

CORNER STONE OF FUTURE GROWTH

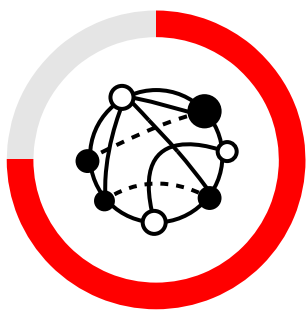
ECOSYSTEMS



WHILE EXECUTIVES BELIEVE ECOSYSTEMS ARE IMPORTANT, MOST COMPANIES HAVE YET TO SEIZE THEIR FULL POTENTIAL.

Every industry is susceptible to disruption by ecosystem plays—and those who aren't ready are at risk for value degradation. Accenture's Disruptability Index, which shows that different industry segments within the same sector may experience varying periods of disruption, found that more than 40 percent of companies across 20 industries are highly susceptible to future disruption. This accounts for a combined enterprise value of US\$26 trillion.¹

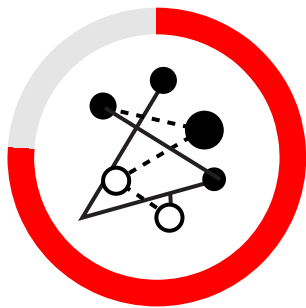
Accenture Strategy surveyed 1,252 business leaders from diverse industries across the world to better understand the degree to which companies are capturing ecosystem opportunities. We found companies are pursuing new business models to navigate, or even lead, disruption. When asked what they would typically do to disrupt their industry, 60 percent of executives said, "build ecosystems." Nearly half have already built or are currently building an ecosystem to respond to disruption.²



60%

of executives surveyed would build ecosystems to disrupt their industry

Why? Ecosystems are proving to be winning plays. Enabled by digital platforms—ecosystems could unlock \$100 trillion of value for business and wider society over the next 10 years.³



76%

of business leaders surveyed agree current business models will be unrecognizable in the next 5 years—ecosystems will be the main change agent

It's happening now. Retailers use ecosystem partners to go direct to consumers. Rather than a customer assembling new furniture on their own, TaskRabbit will do so inside their home. Healthcare providers partner with rideshare services to get patients to appointments. Ecosystem powerhouse Alibaba connects customers, merchants and companies, making it easy to do business anywhere in the world.

Clearly ecosystems are causing tectonic shifts across industries. However, our research found that one in four executives interested in ecosystems are not actively pursuing them.

What is an ecosystem?

An ecosystem is the network of cross-industry players who work together to define, build and execute market-creating customer and consumer solutions. An ecosystem is defined by the depth and breadth of potential collaboration among a set of players: each can deliver a piece of the consumer solution, or contribute a necessary capability.

The power of the ecosystem is that no single player need own or operate all components of the solution, and that the value the ecosystem generates is larger than the combined value each of the players could contribute individually.

GREAT STAKES LIMITED PROGRESS

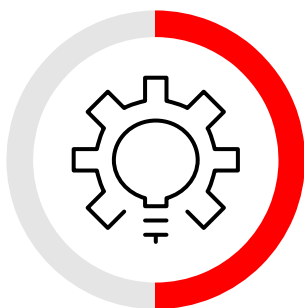
Ecosystems are a major source of industry disruption. What are companies waiting for?

Companies are forming ecosystems to make major innovation plays—delivering new products and services that grow the customer base and drive expansion into new markets. For instance, Adidas and Siemens are working together to build an intelligent manufacturing plant or “speedfactory” that can create customized shoes faster—and at a lower cost—than traditional methods.⁴

Under Armour has always made big bets with big partners. One of our mantras is finding partners who augment our capabilities and can help us grow and scale. That is how we think about our partners in every part of our business, whether it is in the digital landscape, the physical space, or the technology components.⁵

Paul Fipps, Under Armour Chief Technology Officer

Almost half of executives we surveyed said they are actively seeking ecosystems and new business models.

