Datanomics

Series #2

DATA, COMPETITION

AND PLATFORMS

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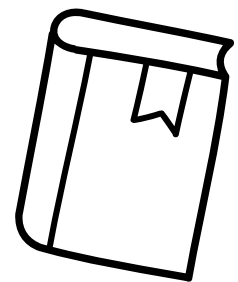
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Being different is the only viable positioning

One main hypothesis of strategy is that sustainable competitive advantage can only be achieved through being different. The offer can be different (different products, different performance or quality levels), the clients segment can be different (offering a product to a segment that was not targeted before) or the operations can be performed differently (outsource or internalize an activity).

It's even more true for new entrants: they need to use a different playbook to enter a market. If they play by the rules of the incumbents they have almost no chance to thrive. The reason is simple: some of the rules have been built exactly to prevent newcomers from entering the market.

One old but very good example of that is Dell in the 90's. Some of you are old enough to have experienced it, right? For the younger ones reading, well, let me take you through the example quickly.

Dell entered the market with hypotheses that were opposite to the mainstream hypotheses of their industry at that time:

- Direct selling to customers *(vs the industry was organised with manufacturers and distributors)*

- Customization of the product by the customer and on-demand manufacturing
  (vs the industry was organised with standard products that were pushed to the customers)

- Location of the assembling in high labour cost countries, US and Europe
  (vs the manufacturing was outsourced to Asian subcontractors)

This very different approach proved to be very valuable in many aspects:

- Better control of the user experience by integrating the distribution
- More attractive value proposition to clients through customization of products
- Reduced costs (only the products paid by the clients were assembled)
- Better cash flows (they cashed-in when the clients order, before assembling the product)

Using data and analytics to build a difference

So now the question is: how data and analytics can help to be different or doing things differently? Netflix comes immediately to mind as an example. The company totally changed the way to experience and consume media.

Let's first review the differences Netflix built the model on and how data is used to value them:

· **Subscription-based revenue model** (vs per film viewed revenue): users data are analysed very precisely to 1) implement recommendations that increase the satisfaction (watching movies the users like), which in turn increases the duration of their subscription and 2) customize the movie's marketing according to users profiles (for example, changing the pictures used for showcasing the movies)

· **Leverage users individual interests** (vs leveraging popularity of shows): the recommendation algorithm stresses the individual usage history and tastes to offer customized recommendations (according to Netflix, over 75% of viewer activity is based on personalised recommendations)

· **Produce original content and design content based on users tastes** (vs buy content produced by someone else designed by creative writers and experienced executives): users data (what they watch, how long, what they type in the search bar, …) is analysed and used to fuel the teams of showrunners designing the screenplays

· **Create different content and leverage national shows** (vs global blockbusters): *La Casa de Papel* is one example of a Spanish series turned into a global product. This helped in the geographic expansion strategy of the company (less than half of the subscribers are US citizens).

So, what's the value of that difference for Netflix, you'll see they do not differ that much from Dell:

· More steady revenues with the subscription-based revenue model
· Higher differentiation through exclusive content production
· Higher users loyalty through personalisation (93% transformation rate of free-trial periods)
· Lower cost (less unprofitable movies produced, higher success rate of the movies produced)

Questions you should ask yourself

To be clear, being different is not an accident, it's a deliberate choice, so the first question should be: how different you want to be? What are the differences you want to stress? What value do they bring?
The second question is about data and analytics: how information can be leveraged to improve decision making and maximise the number of transactions.

Data and analytics change the competitive landscape: New kids on the block

The multiplication of sensors capturing data every second has opened opportunities for new value propositions in BotB product or equipment markets. With Internet of Things technologies, manufacturing companies like Bosch, Siemens or Schneider Electric can move from a product-based business model to a service-based business model.

Of course, the efforts and investments required are huge: building the technology stack, changing the operations, transform the culture, … The reward can be significant: more steady revenues, higher margins, increased loyalty of clients, … I will concentrate here on one specific aspect triggered by the generalisation of IoT technologies and offers: the competitive landscape evolution.

Before, in these markets, the battle was usually structured around 2 fights:

- **a fight with direct competitors.** They are pretty much organised the same way, face the same tradeoffs and opportunities but each implements distinctive strategies to defend a position in the market

- **a fight with suppliers on components cost and with distributors on their margins.**
  These organisations are different but they need each other. The evolution of the bargaining power shaped the ability to capture value at one part of the value chain.

