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# What Makes Business Ecosystems Succeed?



By Andrew Shipilov , INSEAD Professor of Strategy, and Francesco Burelli , Strategy Consultant, Arkwright

## **Our framework guides you through the forces driving Airbnb and other ecosystem-based businesses.**

Business ecosystems are an interesting and exciting phenomenon of the 21<sup>st</sup> century. Much like division of labour and the steam engine gave rise to factories during the Industrial Revolution in the 18<sup>th</sup> and 19<sup>th</sup> centuries, computing power, data and algorithms produced digital platforms that then underpinned business ecosystems.

Ecosystems are complex, as there are many parts to them. It is not enough to say that you want to build an ecosystem; you need to understand its components and what business problem it will solve. Navigating ecosystems is like a walk in an enchanted forest with lots of twists and turns. Without a map of the forest, a traveller can quickly become lost amid its towering, teeming trees.

In two recent posts, we discussed [how ecosystems differ from platforms](#) and the [different roles that firms can play in an ecosystem](#). To further

clarify, we now offer an easy way to create a map of a whole ecosystem: a single-page ecosystem canvas. This tool is inspired by the **Business Model Canvas** developed by Alex Osterwalder. We think of an ecosystem canvas as a special type of business model canvas.

Most companies should aim to join an existing ecosystem, as the costs of starting one from scratch tends to outweigh the benefits. For a minority of companies, however, the special benefits accruing to ecosystem creators are enough to potentially justify the blood, sweat and tears. This tool will help both: The prospective ecosystem creators will understand what their ecosystem should look like while those who want to join someone else's ecosystem can better understand which role they can play.

## Two big questions

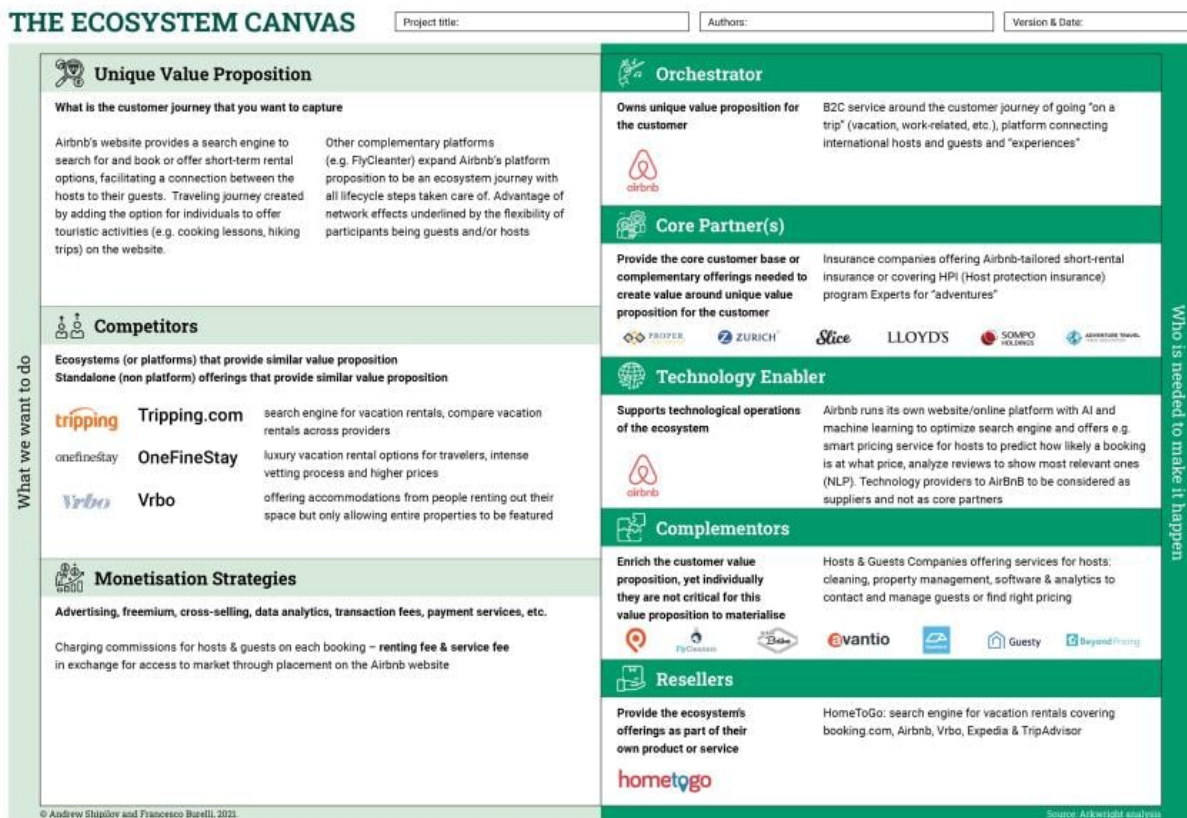
The ecosystem canvas seeks to answer the two big questions behind all ecosystems. First, **what does the ecosystem do?** We can decompose this question into three elements: the unique value proposition of an ecosystem, its competitors and its method of monetisation. The unique value proposition is the customer journey that the ecosystem wants to capture. Competitors can be other ecosystems and platforms that provide a similar value proposition or standalone products that cover parts of it. Monetisation strategies involve advertising, freemium, cross-selling, data analytics, transaction fees or payment services.

