



In Uncertain Times, Double Down on Business Ecosystems

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As companies today struggle to navigate global economic and political headwinds, some are responding by trimming their funding for digital ecosystems. This after years of uninterrupted expansion and generously funded forays into ecosystems to support the development and marketing of everything from new banking and retail systems to smart-farming solutions. These digital ecosystems have enabled improved customer experience, connecting groups of companies to deliver products and services on shared digital platforms. They've been the backbone of well-known brands such as Amazon, Meta, and AirBnB.



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But today, even the largest tech players have not escaped cutbacks, such as Amazon's recent reduction of its workforce and funding for a variety of units. That included paring down the Alexa voice ecosystem, which only a few years ago was seen as a new revenue vehicle and critical ecosystem for the future.

However, there is another path that companies should consider. Rather than trimming their digital ecosystems, companies should double down on such investments to **build resilience**, exploit new opportunities, and lock up competitive advantage into the future. This is not to downplay the complexity or severity of today's geopolitical and economic challenges. But even amid such concerns, companies that have gone against the grain and used turbulent times to invest in their digital ecosystems have often been rewarded.

How Digital Ecosystems Can Support Business Resilience

An apt illustration of such investment is a leading fintech company, whose merchant payment processing app—the company's primary business line—crumpled during the COVID-19 pandemic as foot traffic declined for the small businesses that used this service. Responding to this sudden sales shortfall, the company created a fintech ecosystem by closely linking another of its units, a banking services provider, to its merchant payment processor. In this ecosystem, users could, among other things, automatically receive their paychecks in online bank accounts and, by scanning a QR code on their smartphones, make purchases from merchants that processed sales in the ecosystem. Other participants were ultimately integrated into the ecosystem. But this initial simple connection between two units of a larger company drove outsize results. In the three years ending February 2023, the banking services app reported a compounded annual growth rate of 84% and the payment processing app's CAGR rose 51%.

How can other companies similarly develop their ecosystems and enjoy this kind of growth? Depending on their industry, rate of competition, and extent of digitization, individual companies may focus on different elements of their ecosystems. But viewed broadly, investments into digital ecosystems can potentially support business resilience in difficult periods in three distinct ways. They can protect the

top line, enhance and improve supply chain efficiency and capacity, and boost ambitious strategies that boldly take advantage of economic and marketplace turbulence.

Protect the top line.

Ecosystems allow companies to diversify their revenue streams by broadening their portfolios away from their core businesses, which may be weakened during a downturn or global crisis. As we saw with the fintech's payment processing app, it is best to link these new channels to existing platforms, simplifying the development of the ecosystem. A good example is Best Buy Health, a Best Buy home health venture that combines the retailer's technology sales and distribution expertise and networks with two more recent offerings: a remote patient monitoring platform called Current Health, and Lively, which provides smartphones, medical alert devices, and a help center for seniors.

Ecosystems that hew closer to a company's primary businesses can also limit exposure to a sales slowdown by enhancing customer loyalty and driving new customer activity. That is what DBS Bank in Singapore had in mind when it established the DBS Marketplace, which offers customers an array of products and services that go beyond pure financial services, in areas such as home and living, travel and leisure, mobility, and health.

Perhaps the most powerful aspect of a business ecosystem is its modular structure—the components of the platform are designed independently yet function as an integrated whole. To maintain and increase revenue, these components can be enhanced, altered, or replaced depending on shifting customer demand and preferences. For example, Airbnb seamlessly shifted its emphasis from urban to rural bookings during the pandemic as large numbers of people hoped to safely take a break from the confines of city apartments. Airbnb also began offering Zoom sessions led by expert “hosts,” including meditation with Buddhist monks and cooking lessons, further cementing the company's relationship with its customers even if they couldn't physically travel to an Airbnb location.

Improve the supply chain.

Particularly during crises, overreliance on individual suppliers can disrupt a company's ability to provide products to customers. Whether it is sharply reduced factory output—as occurred during the pandemic lockdowns—and the subsequent difficulties of suppliers to catch up with demand or a natural disaster in a major supplying country, companies seem to repeatedly suffer the consequences of too much procurement focused on too few providers. Business ecosystems, by default, reduce the dependence on a small group of critical suppliers by providing an open platform with a broad network of retailers, partners, suppliers, and distributors. This makes it relatively easy to adapt sourcing as the business environment changes.

While we often think of ecosystems as partners or at least nondirect competitors joining together on a platform, there has been some evidence that the ecosystem model can be used to help balance capacity across a [supply chain](#), even for companies that are not collaborating otherwise. One recent example is the Germany-based Catena-X Automotive Network, which is setting up a data ecosystem

that links global auto companies, including large and small original equipment manufacturers, parts and components manufacturers, recyclers, and others. The goal is to develop a transparent information marketplace that can be tapped to immediately open up new and alternative supply lines when a segment of the supply chain is suddenly in gridlock.

