

CLOUD ECOSYSTEM EVOLUTION



CASE STUDY:
PARTNER
ECOSYSTEM
STRATEGY FOR
GROWTH

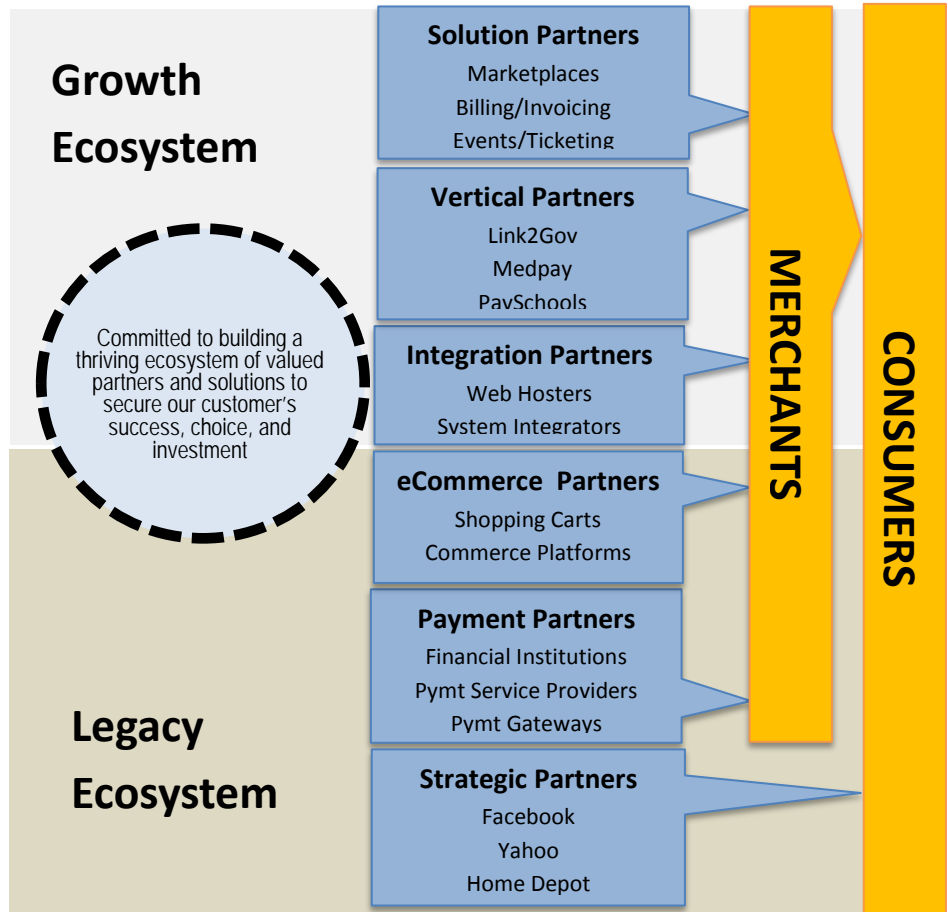
PARTNER ECOSYSTEM EVOLUTION

CLOUD PARTNER ECOSYSTEM

Our client is the leading provider of internet payment solutions with over 100 million users, supporting 25 currencies in 190 countries. Its roots are in ecommerce, but today non-retail payments are the fastest growing part of its business. Our client has, in part, accomplished this diversification in its business through building a strategic partner ecosystem.

As payment method, our client had developed a mature and very complex ecosystem of traditional payment processors, gateways, and financial institutions. When it comes to its ecommerce business, its initial partners were core to the online retail infrastructure, including 200 shopping carts and ecommerce platforms. They had also formed strategic partnerships with online companies, such as Yahoo Stores, that offered online payment services to its community of small businesses.

In seeking to expand its business, our client needed to look beyond the legacy ecosystem that had grown organically around ecommerce and developed a strategy for market expansion through new partner segments. This included identifying partners that served other functions in the on-line retail merchant value chain such as billing and invoicing, webhosting, and other services. It also led them to target on-line payment applications outside of consumer retail to grow its business, such as school lunch payments and event ticketing. Most recently, strategic relationships were formed with traditional retailers such as Home Depot to allow customers to pay through online in the store.



