

## ASAP Silicon Valley Chief Alliance Officer Meeting 2008: Takeaways, Best Practices & Implications

By: Adrian Ott, Exponential Edge Inc.

### Overview

The Silicon Valley Association of Strategic Alliance Professionals (ASAP) held their annual senior alliance executive meeting with a select group of Fortune 500 companies. Exponential Edge was invited to moderate this event. This is a synopsis of the discussion that considered current issues, trends, best practices and implications to global alliance ecosystems.

**The Takeaways and Best Practices** that follow reflect what was directly mentioned by the group (not in priority order). **Implications** are Exponential Edge's interpretation of what the executives meant or our assessment of key outcomes based on the group's comments. The first three Takeaways in this document reflect trends and issues identified by these thought-leading executives, the final three Takeaways center on best practice sharing.

### **TREND: Consolidation and New Business Opportunities Trump Existing Alliance Models**

80% of alliance executives that attended characterize the level of change occurring in their alliance ecosystem over the next three years to be "significant", 20% see "moderate change", and none of the 21 executives present said "no change". Approximately, two-thirds of the group also indicated that their alliances group moved to new reporting relationships within their organization at least once within the past year.

The top three trends cited for driving change were:

1. **Co-opetition and Industry Consolidation (25%).** *"How is joint value determined with potential product overlaps? How does a company plan with a shifting landscape?" "One day we are OEMing to Hyperion, but the next day Oracle buys them and competes with us, so what should our partnering*

### The Executive Meeting

This year's event was hosted by Symantec at their facility in Mountain View CA on Jan. 16, 2008. The meeting was an open roundtable format to foster dialogue on the latest trends and best practice sharing between executive participants.

#### Topic Areas:

- Top Trends and Issues
- Emergence of New Platforms and their impact on Ecosystems
- Application of Social Media and Communities in Partner Ecosystems

#### Attendees:

Twenty-one Senior VPs, VPs, & Directors responsible for Alliances and Partners

#### Companies Participating:

BEA, BMC, Borland, Cisco, Cognos, Emerson Electric Power, IBM, Informatica, Intel, LiveOps, Oracle, Paypal, Philips Electronics, Symantec

#### Moderated By:

Adrian Ott, Exponential Edge

*strategy be? How does this affect customer relationships (i.e. when partners are acquired by competitors)? Our goal is consistency for customers, so when should we partner, when should we buy?"*

2. **New Business Models (19%)** e.g. **SaaS (Software as a Service), IPTV**. "Who are your partners and who are your customers? What economic model makes sense?"
3. **Emerging Markets- BRIC (Brazil, Russia India, China) (19%)**. "How do you take advantage of these growth opportunities without dropping the ball? Who are the hottest companies in these new emerging areas? Who are the right services companies to partner with in India? How do we make these partnerships viable?"

### Implications

Many executives present were not sure how to respond to these new emerging models; it is clear that it is no longer sufficient just to apply existing alliance business models and approaches to these new opportunities. Software, services and consumer companies identified themselves as the companies that have the most to win and the most to lose in their changing ecosystems (e.g. with SaaS and IPTV). They are in most need of re-evaluating strategic alliance priorities, goals, and metrics.

Another theme that emerged was the challenge of balancing limited resources across disruptive alliance models while continuing to maintain healthy growth and revenue in existing businesses. These efforts are compounded by the shifting sands of organizational change and structure occurring not only within their own organization, but by organizational change taking place in their alliance partners as well.

Flexibility continues to be a salient theme in structuring technology alliances. This will manifest itself in shorter contract terms, timeframes for ROI and milestones. Executives will also strive to negotiate relationships and financial arrangements with partners and their own regional organizations that enable them to redirect resources as needed to other alliances and initiatives. For example, negotiating funding pools that redirect resources from U.S. based "cash cow" initiatives to BRIC joint investment opportunities rather than automatically re-investing in a "cash-cow" region with slower growth potential.

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### **TREND: Capturing Value in Increasingly Diverse Ecosystems will Separate the Winners from the Losers**

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Approximately one-quarter of the alliance executives were interested in understanding how to maximize business value in light of increasing industry complexity. As ecosystems evolve as a result of new market opportunities (e.g. mobility and SaaS), how companies define and prioritize these new opportunities will have major impact on the strategic and financial value they are able to derive from alliances.

