Chapter 5
System Lock-In: Winning through Complementors

The System Lock-In position represents the strongest form of bonding and demands that the business addresses the overall architecture of the system. Instead of focusing solely on the product or the customer, we are now concerned with all the important players in the system that contribute to the creation of economic value for a particular customer. Besides the normal industry participants—buyers, suppliers, channels, and potential new entrants—we are especially concerned with nurturing, attracting, and retaining ‘complementors.’ A complementor is not a competitor, or necessarily a supplier; it is a provider of products and services that enhance, directly or indirectly, our own offering. Examples of complementor pairings include computer manufacturers and software producers, high fidelity equipment manufacturers and CD retailers, and video cassette recorders and movie studios.

System Lock-In further expands the scope of the business relative to the previous strategic options. System Lock-In players attract, satisfy, and retain customers by attracting, satisfying, and retaining complementors. The value of the system grows with increasing participation and they enter an economic zone of increasing returns with growth. This defies conventional economic reasoning which has it roots in the behavior of the agricultural industry. As the agricultural activity expands, less fertile lands enter into production. The more you produce, the lower the incremental margins you enjoy. Network effects put an end to the universal validity of this principle. At eBay, the Internet-based auction house, the value of their service goes up with each additional buyer and seller that uses their service. But it is important to note that, while networks enable and accelerate these effects, System Lock-In has always existed. Sotheby’s and Christie’s are physically-based auction houses that sustained themselves for years because they were the dominant exchange point for buyers and sellers to congregate.

As with all aspects of bonding there are two necessary conditions to create System Lock-In: (i) the existence of increasing marginal returns and
(ii) external network effects. Increasing marginal returns reflect how the value of the product or service increases with increased users and usage. Network externalities reflect the fact that attractiveness of the product is not embodied in the characteristics of the product, but is external and often the function of investments by others, particularly the complementors and customers. When these conditions exist, the more a product is adopted and used the greater the benefit it confers to the customer. This translates into a virtuous cycle, where more is better, leading to even more, and so forth. This sets the stage for achieving a System Lock-In position. The increased reach and connectivity that the Internet provides has expanded the stage of opportunities. Moreover, this technology has disaggregated industries creating a network of complex interactions among fragmented and specialized participants that almost mandates the use of common standards to ensure effective exchanges.

There are three ways to achieve System Lock-In, as illustrated in Figure 5.1: Proprietary Standard, Dominant Exchange, and Restricted Access. A business successfully positioned as a Proprietary Standard draws customers because of the extensive network of complementors that are designed to work with its product. If you want to use the complementors you are compelled to use the Proprietary Standard. Microsoft, Intel, Real Networks, Palm, and Cisco are superb examples. A business positioned as a Dominant Exchange provides an interface between buyers and sellers, or between parties that wish to exchange information or goods. Once this sort of business achieves a critical mass it is very hard to displace. With eBay, sellers