

Platforms Everywhere

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Platforms Everywhere: Transforming Organizations by Integrating Ecosystems in Business Design

BY

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INVESTOR IN PEOPLE

To my wife Tatjana, the love of my life and my eternal inspiration, for her patient support, critical feedback, and encouragement.

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Chapter 1

Enter Platforms

In this chapter, you will learn about:

- The need for a new business model for addressing complexity challenges in the twenty-first century
- Differences between conventional/pipeline business and platforms
- Basic elements of the platform as a business model
- Trends regarding proliferation of platforms
- The nature of the value co-creation on platforms
- Benefits and the *promise* of platforms
- Introduction to the methodology for platforming existing organizations
- Overview of the book

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Exploring new sources of value in the ecosystem requires an innovative business model that enables ecosystem entities to co-create value, while engaging in learning and community development. Stakeholders increasingly seek to be empowered and this requires a new kind of businesses, governance, society, and distributed collaboration. The main argument that the book puts forward is that platform is exactly that new business model. It has ancient roots, but its modern application provides a unique opportunity for addressing organizational, economic, social, environmental, and political problems of the twenty-first century. The conventional assembly-line (pipeline) approach to organizing businesses and creating value that has been dominant as the default model since the Industrial Revolution is no longer able to cope with contemporary challenges, needs and aspirations – and is increasingly inefficient, ineffective, and unsustainable in dealing with social complexity.

The book presents a new approach based on two *meta business models*: the first is the conventional, pipeline model, and the second is the platform model – as illustrated in Fig. 1.

This approach relates the *meta* model to what Alexander (1968) called “generating system” that provides for creation of a diversity of specific systems. In the case of business models, that implies that there is a generic model that contains essential, core elements, which then can be operationalized in a wide variety of business applications. Choosing between pipeline and platform models implies very different operating systems and capabilities, value propositions and customer relationships, and revenue models – and, thus, very different business design approach. This requires a major shift in how business model innovation and business design is understood and applied.

The pipeline business is based on linear processes of creation and delivery of the value: there is an external input (resources) into the business operating system that is processed toward a product or a service delivered to an external entity (customer, consumer, client, and user). It is often related to the assembly line, a manufacturing organization, which applies at the *meta* level regardless of the purpose of business (i.e., even if we refer to educational and healthcare businesses). In contrast, a platform business does not create anything internally while still delivering the value by enabling ecosystem entities to co-create and co-deliver the value amongst themselves on the platform. Simply put, pipeline produces value internally and delivers externally, while platform produces and delivers value externally (on the “outside”). The platform is divided between a broader platform business and the narrower aspect of the business enterprise (platform host) that

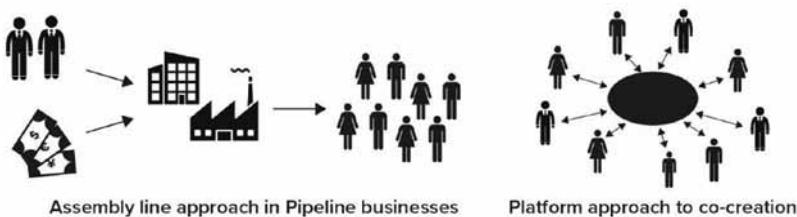


Fig. 1. Pipeline Versus Platform.

provides only the operating system of the platform and is not directly involved in value creation. The implications of the two models are fundamentally different, which impact everything from value proposition to operating system to revenues to performance metrics – and the broader purpose of the business.

Peter Drucker (1994) famously argued that there is only one definition of the business purpose: to serve a customer. Platforms are different: they enable and empower ecosystem entities to co-create value with their own resources; become empowered; learn in the process; and represent agents of collective impact. Pipeline is focused on “doing something,” that is, creating a product or service that would solve a problem. Its logic is based on the progression from problem to solution to customer to business design. Platforms do not solve problems, but enable individuals and organizations to do what they want/need/desire, when and how they want to go about it. Hence, it is the peers who are enabled by the platform for solving their own problems. The new logic of a platform business is about providing opportunities for the ecosystem potential to be manifested in a structured and purposeful manner. In other words, platform is a business medium that leverages ecosystem engagements in order to amplify individual and organizational action to induce a catalytic impact.

Basic elements of a platform are presented in Fig. 2, with the indication of the relationship between the platform, the enterprise of the platform host, and the possible business/es adjacent to the platform that engages with third parties. In hybrids, the enterprise of the platform host also includes pipeline business/es.

Elements of the platform model are elaborated in the book. Nevertheless, it is important to emphasize upfront that platform peers define platform value propositions and the purpose of business, while the enterprise focuses on the operating system that onboard and matches peers, facilitates curated peer interaction and exchanges, and nurtures individual and collective learning. Such a business model requires substantially different design, performance management, capabilities, assets, and accountability.

