Platform Economy: It’s time for banks to join in and welcome others
Under the theme “People First: The Primacy of People in a Digital Age,” the 2016 Accenture Technology Vision highlights five emerging technology trends shaping the new business landscape: Platform Economy, Digital Trust, Liquid Workforce, Intelligent Automation and Predictable Disruption.

This report offers a banking industry perspective on Platform Economy. Banks will need to address each trend first from a strategic business and then a digital enablement lens as they begin to transform themselves Beyond the Everyday Bank, interacting daily with customers to meet their financial and non-financial needs every day.
Technology-driven banking innovation grounded in collaboration

Digital platform business models—those that connect two or more buyers and sellers in highly scalable ways—are fundamentally changing the way companies can do business and succeed in the digital age. They are impressive. The top 15 public ‘platform’ companies already represent $2.6 trillion in market capitalization worldwide.¹ Fourteen of the top 30 global brands by market capitalization in 2013 were platform-oriented companies, according to MIT (see Figure 1).² IDC predicts that by 2018 more than 50 percent of large enterprises—and more than 80 percent of enterprises with advanced digital transformation strategies—will create and/or partner with industry platforms.³

Figure 1. Market Cap Valuations—Internet vs. Platform Companies

<table>
<thead>
<tr>
<th>Internet Companies</th>
<th>Platform Companies</th>
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<tbody>
<tr>
<td>Apple</td>
<td>$2,560,902</td>
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<tr>
<td>Axel Springer</td>
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<tr>
<td>Copart</td>
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<td>Fox Communications</td>
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<td>IAC/InterActive Corp</td>
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<td>iLive</td>
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<td>iStart Internet</td>
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<td>Live Microsystems</td>
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<td>Netcom Online</td>
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<td>PSI/Net</td>
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<td>RentPath</td>
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<td>Storage Computer Corp</td>
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<td>Wave Corporation</td>
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<td>Web.com</td>
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Market Cap of Top 15 Public Platform Companies: $2.6 trillion

Market Cap of Private ‘Unicorn’ Companies: $500 billion

TOTAL: $3+ trillion
Masterful digital platform providers create entire ecosystems of multiple players atop of their core business. They enable cross-industry participants, collaborating with third-party developers, to construct strategic, innovative, bundled and complementary services for the benefit of the platform providers’ end customers who gain more choice, tailored to their preference. Everyone wins.

As such, the platform has become the business model that is opening up for companies entirely new paths to growth. It’s how Apple, with its iOS App Store ecosystem of nearly 380,000 third-party developers, some 1.5 million applications and millions of customers, is extending into wearables, home automation and cars. It’s how ride share company Uber now provides delivery of food and flu vaccines. It’s how banks can be relevant at all times, for all financial and non-financial services, with consistent and fulfilling customer experiences in both the digital and physical spaces.
It’s a big deal, and here’s why.

Nearly half of banks surveyed believe that adopting a platform-based business model and engaging in ecosystems of digital partners to create value are very critical to their business success. They say it is the most important growth strategy for the next three years; indeed, the digital-powered platform economy and open banking could drive drive up return on equity by more than five percent for both mature or emerging market banks. Fifty-nine percent of banks are already investing in a competitive digital technology program as part of their business strategy.

At the core of a good platform business model is a win-win relationship between partners where everyone collaborates and everyone reaps more rewards than what they could garner alone. The benefit “pie” is bigger because everyone is involved. Traditional banks have a significant advantage: massive data from customers and existing partnerships that can serve as a springboard across an ecosystem for creating and exchanging value. Of bank executives surveyed, 83 percent believe platforms will be the ‘glue’ that brings organizations together in the digital economy; 52 percent expect to be working with new digital partners within their industry in the next two years while 42 percent expect to be working with new digital partners outside the industry.

The value within the platform economy is being fueled by three key natural traits—in other words, new rules of business:

1. Network Effects: Where two user groups (typically, producer and consumer) generate network value for each other, resulting in mutual benefits that drive demand-side economies of scale. It represents the combined impacts of the internet, digital technologies, and platforms. The network effects of platforms, with more connected users, services and transactions, drive value creation and scale. In effect, banks can create value by tapping into resources and capacity that they don’t need to own.

