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THE RISE OF DIGITAL (RETAIL) PLATFORMS

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The focus study of the IFH sponsors annually examines a strategically important issue for the retail trade. Individual aspects of value creation in retailing are examined in detail and relevant implications for the entire retail landscape as well as for public policy are derived. The IFH focus study is supported significantly by the board of the IFH sponsors. This year, 2019, we are dealing with the topic of digital platforms, which are becoming more and more important in retail and beyond, also besides the impact of Amazon. We look at this innovative business model from a scientific-theoretical as well as from a practical point of view of companies and consumers.

A retailer workshop in January 2019, a comprehensive market analysis and a consumer survey in May 2019 serve as empirical foundations for the study. We would like to take this opportunity to thank our scientific assistants, above all Dong Jin Cho and Max vom Eyser, for their support in preparing this study.

ABSTRACT

Platform businesses have become the poster child of the digital transformation. In the past two decades, no other business model has seen faster growth and disrupted more industries. This success has aroused covetousness: Long gone are the times when eBay and Amazon were the only ones reaping the benefits of the platform approach. Today, companies from many different industries, as well as manufacturers, retailers, and suppliers to consumers and businesses, are acknowledging the need to grapple with digital platforms in one way or another, by pushing initiatives to create platforms on their own or using third-party offerings as retail channels. However, in many companies, understanding of platform markets is still limited and reactions to the platformization threat are unsystematic and hasty.

Many companies have limited understanding of platform markets and reactions to the platformization threat are unsystematic and hasty.

Against this background, this study aims to address two questions:

- How exactly do (retail) platforms differ from traditional "pipeline" models of retailing?
- How can firms survive and thrive in an increasingly platformized market environment?

In answering these questions, we draw on a mixed conceptual–empirical approach, synthesizing and extending knowledge from the academic and business literatures, linking it to market observations, and extending this knowledge via business expert and consumer insights. Our findings indicate that innovating an existing business model through platform creation is not for everybody, and some firms may be better off cooperating or competing with third-party platforms in their home arena. We identify different positions that players may occupy in the new market order and give concrete advice on how to avoid loss of relevance.

INTRODUCTION

When the domain *otto.de* first went on-line in the late summer of 1995, e-commerce was unchartered territory. It was in the same year that first garage companies such as Amazon and eBay opened their digital gates; hence, for a hitherto successful catalog retailer placing a bet on the new channel seemed like a bold move. In the midst of 2017, a similarly radical step in the–by now–e-commerce giant's development went largely unnoticed by consumers: OTTO's announcement to develop into a digital retail platform. This "largest business-model transformation in its history" (OTTO 2018) was all the more surprising, as it came at a time of stable growth and a powerful market positioning. OTTO had just increased revenues and customer base by more than eight per cent for the eighth year in a row (OTTO 2018), cementing its second place in German e-commerce right behind Amazon. However, they did not intend to stop there. To reach the group's goal of € 17 billion in revenues by 2020, growth needed to more than double. This is where the platform strategy came in.

Few business models have created as much buzz as digital platforms in recent years. Spurred by the rapid success of tech companies such as Facebook, UBER, Airbnb, and not last Amazon, platforms are setting standards in a plethora of existing industries, creating new markets, and threatening the long-standing supremacy of traditional players. Not a day goes by without staggering statistics that praise the brute force with which platform-based companies are disrupting yet another established industry. The transformation becomes clearer when looking at the most valuable companies according to their market capitalization: While the ten most valuable companies in 2009 included oil giants such as Exxon Mobil, PetroChina and Royal Dutch Shell and mobile phone and consumer goods manufacturers such as AT&T and Procter & Gamble, today seven of the ten most valuable companies—Microsoft, Apple, Amazon.com, Alphabet Inc. (Google), Facebook, Alibaba Group and Tencent—follow (at least partially) a platform-based business model.

On the other hand, we also observe that the public debate on digital platforms has, at least in part, moved away from market realities. This is not least owing to an over- and misuse of the term "platform," creating substantial confusion about what characterizes a platform-based business model and which companies actually (and purely) operate one (Gawer 2009).

As a result, two challenges have emerged. First, **it is important to understand exactly what a platform is, what distinguishes platform-based business models from traditional pipeline models, and where their particular strengths and weaknesses lie. Second, companies must learn how to deal with platform competition not only to survive, but also to continue to grow.** Using a mixture of conceptual synthesis, empirical evidence from market observations, expert opinions, and a consumer survey, we examine these challenges and make concrete recommendations for action.

We find that while consumers and companies increasingly use platforms because they often generate more value than pipeline business models, not every self-proclaimed platform in fact operates a fully-fledged platform business.

Many companies (still) use a hybrid approach, uniting elements of both pipeline and platform models.

At the same time, our analysis suggests that **not every traditional company can or should initiate the transformation into a platform business**. Given the high concentration on these markets, only a few players can establish themselves permanently in any industry. Therefore, firms need to seek ways to coexist with and benefit from platform-based competitors. We depict different options to do so and discuss crucial points to consider when selecting a strategy.

CONCEPTUAL BACKGROUND: FROM PIPELINES TO PLATFORMS

What makes platforms distinct? Traditionally, retail supply chains have been sequentially organized (Zhu and Furr 2016). That is, retailers—whether dedicated retailers or vertically integrated manufacturers—purchase or produce goods and deliver them to businesses or end consumers. Often, contractual agreements between suppliers and retailers fix the terms under which goods are exchanged between the parties, including product selection and purchase quantities. The retailer then mainly controls the terms of resale to its customers, for example with respect to the display and placement of products, their pricing, promotional activities and the like (Hagiu and Altman 2017). Owing to its sequential nature, this traditional business model has been termed "pipeline business" (Van Alstyne, Parker, and Choudary 2016). Note that the pipeline business model is not limited to physical, stationary retailers, as "traditional" e-commerce functions in a similar manner.

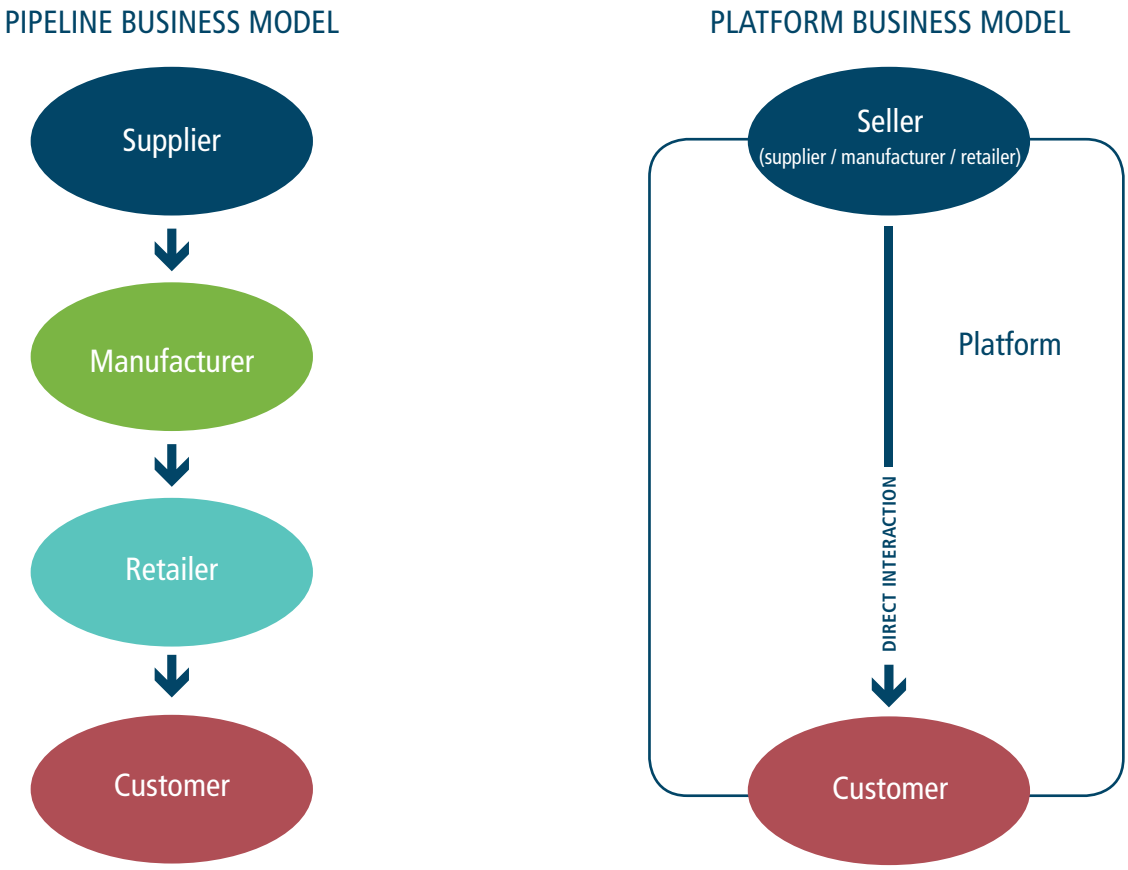
By contrast, the logic of platforms in general, and digital retail platforms in particular, is fundamentally different. Figure 1 compares pipeline and platform businesses. A platform is a value-creation approach, which brings together demanders and providers of products, services, or information and facilitates their exchange. The platform provides a largely open, participatory environment and a set of rules (governance structure) within which the respective players on the various market sides can interact (Parker, Van Alstyne, and Choudary 2016; Wu, Zhang, and Padmanabhan 2018). To carve out digital platforms' distinctive features and contrast them with other platform types and pipeline businesses, we describe digital platforms along four dimensions. Three core dimensions are general in nature and thus hold for any platform business, irrespective of whether the platform is digital or analog. These are the platform's focus on mediation, autonomy of participants, and growth via network effects. The fourth dimension, operations based on a digital infrastructure, is unique to the new wave of technology platforms and the main reason for their unprecedented economic success. In other words, while the concept of platforms is by no means new, digitization accelerates platform evolution, leading to exponential growth, winner-take-all markets, and thus accumulation of power in the hands of a few. In the following, we explain why platforms favor such market structures.[1]

PLATFORMS ARE CHARACTERIZED BY:

- ➔ a focus on mediation ("matchmaking"),
- ➔ autonomy of participants,
- ➔ growth via network effects, and
- ➔ a digital infrastructure

1 We mainly focus on retail platforms as they are occupied essentially with the exchange of goods for money, in contrast to platform businesses aimed at creating other types of matches, for example of people or content (e.g., dating platforms, social networks, charity platforms, video platforms, etc.). However, as the nonretail platforms share most characteristics with retail platforms, we continue referring to them to illustrate certain concepts.

Figure 1. *Schematic Depiction of Pipeline and Platform Businesses*



FOCUS ON MEDIATION

In their purest form, platforms provide an open and participatory infrastructure to find the best match between sellers (supply side) and buyers (demand side) (Hagiu and Wright 2015). They act as intermediaries in the exchange process between two or more parties. This characterization as "matchmaker" stands at the core of every platform business and has far-reaching operational and economic consequences for the platform owner. In particular, platform revenues are not equal to the platform owner's revenues, as exchanges occur between independent third parties. Therefore, frequent forms of revenue generation for platform owners are commissions on goods sold, fees per offering, or regular subscription payments to maintain access to the platform's infrastructure (Parker, Van Alstyne, and Choudary 2016). Fees for the mobility service provider Uber vary depending on supply and demand at the time of service request. Job search engines like Indeed or Monster charge companies for top listings on their results pages, and the dating platform Parship relies on monthly payments in exchange for premium functions. In addition, many platforms without a clear transaction focus, such as social networks and dating apps, earn revenue through ad placements.

