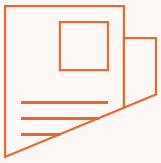

WHITE PAPER

The Five Critical Components for Successful Digital Marketplaces

AppDirect

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For today's manufacturing companies, digital disruption is the new normal—so much so that almost everyone in the sector believes that their business has already been impacted. In fact, 90 percent of manufacturing executives say that their industry has been digitally disrupted, while 95 percent expect the trend to continue with even more disruption in the future.[1]

For manufacturers, software is driving a large portion of these changes. Today, three out of four industrial manufacturers (75.2 percent) already have digital initiatives, while 29 percent have deployed an Industrial Internet of Things (IIoT) solution.[2] While the consensus is clear that manufacturers can no longer rely on traditional hardware sales to survive and compete, many are underutilizing their digital offerings. With IoT software predicted to generate $64.1 billion by 2020, manufacturers need to approach their digital initiatives not as side projects, but as essential channels for sales and ongoing revenue from their customers.[3]

The Problem with a Marketplace-Only Approach

The problem for many manufacturers starts with digital marketplaces. Manufacturers, enterprise electronics companies, utility companies, and automakers have a wealth of digital assets, modules, extensions, and more that they typically preload onto their customers hardware or vehicles. These digital goods require significant resources to create but offer little opportunity to drive new revenue. Worse yet, most manufacturers must rely on manual and costly processes driven by sales representatives or consultants to provide additional software and services to customers products after the sale. Without a thoughtful way to showcase, monetize, and distribute the right solutions for customers, manufacturers limit revenue opportunities and value-add capabilities with customers.

KEY TAKEAWAYS

- Marketplaces for software and services can create complexity that is expensive for manufacturers and negatively impacts the customer experience.
- A platform powered by a digital ecosystem of developers, software, and services can eliminate this complexity.
- To be successful, an ecosystem-driven marketplace must offer components that balance driving new revenue for manufacturers and developers with the customer experience.

[1] "Digital technologies to completely reshape manufacturing by 2021," by Sead Fadilpašić, ITProPortal, April 5, 2017
[2] IDC Analyst Connection, "Digital Transformation in Industrial Manufacturing," Heather Ashton, May 2017
[3] "Internet Of Things Market To Reach $267B By 2020," by Louis Columbus, Forbes.com, January 29, 2017

Given this, many manufacturers take the seemingly logical step of creating a marketplace for their software. Separate business divisions or subsidiaries often create their own marketplaces to drive their own metrics, which can lead to a disjointed approach overall. For example, a manufacturer may have multiple marketplaces for different business units, created on different platforms, that lack any integration with one another. The end results are digital experiences that may have different branding, different functionality, and even different underlying technologies requiring significant internal resources to maintain and service.

Manufacturers also have a significant customer experience problem that they need to solve, and multiple marketplaces exacerbate this issue. With too many marketplaces, the ability for customers to bundle digital assets either doesn't exist or must be manually configured with the help of a live customer service agent. This type of approach can seem innovative to outsiders, but without a unified vision for digital transformation across the organization and a centralized channel to realize it, manufacturers' digital initiatives are at a high risk of failure.

While some manufacturers have fallen into a mire of complexity, others have underinvested in areas that are critical to digital success. Consider billing: Digital commerce requires a powerful commerce engine to handle settlements, multi-region taxation, bundling, discounts, and more, across millions of transactions per day. Many manufacturers implement inadequate billing solutions that are not flexible enough to handle changing payment and business models. These solutions are often the direct cause of lost revenue. In one example, a European manufacturer lost $100 in internal costs when it had to create a manual invoice for every purchase order through its digital marketplace. Manufacturers need to eliminate costly, manual processes like these and need to prioritize the scalability, flexibility, and cost-effectiveness of their marketplaces.

"Digital transformation isn't just about opening up an e-commerce store. It is not about hiring an intern to manage your website. True transformation comes about by looking at the organization, its processes, and its people, and figuring out how to change the entire organization."

