Does your business model rely on a highly fragmented value chain involving many organizations and systems? Stay tuned to learn more about building digital ecosystems and what role the governance structure plays.

**New business environments and digital industry platforms**

Many industries have been forced into a new era of business model and value chain design. In an environment characterized by fierce competition on digital and physical platforms alike, organizations have built complex value chains that rely on third-party organizations and systems dispersed around the globe in a move that helped to unleash billions worth of new revenues and efficiency gains.

On the other hand, we find many industries and organizations relying on traditional processes, especially in highly centralized and regulated markets. Banking, insurance, financial exchanges, government services, and the health care sector are examples of sectors that enjoy some degree of protection from disruption. However, we already see many pieces of their value chains becoming modularized, transformed, and taken over by new entrants.
Regardless of whether these organizations are already in a transformation process or protecting their current business model, they must answer three key questions:

• "How do we maintain and improve our customer relevance?"

• "How do we mitigate risks within complex value chains, such as data protection and quality?"

• "How do we safeguard our profits in times of minimal marginal costs that leave narrowing spaces for realizing profit margins?"

The value proposition is at the heart of these questions, and applies as well to those structuring the value chain and leveraging ecosystems for the benefit of the organization. The consequences of the COVID-19 outbreak in early 2020 have shown that complex value chains are vulnerable and still depend on various analogue processes. This applies not only to sectors with physical assets, but also to the financial services industry, which is dependent on cross-border transaction and settlement processes. Strategies to address these interdependencies have emerged over the past couple of years. Technology-based, industry and even cross-industry platforms help define standards, align processes, and distribute operations and risks among a set of like-minded players. To achieve this structured ecosystem approach, new ventures and organizations have been incorporated to act as neutral layers connecting these companies and enabling services that serve their common goals. Ideally, such organizations are characterized by clear functional goals and controlled by dedicated innovative governance models.

This paper summarizes our key insights learned from designing and scaling such strategic cross-industry ecosystems.

Trust may be achieved on many levels and in many ways; however, one way has proven to provide nurturing ground for organizations in the long run: Utilizing a neutral technology infrastructure like Blockchain technology that no single party can control.

Blockchain technology-based networks such as B3i, Energy Web Foundation, We.Trade, eTradeConnect, VAKT, and many more not only yield a robust and immutable transaction platform but also act as a catalyst of coopetition and ecosystem governance. By helping organizations standardize processes such as data exchange, data privacy, commercial transactions, and asset tracking, like “Track&Trace” platforms, they not only enable newly designed business models, but also the harvest of great efficiency potentials. No other technology induces standardization and process alignment in a way where trustful relationships and joint digital networks are used. Building such infrastructures enables participants to leapfrog and build their new services by leveraging a sustainable transaction infrastructure focused on flexible collaboration.

(A matter of) strategy, trust and initiating new ventures with a purpose

(Benefiting from) Digital ecosystems that connect organizations along their value chains requires a strategic approach and dedicated governance. Many organizations opt to start by focusing on specific business or customer pain points and construct business models that include their relevant strategic partner networks. To harvest the potential, some of those project-like initiatives have expanded to become multi-organization efforts and pose new strategic questions for initiators and potential joiners alike.

Trust is needed in order to balance co-operation and “coopetition” within digital ecosystems and requires common attitudes among partners on how to interact with each other.

What is coopetition?

Based on concepts derived from the study of game theory, coopetition is, essentially, a strategic alliance between competing organizations designed to grow the overall marketplace in which they compete.

See Deloitte’s publication “So, you’ve decided to join a Blockchain consortium” for more information.
Blockchain solutions as catalysts to new business ecosystems

Blockchain technology, or more broadly Distributed Ledger Technology (DLT), denotes the logic of interconnected digital networks of computers. DLT is the concept of implementing a shared ledger on a distributed network, where all participants agree on a jointly approved state of the registry’s content. Hence, Blockchain denotes digital protocols that govern such distributed ledgers. The transformative potential of DLTs lie in their inherent properties to facilitate decentralized trust.

Distributed Ledger Technologies create a system in which all transactions are shared, verified, and accepted by all parties, alleviating the need for intermediaries. The properties of immutability of created blocks allow for real transfer of ownership in digital networks. Put simply, the internet allows us to copy data. Blockchain enables an “internet of value”. Intangible assets like currencies, shares, copyrights or patents, and tangible assets like real estate or obligations can be exchanged via the trusted ledger. The transmission of tangible assets requires the creation of a digital twin, a digital representation or simulation of a physical object, which enables digital surveillance of the object.

