

A Blueprint for Successful Partnering

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CONFIDENTIALITY CLAUSE

30 June 2004

TO WHOM IT MAY CONCERN

RE: CONFIDENTIALITY CLAUSE

Due to the strategic importance of this research it would be appreciated if the contents remain confidential and not be circulated for a period of five years.

Sincerely
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096992

DECLARATION

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Signed.....

Date.....

STATEMENT

ACKNOWLEDGEMENTS

I would like to start by saying thank you to the one and only Almighty God, my immediate family and close friends for their unwavering support and their assistance during the course of my studies and dissertation.

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ABSTRACT

Partnerships have evolved during the last decade from being the ‘nice to have’ to becoming the ‘must have’ to survive in all industries across the world. There are many different definitions of ‘partnerships’ and ‘alliances’ but most researchers, authors and experts in this field agree that at the core of true partnering or alliance agreements lies shared: benefits, risks and approaches.

To avoid market share and profitability deterioration, solutions providers must initiate programs to improve their strategic position in a focused set of partner programs.

Microsoft Corporation is the worlds leading software company with 96% of all revenue earned being billed through their partners. The company currently faces poor partner satisfaction ratings and has come to the realisation in that they have to a large extent, ignored the needs of their strategic and ‘managed’ partners.

A blueprint for successful partnering is key to any company looking to differentiate itself, create a competitive advantage and become the industry leader in the offering the ‘best of breed’ partner experience. This is why the identification and implementation of a defined, successful partnering agreement blueprint is required in order to drive the Microsoft business strategy around the ‘Partner’ experience forward.

This study aims to evaluate the effectiveness of the current Microsoft engagement models in driving partner satisfaction in the managed partner space, to determine what the barriers and best practices are, pertaining to successful partnering in the corporate arena and to establish if it is feasible to identify and implement a blueprint that can be used in the corporate arena that promotes successful alliances/partnerships. Recommendations to implement the said blueprint are also made in order to guide readers through the process.

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1 Chapter One - Introduction

1.1 Introduction

Microsoft (MS) Corporation is the worldwide leader in software, services and Internet technologies for personal and business computing. The company comprises seven line of businesses or divisions and offers a wide range of products and services designed to empower people through great software, any time, any place and on any device.

“96% of all revenue that MS receives is billed through our partners”, Steve Balmer CEO, Microsoft Corporation. Due to different sources of enlightenment in the last two years, Microsoft has come to the realisation in that they have to a large extent, ignored the needs of their strategic and managed ‘partners’ and have recognised the need to renew the relationships they have with their various channels and partner types.

2003 was a year of extraordinary change in the field, even for Microsoft a company where change is as common and unconscious as breathing. Transformation has enabled them to establish a new, albeit still immature, connection between the field, business groups, customer and partner segments which needs to be used to enable MS to more effectively utilize the complete resources of Microsoft to win customers and partners, drive satisfaction and grow the business.

Internally, the worldwide field organization has made huge progress implementing many change programs, the magnitude of which gives the perception that MS did a complete “reboot” of the field. MS now has established an organizational structure and a set of processes to enable the company to operate more effectively and focus on their partners and customer. MS is better prepared and positioned to listen and respond to their customers and partners. They are looking at the business in a holistic manner and making better decisions. MS’s focus must continue to be on the partner and customer arena and how MS, as a company and as individuals, become more accountable and more excellent in their execution.

Two years ago MS defined the Microsoft mission and tenets. The mission provides clarity of purpose. The tenets provide a stable framework and point of reference for how MS operates as a

company. The core goals are aligned with the mission; and the initiatives and priorities that are pursued need to support the tenets. After a year of significant change in 2003, there is now a need to stabilize the field operating model and leverage the people, organization structure, and business that have been built and to really focus on their partners and drive excellence in execution in 2004 onwards.

This is why a defined, successful partnering agreement blueprint is required to drive the strategy of the company forward. What is the definition of a 'partnering agreement or partnership?': "The voluntary association of two or more persons for the purpose of doing business as a partnering agreement entity, for profit. Partnering agreements are assumed to exist where the parties actually share profits and losses proportionally, even though there may not be a written partnering agreement in existence." Lorraine Segil (1996)

There are no more used and abused words than 'partnering agreement', 'partnership' or 'alliance' in today's business environment. Most companies have experienced the trauma and 'stymification' of legal partnering or alliance agreements. Legal partnering agreements have their proper place and function in today's business environment, but as it pertains to the delivery of significant value add and achieving high partner and customer satisfaction, the informal version of partnering agreement and partnerships seems to be the only winning recipe. Informal partnering or alliance agreements compared to formal partnering agreements are characterised by being dynamic, fluid, driven by need, expansive and flexible and is controlled by person to person contact. True partnering or alliance agreements are defined in the context of shared: benefits, risks and approaches.

The objective of this study is:

- To evaluate the effectiveness of the current Microsoft engagement models in driving partner satisfaction in the managed partner space
- To determine what the barriers and best practices are, pertaining to successful partnering in the corporate arena
- To establish if it is feasible to identify and implement a blueprint that can be used in the corporate arena that promotes successful partnering/partnerships

1.1.1 Definition of Partnering

The definition of the word "partnering" varies from executive to executive, company to company, and industry to industry. Most often companies that have entered into a partnering agreement don't necessarily agree on what is meant by "partnering" or "partnerships." The fact is that there are many different types of partnership or alliance agreements which means that companies must approach different partnering agreements in vastly different ways.

Webster (2003) defines the word 'partnering' as: "1. an allying or close association, as of nations for a common objective, families by marriage, etc. 2. An agreement for this 3. The countries, groups, etc. in such association."

Another way to define "partnerships" is to look at synonyms. According to Webster's Thesaurus, "partnering" can be defined by the following synonyms: "affiliation, association, collaboration, alliance, relationship, connection, membership, affinity, participation, cooperation, support, union, agreement, common understanding, marriage, kinship, relation, collaboration, coalition, bond, fusion, combination, and coupling..." Webster's dictionary definition and the Thesaurus words used to describe "partnering" appear to be as broad and as deep as possible.

There are many definitions for the words "partnering agreement or alliance agreement." Each definition has its own costs and benefits to the executive and the company. The road to a successful partnering agreement is not necessarily a short one, and it requires a significant amount of planning and negotiating.

Sometimes, partnering agreements are thrown together with nothing more than a couple of meetings and a press release. When done wrong, partnering agreements can be worth no more than the paper that the press release is printed on. It can actually carry a negative marketplace perception for both companies, and can impact a company's business beyond the specific market tied to the agreement.

It is important to understand the common objective of a partnership before a company seriously considers entering into a partnering agreement. The first step has to be the categorization of the

types of partnering agreements in order to connect the concept of partnering with the successful creation and implementation of a partnering agreement.

For the purposes of this study the words ‘partnering agreement’ and ‘alliance agreement’ are interchangeable and are meant to signify one and the same meaning.

1.2 Background of the Research

According to Gartner (2004) there are currently 550 million Windows PCs in use around the world today. With roughly 6 billion people in the world, 1/3 of which have the volatile mix of literacy, electricity, phone connection, and at least thousands of dollars in annual income, the opportunity and demand for first-time “Starter” computers remains enormous. The arrival of digital convergence (made possible by PC-friendly digital media standards), enabled MS Windows to play an increasingly central role in entertainment and communications scenarios in addition to traditional information productivity. How many PCs make sense in a typical household and/or workplace in developed markets? How many software applications and hardware devices can add value to those PCs to help users get the full benefit of the potential of their PCs? What kind of services do customers need from Microsoft to help them continuously get more value at lower total cost from their investment in MS Windows? When you look at the opportunities for Windows and the PC industry overall, there has never been a time of greater opportunity for Microsoft!

Ms experienced significant change in 2003/4. In doing so MS has lost at least ten months of being in execution mode and the organisation is suffering from change fatigue. This impacts the people, the ability to be excellent in execution and MS’s connection with their customers and partners. Partners are confused as MS has not done a great job of managing the effects of its transformation programs on their partners, the current state of flux is not positive and initiatives have to be put in place for partners to be brought into the new processes and procedures via a partner engagement model which is credible.

One of the two top cross-company initiatives that every employee in Microsoft worldwide has been asked to include as priorities is the Customer and Partner Experience (CPE) initiative. CPE

is about providing experiences for customers and partners, across all of their interactions with Microsoft, that they value and recognize, and that enable them to realize their full potential. Recognizing a multi-year decline in satisfaction across many segments and audiences, MS set a priority to improve the percentage of very satisfied customer and partners (VSAT) by 20%, and to decrease the percentage of dissatisfied (DSAT) by 20% in both the managed and unmanaged spaces. To achieve this goal MS needs to support customer and partner centric behaviour in the field and the business groups. A Partner Engagement Framework (PEF) that is efficient and effective is necessary to achieve these objectives.

The type of partnership engagement model that the company decides to adopt is open to a variety of choices as there are currently different and varying sales and engagement models that exist in the industry and internally in MS.

1.2.1 Types of Models

1.2.1.1 Microsoft Enterprise Sales Model

This is an Enterprise partner-led selling model that currently exists in the company and has both revenue and CPE impact to MS, their partners and customers. It is meant to drive both short-term revenue and deployments to secure long-term revenue by identifying where partners can lead the Enterprise sales process. This is meant to drive towards consistency across segments, as partner-led selling is already the established norm in most channel driven companies for reaching small and medium-sized customers. The focus in this model is on selling rather than partner engagement.

1.2.1.2 Microsoft World Wide Partner Program – Channel Management

The Microsoft partner program (MPP) aimed at the entire Microsoft channel was designed from a partner's point-of-view. It recognizes the investment and contribution of industry partners, while establishing a framework for future growth and success. The MPP represents a significant departure from Microsoft's current channel program by bringing the Microsoft "classic"

(infrastructure software side) and Microsoft Business Solutions channels under one program to result in a great deal of cross-pollination.

See Appendix 1 for more on the MSPP requirements and Appendix 2 for more detail on the MSPP channel management.

There has been a great deal of flux within the channel programs of many leading IT vendors over the past few years. Ongoing channel conflict and "start and stop" initiatives by many vendors are evidence of this flux, which has left the channel frustrated and less than optimally loyal to specific vendors. With the launch of its new partner program, Microsoft has taken a big step toward defining its intention to capture a leadership position. The next 12 to 18 months will determine whether Microsoft merits a channel program leadership designation. To establish a truly market leading channel program, additional components are needed. The components include partner-to-partner opportunity, collaboration tools and joint business planning with a wider range of the partner community. Any company that wishes to be seen as having market-leading channel program needs to include these components. (Gartner, 2003)

Michael Haines and Mika Krammer (2004), state the following, "Although Microsoft currently holds the dominant footprint in the market, many companies, such as IBM and SAP, are aggressively maneuvering to unearth Microsoft from this position. Ultimately, victory will go to the enterprise with the best-executed channel strategy.

1.2.1.3 EDS Business Value Framework

EDS has the vision to be "The recognised global leader in ensuring clients achieve superior value in the digital economy...by delivering the right strategies, solutions and services, through superior execution on a sustained basis." In order to deliver superior value and services EDS is required to develop consistent processes and practices. EDS does not aggressively partner to sell business as the company has a direct client model.

In terms of the EDS Enterprise Process Model (Plan, Market, Sell, Deliver and Support) the business value framework mainly addresses the Sell and Deliver aspects and is centred on the client. The EDS business value framework (BVF) allows EDS to integrate sales, account and technical processes to reduce redundancy, increase leverage, improve delivery and increase customer satisfaction. The BVF principally addresses sales and delivery activities to a specific prospect or client; it places the client at the centre of the business. The BVF provides a structure in which various aspects of the EDS business processes are brought together to enable controlled selling and delivery of repeatable solutions to partners and end customers alike. It integrates the phases, deliverables and reviews of Strategic Value Selling and delivery throughout the business cycle. The BVF ensures that the critical aspects of sales, delivery and management are considered throughout the engagement with the partner and customer.

Strategic Value selling (SVS) is an EDS proven competitive selling method. It defines four major phases of the sales process. Each phase has defined activities and deliverables.

Phase 1 *Discover*: the prospects requirements and needs are determined

Phase 2 *Define*: EDS defines the services that they can offer the prospect and creates a value proposition

Phase 3 *Confirm*: EDS confirms with the prospect that the services proposed meets their needs and the proposal to the client is finalised

Phase 4 *Deliver*: If a contract is signed, then the value delivery to the client begins.

At the end of each phase a Value review board (VRB) reviews the different deliverables.

1.2.1.4 Through Partner Sales Models

Most enterprises use either a 'partnering model' or a 'selling model' or some sort of combination of both. An organization may employ a number of selling and partner models across the entire channel, or across multiple channels representing various product lines or business units. The three partner field sales models below are dramatically different from one another and require specific functionalities to provide maximum benefit to the organization.

1.2.1.4.1 Partner Opportunity Selling

This model is linear in its application meaning that it is a straight line model. In sales parlance, it's often referred to as the "hunter" selling model because it usually starts by identifying the prospect and ends by closing the sale. Thereafter, there may only be limited contact between the vendor, partner and the customer. This field sales solution must be able to manage the customer relationship through the entire sales cycle, from prospect to fully executed sale. Functional requirements include: Lead management, Contact management, Sales pipeline and forecast management, Performance management, Proposal generation, Product configuration and pricing, Content management, and Order submission.

1.2.1.4.2 Partner Iterative Selling

In the sales arena this is often referred to as the "farmer" selling model because the partner works with the same customers and cultivates largely known accounts. By definition, these sales are higher-velocity and typically take place between specialized personnel on the buy side and the sell side. The customer is typically knowledgeable about the product or service, and the point of differentiation between vendors is often more than just the product or service. This is a bundled value proposition that includes delivery and service reliability, sales terms and conditions, market insights or long-term relationships.

The functional requirements include, the ability to view all previous transactions, a hierarchical data model that may range from product families to multiple items, rich contact management functionality due to the longer lasting nature of the relationship, order management and order entry, credits for product returns, damaged products and those that can't be sold, sales call reporting, customer planning, fact-based selling or category management (which is a platform used to convey the value proposition of bundles of goods and services, or to convey market insights, content management (product information) and contract management.

To avoid the current Channel conflicts which occur on a daily basis, caused when a vendor company, like MS, and its partners compete directly for end customers, this model also must be able to associate customers with the partners they have traditionally purchased from and include the products they are authorized to purchase.

1.2.1.4.3 Partner Influence Selling

Some products may change hands in this selling model, but typically there is no money passed from customer to the partner or seller. Instead, the seller influences the customer to use, recommend or prescribe the vendors products to others. The relationship may be long-lasting, but the customer being influenced initially may not have knowledge of the product. The Vendor must educate the partner who in turn must educate and convert the customer to the merits of the product. In turn, the customer can influence others. Specific functionalities include Contact management, Call planning and reporting, sample management with signature capabilities, Program management and Content management.

The underlying requirements of the influence-selling model are less specific than the requirements of the other two models because they don't facilitate monetary transactions.

1.2.2 The Microsoft Partner Ecosystem

2004 is seen as the year in which MS aims to drive record sales and growth for the company. In 2003/4 MS formed new sales and marketing organization, which involved the integration and implementation of many new resources and processes. After a year of significant change and learning, partner management in 2004/5 has to be about crisp and consistent execution and accountability against 2004/5 targets.

The partner and sales team are the front line team for driving revenue growth. They are responsible for managing partner pre-sales processes and resources to drive qualified opportunities developed by the segment teams and partners into closed customer sales. They are also responsible for engaging with top partners and need to develop and drive business development plans with them and ensure continued revenue growth in the future.

“Partner Management” reflects the other principal mission of this team, which is to ensure the health and commitment of MS’s most strategic partners through direct 1:1 engagement with them. This ranges from deep engagement by Partner Account Manager’s (PAM) for recruiting and joint business development. Effective partner management plays an absolutely critical role in creating

the pro-active push of Microsoft products by their partners. It is essential for supporting the ambitious goals for growth that Microsoft has set for the coming years. Improved partner management is needed to enable partners to better push MS products to their customers, increase consideration to sell MS and enhance partners' readiness and ability to sell new MS solutions. The current high concentration of partners' revenues (96%) shows that the selected managed partners deserve specific focus.

