

OPEN ECOSYSTEMS, UNLOCK THE ULTIMATE CUSTOMER EXPERIENCE

INTRODUCTION

Until recently, analysis of business models would usually start with retailers looking at how their organisation alone creates value. Suppliers would be considered as an input and there may have been other service providers along the value chain. They could then look at opportunities for outsourcing however this would be focussed on procuring a product or service at less cost or greater quality than the organisation could deliver itself. This leads to a focus on the 'perimeter', seeking ways to better govern the transactions with partners and a preference for long-term stable relationships.

While simple at first, as the organisation evolves these relationships become more complex, with partners interacting with each other, providing composite products & services and becoming more intertwined with the retailer's value chain. No longer will an 'inside-out' approach suffice, instead retailers will need to understand their entire ecosystem – and start to shape it themselves.

Amazon Marketplace, Apple App Store, Lego, TomTom, Netflix and Audi are prime examples of organisations which have established and grown business ecosystems, to the mutual benefit of all participants, and have dramatically changed their business models and created vast new value. There are also business incubators such as Microsoft Biz Spark which provide support to early stage companies in the form of advisory services, infrastructure, software & computing capacity, in an effort to create opportunities for nascent ecosystems to emerge.

A business ecosystem is a formal or informal network of organisations which could include suppliers, partners, vendors, innovators, regulators, other industry representatives and government bodies. There are a potentially unlimited set of participants from outside of every organisation which can significantly influence its success. **This network needs to be optimised as a whole engine** instead of focusing on a single organisation alone. In fact **the final value delivered to the customer is determined by the whole ecosystem, not any individual company.**

THE CHALLENGE

With the emergence of new technologies, changes in consumer habits and emerging disruptive business models, **all retailers are striving to keep up with the pace of change necessary to remain competitive.** The natural impulse may be to remould existing business models, however this approach is highly dependent on the

organisation's ability to adopt change and can be highly disruptive to existing operations. Do you want to isolate your organisation whereby you are entirely dependent on continuous improvement and organic growth?

Leaders often look to strategic partnerships to gain access to the capability necessary to keep pace. This can offer a way to quickly enter new markets and trial new offerings, however the benefits are equally accessible to competitors. Ability to enter into strategic partnerships can also be constrained by existing processes and systems, limiting their benefit.

Most importantly, consider your partner's own motivations and ambitions and how likely they are to align with yours over the longer term. These individual relationships can easily become a crutch which restricts future agility and become costlier as time goes on.

As omni-channel retailing matures, customer expectations are quickly evolving too – a typical customer journey will include a combination of products, services and experiences which wouldn't typically be packaged together. It is becoming increasingly difficult for a single organisation to provide the range of products and services necessary to meet the customer's need without diversifying too much. For example Audi, supported by DHL and Amazon, is testing a new vision of 'home delivery' using keyless access technology enabling direct parcel deliveries to the boot of the customer's car. This creates additional value and a more seamless experience for the customer, without the need for Audi to diversify into eCommerce or Amazon to diversify into auto manufacturing! Importantly, this innovation could be made available to the marketplace which then adds value to owning an Audi – consider a customer being able to have their dry cleaning collected & returned while they are at work. There is really no limit to the variety of customer journeys that could be imagined.

Looking at some of the pioneers of these types of customer journeys we see that, treated piecemeal, they can lead to spiralling complexity in business models, processes and systems. Before too long, those forerunners are struggling to keep up. **A new paradigm is required which allows retailers to focus on their core competencies while participating in a wider network of organisations which delivers the experiences that their customer's desire.**

THE SOLUTION

A new strategy is emerging which has the potential for maximum flexibility, rapid growth and true speed to market – **Ecosystems Architecture**. *This approach recognises that organisations don't need to own or control all aspects of the customer offering, but rather can act as enablers for a collaboration between multiple organisations.*

The first step is to understand the ecosystem as a whole within which customers and suppliers coexist. Where are resources produced and consumed? Where is there potential for value to be created? What experiences are each of the participants having and where is there the potential for new customer experiences to be created across the ecosystem? What are the problems and how can these be solved across the ecosystem?

Switching to an ecosystems-thinking approach rather than traditional market-based thinking brings a focus on collaboration and cooperation between participants to mutual benefit. This will open up the possibilities and allow retailers to discover new, unique and more satisfying customer experiences which can be created. Rather than starting with the capabilities and offerings of a single organisation and trying to work out how to bring them to customers, we recommend starting with analysis of customer experiences independent of organisation and then identifying the value that your organisation can bring to the table.

The key enabler for a successful ecosystems strategy is to be able to 'plug and play' capabilities across multiple organisations into a cohesive customer experience. The huge benefit of this is that it greatly accelerates the pace of bringing new experiences to market. This modular architecture can be created using existing approaches such as service-oriented architecture and micro-services architecture, but deployed to allow self-service access from outside the organisation with the proper governance (e.g. using API Management). The focus should be on injecting pace into the customer engagement layer, where there is the most demand. The overall goal is to eliminate the constraints of tactical, messy changes to the IT landscape. This approach can be particularly effective when combined with a multi-speed / pace-layered IT strategy.

