

Six golden rules for ecosystem players to win in Vietnam

Focusing on customer engagement, talent, and data analytics could unlock success in the country's emerging ecosystem economy.

by Bruce Delteil, Alex Le, and Marcin Miller



In 2014, VNG became the first Vietnamese unicorn. Even though the company started as a gaming franchise, it is best known today for its messaging app, Zalo, and its various investments in e-commerce (Tiki), gaming, or payments (ZaloPay). VNG is not a company with a single focus; it offers a significant number of online services that are not intuitively playing in the same industry. However, these services share customer-acquisition costs (CAC) and offer VNG users multiple platforms on which to spend their time and money. Companies like VNG, including Grab, Sea Group, and One Mount Group, are now commonly referred to as ecosystem players.

No longer perceived as outliers, ecosystem players understand that they cannot be defined or constrained by a single industry. As boundaries between sectors continue to blur, CEOs will eventually face off against other companies and industries they never would have viewed as competitors in the past. In the next decade, a large set of companies may be assessing their business models not by their success compared with traditional industry peers but by their success in competing within rapidly emerging ecosystems.¹

How an ecosystem economy will transform Vietnam

Ecosystems make improbable combinations of attributes into possible outcomes. Think of an ecosystem player as a business that offers the largest inventory, the fastest delivery time, the greatest customer experience, and low costs, all at once. In the past, businesses faced a choice between costlier products with higher-quality service and higher inventory levels or cheaper products with lower service levels and thinner inventories.

In Vietnam, as the approaching contest plays out, an increasing number of industries will continue

to converge under newer, broader, and more dynamic alignments to form digital ecosystems—an interconnected set of services offered to customers in one integrated experience. Multiple ecosystems already coexist across retail, media, telecommunications, financial services, and mobility (Exhibit 1). Furthermore, they are scaling rapidly in Vietnam, with millions of loyal users across various platforms.

Our analysis of current trends, economic trajectories, and regulatory frameworks suggests that 12 large ecosystems will be established across retail and institutional services in Vietnam by 2025, constituting a revenue pool of about 2,400 trillion Vietnamese đồng (\$100 billion). Out of those 12 ecosystems, we estimate that B2C and B2B marketplace platforms will be the two largest revenue contributors (Exhibit 2).

The following factors will power this growth:

- *Ecosystems decrease the cost of customer acquisitions.* Ecosystems enable automation on a large scale and integrate purchasing pathways, giving customers access to a variety of products and services within a single platform. This consolidation of channels has the potential to reduce CAC. In the banking industry, for example, ecosystems can generate (CAC) savings of 10 to 20 percent.
- *Ecosystems generate value for businesses and customers through data analytics.* Ecosystems enable companies to generate insights from a wide range of data and make the most out of it. Leading companies from multiple sectors are adding new services to existing offerings, developing new business models, and even directly selling data-based products or utilities. For instance, companies with access to data will have greater visibility into customer preferences

¹ Ecosystems comprise a variety of businesses from different sectors.

Exhibit 1

In Vietnam, multiple ecosystems already coexist across five different spaces.

Market penetration of different players, estimated based on digital marketing spend of Vietnam by 2025

