BUSINESS COLLECTIVE 1.0: SIX PILLARS FOR BUILDING A SUCCESSFUL BUSINESS COLLECTIVE
Six Pillars for Building a Successful Business Collective

Digitization, connectivity and new modes of collaboration are shaking up how companies conduct business. Long-standing boundaries separating discrete enterprises are blurring. All of this is leading to the emergence of industrial ecosystems — business collectives in which companies join forces to face the market as a single competitive powerhouse.

Product and service innovation is no longer enough to guarantee success. Companies must now innovate at the business model level.⁠¹ This realization is driving the adoption of a new ecosystem approach, which we call Business Collective 1.0 (BC 1.0).

While ecosystem theory is in place, execution lags far behind. “The dramatic shift toward understanding that business model transformation must be done hasn’t been matched by an understanding of how to get it done,” notes Jacob Bruun-Jensen and John Hagel of Deloitte in a 2015 report.⁠²

BC 1.0 has one mission: to create sustained value for the end customer while simultaneously propelling partners to shared prosperity.

But how do you create this business collective? Is there a roadmap for implementing it?

Not yet. But it’s coming.

---

² Ibid
1. FOCUS ON THE CUSTOMER

An ecosystem strategy is an “outside-in” approach to business. “The only reason we exist is the customer,” says Damian Pike, Vice President, Innovation & Transformation, DHL Supply Chain. “Everything we do starts with the customer.”

Instead, partners need to work backwards from the end customer, gathering a 360-degree view of their needs, issues, requirements, priorities and business strategies.

With that in mind, “the exact wrong thing to do when you start down the path of creating a business ecosystem is to have a desk-based theoretical strategy team pick out which products they want to bring together, and then develop what they think are the solutions,” Pike cautions.

Partners need to work backwards from the end customer, gathering a 360-degree view of their needs, issues, requirements, priorities and business strategies.

“This isn’t an ecosystem. We need to engage with our clients and find ways to deliver value across traditional boundaries, and use this as a basis for transformation.”

“Then, we have intelligent conversations with our collective partners about what customers we are serving and how we want to win,” explains Frank Vorrath, Vice President, Global Supply Chain at Johnson Controls. “We need to talk about how we configure our value chain network to meet those customer needs. This means working together with our suppliers and logistics services providers to create solutions towards the one outcome which is ‘How we serve our customers better’.”

2. BUILD THE FOUNDATION

Business collectives run on infrastructure and operating frameworks — digital and otherwise. They cannot succeed without them.

To build this infrastructure, collective companies must openly share their vision for the future. “This lets you align investments and operating plans toward supporting the future business,” advises Thorsten Roggenbuck, Vice President, Global Account Management, Life Science & Healthcare, DHL Supply Chain.

Next, organizations must assess the collaborative capabilities of the larger ecosystem to ensure that the right structures, key performance indicators and internal metrics are in place and are aligned. Partner companies then establish rules of engagement (with a clear articulation of expectations, roles and responsibilities), refine their joint vision, create a virtual vertical concept and select initial collaborative initiatives.

“Partners need to agree on a systematic governance regime,” says Roggenbuck. “This enables you to make decisions faster and more effectively. It creates agility.”

---

Finally, senior executive commitment is essential from all parties, at all stages of the process.

**3. TAP SUPPLIERS FOR INNOVATION**

Suppliers will be an increasing source of innovation in BC 1.0. According to a KPMG survey, 51% of respondents believe partnerships with suppliers will define the direction of innovation.4

The strategy behind tapping suppliers for innovation lies in capitalizing on individual strengths, and blending them into a unified capability. “Don’t waste time trying to develop strengths in areas where other partners already have them,” advises Roggenbuck.

“As an integrated logistics service provider has expertise in managing highly complex systems — physical networks, organizations, assets, processes, information and people,” he continues. “and if given the latitude and trust, the 3PL can pull together these complex systems, and not only manage them, but constantly re-think them to invent new solutions.”

