

HELSINKI UNIVERSITY OF TECHNOLOGY
Department of Computer Science and Engineering
Information Networks Degree Program

Pirkka Paronen

**DESIGNING AND BUILDING A PARTNER NETWORK
FOR A SOFTWARE COMPANY**

Thesis for the degree of Master of Science in Engineering.

Espoo, May 9, 2004

Supervisor Tomi Laamanen Professor of Strategic Management

Instructor Juha Mäkelä Master of Science

FOREWORD

The first words of this study were written while I was working at Endero Oyj, back in 2001. During the process, the company changed to Systems Garden Oy, where the work was finally finished three years since the beginning.

I would like to take this opportunity to thank my supervisor, Tomi Laamanen for support and advice in all stages of the writing process. I also thank my instructor Juha Mäkelä.

I would especially like to thank my late mother, for constant encouragement and support to finish the thesis once started. I also thank my father and my own partner Anna for support when my own faith in finishing this process almost faded out.

Espoo. On mother's day, May 9, 2004.

Pirkka Paronen

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Supervisor Professor Tomi Laamanen
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Instructor M.Sc. Juha Mäkelä
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Partnership networks have recently been of considerable interest in academic studies. However, the subject has not been studied from software companies' point of view. Software industry differs from brick-and-mortar business in terms of intangible products, high research and development costs and specific distribution models. The fast pace of technological change in a high tech industry and new market opportunities create challenges on partnering processes.

This study focuses on designing and building a partner network for a software company. The research objectives are to (i) find the target-setting criteria in building a partner network, (ii) discuss the actual means of building the network, and finally, (iii) managing and evaluating the partner portfolio.

Literature suggests that the technology adoption life cycle of the product and the current market situation should be taken into consideration when making partnering decisions. Different status of the technology adoption life cycle requires different approaches to product offering and distribution. The distribution models in the software industry differ greatly, but to successfully implement a software system, hardware, complementary software and systems integration are often required. Complex value networks, where partners and customers operate together, are more common in the software industry than traditional supply and distribution chains. There are new e-business tools available for partner management, but the good working relations between people still play a major part in partnering results.

The study provides a partner strategy framework for small software companies. The framework includes five steps starting from evaluating the current market situation, designing and building the partner network to managing and finally evaluating and redesigning the partnering system. The framework was implemented in a case company to formalize the partnering process.

While the results of the study provide an answer to the research question, there is a need for further research on partnership management and partnering in the software industry.

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Työn nimi Ohjelmistoyrityksen kumppaniverkoston suunnittelu ja rakentaminen
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Osasto Institute of Strategy and International Business	Professuuri TU-91
--	----------------------

Työn valvoja Professori Tomi Laamanen
--

Työn ohjaaja DI Juha Mäkelä

Yritysten väliset yhteistyöverkostot ovat olleet viime aikoina akateemisen kiinnostuksen kohteena. Yhteistyöverkostoja ei ole kuitenkaan arvioitu ohjelmistoteollisuuden eikä pienten ohjelmistotuoteyritysten näkökulmasta. Ohjelmistoalalle on tyypillistä immateriaaliset tuotteet, työvoimaintensiivinen tutkimus ja kehitys sekä perinteisestä teollisuudesta eroavat jakelumallit. Lisäksi alan markkinat ja teknologinen ympäristö muuttuvat nopeasti, mikä tuo myös yritysten väliseen yhteistyöhön uusia vaatimuksia.

Tämä diplomityö keskittyy ohjelmistoyrityksen kumppaniverkoston suunnittelu- ja rakentamisprosessiin. Tutkimuksen tavoitteena on (i) löytää tekijät, jotka vaikuttavat kumppaniverkoston tavoitteiden asetteluun, (ii) esitellä todellisia keinoja kumppaniverkoston rakentamiseen sekä lopuksi (iii) luoda viitekehys kumppanuuksien ja kumppaniportfolion hallintaan.

Kirjallisuudessa käsitelty teknologian omaksumisen elinkaarimalli toimii pohjana ohjelmistoalan kumppanuuksia koskeville päätöksille, sillä eri elinkaaren vaiheissa tarvitaan erilaisia lähestymistapoja sekä tuotetarjontaan että jakelumalleihin. Ohjelmistoalalla käytetään monenlaisia jakelumalleja, mutta ohjelmistotuotteen käyttöönottoon liittyy usein myös tietokonelaitteistoja, täydentäviä ohjelmistoja ja järjestelmäintegraatiota. Alalle on tyypillistä se, että eri yritysten, kumppanien ja asiakkaiden välille muodostuu usein monimutkainen arvoverkko perinteisen hankinta- tai jakelukanavamallin sijaan. Kumppanuuksien hallintaan on luotu useita teknisiä työkaluja, mutta kokemusten perusteella ihmisten väliset luottamus- ja yhteistyösuhteet ratkaisevat lopulta kumppanuusyhteistyön tulokset.

Työssä esitetään viitekehys pienen ohjelmistoyrityksen kumppanistrategian laatimiseksi. Viitekehyksessä käydään läpi kumppaniverkoston rakentaminen vaihe vaiheelta alkaen markkinatilanteen tunnistamisesta, kumppaniverkoston suunnittelusta ja käytännön toteutuksesta verkoston seurantaan ja mahdollisiin muokkaustoimenpiteisiin. Viitekehystä testattiin case-yrityksessä, jossa sitä käytettiin keinona muuttaa kumppanitoimintaa järjestäytyneemmäksi sekä kumppanistrategian mukaiseksi.

Työn tulokset tarjoavat vastauksen tutkimusongelman asettamiin kysymyksiin, mutta jättävät aukon jatkotutkimukselle kumppanuuksien hallinnasta sekä verkostoitumisen tulosista ohjelmistoalalla.

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1 OVERVIEW

Partner networks have become increasingly important in the modern economy. Firms no longer see their distribution channels as a mere logistics chain but as long-term partners that require significant investments. As the competition in almost all branches is growing, distribution and marketing channel cannot anymore be viewed as a mere extension of the company's own sales force. Each company has to compete for their channel members. The best possible competitive advantage may not always be the sales provision provided. Information technology and the availability of information through production systems have made it more feasible for firms to create value added networks instead of traditional distribution chains. Partnering issues are especially important in software business, where technological change is too rapid for a single company to follow. Value is created by combining software and hardware to form larger systems.

While the research on distribution and marketing channels and technology partnering is vast, little has been written on partnering in the software industry. Software companies today tend to publish extensive lists of partnership deals, often without concrete results. Many software companies operate their partnerships on an ad hoc basis, rather than systematically following a partnering strategy. New technology has also opened possibilities for designing and managing the partner portfolio and can create significant advantage to a firm that can correctly exploit the new tools and approaches.

This research focuses on partnerships in the software industry from two perspectives. Traditionally partnerships include marketing or distribution arrangements forming a channel of companies that sell or deliver a product to the end customer. In the software industry, the process is not so simple since most of the products are intangible and can be delivered and sold in different ways. Partnerships can be viewed as the means for creating more value to an end customer. The goal of these partnerships is not to sell or deliver the product, but to create a more complete offering that benefits the customer better. The present study is prepared as a master's thesis at Helsinki University of Technology.

1.1 Research problem

The research problem can be stated as

How should a partner strategy be formed in a small software company?

The research problem is divided into three key issues

1. What are the target setting criteria for creating an optimal partner portfolio?
2. What issues must be considered in building the partner network?
3. How to manage and evaluate the partner network?

1.2 Objectives of the study

The objective of this study is to describe the factors affecting the target-setting criteria of partnerships, designing and building of partner networks, and managing the partner portfolio.

First, the objective is to create a framework for issues regarding the target-setting criteria of partnerships. Especially in the software industry partnering deals are often signed without an overall picture of the partner strategy. The objective is to create a framework to use in setting the targets for a software company's partner strategy.

Second, the objective is to create an overview of partnering systems and partner portfolios as a whole. The issues covering the choice of partners and creation of a working partner portfolio for a software company are covered.

Third, the issues in managing and evaluating the existing partner network are covered. A set of partner management tools such as PRM and e-business software are evaluated from the partnering management point of view. The goal is to find a set of tools and to create a framework which can be used as a basis for generating a total partnering strategy. The focus is specifically on software companies and the special characteristics of the software industry. Finally, a case company partner strategy is used to test and evaluate the outcome.

1.3 Structure and the scope of the study

The first part of the study provides an overview of theory based on a literature study. The literature part is divided into three sections covering the target-setting criteria and building and managing the partner network. A partnering

framework for a software company is created based on the research findings. The latter part of the literature study focuses on an analysis of a number of software companies' partner strategies and programs. The partner program analysis is used to create a model of partnering requirements for a software company.

The literature part of the study covers most aspects of partnering from distribution and marketing channels to technological and value-added partnerships. The literature used is international.

The second part of the study is the empirical part. First, a number of firms operating in the software industry are evaluated based on their partner programs. Second, a case company is used as a benchmark to the industry. The case company research is conducted as a market research that involves an outlook of current and potential customers, current and potential partners and competition and market situation. The framework formed on basis of the literature study is tested on the case company based on the research results.

1.4 Definitions

Software company

A software company is a company that operates in the software industry and produces software products. The definition excludes all firms operating in the industry and providing consultancy or training services in the market, but not providing a product-based solution.

Software industry

Based on McGrath¹, the software industry has few special characteristics that make it different from a traditional manufacturing-based industry.

- Continuously changing technical environment
- Short product life cycles
- Fast-moving, innovative start-up competitors
- High R&D costs, low production and distribution costs

- Intangible product - software

Varian and Shapiro introduced the concept of lock-in in their book *Information Rules*². Lock-in refers to the effect of switching costs on customer choosing a software product. When the initial purchase is made, the switching costs of changing the vendor rise over time. Eventually, the customer is locked-in, that is, is not willing or cannot change the product since switching costs become higher than the savings or the benefit gained from another product. The lock-in effect is especially visible in the software industry.

Partner

The term partner can be used in any form of cooperation from marketing and distribution channel memberships to open-for-all partnering programs and ownership-based strategic alliances.

Philip Kotler³ uses El-Ansary's definition of a distribution channel: "*Distribution channels are sets of independent organizations involved in the process of making a product or service available for use or consumption*". In the latter edition of the same book⁴ he identifies three separate channel systems firms use: communications channels, distribution channels and trade/sales channels. All three channel systems may be referred to as marketing channels.

Large companies such as Microsoft⁵, Oracle⁶ and Hewlett-Packard⁷ use standard rules-based partnership programs to create contacts with their smaller distributors, solution developers and channel members. While the independent partnerships may not be considered strategic separately, the whole partnership program certainly is a strategic decision.

¹ McGrath, Michael; *Product Strategy for High-Technology Companies*, second edition; McGraw-Hill, 2001

² Shapiro, Carl and Varian, Hal R.; *Information Rules - A Strategic Guide to the Network Economy*; Harvard Business School Press, Boston; 1998

³ Kotler, P, *Marketing Management*, 9th ed., Prentice Hall, Upper Saddle River, New Jersey, 1997, pages 530-531

⁴ Kotler, P, *Marketing Management*, 10th ed., page 13

⁵ <http://members.microsoft.com/partner/default.aspx>, 2003-08-11

⁶ <http://www.oracle.com/partnerships/>, 2003-08-11

⁷ <http://welcome.hp.com/country/us/eng/solutions/partners.html>, 2003-08-11

Lewis⁸ introduces the concept of strategic alliance: “In a strategic alliance firms cooperate out of mutual need and share the risks to reach a common objective”. A strategic alliance can be seen as the ultimate partnering solution. Strategic alliances typically include ownership arrangements or joint ventures.

Partner network

The term partner network can relate to any form of partnering from marketing and distribution channels to strategic alliances. Partner network can be seen as the total marketing, distribution and company cooperation system around a specific company. Kanter⁹ identifies three relevant partner network models in today’s economy. First, a partner network is seen as a solar system, where all companies orbit a single star (company), who exercises power over the rest of the network. Second, a looser combination of companies can be seen as a galaxy where smart companies benefit by combining the resources of the other members of the network. No clear control center can be found. Last, a partner network can be seen as a system resembling a space station, where complex and shifting multi-partner collaborations produce end solutions to the customer. A partner network is the set of companies that cooperates either consciously or by chance together to provide better value to the customer.

Partner network management

The term partner network management can be used as a synonym for marketing and distribution channel management, partner portfolio management and any other company cooperation forms. The definition used in this study focuses on any partner company cooperation from one company’s point of view. Partner network management includes the distribution channel member and marketing channel member management, but not the actual

⁸ Lewis, Partnerships for profit : structuring and managing strategic alliances, The Free Press, 1990

⁹ Kanter, Rosabeth Moss; Evolve!: succeeding in the digital culture of tomorrow; Harvard Business School Press, Boston, 2001, pages 135-166

distribution and marketing paradigm. The term “partner network management” is used as a unified term covering the whole phenomenon.

Partner Relationship Management

Partner relationship management (PRM) means the tools to enhance the information flow and cooperation between partners and the distribution and marketing channel. PRM can be compared to customer relationship management, just with partners instead of customers. The focus on PRM is in indirect sales instead of direct sales contacts.

Internet

Internet services can be viewed from 5 different viewpoints¹⁰

- Internet as a network

Internet can be seen as the network of networks, in which companies' and organizations' subnets are connected together to create a global network.

- Internet as a medium

The Internet offers a new media channel to be used in combination with traditional media such as newspapers, radio and television.

- Internet as a marketplace

The Internet provides a very large community, a market area in which the customer may never even know who he/she is actually dealing with.

- Internet as a transaction platform

Transaction in both business to business and business to consumer markets can effectively be carried on the Internet network.

- Internet as a software applications development platform

The Internet provides a new way out of the client-server architecture and provides a way to use and apply software globally through a browser.

¹⁰ Keen P, Mougayar W and Torregrossa T, The Business Internet and Intranets, Harvard Business School Press, Boston Massachussets, 1998

Intranet

Term 'intranet' refers to a company's internal network created using Internet technology. Intranets are restricted company webs that are available for restricted intra-company users only. Large company webs resemble the Internet in a smaller size.

Extranet

The term extranet refers to a mixture of Internet and intranets. Extranet is a network that combines the intra-company users and their named interest groups such distributors, resellers, suppliers or even customers.

Portal

A 'portal' or 'information portal' refers to a network service that combines the information of multiple software applications or documents as one whole network service. A business portal is a network system that is viewed as the user interface to company information. A business portal provides support for role-based personalization, targeted communication procedures and connectivity to legacy systems.

2 LITERATURE ON PARTNERSHIPS

2.1 Setting targets for the partner strategy

2.1.1 Why are partner networks used?

Lewis⁸ introduces a number of reasons to form inter-company alliances. The reasons are categorized as product value increase, improved market access, improved supply links, lowered input costs, enhanced operations, technological advantages, strategic growth, organizational growth and financial strength.

Slack¹¹ defines the three C's in channel business: Coverage, Competence and Compensation. Coverage refers to the market coverage every manufacturer is after. Competency can be viewed in terms of sales capabilities, engineering know-how, and post-implementation service and support. Compensation is something that is gained by the channel by offering these services.

