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## Special Essay:

### Platform Strategy for Global Markets : The strategic use of open standards and the management of business ecosystems

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In a world being rapidly reshaped by digitalization and globalization, the presence of platform firms is becoming increasingly conspicuous in global markets (Gawer, 2009). This book addresses two questions from theoretical and empirical perspectives: Why do platform firms grow their global presence as open standards internationally prevail?; and ii) How does the growing presence of platform firms influence global industrial structures?

The answers this book presents can be summarized as follows.

- i) Because a platform firm a) creates network effects advantageous to the firm by actively engaging in the formation of open standards; b) gains competitive advantage by positioning itself at the hub of transaction networks and operating in between multiple markets and industries in advanced and emerging countries; and c) seeks competitive advantage using two-sided market and bundling strategies by managing relations with the suppliers of complementary goods while implementing other strategies based on a special market structure, a so-called “business ecosystem,” that has many network effects among products.
- ii) When a platform firm implements strategies a) to c) above, industries in emerging countries are encouraged to catch up with the developed countries. By doing so, they trigger a sudden transformation of the structure of the international division of labor by accelerating a new structure rather than reinforcing the existing structure (d)).

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*"Chapter 1 introduces how platform firms have managed to expand their influence as more and more open standards are created in the global economy."*

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Although d) is a byproduct of strategies a) to c) above, this byproduct matters more to many business practitioners and policymakers than the platform strategies.

The difficulty in research on platform business stems from the interdisciplinary nature of platform studies. Management scholars started the platform studies in the 1990s (Cusumano, 1998; Gawer & Cusumano, 2002). Most of the studies focused on the secret of platform business as a successful business model while completely disregarding the dimension of internationality (e.g., international standards or differences between the developed and developing economies). In the 2000s, economic studies using mathematical models to explain the mechanism of platform strategy based on the network effects became the mainstream on this topic (Rochet & Tirole, 2003; Hagiu, 2006; Eisenmann, Parker & Van Alstyne, 2011). These studies, however, neglected the question of what elicits such network effects while prior studies reported that the industry-wide standardization are a powerful source of network effects (David & Greenstein, 1990). This book attempts to fill in these gaps by demonstrating that platform firms generate network effects through the twofold approach of creating open international standards to open up the technological and industrial contexts, and exploiting network effects by positioning themselves at the hub between industries in developed and developing economies. With the strategic use of open standards, platform firms gain competitive advantage and stimulate the growth of business ecosystems by encouraging the new entry of firms from developing countries. These strategic behaviors of platform firms drastically change the structure of the international division of labor in global ecosystems. They promote the catch-up of developing country industries that often provide complementary goods for platform firms and sometimes defeat traditional firms in the developed countries. The global success of platform firms completely transforms the international division of labor between developed and developing economies. Though only byproduct of platform strategies in a global ecosystem, this transformation is more important to many business practitioners, whose business might not be the platform business but still be greatly influenced by this transformation; for it changes the rules of competition, which inevitably brings about changes in their profitability and competitiveness. The transformation cannot be ignored even to policymakers since it affects their countries' economic development and presence in the global market.

The following summarizes the composition of this book, chapter by chapter.

Chapter 1 introduces how platform firms have managed to expand their influence as more and more open standards are created in the global economy. In the 1980s, the EU and the U.S. changed their policies on industry-wide standards, relaxing anti trust laws and promoting consortiums for joint development of open standards (David & Greenstein, 1990; Farrell & Saloner, 1988; Bessen & Farrell, 1991; Link,

Paton & Siegel, 2002). After the policy change, many firms in new industries such as IT, electronics and network services began to increasingly rely on the consensus standardization, the third approach for setting up open standards following the de-facto and de-jure approaches. Hence, the influence of platform firms came to the surface against a backdrop of frequently emerging open international standards.

Chapter 2 sorts out earlier studies on the competitive strategies of platform firms and extracts issues therein. In doing so, it explains how platform firms gain bargaining power through the supply of products to multiple markets under open standards, based on the economic studies. Open standards create network effects. In a market with many network effects, a so-called business ecosystem (Iansti & Levine, 2004), unique strategies contribute to the competitive advantages. The keys are two-sided market and bundling strategies (Rochet & Tirole, 2002; Nalebuff, 2004; Eisenmann, Parker & Van Alstyne, 2011).

The strategy of platform firms makes use of network effects produced by open standards, which in turn promotes the entry of new companies (David & Greenstein, 1990). Thus, the operation of platform firms globally will increase the entry of new companies across the world. Drawing from a theoretical mechanism formulated based on prior studies, I present case studies and empirical studies premised on the following propositions:

**Fundamental Proposition:** “When an open standard prevails in a global ecosystem, the platform firm gains a dominant competitive position. The success of the platform firm triggers a sudden transformation of the structure of the international division of labor.”