**4. OPEN UP AND SHARE**

If trading partners want to go to market as a collective, they must open up the information supply chain. This means enabling a free flow of insights into customer behaviors, and using this knowledge to speed up innovation, enlighten and accelerate decision-making, boost agility and streamline collective operations. It means pushing visibility out across the entire supply chain.

“We all need to be seeing the same version of the truth,” says Keith Nash, Vice President, Supply Chain Logistics at Lennox Industries. “We need a shared view of supply and demand. And we need the system that provides it to be plug and play, so it doesn’t require an army of specialists and millions of dollars in integration fees to work.”

Keeping up with the technology needed to execute a partner ecosystem is getting harder — and more expensive. “Technology investment requirements are voracious, and becoming more so every day,” observes Vorrrath.

---

4 “Global Manufacturers Lack Supply Chain Visibility Beyond Tier 1 Suppliers, Sourcing Closer To Market A Priority: KPMG Study.” KPMG. 2013. p.2
“We simply won’t be able to afford the luxury of having redundant systems. So one of the opportunities of the business collective is to view such investments as a shared model, which becomes part of a solution-strong competitive framework.”

5. START SMALL AND RUN FAST

“Fast, large-scale change is enormously risky,” write Bruun-Jensen and Hagel. Business model transformation at scale — the “big bang” approach — often fails, at enormous expense.

An alternative — and far less risky — approach is the concept of minimum viable transformation. This idea comes from the product development world, where companies launch products that are not perfect and use customer/user feedback to iterate and improve. Customers, together with ecosystem partners, participate in the improvement cycle.

Business model transformation can follow the same path. The organization tests the model change in small field experiments, which if successful, can be scaled up.

These transformation pilots are best conducted at the “edge” of the business — in a new venture, for instance. “No one wants to experiment with the core business and risk upsetting its established revenue and profit generation,” the KPMG advisors say. Testing at the edges allows partners to “fail small”, and learn from the experience.

5 Bruun-Jensen and Hagel, p.92

---

FIGURE 1: ALTERNATIVE BUSINESS TRANSFORMATION PATHWAYS

Path one: “Big bang”
More linear, focused on executional excellence and detailed planning

Path two: Minimum viable transformation
More iterative, focused on in-process learning and refinement

Source: Deloitte, 2015.
6. THINKING LONG TERM

Finally, building a business collective isn’t a short-term project. It is a radical redesign of a company’s competitive strategy.

Short-term transactional relationships produce transient, incremental benefits — usually for one partner at the expense of another. The ecosystem model demands a longer view. It requires building relationships that deliver sustained, significant value over time.

SUCCESS GOES TO THE INNOVATORS

“Ecosystems typically bring together multiple players of different types and sizes in order to create, scale and serve markets in ways that are beyond the capacity of any single organization — or even any traditional industry,” says Eamonn Kelly of Deloitte. “Their diversity — and their collective ability to learn, adapt, and crucially innovate together — are key determinants of their longer-term success.”

As organizations around the world tackle the challenge of building business collectives, their paths will take different forms. But folding these six guiding principles into the mix can help smooth the journey, and ultimately support the promise of the business collective.

CATERPILLAR ON COLLECTIVES

“The globalization of business brings a level of complexity that leaders today have likely never experienced. The way we tackle it, though, is simple.

Start with the facts. Know what’s going on in your facilities and what’s flowing between them. Organize the supply network well, clarify the definitions of success, facilitate the movement of information, and a healthy supply network will follow.

We have to know how to lead and coordinate a vast and decentralized web of interconnected suppliers, or risk being hostage to it.”

Frank Crespo,
Vice President and Chief Procurement Officer, Caterpillar Inc.

---

6 Eamonn Kelly, Business ecosystems come of age, Blurring boundaries, uncharted frontiers, Deloitte University Press, 2015, p.63
BUSINESS COLLECTIVE 1.0:

SIX PILLARS FOR BUILDING A SUCCESSFUL BUSINESS COLLECTIVE

JUNE 2016

By Lisa Harrington, President, lharrington group LLC and Senior Research Fellow, Supply Chain Management Center, Robert H. Smith School of Business

For further information
For the latest supply chain insight and resources, visit
dhl.com/supplychain
supplychain@dhl.com