The main reasons identified by Philip Kotler³ are as follows:

- Financial resources may be limited to carry out direct marketing. This applies especially to large scale manufacturers or manufacturers with a large number of customers.
- Marketing is not feasible. If the profit per customer is little and the product is not likely to sell by itself, it is not profitable to establish the retail chain oneself.
- The focus on main business and core competencies is essential for maximizing return. The retail business is typically a low margin business.
- The specialization and experience of intermediaries also usually makes them more effective.
- The number of contacts is reduced and therefore savings acquired from the communication and marketing costs.

Bowersox¹² sees the following as the possible tasks of distribution channels:

¹¹ Slack, Scott; Channel conflict: An integrator's perspective; Computer Technology Review, Los Angeles; 3rd Quarter 2001

¹² Bowersox, D and Closs, D, *Logistical Management, The Integrated Supply Chain Process*, McGraw-Hill, 1996

- The possibility of concentration as per collecting quantities of a single product or several different products to a group. Concentration can be seen as the reducing of contacts and focusing on core business.
- Customization is the process of product customization based on actual client needs and wants. The intermediary may take part in the customization process saving the manufacturer a lot of resources.
- Dispersion refers to companies seeing logistics as their core competence and the benefits gained from specialization.
- The distribution channels may also share the total risk involved in the business.

The value created in partnering can be summarized as in Table 1.

Table 1. Value created in partnering

Product value and production	
<ul style="list-style-type: none"> • create new or improved performance • provide more value in use (e.g. by training) • offer a stronger product line • gain compatibility to increase product appeal • enhanced product image 	<ul style="list-style-type: none"> • superior timing • lower development costs and risks • supply security • reduce supply costs • shorten product cycle • improve quality
Sales and marketing	
<ul style="list-style-type: none"> • more efficiency • better advertising • new marketing channels • better channel control • lower input costs • market coverage 	<ul style="list-style-type: none"> • marketing efficiency • improved advertising • new channels • overcome market entry barriers • growth path • new opportunities
Technology and skills	
<ul style="list-style-type: none"> • add technology to skill base • increase research creativity • scale 	<ul style="list-style-type: none"> • ease technological transitions • learn from others • focus organization

2.1.2 The whole product

The concept of whole product can be used in setting the partnership objectives. The goal of the partnership network is to fill out the gaps in the whole product, to enable the fulfillment of the customer need best. The concept of Whole product is more thoroughly detailed in Theodore Levitt's book, the Marketing Imagination.¹³

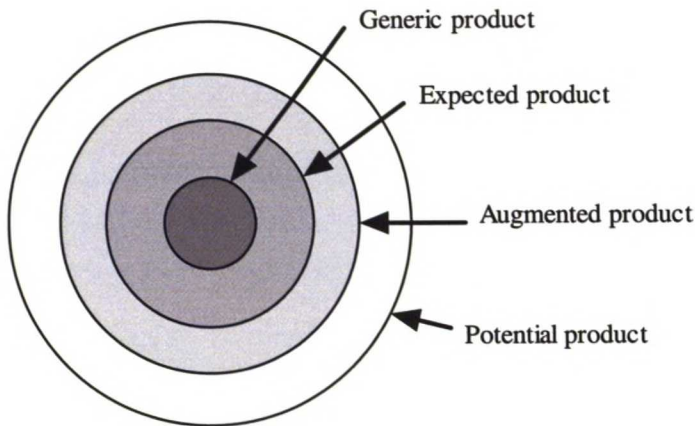


Figure 1. The whole product concept

The generic product is the product that is shipped when the customer makes his/her purchase. The expected product is the product that the customer expects to receive. The augmented product is the ideal of the product that would best satisfy the actual buying objective that is the combination of products that end up in the final solution. The potential product is the potential of product growth during the life span of the product, using new ancillary products or customer-specific tailoring.

¹³ Levitt, T. The Marketing Imagination, Free Press, 1993

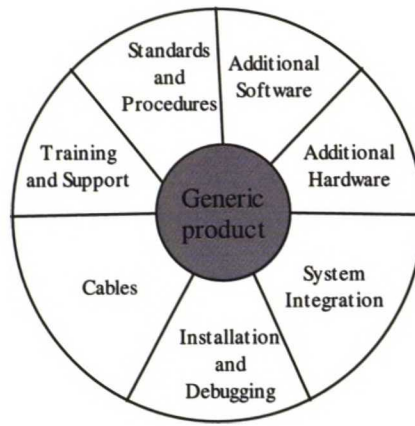


Figure 2. The Simplified Whole Product Model as presented in *Crossing the Chasm*

Moore¹⁴ introduced the simplified whole product model first in 1991 applied for the modern high tech industry. The simplified model only includes two categories – the generic product – what we ship, and the marketing promise – whatever else the customers need in order to achieve their reason to buy.

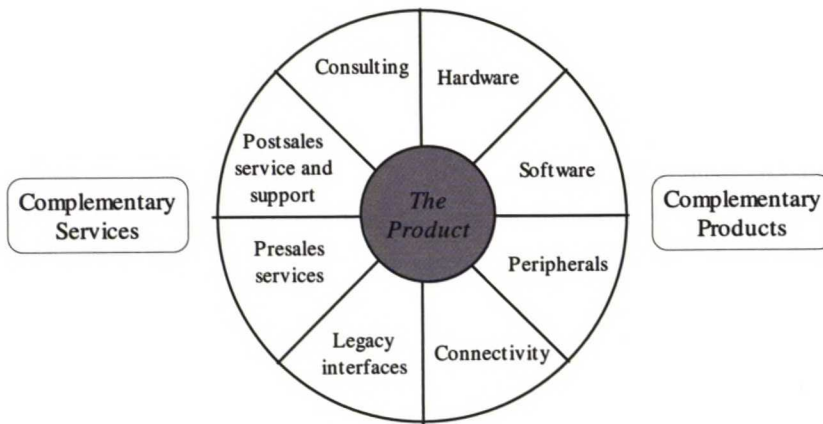


Figure 3. The Software Industry Whole Product Model

Finally, the whole product model presented by Paul Wiefels in *The Chasm Companion*¹⁵ resembles best the software industry. The whole product is divided into three categories – The product itself, complementary services and complementary products. The concept of complementary products and services was already introduced by Porter¹⁶ in his book *Competitive Advantage*. The three possible approaches to creating competitive advantage through complementary products is either including the complementary products in one's own portfolio, batching the whole product with the complementary

¹⁴ Moore, G. *Crossing the Chasm*, Revised edition, HarperCollins Publishers, NY, 1999

¹⁵ Wiefels, P. *The Chasm Companion*, HarperCollins, New York, 2002

¹⁶ Porter, Michael. *Kilpailuetu*, PP 493-525, Weilin+Göös, Espoo, 1985

products so it cannot be purchased separately or using pricing policy to enhance sales of one or several of the complementary products.

2.1.3 The effect of the technology adoption life cycle

Moore discusses the technology adoption life cycle in his book *Crossing the Chasm*.

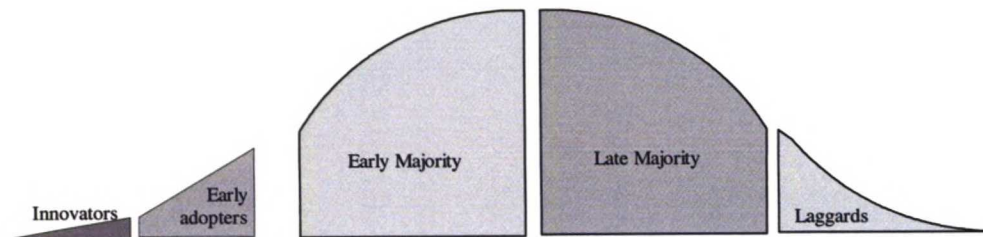


Figure 4. *The Technology Adoption Life Cycle*

The technology adoption life cycle suggests that the adoption of any new technology happens in 5 different stages. The innovators are the first ones to adapt and test new technology, basically from the pure joy of high tech. The early adopters are the first ones to actually evaluate the potential of new technology. As reference customers, the early adopters are said to hold the key to the whole segment. Early adopters are also referenced as visionaries. The people in the early majority, the pragmatists, are typically comfortable of new technology, but require proven results and references. The late majority, the conservatives, resembles the early majority, but is different in one respect – they are not comfortable when operating with new technology. Finally, laggards are people that do not want to have anything to do with new technology. They are the skeptics that will assimilate the product last.

The findings of Geoffrey Moore are not only the transition cracks between the stages, but the significant gap between early adopters and early majority – the chasm. The chasm derives from the fundamental differences between the two segments of buyers. The early adopters are ready for technological revolution in their quest for change. The early majority, however, is after productivity improvement, and wishes to minimize the discontinuity of the old ways. The contrast of the two interest groups and the switch in markets creates a gap between the adoption cycle phases.

Moore¹⁷ divides the markets into four stages which require different approach. The early market introduces the innovators and the early adopters and the key driver in this market stage is technology. The bowling alley is a phase when the first pragmatists, the early adopters awake. The bowling alley represents a number of niche markets where each niche stands close to another so the effect of falling bowling pins, gaining multiple market segments through , can happen. The operating model in the bowling alley is basically strong segmentation and word-of-mouth referencing. The tornado is the phase where the main stream market really starts. Tornado is the stage where the dominant players are taken with the wind and wrenched off to the gain the markets in mainstream market. In the tornado phase the dominant player is the one with the most capacity and ability to reproduce and productize. The main street is the market phase where the existing players have yet again focused on creating demand, marketing and sales. Each of the stages or the technology adoption cycle requires a different approach to the whole product formation.

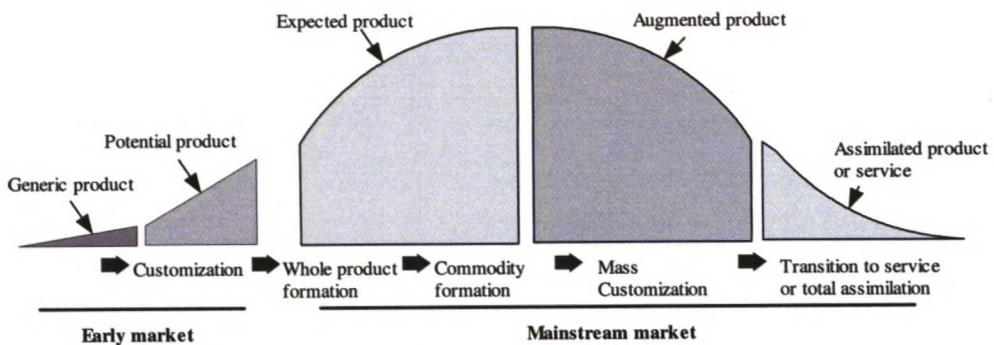


Figure 5. The whole product in the technology adoption cycle

The phase of technology or product in the technology adoption cycle also affects the concept of whole product. Depending on the adoption cycle phase, the customers demand different products and focus on different objectives. The early market can be obtained with the generic product, but the customers will soon start moving on to the potential product by customization. The main stream market starts by the whole product formation, while the customers strive for their expected product. The whole product will eventually form into a sort of commodity. The effect of marketing the commodity leads to mass customization, the mass tailoring of a product for various customer segments.

¹⁷ Moore, G. Inside the Tornado, HarperBusiness, New York, 1995

2.1.4 Distribution and sales partnering

Partnering can be seen as the means for obtaining a distributor network. When building a distributor network, it is necessary to set concrete goals for the building process. The goals may include sales objectives, quality issues or market share growth, distribution intensity or reducing the number of intermediaries.

Kotler³ states that the most important decision when designing a distribution channel is the desired service level. The customer segments chosen set the desired service level output and all channel design should correspond to the chosen target segment. Service level also includes the spatial convenience, i.e. the ability to reach the product – the ease of purchase. Kotler also states that the business to business market is not as sensitive to service level decisions as the consumer markets.

Frazier¹⁸ sees distribution from the logistics point of view, focusing on the distribution intensity. The number of distribution partners may not affect sales, but there are always markets where either the demand exceeds supply, or customer behaviour is very locale-specific, such as in the consumer goods industry.

2.1.5 Technology partnering

Tiina Vilkkamo¹⁹ describes the aspects of technology-oriented partnering in her study from the knowledge creating point of view. She finds that the motives behind technology partnering are the means to acquire know-how, ensure the flexibility in R&D, and create innovative technologies that require combined competencies of several companies. She also finds out, that the real know-how in managing the partnering process is often missing, and the partnering targets cannot be met because of the missing skills. According to Vilkkamo, while the importance of technology partnering is on the rise, the current practices and partnership portfolios will be challenged.

¹⁸ Frazier, Gary; Organizing and managing channels of distribution; Academy of Marketing Science Journal, Greenvale, Spring

¹⁹ Vilkkamo, Tiina; Aspects of Partnering in Fast Technology Environment; Helsinki University of Technology, Espoo; 2000

2.1.6 Summary of target-setting criteria for partnering

The criteria for setting targets for partnering can be divided into three categories

- Adding product value through creating the whole product
- Creating a marketing, sales or distribution channel
- Acquiring know-how and skills

Adding product value is best achieved by making a whole product analysis that focuses not only on the generic shipped product itself, but on the complementary services and products that create the image of the whole product from the customer's point of view. In the high-tech industry the analysis should take into consideration the state of technology adoption cycle the product is in. The adoption of technology affects the view of the whole product and therefore also requires different approach to partnering targets.

Creating the marketing, sales or distribution channel is the most obvious form of partnering. Fairly often the sales channel is only seen as the end customer, or only as an extension of one's own sales force. The targets can be easily set on sales results, distribution intensity, market share or market coverage, which can often be measured as concrete numbers.

Acquiring know-how and technology skills is an important aspect of partnering strategy in the modern knowledge-intensive economy. The partnering programs of various software vendors present a case example on committing the reseller sales force and providing the necessary know-how to channel sales and technology people.

2.2 Building a partner network

2.2.1 Partnering dynamics

Partnering direction may be considered as horizontal when it happens between the same types of companies, e.g. two software companies combine products to create a more complete end solution. Vertical partnering relates to distribution

and marketing channel design. According to literature²⁰, it is important that the distribution channel members should be viewed as partners rather than clients.

Traditionally each member acts as an independent business unit in a marketing system. According to Kotler³, a typical channel system includes independent wholesalers and retailers. Each unit is trying to maximize its own profits even if it hinders the total profit. The channel members usually do not have much control over each other and negotiations are continuously made over terms of sale. This type of channel system is widely in use by small companies, since the only channel alternatives in most cases are the independent wholesalers or retailers. While the model could be described as ineffective, it is the best option for small companies with little reputation and negotiation power.

Vertical partnerships are formed within the supply and distribution chain. Supply partnerships are formed to provide a more stable and optimized supply lines. A company that uses subcontractors at product development may want to partner to gain the intellectual capital needed. In this case, the value is created through intellectual capital, the employees.

A vertical marketing system looks outward as a conventional marketing system. The difference is in cooperation. The manufacturer, wholesaler(s) and retailers work as a unified system. The vertical marketing system maximizes the total profit as well as provides a professionally managed system. The vertical marketing system is usually controlled by the most influential member of the arrangement in respect to the end buyer.