The long term health, which translates in to the sustainability and eventual market share success, of MS's platform (See Appendix 23 for detail on the MS platform) and solutions technology is directly proportional to the health of their partner ecosystem. The company particularly relies upon ISVs and System Integrators to build horizontal and vertical solutions around their technology and they need to continue recruiting and supporting these valuable partners.

The overarching goal of the partner strategy is to ensure partner capacity and then drive marketing through partners and great selling focus with them. Simply put, these are the things that partners value most in all MS's efforts, and which will drive the greatest business results for them and for MS. This is a challenging, complex and yet exciting and vitally important mission that requires MS's pinpoint focus on top priorities, crisp cross-organization orchestration, and excellence in execution in order to drive the velocity and volume MS needs to succeed in 2004/5 and onwards. "Predictability: relationships break because we stop being predictable, you start breaking trust. Commitment to making our relationships our priority will make us a great company" Orlando Ayala, Senior VP, Small and Mid-market Solutions & Partner Group (SMS&P), Microsoft Fusion (2002).

A Partnering Engagement Framework is required by the company to guide the partner-facing execution in 2005 and onwards. Operating against a framework will aim to promote a partner perspective as MS executes against its 2005 priorities, helping MS to speak the language of the partner and ensure coverage against the partners' value chain. This elusive blueprint for successful partnering is key to the company's survival but does not as yet exist in the company.

1.3 Motivation

Microsoft is currently faced with challenges that are unequalled in fervour and intensity than anything the company has encountered before. The Open Source Software (OSS) and Linux movement is gaining credibility in the market and stealing market share from the company, their partner satisfaction ratings are at the lowest they have ever been at, their image and brand is suffering due to perception problems that have not been addressed appropriately, power houses around the world are starting to question the integrity and ethics of the company due to bad press coverage and the Linux offerings at a much better price bracket, a slowdown in the economies around the world coupled with a drop in company revenues, further exacerbated by the weakening dollar against the gains made by the Euro and the US Department of Justice (DOJ) settlement and the recent European Union case ruling against Microsoft are but some of the major obstacles the company has to overcome in 2004 and 2005.

The plan for the rest of 2004 and 2005 at MS is to make the necessary tuning adjustments; but in many ways this is a time for stability and a focus on excellence in execution. It is clear that MS continues to operate in a tough economic environment. Even though the global economic recovery is underway and IT spend is increasing, customers are still wondering if it's real. Some countries have yet to see a clear economic turnaround. In business, technology expenditures are highly scrutinized by the customer and clear financial justification is required. CFOs are increasingly playing a more active role in IT investment decisions. The focus is on productivity, justification is essential, and customers seek to do more with less. MS needs to work with their partners in a way that shows value and wins customers.

Table 1.1 Top CIO business issues

Top CIO Business Issues	
1.	Costs / Budget Pressures
2.	Data Security Concerns
3.	Faster Innovation
4.	Business Risk Management
5.	Single View of Customer

Source: Gartner 2003

There is a need for consistency going from 2004 onwards into 2005 and that begins with the MS worldwide goals. The focus for the company in the next two years has been identified by the executive leadership as the following:

1. Win Partners and Customers
2. Drive Satisfaction
3. Grow the Business

1.3.1 Winning Partners and Customers

Winning partners and customers is about focusing on the partner and customer's needs, delivering a compelling value proposition, and differentiating MS's offerings from competitive alternatives. There are five success metrics that provide an assessment of how well MS is doing against this goal. In the area of server operating systems, the success metric is to grow Windows Server Units at 3 points above the growth rate of x86 server shipments. In the area of desktop operating systems, the success metric is to grow Windows bootable operating systems faster than PC shipment growth. This reflects the opportunity to win partners and customers in the 38 million unlicensed PCs that are shipped on an annual basis. From a deployment and adoption perspective, the success metric is to increase the install base of Windows XP by 20% and Office 2003 by 15%. In the area of developers, the success metric is to increase the percentage of professional developers using .Net as their primary platform to 45%.

1.3.2 Driving Satisfaction

Satisfaction of partners and customers remains a core goal in 2005 and beyond. This is a long-term journey and improving the overall customer and partner experience requires a sustained commitment and focus. There are three success metrics that will be used to assess the attainment of this goal. Our overall success metric is to increase the average Net satisfaction (NSat) across all categories by 7 points. NSat is calculated by taking the percentage of very satisfied (%Vsat) less – the percentage of Dissatisfied (%Dsatsat) + 100. While NSAT serves as an overall long-term target, it is not a metric that is easily transferable to group or individual commitments/goals.

To mobilize the company to improve NSAT, MS has made it mandatory for every group across the company to develop a plan to improve CPE. The plan is required to contain a targeted set of activities, based on prioritized drivers of satisfaction and dissatisfaction, which the respective groups will drive in 2005 onwards. Achieving excellence in execution requires world-class systems to listen and respond to the voice of the partner.

1.3.3 Growing the Business

While it is apparent that the economic recovery is under way and IT spend is returning to normalcy, the MS revenue numbers do not reflect this correction yet. The table in Appendix 3 shows the projected close of 2004 and that for 2005, which reflects a decline in overall commercial revenue, a first for MS worldwide. MS's aspirations are far higher, at a minimum; MS EMEA is expected to grow at GDP level, which they are negatively trailing at the moment. Certainly if MS wins partners and customers and drives satisfaction, it will lead to opportunities to grow the business. The success metric for this goal is billed revenue quota. This worldwide billed revenue quota will be established at the completion of the planning process and communicated at the Microsoft Global Briefing (MGB) in July 2004. It is expected that revenue opportunities for the company will be focused in specific markets and specific product areas.

MS's ability to grow the business will depend on excellence in execution. Renewing annuity agreements will require great execution and close collaboration with partners. Communicating the value proposition of the different Go To Markets (GTM'S) through partners will require great execution. Selling in competitive situations will require great execution with partners. Delivering great service and support will require great execution. Engaging with partners will require great execution. Reaching new emerging markets will require great execution. Excellence in execution across every customer segment, every role, and every functional discipline is key to MS's strategy to grow the business. The fact that 96% of all revenue is billed through partners forces the company to deliver a tangible value proposition to the entire channel but more particularly the managed partners.

Over and above the overall objectives listed above there is a need to focus and strive ever harder to ensure the continuity of the business success and broader market leadership, by zeroing in on the other key priorities that have been learned from the past:

1.3.4 Winning against the Open Source Movement and Linux

MS has significant challenges in the perceptions that IT Professionals have of their products when compared to competitors (especially Linux), particularly in the areas of security, value compared to cost (TCO), manageability (which also effects TCO), interoperability and reliability. The company is behind Linux in nearly all key perceptions and at a serious deficit regarding security and cost/value. See table 1.2 below.

Table 1.2 IT Professionals perceptions on MS windows versus Linux

IT Pro Perceptions	U.S. Benchmark FY04	
	Windows Server System Base: Top 2 box familiar	Linux Base: Top 2 box familiar
Security – Is Secure	30%	72%
TCO – Low total cost of ownership over time	24%	54%
* .NET Momentum – Brand you want to see succeed	.NET 30%	WebSphere 26%
Manageability – Is Manageable	43%	43%
Interoperability – Designed to work well with other SW regardless of version	34%	46%

IT Pro Perception Tracking Study – U.S. Jan. 04

*Brand Tracking Study – IT Pro – U.S. Nov. 03 – Will add “.NET is Leader in Application Environment” in FY05

MS needs to ensure that partners and customers understand the business value and technical benefits of the integrated innovation that they are building in to the complete Windows Server System family of products. Finally, they need IT Pros and Developers to understand the leadership and momentum they have around the .NET programming model (especially when compared to WebSphere and J2EE) and the advantages that their tools and platform bring to rapidly build and integrate web services based solutions.

MS has to drive Linux ‘compete’ programs deeper into marketing planning and execution in order to get positive change in perceptions and provide a technical roadmap to highlight the benefits of the complete Windows stack versus the Linux platform. To help change the perceptions noted

above, MS needs to focus and align their efforts with their partners through whom customers purchase MS products and services by delivering consistent messaging that addresses the root of these perceptions.

There have been some successes in this arena, but it is super-important that MS does not lose sight of the emergence of OpenOffice/StarOffice on the Windows platform as a competitive alternative to MS's Office System, nor should they ignore grassroots developments in local and regional governments exploring non-commercial software platforms.

1.3.5 Improving Efficacy

This is about being competitive which translates into being efficient and effective. Efficacy across the organization is the responsibility of all, the entire organisation and its channel, a large part of which is made up of its partners. All these components need to work together to achieve efficacy.

1.3.6 Improving Overall Productivity

2003 was evidence of how internally focused MS can become as their transformation projects progressed, and how constrained the decision making process can become. In 2004/5, there is a need to remove internal barriers, reduce decision making complexity, streamline business (sales) processes, clarify roles, enhance field communication, simplify goals and employee objectives to drive field productivity to new levels and identify and implement a blueprint for partnering that is aided by internal efficiency and effectiveness.

1.3.7 Improving Field Productivity

Earlier in 2004 MS did an assessment to understand the amount of time that their front-line partner account managers and sales professionals spend in front of the partners and customers. They learned that about 1/3rd of the time they are in front of partners and customers and the other 2/3rd was on internal activities such as email, meetings, coordinating with team members. There is a need to flip these percentages and focus more time on external work with and through customers and partners.

1.3.8 Retaining People

Attracting, developing, and retaining the right talent in Microsoft is essential for long term success and business continuity. The immaturity of MS's processes and procedures when it comes to the partner and sales process and the break in linkage to compensation programs has led to a drop in employee satisfaction and this needs to be addressed via a framework that can easily be linked to rewards and incentives.

1.3.9 Improving Citizenship and Image

Through world wide initiatives like Partners in Learning (PiL) and Unlimited Potential (UP), MS is becoming more involved in their local geographies and demonstrating their corporate social responsibilities to governments across the world, but the company still has a long way to go, and efforts need to have more continuity to become trusted advisors to partners who then sell onto, influence and are trusted advisors to important and strategic customers.

Everyday, Microsoft's partners are being courted by alternatives, in some cases direct competitors such as Linux, in others, by another use of their mindshare and wallet-share. There is a need to continuously build and drive a value proposition and compelling business case for the partners on why their relationship with Microsoft is of unique value to the partner organisation.

One of the core strategic initiatives for the company in 2005 is formulating and implementing a blueprint aimed at successful partnering will create a competitive differentiator for both Microsoft and its partners.

1.4 Value

A survey conducted by MS in Germany and later confirmed worldwide, stressed the need for significant operational improvement in partner management at Microsoft, from managed partner selection to performance monitoring, to business planning to day-to-day operations. This study aims to provide a successful partner engagement framework together with processes and tools to increase effectiveness of partner account management in terms of financial performance and partner satisfaction and it will improve efficiency of sales execution through structured activities and processes.

Practices and trends in partnering agreement models of IT vendors, as well as channel relationships and dynamics, have never been more critical to the success of vendor and channel companies due to the large volumes of vendor revenues being channeled through partners. While the economy continues its sluggishness, IT buying behavior and preferences are undergoing significant shifts. As a result, vendors are attempting to optimize efforts to reach markets through channel partners (especially the small and medium business (SMB) market and selected vertical industry markets). This program optimization focus means effort is under way by many IT vendors including Microsoft to concentrate resources on those IT channel partners (value added resellers (VARs), solutions providers, systems integrators, and soon) that most likely will produce excellent results and eliminate or "marginalize" the non producers.

For Microsoft, these changing market dynamics demand that they do a better job at positioning their value to selected partners to maintain or improve their "place at the table" in those partners' customers. For partners, it means that they must improve on their ability to leverage the unique capabilities of their channel, because each are seeing sales opportunities increasingly scrutinized by clients for quick and substantial return on investment (ROI).

As with any business issue, inaction, defined as a company being re-active and not pro-actively seeking to change the status quo, is a severe risk in all business fronts including financial, market share, legal, brand reputation risk etc. As Microsoft and its competitors strive for a better seat at the table with preferred vendors amid poor economic conditions, failure to improve partner status with those vendors can result in fewer opportunities as well as less-valuable ones. Success for

Microsoft will result in increasing market share and selling costs decreasing (and profits rising). In addition, inaction by Microsoft can reduce the image of the company in the marketplace (lack of required certifications, reduced expertise and limited vendor promotion) and level of trust that clients place in the particular channel company. Standing still has its consequences and these are consequences that Microsoft cannot afford especially with the threat of open source software movement right at their door.

1.4.1 Reducing channel conflict

Rules of engagement (ROE) are critical in avoiding channel conflict. Clear rules of engagement will reduce inherent conflicts between Microsoft's sales force and its partners that often serve as the prime inhibitor of channel program optimization. The relationship between Microsoft and their channel partners historically have been strained in the absence of effective conflict management and clear rules of engagement between the various parties. The result is often price-driven competition for sales among partners, resulting in lost revenue and profits while costs escalate because of redundant sales efforts. ROE will provide transparency for partners. The answer is a jointly defined and clearly communicated set of engagement guidelines and policies to address each market segment in a vendor's go-to-market strategy. The best practices calls for vendors like Microsoft to collaborate with their partner community to establish equitable ROE and religiously adhere to them in all cases. This step will go a long way to increase partner loyalty.

1.4.2 Holistic approach to partner engagement

The new partner engagement model will be designed from a partner's point-of-view. It will recognize the investment and contribution of industry partners, while establishing a framework for future growth and success. The approach will enable partners to deliver against the full spectrum of customers' needs, while being more agile in an ever-changing marketplace. Microsoft will have a strategy for delivering new value and benefits to its network of industry partners. The blueprint will take a partner-centric approach intended to enable partners to expand and evolve their businesses in the technology solution areas based on customers' needs.

1.4.3 Market Share

To avoid market share and profitability deterioration, IT vendors and solution providers like Microsoft must initiate partner engagement models to improve their strategic position in a focused set of vendors. IT vendors and channel companies must take the necessary steps to know each other's business objectives and build programs that foster mutual advocacy. Companies like Microsoft need to encourage strategic IT vendors to conduct joint business planning with executive sponsorship that is executed at multiple levels of each organization. They must also focus on a limited number of strategic relationships if they wish to get the highest return on their partnering investment be in the form of market share, revenue, brand reputation, customer satisfaction etc.

Everyday, Microsoft's partners are being courted by alternatives, in some cases direct competitors such as Linux, in others, by another use of their mindshare and wallet-share. There is a need to continuously build and drive a value proposition and compelling business case for the partners on why their relationship with Microsoft is of unique value to the partner organisation.

1.5 Problem Statement

Why are the current Microsoft Partner Engagement models unsuccessful in delivering value and creating partner loyalty in the managed partner space?

In the current rapidly changing business environment, it is vital that Microsoft maintains superior relationships with the partners in the channel. With this in mind, the poor partner satisfaction scores received by Microsoft in the last partner satisfaction poll is definitely cause for grave concern.

1.6 Objectives of the Study

The purpose of this research is to identify and implement a partnering execution framework which will guide all managed partner engagements in the corporate arena. It will provide consistent, predictable behaviour to the partners in order to build trust based relationships and will also be instrumental in providing engagements with all partners based on their specific needs.

- To evaluate the effectiveness of the current Microsoft partner engagement models in driving managed partner satisfaction
- To determine what the barriers and best practices are, pertaining to successful partnering in the corporate arena
- To establish if it is feasible to formulate and implement a blueprint that can be used in the corporate arena that promotes successful partnering

1.7 Research Methodology

1.7.1 Case Study

Stake (1995: 2-4) distinguishes three different types of case studies: intrinsic, instrumental, and collective case studies. In the first one, the emphasis is put on understanding one particular case, not to learn about other cases or to solve a general problem. In instrumental case studies, however, a case is used as a mean (an instrument) for answering a research question or solving a general problem. Collective case studies are also instrumental studies with the special characteristics of comprising several cases. Furthermore, case studies may either be descriptive (describing, analysing, explaining, and understanding) or normative (modelling, guiding, and suggesting) in nature (Kasanen et al. 1991: 315). They may also involve either only one case or multiple cases, and numerous ways to analyse the results (Yin 1984: 133)

Yin (1984: 20) further defines case study as an empirical inquiry that: investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used.

