How to Set Your Ecosystem Up for Success

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Business ecosystems are growing rapidly, but leaders often have the wrong expectations. How can CIOs set ecosystems up for success? Explain the benefits and risks, show leaders how value will be created and focus on leading indicators for the first one to two years.

Overview

Key Challenges

- Linear value chains have always existed. New styles of ecosystems like platform-led and decentralized are emerging.
- Organizations are rapidly increasing the size of their linear value chains. They are also using new platform-led ecosystems to deliver new business models.
- Most CEOs and boards want financial results faster than new ecosystems can deliver.

Recommendations

CIOs who are building or expanding a digital business should:

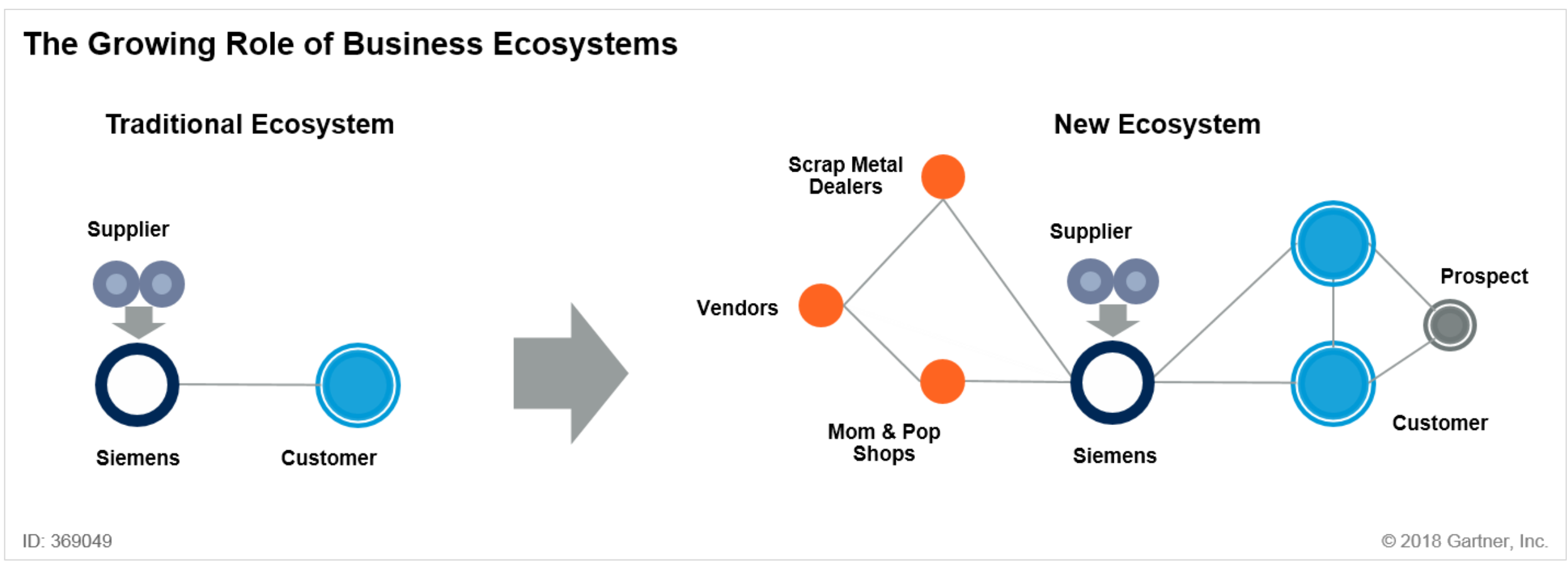
- Explain the benefits and risks of ecosystems. It is not the CIO's job to "sell" ecosystems, but rather to objectively share what the opportunities are and how to mitigate the risks.
- Show leaders how and when ecosystems will create value. Most senior executives are focused on revenue, but there is other value that will come first.
- Use leading indicators like number of users, number of partners and conversion rates to measure performance. Do not shift the focus to monetization until the ecosystem gains traction.

Introduction

Every organization already has an ecosystem. The traditional linear value chain is often in the form of a business-to-business network like supply chains, manufactures selling into big-box stores and resellers. Linear value chains are not going away, but new styles of business models are leading to new styles of ecosystems: platform-led and decentralized (see "Bringing Style and Focus to Business Ecosystems"). This is leading to broader and larger ecosystems that play an increasingly important role for the organization.

