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Digital



## Evolving Ecosystems

Customer-focused collaborations that  
gain and retain market share



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# Burning platform – wake up to ecosystems

Business ecosystems are becoming increasingly relevant to our daily lives. Consider, for example, how Nestlé has changed the way we consume coffee, with its Nespresso offering. By drawing on its own expertise, and partnering with selected coffee machine vendors to design single-use coffee pods, Nestlé offers its customers on-demand, premium coffee at home. Although one of the most visible examples, the Nespresso approach is not unique, and 60–70% of today's most valuable businesses have made such strategies an integral part of their core business model. This evidence shows that business ecosystems are becoming increasingly important, if not essential, for creating sustainable businesses. In this initial article, we aim to provide an overview of what business ecosystems are, why their adoption has accelerated recently, their key risks and benefits, the differences from traditional strategic choices, and how to develop an effective ecosystem strategy.



# Business ecosystems definition - elevating the human experience

## Definition

A business ecosystem can be defined as an alliance of two or more entities that centres on a common value proposition to service a specific consumer need. An ecosystem collaboration can take many forms, but the common factor is that every ecosystem creates greater value collectively than any of the participants could achieve individually. Each ecosystem aggregates a unique combination of capabilities, to deliver a differentiated value proposition and an elevated consumer experience. Although our focus is on the current and future potential of business ecosystems, their history (see text box to the right) illustrates this definition, by showing how they evolved to reach their current position.

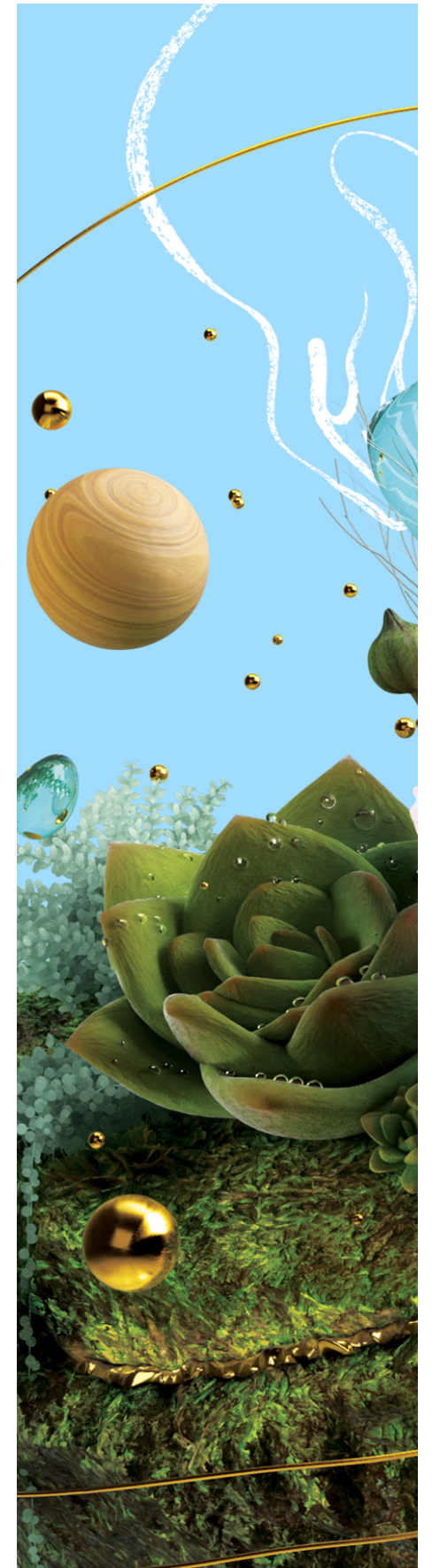
## Drivers of the recent surge of ecosystems

Several forces are driving the recent boom in business ecosystems. First, successive advances in technology have created a hyperconnected, digital world, and pushed the limits of what is possible. The internet, then mobile and cloud technologies, now enable companies to connect and share data with each other and their customers, creating new opportunities built on faster communication. Second, we have seen progressive change in the regulations and legislation that traditionally protected certain consumer services. An example is banking, in which the changing regulations enable financial services to be provided by non-banks. Finally, consumer requirements and expectations are changing. Today's consumers have come to expect high-quality design, ease of use and extremely high levels of convenience – and business ecosystems meet those needs, by offering blended products and services that span traditional industry boundaries.

## The evolution of ecosystems, past to present

Despite common perceptions, the concept of a business ecosystem is not a recent development, and has been evolving over several decades. One early example is the local supermarket, which was revolutionary in its time because it combined several consumer needs in one integrated proposition. Previously, consumers had to visit separate bakeries, fishmongers and butcher's shops, but the supermarket combined those needs in one integrated proposition, creating a one-stop shop for daily groceries.

