Partners in Best Practice

Optimize your Return on Relationships™

Building Value Creating Alliances

Phoenix Consulting Group
PARTNER DEVELOPMENT

www.phoenixcg.com| 1 888 848 9514

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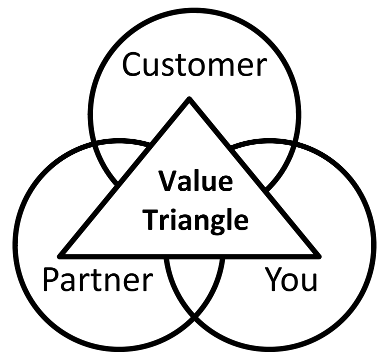
Optimize your Return on Relationships™

Building Value Creating Alliances

Overview

At one time many alliance managers thought of themselves as relationship managers; but to be relevant to their organization's business, they need to think of themselves as performance managers. Gone are the days when merely a good relationship could be considered the primary goal of alliance management. While a good relationship can be an important factor in alliance teams reaching their goals, by itself it is not a means of achieving alliance objectives. If your alliance is aligned to strategic objectives of the organization, then performance to those objectives is the true measure of an alliance.

How often do partner managers or their management focus only on: *"What do we get out of the deal?"* While it is important as good business managers that we understand the return on investment on our partnerships and alliances, it is also important to understand that viable, sustainable partnerships are based on a more complex value proposition. They are not just a deal. A winning value proposition isn't just a two way proposition. It is a three way proposition - one that includes not only your partner, but also your joint customer. In order to optimize your Return on Relationship™, you must understand how you are creating value for customers, your partner, as well as for your organization.



Successful go-to-market alliances start with a compelling JOINT value proposition that addresses the customer buying motivations first. Creating value propositions for all stakeholders in the partnership creates not just a WIN-WIN partnership, but a WIN-WIN-WIN where the customer wins, too. This value triangle is often expressed as "partner math," where 1+ 1 >3. Customer value ultimately translates into value for partners in creating product or service opportunities and new sales opportunities.

We have conducted research into hundreds of alliances through client engagements with companies such as Cisco, Adobe, PayPal, and IBM. In our case study research, we compared the value propositions of very successful alliances and those that yielded disappointing results. We found that successful alliances defined and tracked partner value in three dimensions: Solution, Financial, and Sales/Marketing. The less successful cases were found to be lacking in one of the three areas

In order to optimize your Return on Relationship, you must understand how you are creating value for customers, your partner, as well as for your organization.

Solution value which creates a compelling reason to buy for your customers,
Financial value which creates a compelling reason to partner, and
Sales and Marketing value which creates a compelling reason to sell and drives sales engagement.

Strategic Alignment

Strategic alignment is the first step to creating a value model for an alliance. It begins with your corporate strategic plan and understanding how the alliance objectives align to delivering on corporate objectives. In fact, alliances should be designed around those objectives from inception and realigned periodically.

There are many reasons for which partnering is a great strategy to fulfill corporate strategic objectives. Many are listed below:

Innovation	**Growth**	**Operational Efficiencies**
New Product Development	Geographic Expansion	Out-sourcing
Access to IP/expertise	New Customer Segments	Cost reduction/sharing
In-sourcing new product ideas	New Industry markets	Risk Mitigations/sharing
Access to technology	Competitive positioning	Optimizing the supply chain

Your corporate objectives most likely have some component that drives value for your customers. Do you? Is there synergy between value created in the alliance and your corporate objective? Also examine how the alliance aligns with your partner's corporate strategy and objectives.

Build your alliance in alignment with the strategic imperatives of your company, your partner and your joint customers.

Alliances can be difficult entities to manage under the best of circumstances; but if any aspect of the alliance is out of kilter with the strategic imperatives of your company, your partner, or your customers, you will have that much more resistance among your stakeholders. Alignment enhances the likelihood of gaining commitment of stakeholders, resources, funding, and management mindshare needed to execute on your alliance objectives.

Creating Value

Alliance managers sometimes talk about creating value propositions in terms of 'gives and gets'. This is very transactional language and not one that serves us in building value creating alliances. The focus of this language is on an exchange: "I give you this and in exchange I get that." Instead, define the value proposition in terms of creating value – and of course measuring it. Doubling the pie will create more value than negotiating for 10% share more of zero sum pie.

Developing value propositions collaboratively with your partner will lend insight into how to create a more valuable partnership for both partners.

It should go without saying that value propositions are developed collaboratively with your partner. However, sometimes the collaboration process stops after the customer value proposition. Working through the value propositions for your organization and your partner will lend insight into how to create a more valuable partnership for everyone.

Customer Value

Address customer value first. Customer value is one of the most frequently desired outcomes of many alliances. Even operational alliances tend to result in better service at lower cost to customers through more efficient operations.

