

# The concept of business ecosystems

## E2 chapter 1

Market is a place where 2 parties meet to exchange goods and services.

The parties involved are called buyers and sellers.

Market can be physical – Eg: retail outlet

Market can be online – Eg: Web shopping portal

### **BUSINESS MODELS TO REMEMBER:**

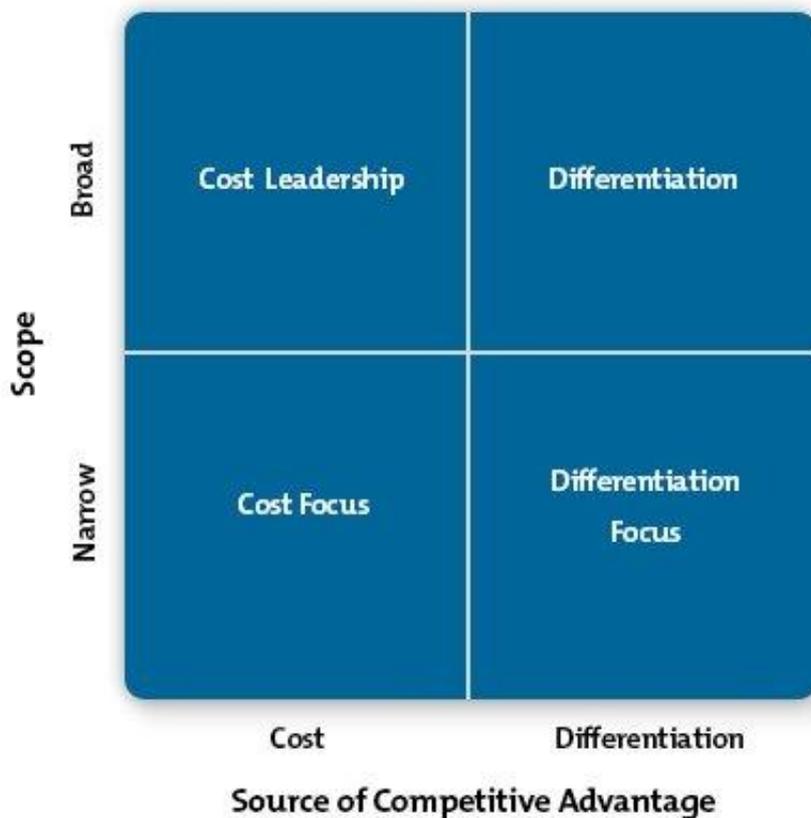
#### 1. PESTEL

P	E	S	T	E	L
<ul style="list-style-type: none"><li>- Government policy</li><li>- Political stability</li><li>- Corruption</li><li>- Foreign trade policy</li><li>- Tax policy</li><li>- Labour law</li><li>- Trade restrictions</li></ul>	<ul style="list-style-type: none"><li>- Economic growth</li><li>- Exchange rates</li><li>- Interest rates</li><li>- Inflation rates</li><li>- Disposable income</li><li>- Unemployment rates</li></ul>	<ul style="list-style-type: none"><li>- Population growth rate</li><li>- Age distribution</li><li>- Career attitudes</li><li>- Safety emphasis</li><li>- Health consciousness</li><li>- Lifestyle attitudes</li><li>- Cultural barriers</li></ul>	<ul style="list-style-type: none"><li>- Technology incentives</li><li>- Level of innovation</li><li>- Automation</li><li>- R&amp;D activity</li><li>- Technological change</li><li>- Technological awareness</li></ul>	<ul style="list-style-type: none"><li>- Weather</li><li>- Climate</li><li>- Environmental policies</li><li>- Climate change</li><li>- Pressures from NGO's</li></ul>	<ul style="list-style-type: none"><li>- Discrimination laws</li><li>- Antitrust laws</li><li>- Employment laws</li><li>- Consumer protection laws</li><li>- Copyright and patent laws</li><li>- Health and safety laws</li></ul>

## 2. Porter's 5 forces



## 3. Porter's 3 generic strategies



Technology is changing traditional market system.

