Five Myths

and Misconceptions About Business Ecosystems

Ecosystems Can Be a Viable Partnering Strategy That Brings Tremendous Growth—but Be Sure You Understand the Pitfalls Before You Make the Leap

By Norma Watenpaugh, CSAP

"Without an ecosystem, your digital business is dead." That's the verdict of Gartner analyst **Marcus Blosch**.

Indeed, as digital transformation continues to accelerate across all industries, so does the shift to ecosystem business models. While ecosystems have been around for some time, what is new is the imperative to make this shift stay viable and vibrant in the digital world. This trend has been in play for a few years. (In fact, the quote from Blosch at Gartner[1] was from a 2018 study.)

Businesses have had time and a compelling disruptive event—the coronavirus pandemic—to move to a digital, ecosystem business model. Some have had great success while others have floundered.

What separates the winners from the losers in the ecosystem world? Having designed and deployed ecosystems for the last 20-some years for past employers and my clients, I have found there are some common rocks—myths and misconceptions—that can sink your efforts toward making the shift to a more collaborative, ecosystem business model. What follows are my top five ecosystem myths and misconceptions.

Myth #1: Everyone Can Build an Ecosystem Platform

Yes, everyone can—but it might not be your best strategy. The benefits of being the central hub or the orchestrator of an ecosystem platform can be enormous, as the tech giants have shown. But not every company is or can be a tech giant, and not every product or digital service is necessarily positioned to be a platform. Google, Apple, Facebook, and Amazon are examples of blockbuster platforms that attract millions, even billions of users. Platforms with this kind of drawing power will attract many thousands of partners and paying customers. While you might be itching to create such a platform yourself, it may make more sense to instead join an existing ecosystem to gain access to the community of partners and customers already there.

The key to a successful platform is how others can create value on it. If you have a stand-alone product, then your platform is limited. You are on your own. However, if you can plug into a bigger platform, you gain the advantages of being part of the larger community.

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Imagine if the bestselling mobile video game app Angry Birds had tried to go to market on its own without being a part of the Apple App Store. Angry Birds launched in 2009. By 2017, it had reached more than 3.7 billion downloads and generated an estimated $50 billion in revenue. By leveraging the Apple App store, it did not have to build the massive compute infrastructure (an ecosystem in itself) required to support those 3.7 billion users. Nor did it have to spend the marketing dollars to acquire and recruit them. It could focus instead on driving awareness and adoption of the app within the massive Apple community and, of course, on ensuring that the game was appealing and addictive.

Many ecosystem models are hybrid versions in which a cloud platform such as AWS or Google runs the infrastructure, but the orchestrator builds the ecosystem of partners that delivers the customer value proposition. This type of highly targeted ecosystem is better suited to situations where you have a very specific customer.

Guidewire is a company that builds property and casualty insurance software. This software automates issuing insurance policies and processing accident claims, for instance. Like many software companies, Guidewire has moved its application to the cloud, partnering, in this case, with AWS. Guidewire's ecosystem includes partners that provide consulting services and extended capability around its software platform by integrating other software capabilities.

An example of a partner that completes the customer solution for insurance providers is CoreLogic, which provides historical property data to support underwriting and risk assessment. FRISS is another partner that adds capability for fraud detection. Guidewire's ecosystem is modest compared to the large social platforms, consisting of only a couple hundred partners. But they are a highly curated group that is specifically relevant and valuable to their mutual customers, the property and casualty insurers.

Myth #2: If You Build It, They Will Come

Make no mistake: this is not the Field of Dreams. This myth is a rock that many aspiring ecosystem orchestrators can founder on. They spend time and energy strategizing and crafting a perfect ecosystem—but when they launch, they find they have difficulty recruiting key partners to make the

ecosystem flourish. This failure can be the result of lacking the common unifying North Star vision that attracts partners to your ecosystem. Or perhaps it is a compelling profit model for your partners that may be lacking. As in all partnerships, you must craft a three-way value proposition:

1. How does your ecosystem benefit your mutual customers?
2. How does it create value and an attractive economic business model for your potential partners?
3. How do you, as the orchestrator, enhance and grow your business through your ecosystem?

Instacart has an ecosystem-centric business model and saw its value proposition become especially compelling during the pandemic. It might seem superficially that Instacart was operating in a Field of Dreams; however, its success was enabled through a powerful value proposition.

