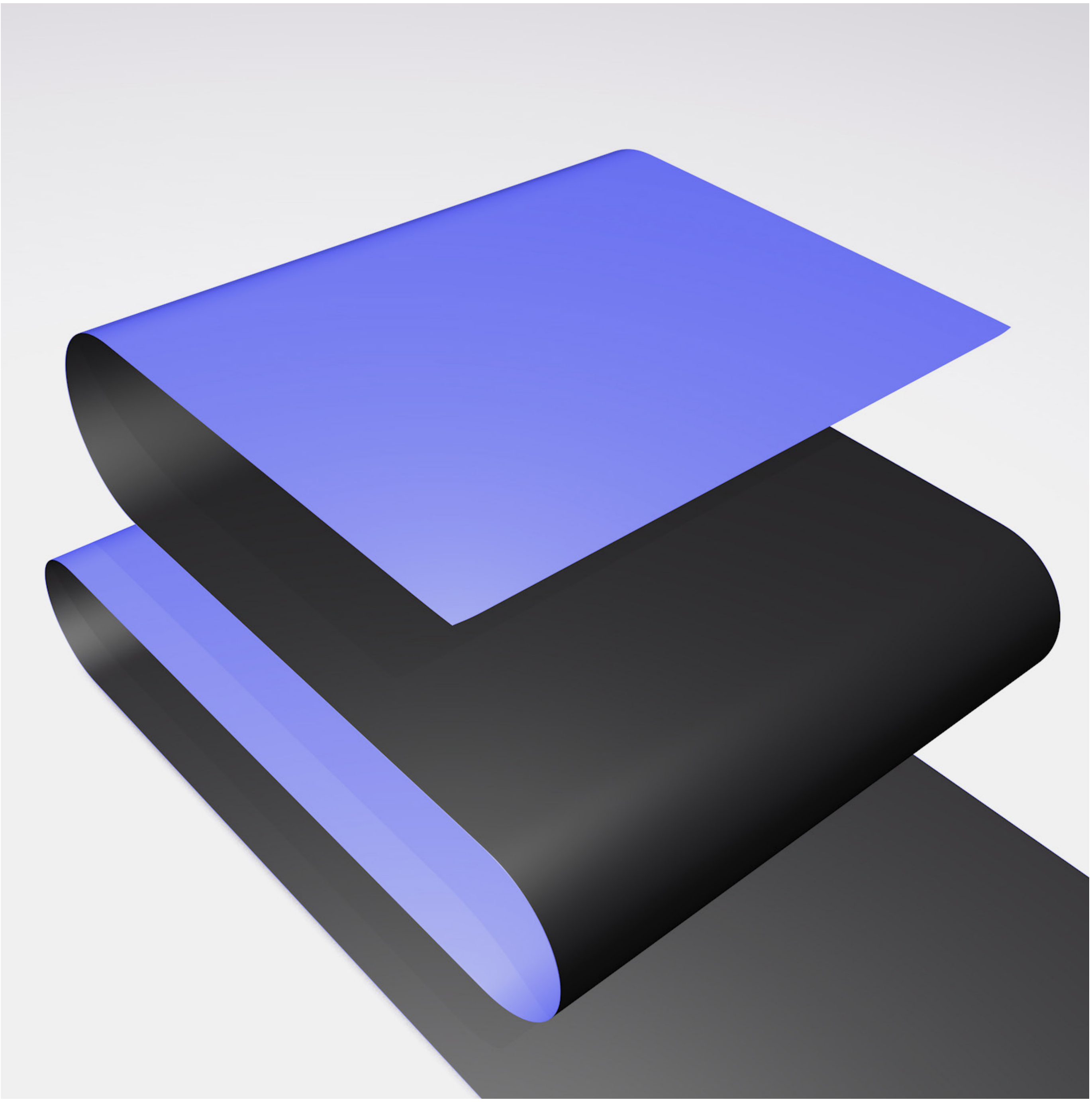
VIVALDI_

MARCH 2019

Platformization Potential

A Vivaldi study introducing the top 50 companies with the most potential to reach levels of growth associated with platform businesses



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Foreword

THE PLATFORMIZATION OPPORTUNITY

Pipeline, or value-chain, companies create value by organizing a chain of activities, from production to transaction. These asset-heavy companies, such as Procter & Gamble, Walmart, and General Motors, compete for customers who they view as the receivers of products or services at the end of their pipeline. Pipeline companies have a win-lose, zero-sum mindset, where success is measured in terms of market share, cost reduction, profit per customer, return on equity, processing speed, brand equity, and other quantitative measures.

Traditionally, businesses were informed by the value-chain framework, so most companies today are pipeline model companies. These pipeline companies have watched with alarm the rapid and, in some cases, exponential growth of competitors adopting the new emerging platform model. We set out to understand the reason for this growth.

Early adopters of the platform model, such as FANGA (Facebook, Amazon, Netflix, Google and Apple), are asset-light and create value by facilitating interaction between external producers and consumers. Management wants to beat competition through advanced R&D, manufacturing, marketing, sales, or customer experience. Success is measured by sales, volume growth, movement into new categories, profitability per customer, capital hordes, and share price.

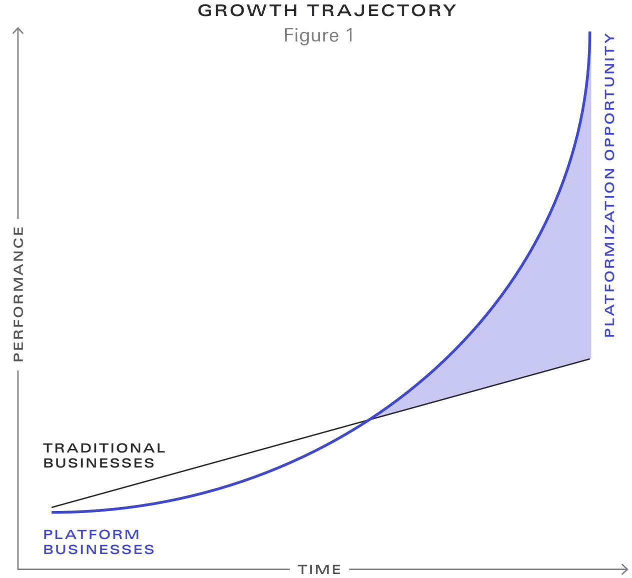
Platform companies disaggregate the pipeline, blur the boundaries between industries and categories, and focus on digital platforms: technologies and processes that enable online exchanges between a number of interdependent groups – customers, suppliers, facilitators – all of whom have various kinds of interest and stakes in the offerings.

Stock price performance has been extraordinary for FANGA companies, averaging over 90% growth for some in the last two years, while pipeline companies' growth has been modest. In total, FANGA is worth over $2 trillion, more than the GDP of Italy.