For example, Siemens Power and Gas and Siemens Power Generation Services have historically used a linear value chain to deliver turbines, generators, power plant stations, offshore drilling, production, pipelines, storage and refining. They are creating a platform-led ecosystem to buy or sell specific parts and equipment someone needs but is unable to find. Customers, scrap metal dealers, mom and pop shops and vendors can participate as buyers, sellers or both in this matching platform called Exchangium (see Figure 1).

Figure 1. The Growing Role of Business Ecosystems

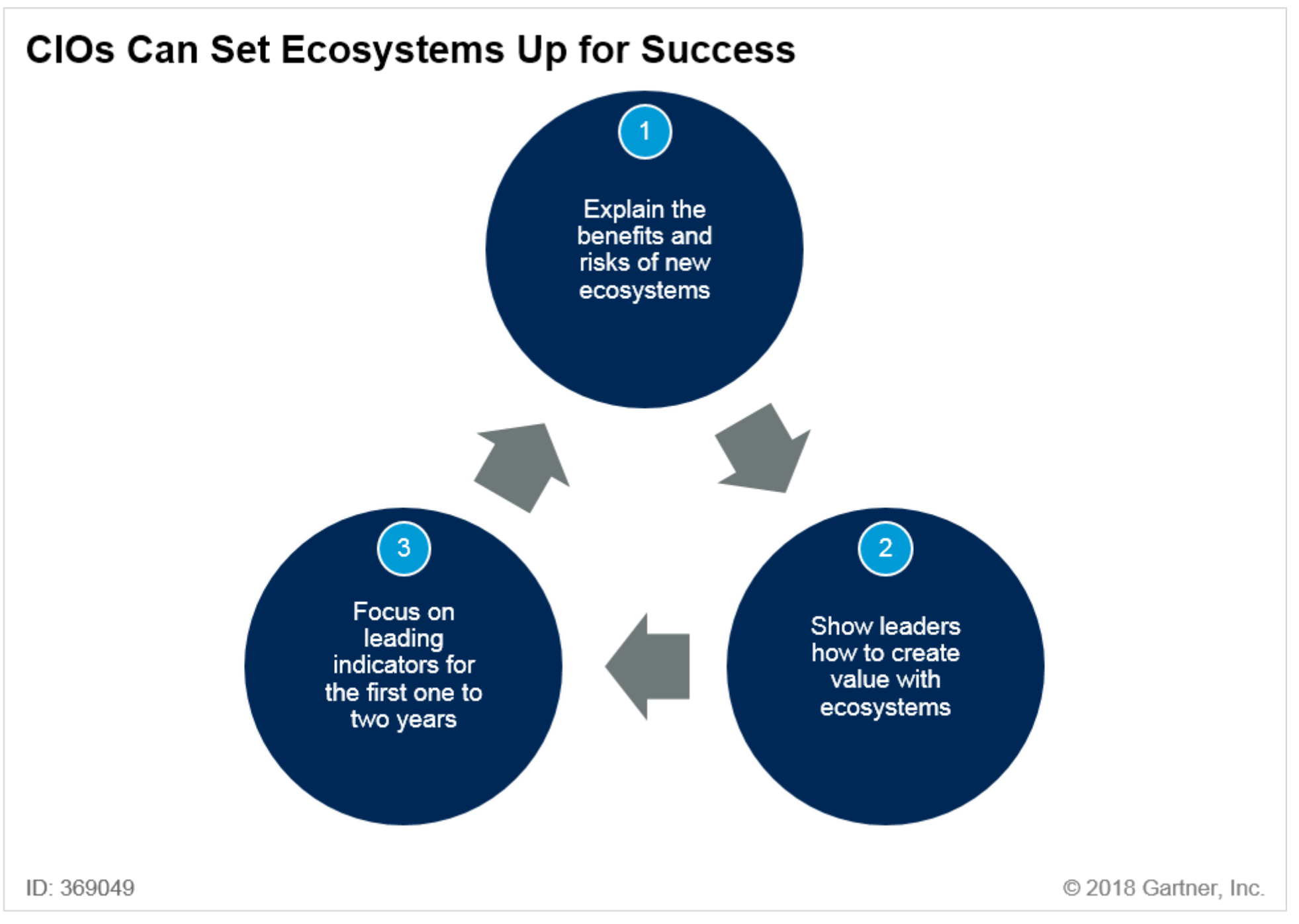


Source: Gartner (October 2018)

Siemens is not alone. Gartner's 2017 CIO survey found that top-performing organizations had an average of 78 partners in their business ecosystems, up from 27 partners two years before (see "The 2017 CIO Agenda: Seize the Digital Ecosystem Opportunity"). These organizations expect to nearly double the number of partners to 143 over the next two years.

