How organizations can create value through ecosystem integration

ISAAC SARPONG: Isaac is the Partner in charge of Tax Services. He has over 26 years' experience in the provision of multi-faceted advice to both local and international clients in taxation, accountancy, audit & assurance, and corporate law, among others. Isaac is a Chartered Accountant, a Chartered Tax Practitioner and a Lawyer.

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As ecosystem business models become more common, platforms for successful integration can make stronger value propositions possible earlier.

In brief

- Ecosystems bring multiple companies' brands together to strengthen a united value proposition.
- Some organizations are better served working with an intermediary platform to manage their ecosystem participation.
- The right cloud-based platform facilitates ecosystem integration, providing businesses with the technology they need without costly internal development.

Ecosystem business models are becoming ubiquitous as companies seek to optimize the capital they deploy to create new forms of value at an ever-higher pace. An ecosystem business model is a commercial arrangement among two or more companies for the purpose of collectively creating value propositions that are greater than each can create individually.

At EY, we have identified seven basic types of ecosystem business models. I'll cover these seven models in another piece, but all the models contain participants, and every model contains at least one orchestrator.

What an ecosystem isn't

Ecosystem business models are not "supply chains." In a supply chain, tiers of suppliers are feeding into an ultimate point of value creation, but the suppliers themselves are not part of the brand promise nor are they material to the value created, though top suppliers can certainly be critical. In an ecosystem business model, the brand of each participant is present in the perceived value to the customer.

Ecosystem orchestration isn't easy

When we look at the market, we see companies in all segments experimenting with ecosystem business models and, in many cases, trying to orchestrate their own ecosystems to create value. Often, the ecosystems they try to orchestrate are the x-techs and other early stage would-be disruptors. The theory is sound. The established companies get the use of disruptive capabilities that were funded by third party capital. The x-techs/disruptors get sources of revenue and some brand permission to increase their likelihood of survival and relevance. But, as is often the case, theory is hard to turn into execution.

It's not easy to orchestrate an ecosystem business model. Many try to treat participants as suppliers rather than business relationships, a strategy particularly damaging when considering the x-tech/disruptor cohort was set up to disrupt business models rather than supply them. An ecosystem relationship is not a supplier relationship, so the function that manages participation in and orchestration of the ecosystem must operate separately in a very different kind of model. The ecosystem management function must address the needs of relationship management, governance, multi-party go-to-market coordination, commercials and commercial compliance, performance measurement and potentially many other needs depending on the type of model.

Though ultimately companies will need to become highly proficient at orchestrating ecosystem business models, there are some types of models, particularly when working with the x-techs and disruptors, where they are better served working through an intermediary to orchestrate on their behalf. EY Nexus, a cloud-native platform, positions an intermediary company (orchestrator) to connect large incumbents and smaller disruptors, while fronting the operational risk for the incumbents who are eager to tap into the value of startups. We set out to prove the model in an industry that was itself at an inflection point – insurance.

From system integration (SI) to ecosystem integration (EI)

Platforms like EY Nexus demonstrate the advantages of ecosystem integration, which can be viewed as the next evolution of system integration. It's a necessary shift, given the sprawl and complexity of today's value chains and the pressure to transform. Traditional SI approaches don't enable the quick, bold and holistic change many companies are looking for.

With platforms for ecosystem integration, firms can get the tech they need, without undertaking time consuming and capitally intensive software development projects. Plus, they can make changes to back-end systems without disrupting front-end interfaces or customer experiences. All this is possible because ecosystem platforms are designed to simplify a great deal of technical complexity, such as establishing application programming interfaces and managing security protocols.

Working with ecosystem integrators is an order of magnitude simpler and faster for companies than trying to develop ecosystems on their own. The cost and complexity of setting up an ecosystem management function I mentioned above, plus scanning hundreds of prospective capability providers, building an end-to-end service catalogue informed by a mature value chain model, managing brand and reputation risk, managing the operation risk and managing evolving security and compliance regimes is a significant hurdle that many companies will struggle to overcome.

Ecosystem integration offers a shorter path to optimize the entire value chain, rather than making incremental or piecemeal improvements. More predictable and flexible cost structures, based on pay-per-use consumption models, are yet another benefit.

At EY, we have seen first-hand how ecosystem relationships provide breakthrough value to a wide range of companies, including our own firm. In discussions with C-level professionals and business leaders worldwide, we have seen clear and broad consensus that ecosystems must be a core component of business strategy. Beyond these client experiences, our market research tells us that more companies are leaning into ecosystems and that they are generating tangible value from their ecosystem relationships.

Companies across sectors, no matter their size or current market position, recognize that ecosystems are essential to success. Today's question is how to successfully incorporate ecosystem relationships across business strategies. Looking ahead, we believe strong integration will be a hallmark of the most dominant ecosystems, and the future looks bright for those willing to take the first steps toward a working world shaped by collaboration.

Summary

Organizations across industries are entering into ecosystem business models to create more value and minimize time consuming, capital-intensive internal processes. As many are still in the early stages of managing their own ecosystem relationships, intermediaries can streamline the process by managing risk and optimizing the value chain for successful integration.■

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Find out more:

Address: 60 Rangoon Lane, Cantonments City, Accra.
P. O. Box KA16009, Airport, Accra, Ghana.
Telephone: +233 302 772001/772091
Email: info@gh.ey.com,
Website: ey.com