Specific discussion areas that were top of mind to the executives included:

- **Choosing the right partner.** One senior executive shared with the group how the emerging IPTV ecosystem posed challenges of "how to pick the right partner and how to best work with them?" For example, the IPTV ecosystem is composed of multiple industry segments: (1) Operators (British Telecom, Comcast, Set-top Box Providers, PC Industry (Microsoft, Apple, Cisco, Intel), Content Providers and Aggregators, Movie Studios (Fox, MGM, Paramount, Warner Bros., Apple), and Advertising (e.g. Google). "How does one prioritize these alliances and what are the new metrics for success?"
- **Prioritizing initiatives that pay-off in light of higher "noise levels".** "Which trends are salient enough to require making an investment? How should trends be prioritized? How does one become more proactive? What does/should this path look like? We need to focus on execution and hit the strategic objectives. The noise level is higher [and coming more rapidly than ever], but what will lead to profit and increase value? What is the best path to increased sales and revenue?"
- **Importance of the customer.** "We need to be one face to the customer, so how do we bring it all together?"
- **What does ecosystem mean?** "For SMB, Enterprise, hardware, software- ecosystem means different things to different groups."

## Implications

With so much market disruption, the executives clearly saw the need to take a broader view of the industry landscape and alliance portfolios than they have in the past. Strategically determining companies that will win and lose given changing market conditions and blurring market boundaries is becoming a required alliance competency. Working more closely with the Mergers & Acquisition and Corporate Strategy teams as well as consistent external market monitoring are additional critical elements to defining a holistic market landscape.

Divergent business cultures from different industries also bring a new dynamic to alliance management that sets new precedents for a common customer. For example, consider Microsoft and Detroit Auto Manufacturers working together to create Ford Sync. Also consider the emerging IPTV ecosystem where multiple industry heavyweights emerge; a leader in one industry may no longer dominate above the rest in the new market landscape. Strategic alliances will need to look outside of existing paradigms to define new value networks that span across multiple different industries in order to capture the major share of customer wallet.

### **TREND: SaaS (Software as a Service) Dis-Intermediates Existing Business Models and Creates New Paradigms**

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SaaS is viewed by **over two-thirds** of the executive participants as a new “top of mind” trend that offers major new business opportunities while bringing into question what an organization need to do align itself to capitalize on this huge market opportunity.

The tipping point for SaaS is already seen in some markets like the mid-market, although the opportunity is pervasive to enterprise and SMB as well. Others viewed SaaS as being relevant to certain industries and geographies, not just market segments.

*“Microsoft is getting 11,000 new customers a month in SaaS. For us, the light turned on with this statistic. Customer demand is driving SaaS....70% of venture capital investments are in SaaS, so it is a pervasive trend.”*

SaaS raises critical issues of how it impacts the tried and true software business model of today and whether companies are ready for it. There was some debate on whether traditional software models will be impacted in 5 years or even sooner.

*“The important question is that most of us have built massive channel structures and value propositions, but now it is being dis-intermediated. Are different channels, skills, delivery methods required for SaaS? What does the value model look like? How do we monetize it? For example, do we give it away for free as in the advertising / Google model?... Will software follow how content (music, video) is being dis-intermediated? ”*

*“Our CFO is scared half to death of subscription revenue and anything remotely related. ...They love to sell [traditional software] licenses and run.”*

Other questions raised about the SaaS business model included:

- *“What is the [partner] revenue model for SaaS? Will partners in a SaaS world be the same [traditional] partners? [or a totally different set of partners?]”*
- *“For our company, the partners are not different and often the same, however the ways that SaaS is bought and sold are different [e.g. no large upfront revenue, small monthly fees with thin margins]. So a different compensation model is needed.” How does one monetize this direct offering to the customer?”*

- *"How do we gear up for the mid-market with SaaS? What is the appropriate price point and delivery method? How do we charge one hour on a credit card? SaaS to the mid-market is about a \$50 an hour versus \$400 an hour for a typical process (in our large corporation) today."*
- *"What keeps me up at night is what does the partner environment look like? What lessons can be learned? We had a nightmare experience with a software implementation, especially with SIs..."*

### Best Practices Mentioned:

With change comes opportunity. One software company shared their thoughts on how SaaS enabled them to create a dialog with a company that previously was uninterested in working with them. *"We were looking for a joint offering with Lenovo, but Lenovo already had an entrenched partner with a high level of loyalty. But now with the SaaS trend and the help of Intel, we were able to get move into this new partnership opportunity and get executive buy-in to make things happen. It's important to be ahead of the curve. SaaS is the "incubation topic. New partners are keen to speak on what we can do together in this new area of SaaS."*

Another approach is to be clear about the value that your company contributes to SaaS. A software company in the middleware market said, *"Middleware does not make sense as a service offering. So we provide development tools and processes to help companies create SaaS, e.g. development tools and middleware to open up products as a service."* In other words they are approaching SaaS from a "picks and shovels" market perspective as a supplier to SaaS providers instead of providing the SaaS services themselves.

