2013 ALLIANCE BEST PRACTICES RESEARCH

Revealing the Leading Practices of High-Performing, Go-to-Market, Technology Alliances

Phoenix Consulting Group
PARTNER DEVELOPMENT

INTRODUCTION

"Businesses once grew by one of two ways; grass roots up, or by acquisition... Today they grow through alliances - all kinds of dangerous alliances. Joint ventures and customer partnerings which, by the way, very few people understand."
Peter F. Drucker

What Were We Seeking to Learn?

The ability to collaborate inside and outside of the corporate walls has been cited as a crucial skill by many CEOs. Furthermore CEOs are seeking to collaborate more with partners. Notably the high performers, those that surpassed their peers in revenue growth and profitability, partner extensively to drive innovation and grow the business.

As a company solely focused on collaborative business relationships, Phoenix Consulting Group was seeking to learn what distinguishes high performing alliances from their peers. What do high performers do that we can apply to our business collaborations and attain the success of the high performers who drive innovation and growth through effective partnering?

Among the many concerns we hear from alliance executives is that senior managers often do not understand the full value that alliances create for the company or they don't understand the practices, process, or commitments it takes to achieve results. These were examined in the survey through the lens of the highest performing alliances. One of the key insights we learned is that there is not a single silver bullet that sets the high performer apart from the rest. High performers tend to manage their collaborations more rigorously and expertly in a number of important ways.

We hope that the results we present in this study will enable alliance executives to focus on what matters most and help them to gain recognition and support in contributing to their companies' success.

Norma Watenpaugh

Principal and Founder

Phoenix Consulting Group, LLC

ACKNOWLEDGEMENTS

Steering Group of Industry Leaders

Provided insight and guidance

We reached out to five executive leaders in the alliance profession in the technology sector. The group provided insight and guidance into the areas of discovery, the survey structure and deployment to achieve optimal results. Special acknowledgement goes to Nimma Bakshi and Jay Chitnis who also participated as panelists at the Association of Strategic Alliance Professionals 2013 Global Alliance Summit to provide color commentary and practical advice to the alliance community regarding how the study findings could be put into practice to enhance alliance performance.

Phoenix Consulting Group, would also like to thank the 186 alliance professionals who responded to the 2013 Best Practices in Go-to-Market Technology Alliances Survey. We would also like to acknowledge the support of the Association of Strategic Alliance Professionals in extending to us the privilege of including their membership in this survey.

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SURVEY OVERVIEW

186 alliance managers responded representing 95 companies in 23 countries.

Areas of Discovery

Go-to-Market Technology Alliances

Alliance managers were asked to respond to the questions in the survey in terms of a specific go-to-market alliance or partner relationship that they manage, i.e. a relationship where the partner(s) work in some manner to market and sell solutions to end-user customers in a sell-to, sell-through, or sell-with fashion. We had 186 alliance managers respond from 95 companies in 23 countries.

Performance

We asked alliance managers how well their alliances performed. Over-performers constituted approximately 20% of the respondents. Over-performing alliances were those that exceeded performance expectations by 110% to 130%. Under performing alliances were those that fell short of expectations attaining 90% or less of their objectives. Under performers represented approximately 45% of the responses. Using this segmentation, we were able to distinguish the differences between not only the over-performers' practices but also the short comings of the under-performers.

Corporate Value

One of the key areas of discovery was how alliances contributed to corporate value. We queried the alliance managers regarding how their alliance created value in the dimensions of Market Impact, Innovative Capacity, Organizational Effectiveness, Competitive Advantage and Financial.

Measuring Success

We also asked what aspects of value they measured, on the premise that what they measured was a more accurate predictor of what they *valued* as well as what they could tangibly demonstrate in terms of corporate contribution. Not surprisingly, not all dimensions of value creation were subjected to measurement. Metrics related to revenue were nearly universal; 93% measured incremental revenue and 87% measured new customer wins.

Business Alignment

We know from personal and informal feedback that alliance managers spend a great deal of time in achieving and maintaining business alignment. We looked at this in dimensions of strategic alignment of alliance objectives with company/partner strategic objectives and in operational alignment.

