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G20
Young Entrepreneurs'
Alliance

Five Ways to Win with Digital Platforms

Executive Summary

The pervasive power of platforms

Platform business models are fast becoming the golden child of the digital revolution. As digital platforms disrupt and dominate markets to create communities of enormous scale, they deliver compelling customer experiences and offer new forms of innovation and value creation. Yet, most new platform businesses will fail unless players acquire a new mindset and business approach. We reveal the critical success factors that help entrepreneurs and incumbent companies achieve successful platform-based businesses.

Until recently, digital platforms were the preserve of technology and digital-born companies, such as Google, Apple, Facebook and Amazon, and digital start-ups fueling the on-demand or sharing economy, with leaders such as Airbnb and Uber. These players have gained enormous power through **network effect**—bringing together more market participants means more customers attract a greater number of merchants and partners. They also have benefitted from **the concurrence of technologies** to create scalable, on-demand services that are affordable and accessible anywhere. And they have been able to **mine open and shared data** for insight, personalization and monetization.

Now, a flurry of digital entrepreneurs are embracing the platform model too, developing new platforms, partnering with platform owners to provide complementary services or acting as suppliers on a platform to exploit

new distribution channels. As a result, small businesses can reap the rewards of the platform economy: access to large scale markets at lower cost and greater speed and the ability to participate in ecosystems that support more effective innovation.

Traditional incumbents, too, are developing their own platforms, working with innovative entrepreneurs and undertaking alliances or acquiring companies. This approach is helping them shift from selling products to selling outcomes. For example, Philips is reinventing itself in the fast-emerging health technology market.¹





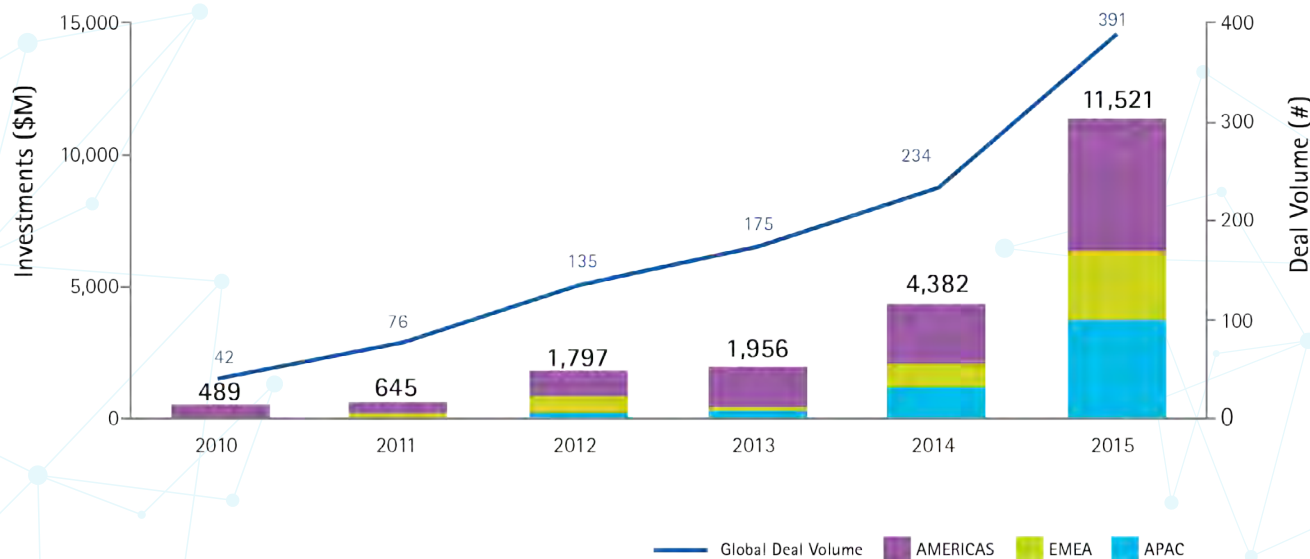
What is a digital platform?

