

The rise of digital ecosystems, its impact on sales and what to do about it



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Many industries are currently disrupted by digitization. One facet of this development is the shift from competition between individual companies to the one between ecosystems. They form clusters of several companies and therefore can satisfy the needs of customers much broader than individual companies. This article discusses the underlying drivers of the shift to ecosystems, its impact on sales in insurance and how insurers can best cope with the upcoming challenges. In our analysis, we focus on car insurance.

The emergence of ecosystems will modify the insurance industry and the sales process. It might be difficult to predict when this change creates momentum that it can no longer be ignored. But we at BearingPoint are convinced that it will eventually happen. Insurers need to adapt as no company wants to be called the «Nokia» of the insurance industry in a few years' time. Several industry sectors already experienced such an evolution: according to a Gartner study, by 2020 50 percent of the enterprises will interact with their customers and partners through a digital business platform (Moyer and Burton, 2016). Examples are the music and film industries, which were disrupted within less than ten years from people buying CDs and video cassettes to streaming music and movies online via Spotify and Netflix. These major disruptions stem from the fundamental changes of the delivery model from direct to business ecosystem competition. In the past, such technological innovations could take several years, whereas, nowadays a new emerging digital ecosystem can change a whole industry within a much shorter timeframe.

The emergence of digital ecosystems

Digital ecosystem management can be defined as the proactive coordination and orchestration of a network of customers, suppliers, partners and developers. The objective is to create mutual value and innovative solutions for markets, leveraging platform-based business models and digital technologies. This leads to a switch from direct competition to mainly platform-vs.-platform competition (Moyer, 1997). For example, in the cellphone industry, the competition is no longer between Nokia and BlackBerry but rather between the Android and iOS ecosystems. The ecosystem of Android does not only include the Google platform but also all mobile phone manufacturers, app producers, users, telecommunication services etc. Companies such as Nokia and BlackBerry are out of the market, because they have not considered this development at all. In a sustainable ecosystem every stakeholder benefits, whereas if one part of the ecosystem has nothing to gain, the whole ecosystem can potentially collapse.

Digital ecosystems will also affect the insurance market. Instead of selling stand-alone insurance contracts they will be bundled with additional services and products from other industries.

A digital ecosystem platform improves convenience and shopping experience for the customer. Take car insurance as an example, where the purchasing price or the leasing rate of the vehicle could include a five-year insurance coverage. The customer only decides whether to increase the duration of coverage or to change deductibles. Furthermore, the unpleasant task of thinking about personal risks is combined with the purchase of a car, which creates positive feel-

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ings supported by the manufacturer's brand. Thus, combining a boring product (insurance) with a positive one (car brand) can generate more insurance sales for those insurers offering their products on the platform.

In addition to an improved customer experience, platform business can lead to significantly lower costs and consequently to a decrease in prices. This is very important since the main factor for choosing an insurance coverage in Europe is price (Swiss Re, 2014). Sales cost can be reduced through bundling of several service providers, e.g. insurance brokers and car retailers, into one distribution channel. Additionally, a digital ecosystem platform can streamline the risk assessment and therefore reduce underwriting costs, as it can collect client insights from various transactions and use this information to calculate the individual risk. For example, today a car manufacturer gathers information about a vehicle, including usage and driver behavior, damage to the car, storage location and weather conditions. He records maintenance, tires changes, mileage, etc. With this information, underwriting can be improved and automated and is therefore beneficial for insurance companies. This creates momentum for cooperation and the creation of ecosystems.

A good example of an insurance company which started a business ecosystem is HUK Coburg, the leading German car insurer (HUK Coburg, 2017a). They have created a network of more than 1300 certified repair shops throughout the country. Obviously, their main purpose is to decrease claims costs by bundling their purchasing power. They also

offer their platform to all clients for regular car maintenance (Fromme, 2014). The garages benefit from a higher number of customers and the clients benefit from lower costs. This results in a more attractive offering at HUK Coburg. In addition, they created the HUK Coburg Autowelt, which is an online platform for pre-owned cars (HUK Coburg, 2017b), including leasing services at very competitive prices. Thus, the retail customer gets everything on one platform: the car, the guarantee of the car, the financing support, the insurance coverage and the car maintenance services. A unique combination, which is very successful. HUK Coburg even went one step further and stopped selling their products through aggregators and portals completely (Wimmelbrücker, 2017).

