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Why the ecosystems revolution is happening now

Julian Birkinshaw explores why businesses built on networks and marketplaces are rewriting the strategic playbook today

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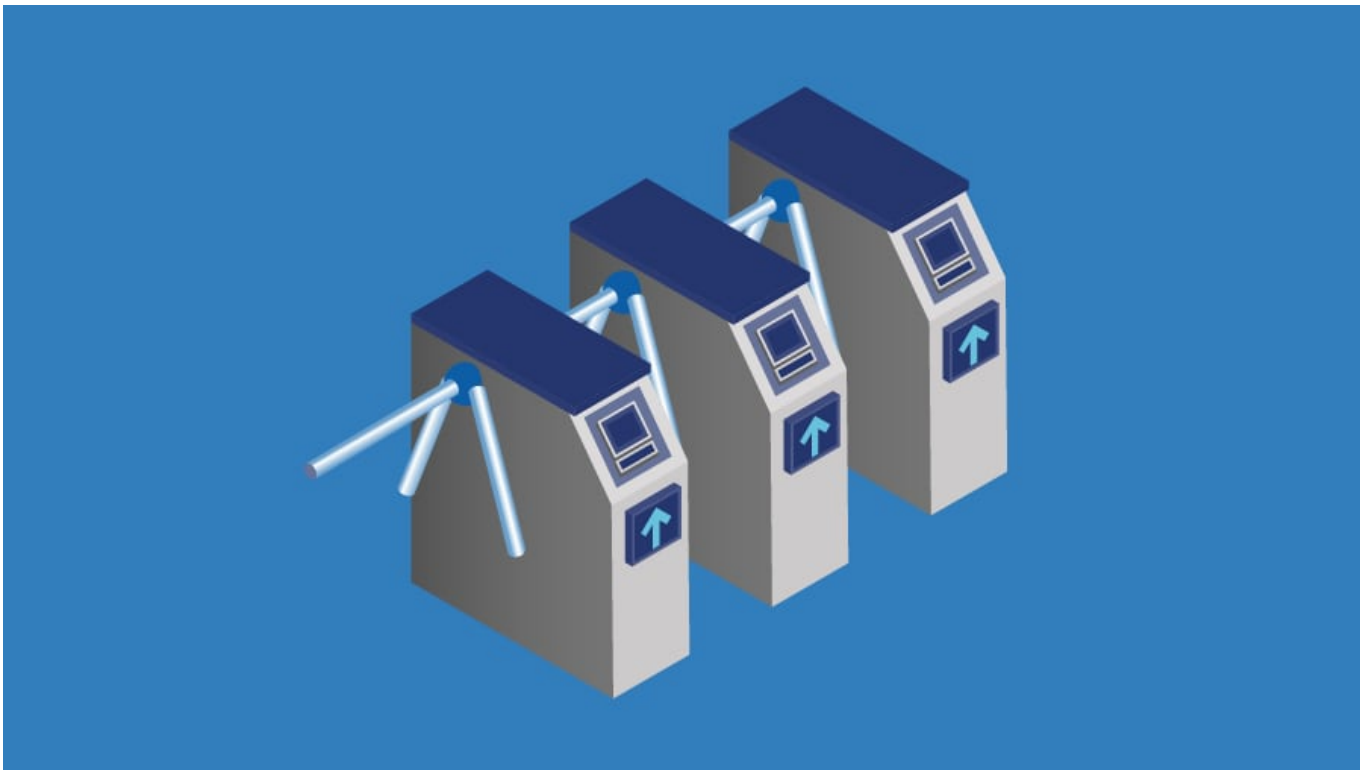


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A business as a gated network of customers, suppliers and producers of complementary services is not new. The Lloyd's of London insurance marketplace is a classic example of a business ecosystem and it was founded in a 17th century coffee house.

The idea of orchestrating a network or market also underpins complex supply chains, the term has been used in a business context for 20 years and yet today everyone is talking about ecosystems.

What has changed is that the fastest growing and most successful companies like Amazon and Google, Alibaba and Tencent, Uber and WeWork are explicitly positioning themselves as ecosystem players.

We don't know if all these ecosystem orchestrators will retain an enduring advantage. Spotify, Uber and WeWork have all yet to make a profit. However, the overarching feature of many of the super star names in the business world of today is their operating models: they are not building moats to keep competitors out. They are operating turnstiles.

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Advantage that is conventionally created in one of two ways: Through skilful positioning in a market with high barriers to entry and a product that keeps customers hooked. The other is to invest in assets and capabilities that are rare and hard to emulate.

These market positions and the resource-based views have dominated how we think about competitive advantage for 40 years.

The new breed of business ecosystems challenges this thinking.

They don't manufacture the things they sell. They exist to link people together.

They don't own very much either and create value through relationships and networks. So arguments around the ownership of rare assets are equally redundant. These firms grow by increasing the flow on their networks via their turnstiles.

They want as many people as possible interacting on their network and following the rules they have set out. Whether they make their money through committees, membership fees or advertisements the key point is an ecosystem business grows

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Here are four ways to put this turnstile logic into practice:

1. **Keep customers flowing - WeChat**

You need to give people a reason to participate in your ecosystem as opposed to a competitor's and the most important step is when you monetise that network. For example, WeChat, China's dominant lifestyle and social networking app, grew by focusing on developing new features and services, such as its Moments and Red Packets. It could have followed Facebook by introducing advertising. Instead, WeChat keeps the turnstiles moving by emphasising the quality of its user experience. Because WeChat users see only two ads a day and it makes its money primarily through commissions on transactions, the network has continued to grow to more than a billion daily users.

2. **Keep it vibrant — WeWork**

A vibrant and exciting ecosystem will keep people engaged. For example, WeWork lets office space in prime city locations. Following moat-based logic it

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Don't eat your partners' lunch — Alibaba

In 2000, Amazon opened its Marketplace to selling third-party products. It had to strike a balance between growing the sales of its own products and driving out third-party sellers. If it did that it would lose its one-stop-shop status.

By contrast, Alibaba doesn't compete with its partners because it doesn't make its own products. It passes up short-term opportunities in pursuit of a longer-term ecosystem growth. According to a forthcoming book by Peter Williamson and Arnoud de Meyer the strategy is paying off. Alibaba's third-party e-commerce businesses has grown to more than twice the size of Amazon's and it employs 66,000 people compared with 550,000 at Amazon.

4. Keep evolving – Google

As an ecosystem orchestrator you can see how the whole network is behaving. Privileged access to information is a huge benefit but the temptation to cash in on that advantage should be resisted. It is better to use the advantage to keep the ecosystem evolving and open new markets. Google has done this with a steady stream of analytical services, as has Alibaba. WeWork has created WeGrow, WeLive and WeWork Labs.

The Challenges

An ecosystem strategy is dynamic and it is not for everyone. Critics of WeWork have suggested it is a house of cards. Regulators have found Amazon has abused its market dominance. WeChat parent Tencent has had growth restrictions placed on it by the Chinese government.

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