


Whitepaper | July 2019

# DIGITAL ECOSYSTEMS

The biggest challenge is  
corporate culture



A high-angle, blurred photograph of a large crowd of people walking in various directions. The image is intentionally out of focus, creating a sense of motion and a busy, crowded environment. The people are wearing various casual and business-casual clothing, and the background is a light, neutral color.

Creating a Digital Ecosystem leads to a fundamental transformation of a bank's business model from product pipeline to platform. In order to make this transformation a success, one factor is key: corporate culture. Therefore, the right transformation management strategy will be the difference between success and failure. We show how challenges can be solved successfully while implementing a Digital Ecosystem.

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## WHAT ARE DIGITAL ECOSYSTEMS?



Digital Ecosystems are customer-focused networks where services and products from different providers are combined and offered in a meaningful way. By using intelligent interfaces, banking services are combined with value-adding services from partners in order to satisfy customer needs holistically.

## THE PRODUCT PIPELINE BUSINESS MODEL: STATUS QUO IN MOST BANKS

Most banks continue to follow the product pipeline business model. The focus here selling products and services. The result is a working style that is strongly process-oriented, and organizational structures that are often characterized by steep hierarchies. Decision-making is usually slow and inflexible; change happens very slowly. Employees are accustomed to taking little personal responsibility and follow strict procedural instructions. Particularly in sales, product thinking is deep-rooted, and employees are incentivized by traditional key performance indicators (KPIs). Customer advisory that consistently addresses customer needs is not established everywhere. The traditional, product-focused business model offers little room for creative solutions, agility, and autonomous work. There is a lack of incentives which are necessary to drive changes.

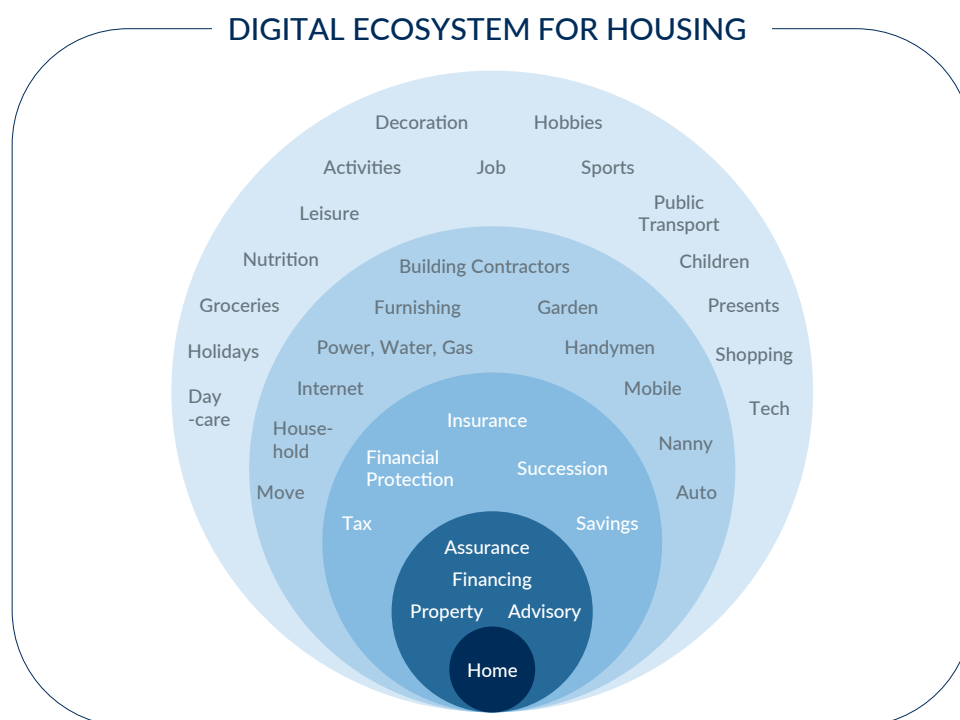
# THE PLATFORM BUSINESS MODEL OF DIGITAL ECOSYSTEMS

In contrast to the product pipeline business model, Digital Ecosystems are based on the platform business model, where organization and coordination are of critical importance. This includes maintenance and management of a bank's partners (producers) and customers (consumers).

