



Winning in the Ecosystem Economy

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PLUG AND PLAY TECH CENTER
SUNNYVALE, CA



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hello.

Leslie Chacko
Director, Transformative Technologies

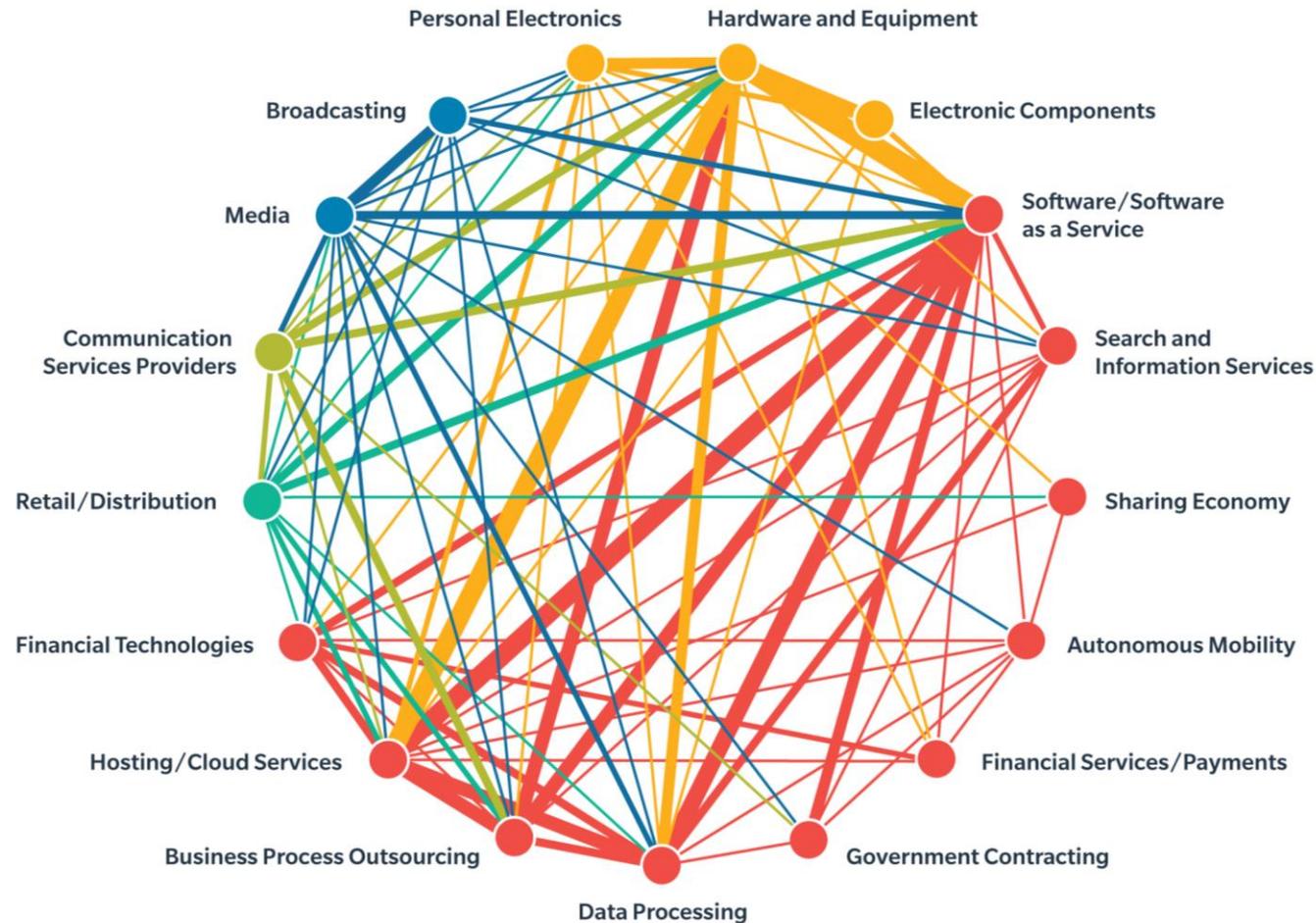


**MARSH & MCLENNAN
INSIGHTS**

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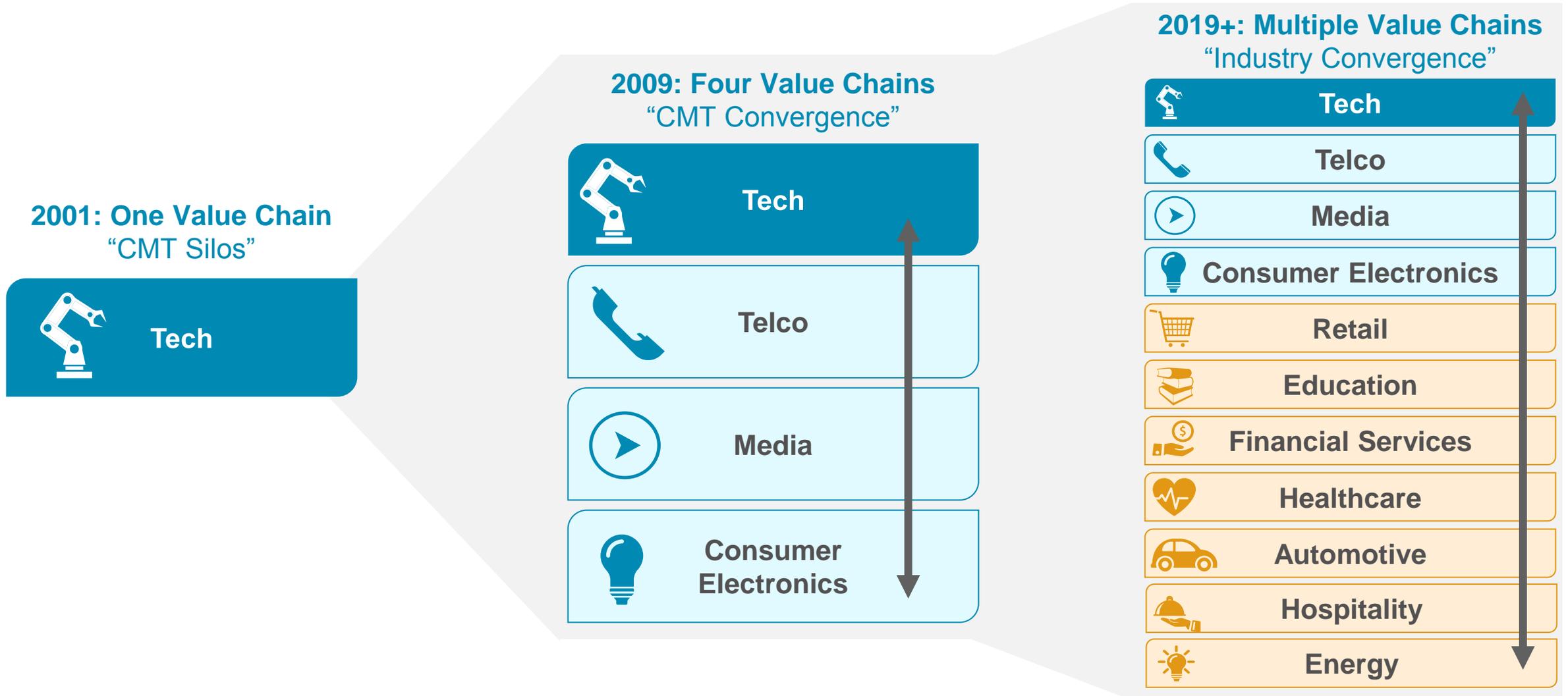


Tech companies are leading the next wave of disruption into almost all industries as both a participant and an enabler



Source: 2019 Marsh CMT Risk Survey

This disruption has been happening for the past 20 years



What is at
stake?

