

The Death of Competition

Leadership and Strategy in the Age of Business Ecosystems

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Why Businesses Fail

Using an ecological metaphor as a framework, James Moore describes the reality that “new technologies, business processes, and organizational life-forms [have invaded] all traditional businesses. They are borne on the winds of global capital flows and managerial migrations. They cross bridges of deregulation. They are encouraged by government policies that foster economic development. [As a consequence,] a vast tangle of skills is being rendered obsolete.” With this back drop, he poses an important question. What is the nature of competition in this new business environment?

Moore contends that this radical transformation of the business environment has brought about the death of competition. “Not that competition is vanishing. In fact, it is intensifying. But competition as most of us have routinely thought of it is dead – and any business manager who doesn’t recognize this is threatened.” Managers must recognize “the need for coevolution with others in [their] environment, a process that involves cooperation as well as conflict. Even excellent businesses can be destroyed by the conditions around them.” The conventional view of competition does not adequately consider “the collapse of the economic fabric around your business or the invasion of your territory by too many similar contributors.”

An alternative to downsizing in the face of a declining business environment, is a concept that Moore categorizes as “market creation – intense cooperation among diverse contributors to realize a workable economic future [generated as a consequence] of shared visions, forming alliances, negotiating deals and managing complex relationships.” This new paradigm of competition “requires thinking in terms of whole

systems – that is seeing your business as part of a wider economic ecosystem and environment.”

At the heart of this new paradigm is the coevolution characteristic of complex adaptive systems. As part of a complex system, businesses coevolve, “a process in which interdependent species evolve in an endless reciprocal cycle.” Changes in A set the stage for changes in B.¹ The linkages and dependencies of firms that transcend typical barriers has brought about “the end of industry.” “The notion of industry is really the artifact of the slowly paced business evolution during the middle of this century.”

“What is most needed is a new language, a logical framework for strategy and new methods for implementation.” No longer can businesses rely on vertical and horizontal integration as a means of gaining competitive advantage. “Competitive advantage no longer accrues necessarily from economics of scale and scope. In the new world, scale and scope matter, but only as they contribute to a continuing innovation trajectory so that a company continually lowers its cost while increasing its performance.”

In place of industry, Moore suggests a new term, “the business ecosystem.” “The term [ecosystem] circumscribes the microeconomics of intense coevolution coalescing around innovative ideas. Business ecosystems span a variety of industries. The companies within them coevolve capabilities around innovation and work cooperatively and competitively to support new products, satisfy customers needs and incorporate the next round of innovation.” “Opportunity environment” is a new term coined to describe “a space of business possibility characterized by unmet customer needs, unharnessed technologies, potential regulatory openings, prominent investors, and many other untapped resources.” Creative and aggressive firms find ways to exploit this broader playing field rejecting “the wrongheaded assumption that competition is bounded by clearly defined industries.” Competitive advantage is achieved by paying attention to “the wider opportunity environment” while leading the development of the “business ecosystem that will best utilize it.”

Business leaders must create “communities of shared imagination.” Businesses are social systems “composed of real people who make decisions.” A shared imagination of a hopeful future is a component of a business ecosystem that distinguishes it from biological communities.

¹ This is adapted from Gregory Bateson’s work, *Mind and Nature*.

This shared imagination “holds together economies, societies, and companies. Therefore, a great deal of leadership and business strategy relies on creating shared meaning, which in turn shapes the future.” Strategy, in the new economy, is transformed from a focus on competition and cooperation to a focus on coevolution, “which in turn defines a new level of competition.”

An Ecological Metaphor

Moore constructs two competing images – the Hawaii Ecosystem and the Costa Rico Ecosystem. The Hawaiian system is relatively protected while the Costa Rican system is a “cauldron of competition” for resources. When open to competition, ecosystems develop “near impenetrable toughness.” Businesses protected by tariffs, industry boundaries and government regulations rarely develop the necessary “arsenal of defenses.” More and more business sectors can be characterized as Costa Rican systems, “openly rivalrous ecosystems.”

