

Software and Services Supplier Alliances: Making Them Work

CIMdata Commentary

Alliances between software and services suppliers seem like natural business arrangements, and most of these companies at least try to foster them. Yet good alliances that really pay off for both parties are very rare. The pre-requisites for success fall into two categories: leadership commitment and a sound operational framework. Each of these has key elements, which are critical to success and will be discussed later. But first let's consider the relative importance of these two main categories. The examples that follow are composite dramatizations drawn from research and life experience and are not intended to represent the performance or actions of any specific individual or company.

Ted, the newly appointed Alliance Director for a large systems integrator, received a call from one of his company's regional sales managers who had a major concern. "Our CEO has just issued pull through revenue targets for a new alliance with a software OEM, and I don't even know what their product does. You know this guy. He's going to review performance region by region at our quarterly sales meetings. If I don't figure out how to make my number, it will cost me public humiliation and bonus money—plus a black mark next to my name. And you know what happens if you get too many of those. I really need your help!" The Alliance Director had no organization and no operational framework for this new alliance, but he could offer a few suggestions and arrange introductions.

Alice, the Alliance Director for a major software OEM, was feeling really good about life as she walked out of a very productive joint planning session between the regional sales teams of her company and one of their strategic alliance partners. The dozen or so sales executives and regional sales managers from the two companies really hit it off over dinner the night before, with lots of great discussion and sharing of intelligence on accounts in their collective regions. Alice's team had done their homework, working with both sales teams to pre-qualify a solid list of potential joint targets. During the day-long facilitated discussion, accounts were prioritized according to criteria and process, and plans were documented with actions and due dates assigned for the top five targets. A sales-seasoned member of her staff was standing ready to facilitate the joint pursuits. Then Alice overheard her company's Regional Manager as he huddled with his sales executives outside the meeting room, "Put a good face on it guys, and get whatever you can out of them. But we are running behind on our targets and I don't want you to let these guys get one dollar of services revenue. If they do you are in trouble with me."

So who did better with their Alliance that year, Ted or Alice? Ted did. Ted didn't have an enlightened executive team who would provide time and resources to define and staff an effective operational framework. As a result, there were lots of false starts and wasted effort. Over time, plenty of frustration and hard feelings developed all around. But some pretty impressive pull-through revenue targets were achieved within this second year. The critical ingredient of leadership commitment was present—clear quantitative goals supported by a culture of discipline within the sales organization.

Alice had an operational framework and plenty of well-qualified staff to assist with all facets of the Alliance relationship. Her executive team understood the strategic potential of alliances

and provided ample resources for her effort. She had everything in place except clear quantitative goals supported by a culture of discipline within the sales organization. This sales force was challenged to make their overall revenue numbers and trusted to “do the right thing” with respect to partners. Alice’s efforts were doomed.

Leadership Commitment

Leadership commitment to form and sustain alliances flows from the wellhead of culture and values—from the executive team running the company. This commitment, mild or strong, is driven by belief in the strategic potential of partnerships; that there is potential for significant new revenue and other strategic impacts, such as rapid penetration of new markets, counter to a competitor’s alliances, or exploitation of new delivery models. This belief may be limited within the executive team and manifest itself only as a mild commitment to operation of an alliance program. Conversely, it may be strongly held as central to the company’s success and manifest as a strategic initiative with clear targets, enforced discipline, and support of robust alliance operations.

If the executive team as a whole is not strongly committed to alliances, there may be a senior level champion somewhere within the company. This individual may have positive effects within a sphere of influence, but cannot drive necessary behaviors across the company. Success requires cultural impacts throughout the entire sales force, plus significant cooperative contributions from product and services leadership and from marketing. This breadth of impact can only be driven from the executive team. To the extent that they communicate and enforce their decisions, the leadership team beneath them will be moved to a partnership culture.