### Implications:

Most successful SaaS models to date have evolved out of companies that were built specifically with this business model in mind e.g. Salesforce.com. Although most of the executives didn't expect the majority of their software license revenue to move overnight to SaaS, the theme of how to best balance these two divergent models was clearly top of mind. Structuring partner programs for SaaS is still nascent. SaaS is not relegated to the few, but brings software capability to the masses and thus as a volume-play partnerships need to be structured, measured, and compensated accordingly. Corporate cost structures and measurement need to be consistent with cost and timing dynamics of the SaaS business model.

For complex enterprise applications, value-added services for SaaS continue to be a large revenue source for partners e.g. SalesForce.com certified consultants. Although some partner roles will be dis-intermediated, it is expected that these will be replaced with other roles for certain partners. Companies will need to determine where partners add value to their SaaS spectrum and build new programs that go beyond traditional reseller models. Compensation models, enablement and partner portfolios will adjust commensurate with the value provided.

### Measuring Alliance Value Remains Elusive

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Several executives articulated that they are continually challenged with measuring quantifiable, incremental value to their organization.

- **How do you justify alliance value to senior management?** *"How should alliance value be monetized? There needs to be a balance of short term revenue versus long-term strategic value and internal and external measures." "What are alliances contributing incrementally that we wouldn't already get on our own?"*
- **Lead management** *"What incremental leads are coming from alliances? Our CEO always asks how many new qualified sales leads are as a result of alliances."*

### Best Practices Mentioned:

An executive of a Fortune 100 company shared a best practice to measure alliance value which is used to guide strategic bets and communicate with senior executives. He indicated that unlike reseller relationships, many of the alliances have strategic value beyond just revenue. Their value approach is called NIV- New Initiative Value where strategic and financial hurdles are established. *"Alliances are unique so we use this vetting process to help us measure the value. NIV helps us communicate internally to drive our top line value- for example, market access + timing = value. Then we assess the financial value. We tend to take a holistic view."*

Although most companies had a lead management system in place, there was some discussion about how to improve this system. Some companies shared their approach of using a PRM system linked with a sales force management system where partners register leads through a partner portal, though this was viewed as being somewhat limited because it is based on the judgment of individual sales reps and specific deals. One company cited their approach where they take a 360 degree view based on GTM (Go-To-Market) goals at a global level.

### Implications:

For alliance measurement, a multi-faceted measurement rubric that is agreed upon by senior executives sponsoring the partner program is critical to success. This is particularly important for alliances that may have a long ROI or have non-revenue specific strategic value; current revenue seems to be the only yardstick that matters to many companies today. This is partly why so many companies struggle with where to place alliances in the company, and why alliances experience so much organizational change.

## ***Creating an Optimal Partner Organization is becoming More Complex and Challenging.***

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Another key issue raised by **over one-third** of the attendees was how to structure the optimal alliance organization to be focused on the most profitable business opportunities and how to enable channels and alliances to drive to these common objectives.

- **Shifting alliance organizational structures: how to best structure an organization for governance? (10%)** - *"What is the optimal structure to ensure the most effective one?"*
- **How to assess, enable and create accountability for business revenue?** *"How do you have an effective process to enable alliances?"*
- **Compensation.** *"Where do we fit/align with our partners at all levels?"*
- **How do we communicate effectively with the partner community?**
- **Global implementation.** *"How does one ensure the leverage-ability of work from corporate to local? How much of the value chain gets leveraged, how does one ensure sales-force buy-in, at the local level and with partners at the country level? How do we ensure that efforts with partners are monetized? How does one measure this?"*

### **Best Practices Mentioned:**

An alliance organization needs to be fluid and adaptable to changing market dynamics, while having success metrics in place to understand what is working and what is not. It is not always possible to have the best structure in place for assessing, enabling, and accountability for revenue, so shifting and adapting is expected. Using alliance communication vehicles like partner portals and a having a clear line to senior management will be important to keeping communication channels open.

