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# Foreword



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In our recently published study “**Digital era for ASEAN conglomerates - Hype or reality?**” we established that the digital economy provides significant opportunities for ASEAN organisations. To say that digital play requires a paradigm shift from “business-as-usual” is a cliché in today’s time. Its global penetration has pushed industries to develop their own digital ecosystem. The top 5 most valuable companies are digital companies. In Asia, the digital economy is expected to grow at 21% y-o-y, which is 3X the growth rate of the physical economy. The winners are those who have a broader view of the digital economy, have a winning strategy to capitalise on these opportunities and able to mitigate the underlying threats to drive growth and sustain shareholder returns.

The pace of change is phenomenal – we have observed 9 key patterns of disruption, which are driving multiple paths to displacement for existing incumbents. We have also witnessed that a selective investment driven model adopted by incumbents for their digital initiatives, have failed to generate any material impact. Therefore, a differentiated “value creation” approach is required to leverage connected ecosystems. .

This will require a fundamental refresh of the mindset, culture and capabilities. Given, there are hardly any secrets in the digital world, speed-to-scale defines success or failure. What then, are the options for the incumbent to build digital capabilities that are fast-to-scale yet flexible enough to accommodate the changing digital ecosystem?

This paper attempts to answer several of these aforementioned questions. We believe that opting for a strategic alliance model is the optimal way for traditional businesses to enter and thrive in the digital economy. Priorities and choices of the alliance model differs by industry verticals, capability build objectives and geography. A recent analysis of more than 125 recently formed alliances suggest three interesting new trends: (a)~50% of recent alliances formed were to accelerate new product design/ development; (b) TMT sector dominating the alliance landscape, contributing to almost ~50% of all alliances being formed and (c) cross industry collaboration is becoming the new norm, particularly between the TMT industry and the financial services industry and between TMT and Consumer and Industrial products sectors. However, these alliances are easy to form, but extremely hard to sustain. Significant risks exist across the entire alliance lifecycle that need to be identified and mitigated through a planned approach. We hope that through this paper we are able to show that businesses need to rethink their capability development strategy for their digital play.

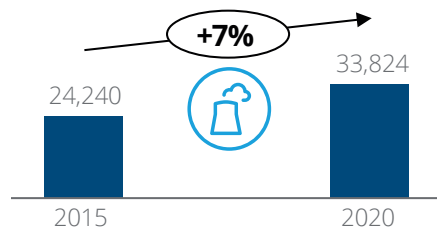
# 01 Digital Ecosystems – The new basis for competition

# Digital economy is scaling up faster than the physical economy

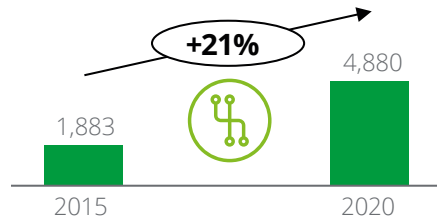
Winners will be those who do not solely focus on digital plays, but build their business models to leverage on both the physical and digital economies.

A digital economy is a global network of economic and social activities that are enabled by information and communications technologies, such as the internet, mobile and sensor networks

Asia Physical Economy (USD Bn)



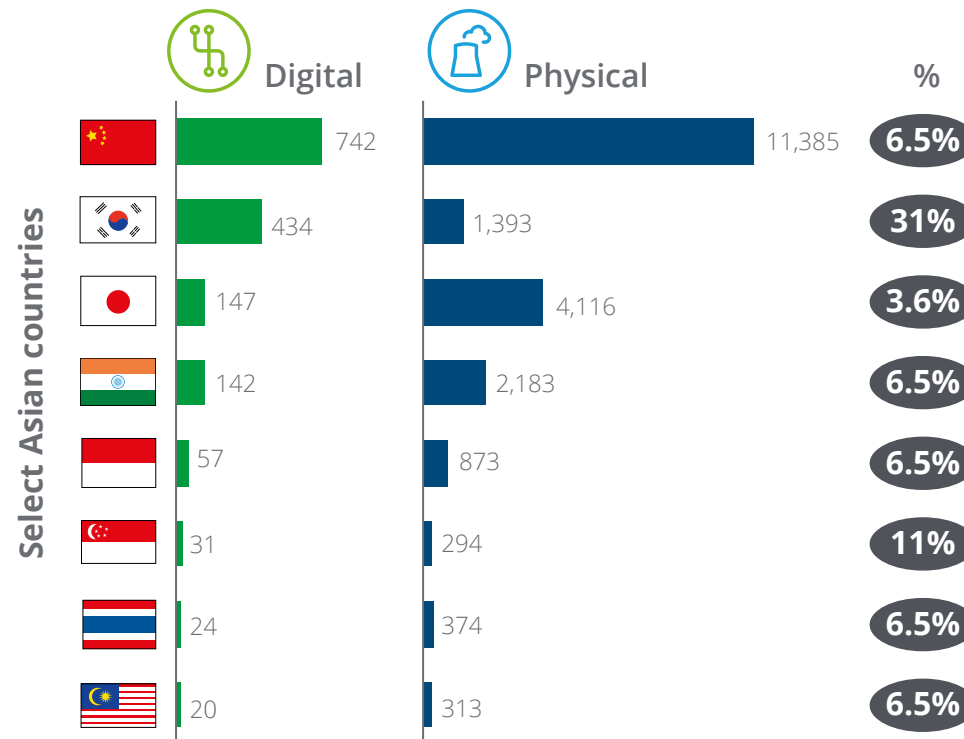
Asia Digital Economy Estimate (USD Bn)