### **DRIVERS OF DIGITAL REVOLUTION**

Mobile and  
internet  
penetration

Connected  
devices

Data analytics  
and cloud

User  
interfaces

Global  
acceptability

Increasing  
urbanisation

### **BUSINESS ECOSYSTEMS**

Connected  
and open

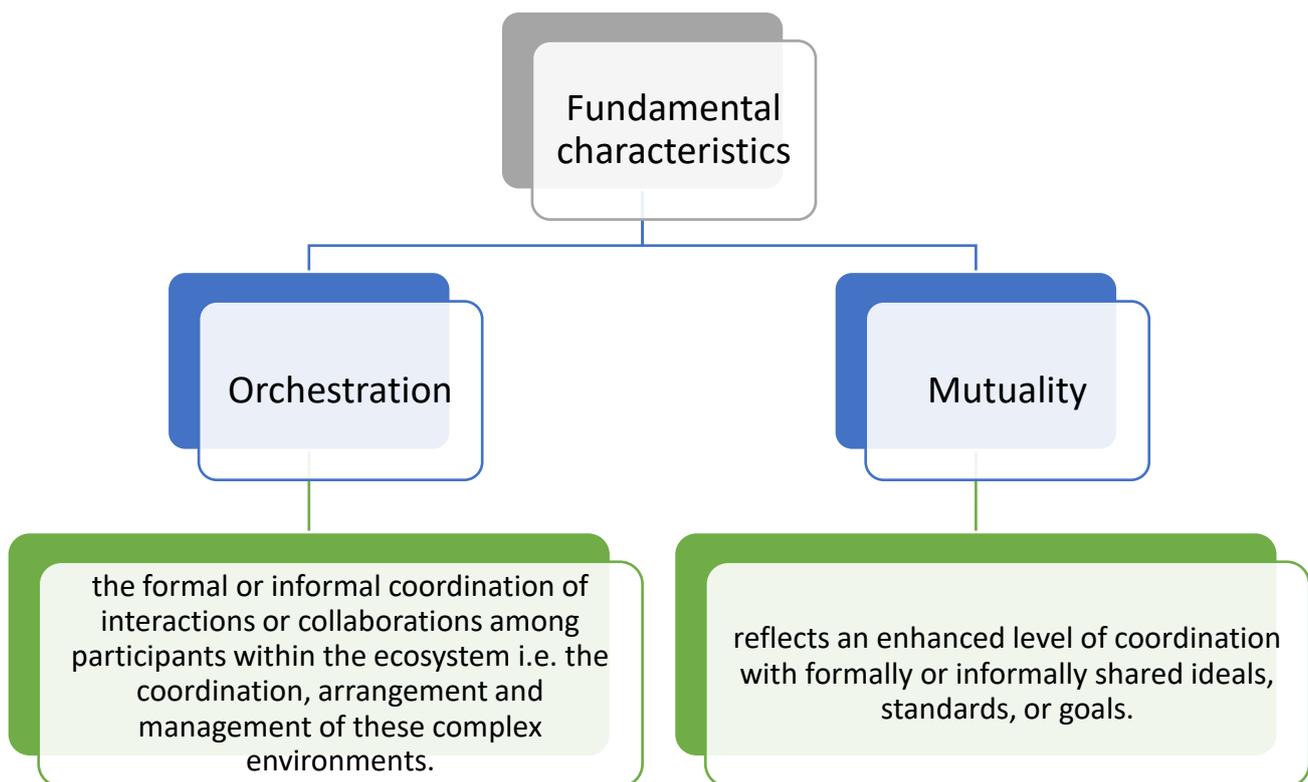
Simple and  
intelligent

Fast and  
scalable

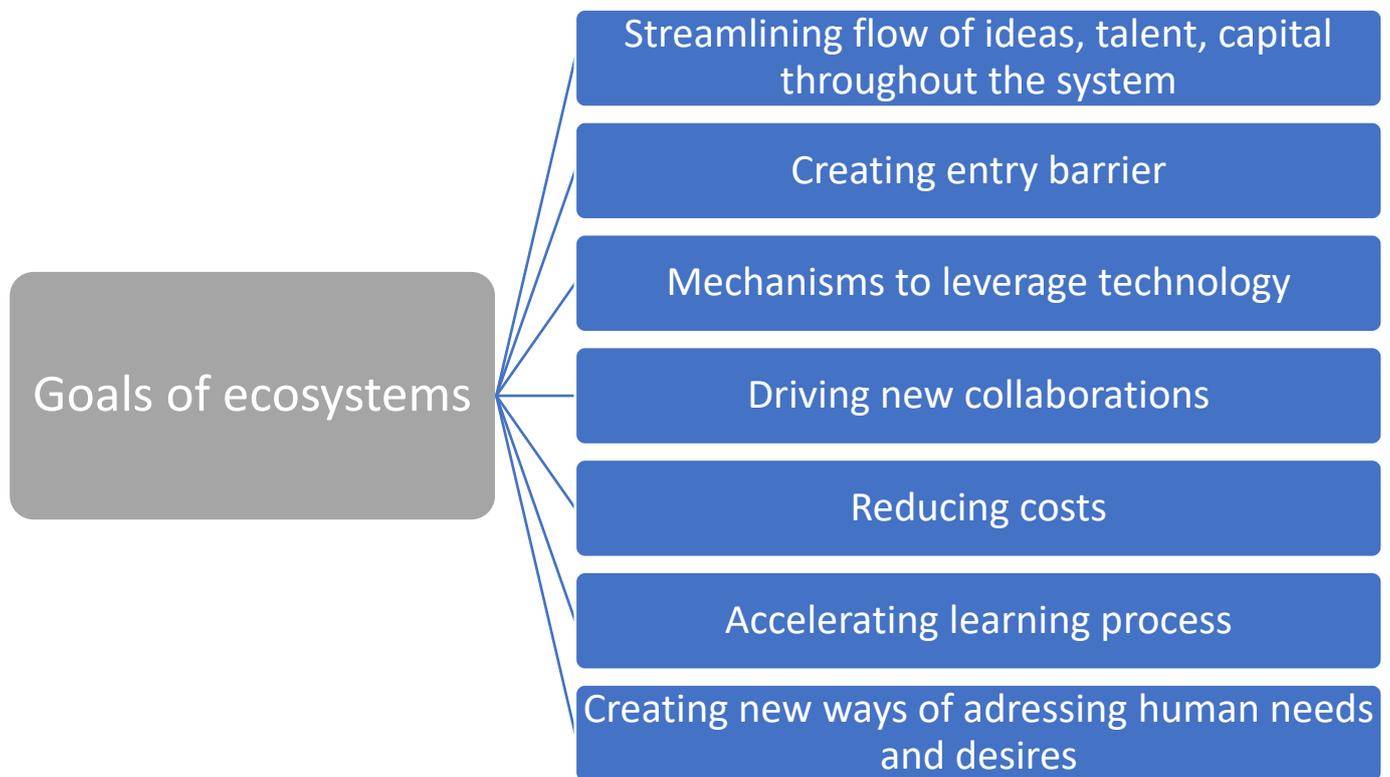
- A business ecosystem can be defined as a network of organisations (suppliers, distributors, customers, competitors, government agencies, etc.), who are involved in the delivery of a specific product or service through both competition and cooperation. This network of organisations and individuals will collaborate and evolve roles and capabilities to build value and increase efficiency.
- Business ecosystems are broad by nature, potentially spanning multiple geographies and industries, including public and private institutions, and consumers. Organisations will therefore come together to create value.
- In a less-competitive ecosystem, groups such as a government, charity and a community group might collaborate on health or public policy because each entity has a shared interest and goal.

Ecosystems and traditional markets are not unlike however being composed of participants and interactions. These are:

- **Participants** – the individual players or organisations within the environment defined by:
  - Participants function (or part played in a given environment)
  - Participants ability to extend activity or interactions through the environment
  - Range of activities that participants are able to pursue or undertake within the environment (key value proposition).
- **Interactions** – the products or services exchanged among participants defined by:
  - Set of explicit or implicit principles governing conduct within the environment
  - Linkages across the environment connecting elements such as data, knowledge, or products
  - Speed and direction at which content or value is exchanged among participants.



A business ecosystem consists of a network of interlinked companies that dynamically interact with each other through competition and cooperation to grow sales and survive. It includes many different stakeholder groups e.g. suppliers, distributors, consumers, government, processes, products and competitors.



### **How is value created?**

Value creation refers to the act of bringing something of value into existence. Participants can therefore create value by products enhancements, product development, and the creation of new services or customer experience.

In an ecosystem partners must collaborate to create and deliver something of a mutually beneficial value to all of the participants.