FANGA companies are disrupting industries and have put once celebrated companies out of business. For example, the rise of Netflix drove Blockbuster — a movie rental chain with a retail network of 14,000 stores — into bankruptcy. FANGA companies can also expand into new markets with ease. Amazon has created shockwaves in categories as different as home electronics and healthcare due to its rapid growth. The launch of Amazon Marketplace, a consumer platform that connects demand with suppliers, allowed 2.5 million sellers to make transactions in merely two years, building a $10 billion business. In 2018, an average of 3,459 new sellers joined every day, which represents 2 new sellers per minute. To date, over 6 million sellers have sold products on its platform.

The platformization opportunity (Figure 1) is real. Whilst all traditional companies can't grow rapidly like FANGA has, traditional pipeline companies could capture exponential growth and potential by adopting the platform model.

GROWTH TRAJECTORY
Figure 1



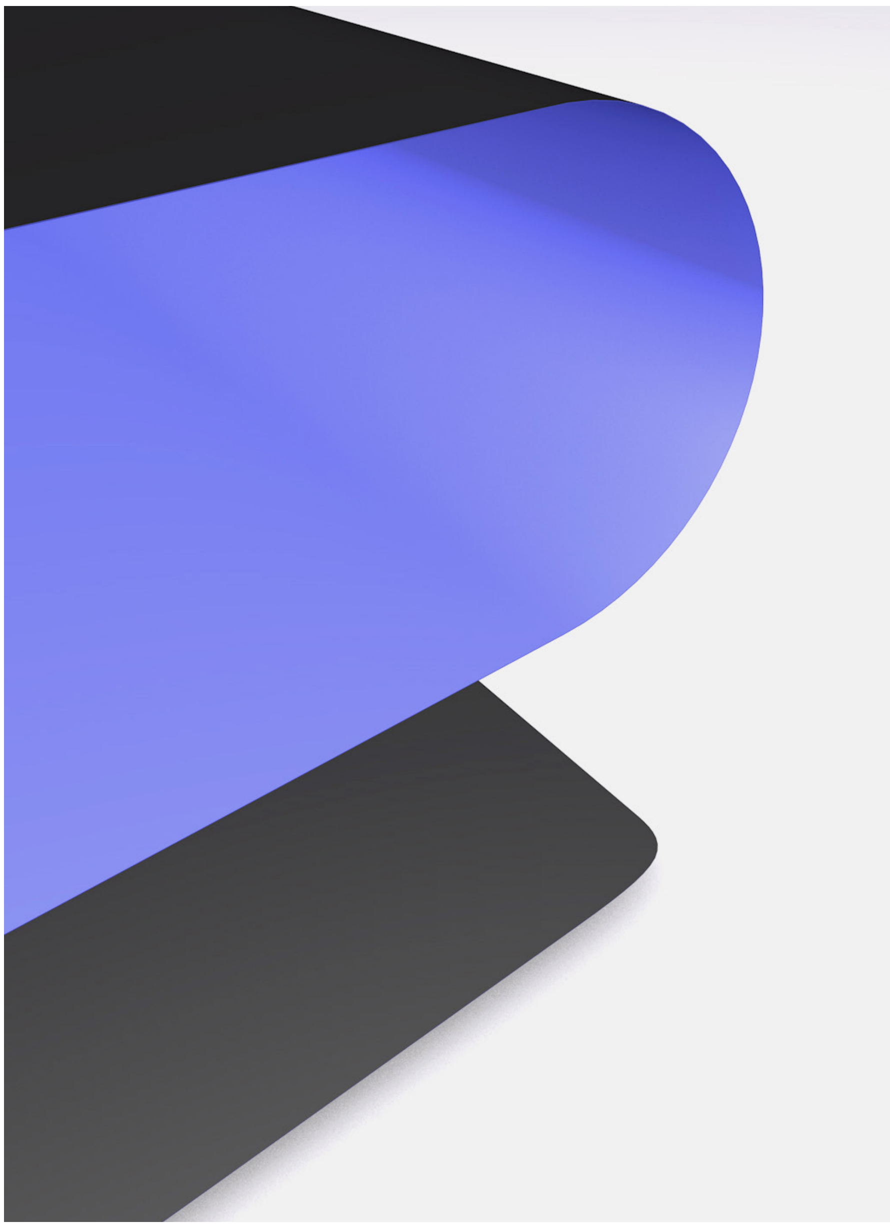
Can traditional pipeline firms
become platform companies?

Can they build a platform business?

Can they capture exponential
growth and boost their stock
performance?

SECTION 01

Platformization



Determining Factors

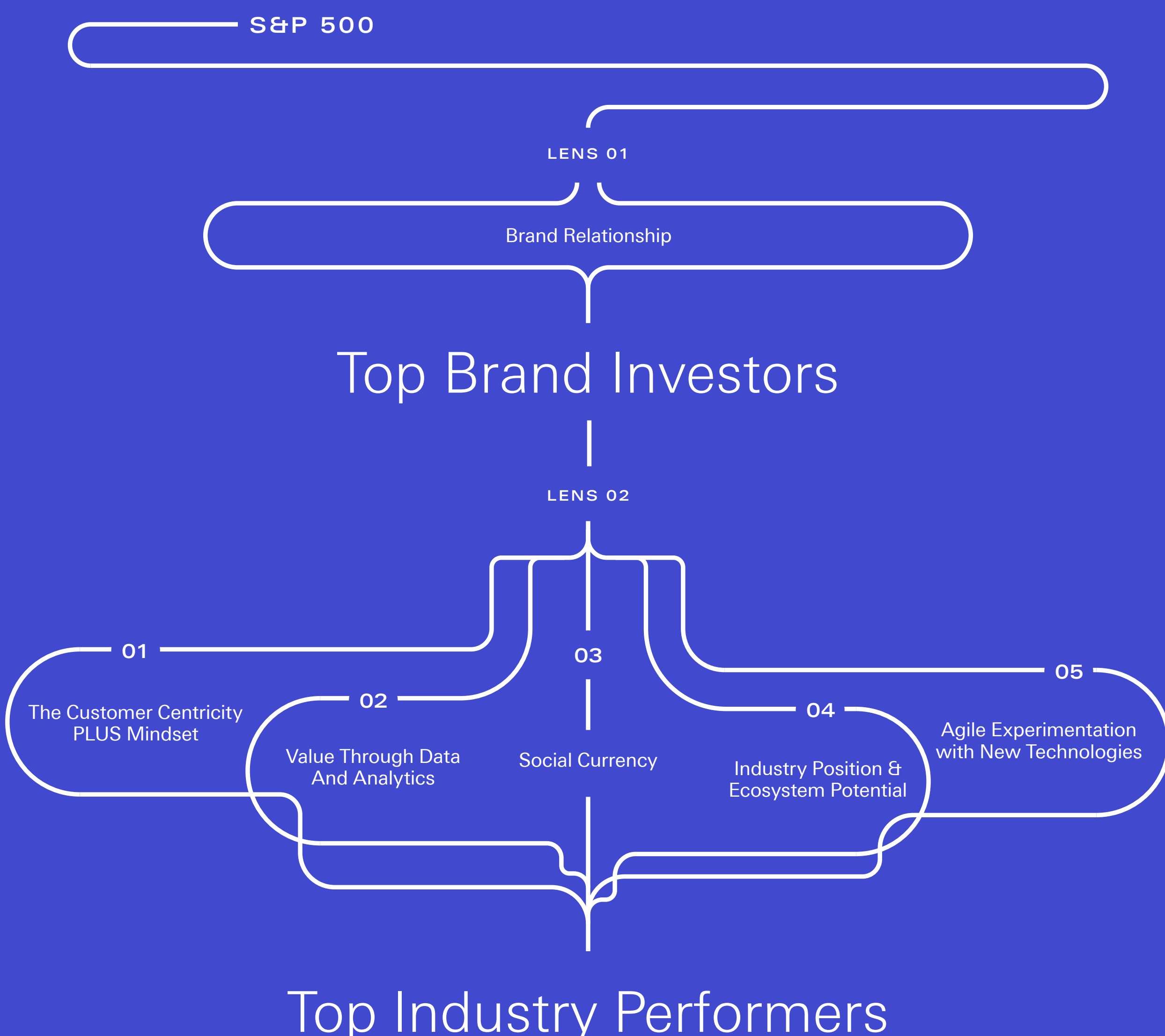
Over the last few years, we have worked closely with numerous pipeline companies to build platform businesses in industries such as wealth management, consumer products, retail, automotive, healthcare, business services, and metal trading. We learned that although platformization opportunities depend on the industry, they are more so influenced by characteristics of the company itself. As such, some companies are in a better position to become platform businesses than others.

