

PLATFORM COMPANIES:

TREADING THE
PATH FROM EARLY
DISRUPTOR TO
PLATFORM

TITAN

PART 2: THE ROAD
TO MATURITY

2 From Insurgent to Powerhouse: The Path to Maturity

Social networks, search engines, cloud software providers, and ride-sharing companies form an influential and fast-growing group of Platform companies which are reaping huge rewards by disrupting existing industries. Despite varied offerings and widely differing sector focus, these companies have much in common.

They need to grow fast or risk being left behind, and the pace of technological change offers little time for reflection, analysis and decision making. If they are to join the “Platform Titans” that dominate the sector they will face similar challenges as they scale their businesses and expand globally.

In this three-part series, we look at the hurdles that all Platform companies must overcome to expand and mature in a fast-moving and unforgiving environment.

In part two we highlight how successful Platform companies typically grow, treading the path from nascent start-up to global force—and the financial rewards that success brings.

Platform companies are the fast-growing group of “born digital” enterprises that are reshaping the global economy and transforming how we work and live, from where we stay on holiday to running business operations systems in the cloud.

With multiple offerings in different sectors, these companies are a highly diverse group. But if successful, they will all follow a predictable evolution: from initial Hypergrowth to Global Expansion and ultimately Service Sophistication (Figure 1).

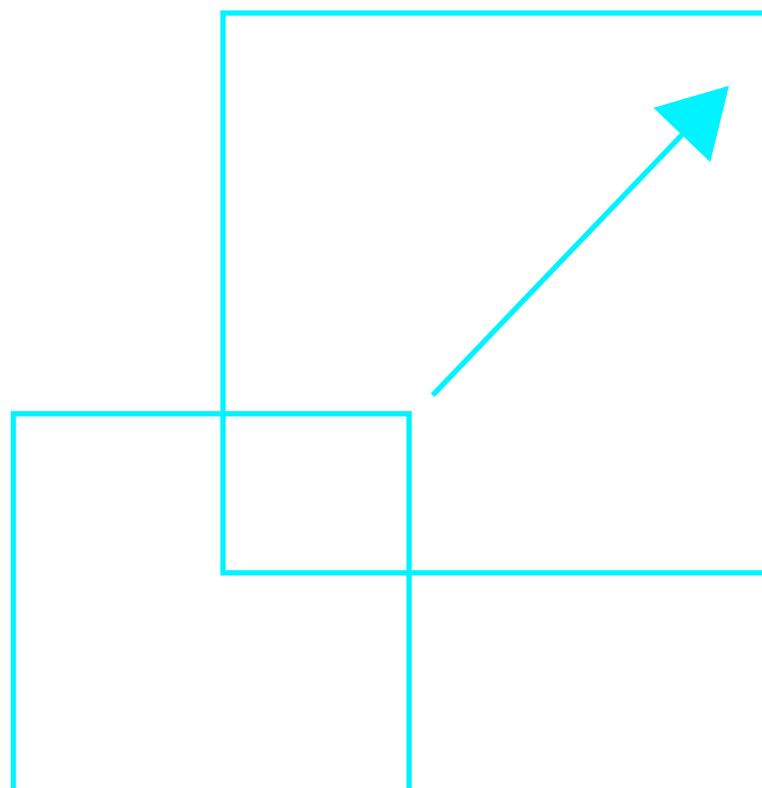


Figure 1: Three stages of growth for the successful Platform company

	EMERGING PLATFORMS	THE NEXT GENERATION	PLATFORM TITANS
Key Characteristic	Hypergrowth	Global Expansion	Service Sophistication
Product	Simple, single product	Limited products, expanding those products globally	Multiple products and services
Reach	Single region	Multiple regions, expanding number of countries reached	Global - every region
User growth	High growth, via customer acquisition	High growth in users, via expanded geographic scope	Stable user growth, growth via cross-selling and increased engagement
Pivotability	Ability to adjust to business demands due to small size	Slower adjustments due to expanding scope and operations	Ability to adjust to market dynamics is slow, due to size of firm
Operations	Unstructured	Shifting from unstructured to structured to support expansion	Focus on optimizing operational efficiency
Resources	Limited internally, focused on customer acquisition	Global resources, but must balance trade-offs with growth	Significant human and physical resources
M&A strategy	M&A to expand user base	M&A has regional focus to support expansion	M&A to expand or improve product or service offerings

Platform companies start with a single product or service that has a clear value proposition: typically lower cost than existing offerings or convenience. Often, they face few direct competitors, but emerge as a disruptive force challenging incumbent competitors and traditional ways of doing things.

Scalable technology allows Platform companies to add users rapidly without jeopardizing reliability or re-engineering processes. They can also scale horizontally, benefiting from strong network effects to offer related products and services as a trusted provider to loyal users. Eventually they expand to a large global market by taking the business model to new countries.

