

# *Ecosystems in Motion*

From Forklifts and Hotels to Software and AI in the Cloud, These Constantly Expanding Universes Have Been Merging and Converging. There's Still Plenty of Space Available—But Will You Be a Sun, Moon, Planet, or Particle?

**By Michael J. Burke**





Start talking to people about business ecosystems, and it seems at first blush like a tech story. It's the knee-jerk assumption. But dig a little deeper, and you find that it's not a story that's only of concern to tech companies, big or small, nor is it simply a fad, a trend, part of the jargon du jour bandied about among the board members and baristas of Silicon Valley.

Yes, it *is* a tech story. But it's also a story about a growing phenomenon that has vital relevance for every company—every company that wants to survive, that is—in every industry. Because talking to people about ecosystems—those who are building them, those who are orchestrating and navigating them, those who are observing and studying them—the key takeaway is this:

*Every company is becoming a technology company.*

## A Big Shift for a Forklift

That is among the many pieces of oracular wisdom dispensed by **Jay McBain**, principal analyst for channels and partnerships at Forrester, but he's not alone. McBain spent 17 years at IBM, worked at Lenovo and elsewhere in the tech industry, and has become something of a prophet when it comes to trends affecting the IT channel, ecosystems, tech companies, and business in general. He had a lot to say about all of these when I spoke with him recently, as well as in an insightful ASAP webinar held in late January. But I first came upon the pronouncement above in McBain's January 7 Forrester blog post, "What I See Coming for the Channel in 2020," and I'll quote that section in full:

"In an Accenture survey," McBain wrote, "76% of business leaders agree that current business models will be unrecognizable in the next five years—ecosystems will be the main change agent. Reading the annual reports of the Fortune 500, it is becoming abundantly clear that every company is becoming a technology

company, such as, for example, the legacy manufacturer of forklifts that integrated IoT sensors in its product and now delivers thousands of data points per second to construction companies, architects, and others in the value chain. The company has partnered with AWS, Google, and Microsoft and is busy building a tech partner ecosystem.”

What this all amounts to, McBain went on to say, is “a monumental shift in how buyers acquire products and services and how companies are reacting with their go-to-market and routes-to-market strategies.”

### Ecosystem Psychology

But why ecosystems? Why the recent upsurge in focus on ecosystems in the business press and in scholarly journals and books? Is it truly a new development, and if so, what’s changed?

**We’re now having “an end-of-industry discussion” that’s “putting fear into CEOs and board members.”**

In the B2B world, “it starts with the buyer,” McBain told me. The business buyer has changed, and the psychology and “customer journey” of this new buyer are also different from what they were in the past. No longer is it quite so common for IT departments or procurement officers to more or less dictate what technology their companies would use and to purchase it from a channel reseller—or as McBain put it, from “Larry in the white van,” who for 38 years has put together everything on a single bill and allowed them to pay for everything in that form.” Now it’s frequently the line-of-business buyer—the head of a department or business unit, or even a C-level executive like the CMO—who decides what hardware, software, and services he or she needs, has a budget for it, spends time online researching the purchase, and buys it—increasingly direct, via websites and online marketplaces.

Of course this is oversimplifying things somewhat. There’s still a huge need for consultants, systems integrators, and various service providers to give advice and support to customers and to implement solutions around hardware and software (“If the customer doesn’t take the lead, the next in line is the system integrator,” said McBain). And the rise of cloud has also complicated the picture, with companies no longer needing—or wanting—to have all their hardware, software, and data operations physically housed on their own premises, but rather hosted virtually in some form of cloud: public, private, or hybrid.

“Given the move to cloud, the average buyer of cloud—whether it’s infrastructure, AWS, Google, Microsoft, or if it’s SaaS, Salesforce, Marketo, Workday, or ServiceNow—will buy six other things,” said McBain. “There’s an increased need to integrate those and implement them and provision [and] manage them together, and a marketplace seems to be the preference. When we look at our surveys—I call this the Amazon or the Alibaba effect—73 percent of these new buyers are very comfortable buying direct or through e-commerce or marketplaces. So Forrester is predicting that 17 percent of all transactions by 2023 will flow that way—which is huge, because it’s a \$13 trillion market. So we’re talking about trillions of dollars of movement away from retail and dealers and agencies and resellers and MSPs into marketplaces as the actual transaction.”

