PLATFORMS

◇ Useful words and concepts

platform
technological architecture
business partners
complementors
functionality
game console
socialize
software
software developers
owners
platform theory
challengers
Catch-22 problem
manufactured goods
entrepreneurs
network externalities
installed base
currently
social network
platform sponsors
achieve
subsidies (2)
incentivize
features
draw in
competition
devoted
supporting
complementor network

launch
license
software tools
technological support
technical support
conferences
outcompete
proprietary
Voice-over-Internet Protocol
providers
bundle
the latter
irrelevant
platform envelopment
operating system
download
surf
Web (the)
dethrone
incumbent
insights
enhance
entrants
fending off
platform leveraging
boost
nurtured
benefits
growth momentum

Instructions For Study

1. Turn to the **definitions** following the text *Platforms*. They refer to the specialist terms printed in **bold** type in the list of **Useful words and concepts**.
2. Use an **English** language dictionary to find the meanings (in context) of the other words in the list.
3. Do the exercises to improve your language skills.

Platforms

A platform is a good or system providing a technological architecture that allows different types of users and complementary business partners (often called "complementors") to connect and benefit from the platform's base functionality. For example, a game console is a platform for users to socialize and play using software (games) developed by a myriad of companies. The challenge for a new game console is that software developers don't want to create games for a console unless there are enough console owners that can use the games — and players don't want to buy a console unless there are enough games to play on it. At its most basic level, platform theory, for both pioneering platforms and challengers to existing markets, is largely about how to deal with this Catch-22 problem. The theory began with research into platforms of manufactured goods (such as automotive platforms) and then of traditional software products. These early studies stressed the role of complementors — external companies or entrepreneurs that build products and services to run on a platform, thus increasing the platform's attractiveness.

Key to the success of platforms are network externalities, or the degree to which a platform's attractiveness grows with the "installed base" or number of consumers using it. For a social network, that means that the more people are currently part of the network, the more other people want to join. The size of the installed base becomes a key factor in the demand for a product or service, often more important than price or quality. Building a large installed base can seem like an insurmountable obstacle for platform challengers. Therefore, platform sponsors that enter a new market space try to build their installed base as quickly as possible. Platform theory proposes that to achieve this goal, platform companies can use subsidies to incentivize users to join, differentiate through technology features or enter the industry early enough to draw in users before competition increases.

Most platform companies understood the importance of complementors and devoted significant resources to supporting their complementor network even from the beginning. For instance, every major game console to launch in the United States in the last decade has done so with a game produced under license from the National Football League, usually the latest *Madden NFL* by Electronic Arts. Since the installed base of the platform defines a complementary product's potential market, complementors are naturally attracted to those platforms with the largest installed base. Platform sponsors place great emphasis on providing technological support for their complementor network in such forms as software tools, technical training and documentation, technical support and conferences.

Platform theory has also offered a couple of specific strategies that platform sponsors can use to outcompete rival platforms. Technological superiority simply means using a better technology than the competitors to provide features or functionality that does not yet exist in rival platforms. For example, Skype's proprietary Voice-over-Internet Protocol, known in technical circles simply as "Skype protocol," gave the company an important early quality advantage over competing VoIP providers that used the more common session initiation protocol.

A platform can also bundle the functionality of another, typically smaller and financially weaker, platform, thus making the latter virtually irrelevant to the market. Platform theory calls this "platform envelopment." For instance, when Microsoft added Internet Explorer for free to its Windows operating system, Netscape Navigator found itself virtually irrelevant to Windows users, who no longer needed to download Navigator software to surf the Web.

These recent experiences of platform companies that entered the market late and were still able to succeed and dethrone powerful incumbent platforms provide us with additional insights to enhance our understanding of platform markets. But they also point to the continuing challenges platform companies face in fast-changing technology markets. How can new entrants dethrone dominant players? Once successful, staying successful and fending off others who are trying to dethrone you can be a real challenge. Maintaining dominance requires constant attention to the needs of users and complementors so they remain motivated and faithful to the platform.