THE ROLE OF PHOENIX CONSULTING GROUP

Our client was seeking to grow faster and more economically through partners than they could through direct recruitment of merchants, particularly those in specialized verticals and in the long tail of the market¹, since much of the company's business was with small and entrepreneurial merchants. The company's partners serve as a conduit to acquire merchants that sell services and products to consumers using an online payment solution. Merchants and partners integrating the company's payment method into their services typically receive a percentage of the transaction fee assessed on every purchase. However, the real benefit to most merchants was a 10-14% uplift in their business by offering the company's online payment services as an alternative to credit cards.

Phoenix Consulting Group was selected to help shepherd the company through the journey of partner ecosystem development. Over the course of five years (2008-2013), PhoenixCG provided a series of services that enabled the company to grow its business more effectively through its partner ecosystem. We were advised that we were chosen because we had a reputation for working collaboratively and were noted subject matter experts in partner ecosystems. Our services included:

- Benchmarking partner practices against top competitors
- Partner loyalty survey to determine how to increase payment usage
- Partner segmentation by business model and program design to drive new revenues
- Shopping cart segment study, sizing and channel optimization
- Competitive pricing research
- New market development, research, sizing, and prioritization for partnering opportunities
- Value proposition and messaging development for new market capture campaigns

Over the course of our engagement, we were able to identify over \$23B of new addressable payment opportunities for the client, helped shape their partnering strategy, and enable channel sales to grow the business to 30% of the company revenue.

BEST PRACTICES BENCHMARKING

One of the earliest projects was to benchmark the existing partner program against those of its competitors. At this stage the partner program was still formative and the company did not have much knowledge about how their competitors engaged with partners. PhoenixCG leveraged a program benchmark model that was co-developed with IDC, a market intelligence analyst. The PhoenixCG team gathered information and perceptions from internal stakeholders, partners, external subject matter experts and the web, and then compared the competitive partnering practices with those of the company.

Areas of exploration and comparison included: alignment to corporate strategy, relationship quality, ecosystem value, program architecture, metrics for program and partner performance, financials, sales and marketing initiatives, technology integration, and support.

The benchmark laid the foundation for future efforts and created a roadmap for program development and investment. We discovered where the company practices and policies were considered on par or best in the industry and supported the way partners wanted to work with them. These were assets that required continued investment in to build stronger relationships with their partners.

We also discovered gaps where more investment was needed to match competitive practices or to create differentiation. One of the strong recommendations was to invest more in marketing with partners leveraging the company's brand to attract new merchants for the partner and drive stronger adoption of the company's payment solution in the partners' merchant

¹ Long tail of the market refers to the multitude of small customers that in aggregate still generate substantial business.

community. This was a win-win-win differentiating practice that created more revenue for partners, merchants, and the company.

PARTNER LOYALTY SURVEY

The information gained in the benchmark research offered strong qualitative and competitive insight and guided the development of a quantitative survey of the partner base. This survey sought to gain information on the health of the partner relationships and understand what attributes drove partner loyalty and profitability. PhoenixCG developed the survey instrument, interpreted the findings and translated them into recommendations for investment. Project outcomes were:

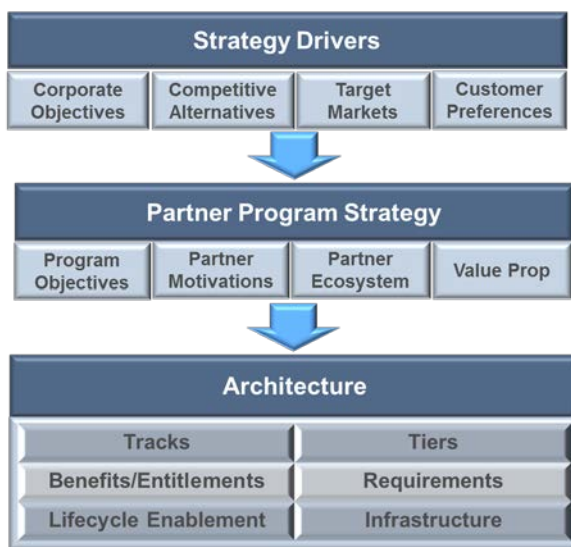
- Established a baseline against which to measure gains or losses in partner loyalty
- Identified key partner success factors
- Gained insight into what was important to partners
- Defined areas of investment supported by partner priorities
- Strengthened the partner ecosystem to drive greater transaction volume

PARTNER SEGMENTATION AND PROGRAM DESIGN

PhoenixCG was chartered to segment the different types of partners in the community, categorize them by role and business model within the ecosystem, and make recommendations on how to structure a partner program that would enable the success of each of the different business models.