### Channel Changers

Yet if the percentage of direct or e-commerce sales remains below 20 percent, what about the channel? According to McBain, the traditional IT sales channel hasn’t gone away, but instead has “trifurcated” such that it’s not just a purely transactional channel of *resellers* (“Larry in the white van”) anymore, but also a channel of *influencers*—McBain includes affinity partners, affiliates, ambassadors, and alliances, among others, in this category—and another of entities that drive adoption, contribute to recurring subscriptions, or in other words ensure *retention*—the mother lode for every purveyor of whatever-as-a-service (XaaS).

**Today’s business technology buyer is less often the IT department or procurement guy who buys from “Larry in the white van”—now it’s the line-of-business executive who frequently decides what hardware, software, and services he or she needs and buys it—increasingly direct, online.**

“The channel in totality is becoming more and more important in terms of the customer’s cycle than ever before,” McBain acknowledged. “The argument, though, is the traditional channel, and some of the traditional alliances we’ve struck over the last 10 or 20 years, are one element of the ecosystem.”

So with ecosystems and the channel, it’s not “either/or” but “both/and.” McBain noted that at Microsoft, for example, 96 percent of its business still flows through the channel—but



at the same time it's bringing in about 7,500 new ecosystem partners every month, while AWS—another huge ecosystem orchestrator—has doubled the size of its channel four years in a row.

By contrast, Salesforce plans to bring in 250,000 new partners to double its business in four years—and meanwhile has shut down its reseller program entirely so that, as McBain said, “there isn’t even a place for transactional partners anymore. That’s how much they believe in this.”

## Grand Central Station with Onramps

Not surprisingly, how you view ecosystems, alliances, the channel, and related converging trends depends heavily on your company’s strategy and market presence—or which ecosystems you’re orchestrating or playing in and where you’re positioned within them. **Steve Steinhilber** is global vice president for business development at Equinix, a company that is known for its 200-plus data centers around the world and sees itself as the “Grand Central Station of interconnections,” with over 10,000 customers and more than 350,000 live direct connections between counterparties occurring in its centers, as well as a “neutral Switzerland” enabling companies in many industries to employ some combination of hybrid, multicloud architectures.

**“Every company is becoming a technology company.”**

“Today in our datacenters live multiple ecosystems of companies,” Steinhilber explained. “There are five major ones—financial, networks, cloud and IT, enterprise, and content and digital media ecosystems—running across our platform. We are the edge for many of the public cloud players. For the big four—Amazon, Microsoft, Google, Oracle—and others, we’re [at] the edge of the onramps to their major networks and locations—anywhere between 35 and 60 percent or plus of their edges fit inside Equinix facilities. We have the ability to allow you to programmably configure and get on multiple clouds from a single node in our facilities at varying speeds. So think of us as kind of the onramp to the public cloud.”

In addition to the cloud players, hundreds of telecoms, electronic trading company platforms, and Fortune 500 enterprises have a physical or virtual presence inside Equinix’s far-flung data centers, connecting within and across its global datacenter footprint in minutes. “So that’s the ecosystem,” Steinhilber summarized—although it might more closely resemble, as another industry insider commented, “ecosystems of ecosystems.”

## It Takes an Ecosystem:

A Not-So-New Way to Drive Agility, Innovation, and Growth in Your Business

By Norma Watenpugh, CSAP

As someone who has been architecting and managing business partner ecosystems for more than 30 years in the tech industry, I am quite interested in the attention ecosystems have been receiving from management pundits of late.



I’ve observed that more and more companies are beginning to think of partner ecosystems as a “new” way to help boost growth and innovation (see, for example, an Accenture study, “Cornerstone of Future Growth: Ecosystems,” May 11, 2018, <https://www.accenture.com/us-en/insights/strategy/cornerstone-future-growth-ecosystems>). I, however, believe they’ve always been around in some form. But now that more industries are becoming digitally savvy, these partner ecosystems are a critical way to navigate digital disruption and become more agile and responsive to change.

