

Chapter 10

Deriving Value from Platforms in IDM

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ABSTRACT

In this chapter, we will discuss what value is and how a firm in the Interactive Digital Marketplace may garner it with a fundamental technology option. Firms often come to a crossroad, choosing whether to keep a platform open or closed. This decision is never direct or ever simple. We explore the various value propositions that a firm may derive by keeping the platform open versus closed and see how the firm has to look both ways, inwards and outwards, to arrive at a solution. Market forces, though invisible, are strongly felt by the firm. This chapter also investigates how these forces affect this decision. Lastly, we propose an overarching framework that we hope may prove useful in aiding the reader with this difficult decision.

INTRODUCTION

As we approach the turn of the first decade in the new millennia, not only does the Internet provide businesses, institutions and individuals with an additional channel to disseminate information on existing goods, products or services it also enables geographically-separated computers and its peripherals to work together as well. External

network effect relates to the effect in which the usage of a good or service brings value to other users (Mohr et al., 2005). As businesses, institutions and individuals alike begin to leverage on the computational capacity of multi-core networked-computers, the information and value contained within the network increases along with the network effect accrued to each user. When caught in this dilemma between the introduction and the generation of closed and open platforms, a firm must choose whether to open or close the

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platforms and decide on how value can be derived from it. We will take the view of value from a firm's perspective.

INTERACTIVE DIGITAL MARKETPLACE

For the purpose of this chapter, we define the Interactive Digital Marketplace (IDM) as a landscape in which high technology digital products are traded, sold or exchanged. We continue this assertion with a notion that the landscape is based on the Internet and its underlying networking infrastructure. According to Mohr et al. (2005), several definitions of "high technology" exist and for the purpose of our discussion, we define high technology products in IDM in terms of their common characteristics. This is summarized in Table 1.

The Competitive Landscape

The competitive landscape in which an IDM firms plays a crucial part in influencing the strategies and decisions the firm partakes in. D'Aveni (1996) proposed a 7S framework in which we feel encapsulates the nature of the competitive

landscape in which an IDM firm today resides in. This is shown in Figure 1.

The Global Virtual Landscape

Competitive advantages that arise from geographical proximity between a firm and its suppliers or customers are almost non-existent in the IDM landscape. The electronic network in which an IDM firm sits in erases the boundaries between firms along the value chain (Amit & Zott, 2001). As boundaries between firms blur, business processes are increasingly being shared between firms in different industries in such an efficient manner that it is generally not noticed by the end customers (Amit & Zott, 2001).

As information processing costs continue to fall (The Economist, 2003) and the increase of transmission throughput over the networks (IDA, 2009), an increased level of information goods with increased levels of functions and granularity will eventuate (Amit & Zott, 2001). The instant gratification nature of IDM products and services coupled with the increasing amounts of information goods transmitted over the network results in the dis-intermediation of traditional businesses and information brokers (Amit & Zott, 2001). This change resulted in traditional firms exiting

Table 1. A high technology product (Mohr et al., 2005)

Term	Definition	Examples
Market uncertainty	Ambiguity about the type and extent of customers needs that can be satisfied by any particular technology	Toshiba's HD DVD and Sony's Blu-ray disc
Technological uncertainty	Not knowing whether the technology can deliver on its promise to meet specific needs	Mars Exploration Rover, Hubble Space Telescope.
Competitive volatility	Changes in the competitive landscape, the products delivered and tools used to make these products	Amazon.com and Expedia.com versus traditional bookstores like Barnes & Noble.
Unit-one costs	Situation when the costs of producing the first unit are high relative to the costs of re-production.	Software creation are expensive but relatively inexpensive to duplicate and re-produce
Tradability problems	Underlying know-how represents portion of the value of the product or service.	Latitudes and longitudes coordinates of a particular location.
Knowledge spillovers	Synergies in creation and distribution of know-how further enrich the pool of existing knowledge.	Human Genome Project helps pharmaceutical companies to develop ace-inhibitors.

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