Summary

There have been many articles written about companies "going Digital". However, the definition of digital is often vague or has different meanings depending on the interpretation of what it means to be a digital enterprise. For many executives, it is about a technology solution set, but for others such as the Life and Annuity distribution channel, digital is a new way of engaging with customers. Companies who pursue digital channels are looking for more modern ways of changing their business model. For all executives in the organization, both technology and business, it is important to be unified on what digital means, the objectives of a digital strategy, and the impact to the existing business model.

This report is a 5-part series looking at the digital enterprise from different perspectives: the definition of Digital, the Consumer Perspective, the Agent Perspective, the Digital Ecosystem, and what we call The Digital Touch.

Part 4: The Digital Ecosystem

This report provides a perspective of the digital ecosystem. We attempt to capture the various definitions of the "ecosystem" and explain the integration of this ecosystem with business strategies, technology strategies, data strategies, and process re-engineering. We believe that Digital technology is having far-reaching consequences that go beyond the scope allowed by previous strategies.

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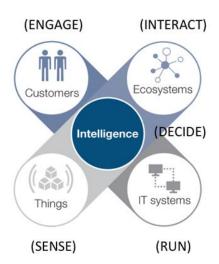**Senior Vice President & Client Partner**
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The Digital Ecosystem

Just as we have experienced with other topics in this series, there is a good deal of confusion about what a digital ecosystem is. The term "ecosystem" most often refers to the biological term that Merriam-Webster defines as the complex community of organisms and its environment functioning as an ecological unit. Other definitions talk about the chain of interactions between organisms and environments.

From a digital perspective it is much the same thing. The "Digital-Insurer" describes the digital ecosystem in a broad context as networks of companies, individual contributors, and consumers that, through interactions, create combined services and mutual value. This enables participating insurers to sell targeted products to the customer community on a preferred basis.

 In Margaret Rouse's article "the Digital Ecosystem" that appeared in SearchCIO.com, she indicates that digital ecosystems are frequently created and controlled by market share leaders. She notes that the integration of business to business (B2B) practice, enterprise applications and data within an ecosystem allows an organization to control old and new technologies, build automated processes around them, and consistently grow their business. But she also warns that they must be managed. Understanding each part, illustrating all the processes, and describing how all the data is transferred between parts of the ecosystem is critical to understanding all the dependencies to manage the growth. Unmanaged growth can be fatal.

Types of Digital Ecosystems & Benefit Focus

Digital ecosystems vary by focus, size & complexity, the number of partners and industries involved, and the capabilities of companies with specific business and digital abilities that is best suited to each, and lastly, the types of revenue streams that are created. The three types of digital ecosystems range from basic to extremely complex, as documented in a recent article by *TechTarget*.

Businesses with primarily internal focus, strong product capabilities, limited digital abilities, and a desire to take that product to a different level, making it smarter and connected, are best suited to the most basic ecosystem, *the digitizer ecosystem*. The digitizer ecosystem is centered on working with business partners to digitize an existing product with minimal managerial complexity - keeping it simple. This is generally the smallest of the ecosystems including up to 100 partners across five industries. This type of ecosystem can add new functionality and create digital service revenue.

Businesses with a primary focus on external expertise and strong digital capabilities, most notably technology companies (either startups or lesser known established firms) are much more likely to use *the platform ecosystem* and to use it as their *core business model*. The platform ecosystem is centered on

seamlessly connecting smart devices and users on a platform while providing high service levels with minimal impediments. This ecosystem is obviously more advanced and much larger than the digitizer ecosystem with partners numbering in the millions, typically up to 10 million partners across 5 industries. Platform ecosystems generate data that can be used for similar businesses and service models. The platform usage is what generates that revenue streams.

The most complex ecosystem, often referred to as **the super platform ecosystem** is used by businesses such as well-established companies with advanced digital capabilities and a strong desire and willingness to work with external partners. The super ecosystem begins with the company's process automation strategy, its own established platform and integrates with other platforms from the external partners to provide *a single wide integrated service* that captures user data from this integrated platform. Typically, these super ecosystems have a minimum of 10 million partners across at least 10 different industries and as you can imagine are generating enormous amounts of user data. The depth and breadth of the partners and industries participating in this system results in wide ranges of data as well as the volumes providing revenue streams (for use in adjacent business models). A good example of a super platform ecosystem is a virtual assistant that offers shopping, payment, transportation, and communication services into a single user-friendly option.

Probably the most important point to remember is that these ecosystems are not mutually exclusive within a company; in fact, the most successful companies are using more than 1 of these models.

