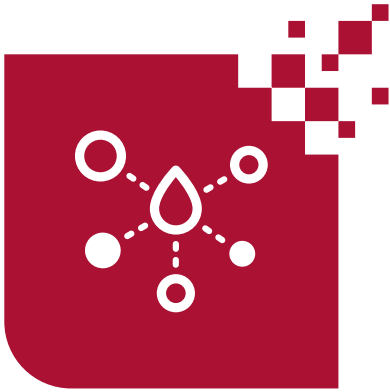


Trend 3

Platform Economy:
Technology-driven
business model
innovation from
the outside in



High performance. Delivered.



Trend 3

Platform Economy: Technology-driven business model innovation from the outside in

Industry leaders are unleashing technology's power by developing not only new technology platforms, but also the platform-based business models and strategies they enable. But the technology changes are only the beginning.



By embracing the transformational power of platforms, enterprises across all industries are capturing new growth opportunities and changing the way they do business. And it's these new business models and the ecosystems being built around them that are driving the most profound change in the global macroeconomic environment since the Industrial Revolution. Platform ecosystems are nothing less than the foundation for new value creation in the digital economy.

Tech companies and enterprises that are born digital, such as Amazon, Google, and Alibaba, have long understood the power of digital technologies. But look a little closer. Many of these companies' most groundbreaking innovations are not products or services; they are the platforms on which these products and services are built, and the business models that these platforms enable. Such platform-based business models fundamentally change how companies can do business.

What makes these models special? They allow companies to create entire ecosystems that do much of the work to grow the company and drive strategies. The platform has become the business model that is opening up entirely new paths to growth for companies. While tech companies and the born digital have successfully mastered platform strategies, the opportunity is now opening up to every company in every industry.

Platform technology building blocks to master:

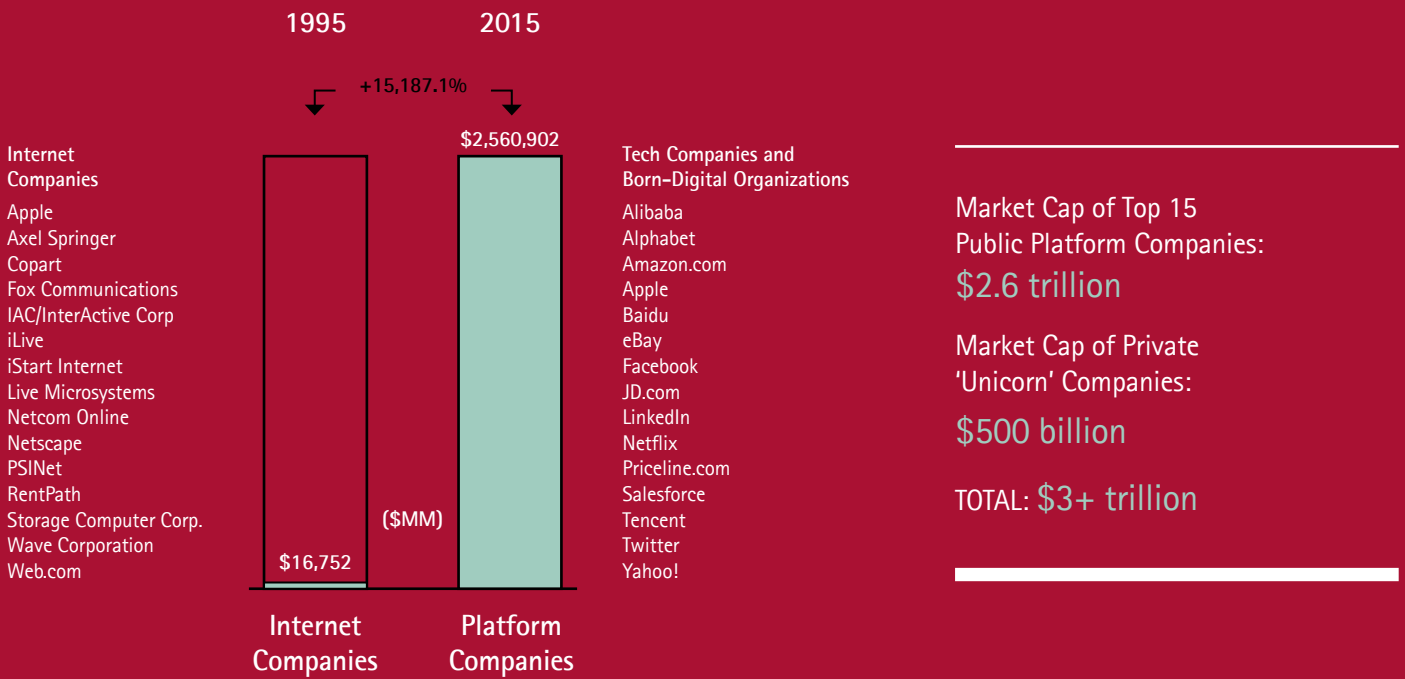
- 1 Foundation: Cloud services
 - 2 Digital Glue: API strategy and architecture
 - 3 Accelerator: Open-source and reusable software
 - 4 Digital Treasure Chest: Mobile development platforms
 - 5 Real-time Business Models: Driven by the Internet of Things
 - 6 Containers: Independence and portability of software.
-



