The dominant online platform companies are now the most valuable companies in the world, and their growing power over other organizations is enabling them to rewrite the rules of business strategy. In the past decade, digital platforms have profoundly reorganized markets and industries and redefined the dynamics of value creation and competition. They have created marketplaces that have spawned an enormous number of platform-native startups. And as these have grown and prospered, existing businesses have felt compelled to join the platform economy, viewing participation as necessary for growth and even survival.

To date, most attention to platforms has focused on understanding their advantages over traditional industrial structures and how to replicate platform successes. However, the vast majority of companies will not own platforms but, rather, will increasingly depend and compete on them. To do so effectively, platform-dependent businesses must recognize the power dynamics and risks intrinsic to platform-controlled markets. And they must develop strategies that leverage a platform’s resources while mitigating its power over them.

How Platform Power Is Transforming Competitive Strategy

In early January 2019, after sealing a deal with Apple to sell more of its products, Amazon sent a letter to small businesses selling refurbished Apple products on the Amazon e-commerce platform. It read, in part, “You are receiving this message because you are currently selling … Apple or Beats products. Your existing offers for those products will soon be removed from Amazon’s online store in the United States.”

As one reseller said, “Since 2011, I have sold over a million dollars of iPods on Amazon and this is going to severely impact me and my family.”

For many resellers, the agreement between Amazon and Apple spelled the end of their businesses and livelihoods. And this
existential threat is not confined to small businesses. Discussing Google’s ability to favor its own travel platform in search results, Expedia’s CEO said the internet was “littered with the bodies of companies put out of business by Google.”

This is a new, harsh competitive environment that nearly every business eventually will confront as the platform economy matures.4

An online platform’s success is predicated upon providing sellers with a large base of potential customers while providing customers with a broad range of easily searchable offerings. For sellers and advertisers, entry costs are low. For buyers, there are none. The platform’s goal is to capture the largest market share relative to other platforms — a winner-takes-all strategy that achieves a near-monopolistic position.

On these terms, a platform’s success comes when it effectively owns the market and can “tax” all transactions that run through it. For example, Apple and
Google take 30% of all revenues earned in their app stores; Etsy takes 20 cents per item listed, as well as 5% of the transaction cost (including shipping), and fees from its payment-processing system (which sellers are required to use). YouTube takes 45% of the advertising revenue generated by its content creators. As game-maker Epic Systems argued in its recent legal complaints against Apple and Google, their fees are nonnegotiable, regardless of how much revenue flows through an app. Other companies, including Spotify and even Microsoft, appear to be joining the criticism of the stringent rules that app store owners impose.

The fee controversy is only the tip of the iceberg. Platforms have almost godlike powers. They are gatekeeper, rule maker, judge, and jury. For businesses dependent on a platform, this creates a dangerous situation. The platform is motivated by traditional business goals: It wants to grow revenues and profits and increase its market power. Just as important, it is constantly experimenting and evolving unilaterally in ways that are beneficial to itself. The businesses transacting on it can only accept the platform’s rules, adapt to them strategically, or exit.

In other words, a platform’s power dramatically constrains the freedom businesses possess to devise and pursue competitive strategies. Since the 1980s, our understanding of strategy has been dominated by Michael Porter’s definition of the sources of competitive advantage. To Porter, good competitive strategy creates unique value for a particular set of customers (in other words, differentiation). That uniqueness is derived from companies’ ability to control three key sources of competitive advantage: a distinctive value proposition that is designed for a particular set of customers and is delivered through a particular configuration of activities difficult for competitors to replicate. The more ways in which an organization can differentiate its sales, services, features, production, distribution, design, and marketing, the greater its ability to establish and defend a strategic position.

But platform owners don’t only reduce the degrees of freedom a company has over each of these sources of competitive advantage; at the same time, they advance their own interests.

For instance, the same reach that enables companies to find customers on Amazon enables the platform to recognize growth opportunities and quickly respond. According to a report from CoreSight Research and DataWeave, Amazon more than tripled the number of its own house-brand products from 2018 to 2020, to more than 23,000 offerings that now compete with other products on the site. Amazon (and other platforms) can upend traditional forms of strategic differentiation simply by identifying and replicating product features, prices, market position, and whatever else can make its own products more competitive and attractive. And the same complex, often opaque, algorithms that connect online buyers and sellers can be massaged by platforms in ways that can produce sudden drops in sellers’ search rankings and sales.

The Risks of Platform Dependence

Given increasing evidence that platforms are likely to use their enormous powers for their own benefit, businesses need a clear understanding of the implications of operating on a platform in order to avoid becoming subordinate entities. Competing effectively in these markets requires businesses to recognize the ways platforms limit the control they have over the three sources of competitive advantage.