Within this metaphoric framework, the manager thinks of the firm “in terms of species or organisms.” “Instead of thinking of your customer-supplier network or your extended enterprise, think of your ecosystem, which can be far larger and richer than your immediate network.” Moore offers a detailed definition of the business ecosystem:

An economic community supported by a foundation of interacting organizations and individuals which produce goods and services of value to customers. Over time, they coevolve their capabilities and roles, and tend to align themselves with the directions set by one or more central companies. The ecosystem leader enables members to move toward shared visions to align their investments, and to find mutually supportive roles.

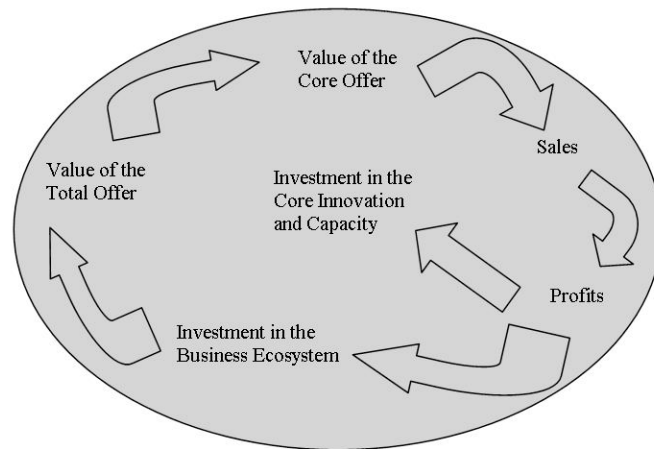
A business ecosystem can “refer to small business initiatives or to vast collections of enterprises” that can “thrive within conventional industry lines or straddle them.” Ecosystem strategy making incorporates the following “Virtuous Cycle” economic model:

- “One or more core capabilities that can become the basis for providing great value to end customers.”
- “A core product or service offer embodying the new capabilities generates a large volume of sales and realizes powerful economics of scale.”

- “A total experience is ultimately provided to customers.”
- “Profits from the core products and services are reinvested [in an] innovation trajectory of decreasing prices and expanding performance.”
- “Returns from the core business are also invested in leadership and support for the ecosystem – alliance community development activities like evangelism, standard setting, and oversight and dispute resolution.”

The Virtuous Cycle is a visual depiction of Moore’s strategic framework.

Savvy incumbents at the center of a business ecosystem tend to stay in power because members are reluctant to switch to a new entrant. These shapers of the ecosystem pay attention to the following strategic priorities:



1. “Identify contributions for which you already possess economies of scale and the competencies [needed for continued innovation.] Embed your contributions into the products and processes of adjacent companies. Shape architectural standards and customer preferences to align with your strengths.”
2. Leverage strengths to penetrate new positions in adjacent markets. Microsoft accomplished this by grouping its leading applications together into the Office Suite achieving a 90% market share.
3. “Invest in identifying and capturing undefended hills. Find some aspect of value creation where the niche is becoming important and no player has made a really strong stand.”
4. “Consider acquiring key franchises – that is, positions of ecosystem leadership.”
5. Answer the basic ecosystem assessment questions:
 - a. What is the nature of the ecosystem or ecosystems that your business inhabits?
 - b. Who are the main organizational members?
 - c. Who are the leaders? Are you a leader?

- d. Are you shaping the future of this ecosystem, or mainly responding to the initiatives of others?
- e. Is the ecosystem growing or declining?
- f. How effective is the economic community leadership?
- g. Is the ecosystem leader innovating and improving their performance with customers?
- h. How is the leader fairing against competitive entities?

Leading Business Ecosystems

Using the “leaf-cutting ant” as an illustration, Moore introduces the concept of mutualism, a symbiotic relationship that evolves from antagonistic relationships. Business ecosystem leaders “create and promote mutualisms...to convert your antagonistic relationships into mutualistic ones.” For this to happen, managers must view the enterprise as an entire offer, avoiding the perils of “tunnel consciousness.” “As more and more of the currently defined industries descend into a ruinously intense competition, the prospect for discovering an attractive industry [by means of the old paradigm for strategic planning] worsens. Meanwhile, new approaches that might be organized into innovative systems languish without attention – customer needs that might be addressed, if only there were fresh thinking, remain unmet.”