Building a joint solution is where partners blend their core competencies to create a value proposition that is greater than the sum of the parts. The process begins with a thorough understanding of the customer's pain points, how they make purchase decisions, who the key decision makers are, and what they care about. This understanding will guide you in building a powerful joint solution that creates value for your customer.

The most compelling value propositions impact a customer's business model, increasing revenue and profitability.

Customer value creation can also be a collaborative process that includes your customer going beyond a transactional exchange of money for products and services. The most compelling value propositions impact a customer's business model increasing revenue or profitability. These are rarely transactional. They take a deep understanding of your customer's business, and can position your alliance as a more attractive option to the competition.

A positive impact on a customer business model was accomplished in an alliance between an Integrator specializing in airport infrastructure and a network equipment manufacturer. The original quote to install the network to wire a new airport was $500,000. By collaborating with the client, this team developed a new gate management application that would enable airports to dynamically reconfigure boarding gates on demand over the network. Implementing this application meant airlines were no longer constrained to operate from fixed gates. If they needed an additional gate to meet traffic demands, one could be configured for them with all of their unique gate management processes, security measures and passenger manifest information. The resultant project increased in value to over $30 million – a great increase in value to the partners and was also much more profitable because the conversation with the client changed from one of lowest cost to one of higher value. In this scenario, the airport gained 15% more virtual capacity without investing in more terminal space. The airport was also able to provide higher service levels to the airlines at lower cost, thus extending value through to their customers and ultimately to passengers.

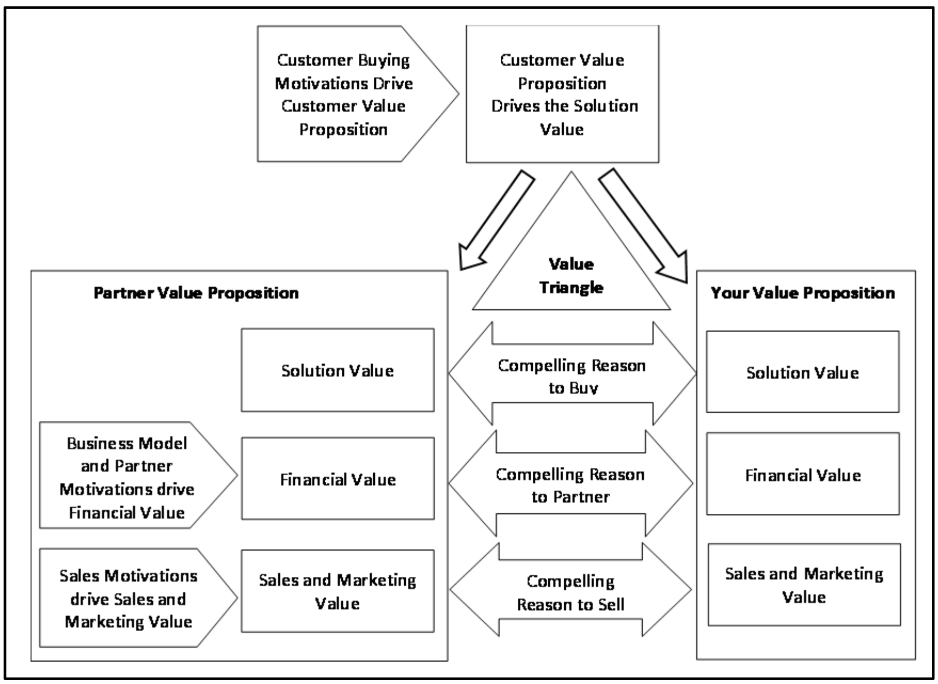
The deeper the value extends through the value chain, the more compelling your value proposition. As in the example above, look for ways to create value not only for your customer, but your customer's customers.

Look for ways to create value not only for your customer, but your customer's customers.

Partner Value

The diagram below depicts the relationship of various components of the alliance value proposition. Customer value is at the top and is the primary driver for the alliance. Building value for customers is a "pie expanding' activity and often differences between partners can be resolved by refocusing on what enlarges the pie, versus who gets a larger slice. Partner value propositions breakdown into:

Solution value that addresses key customer buying motivations to create competitive advantage and drive revenue generation;
Financial value that creates motivations for both partners to invest and commit to the alliance,
Sales and marketing value that drives active sales engagement and joint selling by motivating your sales organizations.



Solution value addresses partner value in the joint solution. A well-crafted joint solution can create competitive advantage in the marketplace through differentiation and reduce deployment risk in a multi-vendor environment. It can even shorten time to market by combining the proven abilities of two organizations rather than opting to build from scratch. Companies often engage with industry partners to customize generic products and services to meet the unique needs of specific industries, thus making their offer more appealing to a new customer segment. These are all value that accrue to partners and are part of the overall return on relationship.

