

BearingPoint®//Beyond

Partnership ecosystems: the driving force behind mobility innovation?

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Introduction

Innovative mobility services including on-demand taxis, carsharing, ridesharing and bikesharing have emerged over the last few years to perfectly resolve passenger needs. This has questioned the core business assumptions of these markets – franchise business models, vehicle ownership and service design. Underpinned by digital business models, these mobility services join up new and emerging technologies, as well as several partner companies, to put the passenger at the very center – providing them with an experience that is convenient, efficient, accessible and seemingly reliable.

Yet, while both automotive and transport have been grouped under this umbrella concept, they are at very different starting points when it comes to implementing their digital strategies. For years traditional transport services have been hamstrung by government regulation and underspending, slowing innovation. This, unsurprisingly, has provided the perfect conditions for disruption by an overwhelming number of digital-first players around the world including Uber, Ofo, Lyft and Citymapper. It has also had a significant impact on the value chain relationship: what was once a linear customer-transport provider relationship for a single service is now increasingly a multi-party relationship. To survive, traditional transport companies must look outside of their own organizations to innovate, building partnerships that enable them to quickly roll out new services much like their digital competitors.

For the automotive industry, the pace of innovation has accelerated, but with very little change to date. The reality is, heavy investments in R&D for automation, electrification, IoT and in-car digital experiences are being outshined by tech giants like Google. What's more, as demand for autonomous vehicles rises and consumer travel behaviours change, automotive players will need to revise their business models if they want to maintain future growth. To succeed, automakers must build the partnerships that will help them retain ownership of the car dashboard, replace revenues, whilst building strong relationships with the end-customer.

Both industries believe that the adoption of new technology will fix all their mobility woes. But, this is subservient to the business model. The real winners will be those that create the most compelling new products and services with the right business model as their

engine of future growth. Only then can they maximize the potential of new and emerging technologies. And, with a far better understanding of what customers want, harness a partner ecosystem to target the “white space” lying between the “old” conventional services and new mobility services.

This model for success – often associated with companies like Amazon and Google – is well-known among the digital cohort. But, to date, very little research has been conducted in this area for the automotive and transport industries, and as a result their expectations of, and progress with, partnership ecosystems are largely unknown – as are the challenges in establishing them.

To support automotive and transport companies in establishing and executing their ecosystem strategies, BearingPoint//Beyond has commissioned large-scale primary research into the issue. The research, conducted by Coleman Parkes, interviewed 90 executives from enterprise automotive companies and 90 executives from enterprise transport companies across Europe, Asia and the U.S. 345 executives across the telecoms, IT and technology, banking and insurance sectors were also surveyed, to rank the progress of automotive and transport companies against other industries driving significant digital change.

The results reveal that, although automotive and transport companies understand that they need to innovate quickly to meet their customers' demand – and ambitions are high – the competitive nature of both markets is holding them back. Automotive and transport companies need to be open to cultivating partnerships for co-innovation, whilst avoiding being relegated to nothing more than a back-seat driver.

