Executive Summary

Liberating Platform Organizations

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June 2018
The rise of the platfirm: Platform organizations are emerging in every industry

“Management. The word is there for regular companies. We treat it more like governing an economy, as we have to manage so many companies dependent upon us as partners. By 2036 we will have built an economy that can support 100 million businesses for billions of users. We won’t own that economy. We will just govern it!” – Jack Ma, CEO, Alibaba.

The platform is rapidly becoming the dominant business model for the 21st century. Giant platform organizations increasingly own the digital infrastructure on which everyone else has to do business. The digital Titans – Amazon, Google and Facebook in the West and Alibaba, Tencent and Baidu in the East – aim to take a cut of all our digital commerce.

Let’s be clear: the large platforms have unquestionably helped transform business and society for the public good, by democratizing communication, building new markets for individuals and small businesses, and providing technology services at affordable prices to non-profit organizations and communities. But in doing so they have become systemically important to society: their functions are essential to the way we live now. We rely on access to their search, social media and other mechanisms to find and communicate information. They increasingly own fundamental services such as payments. But their scale and reach mean they also exert systematic influence on our access to information and therefore shape how we act on it. Regulators struggle to control these shape-shifting giants. Governments find it difficult to tax their jurisdiction-hopping revenues. Investors talk of a ‘kill zone’ around them, where startups are eliminated or bought at a low price. Increasingly, CEOs fear the day when one of them enters their market.

Yet there is hope for us all. Brownfield businesses are fighting back with platform plays: GE with Predix, Siemens with MindSphere, John Deere with MyJohnDeere.com, Walmart with Jet.com. Ocado, a UK-based FTSE 100 grocery firm, is licensing its ‘Amazon-killer’ technology and logistics platform to other retailers around the world. Every organization and community is becoming part of an ecosystem, whether they know it or not, and platforms exist to organize ecosystems. There is a potential platform right next to you. Will it be your firm, your community, a startup … or one of the Titans?

At LEF we believe it is possible to liberate organizations from the tyranny of the Titans, liberate platforms from the constraints of the traditional businesses, and liberate platforms in society to solve ‘wicked’ problems.

In the digital age it is easier for startups to adopt the platform model, so our report Liberating Platform Organizations aims to help existing, brownfield organizations to create or transform themselves into platform organizations and to anticipate the moves of their digital-native competitors.

The report is organized in four parts, initially released in instalments.

Creating value beyond value chains: Platforms organize ecosystems

Platform organizations generate new and different forms of value, at a lower cost than traditional businesses. A platform organization facilitates value exchanges between two or more interdependent groups – producers and consumers. Typically, a platform organization does not own the means of production (making products and services) but instead owns the means of connection (bringing producers and consumers together).

Platform organizations need to be facilitated by digital platforms, and there is a symbiotic relationship between them. In this Executive Summary, as in the Report, we use the word ‘platform’ as an abbreviation for ‘platform organization’, not for the digital platform that underpins it.

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Part 1: The Platform Organization Landscape

Burning platforms: Painful truths about platform organizations

Platforms dominate their markets. They generate more forms of value, at lower cost than a traditional business. But they are challenging to make work at scale, and especially tricky for brownfield organizations. The vast majority of platform initiatives fail. Much of the problem is that there is little clarity about what platform organizations are, the value they create, how to build them and what makes them successful.

To help aspiring platform initiatives understand their potential and get started, we have laid out the components that make up a platform organization and its ecosystem in a ‘landscape’, shown below. The platform game is defined by the market or community space it serves, the tools provided to participants, and the rules that govern who can join and how they behave. The players reside in the platform’s ecosystem and each can play one or more roles. The result is commercial and goodwill value, plus learning that is fundamental to the evolution and retention of many ecosystem players. Established players must now make a big strategic choice: join an ecosystem or forge your own as a platform.