## Why Do It? A Tractor Tale

My favorite example is John Deere. I have no ties to the brand, but I find its evolution to be an excellent example of partner ecosystems. John Deere is a 180-year-old company that is known for its tractors and builds a range of industrial equipment and machinery.



As a farmer’s daughter, I learned to drive a tractor at the tender age of six. Never did I imagine even a few years ago that a tractor would become an Internet of Things edge platform. The modern John Deere tractor can gather data and upload it to the cloud to be utilized by independent software developers for a spectrum of applications, which farmers

### Getting Out of the Gate

Steinhilber ran alliances at Cisco for many years, and while there he published an influential book, *Strategic Alliances: Three Ways to Make Them Work* (2008). I asked him about applying some of his strategic alliance management thinking to ecosystems: how you do it, what changes, and whether it's even possible.

"We've taken the work on setting strategy around build-buy-partner [and] applied that to our model here of where [we're] going to enable services by Equinix, and then where do we want to have ecosystems built that are complementary to Equinix," he affirmed. "So the first question is, how do we make the build-versus-buy, buy-or-partner decision?"

**"As you move into a platform business, it doesn't mean that you don't have strategic relationships. Some of the work we do in new ecosystems results in partnerships that eventually become very strategic to the company, and they're managed by our strategic alliances organization."**

"The second takeaway is that ecosystems, like partnerships, go through phases. We've taken some of what we call the 'gate methodology' and applied it to time-phased ecosystem

development via a three-gate model. Each gate/phase seeks to answer different key questions. Gate 1: Should we play at all? How does it tie into our broader company strategy, and what is the opportunity? Gate 2: How do we play and win? Gate 3: How do we scale? Obviously as you move through the process, much like partnerships have life cycles, so do ecosystems, so as things are in scaling mode, how do you continue to add new areas, to have growth and continue to have synergy with the models you're building?"

Strategic alliances remain not only relevant in this world, but necessary for all kinds of ecosystems, from the vast platforms on down to collections of smaller niche players, and everything in between. According to Steinhilber, "As you move into a platform business, it doesn't mean that you don't have strategic relationships. In fact some of the work we do in new ecosystems results in partnerships that eventually become very strategic to the company, and they're managed by our strategic alliances organization."

### Magnetic Attraction

One of the ways ecosystems work, and ecosystems and strategic alliances work in tandem, is through the important role played by what some have called "core partners," and what Steinhilber terms "magnets." Magnets are leading companies in a given industry that can draw other partners in with them or after them, and thus grow the ecosystem—sometimes exponentially.

"When we look at a market, we look to insert ourselves to work with those companies that we believe will create



foundations, and because of their presence create an opportunity for other people to interconnect with them, which creates this magnetic effect,” Steinhilber explained. “When Equinix started the electronic trading work well before I got here, we went after a few of the big exchanges and some of the early market-leading electronic trading platforms. When we went after the public cloud industry, we went after the key ones—in fact, Amazon was the first one to build a direct interconnection model leveraging our networking technology at our centers, and then Microsoft followed, and now Google, IBM, Alibaba—and so these players, because they’re in our centers, also draw the enterprises who want to access the cloud, so they become magnets for different use cases.

**“Alliance leaders are very good at predicting when the stars and moon are going to align and getting out in front of that alignment. They’ve been in a world for decades now where there’s a lot of moving parts, you don’t control any of the parts, you’re not the sun, you’re not the center of gravity, you’re just another planet rotating in a solar system. They know how to run their own ecosystem, and they also know how to participate in other ecosystems.”**

“So much as you would move into a new market with partnerships and alliances, in ecosystems you prioritize your efforts based on a set of criteria, you see who’s willing to move, if you can bring them in, [and] how they’re likely to create value for you in bringing others. Magnets are important.”