With Internet of Things technologies, as the value propositions change, the key resources and capabilities to master change:

- Hardware
- Automation
- Software
- Solution and services

To deliver the promises of IoT to the clients, a company needs to secure all this stack. Which means that new battles emerge and new competitors challenge incumbent positions.

To illustrate this, I will use the example of Siemens, as presented by the deputy CEO of the company in a **recent video during the MIT Platform Summit.** *(Click on the link to watch the video)*

Dr. Roland Busch identifies 3 groups of companies competing with Siemens:

· **The traditional players** (formerly "direct competitors", ABB, Schlumberger, Schneider Electric, …).
The competition is particularly fierce to master the IoT resources and capabilities either by internal development, acquisitions or partnerships.

· **The tech companies** (e.g. Amazon Web services). These companies are organised differently, they do not leverage the same type of assets and they try to position as an intermediary to capture a fraction of the value provided by IoT to the end-users. They offer cloud solutions and platform technologies.

· **Consulting firms and system integrators** (e.g. Accenture). They offer integration services and technologies. In some cases, they compete directly with Siemens offer, in other cases, they act as a supplier of technology or service.

You can easily relate the types of companies competing with the technology stack required. The entry point differs but they share the same objective: capturing a fraction of the price paid by the end-users of IoT technologies.

What does it mean for strategy making:

· **IoT technologies change the nature of the value proposition in BtoB environment.** From product quality and performance to service and global performance (from selling electric equipment to selling energy consumption reduction).

· **The competition intensifies:** in addition to the direct competition layer, new layers of competition emerge (technology, solution, infrastructure, …). The companies competing do not leverage the same distinctive assets and do not face the same tradeoffs. Previous manoeuvres are less effective to control these new competitors. New entrants enter the market leveraging capabilities the incumbent do not master (service design, community building, platform architecture and management).

· **New resources and capabilities are required for the incumbents to thrive.** Hence, the ability to build and maintain a distinctive stack positioning is key. Balancing cost and independence is one major question, make-buy-partner decisions are key.

· **Every company wants to position as an industry platform, but the platform gameplay is hard to learn.** Platform business model is attractive but the code has not been cracked yet. A lot of incumbent express their difficulty to engage in this business model.

· **The jury is still out** on which companies will capture the biggest part of the value: incumbents, technology providers, industry platforms or new entrants leveraging technology.

· **Leveraging non-digital distinctive assets and capabilities is crucial for incumbents.**
The strategy for incumbents consisting of mimicking the digital companies playbook requires to invest as much as they do in pure digital capabilities, which is in most cases impossible. Synchronizing non-digital assets and capabilities (brand, distribution network, client base, technical expertise, …) with digital capabilities is a more viable option as it builds a more distinctive position.

The 3 roles data plays in platforms

There are many ways to describe the role data plays in platforms and I choose to focus on the way data increases the competitive edge of platforms in each of the 3 competition layers they are facing: other platforms, incumbents and complementors.

Establish dominance against other platforms

The platform game is a hard game, highly competitive. It usually ends in a nearly winner-takes-all situation. In this battle, one platform needs to meet difficult challenges: attracting users, ensuring liquidity and balance, matching users and fostering trust in the long term.

Data is one of the key asset leveraged to succeed:

• Analysing in real-time the data of the user in the two sides to design incentives to improve the liquidity and balance. **In a recent video,** an Uber engineer explains how are used the 5 billions forecasts per minute (yes, you read well, 5 billions forecasts every minute). Based on the forecasts of offer (driver) and demand (passenger), the platform incentives drivers and passengers through short and medium-term incentives (reducing or increasing the price, offering coupons, …).

• Capturing quality of service data generated by users to foster trust. Ratings and comments play a key role in fostering the necessary trust for individuals to participate in a platform. Of course, these ratings are subjects to manipulations and the press regularly describes the fake ratings and comments industry and the measures taken by platforms to control them. **For example when Amazon recently deleted 20 000 reviews.**

Strengthen their advantage against incumbents

Not only do platforms fight with other platforms, but they also challenge incumbent companies positions.

With the data they collect on their users, platforms enact 3 competitive advantages against incumbents:

· **They offer a valuable experience to their clients** which acts as a flywheel effet: the more data, the better the service, the more users and usage, the more data, the better the service, …

· **They integrate upstream parts of the value chain**. From software to physical operations like Citymapper and from distributors to producers like Amazon and Netflix. The consumption data is used to design products or services that have a higher chance of being successful.

