Cross Sector Innovation
&
The Role of Alliances

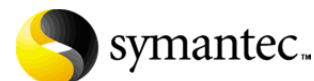## 5th Annual 2011
Alliance Executive Breakfast

January 13, 2011

By: Norma Watenpaugh & Mary Tate
Phoenix Consulting Group, LLC

Hosted by

Google

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Cross Sector Innovation & the Role of Alliances

By: Norma Watenpaugh and Mary Tate, Phoenix Consulting Group, LLC

Overview

The California Chapter of the Association of Strategic Alliance Professionals held their annual Alliance Executive Roundtable on January 13, 2011. The meeting, hosted by Google on their Mountain View Campus, was attended by twenty-four of the area's most senior alliance leaders representing a cross-section of the business community. Participants voiced their views on the discussion topic of**: Cross Sector Innovation and the Role of Alliances. .** The group explored the role alliance managers play in creating new opportunities through innovation across non-traditional industries such as high tech with healthcare, construction and energy.

Special guest**,** Steve White, Program Director for the IDC Software Alliances Leadership Council, shared IDC's 2011 outlook for IDC and shared some of the trends and predictions for the industry's alliances that helped the context of the topic for discussion.

> *'With the turbulent economy still not quite in a stage of consistent growth and the intersection of some dramatic technology changes such as the growth of cloud and mobile, IDC has seen more opportunities for cross sector partnerships as technology vendors look for new streams of business."* Steve White

Nearly all participants indicated they are engaging in what can be called non-traditional partnering models. This takes many forms, for example, IBM and Cisco have dedicated major assets to creating new markets through cross sector partnering. Google having a non-traditional business model has a legacy of partnering outside of their specific industry. Other companies are reacting to the dynamics in the industry as a result of maturing technologies, industry consolidation, and economic challenges.

This white paper is a synopsis of the discussion and endeavors to capture the top of mind issues of the executives at the roundtable. Quotes are paraphrased from the meeting notes scribed during the event and not attributed to protect the confidentiality of the participants.

Alliance Executive Roundtable - 2011

This year's event was hosted by Google at their Mountain View Campus on January 13, 2011. The format was a facilitated, roundtable discussion eliciting the views and perspectives of California's most senior alliance executives and thought leaders.

Steve White of IDC was welcomed as a special guest and helped to set the context of the discussion with an overview of the IDC outlook for 2011 prospects for IT and IT alliances.

Topic: **Cross Sector Innovation and the Role of Alliances**

Attendees: Twenty-four SVP's, VP's, and Sr. Dir.'s that lead partner organizations at the area's leading companies.

Participating Companies:
Capgemini, Cisco, Emerson, eMeter, Google, HP, IBM, IDC, Intel, Marketo, NetSuite, Novell, Oracle, PWC, Riverbed, Saba, Success Factors, Symantec, VKernal and VMware.

Moderator:
Norma Watenpaugh, Phoenix Consulting Group, LLC

Executive Summary

During the past few years, the more forward thinking organizations continued to invest in disruptive technologies and placed 'big bets' on emerging markets in order to create new revenue streams in a challenging economy and to establish beachheads that would drive a leading position as the economy turned. This environment has given rise to innovation in cross sector partnerships.

The frame work for discussion comprised three major areas of exploration: Customer Challenges, Non-Traditional Partner Types, and Partnering Challenges. The following emerged as major findings:

1. **Customer relevance is critical.** All companies are facing the need to better understand their customer needs and how they can more effectively compete in this rapidly changing environment. "Relevance" was a frequently heard term.

2. **Customers come first.** Many participants expressed that in the past, the focus was more on the alliance rather than the customer, but that has changed. There is also a blurring of partners and customers. Customers are frequently part of the alliance for the cross sector solutions.

3. **Consumerization of IT is a disruptive trend.** Rapid adoption of mobile devices is creating both new challenges and opportunities. The impact on computing demands is changing and not altogether certain.

4. **Companies are entering new spaces** where they have never been before and are facing new challenges and by necessity forming new partner ecosystems built around the customer.

5. **Partner value is changing.** The traditional labels hardware, software, service, and channel do not describe the value they bring to the new ecosystems. New ways of evaluating partners by the role they play and the contributions they make are emerging. For partners in the cloud ecosystem, the traditional models of resale distribution may not be sufficient or compelling and driving the need to think out of the box in finding partners who can extend your business.

6. **Partnering with competitors** is not a new concept, but the amount of co-opetition today is enormous.

7. **Partnering business models are changing.** These non-traditional alliances are long range investments, thus challenging traditional assumptions and business practices.