### Book It—and Bank It

Another element of classical alliance management that has not been entirely lost amid the rise of ecosystems is the personal aspect, the one-to-one relationships that act as the glue keeping strategic alliances functioning, and also turn out to figure prominently in cementing ties between orchestrators and core partners or magnets in an ecosystem. This was one of the findings of **Ard-Pieter de Man**, CSAP, PhD, professor of management studies in the School of Business and Economics of the Vrije Universiteit Amsterdam. De Man, a frequent speaker at

can then access from computers, tablets, or smartphones.

John Deere introduced this ecosystem platform to differentiate its product and to better compete with less expensive, commodity tractors. They no longer sell just a tractor; they now sell digital farming, and the ecosystem makes it possible. No one company could build, install, and maintain the range of applications or spark the innovation that comes out of multiple partners eager to create new customer value by leveraging the John Deere name, platform, and market reach.

This network of partners creates business resilience. There are many ideas and new products that help not just John Deere but all its partners to be more responsive to changing customer requirements. By sharing their knowledge of the customer, they can all be more aware of trends, and someone in the ecosystem will have the next big idea that can be leveraged to respond to change and improve the customer experience.

Ecosystems also provide stickiness. What do I mean by that? Well, let’s say the average farmer buys three applications from the ecosystem, and they come to depend on these applications in managing their business. Each application provides its own unique set of benefits, but imagine that one day, the farmer needs a new tractor. The farmer is more likely to stick with the same manufacturer so they won’t have to give up these applications or switch to new ones. There is an inconvenience built into switching. It’s not exactly loyalty, so it’s called stickiness.

### How Do You Build It? And Will They Come?

Always start with the customer. How you frame the customer problem will lead to how you build the ecosystem. You can do this by asking yourself:

1. What problem am I solving for customers today?
2. Are there other pain points I am not addressing?
3. Are there companies in my market that provide solutions to fill in the gaps?



ASAP events, has also written on alliances and is the coauthor, along with Pieter Koene and Martijn Ars, of *How to Survive the Organizational Revolution: A Guide to Agile Contemporary Operating Models, Platforms and Ecosystems* (2019). The authors looked at various new or evolving organizational forms, including both platform and value proposition-based ecosystems, and included short case studies of organizations like ING, Wikipedia, International SOS, and Booking.com.

At Booking.com, for example, headquartered in Amsterdam, some of what they learned came as a bit of a surprise, according to de Man.

**“The job of working with your alliance partner doesn’t disappear, but it does become different.”**

“When we went there, I thought, ‘OK, this is going to be a completely online thing,’ because Booking.com does hotels, and there are many hotels in the world,” he recalled. “Obviously there’s not going to be any personal relationship—they probably get data, and they feed data back to the hotels about so many people booked, and after you’ve done a promotion, the number rose or it didn’t, and maybe some more advanced stuff with artificial intelligence.”

“But what I found interesting was that actually, they also have a lot of face-to-face visits with these hotels. They’re still in

that online world, but there’s a lot of face-to-face interactions. The job of working with your alliance partner doesn’t disappear in that sense, but it does become different. It’s much more focused on testing new functionality for the website with them, or observing where they have problems with the website so you can feed that back to the development organization, but that face-to-face contact is still very relevant for Booking, even with that number of undifferentiated partners that they have.”

### A New Generation

De Man calls platform ecosystems “fourth-generation alliances,” following chronologically after joint ventures, bilateral alliances, and value proposition ecosystems, in which several partners combine to deliver a solution to a client. He sees the rise of ecosystems as stemming from factors on both the demand and supply sides of the equation.

“On the demand side I would say there’s more need for these ecosystems, mainly because the complexity of client demands has increased,” he explained. “You can no longer deliver a one-point, simple solution. You at least need four or five partners to build something. If you want to do digital transformation in a company, you need consulting, you need training, hardware, software, and there’s no company that can deliver all of that.

“On the supply side, it’s also now possible to manage these ecosystems in a much better way. We’ve always had difficulty with multipartner alliances and tracking and tracing them. But the advances in IT are such that it’s now much easier to see



what is going on in the ecosystem. You have access to all of the relevant information, and that makes it so that we can manage them now, somewhat. You couldn't do that even 10 years ago."