As % of GDP **8%**

**15%**

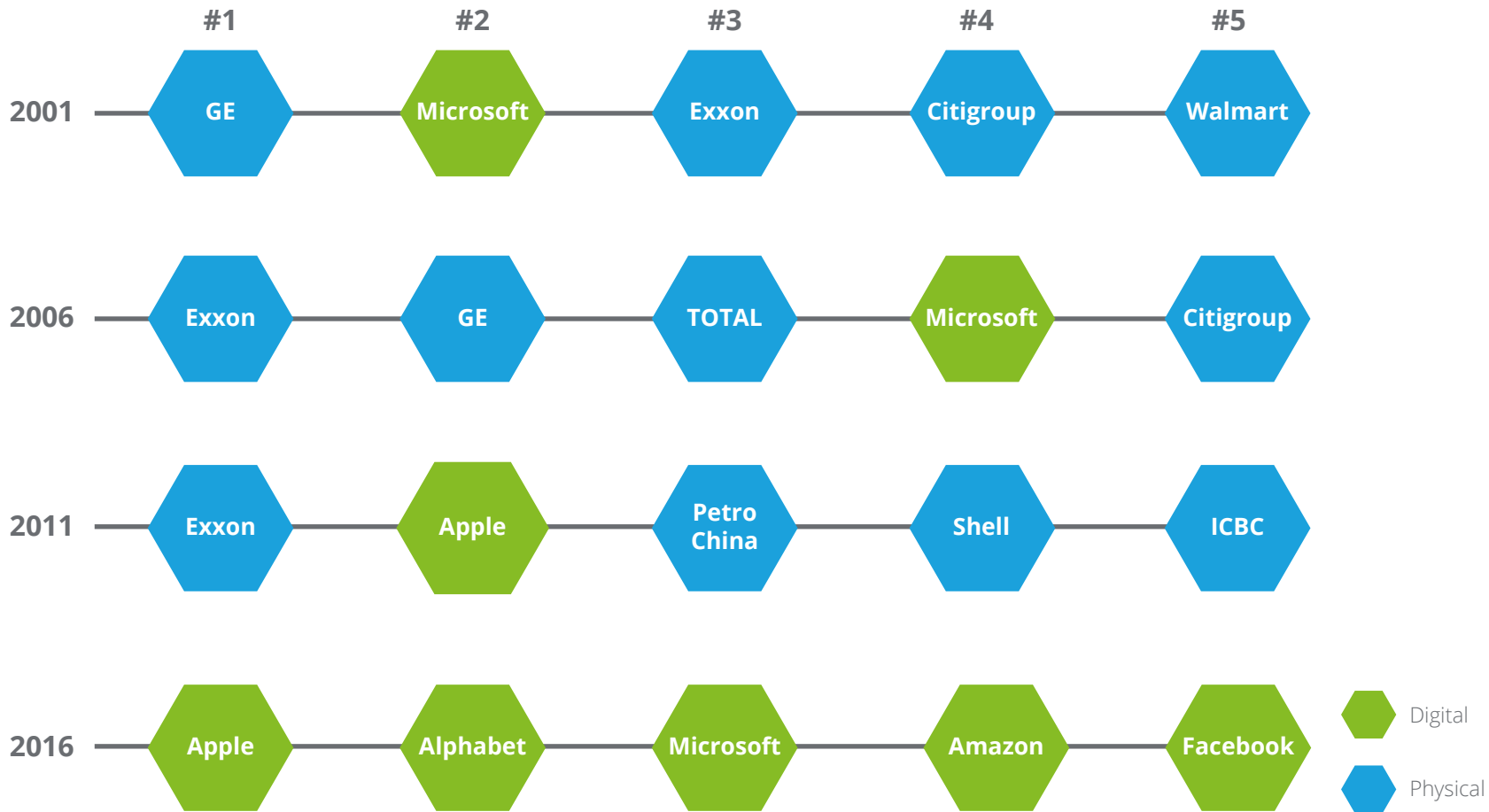
2015 Asia Digital vs. Physical Economies (USD Bn)



Source: IMF WEO GDP Forecasts; WEF NRI 2015; Monitor Deloitte analysis

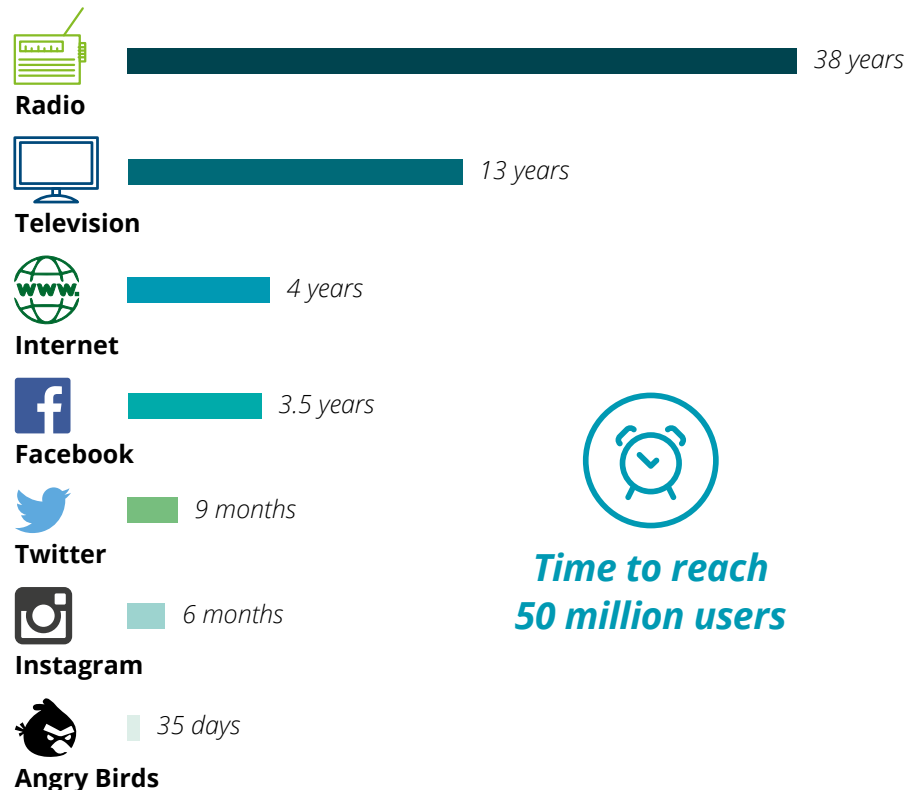
# Digital natives are at the forefront of value creation and value appropriation

Top 5 publicly traded companies by market cap (USD Bn)



