

Platform Conflicts

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..... Competition between platforms generates vendor behavior that sometimes aligns with the interests of users and application developers, and sometimes does not. For example, competition gives platform leaders incentives to improve the functionality of their code and improve the experiences of their users. It also leads them to make it difficult for users and programmers to switch between platforms.

What else drives the incentives of participants within platforms? This column focuses on the interplay between platform leaders and other participants. Successful platforms create value, but success creates the seeds of conflicts. Those conflicts concern to whom the value flows.

That is worthwhile to understand. These conflicts generate a variety of incentives, and related behavior arises in many contexts. It is a part of the landscape for most firms.

Platforms with contracting

Platforms help organize complementary inputs into end products that create value for users—in mobile devices, Web services, you name it. Platforms contain a mix of standards, and these complement many other firms who build services upon the standards.

In a rather common situation, the participants acknowledge their shared relationships and anticipate repeating them. They treat them like any other market

relationship, and embed them within contracts, and negotiate terms. Contracts do not resolve conflicts about the flow of value, however. As elsewhere, these contracts are only the beginning. Contracts set up terms for business, and set up a framework for renegotiating terms as circumstances change.

Conflicts arise because renegotiation is inevitable. Renegotiation is inevitable because bargaining positions change frequently in fast-changing markets.

Sometimes the conflicts become rather visible. Back during the browser wars, for example, Microsoft renegotiated its licensing terms to suit its changing strategic goals. Bill Gates did not hesitate to add provisions to its Windows licensing contracts, such as those that prevented HP from adding help screens to its system. Removing such screens made Netscape harder to use. He also saw nothing unusual with enforcing the terms using blunt instruments, such as reminding Compaq that it could lose its license in 60 days because it had not followed specific provisions about displaying Internet Explorer.

Steve Jobs' behavior can provide another sharp illustration. He anticipated that the iPhone's success gave him more bargaining leverage with developers and users. He tried to renegotiate the terms with developers, giving Apple rights to customer lists and information for advertising. It angered many developers, and that found its way to online chat

rooms, but few developers acted on it. At the time, most stayed with Apple because its customer base was valuable.

Renegotiation isn't restricted to the relationship with developers. Anybody making a complement will experience this at some time. Consider Apple's behavior as it introduced a new connector, one with more pins and capabilities. A range of licensing contracts govern many of the complements that use Apple's old design for a connector. Everybody expected the same to hold for the new.

Apple kept the new design secret for as long as it could, and made the new design according to its own needs and preferences. Once it announced the new design, it expected clock-makers, speaker providers, auto-dash designers, and all the others to fall into line, paying up on royalties in new contracts.

Many of those same firms resented how Apple pushed the redesign costs on to them. Apple could expect a revolt in name only, not in actual delivered products. The Apple accessory market was too big to ignore.

These types of conflicts also arise in other parts of the smartphone business today. Carriers in the US control much of the sales and support process for voice calls and data delivery, while smartphone device makers—Apple, Android, Microsoft, and BlackBerry—control much of the sales and support process for apps. They need each other

to create value for users, although it is not a heavenly marriage.

Their cooperation and conflict has evolved in interesting ways. Consider the changes to text messaging and voice telephony, as user time and attention moves to applications—Skype, WhatsApp, or FaceTime—as well as scores of other apps that test the boundaries of the devices. Revenue follows time and attention. It is not surprising that carriers try to block some of these apps, or slow down their deployment, as it affects their bottom line. The device makers and platform leaders push back on behalf of the apps' providers, as more functionality helps each platform evolve and sell to users.

Both carriers and device makers would prefer to deal with a partner who had a nearly commoditized brand, who could not push back. They never get their wish, of course, but that desire motivates each to test the other, just to gain a little advantage. And they do, and frequently, nearly every time they renegotiate terms of their contracts. So it goes.

Without contracting

The point so far: the presence of contracts, per se, does not prevent the emergence of conflicts over the flow of value. Contracting is a detail, not a deep cause. That insight begs the question: What about circumstances in which contracting plays a reduced role?

Google has found itself in this type of situation for a while. Google does not have a contract with every website, though it runs spiders on as many as it can, feeding its search engine. That brings traffic to most sites, so many are grateful. What causes the issue? In short, Google also determines the flow of value.

Specifically, Google updates its algorithm frequently, but it protects its proprietary secret sauce. Also preventing others from gaming the system, it does not say precisely how it updates. Yet, organic listings change, and so does a website owner's profitability. Owners resent Google's place as both judge and jury for disputes about why a website

merited a higher or lower listing. No contract framed this problem, nor will one resolve any dispute.

This conflict gets more subtle when one of those firms advertises next to Google's search engine, which introduces contracting. Google will compute and use a quality score for the ad's link. Although the score partly serves to discourage sites with deceptive business practices or poorly designed landing pages, it also serves another broad purpose—to rank ads. The quality scores change over time too, as Google watches user click-through—namely, users' associations between an ad's link and a keyword. Those changes can influence an ad's price, and an ad campaign's price, which means Google's quality score ratings affect a website's bottom line. In short, conflicts are inevitable over how Google makes a quality score, because it determines the flow of value.

Google faces a related set of conflicts when it provides information to users instead of merely organic listings. For example, it provides information about weather, restaurants, vacations, and other mobile destinations. Google wants to get answers to users faster, so users keep coming back. Meanwhile, Yelp, TripAdvisor, and others want to come up high on the organic ratings. Yelp, for example, wants to hold on to their compilation of user ratings, and does not want Google to relist them. Yelp also advertises. Once again, conflict is inescapable.

News presents an interesting twist on this theme. Google wants to get users their answers quickly, so it aggregates headlines and a story's opening sentences. Sometimes a sports score is enough to satisfy a user, and sometimes the headline invites a click-through into the article. Thus, Google acts both as a substitute and source of traffic. Once again, the flow of value—namely, in the form of ads aimed at readers—follows next.

The conflict over news could evolve in many directions. For example, the *Wall Street Journal* has put up a pay wall and charges users, and keeps threatening to charge Google. The German parliament

recently passed a law insisting that newspapers are due copyright royalties if Google quotes from others too much. Some of this clearly helps newspaper revenue, but does it help users? More to the point, how will it aid technical progress? That is harder to perceive.

Another illustration from the Internet shows up in online video today. Open protocols lead lots of players to come into conflict despite lack of contracts. Netflix and broadband ISPs are the latest examples. ISPs want to put caps on large data use, for example, which hurts Netflix's ability to offer its service. ISPs want to limit the costs of data.

This too could evolve in many different ways. In Canada, the regulatory bodies allowed the ISPs to place caps on user downloads, and many ISPs set limits at 60 Gbytes per month, well below that of a major Netflix user. That led Netflix to reduce the use of high-definition movies. Deutsche-Telekom in Germany has just announced plans to do the same in the next few years. In the US, the issue is unresolved.

Circling back to the main point, participants within platforms inevitably fight about how much value flows to participants, with and without contracting to mediate the dispute. Such conflicts are inevitable owing to the frequency of upgrades and new applications, and the renegotiation that follows.

Interpreted broadly, progress begets conflict. That makes each example of conflict seem less harmful. Yet, that insight also begs questions about whether any conflict's resolution interferes with more progress at a later time. It also raises related questions about how conflicts within a platform shape competition between platforms, which ultimately shapes the rate of progress and the size of profits to be shared by a platform's participants. MICRO

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