

HOW AN ACCELERATOR CAN CATALYZE YOUR ECOSYSTEM

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How an Accelerator can Catalyze your Ecosystem

In many industries, competition is moving from the product level to the ecosystem level. Consider the competition between the Apple and Google in the market for smartphones. A user's choice of smartphone depends not only on its technological features but also on the (largely third-party) apps that the phone allows the user to access and the deals offered by telecommunications carriers - on the ecosystems that have grown around the smartphones. Ecosystem competition is not limited to the information and telecommunications technology sectors. In diverse industries such as car manufacturing, robotics and biotechnology, managers increasingly need to know how ecosystems can be created and used to their firm's advantage and how to compete against the ecosystems of their rivals.

The creation of an ecosystem by a rival and the consequent shift to ecosystem competition can be quite challenging for product-focused incumbent organizations. The momentum that ecosystem first-movers often attain means that there are adverse network effects working against subsequent efforts at ecosystem creation, as first-movers reap the benefits of having a greater number of users. Furthermore, the expectations of customers and potential ecosystem members are often shaped by first-movers, meaning that any response that the incumbent attempts will be judged in comparison to the strengths of their rival's existing ecosystem and its established rules and structures, leading to difficulties establishing the reputation and legitimacy of a new ecosystem. Internally, the mindset of the incumbent organization may be stuck in a product-centric logic, which is not conducive to understanding and tackling these challenges.

So how can incumbent organizations, threatened by a shift to ecosystem competition, mobilize their own ecosystem in response?

The good news is that there is a strategy that threatened incumbent organizations can adopt to mobilize their own ecosystem. As well as undertaking the well-known technology, pricing and marketing strategies that constitute ecosystem design,¹ ecosystems can be catalyzed by using an

“ecosystem accelerator” to attract, fund, accelerate, and launch startups as new ecosystem participants.

To illustrate how ecosystem accelerator programs can catalyze an ecosystem, we use the example of AppCampus. AppCampus represented an explicit three year effort to mobilize an ecosystem around the Windows Phone platform that was a late entrant to a smartphone market dominated by the rival ecosystems of Google Android and Apple iOS. Although at the time of writing the Windows Phone ecosystem may not have taken off, AppCampus itself was a success. It received more than 4300 app ideas from over 100 countries and invested approximately €10 million in over 300 entrepreneurial teams, contributing to the creation of around 800 new jobs and helping these entrepreneurs attract investment from other sources. The apps produced by AppCampus teams were of significantly higher quality than the Windows Phone average, getting seven times more downloads, twice the revenue, and higher user ratings.

Ecosystem Accelerator Design

So how does a manager at a threatened incumbent design an ecosystem accelerator? An ecosystem accelerator consists of components that are common to other accelerators, such as TechStars and Y Combinator. There is a funding structure, a strategic focus, a program package, a selection process, and alumni relations.² See the sidebar for insights on how to execute the strategy.

[Insert Sidebar – Executing the Strategy around here]

Funding structure

An ecosystem accelerator needs multiple sponsoring organizations, as being dependent on a single organization that is only beginning to move away from a product-centered approach risks severe political and strategic constraints on the accelerator’s ability to act for the benefit of the ecosystem as a whole. Furthermore, ecosystem mobilization in the face of an existing rival ecosystem means that the resources and competences of a single organization may not be sufficient. The companion sponsoring organizations should be other incumbents also threatened by the change in the basis of competition in their industry. Additionally, partnering with an independent entrepreneurial

support organization, such as a university, can improve the chances of success. Such an organization can provide additional entrepreneurial support, startup infrastructure, and, perhaps most importantly, attract ecosystem participants who would not otherwise be drawn to working with the incumbent organization(s). For instance, AppCampus was funded by €9 million each from Microsoft and Nokia, and managed by Aalto University in Finland, who covered the operating costs of €1 million per year.

An ecosystem accelerator also needs to be a standalone joint venture, fully independent of the partners. The partners together maintain an oversight role, keeping a check on any attempts to manipulate the accelerator to favor a particular partner's interests. This leads to a strategic tension between the sponsoring organizations, ensuring that the ecosystem accelerator acts in the interest of the entire ecosystem, and not just that of the sponsoring organizations.

Strategic focus

An ecosystem accelerator needs a clear strategic focus: to identify, fund, develop and launch startups that mobilize the innovation ecosystem of the incumbent stakeholders. In the case of AppCampus, the clear strategic focus was to develop apps for the new Windows Phone ecosystem, in doing so supporting the sales of the operating system of Microsoft, and the handsets of Nokia. To do so, the ecosystem accelerator needs to be positioned and branded in such a way so as to clearly differentiate it from the sponsoring incumbent organizations. For instance, AppCampus branded itself using very colorful modern and edgy motifs, clearly differentiating itself from the staid corporate images of Nokia and Microsoft. This branding strategy, in combination with Aalto University's management of the accelerator, elicited submissions from application developers who would never previously have considered developing for a Microsoft platform, and also reinforced the identity of AppCampus as a development program that facilitated both new applications and their developers, thus helping lure more developers into the emerging ecosystem.

