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Beyond Platforms

TECHNOLOGY VISION 2017

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Companies are increasingly integrating their core business functionalities with third parties and their platforms.

But rather than treat them like partnerships of old, forward-thinking leaders leverage these relationships to build their role in new digital ecosystems – instrumental to unlocking their next waves of strategic growth. As they do, they're designing future value chains that will transform their businesses, products, and even the market itself.

As more companies join the Platform Revolution, the way leaders choose to build their portfolio of digital partners is more important than ever. To provide increasingly innovative services and better outcomes for both their business and customers, enterprises across industries are integrating mission-critical activities with digital platforms. As a result, core business functions – from customer service to machine maintenance – now not only include, but also heavily rely on a complex network of digital partners, reaching far beyond the walls of a single organization.

While some companies see these new relationships as simply an evolution to existing value chains, tech-savvy leaders realize that these decisions portend a much deeper strategic shift: to new multidimensional ecosystems that are redefining industries. And, critically, each time an enterprise leverages a third-party platform to support aspects of their business, they are, in fact, choosing the alliance partners they will count on when building their next generation of services.

To remain competitive in the long run, every business must begin moving their thinking beyond the short-term gains that digital platforms provide. They must embrace a more holistic strategy that balances tactical IT decision-making with fostering and investing in the digital ecosystems that will encompass their long-term growth. In doing so, businesses will lay groundwork for building their future digital value chains – and better position themselves at the heart of the emerging digital markets that will determine tomorrow's leaders and laggards in every industry.

Some companies are already taking bold steps. General Motors kicked off 2016 with a \$500 million investment into ride-share platform Lyft. The move gave GM the inroads to launch their Express Drive service, an exclusive offering for successful, but car-less, Lyft driver applicants to rent a car directly from GM and get to work right away. The program was remarkably successful in the short term, opening a new line of business for GM: by July, 30% of new Lyft drivers were requesting an Express Drive vehicle in their sign-up.¹

But far beyond the immediate success of Express Drive, GM is using Lyft's platform to join an entirely new digital transportation ecosystem – one that connects a traditional auto manufacturer with leaders in ride-sharing and autonomous vehicles. In addition to partnering with Lyft, GM also made a \$1 billion-plus acquisition of the autonomous vehicle software company Cruise Automation, and another billion-dollar investment in building an autonomous vehicle testing facility in Detroit.

The moves GM is making to grow Lyft's platform, letting it expand into new markets today, are the first steps in fostering the larger ride-sharing ecosystem – the success of which will give GM a vector to put their eventual autonomous vehicles to work. Can you imagine an automated fleet of GM vehicles acting as public transit for an entire city? GM can, and is working to make it a reality.

And it's not just the transportation companies that are changing. Enterprises in every industry are beginning to define their next generation of value chains. Consider the partnership between Whole Foods and Instacart. The Instacart platform lets customers shop from grocery

stores like Acme and Costco, and even pet stores like Petco. Place an order and Instacart shoppers will go to the stores, purchase the items, and deliver them at a convenient time. Whole Foods, a leading US-based market with a focus on natural and organic foods, made an investment into

Instacart, deepening an existing relationship between the two companies.² Customers can use Instacart to place a Whole Foods order that's assembled and packaged for quick store pickup, or get home delivery of Whole Foods products through Instacart's same-day delivery platform. Why would Whole Foods entrust a key component of their business to a third party, to the point of making a significant investment in the company – especially when it places Whole Foods side-by-side with grocery competitors like Safeway and Costco in an industry with operating earnings as small as 2–3%?³

The answer: access to a powerful new digital ecosystem. With a rapidly expanding market for grocery delivery, nearly all grocery chains are trying to enable home delivery via online ordering – especially in the face of competition from new entrants like Amazon Fresh. Whole Foods unlocks a competitive advantage from access to Instacart's robust and mature same-day delivery experience. More importantly, in addition to the cost savings gleaned by not having to build their own delivery services, Whole Foods grows their business by gaining access to a huge pool of customers for whom Instacart's platform is already the gatekeeper.

New digital ecosystems, from the connected home, to precision agriculture, to connected health, are still small. But companies are choosing both their partners and their roles in these ecosystems now. Whole Foods and GM are early movers, both acting deliberately to work toward their long-term business strategies. Across the board, companies are inadvertently picking both long-term partners and the ecosystems they'll be participating in as they make tactical decisions on technology providers.

Those who begin acting deliberately will use these collective strategies to do far more than they ever could alone, moving from improving their products to building themselves as leaders in a transforming market. Whether it's via the platforms and services created by infrastructure providers, customer gatekeepers, or industry partners, these are the decisions that will define a company's future digital value chain, and continue to redefine businesses in shifting industries. Who will your company be in 10 years? It depends on the digital value chain choices made today.

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PLATFORMS LEAD THE WAY

Platforms are rapidly becoming the central hubs for the rich and complex digital ecosystems that companies want to access.