State of a nation: automotive and transport digital strategies

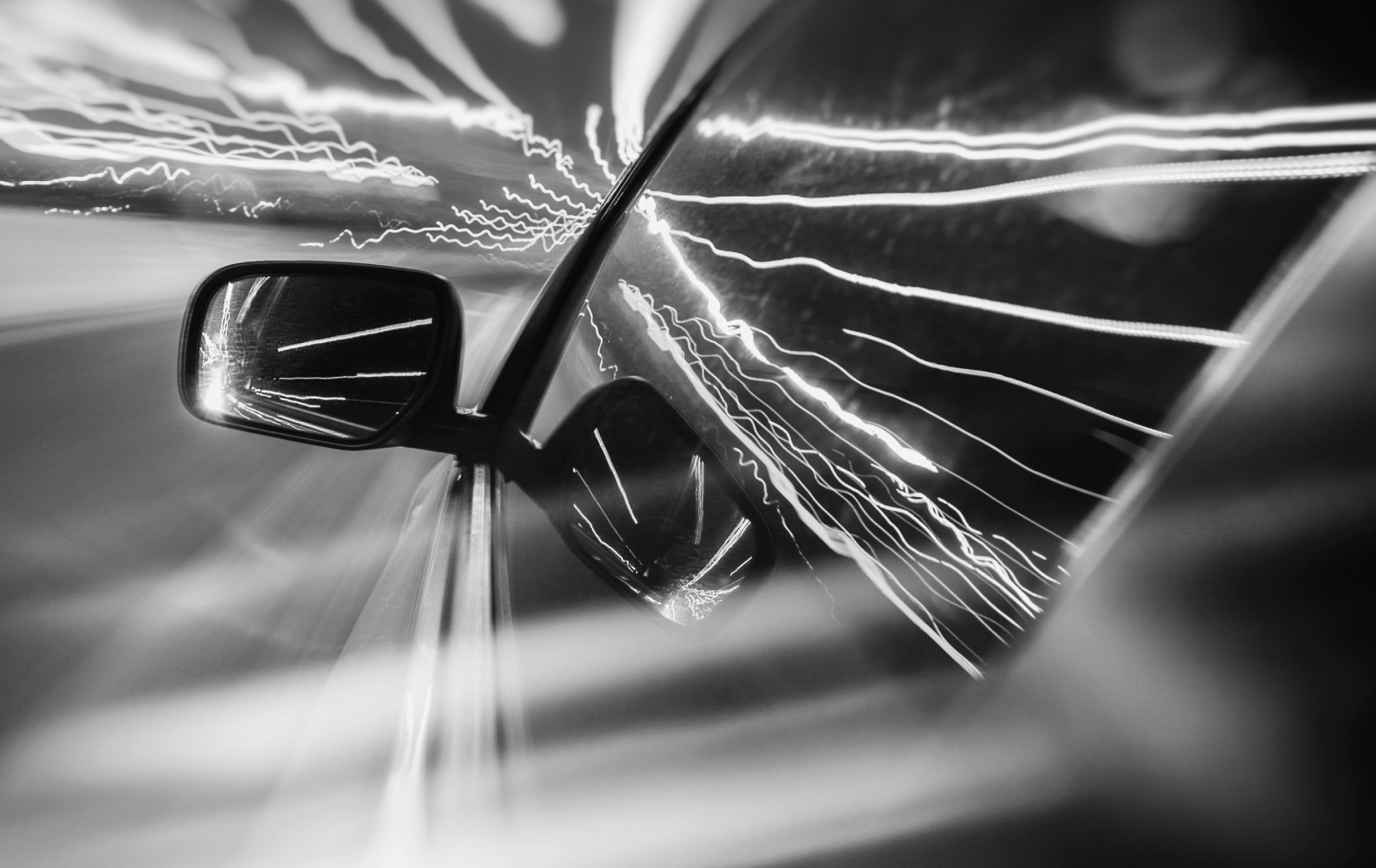
For automotive, it's good news. When it comes to having a clearly defined digital business strategy in place, 50% of companies are already there, while 49% are still in the planning phases – putting it third on the list, behind only the telecoms and media (55%) and banking (52%) sectors with regards to digital strategy. What's more, over half (59%) of automotive companies identify business model innovation and introducing new products and services as key tenets of their digital strategies. This suggests that just over half the industry understands how autonomous drive will likely depress new car sales and so they must build on the back of current investments like Software over the Air (SOTA) and Connected Car to work with ecosystem partners to quickly move into the “white space” between the old linear markets to generate new revenue streams and far more compelling products and customer experiences before start-ups and the tech giants beat them to it.

Sadly, the converse is true for transport. Only 42% of companies have defined their digital strategies and are implementing them – placing it second to last – and 53% are still in the planning phases. Slow to change, this suggests an industry preparing to die by a thousand cuts as the more digitally adept players progressively invade its markets. This is reflected in that over half (57%) of companies have improving efficiency and cost reduction as the primary focus for their digital strategies – a slow and agonizing descent to make costs fit declining revenues whilst someone else captures customers by creating the new compelling products and services they want to buy.