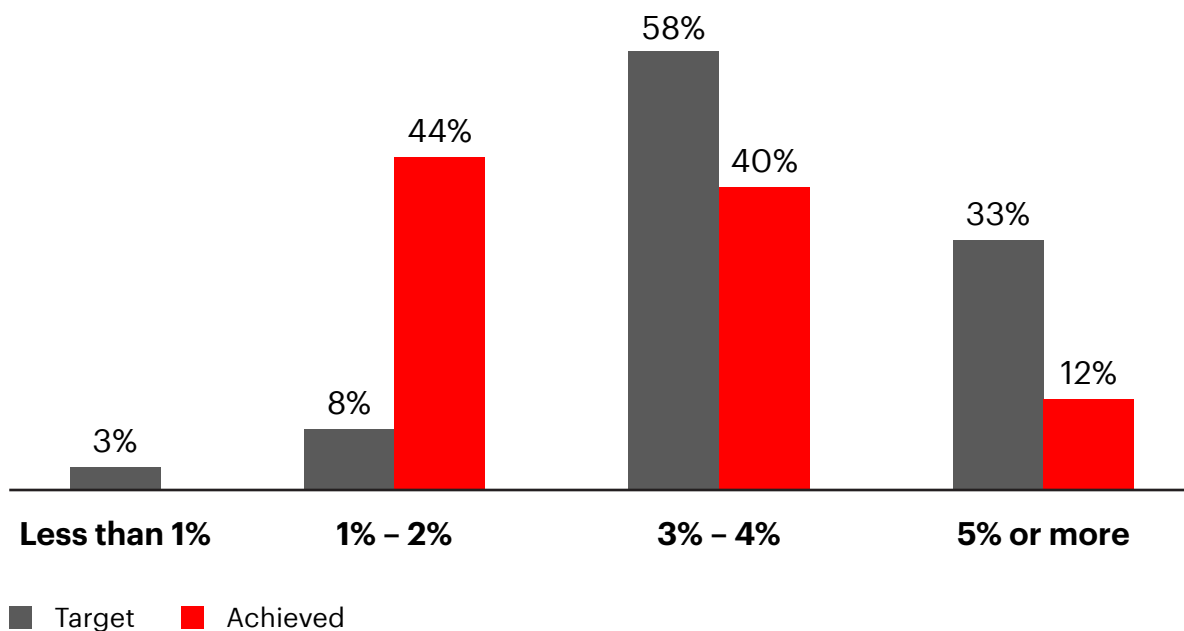


46%

of executives are actively seeking ecosystems and new business models

However, executives often don't have the experience and capabilities to design and execute market-leading ecosystems. As such, many aren't seeing the revenue growth they had predicted from ecosystem participation. While 58 percent of companies targeted a growth rate of 3-4 percent, only 40 percent are achieving it. Just 12 percent of companies are seeing growth of 5 percent or more from ecosystems (see Figure 1).

Figure 1: Ecosystem revenue growth rates – targeted and achieved



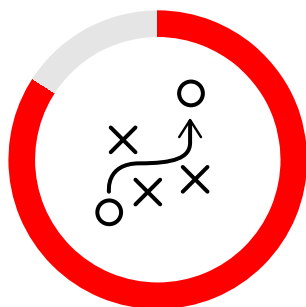
Source: Accenture Strategy ecosystems study, 2018.

Leading executives achieve performance targets and disrupt their industries by focusing on three major pillars as they form ecosystems.

1. ECOSYSTEM STRATEGY

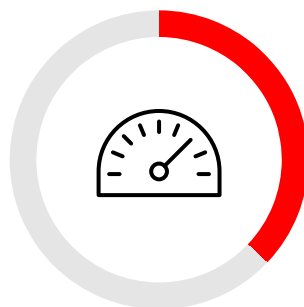
Executives believe that ecosystem participation allows businesses to innovate (63 percent), increase revenue growth (58 percent), access new markets (55 percent) and access new customers (55 percent).

Yet companies struggle with their strategic intent and goals for the ecosystem. What is the vision? What are the innovation opportunities? How can the ecosystem disrupt the market? What smart pivots need to happen to cultivate value? Many executives (84 percent) say ecosystems are important to their strategy of disruption, but 37 percent are unable to balance the current business while exploring the new. Ecosystems require new mindsets and resource allocation.