A corporate vertical marketing system is a system where the production and distribution are under the same ownership. The arrangement can be highly profitable since the income from the product come totally to the same owner. Corporate vertical marketing system, however, requires a lot of capital to implement. An administered vertical marketing system is a joined system, where the control of the system is handled by one of its members. The control is usually obtained by size and power. A contractual vertical marketing system is a system of independent members that act together based on contracts and integration programs. The contractual vertical marketing systems can be

²⁰ Straus, D. Don't treat your channel as an extension of your sales force; *Electronic Business*; Highlands Ranch; Dec 2001

divided to three categories: *Wholesaler-sponsored voluntary chains* are systems, where wholesalers organize the retailer chains to compete with large chain organizations. *Retailer cooperatives* are retailer cooperative systems, where the retailers act together and combine their purchases to one cooperative. *Franchise organizations* combine several stages in the distribution system via the franchisor. Franchising systems can be manufacturer-sponsored systems, manufacturer-sponsored wholesaler systems, or service-firm sponsored retailer systems.

Horizontal partnerships relate to the companies that operate on the same area of business, but are separate in terms of sales and distribution. A typical horizontal partnership is one where two competitors join forces to create a strong, larger player in the market. The drivers leading to horizontal partnering are, according to Kotler³, the lack of capital, the need of production or marketing resources, or the need of know-how.

A horizontal marketing system is a system, where two unrelated firms combine resources to put together a joined distribution channel system. The horizontal marketing system is especially attractive for companies with lack of capital, know-how, production or marketing resources. A horizontal marketing system can either be a permanent or a temporary arrangement. Horizontal marketing has also been referred as symbiotic marketing³. A horizontal marketing system can be very effective, when a number of small firms combine their marketing and distribution efforts and try to form a larger pool of manufacturers. The ideal system would combine the core competencies of different types of companies.

In reality most firms use a multi-channel marketing system. A distribution system can be considered as a multi-channel system, when there is more than one channel or target market in consideration. The number of channels accounts for three clear advantages: increased market coverage, lower channel cost and customized selling. The disadvantages include the chance of channel conflict and control problems. Generally, all firms selling to different types of customers should consider hybrid marketing channels to lower the risk of using only one channel. Risk reduction is especially important to small companies.

However, the multi-channel marketing system also increases the possibility of channel conflict so it also requires more active evaluation. Based on Schell²¹, channel integration has become an important part of marketing systems. The e-commerce tools and the Internet have driven firms to a situation where information on the product is available to all, regardless of the nationality or channel used.

2.2.2 Distribution partnering roles

The responsibilities of the companies involved in a partner network can, according to Bowersox¹², be divided to commercial and functional. Commercial network members are responsible for sales and marketing, whereas functional members provide warehouse space, logistics and other necessary functions needed for the good to reach its end customer.

Based on Kotler³, the different types of distribution channel intermediaries include, for example, OEM distributors, various levels of distributors and dealers, wholesalers, mail-order markets or e-business possibilities. The same idea when applied to the software industry consists of companies that can customize the product of different target groups, for example, based on customer size, branch of operation or the model of financing. Especially the application service provider (ASP) business model of offering software as service has introduced new players and possibilities in the industry.

The channel level relates to the number of intermediaries involved before the end customer reaches the final product. Traditional goods industry typically involves multiple levels involving channel members such as wholesalers, jobbers and special retailer chains. In the software industry the traditional laws of logistics may be bypassed, since the duplication and the distribution of the product is basically free of charge. On the other hand, software can rarely be sold as a sole product, but it is often combined to a more complex end solution of products, consultancy and training services, support services and maintenance services. The basic properties of the software industry encourage companies to cooperate if they want to focus on their core competence, since the area of operation is too large for a small company to handle completely.

²¹ Schell, Ernie; Multiple channels one system; Catalog Age, New Canaan; Mar 1, 2001

Kotler also introduces three different strategies for controlling the number of intermediaries used in the marketing channel system: exclusive, selective and intensive distribution strategy. Basically exclusive and intensive distribution system supporter's try to maximize the market coverage or control variables, while the selective distribution system is more of a compromise between these two. The larger the number of intermediaries and distributors (intensive distribution), the less control a company has over its channel.

2.2.3 Value networks

Normann and Ramirez²² introduce the concept of value networks in their study. Value network is a modern way to look into the value chains. Instead of looking at the creation of value from the old assembly line point of view, one should note that value is created through a more complex system, not a chain of suppliers and distributors. Basically the actors creating value include the suppliers, manufacturers, business partners, allies and customers, all of which should be viewed as partners co-creating value. Based on Bovet and Martha^{23,24}, the most important change driver in the emergence of value nets has been the growing customer demands, especially in the shortening of delivery times and the demand for reliability in time tables. Other drivers are the digitization of economy, globalization, and competitive pressures. Bovet and Roucolle²⁵ state that the key enabler of value nets has been the e-commerce and the digitization of the information flows.

All value nets share five characteristics: customer alignment, collaboration, agility and scalability, fast order-to-delivery flows and digital information flows based on e-commerce.

Based on Normann and Ramirez²⁶ the concept of value constellations apply globally and does not depend on the branch of business. More importantly,

²² Normann, Richard and Ramirez, Rafael; From value chain to value constellation: Designing interactive strategy.; Harvard Business Review, Vol. 71 Issue 4; pages 65-77; Jul/Aug 1993

²³ Bovet, David and Martha, Joseph; Value Nets : Breaking the Supply Chain to Unlock Hidden Profits; John Wiley & Sons; 2000

²⁴ Bovet, David and Martha, Joseph; Value nets: reinventing the rusty supply chain for competitive advantage; Strategy & Leadership. Chicago. Vol. 28, Iss. 4; pages 21; Jul/Aug 2000

²⁵ Bovet, David and Roucolle, Gilles; Unlocking the Rusty Supply Chain; Ivey Business Journal; Vol. 65 Issue 1; pages 31-35; Sep/Oct2000

²⁶ Normann, Richard and Ramirez, Rafael; Richard Normann and Rafael Ramirez respond.; Harvard Business Review; Vol. 71 Issue 5; pages 50-51; Sep/Oct 1993

Normann and Ramirez emphasize that the concept should be applied to any business where fixed assets and costs are high since the costs can be leveraged as a part of a value constellation.

2.2.4 Choosing the partners

The distribution partnering model should be chosen as an optimization of two factors, solution complexity and marketing complexity. Wiefels¹⁵ sees the primary object of the distribution channel to create a substantial relationship with the customer. Based on the product life cycle, the most influential customer is the economic buyer, the technical buyer or the end user.

Solution complexity refers to the complexity of the product to be implemented. It determines how complex the product is to install, deploy, or use.

Marketing complexity refers to the level of difficulty in sourcing, buying, or supporting the product. The relationship trade-off is illustrated in Figure 6.

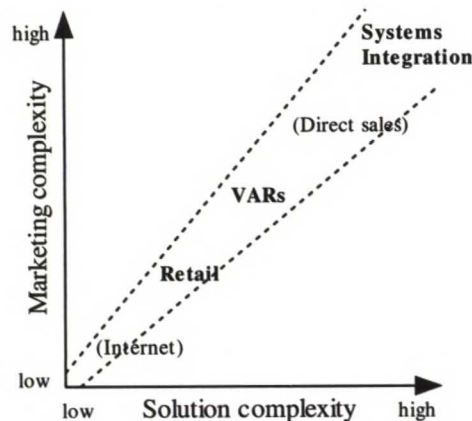


Figure 6. Distribution model selection trade-off

Anything outside the range of the trade-off curve should be considered as problematic areas. A solution with high marketing complexity and low solution complexity is a bad deal for the vendor or the customer, since the sales will create most of the expenses. A highly complex solution with low marketing complexity is hard to sell because the channel will not have enough substantial reward for its distribution efforts in the low price point market.

The decisions made in the partner network building process may be based on pure economics, such as the transactions cost analysis (TCA) first introduced

by Oliver Williamson²⁷. Based on TCA a firm should internalize all operations it can operate lower than market costs and externalize all operations where other firms have the cost advantage. When TCA is applied to channel building dynamics, a firm should use other existing, local channels rather than create its own distribution and marketing system in a specific locale. Kerri Osborne²⁸ used TCA as the basis of her study, when she studied small to medium-sized manufacturer firms' channel integration decisions in New Zealand. The objective of the study was to find the factors affecting the manufacturers' channel building decisions as well as the drivers leading to channel integration, rather than using the existing channel structures.

Based on Osborne's study, the factors affecting the implementation of the distribution channel are transaction specific assets, sales value, company size, external uncertainty, differentiated products, service level, cultural similarity, experience and political factors. The transaction specific assets include good working relations, brand knowledge, level of training, competitive knowledge, investments in equipment and facilities, control and profitability.

The studies of Philip Rosson^{29,30} and Kerry Osborne emphasize the good working relations as the most important transactional asset. The brand knowledge and the level of training seems to have importance for the high technology firms. It is also noted, that the more complex the product, the more integrated the distribution model will be. The competitive knowledge and the investments made in facilities can be used as the reasons to choose partners.

2.2.5 Alliances

Alliances can be used to acquire technology know-how, share resources in product development or combine the sales efforts of companies.

Lewis⁸ divides alliances to two categories

- Informal cooperation and contractual alliances
- Equity alliances such as minority investment, joint ventures and consortia

²⁷ Williamson, Oliver; *Markets and Hierarchies: Analysis and Antitrust Implications*, New York: The Free Press; 1975

²⁸ Osborne, Kerri; *The channel integration decision for small- to medium-sized manufacturing exporter*, *International Small Business Journal*, London; Apr-Jun 1996; pages 40-57

²⁹ Rosson, P and Ford, D; *Stake Conflict and Performance in Export Channels*; *Management International Review*, Volume 20, No 4; 1980; pages 31-37

Strategic networks are generated from the combination of the above and involve a larger number of companies.

Informal alliances are useful when risks in the alliance are small. Informal alliance is usually implemented as a single project or task. The informal alliances and their success lay on mutual trust of the parties.

Informal alliances can be useful for example on

- Exchange of information between competitors, such as market or product launch information
- Cooperation with the customers in product or application development

Contractual alliances are legally binding alliances formed by a joint business plan. Changes in the business plan, the contract, should be accepted mutually. Based on Hagedoorn³¹, contractual R&D partnerships enable companies to increase their strategic flexibility through short-term joint R&D projects with different partners. According to Lewis, minority investments may help create more commitment and lasting value in alliances. It is important, however, to set straight boundaries and interfaces to cooperation. While taking the desired actions, partners must also respect each others' independence.

Hagedoorn³¹ points out that the number of joint ventures has diminished. Because of their nature of being less flexible, joint ventures are more likely to be used in medium-tech or low-tech industries where technological development is less turbulent.

2.2.6 International partnering

A number of articles^{32,33} suggest, that the forms of international operations range from traditional import/export functions, project export, licensing and franchising to contracting, firm cooperation and joint ventures. The form of international operations affects greatly the international partnering model.

When using the indirect export strategy, partners handle the export for the company. Partners can be *export agents* that acquire a provision of export sales

³⁰ Rosson, P and Reid S (editors); *Managing Export Entry and Expansion*; Praeger Publishers, New York; 1987

³¹ Hagedoorn John; *Research Policy*; May 2002, v. 31, iss. 4; pp. 477-492

³² Karhu, Kari; *Kansainvälisen liiketoiminnan käsikirja*; Edita Publishing, Helsinki; 2002

³³ Kera Oy; *Kansainvälistyvä yritys II, kansainvälistymisen toimintamuodot*, Työkirja; 1995

contracts made for the company. *Commission merchants* operate under their own name and sign a commission for each deal acquired. *Export firms* buy and sell products under their own name, thus the end customer pays the premium for the export firm. One can also rely on joint export organizations that combine the forces of several companies. For example national foreign trade associations, such as Finpro³⁴ in Finland organize export partner groups on specific markets and areas of business.

Using the direct export strategy means using either resellers or agencies. Resellers may be either target market importers, trading houses, end user retailers or other producers that can benefit from the products in their own product portfolio. Agents act as sales brokers, commissioners or sponsors and thus sign a commission of the sales.

Export operations can also be controlled through specific export projects. Typically a project includes a number of local partners that act either as the suppliers or subcontractors in the project. Licensing means a partial transfer of rights to the licensee, the company that acquires the rights to deliver the product. When using licensing strategy, choosing the partner is critical, especially in the software industry, since software piracy may be a serious threat in certain markets. Franchising means basically a controlled licensing model, in which the company is in control of the licensee's business model as well.

International partnering often means working with other cultures. Lewis⁸ describes the problems involving different cultures not only the problem of international cooperation, but also affecting organizational cultures of different firms as well. Based on Schein³⁵ cultural mismatch represents a risk as great as a financial, product or market mismatch in a company's cooperation. The cultural incompatibility can be reduced by encouraging cultural dialogue on the boundaries. It is also necessary to engage the different cultures in cross-cultural task forces and project teams from the start.

³⁴ <http://www.finpro.fi>; 2003-09-13

³⁵ Schein, Edgar H. *The corporate culture survival guide*; PP 173-184; Jossey-Bass Inc.; San Francisco; 1999

Kauppinen³⁶ finds in his study, that the central determinants in building international partner channels for a small technology oriented company are the level of customization and the length of the sales cycle. Both should be kept low and the product offering as simple as possible. International partnering, based on Kauppinen's findings, should be viewed as a whole operation, not one divided into country-specific operations.

³⁶ Kauppinen, Ville; Partnering as a part of the internationalization of a new technology-based firm; Helsinki University of Technology, Espoo; 2001

2.3 Partner network management

2.3.1 Partner relationships

The managing director of The Chasm Group, Philip Lay, describes the seven deadly sins of partnering³⁷: Lack of trust, failure to understand the other party's goal, self-centered attitudes, unchecked executive egos, losing sight of the real customer, the absence of strategy and the absence of resource commitments. Of the seven sins, more than half emerge from the relationships between people.

Keysuk³⁸ studied the use of interfirm power in a dyadic relationship between the channel companies. He states that the channel climate affects the decision to use coercive strategies in the channel relationship. The dyadic trust between the companies tends to lower the use of coercive means regardless of the asymmetry of power in the relationship. On the other hand, the relationship continuity encourages the coercion strategies to be used. Thus, the effect of trust in the long-term relationships may be compromised by the search for power. The key issue in maintaining the mutually beneficial relationship is the symmetry of power.

Borodow³⁹ focuses in his article on end customer transactions in a channel. In a multiple vendor channel system, the customer requires support and service from all the members in the channel. The key problem, according to Borodow is the integration of customer service channels. The channels include call centers, Internet-based service, sales support etc. Usually just the integration of software systems may turn out to be an almost impossible task. Borodow criticizes the customer specific, massive customer service systems tailored for each firm, since the obvious need of integrating them to provide the correct level of end customer service depends on the interconnectibility of the systems. He recommends using out-of-the-box solutions for CRM in order to control the service level in the channels.

³⁷ Lay, Philip. The seven deadly sins of partnering; in Wiefels, P. The Chasm Companion; HarperBusiness, 2002

³⁸ Keysuk, Kim; On interfirm power, channel climate, and solidarity in industrial distributor-supplier dyads; Academy of Marketing Science. Journal; Greenvale; Summer 2000

³⁹ Borodow, Eli; CRM across the enterprise: Integrating the channels; Customer Interaction Solutions, Norwalk; Apr 2002

2.3.2 Motivating the partners

Thomas Keil⁴⁰ finds in his study, that the investments in information and communications technology is linked to establishing closer network relationships in small to medium sized technology intensive firms. The study suggests that the investments have a direct effect on the networking behaviour and performance. Furthermore, Keil states that the knowledge intensity is an important factor of partner and customer lock-in to the relationships.

