Next generation retail:

The rise of the omni-platform.

Talk to Boxwood.

Overview

Amazon, Facebook, Alibaba and other platform business models have turned the world of retailing upside down. Retailers need to transform their customer offer and organisational models to survive, and thrive, in this brave new world. It's time for a proactive approach.

> **"Amazon's goal is to make it 'irresponsible' to not be a Prime member."**
>
> Jeff Bezos
> Chief Executive Officer, Amazon

Next generation retail is arriving fast, and the rise of platforms has changed the way consumers interact with brands, and each other, forever. It's no longer good enough to be 'omni-channel', we now live in an 'omni-platform' world and retailers must adapt how they do business if they wish to remain relevant and profitable.

The bad news is, most retailers have yet to master multi-channel strategies, let alone omni-channel ones. Proactive strategies that leverage the full potential of the various types of platform businesses are few and far between. And of course, the pace of change is getting faster. Platforms have taken the bull by the horns and their radical and relentless focus on innovation through technology is changing the way consumers shop, and manufacturers sell, at a frightening pace.

So what does this mean for your business? Well, in short, if you want to survive, and thrive, it's time to act. In this paper we provide a pragmatic view of what type platforms are available, what benefits & threats they can bring to your business, and how best to build a plan to counter (or be part of) these.

Introduction

Platform business models have been around a long time, albeit in different shapes and sizes. In 1886 the first representative of the California Perfume Company (Avon) started selling beauty products to women in her social network and local community. No one called this emerging business model a 'platform', but the peer-to-peer approach to attracting consumers was there.

Since 1945, retail has undergone a larger transformation than many other industries. Where once consumers shopped at their local corner store, they now access retailers from the convenience of their own home.

Many define chain stores as the first evolution of organised retail. Moving on from this model to multiple store concepts meant a shift in mindset for retailers, who were now required to operate new formats, such as out-of-town destination and urban convenience stores. The proliferation of new formats was further amplified by the emergence of the internet, which introduced an entirely new channel. This resulted in multi-format retailers moving towards multi and omni-channel business models, as well as the emergence of new businesses operating solely online. Today, the line is increasingly blurred as retailers mix and match their channels to meet their customer needs.

The latest development has been the rapid entry, and domination, of commerce platforms that create overarching customer-focussed ecosystems. This stage of the evolution requires a completely different view on value proposition, geographic coverage, customer and channel. Platforms incorporate social channels alongside product offerings and ancillary service propositions, such as payment mechanisms, logistics solutions, content production and delivery services, to deliver the ultimate in convenience for customers.

This kind of all-encompassing approach is designed to keep the consumer within the ecosystem and target them with multiple propositions, and maximise customer lifetime value. As well as providing retailers with access to new markets and customers, product marketplaces are increasingly building a silent competitive advantage within their core operations through their access to vast amounts of data.

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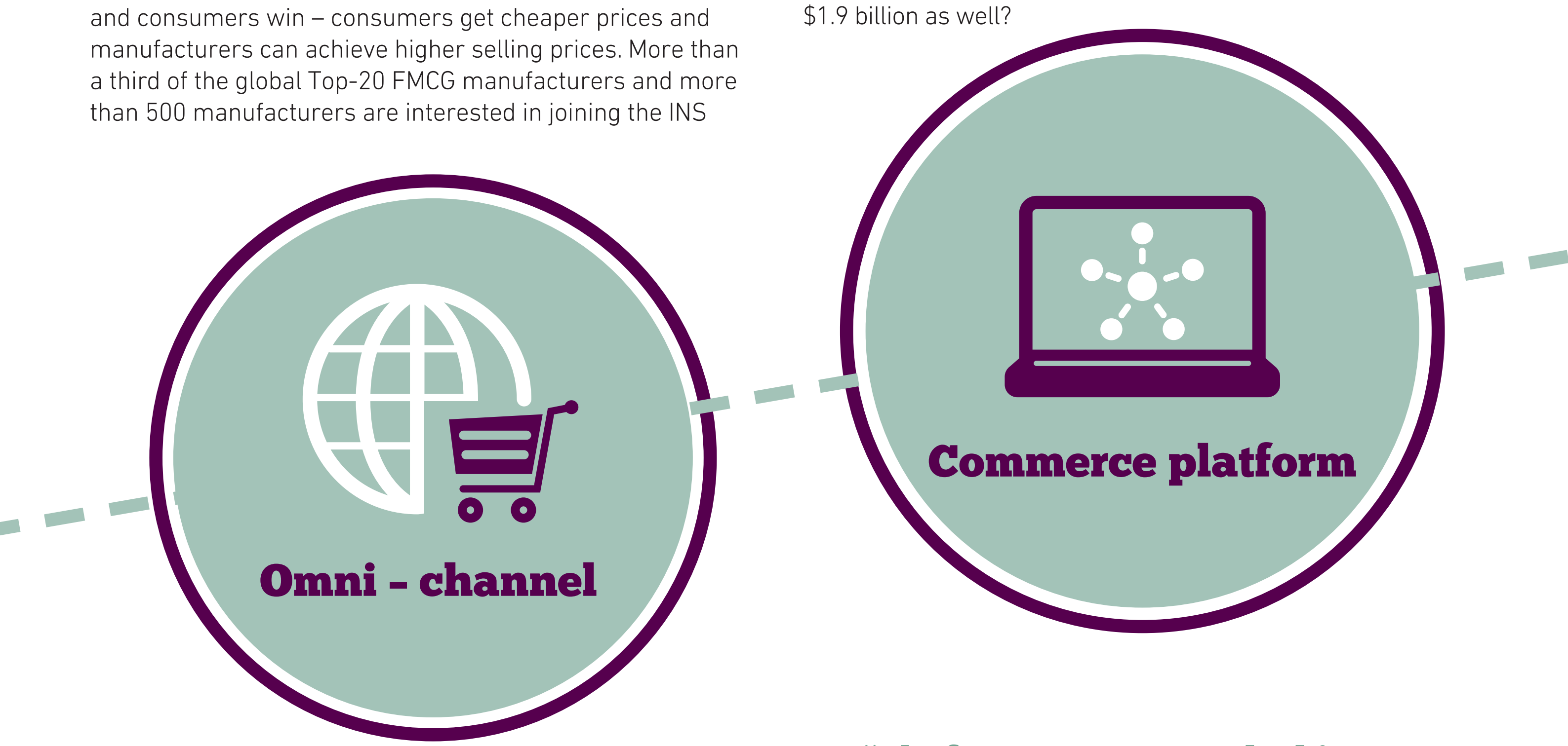
While consumers continue to shop across all evolutionary stages of retail, it's easy to imagine the platform business model taking an increasingly dominant position. As platform retail evolves, it's likely that an increased number of products and services (such as banking and utility services, travel and educational offerings) will be bundled together. In this way, customers will receive the ultimate combination of experience, value and convenience. Both traditional and start-up retailers will need to give serious consideration to the platform business model and what role it could play within their businesses or, more seriously, how to protect themselves from becoming irrelevant.