“An ecosystem is an open, multi-sided collaboration between different parties. These parties can include: the internal units of an organization, current and future business partners, and customers. An effective ecosystem will enable an exchange of ideas/ products/services or information in an alternative way and will include operative processes and tools to share the benefits between the parties. Such an ecosystem can help generate new ideas, drive innovation, expand offerings, increase reach and grow revenue.”

Despite being behind in defining and implementing digital strategies, both automotive and transport companies understand there is a key role to be played by establishing partner ecosystems, but again they are behind in speed of execution. This reflects their conservative approach to collaboration: residing behind a “walled garden”. For automotive companies who want to capitalize on the digital ecosystem business model opportunity, moving away from this default mindset is the number one challenge. Currently 44% have a partner ecosystem, while 56% are planning to introduce one in the future – behind only the IT and Technology sector (48%).





Partner ecosystems: models are defined, ambitions are high, but confidence is shaky

BearingPoint//Beyond put forward five potential partner ecosystem models (see box-out). It asked each automotive and transport company to identify which was most like the ecosystem they had in place or planned to introduce in the future and matched their answers to each of the five models.

For future growth, both automotive and transport companies need to develop new innovative product and services to grow new revenue both now and in future. No surprises then that model one and two are the most popular among automotive and transport companies.

Model 1: focuses on business growth, innovation and creating new revenue sources through collaboration with other partners.

Model 2: focuses on increasing revenue streams from existing customers by selling new products/services, e.g. Product bundles.

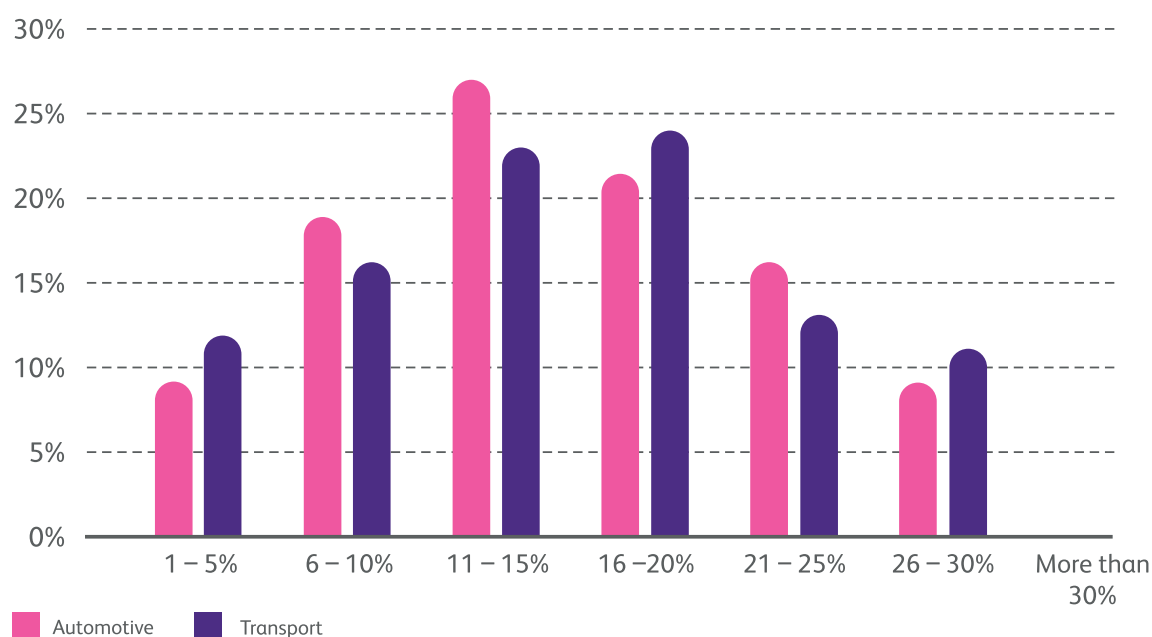
Model 3: focuses on increasing customer loyalty and retention through the ecosystem.

