Management’s next frontier: Making the most of the ecosystem economy

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Engaging in digital ecosystems requires a new set of managerial skills and capabilities. How quickly companies develop them will determine if they succeed in the ecosystem economy.

Apple knows how. With its HealthKit open platform, it brings together participants from across the world of medicine—physicians, researchers, hospitals, patients, and developers of healthcare and fitness apps—to join forces in a digital ecosystem.¹ And Apple is not alone: leading ecosystem players such as Alibaba, Tencent, and Ping An are already shaping markets in China. For instance, 89 million customers use Ping An Good Doctor, a platform that connects doctors and patients for bookings, online diagnoses, and suggested treatments.²

¹ See Jürgen Meffert and Anand Swaminathan, Digital @ Scale: The playbook you need to transform your company, John Wiley & Sons, June 2017.
The emergence of ecosystems marks a shift in the landscape as unexpected alliances are forged, sector boundaries blur, and long-standing strengths count for less. It also marks a shift in how business leaders manage relationships within an ecosystem.

“Entangling alliances”

Relationships in an ecosystem take many forms. Some are transactional and informal, like those based on the application programming interfaces (APIs) that allow systems to talk to one another to execute simple tasks.

Other relationships are more formal and complex, with contracts and service-level agreements in place to cover governance, escalation paths, and so on. Some of these relationships may be with companies that in other respects are rivals. (See sidebar, “Coopetition: When competitors collaborate” for another example.)

These relationships are built on myriad structures, from joint ventures to mergers, exclusive and nonexclusive partnerships, and other arrangements. As businesses scramble to find the right combination of complementary partners and allies, many are running into a thicket of “entangling alliances”—interlocking relationships that create complex competitive dynamics and lock players into platforms, technologies, and systems from which it may be difficult to extricate themselves. Graphics chipmaker Nvidia, for example, is working with eight different automakers to build embeddable computers for self-driving cars.3

Companies have always forged partnerships and alliances, but because relationships in ecosystems are on such a large scale and are evolving so quickly, traditional management approaches are no longer fit for purpose. Successful companies are finding new ways to choose and manage partners and make deals.

Choosing partners

Any effective ecosystem strategy depends on understanding where the value is. That comes from calculating the value of your assets such as customer relationships and proprietary data, your existing capabilities, and where market opportunities are emerging.

Equipped with that baseline, you can evaluate collaboration opportunities with an eye to finding capabilities, markets, and technologies that complement and support your company’s strategic ambitions.

Any temptation to narrow your search to organizations in your sector or region should be resisted. A better approach is to systematically map ecosystem partners across industries,

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Coopetition: When competitors collaborate

Seeing rapid change in the US book market Michael Busch, CEO of the bookstore chain Thalia, decided to band together with his competitors Hugendubel, Weltbild, Bertelsmann. Having tried to market their own electronic readers without success, the booksellers in this emerging ecosystem needed access to technology, and so they brought Deutsche Telekom on board as their technology partner (see exhibit below).¹

Tolino—Alliance of German book retailers with 1,800 stores combined and Deutsche Telekom

¹ It’s important to note that Tolino’s success has not benefited all partners: Weltbild applied for insolvency and Bertelsmann closed its book clubs in late 2015. On the other hand, several new partners have joined, including Libri, with its 1,300 stores, and the alliance has also expanded into Belgium, Italy, the Netherlands, Austria, and Switzerland.
The partners knew their alliance had to move quickly, so they created a small core team and gave it extensive powers to make decisions and set rules for working together. The team decided that meetings would be announced 24 hours in advance, decisions had to be made within 30 minutes of the start time, and only CEOs plus one additional person per company would attend.

This new structure allowed the partners to develop the Tolino e-reader and a supporting mobile app and to invest in an advertising campaign across all digital channels. Launched in 2013, Tolino pulled level with Amazon’s Kindle by 2015, with a market share in excess of 40 percent.²

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identify key criteria (such as access to new customers or capabilities), and consider likely trade-offs (such as language and market potential). Banks and retailers can make good partners, for example, because they often target similar customer segments but don’t compete with each other for them.

We suggest companies follow a simple four-step process to assess potential partners:

1. Evaluate the market in which your potential partner operates and its level of competition. The most promising ecosystems involve market leaders with complementary skill sets and value propositions.

2. Consider the company’s business model. Is it fit for purpose and future-proof? What products and services does the company produce? How nimble, innovative, and customer-focused is it? Can it keep pace with you and the external environment?

3. Weigh the human factor. How strong is the company’s management team? How effective are its employees?

4. Look at the culture. How does your potential partner do business? How does its way of working fit with your own company’s culture?
Making deals

To be successful, an ecosystem must have a compelling value proposition that is attractive, open, and relevant to multiple businesses. Beyond that, however, forging multiple complex relationships across an ecosystem requires a substantial investment of energy and resources. Leading companies are putting in place industrial negotiating teams that are similar to central sales teams in B2B companies but include executives and managers from corporate development, management, legal, business development, and technology. Involving legal specialists in negotiating teams is particularly important, given the host of questions raised by working with third parties—questions about cybersecurity, intellectual property, data ownership, licensing, privacy, profit sharing, liability, regulatory compliance, and customer management. Companies are also likely to need people with unfamiliar technical skills, such as full-stack IT architects who can integrate multiple technologies across infrastructure, apps, and services.

The main responsibilities of the ecosystem negotiating team are to continuously review companies, reach out to prospective partners, and screen likely candidates for compatibility. The team should put in place a pipeline to track progress and hold frequent reviews at specific milestones to determine whether and how to pursue promising options and when to drop unsuccessful efforts. The team also decides on how new relationships should be structured—as joint ventures, mergers, or partnerships—depending on competitive pressures and market opportunities. Specific leaders will need to lead these ecosystem deal teams, such as the head-of-fintech position recently created at Asian bank DBS to lead fintech engagements locally and regionally.