Organizations are increasing their usage and reliance on business ecosystems. The question is, *how can CIOs set their enterprises up for success with new and expanded business ecosystems?* They can do this by explaining the benefits and risks, showing leaders how ecosystems will create value and focusing on leading indicators (see Figure 2).

Figure 2. How CIOs Can Set Ecosystems Up for Success



Source: Gartner (October 2018)

Analysis

Explain the Benefits and Risks of New Ecosystems

CEOs, boards and business unit leaders can sometimes be dismissive of the role of ecosystems in digital business transformation. "We already have an ecosystem, don't we?" It is true that every enterprise already has an ecosystem (see "Bringing Style and Focus to Ecosystems"). For most, this is a linear value chain ecosystem that is characterized by suppliers and enterprises delivering value to customers. But linear value chains are unable to scale new business models efficiently in the same way that new, platform-led ecosystems are. For example, Siemens is using a platform-led ecosystem that lets customers buy and sell from each other and introduces new buyers and sellers like scrap metal dealers. It could not lead this new business model without a new ecosystem of partners.

CIOs should help business leaders understand what they can expect from expanding their usage of ecosystems. Business ecosystems can increase:

- **Revenue:** Ecosystem partners can help the enterprise ramp up sales quickly. For example, 46% of automotive companies expect ecosystem partners to help them increase revenue by 16% over the next two years. [1]
- **New digital products and services:** Ecosystem partners from outside the enterprise's traditional value chain can contribute technologies and other capabilities that make new offerings possible. For example, the Mayo Clinic uses Sensely's virtual medical assistant application. [2]
- **Innovation breadth or speed:** Successful digital businesses move quickly, often rolling out new offerings and capabilities monthly, and launching new business models every few years. To innovate at this rate, enterprises can tap their ecosystems to crowdsource ideas, collaborate on development and launch offerings quickly. The larger the scale of the ecosystem, the larger the pool of innovators.
- **Customer engagement and value:** An ecosystem has more capabilities than a single enterprise, and these capabilities can be marshalled to improve the customer experience. For example, ecosystem partners can touch customers through more channels, offer more payment options and solve customer problems.
- **Access to talent:** Many digital offerings and businesses will require expertise that the enterprise and its traditional supply chain do not possess — for example, skills related to design, artificial intelligence and the Internet of Things. Ecosystem partners can help fill these gaps.
- **Resilience:** Good ecosystems provide resilience — many ways of serving the customer — whereas supply chains often include single points of failure.

A business ecosystem can also decrease:

- **Cost of sales:** An ecosystem can help the enterprise sell through digital channels and, thereby, reduce the salesforce and physical infrastructure that the enterprise needs to invest in.
- **Time to market:** Ecosystem partners can collaborate on market research, product design, prototyping, testing and product rollouts to speed up the process.
- **Product life cycles:** A digital business ecosystem can design and launch products at a faster rate so that offerings are replaced or upgraded by customers more frequently.

CIOs should also explain the risks of new ecosystems, for example:

- **Reputation** — Reputation risk increases when enterprises rely on ecosystems to help create and deliver value. What happens if an ecosystem partner creates a solution that customers adopt on a widespread basis, but then fails to support it? SLAs and source code in escrow will be key to mitigating these risks.
- **Security** — Sharing business services with third parties outside the enterprise will require new types of security (e.g., API management software, standards like OAuth and API-level security).
- **Regulatory compliance** — Working with regulators has sometimes consumed more than 50% of the time and cost to launch a new ecosystem strategy, particularly in industries that are heavily regulated.
- **Market acceptance** — If you build it, they (your ecosystem and customers) may not come. Market acceptance for new, platform-led ecosystems can often take three years.
- **Culture** — Using ecosystems to co-create and deliver value is an all-encompassing cultural shift for most enterprises. Instead of controlling value creation, delivery and IP, the enterprise will empower and share this with others. This will require a culture that is focused on speed, continuous learning, and influencing others, due to the collaborative nature of ecosystems.
- **Talent** — New ecosystems will add substantial pressure to existing talent management issues. For example, you will need talent that has deep experience with building and managing APIs, and creating and managing ecosystems of partners/developers.