Model 4: focuses on increasing efficiency and profitability internally by leveraging relationships in the internal ecosystem to improve business efficiency and remove silos.

Model 5: focuses on improving efficiency in the way the business currently uses its channel partners.

Ambitions are high. Just under half (46%) of automotive companies expect their revenues to grow by more than 16% in the next two years from a partner ecosystem. Of that, 24% anticipate growth of 21 and 30%. Over quarter (27%) anticipate an 11-15% increase in revenues and 19% expect to see 6-10%. Only 9% expect just a 1-5% revenue boost in the next two years.

Transport companies have similar expectations with 48% expecting their revenues to grow by more than 16% in the next two years from a successful partner ecosystem. Of that, 24% anticipate growth of between 21 and 30%. 23% anticipate an 11-15% increase in revenues and 16% expect to see 6-10%. 12% expect just a 1-5% revenue boost in the next two years. This is ambitious given just how far transport lags other industries in readiness given only 42% of transport companies have a digital strategy.



If you were able to successfully develop your ecosystem, by what percentage would you expect your revenue to grow in the next two years?

Yet, for all the talk of new revenue streams, only 48% of automotive companies feel that to be successful they need to develop and manage a clearly defined partner ecosystem. This means that over half believe they can win the “battle for the dashboard” against the tech giants without the need for partners who can marshal investment, IP assets and provide complimentary digital skills and capabilities. This is significantly lower than Telecoms (60%), IT and Technology (58%) and even Transport (58%) companies. The potential reason: 70% of automotive companies feel that the complexity that comes with partner ecosystems may lead to consumer confusion over the brand. It also reflects

history. Automotive companies have preferred to protect their competitive positions by building “walled gardens”, reluctant to participate in open ecosystem collaboration.

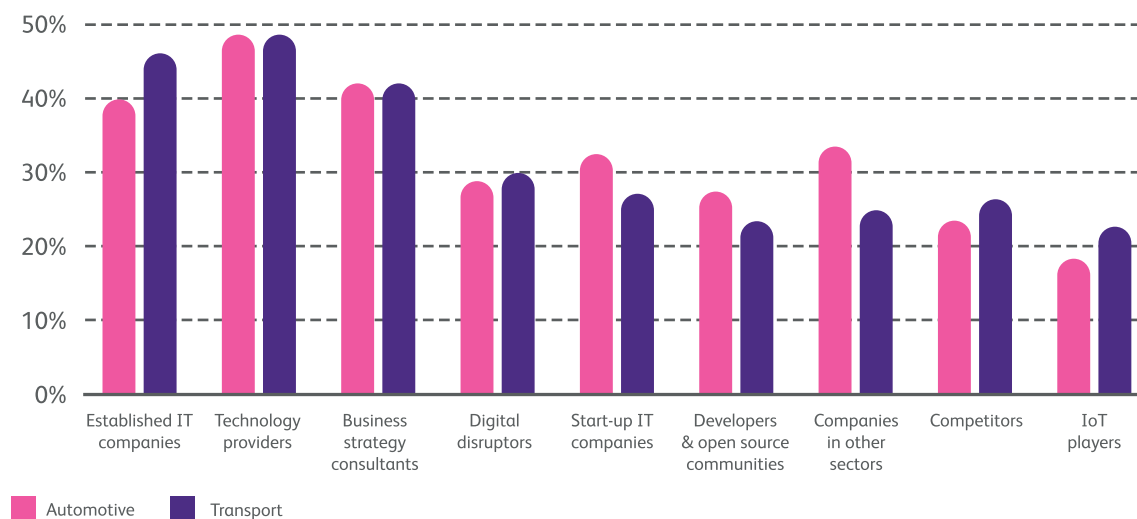
This is important, as to succeed, automotive companies must begin to both create direct customer relationships with connected customers to understand their needs, but also quickly address the fast-rising expectations in terms of using data and integrating compelling new digital services and experiences into the car – best provided by curating a differentiated partner ecosystem and driving great ecosystem innovation.