Examples are, however, not cases because one can always, in retrospect, find good examples of what ever idea comes to mind. Thus, examples are not evidence, even though they may trigger thoughts and ideas for researchers when they study them in the light their own experience and needs. (Gummesson 1993: 7; Glaser & Strauss 1967: 5)

Although qualitative methods, interviews in particular, are commonly used in case studies and some times even interpreted equivalent in meaning, they are not the same. Furthermore, case studies are not necessarily qualitative in nature. In general, case study research supports the deployment of a variety of methods (Gummesson 1993, 17). In addition to qualitative methods, also quantitative methods can and are often appropriate and rewarding. However, quantitative methods are often overrated in the study of business subjects and economics and misused, i.e., considered as methods more scientific than other methods. (Gummesson 1993). The underlying objective for conducting case study research is to gain a better understanding of complex phenomena such as changing current processes or implementing new processes (Stake 1995, 5; Gummesson 1993, 6). However, case studies may be used for many different purposes (e.g., Eisenhardt,1989; Ellram,1996;Gersick,1988; Harris & Sutton,1986;Pinfield,1986;Yin 1984), e.g., for creating a theory, for testing created theories, for producing a description, or just for follow up to surveys to provide a more profound insight into the phenomena.

Case study strategy is particularly applicable when: “A “how” or “why” question is being asked about a contemporary set of events, over which the investigator has little or no control.” (Yin 1984: 20) In addition, a common application of case studies is first to build a theory using case study data and, thereafter, to test it by using further case studies, survey data or another suitable method. (Ellram 1996: 97) Yin (1984: 25) also notes that case studies have a special role in evaluation research, because case studies (1) can explain the causal links in real life interventions that are too complex for being analysed e.g., by surveys or experimental strategies. Case studies can also well (2) describe a real life situation, and (3) usually contain illustrative and descriptive parts, which in turn may help the evaluation. Finally, (4) case studies are effective in exploring interventions with no clear, single set of outcomes.

An instrumental, descriptive case study using qualitative techniques will be the research methodology used in this study. As per the authors quoted above qualitative research approaches

have traditionally been favoured when the main research objective is to improve our understanding of a phenomenon, especially when this phenomenon is complex and deeply embedded in its context. This can certainly be said of the current phenomenon of poor partner satisfaction results in the last partner satisfaction poll as well as the high number of complaints received by partners in the Microsoft response management system.

1.7.2 Data Collection Methods

Initially a search for all secondary literature on the topic of partnering and partner engagement models will be initiated.

A review of the documented archives that led to Microsoft realizing that a successful partner engagement model is required to address the current issues in the partner space will also be carried out in order to reveal historical data, decision making patterns and to identify methodologies that have proven to be successful or unsuccessful. Gaps in prior research due to changing political, economic, socio-cultural, legal and technological factors may also be identified.

Secondly a review of published and unpublished documents prepared by authors outside of Microsoft South Africa will be initiated. These will include periodicals, text books relating to the subject, journals, on-line web sites, soft and hard copy articles, subject guides, proposals etc. This will be done at home, at library's, on the World Wide Web, sourcing documents through experts in the field etc.

1.8 Limitations of the Study

- This study is limited to the managed partners of Microsoft; it does not attempt to address the issues of all partners of Microsoft.
- There is not much published research in the arena of partner engagement models which makes a case study the only model for performing this study
- This study concerns itself with defining a partner engagement framework which differs in great detail from a partner 'sales model'
- This study is focused on the 'engagement' of partners and not about selling to partners

- This study is not concerned with the management of the entire partner channel of Microsoft S.A.
- Findings in this study may not be totally generalisable due to the fact that many of the problems, barriers at Microsoft SA are due to the company's culture and internal logistics which may differ greatly from company to company.
- Qualitative research methods by their nature have more shortcomings than do quantitative methods, being more open to interpretation, thus possibly more subjective.
- This study is based primarily on information and research conducted in EMEA, USA and South Africa and is not necessarily generic to the 'world' as a generalisation
- The Microsoft CPE initiative addresses both Customer and Partner satisfaction; this study is limited to increasing partner satisfaction only, which does have a knock on effect on customer satisfaction.
- For the purposes of this study the words 'Alliance', 'Partnership' and 'Partnering' are interchangeable and are defined as one and the same thing.

1.9 Structure of the Study

The structure of the rest of the study will be as follows:

Chapter 2

An examination of the theories and literature centred on 'partnering, partnership or alliance agreements' and engagement models will be expanded upon to provide further insight into what the problems/barriers are, that negatively affect Microsoft's managed partner satisfaction. A blueprint for successful partner engagement will be identified and discussed.

Chapter 3

A case study will be written on the history of Microsoft South Africa, what products/services it provides, its global reach, who makes up its customer base, its values; vision; mission and its strategic diversity initiatives etc. The case study will explore the practical barriers/problems experienced by managed partners, as per the data collected and in light of the theories in chapter two, which lead to the current poor partner satisfaction ratings for the company.

Chapter Four

This chapter lends itself to the evaluation of the case study against the model developed in chapter two. It will focus on the qualitative research that has been done. It will evaluate the current partner models, determine the reasons for the poor partner satisfaction and establish if the blueprint that will be developed for successful partnering agreement is feasible.

Chapter Five

Recommendations to optimise Microsoft's opportunities and strengths and to mitigate and/or eliminate weaknesses and threats, in light of managed partner engagement will be made. Recommendations as to the tactics the company has to employ to expedite the implementation and driving of the developed framework will be made.

1.10 Summary

This study is one that forces Microsoft to think beyond the paradigms they feel comfortable and identify with. It brings to the forefront the realities and differences that weaves the intricate fabric of partner satisfaction, loyalty and engagement which lends itself to the demand, supply and competitiveness of the channel and overall industry. It also looks at new schools of thought while attempting to highlight the problems/barriers that companies face when looking at developing and implementing a partner engagement model. All the while it seeks to identify the answer to the question: Why is the current Microsoft partner execution framework unsuccessful in delivering value and creating partner loyalty and what needs to be done to resolve this dilemma? This study provides the impetus for the theoretical exploration which will follow.

2 Chapter Two - Literature Review

2.1 Introduction

Partnering is usually defined as the process of two or more entities coming together for the purpose of developing synergistic solutions to their business challenges. For an organization, a true dedication to partnering means a change in corporate culture. This movement must occur throughout the organization, from the executive suite to the newest hire.

Since the industrial revolution of the eighteenth and nineteenth centuries, the general trends of development of large firms have been for them to expand their scope. However, these trends continued to have new forms, structures, and new terms that entered businesses' fields from other sciences such as political science. These trends became more noticeable after the seventies were the new look was represented by co-operation, collaboration, and partnering agreements between the largest companies around the world. Indeed, the use of partnering agreements has seen an explosion in many fields, particularly in high-technology fields.

For example, IBM, which has relatively few alliances in the United States, has teamed up with just about everyone possible in Japan. It has links with Ricoh in distribution of low-end computers, with Nippon Steel in systems integration, with Fuji Bank in financial systems marketing, with OMRON in computer integrated manufacturing, and with NIT in value -added networks.

Aaker (1998) and Casseres (1997) mentioned that the history of Xerox and Fuji Xerox illustrates how collaboration between firms can help them compete. Over the thirty-plus years of its existence, this partnering agreement has evolved to a higher level, where each partner brings with it a unique role and contribution. This division of labour has allowed the pair to benefit from specialisation and to combine the best in Japanese and American business practices.

More and more, the phenomenon of partnerships has become an area of study which captures the attention of many researchers and authors. Some studies done concerning this topic are those such as the study done by Parkhe (1993) where he analysed strategic partnering from the perspective of

game theory and transaction costs economics. Also, in his article 'neither market nor hierarchy' Powell (1990) found that partnering agreements could be explained from the perspective of network theory. Lately, a study from Daz and Teng (2000) examined this phenomenon from the perspective of resource-based theory. Although Parkhe (1993) analysed this phenomenon from the point view of game theory, he concentrates only on the concept of payoffs in game theory regardless of the other concepts. Another theory which is as interesting in analysing this phenomenon is organisational learning theory. Authors of this approach of study, such as Hamel (1991) concentrate on the question of why do organisations partner? And how do they learn from each other?

However most new studies concentrate on the new empirical and analytical research apart from the theoretical explanations of the partnering phenomenon. According to Ed Rigsbee (2003), globalization is one of the primary drivers of business partnering. Large multinational companies are building partner relationships to seize market shares in every conceivable industry and location. Large businesses are competing against one another. Consequently, smaller organizations are feeling the pressure and the 'partnering trend is becoming more and more evident worldwide.

A secondary driver is based on the theory that organizations generally adopt a new paradigm based on the recommendations of others. Change usually evolves through one company witnessing the success of others. Organizations and industry leaders with strong reputations within an industry or economy have immense influence over their contemporaries and industry followers.

"Because trends have clear direction, instead of causing turbulence, they actually help reduce it because they have a significant amount of predictability," states Joel Barker (1992). As new ideas are introduced and embraced, some time-honoured ideas need to be challenged and rejected. Partnering sometimes means overcoming traditional paradigms about how to do business. As partnering activities increase, partnering becomes more acceptable and adversarial relationships become less acceptable.

While many companies profit on a huge scale from partner relationships, many also scramble to get on the partnering bandwagon with little regard for the quality of partners they select.

Admirable businesses have discovered that aligning with the wrong partner can cost the company millions of dollars in revenue and has other costs such as loss in market share, brand loss, customer losses etc.

2.2 What Is Partnering?

Partnering is a higher level of business relationships. It goes beyond the 'you scratch my back and I'll scratch yours' concept. Partnering also concerns itself with more than traditional transactional relationships and partnering relationships can take many forms. According to Marilyn M.Helms (1998) "while a 'partnership' is usually a legal term, a partnering activity might simply mean working together to develop and market a product or service but not necessarily sharing losses and gains. The key distinction between 'partnership' and 'partnering' is that in 'partnering' a formal agreement, isn't always necessary." Partnering truly is a paradigm or belief, a successful method for conducting business.

2.3 Strategy and Partnership/Alliance/Partnering Agreements

Two or three decades ago, competition among firms may was simple. Companies did not need to excel in all capabilities or participate across the globe, one capability serving one major market region often was sufficient. The pace of change in technologies and markets was modest compared with today's activity, and industry boundaries were well defined and generally not global. If a firm lacked a capability, it either took the time to develop it or bought it through an acquisition. Shareholders were patient and less demanding about profitability and returns. "Hot" ideas of the day for strategic thinkers and planners were market segmentation, application of portfolio models to categorize the firms' different businesses to determine resource allocation, and competitive strategies. A command-and-control model emphasizing the internalization of competence within the formal boundaries of the firm was dominant and, apparently, working successfully.

Some writers argued that a new pattern was emerging even then. Gary Hamel (Doz and Hamel, 1998) at the London Business School and Barry Nalebuff of Yale and Adam Brandenburger of Harvard (Brandenburger and Nalebuff, 1997) developed new and interesting models of interorganizational cooperation. Their models suggest a new type of business entity which can be

described as a less discrete enterprise that featured clusters of common activities in the midst of a network of relationships, the aim being to share knowledge and core capabilities to rapidly increase value to customers.

Their work complemented research on alliances by Michael Hammer (Hammer, 1998) of MIT, Sumantra Ghoshal of the London Business School and Christopher Bartlett of the Harvard Business School (Ghoshal and Bartlett, 1999), and Michael Yoshino (Yoshino and Rangan, 1995) of Harvard, who predicted that the traditional concept of management and control was at the end its life cycle. Ben Gomes-Casseres (Gomes-Casseres, 1996) at Brandeis used the term "constellations" to describe this new era. Recently, a task force at Booz Allen & Hamilton, headed by Bruce Pasternack and Albert Viscio (Pasternack and Viscio, 1998), studied this emerging trend. They concluded that companies are moving toward what John Dunning (Dunning, 1997) of Rutgers first described as a "centerless corporation", an organization in which competitive strength will be based on harnessing capabilities, knowledge, and the power of people in ways previously unknown. Meanwhile, in another forum, James F. Moore (Moore, 1997) of the Harvard Business School is predicting the emergence of "business ecosystems." These commentators and others agree that we are in the early phases of a new era that will see cooperative business models become a dominant force in the world economy.

Partnership agreements enable companies to make incremental commitments to an unfolding strategy, a useful feature when environmental uncertainties preclude decisions that are more definite. In addition, the partial commitments involved in partnering agreements leave a company with resources to invest in more than one such arrangement, thus spreading and diversifying the risk. At the same time, however, the open-ended nature of such an agreement means that if not managed carefully, it can unravel and nullify all the potential benefits. If the partial commitments of members are not enough to compel them to act cooperatively, the partnership or alliance agreement can be a recipe for strategic gridlock.

When organisations team with other companies, the relationships range from transactional conventional sourcing and servicing arrangements at one extreme to acquisitions and mergers at the other. In the middle of the spectrum are what are termed strategic partners or strategic

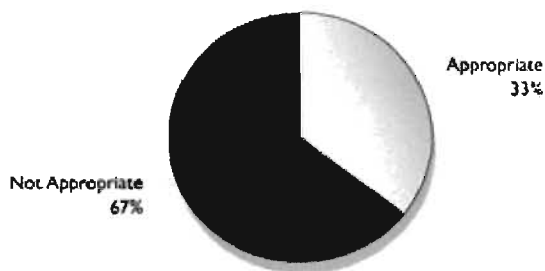
alliances. Strategic alliances are not transactional (arm's length) in nature, they are arrangements in which the partners are willing to act in unison and share core capabilities.

A survey of more than 2,000 U.S. and European firms by Meta Group reveals that more than 20,000 partnering agreements were entered into worldwide in the past two years, more than half of them between competitors. All participants said that alliances are increasing within their industry, and more than 75 percent noted that the alliances are effective. Acquisitions and mergers over the same period also remained strong, with more than 15,000 completed. Their success rate, however, is less than 50 percent.

Executives participating in the survey (two-thirds of respondents) strongly stated that the current command-and-control model is inappropriate in the allied-enterprises era. See Figure 2.1 below which shows the perceptions that the organization models of today are flawed.

Figure 2.1: Americans and Europeans Rate Organizational Structure Appropriateness

Americans and Europeans Rate Organizational Structure Appropriateness



Source: Booz-Allen & Hamilton survey of 2000 U.S. and European Firms, 1999.

If these battle-tested alliance executives believe that their current business model is not appropriate, then where does the answer lie? What will work? An examination of the forces behind the explosion in partnering agreements is discussed below.

Peter Pekar Jr. (2003) states that there are certain environmental conditions that favour the formation of alliances and explain the increasing cooperation in the last decade, these include the following:

- Competitive boundaries have blurred as technology advances have created crossover opportunities to merge formerly distinct industries.

- Advances in communications (voice-mail, e-mail, and e-business) and the trend toward global markets link formerly disparate products, markets, and geographical regions and facilitate the open communication essential between partners.
- Intensifying competition and increasingly demanding customers require advantaged capabilities across the board, and no firm has the time or resources to develop these capabilities themselves.
- The drive for technology standards and compatibility in a globally linked world is insatiable.
- Alliances create an additional degree of strategic freedom, providing access to a largely unexplored set of opportunities.
- A growing number of firms have successfully scaled the alliance learning curve, and there now exists a global body of expertise to ensure successful alliance formulation and execution.

2.4 The Business Life Cycle

In 1956, Booz Allen introduced the concept of the product life cycle in a landmark *Harvard Business Review* article. Business life cycle phase is a key driver of alliance imperatives and suggests at least five growth engine trigger points. Figure 2.2 illustrates partnering agreement imperatives at each life cycle phase.

