Harvard Business Review

REPRINT R1702G
PUBLISHED IN HBR
MARCH–APRIL 2017

ARTICLE
INNOVATION

How To Get Ecosystem Buy-In

A tool kit for assessing the way an innovation will affect each stakeholder

by Martin Ihrig and Ian C. MacMillan

HOW TO GET ECO

A TOOL KIT FOR ASSESSING THE WAY AN INNOVATION WILL AFFECT EACH STAKEHOLDER

BY MARTIN IHRIG AND IAN C. MACMILLAN

SYSTEM BUY-IN

In a number of industries today—including aerospace, electronics, chemicals, software, global construction, global investment and commercial banking, and international manufacturing—even simple product or service innovations can become complicated. That's because companies so often operate in ecosystems made up of powerful and highly interconnected stakeholders.

Take mobile telephony. When, say, Samsung or Huawei launches a new phone, it must engage not just users but also the carriers that own and manage mobile networks and the major app providers, such as Google. An instant payment feature, for example, might be attractive to users and carriers but less so to app providers or retailers because of required changes to an existing payment infrastructure.

In such a tightly interwoven ecosystem, you can't focus exclusively on the customer and your company. You need value propositions that other stakeholders can buy into—which vastly complicates the process of identifying successful innovations. Of course, expanding your focus also increases your opportunity. Companies that figure out how to manage this complexity will enjoy a powerful competitive advantage in finding and selecting innovations. And the imperative is not just at the macro level: Each unit in a large company operates in its own ecosystem, with its own internal and external customers and partners—often specialized units of very different organizations.

Pharmaceutical companies have long had to work within just such a system, juggling the needs of patients, physicians, health care providers and insurers, distributors, and government agencies. Tweaking an antidepressant formula to make it more effective

IN BRIEF

THE PROBLEM
Companies struggle to win acceptance for innovations in sectors populated by many powerful and highly interconnected stakeholders.

WHY IT HAPPENS
Traditionally, executives have focused on the needs of just one stakeholder. As a result, their innovation success rate is lower than it should be.

THE SOLUTION
A six-step process helps companies figure out which innovations will create tensions among stakeholders and which have the greatest chances of success.

might look like a good idea from the perspective of patients and doctors, for example, but it might also raise medical insurance costs and increase the risk of side effects, triggering more regulation.

Nevertheless, when looking for growth opportunities, pharma companies have typically focused fairly narrowly on drug development—in which the main factors are need (How many patients suffer from a given condition?) and science (Can I create a new, patentable compound that will treat this condition?). New drugs are launched through existing channels; every partner plays a traditional, familiar role; and nothing about the consumption cycle changes. But sustaining growth and profitability in this way has become increasingly difficult, and many pharma companies are now turning to service innovations, which often require stakeholder buy-in because they typically change consumption patterns and how the ecosystem works in ways that a new drug does not.

In the following pages we describe how a major pharmaceutical company, which we'll call PharmaCo, thought through ways of innovating its service offerings using a tool-based ideation process that we developed (and which the company has now rolled out worldwide). For this project we worked with units in the United States, Brazil, South Korea, and the United Kingdom; for the purposes of this article we will focus on the greatly simplified case of a unit concerned with providing medication to treat a chronic disease. But the process can be applied in any industry in which innovations must be introduced into an ecosystem with multiple stakeholders.

The process consists of six steps and is carried out through a series of workshops. It typically involves a team of about 25 people drawn from across an organization and representing the major functions.

Here's how it works.

1

IDENTIFY KEY STAKEHOLDERS AND THEIR MOST PRESSING NEEDS

Participants should arrive at the first workshop with a deep understanding of the expectations and needs of the stakeholders in their units' ecosystems and of key market trends in their domain. We start by asking them to identify each unit's most important ecosystem players, which typically produces a list of four or five. For the PharmaCo unit we worked with, the list included:

- patients
- health care providers
- medical insurance payers
- commercial trade channels, such as pharmacy chains

Not all stakeholders are equally important, however, and the team must determine which of them exercises the most influence on transactions in the ecosystem—usually, but not always, the end customer. The PharmaCo unit chose patients almost immediately, because in that ecosystem they were every stakeholder's end customer, and the company's offering was aimed at maximizing value for them.