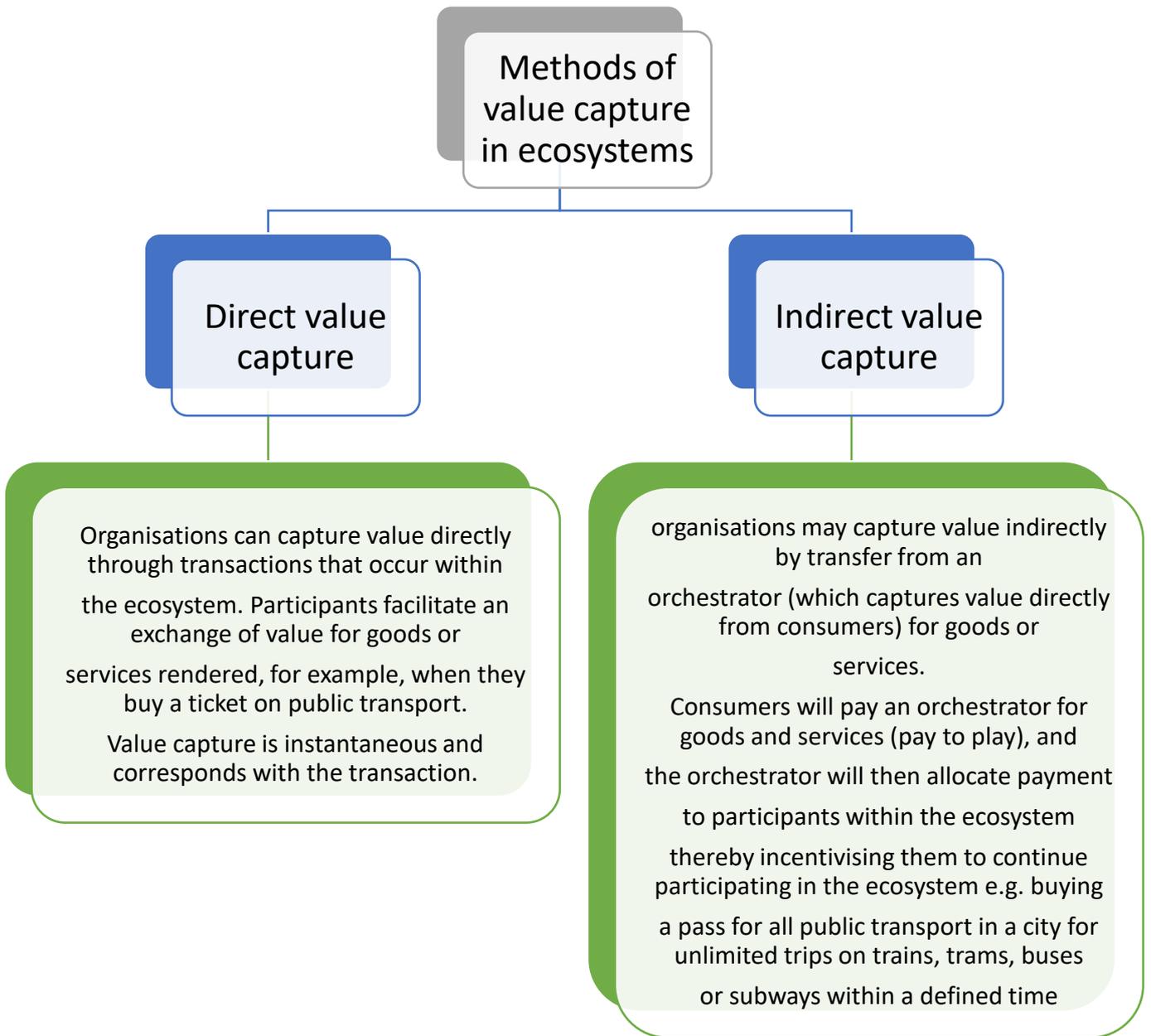
### **How is value captured?**

Value capture is the act or process of appropriating or allocating value. Participants can capture value directly through transactions or indirectly from an orchestrator.