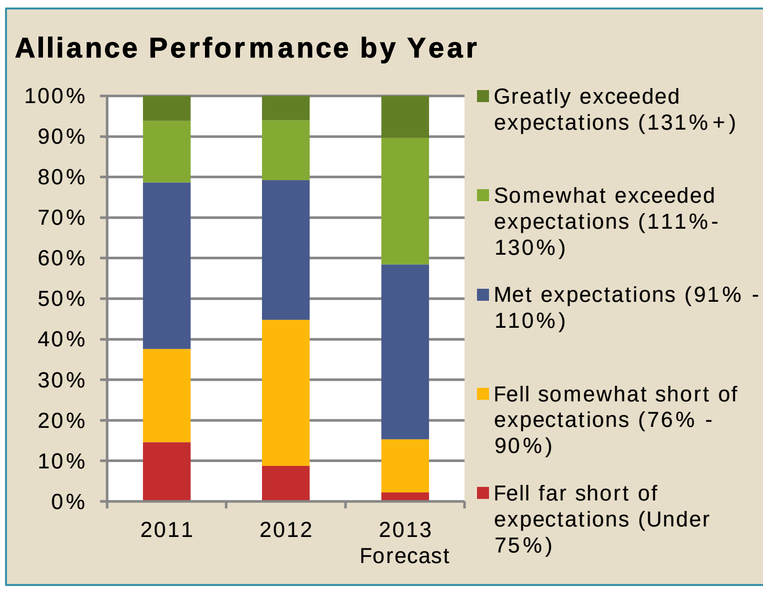
ALLIANCE PERFORMANCE

The Top 20 Percent

Over-Performing Alliances

Alliance managers indicated how their alliance performed in terms of meeting expectations and forecasted their expectations for 2013. Roughly 20% in 2011 and 2012 exceeded or greatly exceeded expectations in meeting their objectives. These over-performers were used as a lens to understand how their practices contributed to their success.

"Understanding the persona of the Over-Performer and what they do differently gives me the insight to retool our alliances to better achieve our objectives.
Jay Chitnis, CA-AM Global Alliance Director, Isilon EMC



CREATING CORPORATE VALUE

Strategic Value is the capability to grow future business.

The Strategies of Alliances

Looking Beyond Financial Outcomes

Alliances in the technology sector are overwhelmingly evaluated based on revenue. However, revenue is a lagging indicator and does not provide insight into whether the alliance is achieving the strategic objectives for which it was formed. Revenue at the end of the day is an outcome and measures the impact of decisions made in the past.

One of the purposes of this study was to go beyond that 'top line' assessment to understand how alliances are creating strategic value for their organizations – the capability to grow the business. We asked each respondent how their alliance created corporate value in the following dimensions:

- Market Impact
- Innovative Capacity
- Competitive Advantage
- Operational Effectiveness

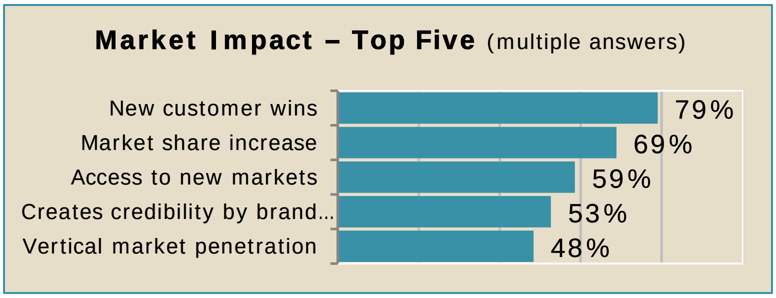
In the following discussions, we summarize the top five strategies in each dimension that were selected from a larger field of choices.

Market Impact

Growing the Business

Market Impact embraces those strategies that are aimed at growing the businesses of the allied partners. It includes strategies such as entering new markets, gaining a market share position, and generally expanding the capability to gain new customers. The top five selections of the survey respondents in this category are depicted in the chart below:

Market Impact embraces those strategies aimed at growing the business.



New Customer Wins tops the list for creating market impact. This of course is tightly coupled to generating incremental revenue; new revenue that would otherwise not be easily accessible without the collaboration of the partner. Incremental revenue is often the result of marketing to your partner's customer base with the endorsement of your partner, leveraging the credibility of their brand, their existing customer relationships and the value of a joint solution.

Market Share Increase is perhaps a better measure of growth than new customer wins though it was selected by a lesser number of respondents. In fast growing markets, such as those occurring during a time of technology disruption, new customer acquisition rate can be misleading in terms of real market impact. If you are not growing the customer base faster than your competitors, then you are falling behind.

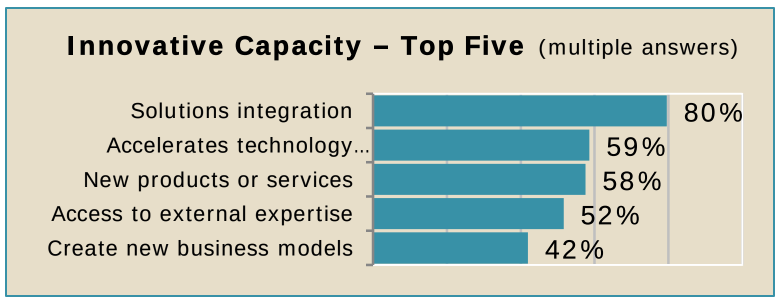
Access to New Markets is a strategy where alliance managers can most clearly demonstrate the value of their partnership. If you are entering a new market, then the starting point or baseline is often near zero. All new customers and new revenue can be attributed to the alliance. This is one of the conundrums of go-to-market alliances when they are directed toward established markets. They may be generating new business but it is often difficult to unwind their impact from that of business as usual.

Innovative Capacity

Creating revenue streams

Innovative Capacity is an indicator of the ability of an alliance to create value for customers and new revenue for the partners.

The definition for an alliance is when two organizations combine their resources to create new value that could not be (easily) achieved by either party alone. Innovation is often described as the process of combining disparate ideas to create something new and in today's business climate often requires a collaborative approach. It is easy to see why alliances are incubators of innovation. Innovative capacity is an indicator of the ability of an alliance to create value for customers and new revenue streams for the partners.