Marchetti⁴¹ sees training as the best way to motivate marketing channel members. Training emphasizes a long-term relationship as well as contributes to customer satisfaction via increased professionalism of sales and operations.

2.3.3 Evaluating the partner network

The evaluation of channel alternatives, according to Kotler³, should be made according to three criteria: economic, control and adaptive criteria.

Economic criteria determine the cost effectiveness of the channel system. It is often misinterpreted that the company's own sales force can sell considerably more than agencies. However, the cost of sales agencies when compared to one's own sales force is often much lower, while the channel sales force can be as effective as the firm's own one. The effect of different sales volumes through the channel should also be considered. The key influencer, however, is the comparison of sales and cost - the economies of the channel system.

Control criteria should also be considered, since there is a vast difference between a company's own sales force trying to maximize a company's own profit and a sales agency trying to maximize its own profits. The control issue also counts for promotion and pricing control.

Adaptive criteria mean the ability of the channel system to transform to changed market situations and possible future scenarios of the firm. The channel's ability to adapt usually goes hand in hand with the control criteria.

A firm, either large or small, has to compromise the first two criteria. Control over distribution channels can usually be gained by using firm's own sales

⁴⁰ Keil, Thomas; Changing realities of relationships – Understanding the role of information and communication technologies in small and medium sized firm relationships, Helsinki University of Technology, Espoo; 1998

⁴¹ Marchetti, M; Peace Offering; Sales and Marketing Management, New York; Sep 1999; pages 56-68

force. The costs in this type of arrangement rise, as does the need for resources to initiate sales. Using firm's own sales force may become overwhelming when compared to, for example, the costs of using a third party sales agency.

Connolly⁴⁶ advises to enhance or destroy the distribution channel based on their true power and value. He points out that one should be ready to redesign the channel if necessary, since the software business is constantly evolving.

2.3.4 Channel Conflict

Channel conflicts rise, when the channel members disagree on some terms of the marketing system. Vertical channel conflict occurs between different levels of the channel system, e.g. manufacturer-wholesaler or wholesaler-retailer conflict. Horizontal channel conflict takes place between channel members on the same level, e.g. retailers compete against each other. A multi-channel conflict is between different channel systems. For example, Ford has had problems launching its e-business since its dealers find the e-business model competing with them. Channel conflicts are the result of different goals of the channel members, most typically when the channel members (or levels) have to compete against each other.

Steven Burke⁴² emphasizes the role of clear policies in easing the channel conflicts. He presents various examples based on the CRN's Vendor Channel Roundtable held in New Orleans. Information technology companies, such as Microsoft, IBM, Sun, Cisco and Hewlett Packard each make sure their direct sales force is compensated equally from the indirect sales too. Most of the companies also make their own roles according to the partner network clear. Software companies such as Symantec and Checkpoint state that they will not operate directly without the channel, even if a customer comes and asks. Slack¹¹ points out that the role of the channel is supposed to be complementary, not competitive. He describes a key issue to be to ensure the correct compensation for the distributors and systems integrators. A manufacturer must set his direct sales compensation strategy to benefit the sales made through the channel over one's own direct sales.

⁴² Burke, Steven; Clear policies help ease channel conflict; CRN, Jericho; Apr 2, 2002

2.3.5 E-business tools in partnering

According to Paula Lyon Andruss⁴³, business-to-business operations have changed because of the emergence of the online exchange industry. Most of these e-business companies act as an aggregator marketplace for various branches.

Kaplan and Sawhney introduce the concept of e-hubs in their article⁴⁴. E-hubs are new players in the distribution channel value chain. Kaplan and Sawhney describe e-hubs as “Internet-based intermediaries that focus on specific industry verticals or specific business processes, host electronic marketplaces, and use various market-making mechanisms to mediate any-to-any transactions among businesses”. An e-hub may be either vertical aggregation (neutral; two-sided), or either forward or reverse aggregation, that is one-sided (buyer or seller-centric).

Mercer Management Consulting⁴⁵ provides a view to new business models emerging in the B2B markets, as well as distribution and marketing channel possibilities. The first generation of B2B marketplaces was either buyer- or seller-oriented. The buyer-oriented marketplaces include the e-procurement services, customized auctions and demand aggregators. Hybrid models include various auctions, exchanges and integrated catalogues. Normal catalogues and storefronts can be considered seller-oriented marketplaces. The new business models, such as solutions offering, communications hub, or choiceboard customization may provide new ideas for partnering, but little has been proven on their actual success yet.

P J Connolly⁴⁶ finds that the evolution of e-business is creating new requirements on the distribution channel system. Competition in e-business requires more efficiency and flexibility than before. According to Harrel⁴⁷, the Internet provides an alternative method for prospecting and product delivery for the sales agencies. He also states, that the Internet presents the best method for

⁴³ Andruss, P; Choose or Lose; Marketing News, Chicago, Oct 23, 2000

⁴⁴ Kaplan, S and Sawhney, M, B2B E-commerce Hubs: Towards Taxonomy of Business Models, Dec 1999

⁴⁵ Mercer Management Consulting, Beyond the exchange: Promising new business models for the next round of B2B e-commerce, Mercer Management Consulting, 2000

⁴⁶ Connolly, P; Top 10 rules for e-business Success; Infoworld, Framingham, Dec 11, 2000, page 51

⁴⁷ Harrel, Ron; Don't sit on the sidelines of the e-commerce revolution; American Agent & Broker, St. Louis; Apr 2000

the companies, agencies and customers to meet in the same virtual space at the same time.

Kanter⁴⁸ states, that the Internet has brought new forms of partnership networks where firms cooperate more loosely. These networks may not have a clear structure and it is possible for competitors to participate in each other's partnering programs. A good example of an Internet-based partnering program is the Amazon affiliate program, in which Amazon offers referral fees for book referrers.

The latest evidence^{53, 49} shows however, that the emphasis from creating new channels, for example, e-hubs has shifted into the integration of existing channels in the partner relationship management framework.

2.3.6 Partner relationship management software (PRM)

The concept of partner relationship management (PRM) is used to describe a set of tools in the area of partnership management. The idea of PRM is similar to the idea of customer relationship management with the difference that the concept is applied to companies operating through distribution and marketing channels.

Marshall⁵⁰ describes the PRM as a set of tools focusing on four key areas

- Marketing automatization
- Sales automatization
- Customer support
- E-Commerce

The three main reasons to use PRM are increasing the sales, lowering the costs of handling the partnerships and building lasting cooperation models.

Harreld and Krill⁵¹ point out the top five gains in using a sophisticated partner management software.

⁴⁸ Kanter, Rosabeth Moss; *Evolve!: succeeding in the digital culture of tomorrow*; Harvard Business School Press, Boston, 2001, pages 135-166

⁴⁹ Harreld, Heather; *Advancing the sales channel*; InfoWorld, Framingham; Nov 19, 2001

⁵⁰ Marshall, Gregg E; *Improving sales partnerships with technology*; Agency Sales; Irvine, Jul 2002

⁵¹ Harreld, Heather and Krill, Paul; *Channel Management*; InfoWorld; Framingham; Oct 8, 2001

- Monitoring the channel
- Brand management
- Forecast demand
- Strengthen the channel relations
- Recruit new partners

Based on James⁵², the PRM software typically includes the possibility to create customized extranets, lead management tools, and e-commerce capabilities. The more advanced features include partner profiles, customized product and pricing information, and marketing fund management. Joachim⁵³ states that PRM software helps decrease the product time-to-market because of the enhanced distribution messaging and marketing communications. PRM also helps build partner loyalty, although it is hard to measure.

Daniel Nissan⁵⁴ finds it necessary to “arm the allies” with not only information and marketing material, but technological tools as well. The author emphasizes that regardless of the automatization gained by partner management information systems, most of the channel relationships rely on people. Therefore a sales manager can never be replaced by technology. Marshall⁵⁰ points out that just like customer relationship management, partner relationship management cannot be automated by using technology tools only. The key issues are making the cooperation more effective, minimizing the indirect costs of cooperation and strengthening the relationships. Partner network management should not be viewed as managing separate partnerships to enhance sales, but as a whole system.

⁵² James, Dana; PRM extends, strengthens relationships; Marketing News; Chicago; Apr 24, 2000

⁵³ Joachim, David; Online tools drive new sales through old channels; B to B, 5302369, 9/15/2003, Vol. 88, Issue 10

⁵⁴ Nissan, Daniel; Arming the allies; Computer Technology Review, Los Angeles; Jun 2002

3 FINDINGS ON THE LITERATURE

3.1.1 The target-setting criteria

Based on the literature, the optimal partnering strategy targets depend on the current market situation. In order to define the targets for partnering strategy, it is necessary to go through a market situation analysis check before correct decisions can be made.

Prerequisites (Market situation analysis)

1. Identify the phase of technology adoption life cycle and the target customer

The market situation affects firm's operations on multiple levels and cannot be ignored. Most of the software industry is still not matured enough and fit on the technology adoption life cycle. Identifying the target customer also depends on the phase of the technology adoption life cycle. Depending on the situation, a correct target customer may either be a technological buyer, economic buyer or the end user. Market situation and the technology adoption life cycle also determine the basic outline whether the product is feasible to sell as a technology project (early market), a productized software application (early main-stream market), off-the-shelf retail product (late main-stream market) or as a service (late market).

2. Understand the customer needs and wants and create the concept of a whole product

The ultimate goal of the partner network is always to develop, implement, distribute, and maintain the whole product for the customer in order to create value for its members. Few products can be seen as a complete solution for the customer's needs, there are often complementary products and services that may add to the final value to the customer. More importantly, in the early markets the customer expectations often exceed the actual product. The hidden needs should also be taken into consideration while creating the whole product portfolio.

Setting targets (Partnering strategy)

3. Set targets for creating the partner portfolio to develop, implement, distribute and maintain the whole product

The whole product analysis of a typical software product should take into consideration at least the following complementary service and complementary product issues:

Complementary services	Complementary products
<ul style="list-style-type: none">• Consulting and training• Postsales service and support• Presales services• Legacy interfaces	<ul style="list-style-type: none">• Hardware• Software• Peripherals• Connectivity

Each complementary part of the whole product must be taken care of. In reality, it is often necessary for a software company to have partners for at least consulting, training and support.

3.1.2 Designing and building the network

4. Design the partnering model to enable control of the whole portfolio

A vertical marketing system is widely used in the traditional industry, but cannot be applied with ease to the software industry. Horizontal partnerships are bound to enable the exchange of know-how and the completion of the targeted whole product. In reality, the partnership portfolio is often a combination of these factors. The partnering companies and customers form a complex value network in which information and product offerings are used in combination.

5. Identify partnering roles of the players in your portfolio

The roles of companies in the partnership portfolio typically consist of two main categories: sales partnerships and functional partnerships. The different types of sales channels are vast – from OEM deals to distributors, VARs and systems integrators. In the software industry a widely used solution is the application service provider model. The optimal partners can only be chosen based on one's whole product or products. The key issue is to keep the solution and marketing complexity hand-in-hand to make the right decisions.

6. Choose your partners

Choosing of the potential partners includes both company-specific factors and transaction-specific factors. Company specific factors such as sales intensity, coverage, and company size affect not only the relevance of the partnership, but also the complementary effect of the dyadic partnership.

Transactional factors that can be changed during the time include good working relations, brand knowledge, level of training, competitive knowledge, investments in equipment and facilities, control and profitability.

Finally, the issue comes up to control, risk and adaptability.

7. Establish relationships with your partners

The established relationships can be of informal, contractual, investment or joint venture type of alliances. Generally, mutual investments enhance the commitment level of the companies, but can often raise control and manageability issues. Joint ventures are rare nowadays when the fast-changing environments require constant evaluation and redesign of partner relationships.

3.1.3 Managing the partner network

Managing a partner network requires tools to manage the relationship, monitor the partnerships and evaluate the outcomes.

8. Establish the partner program and the channel policies

The partner networks are a delicate construct of power, control and trust. To ensure beneficial cooperation one has to have clear policies and set out the channel policy to minimize negative effects of channel conflict. The motivation of the partners comes from communication, training and the shared success stories.

9. Establish a set of tools to manage and evaluate the partnerships

A working partner network must be constantly evaluated and monitored. E-commerce tools can be used to share information and handle transactions, while the relationship in the end comes to people. Good working relationships rely often on a symmetry of power which enables the companies to cooperate without using coercive means to gain control.

10. Evaluate and monitor to redesign

The evaluation of a channel is basically made according to three criteria: economic, control and adaptive criteria. E-commerce tools and partner management software provide new possibilities to measure the success of channel arrangements. In the fast-paced software industry a company must always be ready to act based on the evaluation and be able to redesign its partnership arrangements.

3.1.4 Partnering framework for a software company

The framework presented provides a ten-step process that can be used as a guideline for a company designing its partnering strategy. The ten steps are

1. Identify the phase of technology adoption life cycle and the target customer
2. Understand customer needs and wants and create the whole product
3. Set targets for achieving the partner portfolio to develop, implement, distribute and maintain the whole product
4. Design the partnering model to enable control of the whole portfolio
5. Identify partnering roles of the players in your portfolio
6. Choose your partners
7. Establish relationships with your partners
8. Establish the partner program and the channel policies
9. Establish a set of tools to manage and evaluate partnerships
10. Evaluate and monitor to redesign

The 10 steps are discussed more thoroughly in chapters 3.1.1 , 3.1.2 and 3.1.3 .

The framework can be modelled as a waterfall flow process as exhibited in Figure 7.

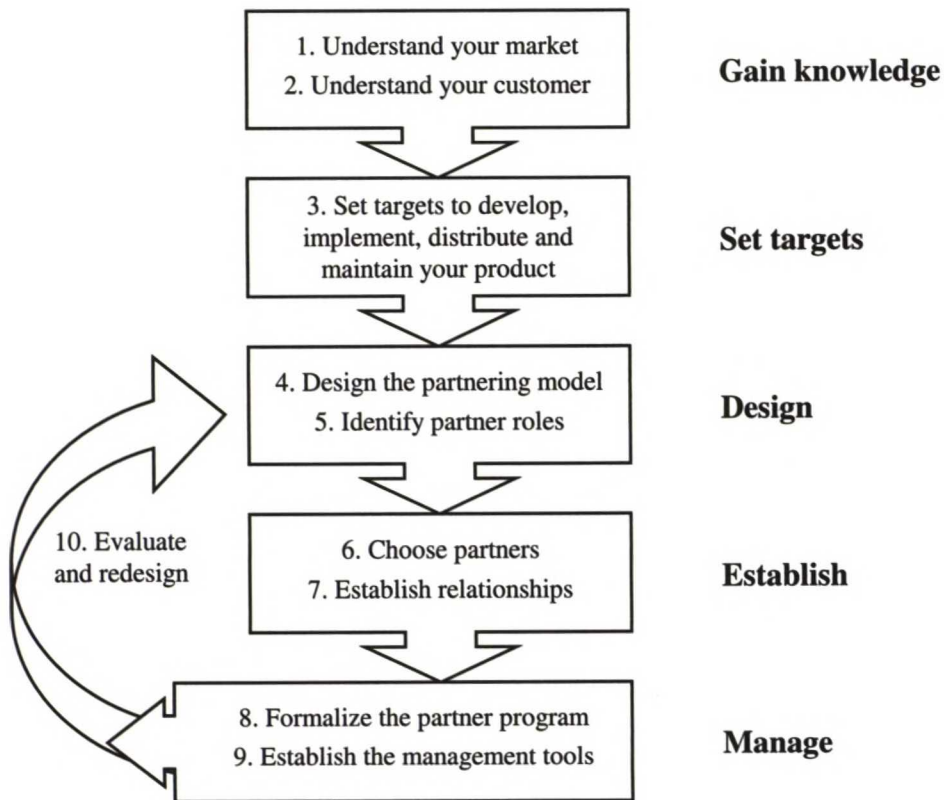


Figure 7. Partnering strategy formulation framework

The process consists of 5 steps: gaining knowledge, setting targets, designing, establishing, and managing the partner network. General knowledge about the markets and the target customer is required before any actions on partnering should be taken. Targets should be set based on the abilities to develop, implement, distribute (sell) and maintain the whole product. The first step in designing partnering strategy is designing the whole model and identifying the partner roles. After that the initial partnerships should be established, partners chosen, and relationships established. Managing the partner network requires a formal partner program and clear working policies to ease the effects of channel conflict and commitment to partnering roles. Tools to manage communication, information workflows and transactions help to acquire good working relations with the partners. The partnering process should be under constant evaluation and be redesigned if needed.

