Thriving in a world of business ecosystems

A preview of the upcoming Business Trends report

Deloitte University Press

"Ecosystems": More than a useful metaphor!

We're familiar with ecosystems in the natural world—communities of living organisms interacting with each other and their shared environment, competing and collaborating simultaneously, creating and sharing resources, and adapting together in the face of inevitable external disruptions. Many of these same ideas can provide key insights into understanding today's business world where ever-denser and richer networks of connection, blurring boundaries, collaboration, and interdependence foster the arrival of continuously evolving "business ecosystems."

Focusing on the ascent of business ecosystems can provide much more than just a different and useful metaphor. It can illuminate and clarify both deep challenges and extraordinary potential opportunities for leaders in business, government, and civic sector organizations alike that will influence organizations' strategies and operations for years to come. That's why, in our forthcoming report *Business ecosystems come of age*, we investigate some key strategic questions that come with a world of ecosystems and share how forward-thinking firms are answering them.

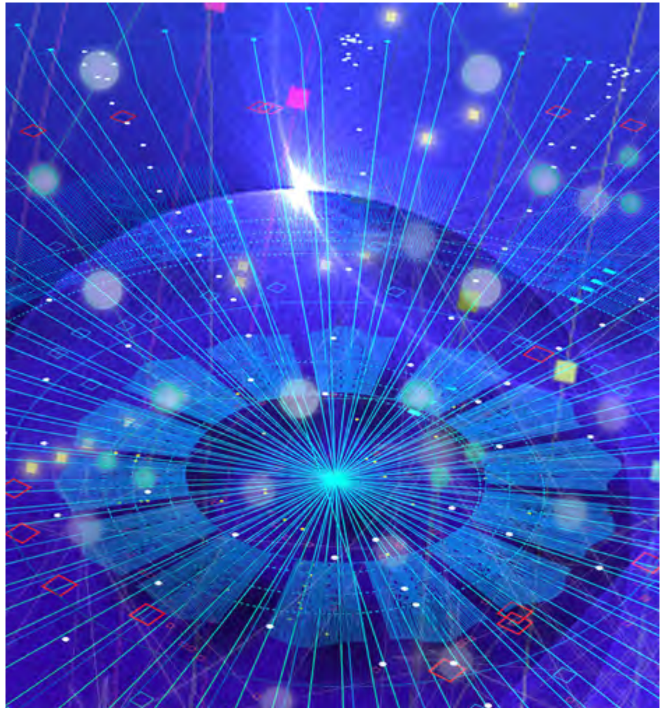
Are supply chains more than chains?

Over the last few decades, the supply chain profession has transformed the business environment by mastering the management of assets outside the traditional boundaries of the firm. In doing so, it has also helped forge the dynamic, collaborative, industry-transcending world of ecosystems. When the term "supply chain" was first coined, it was a helpful metaphor for describing the tight linear linkages being forged across organizations. But in a business environment characterized by increasingly fluid and interactive arrangements, the metaphor might sometimes be less appropriate.

Increasingly, forward-thinking operations managers are looking to optimize performance across value webs that span and connect whole ecosystems of suppliers and collaborators. Properly activated, these value webs can deliver superior results across multiple dimensions—reducing costs, improving service levels, mitigating risks of disruption, and delivering feedback-fueled learning and innovation. Supply chain leaders who are able to more effectively manage in this new environment can benefit from greater agility, responsiveness, and resilience.

What's your platform play?

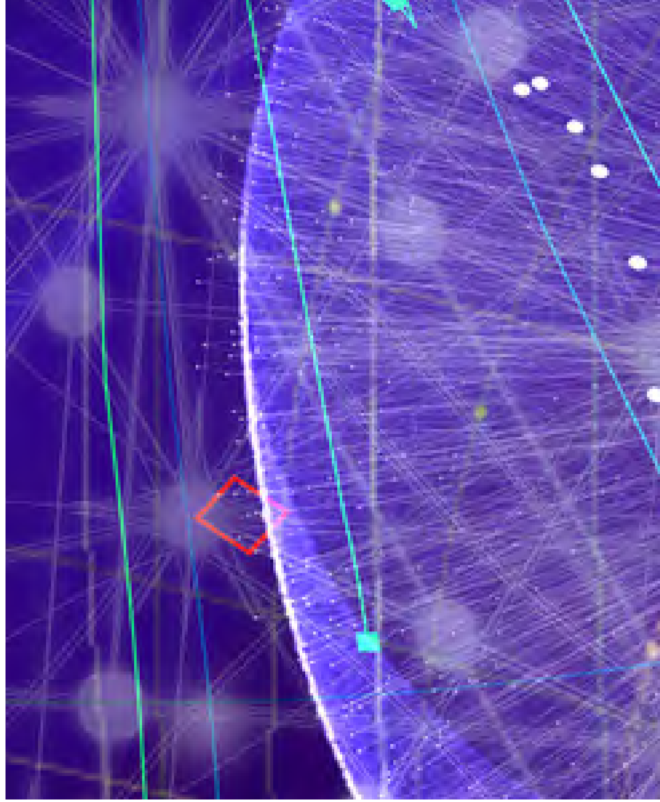
In a setting where multiple firms are creating value through coordinated activity, new means are being created to help orchestrate their decisions and activities. In the highly digitized and atomized markets of the 21st century, this coordination increasingly happens through platforms—infrastructural layers designed to establish common standards and reduce transaction costs. Well-functioning platforms can provide the means for diverse ecosystem participants to create and capture value for themselves, while also unleashing powerful network effects that often yield strong returns for the platform owner.