Instacart provides an online grocery shopping platform. Its ecosystem of grocers and retailers enables people to shop their favorite stores and brands with same-day delivery. Instacart has had remarkable growth in the pandemic as its customer value proposition moved from one of consumer convenience to one of safety and even lifesaving.

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Grocers, Instacart's ecosystem partners, also saw their value proposition increase. Prior to the pandemic Instacart enabled them to provide a convenience to their customers. During the pandemic, the value to grocers was approaching a survival strategy. Grocers were at a competitive disadvantage if they could not provide customers with a shop-from-home option, especially those that had not yet developed their own ecommerce and delivery capabilities. This greatly increased Instacart's value and attracted more grocers and retailers into its ecosystem. The time-to-market acceleration was a critical component of the value prop. Instacart profited from having the right solution during a crisis and an ecosystem business model that enabled it to rapidly scale to meet demand.

So how do you get the word out? Where do you start? Having built partner ecosystems and communities from scratch, I have found that the first couple of partners are recruited the old-fashioned way: lots of personal relationship selling, with a strong partner value proposition. Often these first partners are not the dominant leaders in your industry. They will be the second- or third-tier challengers. These partners are looking for an edge in the market: they're early adopters, often innovators, and they're looking for new ways to serve customers that will set them apart. Can you provide them with that?

Once you have a few innovative challengers on board, then something interesting can happen. The challengers start making headway, landing high-profile customers, and taking business away from the established leaders. Then you hit a tipping point. The industry takes notice. The leaders are now coming to you, and once you have a few of those big marquee names on your platform, you get swarmed. Everyone is checking you out and the ecosystem grows more organically, more spontaneously.

Myth #3: I Can Make Money off My Partners

Yes, you can. But if this is your only focus, you won't for long. Working with partners requires a fundamental mindset that seeks value-creating outcomes: the win/win for all members. If you are not thinking in this mode, you will sabotage your efforts. All partnerships, and perhaps especially those that are ecosystem oriented, rely on trust versus control. If partners perceive that this is a purely transactional relationship, then very little investment will go into creating value. If they trust

that you are committed to mutual gain, then they will invest in creating a sustainable business on your platform.

Whatever manner you choose to monetize your ecosystem, it's important to evaluate what the total economic value is to your partners. They need to make money as well if they plan to be viable businesses. It may mean that partners are willing to pay a subscription fee or commission to be part of the ecosystem if, for example, doing so gives them access to a community of potential new customers as in a marketplace.

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Sometimes the revenue comes indirectly. Google and Facebook illustrate this model. In their enormous ecosystems, partners draw user traffic and stickiness to their sites. The revenue comes from advertisers seeking to reach the users of their platforms.

Data can be the currency of the ecosystem. This is particularly true for the social media platforms. They accumulate masses of data on their users which enables them to serve their paying customers, advertisers, more effectively. But they are not alone. Internet of Things platforms also trade in data.

John Deere, for example, doesn't just build tractors. It provides an IoT application platform. The modern tractor bristles with GPS and sensors that gather data and upload it to a data warehouse in the cloud. Deere's application partners in the MyJohnDeere ecosystem build software that helps farmers, well, farm. And they get access to data to fuel their apps. There is software that helps to manage the fleet of tractors and harvesters, apps that help calculate the right amount of fertilizer to apply, and so on. All the while these applications are collecting more data. John Deere gets a continuous stream of new data from its application partners to enrich its data pool. (One big question: Whose data is it? That's a topic for another time.)

Partners can also make money by providing services around your platform. Salesforce publicly touts that its partners make four dollars in service revenue for every one dollar of Salesforce subscription.[2] Salesforce does not directly make money off these partners, but partners are driving adoption of their technology because it is very profitable for them to do so.

As a smart orchestrator, you are of course going to be sure you are getting a solid ROI from the many sources of economic value, but it is equally important to understand the partner economics as partners evaluate their ROI and the benefits of partnering with you.

Myth #4: Ecosystems Are Totally Open

They can be, but they don't have to be. Orchestrators often straddle the line of openness. On one hand they want to protect their brand and their customer experience by admitting only the most qualified of partners. On the other, a broader ecosystem has broader reach and appeal, even if you do have to deal with the occasional clunker or bad apple.

