



# The new age of ecosystems

Business strategy must change in the face of our increasingly networked reality, writes **Professor Tony O'Driscoll**

*In the white heat of the digital age, it is large, distributed technology platforms that companies must strive to conquer, rather than industries in a traditional sense. That means they must learn how to build, catalyse or join ecosystems – and be more willing to experiment and collaborate.*

**Tony O'Driscoll** is a professor at Duke University's Fuqua School of Business and a research fellow at Duke Corporate Education

This article is based on a forum chaired by Professor O'Driscoll at the 2018 Global Peter Drucker Forum in Vienna, which featured Michael Jacobides, Rita McGrath and Alex Osterwalder

**T**he age of value chains is over. The companies and organisations that are winning in the 21<sup>st</sup> century have placed themselves at the centre of powerful, value, network-based ecosystems. These ecosystems generate, multiply and recycle customer value.

The global business environment is powered by an ever-expanding digital network that is continuously reconfiguring how organisations coordinate, connect and communicate, collaborate and take collective action. This connectivity brings a high degree of interdependency and a compounding degree of complexity that frame how the global game of business is being played. The challenge for today's organisations is to explore the new ecosystem paradigm, so they might optimally exploit it.

## The magnetic ecosystem

Securing customers with self-perpetuating value: the new paradox of choice

Consider the Apple and Android/Google Play ecosystems. Where once music fans might have flitted from record store to record store, they are now gently coerced into buying from just one supplier. The manifold advantages of low price (a digital track is far cheaper than a vinyl record or compact disc), convenience (tracks can be bought at any time), and lack of friction (the psychological commitment needed to make a purchase is compressed into the passage of one's index finger to a screen) mean Apple and Google attract, delight and retain customers within their consumption ecosystem.

An almost infinite roster of suppliers battle to expand the offerings available within the Apple and Google Play platforms, their profits close-shaven by the platform hosts. The ecosystems are fed by apps from mapmakers, dating companies, game developers, e-retailers, banks and news providers, making the ecosystems more comprehensive – and stickier. The bigger and more diverse the ecosystem, the more magnetic it becomes.

The London Business School associate professor Michael Jacobides notes the words of former Nokia chief executive Stephen Elop as his ship was going down, that the war of devices had “become a war of ecosystems”. Elop told his employees that Nokia – the undisputed king of the non-smart phone – would have to rapidly learn how to build, catalyse or join an ecosystem. “Unfortunately,” Jacobides told the 2018 Drucker Forum, “for Nokia it was too late.”

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She tells the story of how the high-street fashion brands worldwide were wrong-footed – to devastating effect – by trends outside their own industry. *The Wall Street Journal*, she notes, looked at household spending from 2007 – when the first smartphones arrived on the market – to 2014. “What they found was that spending on things like apparel and cars was going down,” she says. “The biggest areas of growth were spending on cellular phones and internet to the home. The reason that matters is that, if you are a traditional strategist and you are benchmarking yourself against other people making apparel, you have lost the plot completely.”

Rather, McGrath urges companies across different industries to vie for a pool of resources by helping stakeholders with control over those resources to add value. “We need to get away from the idea of industries,” she says. “And start thinking about something called ‘arenas’. The whole concept of industries – which is

where strategy used to be rooted – is much less useful as a mechanism.”

She stresses: “Reflect on the teenagers you know. Clothing states who they are. Yet, in the smartphone age, teenage girls are on their devices nonstop, communicating, sharing and talking. Those devices are probably doing a better job of communicating who they are than their clothing would.”

## The innovative ecosystem

From frequent fast failure to single success

Business theorist Alex Osterwalder reminded the 2018 Drucker Forum that 70% of companies' projects fail: “Look around you – seven out of ten of you are working on products nobody wants,”

he quipped. “Are these people stupid? Is the strategy wrong? What's going on?”

Companies have two universes, Osterwalder argues. The first universe is about exploiting the products companies already produce – innovation in this space is about efficiency, about better processes. The second universe is about exploration – new products and service ideas. Most organisations succeed in the first universe and struggle in the second. They are adept at exploiting, but weak at exploring.

The key first step to succeeding at exploration is to face the truth of ignorance. “We have to admit we have no clue,” says Osterwalder. “If we do admit that, then we will use different processes to explore these business models and value propositions.”

It is critical that organisations make their peace with uncertainty and become explorers – even though the numbers sound daunting. If you are running a \$10 billion business, you would need to invest in 250 projects to create the next \$1 billion growth engine, Osterwalder says. “You can't pick the winners,” he adds. “You need to invest in the losers.”

## The interdependent ecosystem

Towards corporate collaboration

The businesses that are winning are being elevated above their own markets – and across markets. Forward-thinking companies partner more to understand how to collaboratively serve the customer and create value.

Success lies in creating interdependent ecosystems of companies and customers. Companies that organise together, embrace uncertainty and diversity, and create a benign environment for evolutionary innovation will survive. Those that do not are destined to become shackled by the very same value chains that previously brought them success.