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Rethinking Businesses

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ESCP Impact Paper No. 2020-41-EN

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Abstract

Most companies operating with traditional business models experience hardship and suffer a serious financial hit amongst the coronavirus outbreak. However, the pandemic crisis opens a big opportunity for online platforms to show off the unique benefits of their new business model, in particular the opportunities to scale. This impact paper addresses the question of challenges and opportunities that scaling ventures shall apprehend in order to survive (and thrive) in the aftermath of the coronavirus crisis and the inevitable recession times that lie ahead.

Keywords: Platform, Scale-up, New business model, Strategy

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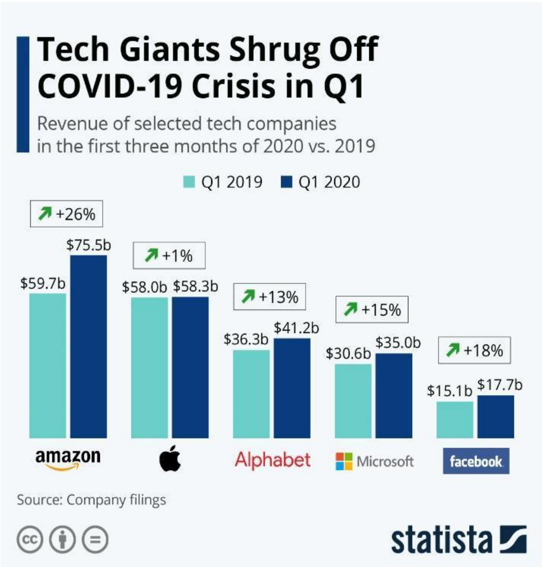
Covid19 and the scale-up of the platform revolution

Most companies operating with traditional business models experience hardship and suffer a serious financial hit amongst the coronavirus outbreak. However, the pandemic crisis opens a big opportunity for online platforms to show off the unique benefits of the new business model, in particular the opportunities to scale. This article addresses the question of challenges and opportunities that scaling ventures shall apprehend in order to survive (and thrive) in the aftermath of the coronavirus crisis and the inevitable recession times that lie ahead.

The mechanics of the online platform business model

Let's take two extreme examples of global enterprises whose reaction towards the crisis was so opposite. First, Airbus, the world's largest airplane manufacturer that has just issued a statement announcing a huge financial loss of 481 million euros in the first quarter of the year 2020. The company's CEO proclaimed that the aerospace industry overall is facing the 'gravest crisis' in history (Le Point, 2020). With a large proportion of global airlines putting their fleet on hold, this mirrors today's reality of the travel industry where the pandemic has disturbed travel plans of people from over 200 countries. Then, on another edge of extreme, consider an online shop Shopify whose stocks more than doubled since mid March. Amazon can serve as another thriving example with its stock price going up by 16% since January 2020. This same trend is quite vivid with the other GAFAM tech companies (Google, Apple, Facebook and Microsoft) coming out strong from the Covid-19 pandemic thus far (table 1). Of course, we could say that the difference between the two extreme examples lie in the different industries they operate in. However, one more relevant difference is that while Airbus has a traditional business model with linear value chain creation, Shopify or Amazon are digital platforms based on online sales that leverage the power of networks and enable scaling up.

Table 1: Covid 19 and the GAFAM



Source: Statista (2020)

Let's start with a quick overview of what a platform is as this term has a wide variety of interpretations. People with some technology acumen typically associate them with software and hardware development products underlying a certain technological architecture. Executives and CEOs tend to think of platforms as leaders of a particular industry, such as Amazon in retail or Uber for ride hailing. It is also clear that a platform, as a concept based on the (at least) two-sided interactions of sellers and buyers, has been around for centuries with the existence of goods markets for instance. However, with the rise of digital technologies, platforms as business and technology models have become key for value creation in modern global economies (Coeurderoy and al., 2019). The phenomenon of network effects is key to understanding the platform model if value creation. They occur when products and services proposed to a given group of participants gain value with their increased number. A Facebook with only one member would be worthless. However, as the number of members rises, its value increases. This is because every new user can theoretically gain access to all existing users within the same network and can potentially invite new members to join this same network. This translates to the network growing exponentially in a very fast way. Network effects can be *direct*, when platform users benefit from a big number of network participants, such as friends on Facebook; and *indirect*, when the network becomes attractive to other contributors or partners such as software developers or advertisers.

