

PARTNERS IN BEST PRACTICE



BUILDING AN ENTERPRISE ECOSYSTEM

Partnerships for Innovation and Growth

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BUILDING AN ENTERPRISE ECOSYSTEM

In today's hypercompetitive environment, organizations are becoming increasingly dependent on business collaboration to compete successfully - creating new value networks, tapping into new sources of innovation, and driving growth through strategic partnerships. Organizations need to ensure they can deliver on their strategic objectives by leveraging high performing collaborative partnerships and alliances.

THE COLLABORATIVE IMPERATIVE

To many organizations, alliances and strategic partnerships are “the new way businesses grow and innovate,” particularly as they experience a rising profile within the C-suite. As partnership alliances become an increasingly important source of innovation for companies, they are integral to future success. One recent study from PWC cites that 51% of CEO's want to prioritize innovation and access to new technologies through partner initiatives. Another 46% of survey participants note a preference for partner initiatives to instead focus on ways to access new customers.¹

Companies that develop strategic partnerships are more successful than their peers.² Best practice research³ from Phoenix Consulting Group has shown that the most effective alliances are those that are directly aligned to the corporate strategy. This is accomplished by involving senior leadership, stakeholders, and partners in designing the strategic intent of the partnership. The study also revealed that the top performing alliances manage their innovation pipeline as closely as the revenue pipeline. With businesses becoming more dependent on strong partnerships, collaborative capability is imperative!

ALLIANCES SPAN THE VALUE CHAIN

Modern alliances tend to span the organizational value chain as can be seen in the graphic below. Alliances are much more than two alliance managers who get along. They are about how two or more organizations come together to create business value. As the diagram implies, organizations need to connect and collaborate across many business functions.

So while two alliance managers may understand the dynamics of collaboration, it is important that all the alliance team members in the functional groups also understand the purpose of the alliance, what each company gains from the collaboration; what role they play, how the alliance is measured and how are they measured against

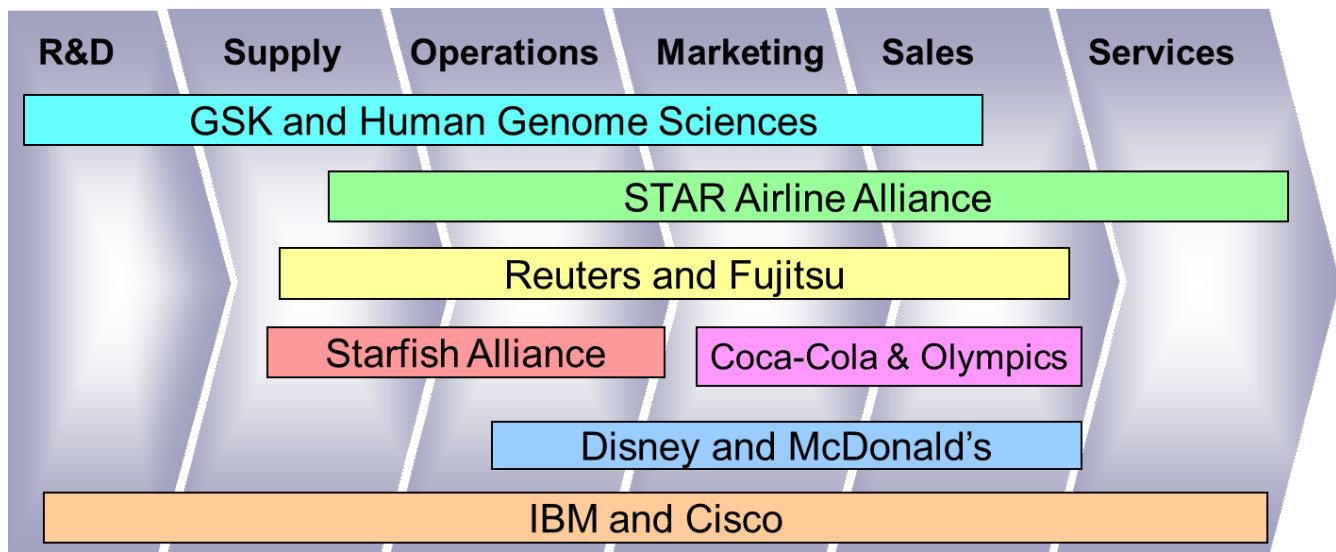
¹ 18th Annual Global CEO Survey, PWC 2015

