Exponential Edge, Inc.

White Paper: Make Your System Integrator (SI) Alliances Strategic Weapons, not Relationships of Convenience

Are you working with the right SIs?

Software/AI and hardware companies invest billions of dollars implementing alliance programs with systems integrators and consultants (SIs). These alliances are important because such firms have a high degree of influence on high-tech companies' business. Exponential Edge estimates that mid-tier SIs[1] will influence more than $25B of hardware purchases, and will influence even a greater amount of enterprise, AI and SMB software purchases, worldwide.

While working with leading high-tech companies, we have observed that SI alliances are not often aligned with vendor strategies. Vendors adopt strategies to drive "better" business in key geographies; industries; processes (e.g. CRM) and customer accounts. Yet many "alliances" are opportunistic pairings; convenient vestiges of past deals; or relationships familiar and "easy" for the sales force. ***High-tech companies must ensure alliances are well-constructed partnerships that drive profitable, strategic business.***

Each hardware and software vendor that works with SIs should ask:

1. What is my objective in working with SIs? What are my partner selection criteria?"
2. Which SIs fit my criteria?
3. Which consultants and SIs are influential in my top customer accounts?

These 3 questions are the keys to finding the right SI partners to fit your business situation.

Why Are SIs Important?

The right SI or consultant helps a vendor successfully implement its strategy and win more profitable, long-term business in targeted markets and accounts than that vendor could not win alone.

Vendors need to reach key decision-makers in strategic accounts. The right SIs have long-standing relationships with executives that have the "final word" on major projects.

SIs move products. While customers ultimately make the product selection, SIs influence and resell product. In addition to the previously cited $25B in hardware influence.

The right SI engages in a "value-based" sale founded on ROI and the ability to manage complexity. If properly presented as part of this value, the components of the system implementation, the vendor's products, are less subject to "commoditization," price pressure, and margin erosion. In other words, the right SI can help a vendor realize better profits.

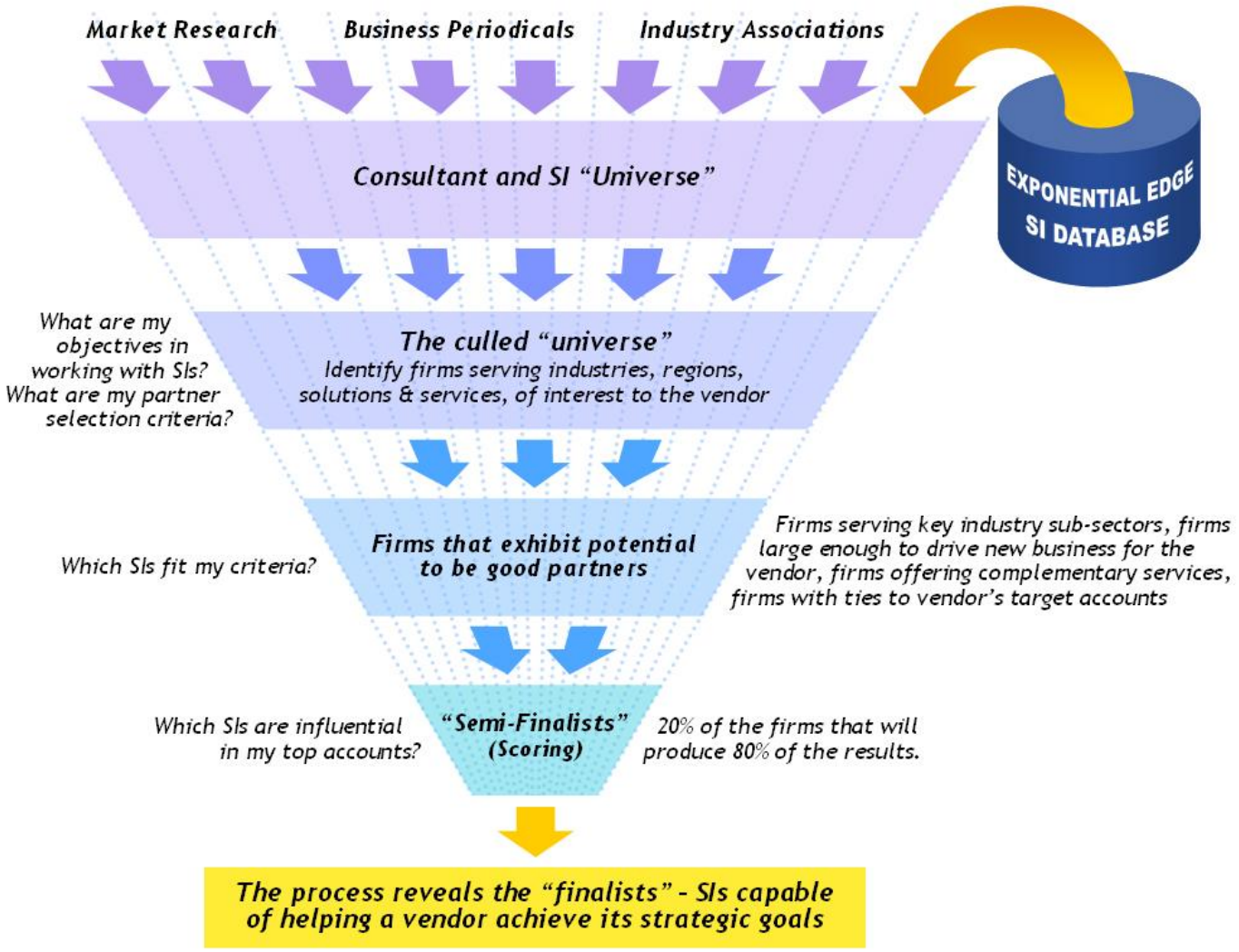
To put it simply, the right SI helps vendors get past a major sales problem. Vendors infrequently have relationships with key decision makers; and more often a vendor's sales force calls on customer IS and procurement groups; groups mandated to get the lowest price, not the most business value.

