Harnessing the power of platforms

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From the App Store and Airbnb to Uber, Xbox and eBay, platform businesses — firms that use technology-based platforms to connect buyers and sellers — are revolutionizing the way people live, work and play.



Platform Revolution, a new book co-authored by Geoffrey Parker, is the first authoritative guide to the strategy behind cutting-edge companies like Uber, Airbnb and Amazon.

A new book by Geoffrey G. Parker, professor of management science at the A. B. Freeman School of Business, explores the strategy behind these fast-growing businesses and offers insights to help managers harness the power of platforms. *Platform Revolution: How Networked Markets are Transforming the Economy and How to Make Them Work for You*, co-authored with Marshall Van Alstyne and Sangeet Paul Choudary, is the first authoritative, fact-based book on the platform business model.

“The entire economy has been shifting toward more networked businesses,” explains Parker, the Norman Mayer Professor of Business at the Freeman School. “If you look at the world’s largest publicly traded companies, increasingly there are firms like Alibaba, Microsoft and Amazon — companies that are orchestrating ecosystems outside the firm and creating enormous value in doing so.”

Parker has been studying the platform phenomenon for nearly 20 years. He and Van Alstyne, a professor at Boston University, developed the two-sided market theory in the early 2000s to help explain the business model of companies such as Nintendo, in which two distinct customer groups — video game developers and gamers — interact by means of a platform, in this case Nintendo’s Wii game console. Fueled in part by the proliferation of mobile devices, the number of companies using technology to match producers and consumers has since then grown exponentially. Today, five of the 10 biggest companies in the world – Apple, Microsoft, Amazon, Google and Facebook – operate at least in part as platform-based businesses.

“It’s impacting every sector of the economy,” Parker says. “In the book, we talk about how it’s hitting healthcare, energy, education and finance and how it ultimately will hit the basic manufacturing services. There’s no corner of the economy that won’t be affected.”

The book combines a discussion of the economics of multi-sided markets with strategies to help firms start and run successful platform businesses. According to Parker, one of the most important things for prospective platform operators to remember is to avoid using their power to shift the balance in their favor.

Take, for example, the case of Keurig, manufacturer of coffee brewing machines and single-serve coffee pods. When the patent on its ubiquitous K-Cup pods expired in 2012, Keurig added an optical scanner to its brewing machines to prevent consumers from using non-licensed pods. Customers revolted, and the resulting backlash cost the company millions.

“Keurig alienated their user base by trying to take too much of the value,” Parker says. “That was a governance failure and a strategy failure.”

As a platform-based business, Parker says Keurig should have recognized that a wider selection of pods creates value for customers using its brewing machines, which is more important to the long-term success of the platform than grabbing a bigger share of short-term profits.

“A lot of getting the strategy right," Parker says, "is just letting go.”

Platform Revolution is available in bookstores as well as on iTunes, Barnesandnoble.com and Amazon.com.