A platform manager who builds, develops, and improves the Digital Ecosystem is a position that does not exist in most banks. The focus is on running the ecosystem, on expanding, and on using positive network effects.

The illustration shows how a Digital Ecosystem could look like for the market sector "housing". The ecosystem is built around the customer's core need, which is a home. Around the core need, the ecosystem offers directly or indirectly connected products and services. This enables Digital Ecosystems, depending on their width and depth, to holistically satisfy customer needs in many life circumstances.

Advantages are high usability and accessibility without the need for changing the platform. A bank can utilize already existing customer data to avoid retyping forms or sending documents multiple times.



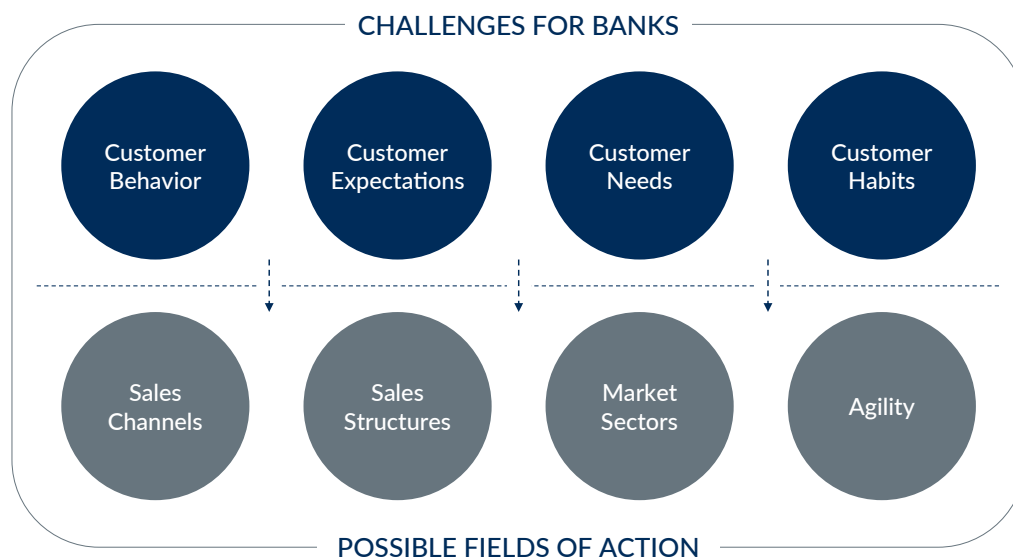
# CHALLENGES AND OPPORTUNITIES FOR BANKS WHEN IMPLEMENTING A DIGITAL ECOSYSTEM

In order to successfully implement a Digital Ecosystem, banks need to change the way they think about their customers and their sales channels. In the predigital world, customer advisory was done in branches. In order to address a customer's challenges, financial advisors sold products. In the digital age, product thinking is not sufficient anymore. Customers expect holistic solutions.

Looking beyond the banking world is worthwhile and shows that digital ecosystems are on the rise. American technology companies such as Apple, Alphabet or Amazon have been diversifying and expanding their services for many years. These corporations already cover a large share of customer needs using their own Digital Ecosystems around the market sectors entertainment, productivity, payments, etc.

Customer needs and habits are changing faster and faster. Customers are no longer coming to branches. Banks must find the right ways to reach their customers, using both analog and digital channels. Customers decide what they want to talk about, and through which channel they want to be addressed. More and more people prefer online banking or mobile banking as their primary mean of communication. Personal, physical contact thus clearly loses relevance.

In order to adapt to changing customer needs and habits, banks need to develop dynamic capabilities. Thus, platforms need to be built with agility, and in short cycles (sprints). For this purpose, a **Minimum Viable Product (MVP)** is set up for every market sector.



<sup>1</sup> Vgl. Statista (2018): Proportion of online banking users in Germany between 1998 and 2018



A **Minimum Viable Product (MVP)** is a new product or service that can cover customer needs with minimal effort while being continuously improved according to customer feedback. Therefore, the MVP gets tested at a customer lab and then gets brought to the market.