Network effects are directly related to the way in which value is created by platforms which is through the matchmaking, the interactions and the positive externalities that the growing number of platform users bring. In the book *Platform Strategy* by Reillier & Reillier (2017) authors also mention the importance of the critical mass as it assumes a platform needs to attract the right number of participants on both sides of the market, before it is able to scale up. Further, the aspect of single homing versus multihoming rises with the participants incentive to participate in only one or in several platform networks. Finally, Reillier & Reillier draw attention to the price elasticity which dictates the adaptability of prices as per demand and competition between platforms in similar industries.

On the contrary, traditional companies and biggest industrial giants like Airbus use the linear 'value chain' business model coined by Michael Porter in the 1980s. The 'value chain' assumes a series of processes that a certain company or industry needs to go through before delivering a final product. Like a train manufacturer that needs to first acquire manufacturing materials (input) before transforming them into a train (output) that then can be sold. The process stays linear and lacks the agility that technology platforms leverage through adaptation and adjustment. Even Jeff Bezos, the CEO of Amazon, in his open letter to stakeholders, said that to win through the crisis companies need to be "aggressive and agile" (CB Insights Research, 2020). This agility, user-centricity and adaptability seems to be a real strength of the technology-based platforms that thrive despite the pandemic.

The power of scaling-up

Now what is scaling all about? Consider a company like Slack Technologies, a platform allowing for teams-targeted communication. The company had 10 million registered active users back on March 10th 2020 and jumped to 12,5 million users at the end of March (The Verge, 2020). Slack was able to grow fast because it already had the infrastructure to accommodate the additional 2,5 million users and the sufficient support personnel to serve those new users. The company grew its revenue without having to make any heavy asset or personnel investments. That is what represents the notion of scaling. It occurs when revenue increases at a fast pace without necessarily increasing resources or investments. In case of platforms, those direct and indirect network effects (demand side) combined with a very low marginal cost results in the scale up effect. This is also a case of Zoom, a global video teleconferencing platform whose shares soared by 140% in 2020, despite the security issues that arose.

With the beauty of a fast growth however, comes a danger of security and privacy challenges. We all recall the Facebook - Cambridge Analytica scandal from 2018 where the openness of the Facebook platform has been questioned as data from millions of user profiles have been exploited as a weapon of voter manipulation. This, as Cusumano, Gawer and Yoffie propose, is a matter of responsibility, liability and trust (2019). Facebook has undoubtedly suffered from that lack of user trust ever since the incident. More recently, Zoom Video Communications faced some serious security challenges. With the Covid-19 crisis and people all over the world being locked down home, the video conferencing platform Zoom has become the default virtual meeting platform for many. As thousands of new users joined the platform's network by downloading the Zoom App, the security issues started to occur. With repeated incidents of "Zoombombing" meetings crushed by uninvited participants sharing inappropriate content with other people, Zoom's trust and reputation has been damaged. Several big companies including Tesla, Daimler AG, Ericsson and Bank of America banned its employees from using the tool (The Street, 2020). Despite those worrying incidents, Zoom's shares soared by 140% since the beginning of 2020. One reason for that is the sheer demand and another, the quick and solid response of Zoom's CEO Eric Yuan who created a 90-day action plan to remove the security issues and further promised to regain trust of its clients.