~\$100 Tn

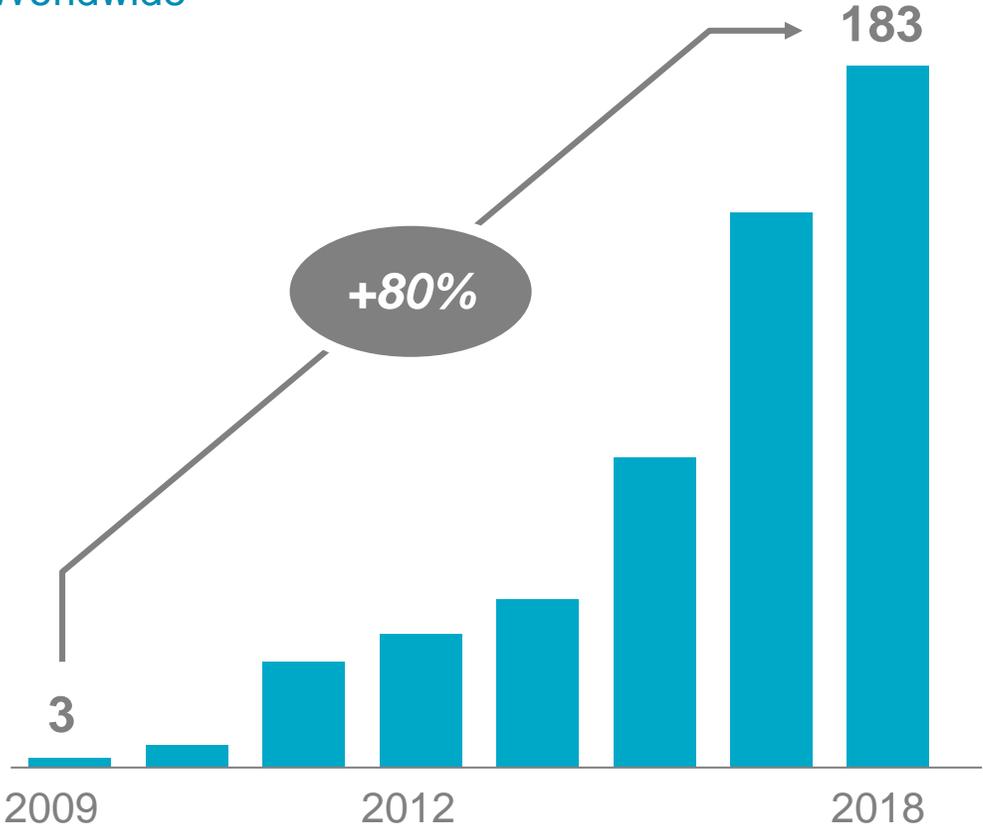
2025 combined value of digital
transformation across industries