From platform to Matrix: A societal infrastructure is emerging

The platform organization is a fundamentally different business model. It drives an ecosystem’s evolution, creating an API economy between players. It forces the reuse of core business and technology in the ecosystem, reducing the cost of variety and innovation – a process LEF calls Innovate, Leverage, Commodify. Winning platforms reach critical mass, and then keep learning and evolving.

Platform organizations are evolving quickly, and few people understand how the latest generation is restructuring industries. In his book Seeing Digital, LEF’s David Moschella describes the form and evolution of the Matrix, “a vast societal infrastructure that will be the foundation of the 21st century economy”. In many industries we see platforms becoming the horizontal rows of this matrix structure. In every vertical they combine services from an increasing number of digital utilities (such as Amazon’s AWS) into new propositions for ecosystems, then help to industrialize successful services back to these utilities. You must decide where you are going to play in the new landscape of platforms, utilities, ecosystems and their participants.
Part 2: The Machinery of Platform Organizations

Bringing platforms on-stream: Digital platforms increase data fluidity

Platform organizations typically have a more extensive range of participants and faster cycle times than traditional organizations; they must transact efficiently across a variety of channels, continually innovate by seeding and harvesting new services, and help other ecosystem players evolve, in order to retain them.

The digital platform’s role is to turbocharge the platform organization, amplifying innovation, scale, connectivity and reuse. Crucially, modern digital platforms also increase data fluidity, unlocking data and turning it into a free-flowing information stream for the whole ecosystem, powering the AI-driven learning ‘flywheels’ of the platform and ecosystem players. They also manage access to that data, enabling granular security and access rights and allowing only approved parties to take part in data exchange. Today’s digital platforms often need augmenting to create data fluidity.

The revolution will not be centralized: A future of digital platforms

As platform organizations increase data fluidity in their ecosystems, they create information markets between ecosystem players. Meanwhile, the next generation of digital platforms is appearing. Blockchain and mesh computing are allowing these to be more distributed, and machine learning is automating their operations. Modern digital platforms that connect ecosystem players are becoming intelligent, distributed and autonomous.

“Modern digital platforms are vital to platform organizations.”
Part 3:
The Brownfield Platform Journey

Undiscovered country: Why build a platform organization from an existing organization?

By becoming platforms, organizations can control their markets, involve citizens more deeply in creating and improving new services, and solve wicked problems in society. First they find new opportunities in the long tail of markets or the edges of communities, where there are niches driven by lower prices, extreme personalization and new, riskier providers. With growth these niche offerings evolve, ultimately becoming industrialized and attacking the mainstream market or gaining scale in a community. Platforms start at the edge of a market or community, then take over the mainstream; that’s how they will attack you, or how you could attack your competitors or a wicked social problem.

The brownfield journey: Lessons from corporate pioneers

Brownfield organizations can become platforms by opening the door to third parties, connecting existing customer segments, connecting different customer bases, or improving the sale or execution of their customer’s products or services. In each case, they may aggregate ecosystem players, facilitate an easier way of doing business and activate dormant assets. There are potential platforms in the space around you, and the race is on to own them.

Why platforms are wicked hard: Broad, deep change for everyone

Building a platform in a brownfield organization is wicked hard: it requires broad, deep change in which multiple organizations are involved, where everyone has different levels and types of influence, and there are constant experimentation and adaptation. For example, you will have to think ecosystem-in, not inside-out. You will have to decide which parts of the ecosystem to own and which to control, and which to influence. You will have to co-create a market-shaping strategy or enhance someone else’s. You will have to change historical patterns of capital allocation, and take brutal decisions about what to make, what to buy and where to partner. You may even have to eat your own revenue.

Making the change to a platform business needs the patience for emergent strategy, the creativity for iterative design and the skills for agile execution. Above all, it needs the dedicated application of data-driven insights to help develop other ecosystem players and so to retain them. Successful platforms industrialize learning.

“Building a platform in a brownfield organization is wicked hard: it requires broad, deep change.”