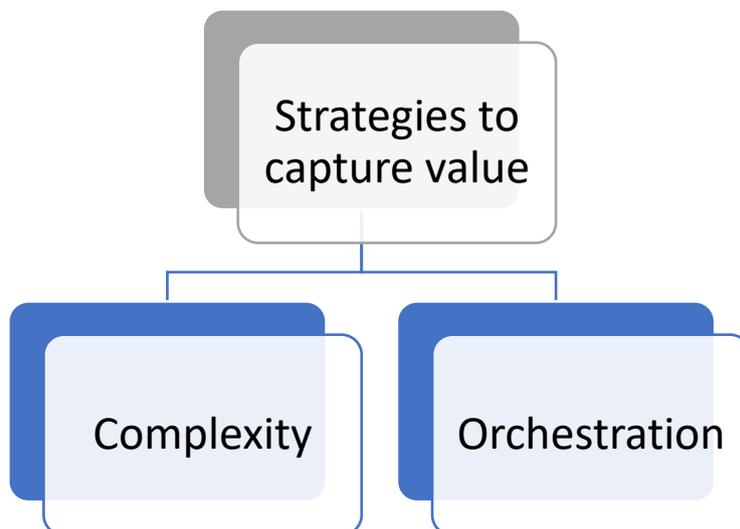
Ecosystem complexity and the extent or intensity of orchestration impact the potential and govern the nature of value capture.

As a result, ecosystems can produce more value as a whole than the sum of the individual participants acting independently.

- In traditional markets, value creation is linear.
- In ecosystems, value creation is mutual and networked.



These 2 methods can be consolidated and used together.



## **Complexity:**

Complexity is a function of the number and diversity of participants, the sophistication of activities within the ecosystem and the range and nature of relationships that exist within that ecosystem.

**High complexity** – an environment in which barriers to entry are high and the threat of new entrants is low. It suggests that a participant's role in the ecosystem is relatively secure as their particular capabilities are typically difficult to replicate e.g. nuclear power, or oil exploration.

**Low complexity** – an environment in which barriers to entry are low and the threat of new entrants is high. In this environment, a participant's position in the ecosystem is vulnerable, as their capabilities are typically easy to copy e.g. production of consumables (bakeries), retailing (individual boutiques), fitness instruction etc.

## **Orchestration:**

**Orchestration depicts** the extent of an organisation's influence over others within an ecosystem, the formality of ecosystem interactions and the degree of enforceability and compliance.

**Tight orchestration** reflects an environment in which orchestrators have an ability to influence behaviour or actions across the entire ecosystem.

**For example**, financial services, in which transactions are governed by stringent and regulated rules of privacy, security and compliance. Interactions will by necessity be rules-based, with orchestrators able to enforce their will over others.

**Loose orchestration** refers to an environment in which no individual participant has significant influence across the ecosystem. There is often an absence of strong regulation with limited ability for any particular participant to enforce its will over others.

**For example**, the Internet in regimes that have freedom of speech laws. While some content and behaviour is specifically outlawed on criminal grounds in the most part, individuals and organizations are free to express themselves and behave any way they want.

Based on this premise that Ecosystems are not all alike and as they differ in specific fundamental ways there will be a number of approaches necessary to depict appropriate strategies to deal with these differences.

## Ecosystem Archetypes

		Orchestration	
		Loose	Tight
Complexity	High	<b>Hornet's Nest</b> Where high complexity and loose orchestration promotes fragmented competition	<b>Lion's Pride</b> Where high complexity and tight orchestration motivate a winner-take-all mentality
	Low	<b>Shark Tank</b> Where low complexity and loose orchestration creates a turbulent environment	<b>Wolf Pack</b> Low complexity and tight orchestration promotes collaboration

**These are referred to as the Shark Tank, the Hornet's Nest, the Wolf Pack and the Lion's Pride:**

**Shark Tank** – low orchestration and low complexity. Each participant will fend for themselves, identifying opportunities, aligning capabilities and making connections.

**An example** of Shark Tank is the retail ecosystem of the future where new technologies will make entry costs into retail ever lower and competition will become even more intense.

Consumers will have low switching costs, changing between products at will, while the potential competitive threat will increase as new entrants or existing players watch on ready to take advantage of opportunities. Search costs will become ever lower, with multiple organisations seeking to attract and connect with consumers.

**Lion's Pride** – threats of new entrants are low due to the relative complexity of the activities in which participants are engaged. In the Lion's Pride orchestration tends to be formal. The orchestrator will enable and monitor activities within the ecosystem and remunerate individuals or organisations for their participation.

