Digital Transformation: The Power of Platforms
Digital transformation can be elusive, especially for small and medium-sized businesses. For organizations that need to make their resource allocation count, investing in platform technology can be the key to unlocking success.
In today’s digital age, it’s a common expectation of company leaders to “build a culture of innovation that permeates the organization,” “hire Chief Tech Officers that report directly to the CEO,” and “harness data infrastructure to enable AI.”

This may be sage wisdom for some but the roadmap to transformation is hardly one-size-fits-all. For smaller and medium-sized businesses (SMBs) with limited human and financial capital, the necessary steps differ from those of GE, Proctor & Gamble, and other Fortune 500 companies.

The good news is digital transformation for SMBs doesn’t have to be complex or expensive. Through the utilization of digital platforms, businesses of any size can take advantage of the power of data to better understand their customer, react to changes in their business more quickly, and utilize partnerships to grow.

70% of complex, large-scale change programs don’t reach their stated goals.

The Power of Platforms

“A platform provides a stage on which other businesses can shine or infrastructure on top of which other applications and businesses are developed.”

Fynn Glover, Forbes 2020
The Power of Platform Technology in Digital Transformation

If you’ve used Uber, Airbnb, Amazon, or the App Store, you’ve experienced the power and benefits of platform technology. Platforms can be used for many different purposes, whether they are connecting a buyer and a seller, connecting a driver and a passenger, or acting as a hub for multiple digital devices. However, you may still have a difficult time defining exactly what a platform is. And, you’re not alone.

Put simply, a platform is the digital infrastructure used to allow technologies, third-party partners, and customers to engage with your business and exchange value. A platform can be thought of as the large, green Lego base on-top of which the smaller yellow, red, white, and blue Lego blocks rest.

An example of this is the Airbnb website and app that connect rental homeowners with travelers. Airbnb’s business is comprised of roughly 57 tools, or Lego blocks, that enable financial transactions, data sharing, and other business operations. Approximately seven of these tools are proprietary and owned by the company itself. However, it’s the Airbnb platform, the green Lego base, that knits these apps together and enables them to deliver value. The platform on which these apps operate ensures that the sum of the parts is greater than the individual parts themselves.

In his 2010 book “Seizing the White Space” Mark Johnson referred to technologies like platforms as, “enabling technologies.” The power of the platform is in the way it enables businesses to leverage existing third-party tools to acquire and utilize data, and to quickly and cost-effectively respond to trends and changes. Utilizing platforms allows businesses to engage with customers in a more authentic and personalized manner, and reduces friction between suppliers and operations.

The path to digital transformation can be long and circuitous, but platform technology can provide a shortcut to value creation and growth.
Leveraging Platforms to Guide Digital Transformation
The road to digital transformation is lined with failed initiatives. A 2016 study by McKinsey found that 70% of transformation efforts fail. While not a panacea for all that ails a business, utilizing platform technology can increase the chances of success. Keep these five conventions in mind to unlock the power of platforms.

Additionally: COVID-19 has been an accelerant to digital transformation, forcing companies to adopt new technologies faster.

Keys to Unlocking Platform Power:

01 Avoid ‘Random Acts of Digital’

02 Define the Roles & Responsibilities of Technology

03 Build “Enabled Technologies” to Gain Agility

04 Get Closer to Your Customer

05 Deliver and Capture New Forms of Value
Many businesses who wish to reach digital transformation dive in headfirst. While they aren’t clear how to define transformation, they think they’ll just “know it when they see it.” This leads to the piecemeal acquisition of random technologies that burn human and financial resources, but don’t move the business forward in a meaningful way. This is what Deloitte Digital refers to as “committing random acts of digital.”

Resist the urge to invest in ad hoc technology by developing specific, aspirational goals regarding how you wish to transform. Develop clear benchmarks for success and KPIs so your aspirational efforts are focused, then acquire the technology that promotes success.