AUTONOMY OF PARTICIPANTS

Platforms aim to facilitate exchange, not actively engage in it. Depending on the governance structure, participants thus act largely autonomously with respect to the depth and width of their product offerings, fulfillment of transactions, and often even pricing decisions. This autonomy is one of the main distinctions from traditional retailers. While retailers arguably also act as matchmakers to bring together the market's supply side (brand manufacturers) and demand side (customers), they exert a high degree of control over the branded assortment and the way it is offered. By contrast, platforms provide a level playing field and set certain rules. However, the restrictions usually do not reach the point where the platform dictates when, in which quantities, and at what price suppliers offer their goods and services (Hagiu and Altman, 2017).

Naturally, autonomy varies between platforms. They range from entirely open architectures, where virtually anyone can join and participate without restrictions (e.g., eBay and YouTube), to heavily regulated markets with thorough vetting processes and partial control of offerings by the platform owner (e.g., Uber). For example, especially in standardized service industries like transportation, pricing decisions are made by the platform, and suppliers of products or services need to comply if they want to continue their engagement.

One of the main differences to traditional retailing is the fact that platform participants mainly act autonomously with regard to product and pricing decisions.

NETWORK EFFECTS

As matchmakers, platforms are interested in providing value for all participating market sides. The more accurate the match between what customers are looking for and what is offered, the more value the platform delivers. **Therefore, the platform owner has two main objectives: (1) creating a large pool of participants on all market sides and (2) reducing search costs to find suitable matches.** The main mechanism of platform businesses to achieve a large participant pool are network effects, more specifically indirect network effects. Essentially, network effects arise whenever attracting additional participants to a network—be they consumers, users, or businesses—increases the attractiveness of the network to all other participants (Katz and Shapiro 1984). In the case of retail platforms, the more consumers join a platform to purchase goods, the more attractive the platform becomes to complementary goods providers, which offer more and better products. The larger supply in turn increases the platform's value to consumers because they are more likely to find what they are looking for, causing more consumers to join in. A positive feedback loop emerges and leads to growth on both sides of the market.

Retail platforms' susceptibility to network effects is by no means unique to the digital age—traditional marketplaces or retail malls function according to the same principles[2]. As more merchants offer products, more consumers are attracted and additional merchants join in to serve them. However, naturally occurring physical boundaries prevent rapid growth and the extension of such traditional platforms beyond a certain point, as only so many merchants can fit in a marketplace or brand shops in a mall. Only today's digital infrastructure has made the effective use and amplification of network effects possible. By dissolving physical and geographic boundaries, digitization has become the fuel that boosts the platform model to growth rates far beyond what was previously conceivable.

Network effects are not new, but in the digital environment, they boost platform growth substantially.

2 Additional examples of "traditional" platforms are freight and stock exchanges, insurance brokers, or travel agencies.

DIGITAL INFRASTRUCTURE

Digitization has created a new playground for platform businesses without physical boundaries and resulted in a rapid decrease in transaction costs, which provides the digital platform model's foundation for success. Digitization's emergence and diffusion is not a result of idiosyncratic developments, but is a wholly natural evolution of business—platforms had to happen, because when transaction costs decrease, market consolidation is inevitable. This response holds especially in markets where exchange is time-critical, such as for perishable products and virtually all services. Airplanes take off regardless of whether all seats are sold. Taxi drivers forgo revenues while waiting for the next passenger, and festival tickets lose their value after the last concert has concluded. Although digital platforms have advanced into durables and non-perishable commodities, time-critical goods lend themselves naturally to the platform business model because it rids the market of inefficiencies and generates new sources of value creation for both suppliers and consumers. Accordingly, in recent years, the number of platforms focusing on services has increased sharply (e.g., Airbnb, Uber, and MyHammer).

For the platform itself, the benefits of digitization are generally two-fold. On the supply side, digitization allows for rapid growth by adding suppliers at virtually zero marginal cost (Van Alstyne, Parker, and Choudary 2016; Wu, Zhang, and Padmanabhan 2018) because platforms rarely accumulate much inventory. Instead, they focus on managing the infrastructure to facilitate exchanges while vendors manage their own inventory.

Platforms typically do not have their own inventory, but facilitate exchange while vendors manage their own inventory.

The world's biggest accommodation chain owns not a single bedroom (Airbnb), the largest mobility provider owns no cars (Uber), and the largest food delivery service does not own a single restaurant (Doordash). To serve more guests by increasing its number of rooms, Hilton would incur substantial monetary and time resources to build an additional hotel. Airbnb can, and does, add many beds almost instantly at a fraction of Hilton's costs.

On the demand side, digital platforms' offerings have a globally installed base of potential customers to jumpstart network effects. Without technology, however, this advantage would quickly turn into a disadvantage because as demand and supply grow, the ability to provide good matches at reasonable search costs diminishes. At the extreme, users on the demand side might not be able to find suitable offers because of the vast catalog of alternatives. In traditional marketplaces, additional participants would reduce the attractiveness of existing participants (negative network effects). However, with filtering and recommendation technologies, platforms can narrow down the catalog of available goods and serve each user almost individually, allowing platform expansion in the digital space to continue without negative consequences for the matchmaking process. Every minute, 300 hours of video content are uploaded to the YouTube platform by its 1.3 billion users (Merchdope 2019) and every year over one million new sellers are listed on Amazon's Marketplace (Feedbackexpress 2019). Despite the virtually endless assortment, consumers can find exactly the right offer with the help of intelligent filters and search and recommendation algorithms.

Intelligent filters and search and recommendation algorithms let consumers browse a vast assortment and find exactly the right offers.

Figure 2 summarizes the main features of digital platforms and compares them with traditional, non-digital platform businesses.

Figure 2. Features and Consequences of Traditional and Digital Platforms

	„OLD" ECONOMY PLATFORMS Mall of Berlin, Sotheby's, New York Times, Soho Market N.Y.C.	DIGITAL PLATFORMS Flexport, Etsy, Amazon Marketplace, Airbnb, Ebay
FOCUS ON MEDIATION	✓	✓
AUTONOMY OF PARTICIPANTS	✓	✓
NETWORK EFFECTS	✓	✓
DIGITAL INFRASTRUCTURE	✗	✓

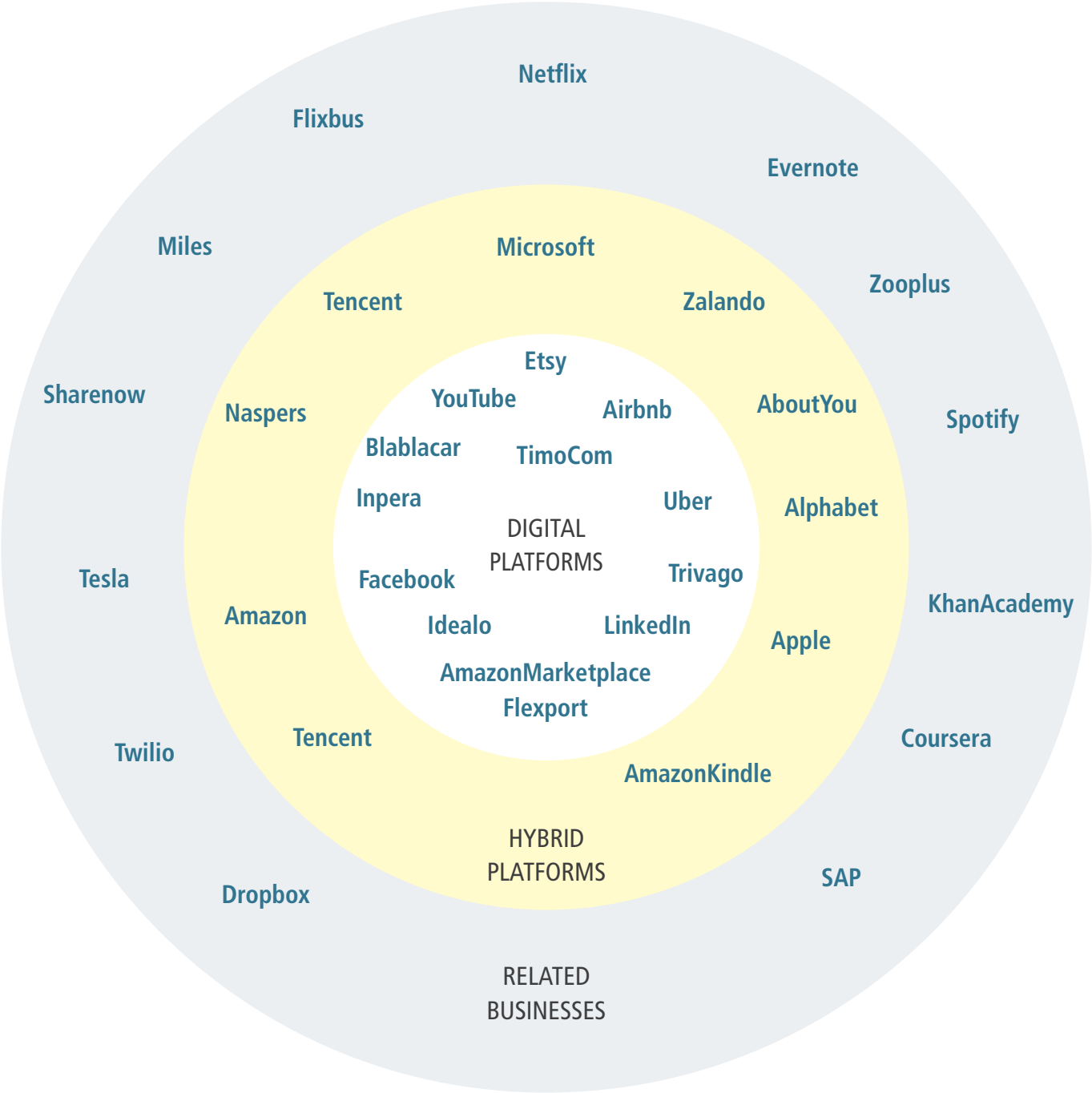
NOT EVERY "PLATFORM" IS REALLY A PLATFORM

Platforms as matchmakers between two or more market sides include a clearly defined set of business models. Among these are analog or digital marketplaces, exchange hubs like stock or freight exchanges, peer-to-peer matching platforms such as social media and dating apps, third-party software platforms such as video game consoles, or operating systems like Windows, iOS, and Android. However, not everything termed a "platform" is a platform according to this definition. **Public press and company jargon tend to use "platform" to refer to all digital applications and websites as platforms.** An important characteristic of the platform business is its openness to third-party service or goods providers, which act with great autonomy. Streaming service providers like Netflix, Amazon, and Joyn are not platforms in the original sense. Rather, they are retailers, because they operate according to a pipeline business model, purchasing movie and series licenses from producers or offering original content. YouTube, on the other hand, grants any registered user access to upload its own content, which makes YouTube a true video streaming platform. Like video streaming, car sharing services like ShareNow and Miles have also been termed part of the platform business. However, while they do match free car capacities with users in need of a vehicle, they do so based on their own inventory of Mercedes, BMW, or Volkswagen automobiles. **App-based car sharing may be a convenient way of renting cars through digital technologies, but it remains a car-rental service.** Turning it into a platform model would require opening the business to third-party providers such as other car manufacturers.

The electric mobility company Tesla has a different approach. As autonomous driving capabilities will become available in the future, Elon Musk wants Tesla owners to turn their cars into autonomous taxis when they are not using them (Musk 2016). Tesla customers would not only put traditional rental and car-sharing services under pressure, but also directly attack the market pioneer, Uber.

