<table>
<thead>
<tr>
<th>STAGE OF THE BUSINESS ECOSYSTEM</th>
<th>I  PIONEERING</th>
<th>II  EXPANSION</th>
<th>III  AUTHORITY</th>
<th>IV  RENEWAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leading species or companies within the business ecosystem</td>
<td>Emerging</td>
<td>Stable</td>
<td>Increasingly contested</td>
<td>Heavily contested</td>
</tr>
<tr>
<td>Business model for the ecosystem</td>
<td>Emerging</td>
<td>Stable</td>
<td>Stable</td>
<td>Becoming unstable</td>
</tr>
<tr>
<td>Dominant ecosystem within the boundaries of a given market</td>
<td>Not yet determined</td>
<td>Emerging, contested</td>
<td>Stable</td>
<td>Becoming unstable</td>
</tr>
</tbody>
</table>

Table 5.1

Two items stand out in this chart: first, how small the zone of stability is when viewed across a longer evolutionary perspective; and second, how a company never achieves a state of stability across all four stages. In Stage II, a company's leadership or membership will usually not be directly challenged, but the viability of the ecosystem itself is in doubt, so management is consumed by a dramatic expansion battle. Yet once that battle is won, competition flares riotously among one's partners and allies. In Stage III, so many aspects—the stability of the business model, the conception of value, the architecture of processes and assets—can conspire against those companies that made up the original cabal.

Now turbulence returns to these insiders who founded and drove the ecosystem, and it would not be surprising for them to find themselves pining for the halcyon days of old. These pioneers have much to be proud of. They contributed value by refining a paradigm of integration and stability and by bringing it to a wide array of suppliers and customers, not to mention extending it across a broad set of market territories. But now that the stable pattern is set, it has its own life. The leaders...
<table>
<thead>
<tr>
<th>DIVIDENDS OF THE BUSINESS ECOSYSTEM</th>
<th>QUESTIONS A FRAMEWORK FOR COOPERATION AND CO-EVALUATION MUST ADDRESS</th>
<th>COMPETITIVE ADVANTAGES TO BE ACHIEVED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>What changes in aspirations, in self-image, and in buying habits and vendor loyalties will my ecosystem need to capitalize on, and perhaps help galvanize, in order to expand?</td>
<td>Deep identification of customers with their membership in the ecosystem; many active connections to other members</td>
</tr>
<tr>
<td>Markets</td>
<td>What sequence of markets do I want my ecosystem to expand to fill? How will my expanding my ecosystem help it contribute to the aspirations of the people and organizations within these markets? What local species of offers, activities, and organizations may need to be involved in my network of synergistic relationships—or be supplanted by my expanding contributions?</td>
<td>Dominance of marketing channels and the bounded markets they serve</td>
</tr>
<tr>
<td>Offers</td>
<td>What complementary products and services will help the ecosystem expand? How can I help promote the linkage of my offers with these associated contributions—and assure their availability and continuous improvement?</td>
<td>Offers that provide a rich, full package of value, such that the customer is not tempted to go beyond the ecosystem for related products and services</td>
</tr>
<tr>
<td>Processes</td>
<td>What is the total ecosystem of processes, managed by others as well as myself, upon which my business must depend for expansion? How might the expansion of this architecture of business processes be improved by conscious cooperation among the parties?</td>
<td>Processes that have been well implemented, that have achieved economies of cumulative learning over those in alternative ecosystems, and/or processes that reflect more efficient or more effective underlying technologies and design</td>
</tr>
<tr>
<td>Organizations</td>
<td>What set of organizations and inter-organizational relationships will be necessary for the expansion of my business and the ecosystem within which it lives? How might the architecture of cooperation among such organizations be improved in order to support expansion?</td>
<td>Organizational arrangements that bring to this ecosystem maximum economies in terms of scale, scope, and innovation</td>
</tr>
<tr>
<td>Stakeholders</td>
<td>What stakeholder support, including financial contributions, will be necessary for expansion? How can this support be assured?</td>
<td>Maximum resources as needed, at minimum cost; in particular, financing that is not onerous in terms of cost or control</td>
</tr>
<tr>
<td>Values and policy</td>
<td>How is the expansion of my ecosystem and business consistent with public values and government policy? How can I strengthen these ties, as well as better explain to the public and to important government leaders the virtues of expanding my ecosystem?</td>
<td>Maximum alignment between the aims and values of the ecosystem and those of the surrounding society, and with those of the power elites within the society, including government officials and agencies</td>
</tr>
</tbody>
</table>

