

# CONFIGURATIONS OF DIFFERENT PLATFORM STRATEGIES FOR INTER-FIRM COMPETITION

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## ABSTRACT

*Platform has been recently gaining increasing attentions from numerous fields including strategy, marketing, and entrepreneurship research. Corresponding to the increasing studies in many fields, this article considers broad scientific fields including strategy, marketing, and information system research to discover essential platform strategies for better strategic entrepreneurship. By doing so, this paper clarifies key strategic issues – Pricing, Quality, Platform envelopment, Incentives to complementors, Business model. Based on the findings, future research agenda is then discussed.*

**Keywords:** Entrepreneurship, Strategies, Platform Envelopment, Ecosystem.

## INTRODUCTION

Platforms can be conceptualized as “*evolving organizations...that (1) federate and coordinate constitutive agents who can innovate and compete; (2) create value by generating and harnessing economies of scope in supply and demand; 3) and entail a modular technological architecture (Gawer, 2014)*”. As the definition implies, digital platforms invite multiple parties on board, and these invitations generate complex managerial issues that fundamentally concern value creation and capture by platforms. The platform’s ecosystem can thus either become a “semi-regulated market” where complementors take entrepreneurial action under the direction of the central platform (i.e., innovation platform ecosystem), or a “multi-sided market” in which transactions take place between different groups of platform users (i.e., transaction platform ecosystem) (Jacobides et al., 2018; Cusumano et al., 2019). This research focus on the topic of platform competition an issue increasingly discussed by entrepreneurship and strategy scholars. While different streams of research such as marketing, strategy, and information system research have generated useful insights on inter-firm competition, research that integrates such insights from numerous fields have been scarce (Mcintyre & Subramaniam, 2009; McIntyre & Srinivasan, 2017). To address this gap, this research extensively reviews broad scientific fields and make an integral insight on platform strategies. By doing so, it clarifies different platform strategies for platform entrepreneurship (Nambisan et al., 2018).

## METHODOLOGY

To gather insight into the focal issue of platform competition and strategies, I began by selecting academic journals, which were chosen based on their impact and publication quality in the domains of management (Strategic Management Journal, Academy of Management Journal, Academy of Management Review, Administrative Science Quarterly, Management Science, Organizational Science, Management Information Systems, European Management Journal, Journal of Business Management; and Journal of Management Studies), the economy (Journal of

Economic Perspectives, Journal of Economics and Management; Review of Network Economics; International Journal of Industrial Organizations; American Economic Review; and Rand Journal of Economics) and marketing (Marketing Science). I was interested in identifying the articles published in the selected journals that studied the issue of platform competition and strategies. For this purpose, corresponding to the established traditions for academic reviews (Ahuja & Novelli, 2017), I used Business Source Complete to identify all articles that included the word ‘platform’. This criterion led me to identify a total of 467 articles. To identify papers concerning platform competition, I read abstracts of all the articles and excluded those that did not have theoretical relevance. In some cases, the abstract was too ambiguous to assess whether the paper concerned platform competition or strategies; in those cases, I read the full article. In the end, I selected 70 articles (See appendix 1). Finally, I added papers that were cited in the articles or studies about which I had previous knowledge (shows in Table 1).

## FINDINGS

<b>Strategies</b>	<b>Details</b>	<b>References</b>
Quality	Qualitative differences or improvements can create idiosyncratic values for users and promote user participation	Sheremata, 2004; Zhu and Iansiti, 2012; Anderson et al., 2013
Platform envelopment	Enveloping new features can lead to user participation because of consumption complementarities	Eisenmann et al., 2011; Gawer, 2014
Pricing	Subsidising either side can lead to more participation of the subsidised side	Parker and Van Alstyne, 2005; Armstrong, 2006; Calliaud and Jullien, 2003; Casadesus-Masanell and Ghemawat, 2006
Incentives to complementor	Offering incentives to complementors can promote their participation.	Sun and Zhu, 2013; McIntyre and Subramaniam, 2009; McIntyre and Srinivasan 2017
Business model choice	Business model choice fundamentally concerns value creation and value capture mechanisms. A different business model choice can lead to the creation and capture of fundamentally different values.	Casadesus-Masanell and Zhu, 2010; 2013

### Quality

The quality strategy is one of the most contested strategic issues. Sheremata (2004) has shown the importance of offering superior quality when competing in a winner take all scenario. The study acknowledges that a platform market usually “*tips’ towards winner-take-all situations and that challengers need to make clean breaks by offering novel values with ‘superior product benefits’*”. In particular, when target industries are characterised by high switching costs, high R&D fixed costs, and high uncertainty, qualitative changes can appeal to diverse users. Therefore, it has been considered as an effective strategy for inter-firm competition (Zhu & Iansiti, 2012; Anderson et al., 2013).

## Pricing

Pricing strategy is important in the competition between platforms and non-platforms. As shown in Casadesus-Masanell and Ghemawat (2006), a firm's pricing strategy can be used to set users' expectations of which platforms are more likely to lead to dominance: "*Firms may use steep discounts or even product give away early in the life of a product, in the hope of establishing a critical network of users*" (Mcintyre & Subramaniam, 2009).

