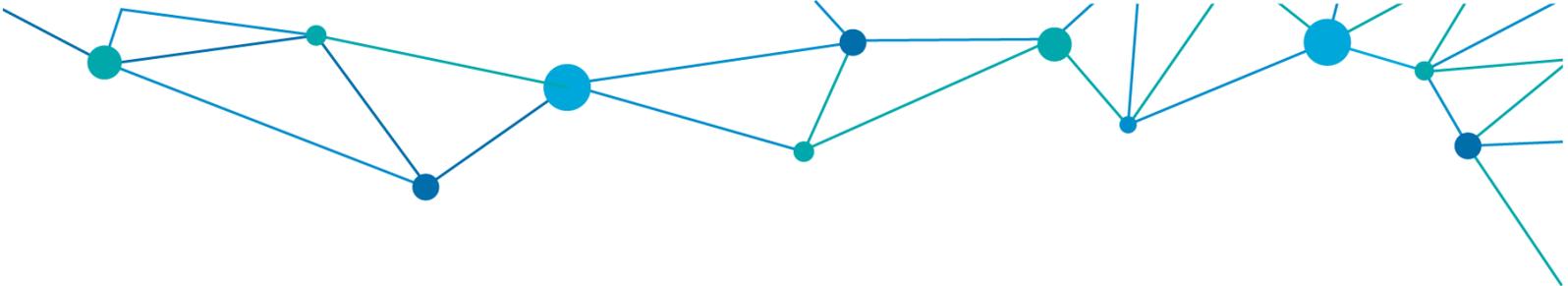


The **FINDER** Project

'Ecosystem dominance'

Highlights from the session held at Atos's Inclusive Digital Innovation in Financial Services & Insurance Event Week (15th to the 18th March 2021)

Thought
Leadership **Atos**



Overview - What did the session cover?

As collaboration between companies in digital ecosystems becomes more attractive and lucrative for the creation and capture of value as well as for accelerating the pace of innovation, a glaring question remains: how do certain companies advance further than others? What should a company – whether a young startup or an ancient incumbent – focus its strategic planning on in order to secure the most advantageous position it can in the flattened landscape of an ecosystem? These questions are important because, in an ecosystem, anyone can talk to anyone and powerful companies can just be bypassed (and therefore squeezed out of the equation) by others. Using theoretical insights as well as interview data, this session presented three different views and the types of companies for which these strategies might be a best fit.

Who was on the panel?

Host Ivo Luijendijk, Atos Industry Director, began by welcoming Atos Financial Services & Insurance CTO Remco Neuteboom and Rick Aalbers, Associate Professor Strategy and Innovation at Radboud University, to introduce the focus of this week-long series. He then brought in James Ellis, PhD candidate at Radboud University, to explain more about the FINDER project research into financial market ecosystems and how players could achieve dominance within them.

Ecosystem dominance

James kicked off by explaining that his presentation was a summary of findings that will be published later in 2021 in a conceptual white paper. Instead of pointing to specific actions companies can take, the paper will offer a ‘bird’s eye’ view of ecosystem dominance and strategic emphases in a new competition landscape. He compared it to having a high-level map that could help market players make better decisions now to influence where they stand in the market in the future.

Why is this even important?

James used the analogy of a forest pond to outline the difference between the predatory and parasitic ecosystems found in nature and the type of mutually beneficial, co-adaptive ecosystems that are possible in the financial services and insurance market.