While conventional organizations never had a rigid boundary with the ecosystem, the ecosystem tended to be on the “outside” of the business, and the business was the same as the enterprise that ran it. In platforms, the whole process

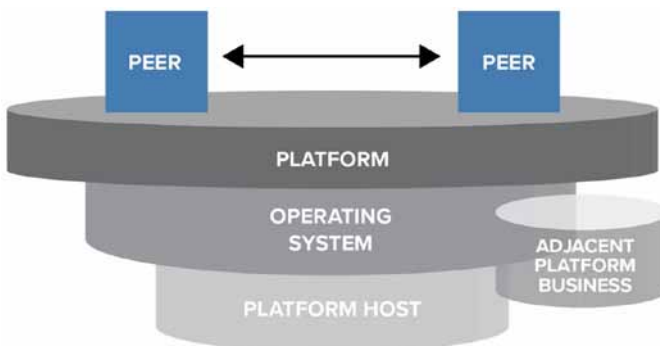


Fig. 2. The Platform Model – Main Elements.

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(input – value creation – delivery of output) takes place in the environment (ecosystem), so the business is manifested on the “outside” of the enterprise. Hence, the role of enterprise in platforms is to develop an adequate operating system for dealing with the social complexity of peer engagements that are nonlinear and emergent – rather than to create and deliver value in a linear process and by itself. This is one of the main reasons that platform design tends to be more sophisticated (and more challenging) than the design of a pipeline business. The success rate is so much lower for platforms, but the rewards rendered by a successful platform business are so much greater than that of a pipeline.

That leads to the question of what the value on platform is and how it is created. The concept of value in business remains an evasive concept that might refer to almost anything – from the added value for the customer, to monetary value captured by the business enterprise, to an ethical framework or a mission of the business. In platforms, the value is rather specific, at least in the context of the model that I propose. It can be understood as the outcome of interactions between peers on the platform – peers exchange a value unit (idea, information, insights, experience, etc.) and in the process of exchange they co-create something new. Each peer might have a different benefit from that relationship, but the value is mutually (co)produced. That value emerges only *on* the platform in peer interactions and is being delivered simultaneously when created also only *on* the platform – rather than being created internally by a business enterprise and then delivered externally to customers (as it is done in pipelines). In other words, the value co-creation takes place in the ecosystem that the platform business opens-up to and tries to (loosely) enwrap. As the value is created in the external environment there are no typical constraints of the organizational boundary of the business. It can grow fast and even exponentially by extending further into the ecosystem by involving more of the same or new peer-groups. Such value is closely related to the purpose of the platform (as defined by peers and enabled by the platform host), and, as I argue in the book, it is always accompanied by individual, organizational, and societal learning process.

A simple example is the value creation on YouTube. The value is not in the production of a video (which tends to take place off the platform), but in the interaction that the posting of the video induces. Only when somebody else watches the video is the value co-created (and immediately delivered), that is, a person might post a video, but if nobody watches it there is no value co-created. The value then increases as the watching of the video leads to comments and further engagements, and as more content is being posted and shared. The value is even more increased when YouTube content is connected to other platforms. Hence, the platform performance not only depends on the ability of the operating system to effectively onboard and match peers, but also facilitates their interaction by balancing between traction and friction amongst them. By being embedded in ecosystem dynamics, the platform is exposed to social complexity that cannot be managed in the conventional manner, which then requires a fundamentally different set of capabilities.

This book presents different types of platforms, but the focus is put on the three main ones: marketplaces, communities, and open innovation. Firstly, this

implies that not all platforms are marketplaces, as often portrayed in the media. Secondly, it clarifies the tendency to equate markets and marketplaces in the platform space. It suffices to mention at this point that markets are part of the economy and they tend to include large number of businesses – in contrast, marketplaces are individual businesses. It is, however, possible that one business captures the whole market (i.e., becomes a monopoly), which would lead to convergence of the market with the marketplace. As I present in the nascent critique, corporate platforms do have a monopolistic tendency, but platform should be, first and foremost, understood as a business. This approach also underlines that platforms are not limited to communities (including social media), and that there is a vast space for open innovation, as represented by crowdsourcing and crowd-funding – an example of which is one of the most successful platforms of all times: Wikipedia.

The benefits of platforms are fundamentally different because they represent a fundamentally different business model from the conventional one. They work well in the contemporary context because they are designed to deal effectively with social complexity; tap into latent potential of the ecosystem for creation of new value; are powerful engines for learning and social impact; and enable agile, resilient, and (potentially) sustainable change. They provide insights into how to understand those benefits and how to embrace the potential they offer.