84%

say ecosystems are important to their strategy



37%

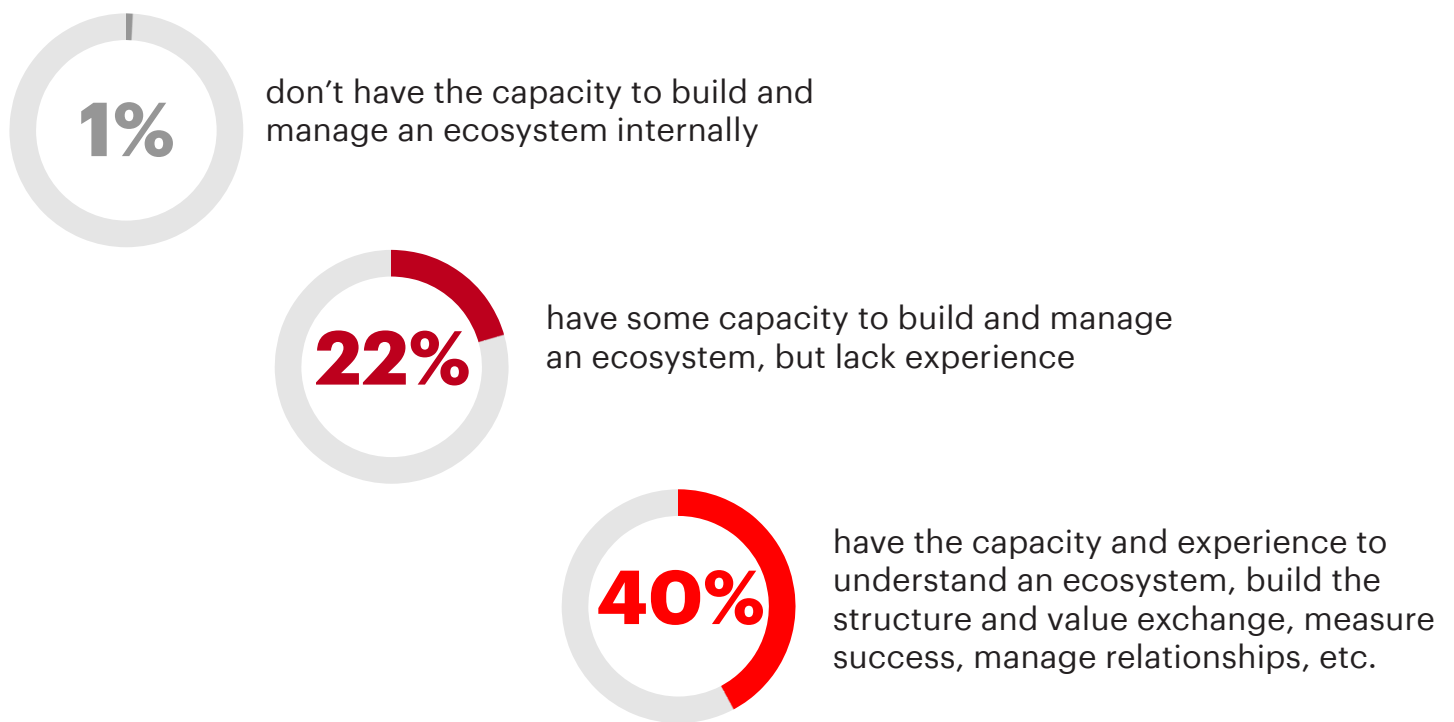
are unable to balance the current business while exploring the new

2. ECOSYSTEM BUSINESS MODEL

New business models accounted for just 1-5 percent of 2015 revenues, but are expected to be responsible for 30 percent by 2020.⁶ New business models thrive in an ecosystem. But to cultivate value, companies need a strong ecosystem business model that clearly identifies customers, markets, channels and the revenue model.

Only 40 percent of executives ranked their company a “5” on a five-point scale when asked if they have the capability and experience to understand an ecosystem, build the structure and value exchange, measure success and manage relationships (see Figure 2).

Figure 2: Forming and managing ecosystems



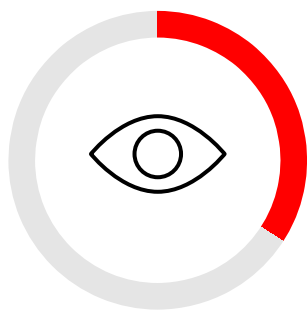
Ecosystems will fail when companies cannot deliver on one of the areas of customers, channels, developers and management of consumer-supplier interests.

3. ECOSYSTEM OPERATING MODEL

Many business executives are uncomfortable ceding control, which must happen for an ecosystem to be successful. Company leaders must fundamentally shift their mindset—relinquishing control and allowing others to do what they do best. One area where many keep the reins tight is data. Yet data sharing is essential to sustaining an ecosystem.

