Goals of Software Vendors for Partner Ecosystems – A Practitioner´s View

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Abstract. There is literature about large software vendors building ecosystems around themselves [1,2]. This paper looks at goals they try to achieve with partner ecosystems.

Keywords: Business ecosystems, software industry, partnership models, goals of partnership models, partner programs.

1 Software Ecosystem Overview

In a networked economy, companies formulate an ecosystem strategy as a part of their corporate strategy [3, 4]. In their ecosystem strategy, they include goals to be achieved leveraging their ecosystem. An economic **ecosystem** is a set of companies that exchange products or services to serve a common goal or to achieve higher levels of individual goals. More importantly, economic principles and strategies apply [4-6]. Often companies in an ecosystem are aligned along value chains or form around a value chain that serves the same set of customers, e.g. the customers of a large software vendor like Microsoft or SAP. While other definitions exist [1, 2, 4], in this paper a **software ecosystem** is an economic ecosystem that forms around one specific software vendor.

For the purpose of simplification, the focus is on the companies that interact with the software vendor or the software vendor´s customers in the following ways: they **sell or license products or provide services to the software vendor´s customers**. These products or services might be related to or integrated with the software vendor´s products or services, they **sell or license the software vendor´s products**, e.g. as **value added resellers** (VAR), they **sell services to the software vendor**, to the customers or to the software vendor´s partners, they **license or subscribe to the software vendor´s products** for internal use or for inclusion in their own products, they **license software to the software vendor** (suppliers), and last but not least, companies can sell intellectual property to the software vendor. That means they are potential **candidates for acquisition** by the software vendor.

By definition, the software vendor is also part of the software ecosystem (Fig. 1). Usually software vendors apply different strategies and tactics for different parts of

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the software ecosystem. These strategies and tactics must be aligned with the business model of the software vendor. Fig. 1 shows the types of ecosystems addressed separately by a software vendor. The **customer ecosystem** contains existing and potential customers of the software vendor. The **partner ecosystem** [10] contains software partners, which are other software vendors and system integrators, which provide implementation services for the software vendor´s solutions. Another ecosystem is the supplier ecosystem, which is not in the focus of this paper.

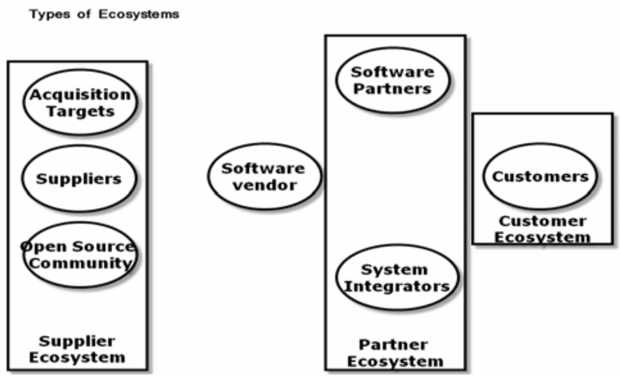

Fig. 1. Players in the software ecosystem and types of ecosystems

2 Partner Ecosystem Goals

In a simplified view of reality, a software vendor´s ecosystem activities are targeted at the following goals [2]: Financial, customer related, product related, network effect related and market related goals.

2.1 Financial Goals

In contrast to non-profit ecosystems [11], software ecosystems have financial goals, which usually target at monetizing on the ecosystem. Monetizing on the ecosystem means **creating or increasing revenue streams** by leveraging the ecosystem. Revenue streams can come from partner program and community fees and increased product revenue due to positive sales effects from the ecosystem. Fig. 2 shows some examples of revenue streams to be created or increased in an ecosystem.

Partner program fees are the entry ticket fees for partners into partner programs. The tricky thing is: if the fees are higher than the anticipated value of the benefits, partners will not join the partner program. So software vendors should carefully define and handle fees associated with the partner programs to make sure partners are not deterred from joining the partner programs.

Product revenue from the ecosystem can come from reselling products or from services fees or from license fees for using your products or from revenue shares. Software partners can also help increase license revenue from customers by promoting the software vendor´s solution in a new market or industry.

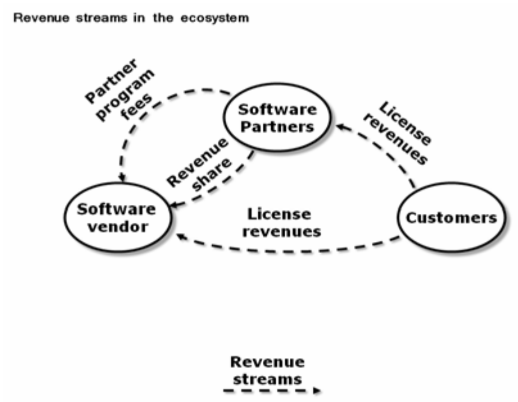

Fig. 2. Examples of revenue streams in the ecosystems

How can a software vendor **save cost** by leveraging the ecosystem? Cost savings mainly result from outsourcing the software vendor´s activities to the ecosystem, from educating the ecosystem and from leveraging the ecosystem as multiplier for product knowledge. Outsourcing to the community means that the community can take over tasks of the software vendor. The following tasks are usually (at least partially) outsourced to the community: presales activities, sales activities, product distribution, post-sales activities like support, answering product-related questions and providing additional, complementing products.

2.2 Customer Related Goals

An ecosystem is a place for an existing customer or a prospect to build trust in the software vendor´s solutions. Trust is also a key ingredient for customer retention. Trust is built between the customers and a software vendor by the sheer number of participants in the customer ecosystem, the number of partners offering solutions and services for the software vendor´s solutions, and information from existing customers shared in the ecosystem.