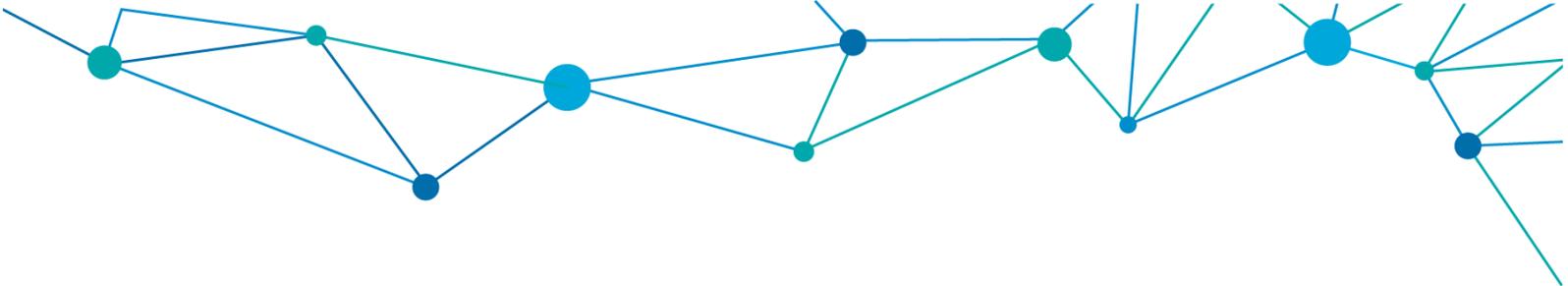
The ‘winner-takes-all’ position, some players have adopted in the past, have been proven to work only up to a certain point. For example, FinTechs that take data from banks to create new customer offers could be seen as parasitic. However, this uses up a lot of energy for the FinTech. A better and less intensive approach for all players is one in which ‘a rising tide lifts all boats’.

In practice, this would mean market players operating together to do different things but, ultimately, all with the same aim of delivering a better customer experience.

How does this benefit the individual players?

Here, it is important to understand ‘dominance’. The working definition James refers to is, ‘A company’s ability to most effectively use available resources and influence the relationships of other ecosystem participants.’

James then set out what dominance would mean for both Fintechs and market incumbents in a series of three conceptual perspectives.



Perspective 1: Technology-Market Dynamics for FinTechs

This idea is about looking at ecosystem dominance in terms of where market players might find their best fit across three main constants:

1. Technology and innovation – This is the point where there is perpetual acceleration with no particular boundaries making it a good opportunity for Fintechs with niche capabilities and low systemic ‘drag’.
2. Societal (consumer) demands – This is where there are opportunities for incumbents that have inherent market legitimacy and existing customer access.
3. Ecosystem density – This is when gaps in the ecosystem are filled by whichever players are able to service market opportunities as they develop.

Perspective 2: Dominance Via Customer Access for Incumbents

There is some debate about who or what actually guides ecosystem progress. It could be consumers or it could be socio-political forces, like regulators or ‘big bang’ initiatives like GAIA-X in Europe. In effect, Perspective 1 sits within Perspective 2 as these external forces shape the opportunities. It is highly likely that it is the consumer element that is most important here. Companies that most effectively capitalize on access to consumers can become dominant in the ecosystem.

By way of example, James highlighted the way that TV companies had bundled broadband services into their packages. This means the TV companies control access to the consumer and have the ability to enhance their value to consumers with more comprehensive offers. Meanwhile, the broadband providers have a lesser role that is more akin to a utility provider.

Perspective 3: Resources As Dominance for ‘Systems Integrators’

The final perspective covered the resources that players use to add value to ecosystems. In particular, three key resources:

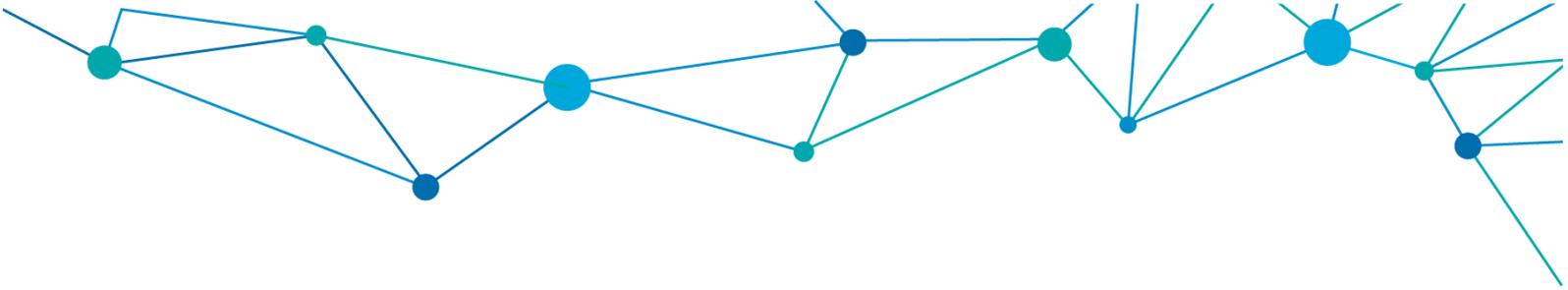
1. Capital
2. Talent
3. Data

The constants from Perspective 1 can be mapped to these resources. Often there are significant differences between what an incumbent can offer and what a FinTech can offer. (Not to mention any other ecosystem player.)

Incumbents in financial services and insurance may bring plenty of capital and data resources but may lack the talent (e.g. emerging software development skills) to dominate. They may even only have fairly ‘vanilla’ data rather than rich insights into customer motivations, for example.

FinTechs may bring plenty of talent and data resources but lack the capital to dominate.

Both can acquire the things they lack but this can take time. In the incumbent’s case, why would a young software developer want to work in a rigid organization where work is not democratized compared to a FinTech environment?



Instead, the resource allocations required to meet customer (and/or regulator) demands are met through the entire ecosystem. Each company will have its balance of the three resources that represent its clear value proposition within the ecosystem.

To dominate in this sense depends on how the ecosystem develops over time. In the beginning there are likely to be lots of actors and many voids to fill to be able to fulfil demand. Some players will naturally 'die off' or leave the ecosystem because of commercial factors and this will leave a void. The players that fill this void by increasing resources in certain ways will be able to grow within the ecosystem. As James put it, this leads to 'Ecosystem Centrality As Dominance'.

James wrapped up the session by addressing the need to isolate from potential failure within the ecosystem and to establish centrality for the organization. As he explained, the chaotic nature and flat structures of ecosystems mean that strategies will only be useful up until the point that things change. And they can change suddenly or dramatically in response to changing consumer needs or new regulatory obligations.

Strategic categorization could help companies survive this potential flux. By understanding more about how to continue aligning to the ecosystem needs, market players can effectively 'lean into the chaos'.

Panel discussion

With the remaining time allocated to an audience Q&A, Atos host Ivo Luijendijk asked several pertinent questions before inviting others to ask James about the research.

Q1. Looking at Perspective 2 and the notion of external influences, how could GAIA-X affect ecosystem dominance?

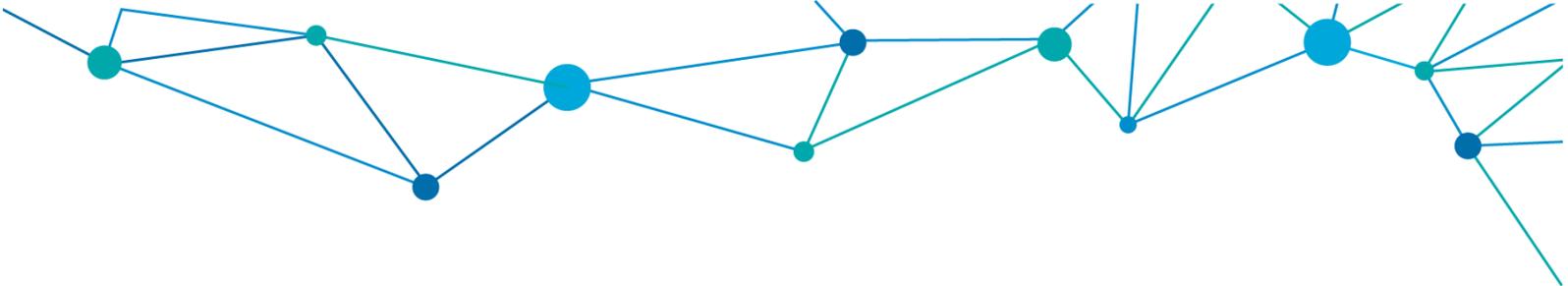
GAIA-X is interesting because of what it's trying to address. It could become a vector-defining initiative. Creating more portable and interoperable data and developing trust could help guide participants in an ecosystem in how they apply their resources. More standardization along these lines could be a good thing.