Indeed, new 'direct to consumer' platforms are emerging which cut out retailers altogether. For example, the INS ecosystem, due to be piloted in the UK in 2018, is a blockchain-based platform that enables manufacturers to sell products direct to consumers. Both manufacturers and consumers win – consumers get cheaper prices and manufacturers can achieve higher selling prices. More than a third of the global Top-20 FMCG manufacturers and more than 500 manufacturers are interested in joining the INS Ecosystem - which has the potential to revolutionise how consumers shop for brands.

While some may believe that selling through a platform is not for them, the recent announcement by Inter IKEA, they are looking to sell products through Amazon and Alibaba, provides food for thought.

As all this comes hot on the heels of IKEA Group's* acquisition of TaskRabbit, we can assume that IKEA is no longer content to simply work with a platform business – it's set to become one.

And who can blame them? The recent example of Amazon's acquisition of Whole Foods demonstrates that the economic model can make great sense to investors. Amazon is paying $13.7 billion in cash for Whole Foods. Amazon's stock was up over $32 by mid-morning following the announcement, so Amazon's market cap appreciated by about $15.6 billion. So are they are getting Whole Foods for free and pocketing $1.9 billion as well?

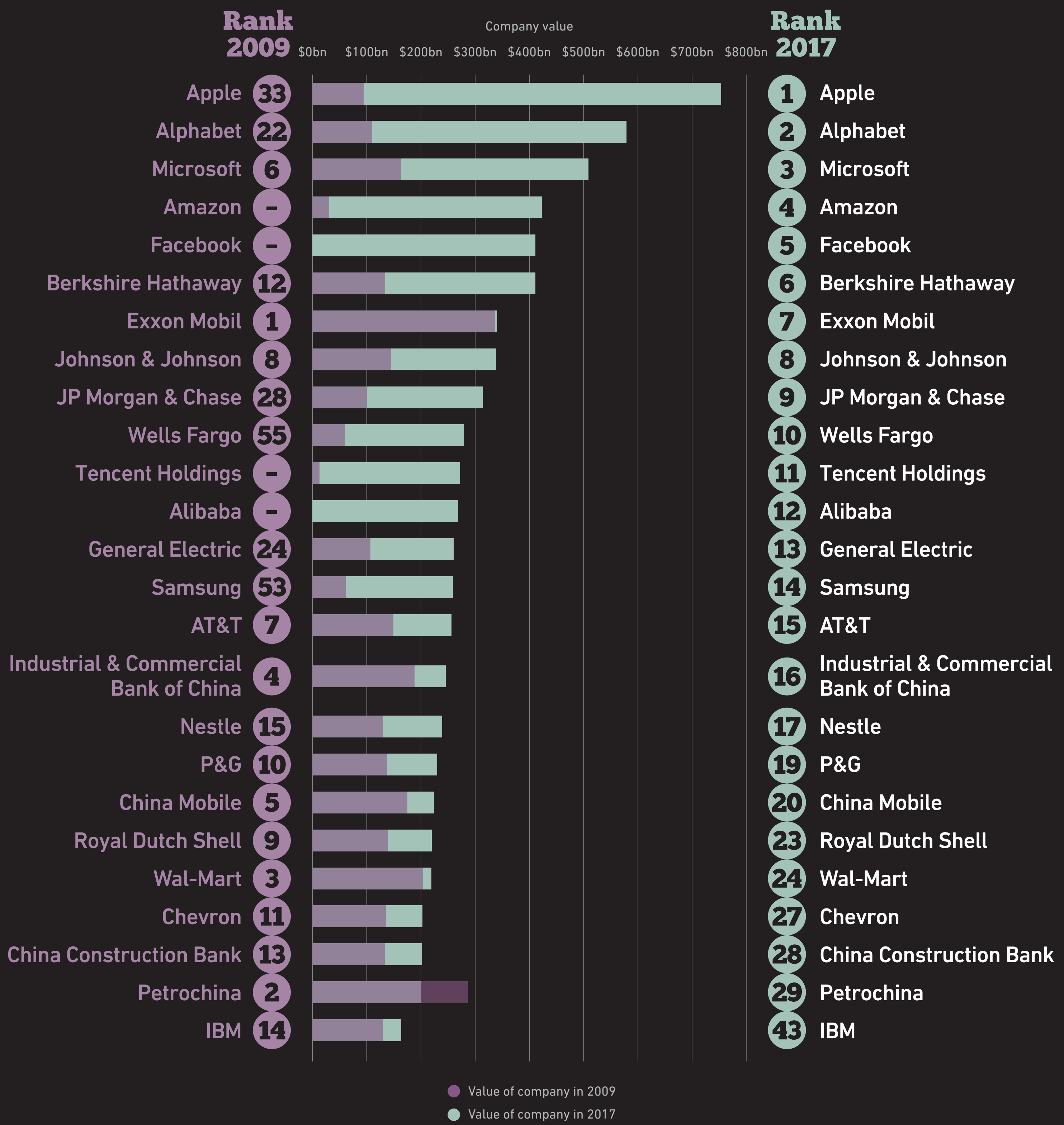


"Platforms represents the biggest development in how consumers meet IKEA since the concept was founded."

Torbjörn Lööf
Chief Executive, Inter IKEA

*: IKEA Group (Ingka Holding B.V. and its controlled entities), the world's largest home furnishing retailer

The race to $1 trillion – platform businesses now dominate the league table of the most valuable companies in the world



Source: Bloomberg

Case study: Airbnb

Operating in the hotel business without owning any of the assets

Airbnb is the star student of the sharing economy, connecting people to travel experiences, at any price point, in more than 34,000 cities and 190 countries.

Whilst Airbnb is not a retailer, the disruption it has caused in the hotel industry, and its use of peer networks, is instructive for consumer-facing businesses the world over.

And the disruption isn't restricted to the hotel industry. Just as Amazon quickly branched out from selling books online into adjacent product categories, Airbnb has developed its offering to include experiences and restaurant reservations.

Customer-centric approach

From day one the company has put a focus on getting to know its customers and what they want. Co-founder Brian Chesky looks beyond the traditional measure of customer service to '6, 7, 8, 9 and even 10-star experiences'. Early on Brian and his team discovered that photos of rental properties and the renter, plus public reviews were the essential elements that built trust.