A digital platform is a technology-enabled business model that creates value by facilitating exchanges between two or more interdependent groups. Most commonly, platforms bring together end users and producers to transact with each other. They also enable companies to share information to enhance collaboration or the innovation of new products and services. The platform's ecosystem connects two or more sides, creating powerful network effects whereby the value increases as more members participate.²

Platforms' development can be accelerated by third parties' provision of application programming interfaces (APIs) that enable participants to share data to create new services.³ Thanks to cloud and other technologies, they can provide resources on an as-a-service basis. Successful platforms operate under clear governance conditions that protect intellectual property and data ownership, fostering trust among participants.



Figure 1. Investment in Digital Platforms



Digital platforms cover online marketplaces and financial services platforms
Source: Accenture Research based on CB Insights, Tracxn and CrunchBase data

Platform proliferation

Beyond the well-known brands that dominate the platform economy, there is a proliferation of platform businesses across the world. More than US\$20 billion was invested between 2010 and 2015 in the course of 1,053 publicly announced deals in digital platforms (Figure 1). Much of the growth took place between 2014 and 2015, with investments doubling in 2015.

Less than 15 percent of Fortune 100 companies have a developed platform model today,⁴ but IDC predicts that, by 2018, more than 50 percent of large enterprises will create or partner with industry platforms.⁵ The platform revolution that began with business-to-consumer (B2C) eCommerce is expanding fast into the business-to-business (B2B) space, typified by the emergence of digital technologies such as the industrial Internet of Things.

A winning formula

Industry experts we interviewed said that less than 10 percent of start-up platforms will succeed to become profitable independent entities—even lower in markets such as China where the platform market is highly competitive.

Barriers to entry are becoming higher as large platform players expand geographically or into adjacent market sectors, shift from business-to-consumer to business-to-business (examples include Airbnb, Booking.com, Expedia and Uber), or develop offline-to-online models that move them from online channels to physical stores (like Amazon, DHgate or Paytm).

Large companies will also be challenged to adapt their culture, practices and operations to suit the particular demands of customers and partners in the platform world.

Accenture research and modeling has identified the essential dimensions to successfully win in the platform economy (Figure 2):⁶

- **Create a dynamic platform ecosystem that enables businesses to achieve critical mass:** Critical mass is dependent on mastering five distinctive capabilities that we call the five Ps: a differentiated value proposition, service personalization, market responsive pricing and effective cyber protection, alongside taking advantage of the scalability power of ecosystem partners. Each of these five Ps takes on new meaning as companies move from the traditional "pipeline" model, where companies succeed by optimizing activities in their value chains, to the platform model where success depends on bringing together customers and producers.
- **Foster a supportive enabling environment:** There are factors and conditions within the broader economy that are required for platforms to emerge and grow—digital user size and savviness, digital talent and entrepreneurship, technology and governance, open innovation culture and public policies.

Figure 2. Accenture Platform Economics Model



Source: Accenture Research; platform economic framework (inner circle of the model) adapted from Pipelines, Platforms, and the New Rules of Strategy.

Create a dynamic platform ecosystem: Five ways to win

The following five factors generate the network effects and the critical mass crucial to the success of platforms:

Proposition: Present a compelling solution through modularity

A platform requires continuous innovation, in terms of value proposition and business model, to create superior value for users, suppliers and partners in the ecosystem. The use of application programming interfaces (APIs) is critical, enabling a modular approach to platform development and revenue growth.⁷ China-founded DHgate.com's B2B proposition, "from factory to global customers," is realized through a cross-border trading ecosystem—representing logistics, payments, internet financing and technology innovation capabilities. Sellers benefit from increased margins, a shorter business cycle, extended global reach and strong local language services. Buyers enjoy a seamless and secure bulk purchase experience, supported by DHgate.com-trained customer service representatives.

Personalization: Center on the user journey

Targeting individuals and organizations across all channels at scale relies on mass personalization. The aim is to understand customer intent, then dynamically and uniquely tailor experiences to each individual and context in a seamless manner. Amazon uses interest and intent collection management tools to encourage buyers' "stickiness." Personalization will vary by country or region based on data privacy laws.