4 SOFTWARE INDUSTRY

This chapter provides case studies on partnership programs of selected software companies. The companies chosen as cases are divided into two categories: large global software companies and the Finnish security software industry. The selection of the case companies was made by selecting few of the most successful global software giants in the first category. The second category was chosen based on the proven success of Finnish firms in the security software business and the similarity of firms. The case studies were made based on the marketing material and literature on companies.

4.1 Large global software companies

4.1.1 Case Microsoft

Microsoft is undoubtedly one of the most successful software companies ever. Microsoft was first founded in 1975 by Bill Gates and employs today over 32 000 people in more than 60 countries.

Microsoft operates in the following business areas:

- Windows Client, including the Microsoft® Windows® XP desktop operating system, Windows 2000, and Windows Embedded operating system.
- Information Worker, including Microsoft Office, Microsoft Publisher, Microsoft Visio®, Microsoft Project, and other stand-alone desktop applications.
- Business Solutions, encompassing Great Plains and Navision business process applications, and bCentral™ business services.
- Server Platforms, including the Microsoft Windows Server System™ integrated server software, software developer tools, and MSDN®.
- Windows CE & Mobility, featuring mobile devices including the Windows Powered Pocket PC, the Mobile Explorer microbrowser, and the Windows Powered Smartphone software platform.
- MSN, including the MSN® network, MSN Internet Access, MSNTV, MSN Hotmail® and other Web-based services.

- Home & Entertainment, including Microsoft Xbox®, consumer hardware and software, online games, and a TV platform.

The Microsoft partnering program

Microsoft runs a partnering program consisting of strict requirements for each partner program and membership level. Typically, the program includes company employee testing, certification, and certification of company software. The partner program offers a number of benefits for the certified partners. In accordance to marketing and training resources, the partner program includes a valuable license set, which by itself acts as the motivation for applying to the partner program.

Microsoft partners operate in four categories:

- Microsoft registered member (no certification)
- Microsoft Certified Partner
- Microsoft Certified Technical Education Center
- Microsoft Gold Certified Partner.

Further, the Gold Certified Partner category is further divided into business categories

- Business Intelligence
- Collaborative Solutions
- E-Commerce
- Enterprise Systems
- Hosting & Application Services
- Learning Solutions
- Security Solutions
- Software Products
- Support Services

The role of small partners

In year 2002 Microsoft introduced the new annuity licensing model on its software. According to Microsoft's vice president of U.S. Small Business and Broad Channel Sales and Marketing, Bob Clough in Stephen Burke's interview⁵⁵, more than 50% of the sales of the new licensing model depend on more than 40 000 small, independent value-added solution providers. The solution providers hold the key in finding the correct licensing model for each customer, as well as delivering information about the new model. Even though Microsoft may be capable of delivering the information and licenses

⁵⁵ Burke, Steven; A new license to sell; CRN, Jericho; Jun 3, 2002

independently, Clough finds the small business sector an area, where the success of delivering the annuity license model depend on the solution providers only.

4.1.2 Case SAP

SAP is a Germany-headquartered software company and the world's third-largest independent software supplier overall. SAP operates in more than 50 countries and employs over 29 800 people. SAP was founded in 1972.

SAP operates under one product, the mySAP Business Suite that includes functionality for various business needs on various areas of business

- Business Intelligence
- Customer Relationship Mgmt.
- Enterprise Portal
- ERP
- Financials
- Human Resources
- Marketplace
- Mobile Business
- Product Lifecycle Mgmt.
- Supplier Relationship Mgmt.
- Supply Chain Mgmt.

The mySAP Business Suite is targeted as a general solution for the company's business management tailored for each customer separately.

The SAP Partnering program

SAP runs an extensive partnering program to offer solutions and supporting services for the mySAP Business Suite. The partners are divided into categories and membership levels, based on their area of operation and the targeted business area.

The SAP partners are categorized according to membership levels based on their geographic area of operation:

- SAP Partners

SAP partners participate at a local or regional level.

- SAP Alliance Partners

These are local partners who are leaders in their fields and who have made considerable investments in supplying services or products to SAP customers.

- SAP Global Partners

Global partners offer worldwide coverage for the services or products they offer.

- SAP Global Alliance Partners

These partners are global leaders who work closely with SAP to realize joint business goals.

Further, each of the partners operates on a specific role in the partner network.

- Content partners
- Education partners
- Hosting partners
- SAP xApps partners
- Services partners
- SAP business partners for small and midsize businesses (SMBs)
- Software partners
- Support partners
- Technology partners

4.1.3 Case Oracle

Oracle is a California based software company that started with the innovation of commercializing the relational database. The company was founded in 1977 and employs more than 40 000 people. Oracle offers a product range from development and collaboration services to application servers and database engines. A typical Oracle customer is a large corporate or organization.

The Oracle partnering program

The Oracle runs a Partner Network program in which partners are categorized into three member levels

- Member Partner
- Certified Partner
- Certified Advantage Partner

Further, the partners are categorized as

- Association
- Content Provider
- Education Provider
- Hardware/Infrastructure Vendor
- Independent Software Vendor
- System Integrator
- Value Added Distributor
- Value Added Reseller

The resources offered by the Oracle partner program range from development resources to sales and marketing resources.

Development resources

- Training
- Licenses and technology
- Technical support

Marketing resources

- Branding kits
- Product kits
- Marketing funds and resources

Sales resources

- Sales kits
- License discounts

4.1.4 Case BEA

BEA is an example of a fast-growth software company. BEA focuses on application infrastructure software, such as the BEA Weblogic Enterprise platform. BEA employs currently more than 3000 people on 77 locations. BEA runs a partner network of more than 1600 partners, consisting of independent sales partners and systems integrators.

The BEA Partnering program

BEA divides its partners into one star, two star and three star categories based on partnership performance. Further, the partnerships are divided into ISV (Independent Software Vendor) and Integrator tracks.

ISV Track

- Independent Software Vendors
- Bundled and Embedded
- Complementary Software Providers
- ASPs

Integrator Track

- Systems Integrators
- Consultants
- Full solution providers
(Software, Hardware, Services)
- Platform

The resources offered by BEA to its partners resembles the Oracle offering – technical, sales and marketing resources

Technical resources

- Product education
- Certification
- Software and media
- Technical support

Marketing resources

- Identification & branding
- Marketing tools

Sales resources

- Sales support and kits
- Sales training resources
- License discounts

4.2 Finnish security firms

4.2.1 Case F-Secure

F-Secure Corporation is the provider of centrally managed security solutions for the mobile enterprise. Founded in 1988, F-Secure has been listed on the Helsinki Stock Exchange since November 1999. The company has offices in 5 countries including Germany, Sweden, Japan, the United Kingdom and the USA. F-secure employs more than 280 people at the moment.

F-Secure is supported by a network of value added resellers and distributors in over 90 countries around the globe. F-Secure also has licensing and distribution agreements to make the security applications directly available for the handheld equipment manufacturers.

The F-Secure partnering program

The F-secure sales partners are categorized into two certification levels. Other partner categories include the distribution and OEM partners.

- | | |
|--------------------|------------------------------------|
| Sales partners | • F-Secure eShop Affiliate program |
| • Silver certified | • Distribution partners |
| • Gold certified | • OEM partners |

The F-secure partnership offering consists of technical, marketing and sales resources

- | | |
|--------------------------|------------------|
| Technical resources | Sales resources |
| • Product discounts | • Sales leads |
| • Free in-house software | • Sales training |
| • Extranet | • Sales support |

Marketing

- Marketing assistance
- Marketing resources

4.2.2 Case SSH

Founded in 1995, SSH is a supplier of managed security middleware. SSH employs 147 people and is headquartered in Helsinki. SSH provides

cryptography and authentication technologies and products for secure Internet communications. SSH incorporates its solutions into a SSH Tectia Solution Suite.

The SSH partnering program

SSH divides its partners into channel and technology partners.

Channel partner

- Sales partners
- Solution partners
- Distributor partners

Technology partner

Non-commercial partner

The partner offering consists of

- Training services
- Marketing support
- Partner extranet
- Lead generation
- Sales support
- Margin enhancement
- Technical support

4.2.3 Case Stonesoft

Founded in 1990, Stonesoft Corporation is a worldwide software company that develops, markets and sells a family of integrated network security solutions. Stonesoft provides enterprise-level network security and high availability clustering solutions. Stonesoft is headquartered in Helsinki and has offices in almost 20 countries. The company currently employs more than 340 employees worldwide.

The Stonesoft partnering program

Stonesoft divides its partners into three categories: channel partners, technology partners and training partners. Furthermore, a secure application partnership program initiative is run outside the standard partnership program.

Channel partners

- Authorized partners
- Premium partners
- Technology partners
- Training partners

- Secure application partnership program
- Enterprise hardware partners
- Enterprise software partners
- Application clustering partners

The partnership offering is divided simply into three categories: marketing material, partner extranet and sales training.

4.3 Software industry case research findings

Each case company has a clear partnering program that consists of three elements: partner membership levels, the partner categories and the offering. A clear difference in the programs between the global companies and their smaller Finnish counterparts is that the programs are much more clearly formulated. The difference may of course simply be caused by the availability of resources for creating the partner program.

Table 2. The software company partner programs comparison table

	Microsoft	SAP	Oracle	BEA	F-Secure	SSH	Stonesoft
Partner classification							
Partner levels	4	4	3	3	2	3	2
Partner categories	9	9	8	8	3	3	3
Targeted programs	-	-	-	no	1	-	1
Partner offering							
Marketing benefits	yes	yes	yes	yes	yes	yes	yes
Sales benefits	yes	yes	yes	yes	yes	yes	yes
Technical support	yes	yes	yes	yes	yes	yes	n/a
Licensing	yes	yes	yes	n/a	yes	n/a	n/a
Training	yes	yes	yes	yes	yes	yes	yes
Partner extranet	-	-	-	-	yes	yes	yes

The clear need of formal partnership programs in the industry can be seen from the fact that each company has a well formulated program available in the web. The partners are generally divided into categories of importance, such as gold and silver certified categories or one to three star categories. In addition, the global companies have their own partner programs for horizontal industries, such as the integrator track or hosting partners. Finnish security firms probably lack the resources to manage more comprehensive horizontal programs. The

key issues featured in the partner offering are the marketing, sales and technical material and support, licensing benefits, training, and the partner extranet.

Software companies seldom use the traditional view of horizontal and vertical partnerships in their partnering processes. However, there is a distinction between distribution and complementary partnering. Distribution partners generally receive sales, marketing and technology support, while strategic technology partnerships focus on creating more product value or know-how. By a rule of thumb, distribution partners participate in a formal partnering program, whereas the few specific technology partnerships are carefully chosen and implemented. In general, the partnerships in the software industry form a complex value network in which not only the distribution and sales chain, but also customers and competitors are interconnected.

5 CASE COMPANY

5.1 Company presentation

5.1.1 Background

Systems Garden was founded in the summer 2002 as a spinoff from Endero Plc. Endero transferred the intellectual property rights of the NAS product family to Systems Garden Ltd as a part of the externalization process conducted within Endero. Later in the fall Helsingin Sähköinen Toimisto Ltd was spun off from Endero. Helsingin Sähköinen Toimisto Ltd continues as a value added reseller of the NAS product family and as a partner to Systems Garden Ltd.

5.1.2 Company presentation

The business model of Systems Garden is dependent on the value added reseller partner network. Systems Garden is purely focused on product development and productization, whereas most of the sales and marketing is carried through the partner network. The product itself is not a finalized product that can be bought off the shelf, but rather a solution platform that Systems Garden's partners may use in generating an end customer information management solution. In addition to the solution provider partners, Systems Garden aims at partnerships with value added services that may be combined to the end solution. Such companies would be, for example, system platform partners, hosting partners, advertising agencies, translation services etc. The goal is to create a partner network that is capable of competing with the large, multinational technology providers with a combined force.

Systems Garden's main product, the NAS product family, is an application platform that addresses the needs created by the information economy – information management, filtering and personalization. A NAS system may be configured anywhere from a simple web content management system to a complex corporate portal. The configurations are managed as separate products, the NAS Suites, which address the most typical needs in the content management system, and provide the base point for the Systems Garden's partners' solution provider role. The latest additions to the NAS product family

include the integration tools that can be used to connect the NAS system into company's other information systems to provide a single access point to the company's information. The key benefits to the customer are the advantages gained from a centralized information database, savings generated from saved time in searching the information and documents and the improvements in the quality process. The correct information is constantly available through NAS Intranets or extranets.

5.1.3 Partnering experiences

Currently, Systems Garden's partnering strategy has been implemented with the focus on intensity of sales and number of partners. There has not been a formulated strategy to be followed. Partnering has been conducted more due to the enthusiasm of the current partners. The key driver in partnering has been intensity, rather than targeted and methodological strategy. Partner screening has been divided into two categories, sales and solution providers and the supporting service providers. From the Systems Garden's point of view, the focus on partnering has been on sales partners.

Systems Garden has at the moment 27 partner companies of which ten are capable of offering a complete solution for the end customer. The rest of the partners offer supporting services, but do not involve themselves in end user sales or the solution provider role. Systems Garden has about 80 customers, of which most are large companies in Finland. The NAS system has been used in more than 120 services and the number of customer projects with NAS involved exceeds 500.

5.1.4 Market situation and competition

The content management market in Finland is very diversified. Based on the market research made by Systems Garden, more than 100 companies in Finland claim they have a content management system in their product portfolio. The nature of the content management system varies a lot, ranging from a set of programmer's tools to large multinational software vendors who have market presence in Finland. When only companies that are offering solutions to large companies, are included, the number of companies involved is diminished to

15. The rest of the players will most likely continue to operate on the small-to-medium business area.

The main competitors of Systems Garden can be divided to three groups:

- Large international software vendors
- Large national (or Nordic) solution providers
- National medium-sized players operating with a similar client portfolio

In addition, Systems Garden has to compete with the smaller players mentioned before, but these players can also be seen as potential resellers and partners.

5.1.5 Current partnering model

The partnering goals have originally been set on maximizing the sales coverage. The focus has been on distribution and sales partnering, while the supporting services needed in forming the whole product are acquired when needed. The target group used in the search for current sales and solution provider partners can be categorized into three categories:

- Small companies operating in the content management business

It can be estimated that the diversified content management market cannot support the number of products it is currently supporting. The rush of product importers from abroad and the requirements for funding product development needs drives the smaller players to either focus business and possibly divest or retarget product development, or engage in ownership arrangements.

