
Platform Revolution

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Platform Revolution: Making Networked Markets Work for You

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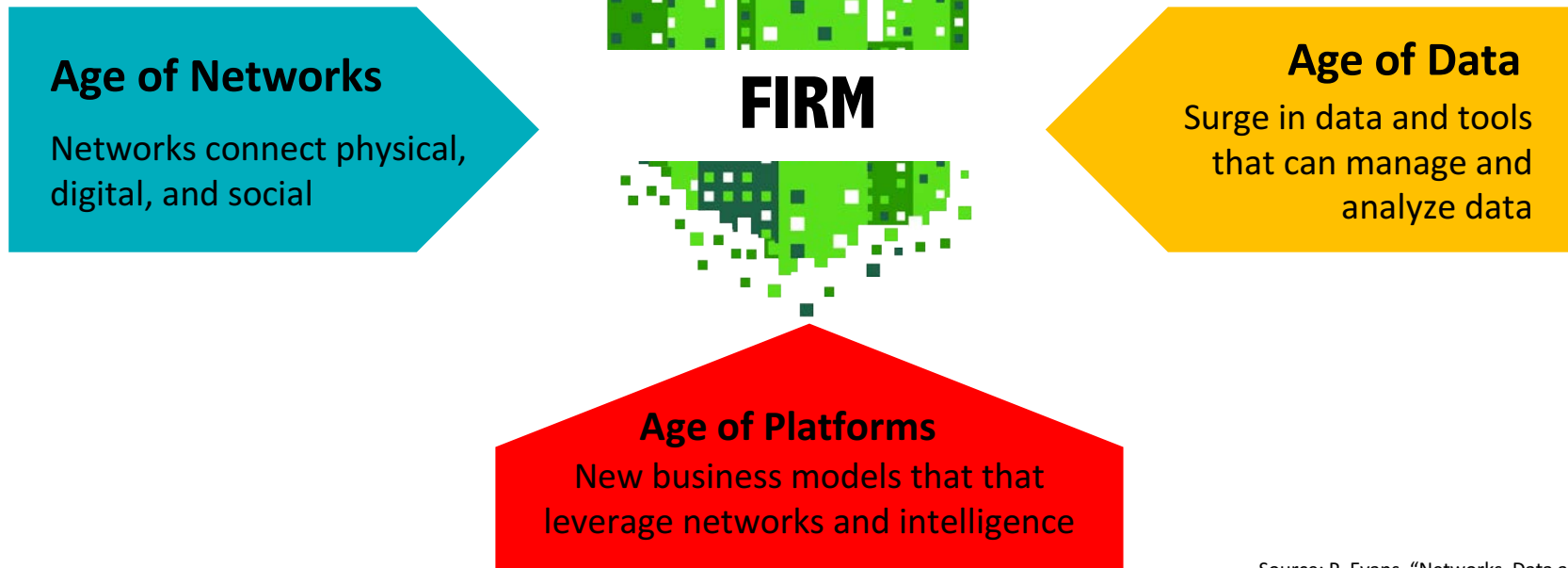
Something has Changed

FIRM	YEAR	EMPLOYEES	MKT CAP
BMW	1916	116,000	\$53B
UBER	2009	7,000	\$60B
MARRIOTT	1927	200,000	\$17B
AIRBNB	2008	5,000	\$21B
WALT DISNEY	1923	185,000	\$165B
FACEBOOK	2004	12,691	\$315B
KODAK	1888	145,000	\$30B (heyday)
INSTAGRAM	2010	13	\$1B (acquisition)



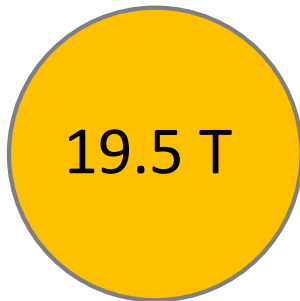
Forces of Change

Trends likely to continue and intensify

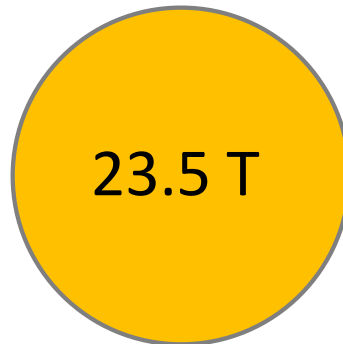


Global Economy is Relatively Balanced

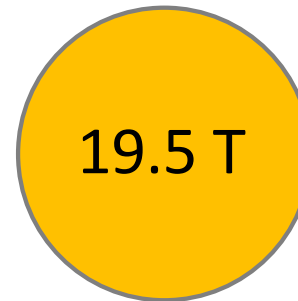
North America



Asia



Europe



Africa, Latin
America, ROW



2015 Nominal GDP US\$ Total: 73.1 T



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Source: International Monetary Fund

The Platform Economy is Unbalanced

North America



Asia



Europe



Africa & Latin America



Public
Private

North America has the most \$1B+ platform firms, as measured by market cap. China, with a large homogeneous market, is growing fast. Europe, with a more fragmented market, has less than ¼ the value of North America



