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Rock, Paper, Scissors: Which Business Model Wins in the Internet Economy?

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The game of rock-paper-scissors uses a simple set of rules—rock crushes scissors, scissors cut paper, and paper covers rock—to generate a seemingly random series of wins, losses, and ties based on the decisions players make within the count of three. A rock will win if the opponent chooses scissors; it will lose if the opponent chooses paper.

Although any choice in the moment of play may seem equally valid, psychologists have discovered that the game has a winning strategy. Players who win tend to repeat the same action; an opponent can beat them by exploiting this tendency. This means that players who win benefit by not staying with what has won in the past. Instead, they think about what their opponent is likely to play next.

As the internet economy has grown and matured over the first two decades of the 21st century, three business models have taken shape: *platform owner, ecosystem manager,* and *content provider*. As with rock-paper-scissors, organizations need to understand the strengths and weaknesses of each model, must not rely on a single approach, and must recognize that the strategy that was successful in the past may create vulnerabilities in the future.

The Platform Owner

The basic function of a platform is to drive as large a volume of traffic as possible through a portal in order to connect consumers with products or services. The platform owner's success is defined by the amount of traffic, which in turn depends on the number of products and services offered, the quality of the consumer experience, and often, low prices. In some cases—most famously, Amazon—platform owners have sacrificed short-term margin in exchange for the long-term benefits of traffic and loyalty—a strategy that has brought some platform companies huge market value. Amazon, Uber, Netflix, Spotify, and Grubhub are examples of game-changing platforms of the internet economy.

The Ecosystem Manager

An ecosystem is designed to engage the consumer with a network of devices, services, products, and experiences that maximize the number of touchpoints the consumer makes with the ecosystem throughout the day. Some of these touchpoints will result in transactions, but others will provide the ecosystem manager with data about the consumer's preferences, movements, and activities. As consumers derive value from these touchpoints, they develop loyalty to the ecosystem.

Unlike a freely accessible digital platform, ecosystems often ask consumers to buy in. Amazon Prime, for example, asks for an annual subscription fee in exchange for access to a dizzying array of interrelated products, from groceries to streaming video, through a network of apps and tools, including the Amazon Echo. Apple's pioneering ecosystem is anchored by an interlocking suite of proprietary hardware devices, including the iPhone, iPad, Apple Watch, and Mac. These devices form a platform through which the consumer accesses the ecosystem's offerings, including 2 million apps in the Apple store.

The Content Provider

Content providers supply the products and services offered to consumers through platforms and within ecosystems. To Spotify, a music company is a content provider; to Grubhub, the neighborhood restaurant is a content provider. For a content provider to succeed, its products or services must be in such high demand that they are essential to platforms and ecosystems. However, more commonly, platforms and ecosystems commoditize content providers. The Amazon algorithm rewards content with the best reviews and the lowest prices, putting even well-known brands in the position of potentially being price takers, as well as needing to be top quality.

The Winning Strategy

Among these three business models, the platform, or portal, appears to be in the strongest position. A successful platform has the most valuable asset in the internet economy: traffic. The ecosystem also is in a strong position to develop consumer loyalty and translate traffic into transactions. Content providers appear to be in the weakest position. Without a compelling platform of their own, many are forced to dance to the tune of platforms like Amazon, Grubhub, and Spotify.

In addition, platforms increasingly are making end runs around content providers by developing their own branded content and using their platform to promote it. The Amazon Echo algorithm steers consumers toward Amazon's more than 125 private label brands, from batteries to diapers; Netflix, Amazon, and other streaming video platforms are pouring millions of dollars into developing their own award-winning programming.

At the same time, legacy content companies have tried to develop their own platforms, such as the new Kroger Ship ecommerce platform. For legacy content providers, the challenge in this competition is that big tech companies have huge amounts of capital to invest in becoming content providers, while content companies struggle to have both the financial and intellectual capital needed to launch platforms able to compete with those of big tech companies.

The Internet Economy Comes to Healthcare

The traditional business model of healthcare has centered on content—legacy healthcare organizations competing with each other based on the quality of their care and services. However, while legacy healthcare providers compete with one another, new competitors are emerging that rely on the platform and ecosystem models of the internet economy. These competitors are focused exclusively on the profitable, retail-oriented outpatient business, and they are intent on unbolting that business from the inpatient chassis where it has resided for the past 50 years.

One of the most aggressive and farsighted new entrants is CVS Health/Aetna. CVS CEO Larry Merlo has repeatedly described the merged company's intent "to create a new healthcare platform that can be easier to use and less expensive for consumers" and "a new front door to healthcare in our country." The basis for this platform is already in place, with approximately 9,800 CVS stores, 1,100 MinuteClinics, 62 million CVS loyalty program members, 5 million customers daily, and 39 million Aetna members.

CVS Health has started to reveal its plans for continuing to build this platform and for transforming it into an ecosystem. These plans demonstrate a clear understanding of the internet economy's new rules of the game, as the company seeks to:

- *Increase ease of access and consumer touchpoints* by developing a "new retail health engagement model" that is "more convenient, more accessible, and more customer-focused" than the traditional model. Components include additional clinical services in CVS stores, "digital tools to support customer progress outside the store," and a "curated assortment of front-store items."
- *Build upon the customer loyalty* of Aetna members, with a focus on "populations with high prevalence of chronic disease," and "areas lacking sufficient access to primary care physicians."
- *Commoditize and lower the cost of healthcare services* by managing common chronic diseases, preventing readmissions, increasing the use of lower-cost sites of care, expanding the scope of primary care services in MinuteClinics, and managing complex chronic diseases.

The Strategy for Legacy Healthcare

Legacy health systems need to start casting bets on their business model for the future. In a realm where human lives hang in the balance, there is no question that quality of healthcare delivery "content" is and will continue to be important. However, relying on that strategy alone creates vulnerabilities in the internet business environment.

Legacy healthcare providers typically are not well positioned to drive consumer traffic through an attractive portal to a friction-free experience—as in a digital platform—or to make the most of that traffic through multiple interdependent offerings—as in an ecosystem. However, these are exactly the capabilities that will allow legacy healthcare organizations to remain top of mind for consumers, and relevant to healthcare's future.

Achieving these capabilities will take focus and first-class planning from executives and boards. They will need to free capital trapped in unproductive assets in order to invest in platform capabilities. They will need to get much closer to consumers—understanding and fulfilling their changing expectations. They will need to reshape care models to improve the coordination, experience, and efficiency of care. And they will need to secure intellectual capital that has full command of how to use technology to create a contemporary consumer experience.

These tasks are what it takes for content-oriented companies to compete in an economy increasingly dominated by platform and ecosystem companies that have had unprecedented success. For decades, legacy healthcare providers have relied on a relatively consistent business model. New entrants like CVS Health have recognized these changing competitive patterns and are coming with the new weapons of the internet economy. When healthcare providers see these new competitors pulling out scissors, they need to be ready to switch from tried-and-true paper to rock.

Your comments are welcome. I can be reached at kkaufman@kaufmanhall.com.