Companies as diverse as Apple, Facebook, and Uber all have transformed industries through platform business models. But the increasing popularity of platform strategies masks a difficult truth: Such strategies are hard to execute well — and are prone to several common pitfalls.
We live in the age of platforms. Facebook, Google, Amazon, and Apple — many of today’s most successful technology businesses have at their core a platform-based business model. Platforms are multisided networks that bring together two or more distinct types of users and facilitate transactions among them. eBay, for instance, links buyers and sellers; Playstation links game developers with gamers; Apple’s App Store transfers applications from software developers to iPhone and iPad users. Increasingly, entrepreneurial startups are embracing a platform approach; look no further than fast-growing young companies such as Uber and Airbnb.

Today, many entrepreneurs and established businesses are trying to copy the success of existing platform businesses. Executives often assume that the key is to grow the sheer number of users and developers as quickly as possible, believing that “get big fast” is the most reliable way to win a competitive advantage. The reality is more complex. The profit potential of a platform that dominates a market is enormous, but a lot can go wrong along the way — as examples from a number of industries illustrate.

**PLATFORM TRAP #1:** Growth With No Strategic Focus
Adding content to a platform as quickly as possible has been long acknowledged as a powerful weapon in the battle for platform dominance. A large supply of increasingly varied content increases the value of the platform to consumers and encourages more users to join it. The aim is to create a virtuous circle: The more the audience grows, the greater developers’ incentive to contribute to the platform, and the greater its attraction to consumers. Another strategy is to offer limited but exceptional content and entice customers with “killer apps” that are only available on the platform.

Sometimes, however, companies try to combine these approaches: Offer a lot of content, but make sure some of it is exceptional and exclusive to the platform. This third way sounds good in theory, but our research shows that combining these strategies usually creates problems. (See “Related Research.”) The case of Groupon Inc., the online coupon company, exemplifies the risks of pursuing unfocused growth.

Between 2008 and 2012, Groupon’s management followed an aggressive growth strategy on all fronts. Of the five explicit objectives detailed in Groupon’s strategy in its 2012 10-K filing, four related directly to growth: (1) grow the number of merchants; (2) grow the customer base; (3) globalize the platform; and
(4) expand through acquisitions and business development partnerships. The fifth objective was to position the company to benefit from and drive technological changes affecting consumer behavior. Although in theory this fifth objective was not necessarily related to growth, in practice it meant working to expand Groupon’s presence in smartphones and tablets.

Groupon’s decision to enroll as many merchants as possible on its platform in effect set local businesses against each other in a discounting war — the last situation most businesses want. Moreover, Groupon had sought exclusivity clauses that limited merchants’ ability to offer other online promotions near the time of their Groupon deal.

While focusing on getting big fast, Groupon struggled to differentiate itself from competitors. Between the company’s initial public offering in November 2011 and the end of 2012, Groupon’s stock price dropped more than 75%, and in fiscal 2011 and fiscal 2012, the company’s combined net losses attributable to common stockholders totaled about $440 million. Groupon cofounder and CEO Andrew Mason was fired in February 2013. Now the company is working to correct its past mistakes, but its success is not assured.

The failure to make clear strategic choices can hurt players in a number of ways. Trying to pursue a dual strategy of simultaneously deep (high-quality and exclusive) and wide (range and variety of) content often proves financially impossible. It also makes it easy to alienate potential

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partners. Platforms often subsidize users or provide different forms of technical or monetary support to developers. Securing exclusive content can entail sweetheart deals that trade exclusivity for lower royalties, joint marketing and promotion expenses, or technical support. For example, both Nintendo and Sega had a reputation in the 1990s for giving better tools to their internal game developers than to outsiders. This alienated developers of nonexclusive products, as they perceived that the structure put them at either a cost or technical disadvantage.

Pursuing variety and exclusivity simultaneously can provoke a tug-of-war between development partners that can lead to failure. This is what happened in the video game industry to the video game platforms Saturn, Dreamcast, Jaguar, and 3DO: They failed to take a clear strategic position between a strategic focus on variety and one on exclusivity — and as a result got “stuck in the middle,” to use Harvard Business School professor Michael E. Porter’s terminology.

PLATFORM TRAP #2:
Pursuing an Intermediate Approach Between the Mass Market and a Niche
A second, somewhat similar trap is to hedge the platform’s bets by trying to win the mass market and a niche at the same time. Our research suggests that platforms that try to capture both at once tend to have a hard time winning either customer base.