Some offerings are created as full-fledged digital platforms. For example, Wer liefert was ("who delivers what") set out as a B2B marketplace for professional products and services. Initially based on an analog approach akin to the yellow pages, from 2012 onward Wer liefert was especially targeted small- and medium-sized companies as a comprehensive digital search engine (Brandeins 2018). The agriculture start-up Milkmatch was founded as an online broker bringing together dairies to level out milk surplus and shortages. Other firms transmute into the platform business, effectively creating hybrid models with pipeline and platform shares (Van Alstyne, Parker, and Choudary 2016). Amazon started as a book retailer and quickly spread into additional categories. However, only with the opening of the Amazon Marketplace in 2000 did the company add a platform branch. Today, approximately 59% of the company's revenues come from third-party providers, highlighting the success of the hybrid platform-retailing approach (IFH Cologne 2019). Further examples include Microsoft and Apple, which include platform products (e.g., Microsoft Windows, Apple App Store, and iTunes), but also a traditional hardware business (e.g., tablets, notebooks, and smartphones), which is operated in a pipeline approach. Online fashion retailer Zalando has now integrated a platform strategy and opened its online shop to third parties. Figure 3 illustrates the platform landscape of pure and hybrid platform companies and compares them with related digital businesses that do not fit the platform definition.

Figure 3. *Digital Platforms, Hybrids, and Related Digital Businesses*



TOWARDS A TAXONOMY OF DIGITAL RETAIL PLATFORMS

Platforms can be characterized by a plethora of factors, including their digital or physical architecture, the roles of different players, monetization strategies, or openness to sellers and buyers. Table 1 shows a few distinctive attributes and possible levels of these attributes. We restrict our analysis mainly to retail platforms because the exchange of goods and services as part of a monetary transaction is the focus of our empirical investigations.

Table 1. *Attributes and Levels of Platform Architectures*

ATTRIBUTE	LEVEL	DESCRIPTION
Openness	Open access	Buyers and sellers can freely join the platform without any formal vetting process.
	Admission criteria	Buyers and/or sellers have to meet specific admission criteria to be able to demand and offer services (e.g., UBER drivers require a passenger transport permit).
Ownership	Retailer	The platform is owned by a dedicated retailer (e.g., Zalando and Otto).
	Manufacturer	The platform is owned by a manufacturer (e.g., Apple App Store).
	Independent party	The platform is owned by neither a retailer nor a manufacturer (e.g., FreightHub, Wish).
Monetization	Offer/transaction fee	Participants pay a fee for each offer or based on the transaction's success or value.
	Access fee	Participants pay regular or one-time fees for access to the platform or premium functions.
	Additional services sales	Participants pay for extras like express delivery and special payment methods.
	Advertising	Companies pay for advertisements on the platform.
Competition to platform owners offerings	Complementary goods	The platform owner only allows suppliers of complements of their own products to the platform.
	Substitute goods	The platform owner allows direct competitors to the platform.
Geographic scalability	Lokal	Matches are constrained by geographic proximity between suppliers and customers (e.g., UBER and Airbnb).
	Global	Matches are independent of geographic proximity (e.g., Amazon Marketplace).
Degree of specialization	Low	E.g., cross-category and general retailing
	High	E.g., goods from the same category
Service Level	Rudimentary	The platform provides only a bare infrastructure that enables simple exchanges.
	Comprehensive	The platform provides value-added services around the core exchange such as payment and fulfillment options, rating systems, recommendations, etc.

To create a taxonomy that represents a meaningful distinction between segments in the platform universe and illustrates an evolutionary path towards platform maturity, we focus on the **degree of specialization** and the **service level** offered by the platforms. The degree of specialization describes the breadth of the platform's offerings, ranging from very specialized products and services (e.g., Delivery Hero, Freight Hub, and Milkmatch) to assortments that span multiple categories (e.g., Airbnb and Swoodoo) to full-fledged generalists with a high degree of diversification (e.g., Otto, Amazon Marketplace, and fiverr). Many emerging B2B platforms, often founded from within existing pipeline businesses, are highly specialized, building on their core competencies in a specific market environment. For example, Zentek Digital, a subsidiary of the waste intermediary Zentek, is creating a digital infrastructure to offer waste disposal services for individuals and small companies.

Amazon, a pioneer among platforms, successfully combines a broad assortment with a high service level in both the B2C and B2B sectors.

Foto: Shutterstock.com

The second dimension, a platform's service level, refers to anything a platform offers beyond a bare infrastructure for intermediation between two market sides. Additional services may include integrated payment systems, different delivery options, recommendation and comparison systems, consumer and expert ratings, consultation, and the like. Integration of such services can create additional value for users and increase platform attractiveness (Dou, He, and Xu 2016). By improving the customer experience, value-added services can create **lock-in effects** for the platform and thus serve as a potential source of indirect network effects (Suarez and Cusumano 2009). For instance, Amazon's patented 1-click check-out has tremendously improved shopping convenience and contributed to Amazon's competitive advantage. Crossing these two dimensions provides a 2 (degree of specialization low vs. high) x 2 (service level low vs. high) matrix of platform businesses (Figures 4 and 5). As a first empirical step, we analyzed digital platforms from a variety of industries and with different platform architectures to classify them according to our matrix. We selected 44 companies that met our platform definition and analyzed each company using a formal scoring system to determine the platform's specialization and service level[3].

The degree of specialization of a platform was evaluated on the basis of four factors on a scale from 1 (very narrow) to 4 (very broad): (1) type of commercial transaction (B2B, B2C, C2B, C2C), (2) number of target markets served, (3) platform openness, and (4) product or service range offered by complementary goods providers. The average score determined the platform's overall degree of specialization. Similarly, the range of services offered by the platform was scored relative to other platforms' offerings, establishing the level of value-added services. The resulting classification offers a first indication of the current landscape of platform businesses and the direction in which platforms develop during their lifecycle. We illustrate the classification separately for B2C (Figure 4) and B2B (Figure 5) platforms. Some platforms target both consumers and businesses and appear in both graphs.

3 The analysis was conducted as part of a master's thesis at the Department of Retailing and Customer Management of the University of Cologne (Vom Eyser 2019).

Figure 4. Classification of Digital B2C Platform Businesses

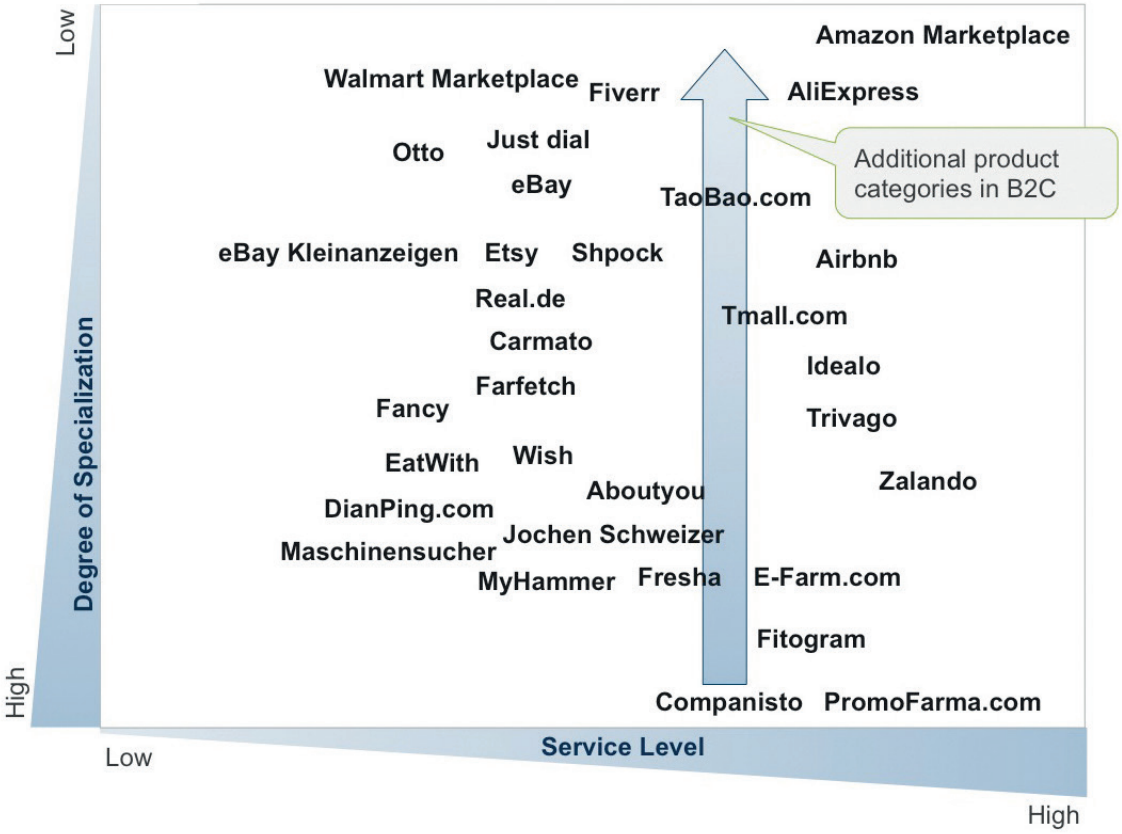
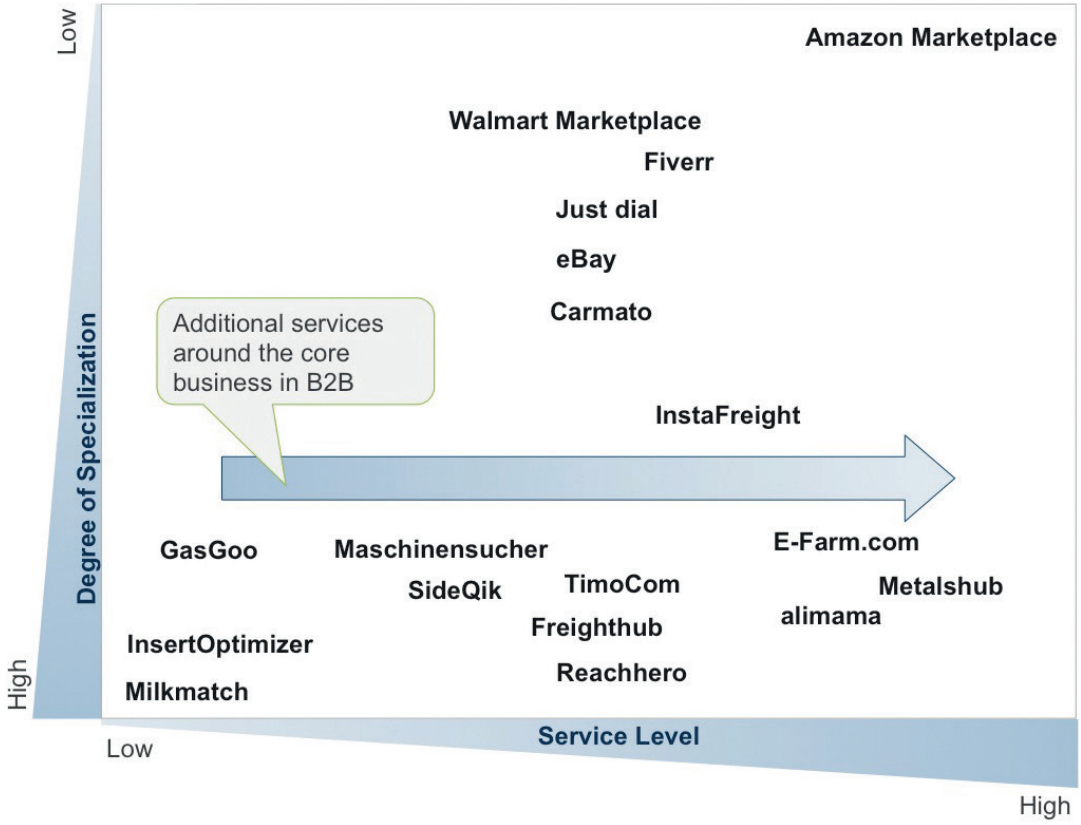


Figure 5. Classification of Digital B2B Platform Businesses



Typically, new entrants focus on specific markets or segments (high specialization) and the core service of the platform, namely matchmaking (low service level). As platforms mature, they often grow around their core business with additional services but stay specialized (which corresponds to a move toward the lower right corner of the matrix). Alternatively, companies expand beyond their core product market and attempt to occupy entire need categories (which corresponds to a move toward the upper left corner, e.g., from selling sports equipment to including nutrition products, training material, professional instructors, tracking of activities, etc.). B2B companies tend to move across the horizontal line, expanding around one or a few core categories and advancing their platform offer by the use of additional services. This expansion makes sense because these companies leverage specific know-how within their markets and do not aim to become full-fledged generalists like Amazon. In contrast, B2C companies evolve vertically, becoming much less specialized as they move into adjacent industries to occupy entire need categories. Airbnb is an excellent example of this evolution. The company started as a pure matchmaker with a few available apartments in the Bay Area of San Francisco. Over the years, Airbnb expanded globally and moved into restaurant booking and tour recommendations (Blanding 2016). The latest addition is Airbnb Adventures, a service via which travelers can book exciting experiences with their local hosts (Airbnb Press Room 2019). All of these operations show that the company has been transforming its offerings from a simple accommodation provider to a permanent travel companion.