BRIAN BECK
Digitalist Magazine[4]

The Advantages of Platforms—and the Digital Ecosystems that Power Them

Companies in a variety of industries are coming to realize a simple fact: To succeed in the digital economy, platforms are critical. In fact, IDC has predicted that by 2018, more than 50 percent of large enterprises—and more than 80 percent of enterprises with advanced digital transformation strategies—will create or partner with industry platforms.[5] Moreover, 40 percent of IT and business executives worldwide believe that adopting a platform-based business model and engaging in digital ecosystems are very critical to their business success.[6]

4 "2018 Is The Year To Deploy B2B E-Commerce Before It's Too Late," by Brian Beck, Digitalist Magazine, February 16, 2018

5 "Adopting an ecosystem view of business technology," by Driek Desmet, Niels Maerkedahl, and Parker Shi, McKinsey & Co., February 2017

6 "Platform Economy: Technology-driven business model innovation from the outside in," Accenture, Technology Vision, 2016

What Is a Platform?

"A platform is a business based on enabling value-creating interactions between external producers and consumers." Platforms create "matches among users and facilitate the exchanges of goods, services… thereby enabling value creation for all participants."[7]

Manufacturers are no exception: A majority of manufacturing companies are looking to use or partner with platforms. By 2020, 60 percent of top manufacturers will rely on digital platforms, and will derive as much as 30 percent of their overall revenue from platform-based initiatives.[8]

Why the enthusiasm for platforms? It all boils down to one word: ecosystems. As the World Economic Forum explains, "platform ecosystems allow enterprises to accelerate innovation and develop features at a pace that is not possible when they operate alone."[9] Manufacturers that utilize more third parties, including third-party software and services, are also more likely to have higher productivity, revenue, and margin than those that try to build and own the entire network.[10]

"Manufacturers that choose to 'go it alone' will find themselves increasingly marginalized. They'll get elbowed to the sidelines by competitors that recognize the future of manufacturing is ecosystem driven."

ACCENTURE[11]

How do ecosystems deliver these benefits? In a thriving ecosystem, developers are incentivized to create solutions that extend and enhance a manufacturer's core offerings. With this model, manufacturers not only offload the burden of software development to third parties, but they are also able to drive ongoing evolution of the product experience with new services.

Moreover, manufacturers often have limited resources, which makes it difficult to invest in the development of every product, especially those with niche use cases. With an ecosystem, developers can add value across the entire product portfolio, helping to enhance offerings that companies may not have the internal resources to invest in.

Finally, ecosystems can also help address the issue of fragmentation. With a marketplace-only strategy, different offerings can end up being siloed in different locations, which creates a disjointed purchase experience for customers and a chaotic backend for the business. An ecosystem that encompasses every offering from every business unit can help centralize the experience for developers and customers alike, while giving manufacturers unparalleled opportunities to cross-sell and up-sell digital assets across an organization. Ecosystems can act like a web that connects customers, their hardware, third-party developers, and OEMs in one consistent customer experience.

7 "Platform Revolution: How Networked Markets Are Transforming the Economy and How to Make Them Work for You" by Geoffrey G. Parker, Marshall W. Van Alstyne, and Sangeet Paul Choudary

8 "Top 10 Predictions for Global Manufacturing in 2018: IDC," IndustryWeek, December 19, 2017

9 "Digital Transformation Initiative: Telecommunications Industry," White Paper, World Economic Forum, January 2017

10 "Manufacturing Ecosystems: The Future of Manufacturing," Accenture Strategy, 2017

11 Ibid.

In short, when done right, an ecosystem surrounding core manufacturing products provides multiple opportunities for monetization, with manufacturers gaining a closer relationship with their end customers over the lifetime of their products.

The Five Components of a Successful Digital Marketplace

To be successful, an ecosystem-driven marketplace must find the right balance between driving new revenue streams for manufacturers and third parties while also delivering new competitive value for customers. In fact, 69 percent of developers said return on investment is the most important factor when choosing a developer ecosystem.[12] In other words, manufacturers need to make it easy and lucrative to develop for their platforms, as well as provide a superior experience for customers.

Here are the five elements that a marketplace platform must offer to successfully create and sustain a software ecosystem.

