AmChamConnect

Disruptive Ecosystems and their new competition models

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together.
Business Consulting

Authors

Guillermo Daniel Ocampos

Founding Partner of Together Business Consulting. More than 30 years running businesses and developing practices in the consultancy and technology sectors, having served in executive positions at PwC and IBM.

Carlos Fernández

Partner at Together Business Consulting, Carlos is an outstanding professional in business development and commercial areas. With extensive experience in the financial sector, mass consumption and retail. His role at Together is to be responsible for the Commercial Organization and the Development of its Value Ecosystem.

Today's markets are constantly changing and company paradigms are also changing. The boundaries of industries are no longer so clear.

With the digital world, new business models and new companies are born in an unusual way. Consumers and corporate customers require new products and services beyond the delivery capabilities of current companies. In this accelerated dynamic it is almost impossible to compete and survive in the long term.

Although there are different paths that companies begin to take in their transformation process, in this document we review one of them which, we understand, changes the traditional rules of doing business: Ecosystems.

Introduction

Companies are facing an increasingly changing market. Customers who require new products or services as to those they traditionally received. On the other hand, the digital revolution that began years ago with the increase in data, the possibility of connecting in previously unthinkable places along with artificial intelligence reshaped customer expectations. This empowered companies to redefine the boundaries where they should develop.

Everything that until now outlined “rules and boundaries” in organizations began to become diffuse. Thus, we begin to identify that the borders of traditional industries are blurring. Companies that transform from being automotive to providing mobility solutions. Others that, from being retailers, become video streaming companies. From technology to financial services. From pharmacies to health management centers. And so, many examples can be found, including the so-called digital natives who are created without any type of physical limit or restriction.

Let's review real cases. Perhaps one of the most known case is Kodak and what happened to it in the camera industry. He was a pioneer in digital photography but was unable to transform in time as an unexpected competitor arrived from another industry: telecommunications. It added an enormous amount of functionality to smartphones that severely affected players from countless industries, in addition to photography, calculators, watches, GPS, among others.

Thus, as the boundaries between industry sectors continue to blur, executives at many traditional companies will face new players they had not previously seen as potential competitors; those that pursue different objectives than their traditional rivals.

That is, a break is generated with the arrival of a competitor with a new value proposition that affects competition within the industry, erasing the limits and overthrowing the existing traditional structure. This “break” is not just because of additional competition, but rather the foundations of that competition are being redefined. The game that companies were used to play is changing. The field, the formation of the teams and the rules of the game change.

In this new environment, different capabilities are required than the existing ones. Defending the company's position is a critical mission, and so will be seeking and capturing all possible opportunities, accelerating changes.

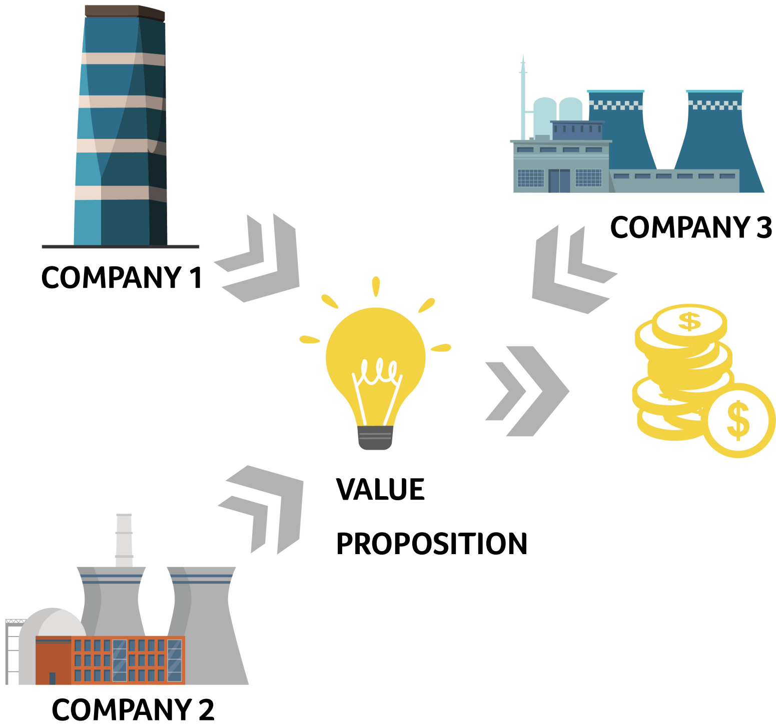
Are we in a position to develop all of these capabilities at the same time? Every day you can see how large companies begin to realize that the “old way of winning” is no longer as effective as it used to be. This disruption shows that the “game” is changing, that it has different objectives and that the rules used to evaluate the competitor are no longer as applicable.

