What Your CEO Should Know About Partners and Ecosystems

I have been building alliance programs and partner ecosystems since the 1980s. And yet, what perpetually surprises me over my long career as a partnering professional, and now as a consultant, is that I still have to explain why partners are crucial to the growth and viability of the business. In fact, many times I have been grilled by C-level executives to justify partner resources—and even the very existence of the partner program. I frequently hear from other partnering executives who are also called to explain, "Why do we need partners?"

Having the Answers to Questions Ranging from "Why Do We Need Partners, Anyway?" to "Will This Solve All Our Problems?" Will Help You Translate the Language of Partnering to Your Chief Executive

By Norma Watenpaugh, CSAP

This despite the obvious fact that the largest and most highly capitalized companies on Wall Street and in Silicon Valley have vast ecosystems of partners and strategic partners: Apple, Google, and Amazon to name a few. Not that it is essential that every company has a massive platform play of partners, but even an early-stage startup can benefit from a carefully curated community of strategic partners.

There has been tremendous growth in new software startups in the past few years. Forrester estimated there were 10,000 independent software companies in 2008 (https://www.linkedin.com/pulse/distributors-future-distribution-jay-mcbain/). Today that number is more like 175,000, and heading for a million—with each one having a CEO who needs to understand how partners fit into their growth strategy and how to enable effective partnering to achieve their goals.

So what does your CEO need to know about partners and ecosystems? Here's a few key concepts.

1. Winners Collaborate

In today's business climate, no one can go it alone. Customers increasingly demand a "complete" product, which is often actually a cluster of related products and services. Customers do not want simply a bag of parts. They expect these products and services to work together seamlessly in their environment. Thus digital transformation solutions are often composed of an entire ecosystem of collaborating partners. Customers expect these ecosystems to be expertly orchestrated to deliver on their needs.

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The EY 2021 CEO Imperative study of more than 800 business leaders leveraging at least one ecosystem business model has revealed that ecosystems on average

- make up 13.7 percent of their total annual revenues,
- drive 12.9 percent in cost reduction, and
- generate 13.3 percent in incremental earnings.

But not all ecosystems are created equal. When compared to low-performing ecosystems, high-performing ecosystems on average

- drive 1.5 times the cost reduction,
- contribute 1.5 times more to annual revenue, and
- generate 2.1 times the incremental revenue growth.

Additionally, 91 percent of the respondents agreed that ecosystems have increased the resilience of their business. This premise has just been through a massive stress test called the pandemic, with many new innovations and use cases arising out of the partner ecosystem to address new challenges. **Drew Quinlan**, CA-AM, vice president of strategic alliances at RingCentral, recounted how his company was able to assemble a work-from-home call center application in short order after the shutdown because they had an ecosystem of partners who had the essential components to make it work ("Driving Ecosystem Innovation Through an Agile Digital Business Model," ASAP Global Alliance Summit panel, 2021).

How does a partner ecosystem deliver these compelling business outcomes?

- **Partners provide valuable sources of innovation.** No one company can provide the breadth of unique solutions and applications that customers seek. By opening up to a community of partners who innovate around your product or platform, you offer customers more choices and enable more stickiness. And of course, an innovation pipeline translates to a revenue pipeline: new things to sell to new customers.
- **Partners enhance the customer experience** by providing customization to their unique needs, delivering wraparound services to streamline implementation, proactively managing customer success, and stimulating consumption, adoption, and upsell.
- **Partners foster growth** through access to their customer base and their markets. Joint solutions create new value propositions that attract new customer sets and increase viability in new markets through go-to-market initiatives.
- **Partners enable agility and resiliency**. As we have seen in the pandemic, an ecosystem of partners enables new solutions and creates new possibilities to solve urgent business challenges.

2. The Best Ecosystem Wins

As much as we would all love to believe that the best product or best technology wins, that is not necessarily the case. Often success is based on the best ecosystem. Your partners create a footprint in the market that is much larger than just you. They create market awareness that is as large as the ecosystem; they provide additional value to customers who are buying the whole enchilada, not just your product alone. They are interdependent upon your success, so when they promote their own products and services, they also promote yours.

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Microsoft has been known for its powerful ecosystem of resellers, managed services providers, and ISVs. They have also been known to introduce substandard products—remember Windows Vista? Yet because of the stickiness of their ecosystem, customers did not desert the Microsoft platform; they held on until the next generation of Windows while partners provided services and support through the transition.

On the flip side, in 2013 Microsoft and Nokia partnered to revitalize the Nokia mobile phone. Remember when

Nokia was the leading brand in this space? Yet they were unable to engage that powerful ecosystem in a way to compete with the Apple iPhone and Google Android platforms, thus losing that ecosystem war (https://www.forbes.com/sites/forbesbusinesscouncil/2021/05/24/the-power-of-ecosystem--or-can-you-go-it-alone/).