> **"I think about the 10 star experience."**
> Brian Chesky, Co-founder of Airbnb

Leading innovation

Leveraging the community – both the landlords and the renters – has been at the heart of the business since the beginning. Through getting to know both sides of the transaction, Airbnb has been able to build a functional, trustworthy and user-friendly platform that resonates with travellers. To keep learning, Airbnb hosts bi-annual gatherings with the renters, after which they select insights to be included in their strategic roadmap.

But it doesn't stop there. Understanding what is at the core of travelling (to experience the world and learn from our surroundings), Airbnb has recently introduced Airbnb Experiences. This gives travellers the opportunity to book everything from cooking lessons to knitting groups in the destination of their choice.

Disrupting the status quo

Airbnb has successfully created its own ecosystem where peer-to-peer commerce comes together to provide a new type of experience. To date it has disrupted the hotel industry with over 8.5 million stays and 1.5 million listings, of which it owns none.

AirBnb recipe for success:

- Make the platform as frictionless as possible to attract users
- Create a great level of trust and transparency to encourage participation
- Build and nurture a community of like-minded renters that share best practice and support each other
- Create proactive and reactive mechanisms for addressing issues as soon as they arise

Many of these platform features are entirely applicable to many retail settings. There is much to be learnt and emulated from Airbnb.

The ABC of platforms

The past few years have seen the emergence of a multitude of different platforms, each seeking to create value by allowing networks of suppliers and consumers (individuals and businesses) to firstly interact and then potentially transact.

While the platforms are increasingly aiming to 'eat each other's lunches' and converging, we see at least four distinct platform types in play today.

1. Product marketplace platforms

Alibaba Group

Tesco Direct

Amazon

Walmart

- Provide retailers with access to a vast pool of potential customers.
- Great for customer: ability to shop multiple brands on one site and enjoy a consistent experience while the retailer can rely on third party digital capabilities.
- Can be challenging to build brand awareness and 'stand out' from all the traffic. Customers might not know (or even care) who they are buying from, making it difficult to establish a relationship.