In this new “competition” with players who are playing beyond the limits, we are beginning to see that more and more industries are converging under new, broader and more dynamic alignments, which we are starting calling **ecosystems.**

Idea 1

A new market.
What is the new model to compete?

What is an ecosystem really? The ecosystem is defined as the structure through which partners interact to offer a better value proposition to customers".



They are also defined as:

- **Dynamic and co-evolutionary communities** made up of diverse actors working to create, serve and scale markets beyond the capacity of a single organization.
- **Who create and capture new value** through new solutions and business models.
- **Leveraged on collaboration and competition in search of shared interests, objectives and values,** to satisfy the growing demands of clients.

In recent years, for example, a consumer products company with a B2B model, with its logistics, processes, marketing and so on, oriented towards companies in the retail industry and playing the game it knew. A forced change occurred, the pandemic, and their customers could no longer access their products. Given this, the company decided that it had two paths: develop a B2C model or seek to build an ecosystem together with a company from another industry. This industry was the postal industry, creating a new value proposition that included a new model for them: B2C, from factory to home. That is to say, they added their value proposition, the products and the door-to-door delivery.

What do we mean when we talk about value proposition? It is “the articulation of the benefit that the collective effort will create and that establishes the direction of activities and collaborations. A compelling value proposition is the first step to success." Continuing with the example, the value proposition is “from the factory to your home without intermediaries”.

In this step by step, customer insight and the right value proposition are just the beginning. The core of the approach is to connect the value proposition with the activities that generate it, both within the organization itself and with partners or business partners. This is what drives us to focus on ecosystems.

Thus, there are three key aspects that help define it:

1. The value proposition. The ecosystem must be oriented around the objective of value creation, avoiding being trapped in the perspective of a single company or technology.
2. Identifiable set of specific partners who choose to interact to create the unique value proposition. An ecosystem is multilateral. It cannot be understood only as a series of bilateral relationships between buyers and suppliers.
3. The ecosystem has a structure: the players are aligned under a collaboration agreement, with defined roles, positions and flows between them. If you are only concerned about attracting an increasing number of subscribers to your platform, you are missing the vital role of alignment. The heart of the ecosystem strategy is finding a way to align partners on the structural agreement that requires them; and in the role they are willing to play.

1- The value proposition

In building an ecosystem it is essential that each of the players share their vision, the value they contribute to the ecosystem and the role they will play. The latter is very important given that when the role of one of those who make up the ecosystem is that of "central player", the format is renamed: "ego-system".

For example, cases such as "Google Ecosystem", "Facebook Ecosystem" and "Apple Ecosystem". Although in these cases they are successful companies, they can hinder other participants in the ecosystem from being able to develop their own strategies and/or being able to contribute greater value.

For example, in the case of Apple: the most valuable company in the world, it has been enormously successful in expanding the ecosystem of mobile data devices: iPod to iPhone to iPad to Apple Watch, surrounded by its App Store and iOS platforms. However, it has been surprisingly disappointing in its efforts to expand into new businesses that require building new ecosystems. Some failures by Apple to deliver on ambitious promises such as that "health care would be the company's greatest contribution to humanity"; or that "the HomePod would reinvent home audio"; or that "its classroom education platform would amplify learning," among others. While these cases are hidden behind the profits that flow from their core ecosystem, they are failures of the attempt to go beyond their core business into a necessarily broader ecosystem.

This is why it is vital to understand and build the ecosystem seeking to maximize the value offered by all parties in order to be able to create a new enhanced value proposition, which manages to offer the client a superior proposal compared to the one that each player offers separately. Thus, greater attractiveness is achieved for other potential partners who want to join, thus increasing the value, size and diversity of the ecosystem: a clear example was the case of Alexa.

