

# MGMT

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### **Adjusting platform business models**

– Digital health platforms in  
regulated industries



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# Adjusting platform business models

## — Digital health platforms in regulated industries

Digital platforms are spreading very fast and new opportunities are emerging in the realm of digital services. But, can any firm easily succeed with a new platform business model? Well, reality seems to be quite complex. Focusing on digital health platforms as examples of new business models in highly regulated sectors, we outline the challenges that platforms should prepare for.

### How to design a legitimate business model?

What value does your business offer? How is that value delivered? Who receives that value? Business models answer these and other questions by illuminating how firms create, deliver, and capture value. Business models have become a useful tool for many firms as they can easily represent the key internal components of the firm and its relationship with the external stakeholders. Not surprisingly, management studies and popularized books provide a lot of advice regarding how to design business models. In this respect, designing a successful business model requires a careful consideration of the activities and resources within the boundaries of the firm together with a broad approach to the different actors around the firm, including customers, suppliers, regulators, and society.

Platform business models are a remarkable illustration of the unprecedented opportunities of defining a business beyond the focus on the internal limits of the firm. Companies like Apple and Google have rapidly disrupted entire industries by proposing platform business models based on the value outside their firms, i.e., the network value. By facilitating interactions among different users, platform business models have proposed scalable ways for digital value creation, digital value delivery at minimum cost, and remarkable sources of revenues for their firms (and other firms in their ecosystems). In fact, the external orientation of platform business models allows firms to leverage open innovation and ensure the evolvability of the whole platform ecosystem.

However, every coin has two sides. Besides the unprecedented opportunities enabled by platform business models, their external orientation involves the coordination of a wide diversity of stakeholders, and hence, the adaptation of the platform business models to their different reactions. This aspect is especially relevant in sectors in which the margin of action is constrained by well-established actors and rigid rules, which implies not only high barriers to new entrants but also significant rule compliance after entry is made. As platforms are entering an increasing number of semi- or highly regulated sectors, platform business model designers face new critical challenges. In such settings, the entering platform business models need to become *legitimate*, i.e., accepted, viewed as appropriate, and desirable by professionals, regulators, governmental units, media, and general public. The importance of legitimacy, involving the

permission to first enter and the conditions to emerge is evident in our research about digital health platforms in Swedish primary care.

### “Netdoctors” entering the Swedish primary care sector

The Swedish “netdoctors”, for example Kry, MinDoktor and Doktor.se, deploy platform business models that facilitate interactions between a large number of patients and a large number of medical professionals (e.g., nurses and doctors). A core aspect of their business model is their matchmaking capacity. Sweden has witnessed a steady increase in the number of users (both patients and professionals) since their market entry in 2013-14. In parallel, the “netdoctors” have been continuously debated in media. Indeed, they have been facing a continuous stream of intense discussions, where different dimensions of their business model have been questioned. For example, a popular topic in media was whether the target users of the “netdoctors” even needed primary care.

Our research studied how their business models evolved in relation to legitimacy debates. Our findings specified the different dimensions of their business model that were questioned over time, resulting in a set of adjustments among the Netdoctors, across three phases. The major questions and adjustments made are outlined in Table 1 (next page).

In the early stages of the studied platforms’ life cycles, legitimacy debates concerning *platform-service feasibility* triggered business-model redesigns aimed at demonstrating both need and usefulness. Subsequently, the mobilization of demand following these adjustments elicited new legitimacy concerns about *platform-service integrity*, which prompted business-model redesigns to broaden the scope and formalize online delivery. Finally, legitimacy debates concerning *platform-service recipients* impelled the platforms to focus on diversifying and integrating online and offline services to demonstrate the broad societal relevance of their services. These insights underscore that value creation, delivery, and capture mechanisms of the business model must change over time. Specifically, our findings point to the critical business-model decisions and legitimacy debates that new entrants need to take into consideration at the different phases of their entry into non-platformized sectors.

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| Target of concern                          | Concern/question raised  | How platform firms responded   |
|--|--|--|
| Platform service feasibility and relevance | <p>Is the service providing value in digital form - can care occur 'online'?</p> <p>Is the need addressed relevant? (<i>value creation</i>)</p> <p>Is the technology applicable in this service context? (<i>value delivery</i>)</p>   | <p>Demonstrating need and feasibility by:</p> <ul style="list-style-type: none"> <li>- Mobilizing users and highlighting demand</li> <li>- Focusing on low complexity application</li> <li>- Focusing on basic and common needs</li> </ul>                   |
| Platform service integrity                 | <p>Is the medical quality of the service sufficient (<i>value creation</i>)</p> <p>Is the privacy/confidentiality issues handled appropriately? (<i>value delivery</i>)</p> <p>Should the service be subsidized? (<i>value capture</i>)</p>  | <p>Broadening scope and formalize online delivery by:</p> <ul style="list-style-type: none"> <li>- Enhancing process transparency</li> <li>- Adding new revenues sources</li> <li>- Expanding into new basic and common segments</li> </ul>                  |
| Platform service recipients                | <p>Is the service only benefitting a small share of the population? (<i>value creation</i>)</p> <p>Is the platform able of providing integrated and continuous services (<i>value delivery</i>)</p> <p>Are payment models impacting the remaining public service system negatively? (<i>value capture</i>)</p> | <p>Diversifying and integrating online and offline services</p> <ul style="list-style-type: none"> <li>- Experimenting with different ecosystem positions and payment models and targeting new populations by moving towards omnichannel strategy</li> </ul> |

Table 1. Concerns and responses related to specific dimensions (value creation, delivery, and capture) of new platform business models in Swedish primary care

### Implications for designing legitimate platform business models

Platforms should expect a wide range of legitimacy challenges when entering regulated and non-platformized settings. These challenges must be managed proactively and continuously. Based on our research, we present some suggestions:

- Analyze the specific needs for what should be changed  
Different dimensions of the platform business model (value creation, delivery, capture) may be the target of concerns at different points in time. Platforms should therefore focus on the dimension(s) of the business model that is in need of adjustment at each point in time and to communicate that proactively to stakeholders.
- Do not forget the whole picture  
Platform business models combine intertwined components. This means that each change may result in adjustments in the other components. It is fruitful to keep in mind how these adjustments may affect the whole business model.
- Orchestrators may be preferred to dictators  
Platform business models allow firms to "manage" external relationships with different stakeholders. This means that the external parties have their own interests and margin of action. Respecting the heterogeneous motivations and the decision power of the different stakeholders may benefit the evolvability of the platform business model.
- Adapt or perish  
Platform business models are not static, especially for entering new markets. Adaptations may trigger new concerns. For instance, in our case, the move to omnichannel created new concerns about offline capabilities. Hence, a continuous redesign and adjustment is needed.

#### RECOMMENDED READING:

> Essen, A., Frishammar, J., Cenamor, J., 2022. Entering non-platformized sectors: The co-evolution of legitimacy debates and platform business models in digital health care. *Technovation* 102597. <https://doi.org/10.1016/j.technovation.2022.102597>



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