Platforms limit construction of a unique value proposition. Developing a company’s value proposition and presenting it to a target customer segment is core to competitive strategy. But for many platform-dependent businesses, the unique attributes and presentation of their offerings online (such as search terms, product descriptions, images, and product reviews) are dictated by the platform, whose goal is to allow customers to compare competing offerings easily. This can happen only if products share common search terms and are presented to consumers in nearly identical ways.

Moreover, platforms can constrict strategic pricing flexibility. For example, Amazon punishes publishers on its Kindle platform selling at prices lower than $2.99 or higher than $9.99 by halving their revenues from 70% to 35% of the sales price. In setting this rule, Amazon believed it could sell more e-books and, just as important, discourage other online booksellers from entering the market. While pleasing customers, this slashed publishers’ margins.

Because the platform is always considering its own interests, it can and will take actions detrimental to the interests of its dependent businesses.
For example, Apple Music, Spotify, and YouTube create playlists that include artists contracted to multiple labels. These labels aren’t happy about seeing their artists grouped with (and therefore promoting) another label’s artists. Amazon can bundle products from as many vendors as it likes. Once that happens, and consumers see competing providers together on one screen, vendors are forced to compete within categories and segments they have no power to define. They must attempt to differentiate their offerings based on price (if they can), thin descriptions, and reviews (on an architecture determined by the platform) rather than their own strategic choices.

Platforms own the customer relationship. As the intermediary between the customer and the provider, the platform controls the relationship: The seller knows only what the platform wants it to know. In fact, most platforms actively prevent off-platform contact between buyers and sellers, because that would create the potential for disintermediation. Instead, the platform enforces a fundamental asymmetry in information about the customer in the platform’s favor.

When one is dependent on a platform, existential uncertainty is endemic, exacerbated by the ever-present possibility that anything a platform-dependent business can do can be blocked instantly and without warning. For example, if a market participant is flagged for an alleged rule infraction — such as manipulating reviews — punishments can include suspension, delisting, or a ban. This happened to a multimillion-dollar weapons accessory business on Amazon that was temporarily suspended after a rival hacked the business’s account and posted fake five-star reviews so it appeared that the seller had violated Amazon’s rules against buying favorable reviews. According to the weapons business’s owner, the estimated sales loss for the company during the suspension was about $150,000. Even when such decisions are reversed, businesses may have already suffered severe damage and have no recourse in an appeals process so capricious and opaque that one law firm called it “Kafkaesque.”

Platform-dependent businesses lose room to maneuver. Strategy theorists argue that when companies discover a profitable strategic fit, they maintain their position through a unique configuration of activities that deliver added value to a defined set of customers. The more freedom a company has in designing and configuring its activities to enhance the customer experience, the more defensible its market position becomes.

Competing on platforms creates a heightened risk that competitors will be able to imitate the superficial details of those activities, including product descriptions, price points, and targeting the same search terms. At the same time, a platform may favor some market participants over others, as Amazon did when it chose Apple over Apple resellers.

Benefiting from its godlike perch, the platform is well positioned to recognize when innovative products or services represent a business opportunity. The platform can then increase the commission it charges a seller or introduce a competing product itself. Recent research shows that Amazon is more likely to enter market segments created by its third-party sellers when those have proved successful. In this sense, a platform may use its dependent businesses as test beds to identify promising markets the platform can appropriate.

In one instance, Amazon employees accessed data about a bestselling car-trunk organizer sold by a third-party vendor; that data included its total sales, how much it paid Amazon for marketing and shipping, and how much Amazon made on each sale. Amazon’s private-label arm later introduced its own car-trunk organizer. Amazon denied that its employees examined specific data, but it’s indisputable that Amazon possesses it. And it’s indisputable that Amazon can feature its own competing products more prominently.
After entering an attractive market first identified by a dependent business, a platform can use its search algorithms to point potential customers in the direction it prefers while adjusting its ranking algorithms to favor its own products or services. A recent analysis by The New York Times discovered that Apple’s App Store systematically promoted its own offerings and ranked them ahead of ecosystem incumbents that had made the App Store successful in the first place. Ultimately, direct competition with an omniscient and all-powerful platform makes it virtually impossible for an innovator to defend its position against a predatory platform partner.

Four Strategies for Thriving as a Platform-Dependent Business

Traditional assumptions about competitive strategy are no longer valid in platform-organized markets, and in this new competitive landscape, the strategies necessary for businesses to succeed have changed.

We’ve identified four strategies that companies can experiment with to leverage the resources the platform provides while mitigating the tendency to become subservient to it. Organizations may consider the following responses, depending on their singular situations and needs.