Table 7.2
ing some of the functionality in-house, by purchasing from alternative off-brand suppliers, and by using the growing presence of alternatives to drive down prices.

Moreover, since the architecture of the community is relatively fixed and customers have learned how it works, they are often unwilling to pay for market development activities that would have seemed plausible in Stage II—things like customer education, sales support, and so forth.

The challenges facing the different players during Stage III are summed up in the following chart:

<table>
<thead>
<tr>
<th>COOPERATIVE CHALLENGES</th>
<th>COMPETITIVE CHALLENGES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leader</strong></td>
<td>Block the leadership challenges from within the ecosystem, countering visions that run along different paths than your own and reinforce innovative contributions that would diminish the value of your own initiatives.</td>
</tr>
<tr>
<td>Provide a compelling vision that draws allies to your leadership and provides a continued central place for your own innovative initiatives.</td>
<td></td>
</tr>
<tr>
<td><strong>Follower</strong></td>
<td>Block other companies' attempts to clone your contributions and/or to join with opposing leadership and visions for the whole, that may render your contributions less valuable.</td>
</tr>
<tr>
<td>Align yourself with a winning direction, so that you can coevolve rapidly enough to avoid being cloned, while at the same time avoiding lost investments by moving toward futures that do not materialize.</td>
<td></td>
</tr>
<tr>
<td><strong>Outsider</strong></td>
<td>Fight against insider attempts to exclude you from the ecosystem; fight others seeking to provide the same or similar value to the ecosystem.</td>
</tr>
<tr>
<td>Align with a winning direction to provide value that will be enduringly important, and for which the returns received will more than repay the cost of entry into the ecosystem.</td>
<td></td>
</tr>
<tr>
<td><strong>Customer</strong></td>
<td>Become a savvy buyer, resisting excessive dependence upon other members of the system—and insist that the overall ecosystem structure reflect substantial consumer interests.</td>
</tr>
<tr>
<td>Help work with key players to shape the value created by the ecosystem.</td>
<td></td>
</tr>
</tbody>
</table>

Table 9.1

**Boom Times for the Community; Tighter Margins for Most Contributors**

When ecosystems first become architecturally stable, and enter Stage III, they often experience veritable boom times. After all,
Microsoft cannot escape the hot breath of commoditization. Why? Because literally all other players who share the ecosystem with Intel and Microsoft are working to extend and expand their value, often at the expense of Intel's or Microsoft's centrality. As Andy Grove says, "Only the paranoid survive." This is an apt motto in a Stage III ecosystem, where all members coevolve simultaneously as fast as they can.

The challenge, then, is how to act on the Red Queen's imperative—how to reinforce systematically and comprehensively your status and contributions within an ecosystem. The following formula neatly summarizes the overall objective.

\[
\text{Innovation trajectory} + \text{Criticality} + \text{Embeddedness} = \text{BARGAINING POWER} \\
\Downarrow \\
\text{High gross margins}
\]

**Figure 9.2**

One convenient way to think about this sort of initiative is as a "permanent campaign" running across all seven dimensions of the ecosystem. The elements of the campaign, which also can be expressed as a sort of equation for producing value and bargaining power, are listed in Table 9.2.

The essence of the permanent campaign is to influence the structure of the ecosystem as a whole so that it expresses your core contributions. A link is established between your competencies and the value—and value improvement trajectory—desired by customers. The campaign starts with customers and with selling your value, and it starts with promoting visions of the future to which you can maximally contribute. The campaign seeks to reinforce this vision—and your importance—by dominating markets and channels.

The permanent campaign goes even further, however, by...