² Leading Through Connections: Insights from the Global Chief Executive Officer Study, IBM 2012

³ Alliance Best Practices Research: Revealing the Leading Practices of High-performing Technology Alliances, Phoenix Consulting Group 2013

alliance success. Alliance managers regularly cite that 70% of their time is managing the internal stakeholder alignment across the functional groups.⁴

The IBM & Cisco alliance is notable in that their businesses not only span the entire value chain but the functions are deeply embedded with each other, functioning as a virtual joint venture, generating new product innovations and an estimated \$2B in annual revenue. Though in recent years, the relationship has begun to weaken as their business models have grown to overlap.



Source: Alliance Brand, Mark Darby and Phoenix Consulting Group

Even alliances that begin in an R&D operation tend to leap the functional boundaries as products and services are developed, commercialized and deployed. Lilly is an example. Fifteen years ago they realized, as many pharmaceuticals did, that innovation was coming from the biotech startups and in order to fuel their revenue pipeline, they needed to keep pace with the innovation in that sector of the industry. Being a mid-size pharmaceutical, the reality set in that they were not able to drive enough new drug development through their own resources and they weren't capitalized to begin a major acquisition strategy. They initially embarked on the alliance journey to insource innovation from the biotech startups, providing to these biotechs the needed expertise and funding to move a molecule to an FDA approved drug. Over time they become a fully integrated pharmaceutical network. They have created an ecosystem of alliances including other large pharmaceuticals, biotech innovators, academics and contract suppliers for research, development, manufacturing and sales, thus fully networking their value chain.

⁴ Informal surveys conducted in Collaborative Skills Mastery and Alliance Best Practice Workshops over the course of the past eight years.

THE VALUE OF A CENTRAL ALLIANCE PROGRAM OFFICE

While various research reports over the years have shown average alliance success rates hovering around 50%, research from the Association of Strategic Alliance Professionals has shown that an 80/20 Pareto effect is at work.⁵ Companies that invest in alliance capabilities can regularly achieve success rates over 80%, while those that approach alliances from an ad hoc practice rarely achieve over 20% success. Furthermore the highest level of alliance competence is achieved by introducing alliance offices. These have proven to be effective, increasing their companies' long term alliance success rates by as much as 25%.⁶

The alliance program office concentrates and curates alliance best practices across the organization and serves to coach and mentor the extended teams tasked to execute on the vision of the alliance strategy. The role of central program office can be particularly important when alliances span multiple business units within a large organization. The alliance manager serves as a neutral party to ensure that value is recognized for the whole company. In fact, in some companies the definition of a 'strategic alliance' is one that has value across many operating units and businesses.

BUILDING ALLIANCE CAPABILITY AT PHILIPS

Philips is an example of an organization that has individual alliance managers in many of their 150 operating divisions, but also supports an alliance program office of experts in the craft.⁷ Philips has created a process model for alliance management and maintains the alliance resources and tools on an internal website to enable effective alliance management across the organization. Philips also conducts world-wide alliance training and education to ensure that alliance managers in their many operations have a clear understanding of the tools and processes and how to apply them. Philips has been recognized many times by the profession as an example of alliance excellence.