The unparalleled growth of the digital economy has put it on course to account for 25 percent of the world's entire economy by 2020, up from 15 percent in 2005.¹ As this growth continues unchecked, platform business models represent a fast-increasing proportion of the overall total. The rewards that this expansion offers are astounding. The top 15 public 'platform' companies already represent \$2.6 trillion in market capitalization worldwide, and they're attracting this unprecedented level of capital investment through the value-creating power of their platform ecosystems and digital assets.

Largely driven by platform strategies, there are more than 140 'unicorns' with a total valuation of more than \$500 billion—'unicorns' are startups with valuations of \$1 billion or more based on fundraising.² Within five years, a core component of corporate valuations and capital markets will be based on their platform ecosystems and digital assets.³

Market Cap Valuations—Internet vs. Platform Companies



Platform Players Abound

But it's no longer just about tech and born-digital organizations using platform strategies. Digital leaders across all industries are recognizing these opportunities for new kinds of growth and (capital) rewards.

- Having a platform strategy and the business know-how to exploit it is more important than 'owning' an ecosystem.
- By 2018, IDC predicts that 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.⁴
- IDC predicts that the number of industry clouds will reach 500 or more by 2018, up from today's 100-plus.⁵



Companies with emerging platform strategies include Fiat (connected car), Kaiser Permanente (digital health), Disney (MagicBands), Caterpillar (connected machines), Schneider Electric (smart cities, buildings, and homes), Walgreens (retail pharmacy), Goldman Sachs (customer analytics), Bank of New York Mellon (financial services), McCormick/Vivanda (FlavorPrint), Houghton Mifflin Harcourt (education)—and the list goes on.

In fact, many leaders are accelerating their uptake of digital technologies and cloud foundations as a crucial first step in breaking into the

platform world. Medical equipment maker Philips Healthcare is one of these leaders. The company is placing a major strategic technology bet on a platform business model by launching the Philips HealthSuite platform with three different cloud partners: Salesforce, Amazon AWS IoT, and Alibaba AliCloud. Providing unprecedented scale, speed, and global reach, the cloud is the technological and economic foundation for unleashing Philips' market opportunities, from patient management to data collection to consumer and home devices.

40% believe adopting a platform-based business model and engaging in ecosystems of digital partners are very critical to their business success.

Philips has a bold vision to reinvent healthcare. With its three cloud partners, it will be able to rapidly scale up to hundreds of millions of patients, devices, and sensors processing an endless flow of data to tackle the bigger global challenges of the industry—from the hospital to the home.

This platform approach will support an entire ecosystem of interconnected patients, providers, and partners. Not only does Philips' vision aim to improve the quality and cost of patient care, but it also provides the company with new paths to growth and an integrated approach that will generate higher margins. Its goal is to grow market share across the continuum of healthcare needs, from healthy living, prevention and diagnosis, to treatment, recovery, and home care. Collectively, this is an addressable market whose combined value exceeds \$100 billion.⁶

With their new platform-based business models, companies such as Philips are changing how they do business. The new business rules of the platform economy, which include network effects, distribution power law, and asymmetric competition are providing different paths to growth. Based on these platform rules, digital leaders are designing and optimizing platform ecosystems that scale exponentially without incurring the diminishing returns typically associated with traditional business models.

82% believe platforms will be the 'glue' that brings organizations together in the digital economy.