Examples of Solution Value
Product Differentiation
Industry Solution
Thought Leadership
Whole Product Integration
Reduced Risk of Implementation
Early/First to Market
Customer Satisfaction

A well-crafted joint solution can create competitive advantage in the market place through differentiation.

Financial value comes in many different forms and may in fact be different for each partner. Financial value is how the alliance is measured by executive management and translates into corporate performance. It is how we ultimately judge if an alliance is working. Key financial metrics include incremental revenue realized from sales of the joint offer, cost savings from shared marketing or development costs, and resulting increased profitability.

Cost sharing can be an important aspect of financial value, especially in go-to-market alliances where the costs of building customer awareness of a new offer can be substantial. Cost sharing in other operational aspects of the business such as R&D, services, or manufacturing can increase profitability and conserve capital.

Examples of Financial Value
Incremental Revenue Opportunities
Improved Profitability
Increased Services Revenue
Shared Costs
Alternate Financing

Partner value does not have to be equal, but it does need to be equitable

If a joint offer enables a company to address a new customer community that was previously unreachable, financial performance is reflected in incremental sales in a new addressable market.

Other financial metrics relate to an improved sales model that accelerates the sales cycle or increases deal size. These are addressed under sales and marketing value since these value propositions create motivations for your sales organization to engage.

For one software company, we examined partner financials compared to product sales. We found that financial value was not equal for both and that it varied depending on the type of engagement. When the engagement was focused on User Experience, i.e. web design, the partner recognized most of the value, since the software was free or nearly so (retail shrink wrap). When the engagement entailed integrating the web interface to corporate systems, the value to the partner could be as high as 3 times the product cost in integration service revenues.

If the engagement was transformational, for example redefining business work flow, the consulting revenues could be 3-6 times product cost. This did not mean the software company was getting a poor deal. They recognized plenty of value in other dimensions. Their partner was actively recommending their products and taking on the risks of the engagements.

The example above also illustrates how different business models will drive different financial expectations. Service oriented companies will be seeking to maximize service engagements. Product oriented companies will be seeking volume product sales. These differences can often result in misunderstandings in the partnership as each partner acts to maximize their return.

We sometimes see this conflict when one partner is strategically motivated to gain market share and is willing to take less margin in order to capture the share position. Their partner may be already established in that market and is seeking to drive profitability. Both motivations are linked to corporate strategic imperatives, but may need some ground rules with respect to how these come together in the alliance and in pursuit of opportunities.

Sales and marketing value is often overlooked; but it is critical in market facing alliances where joint selling and joint marketing is expected. Why should the sales forces of two organizations cooperate and collaborate? There is much that can be done to facilitate the process of collaborative selling but ultimately there needs to be a compelling incentive for each sales representative to place a focus on selling a joint offer with his partner counterpart. Introducing another player to a sales campaign adds complexity and might even mean a perceived loss of control in the account. Sales organizations need to see a clear advantage in collaborating to offset increased complexity.

Examples of Sales & Marketing Value
Access to Key Executives
Accelerate Sales Cycle
Compensation Incentives
Incremental Opportunities
Increased Deal Size
Branding Exposure
Access to Partner Customer Base

Advantages in collaborative selling must be clearly articulated and bear a heavy burden of proof.

Combining selling efforts can result in many advantages:

- Access to key executives where one sales team has a better customer relationship.
- Better information about the account by combining what each team knows or discovers on their customer calls.
- Accelerate the sales cycle through better account coverage
- Higher win-rate through a greater solution value presented by a coordinated team effort.
- Increase deal size by introducing greater value to the customer.

- Build customer credibility by creating confidence in the partnership.
- Build the pipeline and revenue opportunity for both sales organizations via lead sharing.

Advantages in collaborative selling must be clearly articulated to the sales stakeholders and often bear a heavy burden of proof to an organization that is culturally a direct selling model. Sales incentives and time bound exclusive positions can be effective to jumpstart sales of partner solutions.

There can be volumes written about fostering collaborative selling that is beyond the scope of the paper, but the key take away here is to insure that there is a compelling value proposition that motivates the sales teams to engage.

Each value proposition needs to be backed up with an operational plan to create and deliver that value.

Watch for negative values at work in your alliance. We implied earlier that increased complexity and reduced control are two with respect to sales. But the most tangible negative motivators occur when your sales incentive plans are not in alignment with partner selling. Special attention needs to be paid to ensure sales compensation equally rewards selling with a partner versus selling direct.

There is also value to be gained in joint marketing. Not only are cost shared but by marketing to each other's customer base, you greatly increase your marketing reach. You also gain higher quality leads generated with the endorsement of your partner into their customer base. This can be immensely valuable if your partner has complementary markets or is a much larger organization.

