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Doing Business with Platforms



Hybrid Business Platforms – Marketplaces of the Future

The aim of this research report is to evaluate the potential of the new phenomenon of hybrid business platforms. Currently there is a development from fully digital platforms to “hybrid” platforms that are characterized by featuring digital and analog ingredients at the same time. Even more interestingly, new start-ups built around this hybrid value creation can be observed. Out of many examples of this kind, we highlight two – Jingle and b8ta.

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Digitization as a global trend is becoming increasingly important across all industries. This shift encourages traditional businesses to rethink their strategies, since only sophisticated digitization strategies have the potential to disrupt a market. Over the past years, brick and mortar stores have complained about showrooming above all else: customers seek advice in a shop but buy online because it is cheaper. This phenomenon has become customary with the rise of e-commerce. Customers who seek their own advantage have become the enemy of traditional retailers. The "apocalypse of the retail trade" has long been spoken of worldwide. But how can this apocalypse be averted? How do retailers solve the problem of showrooming?

Hybrid business platforms are a suitable alternative. They combine the potential of the analog and the digital world in one business model. Hybrid business platforms and their partners may also join forces to establish an ecosystem.

Methods of Data Collection

Various data sources form the empirical foundation of this research: (1) archive data, including existing publications, internet sources and corporate materials, (2) seven semi-structured expert interviews, (3) four follow-up interviews, (4) informal communication with e-mails and telephone calls (Eisenhardt 1989).

The data were collected, interpreted and coded by five researchers. All different types of data were analyzed in an iterative process and converted into a framework of retail channels.

On average, our face-to-face expert interviews lasted 58 minutes and took place between March and September 2018. All interviews were recorded and then transcribed verbatim. To further improve data reliability and increase internal validity, we triangulated the interview results with a series of secondary data (Jick 1979). Furthermore, we intensively used probing tactics during the interviews to better understand the contextual relationship of the practice at hand (Moerman 2010).

Online Platforms and Marketplaces

There is an increasing number of online marketplaces with new innovative business models such as Shpock. Platforms provide the infrastructure for the development of such marketplaces and change the logic of retailing as they do not handle the entire supply and logistics chain themselves (Hanninen et al. 2018). The key function of a platform-based

marketplace is the matching of supply and demand (online or offline) utilizing the mechanism of network effects (Cusumano 2010; Parker et al. 2005). As the number of users increases, the benefits increase for the owner and for individual users as well (Gawer et al. 2014). Since new users bring in more benefits than they receive, total benefits increase exponentially with each additional user. Beyond the direct network effects, indirect network effects occur in two-sided markets: the more sellers on one side, the more benefits for the buyers and vice versa (Stremersch et al. 2007). The network becomes more valuable not only with every user but also with every application developer, service provider, content provider, device maker or any other player who joins the ecosystem (Cusumano 2011).

Digital platforms play an ever more important role in today's global business landscape (Eisenmann et al. 2010). Based on their intermediary function and multi-sided markets, platforms have scaled fast and successfully across different industries in recent years (Parker et al. 2016, p. 352). Business models which are based on a digital platform differ significantly from traditional product-oriented business models (van Alstyne et al. 2016). Furthermore, the revenue mo-

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del on retail platforms has changed in recent years: the products are no longer purchased by the platform owner, but are offered on the platform for a commission. This innovative pricing model increases social welfare and the industry profit (Chen et al. 2018).

Offline–online Combinations in Retail Lead to Hybrid Business Platforms

The current trend of retail companies to merge offline and online channels, mostly on the "shop level", leads to a combination of e-commerce with brick and mortar shops. The need to differentiate and offer new, unique customer values creates a new type of retail format. These experiences are not new, but their combination is – hybrid business platforms combining the power of platforms, such as transparency, usability or convenience, with the possibility to "touch and feel" the product and pick it up in a nearby store.

“Retail isn’t broken, stores are.”

This paper defines this type of business model as a hybrid business platform. The innovative core of hybrid platforms lies in the combination of online and offline elements to optimize the customer journey. These platforms are transactional in nature (The Global Platform Survey 2016), but create additional value for both sellers and buyers. Hybrid business platforms, which enable the acquisition of products along digital and analog steps, bring more transparency and enriched experiences for the customers as well as closer relationships and deeper customer insights for the sellers. In addition, they can enable consumers to buy local products on an online platform. Such a local purchase of products speeds up the delivery process and supports the local economy (CCEC 2016).