# 9 key patterns of disruption are driving multiple paths to displacement for existing incumbents

## The pace of change is phenomenal

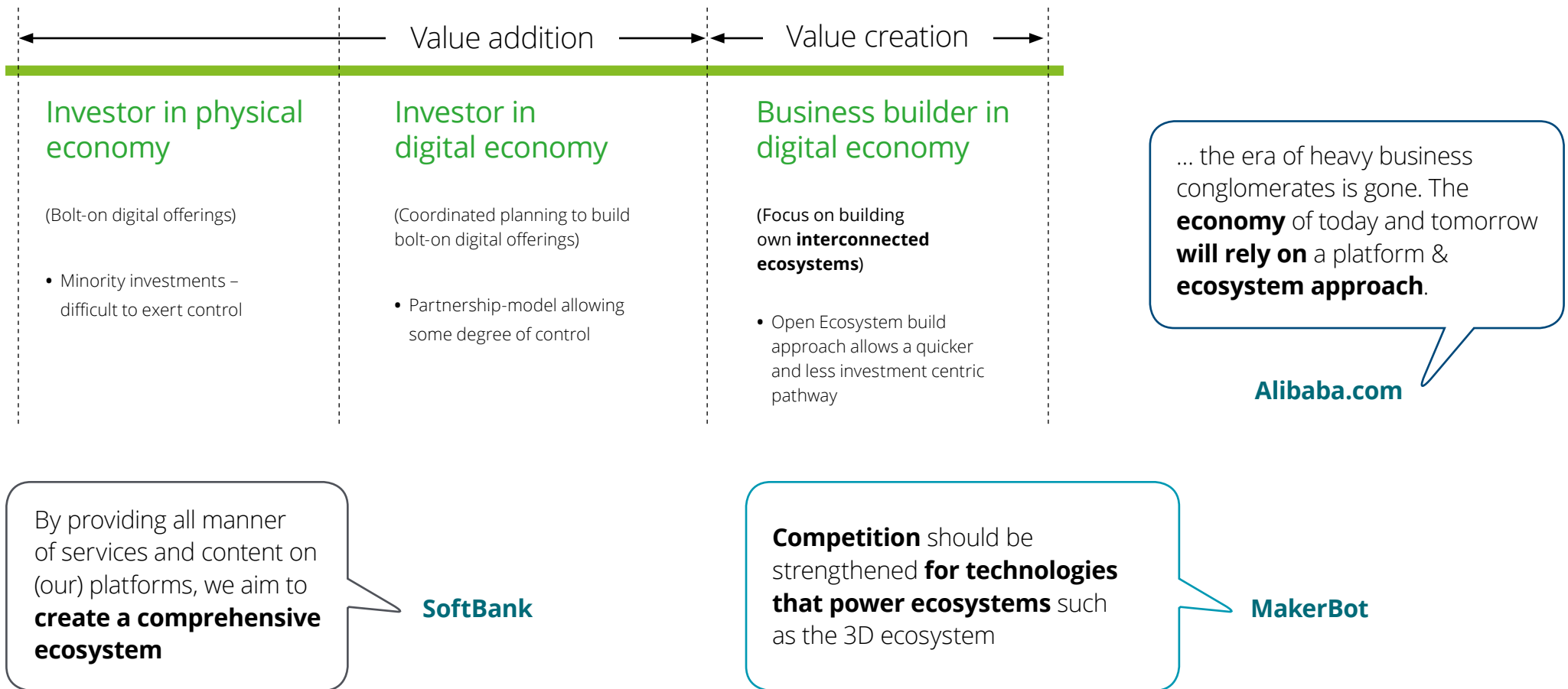


## The 9 patterns of disruption are prominent

- 1 Expand marketplace reach**  
Connecting fragmented buyers and sellers - whenever, wherever
- 2 Unlock adjacent assets**  
Cultivating opportunities on the edge
- 3 Turn products into platforms**  
Providing a foundation for others to build upon
- 4 Connect peers**  
Fostering direct, peer-to-peer connections
- 5 Distribute product development**  
Mobilising many to create one
- 6 Unbundle products and services**  
Giving you just what you want, nothing more
- 7 Shorten the value chain**  
Transforming fewer inputs into greater value outputs
- 8 Align price with use**  
Reducing upfront barriers to use
- 9 Converge products**  
Making 1 + 1 > 2

Source: Bernd Leger, "20 fresh mobile trends," Localytics, May 13, 2013, <http://www.localytics.com/blog/2013/mobile/2013/mobiles-statistics>  
 "Patterns of disruption - Anticipating disruptive strategies in a world of unicorns, black swans, and exponentials", Deloitte University Press

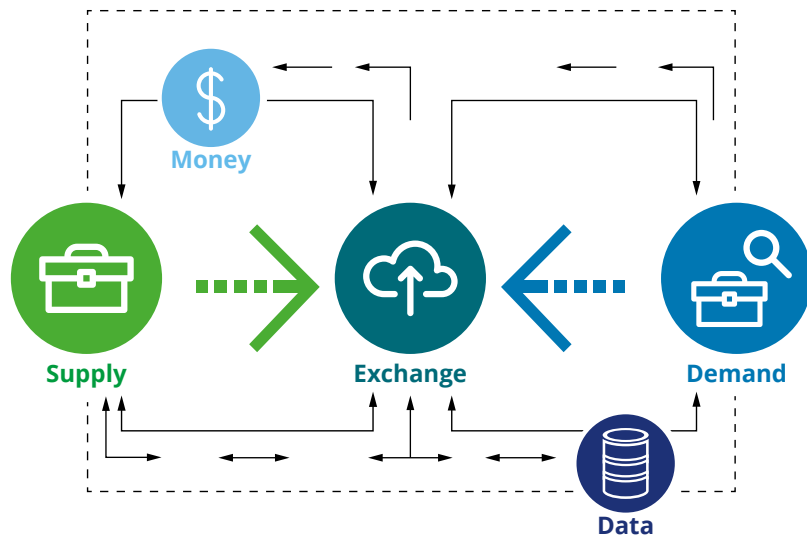
# A differentiated “value creation” approach is required to leverage the connected ecosystem





# The connected ecosystem based business models require organisations to have an evolved mindset and an urgent capability refresh

## Ecosystem Thinking to Frame Business Models



## 3 Business Model Archetypes of Today



Source: Deloitte article, titled: Business Models for A New World – A new perspective on strategy and business model development, September, 2016

## New Business Model Archetypes



**WIN THE CUSTOMER**

### Improve utility

- See what customers really need and fulfill it completely
- Make it easy for customers to use their offerings and to get things done

### Enhance experience

- Connect with customers' sense of identity and purpose
- Enhance their sense of self
- Confer status and meaning to customers



**OWN THE PLATFORM**

### Trade

- Identify under-exploited assets such as untapped demand and/or fragmented supply
- Define rules for their exchange
- Connect these buyers and sellers

### Co-create

- Enable collaborators to find each other
- Provide the context & tools for collaboration
- Facilitate commercialisation of outputs



**ACTIVATE THE DATA**

### Augment decision making

- Harness powerful insights through IoT and big data technologies
- Help customers make better choices than they could alone

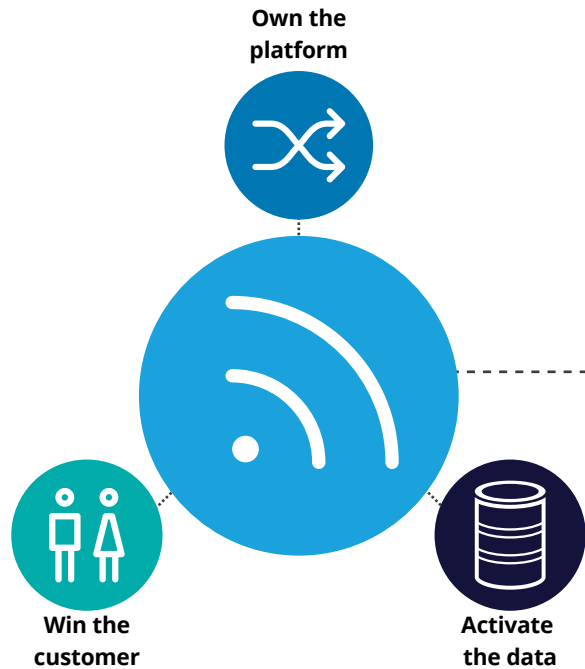
### Guarantee outcome

- Use data to manage the performance of the assets and guarantee outcomes
- Sell solutions instead of assets