**How a Platform Helps You Get There**

Once developed, the flexible nature of a platform will allow you to incorporate specific tools for specific purposes. These can be data acquisition tools, integration with existing social media channels, or specific e-commerce capabilities. Once the platform exists, select the tools that move you toward your aspirational future.

**Key Question:**

What is the desired outcome for digital transformation and what are your benchmarks for success?
A 2018 Harvard Business Review article observed that a major source of failure in digital transformation projects was an unclear understanding of what role new technologies should perform. This observation runs parallel to the previously stated insight that organizations who do not have a clear ambition when pursuing change frequently stumble.

Pursuing digital transformation without understanding the role that a particular technology will play in your organization is akin to hiring a new employee without a specific job description in mind. Without a clear understanding of the roles and responsibilities, it is challenging to evaluate the necessary skills and capabilities to get the job done. Identifying who, or what, to call-on to get the job done becomes even more challenging. Once hired, it is next to impossible to successfully execute in the role when the tasks have not been clearly articulated. What metrics or indicators are used to evaluate success? What benchmarks are used to evaluate impact, both positive and negative?

Successful digital transformation requires hiring the right technology for the job and evaluating its effectiveness in the same way you would evaluate an employee. Is the technology having the impact you hoped for? Is it successfully performing the skills of the role? Is the technology achieving the required ROI?

How a Platform Helps You Get There

Once the platform infrastructure is built, it provides the flexibility to “hire” new technologies rather than build them from scratch (read “Postmates” herein). The question then becomes, how do you want to prioritize your platform? Brick-and-mortar businesses who desire an e-commerce presence may hire Shopify to perform e-commerce tasks, such as facilitating financial transactions. Businesses who warehouse goods may hire a digital application to perform inventory management. Chief Marketing Officers may desire customer insights and hire a data analytics app. Once you’ve identified the tasks and responsibilities you need, acquiring them becomes as easy as plugging them into your platform.

Key Question:

What skills or capabilities do you want your organization to gain as a result of your digital transformation?
“There’s something different about technological change that causes senior executives in large, established firms to act differently than they might otherwise.

When investing in a typical strategic change, managers are usually pretty clear about what they want to accomplish and what it will take to get there. Executives have to understand what new technologies can do, and understand their impact on markets, products/services, and distribution channels.”

Fundamentally, digital transformation is about using technology to give your business capabilities that it didn’t have when operating unplugged and in the analog world. As stated earlier, these capabilities are what Mark Johnson calls “enabling technologies.” They are technologies that give your business the ability to transact, reach customers, and utilize data in a way that it couldn’t before.

Platforms are the ultimate enabling technology. They allow businesses to plug existing tools into its platform to fundamentally change on the spot. In doing so, enabled technology adds agility to a once static business. Before the digital revolution, devoting capital to infrastructure meant investing in factories, brick-and-mortar stores, or equipment. To realize returns on the expense, these investments required a long-term commitment to doing business a certain way. The result of this was rigid business models and static operations that weren’t responsive to changing needs.

We are currently living in the period of the most rapid change in human history. As tools and tastes change, the TikTok of today soon becomes the SnapChat of yesterday… or even worse, Vine. To compete in the 21st-century economy, businesses must be adaptable and agile. This means investing in digital infrastructure that allows a business to quickly respond to changes in customer demand. In doing so, a business can radically alter its business model or the channels through which it delivers, value at little or no added cost.

Consider the differing responses of dine-in restaurants to the COVID pandemic. Eateries who’s digital presence was simply a static webpage were limited in how they engaged with customers during quarantine, relying on phone orders that required staff and limit order volume to the number of people available to receive calls. Those with a more dynamic digital presence were able to integrate third-party applications into their platform providing e-commerce functionality, order delivery via third-parties, and tools that allowed their kitchen to pre-schedule meal production. Sophisticated restaurants even integrated refrigerator inventory data into their platform, ensuring items would vanish from the menu as ingredients were used up.