Solutions Integration is clearly the predominant source of innovation in the technology sector at 80%. Customers of technology tend to buy services, hardware, software , etc. from multiple vendors and expect that they will interoperate. To the extent that technology vendors cooperate in ensuring their products and services work together, they reduce risk and cost to the customer and increase their attractiveness.

Accelerating Technology Adoption is an important aim for new emerging technologies. New technologies often get stuck in 'chasm' and having the right partner ecosystem promoting a new technology can support the crossing by providing services and additional value that mainstream buyers demand.

Creating New Products and Services was a source of innovative capacity for well over half of the respondents and often requires **Access to External Expertise** to execute, providing fertile ground for innovation.

New Business Models are a disruptive force in the technology sector as traditional vendors and their resellers are adapting to the convergence of Social, Mobile, Analytics, and Cloud (SMAC) technologies. In particular the migration from capital purchases to the services model of the cloud is creating new alignments in the partner ecosystem and new go-to-market models.

CASE EXAMPLE

"Ultimately we wanted to create greater value and 'stickiness' for our customers."
Ted Streete, Office of the CTO

Innovation as a Business Model

Creating opportunities for partners

Joint ventures are not new, but the venture established by VMware, Cisco and EMC to create VCE has made news and has had ripple effects throughout the industry. The intent of this JV was to create a completely integrated platform for cloud computing built from the products of these three category leaders: virtualization from VMware, servers and networking from Cisco and storage from EMC. Testament to the success of this alliance, now at a $1B run rate, competitors are going to market with their own converged infrastructure solutions.

The VCE product, called Vblock, reduces the risk and ultimate cost to the customer that is normally incurred when the individual system components require onsite integration either by the customer or by a services partner such as a systems integrator or VAR. This pre-integration and packaging was a significant revenue stream for these services partners who must now seek different profit models around the Vblock converged infrastructure.

Appreciating the value of a healthy partner ecosystem to drive technology adoption of Vblock, VCE provided the means for their partners to be successful by launching a platform for innovation to help address another customer need – a converged operations environment, called Vision to manage the Vblock system. Vision provides an integration layer so that partners or intrepid customers can develop connectors to their current operations management systems or develop new tools and services to better manage the cloud computing environment.

Along with Vision, VCE launched a developer portal to support and encourage their partners and early adopter customers to innovate. Creating the innovation platform enables partners to differentiate themselves and to improve their profitability as they monetize those innovations. It also provides the means to create greater value and 'stickiness' for VCE customers around Vblock.

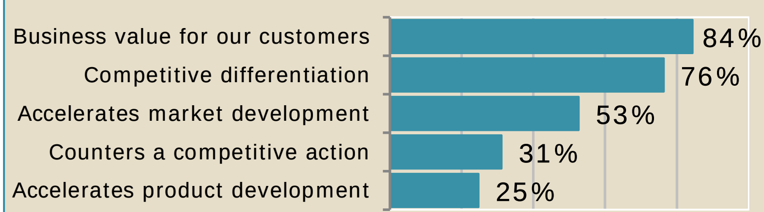
Competitive Advantage

Creating Customer Value

Creating a competitive edge is crucial for all businesses and can be achieved through alliances. Alliances can also be a defensive measure in countering a competitive shortfall such as a gap in a company's product line.

Competitive Advantage can be gained through creating unique business value for customers.

Competitive Advantage – Top Five (multiple answers)



Creating Business Value for Customers is the leading strategic objective among all the options in creating corporate value; 84% of survey respondents selected this. This is consistent with other research we have conducted in creating alliance value propositions. Successful alliances are designed around the customer; it is the raison d'etre. Without compelling customer value, there is no purpose to the collaboration.

Competitive Differentiation follows at 76% and is not unrelated to creating business value that delivers a unique advantage in attracting new customers. Achieving competitive differentiation is also a driver behind alliance innovation strategies.

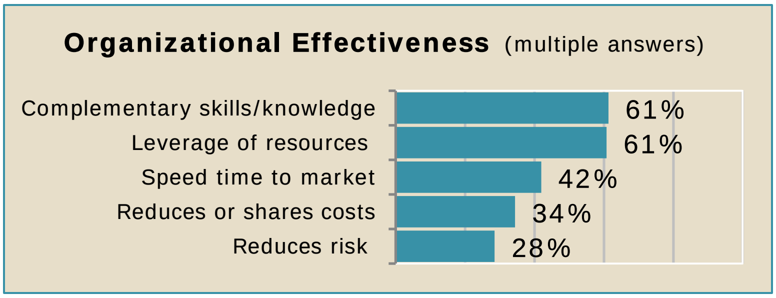
Accelerating Market Development relates to gaining new customers and market share at a rate faster than would be achievable alone. Partnering with a organization that already has a foothold in a market or one that brings crucial services to drive adoption are two ways to accelerate market development.

Organizational Effectiveness is gained through sharing knowledge, resources, costs, and risks with a partner.