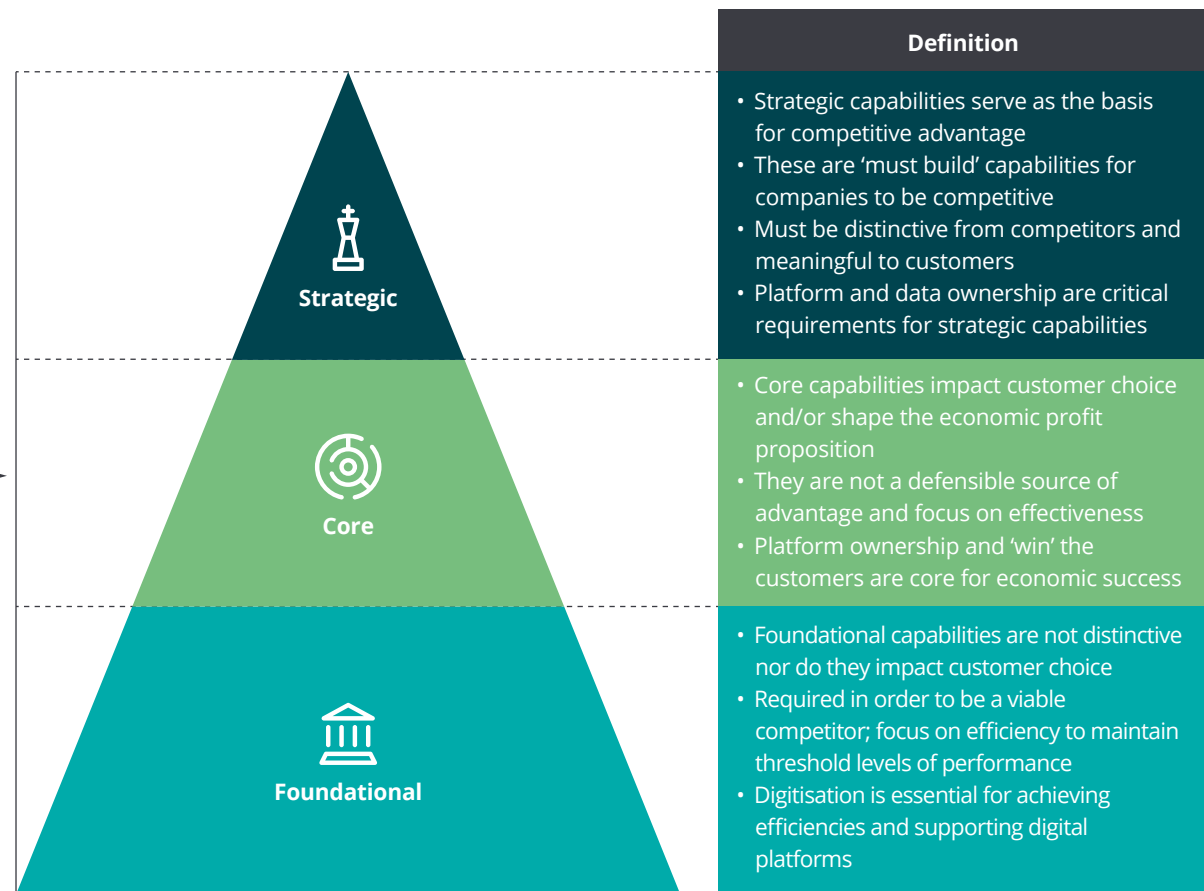
# 02 Key capability sets

# 3 key organisational capabilities are required to succeed in the digital ecosystem model

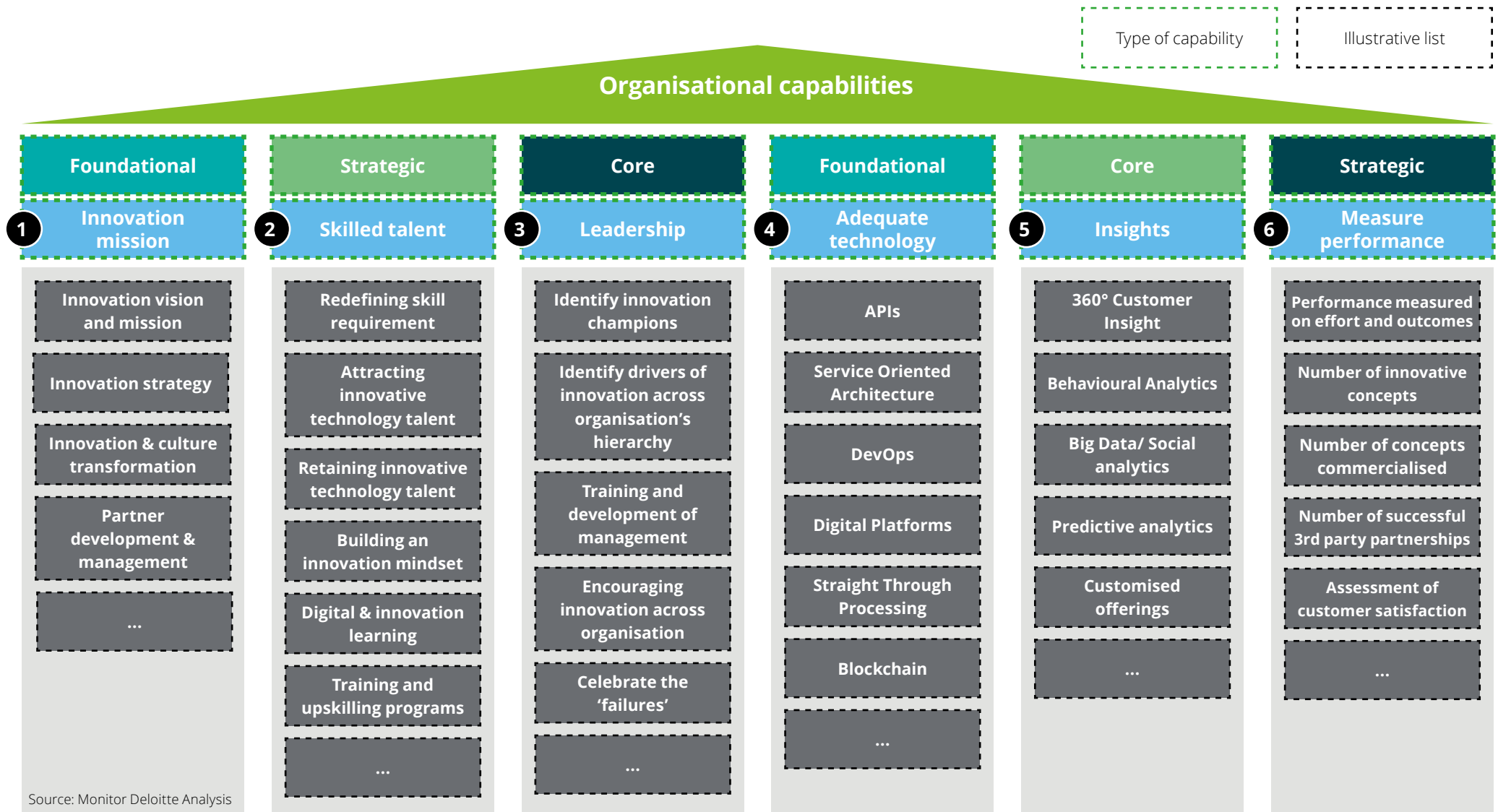
New business model archetype



3 key organisational capabilities required to succeed in the digital ecosystem



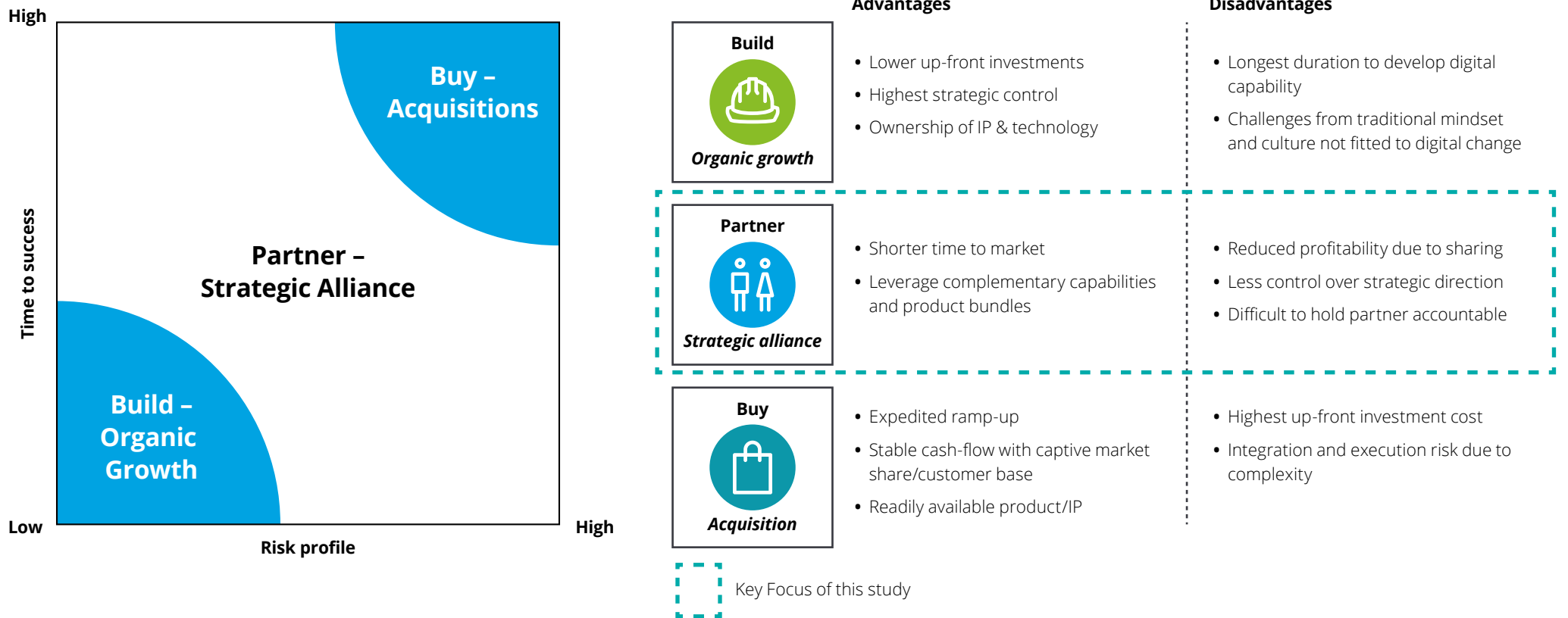
# To successfully execute, many of these capabilities and underlying building blocks need to be institutionalised in parallel



# 03 