Seven business models for creating ecosystem value

(PART 1)

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We identify seven distinct ecosystem business models that companies are using to drive growth and create value for common customers.

In brief

- Ecosystem business models are becoming ubiquitous as companies seek to optimize capital and create new forms of value.
- EY has identified seven types of ecosystem business model, each of which has a set of distinguishing attributes and characteristics.
- Identifying the correct model to participate in or orchestrate is the first step to incorporating ecosystem into an organization's strategy and operations.

Previously considered mainly within the context of large technology platform companies, ecosystem business models are now being explored by organizations across industries to create more value and minimize capital-intensive internal processes. As we enter this "age of business ecosystems," the companies that utilize business ecosystems models will be better positioned to drive innovation and capital efficiency to create customer value.

We have explored the evolution of business ecosystem in previous articles, defining what business ecosystem means, why it matters and how organizations can create value through ecosystem integration. As more organizations explore and begin their journey towards business ecosystem value creation, it is essential that they are able to understand and identify the correct models to participate in or orchestrate themselves.

Discovering the seven ecosystem business model types

Through our client interactions and research, we've observed, identified and utilized seven distinct ecosystem business models, each with distinct go-to-market, risk sharing and commercial characteristics. These models are explored below.

The symbiotic ecosystem business model

We refer to the ecosystem business model employed by most technology platform companies as the "symbiotic" model. We call this model symbiotic because the technology platform company is dominant as the orchestrator, all of the value creation is shaped around their core platform(s) and the majority of the ecosystem participant go-to-market motions tend to align to the technology platform company's primary motions.

Let's take a company like SAP, a very successful provider of enterprise software platforms. Their annual revenues exceed $30b, but they have orchestrated a mature ecosystem that generates $150b for the participants. Microsoft, which is about five time the size of SAP, orchestrates an ecosystem that probably generates more than $1t in revenue for its participants. We know that technology platform companies benefit from orchestrating a large ecosystem in 3 primary ways:

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- Platform enhancement through the availability of additional functions and capabilities (e.g. from ISVs and professional services firms) that would be too expensive to maintain in the core platform
- Expansion of surface area to market through the introduction of more "sellers" provided by the ecosystem participants
- Increased likelihood of successful platform deployment and business goal achievement – known as "customer success" in the industry

There are other examples of symbiotic models, but in today's world, almost all of them revolve around a "platform" in some form, with the sales motions of the platform company the dominant aligning force around which the ecosystem participants organize.

The marketplace ecosystem business model

This is the "original" ecosystem business model. Marketplaces go back thousands of years. The marketplace operator is the orchestrator and the coordinating brand, and the members pay the operator a fee to participate in the marketplace. All brands are present, and the common customers get a more convenient shopping experience as a result of the marketplace's aggregation of supply.

Amazon, Apple and Google are modern day examples of marketplace operators. Uber is an example of a marketplace operator who created a supply of vendors (e.g. people with cars, available time, and a desire to earn money) that wouldn't have the ability to be vendors if it weren't for the platform and the marketplace Uber created.

These are examples of the real power of platform and ecosystem in action.

The scaling ecosystem business model

Generally, the participants in a scaling ecosystem are all in the same business and technically could be considered competitors, but the benefits of working together to create scale and abiding by agreed upon rules of risk and reward sharing outweigh the competitive concerns. Typically, the members of a scaling ecosystem model will jointly orchestrate, often setting up a collectively funded entity to perform the orchestration functions.

These models also go back thousands of years and are often associated with multiple countries banding together to form a defensive alliance to act as a deterrent to external aggression (e.g. NATO after World War II). A business example would be the alliances the airlines have formed to create global scale, giving their customers the convenience of booking global travel through any of the members of the alliance and getting some measure of "status" recognition across the network.

The accretive ecosystem business model

This model is typically an arrangement between two, or just a few, entities, where all parties have a portion of an overall customer value proposition that combined is worth substantially more than the sum of its parts. In the accretive model, the members generally don't compete with each other. The example we most often see is companies that have developed some sort of distinct and valuable IP and/or substantial aggregation of valuable data as a result of their primary business activities. There is a realization that those assets present a monetization opportunity, but there is no appetite to invest internally to form a new business unit to create the platform and the channels to market. By selecting the right partner(s), these assets can quickly become revenue-generating without the deployment of significant capital.

The EY-P&G Alliance demonstrates the potential value of this model. P&G is on a decades-long continuous journey of purposeful improvements to its way of working, business processes and technology innovation. In a world where sustainability has become so important, running over one hundred manufacturing facilities at 85% OEE or better (vs. the less than 60% OEE many manufacturers achieve) shows the value P&G's IP could represent.

Via an accretive business model between P&G and EY, the IP was used to build software to help other companies begin their own transformation and innovation journeys to higher OEE, zero-touch manufacturing and hyper-efficient supply network operations. In this model, EY acts as the channel to market and P&G acts as the subject matter advisor. Both participants in this model realize ecosystem value to provide an enhanced proposition for clients that want to transform their manufacturing and supply chain operations. ■

(CONTINUED IN NEXT EDITION)

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