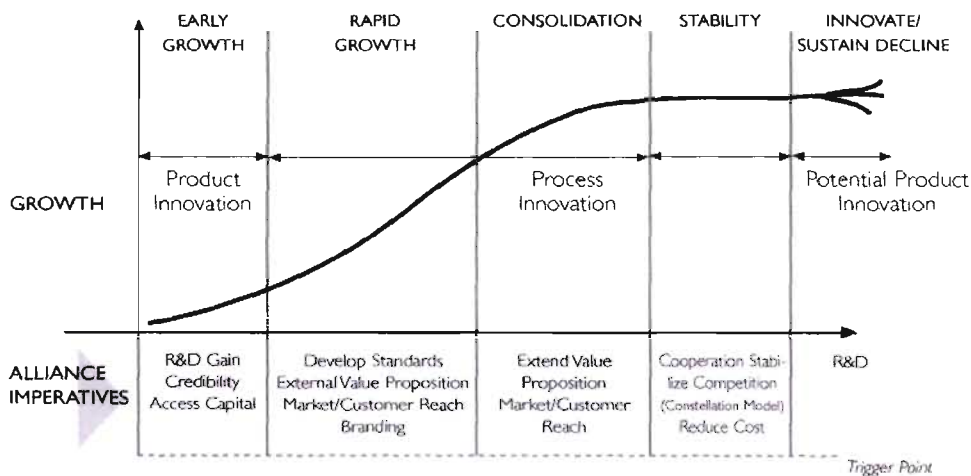
In the early growth stage, product innovation and credibility are the main drivers of alliance initiatives. In the rapid growth phase, the development of standards and market reach are of key importance. The drivers change again in the stability phase when reduced cost, product extension, and value-chain strengthening are important. Organizations increasingly recognize alliance-enabled opportunities to close these strategic gaps.

Microsoft is a firm that recognized alliance opportunities. From its market capitalization of \$0.6 billion at its 1986 IPO, the firm has grown to almost \$500 billion in market cap. Few people understand, however, the critical role that alliances have played in this evolution. Microsoft's first breakthrough was an alliance with IBM to develop DOS. Its second breakthrough was dominance of operating systems through Windows and its "Wintel" alliances with Intel. The pace has never

slackened. During the initial years the company has announced on average two alliances per day. Microsoft's investments in these partnerships have paid huge dividends, for example, their equity investment in Apple has risen more than 900 percent in just two years. There is evidence that this 'partnering agreement' mentality needs to be disseminated to all levels of partner management not just at the corporate level in Redmond.

The business life cycle phase is the key driver of alliance strategy imperatives (see Figure 2.2 below). Once the linkage between these imperatives and the corporate and business strategies and objectives are clear, the next step is determining where alliances can be effective in meeting the objectives. Processes for identifying alliance opportunities encompass traditional industry analysis, brainstorming, and a new breed of tools called "forcing techniques."

Figure 2.2 Business life cycle and forcing techniques to surface partnering agreements



Source: B•A&H Analysis

Companies must develop coherence among the many seemingly disparate pieces of the business, establishing a potent binding force and sense of direction where all the pieces mutually reinforce each other and provide a platform for growth. Coherence is what allows the firm to de-emphasize a rigid organizational structure. A staggering failure of the old business model is that it chokes the potential of the firm.

How is coherence established in partnering agreement? The answer must be tailored for each kind of alliance. The franchise model is operational in nature. Franchise alliances are an extension of a specific part of a firm, and that's where the alliance should be managed.

The portfolio model is de facto a new business model. Because it usually involves one primary part of the dominant partner, it is managed not by an operations group but by a business centre. That centre acts as the "corporate centre" for the partnering agreements. It must treat its partners as a business unit within a centreless corporation, adding value only where the businesses cannot. (See Figure 2.3 below). The business centre must focus on knowledge and people and work to build coherence internally and externally.

Figure 2.3 The Centreless Corporation



Source: http://www.books24x7.com/book/id_2634/viewer.asp?bkid=2634&destid=242

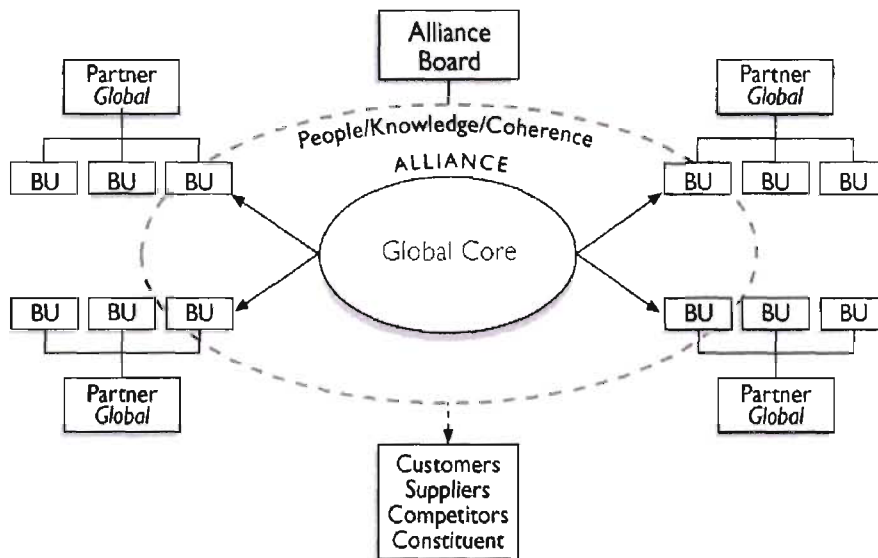
The cooperative model is a shared business model that needs its own leadership, but with few "owners," it must develop a cooperative governance structure. The challenge with these models is to establish a set of operating and performance parameters. This model is very much what firms do when they establish a shared services organization within the corporation or use an outsourcing agreement.

The constellation must be thought of as a new firm, with its partners the businesses. The constellation requires its own corporate centre, which is focused on creating value for the extended entity. The only areas in which a corporate centre adds value are in strategic leadership,

capability brokering, identity, control, and capital. This holds true for a corporation and for a constellation.

The more an alliance must mirror a single business model, the more it must focus on knowledge creation and dissemination, people strategies, and creating coherence throughout the entity. Without this focus, the venture is doomed from the start. This business model will have strong analogies to a single business, but as Figure 2.4 below illustrates, it must cross corporate borders. While the basic principles hold, their application will differ. These new models will be the growth engines of the future, and will provide great value to early adopters.

Figure 2.4 A New Business Model for Alliances



Source: B•A&H Analysis

To a large extent this is new territory. As the word spreads and more companies seek partnering agreements as a growth vehicle, the differentiator will shift from being able to form an alliance to being able to manage one. Those in the game the longest have the most experience, but the game is so new that most standards have yet to be set.

2.5 Perspectives on Partnerships/Alliances

An overview of the main perspectives which can be brought to bear on business strategy and the formation of alliances indicate that there are numerous differing insights pertaining to the topic. Most of these are still incomplete in two respects. First, there are still potential synergies which could come about from combining some of them. For example, both the iterated form of game

theory and work on trust-based relations should, if brought together, offer valuable understandings on how cooperation can be strengthened as a cumulative process over time. In so doing, it would be useful to combine the rational calculative approach of game theory with the more sentient and normative features of social interaction which are given a prominent place in theories of trust. The second area of underdevelopment is the drawing-out of practical guidelines from the essentially academic insights offered by the various perspectives.

Such insights bear upon both the formulation of cooperative strategy and its implementation. Market-power theory, transaction-cost economics, game theory, and strategic-management theory are all oriented towards cooperation as a strategic choice. Transaction-cost economics and game theory also address certain aspects of ongoing cooperative relationships, which are the primary concern of agency theory and organization theory.

Axelrod (1984) indicates that there are several implications for the practice of cooperative strategy which can be drawn from these perspectives. From the economic perspective, cooperative strategies can enhance market power. Furthermore, one of the considerations in choosing whether to cooperate with other firms, and the form of that cooperation, is the level of transaction costs involved, and, in the absence of common interests and mutual trust, an alliance needs to provide each partner with adequate incentives not to take advantage of the other and with systems to monitor their respective contributions.

From a game-theory perspective, there is a need to balance and reconcile cooperation and competition between partners. Highly self-interested behaviour in business relations tends to become self-defeating. If cooperation between partners is established according to clear principles such as 'firm but fair', there is a good possibility that their relationship will become progressively self-strengthening.

In strategic-management theory, executives need to be clear about their motives for adopting a cooperative strategy in general and for entering into specific alliances in particular. The selection of a suitable partner is of fundamental importance and likely to have a major bearing on the success of the alliance. In this regard it is important for alliance partners to work out a good mutual strategic fit, and then to optimize the process of their cooperation by improving cultural fit.

From the perspective of organization theory, the ability of a partner to exercise control over an alliance will be significantly determined by its dependence on the other(s) for the provision of non-substitutable resources which are crucial for the alliance's operations. This implies that the formal rights inherent in equity share or contracts may not be sufficient to ensure control. Alliances are hybrid organizations which combine some features of conventional hierarchical management with those of networks. Their organization has to recognize and support a number of dilemmas which stem from this hybrid nature, such as the tension between the ability to control an alliance and to learn from it.

Regardless of which of the business alliance models is appropriate, companies no doubt will be compelled to form multiple kinds of partnering agreements and will need a disciplined process to decide which type of alliance is optimal in a particular situation. Pragmatic executives are often suspicious of simple formulas. Some executives even maintain that seat-of-the-pants management and pure luck play an important role in any alliance. Luck always helps a business alliance succeed, but studies show that the chances of alliance success without experience, learning, and best-practice adoption are at best only one in five.

According to Peter Pekar, Jr. (2003) many companies see partner agreements as only filling a hole here or there, primarily where the company cannot purchase a capability or develop it. These companies tend to miss the real power of this new tool to become a superior growth engine. Real alliance power comes not from discrete alliances but from using a group of alliances in a concentrated manner to create a string or class of interconnected alliances to rapidly overpower the competition.

In today's dynamic environment, successful companies need to select, build, and deploy the critical capabilities that will enable them to gain competitive advantage, enhance customer value, and drive their markets. The emphasis should be on future differentiators, not historical ones. The competitive focus must switch from how to compete better with current capabilities to how to select and build better future capabilities, especially those emerging capabilities that will drive the market

Despite all the talk about “strategic partnering,” the strategy behind many alliances gets lost in the fever to secure a partner and get the deal done. This ignores one of the key lessons from successful alliance practitioners: an organisation and its executives should think carefully about their strategy before worrying about the details of the deal.

2.6 Partnering and Organisational Learning Theory

Successful business strategies are those which adapt organizations to the opportunities and threats in their environments, and which enhance their internal capacities. Adaptation to external developments and internal enhancement both involve ‘organizational learning’. The term has come to be used to emphasize that organizations, just as individuals, can acquire new knowledge and skills with the intention of improving their future performance. It has been argued that the only competitive advantage the company of the future will have is its managers’ ability to learn faster than its rivals (De Geus, 1988: 740). Organizations often adopt cooperative strategies with the specific intention of acquiring new knowledge and know-how. Successful cooperation itself requires a learning process by the partners. Inkpen (1995).

Despite the large amount of discussion and literature on the subject, there is not a generally agreed model or even definition of organizational learning. (Fiol and Lyles 1985; Huber 1991). Most authors however, agree that organizational learning consists of both cognitive and behavioural elements. Villinger (1996: 185) suggests that it is ‘the process of developing a potential to improve actions (behaviours) through better knowledge and understanding (cognition)’. While learning is clearly a process, some would go further and include its outcomes within the scope of the term as well. This serves as a reminder that an organization does not necessarily benefit from the acquisition of knowledge and understanding unless these are applied, so that the ‘potential to improve actions’ is actually realized.

Villinger prefers to use the term ‘learning in organizations’ because of the uncertainty over whether organizations themselves can actually be said to learn. The idea of ‘organizational learning’ does not resolve the paradox that ‘organizational learning is not merely individual learning, yet organizations learn only through the experience and actions of individuals.’ Argyris and Schön (1978). As Nonaka and Takeuchi (1995) recognize, in a strict sense knowledge is

created only by individuals and an organization can only support creative individuals or provide suitable contexts for them to create knowledge. Their description of 'organizational knowledge creation' provides an indication of how this individual learning can become available, and retained, within the organization as a whole: 'Organizational knowledge creation . . . should be understood as a process that "organizationally" amplifies the knowledge created by individuals and crystallizes it as part of the knowledge network of the organization.'

The nature of the knowledge contributed by the members of an organization, or an alliance of organizations, is of considerable significance for the process of learning. An important requirement for converting knowledge into an organizational property is to make it sufficiently explicit to be able to pass around the 'knowledge network'. Polanyi (1966) distinguished between tacit knowledge and explicit knowledge. The former is usually regarded as personal, intuitive, and context-specific. It is therefore difficult to verbalize, formalize, and communicate to others. Explicit knowledge, by contrast, is specified and codified. It can therefore be transmitted in formal systematic language.

The tacit nature of much useful knowledge can pose two problems for a strategic partnership, depending on the intention of the partners. If the partners are looking to learn competitively from one another, then the retention of knowledge in a tacit form can be a defensive measure, because it means that only their members have access to it. If both or all partners adopt this tactic, then they are likely to face major difficulties in converting the knowledge held tacitly or covertly by each partner into a form usable for cooperative activities. This can, become counter-productive to the success of the cooperative venture, which almost certainly requires mutual learning in order to achieve other strategic objectives as well. The other problem is more likely to arise when one partner is gaining market access in return for providing superior knowledge to the other, a typical situation for alliances between organizations from developed and developing countries respectively. When the tacit knowledge held by the members of one partner organization is superseded by new knowledge and practices brought in by another partner, the consequent threat to the group identity of the former may generate considerable resistance to internalizing the new knowledge.

Fiol, C. M., and Lyles, M. A. (1985) maintain that there are three levels of organizational learning: technical, systemic, and strategic. Cooperation with partner organizations offers a potential to

learn at all three levels. It can provide access to techniques, facilitate the transfer of new systems, and enhance a firm's ability to undertake new strategic initiatives. The underlying attitude behind an alliance can be collaborative or competitive. The former allows for joint learning by both partners and is likely to be more productive over the long run. The latter creates a situation in which one partner intends to learn as much as possible from the other, while at the same time offering as little knowledge as possible. Organizational learning becomes a political game in the competitive process between the firms and this is not a sustainable situation in the long run.

There are several requirements for learning to take place within an alliance. The partner must have an intention to learn. It must have the necessary capacity to learn. It must also be able to convert any knowledge it gains into a usable organizational resource. There are various forms of learning within cooperative relationships: forced learning, imitation, blocked learning, received learning, and integrative learning. Each of these is associated with different degrees of change in understanding and in behaviour.

The successful promotion of organizational learning within cooperative partnerships requires (1) the surmounting of cognitive and emotional barriers, (2) the reduction of organizational barriers, and (3) openness of communication and an effective circulation of information. (Geringer, 1991)

Another distinction which has important implications for practice is that between the different levels of organizational learning (see Table 2.1 below). Both theorists (summarized by Pawlowsky 1992) and those writing more pragmatically with reference to developments in joint ventures (CIBAM 1993; Child *et al.* 1994) have identified three main levels of organizational learning, in a broadly parallel way. The theoretical approach identifies routine improvements within the boundaries of existing organizational knowledge as the 'lowest' level. The middle level involves changes to the boundaries or structures of existing knowledge bases, which imply a 'reframing' of organizational systems and perspectives. The highest level is learning how to learn through reflexive cognitive processes; it is proactive and generative. These three learning levels correspond to the terms 'single-loop learning', 'double-loop learning', and 'deutero-learning' coined by Argyris and Schön (1978).

Table 2.1 Levels of organizational learning

Levels	Theoretical approach	Pragmatic approach
Higher	<i>Learning—‘deutero learning’</i> Learning how to learn so as to improve the quality of the organizational learning process itself.	<i>Strategic learning</i> Changes in managerial mindsets especially in understanding the criteria and conditions for organizational success.
Middle	<i>Reframing—‘double-loop’</i> Changes of existing organizational frameworks. Involves questioning existing systems. Oriented towards survival in changing environmental conditions.	<i>Systemic learning</i> Changes in organizational systems, with an emphasis on learning how to achieve better integration of organizational activities.
Lower	<i>Routine—‘single-loop’</i> Improvements and adjustments to optimize performance within the limits of existing organizational frameworks and systems.	<i>Technical learning</i> The acquisition of new specific techniques such as more advanced production scheduling, or managerial techniques such as more advanced selection tests.