Blockchain-based solutions have been adopted to increase efficiency or to grow new business. In many industries, we can observe digital platform business models, which are often driven as quasi-monopolistic ecosystems with a “winner takes all” approach. Building a Blockchain-based platform infrastructure among strategic partners may yield a path to escaping the dead end faced by many players lacking this platform power.

In the enterprise landscape, Blockchain ecosystems are not “anarchistic” open network groups, such as the well-known Bitcoin network. Semi-open or “permissioned” Blockchain platforms allow enterprises to securely interact with their partners and manage the functionalities and consensus algorithms together based on their business requirements. Therefore, such platforms require legal and regulatory compliance, proper risk handling, data protection, and financial reporting and control mechanisms. All these aspects are part of the overall ecosystem or consortium governance model.

**Success factors: Ecosystem strategy and formal business governance**

In order to grow such ecosystems and ventures, their design requires strong shareholder support and an agile management at the same time. It is often difficult to bring these two goals into balance. Developing ecosystems while using a formal consortium structure is even more difficult. The following sections summarize considerations on how such ecosystems can be legally incorporated and what to consider in structuring a governance model that yields into a consortium.

Many consortia are held by a high number of shareholders, often between 10 and 50 companies, while most consortia initially started with just four to six shareholders, the so-called Minimum Viable Ecosystem. In contrast to a pure financial investor interested in a dividend pay-off, a consortium investor, often the principal in the relevant market, wants to actively participate and make strategic decisions in the consortium as well as ensure that the market place is not disrupted by further intermediaries or is led by a competitor. The ecosystem itself benefits from their strong financial support, ideas, and product/market expertise. Additionally, the consortium members are the first customers and users of the product and platform as well. This is how the consortium can significantly benefit from its members. The challenge is to keep the balance between agile day-to-day management and interaction with the shareholder group. Therefore, any ecosystem’s success is based on a solid governance structure, which handles the balance between agile management and investor relations.

Building the technology solution itself is as important as creating the framework for participants to collaborate on. Wrong decisions on the governance structure can bring the best product developments to fail. If, for instance, participants intend to micro-manage and influence day-to-day management, decision-making can be slowed down significantly, which is difficult in a rapidly changing environment. While every ecosystem requires some resources for maintaining internal governance, focusing too much on investor relations might misallocate resources needed for business development. Therefore, for many young ecosystems and companies, resource management is crucial for reaching their goals and ensuring a productive allocation of resources.

**How to get there**

Every consortium is unique. While there is no preferred set-up for consortium ecosystems, there are proven ways to structure them as well as best practice and guidelines, which are worth considering before founding consortia.

While rewards from collaboration can be high, agreeing on a fair and well-designed governance structure can be difficult. Some industry collaborations have already failed for this reason.
What is the purpose of a consortium?
A consortium always follows a certain purpose. Either participants decided wisely to explore the potential of a digital protocol together without having a ready use case, or participants have already developed a use case or solution on a digital protocol, which can only be commercialized in an ecosystem. It is not trivial to align the consortium’s purpose with every participant’s strategic considerations because each participant has its position in the overall market. These positions differ slightly from competitor to competitor - and participant to participant. At the same time, the strategic approach may differ as well and the rationale why participants engage in a consortium. However, defining the purpose and aligning the participants is crucial for the success of a consortium.

Who do we need for the consortium?
For each ecosystem and for each product based on a digital protocol, there is a business landscape with existing market participants. Depending on the business model and current market practice, a minimum number of ecosystem participants is required to bring an ecosystem alive. While there is no preferred set-up for consortium ecosystems, there are proven ways to structure them as well as best practice and guidelines, which are worth considering before founding consortia. Additionally, there may be other participants with a significant impact on the business, which can also play a role in the new ecosystem. The minimum number of required ecosystem participants is considered as Minimum-Viable-Ecosystem. In the early stages of a consortium, the increasing number of participants, not necessarily consortium members, is crucial for the funding and survival of the consortium. Only a strong ecosystem, a community, will last.