3. Partnerships and Alliances Are Not a "Deal"

There is space for opportunistic partner relationships, the ones that exist for a specific customer requirement; however, you will get the most value from partnerships that are built for the long haul. Not just for the deal of the day—but based on a value proposition that extends repeatably to many customers over time. This also means thinking long-term and thinking about scale in the go-to-market motion. Once you've identified the winning value proposition, it must be packaged, productized, and promoted to reach more customers, creating a pipeline of many customers. In this way, such alliances become sustainable and recurring revenue streams.

You may have many partners and not all of them will be strategic on their own, yet it is imperative to think about the ecosystem as a whole as a strategic asset. Your CEO should understand that successful ecosystems aren't just bolted on to the side of the business; they are an integral part of the business. Ecosystem strategy should be an element of overall corporate strategy in achieving corporate goals. The ecosystem needs to be sufficiently resourced with budget and systems infrastructure, then staffed with experienced partner managers and ecosystem orchestrators. Partner managers attend to the partner relationships. The orchestrators tend to the operation of the whole system: the policies, processes, governance, metrics, and infrastructure technology. Ecosystem performance needs to be tracked, managed, and monitored just like any other corporate function.

4. "Win-Win" Doesn't Mean You Win Twice

No kidding: I once worked for a boss who thought "win-win" meant he won twice. In fact, an outside consultant remarked to me, "You don't have partners; you have victims." Not a very partner-friendly place.

Working with partners requires an understanding of what they get out of the partnership. There has to be a win for your partner—otherwise, why would you expect them to work with you? As a good business leader, your CEO is naturally looking for "what's in it for me?" But for a partner to invest in an alliance, they will be looking for what's in it for them. Partners have choices among ecosystems. They will gravitate toward the one with the best value proposition for them.

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One pet peeve of mine is when alliance leaders structure the conversation around gives and gets. What are you giving and what am I getting? This devolves into a purely transactional conversation. Much better to shift gears to a *value-creating* conversation. So instead of talking about how you are dividing the pie, you switch to a conversation about making the pie bigger. At some point you do have to sort out how you divide that now much bigger pie, but it's far better to approach the conversation from a value-creating perspective first. This exercise is often known as Partner Math, where 1+1 > 3.

On that note, the purpose of partnership is to ultimately create greater value for both or all partners and a win for customers, too. So win-win becomes win-win-win!

5. Success Is Not an Accident

Companies that approach partnering in an ad hoc fashion have an abysmal failure rate. Various studies—including some by ASAP—peg the failure rate at between 50 and 70 percent. Yet it has also been shown that organizations that approach partnering like a management discipline can achieve 80 to 90 percent success rates.[1] The difference lies in adopting a partnering strategy, implementing proven processes, building a collaborative competency throughout the organization, fostering a collaborative culture, and ensuring executive sponsorship. Let's take a look at some of the elements of these:

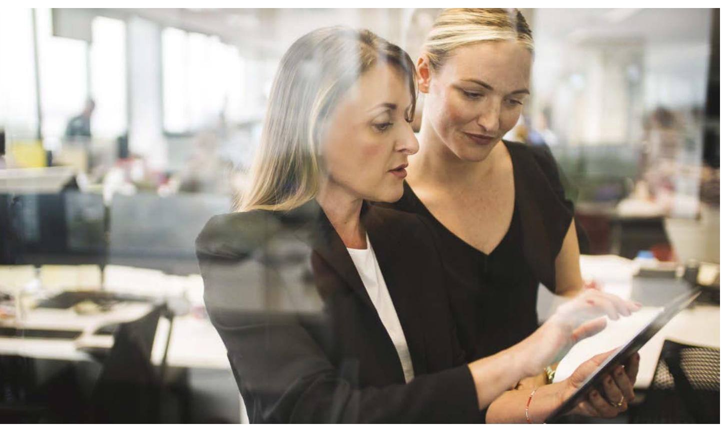
Partner strategy. Or more importantly, how do partners figure into your corporate strategy? How do your partners and ecosystem of partners enable you to achieve corporate goals for growth, innovation, resiliency, or operational efficiency? Clarity in how partnering achieves corporate objectives is the throughline that justifies "Why Partner?"

Life cycle process. Partner management progresses through an entire life cycle. The ASAP model prescribes seven life cycle stages: Strategy, Selection, Trust and Value Creation, Operational Planning, Structure and Governance, Launching and Managing, Transformation or Exit. It may not be necessary for your CEO to understand each and every stage, but it is important to understand that there is a proven process and that the organization has adopted and adapted it to provide the scaffolding for how your partner relationships are managed.

Skills and competency. Senior leaders need to hire people who have the right skill set and mindset to be successful in the role of collaboration leaders. But partnerships are more than just skilled alliance leaders: they also include all the company stakeholders who work with the partner, so they must also have a basic competency in working collaboratively. The organization must hire people with the right stuff and then provide training and role models to build internal competency across the organization for collaboration.

There are many "accidental" partner managers, but successful ones develop the skills to truly manage these collaborative relationships. They must demonstrate:

- **Life cycle management skills.** Do they know how to curate and select appropriate partners for your intended strategy? Do they know how to onboard a partner, structure alliance operations, and institute governance?
- **Leadership skills.** This entails a lot of management by influence: aligning stakeholders across the organization where there is no hierarchical authority and working the partner stakeholders where there is also no hierarchical authority. This is not a role for a control freak!