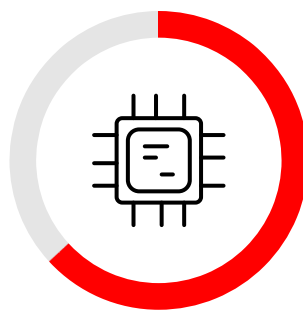
Half of executives surveyed say they are using platforms to share data and/or information across businesses. Many are concerned about sharing intellectual property data (34 percent) and about cyber security (35 percent). And while many executives (63 percent) say the technology/platform is the most important thing to get right in an ecosystem, nearly half (44 percent) are concerned about sharing company assets and secrets.

Proper governance frameworks can ease fears of relinquishing control and can reduce friction among ecosystem participants. Yet only 24 percent of executives surveyed said, “structure governance for ecosystem alignment” ranked in their top three capabilities.



44%

of executives are concerned about sharing company assets and secrets



63%

say that technology is the most important thing to get right in an ecosystem

READY TO SHIFT

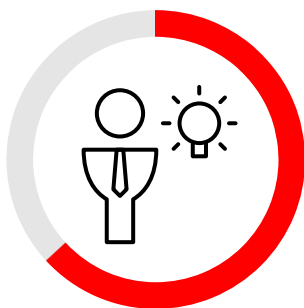
Businesses pursuing disruptive growth through an ecosystem initiative must first get a few things right: make the right plays, find the right partners and think outside of traditional boundaries.

PLAY SMARTER

Market plays are at the center of every ecosystem. When ecosystem players combine their functional, technology and industry strengths, and capabilities, they can deliver a unique value proposition to customers. Businesses see the ability to innovate as the top opportunity that ecosystems present.

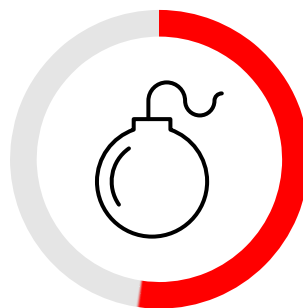
Ecosystem plays deliver transformative experiences. Consider how technology has fundamentally changed grocery shopping. In the United States, the Instacart platform allows shoppers to get their family's food from wherever they want—Whole Foods Market, Costco Wholesale, or even Petco. Uber changed the way people travel, and now, emerging ecosystems will add new services to ride-sharing experiences. Ford and Lyft have plans to develop a fleet of self-driving taxis by 2021.⁷ Ecosystems clearly drive innovation.

More than half of companies surveyed say industry innovation is a great threat they face from competitors forming ecosystems. But to innovate together, businesses must know what each brings to the table. Only 38 percent rate their business a "5" on a five-point scale in terms of understanding their strengths and weaknesses and where ecosystem partnerships would be beneficial.



63%

of businesses view the ability to innovate as the top opportunity ecosystems present