Show Leaders How to Create Value With New and Expanded Ecosystems

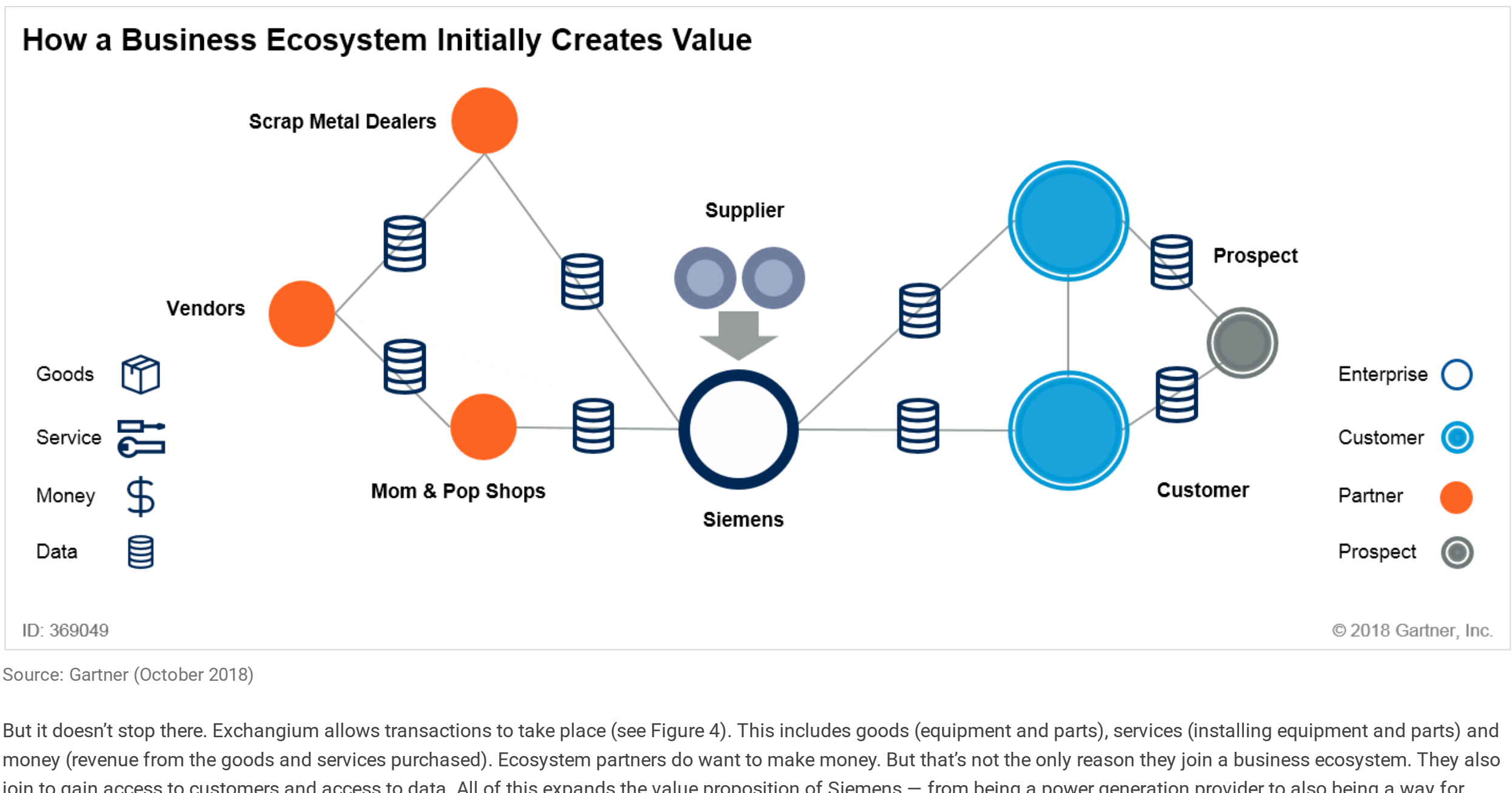
Many CEOs and boards are not giving new business ecosystems enough time to be successful. The hard reality of managing a publicly traded organization is that quarterly earnings matter. What this means is that CEOs need to continue delivering results while they create a path to a digital business future. But the path to digital business rarely leads to immediate new revenue or other financial results. This is particularly true of platform-led ecosystems, which are currently emerging much faster than decentralized ecosystems (due to the lack of maturity and adoption around blockchain-related technologies). For example, Uber was launched in 2009 but didn't achieve network effects in San Francisco for years and has yet to turn a profit.