- **Business acumen.** There is a need to understand the company organization, governance, industry, and strategic challenges.

Culture. All these factors—collaborative processes, competencies, and leadership—will nurture a collaborative culture and contribute to an environment where partnerships thrive.

6. Different Partners for Different Times

Your partnering strategy and partner choices will depend upon the maturity of your products and the markets you compete in. The needs of an early-stage startup in an emerging market are very different from those of an established organization in a mature market.

- **Getting to market.** In the early stage of the market, buyers are seeking innovation and strategic advantage through new products and services. The partners you need at this stage help you complete the gaps in your product with additional features, technology, or services. Partners who thrive here tend to be innovators and early adopters themselves. They are challengers, seeking a competitive edge over more mainstream partners. This stage of the market tends to be more forgiving, but it is a small market.
- **Gaining market share.** Once you have established a customer base for your products and services, you will want to build on that to reach the mainstream market. Buyers here are more pragmatic. They want proven products, and they want support to implement and operate. They will also want your products to integrate with operational systems they already own. Service partners are important in this stage, as are complementary partners that can extend the value of your product by adding features and capabilities that will appeal to new market segments. These are like App Store or Google Play partners that add value to your smartphone.
- **Volume and scale.** This is the game in the mature market. You should be seeking partners that can deliver volume and scale. These will be the larger, more established partners in the landscape—distributors, service companies, and outsourcers that can provide global reach as well as services at scale.
- **Revitalize and extend.** In aging markets, demand is in decline and products are commoditizing. Here you may have partners that can inject new life into your basic offer through an infusion of innovation. You may also need partners that can provide services and support to your products to extend their useful life.

7. So You Want to IPO?

With increasing frequency, I have clients coming to me as they have landed late-stage venture funding and their investors are advising them to up their game in their partner ecosystem.

Market valuations are much higher for companies poised to scale, and that means having a strong ecosystem of partners.

The choke point for many of the SaaS software companies is services, especially for business software. They need pre-sales services to help customers scope, plan, and prepare to use their apps. They need services to configure the applications to fit the needs of customers and to train them on use. There may be a need for change management, since implementing new software usually means there are process changes in the business that users may resist or resent if they aren't introduced with a lot of support. Most business software also requires integration with other business software. And of course there are ongoing services to ensure customer success with the application, helping with day-to-day use, expanding the usage by adding more users or creating upsell/cross-sell opportunities for additional features and services.

In order to address the constriction in their business, software developers need to build out an ecosystem of service partners who can surround their platform with all the various kinds of services the customer will need—and who by the way are likely to make more on the sale in services than the software company. This is a multiplier. Salesforce, the granddaddy of SaaS, claims that the ecosystem value of services is 4.6 times larger than their subscription price. This is the motivation for the ecosystem to build a business around a software application. Capturing those multipliers in services is the compelling monetary incentive.

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Software companies are limited by the implementation services they can provide with in-house resources. Their business scales with the number of partners who can competently serve their customers. And since those partners are making good bank, they are actively promoting and advocating the software to new customers.

All of this enables the software companies to focus on building software, not managing services.

Finally, Wall Street puts a higher valuation on SaaS software than on services, so if as a software company you are building out a strong services organization to support your software, you will be compromising your IPO value and your early retirement plan.

8. Success Begins at the Top

The role of executive sponsor cannot be underestimated. In a small organization, this will be the CEO. The executive sponsor influences the culture, models the behavior, and sets the priorities in collaborative relationships. CEO support and that of the CXO staff fosters the environment where partner ecosystems can succeed.

When you look at the stakeholders of most ecosystems, it becomes clear why this level of support is critical. As ecosystems stretch across a company's functional departments and value chain, you find that business-to-business collaboration has multiple touchpoints. It takes the active involvement of senior management to keep the behaviors and focus of the functional organizations in alignment with the company's strategic goals in partnering.

The executive sponsor ensures that the partner ecosystem is a priority for the organization and that it is supported in a way that drives value, scale, and innovation, paving the way to success. All too often I've seen partners and ecosystems fail when they did not benefit from executive air cover.

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I realize that in some ways I'm preaching to the converted in this publication. Yet I believe many of us have faced the challenge of trying to explain to leadership what we intuitively understand about the partnering business model.

Some CEOs and senior leadership understand the power of partnering and ecosystems. Some do not. Many have an idea that partnering is important, but they're not sure why. Communicating these eight pointers should help you inform your leadership on how partners are crucial to growing and scaling the business. Most important is the CEO's and other senior leaders' role in supporting the partnering business model. Executive leadership is often the critical success factor in setting the strategy, molding the culture, and providing the resources to ensure that you are building a winning ecosystem.

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[1]de Man, Ard-Pieter. (2012). *The State of Alliance Management: Past, Present, Future*. Association of Strategic Alliance Professionals, Brabant Center of Entrepreneurship.