Source: Andreu and Ciborra (1996: 126)

The more pragmatic approach distinguishes between technical, systemic, and strategic levels of organizational learning. The technical level refers to the acquisition of new, specific techniques, such as for quality measurement or for undertaking systematic market research. This corresponds to routine learning. The systemic level refers to learning to introduce and work with new organizational systems and procedures. The focus here is on an integrative type of learning involving the restructuring of relationships and the creation of new roles. This parallels the notion of organizational reframing. The strategic level involves changes in the mindsets of senior managers, especially their criteria of organizational success and their mental maps of the factors significant for achieving that success. The emphasis on vision here is somewhat different from that on ‘learning how to learn’, but there is a parallel in the reflexive cognitive processes involved with a view to generating new insights and being proactive. The level of learning to which a collaborative venture aspires will depend on its purpose and the involvement and needs of its partners.

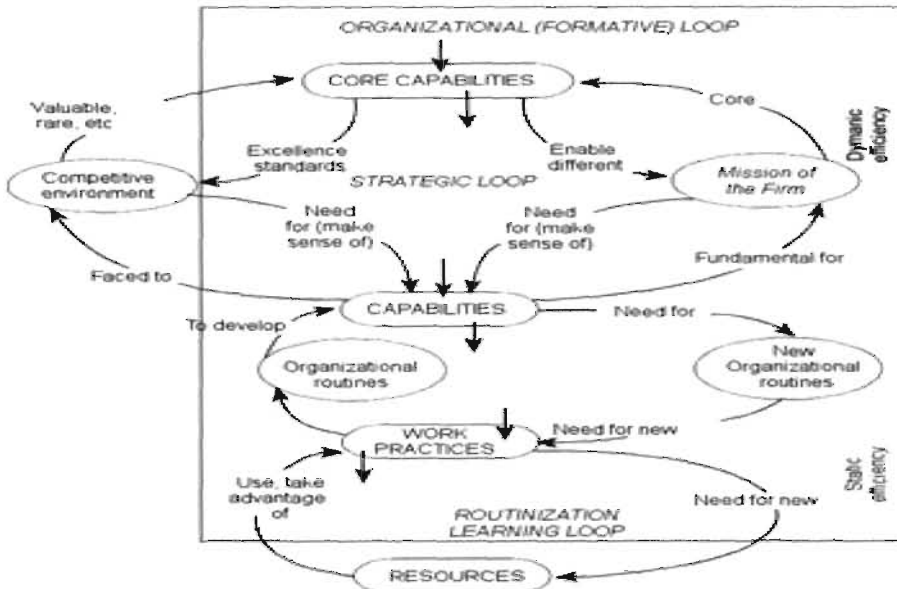
Andreu and Ciborra (1996) point to the dynamic processes which link these three levels of learning together by means of three equivalent 'loops'. Their scheme is reproduced in Figure 2.5 below. At the lower level is the routinization learning loop. This level of learning is aimed at mastering the use of standard resources and gives rise to efficient work practices. Most of the learning at this level will be technical in nature. Andreu and Ciborra cite as an example 'mastering the usage of a spreadsheet by an individual or a team in a specific department, to solve a concrete problem'.

New work practices can be internalized by the firm in the form of routines, and in this way they become part of its capabilities. This gives rise to a capability learning loop, in which new work practices are combined with organizational routines. The learning process is systemic in character because it involves generalizing work practices and techniques and placing them into a wider context. This defines not just what the practices do and how they work, but also the circumstances under which it becomes appropriate to use them and who has the authority or competence to apply them.

The third and highest learning loop is the strategic loop. In this learning process, capabilities evolve into core capabilities that differentiate a firm strategically, and provide it with a competitive advantage. Capabilities can be identified as core, having strategic potential, both by reference to the firm's mission and to what will give it a distinctive edge in its competitive environment.

While the Andreu and Ciborra framework depicts a primarily internal process of upward learning cycles within a single firm, cooperation with partner organizations offers a potential to learn at all three levels. It may provide direct and fast access to improved techniques and specific technologies. It can facilitate the transfer and internalization of new systems, such as lean production and Total Quality Management (TQM). Cooperation can in these ways enhance a partner's capabilities, and these may assume greater significance if the cooperation also opens a door to new strategic possibilities through, for example, assisting market entry.

Figure 2.5 Organisational Learning loops at three levels



Source: Andreu and Ciborra (1996: 126, Figure 6.2).

Pucik (1991) identifies a number of barriers to organizational learning in strategic alliances. These can arise from (1) misplaced strategic priorities, such as short-term objectives and giving low priority to learning activities; (2) unfocused organizational control systems, as when little or no reward is given for contributions to the accumulation of learning as an invisible asset, and the responsibilities for learning are not clear; and (3) inconsistent human-resource-management policies, such as surrendering responsibility for staffing to the alliance partner.

As well as these failures to plan and provide for learning in an alliance, other obstacles to the necessary transference of knowledge identified by Nonaka and Takeuchi (1995) are liable to arise because of the divergent ways of sense-making and associated with the social identities of the different parties which make up the collaboration.

When the members of different organizations come together to collaborate, they bring their own social identities with them. These social identities are sets of substantive meanings which arise from a person's interaction with different reference groups during his or her life and career. They derive therefore from belonging to particular families, communities, and work groups within the context of given nationalities and organizations (Tajfel 1982; Giddens 1991).

Hamel (1991) found from a detailed study of nine international alliances that the partners varied considerably in how far they viewed the collaboration as a learning opportunity, and that this was an important determinant of the learning which they actually achieved. Organizational learning is an important key to the successful evolution of alliances (Doz 1996). The willingness of partners to learn is initially assisted by personal bonding and where the learning then leads to a deeper appreciation of the economic potential of further collaboration. Partner agreements where partners actively learn from each other are likely to appreciate the value of the alliance more strongly than others. This is particularly likely in relation skills which were deficient when seeking a partner, but it also extends to other unexpected spin-off learning.

If a partnering agreement in which learning has been achieved should suddenly terminate, the partners will be able to count the benefits in terms of the development of their competencies. For those alliances where partners merely engage in mutual skill substitution rather than corporate learning, the loss of a partner is inevitably more damaging. Nothing may have been learnt and there is a sudden gap in the provision of the functions carried out by the former partner. Partners bent on evolution through learning should ensure that this learning is disseminated throughout their organization and not just to the personnel directly interfacing with the alliance partner. They should also set up a system for regularly reviewing what they have learnt as a result of the alliance, and set targets for the next phase of learning.

2.7 Types of partnering

In an age of fierce global competition, the trust developed from partnering stems from the need to foster a new spirit of cooperation between two or more companies. This trust is noticeable in a range of business relationships from the original 'gentleman's' handshake' to the more formal multimillion contractual agreements. The basic difference separating these relationships is the level of formality and organizational control. In simpler partner relationships, both companies retain their independence, structure, culture, and chain of command. In a deeper partnering agreement, the companies cooperate on a limited basis by leveraging the necessary resources, usually their core competencies, to synergistically attack a specific situation, product, or market. In a merger, control is an important organizational issue and both cultures have to be blended to

end up with a compromise. In an acquisition, blending is unlikely. One company is subservient to the other and normally loses its unique identity and is swallowed up by the other.

Beyond Computing magazine (2002) stated that, "It's hard to find a precise synonym for the word partnering agreement. Association, affiliation, even collaborations don't convey the richness and benefits of a partnering relationship." Robert Decker, Chief Operating Officer (COO) for Bank of America Investment Management says, "Partnering means that you treat someone as an equal member of the team. After all, it's in everyone's best interest to make sure that the relationship works correctly and fairly." Chris LaBonte, materials manager for G&F Industries, a custom injection moulder, says this about partnering: "It's a fresh, non-traditional relationship based on trust. After people get comfortable in their partnering, they start turning up rocks that wouldn't have been turned up and revealing causes that were sacred cows."

Partnering is "a relationship which occurs when two or more people voluntarily commit to help each other as part of achieving what each wants to achieve, independently," says Roger B. Tompkins, former vice president, California for State Farm. This is accomplished through partnering elements. According to Tompkins some of the necessary elements are:

- The sense of a singular circle of interests, arising out of mutual goals
- The knowledge of the circle of interests of another, which one perceives to overlap his/her own
- A voluntary effort to work together to seek ways to accomplish both sets of goals

Miles Gordon, founder of Financial Network Investment, states his philosophy about the companies with whom they partner. They are, "companies that you want to do business with because it is a mutually advantageous, win/win position." "If you want a simplistic answer about Partnering, a vendor is somebody who makes something to their specifications and sells them to whomever," declares Jim Rutherford, manager of marketing communications at Steelcase. He continues, "A strategic formal relationship is one where you're taking advantage of their strengths and they're taking advantage of your strengths. But it's still an arms length transaction. A partner or alliance relationship is where you're working together to provide value to a common customer."

2.7.1 Partnering Paradigms

According to Lorraine Segil et al (2002), there are many paradigms of partnering. The first approach is called Cotton Candy Partnering. Like cotton candy, it looks good and tastes good. But it is mostly fluff and dissolves too quickly when popped into the mouth. Like cotton candy, this type of partnering has very little substance or staying power.

Another approach is called Integrity Partnering. This is the type of partnering that lead to companies profiting from the partnering trend. Innovative leaders in a wide array of industries embrace Integrity Partnering. This type of partnering is definitely on the increase. A company who partners with integrity is the kind of company an organization wants to be and is the type of company with whom other organizations want to partner with. Integrity partners continually seek superior approaches to make their business or company even more successful than it already is. "You can't put frosting on a cake made of manure!" Jack Welsh ex-CEO of General Motors. Walsh's belief is that integrity and responsibility form the basis of successful partnering.

Synergy is a force of action for the adopters of Integrity Partnering. This is due to the fact that partnering, in addition to being an activity, is a mind-set. The partnering paradigm is a place where management, marketing, and philosophy meet. This mind-set is best viewed as a paradigm, one that will deliver many benefits if integrated into a company's business operation. As partnering is adopted successful synergistic alliances becomes the distinguishing factor for a company.

There are many types of partnering agreements but most of them can be split into five basic categories or types of partnering agreements which are sales, solution specific, geographic specific, investment and joint venture partnering agreements. In many cases, partnering agreements between companies can involve two or more categories or types of partnering agreements. (Rigsbee 2000)

A strategic partnering agreement has been defined as: 'a particular mode of inter-organisational relationship in which the partners make substantial tangible and intangible investments in

developing a long-term collaborative effort, and common orientation' (Mattsson 1988). In establishing the 'collaborative effort and common orientation', the partners forsake a competitive strategy in relation to each other in agreed areas of activity and embark on a cooperative one.

According to Grant, R. M. (1991) alliances can be classified along three dimensions that define their nature, form, and membership:

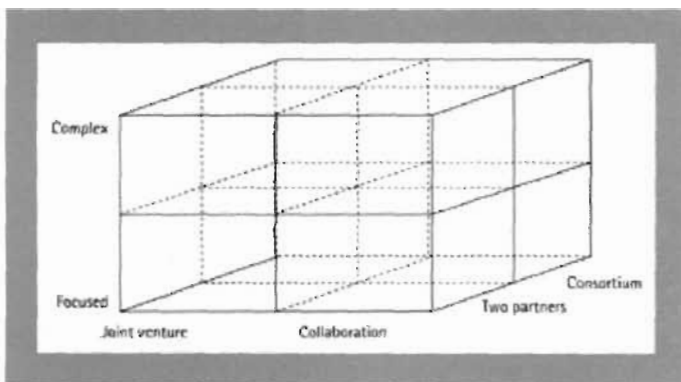
Table 2.2 Three forms of classification of Alliances

1	Nature	Focused	Complex
2	Form	Joint venture	Collaboration
3	Membership	Two partners only	Consortium

Source: Contemporary Strategy Analysis: Oxford: Blackwell Business. Grant, R. M. (1991)

Figure 2.6 below illustrates the options available from which a choice may be made

Figure 2.6 Options Available for types of Partnerships



Source: Contemporary Strategy Analysis: Oxford: Blackwell Business. Grant, R. M. (1991)

2.7.1.1 Focused Partnering agreements

The focused alliance is an arrangement between two or more companies, set up to meet a clearly defined set of circumstances in a particular way. It normally involves only one major activity or function for each partner, or at least is clearly defined and limited in its objectives. Thus, for example, a SA company seeking to enter the EU market with a given set of products may form a

partnering agreement with a European distribution company as its means of market entry. The SA company provides the product, and probably some market and sales literature, and the European company provides the sales force and local know-how. The precise form of arrangement may vary widely, but the nature of the alliance is a focused one with clear remits, and understandings of respective contributions and rewards.

2.7.1.2 Complex Partnering Agreements

Complex alliances may involve the complete activity cost chains of the partners. The companies recognize that together they are capable of forming a far more powerful competitive enterprise than they do apart. Yet they wish to retain their separate identities and overall aspirations, whilst being willing to cooperate with each other over a wide range of activities. The agreement between the Royal Bank of Scotland and Banco Santander of Spain is a good example of a complex alliance. It includes exchange of banking facilities in the respective host countries, partnership in an electronic European foreign funds transfer conglomerate, and joint participation in a number of third country joint ventures. It remains separate, however, in the critical marketing and sales areas in the partners' respective home countries, and both companies retain clearly distinct images.

2.7.1.3 Joint Venture Agreements

Garrette, B., And Dussauge, P. (1995) state that in a joint venture partnering agreement, two companies come together and form a third company to specifically market and/or develop specific products and services. It usually means setting up a separate organization and financial structure, with ownership interests and incentives specified as the joint venture is established. The positive aspect is that there is a financial and legal commitment between the two companies. The aim of the joint venture is normally that the new company should ultimately become a self-standing entity with its own employees and strategic aims, quite distinct from those of its parent shareholders.

Unilever is a good example of a joint venture set up by a Dutch and an English company in the 1920s, and which has grown into a major multinational enterprise. Joint ventures usually involve non-core activities of the partners, and are characterized by having clear boundaries, specific assets, personnel, and managerial responsibilities. They are not generally set up in such a way that

their products compete directly with those of the founding partners. The negative aspect is that in a joint venture, failure can be as painful as a divorce. With a sales partnering agreement, either party can cancel the partnering agreement in a specified period of time and just walk away. With a joint venture, there is the responsibility of a separate company and the financial implications that are tied to the performance of both companies.

2.7.1.4 Collaboration Agreement

The collaborative partnering form is employed when partners do not wish to set up a separate joint venture company to provide boundaries to their relationship. This might be because they do not know at the outset where such boundaries should lie. Hence, the more flexible collaborative form meets their needs better. Collaborative agreements, according to Handy, C. (1992), are also preferred when the partners' core business is the area of the alliances, and therefore assets cannot be separated from the core business and allocated to a dedicated joint venture. The collaborative form can be expanded or contracted to meet the partners' needs far more easily than can a joint venture. Royal Bank/Banco Santander is a classical example of the collaboration form of alliance.

2.7.1.5 The Consortium

The consortium is a distinct form of strategic partnering, in that it has a number of partners, and is normally a very large-scale activity set up for a very specific purpose, and usually managed in a hands-off fashion from the contributing shareholders. Consortia are particularly common for large-scale projects in the defence or aerospace industries where massive funds and a wide range of specialist competences are required for success.

Airbus Industrie is a consortium where a number of European shareholders have set up an aircraft manufacturing company to compete in world markets with Boeing/McDonnell Douglas. The European shareholders, although large themselves, felt the need to create a large enough pool of funds to ensure they reached critical mass in terms of resources for aircraft development, and chose to form an international consortium to do this. A consortium may or may not have a legally distinct corporate form. Airbus Industrie originally did not have one, but is now restructuring itself to have one.