Illustrative; as of November 2020

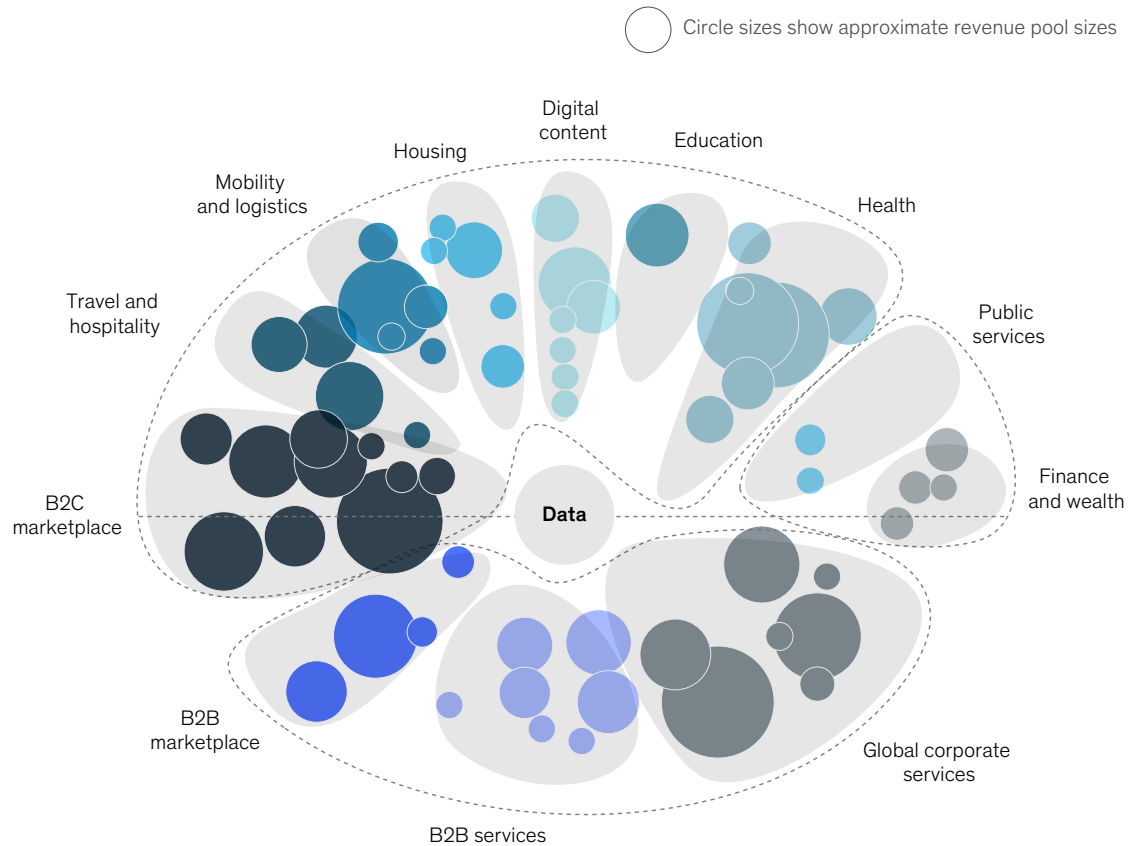
	1		2		3	4		5	
	Mobility		Media		Retail	Telecommunications		Finance	
	Grab	Sovico Group	Sea Group	VNG	VinShop	FPT	Viettel	VPBank	MoMo
Offline retail					●	●	●		
E-commerce			●	●		●			
Loyalty programs	●	●			●		●		●
Financial services	●	●	●	●	●	●	●	●	●
B2B logistics		●			●				
B2C logistics (last-mile delivery)	●	●	●				●		
Mobility	●	●						●	
Social or search engines				●			●		
Entertainment or digital content			●	●		●	●		
Smart devices or IoT						●	●		
Healthcare									
Housing brokerage					●				
Telecommunications						●	●		
Digital display ads	●			●	●				

Note: Loyalty, social or search, and digital display ads share the market size of \$1.2 billion.
Source: HIS World Industry Service; McKinsey analysis

Exhibit 2

A digitally enabled ecosystem revenue pool of 2,400 trillion Vietnamese đồng could coalesce by 2025.

2025 total revenue pool estimates,¹ n = \$100 billion (2,400 trillion Vietnamese đồng)²



Note: Not all industries and subcategories are shown. Sum of 12 ecosystems does not equal the size of the total integrated network economy.

¹Digitally enabled transactions—that is, one step of the purchase occurs online.

²Doubling in value from 2020.

Source: HIS World Industry Service; McKinsey analysis

and financial capacity. These insights can highlight underserved customers and cross-selling opportunities and create significant value.

- *Ecosystems strengthen customer relationships and increase retention.* One of the selling points of an ecosystem is that it changes the way companies can engage with customers.

For example, businesses can create lucrative daily touchpoints, tailor new product offerings to meet customers' needs, and decrease transaction costs, thereby limiting customer loss and churn.

- *Ecosystems provide valuation upsides and help maintain competitiveness.* Another upside of

ecosystems is their potential to draw investment from capital markets. Since ecosystem businesses are typically valued based on metrics such as user engagement and top-line revenue, they can achieve high valuations even when traditional value metrics (EBIT and EBITDA²) are still low. Typically, situations where customer lifetime value is higher than CAC open the door for a high valuation based on user engagement rather than on profitability alone. Although there has recently been a strong push towards driving early profitability among new ventures, many of them still enjoy high valuations years before they become profitable.

The case for creating an ecosystem—three examples

Beyond digital natives, established Vietnamese companies are also disrupting the incumbent structure and entering the arena as ecosystem players. In 2019, three of the seven largest Vietnamese companies³; Masan Group, Techcombank, and VinGroup established One Mount Group to create the country's greatest ecosystem. Instead of competing in the already-crowded e-commerce space, One Mount Group's newly formed venture, VinShop, captures value in the B2B2C market by addressing inefficiencies in the supply chain. VinShop offers thousands of traditional store owners a digital platform where they can order fast-moving consumer goods from suppliers and vendors. The ecosystem then benefits from pre-existing assets and diverse industry presence of its founding companies, potentially enabling it to scale faster than digital natives.