The problem that we are seeing is that CEOs and boards don't always have the right expectations when it comes to new platform-led ecosystems. For example, one large insurance company launched a platform and business ecosystem focused on letting developers build new apps. They discontinued the project around six months later due to low usage and almost no new revenue. A large bank launched an extensive data platform and business ecosystem that included both humans and machines. It has been quietly de-emphasized as new leadership has shifted the bank's focus toward reducing costs. Contrasted to this, Capital One and BBVA have both invested in platform-led ecosystems for more than five years at this point.

How can CIOs help their CEOs and boards set the right expectations? Show them how business ecosystems will create value. The initial value that will be created will rarely be revenue; more likely it will be an enhanced value proposition, intelligence and sales leads.

Consider the Siemens Exchangium example (see Figure 3). Exchangium provides data about what equipment and parts scrap metal dealers, vendors and mom and pop shops are selling. This then provides data back to Siemens not only on what is available, but also on what customers want. Previously, this would have been largely unknown information for Siemens; customers would likely find parts on their own. Siemens now has better visibility on supply and demand from customers. It can also identify prospects — organizations that are not yet Siemens customers but purchase something from Exchangium.

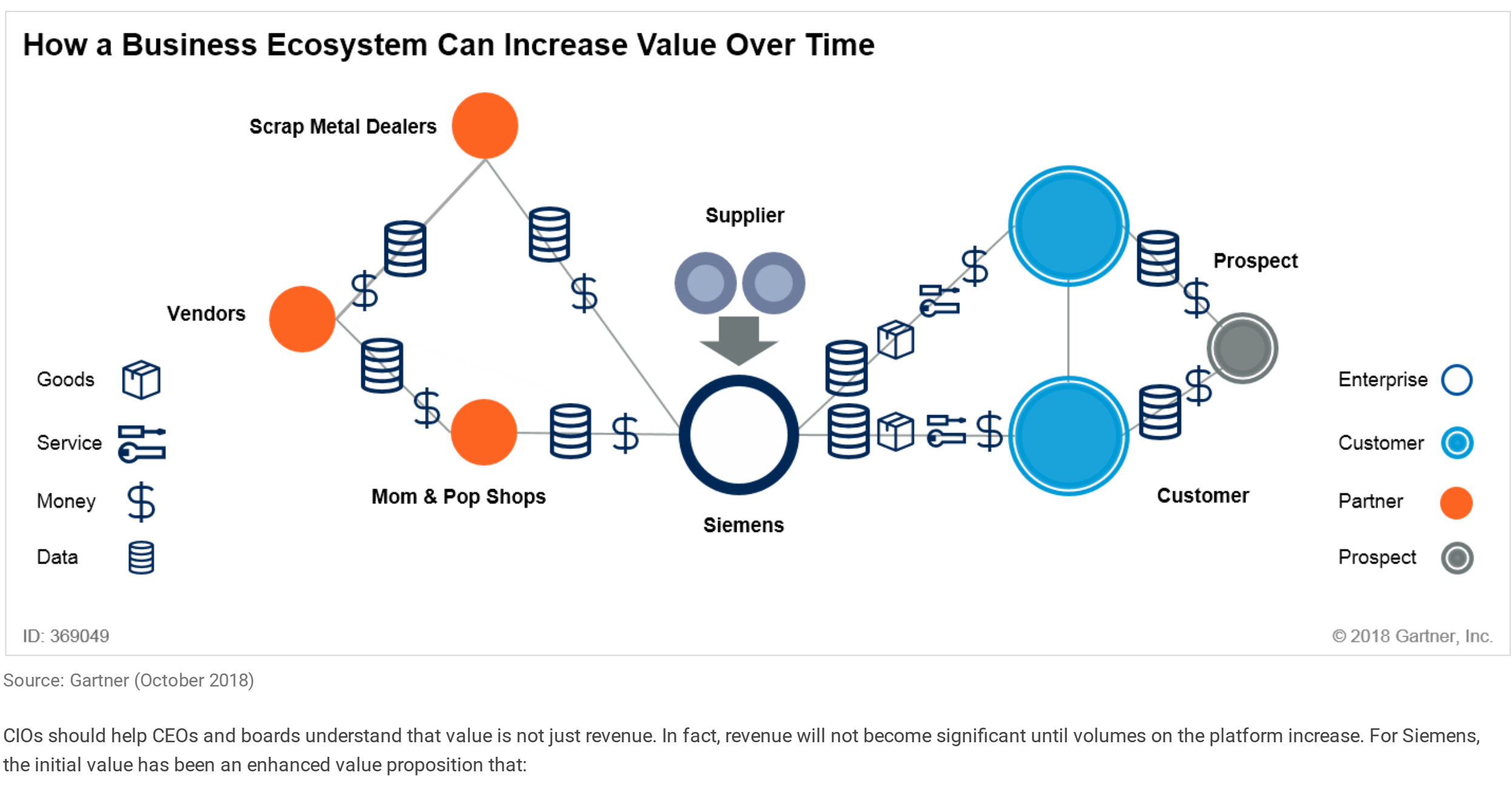
Figure 3. How a Business Ecosystem Initially Creates Value