Capability development options — Build, Partner, Acquire

# Speed to scale defines success or failure - Inorganic growth provides required acceleration




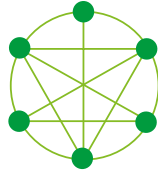
## Speed vs. Risk Profile for Capability Growth Pathways



Source: Monitor Deloitte Analysis

# Strategic Alliances emerge as relatively risk free alternative – 4 distinct archetypes exist

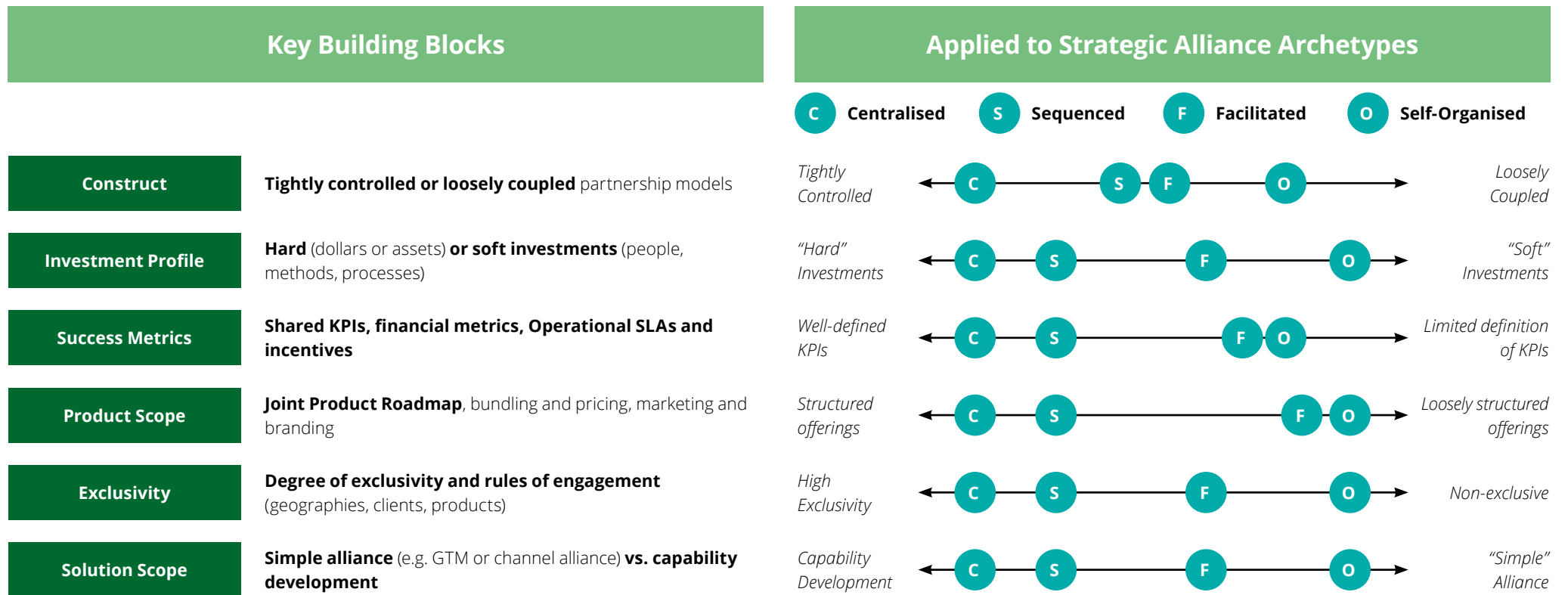
## 4 Archetypes for Strategic Alliances in the Digital Ecosystem