What are the goals of the consortium?
The goals of the consortium grow beyond its business model. Many deliverables are considered as commercialized components, but it is much more:

a. Designing and developing technical solutions
Many consortia are born with the decision to develop a technical solution for the consortium members. Designing and developing a product is often the starting point and an integrated part of the consortium DNA.

b. Servicing a platform
The commercialization of such technical solutions requires a platform for the solution to run and participants to interact on. In many cases, building a platform is closely connected to the technical solution, which stands in first place.

c. Providing ancillary services to members and third-party participants
Implementing a new technology and being connected to a platform often requires external support. Even if many companies are experimenting with new technologies including Blockchain solutions, it remains difficult for many participants and third-party participants to connect new technology to their legacy systems. Other services can be node-as-a-service, notary services and others.

d. Creating an industry standard
Besides the aforementioned product and platform deliverables, other important consortium outputs can be achieved. One is creating an industry standard. This might apply to the legal basis for the technical solution as well as to other interaction via the platform. Industry standards help to increase efficiency, reduce external costs, enhance collaboration, and secure individual business models.
Developing digital ecosystems that drive industry alignment and new business opportunities

e. Sharing research and development
Technical innovation and digital transformation are more than efficiency. It is learning from each other and understanding where places to collaborate are. It is about understanding the positions of other industry players and finding common ground.

How will the consortium be organized?
The formal implementation of a consortium requires a formation that is able to organize a large number of participants. In principle, three options are available:

a) Commercial company
b) Cooperative structure
c) Regulatory-led structure

In order to choose the right legal set-up, it is necessary to respond to the above questions. Amongst others, the consortium must decide whether it is a for-profit or non-profit entity, as well as whether there is a momentum for the development of the technical solution that needs to be captured. The quality and quantity of the consortium participants play a key role and determine the speed of progress.

Important topics for consortium governance

1. Guiding principles
On the one hand, the consortium must agree its purpose and deliverables. Participants also need to agree other guiding principles, e.g., culture of collaboration and information-sharing to the legally permissible extent.

2. Organizational structure
A consortium with a large number of participants requires a clear and solid operating and governing model to run well. The structure should be functional and lean in order to ensure agile management. However, the level of involvement of the participants/shareholders determines the organizational structure. Executive Management, Board of Directors, Advisory Board and various committees are responsible bodies that work hand-in-hand.

3. Participant obligations
Participants commit to supporting the purpose of the consortium and refraining from any actions that could prevent or impair the purpose of the consortium. Additionally, the participants need to provide physical input – often in form of full-time employees – and a cash contribution in order to fund the costs expected in the set-up phase.

4. Intellectual property
The key asset – in least at the beginning – will be intellectual property (IP). Even before coding begins, IP is often created by defining the scope of development and discussing the requirements between the participants. The consortium must agree what IP its members should contribute and at what conditions, who owns the IP developed in the consortium, how the IP can be used (before, during and after the consortium exists) and how it is protected.

5. Competition
All collaborations in a specific industry are limited by the rules of competition law. This means that most consortia are inclusive networks that do not represent the interests of major shareholders or industry groups. In addition, the products and services are provided to all market players. The governance structure will need to ensure compliance with competition law requirements.

6. Regulatory compliance
Joining forces with competitors and building the future together is not only a big step for a company, but also requires in-depth preparation for regulatory compliance. Nobody wants to risk good relationships with regulators by being on the spot within a consortium. Therefore, in order not to expose the participants, close communication with all relevant regulators and authorities is required – even before the company is incorporated. A regulatory position paper may help the relevant regulators and authorities to understand the business model and the technical solution.

7. Adding and removing participants
The path from an initial consortium to a proper network takes at least months, often years. On this journey, management may change, companies’ strategies change and companies become more or less interested in the consortium business model. Participants need to define objective criteria to add new participants to the consortium. More importantly, participants need to agree a process how the consortium and individual participants can part ways again. Such provisions cover questions like how to deal with contributions (made and unmade) and created IP.
Outlook and actions to take for business leaders

Ultimately, it is clear that cross-industry cooperation for key digital initiatives is not an easy undertaking. However, it will be increasingly necessary for organizations to enter such collaborative and coopetitive settings to achieve strategic goals. The remaining open question is how to initiate, promote, consolidate, and manage such a cooperation. Based on our experience, a dedicated evaluation has to be anchored to the regular corporate strategy process. Having synthesized strategic priorities and business goals, well-established governance together with the technological support of a neutral technology platform, like Distributed Ledger Technologies, can be the key levers to make such an undertaking a success. Business leaders should therefore not consider either of the two dimensions separately, but follow an integrated strategic approach, which, if properly implemented, can make a significant contribution to the long-term success of the organization and its overall strategic positioning within the ecosystem.

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