The international industry flagships are not the only ones showing successful platform evolution. Metalshub, a B2B marketplace for metals and ferroalloys, initially matched only demand and supply, but over time added logistics, customer due diligence, and secure payments to its services for users (Metals-hub.com 2019). Fitogram started as a matchmaker for gyms, fitness providers, and customers but transformed by offering studio and customer management software for its supply-side users (Fitogram.de 2019), allowing providers to manage all transactions and enabling customers to book fitness classes directly online.

As the constantly growing presence of platforms in a wide variety of business areas presents incumbents with major challenges, we discuss the strategic options such companies may use to address the threat posed by platforms.

CONSEQUENCES AND OPTIONS FOR RETAILERS

Many industries lean toward digital platformization because pipeline business models hold inefficiencies for both customers and suppliers. Whether companies view this development as a threat or opportunity, simply waiting it out is not a viable coping strategy. Rather, the question is how to handle digital platforms and position an existing business according to the new market rules. To derive useful implications, we draw primarily on the results of a workshop with representatives of major German retailers and manufacturers and a consumer survey. We complement the findings with insights from literature.

Our research revealed **three basic strategies to deal with the threat of platformization: innovation, cooperation, and confrontation**. Innovation is the creation of the company's own digital platform. Cooperation is the use of third-party digital platforms as distribution channels. Confrontation entails head-to-head competition with digital platforms. In the following sections, we discuss each of these strategies in detail.

INNOVATION: DEVELOPING ONE'S OWN DIGITAL PLATFORM

As a first step, we discussed the development of a platform with the workshop participants. We summarize the results of this discussion in Table 2. Several motivations drive companies' wish to create their own platform. Many firms look favorably on the opportunity to reap new growth potential by expanding their own offering through third-party products and services. However, creating a platform may also be a response to the fear of becoming obsolete once direct competitors or new entrants disrupt the traditional business model. Therefore, platforms may be not only an option for more growth, but a necessity to prevent decline, especially as the value and power of data rise. Existing retailers and manufacturers feel the need to gain access to customers' behavioral patterns to develop more tailored products and increase relevance through personalization.

They fear that a large chunk of value creation will sit with their competitors or third parties if they stay limited to customer interactions with their own brand interfaces. Platforms present an option to learn more broadly about customer needs and position the company accordingly. On the other hand, development of a firm's own platform is not without risk. A newly founded platform may soon compete with other platforms for market dominance. As network effects tend to yield winner-take-all outcomes, a platform strategy may even carry existential risks, especially if the platform does not acquire a critical mass of consumers and providers. Creating the platform as an extension of the established pipeline business partially hedges this risk, but other challenges arise. Most prominently, the platform may cannibalize existing offerings and dilute the brand's positioning.

4 The workshop took place at the Institute for Retail Research (IFH) in Cologne (January 16, 2019). Participants were 25 experts from 21 companies, including executives of large retailers, manufacturers, and retail platforms.

Table 2. Development of the Company's Own Digital Platform: Workshop Results

QUESTION	THEME	DESCRIPTION
What makes developing one's own platform attractive?	Expansion of offerings	Platforms expand the range of services and products to tap growth potential.
	Channel expansion	The digital business model serves as a supplement to the stationary retail trade.
	New customer acquisition	Platforms enable additional traffic and a higher reach.
	CRM	Platforms enable stronger retention of existing customers and offer a new interface for interaction.
	Risk reduction	Platforms protect companies against competition in its core market and help avoid loss of relevance.
	Data	Platforms enable the collection and use of additional customer data.
	Company valuation	Platforms offer new financing opportunities through higher valuation in the financial markets.
What are the risks involved in setting up your own platform?	Intense competition	Platforms are subject to strong competition from other platforms.
	Brand dilution	In case of an existing brand, a platform approach may confuse customers and weaken the brand.
	Cannibalization	Platform model competes with existing core business.
	Loss of control in value chain	It is difficult to monitor suppliers and enforce common standards.
	Financial risk	Platforms require more investments than commonly assumed.
	Regulatory barriers	New laws and regulations can make it cumbersome to enter the platform business.
Which key factors/ competences lead to success?	Platform openness	The more open the platform is to offerings that are not only complementary but also of direct competition, the stronger its competitive position will be.
	Platform control	To ensure consistent quality and communication, platform owners should take control of branding, fulfillment standards, usability, etc.
	Trust between partners	Platform owner and suppliers need to build trusting relationships to jointly create value.
	Value-add for both market sides	Focus on providing value for both consumers and suppliers.
	Organizational autonomy	When emerging from an existing company, the platform needs full organizational autonomy.
	Personnel	Find experts in agile methods, e-commerce, and software development.
	Data leveraging	Learn from consumer behavior to improve offerings.
	Financial resources	Providing high quality infrastructure and complying with fulfillment standards requires sufficient financial resources.

Furthermore, managing a platform business does not stop with the provision of a suitable digital infrastructure (which may already pose major challenges for companies with many legacy systems, internal resistance, and a lack of skilled personnel). Platform governance is difficult because suppliers act largely autonomously. If they do not adhere to the quality and fulfillment standards of the platform owner, the owner's brand reputation may suffer and the platform's value declines. Lastly, company representatives fear that financial investments into creating and maintaining a digital platform are not negligible. Many companies do not have the assets and competencies to create a platform from scratch. Platform development requires investments that should not be underestimated, especially by established companies with their inherent complexities and internal obstacles. Dedicated startups may have advantages here.

Firms should ask themselves two questions: Do you need to create your own platform business? And if so, how can you set it up for success? We summarize findings from our workshop and juxtapose them with consumer survey and academic literature to address these questions and derive implications for established manufacturing and retail brands.

CLOSELY MONITOR THE PLATFORMIZATION THREAT IN YOUR INDUSTRY. Is platform creation always a good (or even necessary) choice? We suggest considering three points before transforming your business. First, if every company became a platform, no suppliers would be left to feed the business model. Therefore, platforms need manufacturers and service providers with strong brands and innovative products to "put meat on the bone"—leaving room for other options. Every firm should carefully assess whether it will be able to hold a strong market position even under a platform regimen.

Second, some industries are more prone to being disrupted by platform businesses than others. For example, where performance hinges on specific know-how, offerings are complex and involve multiple suppliers, and trust between suppliers and customers plays a crucial role, Chances for large-scale platform domination therefore diminish. While platforms may still arise, their growth reaches natural boundaries much faster because coordination costs between suppliers increase and many platforms remain constrained to specific (niche) markets, unable to span multiple categories. Many B2B markets are wired this way, as shown in Figure 5. On the other hand, some markets feed naturally into the platform model, especially if matches between demand and supply are time-critical. In these cases, additional matches translate directly into contribution margin for suppliers, driving prices down to maximum market efficiency.

Third, risks and opportunities for entering the platform business hinge on a company's starting position. Maximum freedom is reached if a newly founded company starts as a dedicated platform player. In this case, no legacy systems need to be integrated, no existing business needs to be supported, and cannibalization is not a threat. However, transforming an entire organization or creating a platform branch within an existing company carries substantial risk that must be mitigated.

The **DIY chain OBI** provides an example. OBI gradually introduced platform aspects into its business model without losing sight of its core business. For example, the company initially introduced a garden planner, through which customers can plan their individual projects, and can ask for craftsmen to help them implement the projects. The same concept has now been extended to the bathroom with the bathroom planner (OBI 2019).

START WITH A COMPLEMENTARY GOODS PLATFORM. One theme dominated the discussion of creating a digital retail platform during our company workshop: Is it sufficient to build a platform around the firm's core business without allowing access to direct competitors? Such a platform would complement the company's core offerings and avoid cannibalization. Many successful platform businesses started this way, following hybrid strategies that combine traditional linear business models with platform approaches (Zhu and Furr 2016).

Especially in e-commerce, this approach can mean opening up an existing online shop to external third-party sellers and competitors to turn a web shop into a platform. Real.de, Walmart.com Marketplace, Otto.de, and Amazon used this approach. Established companies can use a complementary goods platform to add value to their existing offerings, effectively expanding their core business and building critical masses on both sides of the market, possibly shielding themselves from being overrun by third-party entrants and/or competitors. An excellent example of a complementary goods platform is the perfume and beauty retailer Douglas, which recently launched a marketplace for beauty services (Douglas Beauty Booking) to connect consumers with third-party beauty salons.

Many successful platforms start with a hybrid strategy that combines the traditional linear pipeline business model with platform approaches.

However, the strategy is not without risk, as market inefficiencies are not fully addressed. Once another platform offers a completely open architecture that includes both complements and substitutes, the complementary goods model is threatened. Platform owners should thus closely observe market developments and be prepared to open up their own platform to competitors if they want to stand a chance in the upcoming platform battle.

INVITE COMPETITORS, BUT BE READY FOR INTRABRAND COMPETITION. If fully fledged platforms do enter the market, owners of complementary goods platforms should be ready to invite competitors. However, they need to be aware of the consequences, especially if the owner is a retailer. Opening the platform to other retailers introduces direct competition on identical or very similar products of the same brands, which the platform operator, as a dealer, also carries in its product range. This intra-brand competition can drive down prices and leave the existing pipeline business exposed. Platform owners should thus be equipped to enter into rivalry or be ready to abandon their existing pipeline business for a full platform transformation.

However, even if the platform owner is ready to compete with other brands, achieving an open platform architecture while acting as a supplier on its own platform is difficult. Competitors are typically reluctant to sell on a rival's platform. Therefore, independent platform owners have the highest likelihood of bringing all market sides together. But what do you do if you have an existing business to start from?

The **investment bank Goldman Sachs** faced this problem regarding its online marketplace Simon, where brokers can offer special financial products for private investors. Goldman opened Simon to competitors in 2016 to accelerate customer growth (Gupta and Simonds 2018). However, large competitors like JP Morgan Chase did not join and instead created their own platforms. What raised adoption of Simon on the supply side was Goldman Sachs' decision to sell stakes in the platform to let direct rivals profit from its success (CNBC 2018). Goldman thus decided to expand the pie rather than protect its property and face potential disruption by third parties.