8. **"How patient is your capital?"** was among the questions posed. In the business as usual model, alliances are pressed to deliver quarterly revenues. Non-traditional partnering models are calling for non-traditional ways to recognize return on the relationship.

9. **Cultural differences may be the greater challenge** than business process or practices when working with cross industry partners.

10. **Skill sets are not where they need to be.** There is a need to move from a singular sales, marketing and alliance role to more of an aggregated systems integrator role that requires a combination of sales skills, technical prowess and business acuity.

Trail Blazers in Cross-Sector Alliances

IBM, Cisco, and Google are among those companies that have made big bets in non-traditional partnering strategies. IBM's Smarter Planet initiative and Cisco's Smart+ Connected Communities are pioneering the application of IT technologies to new customer challenges, partnering with companies outside the traditional IT stack and often blurring the definition of customer and partner. Representatives from both companies shared some of their perspectives.

Smart Partnering for the Smarter Planet - IBM

IBM is working with clients to make many aspects of our world '**smarter**': roadways, health care, power grids, and food production for a better way of living. Intelligence is being infused into the systems and processes that make the world work—into things no one would recognize as computers: cars, appliances, roadways, power grids, clothes, even natural systems such as agriculture and waterways. A smarter planet will require a profound shift in management and governance toward far more collaborative approaches. (Summarized from IBM's website.)

> *"Interesting emotional experience where IBM is entering spaces that other vendors have dominated. You have light bulb and water meter companies sitting next to an IT company – both need to take big breaths during the discussions. Sometimes the solution is obvious to both groups, but you need to get beyond Sr. Execs positioning brands. Need to try and find common ground by finding the "crazies" that can see beyond and will keep pushing for the <vision>."*

Smart + Connected Communities – Cisco

Smart+Connected Communities is Cisco's vision of the city of the future, using the network to connect together people, services, community assets, and information into a single underlying solution.
The network enables the delivery of vital services from transportation utilities and security to entertainment, education, and healthcare. Everything will be connected, intelligent, and green: from office buildings and appliances to hospitals and schools. Citizens and businesses will enjoy unprecedented levels of collaboration, productivity, and economic growth without compromising the environment. (Summarized from Cisco's website.)

> *"These are big mega deals that result in interesting partnerships. There is an effort to build out the partner ecosystem to support these emerging opportunities and we are looking for more non-traditional partners. We have multi-billion dollar efforts that need to structure a model for a 10-year plan that includes China and India. A lot of the structure doesn't exactly fit the current model"*

Google has also pioneered non-traditional partnerships by virtue of a non-traditional business model. *"Partnerships do not drive direct revenue; they bring users to the Google site. The commercial model is indirect; it's through advertising."*

Factors Driving Transformational Partnering Strategies

The discussion over the past few years at the annual Alliance Executive Roundtables have predictably centered around the impact of the economy on our businesses and our alliance strategies. In some ways in 2011 what we see is a natural maturation of the strategies adopted over the past two years. The more forward thinking organizations continued to invest in disruptive technologies and placed 'big bets' on emerging markets in order to establish beachheads that would drive a leading position as the economy turned.

> *"A number of us look at bad times as an enormous opportunity and time to invest a longer-term play. We are investing a lot of cash during the downturn – how can we grow and what new business should we build?"* 2009 Exec Roundtable Participant

> *"In non-traditional markets, you need to accelerate your market strategy through partnering and/or product modification. Partners will enable you to diversity and enter new markets."* 2009 Exec Roundtable Participant

Three key factors emerged at the drivers behind the trend toward transformational partner opportunities:

A Perfect Storm of Technologies
IDC is predicting that 2011 is the year that many emerging technologies will go mainstream. How these technologies integrate into the new consumer experience is an incredible opportunity for companies who are poised to develop new applications for the consumer.

- **Cloud computing is real** and will account for a significant amount of new spending. 80% of new software will be available as a service. *[1]
- **Mobility is a powerhouse** of growth and a driver of cross sector innovation. For example, it is anticipated that 14% of all adult Americans will use a mobile application to manage their health. *
- **Social networks will grow** at 38% on average over the next 5 years.*

Consumerization of IT
The net impact of these accelerating and converging technologies was referred to as the consumerization of IT. Technology is accessible to more people across the world than ever before. The proliferation of mobile applications, the ubiquity of connectedness is changing how we partner and who we need to partner with to serve this community in new ways.

Economic Necessity
The impact of alliances and their power to influence revenue has always been difficult to measure. In a downturn when all assets are scrutinized, alliances have been particularly under the microscope. But as organizations look to create new revenue streams in markets where they have never before had a presence, alliances are the obvious play for entry.