Listen to the podcast from the founder of the alliance capability at Philips, John Bell. [“If you have seen one alliance, you have seen one alliance”](#)

⁵ Association of Strategic Alliance Professionals, “*State of Alliances*”, 2007

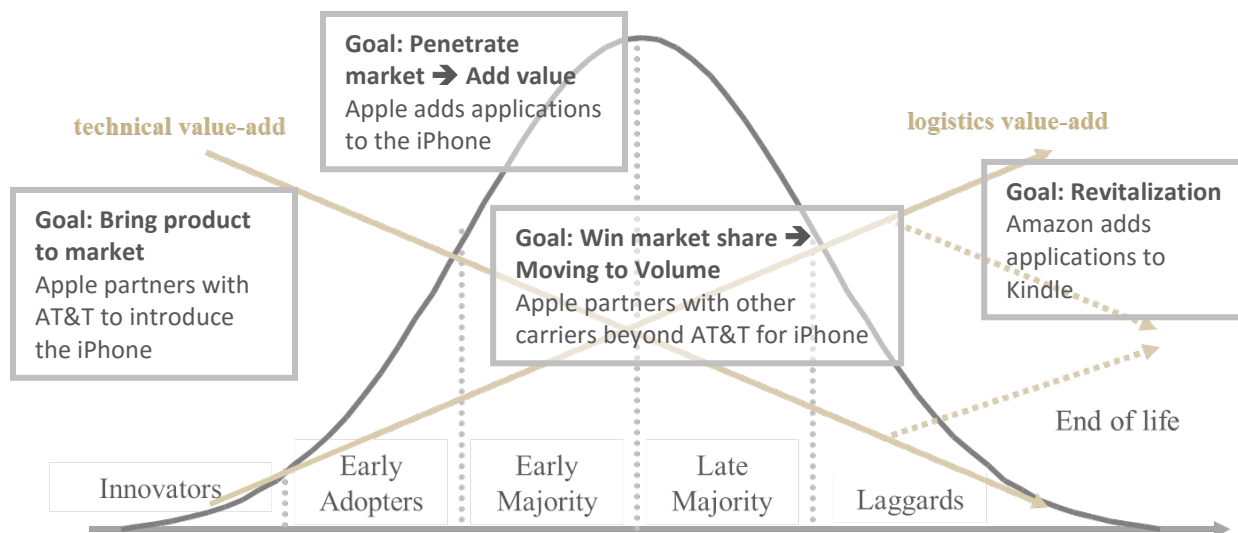
⁶ De Man and Volberda, 2003 Long Range Planning “Building Alliance Capability”

⁷ Singh, Bell, Kale, 2008 Wharton, “*Philips: Building Alliance Capabilities*”

PARTNERING FOR TECHNOLOGY ADOPTION

Key to building a strong alliance organization is understanding the types of partners you need in the ecosystem and the types of partners you need at different stages of product maturity and adoption. Many high tech startups rush to build a channel to distribute their product long before they are 'channel ready' for example.

The product adoption curve has been taught in business schools since the 1960's; Geoffrey Moore put a chasm in it to describe the difficulties of moving product from an innovative niche to a mainstream commodity. In technology alliances, it is particularly important to understand the how partners can help drive adoption at each stage and that different partners and partnering styles are critical along the way.



In the early stage, development partners are needed to complete the product or add technical expertise in the deployment. As the product matures, the goal is to add value to gain market share. Partners particularly innovation partners can help to customize the product to differentiate it and gain access to new customers. These early partners are key to crossing the chasm, moving from the early adopters to the early majority stage. There is an inflection point in the curve in the majority phase when achieving volume become the goal. Often at this point there is intense competition in the market and the dynamics of the market do not always favor the best technology, but often the best marketing and distribution. And lastly as products age, an infusion of fresh technology can extend their life and profitability.

BUILDING THE ECOSYSTEM OF INNOVATION

The definition for an alliance is when two (or more) 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 the predominant source of innovation in the technology sector. 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, in the best practices research conducted by Phoenix Consulting Group⁸, and often requires Access to External Expertise to execute, providing fertile ground for innovation.

Innovation in New Business Models is a disruptive force across all industry sectors as traditional businesses are either rising to the challenge of digital transformation or getting Uber’ed as new competitors come into their markets who savvier in 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.

CONNECT AND DEVELOP AT PROCTOR & GAMBLE

Proctor & Gamble, a company known for innovation and excellence, dramatically changed its innovation model after a near-death experience in 2000. Through its well-known ‘Connect and Develop program, today over half the company’s new products come from innovation originating outside of P&G labs. How do you achieve in-sourcing 50% of your innovation? Through collaboration with external partners! This hails not just a change in business model but also a significant change in culture, in the mindset of their engineers, researchers, and product managers. Proctor and Gamble’s alliance office was not operated out of a development function, but instead out of Human Resources due to the enormous changes in behavior and culture.