That challenge can be met in part by using the same strategies that allow an entrant to dethrone the previous dominant platform. For instance, Apple did well by leveraging the power of iTunes. With its already large user base in 2007, iTunes gave the iPhone an important boost early on. However, platform leveraging implies that iTunes is a separate platform that will continue to be nurtured and grown. This in turn means that other smartphone platforms, new or old, can also enjoy the benefits of linking to iTunes — and Android, Google's smartphone platform and Apple's main rival in this space, has done just that. Dethroning a dominant platform is difficult, but it is equally difficult to maintain the growth momentum vis-à-vis new challengers. Other entrants may have emerged or may be waiting in the wings to try their own playbook, out to dethrone the dethroner.

Excerpt from: Fernando F. Suarez and Jacqueline Kirtley, *Dethroning An Established Platform*, MIT Sloan Management Review, Summer 2012.

◇◇ **DEFINITIONS** ◇◇◇

◆ **platform** system providing a technological architecture that allows different types of users and complementary business partners to connect and benefit from the platform's base functionality

◆ **technological architecture** the overall structure, logical components and logical interrelationships of a computer, an operating system, a network or any other conception

◆ **business partners** two or more companies that cooperate to some extent

◆ **complementors** external companies or entrepreneurs that build products and services to run on a platform and that increase the platform's attractiveness; *app entrepreneurs*

◆ **functionality** what a software or any other product can do for the user

◆ **game console** small computer designed chiefly for playing games

◆ **software** organized information in the form of operating systems, utilities, programs and applications that give instructions to computers

◆ **software developers** companies involved in creating and maintaining computer programs and applications

◆ **platform theory** set of principles underlying platform-based business models

◆ **challengers** companies actively trying to obtain the market shares of their competitors with the purpose of taking up the leadership in their industry; *market challengers*

◆ **network externalities** degree to which platform attractiveness grows

◆ **installed base** number of consumers using a platform; *user base*

◆ **social network** a website or software program that enables people who share similar interests to communicate with each other by posting text and pictures*; social networking site, social media network*

◆ **subsidies (2)** indirect financial contribution made by companies such as offering discount vouchers aimed at attracting new users and keeping existing ones

◆ **features** the distinctive characteristics of goods or services that set them apart from similar items.

◆ **competition** rivalry between two or more business enterprises to secure a market share or to win new markets at each other's expense; *business rivalry*

◆ **license** permission to make, sell or simply use a product on a non-exclusive basis, and subject to outlined conditions

◆ **software tools** computer programs used for developing, maintaining or upgrading the performance of other programs or of pieces of hardware

◆ **technological support** assistance to professionals aimed at upgrading their scientific knowledge and capabilities in using a particular technology

◆ **technical support** assistance to users having problems with their electronic devices

◆ **proprietary** sold or distributed under the exclusive rights of owners

◆ **Voice-over-Internet Protocol** technology that allows voice to be carried over Internet connections or other networks, not specifically designed to carry voice, using Internet Protocols (IP); *VoIP*

◆ **providers** individuals or companies offering goods or services**;** *suppliers*

◆ **bundle** put together as one unit and to be sold at no extra cost

◆ **platform envelopment** the fact for a platform to bundle the functionality of another smaller and financially weaker platform and make the latter virtually irrelevant to the market

◆ **operating system** computer master program which automatically works when a computer is switched on and which remains in the background to control other programs until it is switched off; *OS*

◆ **download** transfer data from remote or host computers to local or client ones

♦ **dethrone** when a company succeeds in taking over the market leadership from a competitor
♦ **entrants** companies that have recently entered a market or an industry
♦ **platform-leveraging** strategy by which companies take advantage of their multiple platforms to gain traction for a new one
♦ **growth momentum** sustained trend of an increase in the demand for a particular product or service over time

◇◇ EXERCISES ◇◇◇

◇ EXERCISE 1   *Comprehension*

True / False Circle the correct choice and justify your answer

1. Users can connect and benefit from a platform only by means
    of another software product.   T / F
2. A game console is a complementor of a platform hardware device.   T / F
3. Platform companies and complementors are interdependent.   T / F
4. Platform challengers meet no major hurdles when setting up a user base.   T / F
5. The success of a platform on the market depends mostly on the quality
    and price of the device.   T / F
6. A large installed base can be built faster if a platform company
    is an early market entrant.   T / F
7. Complementors are usually attracted by platforms with a small installed base.   T / F
8. Platform envelopment may drive bundled software developers out of the market.   T / F
9. The challenge faced by dethroners is to reach rather than stay at the top
    of the platform market.   T / F
10. Apple's iTunes shows that leveraging implies bundling and nullifying
    smaller platforms.   T / F