	Centralised	Sequenced	Facilitated	Self-organised
<b>Types</b>	 <ul style="list-style-type: none"> <li>• <b>Clear Orchestrator</b> who drives the interactions required to achieve the objective</li> <li>• Participants generally only <b>interact with organiser</b></li> </ul>	 <ul style="list-style-type: none"> <li>• Traditional <b>supply chain</b> or <b>distribution system</b> with a high-level Orchestrator</li> <li>• Participants may interact with <b>upstream or downstream</b> players</li> </ul>	 <ul style="list-style-type: none"> <li>• <b>Primarily Participant-driven</b> with multiple, complex interaction patterns</li> <li>• Orchestrator defines <b>governance</b> and <b>interaction protocols</b> only</li> </ul>	 <ul style="list-style-type: none"> <li>• <b>Purely Participant-driven</b></li> <li>• No Orchestrator and typically includes <b>grassroots systems and pack systems</b> with no defined standards, forums, or barriers to entry</li> </ul>
<b>Examples</b>	<p><b>AT&amp;T Foundry</b></p> <ul style="list-style-type: none"> <li>• Exposes AT&amp;T's API to developers to promote mobile app innovation</li> <li>• Product development cycle time has improved from 18 months to 6 months</li> </ul>	<p><b>General Motors</b></p> <ul style="list-style-type: none"> <li>• The GM supply chain across parts manufacturers, suppliers, assemblies and etc. is an example of traditional Sequenced Model</li> </ul>	<p><b>AMEX Open Forum</b></p> <ul style="list-style-type: none"> <li>• Online forum for small business owners to interact, ask questions, advise and exchange information</li> </ul>	<p><b>Linux and Android OS</b></p> <ul style="list-style-type: none"> <li>• Linux has seen success with its open-source philosophy</li> <li>• Android, a Linux-based mobile O/S, dominates with market share of ~82%, or 1.4 billion users worldwide</li> </ul>



Source: "Performance Ecosystems: A decision framework to take performance to the next level"; Deloitte Center of the Edge,

# Suitable application of critical building blocks varies significantly by Strategic Alliance Archetype

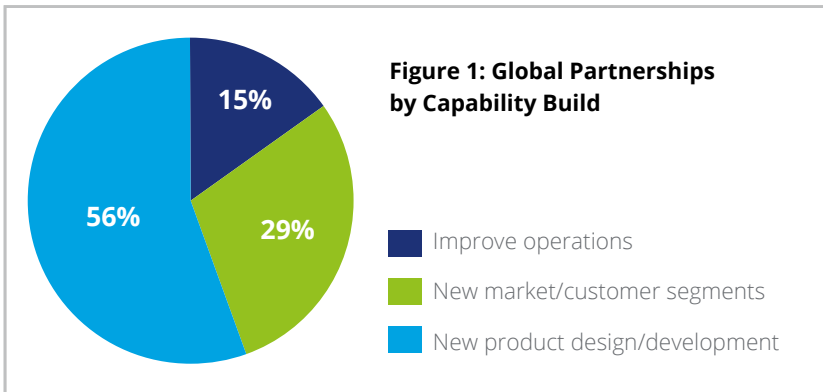


Source: Monitor Deloitte Analysis based on previous client engagements



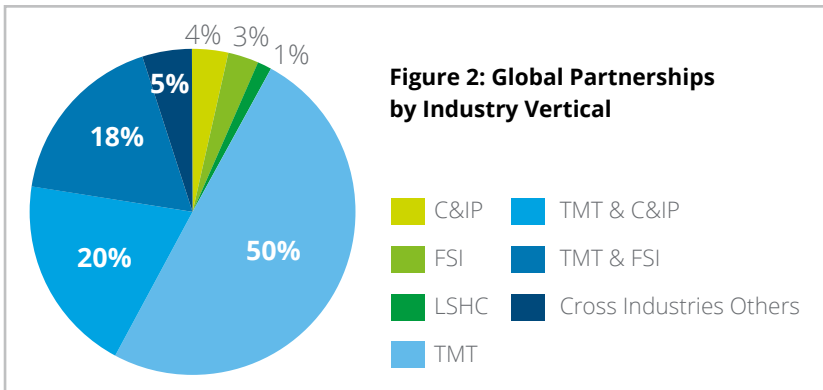
# 04 Learnings from the marketplace

# Digital alliances focus on enhancing product design and development, with TMT dominating the alliance landscape



- **Product development** partnerships appear to focus on **synergising complementary core competencies**
- Meanwhile, sales partnerships are formed to target new or **specific customer segment**

**C&IP:** Consumer and Industrial Products  
**FSI:** Financial Services Industry  
**LSHC:** Life Science and Healthcare  
**TMT:** Technology, Media and Telecommunications

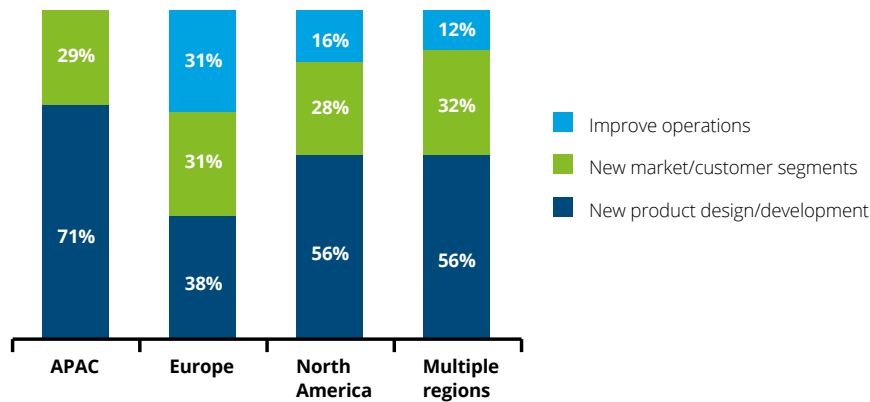


- **TMT's** dominance in the partnership landscape is clear due to its central position in the digital space
- **Cross-industry partnerships** are primarily made of TMT-FSI and TMT-C&IP collaborations – 51 out of 58 cross-industry alliances
- The **diversity of these TMT-FSI partnerships** suggest a breadth of opportunities: from **mobile money, payments, insurance services, and lending**

Source: Monitor Deloitte Analysis. Sample size = 137 partnerships across Americas, EMEA, and APAC

