

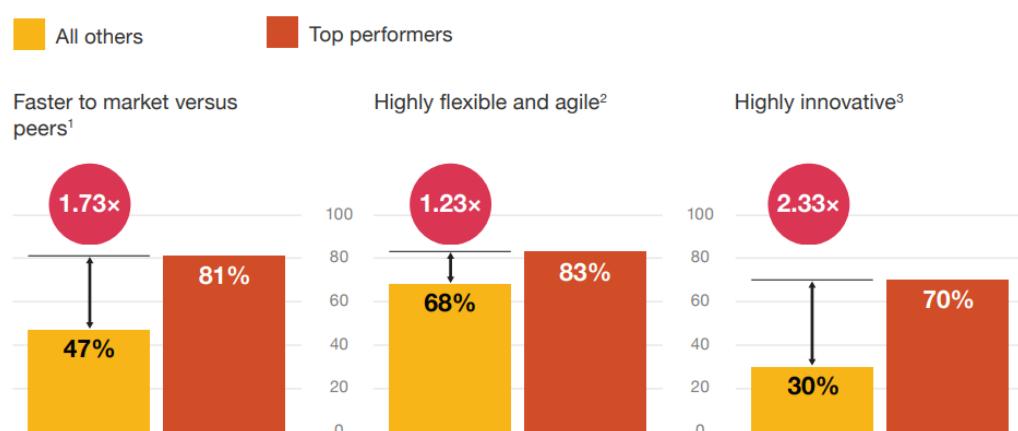
Top companies are betting big on ecosystems

New PwC research shows that high-performing businesses make bolder, and smarter, investments in cross-industry collaborations.

We surveyed more than 2,000 leaders at director level or higher, at companies with median revenues of US\$650 million, to identify the differentiators that give top companies an edge. We then quantified the effect of 40 areas of management practice and company investment. During their latest fiscal year, we found that companies in the top quintile captured a “performance premium” (the combined effect of profit margin and revenue growth, in industry-adjusted terms) that was greater than 13 times that of their industry peers. These leading companies are also faster to market, more agile, and more innovative (see chart below).

Winning Companies are performance-focused

The ecosystem advantage: Winning companies are 1.7 times more likely to be faster to market, 1.2 times more likely to be more flexible and agile and 2.3 times more likely to have high levels of innovation



1. Share of respondents who indicated “moderately faster” or “significantly faster”
 2. Share of respondents who indicated “to a large extent” or “to a very large extent” with respect to flexibility in response to demand-side and supply-side variability
 3. Share of respondents who indicated that at least 60% of this year’s sales came from products or services that did not exist three years ago

Source: PwC analysis

Ecosystems play a big role in outperformance. Leading companies were 1.6 times as likely as other companies to leverage ecosystems to gain competitive benefits that include access to new customers and markets; privileged insights such as data on customers’ needs, desires, and experiences; and complementary skills and capabilities. In effect, these leaders participate in and contribute to a system of capabilities supporting a collective value proposition that is more compelling than any company could provide on its own.

The benefits to companies are valuable not just in isolation—they can have powerful “flywheel” effects on performance. Consider, for example, how privileged insights into what customers want can help companies identify capability gaps that, when addressed, support new or improved customer value propositions, which bring in more prospective customers that companies can tap for further insights. Network effects are in play here, too. When a travel website aggregates customer reviews of hotels and restaurants, for example, the more users that participate, the greater the incentive for others to do the same.

These are just some of the results of the big bets that top performers have already placed on ecosystems—bets they plan to increase going forward. The chart below shows three key characteristics that set winners apart: a clear business ecosystem strategy; a strong dependency on ecosystems for revenues (and strong results already); and plans to gain future revenues in the value pools emerging around society’s biggest problems.

