Accelerating Digital Ecosystem Development through Strategic Alliances
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In our recently published study “Digital era for ASEAN conglomerates - Hype or reality?” we established that the digital economy provides significant opportunities for ASEAN organisations. To say that digital play requires a paradigm shift from “business-as-usual” is a cliché in today’s time. Its global penetration has pushed industries to develop their own digital ecosystem. The top 5 most valuable companies are digital companies. In Asia, the digital economy is expected to grow at 21% y-o-y, which is 3X the growth rate of the physical economy. The winners are those who have a broader view of the digital economy, have a winning strategy to capitalise on these opportunities and able to mitigate the underlying threats to drive growth and sustain shareholder returns.

The pace of change is phenomenal – we have observed 9 key patterns of disruption, which are driving multiple paths to displacement for existing incumbents. We have also witnessed that a selective investment driven model adopted by incumbents for their digital initiatives, have failed to generate any material impact. Therefore, a differentiated “value creation” approach is required to leverage connected ecosystems.

This will require a fundamental refresh of the mindset, culture and capabilities. Given, there are hardly any secrets in the digital world, speed-to-scale defines success or failure. What then, are the options for the incumbent to build digital capabilities that are fast-to-scale yet flexible enough to accommodate the changing digital ecosystem?

This paper attempts to answer several of these aforementioned questions. We believe that opting for a strategic alliance model is the optimal way for traditional businesses to enter and thrive in the digital economy. Priorities and choices of the alliance model differs by industry verticals, capability build objectives and geography. A recent analysis of more than 125 recently formed alliances suggest three interesting new trends: (a) ~50% of recent alliances formed were to accelerate new product design/development; (b) TMT sector dominating the alliance landscape, contributing to almost ~50% of all alliances being formed and (c) cross industry collaboration is becoming the new norm, particularly between the TMT industry and the financial services industry and between TMT and Consumer and Industrial products sectors. However, these alliances are easy to form, but extremely hard to sustain. Significant risks exist across the entire alliance lifecycle that need to be identified and mitigated through a planned approach. We hope that through this paper we are able to show that businesses need to rethink their capability development strategy for their digital play.
01 Digital Ecosystems – The new basis for competition
Digital economy is scaling up faster than the physical economy

Winners will be those who do not solely focus on digital plays, but build their business models to leverage on both the physical and digital economies.

A digital economy is a global network of economic and social activities that are enabled by information and communications technologies, such as the internet, mobile and sensor networks.

Source: IMF WEO GDP Forecasts; WEF NRI 2015; Monitor Deloitte analysis
Digital natives are at the forefront of value creation and value appropriation

Top 5 publicly traded companies by market cap (USD Bn)

Source: Visual Capitalist
9 key patterns of disruption are driving multiple paths to displacement for existing incumbents

The pace of change is phenomenal

- Radio: 38 years
- Television: 13 years
- Internet: 4 years
- Facebook: 3.5 years
- Twitter: 9 months
- Instagram: 6 months
- Angry Birds: 35 days

Time to reach 50 million users

The 9 patterns of disruption are prominent

1. Expand marketplace reach
   - Connecting fragmented buyers and sellers - whenever, wherever

2. Unlock adjacent assets
   - Cultivating opportunities on the edge

3. Turn products into platforms
   - Providing a foundation for others to build upon

4. Connect peers
   - Fostering direct, peer-to-peer connections

5. Distribute product development
   - Mobilising many to create one

6. Unbundle products and services
   - Giving you just what you want, nothing more

7. Shorten the value chain
   - Transforming fewer inputs into greater value outputs

8. Align price with use
   - Reducing upfront barriers to use

9. Converge products
   - Making 1 + 1 > 2


*Patterns of disruption - Anticipating disruptive strategies in a world of unicorns, black swans, and exponentials*, Deloitte University Press
A differentiated “value creation” approach is required to leverage the connected ecosystem

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**Value addition**

**Investor in physical economy**
- Bolt-on digital offerings
  - Minority investments – difficult to exert control

**Investor in digital economy**
- Coordinated planning to build bolt-on digital offerings
  - Partnership-model allowing some degree of control

**Business builder in digital economy**
- Focus on building own interconnected ecosystems
  - Open Ecosystem build approach allows a quicker and less investment centric pathway

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**Value creation**

By providing all manner of services and content on (our) platforms, we aim to create a comprehensive ecosystem

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By providing all manner of services and content on (our) platforms, we aim to create a comprehensive ecosystem

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... the era of heavy business conglomerates is gone. The economy of today and tomorrow will rely on a platform & ecosystem approach.