52%

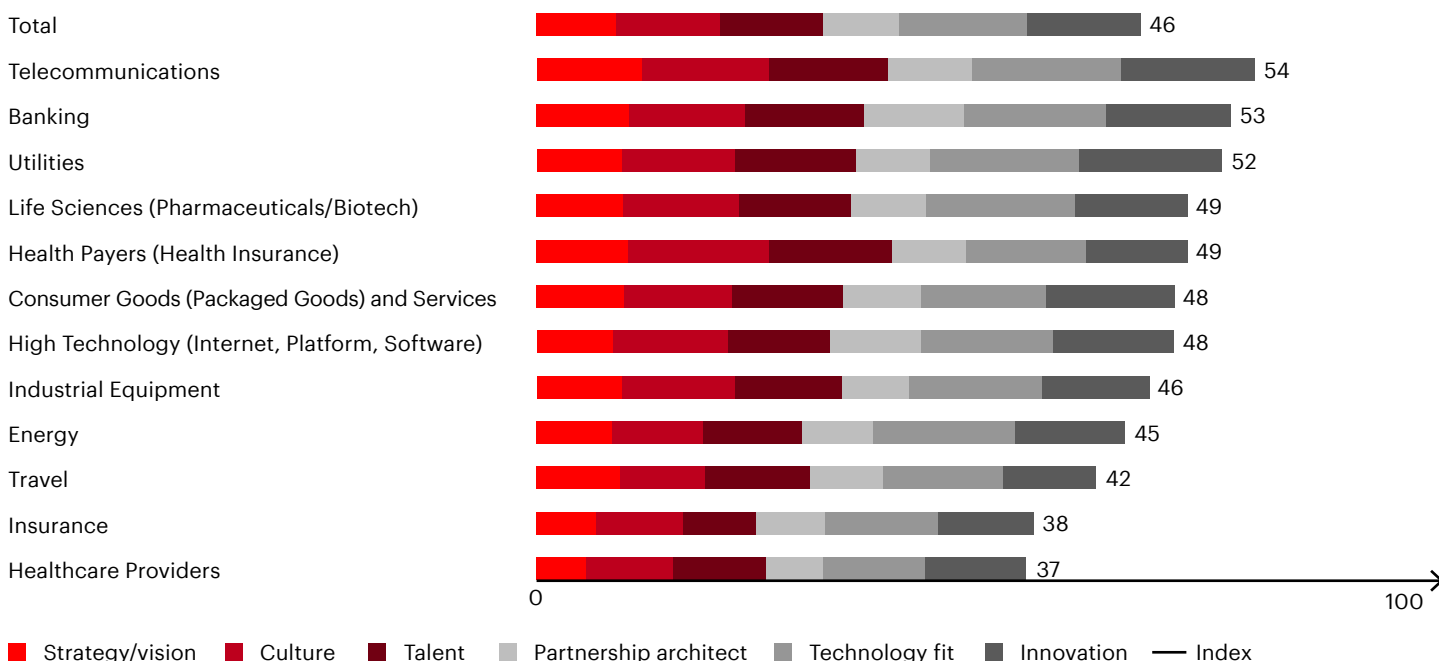
say industry innovation is a great threat from competitors forming ecosystems

PARTNER UP

The right partners—and partnership savvy—allow a business to successfully collaborate outside of its sphere. Ecosystem leaders master the ability to identify the level of orchestration from ecosystem partners and their level of involvement in product development. They clearly define how data will be shared and how success will be measured. Virtually all companies say they are an attractive ecosystem partner—63 percent self-qualify as “attractive” while 32 percent identify as “extremely attractive.” More specifically, 51 percent in banking say they are “extremely attractive” along with 40 percent of those in high tech.

Yet businesses lack some of the capabilities needed to sustain effective partnerships. As part of our research, we developed an Ecosystems Capabilities Index ranging from 0 to 100, with 100 as the best possible score. The Index shows the ecosystem capabilities of businesses across six dimensions—strategy/vision, culture, talent, partnership architect, technology fit and innovation. For each of the capabilities, we determined the percentage of respondents scoring a 4 or 5 on a 5-point scale for all questions within a capability. Individuals responding along those lines felt they have strong ecosystem capabilities. Telecommunications, banking and utilities are the strongest industries for ecosystem capabilities, but there is substantial room for improvement (see Figure 3).

Figure 3: Ecosystem capabilities index – by industry



Source: Accenture Strategy ecosystems study, 2018.

Technology is at the root of many successful partnerships. For instance, GE and Microsoft are going to market together, integrating their Predix and Azure platforms. Predix apps deliver insights via the Azure business cloud, allowing users to “transform products, optimize operations, empower employees and improve communications with customers.”⁸

It is not easy to find the perfect partner. Our research found that only 35 percent rank their ability to recruit the best partners as one of their “top three” capabilities. Thirty-eight percent say they struggle with developing the technology platform to support the ecosystem.

THINK BIGGER

CEOs have felt that disruptive growth is important to the overall growth agenda for a number of years. Companies (81 percent) agree that ecosystems allow their organization to grow in ways otherwise not possible. But before companies can grow, they must understand what will drive new value, taking the business beyond its current boundaries. Many (88 percent) believe ecosystems require a shared vision among partners to be successful. However, only 36 percent rank fostering an ecosystem mindset as one of their top three capabilities. Businesses must explore how to work together across organizations to deliver a joint solution—it’s essential for future success.

Walmart adopted an ecosystem mindset to keep pace with where online shopping is going in the future. The company is working with Google to make it easier for customers to order products. They plan to allow customers to shop via the AI-powered Google Assistant.⁹

FROM NORTH STAR TO ROCK STAR

Forward-thinking leaders create a vision for the future ecosystem, and execute it like a pro.