**Subordinate Propositions:**

(1) Platform firms make strategic use of open standards to gain competitive advantage.

(2) Platform firms gain competitive advantage by positioning themselves at the hub of transaction networks and passing information on between multiple markets.

(3) Platform firms gain competitive advantage by implementing two-sided market and bundling strategies, managing relations with suppliers of complementary goods, and adopting other strategies based on the market structure.

(4) The rise of a platform firm during the formation of a global ecosystem triggers a sudden transformation of the structure of the international division of labor.

Subordinate propositions (1) to (3) concern the corporate behaviors in which platform firms engage to gain competitive advantage, and thus are about the main effects of platform strategy. Subordinate proposition (4) concerns the results yielded as byproducts of the aforesaid behaviors of platform firms, and thus is about secondary




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effects.

Chapters 3 to 7 analyze the strategic behaviors of platform firms: Chapters 3 and 4 cover the phase of establishing an ecosystem; Chapters 5 to 7 cover the phase of expanding the ecosystem.

Chapter 3 sheds light on why global ecosystems form through the open standardization processes often carried out by platform firms. In order to build a theoretical model of how platform firms strategically use open standards, I investigate the standardization process of the GSM mobile communication industry, which originally started in the EU, and the entry of the GSM standard into the Chinese market. The case study suggests that while the emerging country industries with little accumulated technology or expertise can take advantage of a newly opened area where open standardization allows for access to technological information to catch up with the developed countries, the platform firms that promote standardization can perform competitively in closed areas. Chapter 3 explains how this dichotomization of the architecture by strategic standardization creates a global ecosystem.

Chapter 4 presents an empirical study of platform strategies using transaction network data and panel data created from the market sales values of the semiconductors manufacturing equipment industry from 1994 to 2007. Platform firms have a basic strategy of positioning themselves at the hub of trade networks. The study investigates how the sales ratio of open-standard-compliant products and the sales ratio of products in emerging countries relate with this basic strategy. Empirical evidence indicates the existence of strong interaction effect among three variables (the degree of positioning at the hub, the sales ratio of open-standard-compliant products and the sales ratio of products in emerging countries). This suggests that the platform strategy has different outcomes according to the level of the sales ratio of products in emerging countries.

Case i) The sales ratio of products in emerging countries is above the average:

An increase in the degree of positioning at the hub is positively associated with market performance. The sales ratio of open-standard-compliant products steps up this effect.

Case ii) The sales ratio of products in emerging countries is at the average or below:

An increase in the degree of positioning at the hub is negatively associated with market performance. The sales ratio of open-standard-compliant products weakens this effect.

The basic platform strategy works well in Case i) but not in Case ii). From the empirical evidence, the study concludes that the international expansion into emerging markets is one of the essential keys to the success of the platform strategy, and the effect of the platform strategy increases as the open standards prevail in the emerging markets. These findings hence endorse the fundamental proposition.

Chapter 5 analyzes ecosystem management at Intel Corporation, one of the most well-known platform firms, by describing a case study of Intel's platform strategy for the Pentium CPU in the 1990s. The case study reveals

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*"Chapter 6 discusses the management of relations between a platform firm and symbiotic firms based on a case study on joint efforts by Intel Corporation (the platform firm) and Taiwanese motherboard manufacturers (symbiotic firms) to solve problems in the process of developing the most advanced CPU motherboards of the day."*

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*"Chapter 7 presents another case study on the management of relations between platform firms and user firms."*

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that a firm's new entries into peripheral markets carry a significant meaning. Intel forged ahead into two peripheral markets, one for chipsets and the other for motherboards. The study finds that the platform strategy of entering peripheral markets had two purposes: to strengthen bargaining power based on customer lock-in and to revitalize peripheral markets by providing stimuli for complementor investments. Intel locked in Taiwanese motherboard manufacturers in its ecosystem by providing its chipsets and promoting their investments in the latest motherboard production. On the other hand, Intel itself invested in the production of motherboards and signaled its strategic stance by sending out a message, "Taiwanese firms should quickly invest in the latest motherboard production otherwise Intel itself will make them and the opportunities will be no longer available."