Another example of a traditional company working to disrupt itself can be seen in one of the country's largest diversified conglomerates. It is currently seeking to build its ecosystem around travel, logistics, real estate, and financial services. The company also recently established a new venture designed to accelerate digital transformation of its

core businesses, launch and invest in new digital businesses, and build value-adding partnerships. By harnessing its existing assets and user base, the group aims to quickly build the number of its digital users and frequency of their interactions within the new ecosystem.

Telecommunications player Viettel, meanwhile, has started to develop institutional ecosystems serving public and private enterprises. With access to large-enterprise customers and an in-house engineering talent pool in Vietnam, the company is seeking to acquire new customers with its core products: IT software and business solutions. At the same time, Viettel seeks to cross-sell new, currently noncore products such as security suites, cloud networks, and the Internet of Things. Various ventures into consumer-facing applications in payments, loyalty, and logistics could give Viettel an additional way to leverage its large consumer base to broaden the scope of its B2C offerings.

Scaling up and getting out of the nascent stage

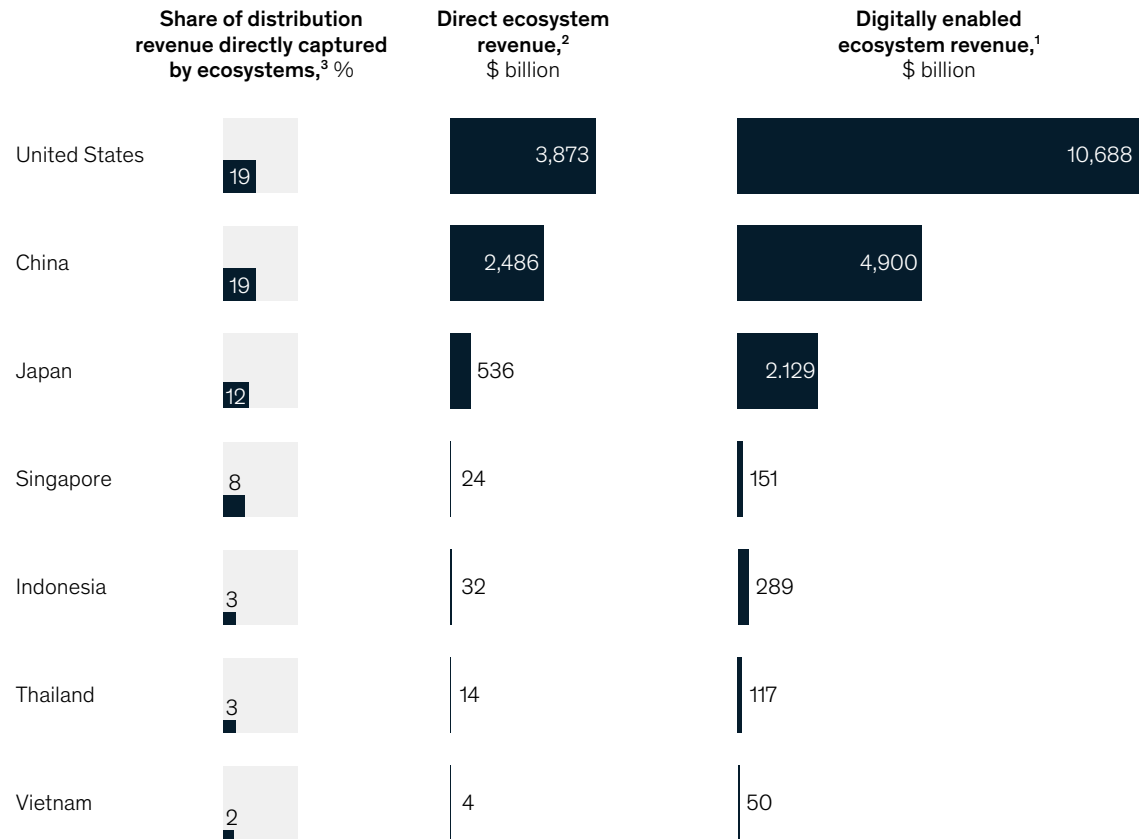
Despite these positive developments, most digital ecosystems in Vietnam are still nascent. Today, the combined size of Vietnamese digital ecosystems—defined as the size of digitally enabled transactions where at least one step of the purchasing decision is captured online, even if the final transaction is offline—is about a hundredth of Chinese ecosystems (\$50 billion in Vietnam versus \$4,900 billion in China), and the share of revenue directly captured via ecosystems in Vietnam is considerably lower (\$4 billion) than in China (\$2,486 billion), at approximately 0.16 percent. Additionally, while some 19 percent of distribution revenue in the economy (which comprises the value-add of sales that comes from the sale and distribution of goods and services) gets directly captured by digital ecosystems in China or the United States, this number is only 2 percent in Vietnam (Exhibit 3).