Space Race – How to identify your platform opportunities
Part 4: Platform Organization and Ecosystem Gameplay

Beyond mass customization to aggregation: Digital is changing the economics of business

Digital capabilities are changing the dynamics of supply and demand. Since the dot.com boom-and-bust, value has shifted away from traditional companies that control the supply of resources to highly digitized companies – especially platforms – that control the demand for abundant resources. As we approach the end of the decade, the most successful of these digital businesses have re-mastered scale effects, which can now be rented out. They utilize different network effects to position themselves powerfully in ecosystems. And they use machine intelligence with large datasets to generate learning effects to keep themselves ahead of the competition.

Successful platform organizations are masters of ecosystem gameplays. Platform strategies cannot be designed in isolation but must aid their ecosystem players and shape their markets. For example, successful platforms enable producers to enter a new market at a lower cost than traditional distribution networks, to enhance or replace physical products with digital services, or even to change their commercial model by creating more affordable access to their products through the platform’s data and software components. The most successful platforms use scale effects, network effects and learning effects to provide innovative products, services and customer experience at low prices.

Nudge economics meets platform economics: Influence replaces control

Counter-intuitively, platforms deliver only a small part of the consumer experience; most comes through providers, and they are not under direct control. In the platform world, influence replaces control, through indirect mechanisms such as transparency, reputation, trust, signalling and incentivization. Smart regulators nudge all players towards better behaviours, using digitally renewed gameplays such as mandated interoperability, API disclosure and transparency. You don’t need to own platforms to generate significant value from them.

Something old, something new: Gameplays for platform strategies

By studying digital-native platforms, brownfield platform initiatives and regulators, LEF found four categories of gameplay used in ecosystem-shaping strategies.

Foundation gameplays are fundamental to all platforms to bring transaction efficiency and variety. They drive innovation by the seeding and harvesting of new services and the evolution of ecosystem players by providing opportunity and support. Position gameplays increase and defend an organization’s position in the ecosystem. Scope gameplays extend the organization’s propositions and target segments, while orchestration gameplays define and redefine relationships amongst ecosystem players. Some are familiar; others are novel and still being tested in full view of markets and communities. Which ones to use and in what sequence depends on your situation, and your goals. One thing is clear: your gameplays determine whether you will become a large-scale platform organization.

Types of platform and ecosystem gameplays
LEF believes established organizations must now make a strategic choice: join an ecosystem or forge your own as a platform. There are some pressing questions to answer:

- Do you know which ecosystems you are in? Do you have the role you want?
- Do you know the space in which your ecosystem operates? Have you identified the opportunities a platform and other ecosystem players could bring?
- Platform or ecosystem player, can your many internal IT platforms work together to play the role of a modern digital platform – to help transact, evolve and innovate with other ecosystem players?
- What is the best way for you to start – build a Minimum Viable Platform? Take a share in a platform? Be a big player in a platform’s ecosystem?
- When will you be threatened by a Titan gameplay? What will you do about it?

We believe it is possible to liberate organizations from the tyranny of the Titans, platforms from the constraints of traditional businesses, and platforms in society to solve wicked problems. Our report gives private- and public-sector organizations guidelines for playing and winning in an increasingly platform world.

“The platform is rapidly becoming the dominant business model for the 21st century.”

Parts 1 – 4 of the Liberating Platform Organizations report will be released at intervals throughout Summer 2018. We will also publish pieces that develop aspects of the report in more detail, such as the pattern of platform formation in key sectors and a lexicon of platform terms.
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Leading Edge Forum (LEF) is a global research and thought leadership programme dedicated to helping clients reimagine their organizations and leadership for a tech-driven future. We serve as a strategic touchpoint for CXO teams to provoke and challenge their thinking to help them win in the 21st century.

We believe that as business and IT become inseparable, virtually every aspect of work and the modern firm will need to be reimaged, and this creates exciting new digital opportunities.

Through an annual membership programme of research, events, onsite workshops and advisory services, we support senior leaders in areas such as strategy, organizational change, executive education, talent development and the future of the IT function. Members enjoy personalized access to our global network of thought leaders, clients and leading practitioners.

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