How can incumbents shift from products to digital platforms with success

A conversation with Professor Marshall Van Alstyne, Boston University, co-author of “Platform Revolution: How Networked Markets Are Transforming the Economy—And How to Make Them Work for You”
Marshall, your research finds a number of fundamental differences between traditional product pipeline businesses and platforms. What are some of the key differences executives and entrepreneurs need to know about?

So there are big differences in how the firms operate, between operating on a product business versus operating on a platform business. When you’re thinking about products, often you’re thinking about lowest cost or future differentiation, things really make that product distinct, that either allow you to charge less or charge a higher margin to make that product successful. For platform business by contrast, you really want to think about how is it the community starts to adds value. The value is created outside the firm as opposed to inside the firm.

For example, the rides on Uber are created outside the organization, or the stays on Airbnb, they’re not owned in the same way they are for Marriott. You really want to think of how the community can bring and add value to it, such that the external ecosystem is contributing to the innovation trajectory of your products and not just the organization itself, one of the main differences between a product verses a platform.

Marshall, you point out that firms that fail to create platforms and don’t learn the new rules of strategy will be unable to compete for long. What business model changes will incumbents have to make?

Well, that’s a wonderful question and it’s a real change in mindset. The real issue is, if businesses are starting to depend on network effects where users are creating value for other users, you’ve shifted the focus from creating value inside the firm to creating value outside the firm. Once that happens, almost all of the things that we teach in a business school invert, so whether it’s marketing, information technology, human resources or specifically strategy. We have to have techniques not just for creating value inside the firm, but for creating value outside the firm.

I’ll give you one or two examples. In marketing, for example, we talk about the firm and even the changes in vocabulary, that’s gone from push to pull, or outbound to inbound marketing where users can do self-service. There’s a wonderful example of a firm, Warby Parker, that sells eyeglasses. They’ll ship you several pairs and invite you to post that on your social networks to get feedback. From that, you then get an idea what’s the best fashion for you, but you’re inadvertently doing the marketing for Warby Parker so the users are creating those messages.
Marshall, we're kind of in an interim period right now. How can incumbents run their current business and invest in the platforms which will probably cannibalize some of their existing business and lower their margins, at least initially?

Well, let's make a couple of points. One of them is that there may not necessarily be an option. Almost every occasion when a platform enters a market relative to a product, the platform almost always wins. You don't want to be Kodak in the digital era. Kodak of course invented digital photography and resisted cannibalization of its products, and thereby unfortunately wound up declaring bankruptcy in 2012. Because platforms innovate so quickly, relative to traditional product companies, it may be very difficult to resist.

But there's a mindset shift that can make it much more positive. If you open your ecosystem, and you invite others in, it may be possible to expand the boundaries of your entire marketplace, as opposed to keeping them fixed. It's far more valuable to have 5% of a billion dollar market than it is to have 95% of a million dollar market.