The ecosystem model shown in the diagram on page 1 was the eventual result of this segmentation study. Each partner class fulfilled a different role within the ecosystem in providing services to merchants. By understanding the business models (how they make money) of each segment, we were able to recommend specific benefits that would support their success.

Program Development Methodology



In designing the program, we used a proven methodology that aligns company strategy with program objectives and program benefits and requirements with partner motivations. We also ensure that the partner ecosystem and value proposition deliver value in the way that customers seek to purchase in targeted markets. All new investments in the partner community tie back to how they support overall corporate objectives, with the result that the partner organization has clear justification and a defined ROI.

We architected a single, tiered program with multiple tracks, each tuned to support different partner business models. We created a system of requirements and benefits that recognizes a partner's value and drives partner behavior and performance. The tiered levels maximize productivity by aligning program benefits with expected return, essentially allocating the highest investment to the highest value partners.

Benefits and requirements are staged along the partner development lifecycle, enabling the partner to progress more rapidly from initial engagement at the recruitment stage through activation when they are producing revenue.

Through this model the company was able to programmatically scale and manage its partner community more quickly and effectively than competitors, and to grow the partner contribution of their division's revenue to 30%.

CHANNEL OPTIMIZATION – SHOPPING CARTS

The company had a major presence among on-line shopping cart software providers and ecommerce platform providers, partnering with over 200 of them. This community had grown organically and the company had little insight into what the total addressable volume of business might be within this channel and what their relative share might be. There were no identified analysts who specialize in this area, so Phoenix Consulting Group was selected for the project due to our prior experience and familiarity with company's partner business. The objective was to:



- Size the payment volume in the market,
- Estimate the company's share of the market,
- Characterize the trends and opportunities,
- Profile the major players and size the share online payment
- Identify the rising stars within the segment

We found that while the company's payment solution had been implemented in very nearly every cart vendor's software, their share of payment transactions within each cart vendor (share of cart) left a lot of head room for growth. We also were able to pinpoint that the largest 15 partners were producing 80% of the cart revenue. We made several recommendations a) to gain more mind share with the cart vendors, b) to create more visibility with their merchants and thus c) drive more transaction volume. We also identified an opportunity for the company to become a trusted source of information by educating vendors and their merchants on emerging trends and industry issues through content marketing on topics such as PCMI compliance, SaaS, open source trends, and mobile payments. Other recommendations revolved around clarifying product messaging and simplifying integration based on partner feedback.

Based on PhoenixCG research, the company was able to target specific cart partners with strategic investments that greatly increased their share of the business and optimized total volume of revenue.

COMPETITIVE PRICING RESEARCH

One of the persistent concerns from partners related to the competitiveness of the revenue share model. PhoenixCG was contracted to undertake a competitive analysis, specifically into the revenue share and incentive policies of other payment solutions compared to those of our client. We discovered that a partner's total compensation was more extensive than just the percentage of revenue share and that these other factors needed to be weighed as well. Integration incentives, bounties, loyalty points, co-marketing that generated new leads, support services and proactive relationship management all contributed to the total compensation package and partner value proposition in working with the company.

We also discovered that there were many business processes that needed streamlining to take the complexity out of the relationship. These included restrictions on how revenue share was accounted, multiple contracts, lack of detailed reporting, and yearly changes to the program. Based on this study, many changes were made to simplify and streamline its business processes so that partners had a better experience in working with the company and were more profitable.

A year later when we interviewed one of the partners for another project, the partner commented that they were happy to speak with PhoenixCG again, since all the things they had told us that needed changing did in fact change over the subsequent year.

MARKET OPPORTUNITY TARGETING

The partner organization was seeking information that would enable them to place “big bets” in building their partner ecosystem to address new market opportunities. Project outcomes included:

- Enabled prioritization of markets and sub-segments for partner development
- Informed the development of market strategy and potential product enhancements to increase attractiveness of payment solutions within the segments
- Provided partner profiling to support partner acquisition campaigns
- Understanding the levers and drivers that will incent greater adoption within the targeted segments

We researched the payment opportunities within Government, Education, Non-Profit, Retail, Healthcare, Business Applications, and On-line services. These large industry groupings were further sub-segmented into application areas that could be narrowly targeted. We gauged the available market for online payments in each sub-segment, as well as accessibility through partners. We developed a prioritization model that characterized each market sub-segment by a number of attributes, including number of partners, concentration of the market, product fit, and propensity to transact online, impact on the merchant lifecycle, as well as market size and addressable market. We leveraged this methodology for assessing market attractiveness through six follow-on projects that drilled down on targeted market subsegments.