Another example is XOM Materials, an online platform for lubricating the steel, metals, and plastics supply chain. Dozens of companies—many of which already have ongoing trade arrangements and others that are available to relieve supply chain bottlenecks—are joining XOM as a fail-safe option to make emergency or ongoing purchases when traditional routes are disrupted. Both Catena-X and XOM are relatively new ecosystems, and it is difficult to predict at this stage whether they will succeed, particularly since in some categories ecosystem competition may be fierce in the coming years.

Indeed, in the supply chain realm, there will probably be many more imaginative solutions that rely on ecosystems to simplify what is for many companies one of the most complex aspects of doing business. It is possible, for instance, that as new, less cumbersome means of production become more mainstream—such as 3D printing—leading manufacturers could participate in ecosystems composed of innovative suppliers, posting orders for bespoke parts to be filled instantly by the network. Given today's expanding 3D printing capabilities, an [ecosystem like this](#) could radically streamline everything from buildings construction to automobile manufacturing and consumer goods production.

Take advantage of turbulence.

In general, we know that uncertain times are opportunities for bold moves—and that [winning companies use crises to achieve differential growth](#) and advantage. In this regard, ecosystems are an ideal way for companies to widen their markets and revenue streams while their competitors are struggling or just retrenching out of fear.

One reason why ecosystems are so potentially advantageous in difficult periods is that they are investment-light ways to seize opportunities, which is important considering the increasing cost of capital. For instance, a company can expand its presence into ancillary markets by launching and taking the leadership role in orchestrating a new ecosystem designed from disparate parts. The giant Chinese insurance company Ping An has entirely remade its business over the past decade by piecing together an ecosystem of services involving wealth management, real estate transactions, automobile sales, health care, and smart-city solutions. When the insurance industry suffered during the pandemic, Ping An inexpensively shifted gears to seek new revenue streams in its health network (which includes providers, hospitals, and patients) and in providing financial services, helping consumers navigate volatile economic times.

Until recently, it was difficult for many incumbent companies to keep up with tech players and startups in the ecosystem platform arena. Startups had significant advantages, particularly inexpensive funding from venture capital, the free rein to focus on growth while sacrificing quarter-to-quarter profitability, and access to the best talent pools. But as the economic picture has darkened, VC money for new

businesses has declined. This gives established companies an opportunity to exploit the financial vulnerabilities of tech and startup ecosystem competitors by poaching their talent, launching direct competitive attacks, and even swallowing up smaller rivals.

One company that has proven the efficacy of this strategy is Adobe, whose success in recent years has been the result of broadening its own content design and graphics ecosystem through acquisitions and internal innovation. A \$20 billion deal late last year to acquire online-collaboration software provider Figma reflects the way Adobe is continuing to build out its ecosystem platform with new features and functions, even in the face of global difficulties.

There is another, more fundamental reason to double down on ecosystem investments now: ecosystem strategies can prepare companies to tackle long-term significant challenges that threaten to upend the future outlook for many businesses. These include big societal challenges such as [climate change](#), sustainability, global economic inequities, cybersecurity, and migration, as well as new disruptive technologies like [artificial intelligence](#), green tech, and quantum computing.

In many cases, such obstacles and opportunities cannot be addressed by individual companies but rather [require ecosystem collaboration](#). One example is the issue of reducing plastic waste, which consumer-facing brands must solve either because of new recycling regulations or to satisfy shareholder and consumer pressure about manufacturing's carbon footprint. Many companies are hoping to shift to recycled PET (rPET) plastic in their products, but by 2025, according to BCG estimates, about half of the expected demand for rPET will be unmet because of limited supply. Fixing this problem will at the very least require an R&D ecosystem that can generate acceptable alternatives to rPET, develop innovations in manufacturing, scale solutions, and expand recycling infrastructure.

A Road Map for Doubling Down

As companies consider their ecosystem strategies, they will find a series of opportunities to gain critical competitive advantages in consolidating or retrenching markets—and there's no better time than now to take advantage of them. Key steps to take today include:

- Accelerate efforts to use ecosystems for collaboration with other innovators and resilient companies, targeting ways to transform go-to-market strategies and to expand the pallet of choices for your customers.
- Improve supply chain resilience by engaging alternative suppliers in industrywide ecosystems that include a broad platform of smaller materials providers and manufacturers. Ecosystem-based supply networks are more advantageous because they replace a linear chain with a mesh marketplace.

- As tech assets are consolidating and valuations are dropping significantly, consider if any potential acquisition targets are a good fit, particularly to expand ecosystems and drive your company's cultural DNA transformation through partnerships rather than going it alone.
- To come out stronger, go against the current trend. As global ecosystems players are trimming back their staffs month by month, your company can instead attract and recruit suitable ecosystem-experienced tech talent, focusing their tasks on launching or improving new and existing ecosystems.

In periods of uncertainty, it is natural to retrench, or at least become more restrained, to protect the company. The problem with that approach is that all too often, critical facets of the business—perhaps some that are a bit more ambitious but essential for the company's future growth—are sacrificed in favor of caution. That is certainly the case with digital ecosystems, which have clearly become an easy cutback during retrenchment for many companies. Perhaps logical, but ultimately shortsighted. Sometimes the right answer is to go against the grain.

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