LEVERAGE YOUR INSTALLED BASE. Many companies do not merely concentrate on a niche or micro market, but use their existing core business and their network to set up a platform (Moser, Wecht, and Gassmann 2017). This "follow the rabbit" strategy (Parker et al. 2017) uses a company's existing user base to quickly reach a critical mass of users on the newly created platform. Zentek, a waste management service provider, is following this strategy to build a digital waste management platform (Zentek.de 2019). Thanks to its network and its popularity in the sector, the company is able to quickly attract suppliers and customers and benefit from network effects. Another very popular strategy for overcoming stagnation in early phases is to focus on only one side of the market (Parker et al. 2017).

Fitogramm and Fresha's Shedul, two platforms that pursue very similar strategies by connecting fitness, yoga, and wellness providers with customers, have both launched their own products. The platform provider would offer customer relationship management tools, fitness class booking software, or website optimization for businesses. Once enough businesses are on board, the companies encourage their customers to join the platform to book courses themselves and administer and track their performance. Customer value of the platform is high because a sufficient number of suppliers has already adopted it (Cennamo and Santalo 2014). Currently, Fresha does not charge companies for the use of its software solutions, instead focusing all of its efforts on increasing the overall popularity of the services and the underlying platform (Shedul.com 2019).

Such an approach thus solves the "chicken-and-egg problem" that characterizes network effect markets: As long as the other market side does not use the platform, reasons to take the first step are few.

Foto: Shutterstock.com

Retail companies can counter the platform threat by setting up their own platform, using their network of customers and suppliers, and building on their brand image.

BUILD A PLATFORM BRAND. Efficiency and convenience are the main reasons for customers' behavioral loyalty to digital platforms (Figure 6). However, most platforms lack attitudinal loyalty, the kind of "warm" loyalty that consumers have with respect to their favorite (product) brands.

Our consumer survey revealed that users perceive platform offerings to be impersonal and that they lack emotional attachment to platform brands. Owing to this general perception, strong brands venturing into the platform business may have an advantage over pure players. Manufacturers or retailers should build on their brand image and transfer it to the new offering, effectively nurturing emotional attachment to the platform. This way, the platform serves as a true brand extension, and they can combat brand dilution of their core business and gain a competitive edge over similarly positioned platforms.

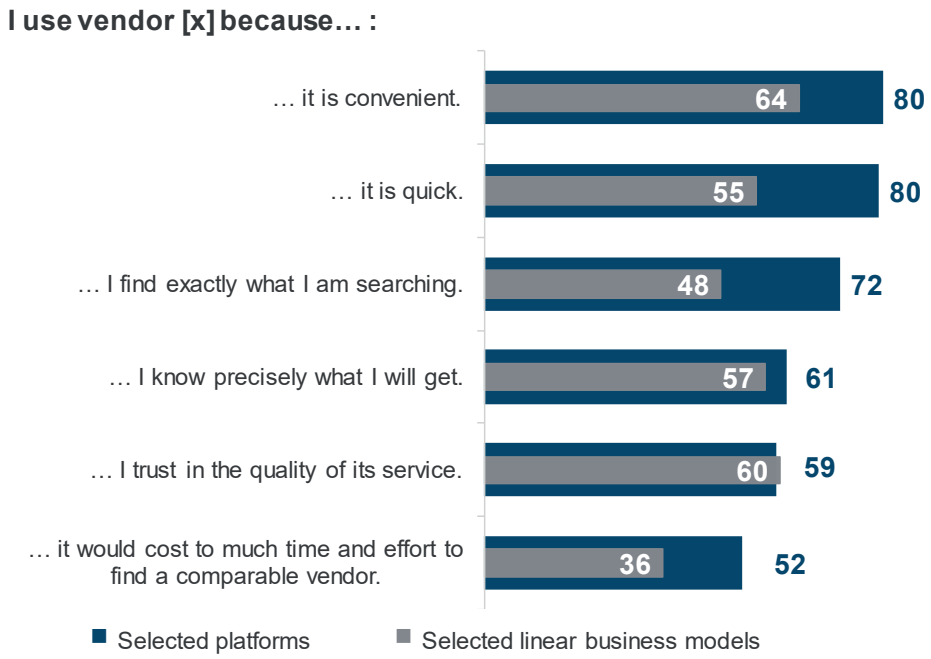
Consumers typically show only a 'cold' loyalty to the platforms and use them especially for rational reasons.

To build a strong platform brand, setting up a comprehensive branding strategy is crucial, as is enforcing governance structures to go along with it. For instance, platform owners could require suppliers to use uniform packaging branded by the platform and prohibit supplier-specific package inserts. They could set common fulfillment standards by allowing only selected delivery services and monitor and sanction long fulfillment times and inconvenient return policies. **Platform owners should build their business on a common brand promise and not hide behind the autonomy of participants.**

REALIZE THAT AMAZON IS NOT THE ONLY ROLE MODEL. There is not one "platform business," just as there is not one pipeline business. Figures 4 and 5 show that platforms are positioned differently and that very few players become full-fledged generalists, spanning unrelated product categories. Generalization is not necessary and could even be counterproductive, as strong platforms are formed primarily around specific product or need categories. The occupation of entire categories has advantages on the consumer side, as these categories benefit from bundling single products and services that address the same basic need. For example, we asked consumers how they prefer to plan their vacation using offers (flight, hotel, rental car, events, restaurants, etc.) from platforms and/or pipeline providers. The majority opted for "one-stop shopping," using the platform as a central hub for different products and services related to their trip. This consumer preference means that platform providers should

Strong platforms are often formed around specific product or need categories.

Figure 6. *Consumers Value Platforms for Rational Reasons*



Question: "To what extent do you agree with the following statements regarding your usage of vendor [x]?"

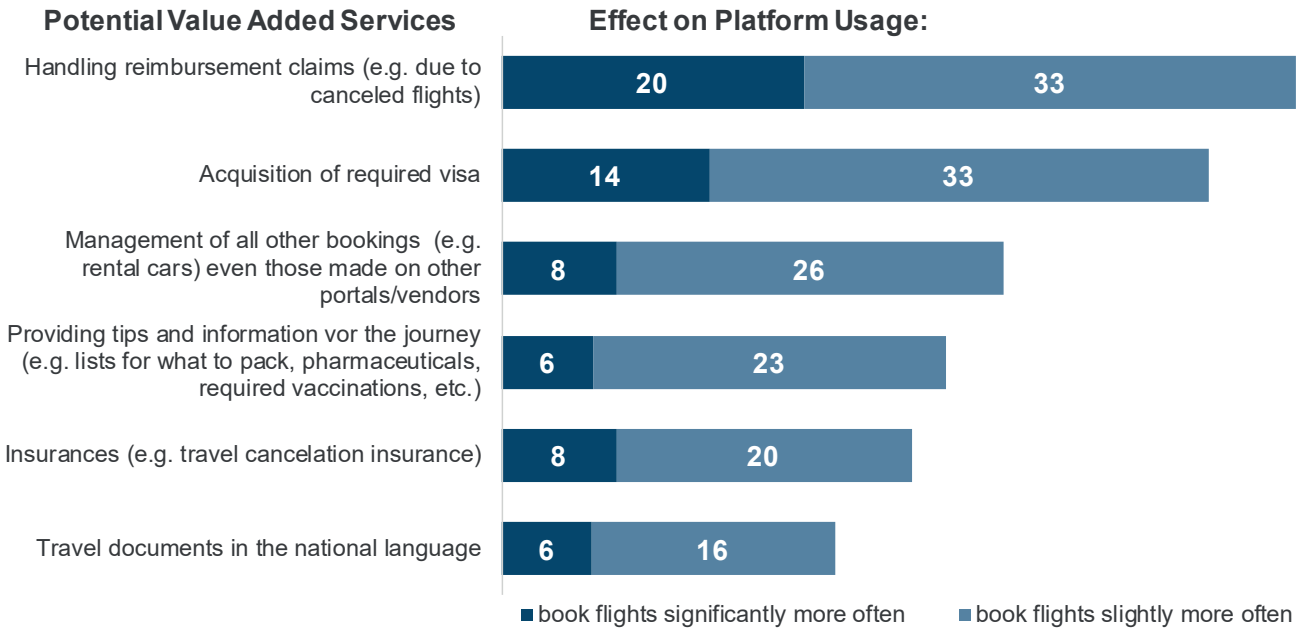
Platform users (20-69 years): 111 ≤ n ≤ 1,428; representation of the top two boxes; read: 80% of all platform users indicate that they use platforms because they are convenient; all numbers in %.

strive to expand their offerings to include services that offer synergies and should become specialized category experts rather than diversifying on the product/services side. Specialization might prove beneficial, because as firms use their expertise to optimize a niche, the platform experience will be tailored to customer needs within this niche, which may create a sustainable competitive advantage. The broader the platform's scope, the more difficult maintaining a high-quality experience under one roof becomes. For example, platform usability in terms of on-site filters, content, and product descriptions will have to accommodate different categories, which affects the customer experience and ultimately brand value.

The **Forklift platform**, for example, specializes in the sale and rental of forklift trucks and accessories, offering filters such as "load capacity" and "lifting height," which are particularly relevant in this specific context (Forklift 2019).

Additional services to support a specific need category may increase loyalty if these services have clear value for the customer. This possibility is reflected in our consumer study as an example of a portal for booking flights (Figure 7). For example, consumers would use the portal more frequently, and in some cases significantly more often, if it offered additional services such as handling refund claims or obtaining the necessary visas.

Figure 7. *Value-added Services May Increase Repurchase on the Platform.*



Question: "How would your usage frequency of [vendor] for booking flights change when it would offer these complementary services? If [vendor], an online portal for booking flights, would offer … as a complementary service, I would … with [vendor]."

Platform users of flight booking portals (20-69 years): 267 ≤ n ≤ 279; representation of the top two boxes; read: If the flight booking portal would offer handling reimbursement claims, 53% of platform users would book flights there more often; all numbers in %.

COOPERATION: SELLING ON DIGITAL PLATFORMS

Some retailers find selling products on third-party platforms attractive because of the quick access to the platforms and thus their customers. Like a company's own platform, third-party platforms provide retailers and manufacturers with new growth potential and the ability to stay current. However, one notable advantage specific to using third-party platforms is significant resource risk reduction by avoiding hefty resource commitment to build a platform from scratch. Instead, retailers and manufacturers can enjoy the benefits of being on platforms for a marginal commission rate charged by platform owners. For instance, Amazon charges professional sellers (sellers who sell more than 40 items per year) rates ranging from 8% to 17% based on the categories of products sold. For small retailers and manufacturers that struggle to gain visibility in the market through the traditional supply chain, listing themselves on platforms not only gives them tools to compete with more established players, but it also increases customer touchpoints that can lead to better CRM practice.

Despite these benefits, using third-party platforms involves some drawbacks, which suppliers should consider before listing. In contrast to having a platform of its own whose guidelines can be determined by the platform owner, as a platform supplier a company must follow the guidelines of the third-party platform in the cooperation strategy. Furthermore, since platform owners typically seek to create network effects in their own platform, they have an incentive to bring in as many suppliers as possible, leading to intense competition among platform suppliers. Unless suppliers are able to offer unique and distinct products that differentiate them from competitors, suppliers may resort to price as a differentiator, potentially jeopardizing their brand's positioning and core values. Another risk of cooperation is that platform owners can collect valuable sales and consumer data, which they can use to produce and distribute imitation products, intensifying the competition on the platform. We summarize the different views of the experts from our workshop on the cooperation strategy in Table 3.