The platform “promise” further demonstrates the application of the methodology for platforming presented in the book. The emphasis is on specific platforming value propositions co-created by groups with single, identifiable behavioral patterns (peers) when they exchange particular value units supported by an operating system based on the Research, Information, and Knowledge management (RIK). The emphasis is not on design of a start-up or scaling up of an existing platform, but on platforming, fully or partially, of an existing business. Such a platform tends to become a hybrid business that integrates elements of a pipeline and a platform. The book provides new insights into the nature of hybrids and elaborates on examples of existing platforms (e.g., Amazon) that should properly be understood as hybrids. It also addresses the issue of monetization of platforms, which is often done through an adjacent business through engagement of third parties (e.g., selling add space), which is derived from the value co-created on the platform, but not an essential part of it.

The methodology presented in this book assumes iterative development of the platform through 3 specific design phases, and the tools that accompany them – including standard templates. The approach is based on the Minimum Specifications for platform (understood as essential, necessary elements of any platform) as a diagnostic tool. It also applies 10 Guiding Principles for platform design developed in this research, which both guide the design of a new platform and can be applied as an analytic tool for assessment of existing platforms.

It should be acknowledged that the interest in platforms is growing rapidly primarily due to the success of digital, corporate platforms such as Google, Amazon, Facebook, Uber, or Airbnb. But, the impact of platforms goes beyond market capitalization, and it cuts across all industries and sectors. We can observe proliferation of platform initiatives in nonprofits, cooperatives, public sector, governments, and international organizations and those cannot be explained merely

focusing on for-profit businesses. The book will demonstrate that profit generation is not the main driver of platform popularity and effectiveness.

Digital technology provides amazing opportunities for transforming local, national, and global organizations, governance, societies, and economies. While digital tools have increased the salience of the platform business model, the *meta* model of platform presented in this book is not defined by digital technology. The ancient bazaars, auction houses, and learning hubs are just some examples of platforms that existed for centuries before digital technology and modern economy. There are also instances – such as a highway – that represent platform infrastructure, although not necessarily being a business. On the other side, not all digital businesses should be considered platforms – especially when they do not have at least two peer-groups (e.g., Netflix or ZipCar) understood as community groups with shared, identifiable behavioral patterns that engage on a curated place in a distributed manner. These businesses leverage digital technology to deliver their products and services that are produced internally, as in a typical platform. While digital technology indeed brings in new capabilities for scaling, platforms cannot be defined by digital technology (or Big Data) and they can, and throughout history did, prosper even without it.

A limited understanding of platforms – including equating them with networks or digital business – represents an obstacle for effective platform design in the context of transforming existing organizations. This is further complicated by the need to go beyond digital, corporate start-up or scale-up platforms – and even beyond the types of platforms that currently exist. Hence, this book proposes core, necessary elements of the *meta* platform business model and further demonstrates how those are (or might be) manifested in a variety of platform business types, including emerging hybrids that combine platform and pipeline. This represents the foundation for a new platforming methodology presented in the second part of the book.

As a principle, any business (or an organization seeking to become a business) that identifies a potential in its ecosystem (i.e., its broader value chain or distributed network) for peer co-creation might become a platform in the form of a marketplace, community, or open innovation. However, it does not imply that all businesses should (or could) become platforms. Making it happen requires transformation, which leads to systemic change of the culture and business policy, new management systems and capabilities, innovative revenue models, and a different definition of business purpose and success. That further requires a new methodological framework for business design that would transform existing organizations into platforms by bringing the ecosystem “into” the business. Although the literature on design of digital, corporate platforms is proliferating, there is very little focus on transforming conventional (pipeline) organizations into platforms – what this book calls platforming. The intentions and principles of design are similar, but the context is very different because platforming starts from the existing organization and its external context, rather than from a blank canvas. This book fills that gap.

To sum it up, the book provides a new conceptual paradigm and a practical methodology for transforming conventional organizations (fully or partially) into

platforms. It represents a combination of a generic methodology for platforming and re-conceptualization of the platform business model toward its more comprehensive understanding. The reader will have an opportunity to learn about the following:

- The *Meta* platform business model with four core elements that apply to all platforms regardless of their purpose and focus;
- Exploration of variety of existing and emerging types of platforms, including a typology of hybrid platforms; and
- New methodology for platforming organizations that includes Guiding Principles for Platforming, Platforming Design Steps (with practical tools and methods), and Platforming Navigator.

The book is divided in two parts. The first part provides a new and comprehensive foundation for platform business model that is both *one* (*meta* model) and *many* (types of platform models). It is essential for making sense of a platform as a new phenomenon with ancient origins that facilitates a rethinking of what business and business models represent, and how those could further evolve. The second part of the book focuses on turning existing organizations fully or partially into a platform. This addressed a major gap in current literature and proposes a new methodology for platforming. The methodology is then illustrated through the application of main design tools, principles, and techniques.

The content of the book is a result of exploratory, prospective, and pioneering action research. The main audiences are individuals and organizations interested in business innovation that taps into sources of value in ecosystems and empowers stakeholders for learning and collective impact. It is also an essential guide for anyone who seeks to understand the challenges and opportunities of business design and organizational transformation in the context of early twenty-first century.

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