The team then identifies the most pressing need of each stakeholder, beginning with the leading one. Our unit decided that patients' primary need was to recognize and manage complications resulting from their disease and thus improve their quality of life. Diabetes patients, for example, suffer arterial damage and capillary inhibition. Chronic pulmonary disorder patients suffer airflow limitation and inhibited oxygen uptake.

2

OUTLINE STAKEHOLDER CONSUMPTION CHAINS

To understand how stakeholders experience and manage their most pressing need, we ask participants to create what Ian MacMillan and Rita McGrath have called a consumption chain, which identifies the key steps in the process of satisfying that need. Each stakeholder in an ecosystem will have different needs satisfied (or not) by the existing product or service.

The chronic disease team determined that for patients the key consumption chain links were:

- gaining awareness of the condition (How can I know that I'm sick and need treatment?)
- diagnosis (What's the complication? How bad is it?)
- treatment (How is the complication dealt with?)
- adherence (How will I sustain my treatment?)

In creating a consumption chain, it's important to take the perspective of stakeholders; how they experience having their need satisfied is not the same as how the company experiences satisfying it. We find that executives too often think of needs in terms of their company's functional units and processes. Consider, for example, the company that regards a customer's returning a product as a necessary evil, whereas the customer sees a reluctance to accept returns as a betrayal of trust and a reason never to buy from that company again.

Finally, the team should consider whether it can find opportunities for changing a prevailing consumption chain—perhaps eliminating some steps or adding others by applying a new technology. Such changes can often be the source of disruptive innovations, because they reconfigure relationships in the ecosystem: Some stakeholders may lose importance, and new ones may emerge. (See the sidebar "Reshaping an Ecosystem.")

3

CATEGORIZE FEATURES OF THE CURRENT OFFER AND BUILD OFFER PROFILES

In this step the team assesses how stakeholders feel about key features of the company's current offer and asks which of the following three categories each feature falls into:

Non-negotiables. These are the performance features that make an offer minimally acceptable. For the chronic disease patients they were:

- blood tests at annual physicals to increase the chances of identifying complications
- a timely and accurate diagnosis from a physician
- at least a minimal health improvement
- reliable availability of medication at pharmacies

Differentiators. These are the features that positively distinguish an offering from the competition. The chronic disease team felt that they included:

- a lack of side effects from medication for complications
- easy and infrequent dosages

Dissatisfiers. Stakeholders are not happy about these attributes but may be willing to endure them for a time if compensating differentiators exist. For the chronic disease patients they included:

- anxiety about diagnosing complications
- co-pay requirements
- the cost of treatment

Using these categorizations, the team completes an offer profile in the form of a table for each stakeholder. It's not necessary, and often not possible, to fill in every cell in the table, but you need to work hard to identify all the product features that are important to stakeholders at every link in the consumption chain, along with plausible alternatives. PharmaCo ended up with four tables, one for each stakeholder and associated need, each with its own consumption chain, non-negotiables, differentiators, and dissatisfiers.

RESHAPING AN ECOSYSTEM

In this article we describe a moderate but very novel innovation in PharmaCo's offer. But our approach can also help companies figure out how to deploy innovations that will disrupt the ecosystem by introducing major changes to the whole consumption chain rather than to one or more of its links.

We recently advised a medical equipment company that was trying to decide how to deploy a new treatment for a metabolic disease that traditionally might involve drastic, debilitating surgery. Important stakeholders in the existing ecosystem were patients, physicians, hospitals, health insurance payers, and surgeons. The most important links in patients' consumption chain were consultation with the physician, treatment of progressively more debilitating symptoms, and—if debilitation could not be reversed—drastic surgery. The key differentiator for a patient engaged in this consumption chain was the ability to avoid surgery, and the big dissatisfier was having to undergo it at all.