1. CHANGE CHANNELS. Multihoming is a way to change the power dynamic by offering products or services in multiple sales channels. The goal is to increase the business’s access to customers while improving its ability to protect its value proposition and reducing its dependence on a single platform owner. Types of multihoming include the following:

Platform multihoming. Offering goods or services through multiple platforms can have significant benefits, especially when those platforms offer access to different customer segments. For instance, the success of Epic Games, the video game company behind Fortnite, shows that an early investment in cross-platform availability was key to growing a larger customer base. Although it launched in 2017 on Xbox One with limited cross-platform support, today it is available on Android, iOS, macOS, Microsoft Windows, Nintendo, and PlayStation.

In some instances, platform multihoming can be simple. Entrepreneurs selling commodity products on Amazon can easily and inexpensively list those same products on eBay, Etsy, or Walmart.com. Similarly, the cost to hotels of experimenting with different online travel agencies like Booking.com, Expedia.com, Hotels.com, and others is low. In contrast, porting apps from iOS to Android, or vice versa, can be difficult and expensive because the apps must be modified.

Multihoming does require effort and time because each platform requires customization. It also introduces the risk that a company may lose focus during the diversification process, thereby impairing its performance.

Channel multihoming. Even platform-dependent businesses can use different channels, such as a proprietary website or a brick-and-mortar store. If alternate channels are successful, a business can not only avoid the fees and limitations of platform markets but also enhance its value proposition through unique offerings and stronger customer relations through perks like better service, loyalty programs, and promotions.

For example, online travel platforms prohibit hotels from offering lower prices on other channels or even on their own websites. But hotels can offer better cancellation policies or special packages (free spa treatments or tasting menus featuring regional foods, for example) that are not available through the platform. These types of special offerings can be promoted in various ways and delivered through owned channels such as a hotel’s website or at the front desk. This approach can allow hotels to cultivate different subgroups of customers, develop

Offering goods or services through multiple platforms can have significant benefits, especially when those platforms offer access to different customer segments.
loyalty, and weaken the ties that bind them to the online travel platform.

But channel multihoming presents a dilemma: How can a business extract value from the platform channel without cannibalizing its other channels or, conversely, undermining its enormous platform traffic and business?

One response is to differentiate strategically and clearly between channels. For example, travel-book publishers have placed their high-demand products on the Kindle e-book platform but have sold their most profitable books through the physical print channel only, in hopes of attracting direct buyers and retaining the higher profit margins for themselves.13

Another strategy is to use channel multihoming to offer customers higher levels of customization. For instance, the U.K. company Chilly’s Bottles sells reusable water bottles both on Amazon and on its website, but only the Chilly’s Bottles website offers customers the opportunity to have bottles engraved with their name.

Platform multiplexing. Sellers and content providers can adopt the different tools available from various platforms to develop new value propositions, reach new customer segments, or build new organizational capabilities that would not be possible on any single platform. Companies can use different advertising platforms to experiment with the relevance, quality, or keywords associated with their offerings. They can also offer limited production runs via platforms such as Instagram or Kickstarter to test new products while finding new customer segments and boosting brand awareness. Both startups and established companies such as Coca-Cola, General Electric, Hasbro, and Lego have combined the momentum of multiple crowdfunding platforms to get low-cost and immediate feedback on new products or services. Some have registered sales even before production by using these platforms to promote projects and drive customer awareness.14

2. USE THE PLATFORM TO MARKET YOURSELF. Just as it has become necessary for businesses to transact on platforms, it is also critical for them to market on them. After all, 47% of consumers begin their online product searches on Amazon.15

Platforms ensure that a company’s advertising will be seen by customers when they are in a buying mood, and they can give those businesses a bird’s-eye view of customer activities and preferences that they can use to guide that advertising and make it more effective. However, while investing resources in platform advertising can boost revenue, that high-level view is not granular; the company purchasing the advertising receives only the information the platform chooses to share.

The business challenge is to develop marketing strategies that leverage the platform to strengthen one’s own brand without increasing one’s dependence on it. For example, Hootsuite, Marriott International, and Patagonia, among others, are using Instagram to promote their values and corporate cultures as much as (if not more than) their offerings. And platforms can be used to showcase new products and services before making large investments by testing marketing concepts through low-cost online advertising, launching free apps in app stores, or conducting low-volume experiments on Amazon. It is possible to leverage platforms in creative ways while mitigating lock-in or overdependence.

3. PLAY THE ALGORITHM GAME. Whether a business’s goal is to raise its visibility, gain more reviews, or improve its search rankings, it’s necessary to game the system of algorithms that govern the platform. That does not mean breaking rules but rather working them so they work for you. Many consulting businesses have emerged to help platform-dependent businesses leverage a platform’s algorithms and regulations to improve customer engagement. They help them identify optimal days and times to post on particular platforms; they design product names, keywords, descriptions, and hashtags that will improve platform performance; and they create engaging presentations to make a company’s goods and services stand out.