Five years after launching Connect and Develop:

- The company’s stock price had doubled
- R&D productivity had increased by nearly 60%
- R&D investment as a percentage of sales declined from 4.8% to 3.4%

⁸ “Alliance Best Practices Research: Revealing the Leading Practices of High-performing Technology Alliances”, Phoenix Consulting Group 2013

- 45% of new products incorporate some element of and external discovery
- Portfolio of 22 billion-dollar brands

Among the most successful brands are Olay Regenerist, Swiffer Dusters and Crest SpinBrush. Its success has been well documented by Harvard Business Review⁹ and widely used as a case study for innovation strategy.

“Our vision is simple. We want P&G to be known as the company that collaborates – inside and out – better than any other company in the world.” A.G. Lafley, CEO, P&G

For more insight into the Connect and Develop journey, click on the webinar link: [8 Secrets to Building Win-Win Alliances & Partnerships](#), featuring Danita Brewer, Sr. Manager Alliance Effectiveness at Proctor & Gamble.

THE API ECONOMY

Technology platforms have always driven innovation and customer stickiness by extending their technology to a community of developers who innovate on their platform. As more applications run in the cloud, application programming interfaces (APIs) become critical enablers to stitch these systems together and with the advent of the Internet of Things, well, there are just more things to integrate! It is estimated by McKinsey and Co. that Salesforce.com generates nearly 50% of its annual \$3 billion in revenue through APIs.

There are currently over 1,000 players in the digital marketing space providing services and products that optimize social, mobile and advertising. It’s simply not reasonable to expect that one solution can do it all. Marketo enables technology partners to create product integrations by way of an open platform and APIs. Partners can add product extensions as well as provide integration and advisory services to customers based on their business requirements, elevating their value to customers as a trusted advisor versus playing a more singular role as a simple technology vendor.

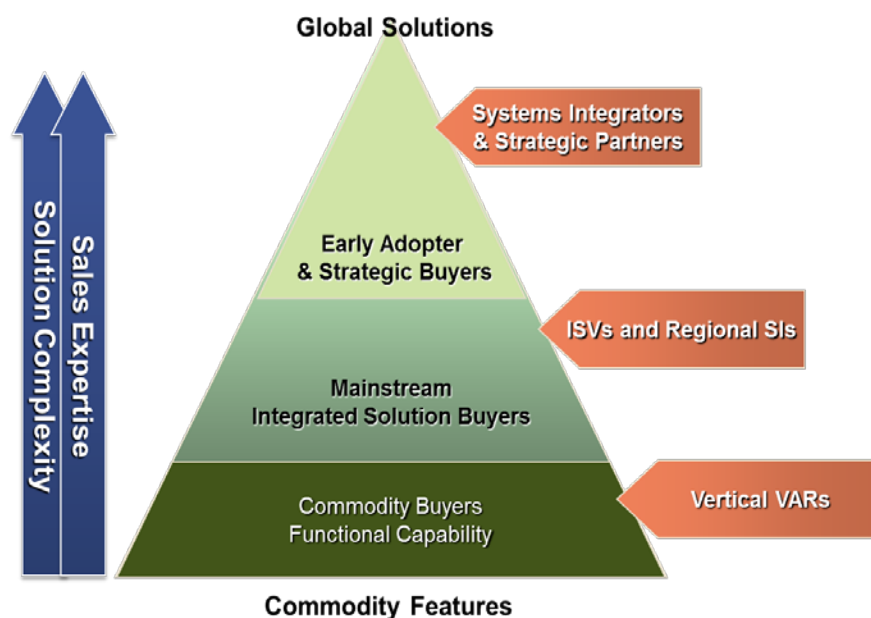
By way of example, in addition to Marketo’s engagement marketing platform, one major Marketo customer also purchased eight other solutions from the Marketo LaunchPoint ecosystem. This ultimately enabled the customer to go from driving content syndication across one channel, the company’s website, to delivering consistent, personalized content across multiple channels including online advertisement and social channels. This customer now spends less time importing leads and more time focused on engaging its target audience, all of which helped double its contribution to the sales pipeline. This kind of extended ecosystem is an enormous opportunity for partners to up-level their role, innovate around a popular platform to augment their recurring revenue stream and provide integration and deployment services.