Car insurance ecosystems could be further developed to a more comprehensive mobility offering including public transport and more. Similar solutions are also possible for other customer needs like health management, services for home owners and tenants or risk management offerings for corporations. The following section will discuss how to become a successful digital ecosystem player.

Getting ready for the future...

Disruptive innovations have one aspect in common: a high degree of uncertainty. The same is true for the emergence of digital ecosystems. It is uncertain which type of ecosystem will eventually succeed, when it will succeed and what will be its impact in detail. Therefore, we at BearingPoint suggest the following overarching three-step approach, which

allows sufficient room for trial-and-error: Think big, start small, scale fast (see Figure 1).

Think Big

The insurance company should identify potential disruptive developments and their impact on its business industry. Subsequently, we suggest developing a long-term digital ecosystem strategy based on the company's capabilities and trends. The objective is to create and assess new and innovative concepts and scenarios.

Start Small

The ideas identified in the first step should be further developed and tested by creating experimental prototypes and projects. The goal is to get fast results and learn from first potential failure without losing too many resources. Since there is high uncertainty, trial-and-error is unavoidable.

Scale Fast

Once first successes are experienced through agile implementations, the projects must be multiplied and integrated in the organization to ensure fast growth. Whether this is best done within the parent organization or in a separate venture with less corporate restrictions on culture, IT, etc. is not an easy decision (Berger et al., 2016).

... and tackling the road ahead

We suggest tackling the first two steps through the BearingPoint Digital Ser-

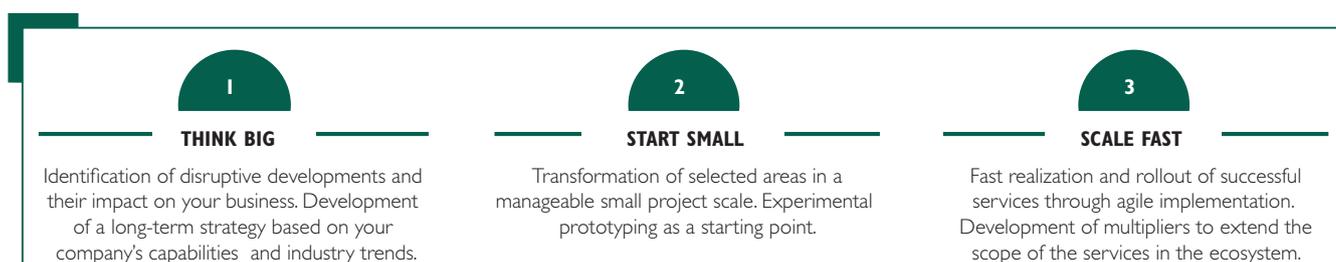


Figure 1: Three-step approach to develop a comprehensive digital ecosystem strategy

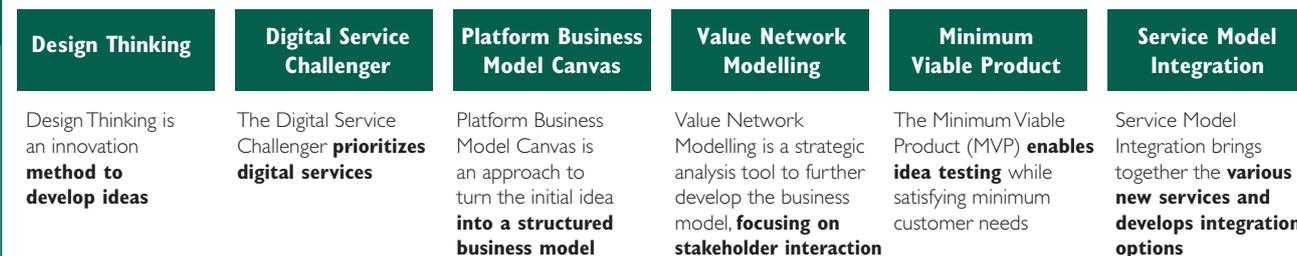


Figure 2: BearingPoint Digital Services Accelerator Tool-Set

vices Accelerator Tool-Set consisting of six phases (see Figure 2): the idea development, idea evaluation, business model development, environment modelling, idea validation and finally the integration into companies' services.

