The Positive Way

WAVESTONE

BUSINESS ECOSYSTEMS, LEVERS OF INNOVATION AND GROWTH FOR COMPANIES

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While the concept of business ecosystems is no longer new, in recent years, it has made its way onto the strategic agendas of company directors. It's an idea that once appeared rather theoretical—a *community of players all pursuing a common strategic vision*—yet today, it is rapidly coming of age as value chains become more complex and digitalized. To best meet their customers' needs and remain competitive, companies are increasingly throwing off their "corporate shackles" and pursuing new strategies of cooperation with a diversity of partners—including their own competitors.

How did ecosystem strategies become effective levers for business development? And what are the key success factors? In this publication, we aim to answer these two questions.

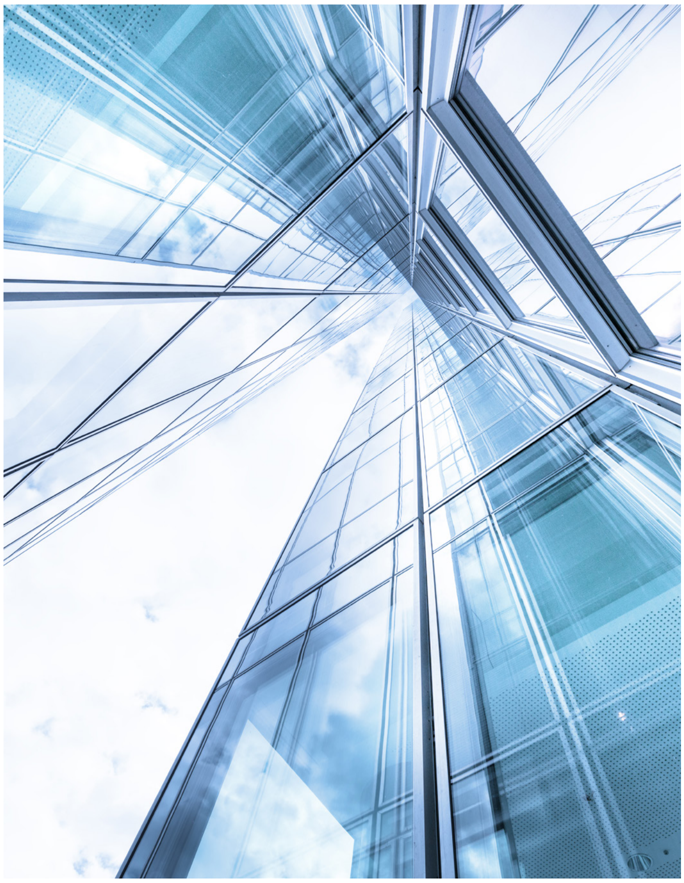
TRACING THE ORIGINS OF THE BUSINESS ECOSYSTEM CONCEPT

Collaboration among businesses isn't a new phenomenon. As early as 1920, British economist Alfred Marshall set out the dynamics and benefits of corporate concentration. More recently, Michael Porter (1998) popularized the concept of "*clusters*" which he described as the geographical concentration of interdependent companies—suppliers of goods and services in broadly similar fields—who deliver a final product in cooperation with universities and competitors. Clusters generate many positive externalities, like cost reductions and the fostering of innovation, and their success largely depends on the geographical proximity of the players. The concept of business ecosystems, which was introduced in the 1990s by James Moore in a Harvard Business Review article (Moore, 1993), challenged this geographic imperative. Indeed, **business networks get built beyond geographic zones, since companies can cooperate at the international level.**

Paradoxically, business-to-business cooperation has strengthened as market competition has intensified and value chains become more complex. These chains, in the past broadly linear and clearly laid out, have gradually become more intertwined, driven by a boom in services and, especially, the rise of the digital economy. In an effort to improve their value proposition to customers, companies must continually improve product and service offerings, and, as a result, have to adapt their production models and value chain positioning accordingly.