Apple and Android are two great examples. Apple applies more rigor and scrutiny to applications that go into its marketplace. Apple is a premium brand, and particularly in the early days of the App Store it needed to protect the integrity of its brand in the young smartphone market. Android meanwhile chose to be more permissive to encourage more developers to create applications for its platform. Android came to market later than the iPhone, so this made sense in terms of catching up to Apple.

There is a broad spectrum of guardrails that orchestrators can implement to protect their brand and to encourage a satisfying customer experience. The first involves the criteria for entry into the ecosystem. Some simply require that you can fog a mirror. Others conduct some level of due diligence which could start with a website check to be sure the partner is a real business, or even a criminal background check. (I recall one applicant from my past that had numerous DBAs and several fraud cases pending. We respectfully declined.)

Ecosystem orchestrators protect their brand by setting criteria for entry—from being able to simply "fog a mirror" to due diligence or even a criminal background check.

Another way to protect your brand and the customer experience is through what is often called "partner enablement." This refers to partner offers which may include training, certifications, and specializations. These help to ensure that partners have the skills and knowledge to represent you in a good light and helps customers differentiate who might be the best partners for their needs. These enablement tools are substantial

investments in your platform, in terms of both your costs and the partner's. Even when you offer these at nominal cost to partners, they still must invest the man-hours to achieve them, which is often the biggest part of the economic cost.

Many organizations now use these enablement achievements to segment partners into tiers within their ecosystem programs. The top-tier partners will have made the largest investments in your platform. The message to customers is that they can have confidence in that partner to execute and deliver competently.

Myth #5: I Can Control the Ecosystem

You can try. However, successful ecosystems are highly dynamic, highly interactive, and highly interdependent. You can set up guardrails, as discussed above; you can evangelize a guiding North Star (see my article "Find Your North Star," *Strategic Alliance Quarterly*, Q3 2020); but at the end of the day, you are still an orchestrator and not a governor.

At the end of the day, you are an orchestrator, not a governor, and partners are not captive hostages. They have choices.

This is a balancing act. Partners are not captive hostages. They have choices. They will invest in your business model if they see the benefit, and they'll look for alternatives if they don't. If the requirements to participate in the ecosystem are burdensome, again, partners will be weighing their other options.

Toward a Collaborative Revolution

We started this article by setting the context that disruption and transformation have become the new normal and ecosystems are the path to survive and thrive in these conditions. But it goes beyond ecosystems as a strategy. Thriving in the new normal mandates new skills, new leadership, new culture, and new organizational structures that are conducive to collaboration. Collaborative capability, in fact, is the heart and soul of ecosystem-centric businesses.

Adopting an ecosystem business model fundamentally changes you. The ecosystem is not something bolted on to the side of the business. Embracing an ecosystem business model means you are part of the ecosystem. Building a partner ecosystem is hard. But what's harder than building an ecosystem? Building a culture that supports an ecosystem strategy. It is a cultural revolution and requires a massive rethink in how you strategize, how you plan, and how you operate, because everything is interconnected.

Why Does This Matter?

Companies that transform themselves into ecosystem businesses can experience growth, find new sources of innovation, and become more resilient in the face of change and disruption. Accenture[3] cites the finding that 76 percent of "business leaders surveyed agree current business models will be unrecognizable in the next five years—ecosystems will be the main change agent." But launching into an ecosystem model without clear foresight and a clear charter can lead you onto the rocky shoals and perilous reefs of failure.

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[1]https://emtemp.gcom.cloud/ngw/globalassets/en/doc/documents/3889039-the-future-of-your-business-ecosystem-in-the-age-of-digital-business-a-gartner-trend-insight-report.pdf.

[2]https://www.salesforce.com/content/dam/web/en_us/www/documents/reports/idc-salesforce-economy-report.pdf#:~:text=In%20fact%2C%20IDC%20estimates%20that,%245.80%20(see%20Figure%205).

[3]*May 2018 Accenture Cornerstone of Growth: Ecosystems, https://www.accenture.com/us-en/insights/strategy/cornerstone-future-growth-ecosystems?c=strat_ecosystemsexternalmediare_10287011&n=mrl_0618.