Design Thinking

The first stage of the Accelerator Tool-Set consists of the idea generation via Design Thinking. Design Thinking is a human-centered method for innovation with the goal of identifying the needs of the customers and developing ideas on how to meet them (Lang and Amberg, 2012). A team from different areas of the company, as well as externals, should be included in the process, with the goal to empathize as much as possible with the customer, brainstorm and develop ideas. During the workshops, these ideas are made tangible with simple techniques to better visualize the outcome (Martin and Euchner, 2012). Afterwards, the ideas are tested with the users to achieve fast failure by adopting a trial-and-error approach and collect data for the next stage.

Digital Service Challenger

The next step is to assess the ideas from the Design Thinking phase with the objective to define the most relevant and most promising services. The BearingPoint Digital Service Challenger is a useful tool for this evaluation process. It contains predefined criteria grouped into different categories. The visualized results give a clear indication of which ideas should be taken to the next stage.

Platform Business Model Canvas

Once the ideas have been pre-selected, the next stage is to develop the business model of each idea. BearingPoint suggests using the Platform Business Model Canvas (Walter, 2016). This tool encompasses four steps. First, the stakeholders of the platform are defined and grouped into platform owner, consumers, producers and partners. Second, the value proposition for each stakeholder is formulated. In the next step, the input and output – also called value transactions – for each stakeholder are defined. Finally, the required technical components of the platform are identified considering the value propositions and value transactions of all stakeholders.

Value Network Modelling

Based on the insights from the Platform Business Model Canvas, the Value Network Model can be developed. This tool helps visualise the stakeholder interactions in more detail and to further shape the business model of the new service.

Minimum Viable Product (MVP)

The Minimum Viable Product (MVP) is a first release of the solution covering the basic needs of the customer with the goal to gain real market feedback. A MVP can be developed in a shorter timeframe with limited effort and cost. Based on the learnings the services can be improved as well as further developed in an agile way and inappropriate investments can be avoided. If the market feedback is positive, the MVP will further be de-

veloped to a mass product. If not, the company should either adjust or eliminate the offering and the previous steps should be redone.

Service Model Integration

Once the new service has been successfully tested, the internal perspective of the company needs to be prepared to set the basis for the scale fast phase. Therefore, the compatibility of the existing operating model and the new services will be assessed. Afterwards, related integration and transformation scenarios need to be identified. In addition, the capability of the company to successfully manage digital ecosystems and to integrate additional services will be reviewed.

In the end, it is important to understand that the process to a successful platform and ecosystem management is not a one-way static process but rather a dynamic journey where the business models, as well as the position within the business ecosystem need to be adapted over time.

Conclusion

Several industries are currently shifting from siloed customer interactions towards digital ecosystems. It is just a matter of time until the insurance industry will experience the same fundamental transformation.

The main reasons for digital business platforms are more convenience and an improved customer experience, a dea-

crease in costs, cross-branding advantage of the nonfinancial emotional product as well as more accurate risk calculation. Even though the insurance industry is in the very beginning of the development of such platforms, it is very important to stay on track with innovation in order to avoid becoming the next Nokia of the insurance industry.

We at BearingPoint suggest insurers to follow a trial-and-error concept, which is best executed by a three-step approach: think big, start small and scale fast. One way for insurance companies to adopt this approach is our Digital Services Accelerator Tool-Set. It comprehends all aspects of successful innovation from idea generation to successful implementation and can help insurers move towards an age of digital ecosystems.

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