In the early stages, operations are generally unstructured, but as the company expands globally more structure and control is required. As Platform companies mature, they must look for ways to optimize operational efficiency. Resources—human, physical, and financial—are limited initially and tend to focus on customer acquisition as the primary driver of growth. Over time, customer and financial success provide greater access to resources along with increased scope and sophistication to deploy them.

Mergers and acquisitions form an important part of Platform companies' strategies at all stages of growth evolution, helping nascent

companies gain customers while enabling mature organizations to expand globally or extend the scope of their product and service offerings.

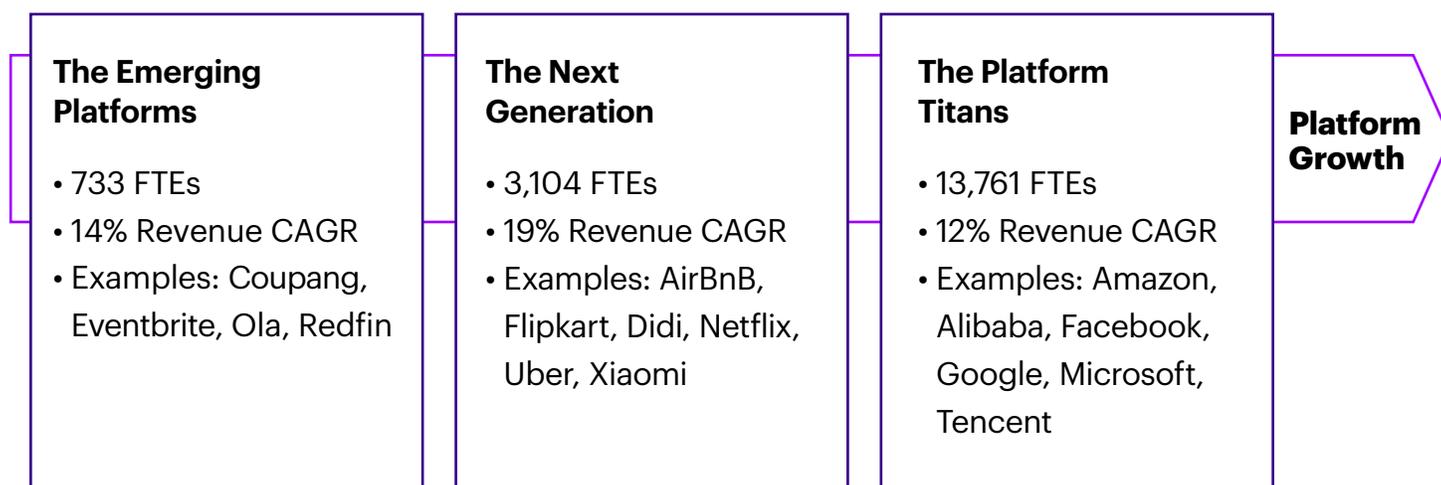
With each step in this evolution, Platform companies extend their reach and generate more revenue. As shown in Figure 2, at the initial stage in their development, these companies are plentiful but small: Accenture analysis shows that Emerging Platform companies account for more than half of all companies in the group, yet have an average revenue of just \$478 million. Approximately 95 percent of Emerging firms are privately held.

As they begin to grow and expand globally, company revenues increase, but represent a smaller percentage of the total group: the average revenue of Next Generation Platform companies (\$1.99 billion) is about four times that of Emerging firms. They are also the fastest growing companies in the group, with a compound annual growth rate of 19 percent and a median market valuation of \$4.9 billion.

Mature Platform companies achieve the next stage of growth through offering more sophisticated services. Platform Titans are the smallest in number, but generate an average revenue of nearly \$22 billion. This is more than 10 times as much as Next Generation companies and 45 times more than Emerging companies.

In business for an average (median) of 21 years, Titans are now growing at 12 percent annually. Employing on average more than 13,000 employees, they have a median market valuation more than \$31 billion. Taken together, the 10 largest Platform Titans account for more than 60 percent of the revenue in the industry.

Figure 2: Three stages of growth



FTEs = median

	EMERGING PLATFORMS	THE NEXT GENERATION	PLATFORM TITANS
2016 Revenue (mean)	\$478M	\$1,993M	\$21,945M
2020 Revenue (mean)	\$833M	\$3,973M	\$34,361M
Revenue CAGR 2016-20	15%	19%	12%
Valuation (median)	\$1.6B	\$4.9B	\$31.5B
Valuation multiple	5.3	4.8	4.6
Years in Business (median)	10	12	21
No. of Employees (median)	732	3,200	13,594
Public or Private	Private	Mix	Public

Source: Capital IQ, CB Insights, company websites, Accenture analysis

The rewards of being a Platform Titan are significant, but the journey from Hypergrowth through Global Expansion into Service Sophistication is a difficult one which few Emerging Platform companies will complete. To achieve growth goals companies must understand how to overcome the many hurdles they will encounter at each stage of the evolution and find the right solutions to meet changing needs. We will explore how companies can maximize scale and minimize risk in the final installment of this series.

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