How a Platform Helps You Get There

Platforms are agile and adaptable by design. Built with the intended purpose of facilitating the interaction of independent components, a platform is meant to be modular and easily changed. As business capabilities change or a new skill is required, platform-enabled businesses can exchange components with relative ease meeting the need of the competitive landscape.
In July of 2020 food delivery company Postmates was purchased by Uber Inc. for $2.65b to become one of the largest food delivery services in the world. In his announcement, Uber CEO Dara Khosrowshahi used both companies as examples of the power of platforms to serve customers during normalcy and times of crisis.

The story of Postmates’ success illustrates the agility that platforms provide a business. Founded in 2011 as a “ride-sharing platform for stuff”, the company aspired to be an “anti-amazon” local courier service. On its platform the company imagined a customer could search a retailer’s inventory and order an item for immediate delivery.

Though they started as book-in-advance couriers, they quickly realized that their business delivered much more value to customers as an on-demand service. Their booking platform was integrated with the payment platform, Stripe, which enabled Postmates to tinker with its business model and pivot to on-demand delivery seamlessly and almost instantly.

The digital infrastructure of the two platforms provided the agility to capture data, understand customer insights, and act on those insights. In 2019, roughly 10 years later, the company earned $1.2b in revenue and made 35m deliveries.

**Key Question:**

How nimble is your current model and where are there opportunities to gain agility and speed when engaging with customers?
Customer engagement fundamentally changed when the digital revolution put the internet in our pockets. It has never been easier to engage with customers. Businesses can now connect with customers through a plethora of channels - from company websites to social media and review sites - and can get to know what Accenture's 2020 trend report called our, “Digital Doubles,” or our online avatar portrayed through our data.

The outcome of the almost constant customer engagement is a steady stream of data that allows organizations to better understand customer needs, understand preferences, and deliver personalized content. The back-and-forth exchange of customized content in exchange for data produces a flywheel of value that becomes a strategic advantage over competitors. Done correctly, each engagement produces more valuable engagement for customers and more valuable data for businesses.

Customers have come to expect this kind of personalization. Receiving generic content signals a lack of intimacy to customers, devaluing the relationship, and encouraging the customer to devote loyalty elsewhere. It is akin to receiving a birthday gift from a significant other that says, “you don’t know me.” It’s a deep hole to dig out of.

**How a Platform Helps You Get There**

Some digitally savvy businesses have made their platform the moat that protects their competitive advantage. Before it was a cosmetics brand, Glossier was a platform where customers went to read about and review skincare products and skincare routines. These interactions yielded a treasure trove of customer data which the company turned into hit products. Though not the initial intention, the Glossier platform became a customer insight engine, building community and acquiring data at the same time. This yielded network effects that once established were impossible to replicate by competitors.

Creating a platform that facilitates interaction and conversations with customers creates an undeniable advantage. Simply creating a place where customers can engage does not guarantee that they will come, streaming platform Quibi’s dead-on-arrival launch is proof of that. However, businesses to take the time to understand the unmet needs of their customers and how a platform may meet those needs can be extremely disruptive... and difficult to unseat once establish.
How a Blog Used Platforms to Become a CPG Unicorn

Skincare brand Glossier had humble beginnings. The brand which earned over $100m in revenue in 2019 and gained a $1.2b evaluation began as a product-less blog named Into the Gloss that documented trendsetter skincare routines.

The blog quickly developed a community of followers that discussed products and how they were using them. Recognizing that the blog platform provided key insights into consumer behavior and desires, the founder pivoted and began making products that met the needs of the community.

The community platform the company created became its competitive advantage. It controlled the customer relationships and the insight data. When it came time to distribute its products, rather than intermediating its relationship with customers through retail sales, it chose to maintain its relationship by selling directly to consumers. Integrating e-commerce functionality into its existing platform allowed Glossier to maintain its margins, reach customers with product, and capture customer data. It’s now competition, and winning, against much larger legacy brands.

Key Question:
What innovative product or service offerings can be bundled with existing products and easily delivered via digital channels?
“Platform companies achieved their sales with half the number of employees. Moreover, platform companies were twice as profitable, were growing twice as fast, and were more than twice as valuable as their conventional counterparts.”