The following step, based on MVPs, is the sequential integration of market sectors on the platform. This enables banks to use both, existing and new customer data to receive profound insights into their customer's livelihoods. Therefore, banks can offer their customers highly personalized solutions based on near- and beyond-banking services; direct, mobile, in real time, and simple. This creates added value for customers and allows banks to gain competitive advantage.

## FIRST APPROACHES TO DIGITAL ECOSYSTEMS ALREADY EXIST

The German banking landscape is already showing initial approaches to Digital Ecosystems. Some banks offer their customers useful information and product recommendations on various themes. Those include for example "housing", "job & care", or "self-employment". For "housing", customers receive expert knowledge for buying property, energy efficiency or regarding moving costs.

A French insurance company that is actively engaged in digitizing its operations is, next to other banks and insurance companies, a positive example. The corporation did not only digitize processes and reduced bureaucracy but also developed dynamic capabilities in order to adapt to ever-changing environments and to focus on customer needs. The underlying concept of Digital Ecosystems, customer orientation, is therefore already put into place. For example, all new services are developed for mobile devices first, according to changes in customer habits. Changes like these pave the way to implement a Digital Ecosystem, because key requirements, especially in the context of corporate culture, are already met.



NEW COMPETENCIES  
NEED TO BE DEVELOPED

By implementing a Digital Ecosystem, tasks of employees are changing dramatically. Some tasks will remain, some will vanish, and many new ones will emerge. Key tasks will be in ecosystem organization. Currently, most banks do not have the required competencies, and they need to be developed. It is key to acquire the needed capabilities by hiring new talent as well as through employee training.

## NEW CORE TASKS



Platform  
Management



Partner  
Management



Content  
Management



Social Media  
Management

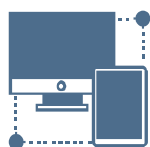


Community  
Management



Customer  
Services

## REQUIRED CAPABILITIES



Online  
Marketing



Community  
Management



Data  
Analytics



Platform  
Management



Social Media  
Marketing



Agile Project  
Management

## **CUSTOMER ADVISORY AND COMMUNICATION**

In addition, the way customers want to be advised is changing. Advice is given, as far as it is carried out in personal contact, digitally, for example via chat or video. This requires extensive training of employees in communication, social media, and other, possibly unfamiliar, channels. Customers can be offered self-directed forms and onboarding solutions that save time and effort. Utilizing customer data that banks already hold, forms can be prefilled, and thus offer further simplifications. The focus is no longer on product sales, but on the delivery of holistic solutions. For this, financial advisors will be supported by intelligent software.

## **AVAILABILITY OF BANKS**

New customer habits and needs call for extended availability of banks, which affects the working hours of employees in customer service or social media management. Therefore, it is necessary to adapt working time models and design jobs with more flexibility.

## **OBJECTIVE AGREEMENTS AND KPIS**

Changes also affect a bank's income streams. In Digital Ecosystems, commissions are the prevalent source of income. Thus, managing sales activities requires new objective agreements and KPIs in order to set the right incentives.

## **ACTIVE COOPERATION WILL BE NECESSARY**

Within the new context, employees need to be more creative and autonomous than ever, which entails risks as well as opportunities. If employees receive more trust, freedom, and decision-making power, they will ultimately value their job more. Furthermore, employees will be more engaged, because they can bring their own ideas and be creative. If new processes are implemented correctly, jobs will be enriched, and employees will be more motivated, more productive and happier. However, this presumes that corporate culture, which reflects values, norms, and attitudes of all members of the organization, needs to be developed in a way that eases transformation efforts.

MANY TRANSFORMATIONS FAIL,  
BUT WHY?



