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Back to the future? Rethinking platform architecture

Senior Lecturer, Strategic Management & Corporate Responsibility

- 2006-2011: Aviva
- 2005-2006: Scottish Widows & Fidelity (Fundsnetwork)
- 2000-2005: Skandia
- Pre-2000: Health insurance marketing





Research outline

- UK personal pensions
- 31 unstructured interviews across 8 “manufacturer” firms, late 2014
- Discussions related to factors associated with change between 1984-2014
 - Product structure
 - Firm structure
 - Industry structure
- Thematic map created at different levels, and connections between levels
- Period emphasised 2012-2014 – “reintegration” phase



Modularity

- Modularity occurs when a system can be broken apart into components whereby the components interface with each other in a defined manner



2005 – 2012:

we can recognise the emergence of an open and modular **product** and **industry** structure (that began c1999) – systems break apart and components interact via standards



(2) Complementarity

- **Generic complementarity** occurs when components in a system are abundantly available – reducing “value added”
- **Unique complementarity** occurs when managers perceive “value-added” by combining (integrating) components in a system in new and unique ways





How?

Guided modularity

1. Generic complementarity maintained
2. Non-unique
3. Weak organisational ties along value chain
4. “Manufacturer” in control
5. Market contracts

Power blocks

1. Some unique complementarity
2. Component exclusivity
3. Stronger organisational ties along value chain
4. “Manufacturer” in control
5. Opportunity to rebuild capability and component know-how
6. Market / hybrid contracts

Reintegration

1. Unique complementarity
2. Acquisition of component suppliers = unique complementarity
3. Opportunity to leverage capability and component know-how
4. Forces horizontal and vertical integration along entire value chain



What next?

Speculation.....

.....but we can look to studies of other industries.....



A bit more theory...

- Reintegration begets further integration – “centrifugal forces”
 - As suppliers/distributors are acquired, the existing pool of suppliers/distributors reduces
 - The size of the market for supplying/distributing reduces, forcing horizontal integration along the value chain
 - The frictional costs of using the market eventually increases, pushing contract prices up, further promoting integration
 - Some suppliers/distributors may forward or backward integrate to protect existing “value” or exploit unique complementarity



What next? *Certain...*

- Platforms
 - Further backward and forward vertical integration, via acquisition, where unique complementarity is perceived
 - Creation of uniquely complementary bundles of components (linked to unique capabilities/target markets) – also leveraged via “power blocks”
 - Disintermediation of many downstream “SME” FA’s (via consumer platforms/technology-enabled advice)



What next? *Probable...*

- Left with a handful of platforms operating in differentiated segments (based upon bundles of “uniquely complementarity” bundles)?
- Open and modular (generic complementarity) platforms likely forced up-market into smaller segments
- Left with a more powerful FA market – Power block member? Product provider?
- Upstream component suppliers, acquired, exited, or serving a much more powerful platform or FA customer



What next? *Possible...*

- Reintegration occurs across value chains, not just within FA channel – ie workplace, corporate, investment dealing platforms, etc
- FA firms with capabilities in product provision, fund management across the consumer/workplace channels may establish themselves in the platform space
- Market possibly ripe for.....
 - an ultra-low cost operator in the consumer platform segment? Who?
 - a new type of intermediary? Think confused.com / rightmove.co.uk



Final thoughts...

- Winners and losers? Its unclear
- The biggest threats to an industry nearly always come from outside the industry (as defined)
 - Typewriters > PCs
 - Stereo systems > streaming
 - Etc
- Will the big gains from the reintegration of complementary bundles, and a synthesis across industries?