Organizational Effectiveness

Leveraging Partner ROI

Partnering Return on Investment is often quite attractive since the investment in a partnered initiative is shared. In other words half of the resources or costs are on your partner's balance sheet. There are other organizational advantages as well which become apparent when a build/buy/partner analysis is conducted. These advantages are often related to external expertise that would require time and expense and sometimes at great risk to acquire organically.



Access to complementary skills and knowledge ranked equal to **Leverage of external resources** having been selected by 61% of the alliances. Going back to the definition of alliances, this is how value is created more efficiently than going solo.

Speed time to market is a key value as well which can be gained when a partner has the skills and resources that can be leveraged instead of needing to build from the ground up. Partners can provide proven capability. This can extend to innovation efforts where a partner may already have a technology or IP . You are spared the risks, costs, and time for development. It can apply to access to markets where you do not have to build a reputation or distribution network.

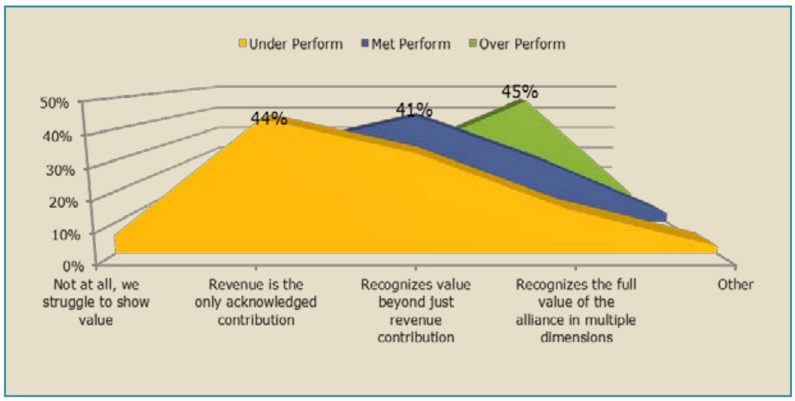
Recognizing Full Value

Signature of the High-Performing Alliance

Over-performers are more likely to be recognized for the full value they create. They are also more rigorous in measuring value and are therefore more able to tangibly demonstrate their contribution.

The performance segmentation related to the recognition of value contribution is quite striking. Alliance managers were asked "Which of the following statements best reflects how your company acknowledges the contribution of the alliance.?" The results were segmented according to whether the alliance had indicated they met, exceeded, or fell short of performance objectives. See Page 4.

Under-performers were more likely (44%) to indicate that **revenue was the only acknowledged contribution** to corporate value. Over-performers were more likely (45%) to indicate that the **full value of the alliance was recognized in multiple dimensions.**



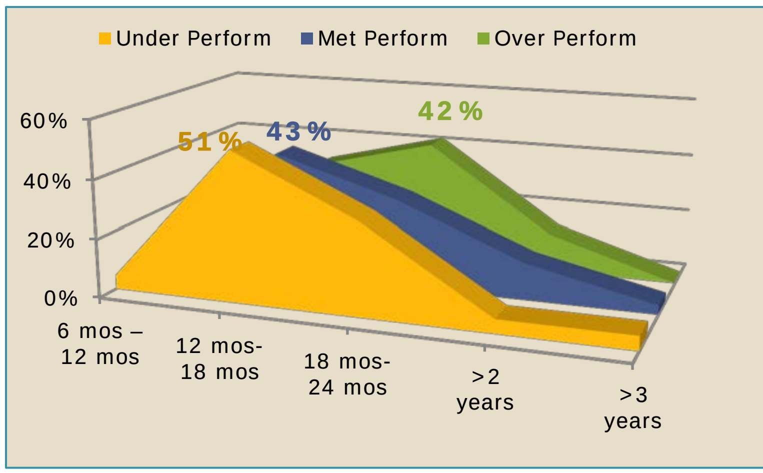
As we queried how alliances were creating value, we also queried what they were measuring. When we compared how alliances were creating value to what they were actually measuring, we found that there was a mismatch. Alliance managers were claiming to create value in various ways but were not as diligent in measuring the value. The only area where alliances were consistent in measurement was in new customer acquisition and revenue. Over-performers, however were more rigorous than their peers in measuring over a wider spectrum of dimensions. This may well be why they are recognized for value beyond revenue. They have invested the effort to tangibly demonstrate the contribution they make.

Time to Value

Over-Performers Manage to a Longer ROI Horizon

"The results affirm that innovation is valued at the executive level, and reveals that many companies are taking a longer-term approach to alliances in combination with a revenue orientation. This furthers the assertion that a predominant dollar-tomorrow approach isn't an alliance best practice."
Nimma Bakshi President, ASAP Silicon Valley Chapter

"What is the management expectation for ROI for new alliance solutions and initiatives?" Over-performers where given six months more than their peers to demonstrate ROI on their alliances initiatives. 42 percent of the over-performers indicated a performance horizon of 18-24 months.



A longer ROI horizon indicates that alliances are perceived as strategic rather than short term revenue initiatives that must be justified within a single fiscal year. This 'patience' must be supported by a well designed metrics model that tracks leading indicators of performance to provide alliance managers the insight to manage outcomes and to demonstrate to management that the alliance is on course to produce results. Indeed despite the fact that over-performers had six months more to demonstrate an ROI; they were 54% more likely to measure speed to market.