So how should you start? When you want to enter a market, you work internally in the company looking for the structure, processes and proposal to maximize the possibility of success. But when ecosystems are included in the strategy, we have to think that we are not alone. And when a structure must be made with more than one company, it is necessary to understand the roles of each partner as well as the entry sequence of the different players.

You can have a very clear vision of where you want to go but you depend on the other partners in the ecosystem. Thus, you have to understand with whom and when to interact in the ecosystem. Being clear about the starting point and identify which partners you want to attract, when and what you need to have so that they are interested in participating. The way to do this is by defining a partner entry sequence.

Therefore, the important thing is not to think about where you want to go but to define the evolution strategy of the ecosystem. Understand who are the partners you need to work with and what is the way to attract them:

• Today, are we seeing this change in competition, with blurred industries and new competitors in the market in which we develop?

• What is the strategy we choose to face these changes and/or the planned growth? Organic or inorganic. An internal change in the company, through acquisition or as part of an ecosystem? Have you already thought about it?

• Have you thought about how to integrate the corporate world with the external world of innovation as part of your ecosystem?

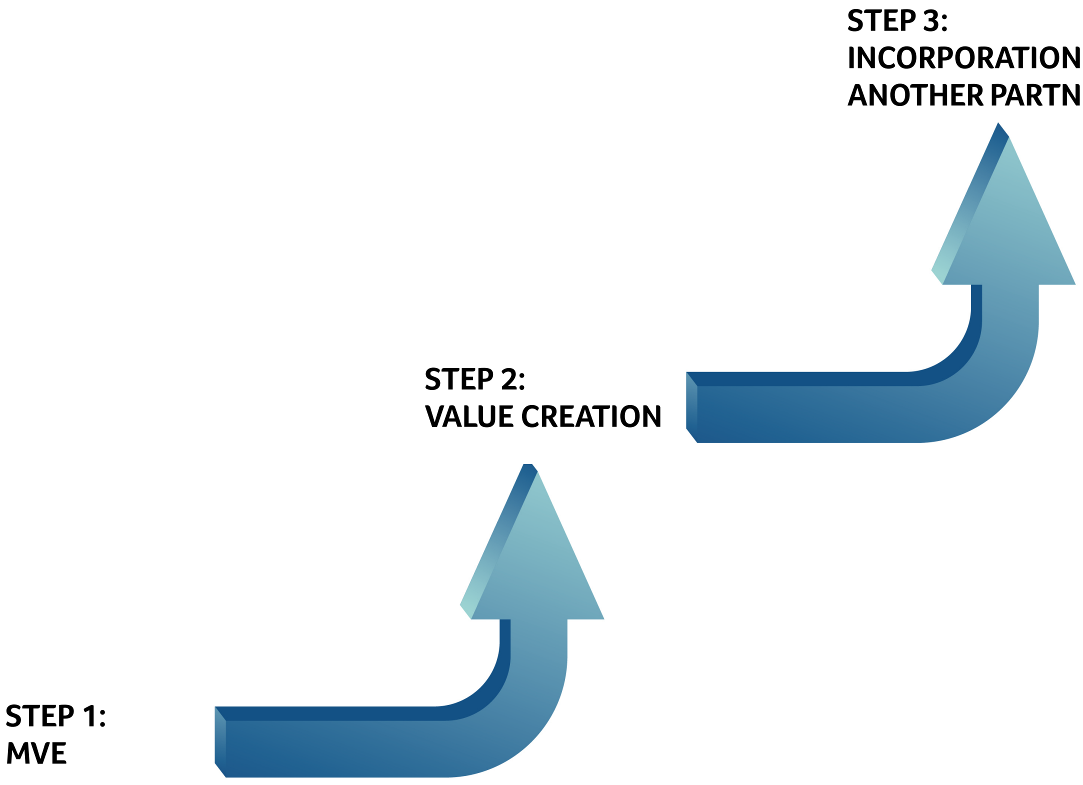
Idea 2

A new model.
How do I start? Agility and Scaling

It is clear that the changes are here, we must face them and/or take advantage of them. And if as part of our transformation the ecosystem strategy was defined: how to start?

First of all, we must avoid making the mistake of doing everything at the same time. It will not be possible to have all the partners on the first day, given that many of those you want to work with may not be attracted by the value proposition as it stands today. For this reason, the starting point of ecosystem development is called: MVE, minimum viable ecosystem; from which new players will be added to the ecosystem.