Taking a deeper look at the examples above we note that circumstances changed substantially for Alice over time. Alice’s program was in its fourth year when the incident with the Regional Manager occurred. Three years earlier Alice’s company had been spun off and acquired by a consortium of venture capital firms. The new owners had a business plan and for them systems integrator alliances were a strategic growth imperative. Alice had the time, money and most importantly the full attention of the executive team. Alice knew that she was working within a culture that did not understand or value partnerships. She took the time to work with each executive individually and as a team to draw out their ambitions and concerns and then facilitate alignment between them and the Board of Directors.

Alice had achieved strong commitments from the executive team to support a documented set of objectives and guidelines for a portfolio of strategic partnerships. The President participated in alliance partner recruitment meetings, and the EVP for Sales issued firm directives that partnering would be embraced and made to work. Everyone in Sales knew that excuses were anticipated and would not be tolerated. Performance was reviewed by the executive team and then reported to the Board on a quarterly basis. Instead of setting regional targets, the executive team pre-approved bonuses up to several thousands of dollars for sales executives who sold jointly with a partner. Alliances brought in over \$10 million in revenue in the first year, double that in the second and double again in the third.

Unfortunately, leadership commitment for Alice’s program began to unravel early in year three when the company was sold to a large conglomerate and key members of the executive team were replaced. The new owners had experience with resellers and distributors, but had no understanding or appreciation for service partners. The new EVP for Sales declared the systems integrator alliance program “mature,” signaling that “the time for investment is past and now is the time to harvest revenue.” Mature also implied that the sales force was

sufficiently experienced with partnering to be relied on to “do the right thing.” As a result, revenue from alliances dropped by a third in year four.

Operational Framework

In the beginning, Alice’s alliance program enjoyed the double benefit of commitment from the Board (and, therefore, from the executive team) and enlightened support for planning and establishment of an operational structure. She and her team pre-assessed and ranked candidate partners and formulated plans for engagement with them. With the involvement of her company President and EVP of Sales, discussions were conducted with corresponding executives from the candidate firms. Within nine months, agreements and business plans were in place with five major systems integrators. Each enjoyed senior executive sponsorship on both sides with mutually acknowledged objectives that would grow total revenue opportunity for both partners. Each partner-unique business plan defined: a) scope, including industry segments and geographies, b) financial and other performance objectives, c) rules of engagement, and d) investment. The plans laid out a multi-year timetable for relationship expansion based on performance, and rules of engagement included mechanisms to protect client business interests and quality of delivery.

Alice and her team defined and managed an open process to render account-specific teaming decisions based on open business criteria that focus a partnership on “where it makes sense,” and allow flexibility for customer preference and competitive factors. Each partner was assigned an Alliance Manager responsible for partner development, and Alice had an Alliance Field Manager in each Region to facilitate teaming. See Figure 1.

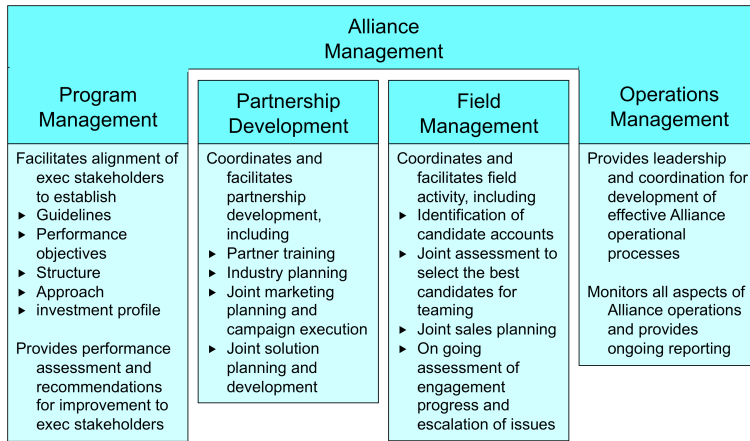


Figure 1 – Alliance Management Roles and Responsibilities.