New processes and capabilities are needed to enable these teams to work quickly. Procurement is often a prime culprit. One unfortunate fintech went out of business while waiting for a major bank to complete its 18-month-long procurement process. To streamline and accelerate the process, nimbler organizations are adopting new digital-procurement tools and solutions, such as workflow tools and supplier collaboration platforms.4 DueDil, a private-company information platform, has an API that provides company data enabling clients to automate many aspects of data sourcing, diligence checks, and credit decisions.

A company that is dealing with hundreds of partners has no time to customize agreements and operating processes so it’s important to standardize governance principles and support them with service-level agreements (SLAs), technology protocols, and simple rules. Establishing realistic (and not too onerous) requirements for software release cycles, for example, can simplify development management.

Given the role of APIs as the connective tissue in ecosystems, we’re seeing some businesses create API centers of excellence (CoE). These teams oversee API design and development across the organization and manage all the APIs in a company’s catalog to avoid duplication, enable reuse, and assist with developer access.

Managing partners

Many partnerships underperform because they don’t have the right management infrastructure in place. Without it, people can easily get distracted by issues in their day job, become overwhelmed, or pass the buck to IT. This state of affairs can be disastrous for an ecosystem.

To counter it, companies need to invest in building an ecosystem relationship-management (ERM) capability with dedicated staff. At its most basic level, this means answering emails promptly and fixing simple problems that partners have. More sophisticated functions include resolving more detailed issues or joint development of new products or services. Part customer service, part issue resolution, and part account management, the ERM capability is crucial to the smooth running of an ecosystem.

Another important function of ERM teams is to track performance in the ecosystems they participate in. That requires establishing common standards and metrics. Common KPIs and metrics that are agreed to and shared by ecosystem partners can help track performance and assess impact, such as traffic or revenue generated, compliance with budgets, and arrival at milestones. Companies can guard against cybersecurity breaches by setting stringent protocols for encryption and data security for themselves and their partners. Fraud is another common problem, and one best tackled through fraud-identification systems that use algorithms and machine learning to analyze behavior (such as speed of response or volume of correspondence) and predict when an issue may arise.

Developers are among the most important stakeholders in an ecosystem, so creating the right conditions for them is crucial. Using open-source software, for example, makes it easier for developers to plug into the ecosystem. Developing clear and user-friendly onboarding processes is also helpful and should include well-organized documentation and software-development kits as well as streamlined reviews and approvals. The marketplace launched in 2016 by BBVA Compass, a Spanish bank with a growing global presence, makes it simple for developers to build apps that interface with its back-end systems; BBVA channels the energy and creativity of fintech start-ups while retaining its leadership position within the ecosystem.5

The best companies go even further and invest in support channels for developers, appointing a relationship manager to provide assistance as needed, from responding to questions to supporting an entire collaboration. GE holds regular developer forums to help peers support one another. Other companies stage one-off events to provide education, introduce new features, and strengthen bonds. They also make developers feel valued by giving them early access to news and releases.

It’s important to bear in mind that the organization at the center of an ecosystem must be prepared to share the surplus. Greed could threaten the whole ecosystem.

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Building ecosystem capabilities

Effective ecosystem management calls for a wide range of capabilities. We’ve found two steps particularly critical in developing them:

Invest in tools to scale ecosystem support. Managing ecosystems requires a balance between standardization (to prevent a chaotic mess) and flexibility (to capture opportunities fast). Standardizing core processes such as pipeline management, negotiation templates, and software acceptance guidelines can help accelerate the development of a successful ecosystem. At the same time, putting in place tools to track performance in real time, establishing flexible agreement structures, and investing in agile processes can give companies the flexibility they need to adapt to the changing dynamics of ecosystems.

Tracking KPIs and managing processes across what may be hundreds of partners in an ecosystem, however, is a mammoth task. The best companies are turning to automation for tracking and issue resolution, escalating to human intervention for the relatively few cases where complex judgments are needed.

Build an adaptive and collaborative culture. Embracing ecosystems requires a shift towards collaboration. Working with partners or vendors to develop new initiatives, establishing frequent communications on progress, and institutionalizing the use of collaborative tools such as Slack and video conferencing can help cement the new mind-set. One way to help foster collaboration is to put in place protocols and incentives that reward players not for their own performance, but for that of the whole ecosystem. For instance, in the marketing ecosystem of agencies and channels, some client organizations are experimenting with agency payments based not only on how effectively they deliver their services but also on their contribution to the overall success of a given initiative.6

Creating an incubator may be a useful option to foster a collaborative culture that the rest of the business might struggle to embrace. These ecosystem incubator teams can experiment with advanced techniques, such as using data analytics to uncover promising opportunities in real time, bringing in a range of partners to help shape new offerings, and executing quick-turnaround experiments to create bottom-line impact.7

Investing in open-IT architecture, APIs, and microservices will be key to developing a technical platform capable of supporting the level of flexibility and agility needed in ecosystems. At the same time, organization leaders must role-model desired behavior, such as treating ecosystem management as a top priority and spending time with external partners.

6 For more examples of best practices in marketing ecosystems, see Thomas Bauer, Jason Heller, Jeffrey Jacobs, and Rachael Schaffner, “How to get the most from your agency relationships in 2017,” February 2017, McKinsey.com.
Who will profit from tomorrow’s self-driving cars, real-time multichannel financial transactions, equipment for smart homes and workplaces, and health and fitness platforms? The answer is groups of businesses working together in ecosystems—and now is the time to work out how to build and manage the partnerships involved.

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