Platform Business Model

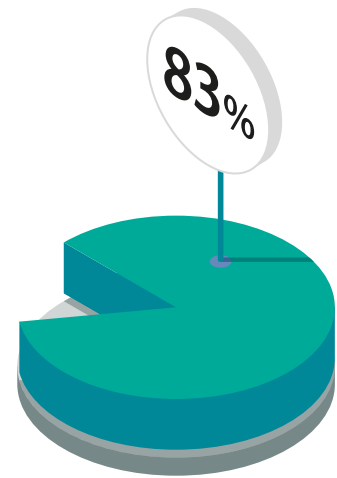
Powered externally from the outside in, these technology-driven business models are based on platforms that create value within and across the new ecosystems. And they are redefining the future of industries.

Three New Rules of the Platform Business

1. **Network Effects/Two-Sided Market:** Exists when two user groups (typically, producer and consumer) generate network value for each other, resulting in mutual benefits that drive demand-side economies of scale. The network effects of platforms, with more connected users and transactions, drive value creation and scale.
2. **Distribution Power Law:** Relates to platform business models that enable scale by allowing others to generate profits in the 'long tail' of the distribution curve—avoiding diminishing returns associated with traditional (linear) value chain models.
3. **Asymmetric Growth and Competition:** Based on driving the demand of a core market through complementary markets, which are often subsidized (or free) to users and which cross industry lines. Asymmetric competition exists when two companies go after market opportunities with very different approaches and resources.

Macroeconomic Shifts

Demand-side economies of scale (also called 'network effects'): Represent a major economic shift from the traditional supply-side value chain model of optimizing the supply chain and creating barriers to entry by controlling or owning resources and assets. Demand-side economies of scale are based on the network effects of two-sided markets, where value is created in platform ecosystems of stakeholders (customers, partners, developers, and others).



Of the executives we surveyed, 83% believe the digital economy is driving a major shift in power from the supply-side economies of scale to demand-side economies based on the power of ecosystems of customers, partners, developers, and other stakeholders.

Prior to the internet, demand-side economies of scale or network effects did not play a significant role in the economy because of the resource and technical challenges of creating networked business environments. The main exception was the development of telephone networks—the value of the system increased with the mass adoption of phones.



Network Effects

This decisive economic shift—from supply-side to demand-side economies of scale (also called 'network effects')—represents the combined impacts of the internet, digital technologies, and platforms. Put another way, the demand-side model means companies can create value by tapping into resources and capacity that they don't have to own. Apple has mastered the demand-side economies of scale with the iOS App Store. Launched in 2008, the iOS App

Store includes an ecosystem of nearly 380,000 developers that have created 1.5 million applications that have been downloaded more than 100 billion times and have generated \$33 billion in sales by the end of Apple's fiscal year 2015.⁷ Based on Apple's 70/30 split with developers, the App Store has generated \$10 billion for the company. Apple is successfully harvesting the resources of the ecosystem—resources it does not need to own.