Program package

A program package consists of the services that are offered to participants, including investment, education, mentoring and merchandising.

The *investment* service is focused on providing participants with seed investment to build and launch their offering within the ecosystem. This investment amount does not need to be substantial, and does not need to cover the full start-up cost, instead only influencing the cost-benefit calculations of the entrepreneur in favor of the ecosystem. Furthermore, this investment should be “free money”, i.e., not dependent on an equity stake or revenue sharing agreement provided that the funds are used for the development of the ecosystem. Instead, a condition of the investment can be exclusivity to the ecosystem for a period of time. In the case of AppCampus, the exclusivity period was initially set at six months before being reduced to three months. This “free money” and short period of exclusivity makes participation in the ecosystem very appealing for would-be entrepreneurs, and also has the benefit that new ecosystem participants commit to participate in the ecosystem while remaining independent.

The *education* service is focused on the construction of the offering for the ecosystem and is accompanied by intensive training around such topics as branding, product management, and marketing. Training services are provided either by online courses, or onsite through intensive courses for high performing participants. For instance, AppCampus offered online courses to all participants, as well as residential training camps of two to four weeks in length, to those teams that were considered to have high potential.

The *mentoring* service is typically provided by experienced members of the industry who have been specially selected for the role. All teams participating in the training camps had numerous sessions with expert mentors, and mentoring services included the introduction of participating teams to external investors through open days and participation in external pitching competitions to help them to gain additional funding as required, with a goal of securing longer term commercial success.

The *merchandising* service is focused on building momentum for the ecosystem participation through “go-to-market” support. This includes distribution, localization, promotion, improvement and ecosystem optimization support before, during and after product launch. It may be possible to leverage the distribution channels of the funding partners to achieve this, which can be seen as an “unfair advantage” for ecosystem acceleration teams that helps to deliver results.

Selection process

An ecosystem accelerator needs to make use of a rigorous selection process. AppCampus was tasked with selecting ideas that had not been developed within other ecosystems to date (thus differentiating the ecosystem from its rivals), ensuring that the app idea aligned with the goals of the ecosystem mobilization effort, and either rejecting submissions that did not align, or giving specific guidance to the submitting teams on making the submission more suitable.

Once an idea has passed the screening stage, “quality control” processes are important to ensure that its creators can leverage the best features and functions that the ecosystem has to offer, as well as assuring a certain level of quality and usability of the end product. In the case of AppCampus, quality control consisted of assisting the submitting developer teams with incorporation, followed by design review and beta release milestones, failure to meet which would mean an ejection from the accelerator and non-transfer of the grant funding. In order to ensure compliance with the quality control process, the investment should be staggered and contingent on their successful launch of the product into the ecosystem. For instance, once a team’s app design was accepted, they would receive 30% of their grant amount. The remaining 70% was released only when the team had completed all of the quality control stages and released an approved beta version of the application.

Alumni relations

Accelerator alumni are important ambassadors for the ecosystem, making it important to maintain relations with the teams that complete the program. In the case of AppCampus, there are annual elections for an alumni president, while a Facebook group keeps all teams in active contact.

Ecosystem Accelerator Benefits

An ecosystem accelerator has many benefits for an incumbent, in comparison to developing the same complementary products and services internally (see Exhibit 1).

[Insert Exhibit 1 around here]

An ecosystem accelerator can be established and results generated in a much more rapid time frame, as the ecosystem creation effort is effectively outsourced to interested third parties.

Furthermore, an ecosystem acceleration effort can be cheaper than pursuing the same innovation and ecosystem mobilization efforts internally. By effectively outsourcing the ecosystem mobilization effort, the firm can distance these activities from its internal operations, allowing those activities to occur which might not otherwise be possible within its corporate structure. An ecosystem accelerator also enables relevant skills and competences to flourish in an appropriate environment, and permits an increased investment flow and a focus on go-to-market activities.

Ecosystem Accelerator Challenges

Ensuring necessary infrastructure. Simply launching an ecosystem accelerator is not sufficient. The sponsoring organizations need to ensure that the underlying infrastructure for ecosystem success is already present and constantly being developed in line with market and technological evolution. This requires technological development of the underlying platform or shared assets that ecosystem participants leverage in order to create value for themselves. Access to these shared assets also need to be made available and priced in such a way so that ecosystem participants can appropriate sufficient value.

Finding internal funding. For initiatives such as this, it can be a challenge to find funding. Relevant business units within sponsoring organizations can provide the funding, although as ecosystem acceleration activities may cross departmental silos, this can at times be difficult to arrange. However, sponsoring firms should realize that the ecosystem accelerator will have substantial impact through its effects on entrepreneurship. This is something that should be celebrated. As it is a valuable corporate social responsibility outcome for the sponsoring organizations, as well as a positive outcome variable for the entrepreneurial support organization, an ecosystem acceleration strategy could feasibly be funded from a corporate social responsibility budget.