Thus, hybrid business platforms offer more than

1. traditional shops (brick and mortar, offline, with one merchant, i.e. regular shop),
2. traditional warehouses or marketplaces (with different sellers, e.g. malls),
3. (regular) e-commerce (by one dealer),
4. online platforms (with more sellers and one platform curator).

We argue that hybrid business platforms combine elements of all four of the above retail channels, taking advantage of their various strengths (see Table 1): selection from and comparison between different sellers – variety, price comparison, transparency (derived from 2 and 4); the chance of touching the product in the physical store – touch and feel (derived from 1 and 2); access to the whole online assortment – variety (derived from 3 and 4); comfort and ease of online payment (derived from 3 and 4)

The customer journey is a mixture of real and virtual touch-points – a significant amount of customer contacts follows the hybrid pathway. For example, a customer orders online and picks up in a brick and mortar shop, or the initial physical contact in a store is followed by a channeled and intended online purchase initiated by the vendor. The various value creation and capturing steps can be performed by different companies. This hybrid approach changes retail – it removes barriers, makes it easier, enlightened, and more enjoyable.

Retail Channel Framework

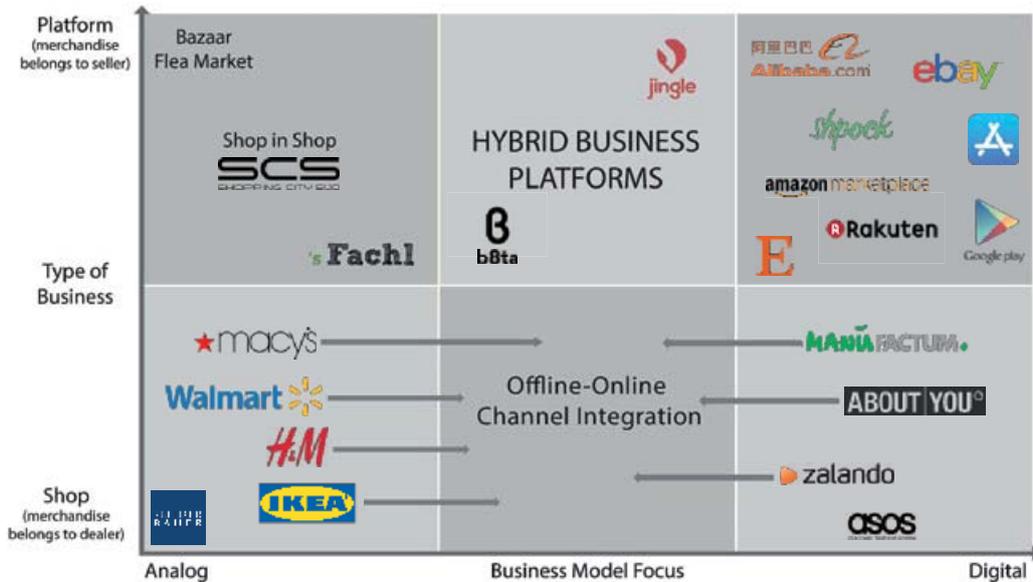
We here concentrate on the transaction platform level, whereas so far, most studies have concentrated on individual retailers. Figure 1 shows the continuous evolution towards hybrid solutions both for offline–online channel integration and – the focus of our research – platforms. The biaxial framework illustrates different types of retail channels – along the dimensions analog (offline) or digital (online) on

Table 1: Features of Channels and Hybrid Business Platforms

Feature	Offline		Online		Hybrid Business Platforms
	Brick and mortar	Warehouses	E-commerce	Platforms	
Touch and feel	X	X			X
Variety		X		X	X
Transparency				X	X
Online payment			X	X	X

Source: Böger / Wecht / Stalder, 2019.

Fig. 1: Retail Channel Framework



Source: Böger / Wecht / Stalder, 2019.

the one hand and from individual retailers with a single physical shop to department stores to markets or platforms with many different providers on the other hand.

The horizontal axis shows the degree of digitization and ranges from fully analog retail channels, e.g. supermarkets, to fully digital ones such as the App Store.

The vertical axis distinguishes between retail facilities where the goods belong to the seller or merchant, for example Ikea, and facilities where a central company provides a platform, and thus a marketplace, for different sellers who sell their own goods, for example eBay. In the latter case, the goods never belong to the platform operator and remain in the possession of the seller or individual supplier before the sale.