Table 3. Cooperation with Digital Platforms: Workshop Results

QUESTION	DIMENSION	INSIGHT
What makes selling on third-party platforms attractive?	Expansion of offerings	Platforms expand the range of services and products to tap growth potential.
	Channel expansion	The digital business model complements the stationary retail and reduces dependency on other channels.
	New customer acquisition	Platforms result in additional traffic and a higher reach.
	Minimization of financial risks	High upfront investments that are necessary for developing own platform are avoided.
	Growth	The usage of platform serves as a general growth of business and generates additional revenues.
	Customer touchpoints	More interaction opportunities to establish customer relationship become possible.
What are the risks of selling on a third-platform?	Intense competition	Platforms increase the transparency of offers and the competition for customers.
	Price erosion	Platforms increase pressure to lower price to compete.
	Brand dilution	Brand value and image can be diluted by pressure on pricing.
	Cannibalization	The platform channel competes with the existing core business.
	Loss of control	Platforms make it difficult to monitor competitors and enforce one's own quality standards.
	Data usage	Companies supply platforms with data that can be used to build their own business models.
Which key factors/ competences lead to success?	Trust between partners	Build trusting relationships with platform owners to create synergies.
	Learning from data	Learn from consumer behavior to improve offerings.
	IT Infrastructure	Complexity of platform's algorithm and technical capabilities are critical to the success potential.
	Differentiation	Offer platform exclusive products and long tail marketing.
Which decision factors are important when selecting a third-party platform?	Relevance of platform	Fit between the platform and the target customers is crucial.
	Private label offering	Analyze the extent to which the platform operator offers private labels that compete with my own products.
	Quality of platform	Perceived quality of platform by customers can support or affect the brand value.
	Transparency and control	Get an idea of how transparent the platform guidelines are and how autonomous salespeople can act on the platform.
	Platform structure	Get an idea of how open the platform is for sellers (i.e., whether each supplier has free access or a selection process takes place).
	Competitiveness of platform	Fierce competition can force sellers to use price as a differentiator.

Even after deliberating these points, deciding whether to become a platform owner or to use third-party platforms is not easy. In the next part, we will develop concrete recommendations for successful cooperation with third-party platforms, taking into account the various opportunities and risks.

STRENGTHEN YOUR PRODUCT PORTFOLIO. While in traditional platform and pipeline businesses the supply and demand sides are physically limited, digital platforms enable a virtually unlimited assortment and worldwide access to customers. This breadth enables platform suppliers to serve the long tail of their customers with highly specialized products.

To counter competition based purely on price, a strong brand and a unique selling proposition for platform suppliers are essential. A company's existing capabilities in marketing and product development represent a strength that needs to be expanded. The additional product range does not always have to consist of radically different variations and innovations. Regular, incremental product iterations can serve to set the company apart from competitors. Product personalization can be another unique selling point. To make personalization possible on the platform side, Amazon has introduced a "custom" feature, which enables customers to transmit the information for personalization—for example, in the form of text or image material and via a product configurator—to platform suppliers. As a result, investments in production technologies for individualized mass production become meaningful.

Through distribution on platforms, manufacturers in particular gain access to more comprehensive consumer data, which in turn can be used for more effective advertising campaigns and successful product innovations. Lee and Bradlow (2011), for example, show that product reviews on Amazon can be used for automated market research, including analyzing customer perceptions of brands and product attributes.

DEFUSE CONFLICTS WITH YOUR SUPPLIERS. Manufacturers may be tempted to sell their products directly on platforms and possibly at low prices. Conflicts between dealers and manufacturers are inevitable. However, retailers, whether online or offline, are still important shopping destinations for consumers, and manufacturers also have an interest in not neglecting their relationship with retailers. At the same time, dealers are encouraged to seek a balance in interest rather than confront manufacturers. The two channels—platform and retail—can also be deliberately used differently by manufacturers. For example, manufacturers can offer particularly complex, consulting-intensive products via the retail trade, while they distribute less complex, standardized mass products via platforms. In addition, special and limited product variations may be offered through the retail trade or through certain retailers with whom they have an intensive relationship. For instance, when Nestlé introduced Kit Kat Ruby, a variation of Kit Kat made of ruby cacao with a distinctive pink color instead of traditional brown, it was distributed only through the German supermarket chain Rewe. Importantly, special product variants (branded variants) for the retail trade and different model numbers and barcodes can lead to customers doing less "showrooming"—inspecting products in retail stores and then buying them online. Ultimately, retailers can use showrooming to bring manufacturers on board. Faced with extensive showrooming, American electronics retailer Best Buy decided to price the display of products in its physical stores. The affected manufacturers reacted cautiously, but were then convinced that the discontinuation of their products by Best Buy meant enormous sales losses. Ultimately, presence on the shelf of physical or online stores always means visibility in an important phase of the customer journey, which is why manufacturers benefit from good dealer relationships.

ALLEVIATE INTRABRAND COMPETITION WITH PRIVATE LABELS. Platforms create immense competition between suppliers of identical or very similar products. For dealers active on platforms, price pressure can be very high if competing dealers offer the same brands.

How can retailers evade this intra-brand competition and avoid price erosion? Pure retailers that rely on brand manufacturers for their supplies are more subject to intra-brand competition because they cannot offer unique selling points with products when the same products are also sold by other retailers, possibly at lower prices. Retailers should therefore build their own brands to differentiate their products from those of their competitors. The German garden center chain Dehner is also successful on Amazon with the sale of its strong private-label products, enabling Dehner to weaken competition with other brands and dealers on Amazon.

Transparency on platforms often creates high price pressure due to intra-brand competition.

LEARN TO PLAY BY THE NEW RULES. Manufacturers and distributors have decades of experience and expertise in successfully selling products via the pipeline and traditional platform models. On digital platforms, however, rules sometimes deviate drastically from those in familiar models. For example, every consumer can write public reviews and rate products, and businesses must learn to deal effectively with this power of customers. In addition, the consumer interface has shifted from the shelf to the screen. Established strategies such as shelf placement, for instance placing expensive products at eye level and cheaper products on the bottom shelves, no longer function in the digital space. Instead, new possibilities arise, such as the display of multimedia content, product searches, filters, and dynamic pricing. Current research uses various design elements to show how companies can optimally present their product ranges on digital platforms and increase sales (Bleier, Harmeling, and Palmatier 2019). In addition, many agencies such as Factor-A or Intomarkets advise companies on their platform strategy and the optimal use of the platform, such as obtaining a high organic listing in the product search or managing customer ratings.

CONFRONTATION: COMPETING WITH DIGITAL PLATFORMS

If companies decide not to develop their own platform or cooperate with existing platforms, they need effective strategies to compete with platforms. The key to success is to provide value that platforms cannot offer. During our workshop, executives described the strengths companies should leverage and build on as well as new competences they need to develop to compete with online platforms. The results are presented in Table 4 and described in depth in the next section.

Table 4. *Competing with Digital Platforms: Workshop Results*

QUESTION	DIMENSION	INSIGHT
How can current competences be optimally used?	Physical presence	Allow consumers to physically experience offerings, satisfy ad hoc demand, and provide on-site or at-home services.
	Experience	Create a multisensory and emotional customer experience that inspires consumers.
	Brand strength	Strengthen your brand by focusing on quality, exclusive offers and cross-channel brand management.
	Customer orientation	Intensify and manage relationship with customers across all channels and offer (price) transparency.
	Digital complementation	Develop digital capabilities for effective online communication through social media and influencers and complement offerings digitally, e.g., through information on availability and structured overview of portfolio with meaningful filters and product information.
	Extended service offering	Differentiate through valuable complementary services and expert-level advice.
	Differentiated product offering	Create an exclusive product offering, e.g., through highly specialized and individualized products or by creating an artificial shortage.
	Relationships in the marketplace	Work closely with retailers/manufacturers to optimize the pre-sales, sales, and post-sales phases.
What new skills need to be developed?	New business areas	Enter new business areas, e.g., through cooperation, and contemplate new business models such as subscription or leasing models.
	Solution offerings	Intensify relationship with all players along the value chain to move closer to consumer needs and provide individualized solutions.
	Service extensions	Extend service offering, e.g., by providing 24/7 availability and on-site or at-home services.
	Digital extensions	Use digital channels to extend service offerings and provide content beyond information to create an emotional connection with consumers.
	Pricing innovations	Providing solutions instead of individual offerings implies rethinking pricing, e.g., in the form of bundle pricing or subscription models.

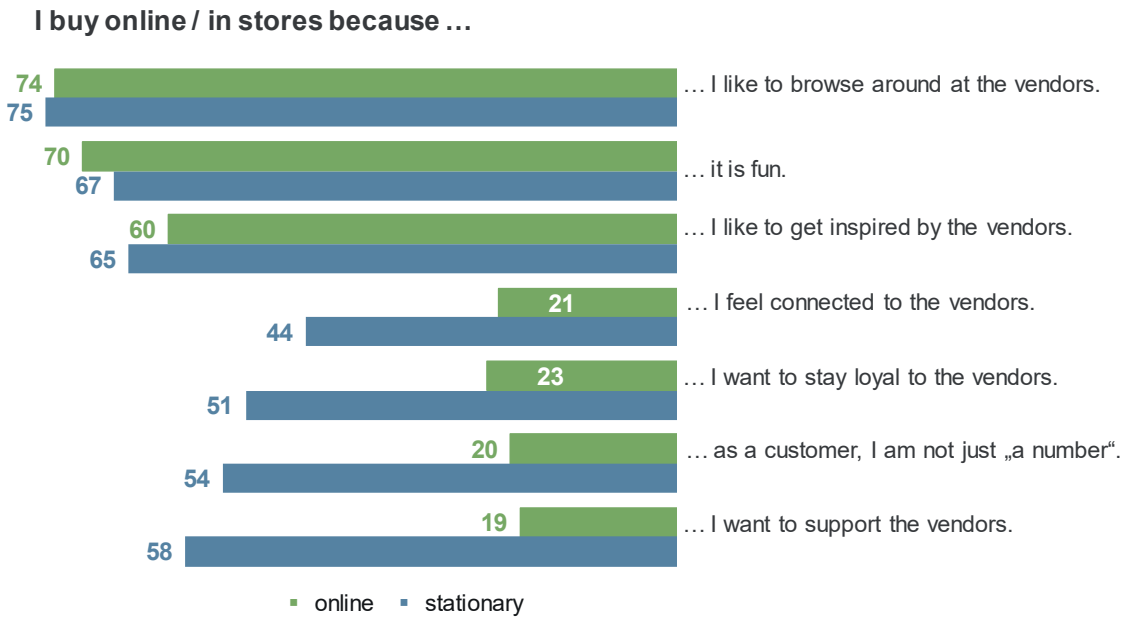
LEVERAGE THE STRENGTHS OF A PHYSICAL PRESENCE. Platforms show extraordinary capabilities in the online sphere but lack the experience of retailers in operating brick-and-mortar stores and of manufacturers in managing specialized distributors and service providers that consult consumers and offer repair, maintenance, and on-site services. Accordingly, our workshop participants saw the physical presences that traditional companies have managed and operated for decades as a crucial asset for competing with and differentiating from platforms.

The brick-and-mortar business continues to serve consumers' central needs by offering product availability, advisory services, inspiration, and sensory experience.