The second big question is, **who is needed to make the ecosystem happen?** To answer this, you must analyse the five different roles we identified in our previous post. These roles are the orchestrator, the core partner(s), the technology enabler(s), the complementor(s) and the reseller(s).

## Airbnb's ecosystem canvas

Let's take a look at what an ecosystem canvas would look like for Airbnb. Its unique value proposition, which by itself resembles what we call a platform business, is to match and facilitate transactions between two groups: guests and hosts. However, in addition to this, guests can book related activities, such as cooking lessons or hiking trips to enrich their travel experiences, turning Airbnb's platform proposition into a fully developed customer journey. Airbnb also helps hosts to manage their own journey through complementary platforms offering services such as cleaning and check-in/out assistance. The beautiful part of its business model is that guests can

become hosts for their own property and vice versa – just as people watching YouTube videos can create their own.



Airbnb has quite a few competitors. Tripping.com is a search engine for vacation rentals, onefinestay provides luxury vacation rental options, while Vrbo is quite similar to Airbnb, except it does not allow spare-room rentals within residential properties.

Airbnb monetises its matchmaking services by charging both hosts and guests a commission on each booking. These fees can be quite substantial, especially during holiday periods and in premium locations.

Now that we understand what the Airbnb ecosystem does, let's see how it works. The orchestrator is clearly Airbnb, as it provides a platform connecting hosts and guests. Over the years, it has progressively enlisted a number of core partners. For example, Zurich insurance provides Airbnb with tailored short-term rental insurance contracts (it is risky to rent a property without one). It also collaborates with companies that provide safety

guidelines for adventure travels mainly offered by hosts enriching their offering. In addition, Airbnb developed its own technological infrastructure with AI tools to optimise both its search engine and pricing functions; AI crawls through the reviews in order to show you the most relevant ones.

You cannot have an ecosystem without complementors. While it is hard to envision renting through Airbnb without insurance (and that's why we consider Zurich to be Airbnb's partner), you can clearly imagine an Airbnb experience without cleaning companies, property management, key pick-up services, dynamic pricing algorithms and so forth. These smaller players, like FlyCleaners, Guesty or Beyond Pricing enrich the customer value proposition, but individually they don't make or break the Airbnb experience.

Finally, some firms are resellers of Airbnb services. For example, HomeToGo is a search engine for vacation rentals that aggregates offers from Booking.com, Expedia, Tripadvisor, Vrbo and yes, Airbnb.

If you were to build your own ecosystem and pitch it to investors, clients or fellow co-workers, consider using a framework that captures the necessary components of an ecosystem. The ecosystem canvas can also help you find a place in an existing ecosystem by identifying, for example, that it has very few complementors or could use more resellers.

Regardless of its uses, this tool has been helpful to us, our students and clients when thinking through the complexities of this new organisational form.

For your convenience, we've created an ecosystem canvas worksheet with guidelines and a blank template.

[ecosystem\\_canvas\\_-\\_guidelines\\_template\\_v2.pdf](#)

. Have fun with this tool and let us know what you learn when using it.

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