Platform businesses can be classified into different types. Some, like eBay and Etsy, are aggregation platforms. Others are social platforms, such as Facebook and Twitter. Mobilization platforms, such as the Ushahidi network, have also grown in impact. The platform type that could have the greatest potential, however, may just now be unfolding: platforms explicitly designed to accelerate and scale the potential for learning by their participants.

What makes sense to own?

Firms have long used mergers and acquisitions as a route to growth alongside organic initiatives. And they have also divested assets judged not to be part of their future. The rationales for strategic transactions have generally involved several key objectives—quests for synergy, market share, cross-selling, economies of scale, tax advantages, geographical expansion, diversification, vertical integration, liquidity, and separation from underperforming businesses.

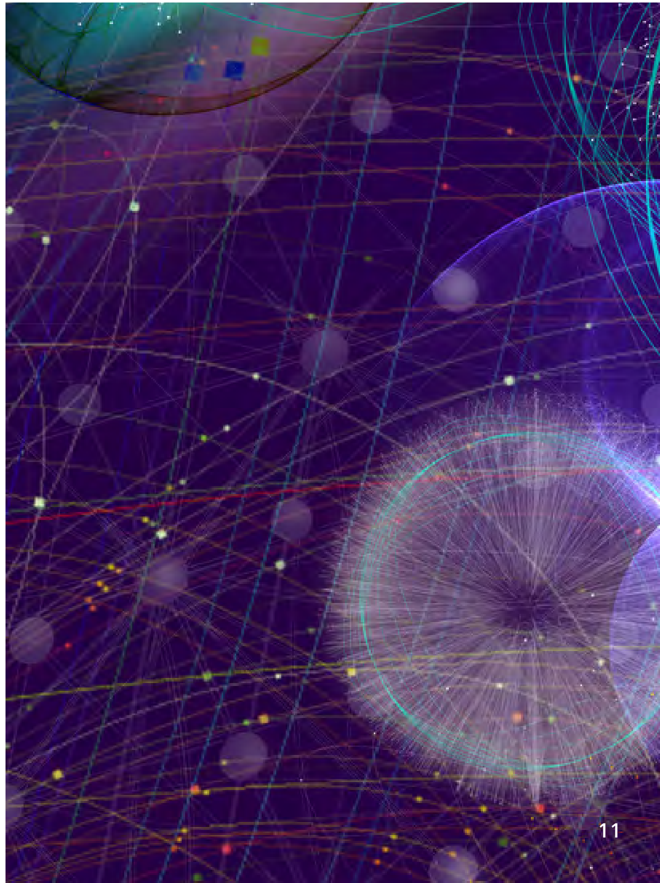


Now, thanks to ecosystems thinking, there is an additional calculus to these strategic transactions as enterprise leaders rethink portfolios of assets with an eye toward fast-evolving business ecosystems. In addition to conducting traditional financial analysis, companies are exploring how a transaction might affect the health and productivity of an ecosystem, and the firm's position in it. They are also identifying ways to unlock new partnerships in the ecosystem in an effort to achieve growth without the burdens of ownership. To make these decisions effectively, many dealmakers will increasingly study the evolution of their current ecosystems and the emergence of new ones.

