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Design Practice

A design-led approach to embracing an ecosystem strategy

Embedding design thinking, methods, and tools from the outset of ecosystem development will help companies produce integrated ecosystem offerings that delight customers, stave off threats, and create new sources of value.

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Business leaders around the world are increasingly turning to the ecosystem business model to achieve top-line goals such as growing core businesses, generating revenues from new products and services, and creating new value pools. The appeal of ecosystems—interconnected sets of services through which users can fulfill a variety of cross-sectoral needs in one integrated experience—has only grown as the global pandemic accelerated consumers' migration to digital. Consumers are embracing this shift, with 71 percent saying they're ready for integrated ecosystems.[1]

Indeed, by 2030 the integrated network economy could account for 25 percent of the total economy—up from 1 to 2 percent today—with global revenues of $70 trillion (Exhibit 1).[2] A fringe topic just a few years ago, the ecosystem model is increasingly important and relevant. Customer demand is clear and measurable. Many companies of all sizes and industries have started developing cross-sector ecosystem offerings, and the financial markets have acknowledged the power of ecosystem plays.

However, shifting to—and monetizing—an ecosystem strategy is not easy. Recent McKinsey research reveals that only 50 percent of companies report even limited early success with their ecosystem plays; only roughly 10 percent are generating significant revenue.[3] Creating interconnected services that fulfill user needs across a variety of sectors is a complex endeavor that demands not just a cohesive strategy but also a design-led approach.

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[1] Miklós Dietz, Hamza Khan, and Istvan Rab, "How do companies create value from digital ecosystems?," August 7, 2020, McKinsey.com.
[2] Ibid.
[3] Violet Chung, Miklós Dietz, Istvan Rab, and Zac Townsend, "Ecosystem 2.0: Climbing to the next level," *McKinsey Quarterly*, September 11, 2020, McKinsey.com.

Exhibit 1

Twelve distinct ecosystems have started to form within the integrated network economy.

$ trillion

~$70 trillion global revenue pool of integrated-network economy in 2030
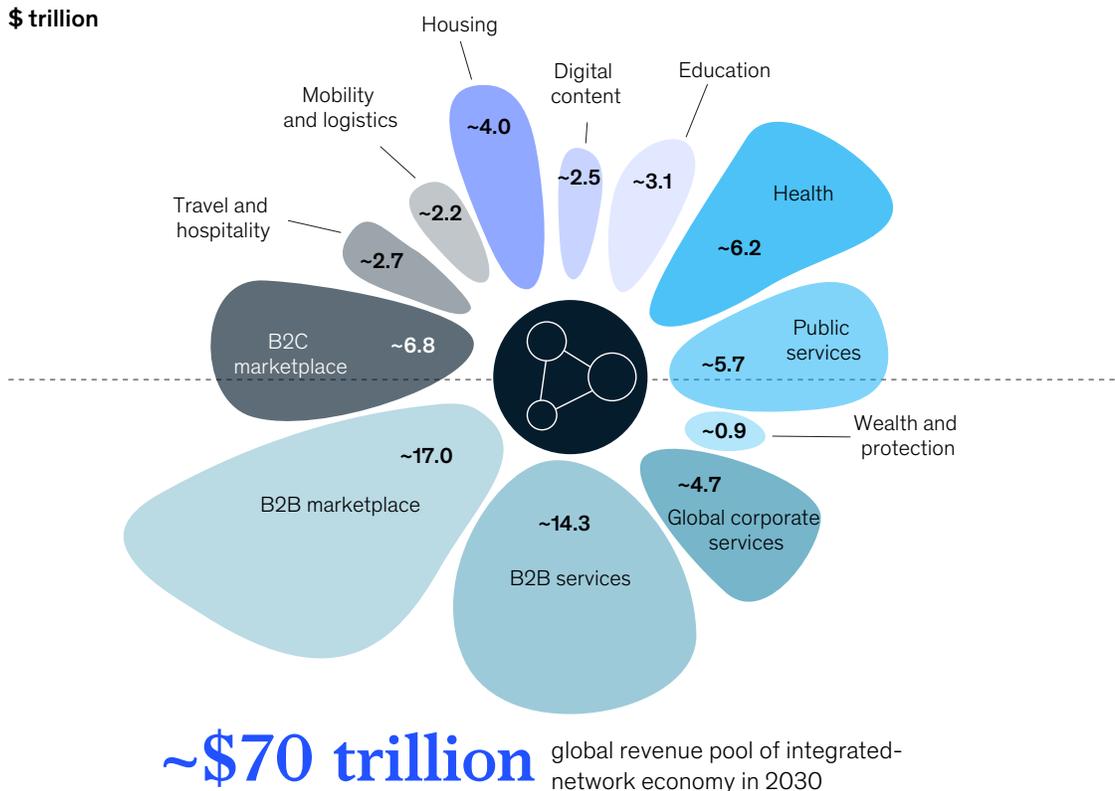
Source: McKinsey analysis