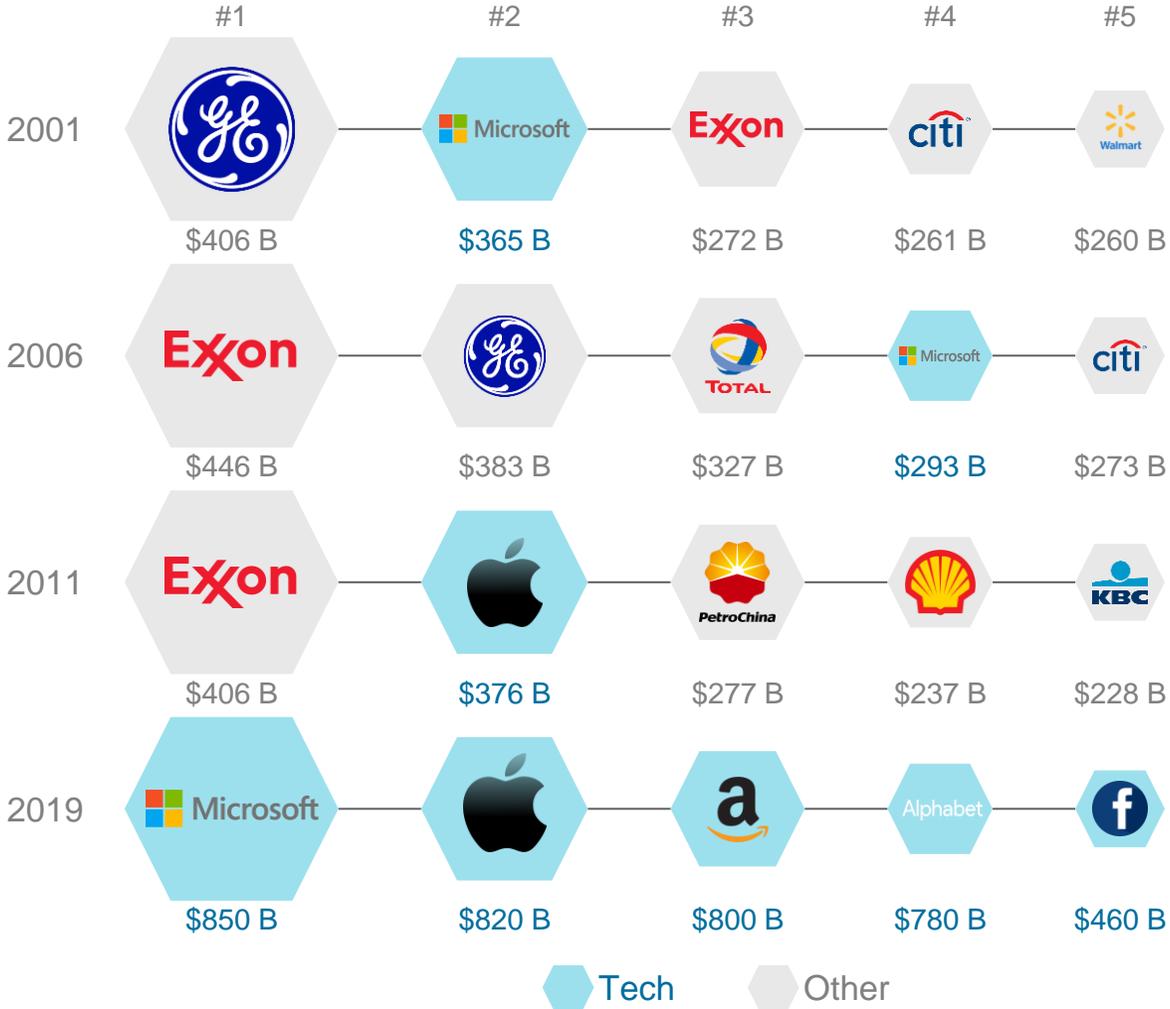
That's ~5x US GDP

However, value has been migrating unequally to tech companies

Number of unicorns
Worldwide

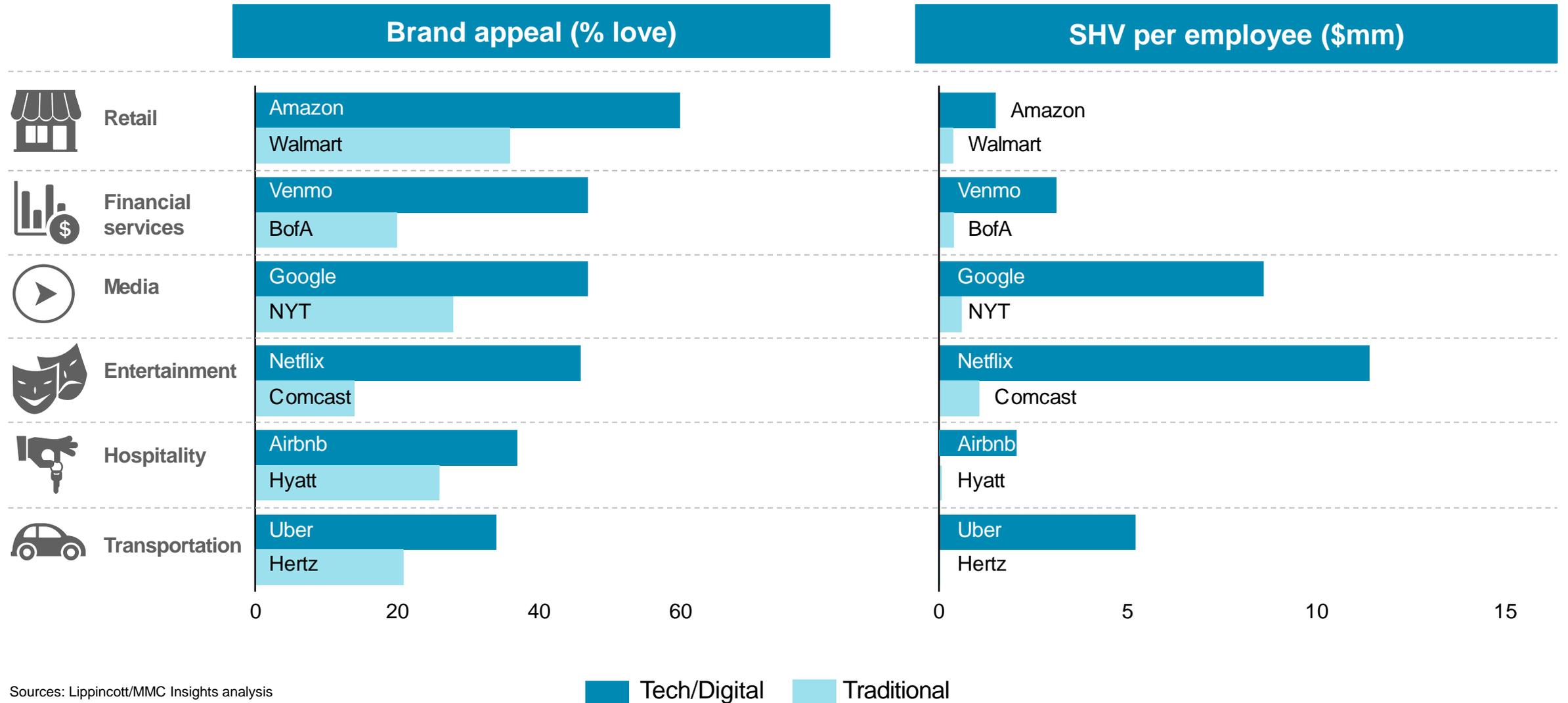


Top five publicly listed companies (by market cap)



Sources: Angus Maddison OECD, Population Reference Bureau, Population Pyramids, OW analysis, IoT Analytics, Visual Capitalist

This value migration is becoming evident across multiple industries

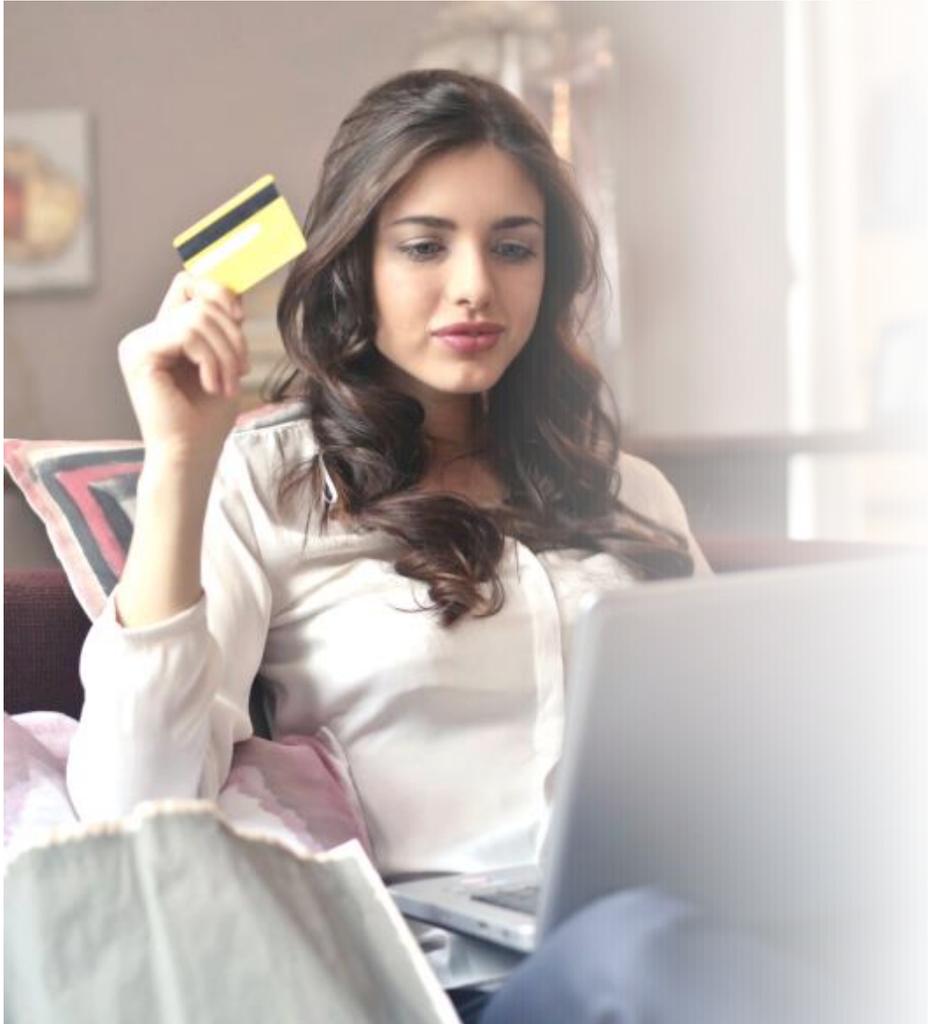


How are tech companies
beating the incumbents?

1

Focus on the
customer's priorities

Customer priorities have shifted dramatically in the last two decades



Mobile-first



Hyper personalization



Hassle-free, frictionless



Shorter attention span/loyalty



“I want it right now”



Health-conscious



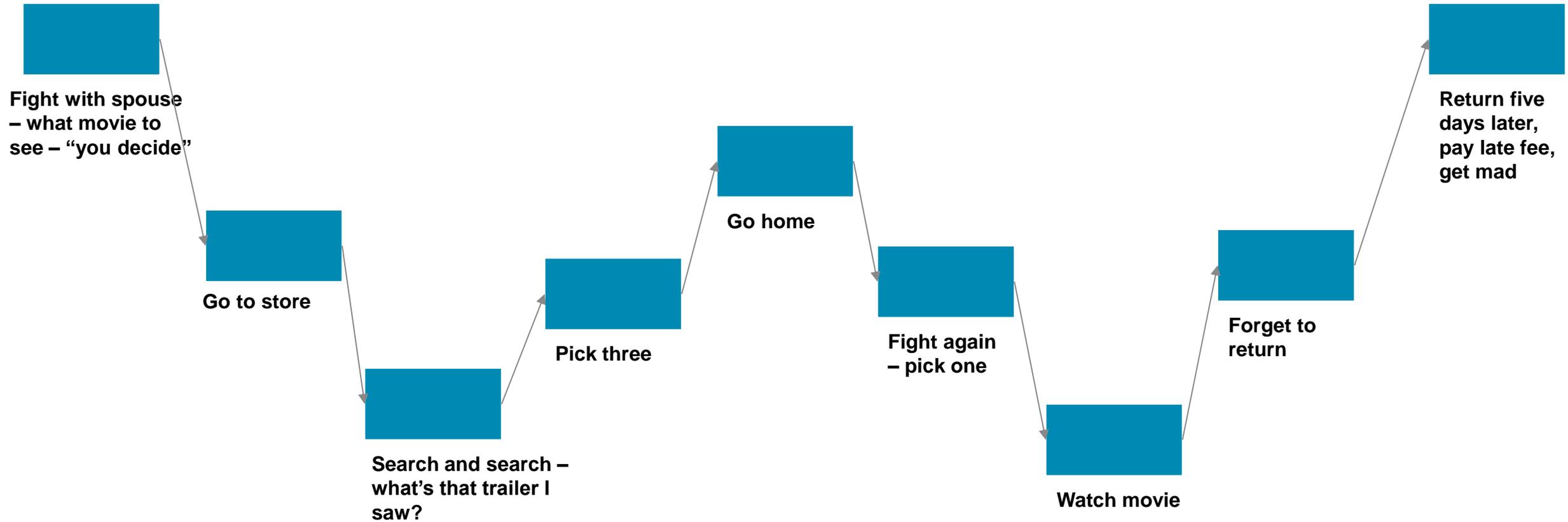
Spending on their passions (trading up)



Willing to share resources (sharing economy)