Source: Gartner (October 2018)

But it doesn't stop there. Exchangium allows transactions to take place (see Figure 4). This includes goods (equipment and parts), services (installing equipment and parts) and money (revenue from the goods and services purchased). Ecosystem partners do want to make money. But that's not the only reason they join a business ecosystem. They also join to gain access to customers and access to data. All of this expands the value proposition of Siemens — from being a power generation provider to also being a way for customers and partners to make more money by selling unused parts and equipment (see Figure 4).

Figure 4. How a Business Ecosystem Can Increase Value Over Time



Source: Gartner (October 2018)

CIOs should help CEOs and boards understand that value is not just revenue. In fact, revenue will not become significant until volumes on the platform increase. For Siemens, the initial value has been an enhanced value proposition that:

- Helps customers make money from — and find — unused parts and equipment more quickly
- Offers intelligence that provides insight into supply and demand
- Uncovers sales leads from prospects that purchase equipment or parts but are not yet a Siemens customer

Focus on Leading Indicators for the First Two to Three Years

An enterprise with a digital ecosystem needs to measure the performance of its business holistically. In many ways, the ecosystem is the business. Therefore, the enterprise should treat its partners as an integral part of the business, and not measure the business and the partners separately. Metrics that the enterprise in the past might have tracked for itself will need a partner component. For example, the enterprise shouldn't just track the number of users or customers it has; it should track that metric against its mix of partners. In this way, the enterprise can determine which partners are contributing the most value and what they are doing to achieve those results.

The ecosystem is more dynamic, so the measurement and management of it should be more dynamic, too. Most business ecosystems will include more partners than a traditional supply chain — often two or more times as many. The participants will also change more frequently. Thus, the IT organization will need to track metrics daily or weekly, rather than monthly or quarterly. And the enterprise must revise business processes and policies so that workers act on this information quickly.

The digital business ecosystem can be measured via key performance indicators related to the customers, the ecosystem and transactions. For example:

Customer:

- Number of active users (which mix of ecosystem partners sustains the most users?)
- Growth rate of active users (what are partners doing to maximize this?)
- Conversion rate of users to customers (under what conditions do users convert?)

Ecosystem:

- Number of active partners (how attractive is the ecosystem for participants?)
- Growth rate of active partners (what steps or conditions accelerate growth?)
- SLA performance by partner (what do you need each partner to contribute?)

Transactions:

- Average purchasing frequency (how engaged are customers with the ecosystem?)
- Average price per transaction (how much value do customers perceive in the ecosystem?)
- Average cost per transaction (how much do partners contribute to efficiency?)

CIOs and business leaders may have to expand the enterprise's analytics capabilities (the data, skills, analytic applications and decision-making capabilities) to answer these kinds of questions with the frequency needed to manage the ecosystem. If a partner discovers a new approach that appeals to users, the enterprise shouldn't have to wait a quarter or two to discover it and roll it out across the ecosystem. Some of the data needed for the new analytics regime will have to come from ecosystem partners. The CIO may need to revise APIs or other means of integration to gather that data.

Conclusion

Organizations will continue to increase their usage and reliance on business ecosystems. But these business ecosystems are not always set up for success. CIOs can set their organization up for success with business ecosystems by:

- Explaining the benefits and mitigating the risks of business ecosystems
- Showing leaders how business ecosystems will expand their value proposition and create new value through intelligence and sales leads
- Focus on leading indicators for the first few years

Evidence

This document is based on Gartner's firsthand observation of, and secondary research into, digital business ecosystems.

[1] "Partnership Ecosystems: The Driving Force Behind Mobility Innovation?" BearingPoint

[2] "Sensely and Mayo Clinic Collaborate on Advancing Digital Healthcare Solutions," Sensely.