

BREAKTHROUGH COMPETITIVE ADVANTAGE: DEPLOYING THE BUSINESS ECOSYSTEM FRAMEWORK

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By Alan Love

OVERVIEW

In today's competitive environment, business executives are often faced with more competitors, fewer customers, and fewer resources with which to create sustainable competitive advantage. From adversity comes innovation, though, and we are now seeing savvy leaders look beyond their own organizations to form cooperative relationships with allies, suppliers and even customers. This connectedness is driven by a recognition that all partners in the business "ecosystem" depend upon each other and that – ultimately – working together to create superior value for end customers is the source of mutual sustainability and growth.

WHAT IS A "BUSINESS ECOSYSTEM?"

A business ecosystem is a network of firms with a common customer focus, system vision, and enabling technologies. Like a biological ecosystem, the business ecosystem is comprised of hub firms and niche firms that are mutually dependent on one another for sustainable health. In the best examples, ecosystems include the ultimate consuming customer as a primary voice in decisions targeting increased market share and more robust margins.

Key ecosystem principles.

An ecosystem is – by definition – a collaborative effort to creating competitive advantage and value, first for end customers in the value chain and then for the allied firms within the ecosystem. Because value chain partners tend towards adversarial buyer/seller relationships, such collaboration can be strategically appealing and difficult to achieve without an agreed upon framework that explicitly aligns behaviors within and across ecosystem firms.

Developing and managing such a framework requires leaders who:

- Recognize that today's complex challenges may require solutions and resources outside the boundaries of the firm; and
- Are capable of mastering "the art of managing assets they do not own." (Marco Iansiti, [The Keystone Advantage](#))

The elephant in the room, of course, is: which firms will be asked to make decisions that support the overall ecosystem but sub-optimize their own short-term margins, and why would they make such a decision? In healthy ecosystems, the answer is twofold:

- *Long-term growth.* A dynamic ecosystem differs from a static value chain in that the firms are not merely negotiating their share of a fixed profit pie but collaborating to grow market share and overall profit for all. Any short term sacrifices by ecosystem partners must be seen within the context of a longer term vision for growth – or they will not be possible to achieve.
- *Short-term survival.* At the end of the day, strategy and management toolboxes include both carrots and sticks. Ecosystem partners who cannot buy into the collaborative vision and plan will likely find themselves on the outside of a value/supply-chain that is harder than ever to penetrate.

Making it work.

An ecosystem can appear to be a complex solution to increasingly complex markets. In truth, though, it simply requires applying well-developed leadership principles and skillsets outside the firm as well as inside of it. Key steps to making it work include:

Identify the ecosystem. Who are the critical participants? What role does each one play? What market value is

created, individually and as a whole? Who is/are the leader firm(s) – those closest to the end consumer and/or able to exert the most influence across the ecosystem? How do we include the end consumer in the ecosystem to ensure decisions with the greatest impact on market share and profitability?

“What innovative idea could I bring to my customers if I could orchestrate a wider community of players to endorse it that would be profoundly more effective than what I [can offer alone]?”

James F. Moore
The Death of Competition

Create a shared vision for growth. What opportunities for overall growth are possible due to collaboration? Where is the greatest leverage in the value chain to create unique customer value? What are the short-, medium- and long-term strategic priorities for increasing value?

Establish quality and equity commitments. What pricing and margin agreements are possible and necessary across the ecosystem? Are immediate changes necessary, or is the focus on reaching target levels by target dates? What commitments are necessary regarding current or improved levels of quality and timeliness?

Build the plan. What are the key roles, responsibilities, accountabilities? Who are the most appropriate firms – and individuals – to lead collaborative initiatives? What targets, timeframes, strategies and plans are necessary and mutually acceptable?

Lead and manage. What incremental management infrastructure is required to oversee collaborative achievement of shared performance targets? People? Metrics? Communications? Incentives?

Note: Past constraints such as geography and collaborative communications tools are rapidly falling away. Add inexpensive conference calling, video conferencing, collaborative document editing and ubiquitous mobile access to common document formats, Internet-enabled shared servers and high-speed email and the framework for real-time collaboration is virtually in place ... at a cost that is insignificant to the value the ecosystem model will add.

Reaping the benefits.

In the end, there are three primary benefits to firms that engage in a business ecosystem model:

System-wide margin improvement. Within a framework that guarantees equity for all participants, historical margin adversaries gain the freedom of transparency and collaboration to identify efficiencies that would otherwise be impossible to see or achieve.

Sustainable market share gains. With a commitment to innovation across the Whole Offering Model (see below), the potential for repeatedly creating a superior customer value proposition – based upon design and/or cost – far exceeds the options for competitors with a more narrow approach to the value chain.

Long-term profit growth. The model is clear: superior value drives customer loyalty, and customer loyalty is the most significant predictive factor in long-term growth and profitability.

IN CLOSING

To support the development of healthy business ecosystems, Conequity has developed the “Co-Destiny Conference” – a facilitated environment that brings together ecosystem participants for system-wide strategic planning. Combining the capabilities of multiple partners enables the development of innovations unimaginable apart from a cooperative effort. Competitive advantage via continuous improvement is a path that is easily replicated by competitors who are willing to spend the time and money. Continuous innovation, though, provides a more defensible advantage – especially when it is accelerated by the integration of capabilities across firm boundaries. Bottom line, the ecosystem framework provides a mechanism for developing, delivering and sustaining break-through competitive advantage.



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