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Managing Ecosystems and Platforms
ASAP Netcast Webinar Quick Take

Executive Summary from an ASAP Netcast Webinar

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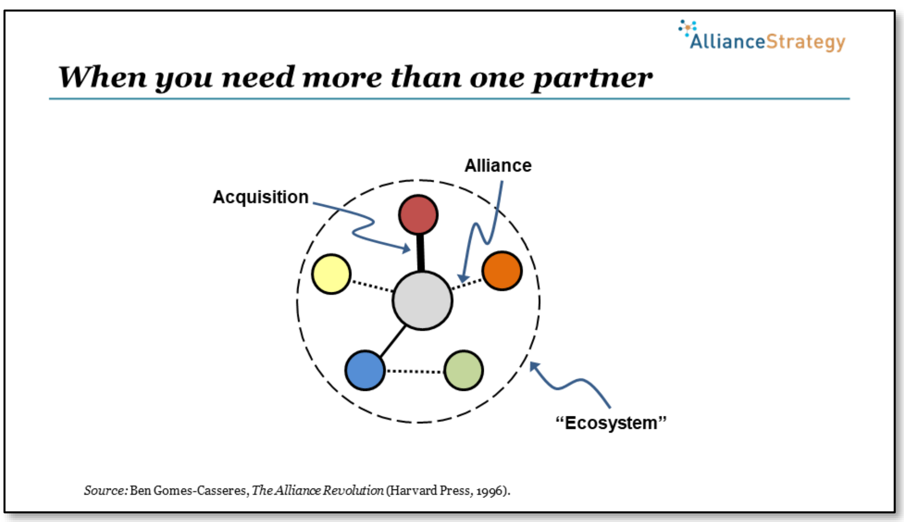
This webinar was based on my three decades of work on alliance strategy. In particular, it draws on my second LinkedIn Learning course, "Strategic Partnerships: Ecosystems and Platforms," which was published in 2019. I am a professor at Brandeis University's International Business School. My work appeared in three books, many Harvard Business Review pieces, and in another LinkedIn Learning course, on the fundamentals of strategic partnerships. My client work has included companies such as Bayer, General Electric, and Chevron. This summary was written with the editorial help of Hugh Rauscher.

Creating and Capturing Value

In the webinar, I focused on how you can combine capabilities and resources from different companies to create new value and often to innovate faster. Often, a multi-partner ecosystem is a way to do this. An "ecosystem" in my book (literally…) is a set of firms tied together by alliances, which can be organized tightly or loosely, like so:



Advanced alliance management means that you need to manage a whole ecosystem of alliances, not just one or two. The stakes are higher in getting multiple alliances to work well together. Success demands the usual good alliance strategy management, but on steroids.

We know that there is a spectrum of possible arrangements for collaboration between firms. They range from acquisitions to alliances and joint ventures, and when many partners are involved -- ecosystems and platforms. In all these models for managing collaboration, three laws matter for success. I explain these laws in my most recent book *Remix Strategy: The Three Laws of Business Combination:*

- *Identify the potential joint value:* It needs to be a "1 + 1 = 3" scenario.
- *Determine how the collaboration will be governed:* You have to get companies to work together to create value. Put another way, it should be "1 + 1 = 1."
- *How do you share the value created?* Finally, you need to split that value somehow, whether it is "1.4 + 1.6" or "1.5 + 1.5."

Successful firms have a process around addressing these fundamental laws, which will include goal setting, determining the right match, deal structuring, managing the relationship, and delivering results. This is no different in multi-party ecosystems, though it can be more challenging to steer your strategy in a large ecosystem. Your success depends on how you design and manage the ecosystem, or how you help others do that in an ecosystem where others lead.

From Pay-Phones to Smart-Phones

To see these models of collaboration at work, take the case of the smartphone industry – and its evolution over the years from roots in computing and telephony. How did we move from the scratchy pay-phones that I remember from my college days, to having a world of rich communication in our pockets, anytime?

Smartphones are a dramatically different way of doing communication from the old telephony. But we didn't jump to smartphones in one step—different products were created along the way, and each product had its own ecosystem.

In the early days of the industry, in the 1990s, alliances coalesced around certain leaders. You had an Apple group. It was not around the iPhone, which didn't exist yet, but around the Apple Newton. There was also an AT&T group and groups around other players. I studied these groupings of "personal digital assistants" in my 1996 book *The Alliance Revolution: The New Shape of Business Rivalry*.

This was an early form of ecosystem competition. Each of these groups competed with the other groups in order to establish a standard or value chain around their particular product. I myself moved from using a Motorola flip phone to the Palm Pilot to the BlackBerry and then to the iPhone. At each step, there developed a new ecosystem around each product.

Sometimes you can be too early to the market, and the lack of a supportive ecosystem can doom your innovation. General Magic was an early entrant in the personal digital assistant world and envisioned a far-advanced product that could communicate and had graphics. But it failed because it was too early – graphics chips were still too slow, the touch interface was poor, and…there was no World Wide Web yet! The visionary product they developed lacked a supportive ecosystem, and even though General Magic had many large partners, it could not create this support.