The focus of the MVE must be the increase of our value proposition with the consequent attractiveness to new partners, who need to be part of the ecosystem irrespective of the income growth that they provide.



Finding an MVE means confronting the search for an economic result and the participation of different partners. You start with an idea, with a vision and then you must identify the different ways to reach that goal. We are not looking for a universally "correct" MVE, but rather the one appropriate for each situation.

As an example, the case of Alexa is reviewed. Amazon launched “Echo Speaker” with “Alexa” voice assistant and “Prime Music” service, inferior to Apple Music / Spotify / etc. It did not seem like something very valuable for the market, however it was the starting point with a focus not on the mass marketing of this product but on achieving attractiveness for other partners who wanted to join the Alexa ecosystem. Then, Alexa arrived for independent developers who wanted to upload their apps and start developing for the Echo Speaker. This made Alexa start to have new functionalities, which led Amazon to introduce APIs in the Echo Speaker that allowed it to interact with other devices. This caused Alexa to no longer be only on the Echo System. Additionally, it began to market the chip with Alexa intelligence so that other companies could introduce it into their products, thus attracting new big players who wanted to work with Alexa, something that on day one did not seem like an option. That is to say, Amazon took a whole path of growth for Alexa working with other partners, creating the ecosystem and thus creating attractiveness to the market.

In conclusion, it can be said that an ecosystem is a structure of companies and partners that interrelate and collaborate in order to generate value through new products / services / solutions to their clients that must begin with an MVE. For review:

• Is it understood that the business must be thought about with a forward-looking view with a very different architecture?

• Do you think about the company that “should be” in an ecosystem model, as well as the future implications of changes to the internal organization and the way the company operates today?

Idea 3

Can you play alone? Do you have the capabilities and a company used to transforming itself all the time? Or do you need to play as a team?

Today there are companies in the market that continue to be successful without having to choose to go to an ecosystem model. Also, every day it is clearer what can be achieved with the strategic advantage of reacting to the speed and diversity of the changes that are happening today.

Every day, new players emerge and enter to compete with new value propositions, with more flexible work models and services without the “paradigm” of the industry or external factors that modify the rules of the game, such as the pandemic. Whatever the case, companies are forced to respond in a different way than they are used to, in much shorter times, with greater expertise and with a renewed value proposition.

Let's analyze the case of Tesla. Many members of the automotive industry competed in different segments, with different models, brands, engines -gasoline, diesel-, comfort, etc. They knew how to compete with each other, but something changed. A new player arrived: “Tesla”. And it did so with a variant that exceeded the rules known to the industry until now. The concept of the electric car that, although innovative, would sooner or later be managed by automotive companies. Tesla went one step further and changed the rules again. It continued to increase the value proposition to its customers by offering an additional service: charging infrastructure for electric cars. As if in the market of that industry any of the companies took the role of Axion, Shell, etc. And it didn't stop there, but continued and included software in the cars, energy optimization systems, etc. That is to say, Tesla decided to change the scenario on which to play by changing the value proposition.

What would we do in a similar case in our company? Obviously, in order not to lose the market, the company should try to change, but this entails the need for a company to transform its services, solutions, products, strategy and vision. All with speed so as not to be left even further behind. With this situation, two possible paths arise for companies:

1. That of transforming itself all the time to be able to face this challenge with the risks that it entails. Perhaps, with too long times bringing consequences for the market or in the difficulty of developing and scaling capabilities. You probably have to go out and look for expertise other than what you have internally, and/or in markets and industries that are now foreign.
2. That of the ecosystem that can bring the company new capabilities, greater knowledge and additional services very quickly; as well as – probably – it will make other partners want to join the ecosystem and enhance its value.

In the event that the company chooses the ecosystem path, it must focus on the initial strategy. You can have a clear idea of the vision and the partners to do it, even so to achieve it, they may not all be there from the beginning. We must put together the best interrelationship model to leverage the value of each one and thus attract new partners who increase the value even more.

