

# Northumbria Research Link

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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](http://confused.com) / [rightmove.co.uk](http://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?