Openness and collaboration with other companies, regardless of their size (both startups and large players), industry, or competitor status (direct or indirect), is rapidly becoming a necessity. **Business ecosystems, then, personify the strategic response of some players to the growing complexity of business relationships conducted within a setting that involves increasingly globalized trade**—a context accentuated in recent years by the arrival of digital pure players who are disrupting *traditional* value chains either as intermediaries (via digital platforms) or by supplementing *conventional* product and service offerings.

Business leaders are now aware of the need to build, or at least be part of, an ecosystem. A recent study shows that 60% want to construct ecosystems to help shake up their industries, and 84% think that ecosystems are critical to their innovation strategies. Business ecosystems are now seen as a real source of competitive advantage—not just a management fad.



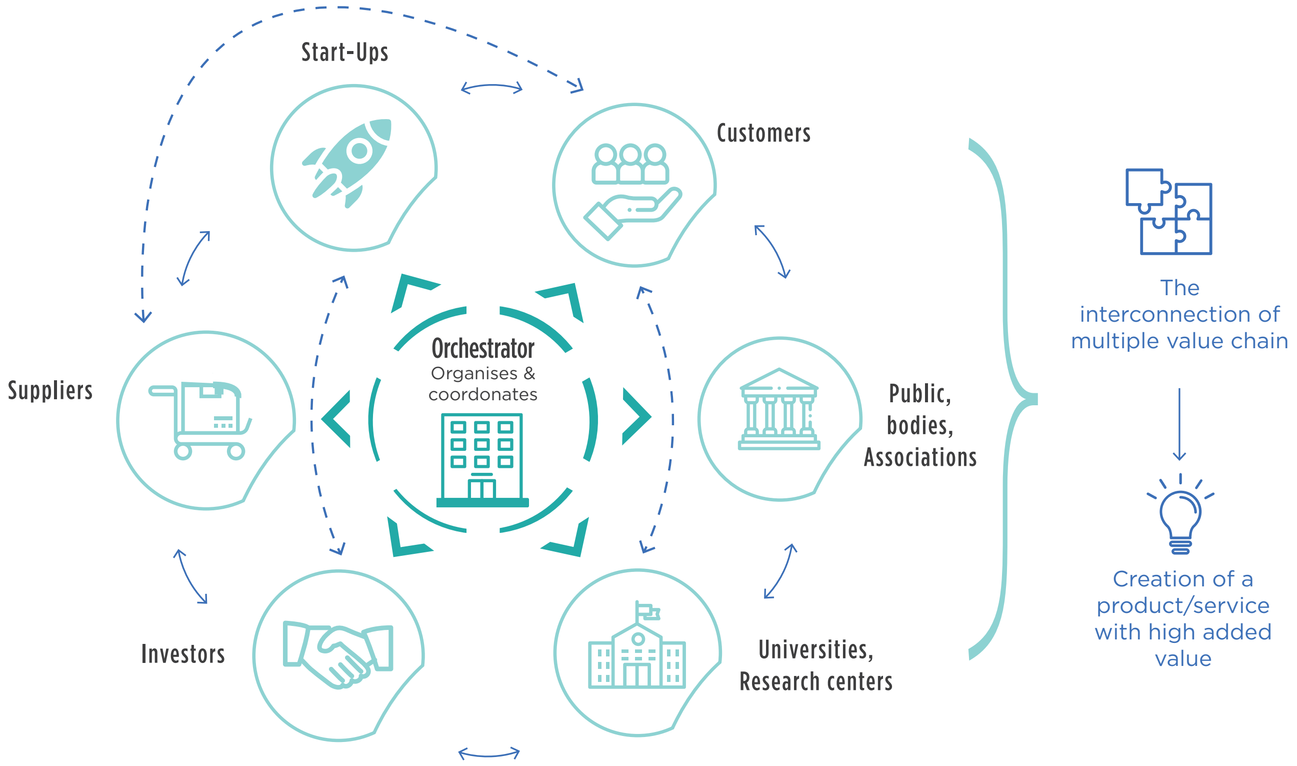
WHAT EXACTLY IS A BUSINESS ECOSYSTEM?

The concept of a business ecosystem is one of a community of players (companies, organizations, institutions, suppliers, customers, shareholders, etc.), who operate in different fields, yet pursue a common strategic vision. By gathering around a leader who builds a successful community, the ecosystem's players pool their resources and skills to innovate and develop new offerings that satisfy their customers.