Nine months ago, a team of Vivaldians set out to isolate the characteristics of companies that allowed them to become platform businesses, and hence benefit from some of the same exponential growth that the FANGA companies have benefited from.

We conducted a comprehensive review of all the existing scientific literature on platforms (for example, Charles Rochet and Jean Tirole's 2003 paper on platform competition in multi-sided platforms) and built a case library of successful and unsuccessful companies that sought to become platform businesses. From this research, we concluded that a number of key factors determine the potential for a traditional pipeline business to transform into a platform business.

Platformization Potential

We divided our analysis into two lenses: (1) the brand relationship between a company and its stakeholders and (2) how the company performs across five factors. The relationship brands have with stakeholders is critically important, and such a strong determinant of platformization, that it deserved its own category.



The extent to which the brand establishes a relationship with consumers and the nature of the relationship with other participants in the ecosystem is the first lens through which to understand the platformization potential.

LENS 01

The Brand Relationship

Your brand is what consumers remember about you. It is a short-cut for consumers to understand what a business stands for, the value proposition delivered, and the promises made. It is the feelings, emotions, attributes, and experiences that consumers hold in memory about a company, product, or service.

Brand governs the relationship consumers have with a company. At Vivaldi, this governance is defined in the Brand Identity System. The Brand Identity System defines the timeless and enduring elements of the brand strategy and how it translates into a brand-customer relationship.

Our research shows that the type of brand relationship that a company has with consumers strongly determines the potential for building a platform business.

For example, Amazon stands for convenience and this is the relationship most consumers have with the brand. Amazon scores high on brand relationship; it addresses consumers' important needs and wants, and consumers interact with Amazon frequently. Nearly half of all product searches online in the U.S. start with Amazon. Therefore, Amazon has much higher potential to further develop its platform business than FedEx which consumers perceive as a logistics company.

How broadly or narrowly a brand is positioned, to what extent the brand establishes a relationship with consumers, and the nature of the relationship with other participants in value creation determines the platformization potential. This is cost-of-entry.

An important determinant of platformization is how the company views its customers and beyond.

FACTOR 01

The "Customer Centricity PLUS" Mindset

An important determinant of platformization is the mindset of the leadership of the company. The mindset determines how the company views its customers and beyond. Companies that view customers as end-users, end-customers, or as targets score lower on this factor. These companies are 'customer obsessed' focusing on customers and declaring their devotion to customer centricity.

In general, being customer centric is positive. Amazon said at its launch in 1995 that it aimed to be the most customer-centric company, where customers can find and discover anything to buy online, at the lowest possible prices. But this was in 1995. In 2000, Amazon changed its mission and opened its retail platform to third-party sellers. Today, the platform hosts more than 6 million sellers. The Amazon Marketplace platform is the company's 'cash cow' that supports its still unprofitable retail business.

With that said, Amazon views customers as more than just shoppers; they are contributors and collaborators to its platform. Every time customers search, shop, or purchase on Amazon, they contribute to Amazon's data collection. This allows Amazon to aggregate and extract data to suggest or recommend additional products or services to alike customers. In short, an important determinant of platformization opportunity is having a business mindset of looking at customers as contributors to your business, not just as targets to be obsessed about.

It doesn't stop there. Companies need to look beyond consumers or customers, and look at suppliers and other partners in new ways as well – not merely as an input into the value chain, or partners adding value along the value chain, but as essential providers of value, as participants in overall value creation, even connecting partners or suppliers directly with customers.

Amazon weights third-party sellers with equal importance as customers. Today, these sellers contribute more to Amazon's convenience positioning than Amazon itself does. Third-party sellers deliver more products and services than Amazon itself could ever deliver – while Amazon realizes the majority of profits.

Data is the new oil – the new competitive advantage for companies today.

FACTOR 02

Value Through Data And Analytics

The degree to which a company invests in and builds its operating model around data, analytics, and technology, determines platformization potential.

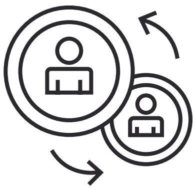
Companies that have high platformization potential are those that think far beyond simply products and services. They operate businesses where value is created through data and analytics, enabling them to create new value through strategies such as personalization or customization.

To better understand customers, and to deliver value, they integrate data from multiple sources; they capture first-party data (those provided by consumers themselves) with their own data in the CRM or customer data platform, and third-party data (those acquired through third-party suppliers to build audiences).

Think of Apple, its App Store is an extremely profitable platform and a key factor in the success of the iPhone business. The platform not only offers app developers access and the ability to sell to a vast market of consumers, but it also offers them data and analytics to improve their software. Even if consumers download the app for free, Apple charges developers a hefty 'Apple tax' for its services: 30% of any in-app purchases in the first year, and 15% every year thereafter. Yet developers are willing to pay these high margins. Why? They believe that the incremental value Apple adds outweighs its fee.

Traditional pipeline companies can begin to exploit similar value through data and analytics. Intuit, for example, is well known for Quickbooks, its tax preparation software. It now manages an open platform that connects the 600,000 accountants who use its tax software with consumers and small-businesses. Over 1,400 apps have been developed by third-party developers. It uses the data from its Quickbooks software to guide software developers in their product development, creating benefits and value for its accountants who can improve the services they offer to those in need of tax preparation services or other accounting services. Thus, Intuit creates value for multiple parties, not just direct customers, but all participants in its open platform.

Vivaldi first defined social currency in 2009 after conducting research with more than 15,000 consumers and over 60 brands.