According to Moore, “strategy-making should aim to create new micro-economies and new wealth.” Again, this requires a “whole offer” perspective that enables the manager to envision “vast new fortunes... rising on foundations built by swarms of entrepreneurs jostling to apply the integration of technologies and market creation.” The “whole offer” perspective that effective managers employ is a recognition that the “behavior of the system will not be reducible to that of any of its parts.”

As a model of effective business ecosystem leadership, Moore turns to his friend and creator of the Muppets, the late Jim Henson. Moore highlights three leadership skills necessary for effective business ecosystem leadership:

1. Jim Henson was “keenly attuned to the social and business ecology within which he lived.” He was a student of business models and “emerging patterns of organization.”
2. He “contributed by nestling in and becoming a vital member of various ecosystems.” He invested significantly in the innovation trajectory, “a line of contribution that is invested in over time with singular commitment to attain deep and unique practical capabilities.”

3. Jim used his personal leadership capabilities “to explore and express personal values to him.”

Leaders must demonstrate the capability to address “coevolving coalitions of diverse economic players.” Each aspect of strategic management – developing business relationships, focusing on continual improvement, measuring improvement, managing relationship governing contracts, and aligning the interests and intentions of key parties – must be addressed across an increasing scope – core products/services, the extended enterprise, and the coevolving ecosystem. In effect, Moore is describing an evolution from continuous improvement (firm specific activity) to continuous innovation (system wide activity).

With this background, Moore offers the following framework for building an ecosystem strategy:

1. You must be better at rivals in building new ecosystems, not just building better products. Develop game changing re-imaginings of business networks and processes that position you to WIN!
2. New business ecosystems exist to “bring innovations to customers...an entirely original outcome or new set of benefits available to customers [that are] demonstrably better than what it supplants.”
3. Determining what is contained in the scope of the ecosystem is a strategic decision. What must be included in the “end-to-end economic community?”
4. “Competitive advantage in the new world stems from knowing when and how to build ecosystems, and from being able to steer them to lasting growth and continuous improvement.”

“The strength that a company derives from its ecosystem can be as much as, or more important than, the competitiveness that it derives from its own enterprise.” Strategic management in the business ecosystem environment must move from self-management to “leading a community of allies.” More than creating ecosystems, the firm must gain competitive advantage through “having a leadership position embedded in a successful business ecosystem.” Wal-Mart is the quintessential example of a firm that has a “leadership position embedded in a successful business ecosystem” reflected in fierce loyalty among suppliers, employees, investors and customers. More than finding a defensible position within an attractive industry, the firm must be difficult to dislodge from its role in the community. This protected position is a consequence of “dynamic contributions, not static barriers.” All of this “places a premium on learning to manage a very wide community or

network of organizations, in which all the players share a vision about how to make the innovation happen. Indeed, the major factor today limiting the spread of realized innovation is not a lack of good ideas, technology or capital. It is the inability to command cooperation across broad, diverse communities of players who must become intimate parts of a far-reaching process of coevolution.”

“What innovative idea could I bring to my customers, if I could orchestrate a wider community of players to endorse it that would be profoundly more effective than what I offer?”

Old paradigm strategic planning is powerless in the face of new world competitive challenges. “With metronomic regularity, established businesses competing in standard ways will continue to be gnawed at by potent new rivals...that violate industry or geographic boundaries [sometimes arriving from] surprisingly different businesses that happen to share some core capabilities.” Strategic planning must address the firm’s “direct contribution” while identifying the preferred ecosystem in which will operate. Seven dimensions of competitive advantage must be included in this effort:

- Customers
- Markets
- Products
- Processes
- Organizations
- Stakeholders
- Government and Society

The Stages of a Business Ecosystem

Scientists describe the process of ecosystem formation as primary colonization. How do business ecosystems colonize? How is the system and sequence of symbiotic relationships formed? In business ecosystems, “specific capabilities and relationships [are] established in complex sequences.” Executive leaders have to be conscious of where the ecosystem is and what it will take to move it to the next level. The concept of the whole offer helps the “manager sketch out the full scope of what the customer must experience to exploit a particular technology.” Applying principles of continuous improvement to the whole offer creates a dynamic of continuous innovation. “As a manager, you must not only have a plan for your own product or service, but a plan to help out the entire ecosystem.” One aspect of whole offer strategic planning is “precursor products.” According to Moore, these products are

“specifically designed to draw customers into a co-creating, coevolving relationship with the company.”