2. Social networking and communication platforms

Facebook

Snapchat

Instagram

Twitter

WeChat

- A vehicle to connect with various networks: family, friends and likeminded communities.
- Effective at engaging vast consumer audiences through different add-ons (e.g. buy buttons). Relationships can be more personal in nature.
- More for building brand awareness. Getting conversion can be difficult as users don't necessarily have a shopping mission whilst on the network.

3. Service marketplace platforms

airbnb

Expedia

Trusted Traders

Just Eat

Uber

- Leverage peer-to-peer relationships at the heart of the business model and provide an efficient user interface.
- Facilitates the building of trustworthy relationships that can be long-lasting. Only pay commission when transaction takes place.
- Platform provider controls all data. If regulatory or legal changes occur, service provider is forced to adapt at pace.

4. Payment platforms

Google Wallet

Apple Pay

Amazon Payments

PayPal

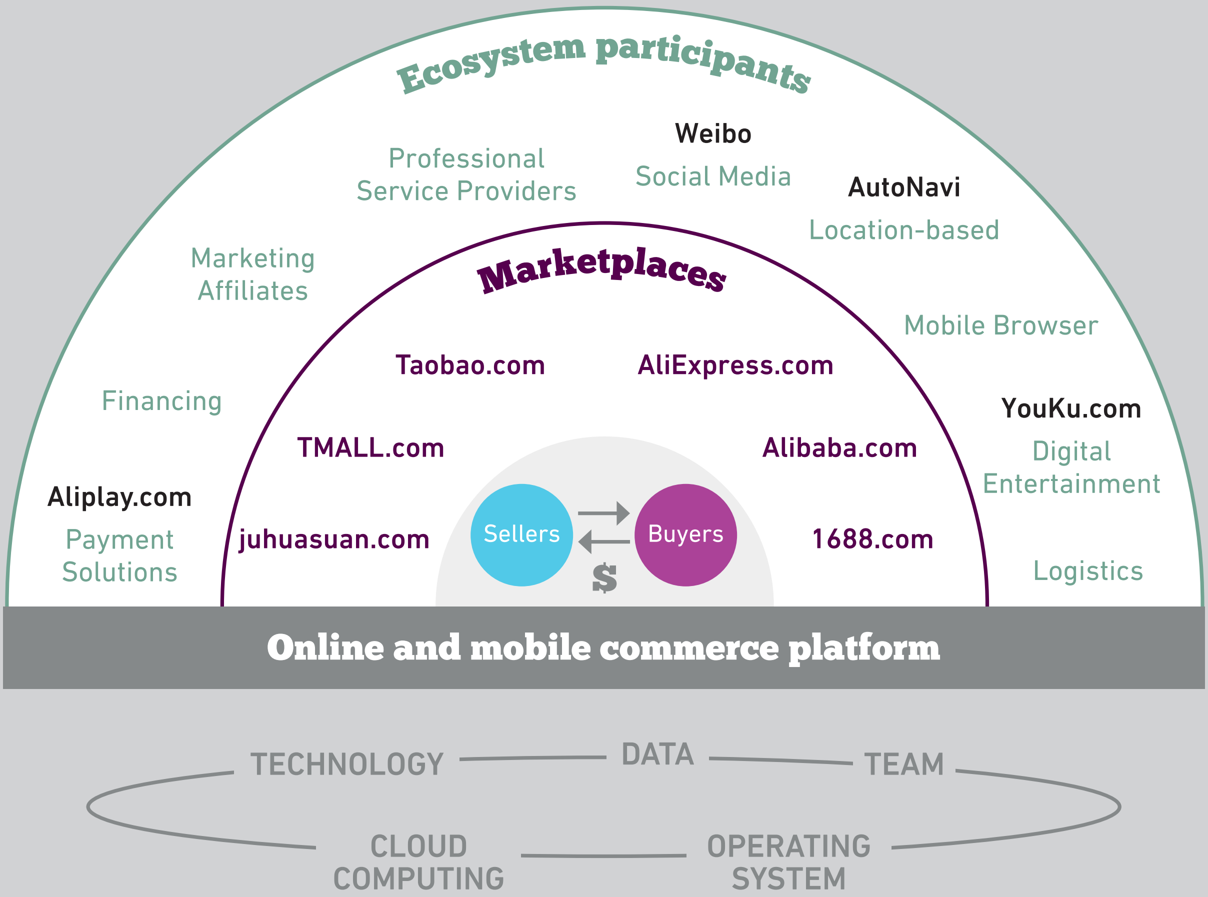
- Trusted brand names making and receiving secure payments for goods. New providers emerging all the time.
- Innovative players are offering features such as instant withdrawals and deposits, low transaction fees, exclusive offers, the ability to accept more currencies, etc.
- Customers may also prefer different payment platforms, making it costly to provide all options.

Case study:
Alibaba

Out Amazoning Amazon

> "make it easy to do business anywhere."