FACTOR 03

Social Currency

An important determinant and factor is social currency, that is how a company fits or is part of the social lives of consumers or others, and the extent it engages with others in social networks, both offline and online.

Some companies express their point of view on social channels; they have a presence in consumers' minds across multiple lines of communications or channels. They are responsive to consumers and employees, and operate like a human 'sense and respond' mechanism. They express their opinion, as such they don't push, they pull. They draw people into their orbit.

A good example is Salesforce, a juggernaut software company from San Francisco. It is clearly one of the most important voices in enterprise technology. Salesforce was founded only about 20 years ago with the mission to achieve the "end of software." It branded its mission with the loved-and-hated "No Software" logo. It stood out as a unique company with a very different point of view and this has translated into over $13 billion in revenue today.

Salesforce isn't only speaking out regarding the transformation of the software industry, it also rallies around many social issues that matter to everyone whether or not they use their products and services. It rallies business trade groups, CEOs, and politicians on social issues such as gay rights. Its CEO fires off social media missives on Twitter to support the advocacy of issues. Salesforce also built one of the largest and most prolific communities or networks. Once a year it organizes Dreamforce, which drew 170,000 attendees, and 400 partner companies in 2018. The event translates into enormous social currency.

The more a company has established or earned social currency, the higher its platformization opportunity.

Platformization provides an opportunity to tackle tough challenges that an industry is facing.

FACTOR 04

Industry Position and Ecosystem Potential

A fourth factor is a company's position in the industry and their potential to orchestrate an ecosystem. To do so requires companies to have a certain position in an industry, and it requires them to have a systems perspective. One cannot do it alone.

For example, Tesla isn't the largest car company, but it successfully leads the industry in finding solutions for replacing internal combustion engines. It also coordinates a broad network of participants, such as Panasonic for its critical battery supply. Even the government contributed $465 million to its vision.

Industry leadership is important because it gives companies the permission to solve industry challenges. Some companies choose to assume this leadership position while others don't. Nike and Adidas lead the athletic shoe category, yet there are many other brands that have become billion-dollar businesses without assuming industry leadership. Skechers is now a business with revenues of more than $4 billion. While it remains a respectable competitor, Skechers does not lead in innovation or any major category drivers that could solve industry challenges.

Another example is German industrial metals trader, Kloeckner. In terms of revenues or market share, Kloeckner is small relative to the large steel companies like Tata Steel, ArcelorMittal, Salzgitter, or thyssenkrupp. The entire steel industry operates in a traditional way, with most business still done via phone and fax. However, Kloeckner has assumed leadership through the digitalization of the industry. On its website, Kloeckner declares: "The future of steel is here: driving the metals industry forward through digital transformation." The company stepped into this role in 2013 and is now credited for significant advances and contributions in solving major industry challenges such as inefficiencies in inventory management, while increasing its own revenues and sales.

Companies that invest in technology, particularly technology that enables interactivity between customers and partners, have a greater opportunity to become platform businesses.

FACTOR 05

Agile Experimentation With New Technologies

The final factor measures a company's willingness to invest in and experiment with new or emerging technology.

Some companies invest a disproportional amount into experimentation, while other companies are fast to follow and adopt technology once proven successful. Snapchat used the former method and led the industry with their video stories. However, Instagram used the latter and has since surpassed Snapchat's success.

Other companies dip their feet into trying out new technologies, they explore new ways to personalize services, they create new ways of capturing data from consumers, and they continuously explore the technology frontier. Domino's Pizza is a traditional company but has pursued a path of digitalization and innovation through technology, since around 2010, making it enormously successful. In 2018, Domino's became the No.1 pizza chain in the U.S., surpassing Pizza Hut for the first time.

Companies that are willing to continuously experiment and invest in value-creation through technology have higher platformization potential.

SECTION 02

The Study

"The factors of platform potential are the most important determinants of business health and future growth, and yet it has never been measured until now."

ERICH JOACHIMSTHALER
CEO & Founder, Vivaldi

METHODOLOGY

01

We assessed the 500 companies comprising the S&P 500. We considered this to be a representative sample since they account for 80% of the American equity market by market capitalization.

02

We deployed various triangulation methods combining different sources of data for each of the determining factors. We used a dyadic assessment protocol where two or more researchers assessed each company independently on a given factor. Each company's platformization opportunity was assessed according to the factors relative to their industry.

03

In this report, we present the top scoring company in each of the 11 industries studied, and explore the near-term potential the company has to become a platform business.[1]

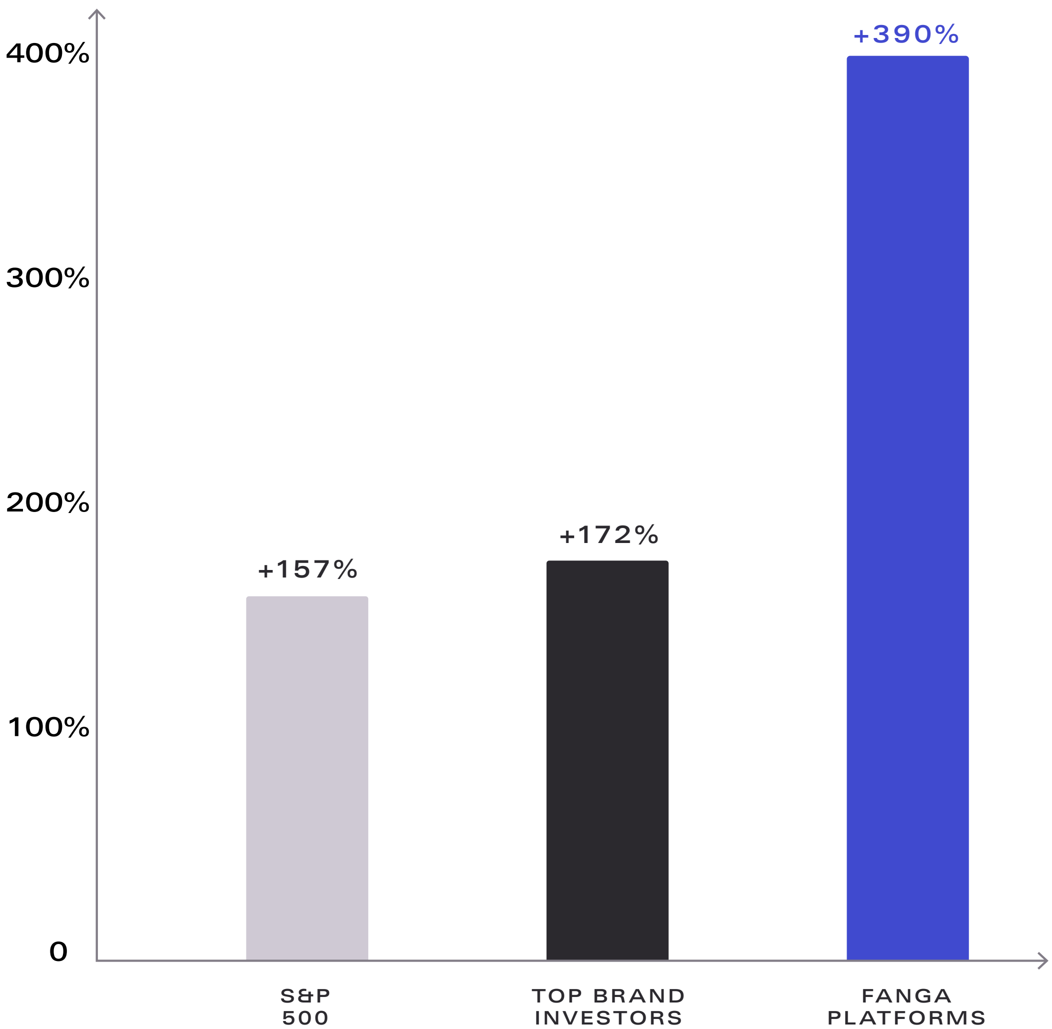
[1] We used the 11 industries found in the Global Industry Classification Standard of S&P 500 to inform our categorization, but also used their subcategories within each industry to group companies that demonstrated similar branding needs. For further details of the study see the research methodology appendix.

