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Year in Review

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2021 Round-up and 2022 Forecast

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From a strategy vantage point, 2021 saw consumers increasing their shift to digital distribution channels. As habits provoked by COVID crystalized, Big Tech and their ecosystem allies (e.g. Thrasio for Amazon) became ever stronger, with traditional distributors growing weaker. As we all now spend more time and generate more data online, the power of digital real estate (owned by Big Tech) continues rising, to the chagrin of many and the delight of others.

The distinction between **tech-enabled vs old-world companies** has sharpened further, due to both changing **fundamentals**—shifts in customer orientation and firm capability to respond—and changing **capital markets**, which have continued to disproportionately reward tech firms and have been very tolerant of absent cashflow provided some vague promises of network externalities exist on the horizon. Two firms with notable cases of excessive promises made—WeWork’s over-sold ecosystem play, and Softbank’s tech-related bravado —saw their valuations peak in 2021, only to see them both halved by year’s end. This suggests that the irrational exuberance for all things tech/platform/ecosystem may be tempering towards an awareness of nuance. If monetary largesse subsides in 2022, I expect that the correction from the heights of unchecked optimism will become even more of a theme.

Still, investors’ excitement with technology, driven in no small part by the **Fear Of Missing Out**, is shaping current corporate agendas. Established firms are grimly watching their valuations, hampered by the vestigial requirement of quarterly earnings and detailed performance explanations, while their tech peers, untethered to many such demands, defy gravity and attract cash with abandon. Of note: Tesla turned its first true operating profit in 2021; prior-to, it relied on trading carbon emission credits and (rather ironically) investing in heavily-carbon-emitting Bitcoins, suggesting that even if something is clearly overhyped, with enough funding it can create its own momentum and drive a virtuous cycle where **spin begets reality**- and a Trillion Dollar market cap.

Tech success, though, is based on more than hype. It’s the result of accelerating shifts in industry boundaries, brought about by progressive regulation, consumers spoilt for choice and digital technologies enabling the creation of new bundles. This means that in the coming year(s) ahead we’ll see an increasing **shift from products to experiences**. [“Experience” \(or “multi product”\) Ecosystems](#) are the new excitement of many traditional companies angling to reach customers with tech-enabled experiences and selected ecosystem partners. I am working now with Spring Studios and its CEO Giuseppe Stigliano in building the Lavazza Experience Ecosystem, which should provide a great case-study soon. Such **“free form competition”** (separate paper on this on the way--draft available for those interested!) will be a theme for 2022, and one I’m exploring with colleagues at EvolutionLtd. What we find thus far is that Experience Ecosystems have far-reaching implications; firms must not only respond to customer needs, but consider and shape the perception of their brand and the breadth of its offering. A clear illustration of this is how Airbnb not only disrupted the hotel market by offering houses, it expanded its services by offering local ‘experiences’ that emphasize the uniqueness of each place. This has not only shifted the market generally, but specifically it has changed the expectations of guests, making the homogeneity of familiar hotel firms a relic of earlier days. This requires a radical rethink of hoteliers’ gameplan and core value proposition.

2021 also marked a significant change in the rhetoric around **corporate power**. This was the year when pushback against Big Tech gained momentum, when regulators (and politicians, pressed by public opinion) came to appreciate the new [challenges of regulating platforms and](#)

[ecosystems](#). Behind Apple's \$3 Trillion market cap, for instance, lies not only superior product design, branding and a customer experience. Apple has also built a formidable web of relationships and [leverages its power as a bottleneck](#), capturing a disproportionate share of total value add, expanding in profitable segments that cement its power. Regardless, with its massive influence and lobbying power, Big Tech continues to float in the stratosphere above any EU or US wrist-slapping. By contrast, China's power to reign in Big Tech with strict oversight is evident in the market-blowback that accompanied its toughening stance. Whether or not regulation curbs the strength of the Big Tech firms (I am doubtful), it will change the competitive landscape for existing firms. This is why I believe that [regulation may become the new hot thing in strategy](#), so getting [an in-depth understanding of regulation's impact](#) will be important.

For all the flash and digital shebang of tech firms, we should not be quick to write off **established “traditional” firms**. A sober analysis shows they **persist and adapt**: major corporate indexes are more stable than they have been in the last few decades, with existing firms co-opting new technologies and opportunities and expanding their remit. In banking, e.g., JPMC is aggressively leaning on new ledger technologies for its corporate clients and aiming to create wallets for those early Metaverse players (e.g. SecondLife) who want to move in and out of various game-related currencies. Another bank, Sberbank became Sber, by dropping the limitations of a “bank” from its name, and aggressively buying all manner of platform firms to become a multi-product, multi-actor ecosystem orchestrator. Traditional luxury firms like LVMH and popular retailers like Nike have been some of the pioneers in using VR/AR and gamification. A perusal of CBI or Gartner reports shows the rapid increase of deals made by existing corporates who want to move beyond their traditional boundaries. New relationships and ecosystems invigorate existing corporates, giving them a chance to appear (and possibly even be!) fresh offerings in our rapidly evolving digital landscape. This also allows channels of opportunity for smaller ventures that incubate new ideas if they are eyeing collaboration with dominant firms.

This brings us to the existential **challenge** many **broad-scope** firms face in the year ahead. 2021 was the year that iconic, century-plus old firms such as Johnson & Johnson and GE unbundled, as it became clear that common corporate ownership as an accident of history, not a source of added value, cannot persist. At the same time, tech firms with a strong digital backbone from Tencent and Alibaba to Apple and Amazon moved to adjacent sectors. Synergies redefine the appropriate boundaries of today's firms. The new twist for 2022 will be data and privacy regulation. While the growth of anonymization, masking, synthetic data and suchlike are slated to transform concerns around sensitive data, I expect that regulation will determine how firms can manage that data within—and how they can share it beyond—their boundaries.