² Earnings before interest and taxes, and earnings before interest, taxes, depreciation, and amortization

³ Seven Vietnamese companies were named in Forbes Asia's "Best over a billion" list; see Jonathan Burgos, "Forbes Asia's 200 best over a billion 2019," *Forbes*, August 27, 2019, forbes.com.

Exhibit 3

Today the size of Vietnam's ecosystem economy is still lower than in more digitized economies.



¹Corresponds to the revenue generated with at least one step of the purchase decision occurring on the digital ecosystem, even if the final transaction is offline.

²Corresponds to the revenue that is directly captured by ecosystems.

³Distribution revenue corresponds to the value-add of any sale that does not come from the production of goods and services but rather its sale and distribution—which is a proxy for the “addressable” portion of the economy of a country for ecosystems. The ratio is obtained by dividing the direct ecosystem revenue by the total distribution revenue.

Source: HIS World Industry Service; McKinsey analysis

Importantly, the landscape in Vietnam remains fragmented, illustrated by more than 30 e-wallets already in the market, and yet it is still unclear who will emerge as the leading aggregator in the country. For a long time many companies in Vietnam tried to copy proven models from China such as those of Alibaba and Tencent; however, since the market environment in Vietnam is more fragmented, with less digital penetration, and lower consumer-

spending power, the emergence of two or three leading ecosystems will likely take longer as it will be more challenging.

The real question for ecosystem players is how to innovate and succeed in this environment. Traditionally, ecosystems emerged around e-commerce, social media, or payments and financial services. In Vietnam, however, establishing leading

ecosystems may require special effort, such as concentrated investments to consolidate all these areas in order to achieve lasting success.

Another question concerns profitability.⁴ Valuation hype has already reached Vietnam and CAC is quite high with many players actively investing in recruiting users and raising additional financing. Many of the players we see in the market now will have a hard time turning their business models into profitable ventures.

Three new paradigms are disrupting the ecosystems

As a new world of ecosystems begins to emerge, this will significantly impact all businesses, even those that aren't inclined to build or be a part of one. Currently, three paradigms⁵ define this new reality for most businesses:

1. *The competitive set broadens.* Ecosystems primarily fight for customers' attention and "stickiness." Once an ecosystem builds a pool of sticky and frequent users, this becomes a competitive advantage, enabling it to enter new industries at lower cost. In a world of ecosystems, the competitive set of any industry becomes disrupted by the lower CAC and customer retention cost achievable by such players. In this world, anyone can become a competitor.
2. *The fight for talent becomes a lot tougher in a world of ecosystems and across industry boundaries.* As Vietnamese companies look to step up their innovation efforts, recruiting and cultivating strong talent—as well as empowering them through agile ways of working—will become essential. Limited access to digital talent could restrain growth of Vietnamese ecosystems.
3. *Data generate value.* Whether your company plans to build or join an ecosystem or simply

defend its core business in the new competitive landscape, the ability to harness and analyze data at scale is key. Ecosystems are trying to build an unfair advantage by managing to capture, cross-analyze, and monetize data across industries. Companies also need to learn how to take responsibility of their user data and protect this asset from being harnessed by other players.

How Vietnamese companies can win in the ecosystem world

Embracing ecosystems will require companies to adjust their business strategy. Six principles can aid executives in this transition.

Adopt an ecosystem mindset

First, companies need to widen their perspective of competitors and opportunities, adopting a truly multisectoral lens and defining the ecosystems and industries where change will be fastest. They should also identify critical new sources that bring the most meaningful value for an expanding consumer base.

In essence, to chart a path to build an ecosystem future, companies must refine their vision and ask questions to their leadership team:

- What surprising or disruptive factors might affect our company? How do we get ahead of them? What assets and resources would we need?
- How can we translate our physical assets and long-term customer relationships into insights that secure our market position while establishing an advantage over competitors, including the digital giants?

Follow the data

In a borderless world, data serves as valuable currency. Competing effectively as an ecosystem means aggregating massive volumes of data as well

⁴For more, see How the best companies create value from their ecosystems, November 21, 2019, McKinsey.com; Miklos Dietz, Hamza Khan, and Istvan Rab, "How do companies create value from digital ecosystems?," August 7, 2020, McKinsey.com.