Chapter 6 discusses the management of relations between a platform firm and symbiotic firms based on a case study on joint efforts by Intel Corporation (the platform firm) and Taiwanese motherboard manufacturers (symbiotic firms) to solve problems in the process of developing the most advanced CPU motherboards of the day. As the platform firm continuously incorporates new technology into the platform product, major symbiotic firms come together to form a core problem-solving network. A core network of joint problem-solving may pose a barrier to newcomers and hamper the expansion of the ecosystem. The core networking thus becomes a dilemma, where the platform firm wants to realize forefront technology for its products while avoiding the entry barrier by the formation of core networks. The case study in Chapter 6 reveals that Intel develops reference designs with certain symbiotic firms and gives them when it provides its latest chipset to Taiwanese motherboard manufacturers. The platform firm successfully maintains the openness of the business ecosystem by actively disseminating the reference designs to other symbiotic firms as technological information.

Chapter 7 presents another case study on the management of relations between platform firms and user firms. The study conducts a comparative case study to reveal the difference in inter-firm relationships, especially when making relations with user firms, between platform firms and product firms. The study investigates how the manufacturers Bosch and Denso built relations with their user (automotive) firms in the Chinese market for engine control units (ECUs). Bosch adopted a platform-strategy-like action, while Denso acted as a firm with a product strategy. The former followed a standard interface model to construct an inter-firm relationship based on its platform strategy. The standard interface model allowed the platform firm to trade with automotive firms in any segment of the Chinese automotive industry, where the ECU industry was broken down into multiple segments according to the levels of technological accumulation. This made it possible for the platform firm to expand the ecosystem while maintaining the openness of the business ecosystem. The case study in Chapter 7 also clearly shows that user firms in emerging countries lacking technological accumulation gained the opportunity to catch up with developed countries through the standard interface model offered by platform firms.

Chapter 8 verifies whether the case studies and empirical studies support subordinate propositions (1) to (4) along a framework of establishing and expanding an ecosystem up to the global scale. It confirms that the findings from Chapters 3 to 7 underpin subordinate propositions (1) to (3). It also reveals that the subordinate proposition (4) holds true with complicated outcomes. The rise of a platform firm is very likely to transform the industrial structure involving newcomers and existing companies into an international structure. Although this transformation may happen to the symbiont and/or user segment(s), it likely impacts the symbiont segment much more severely than the user segment. The transformation implies the catch-up by newcomer firms, who are from emerging economies, and the decline of incumbents, who are traditional firms in developed countries. The transformation may not occur as easily in the user segment, for two reasons: i) regulatory restrictions are imposed on market entry and ii) the transformation of the industrial structure, that is, the newcomers' catch-up with existing companies, occurs fairly quickly inside domestic firms. If, on the other hand, no international transformation takes place in the user segment, a proxy war between the new and old user firms arises in the symbiont segment, potentially leading to a more serious impact on symbiont firms.

Chapter 9 summarizes the findings from the case studies and empirical studies presented in Chapters 3 to 7. It derives a set of conclusions from these findings, discusses the conditions needed for the fundamental proposition to be true, and closes by presenting future challenges.

Studies on platform strategies and ecosystem management are clearly becoming more important going forward against the backdrop of globalization and digitalization. I would be greatly delighted if this book contributed to further studies on platform business and helped both academicians and business practitioners who have an interest in the impact of platform firms on the global markets.

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# Special Essay:

## Evolution of International Marketing Study in Japan: From Export Marketing to International Marketing Capability

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### Introduction

Evolutional path of international marketing study varies depending upon the research context in each country, especially in the early stage of investigation. The comparative marketing studies emerged in the U.S. in 1960s, partly due to the entry of U.S. companies into foreign markets and the failure to adapt to these markets (Wind & Douglas 1980). The U.S. MNEs expanded their operations to overseas market after the World War – so-called *Americanization*- and intensively made investment into European countries in the 1960s –*the American Challenge* labeled by Servan-Schreiber. American multinational enterprises (MNEs) of the time confronted challenges arose from practices in heterogeneous management environment and were needed to understand foreign marketing/distribution systems in comparison with their domestic marketing/distribution system.

The export marketing was the main focus of early international marketing study in Japan. Because the FDI by Japanese companies were limited in the 1950s and 1960s due to the lack of capital and managerial resources, most Japanese companies accessed foreign markets via export. Isamu Hisinuma visited the U.S. in 1955 as the chair of marketing investigation team by Japan Productivity Center and published a book *Export Marketing* in 1957. This book devoted chapters to promotion of export from Japan to foreign markets, international market research, international marketing channel and merchandising of export goods.

In the course of time, international marketing study in Japan has experienced paradigm shifts as the result of the internationalization of Japanese firms and the inflow of marketing knowledge mainly from the U.S. This essay briefly reviews the evolution process of international marketing study in Japan and aims to introduce state-of-the-art research agenda.