THE OPPORTUNITY OF PLATFORMIZATION

Over the last 5 years, there has been sizeable growth of S&P companies from a stock performance perspective. However, all companies have not performed equally. Overall, the S&P 500 appreciated by 157%. If you had invested $1 in 2012, the average S&P 500 stock returned $2.57 (1 + 1.57). If you had invested in brand focused companies, the return would have been slightly higher. However, platform companies offered even superior returns. If you had invested $1 in a basket of FANGA businesses, it would have grown to nearly $5 dollars by 2018 (1+3.90).

We believe that the top 50 platformization potential companies can achieve similar business growth, since they present the right conditions to become business platforms.

STOCK PERFORMANCE, 2013 TO 2018



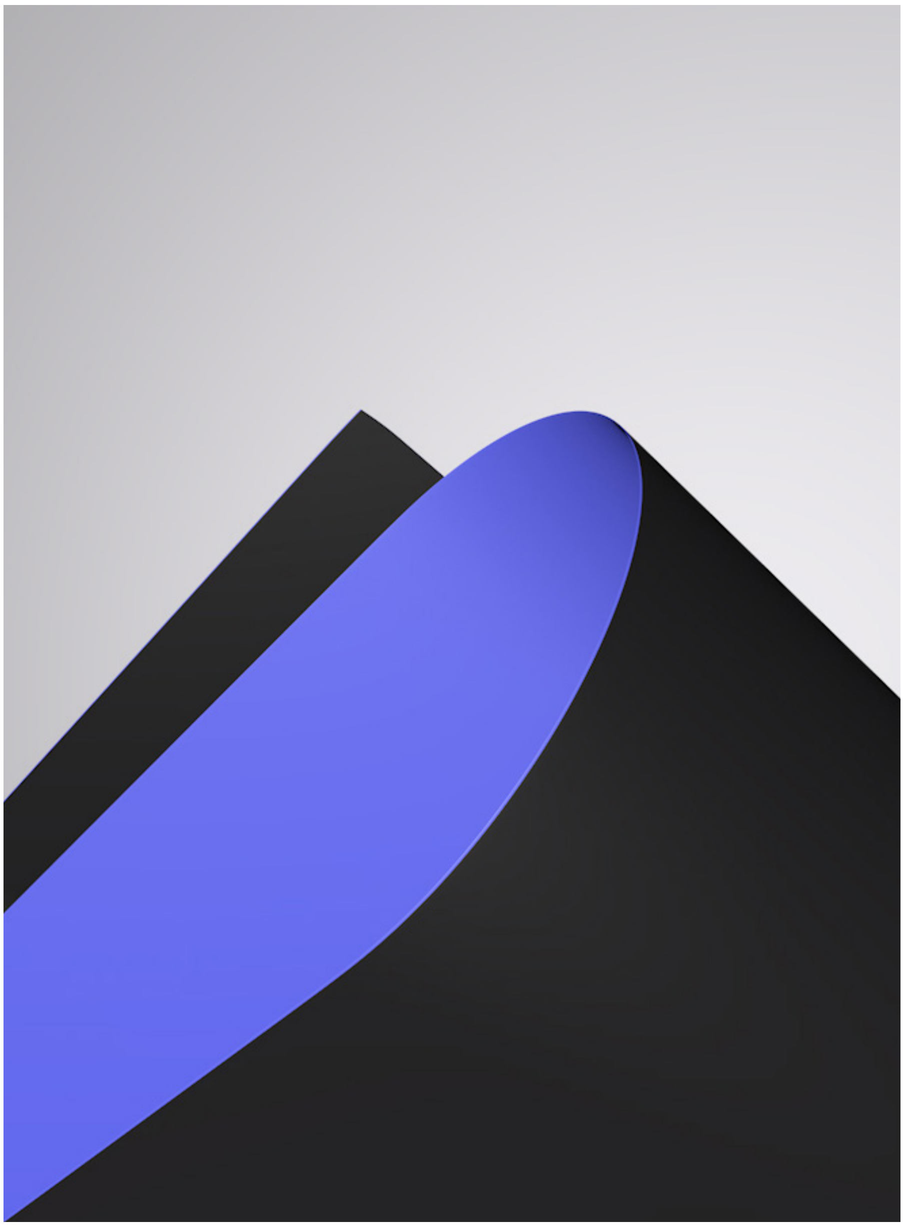
Platform businesses outperform the S&P 500 by 148%*

If you had invested in brands with strong brand relationships you would still outperform the S&P 500 by 9%.

*Corresponds to 232 percentage points (390%-157%)

SECTION 03

Top 50 Companies



The Top 50 Platformization Potential Companies

(By Industry)

TECH, MEDIA, & ENTERTAINMENT

1. **Netflix, Inc.**
   NasdaqGS: NFLX
2. Alphabet Inc.
   NasdaqGS: GOOGL
3. Activision Blizzard, Inc.
   NasdaqGS: ATVI
4. TripAdvisor, Inc.
   NasdaqGS: TRIP
5. Booking Holdings Inc.
   NasdaqGS: BKNG
6. eBay Inc.
   NasdaqGS: EBAY

RETAIL & APPAREL

1. **NIKE, Inc.**
   NYSE: NKE
2. Mattel, Inc.
   NasdaqGS: MAT
3. Hasbro, Inc.
   NasdaqGS: HAS
4. Under Armour, Inc.
   NYSE: UAA
5. V.F. Corporation
   NYSE: VFC
6. Coty Inc.
   NYSE: COTY

FINANCIALS

1. **Capital One**
   NYSE: COF
2. Charles Schwab
   NasdaqGS: SCHW
3. American Express
   NYSE: AXP
4. H&R Block, Inc.
   NYSE: HRB
5. Synchrony Financial
   NYSE: SYF
6. Discover Financial
   NYSE: DFS