- Media-, advertising- and communications agencies

Companies that currently operate the network service business, may not be capable of own product development. Systems Garden is capable of offering tools for the agencies without investing in expensive programmer work force. The second benefit of attaining contacts with media agencies is that they can serve as powerful lead generators since the need for content management typically arises from the communications and marketing.

- Large solution providers and systems integrators

Large solution provider can aggregate a number of products in their offering to create the total end customer solution. Since Systems Garden's products can be configured to a large number of possible solutions and integrated into the existing infrastructure, systems integrators are needed in the integration process.

The following issues have been identified by Systems Garden in the current partnering process.

- Lack of clear targets for partnering
- Lack of partner company focus
- General view of the markets, no differentiation
- Lack of a formal partner program

The goal of the case company analysis is to give an insight into the problems and provide concrete suggestions for the partnering strategy.

5.2 Customer analysis

The customer analysis is divided to two categories: current clients and potential clients. Both categories were interviewed over the phone. Standard questionnaire forms were used for each interview. The current customer's interviews were made by Systems Garden's employees and the potential customer's interviews were a part of the market research.

5.2.1 Current customers

The current customer analysis was made as a database analysis of current customers, by categorizing the customers and the customers' decision makers. The goal of the current customer research was to create an understanding of the market situation from a customer's point of view, and create an understanding of about the customer segment Systems Garden currently serves. The analysis was conducted on the basis of Systems Garden customer and license databases based by the situation in November 21, 2003.

5.2.1.1 Background information

The data from Systems Garden customer and license databases includes 79 separate environments and licenses. In addition, the customer database includes 14 customers that have ended their customer relationship with Systems Garden in the years 2002-2003. The customer and license database is not, however, complete. The database excludes the international customers mostly located in Brazil and it may also exclude a few customers in Finland that have not been served during the existence of Systems Garden Ltd. The number of customers not in the databases is under 10 and therefore can be excluded from the analysis based on the insignificance of the data.

5.2.1.2 Research results

The research conducted based on the current customer database provided the following statistics:

Table 3. The types of systems delivered on current customers

System type	Nr	percentage
Customer specific application	7	8,86 %
Internet content management system	55	69,62 %
Extranet System	23	29,11 %
Intranet System	15	18,99 %
Internet w/o extranet service	34	43,04 %
Total number of systems	79	100,00 %
Customer relations terminated	12	15,19 %
License maintenance customers	55	69,62 %
Rental customers	7	8,86 %

Most of the systems delivered are Internet content management systems. 21 of the internet content management systems are combined into an internet - extranet system where there is a restricted content area in addition to the internet web site. 15 systems are intranet systems, most of which are corporate intranets.

During the years 2002-2003 12 customers terminated their customer relations with Systems Garden. All of the 12 customers were using an Internet Content management system. 70% of the customers have a licence maintenance agreement which entitles them to the new versions of Systems Garden software on a yearly fee basis. 7 customers, all of which are new customers of Systems Garden, acquired their systems in 2003.

Table 4. Current customers areas of business

Area of business	Nr	percentage
Services	14	17,72 %
Industry	12	15,19 %
Associations and non-profit organizations	10	12,66 %
Government and public sector	9	11,39 %
Finance and banking	5	6,33 %
Building and real estate	3	3,80 %
Trade	3	3,80 %
Energy	2	2,53 %
Total number of systems	79	100,00 %

The current customers operate on a wide variety of businesses. The number of businesses in the traditional brick-and-mortar industry and the services industry is almost equal. The combined number of non-profit organizations, associations and public sector is considerable. Almost 25% of customers are non-profit organizations.

5.2.1.3 Analysis

The customer research brought up the following points:

- All of the customers that have terminated their customer relation during this year are customers operating an Internet content management system. This may be due to the heavy competition in prices in the web content management business.
- Since 70% of the customers have acquired a license maintenance agreement, it may be concluded that most of the customers intend to continue their relationship and develop their system further.
- The current clients do not form any industry-specific or functional group. The solutions provided are general solutions with the exception of few tailored solutions
- As the number of non-profit organizations in the customer database is large, it may be concluded that the need for information solutions or other ways of fulfilling the need in these organizations is larger than in the traditional industry

5.2.2 Potential customers

The potential customer criteria were first estimated by the experience gathered from previous customer cases. The potential customers target group was

identified to consist of Finnish organizations with over 50 employees and a turnover of over 5 million euros. Based on these criteria, a listing of Finnish companies was acquired from Suomen Asiakastieto Oy.

The research was conducted as random sampling from the listing. The emphasis was on the larger companies in the list. The total number of interviews conducted was 50.

5.2.2.1 Background information

The companies interviewed were of different sizes and from different areas of business, but the main focus was in companies sized between 10 and 100 personnel.

Table 5. The number of employees (potential customers)

Number of personnel		percentage
< 10	7	14 %
10-100	22	44 %
101-250	9	18 %
251-1000	7	14 %
> 1000	5	10 %
	50	100 %

Table 6. The areas of business (potential customers)

Area of business	number	percentage
Trade	13	26 %
Information technology, telecom	3	6 %
Industry, energy	13	26 %
Banks, financing, insurance	2	4 %
Public sector	0	0 %
Associations and organizations	2	4 %
Other services	7	14 %
Other	10	20 %
	50	100 %

When the interview call was made, the interviewer asked for the person in charge of the Internet communications for the interview. The people reached were of the following positions in the company.

Table 7. The interviewed people positions in the company (potential customers)

Position in company	number	percentage
General management	9	18 %
Marketing	11	22 %
IT	13	26 %
Finance	0	0 %
Communications	9	18 %
Logistics	0	0 %
Other	7	14 %
No answer	1	2 %
	50	100 %

All of the companies interviewed had web pages, 29 out of 50 (58%) had some form of an intranet and only 12 (24%) had an extranet.

5.2.2.2 Research results

The research questions were divided into 5 categories:

- Integration of the different systems
(integration can be viewed as Systems Garden's main competitive advantage)
- Building and maintenance of the systems,
(refers to the use of other content management systems)
- Use of the systems
(refers to the understanding of the customers actual use of the systems)
- Correspondence to the needs and the main development areas
(to monitor the future needs and wants of the customers)
- Current solution provider
(to monitor the competitive situation in the market)

The integration of different systems

26 out of 50 companies told that the internet, extranet and intranet systems are operated separately. In addition to that, 12 companies answered that the different systems could be more thoroughly integrated. Only 7 companies were happy with the current integration of the different information systems. 7 companies pointed out, that they use a sort of a business portal that integrates the systems through a browser interface.

The building and maintenance of the systems

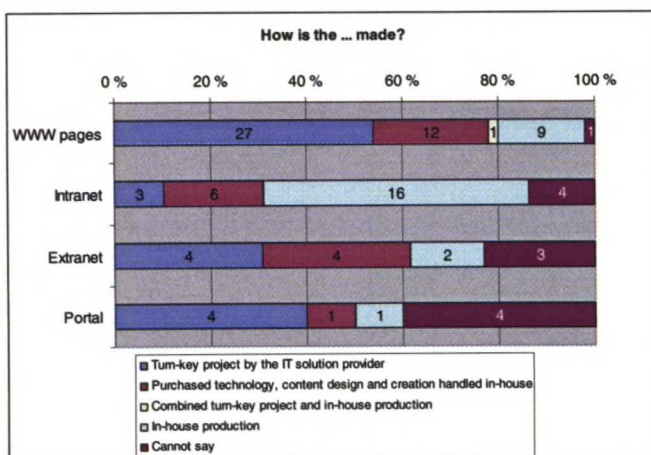


Figure 8. How are the different systems built (potential customers)

Most of the www pages (27 out of 50) were made by a solution provider as a complete distribution project. 12 companies had purchased only the technology and developed the pages themselves. 9 companies told that the www-pages were completely developed in-house. Of the 29 intranets, 16 were made in-house and only 3 purchased as turn-key projects. The building of extranets was divided evenly between solution providers and in-house production.

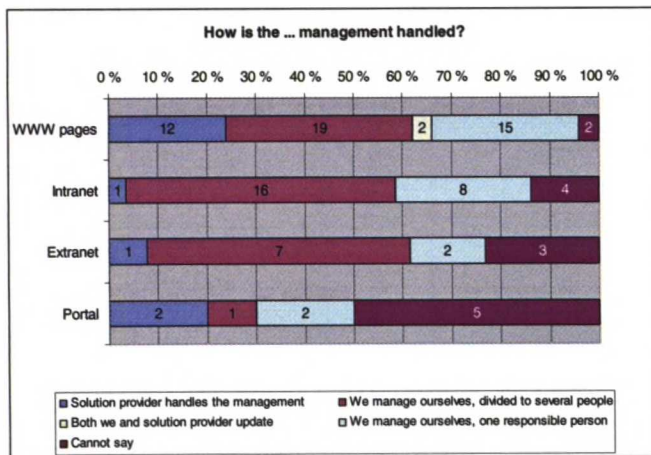


Figure 9. How the content is managed (potential customers)

The content maintenance of the systems was mostly handled by the companies themselves, thus some sort of a content management system was used. In most cases, content maintenance was divided to several people. Of the www-systems, 16 out of 50 companies claimed that content maintenance is handled by the solution provider.

The use of the systems

The use of the different systems was evaluated by each subgroup: www-pages, intranet and extranet.

Table 8. The purpose of www-pages (potential customers)

The purpose of the www pages		
Provide company information	32	64 %
Online orders and purchase	2	4 %
An integrated part of sales and marketing	16	32 %
	<u>50</u>	<u>100 %</u>

The main purpose of the www-pages was to be the company business card on the web. Some companies viewed www as an integral part of their marketing and sales process.

Table 9. The purpose of the intranet (potential customers)

The purpose of the intranet		
Intranet is a "must", no real use	1	2 %
Provide information to personnel	23	46 %
A daily working place, information targeted to the user requirements	5	10 %
	29	58 %

The intranets were in general seen rather as information storages, not as operative services, or tools in daily work.

The extranet systems are used in a more variety. The companies using extranet systems were asked to specify the target user group of the extranet as well as mentioning the content within the extranet according to both pre-defined lists and free mentions.

Table 10. The extranet users (potential customers)

The extranet users		
Customers	8	16 %
Suppliers	0	0 %
Other partners	4	8 %
Other interest groups	2	4 %
	14	28 %

Most of the extranets were designed for customer use. None of the companies provided a supplier extranet.

Table 11. The extranet usage (potential customers)

Extranet content	Mentions	%
Notices and news	8	67 %
Brochures	9	75 %
Product ordering	5	42 %
Product availability	2	17 %
Guidance	2	17 %
Support material	2	17 %
Training material	1	8 %
Transportation information	0	0 %
Project information	3	25 %
Designs	1	8 %
Documentation	1	8 %
Feedback functions	4	33 %
Additional extranet functions (free mentions)		
Additional information	2	
Software updates	1	
Usage data (energy sector)	1	
Campaigns, price lists	1	
Image bank (2 mentions)	2	
Customer chat	1	

The correspondence to the needs and the main development areas

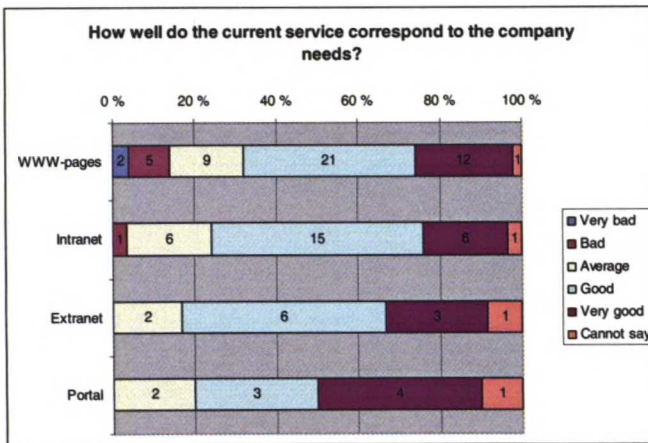


Figure 10. The current service correspondence to current needs (potential customers)

Most of the companies interviewed are satisfied with the current systems and how they correspond to the company's needs.

The main development areas and the strengths of current systems were surveyed as free form questions. Accordingly, the main interest points in www-services is the content and whether it is up to date, the ease of use, structure, and the layout and visual outlook of the system. Many interviews showed that the interviewee was especially satisfied if the web pages were easy to update. The intranet services emphasized the same values, but added with different functionalities, such as resource calendars, phone books and contact register. The intranet seems to emphasize the functions over the usability and outlook. The comments on extranet and portal cannot be reviewed to any conclusions, since the number of answers was rather low. The main finding of the strengths and weaknesses analysis was that the ease-of-use was the most significant factor affecting in customer satisfaction.

The current solution providers

The interviewees were asked what companies they were operating with on the Internet, intranet and extranet services. The total of 50 answers brought up more than 40 different firms on all systems. The others did not either know or produced the systems in-house. Most of the intranet and extranet answers were

“the same as above”, that is, the selected solution providers were selected based on the experiences in the www-services.

When asked why the current partners were chosen, 24 of the interviewees mentioned earlier cooperation or existing relationships as the most significant reason. Only 4 interviewees had used the offer or the offered solution as the criterion for the selection. The result is especially significant, since the question was stated to be answered freely, not as a multiple choice question.

5.2.2.3 Research analysis

The conducted research brought up the following points:

- There is a clear need for integrating various systems. Only a fraction of the companies are happy with the current level of systems integration.
- Most of the www-systems are purchased as complete turn-key projects, whereas the intranets are more typically produced in-house.
- Internet services and intranets are seen as informal services, not operative systems. The significance of these systems to a company is generally low.
- Most of the companies are satisfied with the current systems, the main areas of development being the ease-of-use
- The number of current solution providers is large. Almost every company had a different firm it operates with. The market is very fragmented
- The most common reason in choosing a partner is common history.

From Systems Garden's point of view, the implications are clear. The key problem in obtaining new customers and gaining market share in the fragmented, almost monopolistic, competition is loyal customers. Most of the customers tend to stick with their current solution providers, no matter what. Even large slip-ups are tolerated if the relationships are otherwise all right.

The customers do not see the differences in the products as large as the suppliers themselves. The Internet services and intranets are only viewed as information servers, and thus to be distinguished from the mass is difficult.

5.3 Partner research

The partner research is divided into two parts, current partners and potential partners. The first part (current partners) is analyzed by categorizing the current partnership deals of Systems Garden into different categories. The goal is to create an understanding of how the current partnerships create value to Systems Garden. The second part focuses on potential partners and is based on a phone interview research. The goal of the second part is to create an understanding of the situation of the firms possibly interested in partnering, the needs and wants of the partner, and screen Systems Garden's business idea from the partners' point of view.

5.3.1 Current VAR-partners

When this research was carried out Systems Garden had 27 active VAR partners. The partnering strategy has so far focused more on volume and, for example, no partner fees have been collected. The choice of the partners has been random, the common element only being the interest in phone enquiries. The partners operate in various areas of business and vary in size. The most active partners are currently the small ones that employ less than 5 persons.