### Early International Marketing Study in Japan

The early international marketing study in Japan was originated from two research streams: trade practice theory and Marxist view. The trade practice theory was systematized by Torizo Kousaka, emeritus professor of Waseda University, with trilogy: *Trade Custom* in 1960, *Trade Contract* in 1960 and *Trade Practice* in 1961. His seminal work was decartelized by Sadao Ishida of Meiji University and Genzou Hamatani of Waseda University and became essential knowledge for business persons engaging in trade activities in Japanese trading company. Professor Ishida published




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export/international marketing papers from the late 1960s and early 1970s and regarded large Japanese trading companies as the key players for international marketing; this thought had partial explanation power until Japanese manufactures started FDI without the support of Japanese trading companies. This research stream had more practical rather than theoretical nature but contributed to gathering attention to the importance of international marketing study.

Another stream came from Marxists view that had an enormous impact on early marketing study in Japan around the 1960s. Before describing international marketing study from Marxists view, I will briefly mention to the logic of Marxist view in the marketing study. Fujiya Morishita, emeritus professor of Osaka City University, historically analyzed the formation of marketing in his influential work "The Modern Nature of Managerial Marketing" in 1959, arguing that marketing thought was formed in the U.S. because of transition of American capitalism from atomistic to oligopolistic system and that managerial marketing took important role in whole organization after the World War (see Usui 2000). This view led to the narrow definition of marketing by Japanese scholars as "market domination activities by oligopolistic manufacturing firms" as compared with the broader definition as "exchange" by American Marketing Association in 1985.

Morishita (1967) ascribed the formation of international marketing to the historical conditions of the U.S. after the middle of the 1950s when the capital export by the U.S. government drastically decreased and European and Japanese firms emerged as tough competitors to American companies due to the economic recovery from the World War . Although Morishita (1967) used the word "world marketing" as the meaning of international marketing activities by "world enterprise", it correctly described some characteristics of MNE as local production by FDI, integration of domestic and foreign marketing and profit maximization as a whole. This Morishita's Marxist and historical view exercised a lasting impact over international marketing study in Japan for decades.

Whereas trade practice theory approach to international marketing provided practical ideas to international marketers, Marxist approach imparted fundamental principles for theory building. These two approaches were normative, abstractive, and descriptive, but not empirical: international marketing studies using quantitative and qualitative techniques had not appeared at that time.

### **Diversification of International Marketing Study in Japan**

Internationalization of Japanese firms affected international marketing study in Japan. In the late 1970s, FDI by Japanese companies started to grow rapidly and marketing challenges for Japanese firms became increasingly complex ones depart from export to local marketing/selling. Shirou Takeda, emeritus professor of Yokohama National University, observing international marketing activities of Japanese firms, emphasized the importance of precedent channel

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*"The early international marketing study in Japan was originated from two research streams: trade practice theory and Marxist view."*

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building among the other marketing mix elements in initial entry stage. It is notable that this notion was extracted from the analysis of Japanese MNE behaviors based on critical review of Western marketing theory. In another word, international marketing study in Japan started to develop considering research context specific to Japan.

Along with internationalization or globalization of Japanese MNEs from the late 1980s to 2000s, Japanese international marketing study had diversified. It covers global strategy, international marketing management, international market entry, international marketing segmentation, international marketing research methodology, international consumer behavior and so on (Kadomatsu 2000). This partly results from knowledge influx from international business and international marketing studies in Western countries. Some of most influential authors include Howard Perlmutter, Michael Porter, Gary Hamel, C. K. Prahalad, Christopher A. Bartlett, Sumantra Ghoshal, Theodore Levitt, Susan Douglas, Samuel Craig, Masaaki Kotabe, Tamer Cavusgil.

Among the subcategories of international marketing study, one of the most studied topics in Japan was standardization – adaptation problem. Standardization – adaptation studies were conducted by two leading scholars in Meiji University: Professor Shigeto Morokami and professor Yoshihiro Oishi. Oishi theoretically organized antecedents and consequences of standardization and argued the critical role of international marketing duplication, i.e., simultaneous achievement of standardization and adaptation strategy. Morokami statistically analyzed standardization – adaptation behavior of Japanese MNEs and questioned the explanation power of analytical framework of standardization – adaptation decision making. Behind these studies, a research question “Do standardization – adaptation decisions contribute to competitive advantage and consequently performance of firms?” does exist. Morokami (2000) concluded that not only standardization – adaptation decisions but also international logistics, production, service, and information system would relate to firm performance.

To the present, researchers in international marketing field in Japan expanded their areas of investigation and employed quantitative and qualitative techniques, but most books and articles were written in Japanese with some exceptions. Thus, intellectual exchange with researchers from all over the world were limited. More importantly, there are some problems for international marketing scholars to solve: the theoretical and empirical relationships between international marketing activities and firm performances.