◇ EXERCISE 2   *Vocabulary*

(A) Use the list of definitions above to **select the appropriate term** to fit each sentence

1. Customers who are senior citizens may be less concerned with the number of people using a ………. than they are with the number of other senior citizens using it.
2. New ………. to the market can gain significant traction by focusing on a user group that is distinctive and underserved by the dominant company.
3. Facebook focused on consumers rather than businesses to ………. MySpace and Friendster when it entered the social network platform market.
4. Facebook opened its platform to anyone only after its ………., initially centered on students, had grown.
5. ………. differs from a platform complementor relationship in that both platforms belong to one company.
6. By using a multitouch display, Apple has unveiled a totally new interface for smartphones while embedding ………. in a streamlined, one-button design.

7. Platform companies woo .... by offering technical support and working alongside them to define and clarify standards.
8. The .... segment that Apple targeted when it launched its iPhone included consumers that app entrepreneurs had not been able to reach easily before.
9. .... need to test constantly that the apps they write work properly on mobile platforms.
10. Consumers can .... a lot of frivolous apps on their smartphones like Drync, a wine-buying app.

(B) Answer the following questions with a correct expression from the text

1. How would you describe the platforms of manufactured goods such as those used in the automotive industry? They are ....
2. What name is often given to companies trying to outcompete leading platforms with large installed bases? They are called ....
3. What is the role of organizations like FIFA, NBA or EPL, the English premier soccer league, that inspire and lend their prestige to a lot of video games? They are ....
4. How do you compare the offerings of Google, Yahoo and Hotmail on the webmail market? They are ....
5. What type of businesses are providing hardware devices, traditional software or software in the cloud and are releasing application programming interfaces? They are ....
6. What is the standing of Apple's iPhone and Samsung's Galaxy on the platform markets of today? Each of them is considered to be a ....
7. How do you refer to groups of users connected by a shared technology that enables them to form and benefit from a social network? They are referred to as ....
8. What name is given to the set of principles governing business models that create value by facilitating exchanges between two or more interdependent groups? It is called ....
9. What is Google's Android? It is a mobile phone ....
10. How would you label a company like Apple which ousted Blackberry as a longstanding leader on the platform market? It is a ....

◇ EXERCISE 3   *Grammar*

The suffix 'ize'

(A) Change the word in *italics* into a verb ending in *'ize'* to express the ideas in the sentences below

1. to participate actively in a *social* group ....
2. to offer *incentives* or some form of motivation to customers or employees ....
3. to build, fit or alter a product or service according to *customer* specifications ....
4. to convert data or an image to *digital* form ....
5. to exert a *monopoly* over a market ....
6. to transfer a state-owned company to the *private* sector ....
7. to render a software programme *operational* ....
8. to make actions or operations *synchronous* ....
9. to provide different forms of *subsidy* to a company ....
10. to place *emphasis* or stress on something ....

(B) Use the verbs you have formed in the correct tense to complete the sentences below

1. Companies can differentiate their products by ………. the attributes highly valued by the target customers.
2. Players can ………. on a game console used as a platform.
3. Governments tend to ………. state-owned utility companies.
4. The first iPhones did not ………. standard business applications or apps unlike Microsoft Exchange server in which e-mail, calendar and contacts are ……….
5. A market entrant can gain significant attractiveness by ………. a platform to a particular segment.
6. Several investors agreed to ………. the new digital venture.
7. Companies ………. employees with perks such as lunch vouchers.
8. Record companies ………. songs at the turn of the 21st century and made them available on the Internet.
9. The company ………. the market for computer operating systems since the late 1980s.
10. The company's plans for enhanced capabilities are yet to be ……….

◇ EXERCISE 4   *Assignment*

Select a platform you are familiar with or you have simply heard of and **find** information about it on the Internet. **Report on** your findings in a 15-minute oral presentation.

Address the following questions to assist you:

1. What is the trade name of the platform?
2. What can it be used for?
3. What type of social network(s) does it target?
4. What is required to use or access it?
5. Who owns the platform?
6. Does the company own other platforms? If so, provide further details.
7. Is there any evidence that the company has resorted to platform leveraging?
8. What does the company do to attract complementors?
9. Has the platform got a large user base? If so, describe this base.
10. Elaborate on what the company is doing to ensure that the platform is successful.