SunTec®

Build Robust, Responsive, Resilient Ecosystems, and Let Technology Experts Build the Enabling Platforms

eBook

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Ecosystems Will Become Even More Popular Business Models

The concept of business ecosystems was pioneered by BigTechs to non-linearly monetize their technology platforms and customer relationships. In an increasingly digital world, businesses from many other industries are also looking to grow through ecosystem-based strategies. Typically, ecosystems are made up of co-participants drawn from different industries that provide a portfolio of products and services on a common customer interaction platform. The idea behind such collaborative models is simple: while no business by itself can address all the needs of its customers, an agglomeration of businesses is much better-positioned to do so - especially in a digitally disintermediated world.

Banks in particular have been impacted by the rapid success of ecosystems built by BigTechs and fintech companies. This is partly because banks are subject to much higher degrees of regulation; this imposes certain legal requirements (e.g., around data privacy, location of customer data storage, pricing of certain products, service levels etc.). BigTechs do not face similar licensing requirements and have been able to build ecosystems around their technology platforms to not just offer a wide range of products and services, but also integrate easy payment and delivery.

Although many banks seek to embrace ecosystems, their journeys are often impeded by the constraints imposed by their own internal technology landscapes. Product silos and legacy architectures make it much harder to obtain a single view of customers even across the bank's own lines of business. Enabling ecosystem partners to connect to such a complex technology layer will not be easy. Further, unwieldy, slow-to-change proprietary systems are the antithesis of the open architectures that modern businesses seek. They cannot deliver the benefits these partners look for, and so will not hold appeal.

We at SunTec believe that:

Ecosystems are here to stay, and banks will need to adapt to stay relevant.

Democratizing access to a secure and scalable technology platform that allows partners to easily plug and play will be a major success factor for banks and other business enterprises that are looking to build ecosystems.

Business leaders would be better served by deciding to quickly integrate third-party platform capabilities instead of embarking on the journey to build their own platform ground-up.

The rest of this eBook elaborates on our above views.

Ecosystems Are Here to Stay

While collaborative business models, such as joint ventures, have existed for decades, digitalization has created new opportunities to build and benefit from digital ecosystems. Amazon, which, began as an e-commerce platform, has evolved into an ecosystem by successfully attracting many service providers to its platform. By logging into just one app or website, customers can choose from a wide range of offers and buy what suits them best. Over time, Amazon has enhanced the richness of its platform, integrating multiple payment options, analytics-based recommended offers and pricing, rewards, and loyalty programs etc. All this has collectively deepened customer engagement while also expanding the ecosystem by attracting new providers and offerings.

For customers, the benefits of such an ecosystem clearly include bundled and discounted offers, along with digital access to a larger set of goods and services from the comfort of their homes. Ecosystem members benefit from quick and easy digitally enabled access to a loyal pool of customers- a valuable asset that is far harder for individual business to build. They also are more data points to refine customer personas and anticipate their needs. All this leads to sustained growth in revenues and profits.

Ecosystems are here to stay, although they will continually evolve, as will the strategies that companies adopt to extract value from them. A recent survey carried out jointly by Deloitte[1] Consulting AG and The Ecosystems Competence Center of the Business Engineering Institute, St. Gallen, concludes that by 2025, "about 30% of the revenues in the financial services industry will be generated in cross-sector ecosystems". More than half of the respondents said that their businesses are already offering services as part of ecosystems; three-quarters of the respondents expect to be an active member of an ecosystem within the next three years. A whopping 77% of respondents believe that "ecosystems will have significant importance on the future growth of their business".

Banks too have begun to respond with models such as "Banking as a Service" (BaaS), "Open Banking" and "Platform Banking". Each of these is a step towards an ecosystem play but is not enough to take on well-entrenched first movers like Amazon and Google whose powerful, proven technology platforms are capable of not only delivering superior customer experience, but also enabling easy onboarding of new members into the ecosystem. To benefit from their ecosystem strategies, banks must speed up their journeys to deploy platforms on which a host of other businesses can provide customers more completely with groceries, restaurants, clothing, leisure, travel, healthcare, entertainment and pretty much everything else they might need.

Innovative fintechs offering an array of solutions around financial wellbeing are also stitching together digital joint ventures with banks, insurance companies and other businesses. This gives the latter easier and quicker paths to providing a wider range of solutions that their customers need. The fintechs, on their part, can piggyback on large customer bases and able to grow faster than would have been organically possible. Such an arrangement also reduces marketing and customer acquisition costs for fintechs, increasing their profitability.

Given that ecosystems are going to be a dominant business model of the future, banks that position themselves quickly to play the ecosystem game will benefit more. But this will call for new ways of thinking. In the past, proprietary systems were a source of significant value to banks; going forward, their competitive edge will depend on speedy deployment of secure, scalable technology platforms that spur collaboration, customer-centricity and innovation to deliver higher levels of Business Experience to customers. Platforms must be able to attract and retain both partners who provide goods and services, as well as customers.