Transport sector driving blind, automotive putting customers in the driving seat

The increasing focus on new technologies with enabling digital services and connected vehicles requires a differently skilled workforce and working much more interactively and iteratively with customers. This prompts a decision on who is best to do this, which skills to acquire and which to seek through partners.

The good news is, many major companies within both industries have already begun to partner with

technology organizations to access the new skills and acquire capabilities needed for future growth. 48% of automotive companies are partnering with technology providers, 40% with established IT companies and 32% with start-up IT companies. Similarly, 48% of transport companies are partnering with technology providers, 47% with established IT companies, 32% with IT & Technology companies and 27% with start-up IT companies.



Which of the following types of entities are you currently partnering with?

But both industries are looking for many of these skills to become core as they want to reduce their reliance on partnering with these industries over the next two years. The real question is whether they can really acquire the skills and capabilities this quickly or if it is a retreat into their “walled gardens” as fast as they can. And this is where their paths diverge.

Automotive:

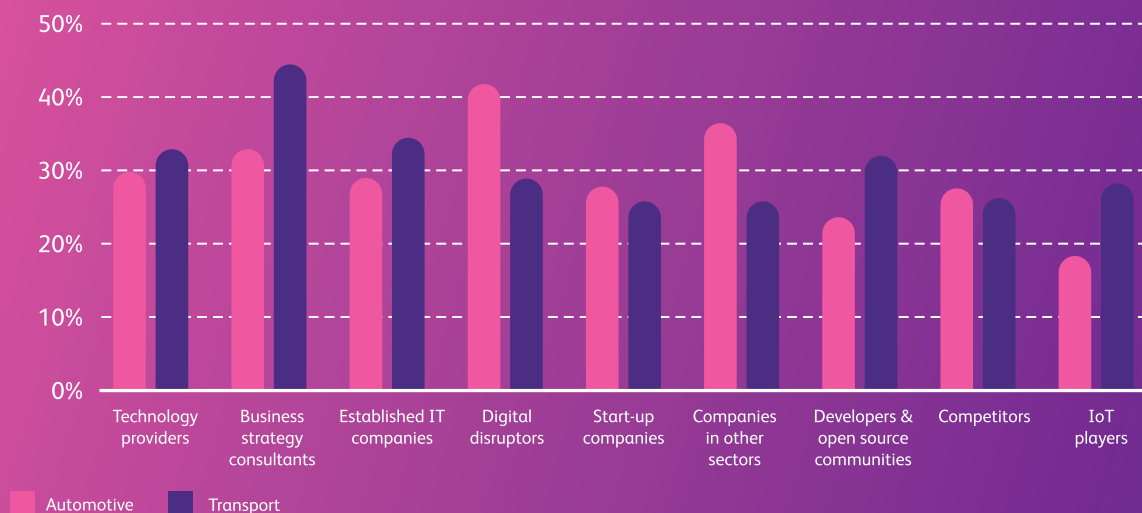
Within automotive the dividing line between the “vehicle” (product) and the digital experience is blurring, with the vehicle increasingly becoming a digital business platform that efficiently automates and integrates all the different elements into a seamless customer experience. This facilitates the ability to add new experiences and combined services (that can be downloaded to the vehicle as “software over the air”) and so it’s no surprise that a strong focus will be on growing partnerships with digital disruptors. 29% of automakers are currently partnering with digital disruptors, jumping to 41% over the next two years. By partnering with these entities, automotive

companies can continually develop and sell digital services that will generate new recurring revenues streams from the connected customer. If automotive companies are to run an effective mobility business, they must also consider practical partnerships that bring new capabilities – fleet management, logistics, billing. These partnerships will be key as they don’t currently exist in the automotive “walled garden”. That said, less than a third (27%) of automotive companies are planning to partner with the logistics sector. The question is whether this is a permanent change, or if they revert back to their default mindset.