Teaming decisions and partnership development were reinforced with active governance and issue resolution, and preference was assigned to partners based on jointly measured performance criteria. The operational framework established by Alice and her team is illustrated in Figure 2.

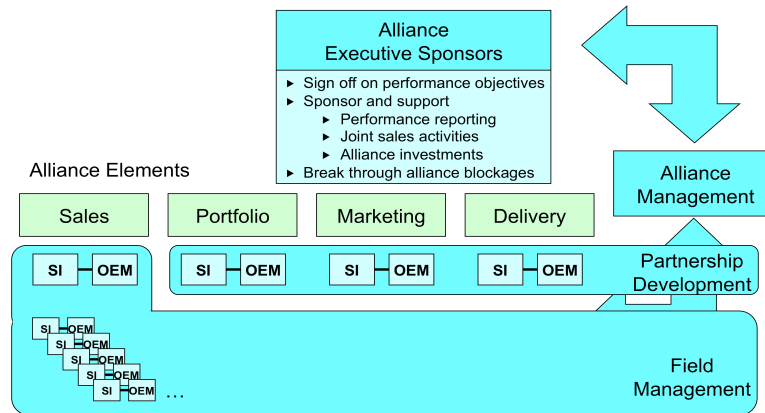


Figure 2—Alliance Program Structure and Executive Sponsor Responsibilities

For almost three years Alice’s alliance partners felt they were treated fairly and were mutually responsible for defining and managing their path to greater success. In year three Alice’s team was facilitating a pipeline of over 200 joint pursuits at more than 100 target accounts across a portfolio of a dozen partners, without contention or complaint. By year three, several alliances had progressed beyond joint selling and delivery. At this time, two partners had made multi-million dollar commitments to joint solution development. One partner had embedded Alice’s firm’s software into their offering for an industry that was strategic for them but new to Alice’s firm. Another partner offered to bring Alice’s firm’s software to market through a peripheral billion-dollar line of business.

Then in year three with the sale of the company and loss of leadership commitment the world began to change. By the end of year four not only had joint sales revenue and pipeline dropped by a third, but investment inflow from partners disappeared along with prospects for new market penetration.

In contrast to Alice’s experience, Ted enjoyed unwavering leadership commitment, flowing directly from the CEO. Ted experienced other problems, however. The top down “can do,” i.e. “will do or else,” culture instilled by his CEO was not conducive to planning and operational structure. Rather than planning, establishing processes and tools, and then ramping up execution, Ted was driven immediately into “ready, shoot, aim” mode. Execution over the first year was characterized by confusion and wasted effort—plus an amazing amount of joint revenue.

Sometime during the first year, Ted began a series of meetings between his firm’s service line managers and their new software partner. Together they began crafting joint value propositions and combinations of existing services and software products as targeted joint solutions. Moving into year two, Ted’s team developed criteria and processes for evaluating and selecting target accounts and began facilitating joint sales planning meetings. Early in year three, Ted and his team brought his firm’s service line planners together to develop a new progressive consulting-to-systems integration-to-IT operations sales model. This provided a joint sales and delivery framework which accommodated the disparate business models and objectives of the service lines within his firm with those of their software OEM partner. Working together started to become more natural, but by this time operational frustration had moved the relationship to the breaking point.

Relief came in year three when Ted’s firm hit a wall and the Board replaced the executive team. The new leadership began a complete restructuring of the company. Portfolio management was established on a par with the company’s service line divisions and global

sales group. This organization was created to analyze the markets and define value propositions and solutions for those markets. Portfolio management owned responsibility for alliances and heavy investment was made to develop and establish a very robust operational framework. After a year's transition time, the alliance between Ted's firm and the software OEM was reestablished and operating smoothly and productively, enjoying both leadership commitment and a sound operational framework.