There are then eight possible basic configurations of partnering agreement covering the alliance's nature, its form, and the number of partners it has, e.g. focused/two partner/ joint venture, complex/consortium/collaboration, and so forth. The partnering type that involves setting up a joint venture company is currently by far the most popular method. There are also well trodden paths by which alliances evolve. It is also quite common for one partner in a joint venture to buy out the other. This need not mean the partnering agreement was a failure. It may have been a considerable success, but the strategic objectives of the two companies may have moved onto different paths.

It is not possible to predict definitively which form of partnering agreement will be adopted in which specific set of circumstances, since certain companies show policy preferences for certain forms rather than others, irrespective of their appropriateness. However, according to Casti, J. L. (1991), most alliances fall into three types: (1) Two partner joint ventures; (2) Two partner collaborations; (3) Consortium joint ventures. Companies seeking strategic partnering agreements generally choose between these three forms, before moving on to define their relationships in a more specific way.

2.7.1.6 Sales Partnering agreement

A "sales partnering agreement" occurs when two companies agree to go to market together to sell complementary products and services. This type of "sales partnering agreement" usually revolves around targeted clients or targeted industries. Exclusivity is not a requirement around a sales partnering agreement. Where the trust factor comes into play is the partnering agreement agreements around specific customers or specific industries. The focus of a sales partnering agreement is to create sales and drive revenue for both partners. Usually this revolves around joint selling activities with specific clients. As such, the rules of engagement are usually client- and sales-process-related.

2.7.1.7 Solution-Specific Partnering agreement

A solution-specific partnering agreement evolves when two companies agree to jointly develop and sell a specific marketplace solution. Exclusivity may or may not be required with a solution-

specific partnering agreement. In most cases, one partnering agreement partner will own the solution developed, whereas the other partner will have a "preferred partner" designation as a result of the joint solution development work. There exists a mutual understanding and expectation of how each company will behave in the marketplace. This builds the foundation of trust on which both companies can operate.

Market intelligence and advisory firm IDC has found that successful strategic alliances in the European software market are not about geography, but about partners that can create solutions and form a market. IDC also found that a number of software vendors were increasing the value of their significant alliances with a focus on unique value propositions and synergy. IDC then went on to claim that top software vendors recognised the importance of forging customer relationships before technology decisions are made.

The focus of the solution-specific partnering agreement is joint selling of a jointly developed solution. Usually this type of partnering agreement has specific parameters and incentives to maximize the return to both parties for their part of the joint development effort, regardless of other competitors potentially participating at clients' requests.

2.7.1.8 Geographic-Specific Partnering agreement

A geographic-specific partnering agreement is formed when two companies agree to jointly market or co-brand their products and services in a specific geographic region and may not necessarily partner with the same organisation in another region. This type of partnering agreement has existed for years in many industries. Sometimes a geographic partnering agreement involves some sort of investment in plant and equipment if the specified products to be co-manufactured involve different manufacturing processes. In this case, these strategic geographic partnering agreements would be investment partnering agreements as well.

2.7.1.9 Investment partnering agreement

An investment partnering agreement occurs when one company makes an investment in another company while at the same time developing an agreement to jointly market their products and services. It is the nature of an investment partnering agreement to include an investment of capital

and possibly of resources. It also involves some sort of joint effort to co-market and/or co-develop products and services.

2.7.1.10 Constellations of Partners

Companies can compete and win by using a constellation of allied firms. Airbus competed with great success against Boeing. The Star Alliance with its dozen or so members altered the nature of competition in the airline industry. Sprint built its wireless business through a multi-partner alliance with three leading cable companies. And BP Amoco revolutionized elements of the upstream oil business through an alliance with suppliers and service companies in the North Sea's Andrew Field.

How do companies ensure that their partnering agreement is among the winners? For starters, it is useful to have an intellectual construct, a framework, for understanding constellation partnering. According to Thorelli, H. B. (1986) a 'Constellation' is defined as a set of firms linked through partnering agreements and competing in a specific business domain. Constellations share many traits with bilateral alliances, but managing them also presents important new issues and accentuates others. The most important issue is increased complexity; as one pharmaceuticals executive said: "Every time another partner is added to an alliance, the challenge increases exponentially."

Not all constellations are of the same nature. In examining a hundred prominent constellations formed between 1990 and 2001, Lorenzoni, G., And Ornati, O. A. (1988) found that five basic motivations was found behind constellations, each of which often conditioned the design of the group: (1) Linking markets, (2) Combining skills, (3) Building momentum, (4) Reducing costs and (5) Sharing risk.

Few partnering constellations are a pure form of any of these models. Most constellations have multiple goals, and often add goals over time. For example, Advanced Photo Systems had three main goals: to share risks, to set standards, and to combine skills (it contained both film and camera companies). The Star Alliance also has multiple goals: its main goal is still to link

markets, but the partners have also used the alliance to reduce costs, forming a purchasing cooperative and combining assets like ticket counters and passenger lounges.

2.8 Reasons for Partnering

The reasons for building partnering relationships are numerous and far reaching. Many of the reasons are linked to understanding the benefits of entering into synergistic alliances. Partnering agreements between companies have become an increasingly important aspect of strategic management and are playing a major role in the transfer and management of knowledge resources. Whereas most of the literature on knowledge management has focused on the creation, acquisition, transfer, and value creation associated with knowledge within a company, comparatively little work has been done to understand the management of knowledge across companies which choose to partner.

Hagedoorn (2001) found that technology complementarity, innovation time-span reduction, market access, and market structure influence are the most mentioned motives behind technology partnership agreements. Research has indicated that partner agreements can be viewed as mechanisms to acquire know-how and to learn from other firms. Henderson and Subramani (2003), for example, propose a topology of alliance types that emphasizes differences in the role of knowledge. The types of knowledge resources exchanged in alliances can range from intangible, tacit resources such as employee expertise or company brand name, to tangible, physical resources such as equipment, components, or products.

Dyer and Singh (1998) argue that the exchange of knowledge resources provides value to the partners. Substantial knowledge exchange results in joint learning, and the integration of complementary resources results in the joint creation of new products, technologies, and services." The big benefit of Partnering," says Jim Eisenhart, President of Ventura Consulting Group, "is it puts pleasure and fun back into business." People are now open to partnering because they recognize the limits of old paradigms, especially in the context of global competition."

According to the IDC there are many factors that need to be examined before entering into a partnering or alliance agreement, these include the following:

Table 2.3 Factors in a Partnering Agreement

Factor	Ask yourself...
Alliance/Partnership Objective	What do you want to accomplish together?
Supporting Infrastructure/ Management	What are the internal resources required to accomplish this objective?
Commitment	What kind of investment is being made – hard and soft resources? Value?
Expectations	What do you hope to gain from the alliance relationship? What kinds of risks are being taken?
Business Planning	Is business planning activity shared across multiple lines of business? Length of time?
Measurement	What are the metrics against which progress and success are measured?
Accountability	Is someone/a group accountable for the success of the alliance or partnering agreement?

Source: IDC, 2000

2.8.1 Lower Exposure to Risk

Partnering reduces the exposure that each company has to the possibility of failure. This technique is as old as capitalism. In today's high-tech economy companies are using partnering agreement from colonizing the sky to probing the depths of atomic structures.

A prime example is Iridium, a partnering agreement of electronics, aerospace, and telecommunications companies that launched sixty-six satellites into space and initiated the first round-the-world telephone service in late 1998. Iridium cost more than \$5 billion and filed for voluntary bankruptcy within a year. Many reasons for the failure have been offered. The most quoted is that the project was overtaken by technological and market trends that were not foreseen when the initiative was launched. Being at the leading edge of technology and aiming to serve a market that did not yet exist brought huge risks for Iridium. Motorola, the U.S. mobile telecommunications manufacturer, and its partners did well to lower their exposure to the possibility of failure. Eastman Kodak was one of five firms that formed Advanced Photo Systems, a ten-year research alliance that invested \$1 billion to develop a revolutionary new photo

technology. Microsoft's Bill Gates has teamed up with mobile phone pioneer Craig McCaw and Motorola to share in the next-generation Teledesic project.

2.8.2 Hedging a companies bets

Another useful feature of partnering agreements is that they allow companies to hedge their bets among two or more competing technologies. This is also a chief reason why alliances in the dot-com world proliferated so rapidly. In this strategy, not only is the company's exposure to failure in any one project reduced but, more important, its chances of succeeding somewhere are increased.

Microsoft uses this strategy too. The company partnered with a slew of companies offering competing solutions to address the coming convergence between the TV and the PC. No one knew exactly how this would occur. So Microsoft partnered with AT&T to spur the roll-out of high-speed Internet access over telephone lines, with Nextel Communications to develop wireless Internet access, and with Comcast to promote access over cable systems. It is likely that one or more of these options will pan out and that others will not. Either way Microsoft is likely to have at least one winning bet. It may then use this to raise the bar on competitors.

Alliances are most useful in hedging bets when there is uncertainty among competing future outcomes. This kind of uncertainty is common in the dot-com world, in which there are likely to be one or only a few winners. In these winner-takes-all markets, it pays suppliers, customers, and providers of complementary technologies to ally with several parties to secure a place in the triumphal parade.

2.8.3 Linking Markets

Companies sometimes form partnering agreements to connect local markets and, in the process, provide customers with broader geographic coverage. Consider Star and Oneworld in the airline industry. Both companies united a number of national airlines, each with a limited geographic footprint, into a global brand with integrated services such as frequent flier programs. Market-linking constellations are common in industries such as telecommunications, professional

services, and airlines where regulations or other market conditions make it hard for firms to expand outside the local market but where customers are more global.

2.8.4 Combining Skills

Companies also form partnering agreements to assemble a diverse basket of skills, sometimes to launch a totally new business concept. Consider the market for personal digital assistants, handheld devices that combine the computing power of a simple PC, the communications capability of a cellular phone, and the size, styling, and durability of consumer electronics. Not surprisingly, partnering agreements emerged that each contained at least one firm from each of these industries.

2.8.5 Building Momentum

Partnering agreements are also used to create market momentum, to persuade customers, suppliers, or competitors to adopt a new technology or business protocol. General Motors, Ford Motor, and DaimlerChrysler formed a joint venture to launch a Web-based components exchange, expecting their combined market power would attract suppliers to join. Although constellation agreements are not the sole means to create market momentum, multi-partner alliances can be a fast and effective way to persuade the market to move in a new direction.

2.8.6 Reducing Costs

On occasion, companies enter into partnering agreements to reduce costs. Some of these agreements are three- or four-way partnering agreements that serve the parent firms. In the mid-1990s, for example, three Japanese chemical companies folded together the manufacturing and sale of resin for plastic bottles in a bid to reduce costs and improve operating efficiencies. A more common form of cost-reduction partnering is the purchasing cooperative. In health care and other fragmented industries, it is not unusual for firms to form multi-partner alliances to exert pressure on suppliers to generate larger discounts.

2.8.7 Co-option

Co-option turns potential competitors into allies and providers of the complementary goods and services that allow new businesses to develop. The term *co-option* is defined in the sense that (a) potential rivals are effectively neutralized as threats by bringing them into the alliance and (b) firms with complementary goods to contribute are wooed, creating network economies in favour of the coalition. Both competitors and “complementers” need to be co-opted into coalitions. Motorola, for instance, needed the national telecommunication service operators in its coalition on both counts: to provide Iridium with traffic rights (complementer co-option) and to make them supportive of Iridium’s deployment and also unavailable to rival coalitions (competitor co-option).

2.8.8 Co specialization

Co specialization is the synergistic value creation that results from the combining of previously separate resources, positions, skills, and knowledge sources. Partners contribute unique and differentiated resources: skills, brands, relationships, positions, and tangible assets, to the success of their alliances, and alliances create value when those resources are co specialized, that is, they become substantially more valuable when bundled together in a joint effort than when kept separate.

Cospecialization becomes increasingly important, and more likely to be at the heart of a partnering agreement, as companies refocus on a narrower range of core skills and activities and as opportunities become systems and solutions rather than discrete. This makes the individual company less likely to be the sole source of the skills and capabilities needed for exploiting new opportunities.

2.8.9 Learning and internalization

Alliances may also be an avenue for learning and internalizing new skills, in particular those which are tacit, collective, and embedded and thus hard to obtain and internalize by other means. Core competencies are not for sale on an open market. When these skills can be learned from a partner, internalized, and exploited beyond the boundaries of the alliance itself, they become all the more valuable.

Additional Partnering advantages include the following:

- To receive a technological contribution or possibly a technological edge in the industry like the alliance between IBM and Apple to develop a new computer operating system that allows both hardware formats to communicate, or like Nynex and Philips Electronics who joined to develop screen telephones for residential use.
- Additional business to justify operating a production facility.
- Access to new markets both domestic and international.
- To differentiate oneself from the competition.
- Partnering in a poor economy or recession makes good sense, especially when sales are flat and prices are deflating.
- Mitigating competition from non-traditional sources through partnering.
- Just-in-time inventory purchasing and supplying as exemplified by the infamous relationship between Wal-Mart and Procter & Gamble.

Partnering can also provide the benefit of positioning for future needs not yet known to a company or the industry it plays in. Partnering can lead to a company assisting another to leapfrog its current industry leaders. This is possible through cooperating with newer firms more willing to pursue a riskier development strategy to gain market shares. This strategy can aid companies, large and small, in more rapidly and efficiently reaching their collective goals. Other partnering benefits include complementing individual skill sets through cooperative alliances, pooling of resources, economies of scale, financial stability, and bundling of a partner's goods and services.

Ultimately, the benefit of partnering with other companies is that it presents a solution to a company's challenges and objectives.

2.9 Ingredients required for successful partnering

Previous research in the social origins of partnering agreements has unearthed three main findings. First, the formation of partnering agreements is not independent of social structures and networks but dependent on a history of organizational and personal interactions. (Eisenhardt and Schoonhoven 1996; Heide and Miner 1992; Lazerson 1995; Levinthal and Fichman 1988; Parkhe 1993). Second, firms rely upon previous interactions and pre-existing networks to find potential

partners. (Gulati 1995; Gulati and Gargiulo 1999). Third, social networks generate norms of reciprocity, empathy, and trust across organizational boundaries.(Ring and Van de Ven 1992). The core findings of these research efforts is that companies activate pre-existing personal ties when they propose partner formation to prospective partners.

Partnering agreement performance hinges on a large and diverse set of key success factors, some of which are captured in Figure 2.7 below. A clear alliance strategy, more than any other factor shapes success. The importance of a clear alliance strategy is in part a function of the lack of institutionalized mechanisms to enforce the needed discipline, something that is not the case in other business development options. With internal growth, for example, most executives insist on keeping a tight connection to strategy, in part because the Board of Directors demands it. Likewise, companies are usually good at explaining the links between their strategy and acquisitions; the investor community demands that and punishes merger proposals that lack clear strategic logic. But hardly anybody demands that a partnership agreement be firmly rooted in strategy; alliances occur below the radar screen, so to speak. This shallow strategic foundation has resulted in some rickety alliances. And these alliances can be dangerous to company value.

Figure 2.7 Top Ten Factors for Alliance Success

1. *Have a clear strategic purpose.* Alliances are never an end in themselves; they are tools in service of a business strategy.
2. *Find a fitting partner.* You need a partner with compatible goals and complementary capabilities.
3. *Specialize. Allocate tasks and responsibilities in the alliances in a way that enables each party to do what it does best.*
4. *Create incentives for cooperation.* Working together never happens automatically, particularly when partners were formerly rivals.
5. *Minimize conflicts between partners.* The scope of the alliance and of partners' roles should avoid pitting one against the other in the market.
6. *Share information.* Continual communication develops trust and keeps joint projects on target.
7. *Exchange personnel.* Regardless of the form of the alliance, personal contact and site visits are essential for maintaining communication and trust.
8. *Operate with long time-horizons.* Mutual forbearance in solving short-run conflicts is enhanced by the expectation of long-term gains.
9. *Develop multiple joint projects.* Successful cooperation on one project can help

partners weather the storm in less successful joint projects.

10. *Be flexible.* Alliances are open-ended and dynamic relationships that need to evolve in pace with their environment and in pursuit of new opportunities.

Source: Yves Doz and Gary Hamel. *Alliance Advantage*. Boston: Harvard Business School Press, 1998.