The Building Blocks of Successful Ecosystems

It is convenient to think of ecosystems as digital joint ventures between multiple partners. But like any other joint venture, an ecosystem cannot succeed by just bringing together different participants. In addition to a shared purpose and commitment to sustaining the ecosystem by keeping customers front and center, three other specific conditions must be met by members of the ecosystem. Individually and collectively, the co-participants in an ecosystem must:

- Possess the ability to harvest insights from the customer data sets they capture from diverse sources and in various formats.
- Have access to technologies that allow them to seamlessly, quickly and efficiently exchange information on a real-time basis so that they can present customers with the right bundles of offerings at the right price through the channel of the customer's choice.
- Work towards shared operations where feasible (e.g., common delivery infrastructure or other enablers of business experience) and share insights to drive operational excellence, innovation, and higher levels of customer-centricity.

Needless to say, the above capabilities must comply with industry specific as well as other regulations, such as data protection and privacy rules, IPR, competition & anti-trust laws etc. Individual businesses in the ecosystems, and ecosystems as a whole, must also comply with all the laws that apply to those jurisdictions where they operate.

While the above-mentioned capabilities are necessary for an ecosystem's success, they are not sufficient. Increasingly, winning and sustaining customer trust through transparency and by delivering superior business experiences that focus on customer outcomes and not just engagement or the sales/purchase process (e.g., UX, CX) will be critical. In the context of ecosystems, where multiple business entities are involved, this task will only be harder.

The Right Technology Underpinnings Are Critical to The Success of Ecosystems

In a digital world where customers increasingly demand "Business Experience" (BX) that goes beyond user and customer experience (UX and CX), ecosystems need the right mix of technological capabilities to deliver on their potential. Blockchain technologies are enabling secure transactions that are more tamper resistant. IoT capabilities are helping enterprises capture a wider range of operational and customer data. The combination of powerful processors and AI-driven analytics engines makes it possible for enterprises to efficiently process the massive amounts of structured and unstructured data that the businesses capture through various sources. Often, this happens in near real-time, generating insights that enable businesses to better understand customer needs, wants and preferences.

The greater depth and diversity of data and insights in an ecosystem potentially offers participants more robust bases for making decisions around offerings, pricing, marketing messaging, channel of sales engagement etc. But these larger and richer datasets can be meaningfully utilized only if the ecosystem has the right technology capabilities in place. Also, individual customer data cannot be shared without permission. This will require participants to come up with appropriate safeguards, including at the overall ecosystem level, so that there is no data breach. A data security or privacy breach at the ecosystem level can impact the reputation of all participants.

Ecosystems need robust technology platforms that seamlessly integrate diverse technological and functional capabilities, besides offering high levels of agility and flexibility and lower latency. Such platforms must make it easy for partners to get onboard and thus contribute to and benefit from the ecosystem. Shared applications are needed to enable easy and real-time information exchange. An IDC report[2] titled "Future of Industry Ecosystems: Shared Applications", identifies Shared Applications as the "enabling set of technologies that power collaboration, communication, innovation, and operation" in industry ecosystems. Shared applications enable data to be analyzed and shared, so that customer needs can be sensed in time and appropriate actions to address them efficiently can be taken through efficient and sustainable business operations. The report characterizes shared applications as "a critical lynchpin that enables industry ecosystems to profitably grow, flexibly shift, and continually thrive, now and in the future".

Members will need federated access to applications and data through Open APIs and webhooks. Just as critical to the platform will be access to agile and efficient pricing and personalization engines that can work on the fly with real-time data. In addition to the right Shared Applications, ecosystems also need the right infrastructure- for example, edge data centers that reduce latency and thereby provide customers with better content and functionality experience.

Advances such as Cloud-based computing have led to Applications, Data storage, Security and Infrastructure being delivered as "on-demand services". This has led to a clear distinction between ownership of technology assets and benefiting from their use. Companies no longer need to own the underlying technology assets to be able to use them to derive benefits. Similar thinking must be applied to technology platforms that support ecosystems: it is no longer necessary for banks or other businesses to develop (and own) their own technology stacks and platforms.

Integrating Proven Technology Platforms Will Compress Time-To-Value for Both Orchestrators of Ecosystems and Other Participants

Building and managing the complex, high-performance, secure digital platforms, and shared applications necessary for ecosystems to function smoothly requires a high degree of visioning ability, business savvy and expertise in emerging technologies. Irrespective of the level of technical and project management expertise that banks or other businesses looking to build ecosystems possess in-house, we at SunTec believe that it is better for them to integrate third-party platforms rather than build platforms from scratch.

Our belief is rooted in the following reasons:

- Technology companies have years of experience in designing, building, deploying, and maintaining software platforms. The economic principle of comparative advantage applies as much to digital platforms as it does to any other product.

- Speed is of the essence. Building a platform from scratch can take a long time; with every passing day, recapturing market share, regaining top of mind recall or creating appeal in potential partners will become more difficult.

- Building a new platform from scratch will require significant investments. And at the end of an arduous, expensive journey, there is no assurance that the platform will perform as intended or deliver the kinds of benefit expected.

- Third party platforms have been tried and tested in many environments; they are constantly improved from the standpoint of performance, security, architectural agility, scalability etc.