Up until its record-breaking $25 billion IPO in 2014, Alibaba was a relatively unknown entity outside of China. However, this has changed over recent years as Alibaba continues to grow. Although still largely focussed on the Chinese domestic market where it holds a market share of 56.6% in online retail, the company is increasingly looking at overseas markets, and its acquisition of the likes of Singapore's Lazada may be a sign of more to come.



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Creating an e-commerce ecosystem

Alibaba has successfully integrated a range of platform offerings. The resultant business model is taking on, and beating, the likes of Amazon, eBay and Google in its domestic market, and now has its eyes firmly fixed on the global stage.

Whether it's providing individuals and smaller retailers with fee-free access to Chinese consumers on Taobao, or enabling larger retailers and global brands to enter the Chinese market via its Tmall platform, Alibaba acts as a middleman in the B2C space. But unlike other platform companies, Alibaba also operates B2B wholesale platforms like Alibaba.com, as well as providing the means for manufacturers in China to directly access consumers around the globe through AliExpress.

Pursuing Jack Ma's mission statement to "make it easy to do business anywhere", Alibaba has also added to its capability with platform offerings around group buying, online marketing, online payments, financial services, logistics information, cloud computing and data management – rapidly turning itself into a one-stop-shop.

The aim is to provide an end-to-end ecosystem in which the customer can operate across the entire customer journey, integrating social, logistics, payment, B2C and B2B marketplaces, as well as events such as Singles' Day (now the largest e-commerce event in the world) and physical stores, such as the Hema supermarket stores in China through which it aims to integrate online and offline shopping.

Platform wars

Alibaba has had success when it comes to defending its home turf from Western platforms. This, in no small part, is due to it having a deeper understanding of Chinese consumers and small business owner behaviours, and more customer-centric approach better suited to the higher proliferation of mobile phone users in the country. From what was initially a defensive business model, Taobao has emerged victorious. For the Western platforms that have failed to crack the Chinese market failing to recognise that the Chinese market and business environment is very different from a Western business was the first mistake. Not quickly adapting to these differences was the second.

Amazon has refocused on a niche business importing Western brands to China.

With two thirds of the Chinese domestic online retail market in the hands of Alibaba (47%) and JD.com (20%), a mobile app that's failing to excite the Chinese consumer and a Prime offering which is not the differentiator it is in the West, Amazon's market share was 1.3% in 2016 with a focus restricted to selling goods from abroad.

Alibaba's continued focus on the end-to-end customer experience in the domestic market, along with its well-established supply chain and logistics infrastructure, will present international competitors with almost impenetrable barriers to entry.

And it's these barriers, together with the local regulatory environment, that are helping Alibaba to position itself as the way for Western brands to succeed in China.

So while platforms may be viewed as a source of continuous innovation, they aren't infallible and can make mistakes. With Alibaba now pursuing a strategy of international expansion in Australia, New Zealand, India and (through its investment in Singapore's Lazada) markets including Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam, Jack Ma's experience of seeing off eBay in China may now provide the solid foundation for success in both developed, and developing, markets. Add into the mix Alibaba's recent investment in bricks-and-mortar retailing in China, and it's clear that the company will continue to be a force to be reckoned with.

Alibaba has a short-term target of $1 trillion in gross merchandise value by 2020 and a longer-term aspiration to serve two billion customers by 2036. This would make Alibaba the world's fifth largest economy, with sales surpassing the GDP of all economies except the U.S., China, Japan and the EU.

Tapping into the platform opportunity

To harness the power of platforms effectively, it's important to understand the specific needs of your business and choose your platform partners accordingly. Outlined below are some advantages that platforms can provide to your business.

1. Engaging communities

From Business to Fashion, WeChat is China's latest craze, with over 800 million monthly users on the 'app for anything'. It allows users to keep in touch with people and brands and is now being used increasingly for commerce as consumers embrace the idea of using social media to order items. The growth in transaction volumes via WeChat is astounding with total payments up from $11.6 billion in 2012, to $1.2 trillion in 2016. At the heart of WeChat's success lies the seamless customer experience it provides. The App's functionality allows brands to mix with a consumer's personal contacts to create communities of like-minded people and organisations. By seamlessly mixing social and commerce functionality within a single ecosystem, users don't need to switch between apps.

2. Endless innovation

Amazon's strong focus on convenience and innovation has helped it to spread quickly across the globe. Its latest move to acquire Wholefoods represents a direct challenge to the established supermarket retailers and gives Amazon Prime outlet locations near its wealthy customers in all major US city centres.

In India, Amazon has adapted its model to utilise 'mom-and-pop' stores in rural communities. These operate as both partners in the delivery process but also as locations where the 60% plus of the population that don't have access to the internet (and can only pay in cash) can order and pay for items on Amazon.

It's Amazon's ability to constantly innovate that has put it in front. Whilst its Prime Membership locks customers into the eco-system, it continues to harness the latest technology, such as Amazon Echo's Alexa. It's this ceaseless invention and re-invention which means Amazon is leading the charge when it comes to the evolution of platforms.