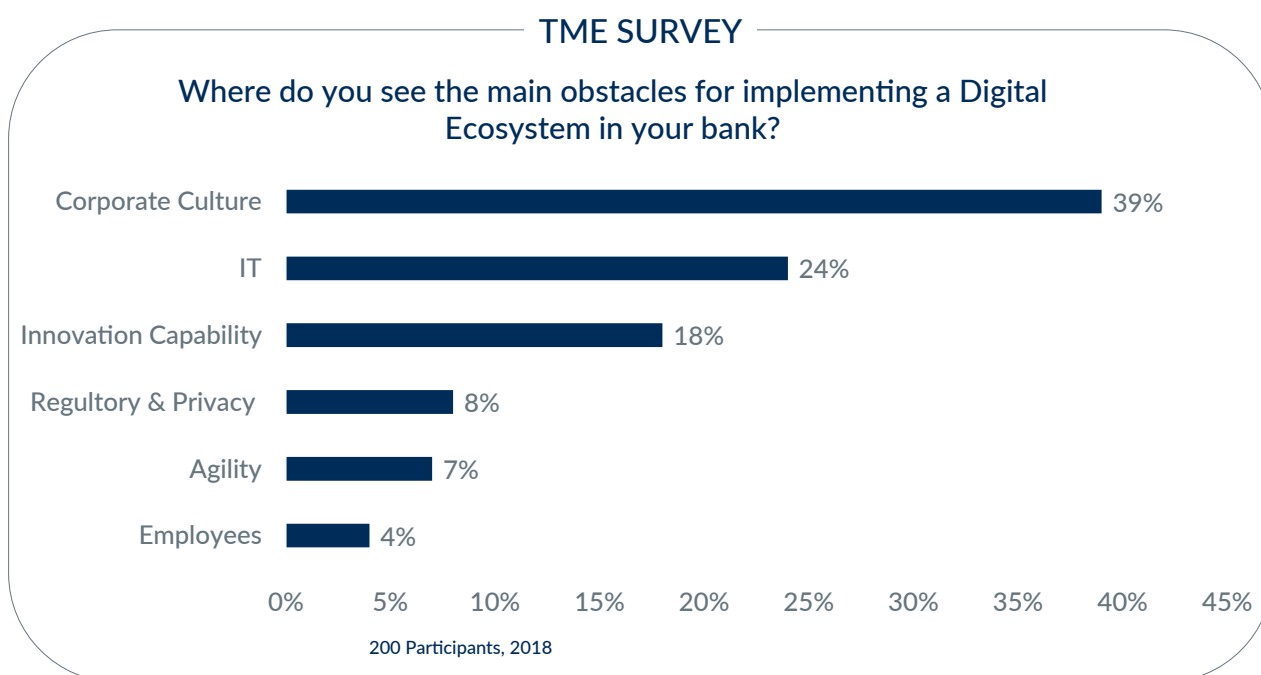
*Failed transformations are not only expensive but can harm the company image and trust tremendously.*

A 2018 TME survey shows that 39% of participants perceive corporate culture to be the main obstacle when it comes to implementing a Digital Ecosystem within their companies.

This connects to inefficient and inadequate communication, which includes engaging employees and enabling exchanges across all hierarchy layers. In these circumstances, employees are not informed about changes and are often not involved in the transformation process, leading to an increase in perceived insecurity. Additionally, insufficient communication leaves room for rumors and gossip, which is not very helpful when it comes to willingness to change and employee participation. However, good communication and employee participation are of crucial importance because the transformation includes multiple divisions. High speed of change and agility are essential.

Reticence of employees can cause them to be actively positioned against transformation plans. The probability of employees quitting their jobs increases and readiness to go the extra mile decreases dramatically. Especially high achievers, who are in high demand on the labor market, can quickly leave the company. With this initial starting point, the company makes its life more difficult than necessary. Ambitious transformation plans will be even more challenging. Therefore, it is key to increase employee acceptance. If high achievers can identify with the company and its plan, they can use their influence to actively support the transformation.

The right transformation management strategy is key to successfully implement a Digital Ecosystem.



# CORPORATE CULTURE IS THE KEY

Motivated employees are the key factor to success, which is valid for day-to-day business as well as for the implementation of a Digital Ecosystem. Highly motivated employees are actively involved, work more conscientiously and have a genuine interest in pushing the transformation. This is especially true in challenging environments, where motivated employees have a key position, as they have a higher willingness to change.