The line between what platforms deem legitimate or illegitimate is often blurry.16 For example, some companies have hired people to produce laudatory reviews on Amazon, a practice forbidden under its terms and conditions. Recently, Amazon deleted approximately 20,000 putatively fake reviews from its U.K. website following a Financial Times report on such activities. However, people and companies are constantly testing such rules and sometimes develop new and effective tactics.
For example, specialized agencies have orchestrated “giveaways,” through which platform-dependent businesses grow their Instagram followers by paying famous influencers for sponsorships, or even offering cash to new followers. In 2017, Domino’s created an Instagram giveaway, offering people a chance to win $10,000 by following it and leaving a comment on the company’s profile. The post received 25,564 views and more than 4,500 likes.

A platform’s attitude toward this sort of gaming varies based on whether the activity threatens its power or degrades the user experience. For example, startup Rap Genius tried to game Google’s algorithms by launching a program to promote its users’ blog posts if those posts included references to the Rap Genius website. The result: Google manually demoted Rap Genius to the sixth page of its search results — a deliberate and targeted punishment.

4. DIVERSIFY INCOME STREAMS. Establishing a successful presence on a platform can produce an enormous volume of traffic that can be leveraged to diversify income streams. This diversification can take many forms. The first is simple product diversification on the platform. For example, Chinese electronics company Anker started selling replacement laptop batteries on Amazon in 2011 and became the most popular brand of portable battery packs on the platform. It then diversified into smartphones and wall chargers and now sells a wide variety of electronic accessories. Its success in building a strong brand enabled it to reach a level of customer awareness that mitigates the platform’s leverage.

In other cases, alternative channels provide diversification opportunities. Many YouTubers, having established their reputations on the platform, now receive income from making personal appearances, endorsing products, publishing books, selling their own lines of clothing or makeup, and engaging in many other activities. Rovio Entertainment (creator of the video game Angry Birds) not only introduced in-app purchases and advertisements as additional revenue sources but also expanded into merchandising and entertainment with The Angry Birds Movie. As this illustrates, new revenue streams can be developed far outside the ambit of the platform and, if sufficiently lucrative, can allow the business to become less dependent on the platform upon which it was born.

Finding Your Balance on the Platform
Platform companies like Amazon and Google are among the most valuable businesses in the world for good reason: They are able to take a cut of an increasing share of the world’s commerce. Governments must consider whether economies in which a few companies capture an ever-increasing share of the globe’s wealth are healthy for enterprise. Indeed, in early October 2020, the U.S. House Judiciary Committee released a report criticizing Apple and other big technology companies for stifling competition and innovation for their own gain. Later that month, the U.S. Department of Justice filed suit against Google, accusing it of “unlawfully maintaining monopolies in the search and search advertising markets.”

In addition to pursuing the strategies discussed above to mitigate the power of platforms, businesses that depend on them can unite to increase the defensibility of their positions. In 2018, 582 antiquarian book dealers from 27 countries pulled more than 3,700,000 books from AbeBooks, an Amazon subsidiary, after the platform abruptly banned book-sellers from a number of countries due to what it said was the increasing cost and complexity (to it) of operating in those jurisdictions. After two days of protest, AbeBooks apologized and retreated.

Platform-dependent businesses can also engage with their governments to argue for new regulatory frameworks to mitigate platforms’ power. In 2019, an association of small and medium-sized Indian retailers filed a complaint against Amazon.com and Walmart’s Flipkart platform for anti-competitive practices. A subsequent probe by the Competition Commission of India resulted in a decision that barred Amazon and Walmart from selling their own products alongside those of independent vendors. The commission also mandated that the government must have access to the platforms’ source code and algorithms. Government action in platform markets has also affected Airbnb, Facebook, Microsoft, TikTok, and Uber. The only consistently applicable advice for companies struggling with platform policies is to stay involved. In other words, you are either at the table or on the menu.

Even as companies pursue strategies to mitigate platform power, that work must be ongoing as platforms endeavor to neutralize those strategies. An
example of this arms race is YouTube’s acquisition of FameBit, a company that allowed content creators to bypass YouTube and connect directly to brands to develop videos. With that move, YouTube effectively shut down that workaround.

Every organization dependent on a platform (or considering becoming so) must be aware of the dangers and, from the beginning, understand its options. Every business must realize that on the other side of the screen, the platform’s strategists and computer scientists are accessing and analyzing ever-greater reservoirs of data and leveraging more sophisticated algorithms to capture a greater portion of the total value of the platform economy. But as we’ve shown, the companies that live on those platforms are not helpless, and there is an enormous amount of value in the market — certainly enough for platform owners and platform-reliant organizations to share.

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