MEASURING WHAT MATTERS

The top ten metrics of over-performers was similar to the overall populations; however, the over-performers were more rigorous in measuring indicators of strategic impact.

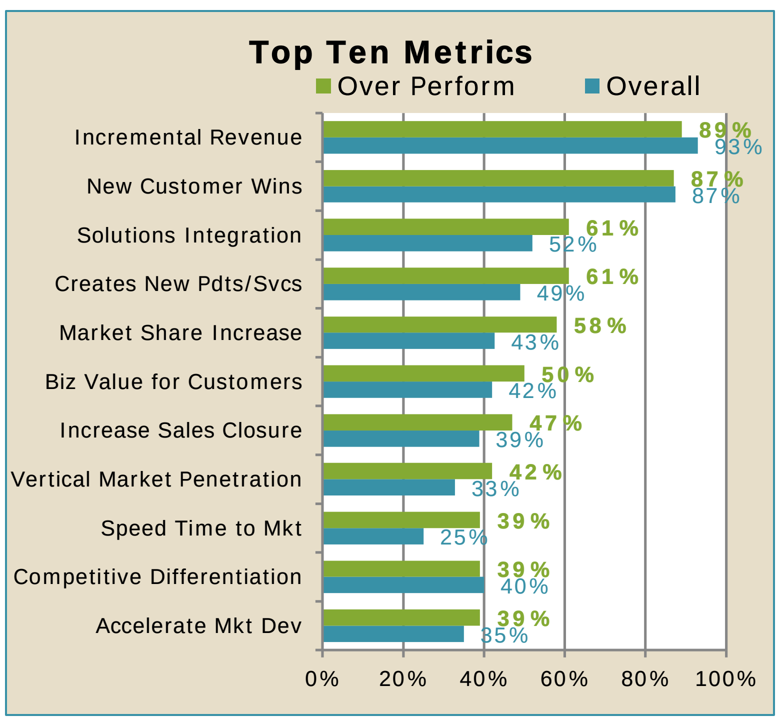
Measuring Value Creation

Over-performers are more Rigorous

The chart below indicates the top ten metrics measured by the overall population as compared to the over-performers. Creating market impact through **new customer wins** and measuring that impact through **incremental revenue** were the most universal measures; and there was no significant difference in how frequently over-performers measured these dimensions versus the overall population.

Over-performers were in general more rigorous in their use of metrics. Over-performers measured more metrics over all areas of value creation, an average of 14 metrics versus 12 for the overall community.

Over-performers measured **solutions integration** and **new products and services** which would result in **market share increase** by **creating business value customers.**



> *"Partnered innovation can take the form of new solutions and applications, new delivery and consumption models and even whole new solution categories and market ecosystems – perhaps transforming entire markets."*
> **Tom Halle, CSAP**
> **Sr. Director Global Alliances, Savvis**

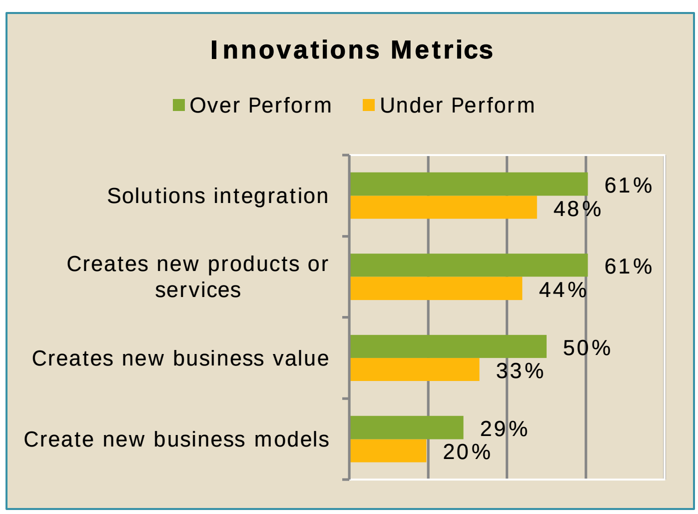
Fueling Future Growth

Over-Performers Focus on Innovation

Creating new markets requires a more strategic approach than managing the revenue pipeline, which was where the low performers focused. It makes sense in any business that if you are not fueling an innovation pipeline, eventually your revenue pipeline runs out of gas.

High-performing alliances more frequently identified innovation as one of the corporate values created by their alliance. In fact, they measured corporate value more rigorously than the rest, but especially in the area of innovation capacity. They measured 30 percent more metrics in this area.

When we looked back to the alliance best practices benchmark survey conducted in 2010, we found a similar response. The top performers of that time embraced innovation as a business strategy to weather the economic downturn of 2008–9, and 70 percent of the top performers were investing in new solutions to create new opportunities. Alliance executives were looking to place a few big bets with a conviction that the time was ripe during economic disruption for technology disruption. Indeed we have seen that very effect over the past few years with the emergence and convergence of Social, Mobile, Analytics, and Cloud (SMAC) computing. This has created a disruption in the alliance landscape as technology companies realign their solution stacks to encompass these technologies. One alliance manager we talked to even referred to the traditional solution stack as the "innovation stack."