FOOD, PERSONAL CARE, & HOUSEHOLD

1. **Estée Lauder**
   NYSE: EL
2. Procter & Gamble
   NYSE: PG
3. Progressive Corp.
   NYSE: PGR
4. Monster Beverage
   NasdaqGS: MNST
5. Brown-Forman Corp.
   NYSE: BF.D
6. Molson Coors Brewing
   NYSE: TAP

INDUSTRIALS

1. **Equifax Inc.**
   NYSE: EFX
2. Nielsen Holdings plc
   NYSE: NLSN
3. 3M Company
   NYSE: MMM
4. Verisk Analytics, Inc.
   NasdaqGS: VRSK
5. Stanley Black & Decker, Inc.
   NYSE: SWK
6. Robert Half Int'l Inc
   NYSE: RHI
7. W.W. Granger, Inc.
   NYSE: GWW

HEALTHCARE

1. **Pfizer Inc.**
   NYSE: PFE
2. Allergan plc
   NYSE: AGN
3. Johnson & Johnson
   NYSE: JNJ
4. Henry Schein, Inc.
   NasdaqGS: HSIC
5. Align Technology, Inc.
   NasdaqGS: ALGN

ENERGY

1. **Phillips 66**
   NYSE: PSX
2. Noble Energy, Inc.
   NYSE: NBL
3. Exxon Mobil Corp.
   NYSE: XOM
4. Hess Corporation
   NYSE: HES
5. Marathon Petroleum Corporation
   NYSE: MPC

TRANSPORTATION

1. **Harley-Davidson, Inc.**
   NYSE: HOG
2. Royal Caribbean Cruises, Ltd
   NYSE: RCL
3. Norwegian Cruise Line Holdings, Ltd
   NYSE: NCLH

REAL ESTATE

1. **MGM Resorts International**
   NYSE: MGM
2. Simon Property Group, Inc.
   NYSE: SPG
3. Federal Realty Investment Trust
   NYSE: FRT

MATERIALS

1. **The Sherwin-Williams Company**
   NYSE: SHW
2. PPG Industries, Inc.
   NYSE: PPG

UTILITIES

1. **NRG Energy, Inc.**
   NYSE: NRG

Industry Leader Spotlights

We looked at the leading companies to understand their potential to become a platform and outperform their industry competitors.

Tech, Media, & Entertainment

NETFLIX

Netflix is one of the FANGAs, but we believe it isn't entirely a platform business and that it hasn't attained its full potential. Although Netflix incorporates technology, it is still a pipeline business. Netflix either produces, pays for, or licenses its content, for which its 150 million consumers are willing to pay a monthly fee. While attractive, its current business model requires significant investment and its current data generation is limited to the customers logged into its platform.

Netflix has a high potential to further transform into a platform business and unlock exponential growth by leveraging network effects. For example, it can create an open platform that hosts more than just shows and movies. Any vendor of digital content, be it games, sports, or even e-learning, can then look to Netflix as a host to get in front of its subscribers.

2019 is a pivotal year as the streaming industry becomes increasingly cluttered, with Disney, WarnerMedia, ESPN+, Facebook Watch, amazon Prime Video, Hulu, Dazn, and others challenging Netflix. However, with an opportunity to engage with customers beyond its existing media platforms, Netflix can extend its data collection and learning. This would allow Netflix to beat the competition by unlocking more ideas that could ultimately improve their offerings.

FACTOR OF GREATEST OPPORTUNITY

INDUSTRY POSITION &
ECOSYSTEM POTENTIAL

INDUSTRY LEADER

Retail & Apparel

Nike is a strong S&P 500 performer, yet it still has not leveraged its opportunity to become a platform business. Not only was Nike late in connecting directly with consumers, despite early experimentation with Nike+, it was also late in participating in existing third-party marketplaces like Amazon.

Nike currently offers a multitude of services on different mobile applications, but combining these interfaces into one comprehensive lifestyle app would enable customers to conveniently engage with the brand everyday.

To further capitalize on its opportunity to create value through interactions, Nike could dive deeper into developing or hosting content for their users to enjoy, be it sociocultural, fitness-focused, or professional sports related. This would allow them to establish a network of like-minded partner vendors and organizations that match their customers' lifestyles.

Nike has merely scratched the surface of its potential beyond running shoes, apparel, and equipment. They need to build the technology infrastructure to create value through data and analytics. With this, it has endless possibilities.

FACTOR OF GREATEST OPPORTUNITY

VALUE THROUGH DATA
& ANALYTICS

INDUSTRY LEADER

Financials

Capital One has a potential to orchestrate a platform by delivering its product and service portfolio in entirely new ways. Instead of pushing its standard offerings by market segment, it could create a business model based on a high degree of personalization, customization, and context-driven value-added services.

Capital One can leverage its information-based technology capabilities and exploit social currency to truly integrate into consumers' daily lives to solve real problems for them. For example, Capital One can employ customer data to inform and build communities of like-minded spenders. Customers with similar purchasing habits can be connected via a platform that enables experience sharing around relevant events, restaurants, purchases, etc. Capital One can open this platform to merchants as well, allowing them to connect with customers who are interested in their products or services. This engagement amongst users and merchants will allow Capital One to grow their partnership network based on customer interest, thus creating exponential growth in social currency.

Implementing these changes will bring about an entire ecosystem of partners, developers, startups, and other participants in the fintech industry. Capital One has invested significantly in a number of API initiatives, which will eventually create a virtuous cycle of bringing new innovations on a platform that delivers.

FACTOR OF GREATEST OPPORTUNITY

SOCIAL CURRENCY

Transportation

Many years ago, Harley-Davidson discovered that success is not just about product or technology, but also the brand and experience. This epiphany changed the direction of the company. Today Harley is a lifestyle brand with a community of riders, enthusiasts, and participants, that form a global network. It is well-known that the Harley brand relationship runs deep.

With around 200 million motorcyclists in the world, Harley has an enormous business potential to create a marketplace by aggregating demand and becoming the single destination for all riders. This would broaden the community of millions of riders that are organized in the more than 1,400 H.O.G. clubs around the world.

Younger consumers, Millennials, have different needs. This group no longer buys into the value system outlined by a Harley executive in the book Results-Based Leadership: “What we sell is the ability for a 43-year-old accountant to dress in black leather, ride through small towns, and have people be afraid of him.” But Millennials still love riding and Harley can still deliver a brand and experience to fit their needs.

An expanding rider community that includes Millennials could be the basis for growth. Harley can attract a wider network of riders by creating an ecosystem around Harley experiences that fortify rider connections to the brand through network effects. For example, instead of merely recommending destinations to riders, it can aggregate the supply side and build a global network of hospitality, events, and experience partners. As more partners sign on, riders would have richer experiences, and the brand’s value proposition would grow further.

FACTOR OF GREATEST OPPORTUNITY

INDUSTRY POSITION &
ECOSYSTEM POTENTIAL

INDUSTRY LEADER

Healthcare

Pfizer is part of a complex health system that includes physicians, hospitals, payers, and patients. There are several opportunities for Pfizer to evolve toward a platform business. In order to illustrate such potential, consider an example for its oncology or cancer business.