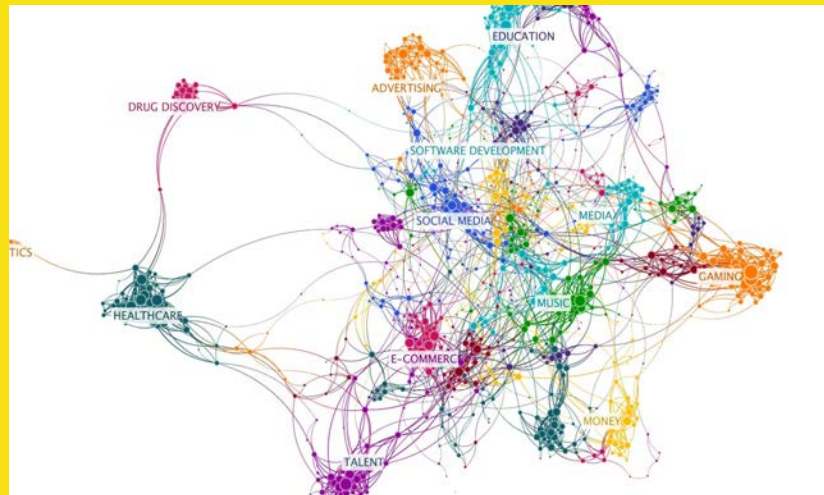
Explosion of Platform Companies

Over \$3 trillion in firm market cap

Selected Platform Companies



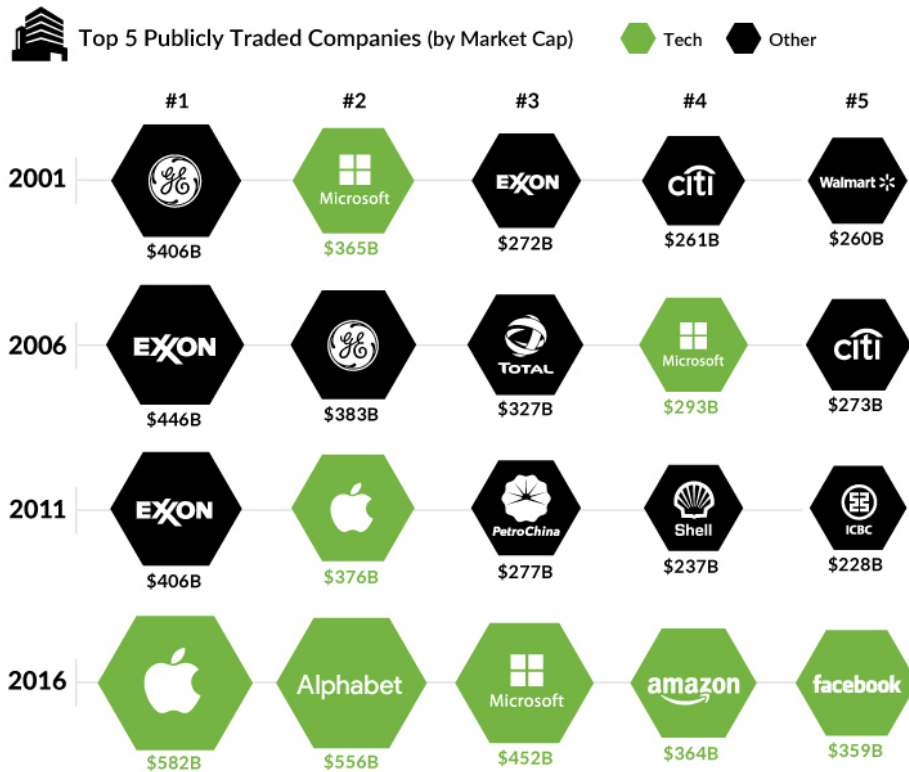
Emerging platform clusters



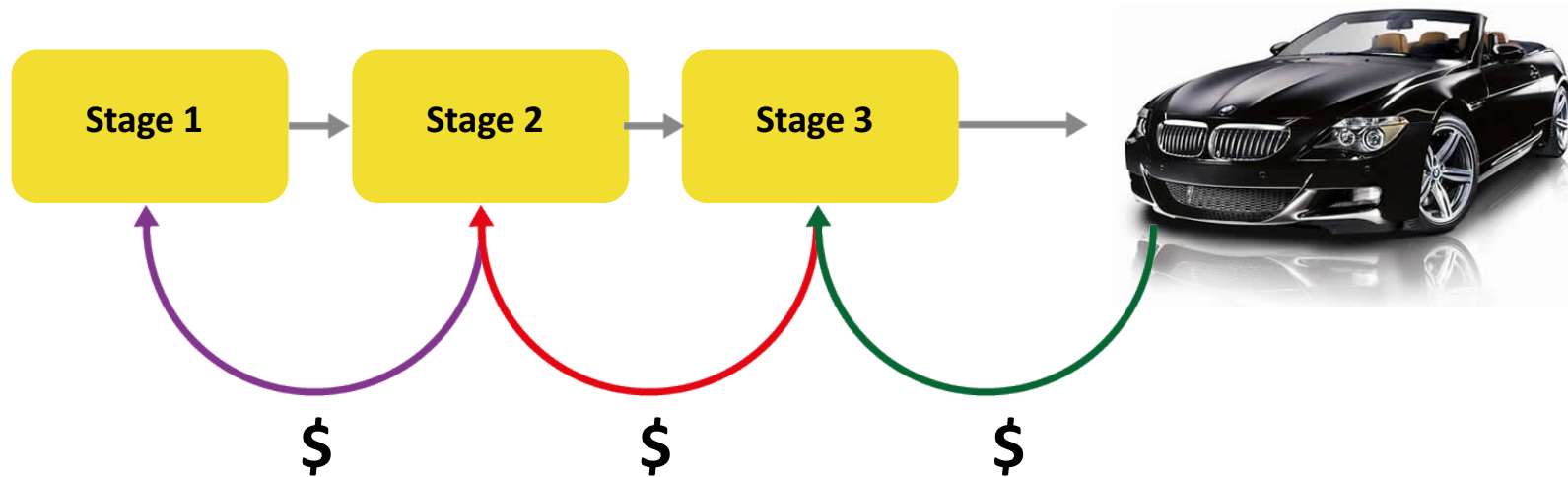
The New Multinationals



Platform Market Cap Displaced Energy and Finance



TRADITIONAL LINEAR VALUE CHAIN



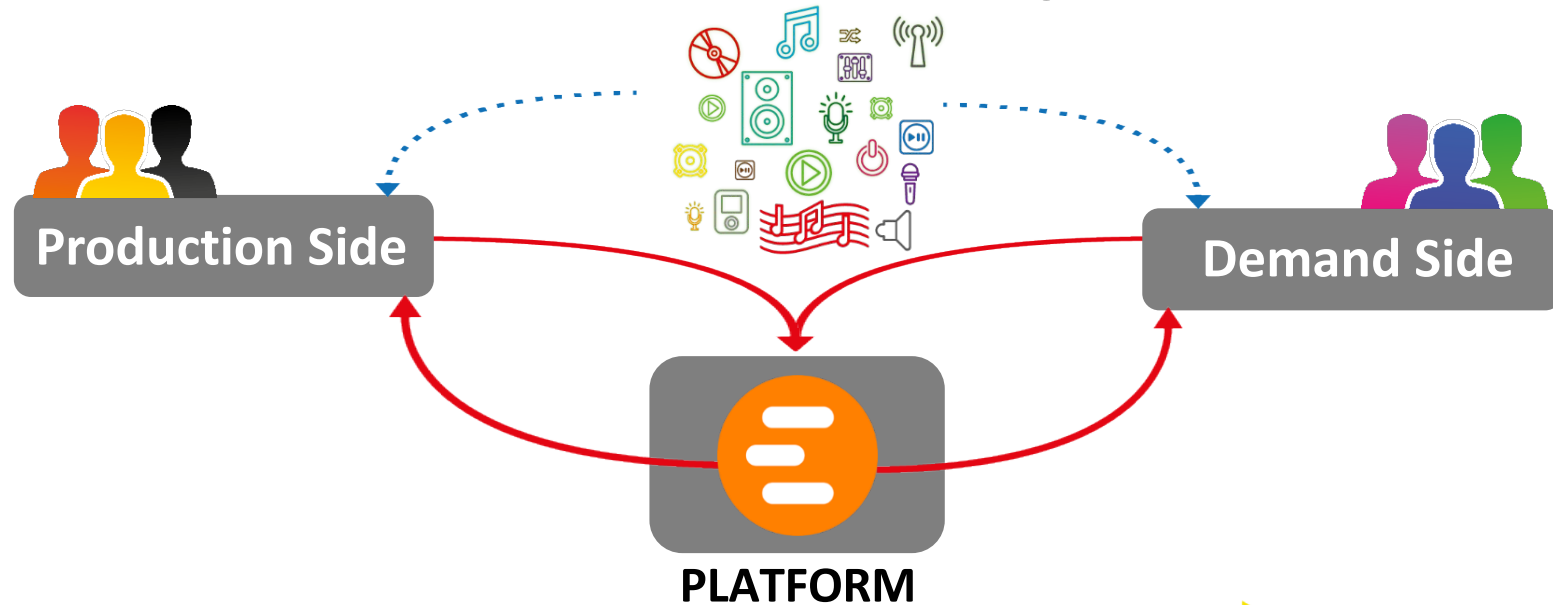
Value accumulates from stage to stage
Minimal Network Effects



Linear Pipe vs. Triangular Platform

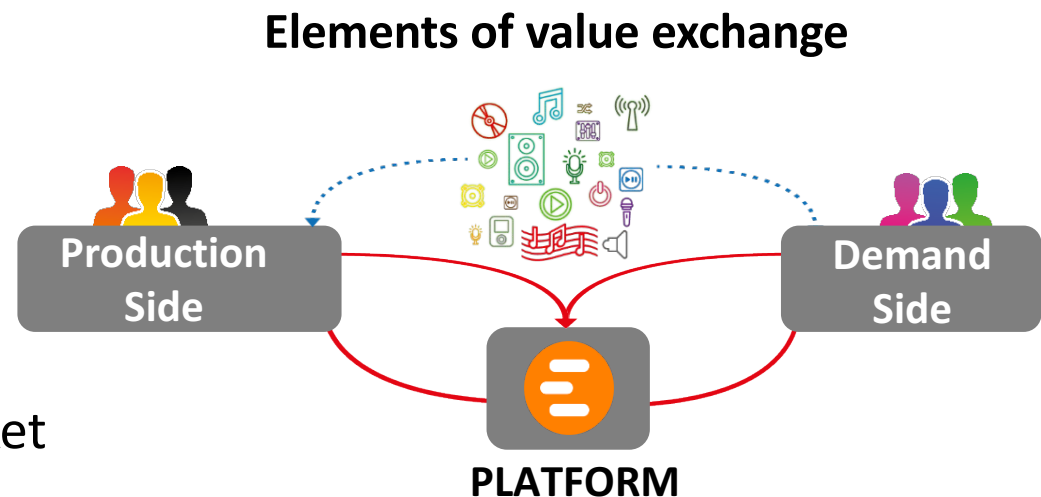


Elements of value exchange

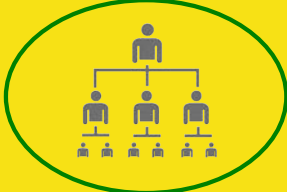

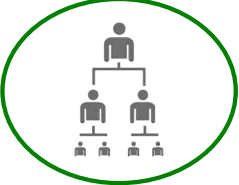





A PLATFORM:

- Is a nexus of rules and architecture
- Is open, allowing regulated participation
- Actively promotes (positive) interactions among different partners in a multi-sided market
- Scales much faster than a pipeline business because it does not necessarily bear the costs of external production.



Platforms Exist on Top of Asset Heavy Companies

STRUCTURE	HIERARCHICAL ORGANIZATION + PHYSICAL ASSETS*	PLATFORM ECOSYSTEM	EXAMPLE COMPANIES	PLATFORM
ASSET HEAVY			Daimler Johnson Controls GE Siemens	Moovel Panopix Predix MindSphere
MIXED			Apple Amazon HP Samsung	App store App store SDN App Store Samsung Apps
ASSET LIGHT			Google Uber Airbnb	Google Play Uber app Airbnb app

* Includes HQ, other rooftops, retail outlets, manufacturing plants, service shops, etc.