Reviewing the "The CEO Imperative Study 2021" by EY -Ernst & Young Global- it stands out that:

- Of all respondents, 31% of CEOs surveyed indicated that their strategy includes an external ecosystem of business partnerships.
- Companies that have adopted ecosystems are generating significant value as a result. According to respondents, ecosystems contribute on average 13.7% to total annual revenue, 12.9% to cost reduction, and 13.3% to incremental profits.
- 71% of business leaders from companies that are part of an ecosystem believe that they are very important to the current success of their company.

- 91% agree that ecosystems have increased the resilience of their business.
- These companies are also expanding their use of ecosystems: the average number of relationships has increased from 5 to 7, with 58% of respondents having more than 4 active ecosystems.

And in our companies: do we ask ourselves the simple or obvious questions?

- Did we realize that it is something much more strategic than an alliance management process as we conceived it in the past?
- Is it viable to try to continue playing alone?
- Do we think without limits?

Idea 4

MVE vs MVP: Alike but different

In the previous sections, the concept of MVE (Minimum Viable Ecosystem) is stated, pointing out that it should be the starting point in the construction of an ecosystem. But what is the parallel with the concept of MVP (Minimum Viable Product)?

It has already been defined that the MVE is the smallest configuration of activities that can create enough evidence of value creation to attract new partners. And that adding partners is the key to building the value architecture and delivering on the promise of the value proposition.

Having reviewed what the MVE is, the differences with the MVP will be outlined. By definition, the MVP is a "tool" that allows you to explore whether assumptions about the design of the product or service versus the expected market response are true before mass production and/or market launch begins.

The goal is to conduct an exploration using a prototype that can gain meaningful feedback from customers so that we can iterate in response to this feedback before committing to the "real build" and launching the commercial product. Because it combines customer vision with iterative prototyping, MVP is a critical approach in exploring and developing new product or service offerings.

Instead, an MVE is not aimed at exploring consumer demand, but rather is intended to align the partners you need to build your value architecture and create a new value proposition.

MVE is less about prototyping and more about engaging and aligning. It provides the basis for attracting an initial subset of partners, which serves to attract the second subset, then the third; and so on, progressively increasing the value proposition.

Therefore, the difference is that:

- The MVP seeks to understand the market from customers before launching a product.
- And the MVE looks for enough evidence to attract a partner, who will then attract the next.

MVP	MVE
Test a product in the market	Attract and align
Explore premises asap	Evidence to attract partners
Obtain feedback from consumer	Activities configuration
Prototype	Value proposition

In environments where the value proposition depends on the combination of multiple elements to attract and align partners, and to present the proposition to the customer, relying on an MVP approach may not be the right path. Even if partners could be involved with a crude prototype, it will be very difficult to have commitment and align them.
In the cases mentioned above, if any of the companies had wanted to make an MVP by looking for the "most powerful" partners without first going through an MVE to increase the value proposition, the answer would probably have been negative. For example, what would have happened if Amazon had wanted to put its Alexa system on Samsung devices in the beginning, and had not focused on opening up the developments, providing new functionality and integration capabilities?
In short, MVPs and MVEs must coexist, but do not fall into the trap of confusing one with the other. The MVP is a tool to better understand customer preferences, while the MVE is a tool to align and scale partners.
Once the MVE is assembled, the next steps are:

- Expansion in stages. It is the order in which an additional partner or activity must be incorporated, beyond the MVE. Why is Partner B added second and not third? The answer would be because having Partner B in place will make it easier for Partner C to join and so on. The role of early partners is not to generate profits, but to attract subsequent partners and create the evidence required for their secure participation.

- Principle of ecosystem transfer. It is the potential of taking advantage of what has been developed in one ecosystem to allow the construction of a second. Partners who joined Ecosystem 1 can work to help launch the MVE for Ecosystem 2. This is a great accelerator for growth and expansion. The challenge is to take advantage of the knowledge that was developed in one context to develop a new one based on how both partners will interact in the new environment.

At this point the following questions arise:

- Have you already started writing a new value proposition? Is it designed to attract a potential partner or the eyes of customers?
- Have you already thought about who you would like to include in the ecosystem? Have you identified who should be the first partner to help us generate attraction?

Idea 5

A different game. Evolution versus Chaos: How to orchestrate that trip? Organization, roles and rules

You have to start playing a different game than the one you are used to. With different roles. The comfort zone is no longer valid. How then to avoid chaos?

