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## Why businesses need to think more like the ecosystem they're in

Have you ever heard the phrase “it takes a village to raise a child”? Well, the same applies to businesses: it takes a village to raise success. Ecosystems have become increasingly important to business strategy over the past few decades. Companies have traditionally focused on building internal capabilities to compete in their market. But as the pace of technological and social change has accelerated, it has become increasingly difficult to keep up with new developments to maintain a competitive edge. Interdependency has now become the dominant market force.

That's where ecosystems come in. By forming or joining an ecosystem, companies can tap into the resources and capabilities of other companies and organisations working collectively in the group. Ecosystems, quite simply, magnify value creation opportunities, helping businesses to stay in business for longer and remain relevant in a fast-changing marketplace. With smart ecosystem coordination and focus, all members of an ecosystem can benefit. This takes orchestration. That's why ecosystem orchestrators are often in the best position to capture ecosystem value. That said, it is likely to still be worth joining an ecosystem if the resources to form a whole ecosystem by yourself feel like they are beyond your reach. Joining an ecosystem means that you need to contribute. There isn't much room in an ecosystem for lurkers.

But what exactly is an ecosystem, when it's not a collection of living organisms crowded onto our heating planet? In business terms, an ecosystem is not just a group of companies that happen to be in the same industry. Rather, it's a network of companies, organisations, government bodies and individuals that interact with each other to create value for the entire group. Often

this interaction takes place before legal contracts or supply terms are even set out. Ecosystems challenge the trust-free basis of transactional business exchanges, and invite vulnerability and openness. So you'll notice that in an ecosystem, interactions will take many different forms: from collaboration, to innovation, to knowledge sharing. That means that sometimes, ecosystems may even contain your customers, future customers, or competitors. But remember to never fall foul of collusion laws in your market if competitors are involved.

One key characteristic of ecosystems is that they frequently create externality effects. An externality is a positive or negative effect that an ecosystem's player's actions have on other participants in the ecosystem. For example, if one company in an ecosystem invests in developing a new technology, other companies in the group may benefit from the increased knowledge and expertise that results. If one person joins the ecosystem to create ecosystem content, it may be exactly what's needed to draw others in to use that content for their own creation strategy. Business ecosystems are inherently creative, innovative, building and evolving systems of human interaction.

This is in contrast to a traditional market, where interactions between companies are typically much more likely to be zero-sum. That is, one company's gain is another company's loss. In an ecosystem, on the other hand, companies can create value for the entire group by working together and sharing knowledge and resources.

It's important to note that an ecosystem is not the same as a supply chain or the value chain that typically sits at the base of a traditional business strategy. While a supply chain involves a linear flow of goods or services from one company to another, and a value chain describes who has power and influence for successful value capture, an ecosystem is a more complex network of interactions. "Vertical integration" is a value chain control strategy, whereas an ecosystem strategy is more likely to demand that you trade control for options. The option to capture shared value.

Another important distinction is that ecosystems are not just digital platforms. While digital platforms like Amazon or Uber are examples of ecosystems that are two-sided or multi-sided marketplaces, ecosystems are gaining traction in many more traditional industries without specific platform plays. For example, the automotive industry has long been characterised by a complex ecosystem of suppliers, manufacturers, and distributors. Now, the automotive industry is blurring the boundaries between software and hardware, requiring innovation in more environmental energy sources. The automotive ecosystem is frantically building ecosystems in readiness for autonomous vehicles and to prepare EV transport infrastructure.

## **So why are ecosystems becoming more important to business strategy?**

One key reason is that they offer an effective adaptability strategy. In a fast-changing market, companies that are part of an ecosystem can adapt more quickly to new developments by tapping into the knowledge and resources of other companies in the group. This can help them stay ahead of the competition and remain relevant in a constantly evolving market. Ecosystems create markets, categories and new winners. Those not in the ecosystem when it becomes a dominant force, miss out.

Not-for-profits and social entrepreneurs have long appreciated the value of ecosystem collaboration. Perhaps this is because they are not as clouded in their definition of value creation as those enterprises driven purely by a profit motive. Yet taking a stake in an ecosystem is just as valuable to a shareholder-driven company and will be a key determinant of strategic success.

Even small businesses can benefit from being part of an ecosystem. If not as an orchestrator, then as a player, contributing value to other players in the ecosystem. By working together, companies in an ecosystem can create more value for the entire group than they could on their own. This can substantially lower the cost of doing or staying in business.

It's becoming evident that ecosystems can help companies stay in business for longer. By being part of a larger group with a strong shared intent and collaboration motive, companies can benefit from the collective expertise and knowledge of other companies in the ecosystem. This can help them stay ahead of the competition and remain relevant in a rapidly changing market, or pick up signals of change sooner.

In a world that is constantly changing, businesses must adapt or face the consequences. Ecosystem strategy offers a new approach to value creation, one that takes advantage of the interdependent relationships between businesses, customers, and other stakeholders. By adopting ecosystem thinking, businesses can create more resilient and adaptive systems that have the potential to deliver greater long-term value. And as we've seen, the benefits of ecosystem strategy are not just limited to big tech companies. Businesses of all sizes can harness the power of ecosystems to magnify value creation opportunities, stay in business for longer, and adapt to changing market conditions

So if you're running a small business, don't overlook the importance of ecosystems in your strategy. Embrace the potential of ecosystem thinking. You may just find that it's the key to unlocking new opportunities and achieving sustainable success in the years to come.