A more recent example is Uber, which has completely disrupted its industry. Previously, booking a private taxi service could be fraught with uncertainty, with no assurance that the car would arrive at all, much less be on time. Once in the car, the initial conversation might centre on negotiating the lowest fare and quickest route. Now, Uber has created an ecosystem of drivers and consumers that both solves those pain points and delivers a better service: the consumer knows exactly where their driver is at all times; pricing and routing are set before the journey, by Uber's algorithms; and a rating system incentivises drivers to continually improve the customer experience (e.g., assisting with suitcases). By seamlessly connecting an ecosystem of consumers and drivers, Uber can optimise asset utilisation and offer a premium experience at lower prices than conventional private hire services. Furthermore, Uber is now leveraging its ecosystem's capabilities to expand into adjacent sectors, and is quickly gaining market share in food and package delivery.



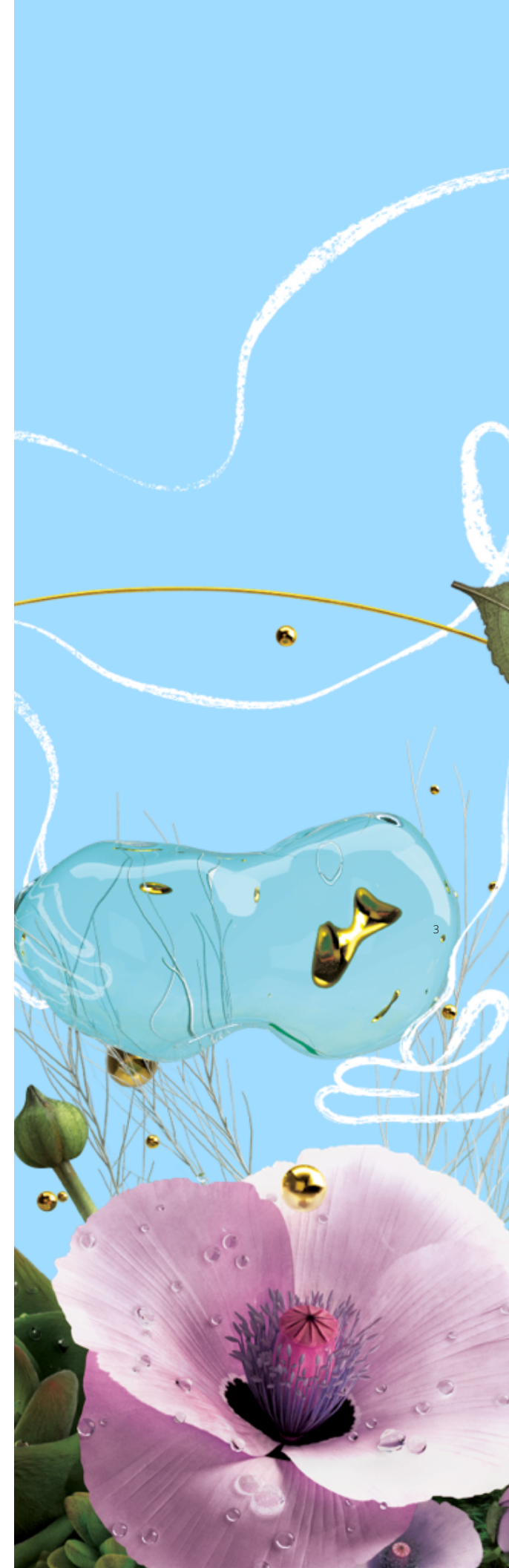
# Benefits and Risks of Ecosystems – a more balanced view

Despite the clear potential benefits of ecosystems, analysis in the MIT (Massachusetts Institute of Technology) Sloan Review shows that less than 15% of the ecosystems studied are fit for sustainable future growth. Therefore, any choice to start building and participating in an ecosystem should not be taken lightly, and the potential benefits and risks should first be considered and assessed.

Drawing on our experience of client engagements, we have identified four key benefits and four risk factors that can inform a more balanced view:

## Ecosystem benefits & Risks

BENEFITS	RISKS
<p><b>EXTENDED MARKET REACH</b> Gain access to wider range of resources and customers</p>	<p><b>LOSS OF CONTROL</b> Less control than traditional partnerships due to decentralized approach</p>
<p><b>NEW UNIQUE VALUE PROPOSITIONS</b> Leverage each other's strengths and capabilities to innovate together</p>	<p><b>COSTS</b> High upfront investment costs for scaling or building new capabilities, required for the ecosystem play</p>
<p><b>IMPROVED CUSTOMER INSIGHTS &amp; RELATIONSHIP</b> Generate more data about your customers and foster deeper, more meaningful relation</p>	<p><b>BALANCE OF DEPENDENCIES</b> Successful ecosystem is precarious equilibrium in which every participant is unique and hard to replace</p>
<p><b>RESILIENT BUSINESS &amp; OPERATIONS</b> Limit reliance on single partner, market or customer segment</p>	<p><b>CANNIBALIZATION OF MARKET SHARE</b> Opportunity to cross-sell for ecosystem partners poses threat to one's own market share</p>