Transport:

Transport companies are a lot less certain than their automotive peers when it comes to future partnerships: 44% are expecting to partner with business strategy consultants over the next two years. This is worrying and reinforces the point that their strategy is still

nascent. With a vast number of digital-first players entering the transport industry, traditional companies must decide what their offering is in this new world or risk death by a thousand cuts before extinction.



Which of the following types of entities are you looking to partner with over the next two years?

Despite understanding the road blocks, transport companies are clearly still driving with one eye closed. Automotive companies, however, are a lot more certain of where they need to be and the partnerships they

need to achieve growth. Exactly who will succeed in implementing these radical changes remains to be seen.

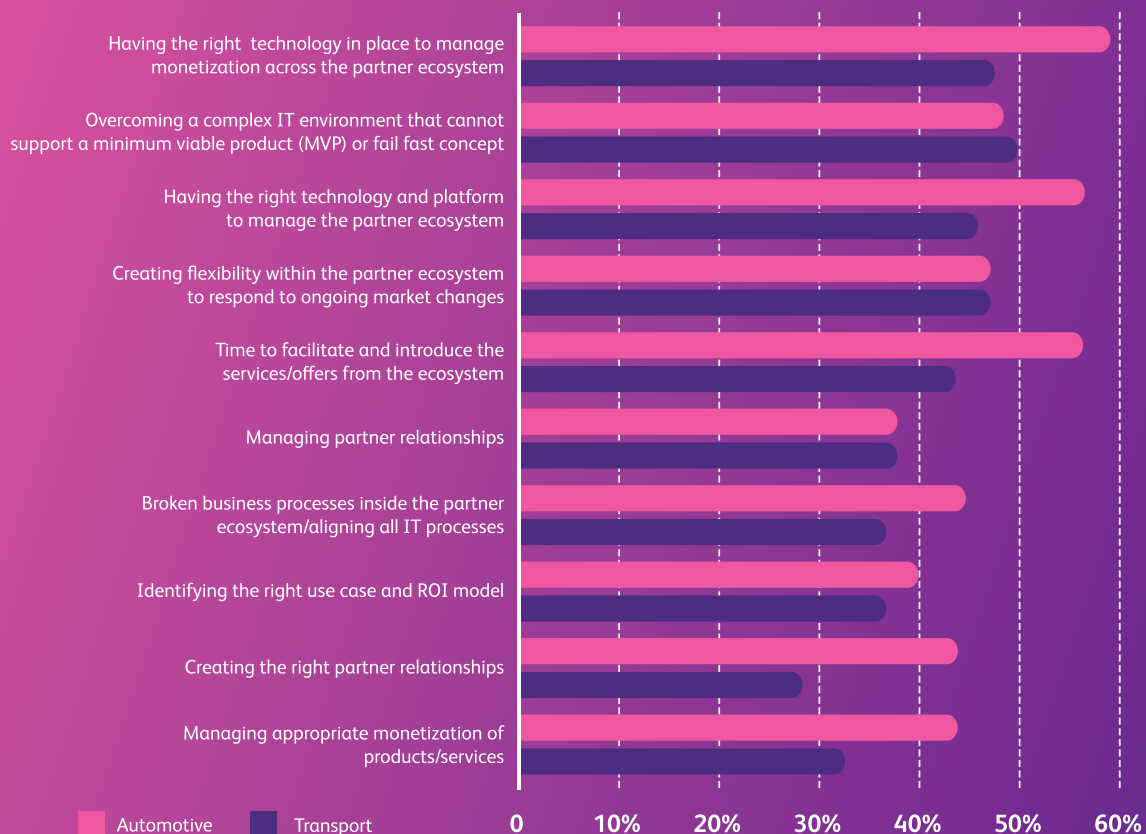
Technology still an issue and a mindset change required

Despite partnering with technology companies of all shapes and sizes, automotive and transport companies are still struggling with technology. Of the 19 potential challenges identified by industry respondents to the survey, just four of them were technology-oriented. And yet, technology provided three of the four topping the list of challenges facing both automotive and transport companies.