The number of new customers gained from partners is low; only 10 deals during 2002-2003 have been closed by the partner network. Most of the new customers acquired were from the old contacts with Endero Oyj and later on with Helsingin Sähköinen Toimisto Oy. New customers from new partners have been a rarity.

5.3.1.1 Current partners analysis

The current partner portfolio and the partner selection and training process have brought up the following conclusions:

- Partnering is generally supported by most of the companies
- Each partner addressed a clear need for a company that focuses on product development instead of solution provision.
- Companies offering supporting services for the Systems Garden partner network were in general interested in cooperating and partnering.
- It is difficult to create sales cases with partners

5.3.2 Potential VAR-partners

The potential VAR partners were evaluated in market study. The study was conducted as a survey of 20 phone interviews. The list of potential partners was random, choosing small to medium sized businesses that operate in the new media, communications, or advertisement business in Finland. Companies that were recently founded were excluded from the list.

The interview was covered background questions, market evaluation questions, strength and weaknesses analysis, and questions about the R&D functions within of company.

5.3.2.1 Background information

The background information collected shows the number of personnel and the interviewee's position in the company. Some basic background information on target markets and services offered were also asked.

Table 12. The number of employees (potential partners)

Number of personnel	percentage	
< 10	8	40 %
10-100	10	50 %
101-250	2	10 %
	<u>20</u>	<u>100 %</u>

The companies interviewed were rather small. A media agency with over 100 employees in Finland can be regarded large one, since there are less than 5 media agencies in that category⁵⁶

The role of the interviewees in the companies was mostly (70% of interviews) on general management. Other roles included sales or marketing duties.

The target markets of the companies interviewed were rarely limited to any customer segment. 4 companies claimed to offer services only to large companies, few smaller agencies used geographical limitations. The services offered were however categorized as "general advertisement and marketing support" services. The definition of the markets influenced also the view on main competitors – the scale was large.

⁵⁶ 100 suurinta mainostoimistoa; <http://markkinointimainonta.talentum.com/pdf/100mainos.pdf>; 2003-09-13

5.3.2.2 Research results

The questions targeted to potential partners focused on the product development functions of the companies and the use of third party software in their business.

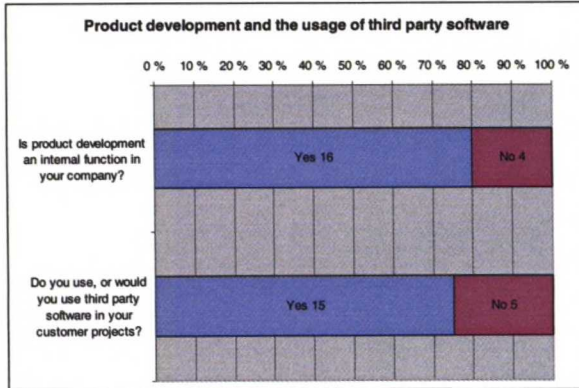


Figure 11. Product development and third party software (Potential partners)

Most of the companies were interested in in-house product development and majority of them did not find any problems in using third party software as part of their customer projects.

Of the 16 companies that stated product development as part of their company's normal operation, only 7 had a formal product development plan. 17 companies stated that their products are continuously improved in customer projects, rather than developed independently.

Of the 16 companies 5 stated that the R&D personnel will increase, while 9 claimed it will be the same in the future. 2 interviewees could not tell.

5.3.2.3 Research analysis

The potential partner research brought up the following points:

- Most Finnish advertising agencies are under 100 employees and operate only on local markets
- The interviewed companies did not have a clear focus on any customer segment that would be based on size or area of business.
- Most of the companies viewed R&D as an internal function within the organization but only few of them had any product development plans.

Most of the companies operated their R&D based on ad hoc development in customer projects.

- The companies did not find any problems in using third party software as part of their normal operation

5.4 Competitor research

The competitor research was also conducted in two parts. The first part was conducted using phone interviews at the target group of 20 companies. The companies chosen as potential competitors were picked from the results of the potential customer study.

The second part of the competitor research, the competitor scan, was conducted by Systems Garden employees based on marketing material and web references. Search engines were used to find companies operating on the same area of business and having similar products to Systems Garden.

5.4.1 Competitor interviews

The competitor interviews were divided into background questions, product offering, target market area questions, strength and weaknesses analysis and product development, and the use of third party software questions.

5.4.1.1 Background information

The amount of personnel and the interviewee's position in the company are shown below.

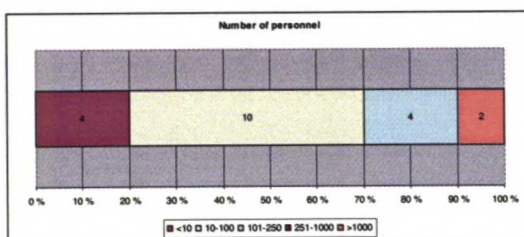


Figure 12. Number of personnel (competitors)

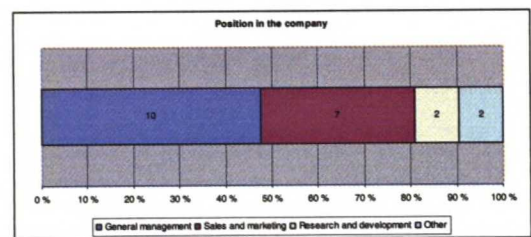


Figure 13. Interviewee's position in the company (competitors)

The distribution of the number of personnel is typical to Finnish software companies. Most companies had a size between 10-100 employees, in only 2

companies personnel exceeded 1000 employees. The interviewees were either from the general management or sales and marketing.

5.4.1.2 Research results

The competitors' product offering was either a content management system or solutions for internet and intranet use. Some companies stated that they operate more generally in the software business, thus in the software design and development area. 17 companies stated that their market area is Finland, only 3 companies operated outside Finland. The market areas for the three were Nordic areas, Europe and in one case, global markets.

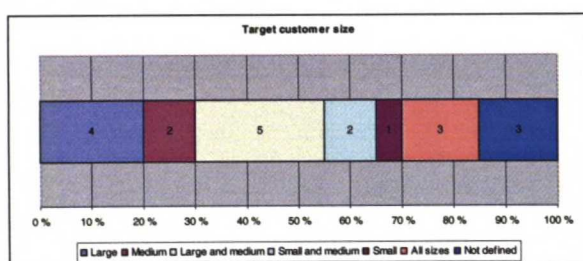


Figure 14. Target customer size (Competitors)

Most of the companies focused on offering services for large and medium sized customer companies. Only three companies stated they offer services or products to small or medium sized companies. Six companies had not made any targeting based on company size. Only one company had made a target group based on the branch of business. When asked regarding their main competitors, only 5 companies stated to have enough market information to define competitors. Of the five companies, the answers were typically large Finnish companies, such as TietoEnator and Novo Group.

The position in the markets was a difficult question to all interviewees. Only one interviewee stated to be the market leader in their own area, the other comments were more general.

17 companies of the 20 stated that product development is one of their main company functions. 17 also stated that the use of third party software is encouraged either now or in the future. 11 companies stated they have a documented product development plan and all 17 companies used customer projects as a product development driver.

Only few companies revealed the number of full-time employees in research and development, but 10 of them claimed that the number of research and development personnel will rise in the future. Only one company stated that the amount of personnel in product development will decrease.

5.4.1.3 Research analysis

The competitor research brought up the following points:

- The competitors in the area are mostly larger firms than Systems Garden
- Most of the companies offer services to large firms
- Most of the companies see product development as integral part of their operations and are willing to put resources to it

5.4.2 Competitor scan

The second part of the competitor study, the competitor scan was made using the www-search engines and the marketing material gained from the company web sites and exhibitions. The target of the competitor scan was to create a general overview of the market, the number of players involved and the distinguishable qualities that could help the case company present its competitive advantage. Based on the results of the competitor scan and discussion with the case company management, the top-10 competitors were chosen and evaluated more thoroughly.

5.4.2.1 Competitor scan results

A quick search from Google search engine⁵⁷ in November 2002 with the search word “julkaisujärjestelmä” (finnish for “content management system”) produced about 500 results. All results were scanned through and all companies that offered a content management system as part of their product portfolio were listed. The total number of companies found was 74. When the same search was conducted in September 2003, the total number of results exceeded 800. It must be noted that only a limited number of Finnish web pages is indexed by Google search engine and thus only a limited number of the total content management system vendors in Finland is displayed. It may be

⁵⁷ <http://www.google.fi>; search word: julkaisujärjestelmä; 2002-11-15

estimated that the total number of content management system vendors in Finland is about 150.

A search on the companies' web sites showed that the diversity of companies was large. Only few companies published the company history or the size of the company and thus no statistical analysis is possible. The factor distinguishing the large players was the size and the credibility of references presented.

The competitor scan results were further discussed with Systems Garden management team⁵⁸. As a result, 10 companies were chosen to be monitored as the most important competitors. The selection criteria were the target market of the companies and the number of large references in the customer case presentation. The chosen companies to monitor were

- Abako Media Oy
- CH5 Finland Oy
- Onesta Solutions Oy
- Quartal Oy
- Teamware Oy
- TietoEnator / Visual Systems
- TJ Group Oyj / Key Partners
- Webotek Oy
- WM-Data Oy / Novo Group Oyj
- Wysiwyg Oy / Barium Nordic

The competitors were evaluated using a strengths/weaknesses analysis. A profile of product offering and the average customer were evaluated based on the marketing material available.

Abako Media⁵⁹

Abako Media is a Tampere-headquartered company that has operated since 1995. The product offering consist of the Abako Stato Enterprise content management system. Stato competes with the case company's offering.

⁵⁸ Mäkelä J, Pääkkönen O; Personal communication; 2004-04-21

⁵⁹ <http://www.abako.fi>; 2004-04-25

Strengths

- Strong technical product
- Long history

Typical customer profile

- Medium-sized Finnish corporation
- Located near Tampere

Weaknesses

- Locale in Tampere
- Very technical approach

Offering profile

- Technical CMS solutions
- EAI solutions

CH5 Finland⁶⁰

CH5 Finland is a Helsinki-headquartered software company offering solutions for e-business and digital media. CH5 was formed by merging a number of small companies during the Internet hype in 2000-2001.

CH5's product offering consists of three different content management systems, of which Navigo is the current product competing with the case company's offering. In addition to CH5's own project teams, the company has formed a working reseller network to distribute its products.

Strengths

- A working reseller network
- Strong product(s)
- Volume

Typical customer profile

- Small to medium-sized Finnish company or association

Weaknesses

- Focus on web site administration
- References mainly small customers

Offering profile

- CMS software
- CMS solutions

Onesta Solutions⁶¹

Onesta is a Finnish solution provider supplying a wide range of in house and partner internet, intranet, and extranet solutions. Onesta is able to deliver anything from minor web site solutions to comprehensive systems for major web portals cost efficiently and according to customer requirements.

⁶⁰ <http://www.ch5finland.com>; 2004-04-25

⁶¹ <http://www.onesta.fi>; 2004-04-25

Onesta uses a number of third-party software elements in its business and thus can be seen more as a solution provider than a software product company. The major product of Onesta is the German VIP Enterprise Content Management software which has been competing with the case company's products.

Strengths

- Strong references on the public sector
- Reselling deal with a large German software company, good product.

Weaknesses

- Lack of resources to enhance operations
- Very few large customers

Typical customer profile

- Large Finnish governmental organization or association

Offering profile

- CMS solutions

Quartal⁶¹

Quartal is a specialist provider of multi-channel publishing applications for the needs of real-time information driven corporations and financial institutions across Europe. Quartal is a privately owned company based in Helsinki, Finland, and currently employs 60 people.

Quartal's products include DynaGen, an XML-based content production, management and publishing software, Financial Engine, a financial data management platform and IR Toolbox, a suite of applications for investor relations sites. DynaGen competed directly with case company's products.

Strengths

- Strong Microsoft partnering
- Skilled and certified staff
- Strong product branding

Weaknesses

- Change in product offering to Microsoft standard products

Typical customer profile

- Large Finnish corporation, company or association

Offering profile

- CMS systems
- Financial software for fund management and banking

⁶¹ <http://www.quartal.fi>; 2004-04-25

Teamware⁶²

Teamware Group produces and delivers software and services for implementing intranet, extranet and Internet solutions. The major owners of Teamware are 3i and Fujitsu Limited. The company headquarters are located in Helsinki, Finland. Teamware employs about 100 people.

Teamware PI@za is a web service environment that enables the implementation of dynamic intranet, extranet and Internet solutions, their combinations and versatile interactive services. PI@za competes directly with the case company product offering.

Strengths

- Company size and focus
- Strong product focus
- Complementary products offering

Typical customer profile

- Large Finnish association, governmental organization or company

Weaknesses

- References
- Flexibility

Offering profile

- CMS solutions
- Office solutions

TietoEnator / Digital Innovations (Visual Systems)⁶³

TietoEnator is one of the leading architects in building a more efficient information society. With close to 14000 experts and annual net sales about EUR 1.4 billion, it is the largest IT services company in the Nordic countries. TietoEnator's Digital Innovations unit (formerly Visual Systems) specializes in solutions for digital media, e-business and e-services, such as services from Intranet, Extranet or Internet portals to customized digital solutions.

⁶² <http://www.teamware.fi>; 2004-04-25

⁶³ <http://www.visualsystems.fi>; 2004-04-25

Strengths

- Size and reliability of a large corporation
- The size of the R&D team
- Ability to offer a complete solution from a single company

Typical customer profile

- Large Finnish corporation

Weaknesses

- Pricing resembles that of a large company
- The product offering; focus switching from own product to third-party products

Offering profile

- Consultancy services
- CMS product

TJ Group / Key Partners⁶⁴

TJ Group Plc is a European provider of Extended CRM solutions. The group's offering consists of solutions for Customer Relationship Management, Content Management, Archiving, eTrade, and eFinance. TJ Group has approximately 250 employees. TJ Group's Finnish operations were transferred to Key Partners Oy, which has been competing with Systems Garden. The company does not, however, have its own products and can thus be seen more of a potential VAR than a competitor.

Strengths

- Strong consulting focus
- Large company

Typical customer profile

- Large Finnish corporation

Weaknesses

- No product at all
- Focus on few large projects

Offering profile

- Customer specific web applications
- CRM solutions

⁶⁴ <http://www.tjgroup.com>, <http://www.keypartners.fi>; 2004-04-25

Webotek⁶⁵

Oy Webotek Ltd. is a software and service company that offers Internet and mobile software solutions and hosting services. Webotek's products are used to build Internet, Extranet, Intranet, web-store and web-magazine solutions as well as different project and administrative software. Webotek's Easysiter product line competes with case company's offering.

Strengths

- Channel operating model
- Easily set-up product

Typical customer profile

- Small Finnish company

Weaknesses

- Focus on small customers
- Focus on web sites only

Offering profile

- CMS software
- Various software applications
- Services

WM-Data / Novo Group⁶⁶

WM-Data / Novo Group is one the leading Nordic IT service companies. At the beginning of 2004, the Swedish WM-data AB (publ.) acquired majority ownership of the Finnish Novo Group Plc. After that, the company has operated under the name WM-data Novo. After the Novo Group merger, net sales by WM-data Group are some EUR 1 billion and its staff number around 8,000. The WM-data part of the company has traditionally operated with third-party software products and thus offers solutions that compete with the case company's offering. Novo Group had a software product called Novo Combo G2, which competes directly with the case company's portal products.

