



How to capture the B2B platform opportunity

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Abstract

Dynamics of the platform economy in manufacturing industries have not unfolded in the same way as in the consumer industries, where platforms have build powerful monopolies through controlling the contact to customers. In manufacturing, the same winner-takes-it-all effect is not present and key competitiveness will rely on the data-driven operation of the physical world. This requires the combination of smart product with smart services and customer experiences. The paper argues that European companies have an opportunity in the B2B platform arena.

Keywords Digital business models · Platform · Customer experience

The success of digital platforms is forcing companies across the world to rethink longstanding business models. No longer can you simply sell a product; in this era of disruption, competitive edge and survival hinges on combining smart products with smart services and customer experiences — on replacing output with outcome. Building the best train and ensuring the train arrives on time. Producing the most sophisticated X-Ray machine and ensuring the patient is healthier as a result. Indeed, real-time, intelligent usage of data generated by products is the essence of customer value in increasingly converging industries.

The “smart product” and its operating data, providing the basis for further development of engineering and manufacturing, is at the core of the platform opportunity. Already, installed products and plants, equipped with “intelligence” will provide the real-time data needed for differentiating customer experience. A recent study of 370 top companies in Germany has shown that despite half were pursuing platform business models, they often failed to tap the full platform potential (Falk and Riemensperger 2019). They were mostly unable to see

platforms as open ecosystems that thrive with users on multiple sides of the market and that succeed in turning customers into ecosystems partners and cocreators. Thus, adopting a digital platform strategy is challenging and to remain competitive, companies need to respond to three questions:

1. What is my role in the platform economy?

Seven out of the 10 most highly valued companies are based on a platform business model -five from the US and two from China (Riemensperger and Falk 2019). Most of them are B2C platforms that place themselves at the intersection of demand and supply and in doing so build powerful monopolies. But the rules of the game are much different for B2B platforms: Not all the strategies and approaches that made B2C platforms like Amazon and Alibaba successful can be applied to B2B platforms. B2B products can be very niche, esoteric, and targeted to discrete purposes, which prevent the kind of winner-take-it-all global dominance we see in the consumer world (Falk and Riemensperger 2019). Key to success are well orchestrated value creation networks, in which each partner wins. The future of the platform provider business model is still unclear as scalability and monetization remains a challenge. Interoperability will lead to more commodization (Cusumano et al. 2019).

2. What is my business model to create value from data?

Companies struggle with creating data-based business models that create growth. As a result, most of the smart services are incremental enhancements of existing business models, which are not yet substantially contributing

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to top line growth (Adari et al. 2019). Key challenges in developing sustainable digital business models also include building an ecosystem, scaling the business model, reconciling issues around platform governance, and actually monetizing data (Haskell and Westlake 2018; Mayer-Schönberger and Ramge 2018; OECD 2019).

As smart products become containers for reconfigurable software and digital intelligence, the challenge will become more pronounced. Product design, engineering, manufacturing, and operations will increasingly be based on data (Künzel et al. 2019). To respond, companies need to think from the perspective of customer experiences, which can be created via data-centric business models that promise significant added customer value beyond the actual core of the service.

3. What does that mean for my organization?

It's well understood that companies have to invest in organizational learning before fully benefiting from integrating new technologies into value chains (Brynjolfsson and Hitt 2000). We also know that some companies obtain higher returns from their technology-led innovations than others (World Economic Forum 2018). B2B platform success requires companies to shift from product thinking to platform thinking, as well as possibly changing the organization itself, opening up and streamlining highly insular pyramidal management structures. To get there, companies need to move behind insulated digital pilots, labs or start-up collaborations and embrace a holistic digital transformation strategy owned by the CEO. Leadership, innovation capacity and technology adaption are key success factors (Antons et al. 2018).

A changing geography of innovation reinforces these industry trends. The rise of China has exasperated the shift in profit pools and spurred new forms of global competition. Many countries are now laser-focused on technology-led innovation in Artificial Intelligence, 5G, and blockchain, while making investments and crafting protectionist measures. The economic outcomes of this competition are still unclear but we can see companies reconfiguring their supply chains, which will impact the competitive landscape. Eric Schmidt, former CEO of Google, even warned recently about a “bifurcation of the internet” (Kolodny 2018). Especially European governments and companies need to understand and occupy their space in this changing economic world order to avoid of being “stuck in the middle”.

Europe needs to change its competitive positioning from a focus on product quality and price. In the foreseeable future, the Chinese industry will produce equivalent excellence in products and systems while having advantages due to its large domestic market. Clearly, Europe has an opportunity in the B2B platform arena. Contrary to B2C platforms (e.g.

smartphone ecosystems), the B2B environment is more focused and specialized, which prevents a similar “winner-takes-it-all” dominance and the “key is to think beyond industry value chains and imagine new industrial networks” (Falk and Riemensperger 2019). The strategic answer of the German and European industry lies in the combination of three approaches, which must always be considered from the perspective of value creation for the end user:

1. New architectures for smart products. This refers to machines and plants that are specially developed for the platform economy. Intelligent machines that can be dynamically upgraded with new capabilities based on software and data.
2. New, digital engineering and manufacturing methods providing cost advantages in manufacturing, allowing for greater competitiveness and scalability on a global scale.
3. An “operate” approach that combines the analysis of real-time operational data and the ability to respond in real-time via software. By understanding the underlying strategic value chains and leveraging platform-based network effects, value creation for users can be significantly increased. New outcome promises and benefits form the basis for new, digital business models and therefore higher profitability.

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