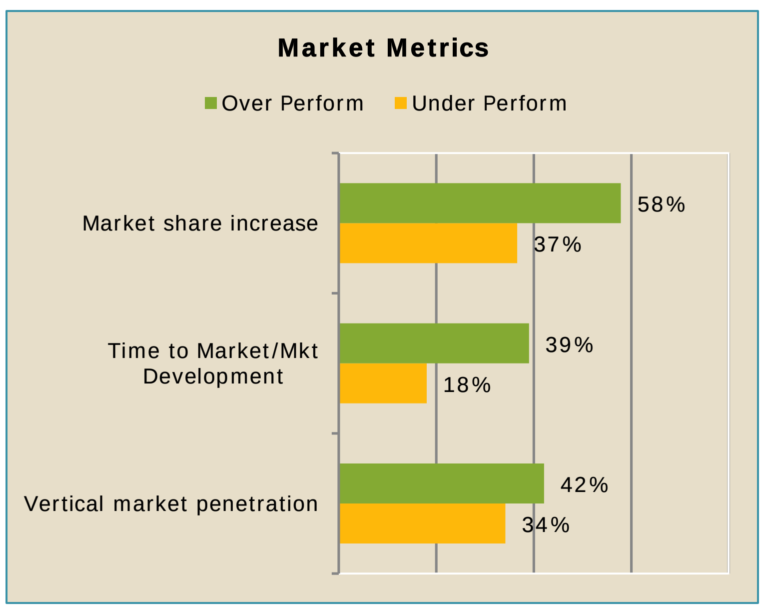
The Need for Speed

Moving Faster than the Market

The 2013 over-performers' responses also incorporated a sense of urgency in keeping pace with disruptive trends. They measured speed-to-market of new products and services and accelerating market development, or the rate of growth of new markets. Speed is critical in fast-evolving markets where measuring revenue *alone* becomes a trap. You can be generating significant revenue, but if you are not capturing revenue at a rate faster than market growth, then you are losing ground to your competitors.

But make no mistake: managing the revenue pipeline is still important. Nearly all alliances in the study (over 90 percent) cited the ability to create incremental revenue and to acquire new customers as a core value creation activity. But high performers were recognized for the full value they create beyond just revenue and put a high priority on creating new products, services, and solutions to solve business challenges for their customers.

"We are moving to a state where we now ask what are our partners delivering and how can we bring new value to customers versus reacting to RFP's. This gets us in first ahead of competitors – understanding what business disruptions customers are facing and what ecosystems partners we need to bring in to deliver."
Ron Long, Global Alliance Manager at NetApp



MANAGING ALIGNMENT

> *"I am considered an advisor to the Corporate Strategy and Innovation group at Schneider, participating in the build, buy, and partner decisions; coaching business units on the best practices in partner selection and nurturing a collaborative culture."*
> **Alistair Pim, Vice President of Global Strategic Alliances at Schneider Electric.**

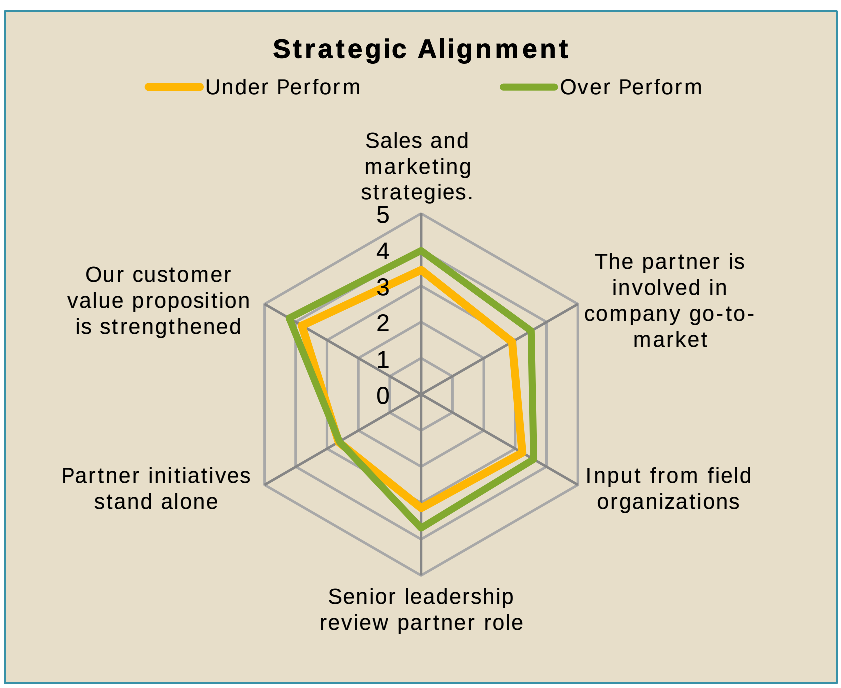
Aligning the Organization is a Key Role of Alliance Managers

Over-performers are More Aligned to Corporate Strategy

Collaboration and in particular collaborative innovation has been widely recognized as a critical corporate competency in the current business conversation. Over-performing alliances were more consistently aligned to corporate strategy and more collaborative in involving senior leadership, stakeholders, and partners in designing the strategic intent of the partnership. In some cases, the alignment is subtle, but it is unwaveringly consistent; on average over-performers are 8% more aligned.

