

Chapter 11

Deriving Value in the IDM Market: Open vs. Closed Platforms

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ABSTRACT

Faced with different market contexts and changing circumstances, businesses in the IDM marketplace often find themselves in a dilemma with respect to whether to make their platforms open or closed. This chapter presents the Open vs. Closed Value Analysis Framework Model that identifies, describes, and categorizes considerations for IDM platform owners deciding whether, where, when, and how to make their platforms more open or closed. We focused on platform-mediated networks commonly found in the IDM marketplace. We have found that there are generally no clear-cut rules of thumb that point clearly to whether a platform should be open or closed. Various factors like new industry entrants vs. dominant incumbent platforms, the presence and significance of complementors giving competitive advantage, and platform superiority weigh in on the decision.

INTRODUCTION

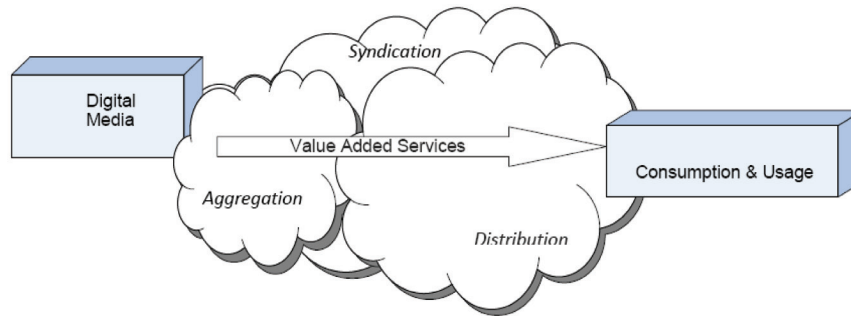
The IDM Ecosystem

The IDM marketplace typically comprises producers and consumers of digital media products and services and various intermediaries in between, as

illustrated in Figure 1. These intermediaries are the content aggregators, syndicators and distributors. These players typically interact with each other in platform-mediated networks. Digital media is created or packaged by sources such as online games developers, movie and animation studios. Aggregation involves collection or repackaging of content from various sources. Syndication is the proactive streaming of content to alternate and

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Figure 1. IDM ecosystem (Source: Dharmawirya et al, 2008)



repeat consumer segments, may be after a certain window period. Distribution is the conveying of digital content to consumers. In reality, these roles may be redundant or overlapping. (Dharmawirya et al., 2008).

Platform and Platform Mediated Networks

A platform comprises various components such as hardware, software, networks, rules and policies that govern their use and coordinate users' activities. A platform facilitates interaction between two parties in the manner they wish to interact (Rochet & Jean, 2004). In platform mediated networks, interactions occur in a triangular manner. Supply side and demand side users transact with each other, and also with platform providers (Eisenmann et al., 2008). Platform mediated networks comprise several players: demand side users, supply side users, platform providers, and platform sponsors. This is illustrated in Figure 2.

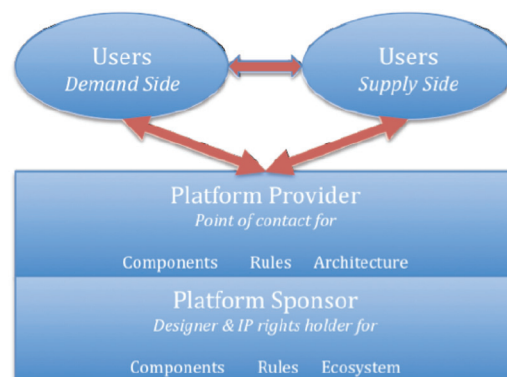
The Question: Open or Closed?

Businesses in the Interactive Digital Media (IDM) market are caught in a dilemma between going for open vs. closed platforms business models. The challenge here is to find a balance between openness and control (The Economist, 2008). To adapt to changing market trends, firms tend to

gravitate towards adopting a mixed open-closed approach to their business strategy (Eisenmann et al., 2008). A good example is the iPhone which was initially launched as a closed platform. Apple recently opened it to developers subject to strict licensing conditions.

The trend of adoption of open or closed platforms is found to be different in different markets. For example in the mobile market, the same firm might provide both open and closed platforms. As an example, some high end Nokia phones come with S60 software, which runs on mobile phones with Symbian OS, which allows installation of third party applications. But lower end phones from Nokia are closed. No installation of third party applications is allowed. Whereas the enter-

Figure 2. Elements of a platform mediated network and their interaction



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