Price: Engage participants through sophisticated dynamic pricing

Pricing strategy differentiates platforms from traditional businesses and presents a dynamic opportunity for greater flexibility and reward. A freemium approach, pay-as-you-go pricing and surge pricing are all ways being used to manage demand. Airbnb has rolled out a smart pricing system for all hosts on its platform that adjusts room prices based on changes in demand in real time.⁸ A platform's flexibility with surge pricing will depend on local rules, such as the legal directive for Uber and others not to charge beyond government-prescribed rates in India.⁹

Protection: Embed trust at the heart of the platform

Cybersecurity is key—customers need to be sure the right safeguards are in place. Authentication of community members and their activities is the primary responsibility of the platform owner and partners, far more than in an offline business. Protecting a platform needs to account for both prevention and compensation. Here, platform owners can differentiate themselves. China's B2B eCommerce platform, DHgate.com, has partnered with Authenticateit around product tracking, anti-counterfeit technology, upgrades to the merchant rating system and an escrow system to build buyers' confidence.

Partners: Collaborate for scalable capability and agility

Platform ecosystems include a range of partners who act as product or service complementors, payment providers or app developers. These digital partners improve the potential for platforms to scale rapidly and robustly. For example, the modular design of U.S.-based Quicken allows it to use external providers to conduct large parts of the production chain, including sophisticated functions such as predictive and specialized fraud analytics.¹⁰ In its simplest form, collaboration may be a joint go-to-market approach, such as the referral partnerships of the UK's NoviCap with TransferWise and Kantox.

Foster supportive environment enablers

Even with the right ecosystem elements in place, platforms rely on supportive underlying conditions.

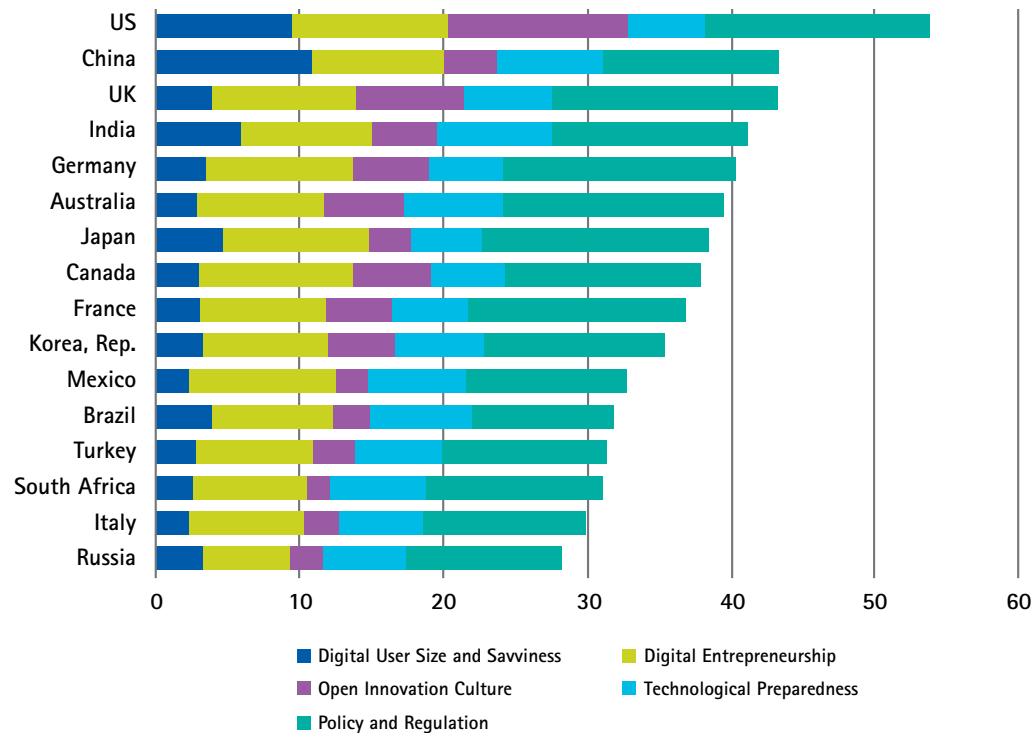
Today, North America enjoys the biggest digital platform investment by far, followed by Asia Pacific which accounts for 33 percent of global investment, up from just six percent in 2010 (see Figure 1, page 4). China has the lion's share of investment in Asia Pacific.