Pfizer collaborates with data aggregator, Flatiron Health, which extracts unstructured data from cancer patients' charts. Flatiron employs a massive team of credentialed oncology abstractors — individuals who interpret data from electronic health records — or any notes, charts, or diagnoses that physicians make during the care delivery process across 265+ oncology clinics, reaching more than 2 million cancer patients.

This data, known as Real-World Evidence (RWE), can be used for Pfizer's R&D, to get faster approval from the FDA, etc. It also helps Pfizer quickly determine what treatment works best for specific cancer patients.

Pfizer can also collaborate with other oncology companies, such as competitors, to learn about more effective drug combinations, and even collaborate with alternative treatment solutions beyond drugs, leading to improved cancer care.

If Pfizer closely collaborates with other biopharma competitors and provides comprehensive treatment solutions to cure cancer, patients can expect higher quality cancer care and improved therapies. The benefits of assuming leadership in cancer care and orchestrating a broad ecosystem and entire interaction field that includes even the FDA for faster approvals would be enormous for patients living with the condition and their care providers.

FACTOR OF GREATEST OPPORTUNITY

INDUSTRY POSITION &
ECOSYSTEM POTENTIAL

INDUSTRY LEADER

Materials

Numerous platform opportunities exist for Sherwin-Williams. They have the ear of many potential platform participants - customers, contractors, designers - and they can bolster connectivity by making the technologies they offer interoperable across these participants.

With their focus on customer centricity, paint color app, and Spanish language content, Sherwin-Williams has demonstrated their interest in innovating for growth. With a foundation for better data, they should engage with both consumers and out-of-category vendors to put a century's worth of customer learnings to work for more than just paint.

By inserting themselves in relevant conversations through collaborations and partnerships, Sherwin-Williams can learn more about participants, generating insights that would be valuable to anyone within the ecosystem. For example, Sherwin-Williams can integrate their offerings and expertise across furnishing retailer websites and social platforms. Sherwin-Williams' social relevance will grow as users begin to engage with the brand on their partners' various social pages.

However, digital products are not the greatest opportunity in plain sight. Numerous platforms aggregate subcontractors and suppliers, with main contractors and producers such as architects, structural engineers, HVAC engineers, and the network of interior designers. Sherwin-Williams has exciting opportunities to participate in many of the emerging platform models in the construction industry.

FACTOR OF GREATEST OPPORTUNITY

SOCIAL CURRENCY

AGILE EXPERIMENTATION WITH NEW TECHNOLOGY

INDUSTRY LEADER

Industrials

Since last September, and probably well into the future, the public will associate “Equifax” with “data breach.” Nevertheless, Equifax spent 2018 trying to put distance between their present and their past.

To leverage their equities, they can extend beyond credit ratings and offer financial services such as user ratings, insurance, and credit to enable secure online transactions. Factoring in partnerships with insurance or credit companies, Equifax could become the primary interface to help new business owners extend credit to customers.

Equifax could create value by transforming the way customers interact in an online marketplace. Partnering with Etsy, Amazon Marketplace, and second-hand sale sites, Equifax can offer customers a guarantee that products from the sellers are trustworthy.

The more data captured from consumers, the richer the insights will be for business clients, creating limitless value. If Equifax transitions to such a platform business model, it would be at the center of an entirely new future.

FACTOR OF GREATEST OPPORTUNITY

INDUSTRY POSITION &
ECOSYSTEM POTENTIAL

INDUSTRY LEADER

Utilities

Despite operating in the highly-regulated and monopolistic utilities industry, NRG Energy has managed to make incremental innovations to their business model through their provision of renewable energy.

NRG's demonstrated ability to build partnerships with the relevant parties and participants in their industry reflects their ambition and could serve as a forerunner for future innovation. For example, their diesel generation partnership with Cummins Diesel produces cleaner and cheaper energy for commercial and industrial customers. It is the type of customer-minded agreement that must be forged for fixed, regulated companies like NRG to meaningfully improve upon their offerings.

While its scale remains narrow, we also acknowledge NRG's initial foray into AI by partnering with Stanford University to help their grid manage power fluctuations, resist damage, and recover from storms and other disruptions. Their eventual goal of completely autonomous grid management has enormous potential to eliminate frictions. This will require additional investment in exponential technologies, which we hope NRG undertakes.

FACTOR OF GREATEST OPPORTUNITY

AGILE EXPERIMENTATION
WITH NEW TECHNOLOGY

INDUSTRY LEADER

Real Estate

In the traditional hospitality business, hotel owners can only extract data and revenue from guests that are staying, dining, or gambling at their properties. However, MGM considers themselves an experience company, more than a hotelier or real estate company. MGM's recent steps enables them to offer experiences to anyone, anywhere.

Now that MGM has partnered with GVC to launch an online gaming venture, they have the opportunity to maintain constant engagement with their nearly 30 million rewards members. This helps ensure that MGM can provide and generate value beyond the walls of their physical properties. The more people gamble online, the more MGM benefits, both in revenue and data generation. Not only does this enable exponential revenue growth, but it also builds the foundation to create countless online business extensions and new data environments. Growing in these sectors will allow MGM to capitalize and nurture its core business.

In our opinion, there is real potential here that MGM has not yet tapped.

FACTOR OF GREATEST OPPORTUNITY

VALUE THROUGH DATA & ANALYTICS

Food, Personal Care, & Household

Estée Lauder can leverage the breadth of their portfolio of 25 prestige brands by building a new model of how a company in its category operates. What if it changes the linear value-chain process for each diverse brand, and instead, puts at the center an exchange between consumers built on data? If the data that it collects from consumers are at the center, then the brands are in the spokes.

Estée Lauder has an opportunity to strengthen their ecosystem by engaging more directly with consumers. The makeup category's success in recent years has been driven by apps, Instagram, and YouTube tutorials. Consumers are used to logging on to learn how to use these products. The industry is full of examples of customization and personalization efforts.

Though their brands do have strong social followings, the company could bolster their digital presence by launching an app, or by releasing APIs. Content around beauty education will be pivotal in growing consumer interest and engagement in Estée Lauder brands and products, with featured content personalized for each user, based on their previous purchases.

The user data and insights accumulated from the app can help inform new product innovation, as well as guide content creation centered around relevant consumer needs.

For Lauder, the benefits of more direct connections with consumers extend far beyond customer experience. The company could easily mine interactions to take a real-time pulse on brand popularity, particularly at local levels, allowing them to adjust marketing spend accordingly. Lauder could also use the data to ensure brick and mortar stores go only in areas with demonstrated demand. A data-driven strategy led the company to focus on Chinese customers shopping on mobile apps Tmall and WeChat, contributing to 40% sales growth in the country.

A makeup platform powered by AR is just one of many viable value-creating platforms. Lauder has the brands and the technologies, and now it's their turn to show customers, Glossier, and Wall Street that they know their categories best, so long as they can capture consumer attention quickly and effectively.