For this, it is essential to organize, define roles and rules during the creation of the ecosystem.

It is very common for companies to fight for leadership in their industry, but in ecosystems there is a different hierarchy. In a successful ecosystem, there are no losers or winners, only partners who win in different ways. The success of an ecosystem is based on aligning partners in coherent and mutually agreed positions, defining and accepting the limits of each one.

Reviewing studies carried out on the results of ecosystems, it is highlighted that less than 15% of ecosystems are sustainable over time. If you examine 110 of those that failed, you find that a third of these were due to the governance model. That is, the reasons relate to the explicit and/or implicit structures, rules and practices that frame and direct the behavior and interaction of ecosystem participants.

It is very important to choose the right partners. This implies not only estimating the economic value for both parties, but also finding a similar culture and a strategic "fit" so that companies can be synergistic. And also work to build trust from the beginning. For example, risk appetite and market outlook must be evaluated. Companies with disparate risk appetites and misaligned market perspectives—such as the most important segments to focus on and how to win—are likely to come into conflict when new partnering opportunities arise. Not taking this into account and searching only for what you want or for the value it can bring, may end in a waste of efforts, loss of focus, destruction of the ecosystem and, worst of all, loss to the market.

The other important point to define is the operating model and governance of a

ecosystem from the beginning. In an acquisition, the acquiring company is the one that sets the rules of the game and the role of each of the areas, but within an ecosystem this is not the case. All partners must have a defined role and there should not be one on top of the other to avoid turning it into an ego-system. It must be defined what the work model will be, who are responsible for each company who must look after the internal affairs of their company, and what the agreed management model will be between each of them.

To be successful in ecosystems, role and structure strategies must be understood and designed for all partners that make up the ecosystem. The organization strategy of an ecosystem lies in how to build it and how to put the necessary Legos to deliver a new value proposition, ensuring that each partner has an attractive role in it. Generally speaking, strategy in the context of ecosystems must pay at least as much attention to those who are part of the ecosystem as to competitors.

Value creation is always a matter of collaboration and interdependence. It is the need to achieve alignment to establish a stable and routine pattern of roles and interactions between partners that create value.

Before achieving alignment, the initial focus for companies is to establish the structure of partnerships and collaborations that will generate the value proposition. Once alignment is achieved, the focus shifts to negotiating the terms of trade and advantage within the current structure.

Ecosystem governance must support the ecosystem's ability to create value, manage risk, and optimize the distribution of value among its partners. To exercise this governance and capture a competitive advantage, the orchestrators of the ecosystem cannot treat it late, but must rely on the vision that supports the strategy. Ownership, governance, generation and distribution of value is part of the strategic definition, not a management instrumentation.

While our companies and ideas:

- Are the implications for ownership and governance interpreted?
- How prepared is the organization to think beyond the limits?
- How do we help those who have the responsibility of leading, accompanying them with this change in mindset?
- The Boards of Directors, Executive Committees and the shareholders of our companies:

Are they sufficiently prepared to carry out these changes?