The right SI also helps a vendor fulfill strategic projects the vendor could not fulfill alone and capture otherwise unavailable high margin, long-term revenues. SIs typically bring intellectual property assets to fulfill engagements that result in major system implementations. Global SIs generally fulfill projects

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that are $5M to $120M in value. Mid-tier SIs often fulfill projects in the $1M to $2.5M range. Such projects are major capital expenditures with significant hardware, software and network components. In addition to the initial product and professional services sale at implementation, these projects present vendors with additional opportunities to sell support services, spare parts, and product upgrades, as well as opportunities to offer additional value, such as financing.

Figure 1: *SI Strategic Selection Process*



A Filtering Process Leads to Optimal, SI alliances

Hundreds of medium-to-large SIs and Consultants exist in the market. Each has specialties, regional and vertical strengths. High-tech companies must sort through hundreds of consultants and SIs to find that small set of allies with the right strategic "fit."

High-tech companies should employ a logical, sophisticated, rigorous process to identify those allies (see Figure 1). Without such a process a vendor cannot transform "relationships of convenience" and "top executive favorites" into alliances producing strategic successes in line with current business requirements.

The process must essentially answer three questions.

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1 *What is my objective in working with SIs? What are my partner selection criteria?*

Success begins with the destination in mind. This process creates a vision of the destination and maps a path to it. Companies must address a variety of critical issues.

- Am I looking for a complementary vendor to fill product or service gaps to make a full customer solution?
- Am I looking for a channel to extend our reach into a market?
- What markets and/or verticals do I need to penetrate?
- What must I "bring to the table" to ensure that my company is the most attractive alliance partner for the "right SI"?
- Do we compete with SIs? If so, how? Can we establish "working ground rules" to minimize competition and enable a successful alliance?

Understanding the consultant or SI business model will also greatly enhance the probability for success for these relationships. (See sidebar.) Too often, companies treat SIs the same as channel resellers resulting in a recipe for failure.

The selection criteria need to be stated clearly to enable rational SI selection and should have a maximum of 5 overall criteria (see Figure 2). The criteria communicate what the vendor needs from and offers to an ally.

Care and Feeding of an SI Ally

Few SIs will forge strong alliances with vendors, because many vendors do not understand how to work well with SIs. Does your company know how to do so?

Do you know how SIs make money? Selling services, of course. But that can be an unleverageable, hard-to-differentiate, difficult-to-sell, erratic-cash-flow business model. Many SIs are moving to IT or business process outsourcing models to enhance margins, cash flows, and account presence. Can you help them succeed with a new model? Should they worry about you becoming the competition?

What do SI financial statements look like? Gross margins are often lower than vendor margins, leaving less for marketing, sales, R&D, and other expenses. Yet firms must show competitive operating margins. Can you help SIs improve their finances?