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*[1] IDC Outlook 2011

The Discussion Model for Transformation

The figure below is a visual model of the roundtable discussion for cross sector partnering.

Customer Centricity. The discussion begins with the customer. Customers are driven by economic factors and are looking for ways to reinvent their business to take out costs, provide goods and services more efficiently, but also to create more compelling consumer experiences that will attract and retain their base. Businesses and consumers today often have a social motivation - that is responding to social values to be eco-friendly or to promote health and well-being.

Non-traditional partners. Building these new customer-centric solutions requires a different mix of partners. Smart grid requires that technology companies work with Utilities, Government agencies and start-ups that inject innovation. It requires that we seek out and incorporate innovators into the ecosystem.

New Partnering Challenges. When working with partners within the traditional IT stack, there is a common understanding of business models and cultures. Alliance managers have been refining their skills to manage these partnerships over many years of common experience. What happens when we are working with partners in industries outside of our common experience? How do IT professionals interact with Utility engineers or health care providers? Are different business models in order? Different measures of partnering effectiveness? Are the alliance skills of one industry transferable to another?

Customer-centricity

Customer relevance is **critical**. All companies are facing the need to better understand their customer needs and how they can more effectively compete in this rapidly changing environment. "Relevance" was a frequently heard term.

> *"We are in a race to relevance to counter higher discounting and lower margins. We have discovered that 70% of our top customers will be doing something in the next two years that they have never done before. They are engaging in new ways to monetize business and want us to be prescriptive."*

> *"We are fighting for relevance. It's not about having best sell through or sell with. When we look at the economics we are losing relevance. We are working with many of the partners in the room to solve this."*

Customers come first. Many participants expressed that in the past, the focus was more on the alliance rather than the customer, but that has changed.

> *"Now need to focus on what the customer needs. In past, alliance was first, now the customer is first."*

> *"Partner and alliances involve sell thru, sell with and are defined by gold, silver, and platinum and include 85% of our business, but they are not prescription for relevance."*

> *"There is huge $1B nut that doesn't include sell with or sell through, that is net new annuity business. 50% of services provided to agencies will be new and unique and we don't have the answer."*

Consumerization of IT is a disruptive trend. Rapid adoption of mobile devices is creating both new challenges and opportunities. The impact on computing demands is changing and not altogether certain.

> *"Our clients are becoming younger and more "consumerized" and expect solutions to be cleaner, easier and seamless"*

> *"At CES, this is the year of the tablet with over 50% people connecting to the Internet through them. What scares us is that in 18 months tablets and phones will surpass clients and laptops. Pace of change in the compute model is accelerating and accelerating. It's about the compute model, not about sales."*

> Google is monetizing Google applications in new ways. For example, embedding Google Maps into exercise machines.

Non-Traditional Partners

Companies are entering new spaces where they have never been before and are facing new challenges and by necessity forming new partner ecosystems built around the customer.

> *"Best partnerships are worked from the customer back. What is the model for the customer; How does the customer want to buy and work? That is highly dependent on the industries. Mobility is a more open world while others are more protective."*

There's a need to understand the value that each alliance plays and how value is changing. The traditional labels hardware, software, service, and channel do not describe the value they bring to the new ecosystems. New ways of evaluating partners by the role they play and the contributions they make are emerging:

> *"In the past we looked downstream around the partner's partner. Now it's smarter to look upstream"*

> *"We have cataloged the roles of partner and divided them into the follow area:*
> 1) *Market development – controlling IT, Education and Government Agencies*
> 2) *Market access – Construction, Telco's etc.*
> 3) *Delivered platforms – device vendors, analytics*
> 4) *System Integrators*
> 5) *Operational companies e.g. – facility management"*

The cloud is changing the value of the partner. The traditional models of resale distribution may not be sufficient or compelling.

> *"We have figured out to let 3rd party partners rent cloud; Google will fly plane but resellers will sell seats. The customer is their client and can walk away with them at any time. The role of partner is different – not moving assets – role of end partner is services and business value add – not distribution"*

> *"Gets back to value. There is a new dynamic in with the cloud. In the past, it was about inventory, now it's about a tiered model and motivating on value. It's more about the referral business, sales, marketing, the overall revenue cycle. It changes the dynamic of the partner."*

> *"Some partners only provide leads and not resale. For example, Facebook can help generate leads. So we need to develop a tiered model and motivate partners based on value and cost of generating leads. It turns things upside down."*

Partnering with competitors is not a new concept, but the amount of co-opetition is enormous.