· **They conquer positions in adjacent markets** to increase the value proposition to their clients. A good example is Amazon with their financial services.

Capturing more value from the platform complementors

The last competition takes place between the platform and the complementors. Like distributors and producers, they are in a frenemy relationship. Both need each other and each wants to get the lion share of the value paid by the clients. Apple needs application developers for the I-phone to be attractive, sellers on Amazon marketplace are extremely valuable to position Amazon as the go-to website for buying products.

Data is an asset in the fight between the platform and complementors:

• Keeping the data private increases the asymmetry of information between the platform and the complementor, at the benefit of the platform. Reports on how Amazon plays that game are numerous.

• Keeping the data private reduces the ability of the complementor to trade out of the platform and secures the percentage of commission. The recent case between Apple and Epic Games (editor for Fortnite) is a good example.

· **If you are starting a platform**, you should develop processes that will use the data generated in the platform to solve key challenges platforms are facing: attracting users, fostering trust, improving liquidity and balance.

· **If you are attacked by a platform**, you should ask yourself if your interest is to compete or collaborate. Competing and starting a platform is attractive for value capture but the costs to establish a platform are incredibly high. How much is required to be on par with the platform regarding the investments in data infrastructure? What is the opportunity cost of this investment?

· **If you are collaborating with a platform,** you should identify other options for being distributed and lead a group strategy with your peers to get a fairer balance between the complementors and the platform.

Competition from platforms, how to respond?

The winners are able to rapidly capture high transaction volumes. In the face of these threats, established players have acted to defend their position.

One initial reaction is to position themselves on the same service as new entrants. For example, nearly all car manufacturers have developed (internally or by acquisition) mobility services. Toyota invested a billion dollars in Grab, the Uber of South-East Asia. Daimler purchased Chauffeur privé, a chauffeured car rental service platform. General Motors entered into partnership with Lyft, which has become a distribution channel for its cars. Renault on the other hand has opted for a different strategy by acquiring software solutions used by mobility platforms (iCabbi and Yuso).

Beyond the strategies based on a service as such, some players are attempting to acquire an exclusive source of data, often as part of a coopetition approach. Audi, BMW and Mercedes have acquired Here, a collaborative map and navigation service, so as to free themselves from dependence on Google Maps and Waze (also owned by Google).

We saw recently that the majority of the companies mentioned in the previous paragraph are stepping back and selling their service operations: BMW and Daimler are reported to sell their common subsidiary **Free Now** to Uber and GM **shut down Maven**, the service developed with Lyft. It is likely to be a consequence of COVID but it could also be the sign of a strategic tradeoff as the sign of the difficulty to operate the necessary culture change imposed by a radically different model.

Three key strategic questions

There are at least three strategic questions raised by the fact that data are progressively becoming the centre of gravity of new business models: allocation of resources between different models, understanding data-related resources and expertise, and building a single high-value positioning based on non-digital competencies.

First of all, in this transformation, established players are required to manage several business models with different reasoning and demands (a product model vs a service/use model for example). **How to organize the allocation of resources between these?** Does one cannibalize the other? Is this a problem? Which structure to adopt? Is it preferable to separate activities to preserve their uniqueness? How to balance the right amount of synergy and complementarity?

Secondly, if data is becoming a key resource, **how do we gain access to data** and acquire the expertise to make the most of them? Is it preferable to develop systems designed to generate data flows, or should we enter into strategic partnerships with players who have access? Is it wiser to develop internal competence or to make acquisitions to integrate it?

Thirdly, above and beyond the data, **which distinctive resources and skills are required to build a unique high-value positioning**, without imitating the strengths of digital players or getting dragged into their territory? Digital players do have reasons to position themselves on the connected car and driverless car markets. But a car without a driver remains a car, and the capacity to mass-produce cars at an acceptable cost to consumers and at a level of quality and security that complies with regulatory requirements remains a capacity owned by the manufacturers.

Quoting **Volkswagen CEO, Mr Diess.** "We have a chance, because the car is really complex and Google can't do a car today. "Elon [Musk] can make a car, but also with some limitations still. Can we get to his level? Yes, I think so. Many of the people working for West Coast tech companies are Europeans."

The battle is therefore not over, it is in fact just beginning.

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