### Benefits

Ecosystems can help diversify revenue streams, by opening up new market opportunities. Partner companies can gain and provide access to a wider range of resources and customers, leverage each other's ability to innovate, and share both wins and losses. When ecosystem participants join forces and share knowledge, they deepen their understanding of consumer needs and preferences, to enable greater personalisation and the development of more relevant products and services. Ecosystem players can thus foster deeper and more meaningful relationships with consumers, increasing loyalty and creating a competitive edge. An ecosystem can also improve business resilience, as performance no longer depends on a single company or market. Ecosystems reinforce agile business models and supply chains, and so can be more adaptable to changing market conditions, such as resource scarcity or political instability.

### Risks

Although the extensive benefits might make participation in an ecosystem economy seem a natural choice, several risk factors should be considered before committing to such a proposition. Ecosystems typically involve a more decentralised approach, with less control than traditional partnerships. Furthermore, engaging with third-party providers and integrating with other businesses' systems and platforms introduces new risks, such as data breaches or operational disruptions. Integration across partner systems may also require scaling or building new capabilities, requiring significant up-front investment with no certainty of the return.

Just like the natural ecosystem, a successful business ecosystem is a delicate balance, in which all participants contribute and gain somewhat equally. Maintaining that equilibrium depends on the strengths and uniqueness of each participant's contribution, so the benefits can quickly diminish if one participant becomes obsolete or too dependent: for instance, if the ecosystem finds better alternatives to that participant's capabilities.

A further risk is that introducing a player into an ecosystem lowers that player's barriers of entry to the market the ecosystem is serving, potentially opening the door to that company "do it alone".

Companies should weigh the potential risks and benefits, make strategic choices that align with their objectives and risk tolerance, and ensure the benefits outweigh the risks. There are many approaches to making such decisions and, for instance, Deloitte's proprietary Strategic Choice Cascade can help you design a successful ecosystem strategy.