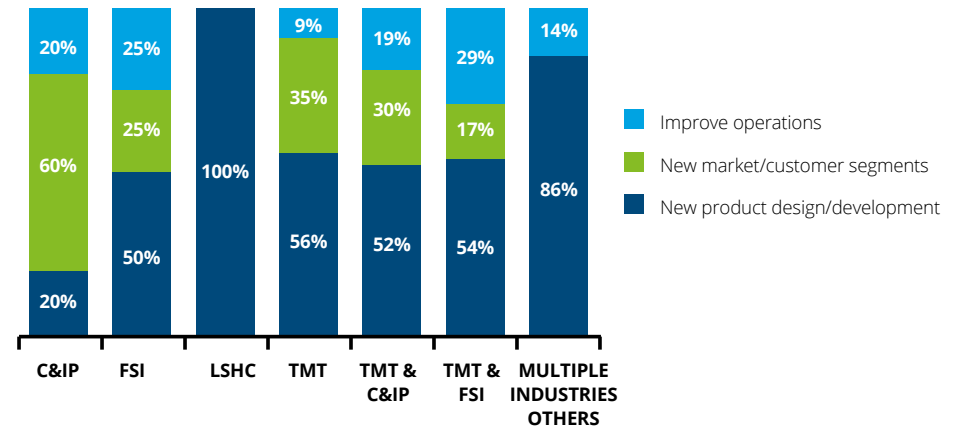
# However, unique patterns exist across geographies and industries in terms of the alliances scope

Figure 3: Geographic nuances on digital alliances



- In APAC, partnerships are geared towards developing new products or solutions
- Contrast this to Europe, where partnerships are formed to target both external and internal improvements

Figure 4: Capability build objectives by industries








- **Being at the core of Digital**, TMT-exclusive partnerships focus most on design, development, and new topline growth
- **The majority of cross-industry partnerships are between TMT-FSI and TMT-C&IP** – of which, the key focus area is new and convergent digital offerings
- **C&IP-exclusive partnerships** show a higher propensity to target new market or segments for the offerings

Source: Monitor Deloitte Analysis. Sample size = 137 partnerships across Americas, EMEA, and APAC

# 05 Key risks and potential mitigation approaches

# Significant risks exist across alliance lifecycle – Proactive mitigations will ensure ‘Sustainability’

	Alliance Lifecycle	Key Risk	Potential Mitigation
	Partner Identification & Selection	Scalability of existing platform to partnership	Wait until <b>existing offerings are at a minimum maturity</b> to be shared with a potential partner
	Negotiation & Deal Structuring	<b>Over-engineering</b> – too prescriptive & comprehensive clauses limiting productivity	Start by <b>‘seeding’ a few critical rules</b> and allow the rest to develop through natural interaction
	Alliance Execution	<b>Unfavourably negotiated deal terms</b> favouring one side over the other	Adopt <b>“win-win” approach</b> that puts accountability and rewards on both partners
	Exit Stage	<b>Lack of management attention and focus</b>	<b>Appoint “Champions”</b> from senior leadership in both parties to drive management focus
		<b>Underperformance due to over-ambitious targets set initially</b>	<b>Institute quarterly review committees</b> to assess and reset goals if necessary
		<b>Cultural clash</b> impacting collaboration	<b>Develop “gateway” managers</b> who can bridge the two cultures in a partnership
		<b>Potential loss of continuity across all stages of the partnership lifecycle</b>	<b>Deploy processes for knowledge transfer</b> to keep integrated alignment across lifecycle
		<b>High dependency on one partner’s capability</b> hindering the speed and ease of the exit	Define a <b>disengagement process</b> that includes transfer of critical assets, people, technology

Source: Monitor Deloitte Analysis

# Success needs to be ensured through critical negotiation elements with the potential partner



Partner Identification & Selection



Negotiation & Deal Structuring



Alliance Execution



Exit Stage

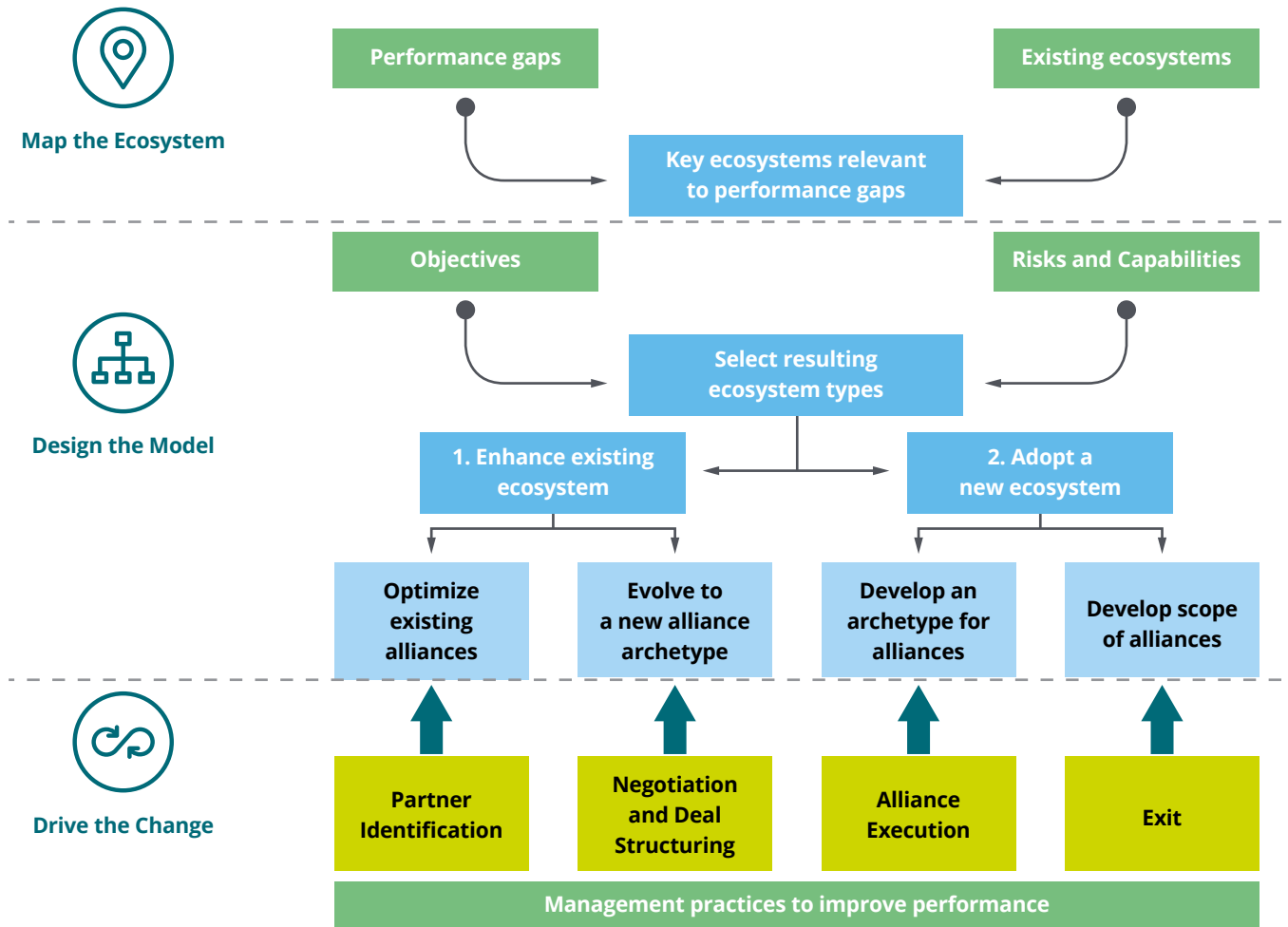
*Critical terms must be negotiated to "secure" the Execution phase of the Alliance given the high potential for risk*