Another important question is – which capabilities and services should our organisation be offering to, or consuming from, the market? Analysis should focus on an understanding of commodity / utility capabilities vs. differentiators across the ecosystem. For example within a banking ecosystem, payments may be a differentiator, whereas in a retail ecosystem this is a utility capability. Utility capabilities should be available as 'capabilities on demand' – is it mutually beneficial for all ecosystems participants, customers and competitors alike, to collaborate to standardise these types of capabilities. Value is created via differentiators as these are the unique capabilities which your organisation can contribute to the overall customer experience.

When deciding on an ecosystems architecture strategy there are a variety of approaches available, and you'll need to choose the one most suited to your current maturity and that of the industry / ecosystem. Organisations can choose to build a new ecosystem from scratch by providing the framework and facilitating collaboration to encourage other participants to join. They could join an existing ecosystem where they have something new or unique to offer, or they could reshape or re-engineer an existing ecosystem to produce greater mutual benefit for all participants. Any strategy will need to encompass cultural change and the fostering of strong empathy and collaboration skills necessary to successfully participate in and influence ecosystems. Relationships are much more complex in ecosystems and even your competitors may become your partners at some stage.

THE VALUE

Ecosystems architecture helps organisations to break the constraints of existing business models which rely on using internal resources to improve the organisation's own capabilities or to procure services from the market. This greatly increases flexibility and expands the potential offerings they can provide to their customers. With a strong understanding of the business, contractual and technical aspects, **Retail Reply** helps retailers to create the open business models necessary to execute a successful ecosystems architecture strategy.

Consider also the massive computing power and functionality available in every consumer and worker's smartphone – their Pocket Infrastructure. By creating an open architecture which is agnostic of device and platform, you can enable 'anywhere, anytime' access to the ecosystem and start to harness the power of this infrastructure. Potentially the greatest benefit of reconfiguring the organisation in this way is the unexpected opportunities for innovation and potential for new customer experiences which it creates. Making your core competencies available to the ecosystem allows other participants to reuse and remix them in unexpected ways, but still allowing your organisation to profit from their use. You may even find that there are new applications of your organisation's capabilities outside of your industry – opportunities which traditional partnerships would have never uncovered.

Omni-channel retailing is increasingly focussed on personalisation of the customer experience right to the point of "marketing to segments of one". This requires a wide variety of customer experiences and journeys to be created for a diverse range of customers and needs, but very few organisations have the resources and focus to be able to deliver all these permutations to the level of quality expected. The alternative is to foster an active ecosystem which allows multiple participants – established players, start-ups or individuals – to easily create, collaborate on and compare solutions to the customer needs. This allows the best-suited customer experiences to emerge as the customers themselves have influence over the offerings available.

For all the above reasons, **ecosystems architecture allows retailers to focus on their core and differentiating capabilities while removing potential distractions and constraints.** It will even create more flexibility to change those core capabilities by eliminating poor performing or unprofitable capabilities and building new ones.

Retail Reply's approach starts with a firm understanding of the business goals, business model, capabilities and context within the industry. Retail Reply will look at how an ecosystems architecture could be beneficial to your organisation and determine the most suitable strategy, whether it be to join and influence an existing ecosystem or to create your own.

Retail Reply's consultants provide a solid foundation of analysis, modelling & strategic planning in ecosystems environments. They are also proficient in integration excellence and service orientation which allows organisations to be best prepared to create value by combining internal and external services. They help retailers to start combining multiple APIs & cloud architectures into a cohesive structure, allowing them to quickly

execute change. This means both connecting the company with external services but just as importantly, exposing the company offer to the ecosystem.

CONCLUSION

As digitisation accelerates and the variety of technologies grows exponentially, the drive for change is much stronger. Customers expect enriched offers, services and experiences from retailers, along with rich personalisation, and you can choose whether to configure your business to exploit ecosystems, or remain isolated and potentially unable to meet customer demand. **An ecosystems architecture will allow retailers to unlock future revenue growth and further build customer satisfaction and loyalty.**

Retail Reply's Retail Ecosystem offerings recognise the need to quickly establish and reorganise relations with suppliers, partners and innovators, whether these arrangements are temporary or permanent. Its applied approach focuses on seeking business outcomes and justifying investment in building ecosystems capability - rather than treating it as a purely technical integration subject.

The future is unknown however to adapt to it it's better to be open for communication and integration than focus too much on core business and forget about the fact that in the "era of customer" you'll need to fit in, even at the cost of your previous identity. Instead open your company for ecosystems thinking. Be flexible with delivering value to the customer. Think about partnerships as new ways of generating revenue and optimizing customer experience. Innovate collaboratively with your customers and partners to ultimately improve the customer experience.



Retail Reply is the Reply Group company specialising in retail digital and business consulting and is composed of specialist retail consultants who help achieve their client's retail vision through use of customer-centric digital solutions. Thanks to years of expertise working alongside UK retailers, large and small, Retail Reply is capable of best advising how to drive client's businesses forward with smart use of technology.

Retail Reply's mission is to help retailers innovate and ensure that they see tangible value at every step of the way. Its consultants are experts in Retail Innovation, Retail Ecosystems, Capability Transformation, Customer Centricity and Proximity Commerce and its services include capability-led planning, omni-channel strategy, customer journeys and architecture-managed services.