One software company shared with the group a valuable resource from a company in Boston, IMN, I Make News, [http://www.imninc.com/imn\\_site/index.htm](http://www.imninc.com/imn_site/index.htm). This company provides a communication vehicle focused on partners. The software company provides this service to their partners. *"Channel Partners love it because they can personalize communications to their customers. Channel Partners take the communications information that we provide, change the face of it and send it out to their customers. IMN provides us value in multiple ways— e.g. it gives us information on what communication vehicles channels are using. Also, the service provides insights as to what issues channel partners are facing."*

### Implications

ASAP is currently undertaking a study that will provide guidance in the compensation area.

Behavioral targeting and analytic technologies enable companies to better measure what is working and what is not, and reduce overall coordination costs. For example, an e-communication distribution system such as IMN enables a company to realize several important benefits:

- (1) It enables visibility into which channel partners and regions are actively co-marketing and selling solutions, thereby providing critical feedback on partnership execution, commitment follow-through
- (2) It is an easy way to enable all of the channel partners to easily syndicate and repackage marketing content as theirs
- (3) One can easily track down which programs and products are getting the most traction and where the traction is occurring.
- (4) Some systems provide visibility as to which end customers are opening and reading offers thus providing even greater visibility
- (5) Reporting is on-line and immediate reducing the need to call or e-mail the sales force and partners for feedback.

### Approximately 30% of Alliance Executives are Adopting Some Social Media and Community Technologies like Blogging, But Most Are Wait and See

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Some recent research statistics on Social Media were presented to the group. The survey was conducted by Gartner Group in September 2007 in conjunction with ASAP, with 202 respondents across multiple industries in Europe and in the United States, 45% were technology providers.

- 36.6% respondents use Social Networking site to find partners
- 22.5% use social networking to manage relationships
- 38.6% use personal or corporate blogs principally to manage relationships
- 39.7% use podcasts or video clips
- 33.3% use Wikis to manage relationships
- 21.6% use Wikis to find new partners
- 70% use Portals

Although most of the alliance executives were aware of these technologies, they were not sure how these technologies applied to managing relationships or to find new partners. A comment was made on how partnerships could be managed through YouTube? (Laughter)

A few of the alliance executives use blogging in partner relationships, but with mixed results. Clearly there is a benefit to blogging, but it is not clear that there is measurable value. Some companies use blogs to facilitate communication about alliances and thereby add value and

expertise in a timely manner to a broader community. Others are running into issues with corporate PR about blogs in terms of what can be said and what cannot be said. And others stated that their alliance professionals are evidently not busy enough if they had time to blog.

*"We use blogs to raise internal awareness of our alliance professionals. Out of the top 20 internal corporate blog sites, our alliances managers are top contributors. We use blogs to market our organization more effectively-by sharing opinions and communicating and collaborating around topics of interest. Blogs are a good way to spread expertise that needs to be pervasive, and also expand expertise as well. It allows our alliance managers to stay engaged and offer resources."*

*"But the challenge of blogs is there too. At [our large corporation], we are running into [our company's] public relations with our blogs. Rather than being concerned about getting fired, it should be about rewarding and being acknowledged in public for our contributions. Blogs are beneficial in that they can help influence the thought process."*

For the other social media technologies, the benefit remains less clear. But several agreed that Web 2.0 is here to stay because emerging Web 2.0 technologies are seen to be preferred communication methods of many technology-oriented customers and partners of the companies represented in the room and of the coming generations of future customers. So questions of how, when, and why are still undetermined, but there is awareness and alliance executives are starting to ask the questions.

*"How do you overcome barriers to participate in a virtual world? What does the marketing and promotion that is needed for participation look like? There needs to be a viral value- e.g. easy to use, which brings together the value. The cost of access for matchmaking needs to be low, the virtual world needs to be faster, offering more productivity, lower barriers, yet not requiring partners to be in the virtual world all the time."*

## **Best Practices Mentioned:**

At one company, guidelines for **blogs** are posted so that internal organizations can actively blog within certain limitations. This provides the benefits of blogs within the boundaries of appropriate corporate communications.

Two companies used **virtual tradeshows** with much success. One major company held a virtual tradeshow, with over 6000 attendees which resulted in substantial leads and was a great success. An internet company has utilized a virtual tradeshow environment to hold seminars and webinars to support the customer and partner experience. Incentive programs are in place to ensure benefits can be realized. Back-end work was done to make it worth the effort for partners.