**An example** of Lions Pride will be the future healthcare industry where an orchestrator will facilitate and manage the interaction between patients, providers and physicians into a fully integrated health, wellness and medical experience.

**Hornet's Nest** – complexity is high, but orchestration is low. Ecosystems of this type tend to be simpler, with most of the value being transferred directly by means of payment for specific activities.

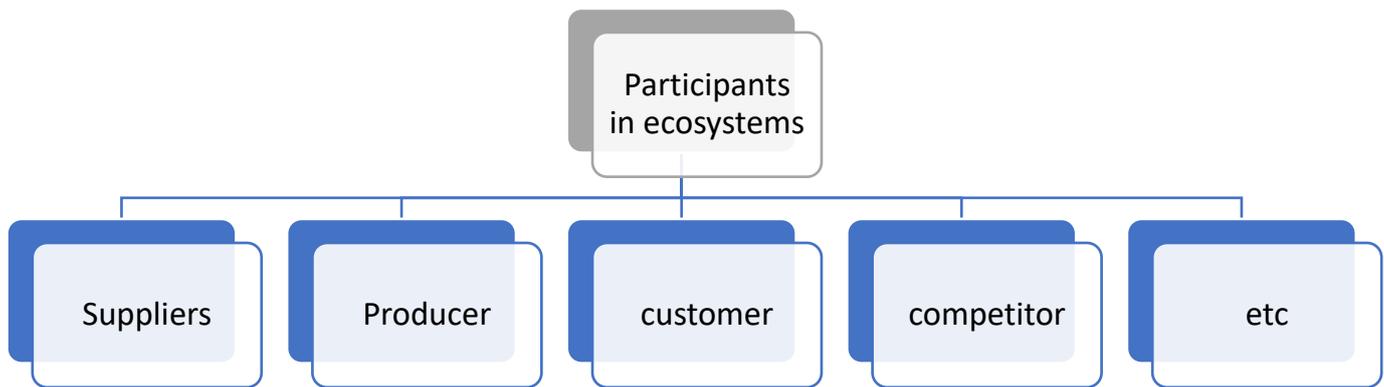
**An example** will be the future of Media and Entertainment business where will likely become the Hornet's Nest ecosystem where consumers will likely be unwilling to be tied to a single system to view content. They will demand whatever content they want, on whatever platform or device they want, whenever they want it, anywhere in the world.

**Wolf Pack** – low complexity and high levels of orchestration. Barriers to entry are low, indicating that entry into the ecosystem is relatively easy.

Orchestration is however high, suggesting that while individual activities within the ecosystem are simple, the overall environment created is potentially highly sophisticated.

**An example** of Wolf Pack maybe the future Energy and Utilities industry. In the future, every home, building, facility or appliance may be both a consumer and producer of energy.

The presence of a strong orchestrator will ensure that energy flows are measured, reserve energy is stored and networks remain in good working order.



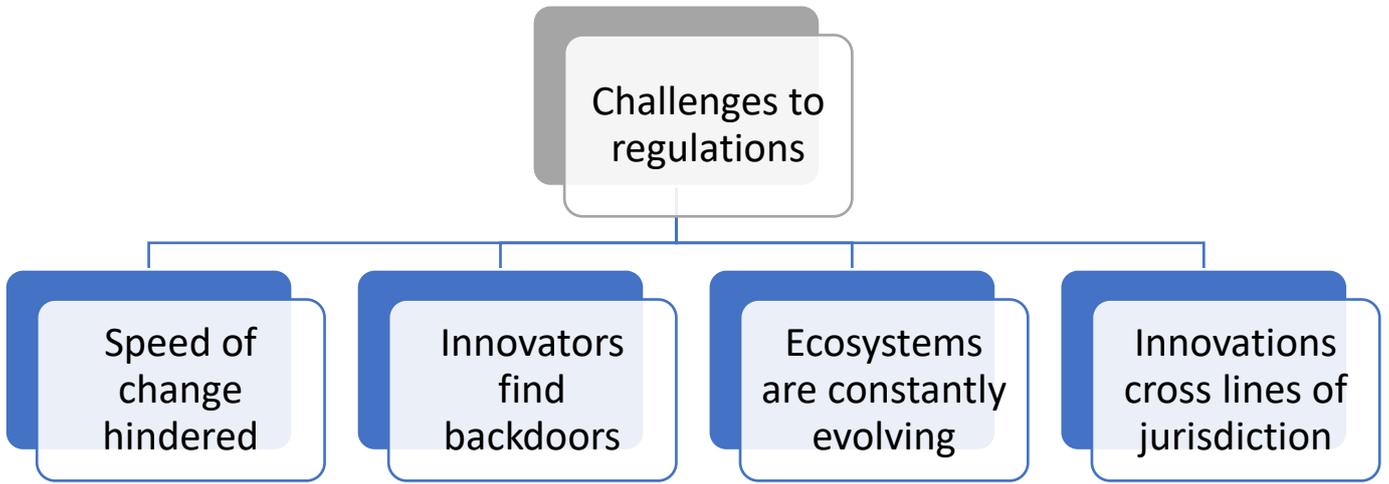
To manage the roles of the participants, we have to ask ourselves 3 questions:

1. The precise role of the participant within the environment.
2. Each participant's reach through the environment.
3. The capability or key value proposition.

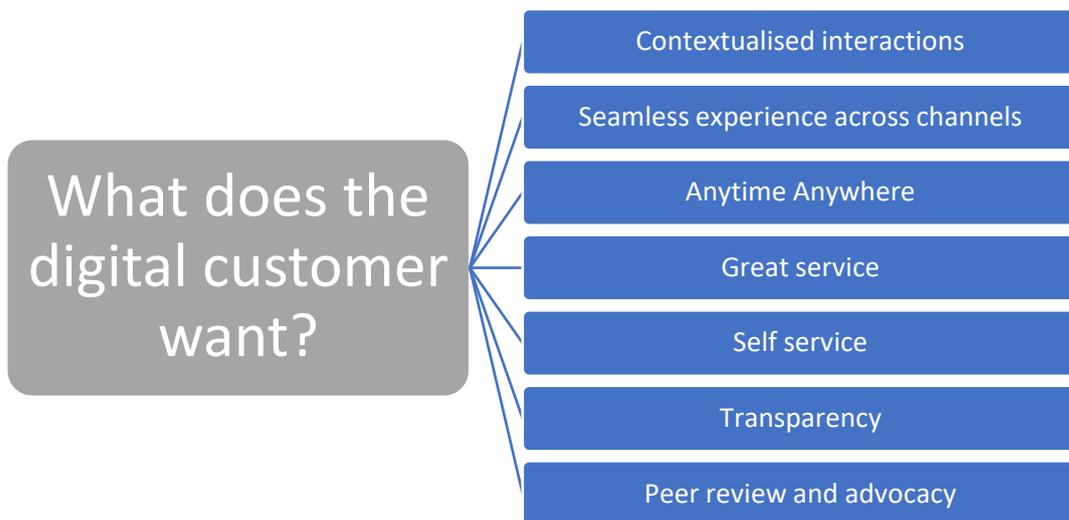
- ecosystems enable and encourage the participation of a diverse range of organisations, and often individuals, who together can create, scale, and serve markets beyond the capabilities of any single organisation.
- participants interact and co-create in increasingly sophisticated ways that would historically have been hard to formally coordinate in a “top-down” manner, by deploying a proliferation of technologies, tools of connectivity and collaboration. There is dynamism and substantial potential for increasingly productive ecosystem development in the years ahead.
- participants including customers—are bonded by some combination of shared interests, purpose, and values which incentivises them to collectively nurture, sustain, and protect the ecosystem as a shared common ground. Everyone contributes, everyone benefits enhancing the longevity and durability of ecosystems.

## REGULATING ECOSYSTEMS

- Regulation is always contentious to some degree but in relatively slow-moving industries the historical intent and enforcement of the rules can be understood well enough by all involved.
- Constant, high-impact innovation is a prominent new feature in businesses that used to advance only incrementally.



**DIGITAL MARKETING ECOSYSTEM**





## How to keep ahead of customer expectations

### Design thinking

instead of designing a single product or service that can be marketed to many customers, there should be a shift in mind-set to designing many experiences for one customer.

### Experiential pilots

this refers to the need to monitor how customers behave and to gain an appreciation of their reaction to new experiences.

### Prototyping

Making prototypes which are not 100% complete to get customer feedback

### Brand atomisation

organisations will need to design their offerings so that they can be more widely distributed and be part of the platform that is offered by other providers