Platform Business Models in the Logic of Value Co-Creation

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Business Models

Business models have been used to model trading and economic behavior since the 19th century (Teece, 2010, p. 185) and have been discussed from various academic standpoints for more than 50 years (Wirtz, Göttel, & Daiser, 2016, p. 44; 50). Put simply, the term **'business model'** is an approach to explain **how firms do business** (Zott & Amit, 2010, p. 221) and to describe firms' **value creation processes** (Amit & Zott, 2001, p. 493). There is a vast literature stream on business models which is steadily growing. This paper only shows an extract of the business model literature.

In the traditional sense, Teece (2010, p. 172) refers to business models as "the design or architecture of the value creation, delivery and capture mechanisms" of a firm. **Value creation** is defined as the firm's core activities and processes to run business efficiently (e.g., production, service provision). **Value delivery** describes how value is delivered to customers (e.g., retailer, internet), and **value capture** refers to how firms transform value into revenues and profits (e.g., pricing models). **Value proposition** is what a firm has to offer to its customers (e.g., products or services) (Osterwalder & Pigneur, 2003, p. 429). Three assumptions underlie this traditional view of business models (Fehrer & Wieland, 2020):

1. Value creation is something that the focal firm **alone** can manage.
2. Value creation processes describe how to increase value by **transforming inputs into outputs**.
3. Firms' value creation mechanisms are only focused on generating **higher profitability** (i.e., value capture), neglecting other forms of value creation, such as **social value** or **environmental responsibility**.

Traditional business models are problematic because they argue that value is created by firms and delivered to the customer. This is called a **logic of products** because value is assumed to be embedded in products and services (Woratschek, 2020a). An alternative approach is the

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logic of value co-creation (Woratschek, 2020b), which is applied to platform business models (PBMs) in the following section.

Platform Business Models

Uber, which has disrupted the traditional taxi market, is a great example of a PBM. Uber cannot deliver value itself, but **only offers value propositions** aligned to the needs of their customers (Vargo & Lusch, 2008, p. 7). Therefore, **value** is **not embedded in products and services** (car and driving experience), but it emerges through usage. If cars and driving services are not used, there is no benefit for the customer. This is why, **value is always value-in-use** (Vargo & Lusch, 2008). In the case of Uber, multiple actors are involved to make the driving experience happen, e.g., the person driving (e.g., the Uber driver), the person that uses the driving service (here: the customer), the technology itself (the platform Uber) and other interested persons (e.g., reading or writing reviews about Uber experiences). Consequently, **value-in-use is always co-created** (Vargo & Lusch, 2008).

Central **characteristics** of **PBMs** are:

1. Ability to **connect** a variety of actors.
2. **Collaboration** between various actors (Ketonen-Oksi, Jussila, & Kärkkäinen, 2016, p. 1823).
3. **Sharing of** and **access to** the platform.
4. Diffusion of certain **standards** to enable interaction.
5. High **interoperability** across different infrastructures.

The main purpose of platform providers is to enable and facilitate actors (e.g., customers, accompanying persons, drivers, prospective buyers) to co-create value (e.g., digital interactions, driving experience). For reasons of simplification, we focus on Fehrer, Brodie, Kaartemo, and Reiter (2020, p. 131-134) who differentiate between three **digital platform types**:

- **Technology creators** provide a **framework for technical developments** (e.g., Unity facilitates the development of augmented reality applications).
- **Matchmakers** are **focal actors who connect different actors** (e.g., Tinder matches people looking for a partner, Kickstarter brings together entrepreneurs with funders, Uber connects drivers, customer, accompanying persons, and prospective buyers).

- **Decentralised network creators** link different actors **based on blockchains** (e.g., ShareRing, designed for sharing everything – from storage space to tools, clothes, jewellery, food, or even cooking skills). Blockchains assure trust and security between the users. Since there is **no focal actor** as intermediary, decentralised networks are also denominated as **distributed networks**. Therefore, blockchains can create an **internet of trust** (Fridgen, Radszuwill, Urbach, & Utz, 2018, p. 3508).

PBMs provide **strategic benefits** because they can have the following effects:

- **One-side network effects** signify that the value of the platform increases with the **same ilk of users** and the interactions among them (von Briel & Davidsson, 2019). For example, online health communities offer suffering people (e.g., patients and related parties) from chronic diseases or disorders (such as multiple sclerosis or diabetes) support (Stadtelmann, Woratschek, & Diederich,2019, p. 512). Value increases with the number of patients and related parties sharing information, advices and empathy with other patients and related parties.
- **Cross-side network effects** take into account **different kinds of users** where one type of users (e.g., Uber driver) attracts another one (e.g., Uber riders). The value of the platform is comprised by the availability and balance of all user types. The more prospective buyers register on Uber and use the service, the more attractive becomes the platform for drivers. Uber would create little value for a potential Uber rider if there were hardly any Uber drivers registered and active on Uber. Similarly, for Uber drivers, the platform would have little value without a sufficient number of potential Uber riders (von Briel & Davidsson, 2019).
- PBMs facilitate **access and use of underutilized resources** without having to own or maintain them. For example, Microsoft can draw on the knowledge of their Unitiy developer community to further develop the Unity software, without having to employ these developers. Airbnb guest can rent the beach house, tree house or boathouse from private owners, which potentially had been empty (underutilized) before the Airbnb platform existed (Fehrer at al., 2020, p. 133).

To put it in a nutshell:

1. Business models describe **how firms do business**.
2. **Traditional** business models describe **how firms create value**.
3. Firms **create** value and **deliver** it to the customer.
4. Firms **capture value** by transforming it into **profits**.
5. Value creation in traditional business models follows the **logic of products.**

6. According to the logic of products, **value is embedded in products and services**.
7. Value creation in **PBMs** follows a **logic of value co-creation**.
8. In the logic of value co-creation, **value emerges from interaction** between users and providers of platforms.
9. Digital PBMs **connect** a variety of actors for **collaboration**, **share and grant access** to the platform, **set certain standards** and **provide a high interoperability** across different infrastructures.
10. Types of PBMs are **technology creators**, **matchmakers** and **decentralized network creators**.
11. PBMs allow for **strategic benefits** through **one- and cross-side networks** as well as **accessing and using underutilized resources**.
12. Value creation via network effects requires platform providers to **attract** but also **keep the platform users active** in order to benefit from network effects.

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