In physical shops, pop-ups, or flagship stores, retailers and manufacturers can create multi-sensory experiences to an extent that is not attainable in the online sphere. Consumers can see, touch, try on, and try out products and receive personalized consultation. In addition, as having enjoyable experiences is among customers' top reasons to visit physical stores (Figure 8), successful companies are amplifying the customer experience through a variety of means ranging from scents, live bands and DJs, in-store cafés and food stalls, art installations, and fashion shows. A prominent sports retailer even provides access to a pool with a surfable wave (Reinartz and Hudetz 2019). Another major reason for consumers to visit brick-and-mortar stores is to browse without a clear goal and to get inspiration from the assortment (Figure 8). Again, companies should set themselves apart from online platforms and build an environment that enables and encourages exploration.

IKEA, for example, presents customers with fully furnished, 4-walled rooms in different styles that allow them to experience the products and be inspired by the designs. It extends this strategy of inspiring customers to its online presence by providing ideas tailored to specific consumer groups and needs, such as people living in small flats, people working from home, or families. Additionally, it provides ideas for DIY projects in which consumers can tailor IKEA products to their individual needs and preferences. Apple's "The Forum" concept provides consumers with workshops and other learning opportunities centered on not only its products but a variety of related topics such as art and design, music, video, photography, coding, fitness, and health (Apple 2016).

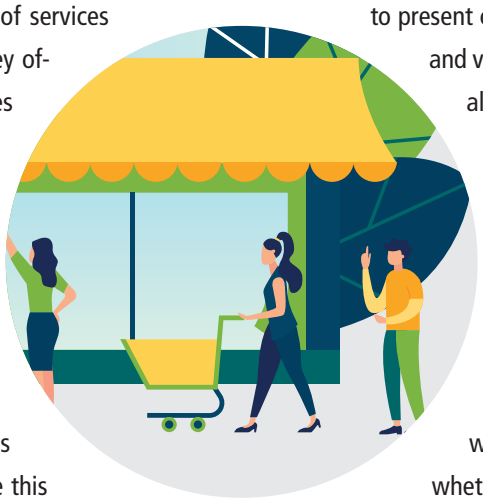
Figure 8. *Traditional Retailers Reach High Attitudinal Loyalty*



Question: "To what extent do you agree with the following statements regarding purchasing products at stationary vendors / online vendors?

Customers (20-69 years); regarding online purchases: 674 ≤ n ≤ 698; regarding purchases at stationary vendors: 710 ≤ n ≤ 725; representation of the top two boxes; read: 21% of customers state that they purchase products online because they feel connected to the vendors; all numbers in %.

As a result of their physical closeness to consumers, traditional companies can also provide on-site and at-home services. For example, IKEA not only delivers furniture to customers but also offers an assembling service. These types of services can help companies increase the value they offer customers and differentiate themselves from platforms. The physical presence of traditional companies also leads consumers to perceive them as part of the community that they inhabit, which creates an emotional connection. As a result, a strong motive for consumers to shop offline instead of online is a sense of attachment to and support for local stores (Figure 8). Companies are able to leverage this connectedness to customers by incorporating local preferences and engaging in shaping and developing the local community.



Apple, for example, extends its stores with "Plazas" that are open to the public 24/7 and feature a town square-like atmosphere, with free Wi-Fi and music and film events (Apple 2016). The strategic goal of German grocery retailer Rewe is to increasingly list local products and brands and to incorporate local design elements (Rewe Group 2017) to build a closer emotional connection to its customers.

The various advantages of a physical over a digital presence are also reflected in the increasing number of online platforms that create brick-and-mortar stores. From Amazon to Zalando, formerly purely online players are creating physical presences.

From Amazon to Zalando, formerly pure online players are creating physical presences.

DEVELOP DIGITAL CAPABILITIES. Today's consumers are omnichannel users with a large portion of their activities taking place online. Therefore, even if traditional companies do not seek to develop their own platforms, they need to advance their digital capabilities continuously to stay in touch with their customers. The experts in our workshops highlighted today's need to use social media channels and influencers effectively.

Since consumers with mobile devices can always easily compare prices, they are not only showrooming but webrooming (IFH 2015): consumers inform themselves about products online before visiting a physical store and purchasing there. Therefore, companies today need to present their complete portfolio comprehensively online. However, simply digitizing the portfolio is not enough. In our workshop, the experts emphasized the need to present consumers with meaningful filtering options and valuable product information. Companies can also create value by digitally presenting their portfolio, allowing consumers to check the availability and location of the desired product in the store, make appointments with service personnel, and use digital guidance to help them choose the right product. Zalando, for example, complements manufacturer-provided information with information provided by its users on whether a pair of shoes should be ordered in a smaller or larger size than usual.

By leveraging digital capabilities, companies can also overcome some of the limitations of physical stores. For example, a consumer can inform herself outside opening hours and order her exact size or preferred color online if the product is not available in the store. Our experts also noted that in the digital sphere, companies can engage in storytelling and emotionally charge their brand by using content strategies.

IKEA is a good example of a retail company that has continuously extended its digital capabilities. It has entered the smart home market with its own system of smart-connected devices, developed an augmented reality smartphone app that lets consumers digitally place furniture in their own home, and launched online tools that let consumers plan their entire kitchen layout. IKEA complements these digital strategies offline, for example by providing service personnel in stores that consult with consumers on their kitchen designs that they have drawn up at home. Similarly, in the IKEA online shop, consumers can either purchase products directly or print out a shopping list that specifies the exact locations of the products in the warehouse. Hence, IKEA's digital strategy is not limited to the online sphere but also improves customers' offline shopping experience.

In the future, successful companies will use digital tools to further enhance offline experiences, such as through beacon technology, augmented reality, and service interactions with artificial intelligences (Grewal, Roggeveen, and Nordfält 2017).

OBI supports customers from planning to product purchases and realization, delivering a complete solution.

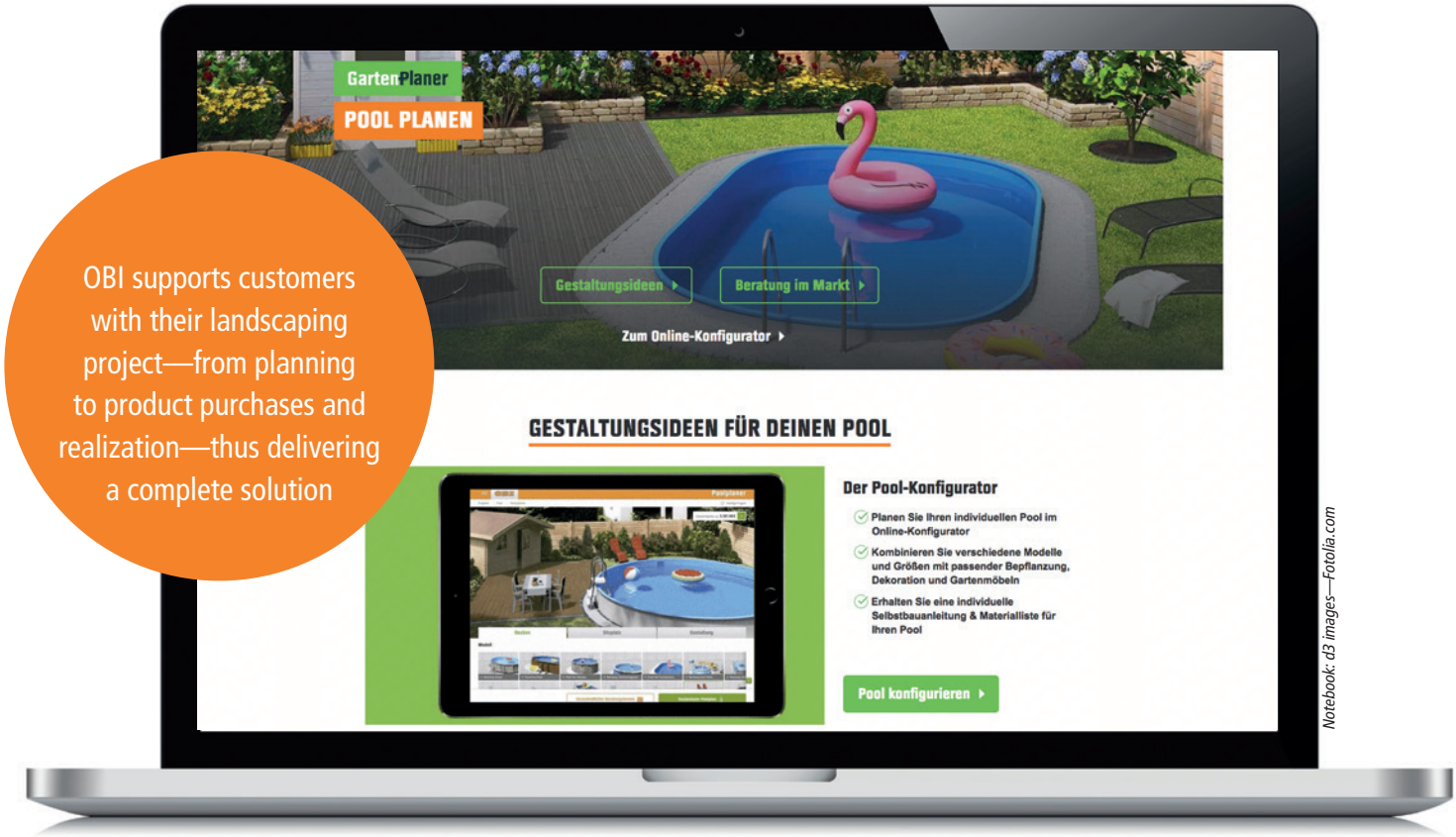
DELIVER SOLUTIONS INSTEAD OF PRODUCTS. Consumers used to be skeptical of buying products online without having seen them first-hand and receiving them with a delay due to delivery. Hence, to be successful online platforms had to strongly emphasize consumers' needs so as to win their trust and convince them to buy online. Today, platforms continuously optimize every interaction with their customers based on A/B tests and user data. Consequently, consumers regard platforms as more useful, flexible, and convenient than traditional vendors (Figure 6).

To compete with platforms, traditional companies need to put consumers and their needs back in focus. Companies can provide valuable and individualized services that address consumers' needs by providing solutions instead of mere products. The associated processes need to be provided with the convenience and seamlessness that consumers are used to from online platforms. Consequently, complementary services will play a larger role for companies that seek to differentiate from platforms. The experts in our workshop specifically noted the relevance of an expert-level and individualized advisory service. However, these service encounters are particularly resource-intensive. Therefore, companies should provide consumers with self-service options and AI-enabled assistants that help them with trivial service requests, thus freeing up human resources for more complex service encounters.

The **DIY** chain **OBI**, for example, provides customers with an online planning tool for their landscaping projects. Customers can draft designs and receive information on which supplies and tools they need. For in-depth questions, they can arrange an appointment with specialized service personnel. OBI complements this service with the option to arrange appointments with contractors who help customers realize their projects (OBI 2019).

Apart from services, manufacturers in particular may provide individualized products, as has long been possible with PCs and automobiles and is now available in more and more product categories such as footwear (e.g., "Nike By You") or bicycles.

MAKE ALLIES. Manufacturers and retailers that are threatened by platforms may cooperate closely to confront this threat. Vertical cooperation in the industry allows companies to move from offering individual products or services to comprehensive solutions. Cooperating with partners in the marketplace can minimize the risks associated with extending the firm's own offering into uncharted territory. For example, one partner can profit from the other's expertise, customer base, and brand strength. This type of cooperation occurs in the transportation industry, where airlines often work with car rental companies and hotels. Companies can also cooperate horizontally, providing the consumer with a larger choice set: Daimler and BMW joined forces



OBI supports customers with their landscaping project—from planning to product purchases and realization—thus delivering a complete solution

with their car rental services DriveNow and Car2Go to form a joint offer called ShareNow.