In concrete terms, a business ecosystem comes about through cooperation between a diverse range of companies (of different legal structures, sectors, sizes, etc.) **whose aim is to create added value.** Among these companies, one assumes the role of orchestrator to ensure well-balanced collaboration. Cooperation between the different players happens through flexible strategic partnerships rather than traditional *joint ventures*. These take the form of *open innovation* platforms, the co-developments of PoCs (Proofs of Concept), and the sharing of infrastructures and resources (human and physical) for a given period of time.

The flexible nature of interacting in an ecosystem setting **multiplies the opportunities available for collaboration** between companies from different fields, **strengthens their ability to adapt** to developments in the market (such as evolving customer needs, new technologies, the emergence of new competitors, etc.), and **promotes the development of competitive advantage.**

THE STRUCTURE OF A BUSINESS ECOSYSTEM



However, setting up an ecosystem isn't without risk or complexity. One of the main difficulties faced by the players is their ability to coordinate themselves to deliver the expected synergies. This is challenging when companies have very different organizational structures and governance models, and it becomes even more difficult where players compete with each other in certain markets (a situation known as "coopetition"). In addition, extensive cooperation can carry risks of dependency—an undesirable situation, especially when the balance of power between players is very unequal. Therefore, **the role of the orchestrator is essential in ensuring balance within an ecosystem, both in terms of contributions made, and how the value created is shared between the different players.**

WHAT ARE THE KEY SUCCESS FACTORS FOR A BUSINESS ECOSYSTEM?

To build a high-value-added and sustain able ecosystem, several goodpractices need to be followed. First, before creating the ecosystem, each player should conduct an opportunity study to:

/ Define its strategic issues and objectives, and identify the resources and skills that it will capitalize on through partnerships;

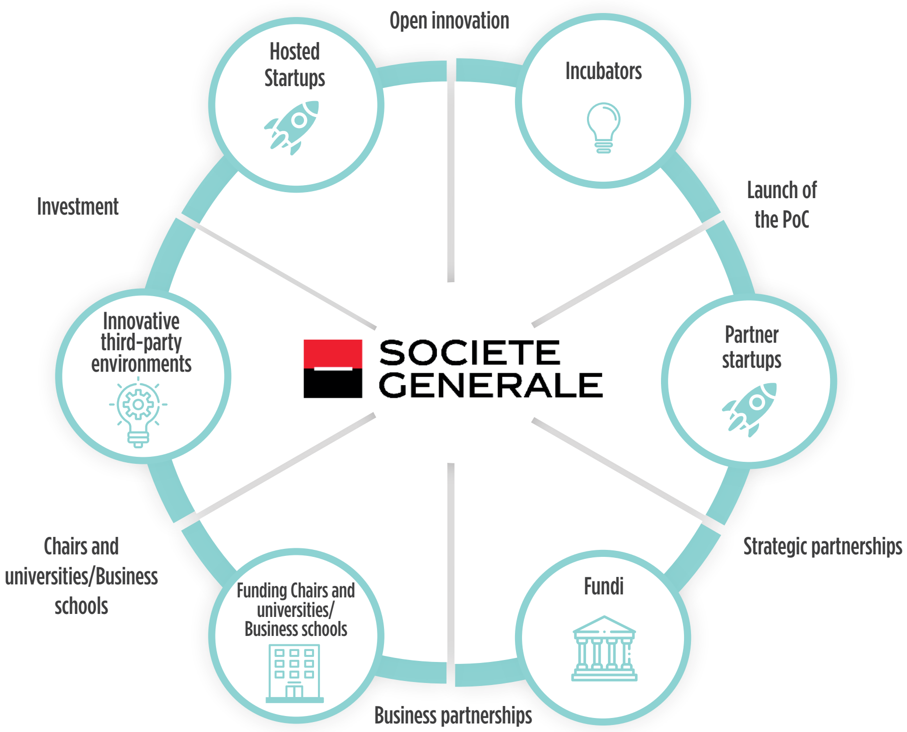
/ Identify the potential partners to cooperate with. Several conditions must be met here, such as synergies in resources and skills, common strategic issues, and a shared spirit of collaboration; it's essential to be clear about what each player is ready to offer to help build the ecosystem.