*"Our Developer Community is very active and beneficial to our company. The investment in this community reduces our overall support costs by 10%, although we are still working on these figures now. The community brings important fixes to our product team."*

By far the most comprehensive use of social media was mentioned by a major company's **"Industry Solutions Partner Network"**, introduced in September 2007 to provide innovation to their world-wide channel environment and bring incremental revenue to this corporation. *"We see this partner network to be the new trend for channel enablement that provides innovation and profitability."*

This company's partner portal is restricted to channel partners and alliance partners. In this environment, new solution offerings come together for the customer. Incentives are offered to engage, enable, and build these new offerings. Customers are getting more demanding and want to make connections in different ways, so this company incorporated these technologies into the website to enable channel partners to communicate with their own ecosystems. Partners are extremely excited and have already used the virtual booths to generate leads.

The Industry Solutions Partner Network utilizes Web 2.0 media tools, like a second life venue. They use Wikis, Blogs, and Podcast technologies. Unisphere was used as a technology to build this environment, but it is primarily internally developed.

This corporation has put incentives in place in their Industry Solutions Partner Network by vertical application. Examples of incentives include financial, monetary, ability to create offers for the interactive community. They build a solution business case where the opportunity partner brings leads and are given special discounts for doing so.

## Implications

Although the use of social media in partner ecosystems is nascent, everyone agreed that trial and error over time will yield positive outcomes. It is expected that some of the individual technologies may prove to provide little value to partner ecosystems while others will be implemented in unexpected ways with great success. Some technologies such as virtual tradeshow networks appear to be realizing a measure of success today.

A strategy for those considering a "wait and see" approach is to separate those technologies where a first mover advantage is important versus those where it is not. Two-sided markets, such as virtual communities where time and investment by partner members, and where critical mass is important will lead to competitive advantage for first movers. For example, partners may not be willing to invest time and effort in supporting a new community if they have already spent significant effort setting themselves up in a different company's virtual network that has achieved critical mass. Over time, we may expect to see industry consortiums or neutral third parties emerge as a response. For Web 2.0 technologies that don't exhibit two-sided market attributes and thus don't depend on critical mass, a "wait and see" approach is sufficient.

### **Conclusions**

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The executives at the meeting confirmed that strategic alliances are at the forefront of growth and change due to many drivers- ecosystem evolution/revolution (e.g. convergence of communication, media, and entertainment), global markets and customers, and technology enablers (e.g. SaaS, mobility, and Web 2.0 social networks). Many executives indicated that their companies are at a crossroads of how to appropriately adapt to and invest in disruptive growth businesses while retaining revenue from their current business model. As a result, there was strong interest to delve deeper into these topics in a longer one-day follow-up session. ASAP-Silicon Valley will be organizing a follow-up meeting in late Spring 2008.

Strategic alliance executives are in a unique position to see, manage, and adapt to these opportunities. When the timing is optimal, based on market readiness, customer adoption, financial metrics, and growth curves, strategic alliance executives can forge at full speed ahead to lead the formation of new businesses, with the support of alliances that provide a critical platform for success.

While the executives identified dramatic change caused by SaaS, Web 2.0 and co-opetition/consolidation, they also continue to be confronted by perennial alliance challenges such as measuring alliance value, managing large partner ecosystems effectively, and prioritizing and rationalizing initiatives to focus on what really matters versus what's noise (*albeit with a considerably higher volume*).

As Clayton Christensen states in *Innovators Solution*, “*If a company launches a sequence of growth businesses, if its leaders repeatedly use litmus tests for shaping ideas or acquiring nascent disruptions, and if they repeatedly use sound theories to make the other key business-building decisions well, we believe that a predictable, repeatable process for identifying, shaping, and launching successful growth can coalesce. A company that embeds the ability to do this in a process would own a valuable growth engine.*” This is the role the strategic alliances executive clearly plays now and in the future.

### **About Exponential Edge Inc.**

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Adrian Ott, is CEO of Exponential Edge Inc. [www.exponentialedge.com](http://www.exponentialedge.com), a strategy consulting firm headquartered in Palo Alto, CA. Adrian frequently facilitates executive strategy and joint planning meetings and holds a Certificate of Achievement in Alliance Management (CA-AM) from ASA. Adrian holds an MBA from Harvard Business School.

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### **About ASAP**

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*Established in 1999 as a non-profit organization, the Association of Strategic Alliance Professionals (ASAP) is the first professional organization wholly dedicated to the formation and practice of strategic alliances. ASAP provides a forum to exchange alliance best practices, resources, opportunities and offers products that enable members to harness alliances as growth engines that drive corporate performance. ASAP has steadily grown to represent the interests of more than 1,800 strategic alliance professionals around the world. For more information, visit [www.strategic-alliances.org](http://www.strategic-alliances.org)*