Are SIs resellers? Some will resell, but many would rather not. Reselling is not their business, and they often pass product discounts on to clients. Why should they work with you if you only offer discounts?

What do SIs want from vendors? This varies. One SI executive told Exponential Edge his firm spends little on R&D; vendors must provide unique value through intellectual property. What differentiated value do you offer?

Vendors capable of addressing such questions stand a chance of forming strategic relationships with consultants and SIs. Vendors incapable of doing so will continue relationships of opportunity or convenience.

2 *Which SIs fit my criteria?*

If one asks an SI about their capabilities they will typically say, "We do it all". However this is not the case. Not every SI is excellent in every market, vertical, region, or capability. And not every consultant or SI is right for your company. If you are seeking increased account access you should not consider allying with strategic consultants that prize independence, "protect" their client relationships from other companies, and avoid relationships with vendors. Not all SIs would have a business model that will support your objectives.

The "finalists" emerge from a quantitative scoring and filtering process. Smart high-tech companies use their selection criteria as filters to reduce a large universe of firms to a set of "semi-finalists," the 20% of the firms under consideration that are potentially capable of producing

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80% of the results for a vendor. Careful filtering and scoring against the highest priority selection criteria, such as influence in your key accounts, highlights the "finalists," the firms your company must pursue as partners.

Quantitative scoring is crucial. Quantitative scoring with weighting against your criteria makes this process impartial and enables an "audit" of relationships to ensure that strategic relationship investments meet the current needs of the business.

The process produces an objective ranking that can be understood, communicated and trusted within your organization. Many times we have seen long standing "relationships of convenience" which are the result of sales or executive familiarity with a SI partner. This filtering process provides an excellent tool for attaining this necessary communication, understanding and adoption. In addition, this process accommodates changes in your business priorities, change that may necessitate reviews of all alliances and render existing SI alliances obsolete. Regularly using this filtering process, with up-to-date selection criteria that reflect your current or future business priorities, you can keep your SI alliances from becoming "relationships of convenience" and ensure they continue to be powerful strategic assets.

Figure 2: ***Vendor Selection Criteria Must Clearly Identify and Prioritize the Vendor's Requirements for a Consulting or SI Partner***

Example – Vendor A

Example Criteria	*Example Weight*	*Description*
SI Size and Growth	1.0	• Size of the Partner • Growth, Financial Stability • # of Professionals or Revenue in Strategic Segment
SI Solution Strength	1.0	• Relative Strength of the Partner in Selling and Delivering Solutions Strategic to Vendor A
SI Fit with Vendor A Professional Services	1.0	• Complementary Nature of the Offering with Vendor A Services • Overlap with Services • Strategic Direction of Partner
SI Fit with Top Accounts	1.0	• Partner Strength in Vendor A accounts in the segment.
Existing SI Relationships with Vendor and Competitors	0.6	• Measured relative to competition and Vendor A product offerings • Existing Relationships with Vendor and Competitors

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3 *Which SIs are influential in my top customer accounts?*

Profile your largest customer relationships with SIs to ensure a match. This last step is often the most crucial but one that is most often overlooked. By profiling your top customer accounts and understanding which SIs work in those accounts and in what capacity, one can ensure the best fit with the finalists.

Most large tech firms have about 100 top global accounts. Out of the Fortune 1000, this is a fairly small set of customers that generate the bulk of revenue. If one selects an SI that is strong in a market, however doesn't map or have influence in the vendor's top targeted accounts and in the solution area in line with your products, the alliance motion and investment is wasted.

Why spend time on an SI that doesn't influence the customers that matter to you most? If an SI hasn't created strong relationships in your top targeted accounts, they are in no better position to influence business than you are. If you don't wish to take on this mapping exercise yourself, Exponential Edge offers a Customer Profiling Service that maps SI and ISV relationships and activities to F1000 companies.

Strong answers to these three questions will put any vendor on the path to successful alliances with SIs and consultants. High-tech companies following this process will find themselves in strong relationships with valuable allies in the customer accounts that matter most to your business. SI strategic alliances will no longer be relationships of convenience but strategic weapons.

About Exponential Edge

Exponential Edge provides strategic consulting and research services for large corporations and high technology startups. Business executives look to Exponential Edge to bring clarity to complex business issues and to enable decision-making. Exponential Edge can be reached at ***info@exponentialedge.com*** *or* ***www.exponentialedge.com****.*