Consider the rise in companies like Airbnb and Uber, whose platforms comprise their entire business, or the fact that 70% of 'unicorn' startups are platform companies.⁴ These digital-born companies carved their roles in fragmented or saturated markets by aggregating services into a single, convenient point of access. Like Instacart does for the grocery market, or Expedia for hotels and flights, just the act of simplifying decision-making can help third-party platforms build a waiting and willing customer base. In the UK, digital platforms aggregating private insurance account for 60–70% of new business premiums.⁵ As they mature and grow their audience, other businesses congregate around them, looking for inroads to new customers. Those businesses integrate their services with the platform, which grows and draws more new customers, and the cycle repeats.

As companies look to expand into the next generation of digital ecosystems, some businesses are building platforms themselves

and creating new ecosystems with their business at the center. Consider Pegasus, a mobile payments platform. In East Africa, mobile network operators give citizens robust purchasing power via mobile wallets, but these payment types are not integrated with all the businesses looking to accept mobile payments as an option. Pegasus handles integration with utilities and other service providers, so that customers can pay service bills with wallets from a range of mobile operators. The service now oversees 200,000 electricity payments per month, totaling \$10 million in pass-through value.⁶

But not every company needs to be the platform provider. While some organizations may have this opportunity, most will find it cheaper and faster to leverage existing platforms as their means to enter new ecosystems. Regardless of whether they are providers of platforms or participants in others' offerings, all companies will have to excel at leveraging the strength of platforms in their ecosystem to maximize their success.



FORGING NEW VALUE CHAINS

As platforms become the new normal for how business is done, companies must seize this opportunity to begin to build a new digital value chain.

Already, more than a quarter (27%) of the executives we surveyed report that digital ecosystems are transforming the way their organizations deliver value. The mandate for leaders is to capitalize on new relationships, building a network of digital partners that will not only enhance their existing business, but also allow them to forge their way into newly emerging digital ecosystems.

The disruption consumer-facing companies are experiencing exemplifies this demand. Ecosystems of customers are aggregating around several new digital platforms, and businesses are more motivated than ever before to take advantage of these entry points. Communication platforms like WeChat and WhatsApp, and AI intermediaries like the Google Assistant, Alexa, and Siri represent distinct ecosystems delivering unprecedented access to customers – and businesses are flocking to them.

Hyatt Hotels uses Facebook Messenger to let guests do everything from booking and checking existing reservations to ordering room service during a stay, while Capital One bank developed a 'skill' for Amazon Echo's Alexa, allowing people to check their accounts and pay credit card bills via the Echo device.

These platforms give companies rapid access to pools of customers and, in the process, can drive more sales, improve customer service, or create a better customer experience. But in doing so, they also transform businesses' value chains in a way that challenges traditional thinking. In leveraging these entry points, businesses are no longer driving customers to many of the traditional touchpoints used to build strong relationships, like their own apps, website, and even retail locations. Rather than fighting this change, forward-thinking companies are taking steps to strengthen their future roles within this context – like making APIs a key part of growing their brand.

BBVA Compass recognized the power of an API, and put it to use to solve a common delay problem in processing financial payments. Instead of being limited to payments processed through the traditional Automated Clearing House approach, with delays as long as 24–48 hours, BBVA partnered with Dwolla. Via BBVA's API Market, this partnership enables real-time payments to BBVA Compass/Dwolla partnership users, 24/7.⁷ Emphasizing APIs to support platform-era brand growth across a distributed customer base is just one example of how companies are reprioritizing to support the transformation of their value chains.

This trend isn't restricted to consumer-facing companies; consider other industries that are transitioning to digital ecosystems, like connected healthcare, precision agriculture, and autonomous transportation. These vast market shifts will bring new digital value chains – and every business must find where they fit into a disrupted industry. To get there, each organization must decide which ecosystems to join and what role to play.

Take Qualcomm Life and Philips, two companies building healthcare platforms. Rather than compete for the entire value chain, the companies recognized the strengths in each other's platforms and entered a strategic partnership to create a more holistic approach to connected medicine.

Now, patients and providers using the Philips HealthSuite have access to the range of connected medical devices running on Qualcomm Life's 2net platform.

Companies like Philips, Qualcomm, and General Motors are building new value chains that will position them as the foundational leaders of emerging, transformative digital ecosystems. Businesses of all types must begin taking note of these partnerships – and better yet, forging their own. The competitive advantage of tomorrow won't be determined by one company alone, but by the strength of the ecosystems chosen, and the company's plans to help the ecosystems grow.

Organizations must decide which ecosystems to join and what role to play.

FIRST STEPS ARE **ALREADY IN PLACE**

Many companies, whether they realize it or not, have already taken the steps to embed themselves into ecosystems – and have done so for some time.

In the 2016 State of the Cloud survey, 95% of respondents reported using public, private, or hybrid cloud technology; and the CIO Strategic Partner Index run by IDC reports that 29% of IT leaders are spending more than half their IT budget on external providers.⁸ Individually, these investments are tactical operational moves, based on short-term functional gains and cost savings. But in aggregate, they represent a much larger set of strategic decisions. In other words, companies' infrastructure decisions directly influence the ecosystems they'll join, and the network of partners they will leverage to bring their future strategies to life.