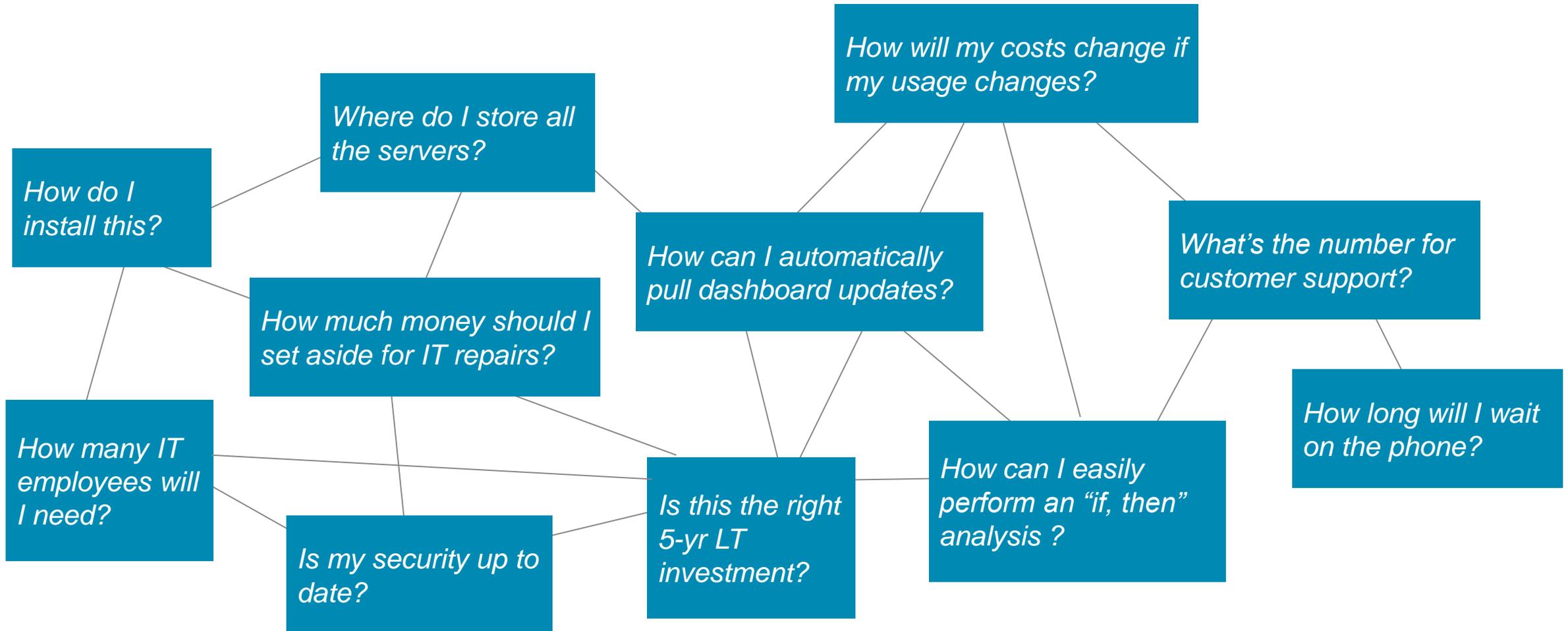
Customers also deal with problems. Lots of problems.

Example 1: Movie night...circa 2000



Customers also deal with problems. Lots of problems.

Example 2: Customer relationship management



2

Prioritize platforms
over products

Platforms have taken on a broader meaning

*“A platform is a **technology framework** that allows new applications or processes to be built and supported.”*



*“A platform is a **business framework** that allows multiple business models to be built and supported”*



Tech companies prioritize developing platforms over products

Product



Acts as...

Phone

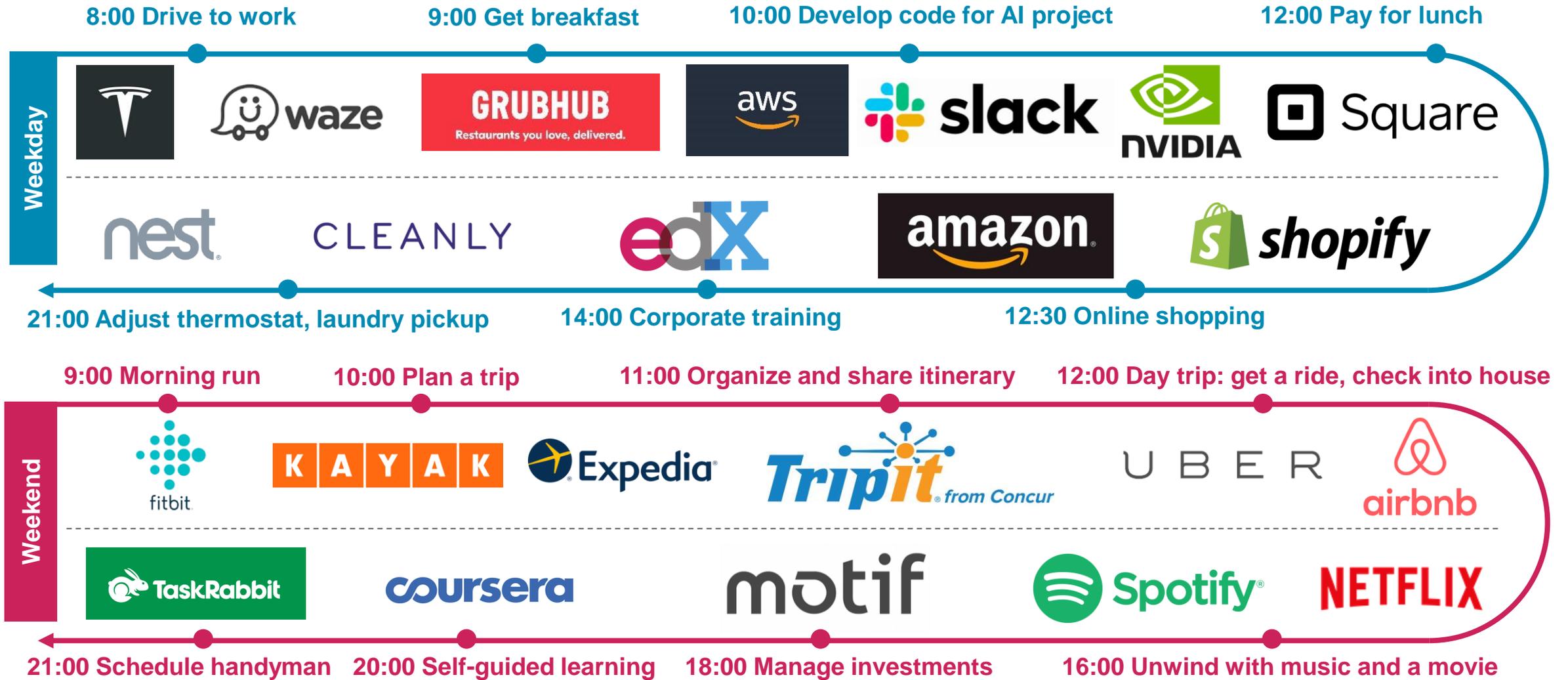
Platform



Acts as...

- Phone**
- Wallet**
- Camera**
- Music Player**
- Magazine**
- Journal**
- Web Browser**
- Keys**
- GPS**
- Exec assistant**
- ...**

Anything that can be a platform, will be a platform



Platforms can take on multiple roles

AGGREGATOR

Combine services and add value



CURATOR

Suggest relevant options based on previous user behavior



NETFLIX

**ORCHES-
TRATOR**

Collaborate tasks across channels

nest.



ADVISOR

Learn from the user and guide them



motif

**MAKER/
ENABLER**

“Provide the pickaxe”

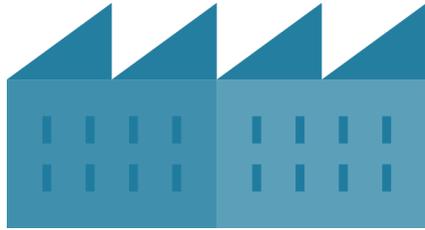


3

Expand through
modular ecosystems

A business ecosystem creates exponential value for the customer

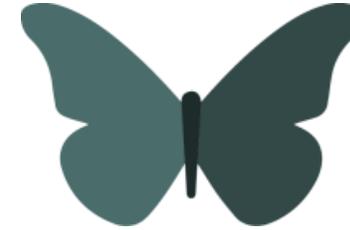
The old way: Integrated value chain



“LET’S BUILD A MOAT”

- **Products** hold higher value
- Power of suppliers and customers is considered **threatening**
- Interactions are either competition **OR** cooperation
- Customers are considered **passive** consumers
- Individual success is dependent on the **own firm**
- Focus: **Building barriers**

The new way: Modular ecosystem



“LET’S BUILD A NETWORK”

- **Networks** hold higher value
- Power of suppliers and customers is considered an **asset**
- Interactions are **complex co-opetition relationships**
- **Customers become co-creators of value** as peer producers
- Individual success is dependent on the **health of the ecosystem**
- Focus: **Adding value** to platforms

Tech firms recognize the value of an ecosystem design...