Listen to the podcast with Christine Hansen, Strategic Alliance Director at Marketo [“Building the Partner Ecosystem for the Marketing Nation”](#)

⁹ “Connect and Develop: Inside Procter & Gamble’s New Model for Innovation”, Harvard Business Review, 2006

BUILDING THE ECOSYSTEM FOR THE WAY CUSTOMERS BUY

Customers buy from sellers who know their business and can solve their problems. Since no company can be everywhere or have the full complement of expertise in solving customer problems, building an ecosystem of partners that can provide complementary technology, services, and market coverage is proven way to expand your market footprint. It is also important to recognize that large, global businesses have different problems and different buying behaviors than small businesses. Buyer motivations are also different at different stages of the product maturity curve as was discussed earlier in the section on product adoption. So as you prepare to go to market, the partner ecosystem should reflect how customers make buying decisions and the types of partners they rely on to provide solutions.



The diagram depicts the partner coverage model for one company. Different types of partners are relied upon to assist in the engagement of various buyers. As solution complexity increases so does sales expertise. Technology companies often rely on strategic partners and large, global systems integrators to recommend and deliver the most complex and sophisticated solutions. As products mature, the complexity decreases. Mainstream buyers are more risk averse and tend to rely on packaged, proven products delivered by trusted advisors.

ADOBE INTELLIGENT DOCUMENT PLATFORM

Adobe Systems was pioneering an emerging product category for document management in the enterprise. The Intelligent Document Platform enabled customers to automate business processes, especially those that revolve around forms. Their market entry strategy targeted specific high-value applications in key vertical industries such as government, financial services, and healthcare.

THE CHALLENGE:

Adobe had a legacy of selling to consumers and business professionals. Most of their packaged, shrink wrap software was sold through distributors and retail stores. However, this product required a different sales model and their sales organization was not skilled at selling complex enterprise solutions and lacked vertical expertise.

Adobe needed a partner strategy to leverage industry expertise and existing relationships within key industry customer prospects.

THE SOLUTION:

The enterprise partner strategies of BEA, Microsoft and IBM were benchmarked to gain insight on the evolution of partner strategies over the product lifecycle, particularly at the early phases of introduction and adoption, and then profiled effective market entry strategies through partners.

Adobe's current partner ecosystem and partnering capability was audited against a benchmark model co-developed with IDC, a leading technology analyst firm, and Phoenix Consulting Group.

These studies informed the development of a 3-year enterprise partner ecosystem strategy and implementation plan including the following components:

- Partner Segmentations and strategy: for Strategic Alliances, System Integrators, ISVs, Vertical VARs
- Defined partner roles within the ecosystem and against the timeline of the technology adoption lifecycle
- Outlined the developer strategy to drive solutions and innovations around the Document Platform
- Financial impact of partners to the growth of the platform
- Provided guidance and expertise in Partner program architecture, benefits, requirements staffing and infrastructure.
- Framed an alliance operational management model to support development and execution of vertical solution initiatives (Finance, Healthcare, Manufacturing and Government) through the partner development lifecycle from inception and proof-of-concept to full-scale, global deployment.

THE BENEFITS

By engaging with Phoenix Consulting Group Adobe realized these benefits:

- A comprehensive partner ecosystem strategy to align with and accelerate platform adoption including all relevant partner segments: alliances, ISVs, SIs, and developers critical to driving adoption of a platform product.
- A roadmap to success with detail in investment in resources, headcount, and budget tied to a business case for return on investment.
- Greater engagement with partners by tailoring the program engagement model to their business models and a compelling value proposition
- A Partner program framework and infrastructure to cost effectively and programmatically enable each partner type in the ecosystem
- Established a value proposition and incentives for partner innovation

