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Technologies such as cloud computing, Internet of Things (IoT) and mobile communications have contributed to the rise of the modern platform business model.

But what is a platform business, what types of platforms exist and what skills do you need to create your own platform business model?

Let's find out...

The Platform Business Model

Platform businesses have been growing in the past number of years. Unlike traditional product based business models, platform businesses don't create and sell a products for consumption, they are more akin to a service provider that facilitates activities or interactions on its platform and derives economic benefit through advertising, usage fees, access fees, leveraging the data or some other method of monetization. Platforms also leverage network effects, meaning that the more users on the platform, the better it gets.

The concept of a platform business model is not all that new. Think about a shopping centre that provides you with access to several retailers, car parking, restaurants and other services. You are not charged for admission to the centre but the centre charges rent to the retailers and services providers that operate within. This model uses primarily a brick-and-mortar approach to enable customer exchanges. Today, platforms are powered by digital technology infrastructures allowing them to scale globally, serve a larger number of users and leverage data analytics to improve the platform.

While traditional product based business models create value by transforming raw materials into finished products for sale or by performing a service directly for the customer, platform business modules are a little different. Rather than focusing on generating revenues from producing and selling goods/services on a transactional basis, the platform business model facilitates valuable connections among users. A platform business may still produce products but they can differentiate themselves by providing an additional layer of value for customers. For example, Nike traditionally sell trainers and sports apparel however using the power of IoT sensors and cloud connectivity, Nike customers can track their run times and compare their performance against other users via Nikes platform. Thus Nike operates a hybrid module blending its products (athletic apparel) with its platform to provide value for customers. Still unclear about platforms? Let's look at some more examples to illustrate.

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Platform Examples

AirBnB

AirBnB does not own hotels or guest houses, rather it provides an exchange platform on which users can find accommodation or provide access to their accommodation. AirBnB generates revenues by charging a fee for this transaction.

Amazon/Ebay

Do you want to buy a book, golf clubs, a dining room table or even a car. Peer to peer sales platforms such as Amazon, Ebay or Facebook marketplace allow users to sell and buy their goods on the platform. Many of these platforms charge a transaction fee and even provide additional services such as warehousing and distribution of products.

Facebook

One of the most well known and successful platform businesses, Facebook allows users to share content, view other users profiles, chat with other users, list their business, manage event registrations and much more. Facebook generates revenues from advertising.

Hubspot

Hubspot may have started as a product based software as a service (SaaS) business in 2006 but it is shifting toward a platform model. Rather than limiting their products functionality based on what their engineers could develop, Hubspot opened its doors for other developers to create apps that work alongside Hubspot's core products and now have an extensive marketplace of apps available. By allowing these integrations, Hubspot's users get more functionality and value from Hubspot while some developers charge a fee for use of their

Waze

Waze provides mobile navigation assistance but also uses crowdsourcing to allow users to submit their own data and improve the experience for all other users on a similar route. If you are walking or driving and see a road diversion or a car stalled in a lane, you can submit this to Waze who will feed that information to other users in the vicinity. Waze heavily leverages network effects, as more users use the platform, Waze improves the experience for other users thus giving it a competitive advantage over traditional navigation devices.

Types of Platform Business Models

According to John Hagel, Co-Chairman for Deloittes Centre for the Edge, there are 4 categories of platforms.

Aggregation Platforms

These bring together users and facilitate an exchange of goods,services or information, for example eBay and Etsy. Aggregation platforms tend to be transaction or task-focused. The platform facilitates user transactions and generates revenues via transaction fees or a charge for access to the platform.

Learning Platforms

Similar to mobilisation platforms, these foster user collaboration and learning over time. For example, Learning Management Systems (LMS) and intranets allow employees to share their knowledge, gain skills, teach each other and learn from your organisation.

Mobilisation Platforms

These platforms encourage users to collaborate and thus achieve outcomes beyond what an individual could achieve alone. Mobilisation platforms tend to encourage non-transactional long-term relationships among users. These are ideal in a B2B context to foster collaboration among your employees, business partners or even customers to solve challenges. For example, NetFlix wanted to improve the accuracy of its recommendation engine and used crowdsourcing to mobilize individuals/teams from the general public to suggest ways to achieve this.

Social Networking Platforms

Social networking platforms (Facebook, Instagram, Twitter, Youtube etc) aggregate users, but not purely for the goal of transaction. They facilitate user interaction (rather than transaction) and they may generate revenue via advertising. Social platforms tend to foster engagement and relationship building between users in a semi-mediated fashion rather than fully orchestrating the interactions for the purpose of creating transactions. In the case, the social platforms goal is to increase the size and activity of its user base by creating a platform that gives value to users as they use it and encourages them to use it more often.

Building Your Platform Team

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While strategy and technology are important for your platform's success, you must also build an experienced team to manage it. Here are the roles or skill set needed in a successful platform team.

The Visionary: This person is a strategist who will assess market conditions and the competitive landscape and formulate your platform strategy. They will push forward the strategies implementation with road maps and milestones that are appropriate for both your market and technology situation.

The General: This person is a platform manager will possess multi-disciplinary skills needed for the operations or daily running of the platform. The will be skilled in people management, project management, stakeholder management, finance and have a reasonable technical grounding to be able to collaborate with platform engineers, developers etc.

The Shepard: This person is an ecosystem manager who will establish, manage and grow your external network of partners, developers, users etc who make up your ecosystem. They must be able to be a bridge between your organisations internal strategy and its relationship with the external eco-system who either use your platform or build upon it to contribute to your success.

The Builder: No technology based platform would be possible without engineers to plan, develop and maintain the technical aspects of your platform. Experience into open source systems will be eye. Soft skills are also key as this person will be responsible for working closely with the ecosystem manager and key ecosystem users/contributors to ensure the platform growth is supported.

The Data Whizz: This person is the data manager who will create, maintain and leverage a robust information systems infrastructure in your organisation. It is said that data is the new gold and this person will create and operate your gold mine. They will also install data governance internal into the firm.

The Protector: This person is a privacy and compliance manager who will remain aware of the regulatory landscape and ensure your organisation is compliant. Key compliance areas will include defending against platform misuse by users/contributors, defending against cybercrime/hacking, ensuring user data is secured and helping the eco-system manger to build trust among the network.

Conclusion

Traditional product based business models compete on the basis of a static product, functionality, pricing and branding.

However, a platform business model allows you to improve your product (if you provide one) and gives your organisation the ability to differentiate itself from product based competitors by providing an additional layer of value to your customers (think of them as users now).

We discussed the types of platforms that exist, several examples form some of the worlds most successful platform businesses and they key people you need to develop your own platform business. If you want to learn more about Platform based business or Digital Transformation, feel free to reach out.
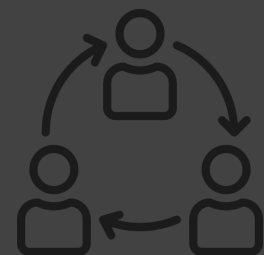
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Robert is a Digital Transformation & Digital Marketing Lecturer. Robert is available for your webinars, conferences, events & training

With nearly a decades experience, he has worked with Hubspot, Digital Marketing Institute, Irish Times Training and others. He is a judge for several industry awards, he is a regular speaker at conferences and corporate webinars. Robert was even shortlisted for the Net Visionary awards in 2017.

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