Until recently, the en vogue trend in brand development was to focus primarily on growth through customer acquisition via direct-to-consumer channels or “DTC.” This trend is evidenced by companies such as Dollar Shave Club, Casper Mattress, Blue Apron, and Warby Parker, who intentionally went direct-to-consumers in an effort to improve their profit margins while also controlling the customer relationship and that data that relationship created. The DTC strategy is understandable considering the value of “owning” customer relationships, as stated previously.

However, the gloss of the DTC brand is wearing off. In a recent interview with the Harvard Business School, investor and HBS instructor Matt Riggings said, “the conventional wisdom of 2010 seems to have remained around a little bit too long... ‘anyone with a great idea can launch a DTC business and you could just go on Facebook or Instagram and acquire customers for nothing. And next thing you know, you’re an IPO.”

What many of these companies underestimated was the value of being “omnichannel” or, delivering value to customers in multiple ways. The greatest benefit of digital transformation is technology’s ability to capture and deliver value through multiple channels. Many of the early DTC unicorn startups quickly realized that direct-to-consumer channels did not allow them to adequately service their customers. Casper Mattress and Dollar Shave Club begin distributing products via retailers and Warby Parker launch brick-and-mortar retail stores.

The power of digital technology is in its ability to bring these channels together in a centralized place. E-commerce data is easily pooled with data from retail stores. Inventory at a third-party distributor warehouses is visible to retail store employees hunting down out-of-stock products for a customers during the holidays. Rather than relying on a single pipeline, digital technology allows a company to deliver value in many ways, resulting in multiple revenue streams.

How a Platform Helps You Get There

Platform technology has the ability to be the central hub where multiple channels come together. These can be e-commerce and brick-and-mortar channels, as well as business-to-business channels. An example of this is the platform Apple created which delivers value to consumers (music listeners), businesses (music license owners), and the itself. Constructing an omni-channel platform allows businesses to define what platform thought-leader John Cain refers to as an “ecosystem value proposition.” Businesses no longer need to choose one channel over another, through a platform they can have them all.

Key Question:
Who might you partner with to knit together a digital ecosystem that delivers new and greater value to customers?
Strategies for Implementation

Five Steps to building Your Platform
Five Steps to Aid Execution

Many SMB digital initiatives fail not because the idea or the product was bad but because its implementation was poorly executed. Success comes to organizations that prioritize innovation in the c-suite and to teams who manage internal and external barriers to implementation. Prioritize these steps to increase your chances of success.

1. **Define Your “Why”**

As with any initiative, leadership teams should come together at the beginning of the project to set the strategy, identify goals and desired outcomes, and name benchmarks that will signal success or failure. Project leaders should be able to clearly articulate why they are pursuing digital transformation and what they want it to bring to their business.

2. **Organize & Assemble the Internal Team to Manage the Effort**

Businesses who successfully launch digital initiatives have an advantage simply because they’ve done it before. What pre-existing processes, resources, and capabilities can rely you on during this journey? Which team members can be brought together to execute your strategic plan?

3. **Assign production requirements with a technical team**

Those new to digital transformation often turn to external resources who have been down this road before. Which partner or partners can you turn to for technical expertise, such as Dev Ops, and, more importantly, help you identify the “unknown unknowns” that ambush a project? A good partner will help frame strategic questions and establish a North Star for your project.

4. **Prioritize iterative work that is visible to all team members**

Digital transformation projects require the “left hand to see what the right hand does.” Successful teams operate with a transparency that allows for an iterative, agile workflow aided by clear and frequently update implementation roadmaps.

5. **Deploy frequently... test, measure and adjust**

"Ready, fire, aim, repeat." Work quickly to get your concept infront of customers to gather data and feedback on engagement. At critical benchmarks, circle back to your strategic goals and measure if your product is achieving your “why.” Iterate on your product until and test gain.