Traditional Value Chain Business Models



Value creation is linear and one-way

Platform-Driven Business Models

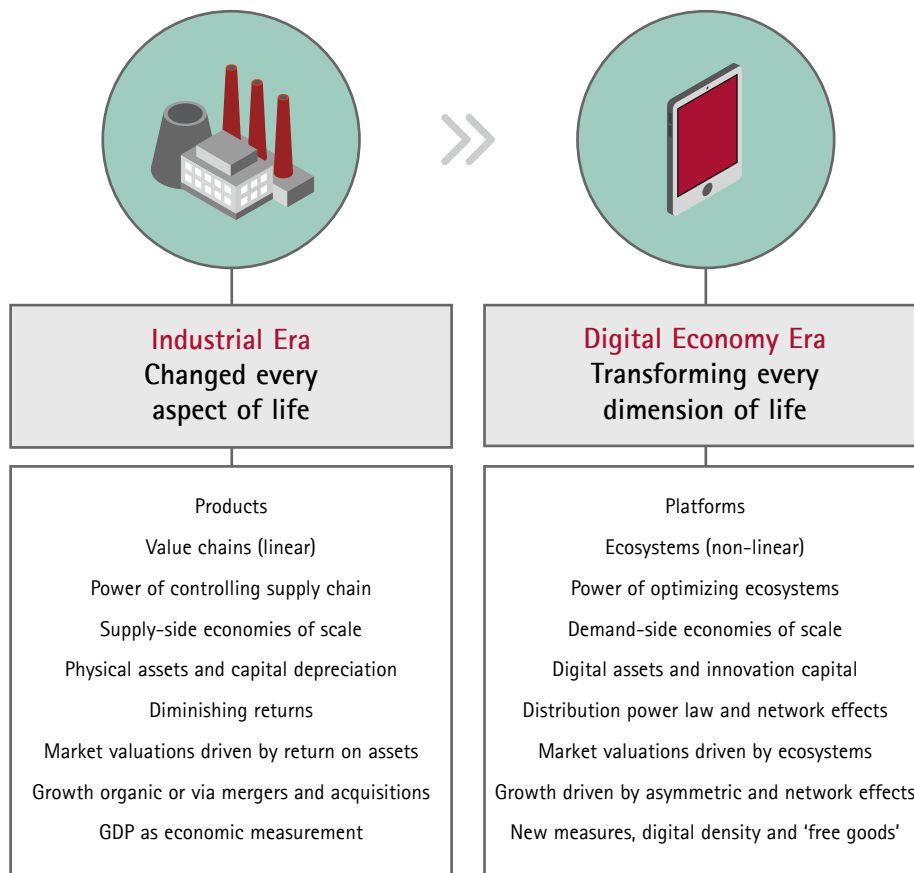


Value creation is two-way and continuous

"Platforms beat products every time."

*Marshall Van Alstyne, MIT Initiative on the Digital Economy
Co-author, "Platform Revolution" (to be released March 2016)*

Macroeconomic Transformation—Platform Economy



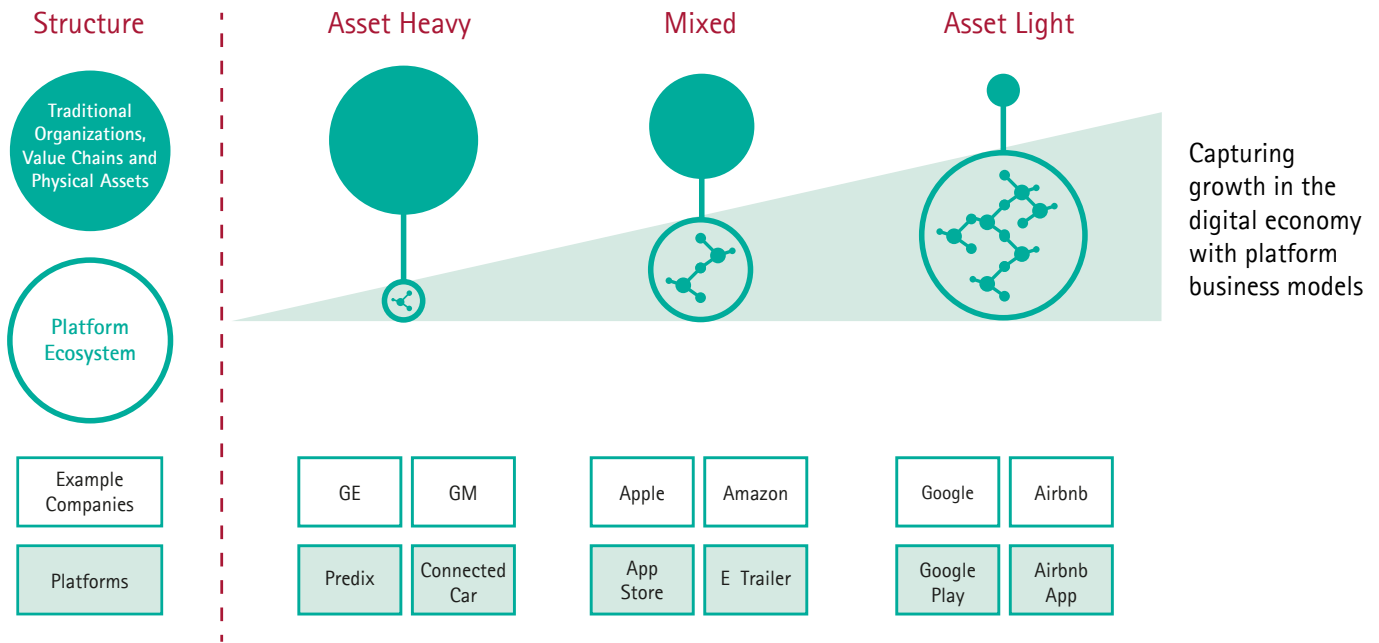
It is important to note that although platform business models are driving a major macroeconomic shift, adopting them does not mean giving up on existing business (value chain) models. In fact, they will often provide the new platform's foundational strength. After all, at its core, Philips is still in the business of making medical devices.