Strategy making in the new economy requires the stewardship of “capabilities and relationships and the choices about how and when to establish them.” In other words, what will be the firm’s strategy to grow “an initial set of starting elements” into a “rich community of interdependent organizations?” Sequencing is a critical element in whole offer strategic planning, not so much as an issue of early or late arrival, but rather of “being sensitive to the current state of capability building within an ecosystem.” Thus, the issue is sequencing, not timing. The sequence of business ecosystem development occurs over the course of four successive, relatively predictable stages.

Pioneering is when “the basic paradigm of the ecosystem is being worked out.” In this stage, firms “search for a viable new business ecosystem.” In a spirit of brainstorming, “visionaries aflame with zeal and armed with stiff-backed reserve” use their imaginations to “string together capabilities to make a new end-to-end system of value creation that are far more effective than the status quo...” creating a “working value chain, usually with partners, that are built around new opportunities and new paradigms of cooperation.” “The means to victory in this stage is in part being better at defining and implementing an offering that customers will desire.” You have to balance idea protection and community learning. You must get the idea off the ground in a way that insures a sustained process of learning. Ultimately, this stage is about value creation – “doing something of dramatic value, compared to what is already available to customers.”

Expansion is a very resource intense process. In this stage, the firm starts “with a core set of synergistic relationships and invests in increasing their scale and scope.” From the perspective of a biological system, “the community...behaves like a complex, territorial organism, swallowing up sources of nutrients and enlarging its surface area to maximize exposure to light.” The goal in the expansion stage is to establish critical mass by broadly applying a reliable and replicable paradigm. To do this, one must round “up the most desirable potential allies available: the best customers, the strongest suppliers, the most important channels.” You must do this “while keeping reasonable control over the direction of the whole enterprise.”

Authority is a period of stability. Architecture has been established and competition for leadership and profits becomes brutal. To secure the firm's position in the ecosystem, you must "concentrate on embedding your own contributions within the heart of the ecological community." The goal is to become part of the establishment while leading innovation and coevolution. New entrants are drawn to this stable ecosystem intensifying the landscape with both internal and external competitors. Healthy margins for the lead company are linked to maintaining bargaining power over other members of the ecosystem and stewardship over the system's future. The preeminent way to assume this position of strength is to develop dominant "products and process designs that become the industry standards and are widely accepted and built upon by others."

Renewal or Death is the period that determines the long-term viability of the ecosystem. Renewal requires the careful nurturing of a process of continuous innovation. The process of renewal requires that you "find ways to insert new ideas into the old order" as well as ways to "win the struggle against obsolescence." The continuous process of innovation and renewal is required because "the cycle of opportunity-hungry competition never ceases."

Given these stages of ecosystem development, a "central task of management" is to focus "attention and investment to create networks of competencies and relationships that will meet the four tests:

1. "Establishing a system and sequence of symbiotic relationships that result in the creation of something of real value relative to what else is available"
2. "Establishing critical mass as the ecosystem expands across the available customers, markets, allies, and suppliers"
3. "Leading innovation and coevolution across what one has wrought"
4. "Ensuring that the business sustains continuous performance improvement rather than becomes obsolete"

Stage	Key Challenge	Cooperative Challenges	Competitive Challenges
Pioneering	Value	Work with customers and suppliers to define the new value proposition and a paradigm for providing it that is dramatically more effective than what is available	Protect your ideas from others who might be working toward defining similar offers
Expansion	Critical Mass	Bring the new offer to a large market by working with suppliers and partners to increase supply, and to achieve maximum market coverage and critical mass	Defeat alternative implementations of similar ideas; ensure that your approach is the market standard in its class through dominating key market segments; tie up critical lead customers, key suppliers, and important channels
Authority	Lead Coevolution and Innovation	Provide a compelling vision for the future that encourages suppliers and customers to work together to continue to improve the ecosystem	Maintain strong bargaining power in relation to other players in the ecosystem – including key customers and valued suppliers
Renewal	Continuous Performance Improvement	Work with innovators to bring new ideas to the existing ecosystem	Maintain high barriers to entry to prevent innovators from building alternative ecosystems. Maintain high customer switching costs in order to buy time to incorporate new ideas in your own products and services