Trust is the first partnering core value, it is the bottom level above which the foundation of the partnering process is built. Companies want their foundations to be built on rock rather than quicksand. What are the qualities that companies should exhibit and should also be evident in the potential partner companies?

2.9.1 Core Values required for partnering

Nine values exist which are core to the partnering process: Trust, tolerance, understanding, cooperation, growth, caring, commitment, mutuality, and synergy. James D. Bamford, Benjamin Gomes-Casseres and Michael S. Robinson (1996)

2.9.1.1 Trust

Although trust can be viewed as positive expectations regarding another's goodwill, trust is increasingly being conceptualized in multidimensional terms (Barber 1983; Lewicki et al. 1998; McAllister 1995; Rempel et al. 1985; Ring 1996).

Trust is defined as confidence, reliance, or resting of the mind on the integrity, veracity, justice, friendship, or other sound principle of another person or thing. It's also the glue that binds an organization together. Trust is necessary to move from inertia to action where partnering is concerned. When trust is embodied in a partnering agreement, risk is also present. Taking risks is necessary to build successful partnering agreements.

The failure rate of partnerships is significantly higher than that of single companies. (Bleeke and Ernst 1991; Das and Teng 2000). One key difference between single-company strategies and strategic partnering is the uncertainty attending the cooperation among partners. When firms pursue market opportunities on their own, there is little need to be concerned about the opportunistic behaviour of other firms because they are involved only in market transactions. In

partnering agreements, however, there is the risk of the partner not cooperating in good faith (namely, relational risk) in addition to the usual risk of unsatisfactory business performance (called performance risk).

Building trust is a journey rather than a destination. Barber (1983) and Gabarro (1978) stress the importance of competence in trust. A company should look for the following behaviours in their potential partner(s). In an effort to be a more trusting partner, these behaviours should also form part of the standard method of operations in a company. The following are trust-building behaviours, telling the truth, delivering on promises and expectations of others, walking the talk and acting with credibility, exhibiting authenticity and sincerity, being a positive role model, welcoming responsibility, avoiding offering excuses, presenting an ethical image, knowing when to compromise, helping other partners realize objectives, treating partners and employees with respect and dignity, being consistent and predictable, recognizing and reinforcing performance of others, being respectful of others time, following up regularly and offering helpful recommendations through relationship value updates.

2.9.1.2 Tolerance

It's unfortunate that the word tolerance has become a cliché in the business world that is too easily referenced when describing relationships. For partnering to be successful, this core value must be adopted and practiced by both partners. In a business relationship, it is not difficult to fall into the 'if only' trap. Being tolerant of a partner's (or partner organization's) shortfalls, flaws, foibles, and limitations allows a company to keep conflict from undermining the partner relationship. As long as intolerant attitudes prevail, conflict will be difficult to resolve.

2.9.1.3 Understanding

In several areas understanding is crucial to partnering agreement success. First, there is the need to comprehend what a partnering relationship is and understand how it works. Then, it is necessary to understand the needs of one's partner. Relationship value is created in this way. Companies must also understand that world or economic events can cause a need to change individual company goals. As goals change, the need to take a new direction in a partnering agreement can become evident. Partners must have a willingness to shift partner goals with changing needs or

economic conditions. Partners that demonstrate sympathy, patience, and acceptance usually are flexible enough to change with evolving conditions.

2.9.1.4 Cooperation

When two different companies are trying to achieve a joint goal the need for cooperation becomes evident. Much more is possible when the partners work together rather than separately with formal control of the processes put in place.

There are two main modes of formal control (Ouchi and Maguire 1975). Companies in a partnering agreement can control either by measuring the behaviours or the outcomes of these behaviours. Measuring behaviour is to ensure that the process is appropriate, while measuring outcomes only is to rely on an accurate and reliable assessment of members' performance.

This is only possible if partners are willing to adopt an attitude of cooperation.

The concept of a company looking out for itself is limiting. Through cooperation, companies could use their collective skills and cunning to capture the market, make a profit and achieve their partnering agreement goals.

2.9.1.5 Growth

Growth is an underlying motivator in most partnering arrangements. Without growth as a core value, a company will be of less value to their partner as their partner would be to them. Financial growth frequently leads to organizational growth.

Charles Babcock, in *Inter@ctive Week* stated, "Analysts see 'post-PC' information devices proliferating like silicon cockroaches in the next four years (2000–2004). A report issued by International Data Corporation (IDC) estimated that information appliances, web terminals, handheld computers, Internet TV set-top boxes and other devices, will grow from \$2.4 billion in 1999 to a \$17.8 billion market by 2004." Growth is a result of a company's vision and sharing. Selecting and recruiting partners that exhibit a tendency toward both is essential to successful partnering.

2.9.1.6 Caring

Caring enough about a partnering agreement to make organizational behaviours adjustments will usually break down the roadblocks to successful partnering. Caring is the element that allows each

company in the partnering agreement to feel that they will be heard and remain reasonably safe from criticism. Caring also means that each partner goes the extra mile to work with and communicate with the other partner in a style or method that serves that partner. Learning a partners' jargon so communication is effective and efficient goes a long way in showing caring. Learning a partners' unique selling proposition and helping them to do it better also shows caring. Partners should care enough about each other to help each other achieve their respective and joint goals.

2.9.1.7 Commitment

Commitment in a partnering relationship equals each company making sacrifices and agreeing to compromise on certain individual goals. Commitment to continual improvement will allow the respective companies to deliver the value their partner deserves to receive. A partner with a low-level commitment will rarely contribute the results the other partner desires.

A partnership is defined as 'novel form of voluntary inter-organizational cooperation that involves significant exchange, sharing, or co-development and thus results in some form of enduring commitment between the partners' (Gulati and Gargiulo 1999: 1440)

2.9.1.8 Mutuality

For successful results, partnering has to be an institution where individuals, organizations, and companies come together to both give and receive. A successful relationship is possible only when all parties concerned and involved give and get. In the process of collaboration, all parties both give and receive value based on their strengths and needs. Mutuality does not necessarily mean equal; it means that all involved are getting their needs met.

2.9.1.9 Synergy

The benefits of a successful marriage and the desired results of a synergy are very similar. Partnering has allot in common with the institution of marriage. Both institutions require the entire core value list to be in place. And both offer benefits that far outdistance the possibilities available to each singularly. As in a marriage when a partnering agreement is formed, the first synergistic result is one plus one equalling three. The sum of both parts is more than each individually. This is a successful formula for partnering.

Gulati and Gargiulo (1999) examined where partnering agreements stem from and found that the probability of partnering between specific firms increases with their prior collaboration, common third parties, and joint centrality in the partner networks. Partnering agreements are only as strong as the weakest member. When the weakest member does not have the desire to win, it becomes nothing more than a leech. Having another company hang on and benefit from another's efforts, while contributing nothing, is not an equitable relationship. Having prior experience with a company increases the confidence in the synergies between the two. Synergy is a crucial ingredient of a successful partnering agreement.

The following three questions offered by Jack Welsh, reveal his universal principles of partnering at work or in any situation:

- Where do the circles of interest between the parties overlap?
- How can one party help the other be successful so that, in turn, they can and will help the first party?
- How can one party advance the others held interests in such a way that will help the initial party advance theirs?

David Elliott, senior vice president and chief administrative officer at Technicolor, believes that the following criteria are necessary for a successful partnering agreement:

- Forward thinking
- A risk-taking environment
- Customer focus
- A culture of change, creativity, and customer service

2.10 The Partnering Process

It takes much work and a defined process for partnering agreements to form, successful partnering doesn't just happen. To improve an organization's performance, production, profitability, customer satisfaction etc. the company must do more than just fix a problem. They must dig deeper and change the inherent culture of the company. The following steps will help a company evaluate their current processes when embarking on developing a framework for partnering:

Start -> Analysis -> Education and contemplation -> Selection -> Organisation and planning
-> Agreement or contract - > Agreement Managing -> Partnering agreement monitoring and
maintenance (ongoing)

2.10.1 Analysis

This step involves the study of the organizational needs through internal-analysis. Monitor, observe and identify the areas where improvement is required or desired. Formulate an organizational evaluation method which will then need to be completed by your current partners, customers, suppliers, employees, and management. This will help a company to identify its core strengths and weaknesses and then work on them respectively. Which strengths might be valuable to a potential partner? What weaknesses should the company take steps to mitigate?

Process consultant Dan Fisher suggests that analysis can equate to quantification of your projected performance after the partnering agreement is formed. He recommends four quantifications:

- Quantify the company's performance to date. (Identify core competencies, weight them, and self-evaluate the performance.)
- Quantify the competition's performance to date.
- Quantify the company's strengths, weaknesses, and develop a strategy to win. Part of the strategy should be to find and build a partnering agreement with another company which has the ability to fix/repair your weakness.
- The partnering agreement builds its own *action plan*; the plan becomes performance-based. Remove subjective evaluations, hard feelings, and so forth.

2.10.2 Education and Contemplation

Identify other industries that have embraced partnering and study the individual companies that have been successful in partnering. Then study what worked and what did not. If partnering was not successful, understand why not. Ask questions of your company such as: What will it take to change your organization? What are the potential obstacles? Is building a partnering engagement model a feasible objective? Has collaboration worked in the past? What competencies do you desire in a partner? What criteria will you use to select partnering candidates?

2.10.3 Selection

Selection is a critical step; all the company's future efforts will be built on this foundation. Take time to gather information, research and learn about those companies that are being considered as partnering candidates. Consider the following questions: What are their strengths and weaknesses? What affect would they have on our business? Are the company cultures and core strengths complementary? Can the people who will make the partnering agreement work get along? What is the growth opportunity, short and long-term?

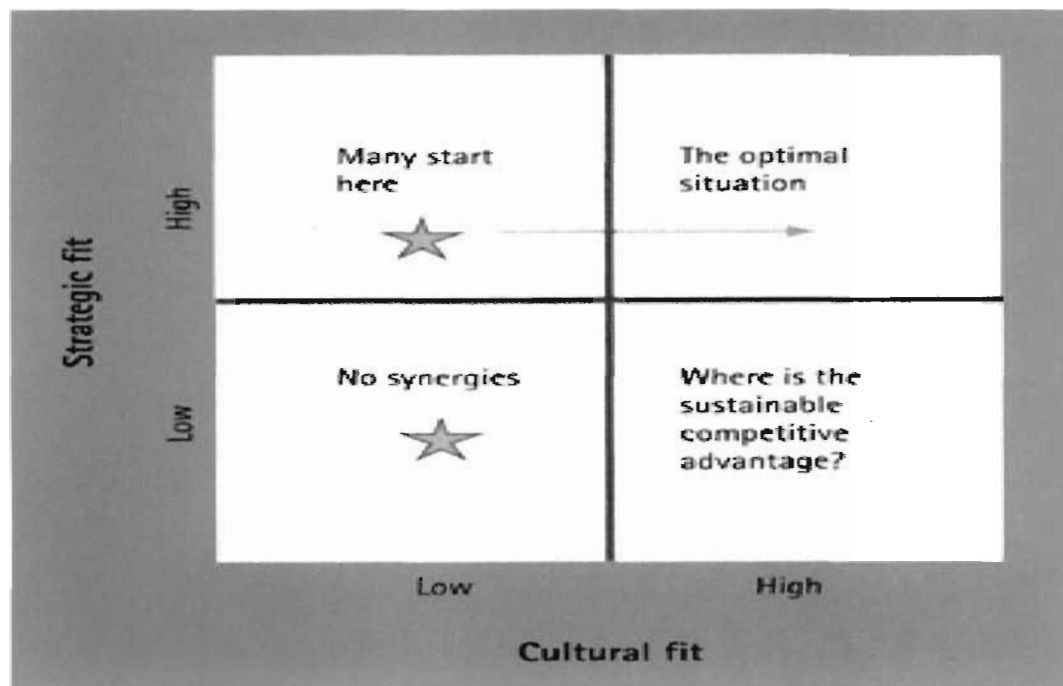
The creation of a strategic alliance does not of course guarantee its long-term survival. Research by the consultancy firms McKinsey and Coopers & Lybrand (now PricewaterhouseCoopers) has shown that there is no better than a 50 per cent survival probability for alliances over a five-year term. This conclusion is, however, put in perspective when considered against Porter's (1987) research into the success of acquisitions, which concluded that the success rate of acquisitions is even lower. Undoubtedly the 50 per cent failure rate of alliances could be considerably reduced, if firms learned the managerial skills necessary to develop and maintain successful cooperative relationships.

One of the keys to a successful alliance agreement is choosing the right partner. This requires the consideration of three basic factors:

- the synergy or strategic fit between the partners;
- the cultural fit between them; and
- the existence of only limited competition between the partners

The best alliances should aim for both strategic and cultural fit. The importance of strategic fit and cultural fit can be illustrated in Figure 2.8 below:

Figure 2.8 Strategic and Cultural fit for Alliances



Source: Prahalad, C. K., and Hamel, G. (1990). The Core Competence of the Corporation, Harvard Business Review, 90: 79–91.

Strategic Fit

A high degree of strategic fit is essential to justify partnering. Strategic fit implies that the core competences of the two companies are highly complementary. Whatever partner is sought, it must be one with complementary assets, i.e. to supply some of the resources or competences needed to achieve the partnering objectives. These complementary needs may come about in a number of circumstances such as reciprocity, efficiency, reputation and legal requirements.

Strategic fit, of some form or another, is normally the fundamental reason that the partnering agreement is set up in the first place. It is important that it is clearly at the outset, and that it continues to exist for the lifetime of the alliance. Strategic fit implies that the partnering agreement has or is capable of developing a clearly identifiable source of sustainable competitive advantage. Garrette and Dussauge (1995) classify strategic fit into two forms of alliance, scale (where two competitors come together to achieve scale economies) and link (where two companies at different points in the value chain link up to reduce transaction costs). Whichever partner is sought, it must be one with complementary assets, i.e. to supply some of the resources

or competences needed to achieve the partnering objectives. Cooperative arrangements require the satisfaction of complementary needs on the part of both partners, leading to competitive advantage.

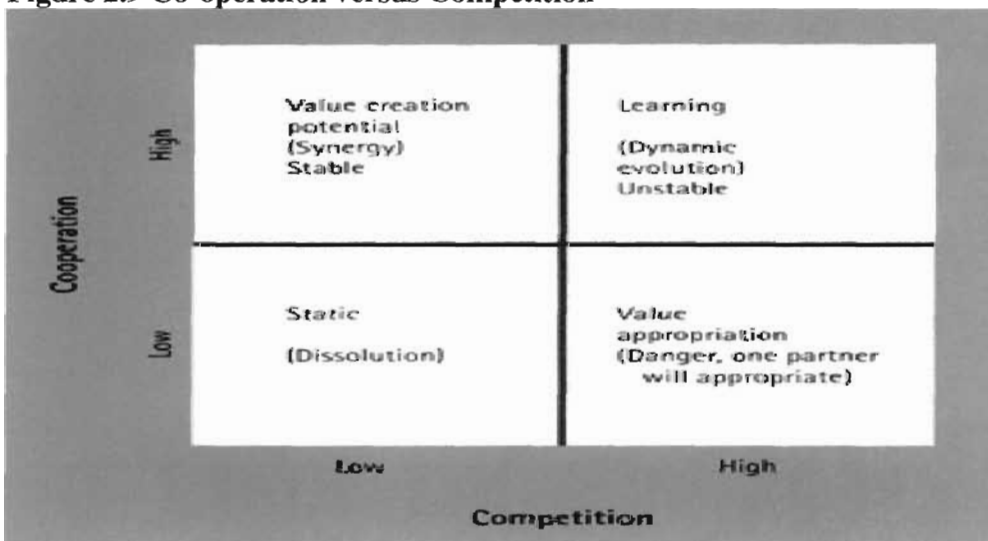
Cultural Fit

In order for the agreement to endure, cultural adaptation must take place, leading the most successful alliances to graduate to the top right-hand box of Figure 2.8 above. Cultural fit is an expression more difficult to define than strategic fit. In the sense used here, it covers the following factors: the partners have cultural sensitivities sufficiently acute and flexible to be able to work effectively together, and to learn from each other's cultural differences. The partners are balanced in the sense of being of roughly equivalent size, strength, and consciousness of need. One is not therefore likely to attempt to dominate the other. Also, their attitudes to risk and to ethical considerations are compatible. Cultural difficulties are very frequently cited as the reason for the failure of a partnering agreement, but the question of compatible cultures is rarely addressed when an alliance is being set up.