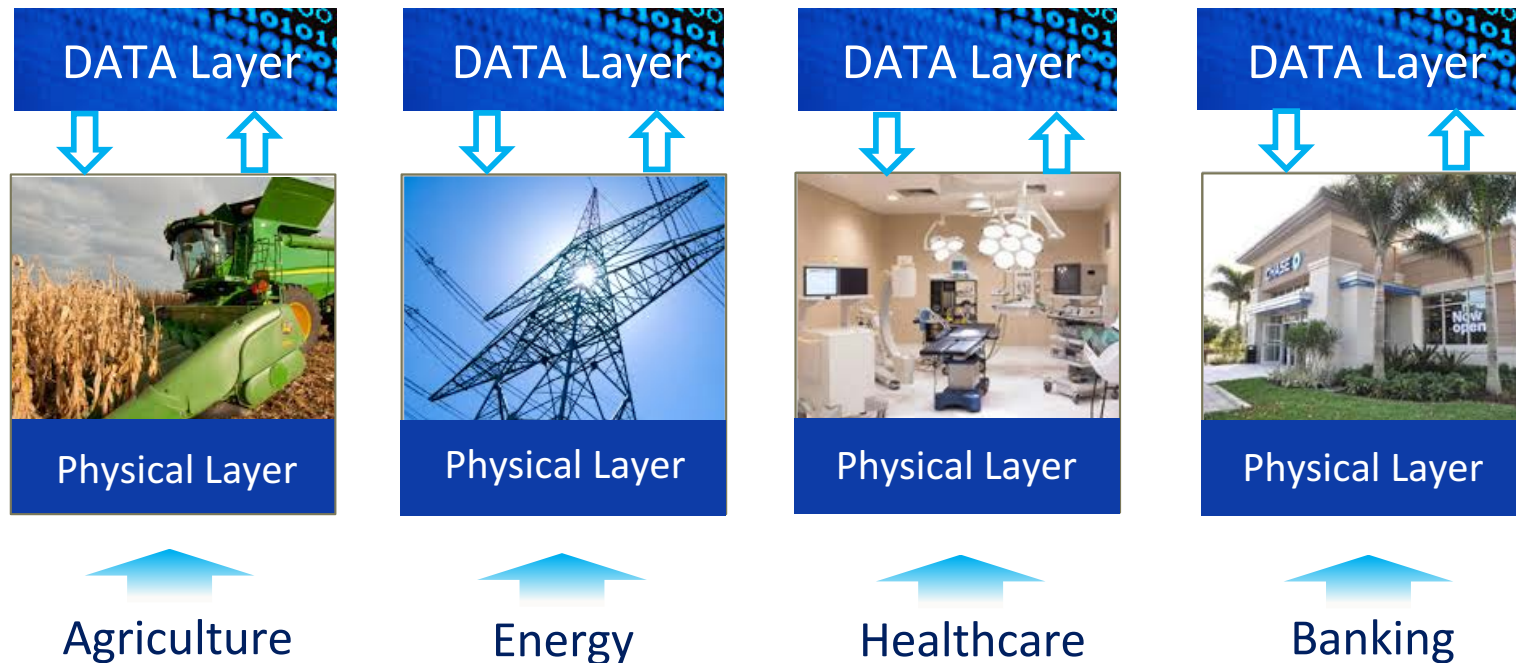
Source: P. Evans, CGE; CB Insights, Capital IQ, 2015



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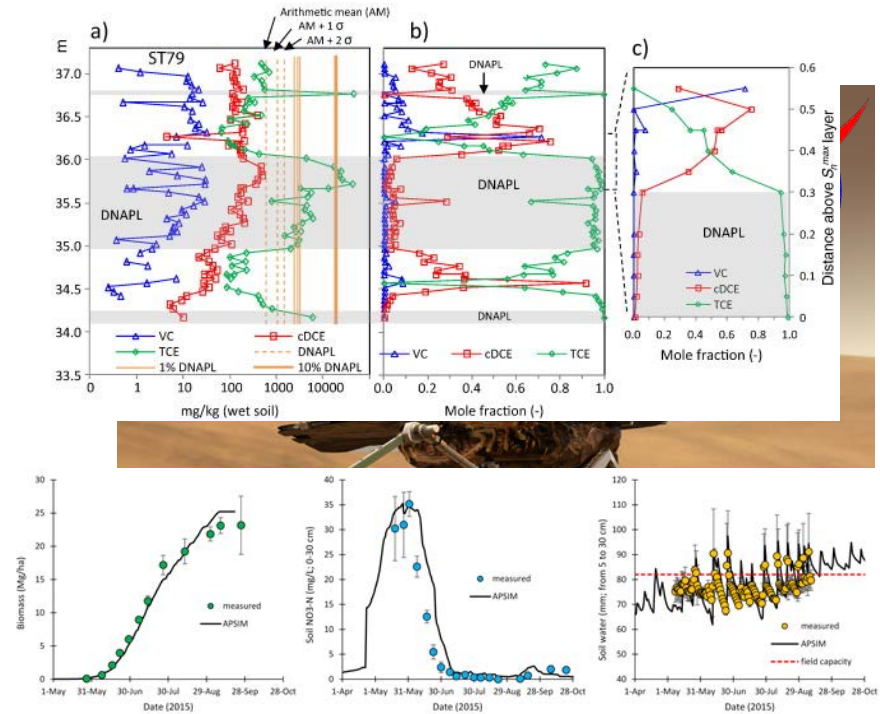
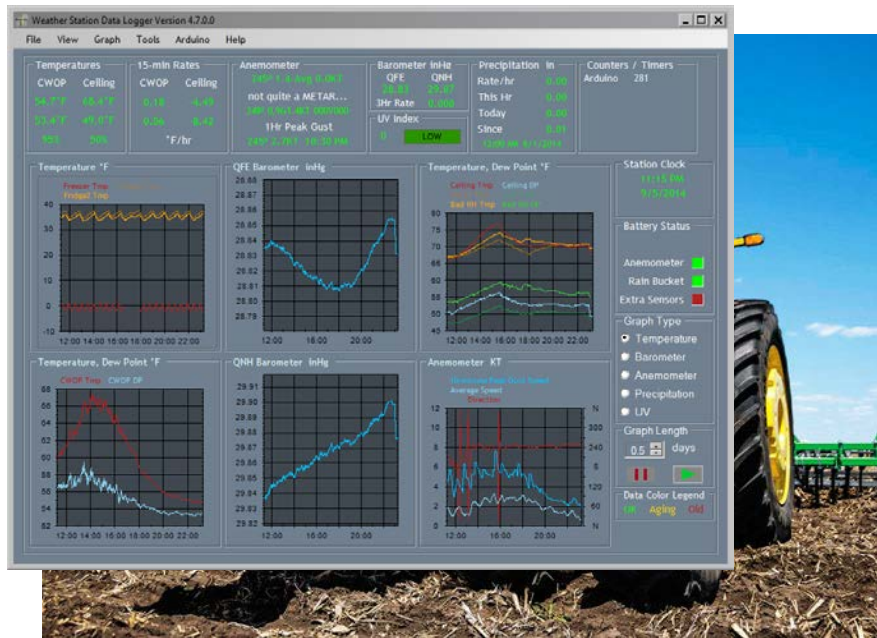
Criticality of the Data layer