Q2. Looking at Perspective 3 and the distribution of resources, how might you restructure the workforce to solve the talent issues within incumbents?

Incumbents have clearly persisted over time and many will follow an 'If it ain't broke, don't fix it' approach. Yet this means they haven't changed for a long time. They may have a ton of data and a ton of capital. And this might attract talent. But as a talented software developer you probably wouldn't want to work for these kinds of rigid, non-democratized companies. In the short term, this can be costly to address for big companies. In the long run, the democratization of work and empowerment can pay dividends in terms of dominance.

Q3. For Perspective 3, do you see a specific route forward for centrality through resources?

This arena is fairly divergent thinking and we don't have a formula for centrality. There are situations where you could have players that fly in and everyone is trying to chase them. You could draw the boundaries of an ecosystem and draw all the needs within that ecosystem but the good of the ecosystem is the driver towards centrality. The demand for all three types of resources (capital, talent and data) combine to create the motivation.



Q4. Thinking of extremes, if an incumbent is forced to restructure (e.g. via layoffs), how will it affect the ecosystem?

This goes back to the perceptual map. You have the three capabilities. If one dominant player was wiped out then other players – for example, close neighbours – would fill the void. You could have events where new technologies or a new externality made what one player offers completely redundant and this could, in theory, undermine the whole ecosystem. But, in reality, there are few players that offer something that no one else can, so another player would just fill the void.

Q5. If we see a massive shake-up of the ecosystems (an ‘event horizon’) who will be able to adapt best – the FinTechs that are flexible or the big players that can absorb a certain amount of change?

It’s difficult to identify the likely impact of event horizon, like a pandemic or other kind of rupture. You might be to predict it occurring but no one will really know what the effects will be. The white paper is a combination of ideas and traits we have seen. It sets out concepts that could influence how to survive in these scenarios. But this is less about a category of company and more about the companies that can utilize certain capabilities at the time.

Q6. In Perspective 3, we can see how an ecosystem might be balanced by resources. Can this be applied to individual companies?

For sure. It could be applied to Fintechs that are looking to scale up, not just incumbents that want to centralize. In the white paper, there are no absolute figures for these resources either. It’s about finding where to fit within the ecosystem. These resources can be different too. For example, the data that’s available from one player (say, financial data) can be completely different to that from another (like behavioural data).

Q7. How about alliances – Do I need to be dominant or do I just need dominant friends?

These are hard to plan in a strategy room for a CTO of a FinTech or Chief Strategy Officer in a big bank. Such alliances tend to happen serendipitously. That’s why it’s important to focus on dominance. It’s more than networking. It’s about doing the legwork to provide a distinct value proposition within the ecosystem or become the supply chain redundancy for another player. There’s a reason why we don’t mix money and friendships in real life. It’s the same here. You could pair up to enter the ecosystem though there is obvious potential to lose either your ‘friendship’ or your money.

About the Event

This session took place as part of Atos’s ‘Inclusive Digital Innovation in Financial Services & Insurance Event Week’ (15th to the 18th March 2021). This is part of Atos and Radboud University’s joint initiative FINDER (<https://thefinderproject.eu/>), funded by the European Commission.

The COVID-19 pandemic has been a catalyst for digital adoption across various aspects of our private and professional life. In the financial services and insurance industry, processes are increasingly tackled by leveraging data, machine-learning, and FinTechs/InsurTechs. Atos joined forces with practitioners, academics, and policy-makers to discuss how to yield benefits from these developments by re-positioning banks in the ecosystem, using Artificial Intelligence in insurance, mitigating risks in new venture collaborations and exploring the opportunities of the European GAIA-X project.