When working together, companies need to keep in mind that today's customers are accustomed to convenience. Consumers reject mere referrals to a complementary service provider and expect a seamless integration of the entire process into the company's systems (Figure 9).

Another form of cooperation underlined by our experts is selective distribution, in which the manufacturer sells only through selected retailers who can guarantee a minimum level of advisory service quality. In this way, the manufacturers and retailers can differentiate their offerings from those of platforms.

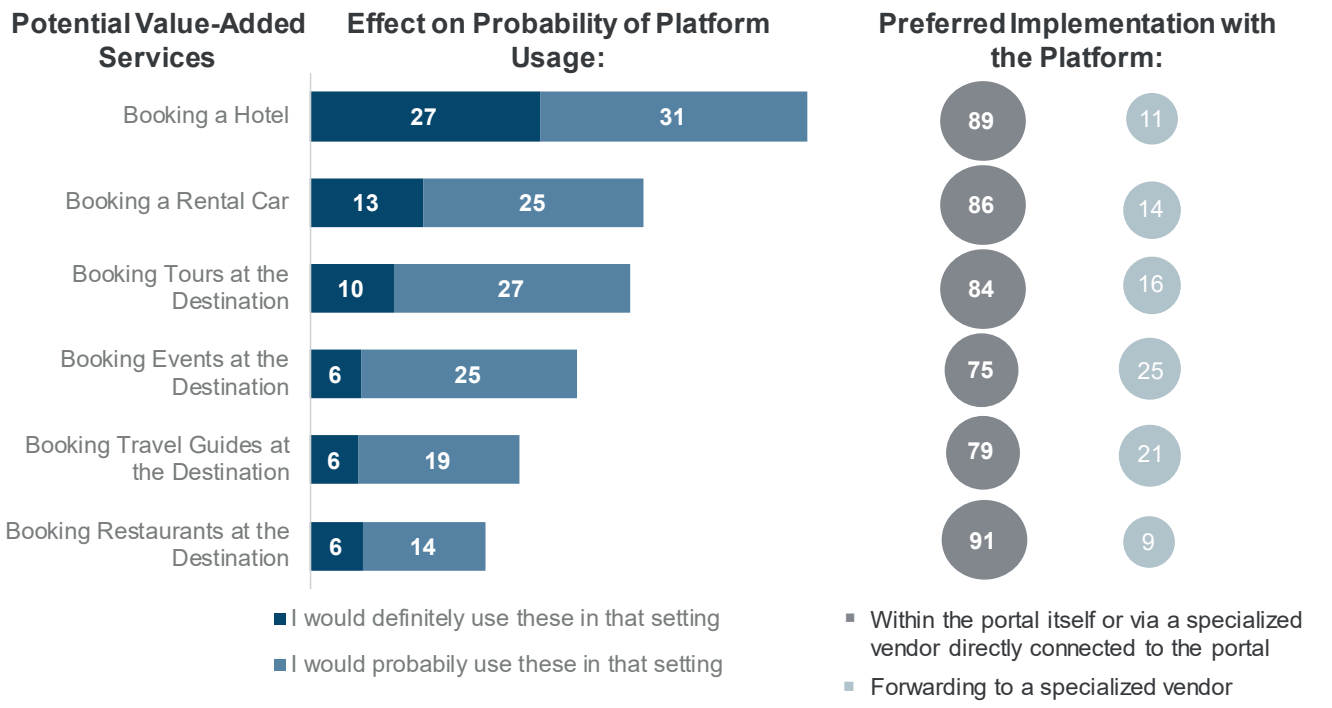
Lastly, as manufacturers usually do not have a store network, brick-and-mortar retailers can offer considerable added value. They can provide shop-in-shop concepts for manufacturers and create an additional revenue stream. Retailer b8ta takes the retailer concept to another level by providing "retail as a service" (Norby 2018). It acts as a showroom for various manufacturers' products, which consumers can inspect and try out. Small screens show additional information and prices of the products. The manufacturer controls content and prices while paying b8ta a monthly fee for presentation in the stores and access to data on consumers' interactions with products.

The example of b8ta illustrates another interesting aspect: When companies evolve in their offerings and the way they create value for consumers and/or their suppliers, they may also need to rethink their business model. Hence, future companies may increasingly employ bundle pricing or subscription-fee models.

BUILD (ON) A STRONG BRAND. The experts in our workshop emphasized the relevance of a strong brand as the key to confronting the platform threat. All recommendations up to this point will also lead to a stronger brand: Retailers and manufacturers who inspire their customers and create experiences, which are omnipresent across channels and offer valuable customer-centric services, which strategically collaborate with partners in the marketplace to create exclusivity and provide complementary offerings will create strong brand awareness and positive brand perception.

Additionally, retailers can profit from developing own brands to strengthen their brand image and differentiate their offering

Figure 9. *Consumers Demand Seamless Integration of Complementary Services*



Question: "If [vendor] offered the following additional services, how would you act?; "How should [vendor] offer the following services in order for you to use them?

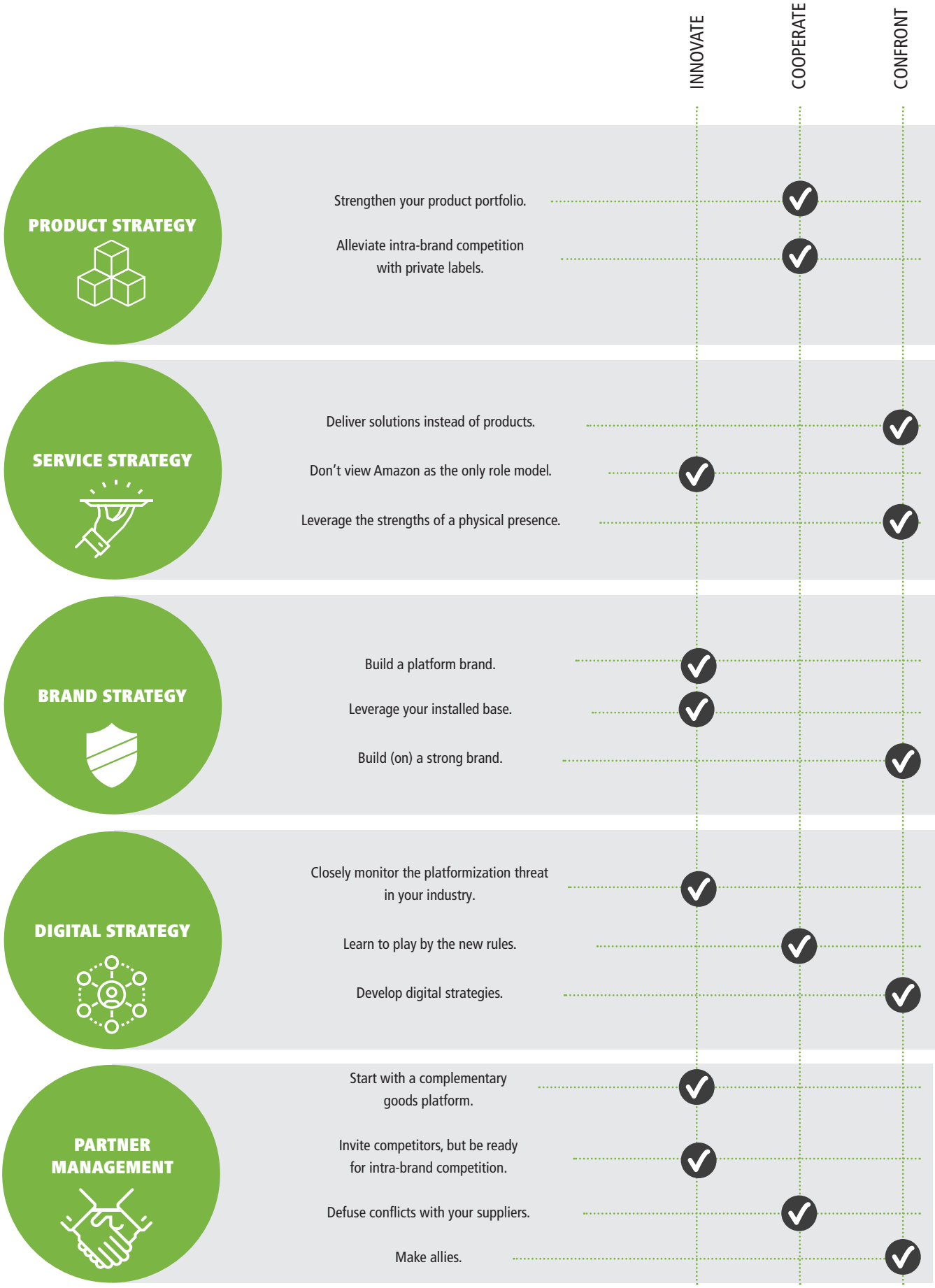
Platform users of flight booking portals (20-69 years): 46 ≤ n ≤ 279; left: representation of the top two boxes; read: 58 percent of users of flight booking portals would also book a hotel via the portal – 76 percent of these users prefer an offer via the portal itself instead of being forwarded; all numbers in %.

from that of platforms. French retailer Decathlon, for example, offers a wide variety of branded products but also has a wide range of highly innovative private labels, which it calls "Passion Brands", that set itself apart from competition. For example, they brought to market the first pop-up tent that erects itself when thrown in the air (Carina 2015).

Manufacturers, on the other hand, can leverage their strong brands by extending their offering to new business areas. Birkenstock, for example, has first successfully built a strong brand by offering high quality slippers and sandals and then expanded its offerings to cover accessories, mattresses and bed frames. Many fashion brands such as Zara and Tommy Hilfiger have extended their offerings to include bed linen, towels, pillows, and decorations.

Our research shows that companies can choose between different strategies in dealing with the increasing platformization. For easy orientation, we have summarized the strategies and our recommendations in Figure 10.

Figure 10. Strategies and Recommendations for Dealing with Platformization



SUMMARY

Digital platform models lead to a wealth of new opportunities for companies but also carry risks. Companies no longer need to manage a linear pipeline. Instead, they must oversee a multidimensional network of largely autonomous consumers and suppliers. As a result, **a stronger focus on the platform business means managing relationships, governance structures, and processes to enable and facilitate value-added transactions between consumers and suppliers.** Such a platform business can be structured in many ways, and we have summarized the various attributes and characteristics in Table 1. Our analysis of the market environment shows that today's platforms differ in two core attributes: their level of specialization and their level of service.

Digital infrastructure is particularly important because it is an enabler and a catalyst for digital platforms. Therefore, companies must build and develop skills here, whether they create their own platform or cooperate with or compete with existing third-party platforms. For each of the three basic strategies of dealing with the platform threat—innovation, cooperation, and confrontation—we show what possibilities, risks, and practical options for action exist for companies. In addition to digital capabilities, new competencies need to be developed in dealer–manufacturer and manufacturer–service provider relationships. We assume these relationships will continue to be of great importance and may even intensify as traditional companies stand up to large platforms. Relationships evolve from a classic pipeline association to a partnership, such as in the form of store-in-store concepts, joint events, intensive staff training for optimal customer advice and on-site services.

Companies will undoubtedly face profound changes, new challenges, and the need to develop new resources. Nevertheless, many current strengths will continue to have high or even increased relevance. Building strong brands and successfully positioning them will be a core competence needed by both manufacturers and retailers to assert themselves among the competition. In addition, existing dealers have had long-standing relationships in the vertical and horizontal market environments, which should be strategically exploited to spur value creation. Finally, the physical presence of brick-and-mortar shops holds the potential to provide customers with multisensory experiences and to shape consumers' immediate living environment. This capability allows traditional companies to be an active part of a consumer's community and to create a shared identity, thus building a relationship with consumers that digital players can hardly copy.

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