New locus of value creation and capture



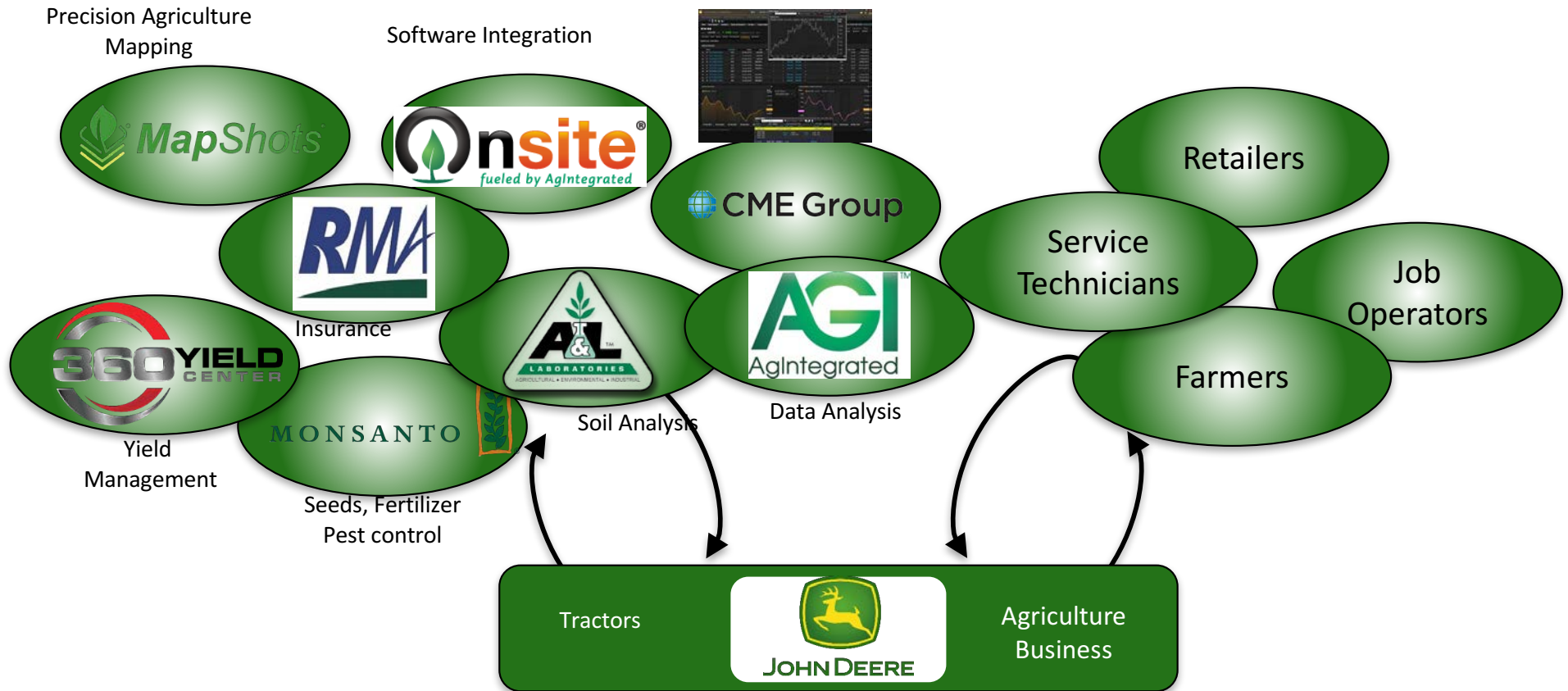
Source: P. Evans, CGE, 2015

Just a tractor?



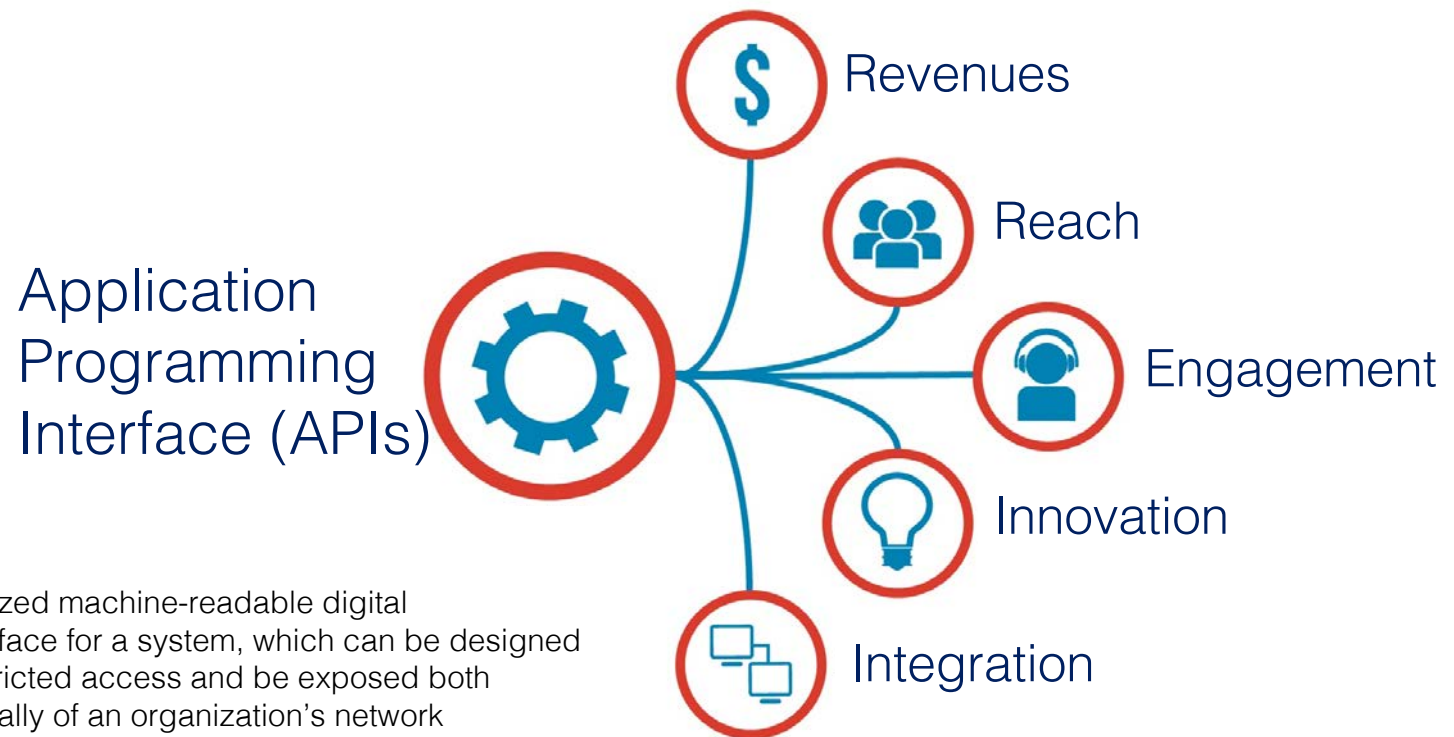
Inputs: Precise location, temperature, humidity, soil samples, seed information
 Outputs: Crop yields

Digital Farming Platform



APIs enable platform data capabilities

Exchange and value creation



Definition: Standardized machine-readable digital communication interface for a system, which can be designed to have open or restricted access and be exposed both internally and externally of an organization's network

Are Amazon and Walmart in the Same Business?