⁵Violet Chung, Miklós Dietz, Istvan Rab, and Zac Townsend, "Ecosystem 2.0: Climbing to the next level," *McKinsey Quarterly*, September 11, 2020, McKinsey.com.

as building capabilities to store, process, and analyze that data to generate actionable business insights.

Companies can gain deeper data insights from ideas that sound good on the surface, but often fall short of their potential to become winning models. For example, loyalty and consumer-facing mobility applications are great tools for businesses to provide significant savings for consumers and connect with their customers. The insights from these applications in turn allow businesses to uncover new growth opportunities and, at the same time, understand their customers' needs and preferences to serve them better.

Build emotional ties to customers

Today, winning customers' loyalty through an emotional connection is the ultimate prize. Businesses are investing in tools to do so, such as data to customize their product and service offerings, content to engage customers, and digital models to support seamless customer journeys and address pain points. By building emotional connections with customers, companies can also occupy an attractive space in critical ecosystems.

For instance, Google and Alibaba already have large existing customer bases on their own. But they innovated and launched various products—such as Chrome, Gmail, Alipay, and the financial platform Yu'E Bao—because they wanted to expand into new customer segments outside of their bases. Capturing new sources of revenue was an additional bonus to this purpose.

Evaluate existing governance and talent strategy, and adjust operating models to the new paradigm

In a world of ecosystems where industry boundaries move fast and data analytics becomes a core competitive advantage, companies will also need to attract the right talent and develop governance models and agile ways of working that are necessary for rapid innovation. In Vietnam

specifically, where top digital talent is in high demand, this means companies across industries will increasingly need to spend resources to recruit, onboard, and train these talents, while also ensuring they are placed in an environment where they can perform and deliver.

This might also require Vietnamese companies to embark on new ways of acquiring talent. To ensure innovation, apart from reimagining internal talent management, companies should consider closer cooperation with external parties such as start-ups or venture-capital funds—this is a proven way to start thinking outside of the box and introduce new, positively disruptive talent.

Change your partnership paradigm

An ecosystem economy offers new opportunities for specialization. To take advantage of them, companies need more and diverse partners. In a dozen markets across the globe—including Brazil, Russia, Turkey, and Vietnam, where data sets are currently less robust compared with those of other regions—a new wave of partnerships is aiming to make the whole greater than the sum of its parts. Many banks globally are already leading by examples in this space, developing multiple partnerships with lifestyle companies to create a financial gateway for all of a customer's daily needs (for instance, booking a restaurant table or tickets to the movies).

Regardless of an organization's geography, primary industry, and level of data-readiness, executives can start by asking what white spaces they need to fill, which partners can best fill those gaps, and what value proposition might be mutually beneficial. They must also consider how to design an infrastructural and operational framework that supports a steady exchange of data, ideas, and services with outside entities—critical fuel for innovation.

Distinguish and tailor—fit your strategy

Any leader in Vietnam will soon need to define their ecosystem strategy, understand how their

industry is getting disrupted, and make a choice. They can defend the business as is, modernize and digitize it, partner with others to develop the same competitive advantage as an ecosystem, or join (or even build) an ecosystem. Not all businesses will become an orchestrator of an ecosystem; this will require a strong existing user base, or assets that make it easy to gain customers at low cost. But businesses can still capture substantial value by being a partner or a supplier. Companies that don't aspire to shape an ecosystem but consider being a partner will need to ensure they have a defensible product or service-value proposition that is hard to replicate for the digital players, and possibly plug themselves into digital platforms—treating them as one more channel.

In this context, executives must be clear on their source of value creation for the industry, the risk and nature of digital disruption, and also their internal capabilities. Based on this assessment, most

players will shape a strategy that, either alone or through partnership, helps the company navigate the ecosystem world.

The six golden rules are best practices in developing ecosystems that create higher value. We advise leaders to regularly assess and reevaluate their capabilities in each of these categories to build or acquire what they need to succeed.

Massive ecosystems that span industries are on the rise, and tremendous amounts of value will be shifting. Companies in traditional industries that have long been insular and protected may be most vulnerable to cross-boundary competition. By devising the right strategy and approach, leaders can go on the offense. Now is the time to survey the landscape and start shaping opportunities beyond nascence.

Bruce Delteil is a partner in McKinsey's Hanoi office, where **Alex Le** is a consultant; **Marcin Miller** is an associate partner in the Ho Chi Minh City office.

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