Counterintuitively, as Philips CSO/CIO Jeroen Tas, Sergio Levi and I [note for healthcare](#), there is a real risk that the obsession with not sharing data and thus establishing open standards may mean that only large, integrated firms may benefit from the data they generate. And so we return to the prognosis that Big Tech is well positioned to continue getting bigger and bigger, while the hope for a more equitable future rests on open data standards and interoperability—itsself requiring international collaboration. **Data regulation**, both for privacy and antitrust, is a thorny issue that will surely demand focus in 2022. There are worrying signs of an uneven future: Apple's iOS 14.5 drastically reduced the ability of app developers to use data produced

by their app within the Apple framework, and Google's vision of a "cookieless future" leaves out advertisers and developers in the name of privacy. While the more decentralised initiatives, under the loose heading 'Web 3.0,' are supposed to offer a new technological basis to buckle that trend, much remains to be defined.

Data usage, personalized offerings and predictive analytics were the focus of another substantive conversation last year. Customer data underpins a current sweet spot of AI: the ability to customize approach and product to the customer. This is exciting for many corporates, and worrisome for many individuals. Whatever you think of it, AI is growing and will continue to provide insight into the world around us—the extent to which it does this will be an important conversation for regulators. But, for all the times we've heard it used, what does AI actually come down to? BCG's [Francois Candelon](#), Stefano Brusoni and I explain in a [paper for Strategy Science](#), beyond understanding what AI does, we need to understand how different firms are engaged in it, and how they can best position by building strengths in three very distinct, if related segments: AI Enablement, AI Production, and AI Consumption. The way these are organized differ between Europe, the US and China, as we argued in [Fortune](#). I expect that sophistication around AI will grow, drawing not only on successes but also on misplaced bets and misaligned AI strategies.

The unbridled excitement around technology is fueling the rise of **cryptocurrencies and Distributed Ledger Technology (DLT)**. The PCB has created a digital Yuan, presumably to control the cryptocurrency market in China and provide an alternate safety net as it currently relies on its tech giants, Tencent & AntGroup, for financial intermediation. The ECB has followed suit and formally launched a digital Euro project even though its application and use cases remain unclear. In the new and radical non-fungible world, **NFTs** have risen to a collective value of £40B, rivaling the established (and fungible) contemporary art market. NFTs are riddled with issues of commercial cunning—players are known to prop up value by being on both sides of a trade, in ways that would make Damien Hirst weep. NFTs take Veblen's "conspicuous consumption" to a new level; if their acceptance grows they may create a significant dent in luxury consumer good spending. For all manner of DLT, taxation and money laundering concerns, which bog down other sectors, currently loom large.

Metaverse was an impressive 2021 firework. Facebook took the excitement of a yet-undefined space, "the metaverse," and pulled a PR stunt to rebrand itself with the same name. Clearly Zuckerberg et al. believe this is a promising new area for competition and want to dominate from the start. The shape of this space, however, is anyone's guess, as it will depend on how (and if) consumers embrace it. What value will they find in this virtual parallel universe? As we cannot yet see how consumers will interact and find value, we cannot yet see how it will affect firms. Some possibilities bubble up as questions: will it be the new form of social media, a blend of reality and SecondLife with consumers buying virtual products for their virtual lives? Nike is betting on this, as it has bought a virtual shoe company (the mind spins) making NFTs of shoes. Will the metaverse consist of AR/VR interfaces with platforms set up by retailers, to enhance their physical presence? Will it help broaden the gamification market? 70 million registered users of SecondLife and its self-reported GDP of \$500M seem to indicate this as a strong possibility, but could this really expand to the nearly universal pool of 5 billion smartphone users or will such "metaverse" remain a quirky niche? However big that market, will new platforms emerge or will the existing ones dominate? How will firms be able to take their customer relationships and use and amplify them in the metaverse? So many questions to

answer here. I don't have answers, but I am intrigued to watch from a cautious, physical distance.

Turning to geopolitics, the rift between China and the US deepened in 2021 (with the EU siding uncomfortably with the US), and supply chains became increasingly localized. This has exposed another uncomfortable truth: while a few sectors are truly global (and some will now have to be regional), most sectors, from telcos to FMCGs are national or even **multi-local**, despite their pretense of being global. Finding ways to navigate the local/global tension will be a key ingredient for success. Local partners joined in multi-actor ecosystems, e.g., may be the way forward for firms looking for growth in increasingly fragmented markets.

Finally, 2021 has given us a bitter reckoning of the world challenged by **climate crisis**. Devastating wildfires (I feel compelled to highlight those in my native Greece although they were sadly not unique), floods, droughts and other extreme climate events are confirming what scientists have been warning for decades. Alas, people are slow to change when it is a voluntary choice to dial back what have become expected creature comforts without any clear personal reward. Still, this year provided undeniable evidence for the need to act out of self-preservation, even if in some countries (sadly, especially the US) this seems to be needlessly politicized. Be that as it may, as the climate crisis becomes more immediate, there will be a new agenda not only for firm conduct (e.g. for decarbonization and reforestation, see the game AntForest for an illustration of possibility) but also for ways of linking the private and the public sector to build ecosystems imbued with social purpose. For our collective sake, that of the environment and that of our children, let us hope we take this seriously in 2022.

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