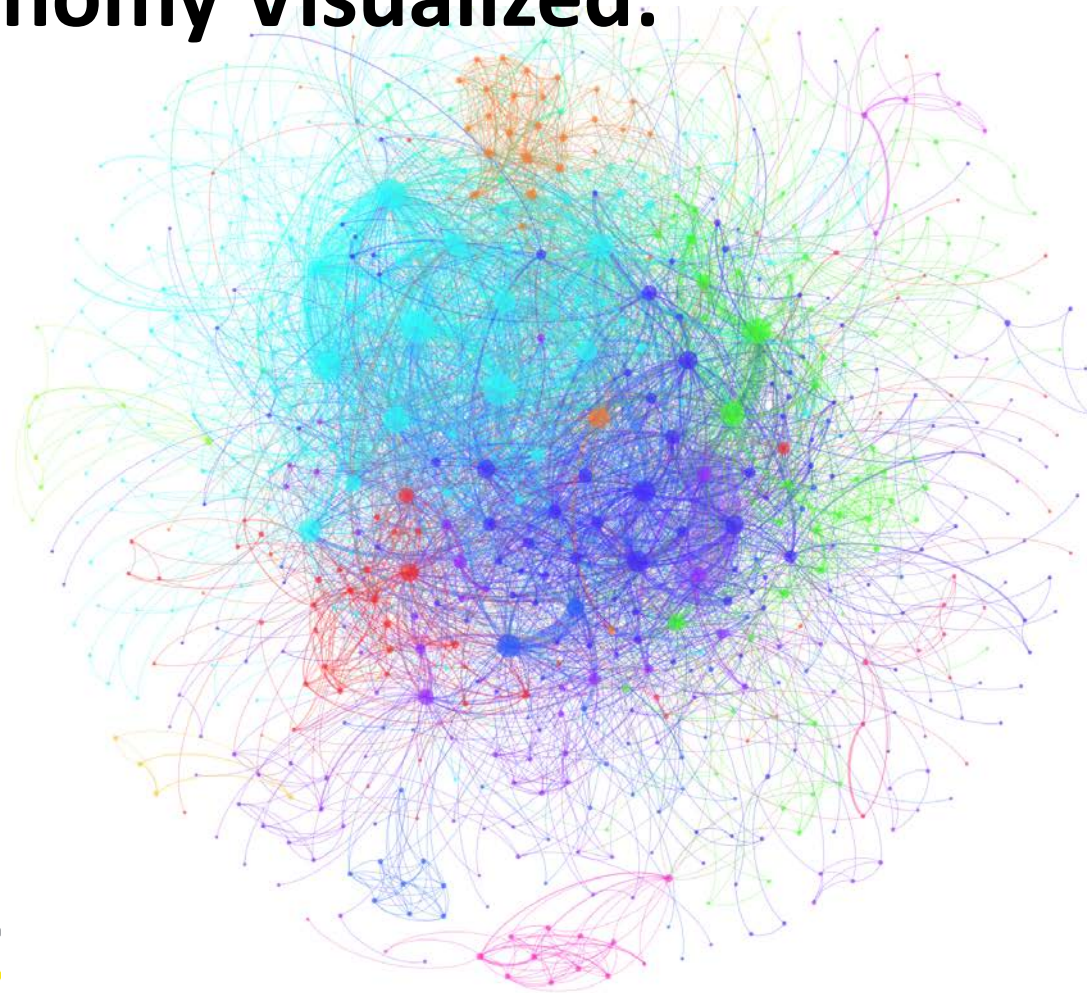
Walmart 



amazon 



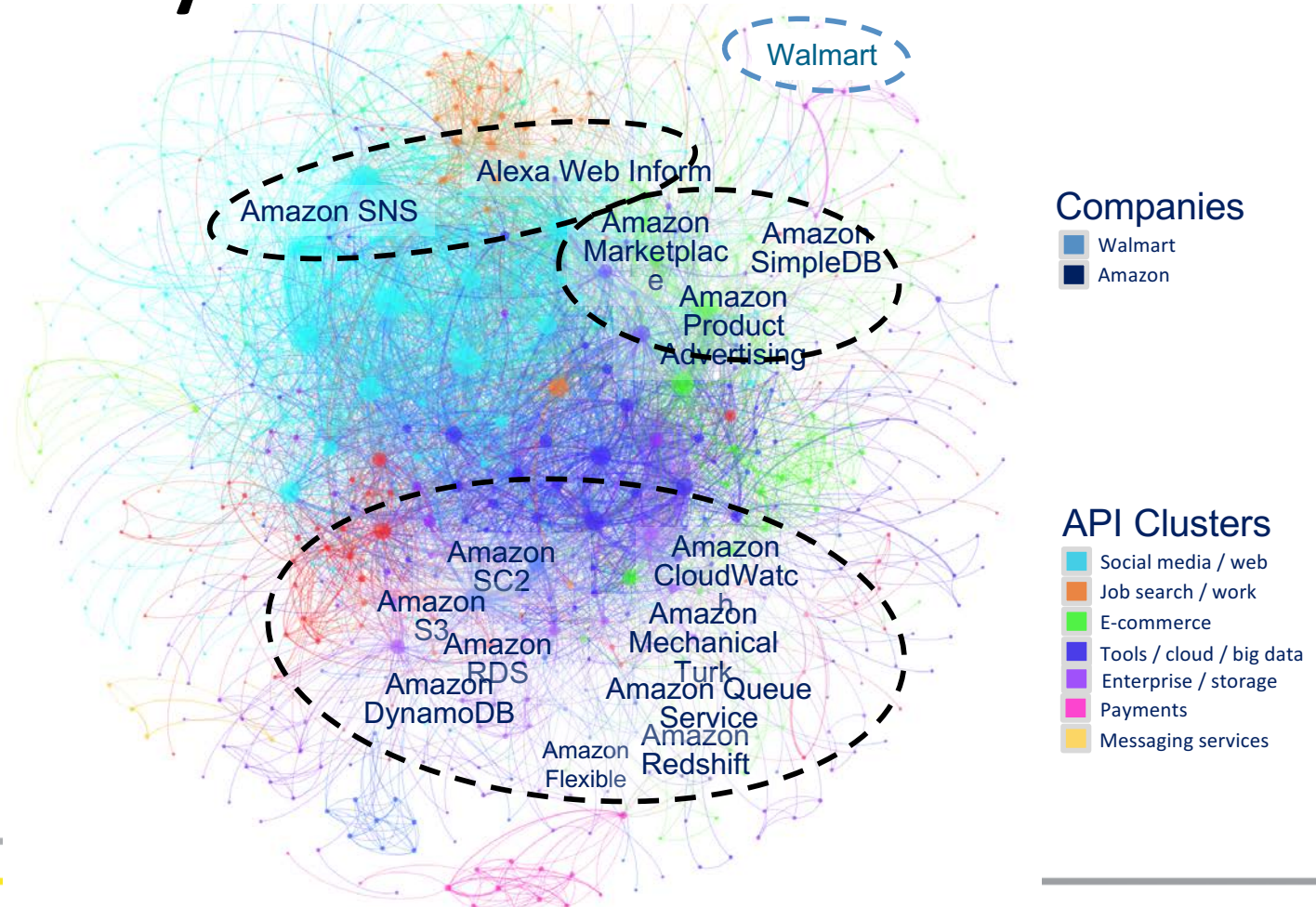
API Economy Visualized:



