

---

# What Makes Platform Business Models so Attractive

by **Dr Claude Diderich** | innovate.d, Switzerland

**Platform business models have gained notoriety as a result of the rise of firms such as Airbnb, eBay, and Facebook. However, their origins can be found much earlier in domains such as department stores, shopping malls, and credit card companies. To develop competitive, future-ready platform business models, firms must understand their customers' needs and the value they seek. Platform firms can only deliver superior value to non-platform firms by focusing on their customers. Firms must prioritize reducing customer search costs, supporting due diligence and trust-building, making transaction costs transparent, and increasing availability. Combining the best of the analog and digital worlds will result in success.**

A considerable number of firms have implemented platform business models, including digital natives such as Airbnb, Amazon, eBay, and Facebook, as well as brick and mortar firms like Hilti, Hornbach, and VISA. They are all aiming to exploit the power of platforms to support rapid, non-linear growth through network effects.

For many people, platform strategies are the business model of the 21<sup>st</sup> century. Platforms not only connect businesses to customers (as advertisers do on social media platforms) but also businesses to businesses (as seen in the energy sector). Amazon lists more than 21'000 books dedicated to platform firms, and nearly all major business schools offer executive education courses on how to understand and implement platform business models, confirming these observations.

Most studies about how platform business models create and capture value put the platform center stage, rather than the participants or users. The focus is on understanding how the platform intends to capture value by exploiting network effects through offering transaction or innovation support to private customers or firms. Customer value creation comes only second. In this INSIGHT, I take a distinct perspective and answer the question, "What are customers looking for when they turn to platforms?"

## HOW PLATFORM FIRMS DEFINE THEIR GOALS

The ability to connect people and/or firms by exploiting network effects is at the core of any platform business, whether it is innovation or transaction-focused. Platform firms believe that they can create value for their participants by offering *access to a large choice* (for example, Apple offers customers over 2.2 million apps on their app store platform) and *access to a large network* (for example, Amazon Marketplace offers customers access to over 1.9 million sellers.) But are customers really looking for access to quantity?

The Telegraph reported in 2016 that, despite having an average of 155 Facebook friends, users would only trust four of them in a crisis. To develop a platform business model that will be competitive in the future, firms must understand what customers are looking for when they join a platform, or, as Clayton Christensen wrote, the jobs that customers hope to complete with the help of a platform business.

## WHAT CUSTOMERS ARE LOOKING FOR WHEN THEY TURN TO PLATFORMS!

To understand why customers turn to platform businesses, we must understand:

1. what customers want to achieve/identify their jobs-to-be-done (JTBD), and
2. how they define value from that achievement.

For example, consider an individual who wants to monitor their health (a growing JTBD, especially in the context of the COVID-19 pandemic and its aftermath). They may be looking for monitoring devices and analysis software to achieve this. In turn, they will search for available solutions and perform due diligence to find the best offerings for them. With more than 318'000 health apps available worldwide, this is a tedious task.

Another topical example would be a person who wants to plan a hiking weekend with friends. This typically requires communicating and coordinating with a group of between five and 15 people. The traditional solution of using the phone is an outdated choice, primarily because it requires either multiple calls or all friends on a single call at the same time to get the job done. What are the alternatives? Messaging platforms could be an option, but effective communication relies on everyone involved using the same platform.

The insights gained from just these two cases can be generalized into four value propositions that platform businesses offer to meet customer needs:

1. **Search costs.** Platforms help customers reduce search costs, both in terms of time spent and the quality of search results.
2. **Trust.** Platforms help customers by enabling them to build trust by outsourcing due diligence to other platform participants through peer reviews.
3. **Transaction costs.** Platforms help reduce transaction costs for solving the customer's JTBD by making markets more efficient.
4. **Availability.** Platforms ensure that the solution the customer is looking for is available through their network effects.

## DIGITAL TECHNOLOGY IS TAKING PLATFORM FIRMS TO A NEW LEVEL

The internet's digital technology combined with large databases and user-friendly interfaces has allowed platform businesses to thrive on a large scale. This can be explained by four technology-driven value propositions:

1. Digital platforms support economies of scale and thus growth because their *costs are predominantly fixed*.
2. Digital platforms allow *the outsourcing of assets* (such as cars or rooms) to the party that can best exploit economies of scope and has low capital costs.
3. Digital platforms allow for *consumer-to-consumer business models* as an extension to more classical business-to-consumer models.
4. Digital platforms re-invent the business-to-business business model by introducing the platform as an intermediary, resulting in *business-to-platform-to-business* approaches.



**Dr Claude Diderich** ([claudio.diderich@innovate-d.com](mailto:claudio.diderich@innovate-d.com)) is the founder and managing director of the innovation and strategy consulting boutique *innovate.d* in Switzerland. Claude holds a doctor ès sciences and a masters in computer science engineering from the Swiss Federal Institute of Technology in Lausanne and a certificate of advanced studies in strategy from the University of St. Gallen. His areas of expertise include business model innovation, customer-centric strategy development, digital transformation, and problem-solving using design thinking. His most recent book titled *Design Thinking for Strategy: Innovating towards Competitive Advantage* has been published by Springer Nature.

Download as PDF | Subscribe to our newsletter