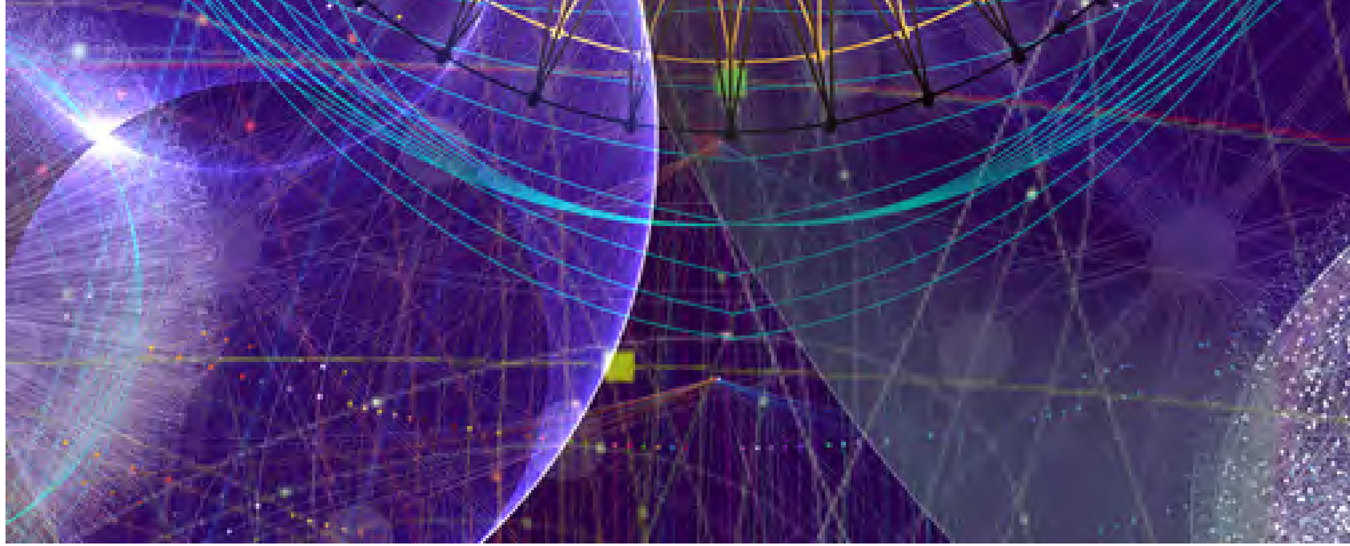
How can you transform your business model—more quickly and with less risk?

Innovation happens at many levels in businesses. At the most strategic level, managers are learning to challenge and change the fundamentals of the business model. How a firm goes about creating, delivering, and capturing value is a deeper question than, for example, which particular products will be launched or which markets will be entered in the coming year.

But for large, established companies, such fundamental business model change naturally entails disruption and incurs risk. Growing numbers of business leaders are therefore taking a page from the playbook of successful startups—in particular, borrowing the concept of the "minimum viable product" and applying it to business model transformation. Minimum viable products are refined only to the point they must be in order to put them in front of paying customers and learn from their feedback. Likewise, minimum viable transformations are testable, minimally-constructed, and adaptable versions of reconfigured business models designed to reduce risk through rapid iteration and validated learning.



How do you regulate an ecosystem?



Smart regulation is essential to the effective functioning of economies and to societies being well served by competitive markets. But many current regulatory structures and philosophies are the products of the 20th-century industrial economy. Today's economy is increasingly shaped by ecosystem-driven innovation that often cuts across, and sometimes altogether outpaces, preexisting regulatory regimes.

Regulators, whose job has traditionally been to protect the public from harm, exploitation, or insufficient competition in reasonably stable markets, now face another growing danger: that their own application of old rules to new realities might suppress innovations of great potential value to the public. The dilemma for regulators is clear: Find ways to strike a new balance. Create policies and solutions that protect the public's interests and are also dynamic enough to keep pace with innovation. Easier said than done.

The good news is that new approaches can utilize an ecosystem's self-regulating dynamics. Successful approaches are simultaneously increasing agility, focusing on desired regulatory ends rather than means, and emphasizing regulatory interplay over primary jurisdiction.

What role should "design thinking" play?

In a world of fluid ecosystems where even the rate of change is changing, design thinking can be used as a powerful tool that helps companies imagine a solution that does not yet exist and outline a pathway to realize it—instead of beginning with an assessment of today's problems and seeking corrections to them. Unfortunately, advocates of "design" sometimes overreach, perhaps regarding it as an elixir that can somehow transform conservative companies into creative ones on its own.

Leading companies know that design thinking is most powerful when combined with deep analysis and synthesis. The savvy leader seeks to do this recursively and in integrated new ways to manage complexity, derive insights, and catalyze innovation. By combining design thinking with other skills and capabilities like data mining, building analytical models, and creating real-time data visualizations, new possibilities are appearing as organizations learn to capture the power of integrated design.

How can we change the world together?

Since the 1960s, the term "wicked problems" has been used to describe public health crises like malaria as well as widespread crime, climate change, joblessness, and other persistent ills. "Wickedness" isn't a degree of sheer difficulty. As originally used by urban planner Horst Rittel, it means that the problem springs from many diverse sources, is emergent and shifting, and will never have one right answer.[1]

What we're seeing today is that many kinds of "wicked problems" are now being reframed and tackled with renewed vigor through solution ecosystems. Unprecedented networks of NGOs, social entrepreneurs, governments—and yes, big businesses—are coalescing around them and recasting them as "wicked opportunities." By working together, the wicked problems of the world are now increasingly within our power to solve.

1. Horst Rittel and Melvin Webber. "Dilemmas in a general theory of planning." *Policy Sciences* 2, no. 2 (1973): p. 155-169, DOI: 10.1007/BF01405730.

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