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By providing all manner of services and content on (our) platforms, we aim to create a comprehensive ecosystem

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**Competition** should be strengthened for technologies that power ecosystems such as the 3D ecosystem

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Source: Monitor Deloitte Analysis; News Articles
The connected ecosystem based business models require organisations to have an evolved mindset and an urgent capability refresh.

Ecosystem Thinking to Frame Business Models

3 Business Model Archetypes of Today

WIN THE CUSTOMER
- Improve utility
  - See what customers really need and fulfill it completely
  - Make it easy for customers to use their offerings and to get things done
- Enhance experience
  - Connect with customers’ sense of identity and purpose
  - Enhance their sense of self
  - Confer status and meaning to customers

OWN THE PLATFORM
- Trade
  - Identify under-exploited assets such as untapped demand and/or fragmented supply
  - Define rules for their exchange
  - Connect these buyers and sellers
- Co-create
  - Enable collaborators to find each other
  - Provide the context & tools for collaboration
  - Facilitate commercialisation of outputs

ACTIVATE THE DATA
- Augment decision making
  - Harness powerful insights through IoT and big data technologies
  - Help customers make better choices than they could alone
- Guarantee outcome
  - Use data to manage the performance of the assets and guarantee outcomes
  - Sell solutions instead of assets

Source: Deloitte article, titled: Business Models for A New World – A new perspective on strategy and business model development, September, 2016
02 Key capability sets
3 key organisational capabilities are required to succeed in the digital ecosystem model

New business model archetype

3 key organisational capabilities required to succeed in the digital ecosystem

- **Strategic**
  - Strategic capabilities serve as the basis for competitive advantage
  - These are ‘must build’ capabilities for companies to be competitive
  - Must be distinctive from competitors and meaningful to customers
  - Platform and data ownership are critical requirements for strategic capabilities

- **Core**
  - Core capabilities impact customer choice and/or shape the economic profit proposition
  - They are not a defensible source of advantage and focus on effectiveness
  - Platform ownership and ‘win’ the customers are core for economic success

- **Foundational**
  - Foundational capabilities are not distinctive nor do they impact customer choice
  - Required in order to be a viable competitor; focus on efficiency to maintain threshold levels of performance
  - Digitisation is essential for achieving efficiencies and supporting digital platforms
To successfully execute, many of these capabilities and underlying building blocks need to be institutionalised in parallel.

Organisational capabilities

1. Foundational: Innovation mission
   - Innovation vision and mission
   - Innovation strategy
   - Innovation & culture transformation
   - Partner development & management

2. Strategic: Skilled talent
   - Redefining skill requirement
   - Attracting innovative technology talent
   - Retaining innovative technology talent
   - Building an innovation mindset
   - Digital & innovation learning
   - Training and upskilling programs

3. Core: Leadership
   - Identify innovation champions
   - Identify drivers of innovation across organisation’s hierarchy
   - Training and development of management
   - Encouraging innovation across organisation
   - Celebrate the ‘failures’

4. Foundational: Adequate technology
   - APIs
   - Service Oriented Architecture
   - DevOps
   - Digital Platforms
   - Straight Through Processing
   - Blockchain

5. Core: Insights
   - 360° Customer Insight
   - Behavioural Analytics
   - Big Data/ Social analytics
   - Predictive analytics
   - Customised offerings

6. Strategic: Measure performance
   - Performance measured on effort and outcomes
   - Number of innovative concepts
   - Number of concepts commercialised
   - Number of successful 3rd party partnerships
   - Assessment of customer satisfaction

Source: Monitor Deloitte Analysis
03 Capability development options — Build, Partner, Acquire
Speed to scale defines success or failure - Inorganic growth provides required acceleration

Speed vs. Risk Profile for Capability Growth Pathways

**Advantages**
- Lower up-front investments
- Highest strategic control
- Ownership of IP & technology

**Disadvantages**
- Longest duration to develop digital capability
- Challenges from traditional mindset and culture not fitted to digital change

**Build**
- Organic growth
  - Shorter time to market
  - Leverage complementary capabilities and product bundles

**Partner**
- Strategic alliance
  - Expedited ramp-up
  - Stable cash-flow with captive market share/customer base
  - Readily available product/IP

**Buy**
- Acquisitions
  - Highest up-front investment cost
  - Integration and execution risk due to complexity

Source: Monitor Deloitte Analysis
Strategic Alliances emerge as relatively risk free alternative – 4 distinct archetypes exist

