

## The right digital-platform strategy

**Many incumbents are starting to build their own platforms or to forge ties with others. The penalty for not playing may be steep.**

*by Jacques Bughin, Tanguy Catlin, and Miklós Dietz*

**Powerful platforms** have given digital natives from Alibaba to Amazon global reach and towering market capitalizations. While that's no secret, these platforms raise difficult questions for CEOs of incumbent companies pushing ahead with their own digital transformations: Should they emulate the front-runners, join forces with them, or not play at all? Not playing may seem risky in a world where "platforms beat products."<sup>1</sup> Yet building your own platform, in a majority of markets where global platforms are already thriving, may be akin to arm wrestling with a bulldozer.<sup>2</sup>

To better grasp how incumbents and digital-native companies design their strategies to harness the power of platforms, we recently surveyed nearly 1,600 C-suite executives in companies across sectors and key geographies.<sup>3</sup> The types of platforms vary: some were built by incumbents, others are industry focused and operated by third parties, and still others are operated by the well-known global players with big, horizontal platforms. The responses indicate that platforms are spreading in many digital markets and that, in general, a successful platform play by incumbent companies can yield significant performance gains.

As we have described elsewhere, two core digital structures (digital platforms and ecosystems) define the new competition. The first includes global platforms such as Facebook, which allow a range of digital

products to be built on top of them—advertising and media marketplaces in Facebook's case. Ecosystems, by contrast, often start with a consumer need for a service, such as real-time mobility (Lyft, Didi) or lodgings away from home (Airbnb). These provide a space that matches supply with demand—for example, vehicle drivers with ride seekers, and travelers with homeowners. Companies such as China's Ping An have pushed the model across industry borders, offering customers digital places that satisfy a continuum of needs, from car insurance and real-estate services to advice from doctors. The lines between the platforms and ecosystems are blurring and will continue to blur.

Incumbents, possibly aware of the difficulty of owning and operating an industry platform successfully, often choose to cooperate with global platforms and ecosystems to reap the benefits of scale. While strategies that involve signing on to someone else's platform appear to help jump-start participation, they are also likely to pose risks: thousands of others are doing the same thing, which makes differentiation difficult. And of course, there's always the question of whether the platform owner will eventually move in on the business of its partners.

### **Spreading platforms**

The first insight from the survey is the extent to which platforms have become an essential part of the business landscape and no

longer the domain solely of digital natives. Incumbent companies, including Daimler, Nike, and Unilever, have launched their own platforms as their business models mature, although we found they are only about half as likely as digital natives to go this route (Exhibit 1).<sup>4</sup> Across products, sectors, and developed economies, we found that a single digital platform prevails 75 percent of the time. Meanwhile, platforms are less common in markets with lower digital maturity, such as pharmaceuticals and healthcare (55 percent), than in retail banking (95 percent). Business-to-business sectors (with a 65 percent platform presence) also diverge significantly from business-to-consumer ones (85 percent).

Not surprisingly, the top reasons these platforms thrive are connected to network and scale effects, in tandem with the desire to secure end-to-end digital services. The most common rationale given by companies that use platforms (31 percent of all companies) is that they make it possible to combine individual services and integrate them into a full-service offering.<sup>5</sup> Another significant motivation, voiced by more than 20 percent of respondents, is the desire to develop a bigger base of customers

across categories at scale, often with an eye to driving down prices and aggregating related data into a shared, cloud-based utility. Major retailers adopting platforms, hoping to emulate the digital marketplaces of an Amazon or eBay, are well represented in this group of platform aspirants.

In a competitive environment—with spreading platforms and ecosystems, as well as expanding network effects—speed (first-mover advantages) and winner-takes-all dynamics will become even more important for incumbents to consider.

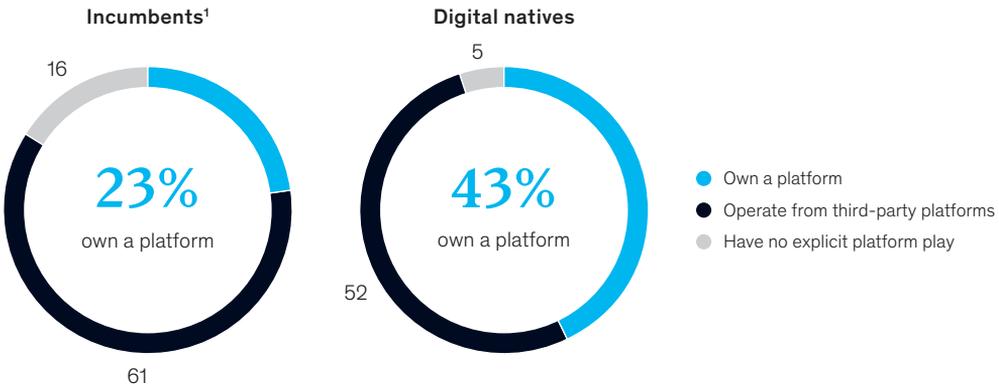
**Performance gains**

We found that any type of platform play—whether through a company-owned or a third-party platform, and either cooperating or competing with a global platform—can boost earnings above the benchmark level of not playing. Companies with platforms had an annual boost in earnings before interest and taxes (EBIT) of 1.4 percent, compared with the 0.3 percent gains of nonplayers. Companies that joined broader cooperative arrangements fared slightly better than those operating their own platforms.

Exhibit 1

**Incumbents are only about half as likely as digital natives to have launched their own platform.**

% of respondents who ...



<sup>1</sup>Includes only those engaged in digital transformation.