Strengths

- Size and the backup reliability of a large corporate
- Ability to offer a complete solution from a single company

Weaknesses

- Pricing resembles that of a large company
- The product (Combo G2) is clearly one of the weakest of the competitors

⁶⁵ <http://www.webotek.fi>; 2004-04-25

⁶⁶ <http://www.wmdata.fi>; 2004-04-25

Typical customer profile

- Large Finnish governmental organization or company

Offering profile

- Consultancy services
- IT-Infrastructure services

Wysiwyg / Barium Nordic⁶⁷

Barium Nordic (previously Wysiwyg Oy) operates is a company that was created in the merger of Menire-owned companies Wysiwyg Oy, Barium AB and Helsingin Sähköinen Toimisto Oy. Wysiwyg products include a content management tool eWriter, which competes with case company's offering. Barium AB operates primarily in Sweden. Helsingin Sähköinen Toimisto acts as a VAR for the case company.

Strengths

- A wide portfolio of solutions, but only on paper

Weaknesses

- Wysiwyg locale at Tampere
- Different companies still separate from each other

Typical customer profile

- Medium-sized Finnish company or large Swedish company

Offering profile

- CMS solutions
- Application platform

⁶⁷ <http://www.bariumnordic.com>; 2004-04-25

5.4.2.2 Competitor analysis

The key competitors were evaluated based on their customer profile and product offering. The following table was created based on the results

Table 13. Competitor profiling on the 10 most important competitors of the case company

	Customer profile					Product offer				Other	
	Small companies	Medium companies	Large companies	Corporations	Large Governmental	Internet CMS	Corporate CMS	Portals	Web Applications	Project organization	Partnering program
Abako Media		x	x				x		x	x	x
CH5 Finland	x	x	x			x	x			x	x
Onesta Solutions				x	x		x	x		x	
Quartal			x	x	x		x	x			x
Teamware			x	x	x		x				
TietoEnator / Visual Systems			x	x	x		x	x		x	
TJ Group / Key Partners			x	x	x		x		x	x	
Webotek	x	x				x			x	x	x
WM-Data / Novo			x	x	x			x		x	
Wysiwyg / Barium		x	x			x	x				

The competitor scan brought out the following points:

- The market has a large number of players with a high diversity of products
- The market has basically no entry barriers and thus the number of players is continuously on the rise. From the customers point of view the market is monopolistic and the products hard to distinguish from each other

- The market seems to be divided to two parts, the main players offering services for the large companies and the smaller players offering services to small to middle sized companies
- Few companies have been able to gather the key references for acquiring a dominant market share. The market has not yet been clearly formed.
- The different players still try to find their focus on the diverse market. The companies are dividing into two categories: products and consulting
- Most of the competitors operate as a project organization and do not emphasize the software product
- Few competitors use partners formally as a distribution or sales channel, most operate independently

5.5 Case company and the partnering framework

5.5.1 Gaining the market knowledge

The market situation in the content management business in Finland is challenging. The earliest stages of the technology adoption life cycle are over and the masses are adopting content management systems that are becoming more of a commodity. Almost all the technology visionaries and large companies have already obtained technology and thus the market of larger companies is shared but divided into a large number of small fragments. The smaller companies are adopting technology at the moment at a fast pace, but they are having problems in distinguishing the similar software products of different firms from each other.

By using Moore's technology adoption life cycle model, the market is definitely in the latter parts of the cycle. Majority of customers have accepted the product and most of the early majority have already started using content management systems. On the other hand, the corporate portals have been introduced to the market, but no real technology adoption can yet be seen. In Finland, only the visionaries currently have operative corporate business portals. A software product can be seen as a whole product itself or as a part of a larger whole product. The market and technology adoption cycle phase depends on the view of the whole product.

Systems Garden's offering consists of an application and integration platform, content management system and a business portal. The products itself do not offer complete solutions for the customer, but merely a framework for the customer to build on. The whole solution typically includes a set of services and the license fees of the software form only about 25-50% of the total solution cost.

The key issue in the market is to understand the whole product and be able to offer more than the simplest solution to the dilemma. Based on the research by Gartner Group^{68,69} and Market-Visio⁷⁰, a new concept for the whole product has been introduced. Gilbert et al describe the Smart Enterprise Suite as a product combining the functionalities of traditional content management software, document management software, collaboration software, and business portals.

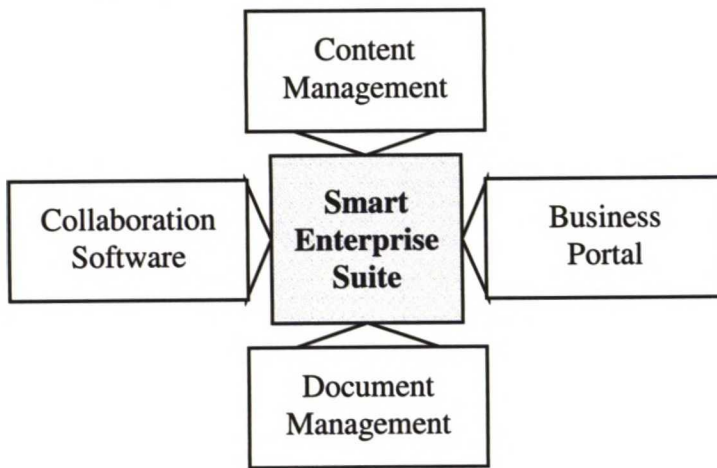


Figure 15. Illustration of the Smart Enterprise Suite

Currently the solutions offered using Systems Garden's software combine the functionalities of collaboration software, content management software and business portals. In a large number of cases, a document management system has been integrated to the total solution, but the offering has not been seen as a total Smart Enterprise Suite.

⁶⁸ Gilbert M, Caldwell F, Heyward S; The Smart Enterprise Suite Is Coming: Do We Need It?; [http://www.gartner.com](http://www.gartner.com;); 2002-05-10

⁶⁹ Heyward S; Smart Enterprise Suites: Coming to an Enterprise Near You; <http://www.gartner.com>; 2003-11-06

⁷⁰ Market-Visio Oy; Smart Enterprise Suite -markkinan muodostuminen: dokumenttien hallinta-, sisällönhallinta-, yritysportaali- ja ryhmätyöohjelmistot 2003-2005; 2003-11-19

5.5.2 Setting targets for the partnership network

To effectively distribute a 'Smart Enterprise Suite' product, Systems Garden needs to set targets to acquire three types of partnerships: distribution service, infrastructure service and complementary product offering partnerships.

Distribution services are the typical software product implementation services required to effectively distribute a total solution for the customer. The most typical distribution services are listed below. The target partner profile of Systems Garden's partnering efforts should be a company that can offer all or at least many of the required services from the same company.

- Project management services
- Consultation services
- Marketing and graphics design services
- Content design and creation services
- Systems integration services
- Systems implementation services
- Installation services
- Training services

Infrastructure services and products relate to the network and server infrastructure that is required to fully install the whole solution. In a typical case, the system is simply hosted at a hosting partner's server. More often, the customer wants to install the system in their own network infrastructure and thus needs help with acquiring the correct server hardware, operating systems and legacy software and the maintenance for the whole system.

- Hosting services
- Platform licensing services
- ASP services
- Hardware rental and lease services
- Hardware sales

Complementary products refer to the needed software products to obtain the total complexity of the Smart Enterprise Suite. The content management system and the business portal services are already available in the case company product portfolio. The collaboration software is partly available in the extranet and intranet software, but instant messaging and application sharing

functionalities have not yet been implemented to the system. Document management software of various vendors has been integrated to the Systems Garden products, but seldom been offered as a complete solution. The required components missing from the Smart Business Suite are Document management and parts of the collaboration software.

5.5.3 Designing the partnering model

The software industry partnerships often form a complex value network in which not only the distribution and sales chain, but also customers and competitors are interconnected. The distribution and sales partnerships are controlled by running a formal partnership program, in which partner categorization required to engage in a mutually beneficial relationship. The technology partnerships should be carefully chosen and built in corresponding to the whole product offering.

In order to increase sales, the distribution partnerships are the key element. Distribution partners that are capable of distributing a content management system are typically project organizations that have expertise in project management, visual design, content consultancy, and minimum technical resources to assemble the total solution. In Finland, these partners are typically advertising or communications agencies' digital business units, companies specialized in digital media and e-business or larger IT companies that have a specific unit for the digital media. In order for the companies to have the adequate know-how and the correct people, they are typically sized at least 20 employees. The companies offering portal products tend to be larger in size. Portals and intranets require know-how in systems integration and programming. They do not, however, require skills on visual and concept design at the same level. The companies having the sufficient knowledge in Finland are traditional IT solution providers that typically are larger in size than the typical new media oriented companies. Common to all these potential partnerships is the VAR business model. The product cannot be sold as out-of-shelf sales and requires value added services for the customer to fully make use of it.

In general, the distribution partners are capable of doing the sales themselves. The key issue becomes the motivation of the partners in a business where the offering of potential partner products and vendors is large. From the sales point of view, the key motivator is the sales commission per total sales obtained. While the commission rates do not differ very much from one vendor to another, the other issues to take into consideration are sales and marketing material, pricing and relevance to the target customer segment, available training and sales support, and, finally, positive experiences on successful customer deliveries.

To successfully obtain at least the expected whole product, there are issues to cover both in product offering and service offering. From the case company's point of view the most significant holes in the product offering are the complete document management software and the collaboration software. To enhance the ability to deliver a total 'Smart Business Suite', the case company must evaluate and choose the relevant partners to fill in the holes. From the services point of view, the most obvious need is to obtain recognized hosting and systems administration services. Currently, the case company has 3 hosting partnerships of which none present a recognized market brand.

The optimal partner portfolio of the case company consists of the following firms

- VAR partners (sales, distribution and delivery)
 - Focus depending on the product offering
 - Relevantly sized (20+ employees)
 - Specialized in either IT, marketing or digital media
- Service partners (complementary or required services)
 - Hosting partners
 - Hardware and network configuration partners
- Technology partners
 - Complementary or supplementary products
 - Document management and collaboration software

5.5.4 Established relationships and the partner program

In the Systems Garden's case, the focus of partnering has been on the sales and distribution partnerships. There has been no clear policy or targets in the partnering process, the deals have been closed on an ad-hoc basis. When the current 27 partnerships were evaluated, there were only 5 VAR partners that fitted the VAR partner category described in the previous chapter. In addition, there were 4 hosting partners and one partner focusing in document management. The additional 17 partnerships can best be described as complementary services and thus create very little value to the case company's sales, distribution or whole product development.

To create a partner program the first step is to create a framework of partner categories. In the case company, the categories were distinguished as:

- VAR partners (capable of distribution and sales)
- Infrastructure partners (offering the required infrastructure and services)
- Technology partners (carefully chosen partners to complement the whole product)
- Supporting services (partners not belonging to any category above)

As a key element in VAR partner motivation, training was decided to be initiated before a company could attain a certified VAR partner status. The VAR training includes the technical training required for the company staff to be capable of delivering a Systems Garden product and sales training for the company's sales force. If a company refuses to obtain the training required, it simply cannot get a VAR status in the Systems Garden network.

The next step in forming a partner program is the design of the offering to the partners. In addition to training and sales commission, the typical partnership programs include sales, marketing and technology resources. The sales and marketing resources include the marketing material and sales support, a sales extranet, demo, evaluation environments, and a marketing fund. The technology benefits include access to technology material, technology support, access to extranet, evaluation products, and training.

5.5.5 Managing the partnerships

The key success factor in partnerships is the level of partner communication and personal relationships. To enhance the availability of partner material, an extranet service for partners was opened. The extranet serves as a sort of partner management software through which all material is communicated and products delivered. The extranet serves as the partner community. In addition to the technical devices and systems, the partnerships do not evolve as themselves. Most of the success stories in partnering rely on good working relations between the members and thus regular visits with the partners must be arranged. The means to motivate partner sales are supplementary training and vendor-sponsored sales contests in which the persons contributing to a closed deal are rewarded.

The evaluation process includes constant monitoring and measuring of the partnerships. All accounting data on sales must be linked to specific partners and thus the financial performance of the partnerships evaluated. With regularly set result checkpoints it is possible to set targets for partner sales and forecast demand, but also design new means of motivating the sales personnel and learn from the past mistakes.

In cases of unsuccessful partnerships or partner misbehavior it is often necessary to redesign the partnership portfolio. All partnership agreements must be designed so that it is possible to terminate the partnership. Especially in the software industry, where software is easily copied and information transferred, it is possible that even classified information is suddenly available for competitors.

6 SUMMARY AND RESEARCH DISCUSSION

The software industry has not been given enough attention in the research of partnering and partnership networks. While literature on partnerships is vast, it focuses mainly on brick-and-mortar businesses where logistics, production and distribution issues differ from the software industry. Since the product is often intangible and basically free to copy, the traditional rules of logistics do not apply and the sales and distribution models are different. Many business to business software products require skilled solution providers and a lot of customization work before they can be put to use. In high-tech industries, the technology adoption life cycle not only controls the pace, but also sets limits for the software companies to develop an adequate organization in a short time window without partnering.

Partnerships create the means to enhance product value, control marketing and sales and acquire know-how. In the software industry, the most common players in partner agreements are the value added resellers, companies that are a hybrid of product reseller and a consultancy company. The VARs are capable of delivering a solution sometimes gathered from a complex value network. The value network includes not only the distribution and support services, but also complementary and supplementary products and services. Even customers and competitors may be connected to the value network. In order to successfully control partnerships, software companies have created specific partnering programs which set the constraints and responsibilities to value network members. The means of controlling value networks include e-business tools and new technology. Evidence shows, however, that the working relations between individual people are still the key influencers in business success or failure.

This research focuses on the partnering strategy formulation of a small software company. As a result of the literature study, a framework was created for the small companies to use in their partnering process evaluation. The framework includes 5 steps of gaining knowledge, setting targets, designing, establishing and managing the partner network. Based on the framework, all partnering in the software industry should be started by evaluating the market situation. The

market situation and technology adoption cycle affect the target-setting criteria of partnering strategy, and thus the whole process of partnering. The targets set the constraints for designing the partner model and choosing the initial and the most important partnerships. Finally, the partner program must be formalized based on the presented strategy. In a high tech industry, the technologies and market situations change rapidly. Therefore, one must be able to evaluate and redesign the partner strategy on a fast pace. The partnership evaluation and management is a constant process, and all arrangements should be open for negotiation and redesign.

The framework was tested by creating a partnership strategy and a partner program for a case company, Systems Garden Oy. The framework was used as a step-by-step process for the case company to create a consistent partner strategy and move from an ad hoc based partnering model to a more systematic partnering process. A market research on customers, partners and competitors revealed that the content management and portal industry in Finland is currently in a turmoil state. The analysis of market research reports showed that the product offering of content management and portal software is evolving towards a more complete solution suite, the smart business suite. The market situation suggests that the case company should find relevant technology partners to participate in the new market opening. A basis for a partner program, based on technology partnerships, value added resellers and complementary product and service provider was developed based on the market situation analysis.

The results of this study provide an answer to the research problem. The elements of forming a partnership strategy are evaluated one by one, starting from setting targets for the process, to designing, building and finally managing the partner network. The different aspects of partnering in software companies present topics for a more detailed future research. Technology partnerships and partnership management present topics that could be covered in more detail. The knowledge gathered in this study was implemented in a case company with good results. The success of the partner strategy remains yet to be seen.

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