4 Archetypes for Strategic Alliances in the Digital Ecosystem

<table>
<thead>
<tr>
<th>Centralised</th>
<th>Sequenced</th>
<th>Facilitated</th>
<th>Self-organised</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Centralised Diagram" /></td>
<td><img src="image" alt="Sequenced Diagram" /></td>
<td><img src="image" alt="Facilitated Diagram" /></td>
<td><img src="image" alt="Self-organised Diagram" /></td>
</tr>
</tbody>
</table>

- **Centralised**
  - **Types**: Clear Orchestrator who drives the interactions required to achieve the objective
  - **Examples**: AT&T Foundry
    - Exposes AT&T’s API to developers to promote mobile app innovation
    - Product development cycle time has improved from 18 months to 6 months

- **Sequenced**
  - **Types**: Traditional supply chain or distribution system with a high-level Orchestrator
    - Participants may interact with upstream or downstream players
  - **Examples**: General Motors
    - The GM supply chain across parts manufacturers, suppliers, assemblies and etc. is an example of traditional Sequenced Model

- **Facilitated**
  - **Types**: Primarily Participant-driven with multiple, complex interaction patterns
    - Orchestrator defines governance and interaction protocols only
  - **Examples**: AMEX Open Forum
    - Online forum for small business owners to interact, ask questions, advise and exchange information

- **Self-organised**
  - **Types**: Purely Participant-driven
    - No Orchestrator and typically includes grassroots systems and pack systems with no defined standards, forums, or barriers to entry
  - **Examples**: Linux and Android OS
    - Linux has seen success with its open-source philosophy
    - Android, a Linux-based mobile O/S, dominates with market share of ~82%, or 1.4 billion users worldwide

Source: “Performance Ecosystems: A decision framework to take performance to the next level”; Deloitte Center of the Edge,
Suitable application of critical building blocks varies significantly by Strategic Alliance Archetype

### Key Building Blocks

<table>
<thead>
<tr>
<th>Construct</th>
<th>Tightly controlled or loosely coupled partnership models</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Profile</td>
<td>Hard (dollars or assets) or soft investments (people, methods, processes)</td>
</tr>
<tr>
<td>Success Metrics</td>
<td>Shared KPIs, financial metrics, Operational SLAs and incentives</td>
</tr>
<tr>
<td>Product Scope</td>
<td>Joint Product Roadmap, bundling and pricing, marketing and branding</td>
</tr>
<tr>
<td>Exclusivity</td>
<td>Degree of exclusivity and rules of engagement (geographies, clients, products)</td>
</tr>
<tr>
<td>Solution Scope</td>
<td>Simple alliance (e.g. GTM or channel alliance) vs. capability development</td>
</tr>
</tbody>
</table>

### Applied to Strategic Alliance Archetypes

<table>
<thead>
<tr>
<th>C Centralised</th>
<th>S Sequenced</th>
<th>F Facilitated</th>
<th>O Self-Organised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tightly Controlled</td>
<td><img src="image" alt="Diagram" /></td>
<td>“Hard” Investments</td>
<td><img src="image" alt="Diagram" /></td>
</tr>
<tr>
<td>Well-defined KPIs</td>
<td><img src="image" alt="Diagram" /></td>
<td>Limited definition of KPIs</td>
<td><img src="image" alt="Diagram" /></td>
</tr>
<tr>
<td>Structured offerings</td>
<td><img src="image" alt="Diagram" /></td>
<td>Loosely structured offerings</td>
<td><img src="image" alt="Diagram" /></td>
</tr>
<tr>
<td>High Exclusivity</td>
<td><img src="image" alt="Diagram" /></td>
<td>Non-exclusive</td>
<td><img src="image" alt="Diagram" /></td>
</tr>
<tr>
<td>Capability Development</td>
<td><img src="image" alt="Diagram" /></td>
<td>“Simple” Alliance</td>
<td><img src="image" alt="Diagram" /></td>
</tr>
</tbody>
</table>

Source: Monitor Deloitte Analysis based on previous client engagements
04 Learnings from the marketplace
Digital alliances focus on enhancing product design and development, with TMT dominating the alliance landscape

- Product development partnerships appear to focus on synergising complementary core competencies
- Meanwhile, sales partnerships are formed to target new or specific customer segment

**Figure 1: Global Partnerships by Capability Build**
- 56% Improve operations
- 29% New market/customer segments
- 15% New product design/development