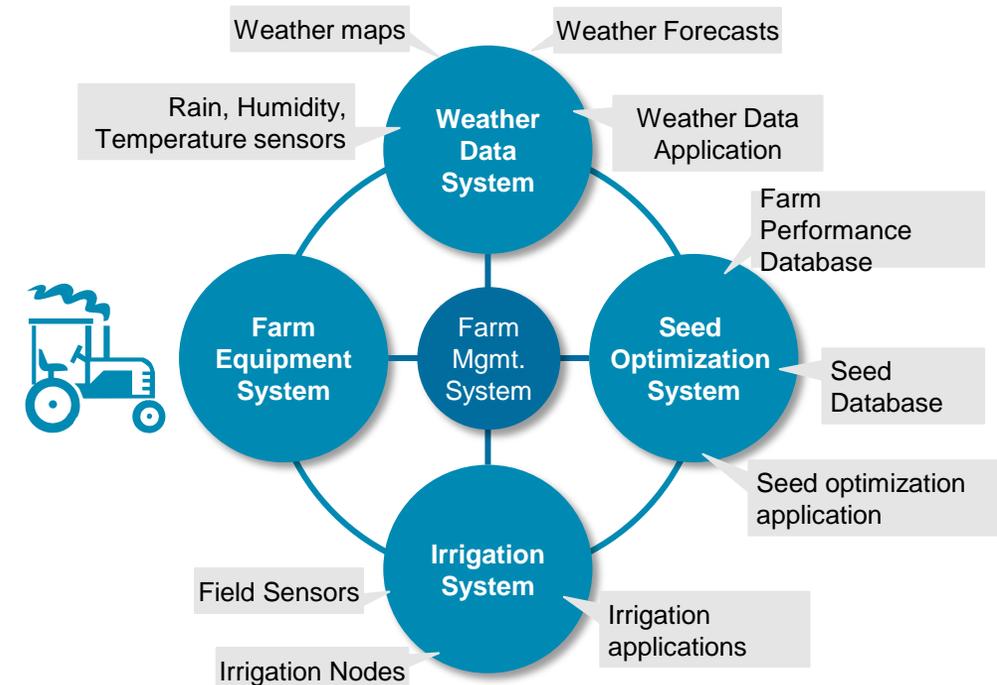
Customer: I don't have a tractor problem...



The old way: Integrated value chain

- Single product
- Sell quality and earn margin

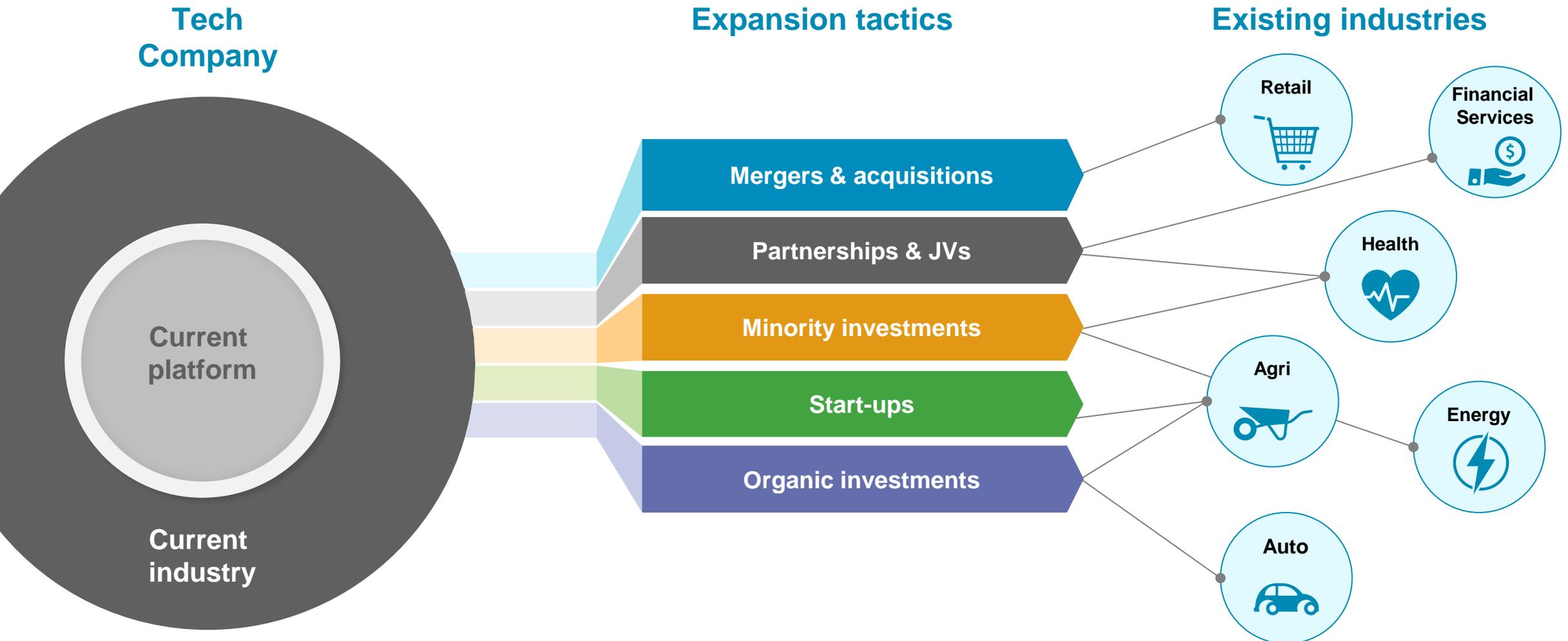
...I have a farm productivity problem



The new way: Modular ecosystem

- Connected modules of measureable systems
- More productive when sold to thousands of farms

...and will use multiple tactics to expand their ecosystem



Example 1: Expanding beyond the thermostat business



Product



**\$ 3 Bn
thermostat
business**

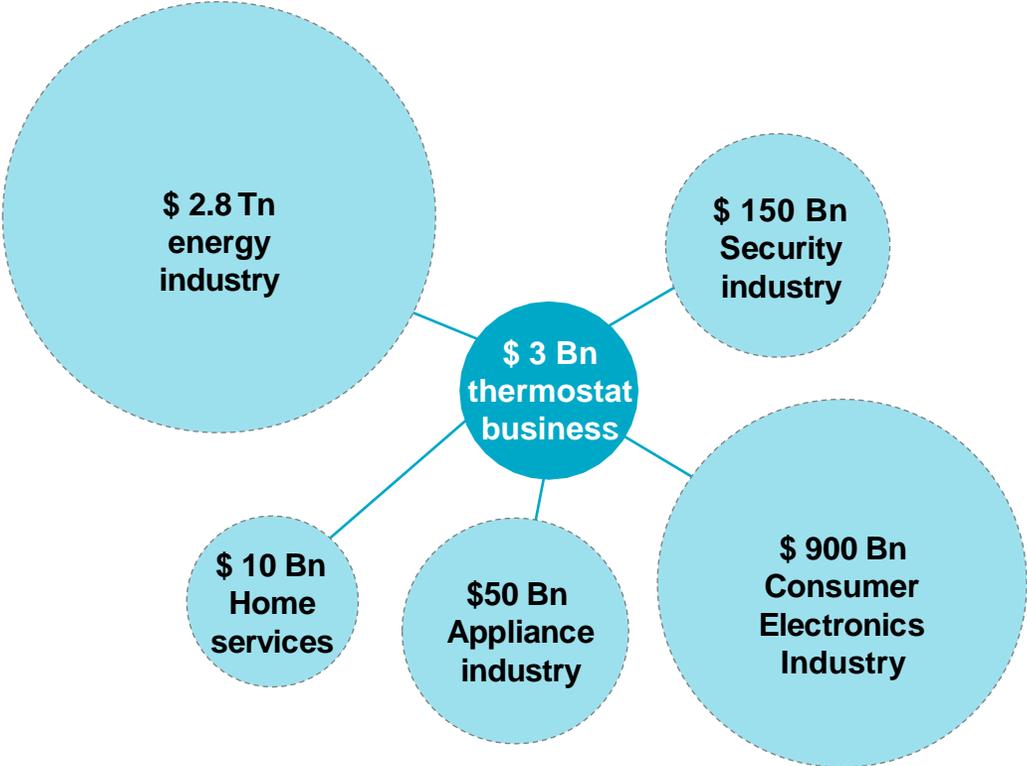
- Single product
- Sell quality and earn margin