Source: McKinsey 2018 digital survey of nearly 1,600 C-suite executives; McKinsey Global Institute analysis

The performance effects are cumulative, with EBIT improvements adding to early-year gains. Our estimates suggest that over a five-year period, platform players may capture an additional 10 percent in EBIT growth—a company’s 2 percent EBIT growth, for example, would increase to 2.2 percent in year five (Exhibit 2). Although these performance findings should be treated cautiously, since they are based on survey responses (and thus self-reported), they confirm the benefits we found in earlier research. Further studies will help identify underlying factors behind the gains (for example, the first-mover advantages that some early platform users may capture).

### More cooperation than direct competition

Given the pervasive presence of platforms, a large majority of incumbent companies have decided to establish one, as the first exhibit shows. Most incumbents have chosen

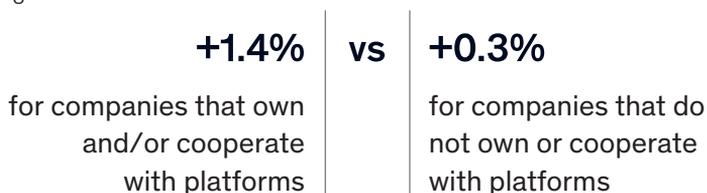
to participate by joining industry platforms operated by third parties or by allying with global platforms rather than building their own.

Digging deeper, we looked at whether—as well as how—incumbents that deployed platforms ultimately engaged with larger global ones. We found that most decided either to cooperate with these broad ecosystems or to compete against them (Exhibit 3). The remaining incumbents decided either not to engage with global ecosystems using the platforms they built or shared, or had no platform play at all. The preferred path, however, was cooperation—which stands to reason. Even when a company owns a platform, it may find the competition stiffer than expected. Collaboration can offer greater market strength through the complementary products ecosystems offer. Companies starting off using a narrower industry platform may

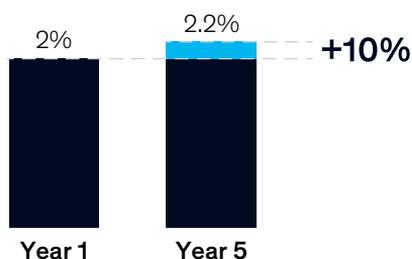
Exhibit 2

## Whether company-owned or third party, platform plays can boost earnings.

Annual EBIT<sup>1</sup> growth



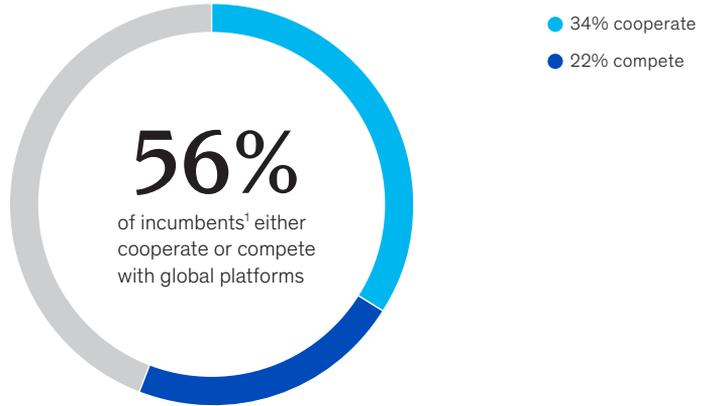
Illustrative 5-year EBIT growth for companies with platforms



<sup>1</sup> EBIT = earnings before interest and taxes.

Source: McKinsey 2018 digital survey of nearly 1,600 C-suite executives; McKinsey Global Institute analysis

## More than half of incumbent companies have staked out a play vis-à-vis global platforms.



<sup>1</sup> Includes only those incumbents engaged in digital transformation. 28% of incumbents that deploy a platform (either owned or third party) have no explicit link to global digital platforms; 14% do not link to any platform.

Source: McKinsey 2018 digital survey of nearly 1,600 C-suite executives; McKinsey Global Institute analysis

find that joining with a global player vastly expands their reach to new customers. And with more platforms becoming open source rather than proprietary, that attraction will grow.

Digital platforms have become a feature of the corporate landscape. For incumbents, a platform strategy, pursued alone or cooperatively, is becoming a competitive

necessity. Companies that have yet to make their move may find it increasingly difficult to catch up. Q

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<sup>1</sup> The phrase "platforms beat products" was initially used by Marshall Van Alstyne in a presentation at the Massachusetts Institute of Technology (MIT) in 2015: "Platform shift: How new biz models are changing the shape of industry," Boston University and MIT, November 18, 2015. The presentation later became a book Van Alstyne coauthored. For more, see Geoffrey G. Parker, Marshall W. Van Alstyne, and Sangeet Paul Choudary, *Platform Revolution: How Networked Markets Are Transforming the Economy and How to Make Them Work for You*, New York, NY: W.W. Norton, 2016.

<sup>2</sup> Jacques Bughin and Nicolas Van Zeebroeck, "New evidence for the power of digital platforms," *McKinsey Quarterly*, August 2017, McKinsey.com.

<sup>3</sup> The annual survey, conducted in mid-2018 on company digitization, sampled 12,000 global management executives.

It was weighted toward larger firms. For more on the data underlying this piece, see "A winning operating model for digital strategy," January 2019, McKinsey.com.

<sup>4</sup> At the outset, platform plays were most prevalent in a narrow set of industries, such as gaming, software, e-commerce, and credit cards. See Annabelle Gawer, "Bridging differing perspectives on technological platforms: Toward an integrative framework," *Research Policy*, September 2014, Volume 43, Number 7, pp. 1239–49.

<sup>5</sup> Such a strategy can indeed be powerful; for example, ten years after setting up its marketplace, more than 50 percent of total revenue of Amazon's online retailing arose from its third-party affiliates; see Néstor Duch-Brown, *The competitive landscape of online platforms*, JRC Digital Economy Working Paper 2017-04, ec.europa.eu.