The executives we surveyed see a strong future in ecosystems. In the next three to five years, they believe ecosystems will create new competitive advantage (56 percent), allow them to use data and analytics to better serve customers (50 percent), create new customer experiences (46 percent), and drive innovation and disruption (44 percent).

But while ecosystems offer a major opportunity, they also introduce risk. Business leaders sometimes become paralyzed by the fear of working with others (perhaps even competitors), sharing data and relinquishing control.

Given the value and growth potential at stake, companies must overcome fear and adopt a mindset eager to pursue ecosystems and the advantages they afford.

SHAPE THE MARKET PLAY

At the center of the ecosystem are market plays, disruptive growth opportunities with significant revenue potential for ecosystem participants. Ecosystem players should have a clear strategy for these plays: define the vision, business case, prioritization and roadmap for the market play(s). The roadmap should outline how the ecosystem will incubate, launch and scale ecosystem products and services.

CLAIM YOUR ROLE

Digital ecosystems allow businesses, partners and customers to digitally connect in intelligent ways that create new business models, enabling the creation of exponential value. Every business can determine where it fits in the ecosystem by asking: Who are our customers? Who are our partners? What are we selling? How will we monetize? Will the business choose to be the innovator that proactively defines and leads innovation (think Apple)? The aggregator that plays a transactional role in the ecosystem (think eBay)? Or the orchestrator that builds the platform and

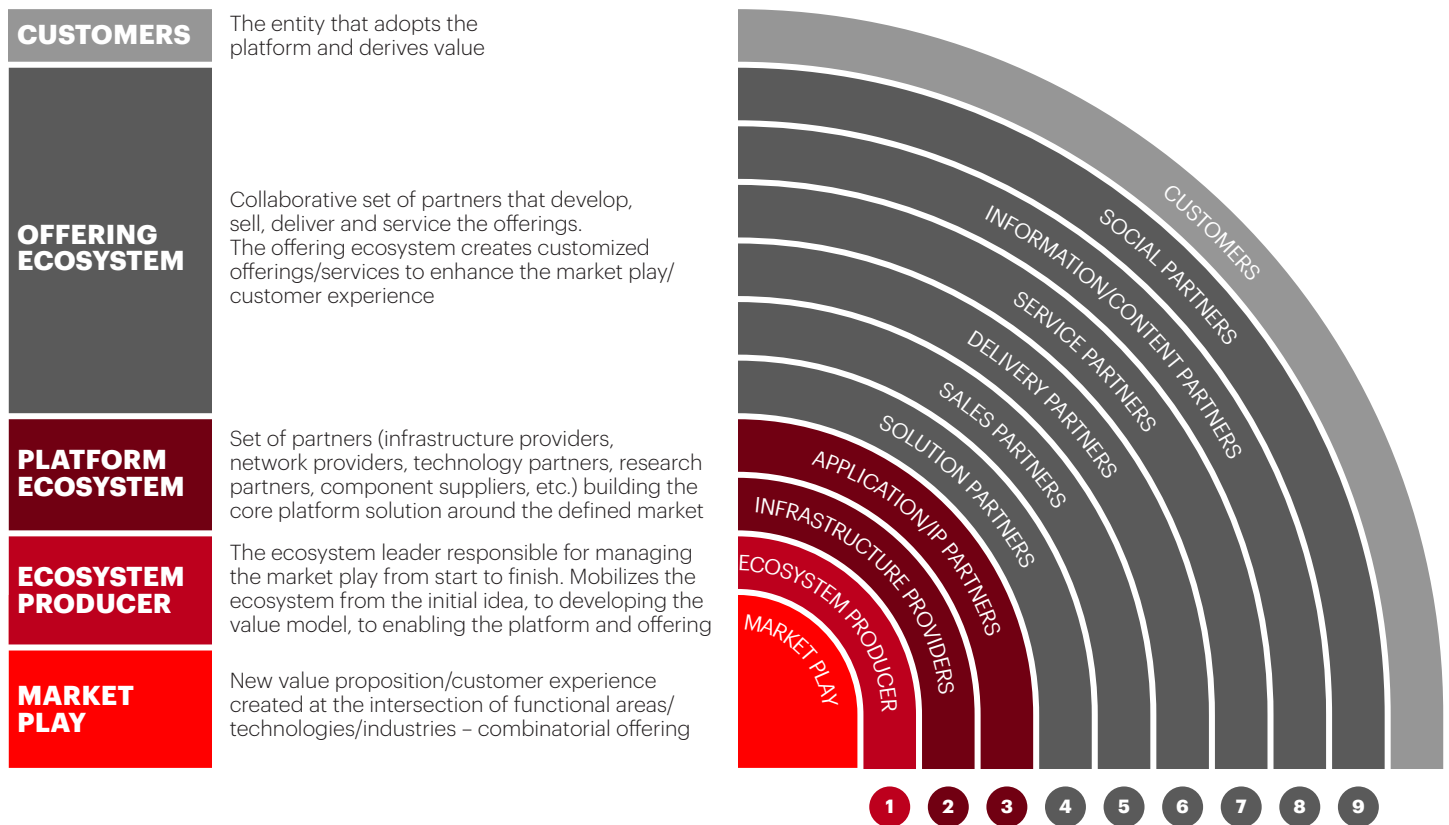
assembles the partners (think Alibaba)? Having a strong and clear role allows companies to pick the right teammates to make a powerful market play, and it allows other ecosystem partners to understand how to best collaborate for value.