Compelling Value Propositions

Here are questions to ask as you develop a compelling value proposition:

Customer Value	Does the value solve a customer problem? Does it create a differentiation for the customer? Save costs? Increase profit? Does it address what key decision makers care about?
Partner Value	Does the value create differentiation for the partner? Does the value fit the partner's business model and profit motivation? Is there sufficient reason for partner sales teams to engage?
Your Value	Does the value differentiate your company? Does it meet your needs in generating revenue and margin? Is there sufficient reason for the sales teams to engage?

Case Example: A global systems integrator had teamed with a large service provider carrier to provide end-to-end application hosting services. The service provider was losing business and customer confidence due to poor performance and execution. There was a shortage within the service provider of skilled expertise in delivering hosting services and deploying business applications. There was also a lack of formalized processes and procedures for implementation.

In joining forces with a globally known systems integrator, the service provider's organization was augmented with an influx of additional skilled resources and best practices in client services management, governance, business process management, and transformation management. The service provider provided the network and computing infrastructure, system monitoring and maintenance. Both took joint responsibility for change management and end-to-end service management. The resulting alliance was highly successful for both partners, turning around a struggling application hosting practice by providing a better level of service to customers.

Rigorously track and measure value created against a baseline to show progress.

The value proposition for this alliance was clearly defined for all stakeholders and in all three value dimensions: solution, financial, and sales. Moreover, they were rigorous in tracking the value created.

Solution value to the customer was recognized in increase of service delivery quality. Problems were solved before deployment through assessment services, resulting in increased customer satisfaction and increased customer retention.
Financial value was recognized in more services delivered to the customer and greater profitability through less problematic service delivery and improved resource utilization. Both partners benefited in increased revenues and better margins.
Sales value was demonstrated in an improved win-rate through increased customer confidence in the combined resources of both companies. This of course added to the financial value in terms of incremental new business.

Evaluating Value Propositions

Once you've formulated your value propositions, subject them to a stress test. To assess the strength of your value propositions, ask yourself:

Stress Testing Value Propositions
Are the value propositions compelling?
Are they measurable?
Will they make an impact on customer behavior?
Have you addressed the interests of each key customer decision maker in the solution value proposition?
Are there sufficient motivations for your sales organizations to engage?
Are there negative values at work?
Have you field tested your value propositions with your partner and your customers?

Operationalizing Value Creation

Understanding the alliance value proposition builds not only the foundation for a sustainable alliance but gives the alliance manager a valuable tool to enhance collaboration and joint business planning. Alliances that succeed use value propositions to drive plans for value delivery and to set metrics to measure the value of the alliance for the company, partners, and customers.

Determining all the points of value of an alliance is a big step forward, but what's next? Value doesn't happen spontaneously. Each value proposition needs to be backed up with an operational plan to create and deliver that value.

Be sure to establish metrics for each value proposition, including a baseline from which to measure progress. As the adage goes "you manage what you measure"; it also goes that you cannot optimize what you do not measure.

One issue we often face as alliance managers is that our corporate reporting systems are not very adaptable to measuring alliance value, so you may have to be resourceful and creative. For example if you are creating a differentiated solution, how might you measure that your offer truly is differentiated and making an impact? You might measure win rates, new accounts, or time to closure as compared to non-partner sales.

Best Practices

Below is a summary of best practice in developing value creating alliances and in optimizing your Return on Relationships.

Best Practices in Optimizing your Return on Relationships
Build your alliance in alignment with the strategic imperatives of your company, your partner, and your joint customers.
Collaboratively developing value propositions with your partner will lend insight into how to create a more valuable partnership for everyone.
The most compelling value propositions impact a customer's business model, increasing revenue or profitability.
Look for ways to create value not only for your customer, but your customer's customers.
A well-crafted joint solution can create competitive advantage in the market place through differentiation.
Different business models will drive different financial expectations. Value doesn't have to be equal; but it has to be equitable.
Advantages in collaborative selling must be clearly articulated and bear a heavy burden of proof to drive successful joint sales engagement.
Each value proposition needs to be backed up with an operational plan to create and deliver that value.
You cannot optimize what you don't measure. Rigorously track and measure value creation from an established baseline.

Partners in Best Practice

Phoenix Consulting Group's practices and services help companies maximize their Return on Relationships™. We partner with our clients to accelerate revenue, tap new sources of innovation, gain operational efficiencies, and open new markets through effective alliances and partner ecosystems.

Our consultants apply a strategic perspective honed from years of practitioner experience as alliance leaders. We have been in your shoes—accountable for results. We understand how to implement strategy, processes, and policies as well as how to lead change.

Partial List of Corporate Clients:

- **Adobe**
- **APC-Schneider**
- **BioRad**
- **Cisco**
- **Dupont**
- **Lilly**
- **Microsoft**
- **Nationwide**
- **PayPal**
- **Pearson Learning**
- **SAP**
- **VMware**
- **Xerox**

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