may connect on multiple platforms, thereby challenging the platform's ability to generate profits.

To evaluate a potential platform, organisations would have to build a model that is able to integrate and sustain a growing network, while creating sufficient value for the network participants to be retained exclusively. Thus, organisations will have to develop differentiated offerings, identify new ways of value creation in the ecosystem, and layer new features iteratively on their core offering.

As legacy organisations think about creating platforms, they should look to answer the following "where to play" questions:

- What is the primary ecosystem where the business operates? Are there adjacent ecosystems for participation?
- What is the key business, consumer, and ecosystem problem to be solved?
- What are the critical unmet needs/pain points of the various ecosystem players? What offering, value, or features can cater to these needs?
- What role should the business assume in the targeted ecosystems?
- What are the target customer segments in the primary and adjacent ecosystems?
- What are the critical capabilities that are needed and can be better delivered by the organisation (value proposition)?
- What is the best channel to deliver value to the ecosystem participants?

Answering these questions and attempts to ideate successful platforms is predicated on challenging conventional wisdom to overcome the disconnect between strategy and resources, with genuine ecosystem needs, and bridging the prevailing deficit rather than simply building a tool for transactions. To achieve quick wins, companies often resort to traditional methods of innovation, such as adding a new feature or a complementary service. However, these improvements are only incremental and devoid of any innovative concepts.

Challenge orthodoxies

Industries and companies tend to develop habits and rules that shape widely held orthodoxies. These are beliefs about "how things are" that often go unstated and unchallenged. If made explicit and challenged, orthodoxies can be a powerful source of innovation insights. Breaking out of these orthodoxies will require questioning who the customer really is, what the customer wants, how customers interact with our products or services, what orthodoxies are evident in the actions of the industry, how an organisation can deliver value, what role the organisation plays in the broader ecosystem, who the real competitors are, amongst others.

Ideate for disruption

As mentioned before, many organisations still think of innovation as new products, new features, or dramatic advances in new technologies. However, these represent a small part of the innovation compendium. Our extensive research reveals that successful innovators often use multiple levers across the value chain to look beyond product innovation and transform other elements of the ecosystem within which they operate.

Doblin, Deloitte's global innovation strategy practice, groups these 10 levers within three categories to construct the Ten Types of Innovation framework (refer to Figure 5):

- Configuration innovations apply to profit models, networks, structures, and processes. This comprises back-of-the-house activities needed to develop an offering.
- Offering innovations apply to product performance and product systems, essentially what organisations produce and offer to their customers.
- Experience innovations apply to services, channels, brands, and stakeholders. This is how an offering is delivered to customers and stakeholders engaged as an organisation performs its business activities.

Figure 5: Doblin's Ten Types of Innovation Framework

TEN TYPES OF INNOVATION



Source: Doblin.com/ten-types

Once companies have identified truly innovative concepts based on in-depth, unconventional insights about the ecosystem players, then the next step typically is to pilot and take the concept to market, at a fraction of the cost, within a short frame of time. The final route to market, and choice and scope of partnerships and operating modalities will depend on a host of factors:

- An organisation's internal capabilities to build the concept
- Owning operational control or IP rights
- Chosen partners assets and capabilities to help reduce time to go-to-market
- Ensuring that the partner's proposition is unique and defensible

Case in point

A global heavy equipment manufacturer harnesses the power of the sharing economy

Sharing economy, which customers are increasingly favouring, demands inexpensive access over ownership and has revolutionised the transportation and housing sectors. Recognising this, the client wanted to identify a new business model where the sharing economy is extended to manufacturing.

Over the course of the research, we uncovered customers' core needs:

- Customers value easy access to equipment and want greater efficiency at job sites
- The ability for customers to share amongst each other is limited because of trust, especially because there are no other avenues
- Customers will purchase more machines if they know that they will be able to utilise them even when they are not needed, but don't have the platform to help facilitate it
- Dealers manually connect their customers if they don't have the equipment they need
- Customers have shorter planning times and more to do, driving short-term use rather than purchase

Understanding the unstated needs and behaviours of the customers, led to the development of the concept of being the "go-to facilitator for everything job-related without manufacturing a single product".

Alongside our client, we rapidly prototyped and piloted an expansive customer-focussed online sharing platform for large equipment, accessories, labour, and material.

This innovative platform uses seven specific levers of Doblin's Ten Types of Innovation to generate a potential US\$1 billion+ revenue stream for the firm by tapping into the sharing economy.

While we continue to live in a time of heightened uncertainty, one thing is for certain. The pandemic will leave a lasting impact on our economies and consumer psyche. As a result, organisations will need to make sense of the fast-evolving landscape and swiftly identify new ways of reaching out to the consumer. They will have to start challenging prevailing orthodoxies and find new ways of collaborating effectively with a broad spectrum of stakeholders.

Platforms are effective vehicles for achieving digital maturity and capturing value at scale. However, there is a risk that they might also undermine the ability of individual organisations to capture their fair share of the value created, especially if they do not own the platform. Organisations need to draw from a wider set of options to make strategic choices and adopt an ecosystem mindset, using new-age technology as an aid. This would create and sustain sources of advantage and capture a disproportionate share of the value generated on the platform.

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