Attract new customers: Customer communities can start a viral effect to attract new customers. This happens when existing customers spread the news about their use of solutions or when the lock-in of existing customers extends to the customer´s ecosystem of suppliers and customers. The reason is simple: to lower the integration cost between suppliers, the customer and the customer´s customer it makes sense to use identical technology and applications. If the customer has enough market power, he might even force its suppliers and customers to use identical technology and applications.

Increase the stickiness of solutions: With a high number of partner solutions based on or integrated with the software vendor´s solutions, the stickiness of the software vendor´s solution increases. This means that the **switching cost** for the customer to switch to a competitor´s solution increases. But beware: this is only true, if the interface between the partner solution and the software vendor´s solution is not sufficiently standardized.

2.3 Product Related Goals

Software vendors try to leverage their software ecosystem to reach the following product goals.

Strengthen market presence: Software vendors can choose diversified partnership strategies for regional and local markets. They do so by leveraging the software partners market expertise, market access as well as access to new and existing customer accounts. The partnership strategies differ by presence and strength of the software vendor and its partners in the specific markets.

Strengthen software vendor´s offerings: The portfolio of solutions of a software vendor always has whitespaces and adjacent, complementing solutions, which are not offered by the software vendor itself. Complementing offerings from partners can be positioned in these whitespaces or adjacent areas. This leads to a more complete solution offering for the customers, combining the software vendor's products with partner products. This might lead to a customer perception of a complete offering for the customer´s business problem.

Innovate and co-innovate solutions: A sound innovation strategy of a software vendor contains a mix of internal and external innovation. External innovation happens outside of the company walls of the software vendor, mainly by partners, but also by customers and system integrators [12]. Co-innovation means that two companies are working together to innovate [13]. A partner can build a solution based on a software vendor´s platform or solutions. In this case, the engineering work and cost resides with the partner. Software vendors usually provide some sort of certification to prove the interoperability of the solutions.

2.4 Network Effect Related Goals

Ecosystems can be used to fight competitors. The reasoning behind that is based on network effects [6, 7, 8]. The **network effect** says that the value of a product increases with the number of customers of that product. Network effects can be direct or indirect. A **direct network effect** comes from compatibility between products. Within a network of customers, all customers using the same software have low integration cost. An **indirect network effect** comes from the assumption that widespread adoption of a product also leads to a large number of adjacent solutions and partners.

More customers and more partners in your ecosystem make it harder for a competitor to compete against you. For customers, a large ecosystem of customers and partners provides a variety of solutions with low integration cost and promises low interoperability costs since integration cost for two customers using the same software is minimal.

Maximize ecosystem gravity: Maximizing the gravity of the ecosystem means increasing the number of participants in the ecosystem. The hope is that the more gravity the ecosystem has, the more it attracts new members for the ecosystem. Let´s have a look at two types of ecosystems to see what this means for the software vendor.

Customer ecosystem gravity is measured by the number of customers in the ecosystem. A large customer ecosystem has a lot of advantages, from generating license and maintenance revenue to providing references and pilot customers. A large customer ecosystem can lead to a positive network effect, such that partners and customers of an existing customer might become a customer as well.

Partner ecosystem gravity is measured by the number of partners in an ecosystem. On one hand, large software vendors try to engage as many partners as possible; on the other hand they try to get the focus of the partner on their products, not on the competitor´s products.

To ensure maximum participation, it is vital to keep the entry barriers to the ecosystem low. Microsoft´s barriers to become an entry level partner (called Registered Partner) are very low (just enter your data on a website) and there are no fees attached with this partnership. In addition, each partner gets a cheap package of licenses for Microsoft products. These activities serve additional goals: make every partner a customer and maximize retention in the ecosystem.

Maximize retention of participants in the ecosystem: To maximize leverage of the ecosystem, it might make sense to attract as many participants as possible and to retain them. Retention of participants in the ecosystem is based on two important factors: incentives and lock-in. Incentives are e.g. marketing opportunities and customer access for partners as well as an attractive offering for customers in an ecosystem.

Software vendors create partner lock-in by deepening the integration of partner solutions with the solutions of the software vendor. At the same time, the software vendor creates lock-in for customers that use the software vendor´s solutions integrated with partner solutions.

2.5 Market Related Goals

Software vendors try to influence markets with their ecosystem strategy. Standardizing markets, extending the market reach and creating new markets are good examples for a software vendor´s goals relating to markets.

Standardize markets: One goal is important for software vendors: Homogenize the offering and the demand in a market. Markets can become more homogeneous by establishing standards. Standardization can be driven by vendors, partners and customers alike. A common belief is that a more homogeneous market creates a bigger revenue opportunity for software vendors. But standardization also lowers the entry barriers for competitors. Let´s assume in a standardized market the competition and the market size grows. It makes sense to enter this market, if your market share is equal or larger in a standardized market.

Extend market reach: A software vendor can extend its market reach by leveraging partner´s skills, knowledge and products as well as partner´s market access and market coverage. A partners´ access to local, regional or vertical markets is a tempting business opportunity for a software vendor. The partners may position the software vendor´s products in that market, they can refer customers from that market to the software vendor or they can act as a value added reseller to sell the software vendor´s products into that market.

Create new markets and communities: A software vendor can start a new ecosystem and thus a new market. Let us have a look at an example for creating a customer ecosystem. In its effort to sell more software to business users, SAP has created the **business process expert community** (BPX). Positive effects are: SAP can learn from the community and can apply targeted marketing mechanisms at the community.

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