**Figure 2: Global Partnerships by Industry Vertical**
- 50% TMT
- 20% TMT & C&IP
- 18% TMT & FSI
- 16% C&IP
- 5% FSI
- 3% LSHC
- 1% Cross Industries Others

- TMT’s dominance in the partnership landscape is clear due to its central position in the digital space
- Cross-industry partnerships are primarily made of TMT-FSI and TMT-C&IP collaborations – 51 out of 58 cross-industry alliances
- The diversity of these TMT-FSI partnerships suggest a breadth of opportunities: from mobile money, payments, insurance services, and lending

Source: Monitor Deloitte Analysis. Sample size = 137 partnerships across Americas, EMEA, and APAC

C&IP: Consumer and Industrial Products
FSI: Financial Services Industry
LSHC: Life Science and Healthcare
TMT: Technology, Media and Telecommunications
However, unique patterns exist across geographies and industries in terms of the alliances scope

- **In APAC**, partnerships are geared towards developing new products or solutions
- **Contrast this to Europe**, where partnerships are formed to target both external and internal improvements

![Figure 3: Geographic nuances on digital alliances](chart)

![Figure 4: Capability build objectives by industries](chart)

- **Being at the core of Digital**, TMT-exclusive partnerships focus most on design, development, and new topline growth
- **The majority of cross-industry partnerships are between TMT-FSI and TMT-C&IP** – of which, the key focus area is new and convergent digital offerings
- **C&IP-exclusive partnerships** show a higher propensity to target new market or segments for the offerings

Source: Monitor Deloitte Analysis. Sample size = 137 partnerships across Americas, EMEA, and APAC
Key risks and potential mitigation approaches
## Significant risks exist across alliance lifecycle – Proactive mitigations will ensure ‘Sustainability’

<table>
<thead>
<tr>
<th>Alliance Lifecycle</th>
<th>Key Risk</th>
<th>Potential Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner Identification &amp; Selection</td>
<td><strong>Scalability of existing platform to partnership</strong></td>
<td>Wait until <strong>existing offerings are at a minimum maturity</strong> to be shared with a potential partner</td>
</tr>
<tr>
<td>Negotiation &amp; Deal Structuring</td>
<td><strong>Over-engineering</strong> – too prescriptive &amp; comprehensive clauses limiting productivity</td>
<td>Start by ‘seeding’ a few critical rules and allow the rest to develop through natural interaction</td>
</tr>
<tr>
<td></td>
<td><strong>Unfavourably negotiated deal terms</strong> favouring one side over the other</td>
<td>Adopt <strong>“win-win” approach</strong> that puts accountability and rewards on both partners</td>
</tr>
<tr>
<td>Alliance Execution</td>
<td><strong>Lack of management attention and focus</strong></td>
<td><strong>Appoint “Champions”</strong> from senior leadership in both parties to drive management focus</td>
</tr>
<tr>
<td></td>
<td><strong>Underperformance due to over-ambitious targets set initially</strong></td>
<td><strong>Institute quarterly review committees</strong> to assess and reset goals if necessary</td>
</tr>
<tr>
<td></td>
<td><strong>Cultural clash</strong> impacting collaboration</td>
<td><strong>Develop “gateway” managers</strong> who can bridge the two cultures in a partnership</td>
</tr>
<tr>
<td></td>
<td><strong>Potential loss of continuity across all stages of the partnership lifecycle</strong></td>
<td><strong>Deploy processes for knowledge transfer</strong> to keep integrated alignment across lifecycle</td>
</tr>
<tr>
<td></td>
<td><strong>High dependency on one partner’s capability hindering the speed and ease of the exit</strong></td>
<td>Define a <strong>disengagement process</strong> that includes transfer of critical assets, people, technology</td>
</tr>
</tbody>
</table>

Source: Monitor Deloitte Analysis
Success needs to be ensured through critical negotiation elements with the potential partner

Source: Monitor Deloitte Analysis
Potential approach to develop a digital ecosystem
A practical approach to build a digital ecosystem

A practical approach

Map the Ecosystem

- Performance gaps
- Key ecosystems relevant to performance gaps
- Existing ecosystems

Design the Model

- Objectives
- Risks and Capabilities
- Select resulting ecosystem types

- 1. Enhance existing ecosystem
- 2. Adopt a new ecosystem

Drive the Change

- Optimize existing alliances
- Evolve to a new alliance archetype
- Develop an archetype for alliances
- Develop scope of alliances

