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Why are business ecosystems suddenly such a hot topic? It's not as though they're a new idea. The term "ecosystem" has been used in business for 20 years. Companies including Volkswagen and Toyota have been orchestrating huge networks of suppliers and distributors for more than 50 years. Lloyd's of London, the insurance marketplace, is a classic ecosystem and was founded in the 17th century.

What's changed is that most of today's fastest-growing companies — from Amazon and Google, to Alibaba and Tencent, to Uber and WeWork — are *explicitly* positioning themselves as ecosystem players, as hubs within networks of customers, suppliers, and producers of complementary services. Industry observers and regulators are looking on with interest and concern. They want to understand if these companies have developed a new way of competing that might challenge the conventional view of how businesses create and capture value.

The truth is, we don't yet know if these so-called ecosystem orchestrators have an enduring advantage. For every Google or Tencent that is hugely profitable, there is a Spotify, a WeWork, or an Uber that continues to lose money. But regardless of how successful they prove to be, it's important to understand that they are playing by a different set of strategy rules than traditional firms. Rather than building moats, they are operating turnstiles.

The Old and New Rules of Competitive Advantage

Warren Buffett is famous for investing in businesses that have what strategists call "deep moats." The moat is what protects the business from competitors. Sometimes it is based on access to a scarce resource or ownership of a patent, sometimes it is based on customer loyalty and a strong brand, and sometimes it is an artifact of government regulation.

How do you build a moat? One approach is to position your business skillfully, by finding an industry with high entry barriers and then differentiating your product to keep customers hooked in. The other approach is to focus on your underlying assets and capabilities, to invest in those assets that are rare, valuable, and hard for competitors to imitate.

These two worldviews — market positioning and the resource-based view — have dominated how we think about competitive advantage for 40 years.

Drucker Forum 2019

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But the rapid growth of business ecosystems in recent years challenges this thinking. Most of these ecosystem orchestrators, like Google, Alibaba, and Uber, don't make the things they sell; they exist to link others together, and this makes the old positioning-based logic less relevant. And, of course, they don't have many assets, either. They create value through relationships and networks, not through physical goods or infrastructure, so arguments built around asset ownership are equally challenging. These firms are also looking to grow the market — by increasing the flow of people and goods — rather than to capture as much of the existing market as possible.

In other words, they don't care much for the moat-based logic of competitive advantage. I think a more apt metaphor for these firms may be the logic of the turnstile: They want to get as many players involved in their ecosystem as possible, and to get them interacting according to rules they have shaped. Of course, there are many ways these companies make money — committees, membership fees, advertising sales, and so on — but the key point with all these business models is that they work better when the ecosystem is larger. That's why the turnstile metaphor is useful.

This shift from moats to turnstiles can be hard to grasp. For most business strategists, it is second nature to protect your existing assets and to keep competition at bay. But a pure-play orchestrator is happy to open up to competition and to share its intellectual property, as long as that keeps the ecosystem growing. Its aim is to maximize the number of people coming through the turnstile, rather than to increase the height of the fence or the width of the moat.

To help strategists understand how to put this turnstile logic into practice, here is some advice for what to focus on:

Keep customers flowing in. Most sectors have competing ecosystems — think Android versus iOS — so you need to give people a reason to participate in yours. Consider WeChat, China's dominant lifestyle and social networking app. For its first few years, WeChat was all about coming up with novel offerings, such as its Moments and Red Packets features, which drew people in. Once it was established, the app could have chosen to monetize its user base through advertising, as Facebook did. But it choose not to: Even today, users see only two ads a day, and WeChat makes its money in other ways, primarily commissions on transactions. WeChat prefers to keep the turnstiles moving by emphasizing the quality of its user experience. And it has continued to grow, with over 1 billion active daily users.

Give people a reason to stick around. A vibrant ecosystem is one where participants gain value in multiple ways. WeWork rents out office space to corporations, startups, and individuals in prime city locations. It could use moat-based thinking to enforce tight contracts that lock its tenants in. But it prefers to create flexible contracts that give people the option to leave, and it provides a raft of ancillary services — networking events, advice for startups, lifestyle services — that make people want to stick around. WeWork has increased its number of locations tenfold over the last five years; its current valuation is around $47 billion.

Don't steal your partners' business. Amazon started as an online retailer, but in 2000 it opened up to selling third-party products through its marketplace. There is a delicate balance here: Amazon would like to prioritize the sales of its own products, but if it pushes those products too hard, it scares away third-party vendors and loses its attractiveness as a one-stop shop. Consider the alternative case of Alibaba, China's answer to Amazon. Unlike Amazon, Alibaba doesn't make its own products, and therefore it doesn't compete with its suppliers. As the company's website says, "We operate an ecosystem where all participants have an opportunity to prosper." Alibaba deliberately passes up some short-term money-making opportunities in pursuit of longer-term growth. As of the beginning of 2018, its third-party e-commerce businesses had grown to more than twice the size of Amazon's — and accomplished that with a staff of just 66,000 people, as compared with 550,000 at Amazon — according to a forthcoming book by Peter Williamson and Arnoud de Meyer.

Keep evolving. One huge benefit of being an ecosystem orchestrator is privileged access to information about the entire ecosystem. You see what's selling well, and you see how the market is evolving before others. While it might be tempting, again, to use this information to make more money in the short term, the smarter approach is to keep things moving — to open up new markets, and to do this quicker than your competitors. Google illustrates this point, with its steady stream of new analytics services, as does Alibaba, with its traffic aggregation platform, Taobao Ke. WeWork isn't standing still either; in recent years it has created WeGrow, WeLive, and WeWork Labs.

The Challenges

This ecosystem-based approach to strategy isn't for everyone. As a way of working, it is inherently more stressful and chaotic than the more traditional moat-based approach. And it attracts a lot of challengers. For example, critics have suggested that WeWork's business model is a house of cards. Amazon has fallen foul of regulators for abusing its dominant position. In China, WeChat's owner, Tencent, has faced government restrictions on its growth.

To further complicate things, the split between the worlds of moats and turnstiles isn't absolute. For example, Amazon isn't just building an ecosystem — it is also operating in the brick-and-mortar world of logistics and retail. Alibaba is explicitly pushing its ecosystem strategy while also building a strong proprietary capability in artificial intelligence. Google has its own smartphone offerings alongside its search and video-sharing businesses.

The rules of competitive strategy are not getting any simpler. But a good first step to navigating them is to understand that the traditional moat-based logic of strategy doesn't work well in a world of platforms and ecosystems. By looking afresh at the way ecosystem orchestrators operate, and in particular at their fixation on increasing the flow of traffic through their turnstiles, strategists in established industries will be better positioned to compete with them.

This article is part of a series connected to the 11th Global Peter Drucker Forum.

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