Platform



- ✓ Mergers & acquisitions
- Partnerships & JVs
- Minority investments
- Start-ups
- ✓ Organic investments

- In the flow of the data
- Expands value capture by selling services to utilities, manages appliances
- Learning system: customizes to your life, know your needs, works on your behalf



Example 2: Expanding beyond the automotive business

Master Plan

Posted August 2nd 2006

Build sports car



Use that money to build an affordable car



Use that money to build an even more affordable car



While doing above, also provide zero emissions electric power generation options

Master Plan, Part Deux

Posted August 2nd, 2016

Create stunning solar panels with seamlessly integrated battery storage

Expand electric vehicle product line to all major segments

Develop a self-driving car that is 10x safer than manual via massive fleet learning

Enable your car to make money for you when you aren't using it

Example 2: Expanding beyond the automotive business



Product



**\$ 2 Tn
Auto
business**

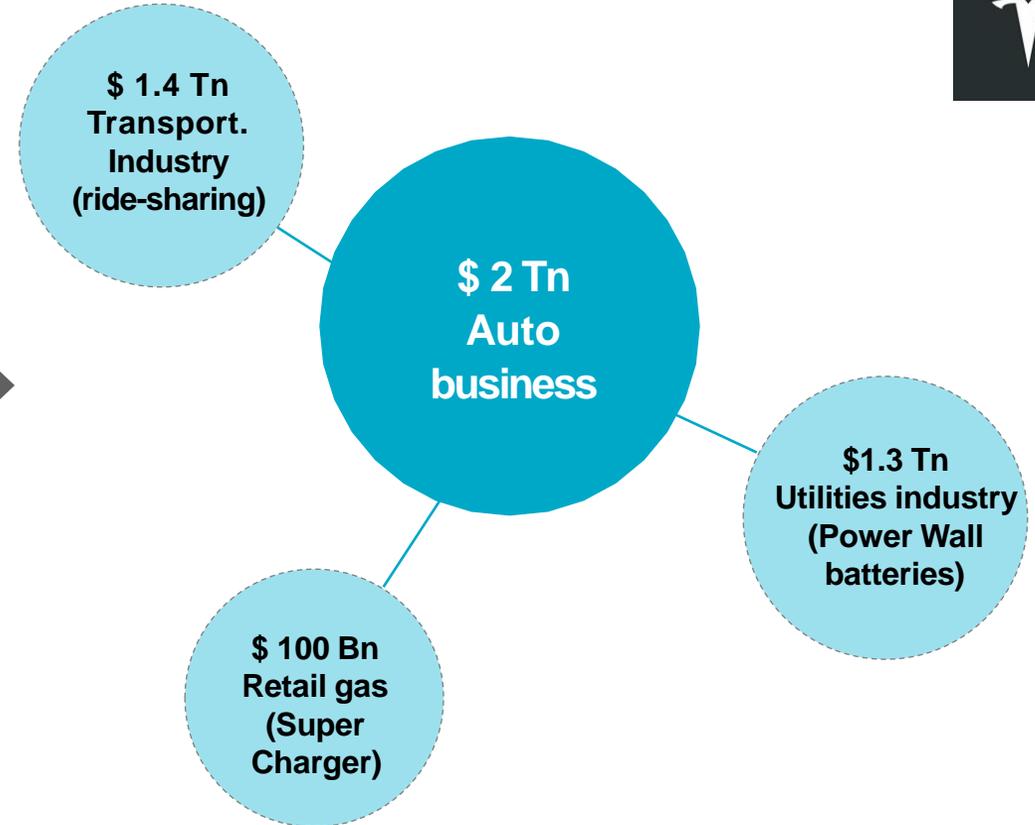
- Single product
- Sell quality and earn margin

Platform



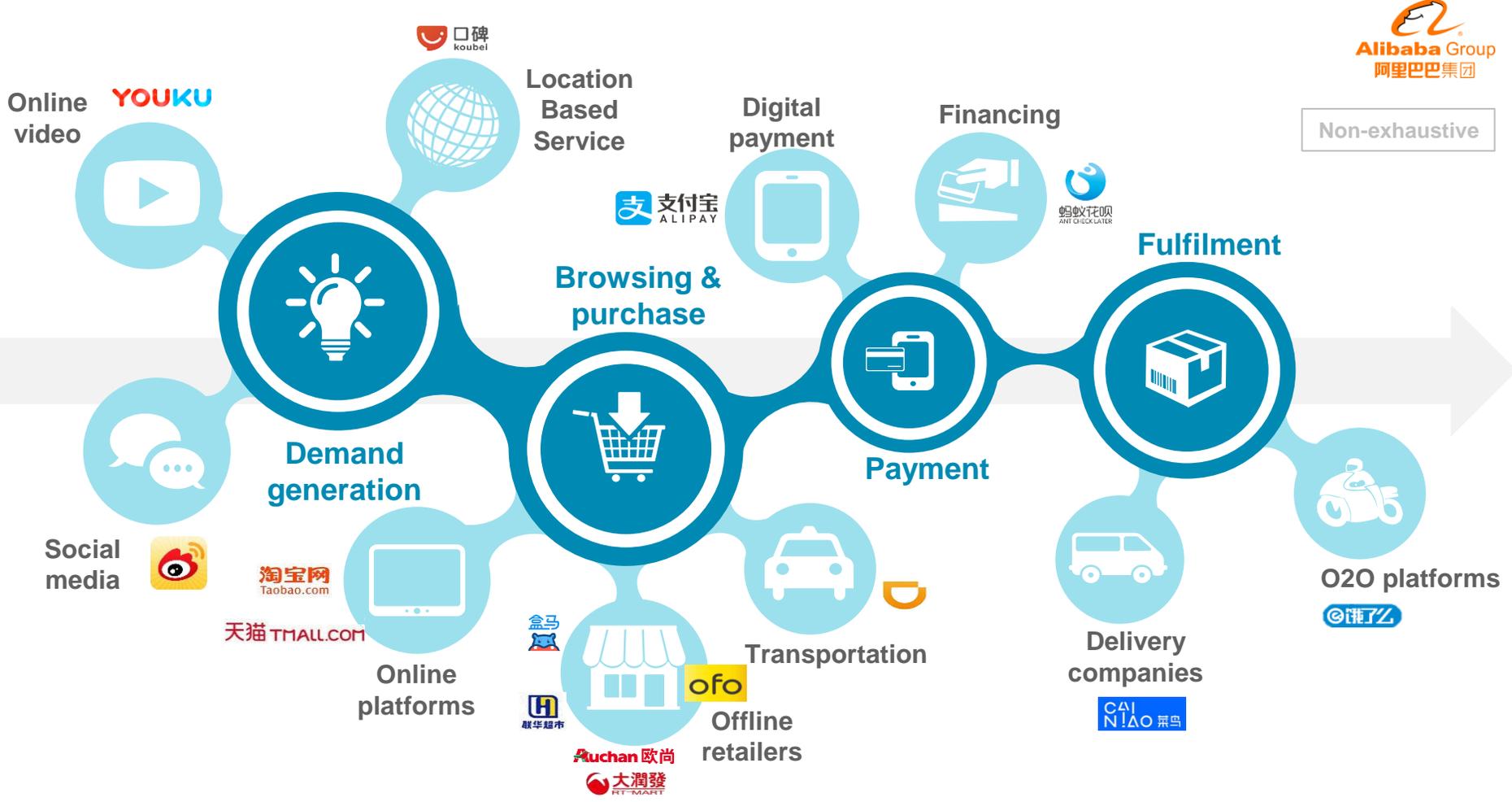
- ✓ Mergers & acquisitions
- ✓ Partnerships & JVs
- Minority investments
- Start-ups
- ✓ Organic investments