Management practices to improve performance

Partner Identification
Negotiation and Deal Structuring
Alliance Execution
Exit
Monitor Deloitte Playbook – “Strategic Alliance in a Box”

1. **Partnership Strategy:** Where do we need a partnership, and why?
2. **Long-listing & Initial Screening:** Who are all the potential candidates for a partnership?
3. **Proof-of-concept, short-listing & Final Alliance Model:** Who is the partner? What would the alliance look like?
4. **Negotiations & Contracting**
5. **Launch Preparation & Mobilisation**
6. **Program Management Support: Market launch, Ramp-up, etc.**

**Value**
- Leverage existing Playbook to provide a tried and tested toolkit
- Leverage Monitor Deloitte’s existing relationships in the region for “agile acceleration”
About Monitor Deloitte
Monitor Deloitte provides unique insights & ideas focused on delivering business impact

Monitor Deloitte combines the strengths of both practices including thought leadership, talent, resources, and global reach; allowing the firm to provide clients with unique insights, leading edge ideas and methods, actionable analysis and recommendations, and extensive hands-on implementation experience – all firmly grounded in deep industry knowledge and focused on business impact.

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- World-class thought leadership
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- Customised solutions
- Solid analytical capabilities
- Leading-edge methodologies
- Global experience

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- Financial Services
- Travel, Hospitality and Services
- Technology, Media & Telecommunications
- Public Sector & Economic Development
- Life Sciences & Health Care
- Energy & Resources

**Global Capabilities**
- Tier 1 strategy consulting capabilities
- Presence across 150 countries
We are thought leaders in key disciplines of business and strategy...

- The Art of the Long View
  by Peter Schwartz

- Powerful Times: Rising to the Challenge of Our Uncertain World
  by Eamonn Kelly

- Playing to Win: How Strategy Really Works
  by A.G. Lafley and Roger Martin

- Ten Types of Innovation: The Discipline of Building Breakthroughs
  by Larry Keeley and others

- The Power of Pull
  by John Hagel

- The Strategy Paradox
  by Michael Raynor

- The Innovator’s Solution and The Innovator’s Manifesto
  by Michael Raynor

- The Strategy and Tactics of Pricing
  by Tom Nagle and Joe Zale

- Managing Your Innovation Portfolio
  by Bansi Nagji and Geoff Tuff

- Competitive Strategy: Techniques for Analysing Industries and Competitors
  by Michael E. Porter

- Moments of Impact
  by Chris Ertel and Lisa Kay Solomon

- Brand Resilience
  by Jonathan Copulsky

- Pricing and Profitability Management
  by Julie Meehan

- Multi-channel Brand Experience

- BusinessWeek

- Harvard Business Review

- Wall Street Journal

- Deloitte Review
... and are at the forefront of research on digital transformation and acceleration, globally and in ASEAN
Contact us

Mohit Mehrotra
Strategy Consulting Leader
Monitor Deloitte ASEAN
momehrotra@deloitte.com
+65 9452 9432

Eugene Ho
Consumer & Industrial Products Industry Leader
Deloitte Southeast Asia
eugeneho@deloitte.com
+65 9670 2040

Ho Kok Yong
Financial Services Industry Leader
Deloitte Southeast Asia
kho@deloitte.com
+65 6216 3260

John Goeres
Technology, Media and Telecom Industry Leader
Deloitte Southeast Asia
jgoeres@deloitte.com
+65 8233 9412

Lee Chew Chiat
Public Sector Industry Leader
Deloitte Southeast Asia
chewlee@deloitte.com
+65 5224 8228

Mark Edmunds
Energy & Resources Industry Leader
Deloitte Southeast Asia
medmunds@deloitte.com
+65 6224 8288

Mohit Grover
Life Sciences & Healthcare Industry Leader
Deloitte Southeast Asia
mogrover@deloitte.com
+65 6531 5207
Acknowledgements

Mohit Mehrotra
Strategy Consulting Leader
Monitor Deloitte ASEAN
momehrotra@deloitte.com

Piyush Jain
Director
Monitor Deloitte ASEAN
pijain@deloitte.com

Djoko Soehartono
Manager
Monitor Deloitte ASEAN
dsoehartono@deloitte.com

Kuok Shern Ng
Manager
Monitor Deloitte ASEAN
kung@deloitte.com

Vikas Gupta
Manager
Monitor Deloitte ASEAN
vgupta@deloitte.com

Samrat Bose
Manager
Monitor Deloitte ASEAN
sambose@deloitte.com