All retail activities can be clearly positioned in one of the six resulting areas (2x3 matrix). In order to identify the position of a company in the matrix, the factors digital or analog are compared with the characteristics shop (seller of own goods) or platform (seller of others' goods). Our research implies a continued strong development towards hybrid shops (offline–online integration). Manufactum for instance, an online marketplace for high-quality goods, expanded its offering a few years ago to include stationary stores and is further expanding this additional retail channel. On the other hand, a constantly growing number of offline retailers,

such as H&M, are supplementing their business models with online sales channels.

The middle of the upper half shows retail platforms whose main objective is to enable the hybrid purchase of goods – establishing a mixture of both analog and digital means. Therefore, we call these "hybrid business platforms".

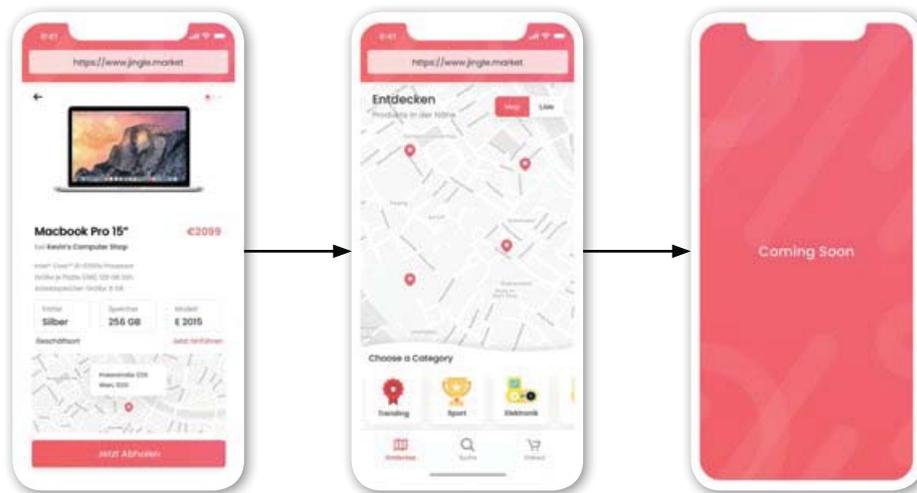
Hybrid business platforms offer user interfaces and online functionalities within their digital offerings and engage in the territory of traditional physical stores. Austrian start-up Jingle and Californian start-up b8ta provide interesting cases that illustrate the specific concept of hybrid business platforms in detail.

Case Examples of New Hybrid Approaches

Jingle – Combining the Analog and the Digital World

Jingle is a chatbot company that works on making shopping in brick and mortar retail easier. Jingle's idea is to display all retailers' products in the user's environment (see Figure 2). Artificial intelligence drives the interface that communicates with users. For example, users can search for retailers in Vienna carrying a desired product around the clock. Jingle

Fig. 2: Jingle App



Source: Jingle, 2019.

users can also browse offers. This not only increases customers' flexibility when shopping locally, but also secures digital market access for small shops and stores.

The team of three founders wants to put the brick and mortar trade on the digital track and, initially, enable a simpler and more effective shopping experience in Vienna. Plans to expand the Jingle marketplace from the capital to several Austrian cities and later to Europe are in place.

With Jingle's chatbot model, the customer benefits from two essential aspects of hybrid features:

1. When searching for a product on the platform, different dealers and the corresponding price offers for the product are displayed. The customer thus benefits from a transparent price comparison.
2. Customers can choose to buy the product on a digital platform or to go to the physical store (similar to a marketplace). The customer also has the option of reserving products online. In the future, a delivery service for regional suppliers is to be implemented.

Acquiring local retailers was a big challenge for Jingle because retailers lacked trust in the unknown brand. Through the chat, Jingle was able to win B2B customers' trust. Increased trust and a stronger brand name have enabled Jingle to attract a number of business customers to their product. Jin-

gle expects products to be digitized by small and large retailers and aims to support retailers who lack the resources and expertise to digitize their products.