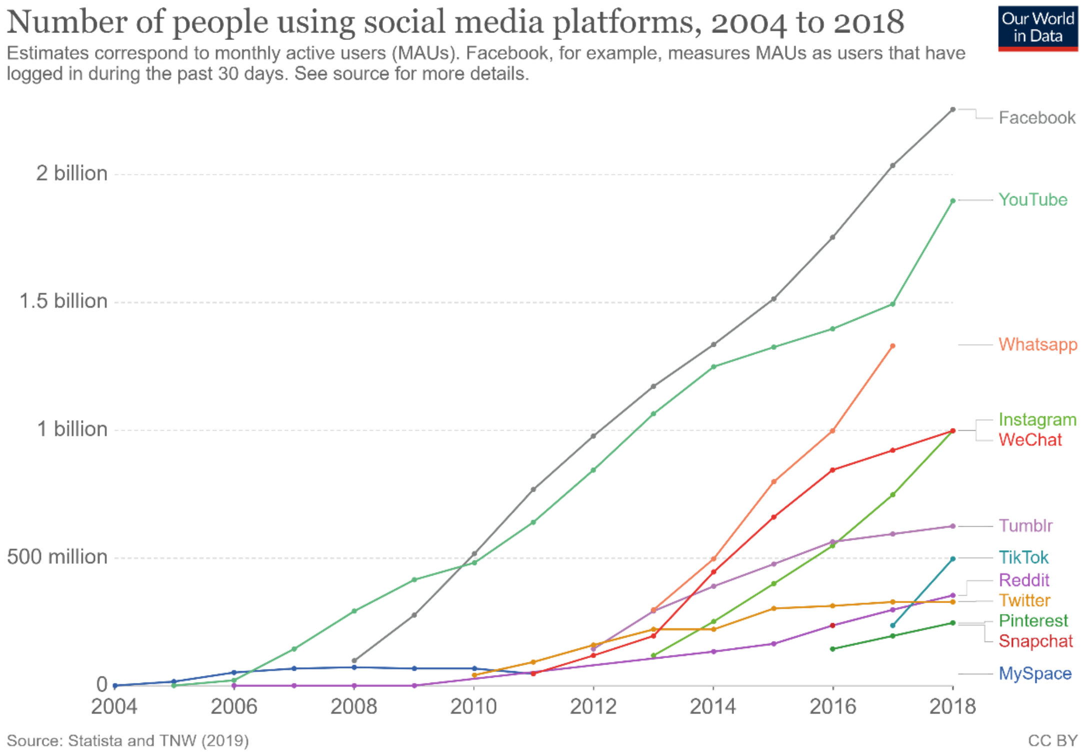
The new landscape of scale-up competition

It is clear that the Covid-19 crisis has contributed to making more visible new forms of competition and business leadership with digital platforms thriving despite the economic hardship. The scaling platform-based ventures that operate amidst the pandemic experience some key competitive challenges or opportunities (Ayache Wiszniowska, 2020).

The "out of the blue" X factor

First, competition is challenged by a permanent "out of the blue" X factor with rapid and unexpected growth. The case of social media and of their "fast and furious" quest of users has dramatically changed the media world but also the society in a few years (table 2). During this covid 19 crisis, this is the case of Zoom or Slack for instance, whose openness, ease of use, digital infrastructure and ideal niche of remote work assistance has fit extremely well with the crisis-based and crisis aftermath market needs. This opportunity needs to meet with an appropriate response and client offering as the competition starts to get fierce amongst digital platforms.

Table 2: The scale up of social media platforms



Source: Ortiz-Ospina E. (2019)

The "15 minutes of fame" factor

Second, all of us know the famous quote attributed to Andy Warhol that "in the future, everyone will be world-famous for 15 minutes." It led to the concept of "15 minutes of fame"— the idea that anyone can access celebrity through fast blow-up by the media. Today, and more in the future, companies in the world of on-line platforms may experience a "15 minutes of fame" effect and quickly become known in a given market field. The new stars for instance, are the online grocery shopping platforms whose challenge now is to turn the market need into a sustainable advantage that scales beyond the Covid-19 crisis times. The main second-effect issue, of course, is to stay alive after 15 minutes and not go back to the unknown... Only a small number will not become falling stars;

The "Achillis heel" syndrome

Finally, these companies may be concerned by a "Achillis heel" syndrome, where high performance, exponential user growth and increased security risk tend to result in the need for quick re-invention, adaptation, technology advancement and a new managerial skill set that can lead through the crisis time ahead. Lack of those skills and techniques can turn the growth opportunity into a threat. Successful scale-up leaders need to focus on the opportunities that the current situation offers and think innovatively about their products and services as well as new sources of investments. They need to focus on digitalization of offerings and operations as well as on building collaborative, agile teams that adapt to fast-changing conditions.

Conclusion

Despite the fact that many traditional companies with a traditional business model struggle to keep their ventures afloat, the Covid-19 pandemic is an acceleration for entry into the platform society and the subsequent scaleup. However, it's a new world of uncertain conditions, new threats and new needs. It's a world of rapid rise and fall of platform based companies which need to leverage the opportunities while at the same time reducing the level of incurred risk and securing for the future.

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