This level of platform investment corroborates the Accenture Platform Readiness Index. The Index assesses select G20 countries and shows significant regional variations in platform readiness (see Figure 3). There is a clear correlation between the health of an economy's platform environment enablers and the levels of platform investment and activity.

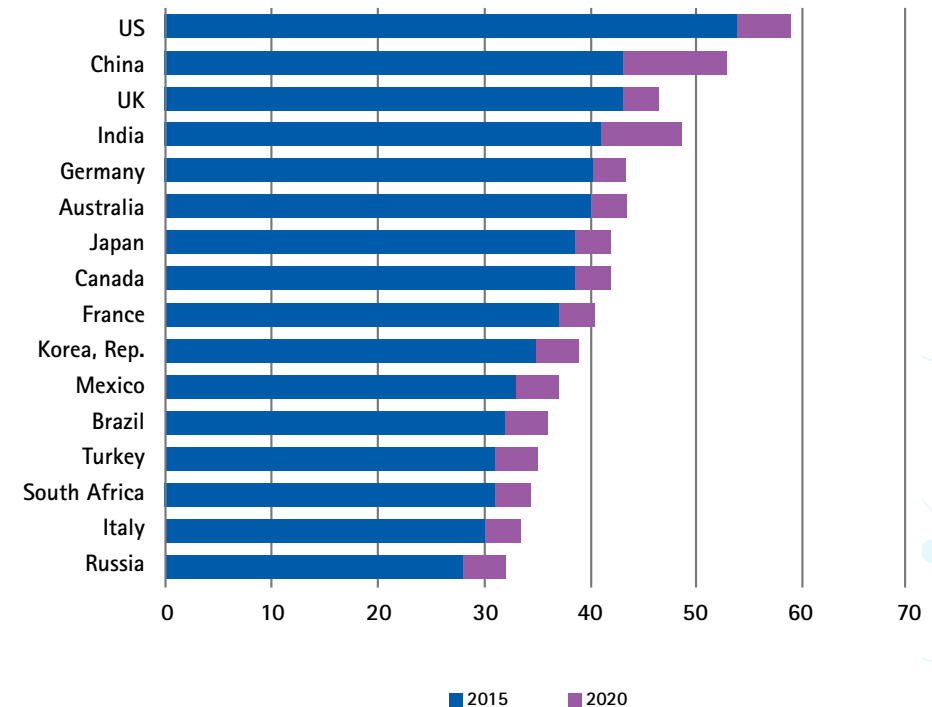
Countries with the highest platform readiness—China, the United States, India, the United Kingdom and Germany—will enjoy higher levels of platform activity and harvest related economic benefits.

Figure 3. Platform Readiness Index—Current and Future State

2015, Factor Components



2015 and 2020, Overall Index



Source: Accenture Research



“The successful platforms became so based on network effects, the large demand economies of scale where users create value for users. Note that the biggest firms occur in the U.S. or China, where there are large homogenous markets. So be aware of policies that introduce fragmentation. Policy makers should be setting policy that helps create the greatest value for the greatest number of people and reduce fragmentation of markets. That will allow the large network effects to emerge.”

– Professor Marshall van Alstyne, Questrom School of Business, Boston University and author, Platform Revolution: How Networked Markets are Transforming the Economy—And How to Make Them Work for You.