Platform ecosystems play a strategic role in all types of businesses: asset heavy like GE and Philips, asset light like Google and Uber, or those like Apple and Amazon that have powerful platform ecosystems combined with asset-driven businesses. Whether a company 'owns' a platform ecosystem or is plugging into another's, what matters is having a platform strategy and the business know-how to exploit it. 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.



From Asset Heavy to Asset Light, and Every Variation In Between

The most powerful platform ecosystems of the digital economy will emerge from global (asset heavy) conglomerates that not only embrace digital transformation of their organizations, but also learn how to unleash the power of platform ecosystems. They can do this through foundational physical assets and knowledge of their industry and the cross-over effect to other industries.



We're just at the beginning of a major technology-driven macroeconomic shift. It will disrupt the competitive strategies and business models of all companies—from large incumbents to nimble startups, from asset heavy to asset light. Every company will need a platform strategy, even if it's just finding the right role in ecosystems driven by other companies or simply taking a defensive position. They will need such a strategy not just to grow, but also to protect the profitability of their core business from new forms of platform-driven (asymmetric) competition.

To survive and thrive in this new arena, companies of all types must redefine their roles and goals, and embrace the new rules of business. Winners will master the strategic use of digital technologies to build successful platform business models. Losers will miss their chance. With the aim of becoming the next tech giants, digital champions across all industries are writing the next chapter of the digital economy, and the time has now come to be a part of the story or become another footnote in the history of disruption.

Prediction



Immersive becomes Pervasive: Businesses go beyond AR, VR and MR to create platforms on which customers, employees and partners can experience all the five senses—together—in any environment they choose. This leads to the early stage of dematerialization where people can be present virtually anywhere in the world at any time and meet with their friends.

Key Takeaways

- Driven by the new rules of business, platform business models represent the most profound disruptive change in the global macroeconomic environment since the Industrial Revolution.
- While tech and born-digital organizations have been dominating the digital economy with record-high market caps, non-tech digital leaders across all industries are developing platform strategies now.
- The strategic use of technologies to create platform business models is driving unprecedented growth opportunities in the rapidly expanding digital economy.

Platform Economy: 100-Day Plan

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



1. Appoint a C-level champion to lead a cross-functional team of technologists, business experts, and economists. This team should assess the range of opportunities to build platform business models, and prepare a presentation to the board of directors.

3. Identify the parts of the business that are most vulnerable to attack by disruption from new platform-based business models (from incumbents and startups inside and outside the industry). Use the results to help prioritize platform investments in order to protect core profits from attack.

5. Present initial findings to the Board and establish a top-down, C-level enterprise-wide commitment to pursuing platform business models as a strategic growth path.

7. Launch a company-wide campaign on the new rules of business and platform business models. Create a network of internal platform champions to evangelize the message.



2. Identify and prioritize parts of the business that are prime for platform business models.

4. Align the platform opportunities alongside existing product and market strategies (platform business models live alongside traditional product strategies).

6. Assess your knowledge gaps of the new rules of business: demand-side economies of scale, network effects, distribution power law and asymmetric competition. Get help filling those gaps in order to successfully develop platform business models. Start building a knowledge base and education program on platform business models.

8. Assess your digital technology capabilities and gaps in building platform ecosystems. Get help filling those gaps in order to successfully design, architect, and launch pilot programs within 12 months.

9. Prioritize the overall opportunities and threats, and then start with a small initiative to pilot, including internal initiatives to start the journey into platform business models.



Platform Economy: 365-Day Plan

A year from now, leadership should have a comprehensive understanding of the new rules of business, have developed a platform business model strategy, and launched a small pilot program.



1. Finalize plans to launch the initial pilot to work with a cloud partner to build a platform around one of the most information-intensive parts of the business.

2. Formalize agreements with the cloud partner that will be building the foundation of the platform.

3. Develop a multi-phase plan to transform parts of the business to platform business models.

4. Identify platform opportunities inside and outside your industry based on your executive training programs and platform knowledge base.

5. Establish a formal governance plan and organization to manage digital partnerships and developer communities in order to optimize the value of the platform ecosystem.

6. Formalize an approach to track and report on platform growth opportunities, relevant ecosystems, and competitive threats from both inside and outside the industry.

7. Communicate the vision of where your company fits in an economy without industry sector segmentation and with boundary-less competition.



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Trend 3

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