- |  |  |   |   |
|--|--|---|---|
| <p><b>1</b> Revenue/profit targets</p> | <p><b>2</b> Incentives and disincentives</p> | <p><b>3</b> Capability, asset, and technology investments</p> | <p>01 <b>Revenue/profit targets</b> – agreeing on a common goal that is reasonable and credible, but that generates high sustainable value</p>  |
| <p><b>4</b> Shared KPIs and SLAs</p>   | <p><b>5</b> Exclusivity and IP</p>           | <p><b>6</b> Conditions for termination</p>                    | <p>02 <b>Incentives and disincentives</b> – risk/reward mechanisms to encourage collaborative behavior</p> <p>03 <b>Capability, asset, and technology investments</b> – having “skin in the game” will ensure a deeper level of commitment to the success of the alliance</p>   |
| <p><b>7</b> Product/solution scope</p> | <p><b>8</b> Customer scope</p>               | <p><b>9</b> Preferred Partner benefits</p>                    | <p>04 <b>Shared KPIs and SLAs</b> – a measurable and enforceable way to ensure accountability on both parties, and to deliver the best service to the customer</p> <p>05 <b>Exclusivity and IP</b> – marking clear boundaries on exclusivity</p> <p>06 <b>Termination</b> – providing for an exit clause that allows a safe and de-risked termination should the occasion arise</p> <p>07 <b>Product/solution scope</b> –product roadmap and development</p> <p>08 <b>Customer scope</b> – customer segmentation and rules of engagement</p> <p>09 <b>Preferred Partner benefits</b> – special discount clauses, first-class support, etc</p> |

# 06 Potential approach to develop a digital ecosystem

# A practical approach to build a digital ecosystem

## A practical approach





# Monitor Deloitte Playbook – “Strategic Alliance in a Box”



Strategic alliance in box



Value

1

## Partnership Strategy:

Where do we need a partnership, and why?

2

## Long-listing & Initial Screening:

Who are all the potential candidates for a partnership?

3

## Proof-of-concept, short-listing & Final Alliance Model:

Who is the partner?  
What would the alliance look like?

4

## Negotiations & Contracting

5

## Launch Preparation & Mobilisation

6

## Program Management Support: Market launch, Ramp-up, etc.

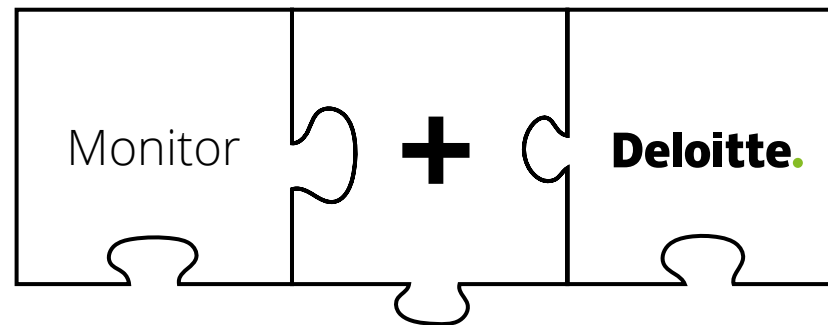


- Leverage existing Playbook to provide a tried and tested toolkit
- Leverage Monitor Deloitte’s existing relationships in the region for “agile acceleration”

# 07 About Monitor Deloitte

# Monitor Deloitte provides unique insights & ideas focused on delivering business impact

Monitor Deloitte combines the strengths of both practices including thought leadership, talent, resources, and global reach; allowing the firm to provide clients with unique insights, leading edge ideas and methods, actionable analysis and recommendations, and extensive hands-on implementation experience – all firmly grounded in deep industry knowledge and focused on business impact



## Strategy Thought Leadership

- World-class thought leadership
- Action-oriented
- Customised solutions
- Solid analytical capabilities
- Leading-edge methodologies
- Global experience

## Deep Industry Expertise

- Consumer & Industrial Products
- Financial Services
- Travel, Hospitality and Services
- Technology, Media & Telecommunications
- Public Sector & Economic Development
- Life Sciences & Health Care
- Energy & Resources

## Global Capabilities

- Tier 1 strategy consulting capabilities
- Presence across 150 countries

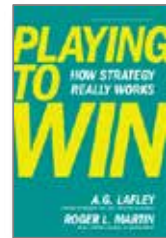
# We are thought leaders in key disciplines of business and strategy...



**The Art of the Long View**  
by Peter Schwartz



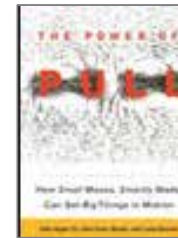
**Powerful Times: Rising to the Challenge of Our Uncertain World**  
by Eamonn Kelly



**Playing to Win: How Strategy Really Works**  
by A.G. Lafley and Roger Martin



**Ten Types of Innovation: The Discipline of Building Breakthroughs**  
by Larry Keeley and others



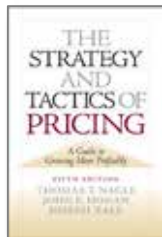
**The Power of Pull**  
by John Hagel



**The Strategy Paradox**  
by Michael Raynor



**The Innovator's Solution and The Innovator's Manifesto**  
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**The Strategy and Tactics of Pricing**  
by Tom Nagle and Joe Zale



**Managing Your Innovation Portfolio**  
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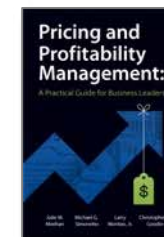
**Competitive Strategy: Techniques for Analysing Industries and Competitors**  
by Michael E. Porter



**Moments of Impact**  
by Chris Ertel and Lisa Kay Solomon



**Brand Resilience**  
by Jonathan Copulsky



**Pricing and Profitability Management**  
by Julie Meehan



**Multi-channel Brand Experience**



# ... and are at the forefront of research on digital transformation and acceleration, globally and in ASEAN



**Strategy not technology drives digital**  
*(Co-authored with MIT)*



**Accelerate performance of Digital Ecosystem**  
*(Global perspective)*



**Igniting the new Telco Value Engine - B2B Markets**  
*(Global and ASEAN focus)*



**Deloitte Indonesia survey on Fintech**



**Digital Identity**  
*(Co-authored with WEF)*



**Blockchain**  
*(Co-authored with WEF)*



**Digital era for ASEAN conglomerates**



**Digital Ecosystems**  
*(Global perspective)*



**Innovate Silicon Valley way**



**Patterns of disruption**



**Future of Financial Services**  
*(Co-authored with WEF)*



**Brighter shade of FinTech**



**TMT Predictions 2016**  
*(Global and ASEAN focus)*



**Global Mobile Consumer Survey 2016**  
*(SEA focus)*



**Finance-as-a-Service: API Playbook**

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