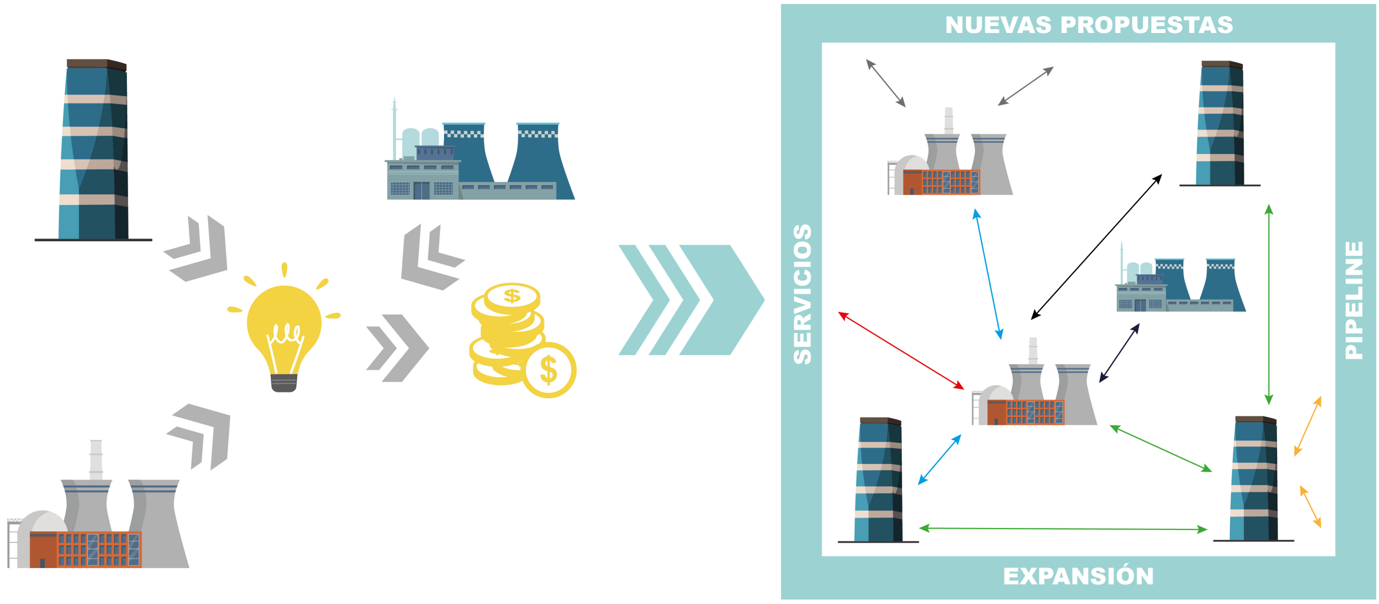
Idea 6

Business Platform: Set of Ecosystems

There is no doubt about the importance of ecosystems as a new way of competing and doing business. These network-based organizations that take their essence from science, paralleling biology, can evolve into limitless value-added networks.

In section 4 we state the Principle of Ecosystem Transfer by which elements of the first ecosystem can be used to create a second more quickly and so on. This concept of learning and iteration as it evolves, matures and scales increasing value.

This way of weaving a network beyond each organization that supports a new way of doing business at scale constitutes a business platform per se.



These business platforms will allow the participating companies to take on different roles depending on the specific objective sought. As an example, in the graph you can see some options: types of service, geographical expansion, pipeline generation and new value propositions. This way they will help companies participate in new markets, industries and scale to somewhere not yet imagined. A world that allows connecting pieces that can achieve more integration between different industries, various regions, the corporate world and the social world, governments, universities.

On our part, we are convinced that this is “the game” to play in these times. And in our experience, we are already applying them with several functioning ecosystems. Others in MVE status, others being explored. That is why we seek to transmit and contribute our accumulated experience, inviting you to explore and walk this journey without limits.

Below are three central themes that invite you to reflect:

1. The transformation that companies face permanently and in parallel, the business paradigm changes that must be faced to “survive”.

2. Ecosystems as a model to be able to face these changes in an agile, fast and flexible way.

3. Business platforms as a response to an evolution beyond the “standard” partnership, as a superior value proposition in which everyone wins: each associated company in the ecosystem and the clients or end users of the product or service in question.

Conclusions

In this e-book we try to cover the changes that we identify in the markets, the industry paradigms that are no longer strict, and the challenges that companies face.

At Together Business Consulting we began to travel this fascinating path of ecosystems some time ago. We had been working for years in alliances and partnerships, and although there is accumulated knowledge and experience, now we are in the presence of another model. From the outside they seem similar but they are not. It is a path that opened up previously unthinkable markets for us. Every day you have to remember the change in mindset. The limits of the company itself seem even blurred and the relationship with partners is based on the same similar vision: trust and focus.

We learned and we continue to learn. The ecosystems must be built in the way we describe in the previous pages, and managed by understanding what is the best value contributed by each of the partners. Also, it is important to understand that some other partners that perhaps at first, we believed were mandatory should probably not participate.

The value of the ecosystem and what it can bring to our company must be sized and interpreted. The point of view of diversity, new product and service offerings, new geographies and new service models. It must be accepted that in each of the possible ecosystems that forms a business platform, the roles may seem more or less important. They can be different from the one we are used to play, and, thus, play this "new" game that the author Ron Adner calls "The Right Game", in his book "Winning the right game. How to disrupt, defend and deliver in a changing world."

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