Take AT&T, for example. With the rise of smartphones, mobile networks saw data traffic explode by an astounding 150,000% from 2007 to 2015. Anticipating an additional tenfold growth in network traffic by 2020, AT&T is using OpenStack to cloud-enable and virtualize 75% of its network architecture.⁹ In the short term, this transition solves speed and agility issues and decreases cost; in the long term, AT&T now has a vested interest in the continued development and success of OpenStack's open source community. To facilitate their own growth, AT&T isn't just using OpenStack, but actively fostering its success. Today, AT&T is dedicating resources to make sure OpenStack's

technology keeps improving – building the product alongside an ecosystem of corporate partners like Intel, Hitachi, and Comcast.¹⁰

As businesses like AT&T and others increasingly rely on platforms and software-as-a-service to support bigger pieces of their technology, they are inherently investing in larger ecosystems that will impact where the organizations will grow. Consider that few of these client-vendor relationships are one-to-one, but one-to-many: in the Strategic Partner Index study, more than half of IT leaders reported that their technology vendors bring in startups or additional niche

players on projects.¹¹ These ecosystems of technology vendors are rapidly coalescing, and the entire C-suite must understand that what may appear as an off-the-shelf or monthly subscription investment for a company is, in fact, a deep commitment to a network of current and future partners.

Each platform commitment means easier future engagement with other companies on the platform using the same infrastructure.

Similarly, each platform commitment means easier future engagement with other companies on the platform using the same infrastructure – and more difficult partnership with those companies that have committed to other platforms. Essentially, by choosing a cloud platform provider, companies are likely selecting the pool that their future digital partners will come from.

TREND 2

More than ever, the digital partnerships companies make today have long-term implications for their future.

Whether it's accessing new customer touchpoints or building new markets with industry partnerships, the external platforms that companies rely on throughout their enterprise are becoming the gateways to new digital ecosystems – and the pillars of an evolution in their value chain.

It's time to look beyond the short-term gains of tactical vendor and partner relationships and consider them in the context of the larger opportunities – and challenges – for your company's future. The race is on, as companies across industries begin to forge the relationships that will drive their next waves of unprecedented growth. An explosion of collaborative ventures between industry leaders is on the horizon, and the success of these endeavors is what determines who will lead new digital markets, and who gets left behind.

Every company needs an ecosystem strategy to move forward, one that prepares them for a future where they are not involved in just a single ecosystem, but many. How your company selects and fosters the right ecosystems for your business goals will define prospects for the future: competitive advantage depends on the strength of the partners and ecosystems you choose and your plans to help them grow. Ultimately, ecosystems are redefining how companies do business, and your company would be wise to start forging these relationships today.



100-DAY PLAN

1

Conduct an audit identifying how many internal and external platforms your company is using and the goals for their use. Identify and address unnecessary overlaps.

2

Determine the platforms your organization most relies on, as well as those that most depend on you. These are the ecosystems where your organization should hold its strategic and market strengths.

3

Expand the conversation: have a strategy summit with your closest partners to understand their goals for the future. Uncover shared goals and commit to developing a strategic plan for achieving them together.

4

Consider your organization's future through the lens of the biggest disruptions shaping your market, from inside and outside your industry. Craft the ideal role of your company in this future, and develop a shortlist of partners who can help make it a reality.

5

Develop metrics to quantify the results of ecosystem participation. These may include sales growth, API requests, customer satisfaction, growth of new partnerships, and others.

365-DAY PLAN



1 Extend a significant portion of a core business function to a third-party platform or digital aggregator. Use the opportunity to build a bigger stake in an emerging ecosystem, bringing its strengths (such as access to new customers) into your organization.

2 Use an existing partnership to pilot building your own ecosystem. Make your selection based on complementary strengths, like mature platforms or digital services. Start with one joint offering, such as combining services into a single point of access.

3 Prepare a foundation for expanding your ecosystem by making a significant investment in either a startup or a joint venture that will establish a foothold in an area critical to your organization's transformation (for example, what GM has done with car-sharing).

4 Appoint a cross-functional team and C-suite sponsor to guide long-term ecosystem efforts. Key responsibilities include aligning ecosystem and company strategies, developing skills and technical assets to drive growth, and orchestrating regulatory and policy engagement between internal and external stakeholders.

TREND 2 PREDICTIONS

1

In five years, the majority of customers will be **purchasing goods or services through a digital 'middle man'** – such as messaging platforms, connected devices, or smart assistants.

2

Five years from now, 80% of the S&P 500 will be **engaged in multiple industry ecosystems**, and most will have made public statements about increasing their reliance on ecosystems for future revenue growth.

3

In seven years' time, an industry leader from today will have transformed into an ecosystem company spanning multiple markets. The enterprise will lie at the center of a disruptive ecosystem, holding **no physical headquarters and few permanent staff**. Their highest-valued asset will be a digital platform.

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TREND 2

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