Digital Strategy

There are many viewpoints describing what a digital strategy is, and what it is not. While these terms are still evolving as we speak, the most concrete and well developed are discussed below.

 It is probably easiest to first define what a digital strategy is not:

- The incorporation of digital technology into a traditional company business or IT strategy is not a digital strategy

- It is also not focusing on substituting digital for physical resources; this only gives the appearance of being digital. This type of effort only creates e-resources that are easy to duplicate and commoditizes assets

- And a *digital strategy is not an IT strategy*, which has traditionally been a technology answer to a business question, implementing technology in isolation such as a cloud strategy, a CRM strategy, or a robotics strategy. Although to be precise, many people include the implementation of cloud technology as part of the digital strategy.

So, if a digital strategy is not these things, then what is it?

Most simply, a digital business strategy is a strategy that combines digital information and physical resources in new ways that create value and revenue. It is not distinct from the businesses wider business strategy but is a specific perspective on it.

It's redesigning your business around digital capabilities in ways that you've never previously imagined; the development of strategy that enables and develops the myriad of connections between people, places, information and things allowing customers to interact with the company in a seamless and greatly satisfying way.

The Confusion between IT and Digital Strategy- food for thought:

In June of last year, Andre Godina of Inform Communications published an article entitled "IT Strategy vs. Digital Strategy – What's the Difference?"   Basically, Godina points out that while these terms are still evolving there are 3 main ways that distinguish between them.

- **Content Vs. Hardware** - The digital strategy is concerned with the content being distributed through technological channels and that IT deals with the hardware that facilitates the distribution, though cloud technologies often obscure this distinction

- **Proactive vs. Reactive Approach** – Digital strategy is part of the wider business strategy; it is not distinct from it, just a different perspective on it. IT strategy considers the way technology can be used to meet the needs of the business strategy

- **Technology that Transforms vs. Transforming Technology** –IT strategy looks to change, fix, or improve technology without impacting the business, while digital strategy examines the way in which technology can be leverage to transform practices, processes and procedures within an organization; changing the business and its overall strategy as it does

His conclusion: we are in a transition period and the concept of digital varies by organization and industry. Digital technology is having far-reaching consequences that go beyond the scope allowed by previous strategies.

Why Data is Key to Digital Strategy

Data revenue streams. Integrated and satisfying user experiences, adjacent business models, platform, and super platform ecosystems…. need we say more?

Going back to basics, business is made up of products and services, the underpinnings of which are processes and data. Clear, concise, accurate data has always been a key to success. But the digital strategies by their very nature require the broader capture, dissemination, reuse, and integration of that data to transform and innovate businesses.

Process Re-engineering

A classic quote from Jeff Bezos says it all: "Your Fat Margins My Opportunity".

The Digital-Insurer references that quote when they discuss the insurance industry: typically, the insurance supply chain is seen as a linear model. Insurance distribution starts with agents, brokers, or managing general agents (MGAs) at the front end. Carriers underwrite risk, and then decides whether to pay a claim. And the buck stops with the reinsurers. Front to back risk and premium moves from one intermediary to another, each one taking their share. It is a model that has not really changed over the last century.

The great opportunity for process re-engineering: Customers will be rated as individuals and not as members of a risk pool. A greater share of premiums will be set aside to pay claims. Instead of sales commissions, there will be revenue generated by platform fees. Time to pay claims will become the KPI of choice for customers to rate their insurance experience. And as convenience replaces price as the key buying criteria, the way that insurance is distributed will change.

Concluding Thoughts

While much of this discussion refers to future changes for the insurance industry, it is important to note that there are companies where the linear model and the insurance supply chain has already changed. Take for example Sherpa who has partnered with GenRe, and changed their business model to charge a value based annual fee to a customer in return for meeting *all their insurance needs* (with products in all insurance sectors under one cover); no more sales commissions. Instead Sherpa purchases the insurance wholesale and distributes personalized insurance products to customers, while accounting for the aggregate risk in advance (for reinsurance).

The future business models and supporting digital ecosystems will continue to evolve providing Amazon-like levels of service as the norm for both insurance distribution and claim payment.

In the next article we will examine how much is real today? What companies are offering these digital experiences today for what specific capabilities and what products. And how are companies incorporating their books of legacy business with vast amounts of customer data to take advantage of the digital ecosystems and alternate revenue streams.

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About Mantissa

Mantissa Group provides business and technology strategic consulting services. Mantissa supports the Chief Information Officer executive and their leadership teams, with a focus on CIO engagement as a business leader. Mantissa has practical experiences supporting leaders with **technology strategy, executive coaching, leadership development**, and relevant **research** for technology organizations.