The company's new treatment offered the patient a different consumption chain, the most important links in which were being made aware of the treatment, transportation to and from the location for biweekly treatment, and reimbursement from the insurance company. The big new differentiator, obviously, was that surgery could be avoided, and the dissatisfier was that treatment would involve multiple clinic or hospital visits.

We mapped the new differentiator against the non-negotiables for stakeholders in the traditional consumption chain and uncovered two important tensions. First, although patients and their care providers wanted the best quality of life for patients, many hospitals had made considerable investments in the traditional treatment, and as long as the new treatment's efficacy was still unproved, they were justifiably reluctant to render those investments obsolete by buying new equipment. Second, patients who wanted to avoid surgery were up against the interests of surgeons, who would forgo considerable income if the new treatment was adopted.

As managers discussed these tensions, they realized that if the company was prepared to underwrite a new consumption chain comprising a network of profit-sharing treatment clinics staffed by physicians, then both the surgeons and the hospitals could be taken out of the ecosystem—a disruptive move by any definition of the term, and one that is in progress at this writing.

4

USE THE OFFER PROFILES TO DESIGN GROWTH OPPORTUNITY PROFILES

Next we look at how the company can convert its offer profiles into what we call growth opportunity profiles (GOPs). Look for a differentiator to add at each link in the consumption chain and try to find at least one differentiator for each of your stakeholders. Removing a dissatisfier, which effectively creates differentiation from competitors, is also an option. The GOPs of your stakeholders provide the basis for figuring out which improvements are likely to be the most effective and what innovative growth opportunities you should pursue.

The members of the chronic disease team at PharmaCo debated what features they could add to help patients limit complications. Ideas included offering free blood tests at pharmacies and sending text-message reminders to take medication. (See the exhibit "Enhancing Your Value Proposition.") Recent research showed that the PharmaCo drug was much more effective when patients exercised regularly, so the team explored offering discounted or even free gym memberships—a markedly different approach that looked at total well-being, not just the medical treatment of symptoms.

ENHANCING YOUR VALUE PROPOSITION

After you have created an offer profile (step 3), you can use it to plug in your proposed differentiators (step 4) wherever the team sees an opportunity. Below is the growth opportunity profile for PharmaCo's chronic disease patients, whose most pressing need is to limit complications from their disease.

= **EXISTING OFFER**
= **PROPOSED DIFFERENTIATOR**

CONSUMPTION CHAIN LINKS	NON-NEGOTIABLE	DIFFERENTIATOR	DISSATISFIER
AWARENESS	Blood tests at annual physicals	Free blood tests at pharmacies	Anxiety about diagnosis
EVALUATION/ DIAGNOSIS	MD provides timely and accurate diagnosis		Co-pay
TREATMENT	Condition can't worsen	No side effects Easy, infrequent dosages Discounted or free gym membership	Cost of treatment
ADHERENCE	Reliable availability at pharmacy	Text messages that remind patient to take medicine	

5

MAP STAKEHOLDER TENSIONS

This step gets to the heart of the challenge of innovating in a multistakeholder ecosystem. Once you've come up with new differentiators to improve how you satisfy a given need, you have to assess how they might affect other stakeholders—particularly whether they might conflict with a dominant non-negotiable. See the exhibit "Mapping Stakeholder Tensions" for an illustration of how we help teams make this judgment.

The team looks at the GOPs to see which proposed differentiator is most important for each stakeholder. The PharmaCo team identified:

- gym membership discounts for patients
- automatic prescription refills for health care providers
- pay for nonperformance for insurers
- a direct-mail purchase option for pharmacies

Next the team looks back at the results of step 3 and determines which non-negotiable is most important for each stakeholder. In PharmaCo's case it turned out to be:

- at least a minimal health improvement for patients
- running a respected, profitable practice for health care providers
- no net increases in costs for payers
- improved margins for pharmacies

By comparing these two sets of findings, the team can discern where a proposed innovation that pleases one stakeholder might meet with resistance from others. If, for example, PharmaCo introduced gym membership discounts as part of its offering to patients—whose most important non-negotiable was a minimal health improvement—insurers, for whom cost control was a non-negotiable, might resist the addition of that feature to the insurance package.