FACTOR OF GREATEST OPPORTUNITY

INDUSTRY POSITION & ECOSYSTEM POTENTIAL

CUSTOMER CENTRICITY PLUS MINDSET

INDUSTRY LEADER

Energy

Phillips 66's innovations are largely centered around mobile payments. Though this is no longer a unique feature, it does offer a solid initial connection with drivers, which the company leverages to analyze driver habits.

With enough insights into what drivers buy, aside from gas, Phillips 66 could assemble a proprietary network of third-party vendors. For example, what if drivers unlocked free guacamole at a nearby Chipotle after purchasing 5 gallons from a Phillips 66 pump? Phillips 66 knows that gas station taquitos don't hold a candle to Chipotle burritos, so why not partner with Chipotle instead?

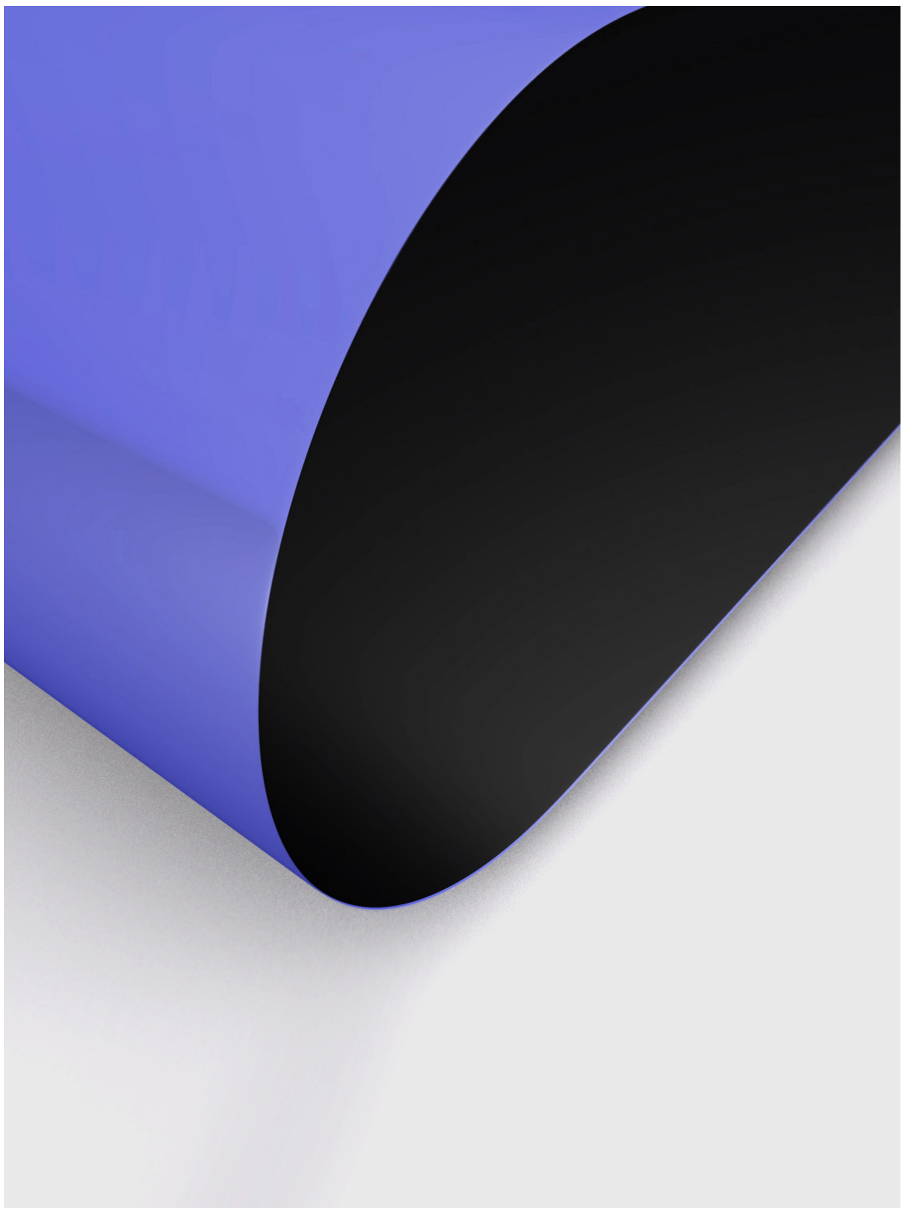
For Phillips to succeed in the future, their platform will need to also consider the forthcoming changes in behavior that will most impact the industry. Electric cars will not need gasoline, and autonomous vehicles could conceivably steer themselves to the pump unoccupied. Phillips participates in an industry that is both rigid and rapidly evolving. It is unclear what a platform will resemble, but regardless, Phillips must continue collecting data on consumers by any means possible to best position them to adapt.

FACTOR OF GREATEST OPPORTUNITY

INDUSTRY POSITION &
ECOSYSTEM POTENTIAL

SECTION 04

Epilogue



EPILOGUE

Seven of the ten largest companies by market capitalization in the world are platform ecosystems.*

(Alibaba, Alphabet, Apple, Facebook, Microsoft, Netflix, and Tencent.)

* "FT500: The World's Largest Companies," Financial Times.

EPILOGUE

In January 2007, there was only one technology company in the top ten most valued companies in the world: Microsoft. A decade later, in January 2017, five of the top ten were technology companies, also known as the Frightful Five: Facebook, Apple, Alphabet, Microsoft and Amazon, named by New York Times Opinion columnist and journalist Farhad Manjoo. Some also prefer to group some of the platform businesses into FANGA or FANGs.

The Frightful Five are platform businesses that are worth now over 3 trillion ($3.3 trillion to be exact). They have added 1 trillion market capitalization in just two years, more than any other firm.[1] Today, 16 of the top 32 global brands, and 75 percent of the fast-growing unicorns operate platforms.[2]

The four largest platforms alone (Alphabet, Amazon, Facebook, and Alibaba) are now worth more than all DAX 30 companies, Germany's major companies, that still largely work on the losing pipeline model See Here

Platforms and digital ecosystems are expected to account for 30 percent of global revenues by 2025.[3] With the astonishing success and growth of platform businesses, the questions of whether and how traditional pipeline businesses can build platform businesses for themselves are key.

Our study shows that the first question can be answered affirmatively. In our experience, anything that can become a platform, will become a platform. Our research shows the factors that drive platformization of existing business.

Regarding the second question of 'how', this report provides some initial perspectives regarding the 11 companies in the 11 industries that scored strong as to their potential to become a platform business. Our research also shows that within the same industry, very different platform business models can be successfully applied.

It is our hope at Vivaldi that through this study, we will have contributed to a greater understanding of platform businesses and their role in enabling or transforming traditional pipeline or value-chain businesses.

1. https://techcrunch.com/2017/07/19/techs-5-biggest-players-now-worth-3-trillion/ https://www.pymnts.com/news/retail/2017/alphabet-google-amazon-facebook-microsoft/
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DATA SOURCES

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Google Patents	S&P Capital IQ
Indeed.com	Vault

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