Research In Motion Ltd.’s repositioning strategy with the PlayBook and BlackBerry Z10 offers a case in point. Once a leader in the smartphone market among corporate users because it offered dedicated services such as superior emailing, messaging, and contacts managing, BlackBerry lost out to other devices powered by consumer-oriented rival platforms such as Google’s Android and Apple’s iOS. Instead of trying to focus on preserving its niche, RIM, which has since changed its name to BlackBerry Ltd., took the offensive and tried to cater to both consumers and corporate users at once by adding entertainment content such as camera, video, game, and music applications on top of its traditional services. This smorgasbord approach left the company caught in the middle, selling products that satisfied neither consumers nor corporate users. Consumers saw no compelling reason to switch from Apple or Android, which already offered numerous apps. Nor did corporate customers want entertainment applications cluttering the phones they bought for employees.
Making a choice about who your customer should be can be particularly helpful to new platforms in their early days. The social network MySpace, for example, tried to cater to a wide spectrum of users, ranging from teenagers who used it as a virtual hangout to professional musicians who used the platform to engage their fans and promote their songs. Facebook, on the other hand, decided in its early days to focus only on college and university students with an “.edu” email address. This inevitably led to differences in target users’ demographics and content services between the two competing social networks, and gave Facebook a unique identity in the market relative to MySpace.

Nintendo Wii is another product that was launched with a deliberate choice about which customers to target. While Sony’s Playstion III and Microsoft’s Xbox 360 geared more of their games toward hard-core gamers, the Wii devoted only a quarter of its titles to these popular genres and instead targeted more occasional gamers. This distinctive positioning, among other things, allowed Nintendo to avoid fierce competition among partners. Nintendo in the 1990s, for instance, carefully curbed the number of competing video game titles released in its ecosystem and forbade game developers to launch more than five titles. This strategy encouraged game developers to invest in high-quality titles and proved to be highly successful.

But in other cases, platforms do win by leveraging competition among content developers. Our research suggests that the critical difference is whether one platform dominates the market or if it is competing for a share. Nintendo faced very little competition in the early 1990s, being de facto the dominant platform in the video game market at the time. Similarly, Facebook among social networks, and Amazon in digital books (notwithstanding the fight over e-bestsellers) continue to hold dominant positions. If a platform with strong market power encourages competition, developers are left with very little incentive to invest in developing high-quality content — since they are in a market with a platform that has a near-monopoly. By contrast, when competing platforms represent viable options for content developers, such as in the case of Sony’s PlayStation and Microsoft’s Xbox, or Apple’s App Store and Google’s Play, the platform provider can allow for greater levels of competition among content developers before content developers lose their incentive to develop high-quality content.

In general, growing the number of users and content suppliers is important in most platform strategies. However, our research suggests that platform strategists are sometimes mistaken when they confuse size with the strength of the platform’s underlying value proposition — particularly when what looks like a winning proposition for a customer is not always a winning proposition from the content provider’s point of view. In the end, success in a platform business is not a matter simply of collecting apps and eyeballs. It’s about creating a proposition that produces value for the suppliers, for the customers, and for the platform. Neglect any of the three parties, and the platform will not last long.

Amazon’s thinking was that a low price would encourage consumers to accelerate their adoption of Kindle. Publishers, however, saw a threat to their business model. To fight back, some important publishers delayed the launch of their most important titles as e-books for several months after their publication. In late 2009, Simon & Schuster announced that it would delay the e-book release for 35 major titles to 4 months after the hardcover release date. The Hachette Book Group similarly announced that it would delay most of its e-book releases by 3 to 4 months after the hardcover release date. However, publisher obstruction of e-book titles was not a problem when Apple introduced iPad’s iBook service. Instead of taking Amazon’s approach, Apple designed an ecosystem that allowed publishers to set their own prices, giving book publishers an alternative to the Kindle.

Some platforms select a few lead partners and thus avoid fierce competition among partners. Nintendo in the 1990s, for instance, carefully curbed the number of competing video game titles released in its ecosystem and forbade game developers to launch more than five titles. This strategy encouraged game developers to invest in high-quality titles and proved to be highly successful.

Platform strategists are sometimes mistaken when they confuse size with the strength of the platform’s underlying value proposition.

Carmelo Cennamo is an assistant professor of strategy and entrepreneurship at Bocconi University in Milan, Italy, and a fellow at Bocconi’s Center for Research on Innovation, Organization and Strategy. Juan Santaló is a professor of strategic management at IE Business School in Madrid, Spain. Comment on this article at http://sloanreview.mit.edu/x/57101, or contact the authors at smrfeedback@mit.edu.

Reprint 57101.
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