In informal surveys in our Alliance Skills Mastery workshops, alliance managers tell us they spend up to 70% of their time managing internal alignment, indicating how important this role is for successful alliances.

Yet few alliance executives take a major role in the company strategy conversation where alliance experience can be invaluable in the build, buy or partner decision.



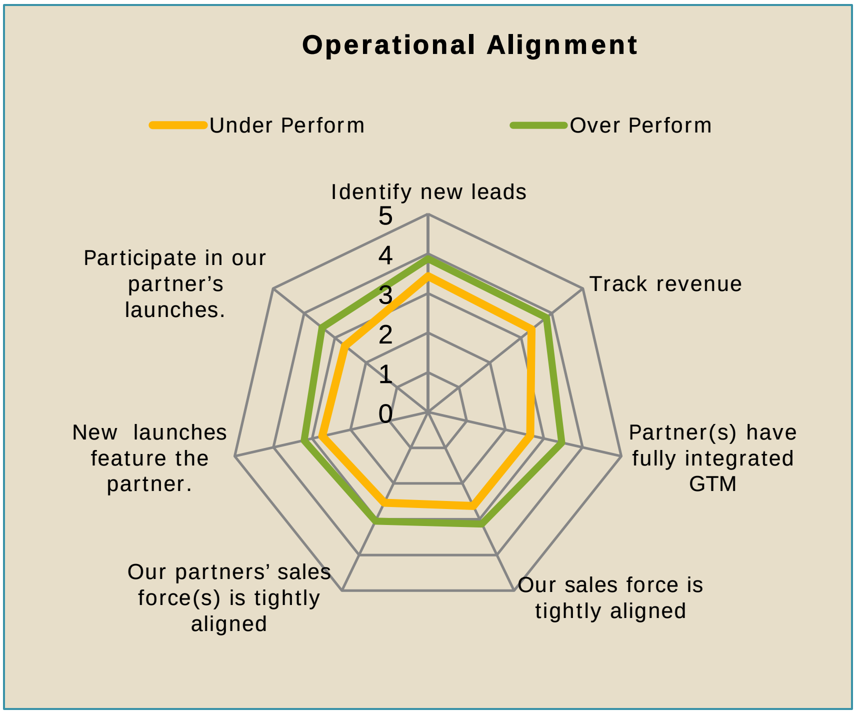
Operational Alignment is Key to Execution and Results

Over-Performers more Aligned Operationally

Operational alignment drives demand generation and revenue capture.

Operational alignment is crucial to execution and crucial for alliances that are formed ultimately to add to the growth of the business. Operational alignment looks at how well integrated partners are at the functional and process level.

Despite indications that the under-performers were more focused on revenue, they were not more operationally focused on the processes that drive revenue. Over-performing alliances are an average of 14% more aligned in the joint operations related to generating revenue than the overall population. Although with an average of 3.4 on a scale of 5, there is still room for improvement even for the over-performers.



TAKING MORE ROUTES TO MARKET

Less than half of the alliances surveyed were utilizing the direct sales organization; down from 65% in the 2010 Go-to-Market Survey.

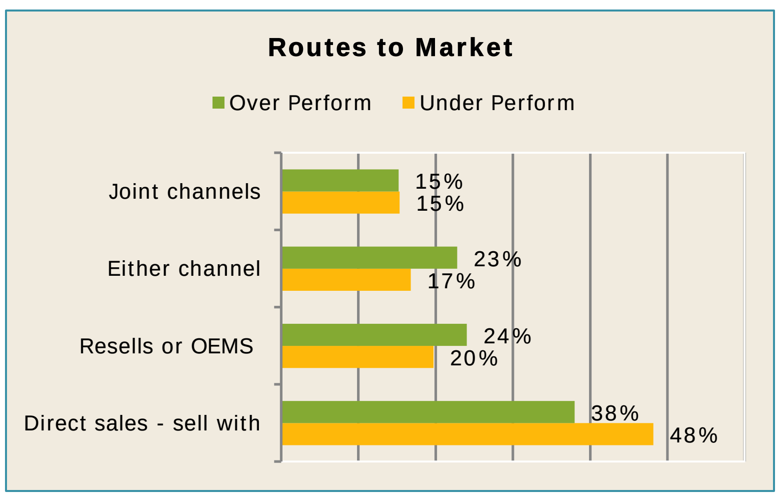
Alliances are Meeting in the Channel

Direct Sales is Trending Downward

Alliances are utilizing multiple routes to market incorporating a channel strategy as well as the traditional direct, co-sell model. However, over-performers are considerably less dependent upon direct sales.

Meeting in the channel has been a growing trend with alliances. In our 2010 survey, the direct sales model was the much more favored route to market representing 65% of the responses. Managing a channel model adds another level of complexity in the go-to-market and requires that alliance managers have not only a good understanding of sales enablement but also of the channel economics.

