

NEW EVIDENCE FOR THE POWER OF DIGITAL PLATFORMS

Incumbents should go on the attack with their own online exchanges.

by Jacques Bughin and Nicolas van Zeebroeck

Digital attackers in most industries can severely drain the profits and revenues of incumbent players, as we have shown in recent research.¹ Companies under pressure, though, can limit the damage if they adopt an offensive corporate strategy, one that involves willingly cannibalizing existing businesses and reallocating resources aggressively to new digital models.

Which digital business model—when deployed offensively—offers the best odds for regaining lost ground? We dug deeper into the data from our survey of more than 2,100 global executives² and found that going beyond the mere digital delivery of products or services and setting up an online marketplace correlates with markedly improved performance at established companies.

Platform play. Such online exchanges, or platforms, are a growing feature of digital competition, and the favored operating model of most of the largest Internet companies.³ Few incumbents, however, are responding with platform moves of their own. The exhibit maps the strategic responses of the 2,100-plus companies⁴

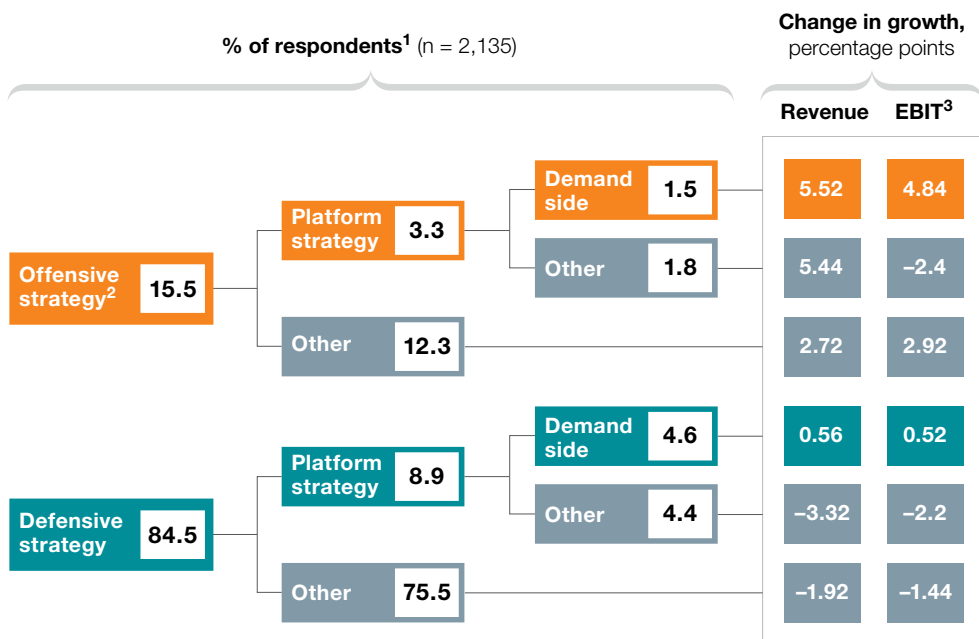
and highlights the 15 percent of them reporting “offensive” corporate-strategy moves. Their revenue and earnings over the last three years, on average, are superior to those describing their strategic reaction as “defensive.”

A significant finding is the correlation between recent financial performance and the 12 percent of companies in the sample that have chosen to create new platforms.⁵ The biggest impact appears to be on the one in five platform companies that pursued the “offensive” option. They did much better than one in ten defensive companies that chose a platform strategy.

Connecting customers. Another critical finding is that the nature of the chosen platform matters. The experience of successful platform players indicates that benefits increase when platforms redefine value propositions for customers, reshaping the demand side of the market. Many companies do so by enriching their products or services with information, social content, or connectivity, providing an easier experience for customers. Indeed, demand-driven platform plays, when

Exhibit

Companies pursuing ‘offensive’ platform strategies achieve a better payoff in both revenue and growth.



¹Figures may not sum to totals, because of rounding.


²Specifically, strategies that place incumbents’ revenue streams at risk with new digital offerings that reshuffle activities and current business models, and also strategies that significantly overinvest in digital technology relative to competition.

³Earnings before interest and taxes.

Source: Digital McKinsey survey, 2016

combined with an offensive digital corporate strategy, are strongly correlated with superior financial performance—about six to more than seven percentage points in earnings before interest and taxes (EBIT) and revenues—relative to the nonplatform, defensive players.⁶ It is noteworthy that the revenues and EBIT of the latter group declined, suggesting that some companies will face greater competitive pressures ahead.

Why are so many incumbent companies slow to respond more aggressively and to leverage platform models? One answer is that implementation requires incumbents

to overhaul legacy IT systems while overcoming cultural and strategic constraints. Many are reluctant to disrupt today’s business model for an uncertain digital future. Most companies worry that they may open up the value pool to competitors if they cede power to customers via new platforms. Our research shows that this reluctance may be shortsighted. 

¹ Jacques Bughin and Nicolas van Zeebroeck, “The right response to digital disruption,” *MIT Sloan Management Review*, April 6, 2017, sloanreview.mit.edu.

² For the full range of research results, see Jacques Bughin and Nicolas van Zeebroeck, “Platform play among incumbent firms: The wrong focus?,” iCite Working Paper #2017-023, April 2017, ideas.repec.org.

³ In most basic form, Google operates a marketplace that connects advertisers and searchers; Amazon connects online buyers and merchants; Uber matches drivers and those in need of a ride.

⁴ Data based on a McKinsey survey of global executives. For this research, we used responses about the digital intensity of incumbents' overall corporate strategy and whether they had adopted a platform strategy. Platform strategies were those where a company operates digital exchanges that either tap better ways to supply markets or provide new ways of satisfying customer demand.

⁵ This finding is confirmed by other research. See Peter C. Evans and Annabelle Gawer, "The rise of the platform enterprise: A global survey," the Center for Global Enterprise, January 2016, <http://thecge.net>.

⁶ The platform research is based on a range of regression techniques linking firm performance with strategic posture and digital models and controlling for factors such as company size and sector. Significant at the 5 percent probability level.

Jacques Bughin is a director of the McKinsey Global Institute and a senior partner in McKinsey's Brussels office. **Nicolas van Zeebroeck** is a professor of innovation and digital business at the Solvay Brussels School of Economics and Management, Université libre de Bruxelles.

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