### Measure, Manage, and Monetize

Steinhilber agreed with this assessment, and it appears that although some of the technology being deployed remains in its infancy—"we might be in the second inning," as McBain said—it is now at least possible to effectively manage relationships and track revenue from one's top ecosystem partners and measure value coming from the ecosystem, all while keeping an eye on the many other smaller niche players out there who are orbiting this vast "solar system" (more than one person I interviewed used this astronomical metaphor) and monitoring ecosystem health and growth. Not that it's easy, exactly.

"Depending on the monetization structure with [a given] type of relationship and how the commercial paper flows, it could be quite easy, but you have to have automated tools and systems to do it, or in some cases you could bring them into your platform," Steinhilber said. "But if you don't have involvement in the commercial transaction then it becomes more difficult, and you have to assume that there's value there but it's hard to measure precisely by company. You have to create ways to capture the value—revenue share structures, things like that—if you have tools and systems to do it. Otherwise you try to capture value through how you engage with these partners in the go-to-market, whether you meet in the channel or you go together through more conventional pipeline management and forecasts and tracking through the normal sales management systems, or through things like referral programs.

**"Nobody stays in their silo, and the fundamental resale model has changed. Everyone is moving to providing recurring services, IP, and other value. Often that requires more collaboration among partners, so a lot more companies are breaking down the silos and encouraging partners to collaborate around the customer."**

"We measure ecosystem growth," he continued. "If we sell direct, we know who we're selling to, we can track it. If we go through a channel, hopefully it's registered, so we can track it that way. As the ecosystems grow, you have to have

Your best partner prospects are serving your customers today, providing complementary products and services. In my own business, for example, my clients often ask for more analytics. I don't provide that service myself, but I have partners that do. I provide greater value to customers because I do have an ecosystem of partners that extend the range of solutions I can provide.

The key to recruiting partners is understanding that they need a business reason to become a member of your ecosystem. Be clear on how they will benefit, and create a plan for how you will partner to create that benefit. For instance, how do you include your partner's goods and services in the bigger solution? How do you market and sell together to reach customers and generate revenue?

Adopt a win-win mindset. When your partner wins, so do you! By engaging in your ecosystem, partners become part of the bigger solution and gain access to your customer base. You also gain access to their customer base as a result of the relationship. In successful partner ecosystems, all parties gain considerable market reach and share in the benefits of business resiliency, innovation, and stickiness in being part of the ecosystem.

John Deere is just one example of how a product company became an ecosystem platform. There are many others. As customer solutions become more complex, it takes an ecosystem to provide the suite of products, services, and expertise to solve the problem. No one company can do it alone. I believe that every company, large or small, should seriously evaluate if they have the opportunity to build an ecosystem platform or join one. From my perspective, being part of an ecosystem is a strategy that can't be overlooked.

*Norma Watenpaugh is a founding partner at Phoenix Consulting Group. A version of this piece originally appeared as a blog post in Forbes, June 12, 2019. ■*



more automated ways to register, track, and monetize to be able to accurately account for the value that's being created by the partnership. Different ecosystems have different profiles; of the cloud players, there's probably several hundred, but five to ten make up 70 percent of the business. So we're able to track the business we do with them, either sell-to or sell-with, through conventional models for that type of ecosystem. Other ecosystems that are much more fragmented require much more automation in the tracking. Accuracy may vary a bit, but you have to automate them; the tracking of the value creation otherwise is just not possible manually if you're talking about hundreds of companies."

### Talk of the Town: No More Silos

So ecosystems are definitely an expanding universe, but are they really new? The answers I got to this question amounted to "yes and no." **Norma Watenpugh**, CSAP, founding partner at Phoenix Consulting Group and another ASAP stalwart—as well as an IT and channel veteran who worked for the path-breaking Sun Microsystems back in the day—believes ecosystems were always around in some form, but have morphed into their current incarnations—and dominance—for many of the reasons cited by McBain, de Man, and others.

**There's been "a monumental shift in how buyers acquire products and services and how companies are reacting with their go-to-market and routes-to-market strategies."**

Citing the forklift manufacturer in McBain's Forrester blog post, Watenpugh commented that "they probably had an ecosystem they weren't aware of—they probably didn't think of it that way. Before they became an IoT platform, there was a supplier ecosystem or supply chain and a distribution chain for logistics, parts, and repair. I think why ecosystems are the talk of the town is because businesses are becoming more connected, more digital, and more platform oriented.