And it is this innovation that both attracts new customers and makes relationships with existing customers long lasting.

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3. Accessing credibility

Trusted payment platforms like PayPal exist, so why not use them? By offering payment options that include the choice to use a platform like PayPal, retailers can access the trust that platform has built up over many years. And if a social media service can help to build better and more sustainable communities than a business could achieve using their own tools, then surely utilising Pinterest, Instagram or Facebook is worthy of consideration.

4. Faster execution

Using platforms to accelerate things makes sense in many situations. A platform can be used either as a short-term option to allow a business to 'dip its toe', or as a longer-term solution. Building the capabilities and the infrastructure required to expand a business into new customer segments or overseas markets takes money and time. And surely that's time that could be better spent generating revenue from those new customers or markets.

For example, as Aldi continues to focus on building market share in the US grocery industry, it isn't ignoring the small, but growing a section of US consumers that buy groceries online. Aldi has recently announced it will team up with same-day grocery delivery service, Instacart, to run a pilot across three US cities. The aim is that Aldi customers will be able to have groceries delivered to them within an hour. However, this won't be offered through Aldi's own website, but via Instacart. If it's successful, the pilot will be rolled out quickly across other US cities where Instacart has operations.

5. Lower costs

Platforms have helped retailers reduce the need to invest significant financial resources. Whether it's a large retailer automatically expanding capacity on Black Friday by running its IT infrastructure in the cloud, retailers of all sizes with e-commerce shop fronts on Amazon or customer communities springing up on social media services, it's the platform providers that make the investment and take the risk, not the retailers.

"Grocery shopping online is a relatively small part of the business but it is continuing to grow"

Scott Patton, Aldi Vice President of Corporate Buying

Case study: Ocado

In business for over 16 years, Ocado is the world's largest dedicated online grocery retailer with nearly 600,000 active customers. The know-how it has developed along the way, both proprietary technology and IP, is now provided to commercial partners as an end-to-end platform offering.

Leveraging IP and 'platform thinking' to develop new business models

By investing in the technologies and physical infrastructure needed to innovate core value chain elements and drive growth in its own retail operations, Ocado has built a set of capabilities it can now offer to other parties.

The Ocado Smart Platform is an end-to-end software and technology system with a physical fulfilment asset solution, which is combined with a partner's knowledge of the local retail market in which they operate to support a scalable, online grocery business.

Ocado believe that their partners will benefit from a "faster, flexible, more cost-efficient and lower-risk way of launching or improving online grocery businesses, with limited capital investment."

Technologies like the picking solution now in place at their Andover CFC are being perfected and will form the basis of increasingly efficient and effective operations to underpin more broader commercialistion in the future.

Whilst building a platform does not guarantee that partners will flock to it, this kind of platform thinking is likely to become more prevalent as companies seek to maximise returns from significant investments in core capabilities.

> **"Our future platform customers will benefit from years of learning and development in a live retail environment to enable a sustainable launch or improvement to their online operations."**

Case study: Farfetch

Why shop at one luxury retailer or even one shopping destination when you can shop at hundreds all at the same time? By connecting boutiques with a global customer base, Farfetch has disrupted the luxury end of the market with a breadth of offer that traditional luxury retailers are struggling to match.

From small acorns...

Put simply, Farfetch is an online platform for fashion. Since setting up in 2008 Farfetch has created a global marketplace that provides fashion conscious consumers with access to world-famous boutiques and brands, as well as established and emerging designers. Its reach is impressive, with offices in 11 cities and products being express shipped from partners to over 190 countries worldwide.

The shopping experience is designed to be as easy as possible and provides editorial on the latest tips and trends, an app for instant access, a bespoke service for private clients – across nine languages and a number of local currencies.

The boutiques that have partnered with Farfetch (now upwards of 520) decide on their range and set their own prices. The consumer transacts with the boutique via the platform and the boutique arranges delivery. And a fee-free, courier-based or in-store returns policy provides consumers with service they can trust. Unlike Amazon on its Marketplace, Farfetch does not sell products in its own right.

Far Fetch's position has been further strengthened by its recent partnership with Condé Nast, bringing together premium editorial content with the Farfetch e-commerce platform. This convergence enhances Farfetch's ability to inspire customers and attract new boutique partners.

...but watch out for these

Despite the obvious benefits, choosing to use a platform somewhere within your operating model isn't without risks. Some of the main 'watch-outs' include:

Profit

Playing by different rules

It's hard to compete when you're not on a level playing field. Investors appear to tolerate extended periods of loss making when a platform is involved, believing that future returns delivered through market dominance will be worth the wait. While platforms may not be judged by the normal rules most established retailers are, and profits need to be made.

However, this is easy to say, hard to do. Savvy consumers with easy access to price information will force you to price competitively or be absolutely clear what additional value you add that justifies a differential.

Once you have answered the pricing conundrum, don't forget that the platform will take a slice of the action from sales you make through their eco-system, further squeezing your margin. It's not just the retailer that's effected either. The upstream impact on authors and musical artists, where commissions are being squeezed, may provide a salutary lesson when it comes to what producers experience in other product categories.