API Clusters

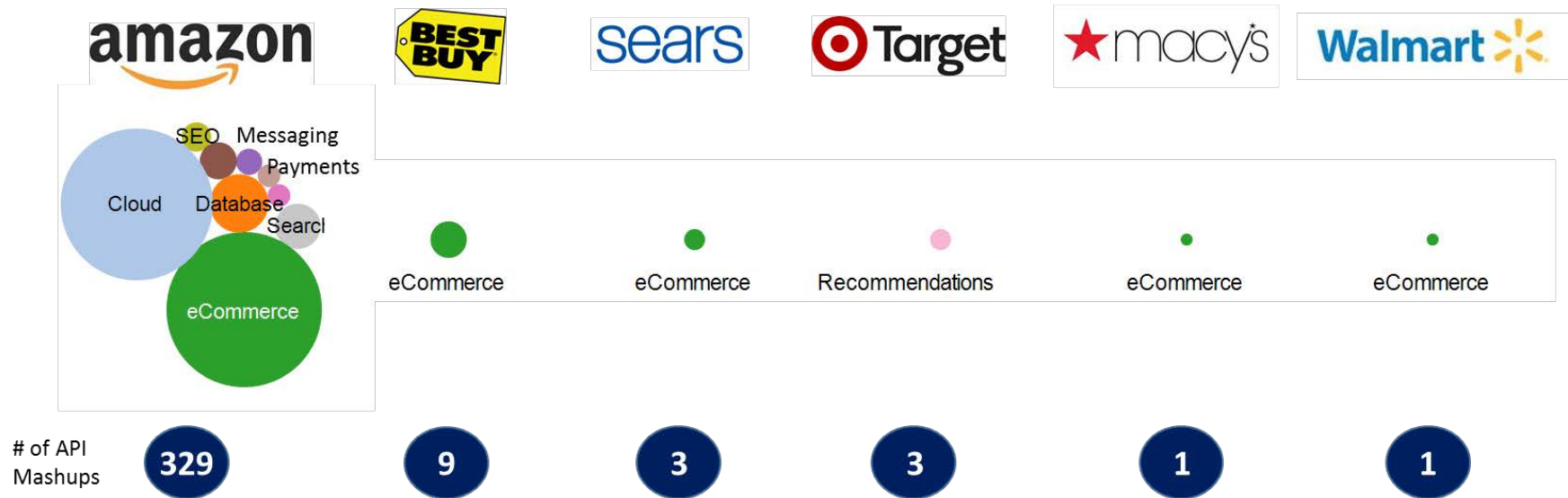
- Social media / web
- Job search / work
- E-commerce
- Tools / cloud / big data
- Enterprise / storage
- Payments
- Messaging services

API Economy Visualized: Amazon vs Walmart



Who is Getting More 3rd Party Value Add?

API Mashups: Amazon vs. Other Major Retail Enterprises



Source: Rahul Basole and Peter Evans, with data from ProgrammableWeb, Center for Global Enterprise, 2015


Amazon growth over 10 years 2491% vs.
Walmart (48%), **Target** (23%), **Macy's** (-12%), **Best Buy** (-31%)



Logistics & supply chain squeezing have limits.
External value add is much less limited.




Bezos Platform Manifesto

- All teams will henceforth expose their data and functionality through service interfaces.
 - Teams must communicate with each other through these interfaces.
 - There will be no other form of inter-process communication allowed.
 - It doesn't matter what technology they use.
 - All service interfaces, without exception, must be designed from the ground up to be externalizable.
 - Anyone who doesn't do this will be fired.
- 

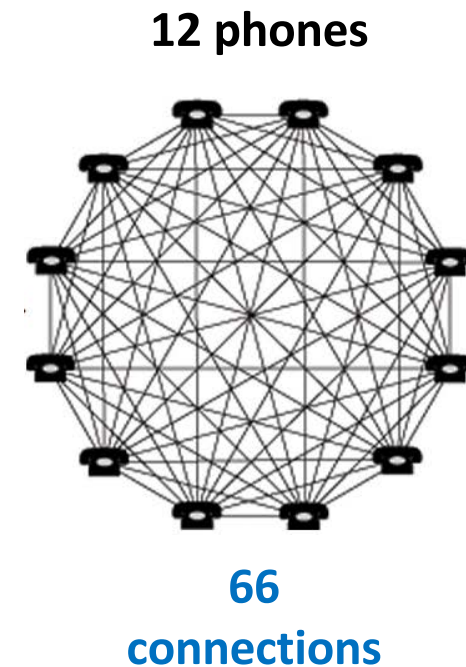
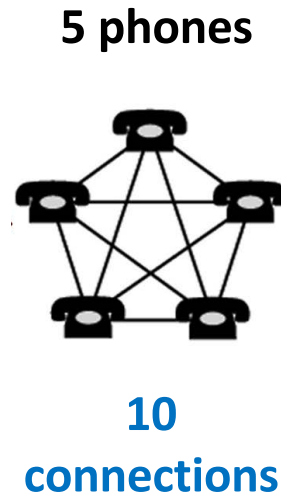
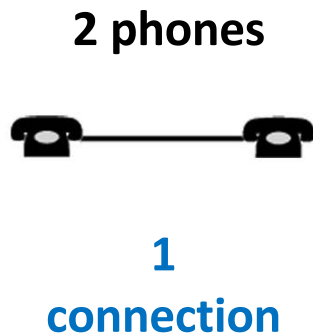