Progression and the Need for Renewal

It is important to recognize that every company, whether software OEM or services supplier, has its own culture and its own unique experiences and resulting attitudes towards the possibilities of partnerships in general and of any alliance in particular. These factors will drive the level and rate of investment that a partner is willing to make. It is important that the operational framework encourage and reward investment but also allow each partner to define and implement its own strategy, in what it believes to be its best business interest.

In general, an alliance between partners will progress, or mature, through three stages—validation, acceleration, and payoff. The timeline for this progression is determined by many factors. Only some are within control of the alliance's sponsors and managers. That said, it is definitely true that strong leadership commitment and a well-structured operational framework from day one will speed the progression. Weakness in one or both of these will slow progress or simply cause the relationship to stagnate to an undeveloped state.

Once sponsors on both sides have agreed to form a partnership they assign managers to make it happen: stage one is a validation of the sponsors' assumption that the two parties can work together and help each other in the market. This is the first test of critical alliance elements. Success is measured by clearly attributable revenue and pipeline accomplishments. For stage one to progress efficiently it is necessary to carefully select target accounts and have the sponsors oversee the pursuits, resolving any issues as they arise. Also, the progression to stage two will be faster and smoother if elements of the envisioned alliance have been documented in a business plan, before or during stage one. With strong sponsorship and competent management, stage one should be completed in 6 to 18 months.

Stage two provides acceleration of the alliance in accordance with a business plan which documents progressive investment in alliance elements and increasing goals for revenue and pipeline. During this stage the partners develop, test, and refine joint value propositions and solutions for their target markets. They also ramp up joint sales activities and delivery capacity. Early in stage two the partners identify "lighthouse" accounts that can serve as strong references for the partners and their joint solutions. At the end of stage two all of the critical alliance elements are in place, namely:

- High value joint market messages, by industry
- Breakthrough offerings
- Landmark contracts
- Joint delivery resources at scale
- Joint go-to-market processes and resources at scale

Throughout stage two, both the revenue and pipeline should increase significantly. With sustained sponsorship and competent management stage two should be accomplished in 18 to 24 months. Many alliances never progress beyond early stage two.

Stage three is the payoff. The long-term commitment of the sponsors and the hard work of the Alliance Managers and their teams bear fruit. The pattern is now set and critical mass has been achieved. Both partners continue to invest in ramping up resources, expanding within existing accounts and into new markets with ever-stronger value propositions and joint solutions.

So where are Ted and Alice? After four years, Ted's alliance is early in stage two. The good news is that Ted's alliance is now on firm footing and progressing nicely, with leadership commitment and a sound operational framework. Ted has good reason to be hopeful and continue working hard.

Alice's alliance program got off to a great start and within three years was progressing to late stage two with several partners. Then, with the change in ownership and loss of leadership commitment, all of her alliances were set back and relationships with her best partners were hurt the most. After four years, Alice's program needs to be reconfirmed with the executive team or reduced to minimal maintenance mode.

One step that Alice should have taken was to engage aggressively with the new executive team to establish a fresh alignment. She should have taken the time, as she did three years earlier, to work with each executive individually and as a team to draw out their ambitions and concerns and then facilitate alignment among them.

It might not have worked. These executives were not under pressure from the Board and they had many other pressing issues to deal with. However, it was a step Alice should have taken in any case as a matter of good practice in change management. Alice and Ted both played the role of change agents in a time when their companies were under tremendous competitive pressures. These are not kind and gentle times, and people in industry who do the work of Ted and Alice are to be commended for their determination, vision, energy, and courage. If Alice had been able to finesse consensus within the new executive team, reinforcing that partnerships were worth their attention and support, she would have sustained a major revenue stream for her company.

Jim Roche, who authored this commentary for CIMdata, has headed PLM Practices for service suppliers AT Kearney, CSC and HP and has managed alliances for and with software suppliers such as Dassault Systèmes, PTC and Siemens PLM. He conducts research and comments on alliances strategy and management.

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