The national economic, business and regulatory environment in which digital platform businesses are founded determines how they develop and scale. Five common success factors are:

1. **Digital user size and savviness:** The scale of the market matters; countries with a large installed digital base and uniform culture, language and regulations have a competitive edge. It is important for governments to incentivize the development of digital uptake and for businesses operating in smaller markets to adopt market expansion strategies into adjacent geographies or markets.
2. **Digital talent and entrepreneurship:** Science, technology, engineering and mathematics (STEM), entrepreneurial and creative skills are fundamental in enabling digital innovation. It is vital for governments to focus on nurturing these skills in their educational priorities, and for businesses to locate themselves based on talent pool availabilities.
3. **Technology readiness:** The status of technology and digital assets, including levels of connectivity and investment in next-generation technologies—such as the industrial internet and artificial intelligence—will influence platform generation, growth and scale.
4. **Open innovation culture:** Increasingly, innovation—embedded in business culture and in how the platform operates—relies on organizations partnering with developers or service complementors. Large companies need to design new open organization structures, processes and governance to manage platforms' open ecosystems, while embedding a collaboration culture. Governments need to foster innovation hubs, bringing together universities, laboratories, start-ups and large businesses.
5. **Adaptive policy and regulation:** Rapid change means policy making requires collaboration, especially on complex areas, such as data privacy, blockchain or cybersecurity.





Recommendations for policy makers

Five dimensions are critical for governments and policy makers to encourage platform development:

1. Prioritize data protection standards and rules:

Drive the harmonization of data privacy and data security legislation. Smooth cross-border data transfers will be critical to the development of digital platforms across the G20 countries and beyond. Governments must address the issues of data and intellectual property ownership and "portability" of personal customer data across platforms.

2. Design regulations with digital platforms in mind:

Be strategic about future regulation to encourage experimentation with new technologies and business models, while helping to reduce investment risk. For instance, the United Kingdom Financial Conduct Authority's "regulatory sandbox" oversees eligible start-ups to test ideas that do not easily fit into the existing regulatory framework, while protecting consumers.¹¹ Platforms also influence areas such as price regulation (the impact of extraordinarily low prices), market regulation (maintaining contestable markets) and labor regulation (changes in traditional roles and relationships).

3. Actively encourage cross-border electronic trade:

eCommerce is a game changer but requires greater harmonization of taxes and standards, consumer protection, contract laws and the development of an internet and logistics infrastructure. The eWorld Trade Platform (eWTP), initiated by B20 China, promotes public-private dialogue to improve the global business environment for eCommerce, which can benefit SMEs in particular.¹²

4. Invest in digital infrastructure: G20 countries differ in the prevalence of reliable, low-cost, high-speed broadband and the level of consumer trust in transacting online. Focused government programs can accelerate internet penetration and adoption. For example, the EU's Payment Services Directive (PSD2) will empower start-ups to expand customer reach and encourage innovative business models, especially platforms focused on the customer experience, as all interactions will use APIs.¹³

5. Think small, act big: Governments should educate users on crowdfunding and peer-to-peer and marketplace lending platforms to enable platform adoption and growth. Initiatives on consumer protection and redress can improve consumer confidence in digital transactions. G20 economies can also develop capacity-building programs, for example, the "MSME Marketplace" for micro, small and medium enterprises proposed by the Asia-Pacific Economic Cooperation and cross border eCommerce training (CBET) that debuted in China in 2014.¹⁴

In conclusion, entrepreneurs, incumbent large companies and policy makers all have a role to play in establishing a vibrant platform economy. The task ahead is not just reimagining new business models and markets, but also appreciating the role of digital platforms in the transformation of economies worldwide.

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About the research

Accenture undertook research and analysis on behalf of the Young Entrepreneurs' Alliance between January and June 2016. The research program comprised in depth interviews with 50 leading experts, academics, platform owners and service providers. The Platform Readiness Index is a proprietary model covering 16 G20 countries and takes into account 30 quantitative indicators. The program also included a survey of more than 100 small and medium sized business in China.

Our grateful thanks for the valuable insights of the many external industry experts and entrepreneurs who contributed to the report's findings.

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About G20 Young Entrepreneurs' Alliance

The G20 YEA is a collective of leading entrepreneurially minded organizations representing the G20 countries who seek to promote youth entrepreneurship as a powerful driver of economic renewal, job creation, innovation and social change. The G20 YEA provides leadership to G20 political leaders in promoting youth entrepreneurship through policy recommendations and sharing best practices.





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