- Acquisition of Solar City to expand into utilities
- Organic investments in automotive platform to expand into ride-sharing



Example 3: One company acts as the “retail operating system”

Goal: Stay in the center of retail ecosystem and interact with every stakeholder

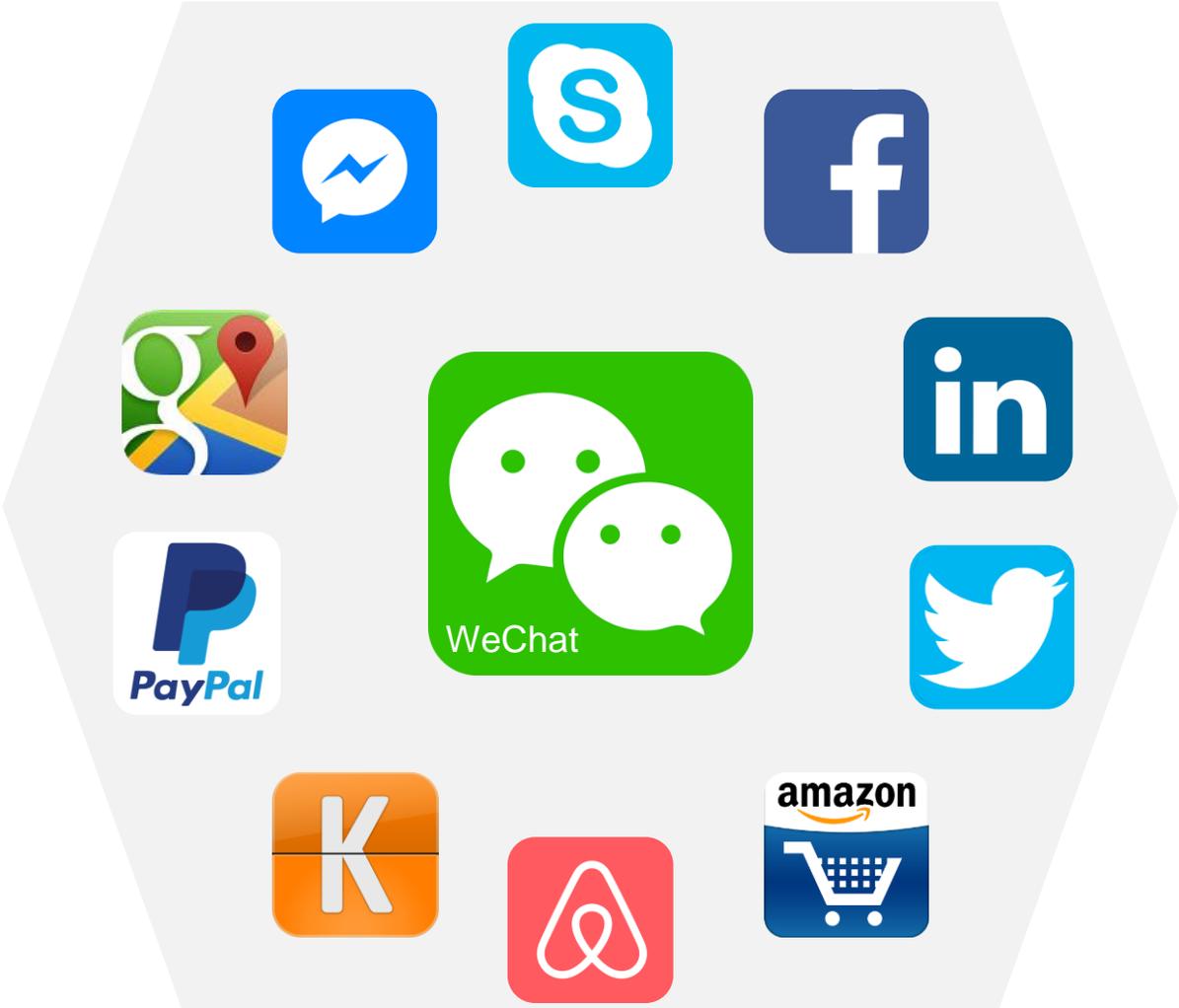


Non-exhaustive

- ✓ Mergers & acquisitions
- ✓ Partnerships & JVs
- ✓ Minority investments
- ✓ Start-ups
- ✓ Organic investments

Example 4: Single interface acts as a “life operating system”

 **60%**
of Chinese
Mobile time



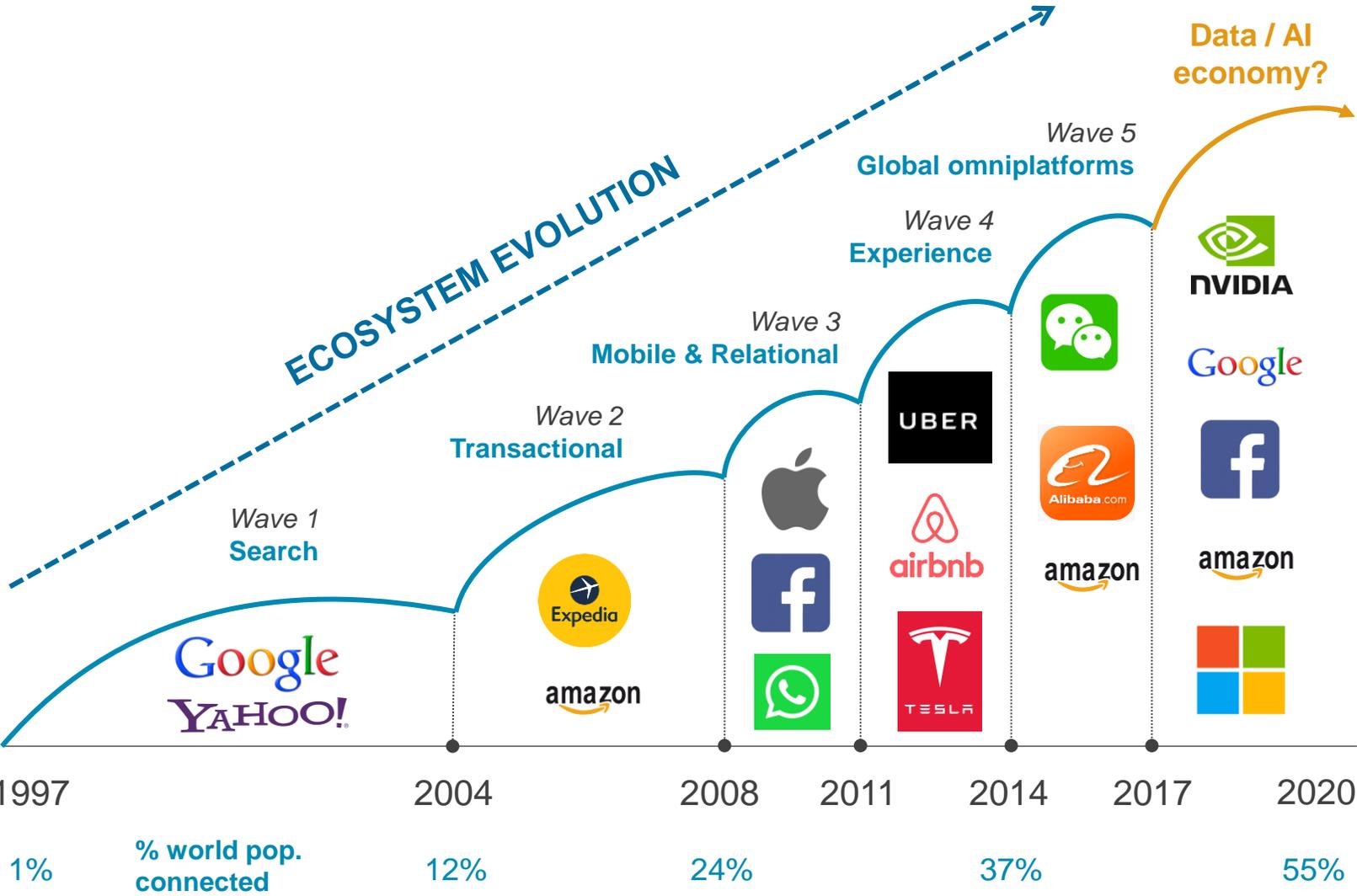
Tencent 腾讯

 **850MM**
users
200MM for payment

- Mergers & acquisitions
- ✓ Partnerships & JVs
- Minority investments
- Start-ups
- ✓ Organic investments