> *"World is very different. Biggest challenge is consolidation of IT. Everyone is a competitor and not just a partner. The key is to still add value and maintain healthy relationships."*

Partnering Challenges

Working with partners outside of the common experience requires new ways of thinking, new business models, new ways of measuring success and an expanding skill set for the alliance managers who need to lead these enterprises.

Partnering business models are changing. These non-traditional alliances are long range investments, thus challenging traditional assumptions and business practices.

> *"Cisco has taken 100 people out of alliances and has put them into a group to go after 4-5 deals that will take 18 months to germinate. They are measured on revenue never seen before and involve multi-vendor partnering. There is a combination of process, people, and government. "*

> *"When we do mega deals that include government relationships, we need to determine how to accelerate them without going to jail. Some of the new industry partners we work with just work at a much slower pace."*

"How patient is your capital?" was one of the questions posed. In the business as usual model, alliances are pressed to deliver quarterly revenues. Non-traditional partnering models are calling for non-traditional ways to recognize return on the relationship.

> *"Google's is in a non-traditional business where the assets developed are information utilities and are not driven by revenue but by the number of users. Engineering may get rewarded for gaining 5-10M users, not because of revenues. Advertising pays."*

> *"Now no real revenue, just need to influence and downstream revenue will be attached someplace else. It's important to focus on customer outcome"*

Cultural differences may be the greater challenge than business process or practices when working with cross industry partners.

> *"The processes for collaboration aren't necessarily different. We have been successful in applying our business planning model to these cross sector relationships; however there is a great difference in culture and perceptions. For example we talk to our Energy partners about "analytics. When we peel the onion back, we find we have different definitions and no real conflict in delivering this part of the solution. Takes time to get through the terminology."*

> *"Level of sharing depends on how regulated they are. Utilities are not good at sharing concepts, while health care is more open. It's important to get the business guys in the room before legal to understand what the assets really are on both sides. Need to continue giving assurances that the IP protection is there."*

Skill sets are not where they need to be. There is a need to move from a singular sales, marketing and alliance role to more of an aggregated systems integrator role that requires a combination of sales skills, technical prowess and business acuity.

> *"The market is target rich, but we don't have the people with the deep vertical acuity that are smarter than the <core company> and can talk to the changes in the market. We don't have the big deal folks."*

> *"It is critical to have executive influence both inside and outside their company in order to move these alliances forward. Rather than talking to CTO's, alliance managers need to talk to GM and Sr. VP's on how technology engagement can help you."*

> *"Companies need to work on best practices and training on assets to make them more business and service relevant or they won't be successful."*

Conclusion

Cross sector partnering and ecosystems are an emerging trend driven by the convergence of disruptive technologies (cloud, mobility, social networking), the consumerization of technology and the economic imperative to seek out new revenue streams. The consumer/citizen becomes the center of focus and the beneficiary as these multi-faceted alliances seek out innovative solutions to urbanization, sustainable energy, and health care.

But there is also a call to action for alliance managers to become more innovative in developing new partnering business models, partner evaluation models and to bridge the cultural differences in working with partners outside of the traditional IT community. We are also challenged to uplevel and expand our skills to stay relevant in this dynamic, new world.

> *"Innovative alliances will increasingly leverage trends such as cloud computing, prevalence of mobile devices and social networking to create new business and partner models to expand into non-traditional markets and create value for our companies."*

> *"ASAP-CA is honored to have so many of the region's leading alliance executives participate in this annual Alliance Executive Forum, forming a community for thought leadership and shaping the direction of the profession."*

> **Jay Chitnis, President ASAP-CA Chapter and Director HP**

About ASAP

The Association of Strategic Alliance Professionals (ASAP – www.strategic-alliances.org) is the leading global professional association dedicated to alliance formation and management. Founded in 1998, the organization provides a forum to exchange best practices and a framework for cultivating the skills and tool sets needed to manage successful business partnerships.

About Phoenix Consulting Group

Phoenix Consulting Group, LLC (www.phoenixcg.com) was founded in 2002 on the vision that companies could achieve accelerated growth through the virtual economies of partner networks. 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 practices and services help companies maximize their return on relationships.

About the Author

Norma Watenpaugh, Principal of Phoenix Consulting Group (www.phoenixcg.com), is an acknowledged expert in partnering best practices. Her twenty-five years of professional experience includes executive positions architecting multi-channel and alliance partner programs at Sun Microsystems, Amdahl Corp. and BEA Systems. Norma is the Best Practices Chair for the Association of Strategic Alliance Professionals and has led the organization to developing a professional certification for alliance managers. Her new endeavor is elevating best practices in managing collaborative business relationships to an ISO standard.

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