MAPPING STAKEHOLDER TENSIONS

Begin by identifying the top differentiator you can offer each stakeholder and assess how it might affect all your stakeholders' top non-negotiables. PharmaCo's top differentiator for health care providers improves the non-negotiable status quo for the patient, the provider, and the pharmacy, but potentially worsens it for the payer.

NON-NEGOTIABLES	PROPOSED DIFFERENTIATORS: PATIENT — DISCOUNTED OR FREE GYM MEMBERSHIP	PROVIDER — AUTO REFILL OF PRESCRIPTION	PAYER — PAY FOR NON-PERFORMANCE	PHARMACY — PATIENT OPTION OF DIRECT MAIL
PATIENT AT LEAST A MINIMAL HEALTH IMPROVEMENT	Healthy lifestyle benefits ✓	Fewer worries about refills ✓	More accountability ✓	No trip to the pharmacy ✓
PROVIDER RUN A RESPECTED, PROFITABLE PRACTICE	Healthier patients ✓	Fewer adverse events to treat ✓	More scrutiny ✓	
PAYER NO NET INCREASE IN COSTS	Extra initial cash outflow to gyms ✗	Increase in number of claims ✗	Reduction in costs ✓	
PHARMACY IMPROVE MARGINS		More sales ✓		Reduce pharmacy staff ✓

6 CHOOSE YOUR BEST OPPORTUNITY

Once you have identified tensions, you must determine which can be overcome and how. Stakeholders may be undervaluing factors that would mitigate their concerns. For example, insurers may play down long-term benefits that could arise from short-term cost increases: If gym memberships make patients healthier, they'll need fewer reimbursements in the future. Pointing out such trade-offs might reduce the tension. And companies can take steps to reduce the impact on immediate costs. For example, PharmaCo could negotiate gym discounts for patients taking its drugs.

You are now in a position to identify which of your possible innovations will create the most value in your ecosystem. You have identified the innovative growth opportunities that will have the most impact on your stakeholders' primary needs; you know where your stakeholders' interests clash with respect to the suggested improvements and additions; and you've determined which of those conflicts is most manageable.

PharmaCo's chronic disease team decided to introduce an automatic prescription refill service for patients—the top differentiator for providers—because it actually improved the non-negotiables of three out of four stakeholders: Patients would no longer have to worry about refills; health care providers would have fewer adverse events to treat; and pharmacies would increase sales.

To be sure, the effect on insurers, which might see more claims in the short term, was problematic, but the team developed a communication strategy to secure the support of this crucial constituency. It would demonstrate how the cost of reimbursing more for drugs up front would be substantially offset by a longer-term reduction in far more expensive claims for emergency treatment and treatment of complications that resulted when patients ran out of medication.

OUR METHODOLOGY allowed managers in the PharmaCo chronic disease unit to identify innovation growth opportunities and select insightfully among them, thereby ensuring that the company was responsive not only to the pressing needs of patients but also to the needs and concerns of the other stakeholders in its ecosystem. Although we have described incremental improvements and additions in just a small part of PharmaCo's business, the same technique can be used at the corporate level to consider innovative changes to a company's business model and value proposition. In fact, as industry ecosystems themselves evolve, executives will find it instructive to incorporate the steps in this process during strategy reviews.

HBR Reprint R1702G

MARTIN IHRIG is a clinical professor and associate dean at New York University, an adjunct associate professor at the University of Pennsylvania's Wharton School, and the president of I-Space Institute. **IAN C. MACMILLAN** is the Dhirubhai Ambani Professor of Innovation and Entrepreneurship at the Wharton School.