This article describes the three phases of ecosystem adoption—define the strategy, design the ecosystem, and build the ecosystem—and articulates the benefits of design-led thinking during each phase. It includes an example of a grocery retailer that used an ecosystem model to expand into additional consumer sectors, thus staving off competitive threats and creating new sources of value.

A design-led approach to ecosystem planning

The importance of design in business decision making, especially for achieving large, ambitious goals, is well established.[4] Organizations that use design as a strategic tool to develop intuitive products and experiences that meet customer needs have leapfrogged their peers.[5] With design embedded into their culture, they can continually innovate at scale.[6]

Pursuing an ecosystem strategy is a long-term initiative comprising three phases: define the ecosystem strategy, design the ecosystem, and build the ecosystem. Each phase benefits from design disciplines such as design research, interaction design, user-interface design, and, perhaps most notably, service design. Indeed, it is only through thoughtful, innovative service design that a company can ensure its ecosystem transcends each industry sector to become a truly connected business from front to back.

Define the ecosystem strategy
Many business leaders don't know how to select the ecosystems, or how to identify those opportunities with the highest value. Shaping the ecosystem strategy requires focused, design-led work in three areas:

Identify the most relevant trends. A mix of social, economic, and technological trends influence how consumers behave and what they need and want from their products and services. Forecasting is a powerful tool for understanding where these trends are headed. Designers can use trend forecasts to develop scenarios that envision how consumers across sectors and markets are likely to respond to changes, and how the company could expand its products and services beyond the core to better connect with consumers and serve them. Because they tend to be adept at divergent and convergent thinking, designers offer distinct value in these exercises and can help find innovative, expansive solutions.

Plan a desirable ecosystem and identify the value pools. An ecosystem strategy should focus on high-growth areas that align with the organization's business ambitions and capabilities. Design-research methods such as ethnographic studies, coupled with quantitative research—for instance, market sizing and value-pool analysis—can help the company home in on the use cases, customer segments, and new products and services with the highest value, and assess whether it can address them.

Tightly define the core value proposition. When shifting to ecosystems, many organizations fail to leverage their distinctive advantages to crystallize the specific customer-value proposition. The most distinctive propositions sit at the convergence of customer data, market trends, customer experience, business ambition, and vision. A series of design-facilitated co-creation sessions that put all of these considerations on the table can be helpful in generating a list of potential propositions. Notably, these propositions should not be limited to a channel or market; rather, they should reflect consumer behavior trends that cut across sectors. The next step is to evaluate each potential value proposition on the basis of current business capabilities, customer needs, and growth potential. From there, business leaders can choose the core value proposition for their ecosystems, including estimates of their value.

[4] Fabricio Dore, Garen Kouyoumjian, Hugo Sarrazin, and Benedict Sheppard, "The business value of design," *McKinsey Quarterly*, October 25, 2018, McKinsey.com.
[5] Ibid.
[6] Ibid.