If corporate culture is not tailored to the special requirements of a Digital Ecosystem, employees will also not be able to easily adapt. Therefore, it is important to develop corporate culture in a way that promotes agility, flexibility, and willingness to change among all members of the organization.

## FIVE MEASURES FOR SUCCESSFUL TRANSFORMATIONS



Open Communication



Change Story



Change Agents



Symbolic Anchors



Team Diversity

## **OPEN COMMUNICATION**

Probably the most important factor is effective and open communication between upper management, executives, and employees. Those who communicate transformation plans openly, fairly, and timely, create the best conditions for acceptance. Then, employees are actively involved and participate in business modelling.

## **CHANGE STORY**

Building on open communication, it is critical that management presents the necessity and meaning of implementing a Digital Ecosystem. The measure increases understanding and acceptance.

## **CHANGE AGENTS**

Depending on company size and structure, it is crucial to secure good information flow across the organization. It is therefore advisable to use change agents, i.e. multipliers who can disseminate news quickly and effectively. Representatives of employees and executives from all divisions involved brought up to date in regular meetings. Change agents are also an excellent mean when it comes to feedback on employee acceptance. Therefore, the flow of information needs to be bidirectional.

## **SYMBOLIC ANCHORS**

Symbolic anchors are good to use in a change campaign. A change campaign underlines the importance, goals, and presence of the transformation. A logo or symbol, for example, is created, and printed on cups, pens, and other articles, and are given to employees. Those objects are called symbolic anchors. Symbolic anchors increase the visibility of the campaign and reinforce the employees' perception of being actively involved. This increases acceptance and ensures that the implementation of the transformation stays in people's heads.

## **TEAM DIVERSITY**

Another success factor is team diversity. Teams, which are mixed across different dimensions, such as age, experience, degree of specialization, or skills can learn from each other. With respect to innovation and change, an environment is created in which experienced employees can learn from young employees to by benefiting from digital skills and vice versa. The project team also entails diversity so that it consists of strategists and sales staff who know the customer's needs very well.



## LEAVING THE COMFORT ZONE

For most banks, implementing a Digital Ecosystem means breaking new ground and requires the courage and willingness of management to venture into new territory and to move outside the comfort zone. The future cannot be foreseen, but it is a matter of fact that many existing business models of established banks are not sustainable. For many market players, a Digital Ecosystem is therefore not only a rational but also a necessary step to be ready for the future.



## TME MODEL :

### IMPLEMENTING A DIGITAL ECOSYSTEM WHILE DESIGNING CORPORATE CULTURE

TME's operating model consists of four steps, which contain all building blocks of a Digital Ecosystem and allow for sequential integration. The process is accompanied by transformation management strategy, which is present during all stages. The measures need to be accustomed to each institution individually in order to achieve the best possible results.

**The goal of all measures is to,**

- Increase employee acceptance,
- Support change and opinion leaders,
- Execute the transformation with respect to budget, outcome, and time constraints
- Support the company during, and after, the transformation to obtain sustainable results.

#### **STRATEGY AND TECHNICAL REQUIREMENTS**

The first step is to develop a strategy that considers the bank's technical requirements and status quo. Strategic guidelines are defined. In addition, positioning, mission, and vision statements are developed.

#### **USE CASES**

The second step deals with use cases. This includes the identification of pain points using state-of-the-art design thinking methods. Among other things, personas are developed in order to understand and design customer journeys.

## **PARTNER SELECTION**

The third step towards implementing a Digital Ecosystem is partner selection, i.e. the selection of additional producers who supply banking, near banking, or beyond banking services. The partners should not only contribute to bank's strategy and values but should also be reliable with respect to legal requirements and regulations. Whether products are offered as white label or branded, the reputation of the bank and its Digital Ecosystem ultimately depends on the behavior and success of its partners.

## **PARTNER INTEGRATION**

The fourth and final step of implementing a Digital Ecosystem is to integrate selected partners. This includes both, technical and procedural integration. In addition, cooperation agreements need to be signed and both parties need to agree on framework conditions.

If these steps are carried out effectively and if the corporate culture is strengthened step-by-step, the implementation of a Digital Ecosystem will be a success.

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