PICK YOUR PARTNERS

A variety of partners—from social to solution to infrastructure partners—can complement the ecosystem strategy. But those partners must be carefully selected. Ecosystem business model membership is grouped by component and members play unique roles, working together to deliver new value propositions to customers (see Figure 4).

The complementary capabilities, collaborative mindset, domain expertise, customer relationships and data that ecosystem partners offer will help bring the market play to fruition.

Figure 4: Picking your ecosystem partners



Source: Accenture Strategy

ORCHESTRATE THE ECOSYSTEM

Once leading companies with distinct capabilities join together with a shared vision and clear plan for the market play and desired outcomes, they can launch and operate their ecosystem. This process will involve planning and testing the ecosystem design and piloting the market play. Key activities also include designing the architecture, risk matrix and vendor landscape to ensure the market play can scale.

In today's competitive business landscape, companies cannot go it alone. They need the help of partners that bring unique capabilities, data, customers and industry knowledge that can be a source of innovation. Industry leaders are recognizing the power of ecosystems—a proven construct that can drive growth. Waiting is not an option when so many disruptors are taking advantage of this stepping-stone to growth.

NOTES

- ¹ Omar Abbosh, Michael Sutcliff and Vedrana Savic, Disruption need not be an enigma, Accenture, Accenture Disruptability Index, February 26, 2018.
- ² All data is sourced from the Accenture Strategy 2018 study, "Cornerstone of future growth: Ecosystems," unless otherwise noted.
- ³ World Economic Forum, in collaboration with Accenture, "Digital transformation initiative: Unlocking \$100 trillion for business and society from digital transformation," January 2017.
- ⁴ "Adidas partners with Siemens to tailor sporting goods," *Reuters*, April 24, 2017.
- ⁵ Peter High, Under Armour is now the largest digital health and fitness company on earth, *Forbes*, September 18, 2017.
- ⁶ World Economic Forum, How to disrupt yourself, 2016.
- ⁷ Joseph White, Ford, Lyft will partner to deploy self-driving cars, *Reuters*, September 27, 2017.
- ⁸ Tomas Kellner, Industrial cloud: GE and Microsoft plan to 'go to market together' with IoT partnership, GE website, October 25, 2017.
- ⁹ Daisuke Wakabayashi and Michael Corkery, Google and Walmart partner with eye on Amazon, *The New York Times*, August 23, 2017.

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CONTACT THE AUTHORS

Michael Lyman

michael.d.lyman@accenture.com
Chicago, IL USA

Ron Ref

ron.ref@accenture.com
Phoenix, AZ USA

Oliver Wright

oliver.wright@accenture.com
London, United Kingdom

ABOUT THE RESEARCH

In January 2018, Accenture Strategy surveyed 1,252 C-level executives (12 percent chief executive officers; 11 percent chief ecosystem officers) to understand their ecosystem strategies, capabilities, leadership and investment. All respondent companies were \$1 billion plus in revenue and nearly 60 percent were \$6 billion plus. Thirteen industries and seven countries were represented in the study.

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