Design the ecosystem

The new ecosystem design will need to start with the customer's view and deliver on the agreed-upon value proposition and experience. To achieve this, organizations can consider three domains: consumers, sectors and partners, and products and services. Design has a central role to play in each.

Consumers. Having placed bets on how consumer behavior will shift in the future, the company can then design its ecosystem. Mapping journeys is a bedrock design activity that helps organizations envision the experience from the vantage of consumers. Each journey is designed as an interconnected end-to-end experience.

Designing the service blueprint dovetails with journey mapping, which displays step by step within and across channels how the ecosystem will operate from the perspective of the consumer, business operations, and employees. It also describes the shifts the company will need to make—for example, investing in new digital capabilities—and the partnerships it will need to forge to support the ecosystem. The company will also need to define the financial shifts required to support its transition to ecosystems. Designing a successful ecosystem takes discipline and restraint. An ecosystem offering that cuts across too many segments without a clear value proposition can appear generic and watered down. Trying to win everything is impossible; to truly move the needle, focus on a smaller segment first.

Sectors and partners. An ecosystem is cross-sectoral by definition, enabling consumers to navigate from one type of service, such as buying groceries, to a distinctly different one, such as buying insurance (see sidebar, "Creating value

across all sectors"). It falls to designers to identify consumers' needs and create a journey that they can easily navigate. A well-designed, seamless experience masks the complexity that went into creating it and reflects the creativity and innovative mindset of the designers.

Each core journey will address how these cross-sectoral experiences will unfold on the front and back end. In the case of the grocery retailer, the journey design reflects how a customer seamlessly buys groceries, discovers an insurance offering, gets prequalified, and applies for insurance. But designing for the overall experience is equally important. For example, a holistic customer-engagement and loyalty program may enable customers to earn points that can be aggregated and used within any sector included in the ecosystem. Finally, these cross-sectoral propositions will likely include a complex set of partner relationships, and designers can help to visualize how those relationships develop.

Products and services. Having laid the groundwork—with research, customer interviews, journey mapping, blueprints, and so on—the company can turn its attention to its connected products or services, whether they are physical, digital, or a combination of the two. This connectedness, which is fundamental to the ecosystem model, could be designed as a "super app," a digital platform, or a suite of offerings.

Before building out the offering, the company should rigorously test the concept with target customers—and with each business leader who has ownership in the proposition—to crystallize the end-to-end journey and the partner network, along with the capabilities, back-end architecture, and operating

Mapping journeys is a bedrock design activity that helps organizations envision the experience from the vantage of consumers.

model needed to support it internally. Given the scale of the undertaking, a team of designers, product owners, and operational experts will then develop a detailed road map for building out the offering, allowing the organization to enter the market quickly and capture the opportunity before others.

Build the ecosystem

To achieve success with ecosystems, it is crucial to create a flexible and agile operating model that is capable of not only continually rolling out new solutions but also managing the entire portfolio of value propositions by addressing failures, branching out into new areas, and pivoting the focus along the way. This requires a number of cultural shifts.

One cultural shift may entail including design leaders in the transformation process from the outset. Isolating designers in a design-only team naturally creates silos and barriers to creativity and innovation. Bringing designers together with business strategists, developers, and product

Creating value across all sectors

A large retailer was experiencing disruption across all of its core grocery offerings from incumbents, retail start-ups, and tech companies. In response, it opted to expand beyond its core into adjacent consumer sectors including apparel, healthcare, and insurance. It needed a strategy and operating model that would not only protect it from encroaching competition but also support customer retention across the board and promote continual innovation. It settled on a customer-centric ecosystem approach that created value across all its sectors (exhibit).