 **10%**
of Chinese
monthly salary
through WeChat

Business ecosystems will continue to rapidly evolve



Evolution drivers

-  Changes in customer **consumption behaviors**
-  Economies of scale with **ecosystem expansion**
-  Emerging tech adoption (AI, IoT, VR/AR etc.)
-  Accelerated creation and use of **data**
-  Faster **innovation cycle** (2-year disruption cycle)

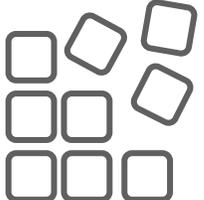
A person wearing a bright yellow raincoat is seen from behind, sitting on a rocky outcrop. They are looking down at a winding asphalt road that curves through a dense, green forest. The scene is captured in a cinematic, slightly dimly lit style, suggesting an overcast or rainy day. The road has a yellow center line and white edge lines. The forest is thick with various shades of green, and the ground around the person is rocky and covered with some sparse vegetation.

This sounds
fantastic.

What could go
wrong?

Four risks are emerging for ecosystem players

Fragmentation of ecosystems



Proliferation of players across the value chain

Increasing difficulty in **managing supply chains, attracting investment, and delighting the customer**

Increased operational risk



Growing dependency on **tech firms** as enablers of ecosystems

Ecosystems players prone to **state sponsored cyber attacks, terrorism, fraud and legal disputes**

Reactive governance and regulations



No clear shared **rules/incentives** for fairness, accountability and transparency

Governments exact higher level of scrutiny and punishment on **influential players in the ecosystem**

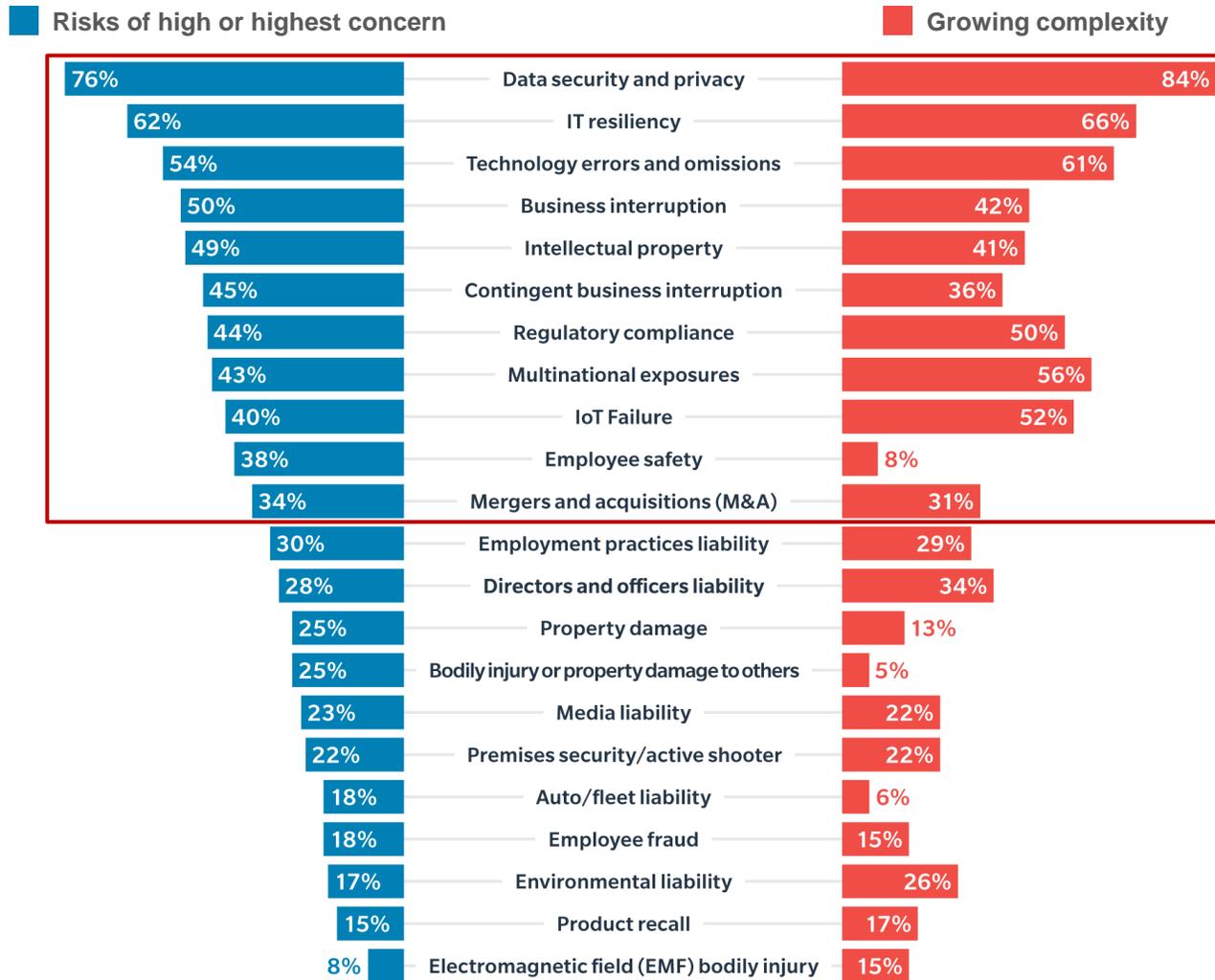
Societal obligations unchecked



Customer **data privacy**, workforce **social contracts** are strained

Workforce and customer trust erosion – **social contracts have to be revisited**

These issues are already being identified by many firms



Major risk drivers

- Ecosystem cross-border expansion
- Rapid 3rd party partner growth
- Increased M&A velocity
- Lack of emerging tech standards
- Lack of business operations readiness
- Growing concentration risk
- Regulatory scrutiny on ecosystem players
- ...

Source: 2019 Marsh CMT Risk Survey

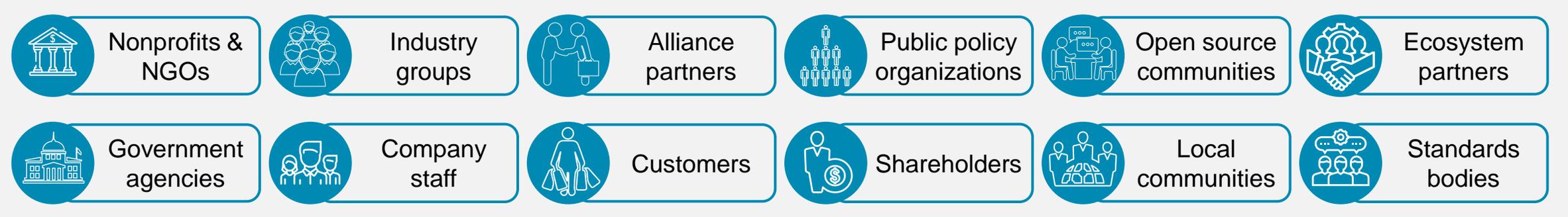
Succeeding in the ecosystem economy will require the attention of multiple stakeholders

Preliminary

Objectives: Create business value, excite customers, mitigate risk, ensure a sustainable economic impact...



Stakeholders



Start by asking these questions

-  What is your company's role in the ecosystem? How are you enabling value?
-  Who are your ecosystem partners? Where are the potential weak links in your ecosystem?
-  What technologies enable your ecosystem? What guardrails are in place to govern these technologies?
-  How is customer data shared and handled?
-  What workforce strategies are being enabled for your ecosystem?
-  How does your products and services influence society? Do social contracts exist?
-  How are you involved in improving or updating government regulation for the ecosystem?

Let's continue the conversation

Social media



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