Technology
Strategies for Being a Platform Leader

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October 27, 2007; Page R6

In recent years, many high-tech sectors have become battlegrounds for companies bent on establishing their product as the next industry platform. Whether it's a smart phone or a videogame console, products that become platforms dominate sales in their niches, give rise to numerous complementary products from third-party developers, and reap enormous profits.

Too many companies, though, wind up losers in platform wars because they were too protective of their technology or intellectual property, or failed to recognize the platform potential of their products.

[1] THE JOURNAL REPORT

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Apple Inc.'s Macintosh computer and **Sony** Corp.'s Betamax video recorder were excellent products that could have become industry platforms. Apple recently realized that it may miss a major platform opportunity with its iPhone by limiting its use to selected carriers and preventing third-parties from adding new applications. It has decided to reverse the latter policy.

To have platform potential, a product, technology or service must:

• Perform at least one essential function in a product or combination of products that execute an increasing variety of tasks -- the way PCs have become an integral part of Web browsing, gaming, telephony and other activities -- or solve an essential technological problem for many players in an industry.

• Be easy to connect to or build upon, allowing the system to be expanded to new and even unintended uses.

Then a business strategy is required that enables a company to make its technology or service fundamental to an emerging platform and helps the market tip toward that platform. The company must create economic incentives that encourage other firms to develop complementary applications for the platform, and at the same time protect its own ability to profit from its innovations. This balancing act is perhaps the greatest challenge to platform leadership.

Google's Success

Google Inc. is a prime example of a successful platform builder and leader. First, it solved an essential technical problem: how to find anything in the maze of Web sites, documents and other content online. Second, it distributed its technology to Web-site developers and users, making it easy to connect to and develop upon. It also allowed for different uses, such as combining search with different kinds of information or graphics, like maps and pictures.

Where Google cemented its position as the platform leader for Internet search, though, was with its business plan. In the early years of e-commerce, there was a lot of confusion about how to make money on the Web. Google found a way by linking focused advertising to user searches. Its ad fees also seem low or modest relative to the ads' effectiveness. In effect, the company revolutionized advertising by redesigning the relationship between advertisers and Internet users. Today, Google's market value stands at around $145 billion, eight times that of the largest ad agencies.

GM Loses Its Way

For a less-successful attempt at establishing a platform, consider **General Motors** Corp.'s 1996 introduction of OnStar, a wireless system that gave automobiles new communications capabilities, such as navigation, notification of accidents, engine diagnostics and opening of locked vehicles.

Initially, GM managed to get competing auto makers to adopt OnStar for their vehicles.

Gradually, however, those rivals concluded that OnStar's capabilities, and the information it generated about customer driving habits, were too valuable to let a competitor control. Consequently, these firms decided to build or buy competing systems.

GM failed to position its technology as an essential part of a neutral industry platform, which it might have done by spinning off OnStar as an independent company or building a Chinese wall around the unit, blocking any flow of information between it and GM that could be seen as damaging to OnStar's clients. While GM failed at the business aspect of creating an industry platform, OnStar remains an attractive service platform for GM customers. OnStar Vice President Nick Pudar says that GM's commitment has helped the unit rapidly deliver continued innovations for "a wide range of GM vehicles," and that customers have responded well. "A broad adoption of OnStar throughout the industry would have resulted in slower technology development," he adds.

The ability to establish a platform is an option for small and large companies alike. Success depends not on size but on a company's vision, and its ability to create a vibrant ecosystem that works for the leader and its potential partners.

This can be difficult when an industry is undergoing transition and its contours are ill-defined, or when technology is evolving too rapidly. But on the other hand, these are the very conditions when platform strategies can stand out -- precisely because they are so badly needed.

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