Each of the follow-on projects followed a model where we compiled a list of potential partners within a specific industry segment, such as, ambulatory healthcare, or school lunch programs. We researched the potential partners to determine their industry standing, the transaction volume they processed, and the potential opportunity. We categorized each potential partner into one of three tiers, reflecting the relative opportunity.

VALUE PROPOSITION AND MESSAGING

A great deal of the work we have done with our client involved strategically targeting new markets and identifying key partners to recruit. In addition, we have also assisted the marketing team in developing value propositions and messaging for the recruitment process. We define a partner value proposition in three dimensions: the customer value created, the value a partner recognizes and the value that our client derives from the relationship. In the development of these value propositions, we identified which value points are unique to each market, as well as what are extensions of company’s traditional value proposition, thus enabling very targeted outreach campaigns. We also identified the relative importance of each value point on a scale of 1-5, so that the correct emphasis could be applied and the optimum investment allocated.

One of the key deliverables was identifying the pain points and buying behaviors of the partners’ customers so that partners had a strong motivation and value proposition to introduce an online a payment method.

The in-house marketing team did not have a good experience base in developing partner value propositions, which need to address the partners’ business model and the partner’s customers’ needs. PhoenixCG helped guide the group to be more effective in crafting the value propositions, messaging, and marketing recruitment materials to accelerate partner acquisition and, ultimately, accelerate time to revenue through partners.

SUMMARY

Over the course of our relationship with the client, we have enabled the partner organization to become one of the fastest growing segments of the business, building momentum in important vertical markets such as Healthcare, Education and SaaS subscription services. They were able to achieve their goal of generating 30% of their revenue through partners.

ABOUT PHOENIX CONSULTING GROUP

Founded in 2002, Phoenix Consulting Group LLC (www.phoenixcg.com) is a management consulting firm focused on best practices in collaborative business models. We have served many Fortune 500 companies as well as start-ups to grow their business through collaborative business relationships. Prominent clients include Amazon.com, Adobe Systems, Century Link, Cisco Systems, Dupont, Intel, Lilly, Microsoft, Nationwide Insurance, PayPal, SAP, and UPS.

Phoenix Consulting Group is recognized as the premier consulting organization for strategic partnering in the Silicon Valley region. We stay on the forefront through active leadership in advancing standards in collaborative business practices and professional certification. Phoenix Consulting Group has been invited to deliver Alliance Skills Mastery and Best Practices Workshops on five continents: Europe, Asia, Africa, North America, and Australia as companies worldwide realize the importance of collaboration in today's global economy.

Our consulting associates combine strategic perspective with practical professional experience. We have been in your shoes, leading partner organizations and accountable for results. We can offer actionable recommendations that have real world impact.

ABOUT OUR FOUNDER



NORMA WATENPAUGH, CSAP

Founding Principal, Phoenix Consulting Group

Board Member and former Best Practices Committee Chair, Association of Strategic Alliance Professionals

Norma Watenpaugh is the founding principal and CEO of Phoenix Consulting Group which provides partnering and collaboration consulting services with expertise in partner strategy, alliance management, partner ecosystem optimization and collaborative capability development.

Norma has taught alliance seminars for Duke Corporate Education, the Reuters Foundation, Digital Vision Fellowship Program at Stanford University, the American Management Association, and is a frequently requested speaker at industry events.

Norma has been a Global Board member of the Association of Strategic Alliance Professionals since 2003. As former Best Practices Committee Chair (2003-2012), she has led the organization in developing the CA-AM and CSAP professional credentials. And she has led the effort to revitalize the body of knowledge of alliance best practices through the collaboration of 30 certified alliance professionals, resulting in the release of the *ASAP Handbook of Alliance Management: A Practitioner's Guide*. She has been most recently appointed to lead the US delegation in developing and International Standard (ISO) for Collaborative Business Relationship Management.