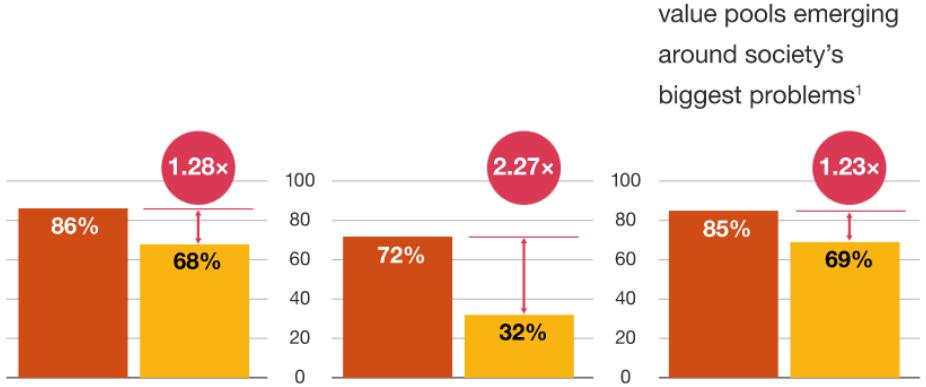
Top Performing companies harness ecosystems to seize the value upside

Ecosystem-driven: Top performing companies are almost 1.3 times more likely than other companies to have a clear ecosystem strategy and are

nearly 2.3 times more likely to already generate more than 60% of their revenues from ecosystems—and plan to increase this in the future

■ Top performers ■ Others

| Characteristic | Top performers | Others | Future Outlook |
|--|----------------|--------|--|
| My company has a clear ecosystem strategy ¹ | 86% | 68% | A large percentage of our future revenues will be generated from the value pools emerging around society’s biggest problems ¹ |
| My company’s revenues are highly dependent on ecosystems participation ² | 72% | 32% | |
| Plans to gain future revenues in the value pools emerging around society’s biggest problems ¹ | 85% | 69% | |



1. Share of respondents who indicated ‘to a large extent’ or ‘to a very large extent’

2. Share of respondents who indicated that they earn at least 60% of their revenues from their ecosystem participation

Source: PwC analysis

By positioning themselves within powerful cross-industry networks, these companies tap into collective value propositions that can scale more quickly than any one company’s value propositions could on their own. Given the clear ecosystem advantage for winning companies, others would be smart to revisit their own ecosystem plans with urgency. The following actions are a good place to start:

1. Strategize and then focus. Senior executives need to start with a clear-eyed examination of where the company creates unique value and how it contributes to an ecosystem. Once armed with clear ideas around value creation, leadership teams can tease out the implications for the company’s ecosystem model, and choose a role that best fits their situation. That may be as an orchestrator—at the centre of the ecosystem, enabling others to collaborate—but more likely as an ecosystem partner or participant.
2. Address capability gaps through service partnerships. Anticipating—and filling—capability gaps is vital. That’s where there’s an important lesson from top performers: don’t go it alone. Leading companies are more than seven times more likely to use service partners to keep pace with technology changes and to close capability shortfalls in their operating models. Those companies are also 1.2 times more likely to use digital operating models to reduce transaction costs stemming from those partnerships.
3. Look to the future. By partnering in ecosystems to grapple with long-term environmental, social and governance risks, forward-thinking companies are generating societal benefits even as customers benefit, too. An IOT platform developed by a construction equipment manufacturer in Japan, for example, not only eased a labour shortage in that country, but also helped customers complete building projects with greater efficiency. Similarly, in precision farming, companies have come together to combine remote sensing, IOT-enabled agricultural equipment and other technologies to collectively help their customers use farmland more cost effectively and with less environmental impact.

To be sure, competing in ecosystems won’t come easily to top leadership teams that are used to static industry boundaries and traditional, zero-sum-game forms of competition. But they had better learn fast. As ecosystems become more of a differentiating factor that separates out high performance, companies that already have an edge will be well placed to extend it. To improve their odds, companies should clarify their ecosystem strategy, identify and develop the necessary capabilities, and start looking for opportunities through a long-term, societal lens—before others beat them to it.

This article was first published as part of PwC Global **The Leadership Agenda**. A series that provides sharp, actionable insights curated to help global leaders build trust and deliver sustained outcomes. Visit <https://www.pwc.com/gx/en/issues/c-suite-insights/the-leadership-agenda.html>

Authors:

Lang Davison, Global Advisory Thought Leadership, Managing Director, PwC US

Tom Archer, Partner and global technology consulting and alliances leader, PwC US

Wayne Borchardt, Director of management research insights and operations, PwC Global Advisory

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