ONE: A DEVELOPER CENTER

A developer center should make it easy for developers to integrate their applications to a platform. Baseline capabilities of testing and versioning functionality should be included, but to establish a comprehensive developer center, the offering should also include FAQs, developer community channels, and dedicated developer portals for uploading and managing new software and services.

TWO: A COMMERCE ENGINE

An ecosystem must be powered by a commerce engine that can handle the complexities of billing, taxation, payouts, etc., and is flexible enough to accommodate manufacturers' changing business models. This can include everything from subscription billing and Hardware-as-a-Service (HaaS), to Software-as-a-Service (SaaS) and one-time payments. Commerce engines should also automate as many of the transaction processes as possible, from reconciliation on the backend, to creating customer-facing discounts, bundles, and promotions.

[12] "Engaging the Developer Community: What Developer Ecosystems Need to Know," Accenture, 2018

THREE: ANALYTICS CAPABILITIES

Up-to-date, accurate data provide critical insights into the customer experience, how customers are using existing software and services with their products, as well as how to improve the experience with new services that customers want. Marketplaces should utilize the large amounts of data their customers generate to create bundled services, drive new promotions, and offer insights to third parties to ensure that they are focusing their development efforts on the applications and services that customers demand most.

FOUR: DEVICE ENABLEMENT

Manufacturers often have little connection with customers after a product is purchased. With device enablement, manufacturers are able to maintain ongoing relationships with customers by providing new software and services directly to devices long after the sale. Device enablement also eliminates the need for sales consultants and system integrators, who often act as middlemen to distribute the correct software to customers. A desktop or mobile marketplace is a great start, but enabling customers to access and purchase software and services directly on their devices brings the customer experience to the main touchpoint, the hardware.

FIVE: FULLY FEATURED SELF-SERVE CAPABILITIES

Marketplaces are still essential to building a digital ecosystem around products, but the core functionality should be as frictionless as possible for end users. This means single sign-on, promotions, customer account discounts, and language support, as well as capabilities to purchase and use new software and services across a manufacturer's entire product portfolio are mandatory.

Conclusion

Today's manufacturers understand the digital challenge set before them. No longer able to rely strictly on hardware sales for growth, many have looked to digital marketplaces to establish their foothold in the newly competitive digital space.

However, manufacturers often miss several key elements that make their digital initiatives successful. With the five critical components discussed in this white paper, manufacturers have the opportunity to foster an entire ecosystem around their product portfolio, one that enhances customer value, reduces churn, and ultimately drives new revenue opportunities that don't serve to merely complement their business strategy, but come to define it.

Additional Ecosystems Must-Haves

In addition to omni-channel commerce, developers are more likely to develop for a platform if the ecosystem offers these specific elements:[13]

- **90%** market relevance
- **78%** opportunities to learn new technologies
- **53%** a focus on the latest technology
- **44%** future-looking solutions

[13] "Engaging the Developer Community: What Developer Ecosystems Need to Know," Accenture, 2018

Manufacturers Don't Have to Go It Alone:
No Pressure Advice From Ecosystem Experts

Platforms developed by industry specialists like AppDirect allow manufacturers to approach their digital transformation the way that makes sense for their business, while reducing the internal costs of managing and maintaining the entire ecosystem over its entire lifespan.

AppDirect is a trusted advisor to leading manufacturing companies around the globe as they begin to explore their options for digital transformation, developer ecosystems, and the IIoT.

If you're interested in learning more, visit www.appdirect.com.

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ABOUT APPDIRECT

AppDirect is the leader in the delivery, management, and monetization of apps and services for industrial manufactures, enterprise electronics, and automotive OEMs. We provide a secure, proven cloud platform enabling industrial manufacturers and enterprises to build agile businesses around value-added software and services.

The AppDirect platform provides manufacturers with the tools to easily manage complex software licensing, entitlements, and provisioning between people and their devices, and it offers a complete billing and merchandising suite needed to empower customers to discover, use, manage, and buy features, apps, and services.

For more information visit
www.appdirect.com.

650 California Street, 25th Floor
San Francisco, CA 94108
(877) 404-2777

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