Platforms continue to drive down prices in retail and other sectors, and lower prices will mean lower profits unless you can access more consumers and drive down your own costs.

Customer

Loyalty

In the past, customers bought via bricks and mortar outlets or direct from a website. Loyal customers would return because of trust generated over a period of time. But now customers have more choice than ever. With just a few clicks they can task a search engine to find alternative sellers, or open their Amazon app to search there.

When operating via a platform retailers lose their autonomy. They are no longer in charge of the customer experience and therefore lose many of the levers that drive loyalty. Many customers may not even be aware of the specific retailer they have chosen within the Amazon Marketplace, and so the loyalty that customers used to feel for a particular company, they now feel for their Amazon Prime membership. While this new type of loyalty scheme is one that consumers pay for, the extra value they can access through their Prime Membership means that Jeff Bezos is well on his way to convincing the world that it's "irresponsible to not be a Prime member". In the US 80 million Prime customers would appear to agree, now outnumbering non-Prime customers and spending over 85% more each year.

Retailers must understand the impact of platforms on customer loyalty and find other ways to generate trust and engage communities. A simple example in Amazon Marketplace is the option to email a purchasing customer to say thank you. At a more sophisticated level, using social platforms to enable communities of fans to create a buzz around your brand is even more powerful.

Data

The data question

Future power in the retail eco-system will be seized by those with the greatest insight. Platforms have access not only to the data generated from your transactions on the platform, but also the data from every other company on the platform.

The ability to aggregate data and generate valuable insights about what customers are buying or saying provides platforms with an opportunity to sell that insight back to you, and to your competitors. It also allows mixed model companies like Amazon to curate its own range.

The question businesses need to ask is what will the impact of this data shift be? The attitude towards data collection, as well as the rules governing it, are shifting and retailers will have to stay vigilant to ensure they don't lose out.

Of course, regulators are beginning to take an increasing interest in how companies collect and use personal data. For example, the EU's General Data Protection Regulation (GDPR) which aims primarily to give control back to individuals over their personal data is due to become enforceable in May 2018 and may act to constrain, but not stop the creation of insights.

With the threat of huge fines for those who fall foul of the new regulations, the implications for platforms are still being determined and this may impact on the value they can provide to your business.

To survive and thrive in the future a platform strategy is an imperative

Many established retailers have already adopted platforms within their businesses, however, few have done so strategically. As we have seen throughout this paper, platforms will continue to become increasingly relevant and powerful in the future. We therefore recommend that retailers take a more strategic approach to incorporating platforms into their existing business and operating model.

So what's the strategy? We have approached this exam question by creating a sequence of considerations that will help you establish, with absolute clarity, the role of platforms in delivering various parts of your value proposition. This process will help retailers to proactively take a stance on platforms and to understand how they can add value. It will also help to create a more solid foundation for the future by ensuring the retailer is well informed about how best to tap into partnering opportunities when they arise. Finally, it's important to note that as a result of this process, the retailer will form an understanding of what not to do, what to guard against and how to protect margin and customer relevance.

Ignoring platforms is simply not an option. Even if you don't partner with any, they will still impact your business. And while there may not be a first mover advantage associated with partnering with a platform, waiting too long to decide why, what and how, may mean all the best opportunities have passed you by.

Below we've highlighted some key considerations for every retailer.

* Reference: Boxwood Insights - The 4 As series 2014

A three-phased approach

1

Why:

- **Gain clarity on Vision, Strategy and core Business Model**
- **Define role of platforms and platform thinking in achieving strategic aims and meeting changing customer needs**
- **Establish guiding principles for platform selection; go/no-go criteria**

Consumer behaviour changes on a weekly basis. Traditional loyalty models are being challenged, and the competitive environment continues to hot up as retailers seek out greater market share ahead of the further rounds of industry consolidation to come. Being very clear about what you're good at and why is the key to understanding how platforms can support your strategy.

The first step is about understanding the role of platforms play in delivering your strategy. Establishing clarity on vision, strategy and required core components of the business model, a retailer can understand the characteristics of the changes required in the business.

For example, a retailer might want to seek international expansion into a new market(s), or they might want to address a completely new customer segment. By mapping these into a framework of where to 'win/match/follow' vs the market, an understanding of exactly where you need to be in order to succeed can be established.

This stage will also help to form your go/no-go criteria – things that are business-critical and need to be protected, cannot be left for a partner to deliver.

2

What:

- **Identify and prioritise what to change to capture the opportunity presented by platforms**
- **Assess how to protect the downside risks and determine the critical success factors**
- **Evaluate changes required in the operating model**

Platforms like Alibaba might appear to be winning everywhere as they build out their ecosystems, but traditional retailers cannot hope to win in all parts of the customer journey. However, knowing what to focus on delivering in-house versus what you will be comfortable to collaborate on, will be a key part of formulating your platform strategy.

The second step determines what operating model changes are required to deliver the future business model. This is also closely linked to customer journeys as it is critical to preserve the most important touch points with the customer.