Alliance managers are often tasked with managing channel conflict and escalating issues between alliance partners and channel partners that may affect rules of engagement, coverage models and even compensation.



THE PERSONA OF THE HIGH PERFORMER

Success is not an Accident

The over-performer is characterized by more than by what they measure. However, what they measure implies that they view alliances through a different lens than the population that merely met expectations, and especially those that were under-performers. Under- performers were by most counts more focused on revenue, and less so on innovation and strategic measures, i.e., the capacity to create future revenue. When alliances take this focus, they begin to falter because managing the innovation pipeline is ultimately what keeps the revenue pipeline healthy.

1. Over-performers represent the top 20% of GTM technology alliances that exceeded performance expectations by 110% to over 130% in 2012.
2. Their companies acknowledge the full value of the alliance in multiple dimensions – not just revenue. What they measure differentiates them.
3. They measure market impact through new customer wins to the same degree as everyone else (approximately 87%) and incremental revenue (89%), but they also tended to measure and therefore manage:
   - Market share increase
   - Increased sales closure
   - Vertical market penetration
4. They focus on innovative capacity across the board, but in particular:
   - Solution Integration
   - Creation of new products and services
   - Creating new business value for customers
   - Creation of new business models
5. They also focus on accelerating value creation:
   - Speed/time to market
   - Accelerate market development
6. Over-Performers work to a longer ROI horizon (18-24 months vs. 12-18 months) for alliances overall.
7. Over-performing alliance managers are compensated on non-revenue performance, as well as revenue metrics more frequently than non-performers.
8. The largest portion of Over-Performers (40%) is managed in sales organizations, comparable to the Overall population, but Over-Performers are 3X more prevalent in Market Development and Industry Solutions Organizations.
9. Over -Performers leverage multiple channels in their routes to market, including Direct Sales, OEM, and Channels.
10. OverPerformers are more aligned to corporate strategy than underperformers and more operationally aligned.

THE ROLE OF MARKET MAKER

Earning a Seat at the Strategy Table

> *"The top alliances are demonstrating that they have a strategic impact on their companies and are earning their place in the strategy conversation as "market makers".*
> **Norma Watenpaugh, Principal, Phoenix *Consulting Group***

These trends put the alliance manager in the role of market maker, which requires him/her to draw upon a different toolset from that of operational management. I've heard alliance managers referred to as "those guys who set up governance meetings and track metrics." But alliance managers in the role of market maker need to see beyond the day-to-day operations of the alliance and keep an eye on trends in the technology, challenges their customers are facing, and consequently on new opportunities for value creation and new business models to exploit. They need to tap new skills and competencies and:

- Think strategically to spot opportunities for collaborative innovation and business model disruption
- Holistically assemble ecosystems around solving customer problems
- Sell their ideas and work with senior management in achieving alignment of alliance ecosystems to the strategic imperatives of their company
- Determine the best routes to market of their solution, whether through a collaborative selling model with direct sales, channels, or OEM
- Manage to ROI expectations with an objective of creating defensible market share positions.

Path to the Exceptional Alliance

Focus on What Matters Most

Over-Performers were in general more rigorous in managing the alliance. In particular they focused on health of the innovation pipeline to drive growth.

Focus on Innovation. Managing the Sales Pipeline is important, but managing the Innovation Pipeline is what distinguishes the Over-performer. Alliances need to tightly integrate with line-of-business leaders and product development teams to harness partnered innovation to deliver increased business value for customers and drive future company growth.

Focus on Speed of Market Impact. Over-performers also focus on Market Impact, and most importantly the speed of that impact – which requires looking at the speed of delivery of innovation (time to market) and accelerating market adoption. Revenue impact alone is an incomplete measure – the rate of growth (of revenue, market share, vertical market penetration, etc.) is also critically important. You can be generating revenue, but if you are not growing that revenue or creating new customers faster than your market is growing and faster than your competitions, then you are losing ground.

Focus on Showing Full Value of the Alliance. Over-performers measure a broader spectrum of metrics - market share, innovation, and competitiveness - and are more rigorous in measuring them. Having the numbers tangibly documents the full value alliances bring to the company – these metrics give business leaders the levers of control they need to optimize innovation potential and market shaping capacity of their partnerships. Alliances are not merely revenue engines – more importantly they are strategic avenues to whole new markets of opportunity.

Focus on Alignment. With good reason, alliance managers spend most of their time in managing alignment. Alignment to the company's strategic goal ensures that your contribution is valued. Alignment to operational processes ensures you can execute on delivering innovation, new markets and new streams of revenue. ⌘

CALL TO ACTION

Learn more about how over-performers manage for results.

Please contact us and we will be happy to conduct a complementary one-hour strategy session with your team to discover how you can apply the lessons of the over-performers to your alliances.

About Phoenix Consulting Group

Phoenix Consulting Group partners with our clients to optimize collaborative business relationships. We help companies accelerate revenue, tap new sources of innovation and open new markets through effective alliances and partner ecosystems.

PhoenixCG stays on the forefront of collaborative best practices through active leadership in advancing standards in collaborative business practices and professional certification. Our consultants combine strategic perspective with practical professional experience ensuring we deliver actionable recommendations that have real world relevance.

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