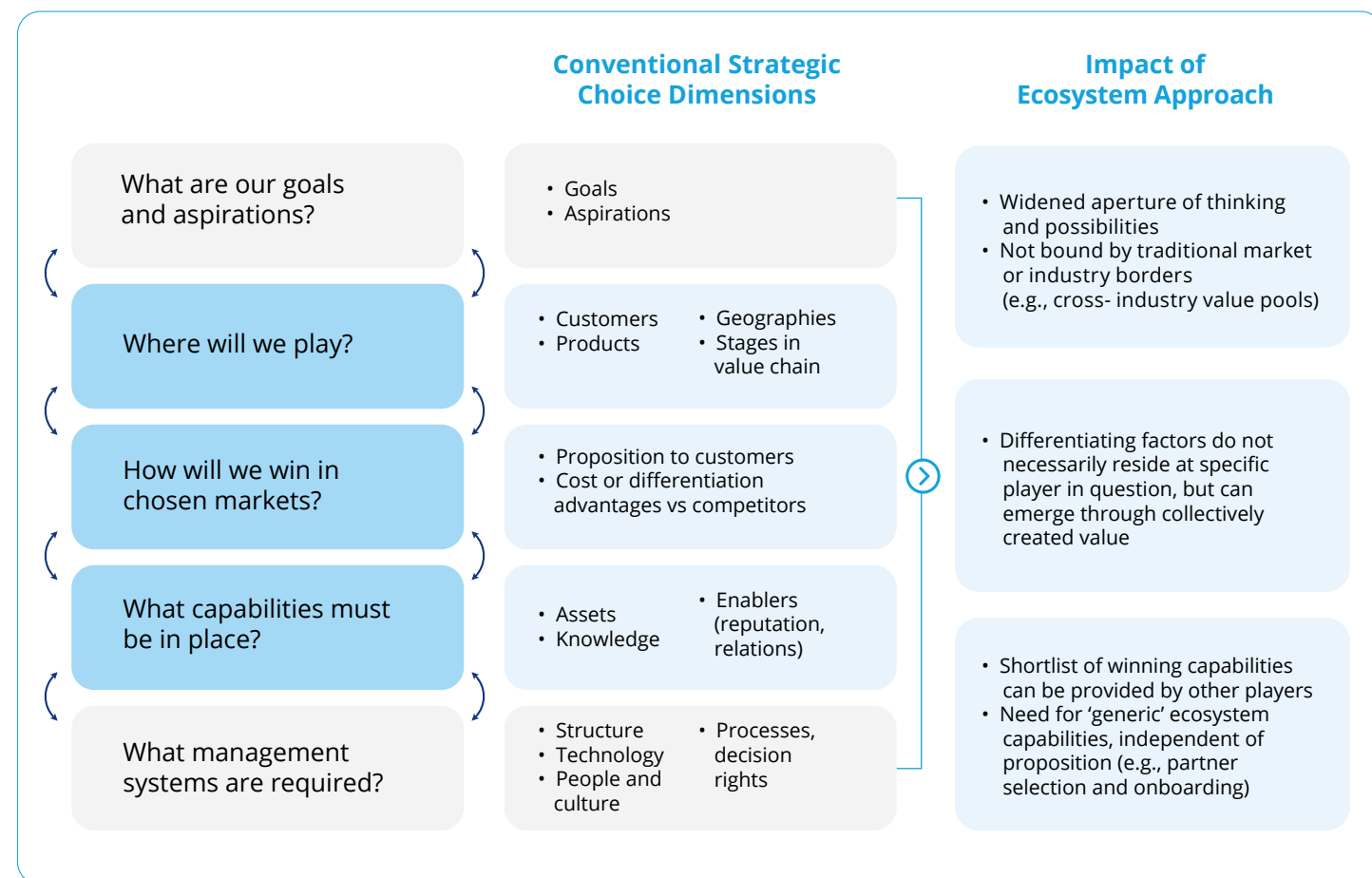


# Ecosystem strategy – a different integrated set of strategic choices

Ecosystems provide the opportunity to create new propositions that are not limited by traditional sector or market boundaries. These new horizons should be reflected in the approach to making strategic decisions, which should recognise the greater breadth of possibilities. For instance, one company's lack of competitive advantages or capabilities may no longer be an immediate obstacle, and could be solved through ecosystem solutions.

We identified three parts of the Strategic Choice Cascade that are affected by an ecosystem strategy: "Where will we play?", "How will we win?" and "What capabilities must we have?"

## How the ecosystem approach impacts choices along the strategy cascade



### Where will we play?

"Where will we play?" identifies the arena in which a business can achieve its strategic ambitions, by analysing the opportunities in channels, geographies or markets, consumer segments and product categories. When considering this step with a view to an ecosystem, you should broaden your thinking significantly, and avoid focusing narrowly on your established industries and markets.

A proven way to mitigate such industry- or market-bound thinking is to take a truly consumer-centric approach to identifying the opportunity areas. Consumers do not think in terms of industries or markets, but look for solutions to solve the real-life challenges they face. Therefore, through understanding the consumer perspective, value pools will emerge that cross traditional industry or market boundaries.

### How to win?

"How to win" defines the choices for winning in your "Where to play?" arena. Again, this requires a broader perspective to identify all the potential sources of competitive advantage. Compared with traditional "How to win?" approaches, an ecosystem approach doesn't limit the winning choices to those available from just one firm. In fact, the most successful choices might arise by considering the combined capabilities and collective value of all ecosystem participants. Nevertheless, some of this competitive advantage should be rooted in your own business, uniquely and distinctively, making it difficult for competitors to copy, and to ensure the company retains a sustainable role in any potential ecosystem.

In many cases, this is the point at which the decision is made to pursue an ecosystem strategy, based on a clear arena and value proposition – the enablers of unique value are defined, the company has a significant and distinctive role in creating that value, and delivering on all aspects of the "How to win?" decision will require additional capabilities from other players.

### What capabilities must we have?

"What capabilities must we have?" identifies the capabilities required, to inform the shortlist of partners needed to successfully launch the proposition previously defined, through "Where to play?" and "How to win?" choices. Traditionally, many such capabilities are already available internally, because "Where to play?" and "How to win?" choices are usually framed in terms of existing strengths and weaknesses, with only occasional exceptions that require new in-house capabilities to be built, or bought in through an acquisition. With the wider horizons of the ecosystem approach, the source of those new capabilities shifts, with an expectation that they will come from ecosystem partners.

In addition to the capabilities required by the value proposition itself, it's important to remember that additional generic capabilities are needed to build and operate a business ecosystem, regardless of the proposition. Such capabilities might include, for instance, the ability to identify, prioritise and select ecosystem partners, and then for those partners to collaborate and communicate effectively.



# Closing observations

An ecosystem strategy is not the answer to every business need for new opportunities, nor do ecosystems offer guaranteed success. However, as the forces that drive ecosystem adoption swell, and we learn more from the growing experience of successful ecosystems, the near future will see an increasing number of value propositions being driven by ecosystems. Therefore, companies should be prepared to take advantage of the ecosystem opportunity, and not let it become a risk for their businesses.

We hope this article has helped you understand the basics of ecosystems and how they could impact your strategic choices. Our next article will consider the practical specifics of building an ecosystem strategy, and will dive deeper into the factors to be considered when designing and setting up your ecosystem, through a nested cascade of strategic choices.

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