"We've called the channel an ecosystem for 20 years," she continued. "I think what's different now in how we think about ecosystems is, the traditional channel was kind of a hub-and-spoke configuration where the relationships were between the vendor and the partner and there was not a lot of deliberate or fostered interaction between the different parts. We often

had these silos of ecosystems. We had a technology ecosystem, which were companies that built augmented or innovative extensions to our products and platforms. We had the channel, which was focused on distribution. We had service companies that provided implementation and consulting services.

"Over the past 20 years they've begun to merge. Nobody stays in their silo—which is great, because the fundamental resale model has changed. We were talking about the extinction of the channel five years ago—which was really the extinction of the cash-up-front channel. That doesn't exist so much anymore. Everyone is moving to providing recurring services, IP, and other value. Often that requires more collaboration among partners within the channel and between the silos. We're seeing a lot more companies breaking down the silos and encouraging partners to collaborate around the customer."

### Alliance Professionals: Ecosystem Leaders with Celestial Seasoning

The world of ecosystems feels exciting for many of us and likely will lead to better products, solutions, services, and technologies we haven't even dreamed of yet. But it's also a world that's confusing, complex, and ever-changing, a world that as it changes will create winners and losers. (Some of the potential losers, McBain predicted, are "littered in the Fortune 500." He even contends that in many cases we're having "an end-of-industry discussion" that's "putting fear into CEOs and board members.")



And what role or roles will alliance professionals be playing in it?

**“The world is becoming fluid, and who am I going to choose to run this game-changing ecosystem—or game-ending ecosystem if I don’t do it well? I think that the alliance leader has the right résumé.”**

“The world is becoming fluid, and who am I going to choose to run this game-changing ecosystem—or game-ending ecosystem if I don’t do it well?” McBain asked. “I think that the alliance leader has the right résumé. Direct sales is hand-to-hand combat; channel sales is kind of one-to-many combat. Alliance is very much celestial. There’s solar systems and stars and moons and comets and everything’s moving. Alliance leaders are very good at predicting when the stars and moon are going to align and taking action and getting out in front of that alignment. They’ve been in a world for decades now where there’s a lot of moving parts, you don’t control any of the parts, you’re not the sun, you’re not the center of gravity, you’re just another planet rotating in a solar system.

“Alliance leaders know how to do two things: One is to run their own ecosystem, where you serve and build out a community where  $1 + 1 = 3$ , because you’re adding to the value chain for the customer. But they also know how to participate in other ecosystems. You go sign up to another ecosystem and guess what? You’re not even a planet now, you’re just a faraway particle. But how do you take advantage of another ecosystem that you’re a part of?”

### Saved by Partners

Increasingly, ecosystems have simply become the way business gets done throughout nearly every industry, as so many rapidly converge and merge to become technology companies, technology industries. And just as companies need to partner to realize their strategic goals, companies need to take part in ecosystems. If you can’t orchestrate or build one, join one.

“I think it’s the trajectory of how business has evolved to be more connected, more global, more interactive, more interdependent, and it’s just the direction we’re heading,” Watenpaugh said. “Once you become an ecosystem company, you can’t help but change. It’s not something bolted on to the side—you have to become a company that is more agile, more collaborative, more innovative, more receptive of change. I think ecosystems force that on you, but also the environment we’re working in, which is so disruptive and changeable.”

**“Once you become an ecosystem company, you can’t help but change. You have to become a company that is more agile, more collaborative, more innovative, more receptive of change. Ecosystems force that on you.”**

Even consultants are doing it, and Watenpaugh called this “the new normal.”

“Clients will sometimes ask me for something that I might not have expertise or a skill set in—I’ve talked to other consultants who get anxious about that, but I just shrug my shoulders and say, ‘I can find a partner who can do that.’ If you have a broad ecosystem of partners, someone will have a brilliant idea that’s going to save you.” ■