6 Reasons Platforms Fail

1. Failure to optimize “openness” – Apple 1980s / Google 2010s
 2. Failure to engage developers – Johnson Controls Panoptix
 3. Failure to share the surplus – Covisint
 4. Failure to launch the right side - Google Health (consumer)
 5. Failure to put critical mass ahead of money – BillPoint vs. PayPal
 6. Failure of imagination – HP, Sony, Garmin, Cisco, ...
- 

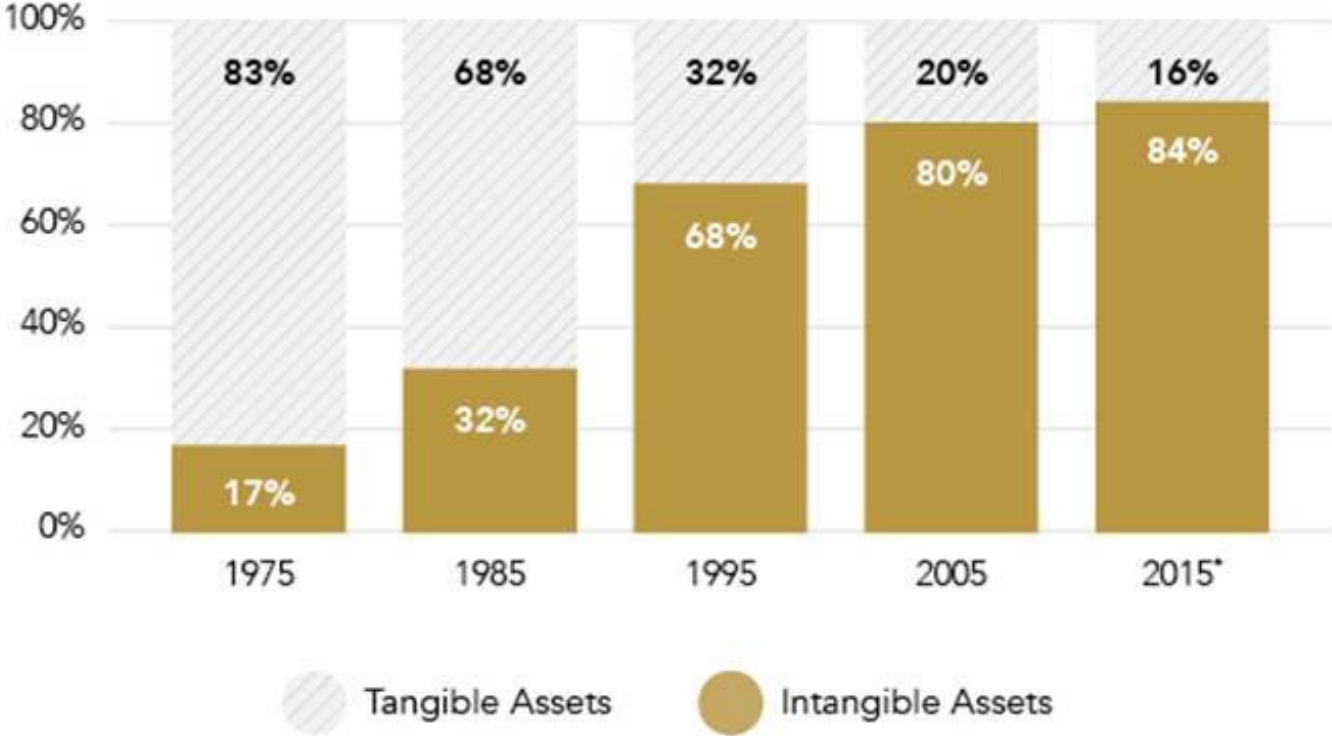
Platforms Leverage Network Effects

More users = more value = more users...



Rise of Intangibles

S&P 500 (US) Market Value



Source: Ocean Tomo, LLC 2015




PLATFORM IMPLICATION

In any market with network effects, the focus of attention must shift from inside to outside the firm.
Reason: You can't scale network effects inside as easily as outside.

Source: Platform Revolution



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... this implies ...

To have an external focus,
you *must* have a
community strategy.





How Strategy Changes

Goal shifts from control, entry barriers, and differentiation to creating and facilitating more valuable market exchanges.



Platforms Invert the Firm ...

- **Finance**
 - Records outside firm (e.g., blockchain),
 - Shareholder Value → Stakeholder Value, Incorporate network effects
- **Human Resources**
 - Internal Employees → External communities
- **R&D**
 - Experts & Specialized departments → Crowdsourcing & Open Innovation
- **Marketing**
 - Push → Pull, Outbound → Inbound
- **Strategy**
 - Entry Barriers & Inimitable Resources → Ecosystem husbandry & Long Tail
- **IT**
 - Back Office (ERP) → Front Office (CRM) → Out-of-Office (Social & Big Data). Communication *among* users.
- **Operations & Logistics**
 - Uber: no taxis, Airbnb: no real estate, Facebook: creates no content, Alibaba: no inventory.
 - Shed fixed and variable costs



From Products and Services to Platforms

Primary Tasks

- Add data layer to improve existing operations
- Create ecosystems to add value
- Invest in governance to attract partners and their investments



From Products and Services to Platforms

Secondary data uses

- Create architectures to facilitate access to data that can be used to create new business and revenue streams
- Develop shared understanding and rules to fairly divide value to provide incentives for asset owners to participate

“you’ll know you’re a platform when your users do something you didn’t expect.”

Peter Coffee, Salesforce.com, MIT Platform Summit 2013





Current Platform IDE Research Projects

- Platforms in Finance and Telecoms
- B2B versus B2C Platforms
- Governance and Regulation in Platforms
- Data Value and Markets



Q&A

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