## Complementor Policy

In addition to the pricing and quality strategies, strategy scholars have begun focusing on the previously under-explored complementor side rather than on the user side. For instance, Tanriverdi and Lee (2008) have proposed a strategy from the perspective of complementors; their study highlighted the importance of complementarities between strategies for users and those for complementors. From supply perspectives, complementors can pursue related diversification that can reduce costs of productions, and, from consumer perspectives, they can also pursue related diversification that can lead to consumption complementarities.

## Platform Envelopment

Eisenmann et al. (2011) have proposed platform envelopment. While new entrants face difficulties in challenging the incumbents' network effects within one industry, dominant platforms in other industries can erode the incumbents' network effects through consumption complementarities. A dominant platform in one industry can add complementary services, and by doing so, users will be led to use the additional services due to consumption complementarities. Since users will be 'locked in' to the dominant platform, platform envelopment can be an effective means of challenging incumbents in other industries.

## Business Model

In addition to previous discussions of pricing, quality, complementors, and entry timings, scholars have addressed the "choice of business model as strategy". These studies mostly focused on whether to choose ad-sponsored business models. Regarding the choice of whether to offer subsidised offerings, scholars have clearly differentiated business models from (pricing) strategies: "*The reason why it is valuable to separate the two notions is that, in many occasions, there is not a one to-one mapping between business model and strategy ... choosing a particular business model means choosing a particular way to compete, a particular "logic of the firm": a profit function and the associated set of possible tactics that will be used to maximize profits in the market place*" (Casadesus-Masanell & Zhu, 2010). Along with the ad-sponsored business models, for two-sided platforms, scholars have shown varying business models, including the platform business model (auction-based business models) (Amit & Zott, 2001; Täuscher & Laudien, 2018) and the hybrid business model (Casadesus-Masanell & Zhu, 2010).

## DISCUSSION

Although past studies have produced useful strategic insights on platform competition, research that integrates such strategies is still limited, and more theoretical contributions are needed to take full consideration of various platform strategies. To address this gap, building on

this literature review, future research can make testable propositions for platform competitions. As noted, strategy scholars have discussed the efficacies of each strategy, and “*these strategies have been examined only separately - there is little evidence to document the competitive effects arising, when these new strategies are used in combination or to show how those competitive effects might impact platform firms as they build and configure their ecosystems*” (Cennamo & Santalo, 2013). Therefore, a promising approach is to consider combinatory dynamics of different platform strategies and their influences on platform performances and survivals. Since research such as Tanriverdi & Lee (2008) provides important insights for strategy synergies, scholars can borrow such notions and test different combinations of platform strategies.

## CONCLUSION

Based on the extensive literature review from strategy, marketing, economics, and information system research, this paper clarifies 5 main platform strategies for inter-platform competition – namely, pricing, quality, platform envelopment, complementor incentivization, and business model change. Building on this finding, future research can reveal competitive dynamics including combinatory dynamics of different strategies and imitations. Such research can address how entrepreneurs can better survive from fierce inter-platform competition.

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<b>APPENDIX 1</b>		
<b>COMPARISON OF PAST LITERATURE REVIEWS WITH THIS PAPER</b>		
<b>Authors/No. of reviewed articles</b>	<b>Review focus/approach</b>	<b>Reviewed journals</b>
Mcintyre and Subramaniam, 2009 (22)	The role that firm strategy plays in network industries; selective reviews of studies that address platform strategies	<b>Economics:</b> <i>Journal of Industrial Economics; Management Science; Academy of Management; Strategic Management Journals; Mis Quarterly; Organization Science</i> <b>Marketing:</b> <i>Journal of Consumer Research</i> <b>Information System Research</b> (Journal)
Mcintyre and Srinivasan, 2017 (32)	More robust and generalisable platform implications from currently separate streams of economy, strategy, and technology; selective reviews of studies that address platform strategies	<b>Economics:</b> <i>Rand Journal of Economics; Review of Network Economics; Journal of Economic Perspective</i> <b>Management:</b> <i>Management Science; Research Policy; Strategic Management Journal; Journal of Management; European Management Review; Sloan Management; Academy of Management Journal; Academy of Management Review</i> <b>Marketing:</b> <i>Journal of Marketing</i>
This paper's review (70)	Identification of strategic factors in different contexts of platform competition and the mechanisms that influence them; selective reviews on studies that explain the mechanisms of different platform strategies	<b>Economics:</b> <i>Journal of Economic Perspectives, Journal of Economics and Management Strategy; Review of Network Economics; International Journal of Industrial Organizations; American Economic Review; Rand Journal of Economics</i> <b>Marketing:</b> <i>Marketing Science</i> <b>Management:</b> <i>Strategic Management Journal, Academy of Management Journal, Academy of Management Review, Administrative Science Quarterly, Management Science, Organization Science, Management Information Systems, European Management Journal, Journal of Business Management; Journal of Management Studies</i> <b>Information System Research</b> (Journal)