For example, a capability change required might be detailed knowledge over China as a result of a strategic decision to enter that market. This requirement would then need to be evaluated in the light of 'can we do this ourselves or is there a partner who has a significantly stronger capability to deliver this'? In this stage, clarity on some of the previously discussed watch-outs is vital, e.g. what are you going to do with customer experience and data and how comfortable are you with your partner owning and delivering some of this?

This stage will also help you understand how, as an organisation, you need to change in order to successfully work side by side with a partner.

3

How:

- **Platform partner analysis**
- **Shortlist and establish preferred relationships**
- **Governance established, including stakeholder relationships**

Most businesses aren't great when it comes to collaborating, particularly when the partner in question may be a competitor. Success depends on clarity of objectives, understanding cultural alignment and developing the required execution capability.

The third and last step establishes the right relationships and governance processes to deliver the new capability. We often see the options as 'buy, build or collaborate' and a retailer must evaluate these options across the customer journey in light of all constraints, e.g. financial, capability, time etc.

It is advisable to keep a short list of partners, as more detailed stress-testing and commercial negotiations can change a previously suitable candidate into a non-suitable one. The delicate act of business development will be time-consuming and will test the robustness of the previously created go/no-go criteria, as it can be overwhelming to conduct these processes. Considerations such as regulatory requirements and who owns the data will muddy the waters and will require you to think differently.

This final stage is a less linear process and will require a measured and structured approach. As the platforms become more professional in their own business development, retailers need to ensure the appropriate controls are in place in order for partnering to be a success.

Case study: Amazon

Amazon Marketplace is an evolution of Amazon's early successes in selling products online in its own right. The capabilities that were developed, and the investment that was required, is now being leveraged across millions of retailers globally. So what will Amazon decide to disrupt next?

> **"Your margin is my opportunity"**
>
> Jeff Bezos,
> Chief Executive Officer of Amazon

Online bookseller to global powerhouse with a three (or is that four) pillar strategy

Amazon didn't start life as a platform Business Model, but as an online bookstore that later diversified into other products. The e-commerce and fulfilment capability that was developed was then made available to third-party vendors as a service platform offering – the Amazon Marketplace. The Amazon Marketplace had a record year in 2016 and surpassed 40% of all sales made on Amazon.com with more than 80% of all items listed on Amazon being from third-party sellers.

The growing success of Amazon Prime, and it's ability to increase the stickiness of the relationship consumers have with Amazon, is clearly a significant factor with customers in the US, with Prime members now exceeding non-members.

Amazon Marketplace and Amazon Prime are two of the three pillars that have driven growth for the company. The third pillar, Amazon Web Services (AWS), was a natural progression given the scale of the investment in IT infrastructure that Amazon was making. AWS is now the world's largest provider of cloud infrastructure services.

There has been much speculation about likely source of continued growth for Amazon beyond Marketplace, Prime and AWS. Analysts have suggested a range of potential options, such as grocery, logistics, fashion and Alexa/artificial intelligence.

Amazon have their fingers in a lot of pies. Two of their most recent, and most visible, innovations are the recent foray into bricks-and-mortar retailing through their Amazon Go concept store in Seattle, where new customer experience technologies are being trialled, and their high-profile acquisition of Whole Foods in June 2017.

But it is perhaps AI where the biggest bet will be laid. Just as Prime became a key enabler of Marketplace growth, Bezos believes that AI is the "enabling layer" that will "improve every business".

With Amazon, Alphabet and Facebook all investing heavily in machine learning, machine vision and natural language processing, the race is on to bring these technologies into the mainstream. And once the technologies become mainstream, how long before they are available through a platform offering?

Maybe this is why retailers with scale and brand recognition such as IKEA are now considering the possibilities of partnering with Amazon. The current question may be "Is anyone too big to be an Amazon customer?".

Conclusion

Platforms are here to stay and they will continue to increase their power and influence in the retailing eco-system. As they provide the consumer with ultimate convenience, retailers and brands must take a proactive and structured approach to determine what role platforms will play in their business. Businesses that fail to undertake this process may lose out.

1. **Platforms are becoming more and more powerful and important to consumers and brands. To survive and thrive, retailers need a proactive strategy to work out how to work with them, to either use them to fuel growth or protect the downside**
2. **There are many types of platform, all are innovating at pace and racing/ converging around a broad eco-system that provides ultimate convenience for consumers and extracts the maximum value from the transactions. You need to understand the rapidly shifting market to have a chance of leveraging it**
3. **There are many benefits available in terms of engaging customers and communities, leveraging innovation, accessing trust and credibility, faster execution and lower costs**
4. **There are also many dangers to guard against – margin compression, customer relevance and data being of greatest concern**
5. **A structured approach to creating a platform strategy is a must-have. Otherwise your lunch will be eaten before you realise it. Workout the Why, What & How of dealing with platforms and get organised about how you buy/ build/ collaborate to access the capabilities required to successfully deliver your value proposition**

Talk to Boxwood.

We are working with many leading Retail and Consumer organisations across the globe to help them make the difficult choices that need to be made. If you need help navigating your way through the challenges:

Talk to Boxwood.

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