Exhibit

A design-led ecosystem enabled a large retailer to protect its core, expand into adjacent sectors, and deliver a customer-first experience.
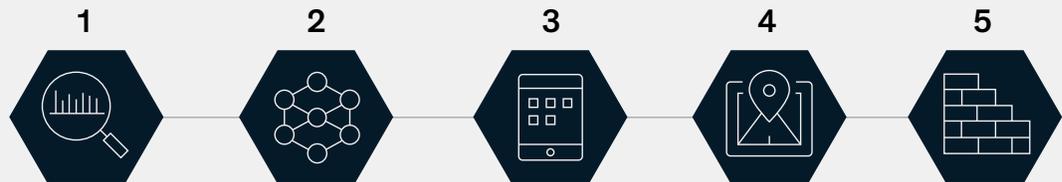
1

The design team analyzed the company's key sectors (grocery, clothing, healthcare, etc) to assess growth potential and fit with the company. It then conducted research on core market and technology trends, a competitor- and a cross-sector analysis, and, most importantly, an analysis of evolving consumer behavior and needs. The health ecosystem emerged as offering the most attractive opportunity, where the company also had an advantage given its existing capabilities.

2

Through design-led co-creation workshops, ideation, and testing, and by iterating with customers, the ecosystem team defined core value propositions for its healthcare offerings and identified connections with other sector offerings, creating a networked business proposition within an ecosystem.

3

Next, each sector team created superior journeys that further detailed the business proposition and linked effectively to the health sector. A unified digital platform provided customers with seamless access to clothing, groceries, healthcare, and insurance through a single super app.

4

Designers worked on defining customer value at each point, validating it with rigorous user testing. This led to articulating the minimal viable product and the future road map for the build phase. Simultaneously, the ecosystem team developed the back-end processes, including technology architecture and talent model. It also established a clear framework to measure success and a supporting governance model.

5

Finally, with a clear value proposition and purpose, the business built a design function, which it then embedded into the multidisciplinary, cross-sector ecosystem team that owned the overall customer experience, and value proposition design. Closely working with the product and strategy teams, the designers continued to deliver against the road map, eventually scaling journeys and the super app across the entire business.

Exhibit 2

Companies that keep the following principles in mind are more likely to succeed with design-led ecosystems.

Remember that design reflects the physical and digital worlds.

Focus on omnichannel experiences and design for both the front-end customer and back-end business processes and employees.

Expand the design scope beyond simply designing screens.

Design is a strong strategic tool that supports innovation and growth. Use it to shape initial ideas and business cases as much as to build out solutions.
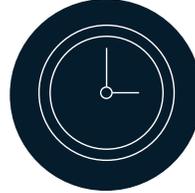
Define success based on relevant criteria beyond just speed.

Different types of teams are inspired by different criteria of success. Balance speed with quality and shape your value proposition.
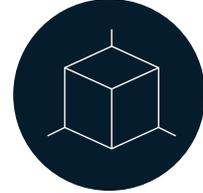
Focus on shaping outcomes rather than just delivering outputs.

Design is an essential asset to any business because it has the ability to convert thoughts and ideas into tangible outcomes.

owners to collectively solve problems and shape solutions leads to superior results.[7]

Additionally, a new governance model can help ensure that design is truly integrated into the ecosystem operating model. It can clarify design roles, methods, and activities from strategy to ongoing delivery, outlining expected outcomes at each stage. It can also detail the consequences of sidestepping design by, for example, failing to conduct customer research before choosing a value proposition, mapping journeys that are not interconnected, or preparing blueprints that don't fully reflect back-end activities (Exhibit 2). Design role models and organization leaders need to continually reinforce the governance model and promote the value of a design-led ecosystem with ongoing training and education.

As we slowly rebound from the pandemic, businesses will likely continue to pursue growth and innovation with a shift to ecosystems, designing new products and services and omnichannel experiences that engage customers in novel ways. As more of these offerings go digital, companies can only achieve true differentiation by embedding customer centricity, design principles, and a spirit of experimentation across their organizations. The bar for ecosystem success will only get higher from here, challenging participants to marshal all their resources to come out on top.

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[7] Ibid.

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