Standing on the Shoulders of Giants

Today the iPhone and Android phones dominate this sectors. Each is a "remix" of other technologies that already existed. These technologies were combined in unique ways, and a supportive ecosystem soon developed. This is a classic example of the process of innovation analyzed *Remix Strategy* – entrepreneurs creating value from recombining existing external resources.

For the iPhone, Steve Jobs and Apple pulled together different pieces from other existing products and created a new product. New innovation doesn't come from just a brand-new idea and a clean sheet. We are always standing on the shoulders of giants and recombining ideas from existing players into something better.

Building an ecosystem also requires the proper sequencing of partners – often you start with one important partner and others come later. With respect to the iPhone, Apple had a strong strategic partnership with AT&T from the beginning. It needed this important partner to be sure it would be available around the nation. After that they could get other partners. Today the smartphone world exists only because it has this extensive ecosystem of application vendors.

A similar dynamic applied to the microprocessor industry in the 1990s, when Sun Microsystems, MIPS, Hewlett-Packard, and IBM formed "competing constellations" around RISC (reduced instruction set computing). Similarly, the airline industry has formed constellations designed to ensure seamless service across regions, such as Star Alliance. These and other constellations are examined in my second book *Mastering Alliance Strategy: Design, Organization, and Management*.

Ecosystem Fundamentals

My research and work with companies suggests that to build a successful ecosystem, you need to address these questions:

- *What is the right partner mix?* How many and which players do you need in the group?
- *How do you organize the group?* Can it be a digital platform? Is it a supply chain? Can you orchestrate cooperation?
- *How do you grow the group?* A chicken or egg question—first attract partners or first create value? The problem is that the partners are needed to create value!
- *How will you capture value from the collective effort?* Be careful not to be one of those players that contributes but doesn't capture value. And also – don't squeeze the ecosystem so much to capture value that you kill it.

In an ecosystem, it pays to map things out—what is in ecosystem now and what might be in it in future? It's an exercise in figuring out what kind of partners you need. Once these fundamentals have been addressed, there is much to gain. The potential "network effects" of an ecosystem include *complementarity*, *scale*, and *feedback*. A straightforward example of complementarity is the bringing together of a software company and a hardware company to create a successful product.

The benefits of scale come when the value of the network to each member grows with the size and diversity of the ecosystem. It becomes more attractive to join when the ecosystem and network effects are larger. This can create a positive feedback loop – that is how companies such as Facebook, Twitter, Uber, and eBay grew. The more users and providers there were on one of these platforms, the more valuable it became for others to join the platform. And however you plan to create and share value, you must find a good way to organize the ecosystem, because they don't grow and shape themselves automatically.

Organizing an Ecosystem

In terms of how to organize an ecosystem, go back to fundamentals of alliance strategy. An alliance is somewhere between an arm's-length transaction and an acquisition or integration. So, for an ecosystem, there are three basic ways to organize the collection of players:

- *As a platform.* An example is PC and mobile technology, where the software needs to work with the hardware and applications.
- *Via direct orchestration* by a leading company that coordinates alliances among members. For example, an airline needs to create a seamless channel for its customers across regions.
- *As a supply chain* involving systematic integration of subcomponents, such as with the auto industry.

How you organize the collective, depends on your industry. You need to look at the moving parts to know how best to organize. More and more companies are now thinking about a digital platform as a necessary part of their strategy. Such a platform is basically a table along which people can do transactions.

The first issue with a digital platform is the number of sides to the table. For example, Facebook or Twitter are essentially one-sided, consumer to consume platforms, while eBay and Uber clearly have two sides -- a buyer and a seller. Moreover, advertisers often represent another side of the platform as sponsors look for ways to commercialize the value of the scale they have created.

Other important issues to think through include what kinds of transactions take place, and how do you take a cut? E-Bay and Apple's iTunes both take a cut on the transactions – and these transactions take place on the platform, not around it. Also, which side subsidizes which? LinkedIn, for example, started out by having employers subsidize the platform on behalf of job seekers.

Finally, who captures the value created? There may also be a tension between market share and profits. Take a look again at the battle between Android and iPhone. Android came into the market with an open system. It was easy for players to join. Worldwide, Android is certainly by far the most popular phone. But it is not that profitable as a business (Google does gain in other ways from Android). In Apple's case, it captured half the value of the industry, in part because its ecosystem was more exclusive. Openness attracts more players, but at the same time creates more competition within the group that makes it harder for the lead players to actually capture the value.

These case examples highlight a deeper theory about collaboration. To create value, you need to coordinate and make joint decisions with partners. This is not easy, nor business as usual for many companies. Yet, success in today's dynamic high-tech marketplace comes from those who can do this not once, but with a team of partners. That is what ecosystem strategy is about.

And now…how do you get started and step up your alliance process to meet the ecosystem challenge? A tip on how to do this is in the conclusion of my LinkedIn Learning course on Strategic Partnerships: Ecosystems and Platforms. Good luck!

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