The number one challenge facing automotive companies is having the right technology in place to manage monetization across the partner ecosystem (59%). All their technology is geared to the “walled garden” of an enterprise and not overlaying wider

ecosystems. More than half (57%) also noted that with IT landscapes built on traditional linear value chains rather than multi-sided business models there was a difficulty in identifying the right technology to manage a partner ecosystem, as well as overcoming the spaghetti of a complex IT environment (48%).

Transport companies are fighting a similar battle. 50% of transport companies are struggling to overcome a complex IT environment. 47% of transport companies are also lacking the right technology to manage monetization across the partner ecosystem and 46% the right technology and platform to manage the ecosystem itself.



What are the current challenges with managing and enhancing the partner ecosystem?

Both automotive and transport companies must act now on all fronts from digital strategy, to acquiring the right skills and curating, orchestrating and managing a differentiating partner ecosystem if they want to remain masters of their own destiny, own the customer and win the battle over “control of the dashboard”. This means putting the right enablers in place and adopting the right platform technologies that address the top challenges they face that inhibit the quick pace of change needed.

Despite over half focusing current digital strategies on business model innovation, only 51% of automotive companies and 63% of transport companies feel it is important to change business models to underpin growth in a digital age. Compare this to the IT and Technology (79%) and banking (71%) sectors.

Automotive and transport all too often define their digital strategy in terms of take up of new technology as the answer to their future woes (as if it was a new feature in a car), rather the coming at it from a business perspective and asking what will drive top line revenue growth, particularly with declining new vehicle sales as is widely expected with the advent of autonomous drive. It is simply unfeasible to switch out existing technology with new technology, without a thought to how it could be leveraged for new compelling customer experiences and to grow revenues by adding new products and services. This in turn needs to be underpinned by a new digital strategy and business model that deepens customer relationships and understanding of customer needs as the starting point for product and service innovation through partner ecosystems.

BearingPoint//Beyond advice

If automotive and transport companies want to thrive in a digital, mobility-enamored world, partner ecosystems must become a vital component of their reinvented business models. This will allow them to put a greater emphasis on customer relationships as the motor for innovation to create compelling new digital services formed through partner ecosystems which not only meet customer needs but drive them forward – while also being harder for competitors to simply copy.

The preferred model in digital is well-known and used by startups, mature enterprises and digital superpowers alike. It combines a digital business platform that bridges internal silos and allows organizations to curate a differentiated and competitive partner ecosystem to create, trade, fulfil and monetize services in a completely automated way. Marketing moves away from broadcasting to influence customer buying behavior; data is captured for insight; and lean startup approaches are embraced to experiment and get rapid customer feedback on new products and services. The aim is to underpin the new digital business model with a growth engine that continuously builds competitive advantage through a powerful network effect. These

changes can be evolutionary and staged to protect the core business while building adjacent revenue streams using a hybrid business model approach.

Research shows that businesses that embrace this way of thinking grow at twice the rate of those that don't. At its core, executing on the potential of partner ecosystems comes down to automotive and transport companies defining and delivering a digital platform-based business model. For that, they need a digital platform technology solution. And they need to move fast.

BearingPoint//Beyond has been created to help them do just that. BearingPoint//Beyond provides both the guidance automotive and transport companies need to define the platform-based business model that is right for them, and, using proprietary software components, build an agile digital platform that delivers the new model and the myriad of business benefits it brings. BearingPoint//Beyond supports automotive and transport companies in their drive to facilitate true innovation with and between partners, as well as launch and monetize new digital services at speed.

BearingPoint//Beyond

BearingPoint//Beyond helps organizations reinvent their business model and grow from efficiency to innovation. Our digital platform solutions give them the start-up advantage, to move rapidly from ideas to concept to revenue, with minimum risk and cost.

This brings our clients closer to their customers, enabling them to build connections between systems and partners, while becoming more agile in face of digital disruption.

BearingPoint//Beyond is part of BearingPoint, an independent management and technology consultancy with European roots and a global reach. A worldwide consulting network with more than 10,000 people, BearingPoint supports the world's leading companies and organizations in over 75 countries, engaging them to achieve measurable and sustainable success.

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