### Current Research Agenda

There are at least two current research agenda in Japanese international marketing study. The first agenda is how to overcome the failure of international marketing by Japanese MNEs especially in emerging countries. For example, the sales of Samsung electronics accounted for approximately half of the sum of sales earned by 8 Japanese electronics companies (Hitachi, Panasonic, SONY, Toshiba, Fujitsu, Mitsubishi Electric,




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SHARP and NEC) and operating profit was twice in 2013. Poor performances of Japanese MNEs are sometimes attributable to “dilemma of emerging market strategy.” According to Amano (2010), the resources of MNEs created in successful operations in developed markets are not applicable to emerging markets because of the existence of market discontinuity between developed and emerging markets. Given the market discontinuity, the more MNEs strive to build competitive advantage with new product development and product differentiation in developed market, the less MNEs can allocate enough resources to lower layer volume zone segment in emerging markets. Usui and Uchida (2012) proposed “continuity – discontinuity framework of resources” and argued that continuity or discontinuity varies depending on utilization of home-based resources. These studies suggested some fundamental notions for Japanese MNEs to build strategies and to allocate resources in emerging markets.

Another research agenda is to answer a simple question “Which company is capable of international marketing?” This question is driven by the difficulty that Japanese MNEs are confronting and closely related with the relationship between international marketing activities and firm performance. For instance, previous studies concerning standardization – adaptation decisions, the empirical relationship between these decisions and performance are confusing (Theodosiou and Leonidou 2003). This implies that performance of MNEs cannot be explained only by international marketing decision making. Thus, international marketing capability emerges as new research topic for Japanese international marketing scholars.

### International Marketing Capability

Marketing capability studies are applied to international field in recent days. Examining marketing capability in international field, it is important to distinguish two dimensions of marketing capability: contents (general – international) × actors (headquarter – subsidiary). As to marketing capability contents, general marketing capabilities include all marketing capabilities not specific to international context. In terms of international marketing capabilities, Morgan, Feng and Whitley (2018), reviewed previous studies and identified marketing capabilities specific to international marketplaces: (1) MNCs’ transnational product innovation capability, (2) global brand management capability, (3) overseas market-related exploitative and explorative capabilities, (4) international customer- support capability, (5) adaptive capability, (6) local market competence, and (7) global account management capability. Generally, headquarter of MNE acts as the repository of general and international marketing capabilities and subsidiaries exercise their general marketing capabilities for local markets and their international marketing capabilities for neighboring international markets in some cases. Thus, the scope of marketing capability study in international context includes (1) international marketing capabilities of headquarter, (2) general marketing capabilities of subsidiaries, and (3) international

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marketing capabilities of subsidiaries.

We can find the missing link between international marketing study and marketing capability study. Whereas international marketing literature has sought to illustrate the relationship between international marketing activities/decisions and firm performances, most of marketing capability literature has focused on explaining competitive advantage and firm outcomes. This result from some kind of compartmentalization among theories or concepts that researchers employ. It is helpful to show the distinction between activity-based view and resource-based view. Michael Porter's activity-based view sees the organization as a bundle of activities and emphasized configuration of the value chain. Jay B. Barney's resource-based view sees the organization as a bundle of resources and marketing capabilities are the subset of resources. In another word, the activity-based view is the matter of decision making on combination of activities and resource-based view is that of the existence of ability, together with contributing to (sustainable) competitive advantage. Taking these two approaches as complementary, we can propose some simple propositions:

- P1: International marketing decisions are positively related to firm performance.
- P2: International marketing capabilities are positively related to firm performance.
- P3: Positive impact of marketing decisions on firm performance is stronger when firms have superior international marketing capabilities.

These three propositions will bridge research gap between previous international marketing studies and marketing capability studies. About Proposition 3, international marketing capabilities work as the mediator, because decision making is ubiquitous for every company and the extent of marketing capability that specific firm has enhanced the impact on outcomes.

Finally, a research team is established under the leadership of professor Morokami of Meiji University to investigate international marketing capability of Japanese MNEs. This research has three characteristics. First, as mentioned above, this research aims to integrate decision making and capability in the same conceptual framework. Second, overseas subsidiaries of Japanese MNEs especially in Asian countries are targeted for the survey. To the best of my knowledge, there is no empirical work of international marketing capability surveying network of MNEs in emerging countries. Third, this research team will conduct not only survey but also case studies. By combining quantitative and qualitative method, it will be possible to examine the complex phenomenon represented by "adaptive capability."




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