RICH CUSTOMER, RICH COMPANY

In the digital business landscape, tech CEOs should consider the ecosystem

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TRADITIONALLY, COMPANIES GET worried when a supplier, an employee, or even a customer starts doing too well. It means there's some value that hasn't been extracted. It means some money has been left on the table.

Of course, in the traditional business world, the smart CEO considers the "ecosystem" within which his or her company operates, which is only an ecosystem if everyone is thriving. Squeeze your supplier or your employee too much, or drive your competitors on Main Street out of business, and the community you serve is a poorer one—unable to buy your products and educate your future workers. Rule of thumb: Don't destroy the very marketplace on which your company depends.

In many areas of the digital business world, however, the "extraction ethos" goes unchecked. This has happened, in part, because users are on the other side of the screen, making it more difficult for firms to consider the ecosystem. But the bigger reason is that many of these digital businesses don't really care about the markets in which they operate, because they just want to get to IPO or acquisition.

What these sorts of startups fail to grasp is that there's more to be gained by creating sustainable models that distribute value throughout a network. This means making your users wealthy, so they have more to spend with you.

The first and clearest example of a digital business that got this right is eBay, founded in Pierre Omidyar's living room way back in 1995. He and his partners understood that what made the Internet unique was its ability to connect peers. So why not create a business that thrived by giving others the ability to buy and sell from one another? Compare that with any of the online retailers, whose profits depend on maintaining margins while undercutting competitors. They're in a race to the bottom!

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Unlike other video hosts, Google's YouTube gives users a portion of the ad revenue their videos earn. Yes, they could keep it all, but by letting its users earn a living off their work, Google creates users who can create more videos of higher quality.

Juno, a new ridesharing company in New York, is distinguishing itself by paying its drivers much higher wages than its competitors, and it claims on its website that "50 percent of our founding shares are reserved for our drivers." It's even allowing drivers to become employees and earn benefits. On the surface, it's an absolutely unnecessary level of generosity. But rather than look at its competition to determine how low it can go, the company is looking at how to create a viable marketplace. In the words of Juno founder Talmon Marco, "At the end of the day, people want to ride with a happy driver—and Juno drivers are happier."

Of course, such an approach only works if you are happy for your business to live off its own revenue. As far as shareholders or acquirers are concerned, your margins will be too low to justify outrageous venture capital infusions. But if flipping your business is the end goal, you are forced to look at your market as an enemy. In turn, your market will see you as an enemy and will work against you. By optimizing your company for the wealth of everybody in your value chain—including your customers—you guarantee that everyone will be working hard to keep your business alive and profitable for years to come. After all, you're the one making them rich.

ILLUSTRATION: JOE MCKENDRICK