Nearly 90 percent of bankers surveyed believe the power of demand-side economies of scale will be very or extremely important to their businesses in five years. This might be demonstrated, for example, in banks making available their branch networks to partners in smart, secure ways.

2. Distribution Power Law: Enables scale by allowing non-financial services providers in the network to draw on bank customer data in ethical and secure ways to generate new revenue in the ‘long tail’ of the distribution curve—avoiding diminishing returns associated with traditional (linear) value chain models. In relationship with MasterCard, for example, Google can offer retailers more data about their customers and help merchants target ads and discount offers to mobile-device users near their stores.

3. Network Synergy: Cross-industry, mutually-benefiting synergies around growth and competitiveness arising as the right participants come together, link their products/services and create a marketplace that satisfies a specific customer need that, otherwise, would be cost-prohibitive to do alone. Interestingly, global agribusiness giant Monsanto cross-pollinated its seed and field trial data with climate data and analyses from Climate Corporation (a recent Monsanto acquisition founded by two ex-Google engineers) to build a real-time digital agriculture platform; farmers can access the insights via a smartphone app to make better decisions on fields, crops, planting and harvesting for less waste, lower risks, greater yields and better profits—an advantage that will disrupt the crop insurance business? An example in financial services is Zapp, a mobile m-payment platform, being offered by a consortium of five UK banks, including Santander, Nationwide, Metro Bank, HSBC and First Direct.

Amidst the macroeconomic benefit is also more compelling experiences for customers, employees and partners. Imagine, for example, being able to guide newlyweds in purchasing a home they need, connect with relevant service providers nearby, find the best mortgage offer, check they can afford it, expedite the process and enable digital settlement using multiple currencies from across a collaborative network of financial services and non-financial services partners.
How should banks participate?

The opening issue for big banks to address is whether or not they are ready, with a history of home-grown activity, to participate with a conglomeration of partners. Do they want to construct value networks around themselves, or do they want to participate in others' networks?

Drawing on Accenture experience in banking, digital transformation and assessment of some well-defined consumer-to-business (C2B) ecosystems (including Google, Apple, Facebook and Amazon), banks should consider operating across a combination of five key roles:

1. **Relationship player**, where the bank owns the relationship with customers and leverages both its ecosystem of partners and cooperative relationship with C2B players and FinTechs to provide everyday life solutions.

2. **Platform provider**, where the bank provides an open platform for sellers, buyers, and content providers to interact, create and sell products and services and share value.

3. **Core financial services utility/manufacturer**, where banks perfect the traditional role they play today to package and provide compliant financial services for platforms.

4. **Innovation playmaker**, where the bank participates in FinTech and digital banking ecosystems by using a full spectrum of corporate approaches (including incubators, accelerators, and venture funds) to provide capital and to enter new businesses.

5. **Digital ID enabler**, where the bank operates a secure platform that offers consumers easy access to digital commerce.

What's more, banks participating in only one value network will be the exception rather than the rule. Because value networks are likely to develop around various customer needs (home mortgage, business loan, payments and so forth) and segments (Digital First! Generation, affluent, small-to-medium-sized enterprises and so forth) that draw on different sets of providers, most banks will play a role in many value networks simultaneously. It requires new insight, skills and digital enablers to conduct new functions, such as building and maintaining application managers or managing third-party developers. Banks participating as a utility will need multiple talent and scalability to keep overhead costs as low as possible.

Successfully managing the complexity of a bank's participation in multiple networks—whether as the platform "owner", the platform's financial services provider or a combination of both—requires a solid platform strategy. Having a platform strategy and the business know-how to exploit it matters. It will be the only way to protect the profitability of the core banking business from new forms of platform-driven competition. Progress will start from a clear understanding of those parts of the business that are prime for platform business models, and those that are most vulnerable to unforeseen attacks from other platforms.
Platform Economy:
100-Day Plan

Over the next three months, begin to develop a comprehensive strategy that will establish the foundation for the bank's platform business model and ecosystem.

1. Understand the data in your organization and its potential value to others, then explore the market opportunity for win-win scenarios with potential participants.

2. Understand the need for and roles of other participants, and prepare the value proposition for selling the idea to potential participants.

3. Design the governance model, the information strategy and the economic model of the network.

4. Identify and onboard key partners for the successful development of the platform solution.

5. Determine how to grow the platform and customer experience over time.
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