Resisting taking ownership. It is difficult for many executives to understand the importance of “free money” to the success of an ecosystem accelerator. This is even more important when there are issues in finding funding to set up the ecosystem accelerator. The “free money” makes participation in

an ecosystem that is not the market leader very appealing for would-be entrepreneurs, and also has the benefit that new ecosystem participants are truly independent but remain committed to the ecosystem.

Resisting outsourcing core innovation activities. Although it is more and more common for firms to leverage accelerators for their innovation needs, sponsoring firms need to resist the urge to “outsource” the innovation that they themselves need to do. Sponsoring firms need to realize that they need to maintain a focus on their substantial innovation responsibilities for the shared assets that drive ecosystem performance.

Thinking long-term. An ecosystem accelerator is a long term commitment. Often sponsoring organizations think they can reduce the funds required to launch and maintain an ecosystem accelerator by reducing the program’s duration to only a couple of years. This is a false economy that means that sponsoring firms are disappointed as they do not appear to see the results from the funding during the life of the ecosystem accelerator, and lose the opportunity to refine and develop the program.

Going global early. It is important to be explicitly global from the very beginning so as to maximize reach. However, many executives instinctively think that they should focus in their own region or location. By going global early, an ecosystem accelerator can tap into and mobilize would-be entrepreneurs in markets that are most probably underserved by current ecosystem leaders, and who would relish an opportunity to participate meaningfully in a global ecosystem and make money.

Leveraging the tension. It is important to maintain a healthy tension between the sponsoring organizations and the entrepreneurial support organization. By ensuring a healthy tension the management of an ecosystem accelerator can act in the interest of the entire ecosystem, and not just the sponsoring organizations.

Conclusion

An increasing number of incumbent organizations are facing a shift to ecosystem competition. An ecosystem accelerator can help incumbents to mobilize their own ecosystem and respond effectively to this threat.

Sidebar - Executing the Strategy

1. Identify your partners
2. Agree the country/location
3. Agree the funding formula
4. Establish the accelerator
5. Activate the core team
6. Activate the outreach activities within partners
7. Initiate the “deal-flow” screening activities
8. Initiate the acceleration activities
9. Initiate the go-to-market support activities
10. Set KPIs & targets, measure & analyze, correct & improve
11. Build and maintain the alumni network

Exhibit 1 – Ecosystem Accelerator Benefits

	Implement Internally	Invest Externally (Ecosystem Accelerator)
Time frame	<ul style="list-style-type: none"> • Existing firm structures and policies can slow down implementation; • Even in “skunk works”, firm practices can slow down implementation. 	<ul style="list-style-type: none"> • Allows for faster implementation when selecting an established partner
Control	<ul style="list-style-type: none"> • Allows for tighter control of the operations; • Firm policies can hinder effective processes for startups and innovation. 	<ul style="list-style-type: none"> • Control is exerted indirectly through steering board membership; • Allows appropriate processes and managerial control to manifest.
Skills and Competences	<ul style="list-style-type: none"> • Corporates are usually risk averse and poorly understand the startup approach; • Slows down the startup cycles and/or limits the innovation level of the startups. 	<ul style="list-style-type: none"> • Enables relevant skills and competences to flourish in an appropriate environment. • Speeds up deal-flow, acceleration and go-to-market activities.
Reporting	<ul style="list-style-type: none"> • Would need to reside within established firm silo, resulting in conflict or no silo willing to host given cross silo nature of program; • A Chief Innovation Officer could be used with the acceleration program an addition to innovation efforts. 	<ul style="list-style-type: none"> • Indirect reporting through steering committee; • Allows wider variety of responsible roles, including the Corporate Responsibility Officer, Corporate VC unit, or Chief Innovation Officer.
Branding	<ul style="list-style-type: none"> • Allows full control of the branding effort; • However corporate brands are rarely seen as an attractive proposition by innovators and might not welcome to talent. 	<ul style="list-style-type: none"> • Relinquish control of branding effort; • Enables brand positioning that is attractive to innovators and welcoming to talent.
Budget	<ul style="list-style-type: none"> • Allows for direct control of cost elements; • Budget creep can occur as funding will be within firm budgeting cycle. 	<ul style="list-style-type: none"> • Partnering with one or several existing players might be cheaper approach; • Budget set through single funding event.

Endnotes

¹ See for instance, R Adner, "Match Your Innovation Strategy to Your Innovation Ecosystem," *Harvard Business Review* 84, no. 4 (2006): 98-107; M A Cusumano and A Gawer, "The Elements of Platform Leadership," *MIT Sloan Management Review* 43, no. 3 (2002): 51-58.

² B Clarysse, M Wright, J Van Hove and C Pauwels" (2015) "Understanding a new generation incubation model: The accelerator." Innovation and Entrepreneurship Department Working Paper. London, UK, Imperial College Business School.