

# Seminar Paper

## Proprietary vs. Open Markets in IT: Apple, Microsoft, Google

by Dominique Prinz, h11704419

# Strategies

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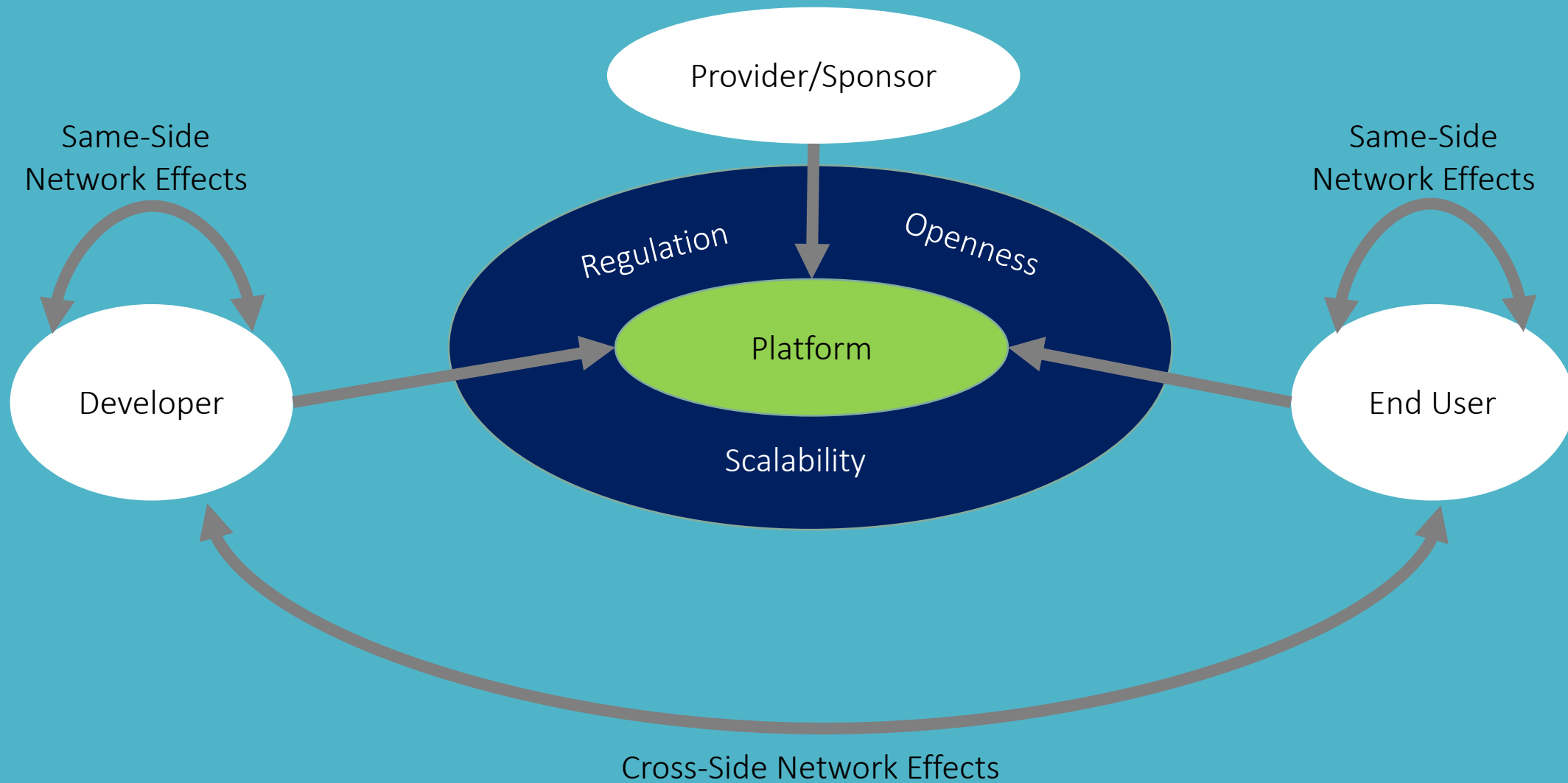
# Introduction