Leaders must also be willing to cede some control, an essential element in creating a successful ecosystem, which can't operate effectively if the rules and procedures governing it are too restrictive.

OTHER GOOD PRACTICES TO APPLY WHEN CONSTRUCTING AND MANAGING AN ECOSYSTEM:

KEY SUCCESS FACTORS	HOW TO GET IT RIGHT
Put in place a tailored governance model	Choose the "orchestrator" who will be responsible for organizing and managing the ecosystem. This leading firm will have responsibility for defining the strategy, identifying potential partners, determining roles and responsibilities, and coordinating the interactions between the different players.
Agree a common strategy and roadmap for the ecosystem	Align the players around a common vision, objectives, and monetization strategy—and create a roadmap that sets out how products and services will be developed. This common strategy must represent the interests of all participants and provide clarity on the rules for sharing the value created. Common performance indicators, a transparent system for allocating revenue or margins, and the building of a pool of resources, are all commonly used tools that ensure effective collaboration between partners and help them achieve their goals.
Establish agreements on how to operate agile and flexible partnerships	The ecosystem must be able to react quickly to developments in the market, as well as forge new partnerships—and dissolve existing ones.
Build cohesion and trust between partners	Foster co-construction and information sharing. Here, trust can be built by establishing protection mechanisms for intellectual property. This means putting in place contractual agreements about data sharing and contributions from intellectual property.
Define and monitor clear performance objectives covering revenue, profitability and service levels—for each partner and for the ecosystem as a whole	These indicators must be reviewed regularly in dedicated sessions that bring together all the players, so that they can quickly decide on any corrective actions needed.

THE BUSINESS ECOSYSTEM DEVELOPED BY SOCIETE GENERALE



> "In a world that is evolving very quickly, both technologically and relationally,Societe Generale is relying on the strength and innovative capacity of the many (both internal and external players) to reinvent the banking sector.
> Open innovation gives us the opportunity to open ourselves up to other worlds, to think out of the box, to learn from this ecosystem and capitalize on its agility and technological expertise."

Françoise Mercadal-Delasalles
Former Group Director of Resources and Innovation & Chief Executive Officer of Crédit du Nord

In recent years, Societe Generale has forged a network of contacts with French startups and increased investments in FinTech, particularly through its open innovation platform. The aim is simple: to improve the customer experience in both B2C and B2B. Contactless payment (Paylib), money management via chatbot, the opening of accounts online via facial biometrics, and iPad-based cash registers, are concrete examples delivered by this ecosystem. This collaboration isn't a one-way street either, because Societe Generale provides its partners with expertise and resources in regulation, investment, and the marketing and retailing of their products and services.

KEY FIGURES

More than: 500

/ More than 500 interactions with startups every year

/ 60 internal startups accelerated over a period of six months in 2018

60

More than: 300

/ More than 300 startups that have worked with Societe Generale have subsequently launched a successful PoC or have established a strategic/ commercial partnership

/ 8 partnerships with innovative third-party environments

8

SOURCES :

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PRO EN STRATÉGIE [“BE A STRATEGY PRO”] (ED. VUIBERT) BY BENJAMIN GAUTIER

Wavestone manager Benjamin Gautier also lectures in strategic management at several institutions, including Université Paris-Dauphine, ESSCA, and the PSB Paris School of Business. He is the author of the book Pro en Stratégie [“Be a Strategy Pro”] (Editions Vuibert, published in October 2018), a practical guide designed to help senior leaders and managers define and implement their organization’s strategy. The book includes:

/ 10 chapters covering the entire strategic process, from upstream thinking to downstream deployment;

/ 58 described and illustrated tools to adopt a structured and rigorous approach to dealing with any type of strategic question;

/ 68 cases for application and case studies, mostly inspired by the author’s own consulting projects;

/ Downloadable digital resources, academic commentaries, tips and tricks, and other insights into what’s new in the discipline.