PLATFORM LEADERSHIP

How Intel, Microsoft and Cisco Drive Industry Innovation

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MAIN IDEA

The Holy Grail of success in the high tech field is to succeed in molding your product into a platform – a foundation on which other firms build and develop their own complementary products and services. Platform owners can generate exceptionally large revenues and profits as they drive the evolution of the platform forwards over time through innovation.

So how does a technology platform emerge and then continue to grow? Rather than leaving things to chance, platform leaders use a business strategy which entails four key levers of platform leadership:

1. *Scope of the firm* – whether it chooses to develop its own complementary products in-house or encourage third party involvement.
2. *Technology architecture* – how open the platform information is and how much information is available to other parties.
3. *Relationships with external companies* – whether the relationship is collaborative or competitive and how conflicts are addressed.
4. *Internal organization* – how potential conflicts of interests and changes in relationships with third parties are handled.

In total, establishing and then sustaining a technology platform requires a deft touch. There will always be a number of conflicting demands to consider. Even understanding that demand for your own core product depends on the availability of an array of complements can be sobering and painful for some companies. And yet, the platform leaders who acknowledge this reality and develop a strategy which exploits that can succeed in establishing a business franchise that will generate exceptionally good revenues for years and years as successive generations of products are grafted in. To achieve that, platform leaders need the vision to realize the whole of the ecosystems that evolves around a platform can indeed be greater than the sum of its parts if all the firms work together and follow a leader.

"For an increasing number of companies in a wide variety of markets, learning how to play the platform game is essential for their survival and long-term success. Platform leaders who succeed can exert a strong influence over the direction of innovation in their industries and thus over the network of firms and customers – the 'ecosystem' – that produces and uses complements. But not all industries are suitable for platform leadership strategies. The dynamics that make it possible occur only under certain conditions. A fundamental condition is that the firm's product has limited value when used alone but gains in value when used along with complements. For Intel, the starting point was recognizing that, without innovation on complements and evolution of the PC platform, its main product line – the microprocessor – would have very limited appeal. Other platform leaders share the same predicament."
– Annabelle Gawer and Michael Cusumano

Technology platforms arise whenever a firm's own products has limited value when used alone but much greater value when used along with complementary products. To establish and expand a technology platform, four key strategic levers must be handled well:
1. Scope – what to do inside the firm and what to let other companies do.
2. Technology – how the system will function, interface and who owns the intellectual property.
3. Relationships – whether the relationship with others is collaborative or competitive.
4. Organization – how the firm will be structured internally to support the other three levers.

Intel transformed itself from being a component maker (supplying to a system architecture designed by IBM) into the major source of influence over the evolution of this system by harnessing a platform leadership strategy. Notably, however, this strategy did not come to mind fully formed, but emerged gradually as the company responded to strategic challenges that arose as the computer industry evolved.

Unlike Intel, Microsoft became a platform leader by making its own complementary products. It has also moved aggressively to integrate into the platform features that were once sold as standalone products by complementors.

Cisco became a platform leader because it provided much of the infrastructure hardware and software for the Internet. Unlike Intel or Microsoft, however, Cisco champions open standards. Its entire growth strategy and platform leadership strategy can be summed up in one word: acquisitions.

Palm is a new entrant in the handheld computing industry. It is attempting to fight the industry giant (Microsoft) by using a platform strategy. Whether it will succeed in doing this is still a matter of speculation.

NTT DoCoMo provides content for wireless devices. It has established a platform leadership role in Japan and is now attempting to expand its platform internationally. Again, how this company will succeed in achieving its objectives remains to be seen.

Linux is a computer industry phenomena. It is an open source operating system which uses volunteers to help evolve and improve the platform. Again, this is a work in progress and it is still to early to tell whether or not Linux will succeed commercially in harnessing a platform strategy.

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