- Their standard architecture allows easier plug-and-play as well as easier integration with the systems of individual ecosystem members.

- A McKinsey report[3] points out that the high degree of technological innovation required to solve business problems is causing a shift from traditional sourcing management to “technology ecosystem orchestration”. This involves companies working with multiple service providers with niche capabilities, “putting a premium on interoperability between the providers” and being collectively accountable. Businesses (and ecosystems) gain access a greater range of capabilities and plug-and-play flexibility when this mode is effectively implemented.

- Real savings will come not from having the lowest-cost service provider build platforms for the ecosystem, but by harnessing their expertise and insights to put in place platforms that can be deployed faster, and deliver higher levels of agility and scalability, besides offering rich functionalities around predictive analytics, dynamic pricing, personalization etc.

Business Leaders Must Focus Their Energies on Enhancing the Non-Technology Facets of Their Business and The Ecosystem

The approach we have outlined does not mean that business leaders should (or can) sit back and wait for their technology platforms to be in place. As stated in an earlier section, a robust technology platform is necessary, but not sufficient, for creating and sustaining a vibrant business ecosystem. Leaders of banks and other businesses looking to co-create ecosystems must focus on building stronger brands, refining business models and strengthening operational capabilities to deliver superior Business Experience. By "sticking to their knitting", members of the ecosystem can drive innovations that raise the level of business experience for customers across the ecosystem.

Strengthening the brands of individual participants will enhance the reputation of the ecosystem as a whole. Combined with a robust technology platform, this will help attract more partners to the ecosystem. This will enable the ecosystem to service a larger set of customer needs, which in turn will attract more customers and drive loyalty and stickiness. This will also elevate competition from the level of individual companies and brands to the level of the entire ecosystem. The larger pool of human and financial resources at the ecosystem's disposal will work as a "moat", making it that much harder for rivals to breach.

Of course, in all this, there must be a high level of governance to ensure that the technology stacks and platforms comply with all relevant security standards and protocols to make them robust, resilient and responsive. Banks and other businesses that seek to build ecosystems must decide if they want to be platform orchestrators or more passive participants. Orchestrators take the lead in making key decisions around:

- Differentiating their platforms from others in the market
- Strategies to increase adoption and participation
- Rules of competition/collaboration within the ecosystem
- Where, when, and how to innovate

Participants, on the other hand engage with ecosystems to gain visibility, promote their brands, win customers, and drive growth in revenues and margins (by reducing marketing and customer acquisition costs).

Ultimately, the creation of a robust, secure, and efficient technology foundation for an ecosystem is a collaborative exercise between members of the ecosystem and technology experts. The desired outcomes from this process can be achieved by following these guiding principles:

- Focus on sensing and optimizing demand, as well as optimized bundling, agile pricing, and efficient delivery so as to deliver the highest levels of Business Experience to customers (while also optimizing revenue and margins for members).
- Invest in enabling technologies such as AI, Analytics, AR etc. for shared applications.
- Harness the power of the Cloud to make collaboration smoother.
- Embrace low code/no code software development tools that make it easier for non-technical stakeholders within the ecosystem to develop robust mutually beneficial applications quickly and without relying on external parties.
- Strong governance mechanisms to safeguard IPR, data security, user authentication etc.
- Rigorous selection of technology partners based not just on track record but also evidence of innovative solutions to modern business challenges.

Conclusion

Business ecosystems are becoming popular because of the various benefits they have the potential to deliver- not just to members, but also to customers. Different industries will find the model attractive for different reasons. Embracing ecosystem-based strategies will help banks all over the world to ward off the serious threats posed by neo-banks, fintechs and BigTechs. Businesses in other industries too are embracing ecosystem-driven strategies to sustain growth in a hyper-competitive, digitally disintermediated marketplace.

The right technological underpinnings are necessary for ecosystems to succeed, although by themselves, robust technology platforms are not sufficient. There are other factors that determine how attractive an ecosystem is to providers of goods and services as also to customers. Every ecosystem will need a lead orchestrator, who is responsible for making key decisions around the platform and ecosystem governance.

Each passing day gives competitors and rival ecosystems time to get further ahead. Therefore, speedy deployment of the right technology platforms is of the essence. For reasons of speed, and several other reasons, we believe it is better for orchestrators to leverage proven third-party platforms instead of building a platform from scratch.

When adopting this approach to creating speedy access to a robust technology platform, business leaders within the ecosystem must provide strong governance mechanisms to ensure that risks are managed, and compliance is not compromised. Simultaneously, they must focus on innovations and process improvements that deliver superior business experience to customers, thereby building loyalty and sustaining growth. This will help ecosystems monetize their potential more efficiently and effectively.

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Source

[1]
https://www2.deloitte.com/content/dam/Deloitte/ch/Documents/financial-services/deloitte-ch-fs-en-summary-ecosystems-2021.pdf

[2]
https://www.idc.com/getdoc.jsp?containerId=US47575321

[3]
https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/building-a-tech-services-ecosystem-to-deliver-products-not-applications

About SunTec

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