- Scope of the Seminar Paper → **Operating System Markets:**
  - **Mobile** OS (Android, iOS, Windows Phone)
  - **Desktop** OS (Chrome OS, macOS, Windows)
  - focus on global players and market leader → **Microsoft** Cooperation, **Apple** INC. and **Google** LLC
- Market Participants:
  - **Platform Provider** (Sponsor)
  - **OEM** (Original Equipment Manufacturer)
  - Application/Software **Developer**
  - **End User**

# Research Questions

- In what **ways** do **proprietary** and **open markets differ** from each other and how can market segments of the three companies, **Microsoft, Google** and **Apple** be assigned to the two forms?
- Which **strategies** do **platform providers** use to **maintain** their market position?
- Does an **open market** automatically imply increased **social welfare**?

# Two-Sided Markets



# Differences Open vs. Proprietary Markets

## Open Markets:

- **Open Platform:** Free entry and exit for Developers (Hagiu, 2006)
- **Open Source Code:** operating system is based on open source code  
→ community driven, comparatively low development costs
- no resp. little **regulation**

## Proprietary Markets:

- full platform control through regulations
- monopoly-like pricing scheme through “lock-in” strategy
- competitive advantages through patents

# Challenges at Two-Sided Markets

## Challenges:

### 1) Get Pricing Right

money and subsidy side → focus on price sensitive side. Generate profits by charging the money side

### 2) “Winner-Take-All” Dynamics

be aware when markets are lost to competition

### 3) Platform Envelopment

avoid that other platforms or products can adapt key features of your platform

# Strategies at Two-Sided Markets

## Strategies:

- **first mover** advantages: rapid spread through **licensing** – strong network effects, sometimes not legal tactics (Android vs. European Commission)
- **closed ecosystem** → customer “lock-in” + “bargain-then-rip-off” due to increased switching costs
- make use of **network effects** → increase product variety. **open platforms**: free SDKs for application developers.
- **rethinking** business models → **desktop operating system** markets and cloud computing: do we need powerful hardware?



# Social Welfare & Terms of Condition

- **intuitive thinking**: open markets are in general more efficient and result in higher social welfare → better for all market participants
- **discrepancy** between mathematical models in literature → intuitive thinking that open platforms are better than proprietary platforms may not be true
- **terms of condition** for application marketplaces:
  - sometimes **arbitrary decisions** by providers of applications markets due to unclear guidelines
  - can **distort competition** within markets
  - differ by **regions** → hard to compare

# Outcomes & Limitations

- IT market is characterized by rapid change → companies need to **readjust strategies** on a regular basis
- open platforms can create substantial **added value** for organizations and customers through big communities
- provider of proprietary markets retain **full control** of their customers and ecosystem
- market leader make **use** of their **influence** and **power** – sometimes in a negative way
- a general statement of which market form is more desirable cannot be made

Thank you for your attention!

# Sources:

*Hagiu, A. (2006, May 14). Proprietary vs. Open Two-sided platforms and Social Efficiency (AEI-Brookings Joint Center Working Paper No. 06-12; Harvard Business School Strategy Unit Working Paper No. 09-113). Retrieved 16:25, April 10, 2020 from [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=980755](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=980755)*

*Eisenmann, T. & Parker, G. & Van Alstyne, M. (2006, October). Strategies for Two-Sided Markets (Harvard Business Review. 84. 92-101+149). Retrieved 12:30, April 25, 2020 from [https://edisciplinas.usp.br/pluginfile.php/1704705/mod\\_resource/content/1/Eisenmann%20-%20Estrat%E2%80%9Aguas%20para%20mercados%20multilaterais.pdf](https://edisciplinas.usp.br/pluginfile.php/1704705/mod_resource/content/1/Eisenmann%20-%20Estrat%E2%80%9Aguas%20para%20mercados%20multilaterais.pdf)*