In summary, Jingle was amongst the first that enabled a platform bridging the physical with the digital world to offer users the convenience of digital shopping experiences.

b8ta – Marketplace of the Future: Retail as a Service

b8ta invites its customers to come into the shops just to touch and try products. In contrast to conventional retailers, the

Main Propositions

1. Most offline–online channel integration in retail is driven by retailers themselves.
2. Pioneers are establishing hybrid business platforms, merging online platforms with brick and mortar retail.
3. Hybrid business platforms can lead to unique customer journeys and experiences.

company does not make profits from the turnover of goods, but charges manufacturers a monthly placement fee, which is billed per running meter or table. b8ta understands trade as a service. Product presentation and customer consultation do not go hand in hand with the compulsion to have to sell something.

This contrasts with classical retail trade where the producer has little or no influence on how the goods are presented, at what price they are offered, and how they are advertised. Furthermore, retailers traditionally monopolize the relationship with the end customer and manufacturers receive hardly any data on customer behavior and sales figures.

b8ta is different. b8ta sees itself as a service provider for manufacturers with stores where every brand can rent space flexibly and for a certain period of time, just as in an App Store. In addition, data is collected and manufacturers are provided with information that is as good as in their own online stores.

In December 2015, the team of three founders opened its first store in Palo Alto in Silicon Valley (Figure 3). Meanwhile, there are 14 independent stores, 71 shop-in-shop solutions and three pop-up stores across the United States.

All locations are equipped with several high-resolution 3D cameras that constantly monitor how customers handle the products, what they try out and how much time they spend on them. Next to each product there is a tablet with product information (Figure 4). It is even possible to compare prices and read reviews, just as on an online platform. Advice is also available. Employees in black T-shirts – who do not want to be called salespeople under any circumstances – are careful not to talk visitors into anything. After each conversation, they enter on the tablet what the customers wanted to know and what comments they made – information that is collected and evaluated, along with the images from the cameras. Manufacturers have access to all the data and can watch live how many customers in which store are interested in their products. They are also in contact with b8ta via a communication platform. A chatbot reports each individual sale with turnover and store details. If they notice anything special, such as unusual sales figures, they can immediately follow up. The b8ta team answers these questions within a few hours.

In January 2019, b8ta acquired the start-up Brickwork, which helps brands and retailers bring meaningful traffic to stores. Brickwork's software will be integrated and will be available to b8ta brands and retailers in the future. The function of Brickwork is primarily related to finding a store or an appointment. Additionally, Brickwork will be used as an event management app. The combined platform helps custo-



Fig. 3 b8ta shop Palo Alto (© b8ta, 2019)



Fig. 4 b8ta display (© b8ta, 2019)

mers to identify where the product is available and when they can test it. Customers are also informed about future events and e-commerce offerings.

Today it is easier than ever to make products. Many entrepreneurs sell them directly via their web shop – for cost reasons and because they are too small to supply large retail chains. But not only the showrooming phenomenon shows that online trade has a big flaw: many customers want to try certain products before they buy them. This is especially true for new products. b8ta is here to help.

Conclusion

This article examines the diversity of business platforms and attempts to explore the potential of the hybrid business platform. In an increasingly digitized retail world, more and more companies are adding analog elements to their

customers' retail experiences. While most offline–online channel integration in retail is driven by merchants (but with mixed distribution channels only), there are pioneers who are beginning to establish hybrid business platforms that merge the properties of transaction platforms with brick and mortar retail.

In this first explorative study, we already discovered two different approaches to hybrid business platforms. While b8ta offers retail as a service to its B2B customers, Jingle promotes regular local shop sales through its online platform applications. Many more approaches are currently being developed to improve the retail experience.

Hybrid business platforms can lead to unique customer experiences. Innovative new business models will evolve around them. Therefore the future of retail with all its facets (e.g. shops, e-commerce, and platforms) may have a significant offline component.

As hybrid business platforms were investigated for the first time in this study, there are various areas for future research, for example, a closer look at the business model of the platform owner, success factors for its development or a deeper look into topics related to customer experience. The future of retail may show a significant offline ingredient with innovative new business models emerging around hybrid business platforms. 

Lessons Learned

1. The potential opportunities and/or threats deriving from upcoming hybrid business platforms which merge the characteristics of transaction platforms with brick and mortar retail need to be carefully considered.
2. Since the future of online retail may include some offline elements it is necessary for online retailers to clarify their position towards new players offering hybrid business platforms.
3. The customer experience has to be in the center of all retail offerings. Online retailers need to contemplate the potential of adding real world experiences to their customers' journeys.

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