

Transforming your business An ecosystem-based approach



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Transforming a company's performance is of vital interest to business leaders and investors alike.

Few businesses are able to maintain their initial competitive edge for sustained periods of time. Along the way, they encounter 'inflections'—periods where they experience losses in growth, market share, margin, pricing power, brand strength and/or competitive edge. Major adjustments, referred to as 'transformation,' are necessary to move the business successfully past such inflections. Transformation can require merger, acquisition, recapitalization, new partnerships, operations realignment, or all of these.

In this article, we address the relevance and application of ecosystem concepts needed to transform your business. In the current global economy, we believe that an ecosystem-based approach to understanding, accurately assessing, and transforming your business will lead to a more effective integration of capital, strategy and execution, and thereby maximize stakeholder returns.

Ecosystem view of the business:

An ecosystem view of a business is a holistic, 'outside, looking in' perspective versus the more traditional 'inside, looking out' position.

The concept was first introduced by James F. Moore in the *Harvard Business Review* in May/June of 1993, and won the McKinsey Award that year. The most comprehensive current treatment of the concept comes from Harvard Business School faculty member Marco Iansiti and inventor Roy Levien, in their book *The Keystone Advantage: What the New Dynamics of Business Ecosystems Mean for Strategy, Innovation, and Sustainability* (Harvard Business School Press, 2004).

A business ecosystem is analogous to a biological ecosystem, with a large number of loosely interconnected participants, interdependent and influenced by the macro-shifts and micro-shifts in that ecosystem. The central entity in a business ecosystem is

known as the Keystone. In the Computing ecosystem, Microsoft is the Keystone entity. In the Retail ecosystem, Wal-Mart assumes this role. In a healthy business ecosystem, the Keystone entity exhibits a pattern of behavior, similar to those in biological ecosystems, that improves the performance of the overall ecosystem, and in doing so, improves individual performance. A healthy ecosystem allows most of its participants to thrive and prosper; an unhealthy ecosystem does the opposite. Participants can belong to more than one business ecosystem.

The Keystone firm generally accounts for only a small fraction of the value created in a business ecosystem. The other firms that make up the majority of the ecosystem's population are responsible for the lion's share of the value created. These firms need to astutely understand the ecosystems and their dynamics, and chart strategies and tactics to continually maximize a competitive advantage. Successful firms master the art of:

- developing strategies to achieve differentiating capabilities;
- assembling powerful networks of participants;
- leveraging ecosystem assets they do not own; and
- managing the massive web of co-dependencies between them and others.

With the pace of innovation accelerating, capital, labor and intellectual property becoming global resources, and competitors emerging seemingly from nowhere, businesses are frequently, and often expectedly, faced with inflections. The relevance of business ecosystems is therefore gaining increasing acceptance—not just in large firms like Microsoft, Intel, HP or Softbank, but also in mid-market businesses.

Transforming the business:

A prescriptive model for an ecosystem-based approach to transforming your business entails a framework encompassing the four interlocking stages—Assessment, Strategy Formulation, Execution and Optimization.

The **Assessment** stage should yield a clear picture of your business ecosystem, where you currently are, and what is likely to occur in your ecosystem over the next three-to-five years. Assessment activities include:

- developing an ecosystem construct for your business;
- understanding three-to-five year macro trends;
- developing insights into opportunities and threats;
- taking stock of your business' strengths and weaknesses; and

- establishing strategic valuations of future-states.

The **Strategy Formulation** stage should result in a critical examination of the go-forward options available to your business to achieve your strategic intent and a selection of the option to execute. Activities include:

- examining viable strategic options for the next three-to-five years;
- identifying competitive capabilities required to achieve future-states;
- developing a financial model/business case for two-to-three finalist options; and
- selecting a go-forward option to execute.

The **Execution** stage is where the rubber meets the road; the strategic blueprint is translated into action for tangible results. This is typically a multi-phase, iterative effort, involving:

- building out a detailed blueprint with modularity;
- building a performance scorecard to monitor progress;
- assembling the right resources — internal and external; and
- executing per blueprint.

The **Optimization** stage is all about keeping your eye on the ball, understanding not just the first-order shifts in your ecosystem but also the second and third-order shifts, and making course-corrections along the way.

The activities include:

- updating the scorecard each quarter;
- identifying micro shifts in the ecosystem and discerning their implications; and
- adjusting business capabilities in response to shifts.

Benefits to investors and business leaders:

For the prospective investor, an ecosystem approach provides exceptional clarity during due-diligence, strategic valuation, and analysis of investment and exit strategies. For current investors and business leaders, this approach enhances capabilities, increases agility and maximizes results.

ABOUT THE AUTHORS

Rashmi, Andy and Mike are Principals at First Kernel Consulting, Inc. with about 20 years of industry experience each. Rashmi specializes in post M&A integration and market positioning. Andy specializes in venture analysis and transformation strategy. Mike specializes in new products & services and business performance acceleration.