

# 20-year study shows how an established company shifted from product to ecosystem strategy to dominate their market

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In many modern markets, a single business can no longer compete solely via product offerings. From technology to manufacturing, success increasingly depends on integrating products and services across firms and industries in an ecosystem. The product-based strategies that dominated for decades often undermine these collaborative marketplaces, making it particularly difficult for established organizations to adapt. A new study published in the *Strategic Management Journal* in February offers key insights for transitioning, however, with a model for building an ecosystem while preserving product revenue.

"Many firms are used to competing, maximizing their own performance, and improving the efficiency of their product incrementally along well-defined criteria," said Joachim Stonig, a lecturer and researcher at the University of St. Gallen in Switzerland and one of the study's authors. "When building an ecosystem, firms have to collaborate, help partners to succeed, and establish cross-functional innovation across firm boundaries. This implies a change in organizational structure and processes that is quite difficult to realize."

The research examines a machine manufacturer's strategic data from 2001 to 2021, as it rose to dominate its market by building an integrated solution across the market. Along with co-authors Torsten Schmid and Günter Müller-Stewens, both also of the University of St. Gallen, Stonig was given unrestricted access beginning in 2016 to interview internal management as well as clients and technology partners, observe workshops, and examine presentations and reports to chart the

company's activities during the strategic transition. The company's transformation began after service interactions revealed their customers' main concern was improved efficiency across their entire manufacturing system rather than standalone machine performance.

"That is when management shifted its strategy in 2016 from a focus on products to one where they lead the drive to create a collaborative network of partners to improve the manufacturing system as a whole, but still relied on their core product," Stonig said. "Adapting their core product to support the new ecosystem was a key to the partnership's success, however the biggest hurdle was how they had to change their organization."

The organization created an integrative platform that coordinated the entire manufacturing system, so that machines along a sequential manufacturing flow could communicate and automate tasks. It separated its R&D into two tracks—one for product optimization and one for ecosystem orchestration—shifting key elements like its software platform to the latter. Ensuring internal adoption and external alignment required the company to adopt an open strategy process that engaged managers, partners and clients; created a partner management role; and increased cross-departmental coordination.

"The focus by top management on better cross-functional collaboration reduced intra-organizational conflicts between the departments," Stonig said. "The new partnership functions helped win over industry partners, and discussing previously confidential strategy details with clients helped build trust and engender open dialogs."

The case-study company established itself as almost the uncontested leader of integrated, cross-company solutions in its sector between 2001 and 2020. By the end of the study, although most of their business value still came from machine sales, half of revenue was connected to

integrated solutions. The results suggest that businesses can orchestrate ecosystems to transform their marketplace and competitive position while preserving product revenue, as long as they can adapt their products to the ecosystem. The model also shows that a successful shift to an integrated solution model requires changes across strategy, product and system activities as well as organizational design.

**More information:** Joachim Stonig et al, From product system to ecosystem: How firms adapt to provide an integrated value proposition, *Strategic Management Journal* (2022). [DOI: 10.1002/smj.3390](https://doi.org/10.1002/smj.3390)

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