Limited Competition

It is also important that the partners are not too competitive. Almost all alliances involve both cooperation and competition. See Figure 2.9 below:

Figure 2.9 Co-operation versus Competition



Source: Porter, M. E. (1985). *Competitive Advantage*. New York: Free Press.

Partnering agreements in the top left-hand box should be relatively stable, since their areas of cooperation are far stronger than those of competition. Alliances in the bottom left do not have strategic fit and are likely to dissolve over time. The top right-hand box alliances may be very dynamic, and significant mutual learning may take place. However, the high level of potential competition between the partners renders them ultimately unstable, and they are likely to have a future of either complete merger or break-up to reduce this competitive tension. Partners in the bottom right-hand box have strong competitive characteristics and only weak cooperative ones. Such a situation is likely to lead to the appropriation of key skills by one partner or the other. It is generally fairly simple to analyse the situation at the outset of a partnering agreement, and avoid the dangerous bottom right-hand box. However, situations change with time and alliances can slip unnoticed into this box after starting out in the more healthy top-level boxes. Such changes need to be guarded against by constant monitoring of the situation.

Partners with knowledge, understanding, and commitment should be selected. A company can only partner with another organization that wants to partner. To think otherwise would be a big mistake; a 'partnering agreement' that is forced or coerced is doomed for failure.

A company's partnering foundation has to be built on the strongest material, the best possible partner. A customer-oriented culture is critical to the success of the partnering alliance. The greater the sophistication of a company and its officers, the more likely the company will enter into a partnering agreement. Long-term thinking has to be embraced. Partnering is rarely a quick fix, but rather a sound long-term business strategy. The proper targeting and selection of companies, large or small, that can aid an organization in rapidly and efficiently reaching their goals of research, technology, production, marketing, growth, customer satisfaction etc.

Successful partnering relationships take time and nurturing to develop. Over the last decade many relationships have failed due to the sloppiness or quickness of selection. Time and effort must be poured into research and due diligence up front. Selecting your partner properly reduces the chance of a company needing to exercise their exit agreement.

"Our starting point is usually, how is this partnering agreement going to create value and how aligned are our interests?" says Andrew Stem, CEO of Usinternetworking, an e-commerce and ERP application service provider.

The following list provides the 10 critical qualities a company should exhibit and look for as they make their partner(s) selection. Rigbee (2000)

1. *Wants to win.* It's always better to partner with a winner. The relationship is only as strong as its weakest link. Partners must have a desire to win, to want to do better, to be useful in creating synergies.
2. *Knowing that they are ultimately responsible for their own success.* Organizations will partner because the value of synergy is understood and is a good choice. Partners need to know what partnering includes and what it does not include. Accountability goes in all directions; a company should never always assume that their partner is looking out for their best interests.
3. *Is an active listener.* To truly keep in touch with the heartbeat of a partnering agreement, active listening is a critical skill. This helps both companies to know what is required of them when the other side is falling behind in its commitments. Alertness from both sides equals mutual success.
4. *Understands and cares about what drives the partners' businesses.* Successful partnering is all about synergy, both sides must consistently give value to the partner relationship. A company must make relationship bank deposits before it can demand withdrawals. The only way to add value is to know what the other partner considers valuable personally and professionally. Otherwise, effort is being expended, resources are being used, money is being spent, yet no value is being created.
5. *Responds well to, and acts on feedback.* The only possibility for a forward and beneficial movement is when partners are willing to accept counsel. No company or its employees is smart enough to know it all. Open two-way communication is essential for successful partnering.
6. *Is flexible, especially when events or circumstances are not what were expected.* If a company does not have the ability to change direction when circumstances and the environment changes unexpectedly, a partnering agreement will suffer and ultimately fail.

Flexibility is absolutely necessary because things will never be exactly as it is expected to be.

7. *Is trustworthy and operates with integrity; respects everyone.* As per the marriage analogy people do not change after a marriage, and this remains true with a business partnering agreement as well. It is consequential to determine this and agree on compromises before an agreement to partner is reached.
8. *Seeks win-win arrangements and solutions.* Partnering is not a zero-sum relationship. Rather partnering is a relationship of synergies developed through collaboration. A company must win for the sake of the partnering agreement. Both partners must win. This is necessary to motivate a desire for the relationship to continue. The partnering advantage and overall competitive advantage becomes stronger as the relationship matures and grows over the years.
9. *Understands that Partnering is a relationship of interdependence.* Dependence or independence is not what partnering is about. Overlapping circles of interest give rise to a successful partnering relationship. The areas that overlap are the zones of mutual value for both parties. The greater the overlap, the greater the value that can be presented to each party. The overlapping area is also the area of interdependence. Working together for mutual improvement is one of the great benefits received from partnering.
10. *Great Chemistry.* Everything else can be in place, but without good chemistry, a partnering success will be limited. Find a partner that has a snug fit in terms of attitude, culture, goals etc. and synergistic collaboration will flow naturally.

The above provides a simple partnering potential indicator with which to compare candidates. While this should not be a company's only criterion, it does provide a starting point.

2.10.4 Organisation and Planning

Once a short list of potential partners is formulated, both parties can establish mutual goals. It can then be agreed as to which company gives and gets what, when, where, and how. Mutual performance measuring instruments should be developed. This is the opportunity for identifying, understanding, and putting together the possibilities for a partnering agreement. Internal and

external personnel should be involved in developing not only the partnering structure, but also the road map.

The success of the blending of cultures is pivotal to the success of any partnering agreement; great pains should be taken to ensure this achievement. Emphasize the importance of understanding and access to, each member of the partners' staff. A convenient communication system for all partners should be established, especially decision-makers. Plan and put into place procedures to keep relationships between key people of the partnering companies open and constantly alive.

Fisher (1999) suggests that "Procedures and progress can be measured (weekly, monthly, etc.) and briefed to the partnering agreement management. The briefing is done by covering the criteria completed or not completed, and performance is measured as a percentage of completeness, i.e., 5 of the 10 criteria (subtasks) to be completed by this week are done, therefore 50% complete. The partnering attitude should be shared and embraced by all levels of both organizations.

Planning should be forward looking towards a long-term relationship; strategies that will sustain and nurture the relationship should be adopted. Phasing in the partnering relationship could be a preferred strategy, as this method will allow partners to have a 'get-acquainted' time. This can assist in the identification of reaching milestones successfully or identify the need to reassess before moving on to a higher level in the partner relationship. A pilot program could even be initiated before a full blown partnering agreement is agreed on.

2.10.5 Agreement or Contract

The agreement, handshake, or contract is what we are concerned with here. "Partnering doesn't mean a legal partnering agreement; it can be done on a handshake," says Bob Sostilio, director of the Converging Digital Peripherals Group of CAP Ventures, a market research firm.

Whatever form it may take, the partnering agreement should spell out conflict, dispute resolution, and exit strategies. An agreed-upon set of procedures should be put in place to help resolve the issues that may arise during the partnering agreement. Inevitably, there will be a need for a mechanism to handle things like price increase discussions, inability to meet commitments, and dispute resolutions.

A clear agreement on what the partnering agreement goals are must be developed and a process to measure them is imperative. A formal mechanism for partner members to identify the goals, milestones, and turning points crucial to the success of the relationship must be agreed upon. The partnering agreement should establish the terms and conditions under which partners will resolve questions of opportunity, accountability, and risk. In whatever form that is agreed upon, the final agreement should be reviewed and agreed upon by all parties involved or affected.

2.10.6 Partnership Agreement Managing

The management of a partnering agreement consists of two primary factors:

1. the systems, mechanisms, and organization structure chosen to operate the partnering agreement;
2. the attitudes of the partners towards each other.

Much the same concerns apply to a network, but in a rather looser way. Although the mechanisms chosen will obviously vary widely according to the cooperative form chosen, the attitudes necessary for success are similar in all forms. The relationship of the partners, as in a marriage, is a key to the success of the arrangement. It may not be a sufficient factor by itself, since the successful alliance needs positive quantifiable results, but it is certainly a necessary condition. An appropriate attitude has two major components: commitment and trust.

Lack of commitment can kill a partnering agreement in a very short time. Alliances have failed because the partners have not allocated their best people to the project, have placed it low on the priority agenda, or have set up too many relationships, in the hope that at least some would succeed. These attitudes have the seeds of failure within them.

Trust is the second key factor for survival. Unless this develops early on in the partnership, the alliance soon ceases to be the best organizational arrangement for the partners, as they spend increasing amounts of time and resources monitoring each other's activities as a result of their mutual lack of trust. Trust does not imply naive revelation of company secrets not covered by the partnering agreement. It implies the belief that the partner will act with integrity, and will carry out its commitments. The appropriate attitude must be set from the start.

Goal compatibility is vital to the long-term success of a partnership. Of course, the specific goals of the alliance will evolve over time. However, if the goals of the partners at a basic level fundamentally clash, the alliance cannot but be a short-term opportunistic affair. Compatibility does not necessarily mean the partners' goals must be identical. There is no fundamental incompatibility in having different sets of goals so long as they do not conflict, as did those of Courtaulds Coatings and Nippon Paint when both conceived of the ambition to be the world number one in marine paints.

In collaborative agreements the 'boundary spanning' mechanism is the area crucial for success. The interface between the companies is the area where culture clashes, or conflict of objectives, will probably show themselves first. The establishment of a 'gateway' executive or office, as a channel for all contacts between the partners at least during the settling down period of the alliance, is a good way to avoid unnecessary misunderstandings.

In all circumstances, a good dispute resolution mechanism should be established before the alliance begins to operate. If this is left to be worked out as necessary, there is a high risk that its absence will lead to a souring of the relationship between the partners at the ultra-sensitive early stage of the partnership.

An effective system for disseminating partnering information widely within the partner companies is a further important factor for ensuring that both or all partners gain in learning to the greatest degree possible from the cooperative arrangement. Finally procedure for divorce should be considered at the outset of a partnering agreement in the event of a wish by either party to end the alliance, since this will increase the feeling of security by both parties that an end to the alliance does not represent a potential catastrophe.

2.10.7 Partnering Agreement Monitoring and Maintenance

A regular review of the mutual goals and performance is necessary. Meetings between the partners to evaluate the relationship should be held regularly to decide on questions such as should the alliance be upgraded, maintained, or downgraded? Should new goals (short and long-term) and performance expectations be established? Are new measurement systems available?

Monitoring of customer complaints and responses to the partnering agreement and its performance is important. This information will assist in reviewing the total value the partnering agreement delivers. Eisenhardt (1985) has suggested, based on Thompson (1967) and Ouchi (1979) that the choice of an appropriate monitoring mode depends on two task characteristics, task programmability and output measurability.

Through the monitoring process, the total value package of the partnering agreement can be reviewed. When one party understands what their partner needs, and provides it to them, the party can in return can also ask for extra value, thereby improving the total value package. The idea here is to limit the negative conversations partners have about one another when expectations are not met. Unfortunately, unrealistic expectations are common in partner relationships. The damage and can be limited if unrealistic expectations are identified early through regular monitoring meetings.

Gary Klco, senior purchasing manager at Cargill says, "We measure partner suppliers against each other based on the result of scores. We only use it with our preferred partners, and it's used primarily as a management tool. It's gone a long way in improving service levels and reducing stress because partners want to hear from us as a problem occurs."

2.11 Partnering Evolution

The definition offered by the Oxford English Dictionary for "evolution" is 'any process of gradual change occurring in something, especially from a simpler to a more complicated or advanced state'. In this regard the evolution of alliances may be taken to mean merely that they develop in scale, scope, or form over time. Since the development takes place in relation both to the partners and to the environment of their cooperative operations, evolution is a dynamic rather than simply an additive process. The most effective partnering agreements seem to be those that show evolution over time, rather than merely a competent pursuit of their objectives agreed at set-up.

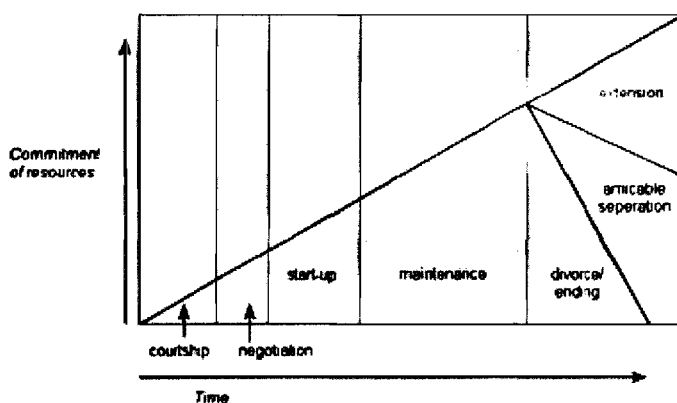
Achrol et al (1990) describe the four stages of partnering development as entrepreneurship, collectivity, and formalization, leading to domain elaboration. This means that they view alliances as typically fluid and creative at the outset. This stage is followed by one of the integration of

alliance personnel to its purpose, where a defined sense of mission is developed. The formalization stage involves the development of systems and procedures; ultimately the domain-elaboration stage is one of self-renewal, where the alliance's flexibility is renewed, its scope redefined, and a new and expanded quest embarked upon.

Lorange and Roos (1992), who distinguish three main phases in the development of partnering agreements, formation, implementation, and evolution, stress that evolution is far more important to an alliance than control by its partners. There is a need to change the control emphasis of a strategic alliance as it evolves from the hands-on physical control mode to a more decentralized financial control form. It goes without saying that the executives involved in the management of the partnering agreement from the two company sides must be sensitive to how they should shift their emphasis on control over time' (Lorange and Roos 1992: 121).

Outcomes depend crucially upon the ongoing relationships between the partners and the partners' changing strategic imperatives. Murray and Mahon (1993) depict alliances as exhibiting a life cycle as illustrated in Figure 2.10 below.

Figure 2.10 A life cycle model of Alliance Evolution



Source: Murray and Mahon (1993).

The two axes of the figure indicate time and commitment of resources by the partners. Alliances begin with a courtship stage, followed by detailed negotiations and an agreement is developed. Then follows stage three, the start-up phase, in which joint activity begins, and substantial resources are committed. Murray and Mahon describe the next stage as the maintenance phase, as the organizations continue to work together on an operational basis. This is, the phase when the ultimate success of the alliance will be tested, as it gains in responsibilities, continues in steady

mode, or declines in importance and becomes marginalized by the partners. The fifth stage of the life cycle is described as the ending, which can take a number of forms: (1) the end of the specific relationship with extensions into other areas of mutual interest; (2) an amicable separation with no immediate further joint activity; (3) a hostile parting, inhibiting the likelihood of any future joint activity. The time line for the fourth stage may, of course, be short or extended to an infinite length, depending on circumstances.

Schacht (1995) takes issue with Murray and Mahon's view that the options for the ending phase of an alliance are limited to extension, separation, or divorce. Continuing at reduced levels, for instance, is a real possibility. Schacht argues that neat classifications of alliance evolution are oversimplified. Instead, he seeks a more complex and contingent prognosis of alliance evolution, tying it more closely to organizational learning. 'A more comprehensive international strategic alliance life cycle model . . . would have to recognize that, when new projects are initiated, prior progress along the various learning curves need not be lost. Subsequent projects could start at higher levels of organizational knowledge about technologies, opportunities and systems/procedures' (Schacht 1995: 62).

Schacht emphasizes the need for an active stance towards managing the life cycle of an alliance and relating it to the possibilities for organizational learning, if a required pattern of alliance evolution is to be achieved. He also stresses the role of organizational politics in influencing the evolution of organizational learning. The existence of the 'not-invented here' syndrome, for example, may have a strong impact on reducing the achievement of organizational learning, and thus inhibit the evolution of the alliances.

Bleeke and Ernst in 1995 in an article in the Harvard Business Review claim that there are six possible outcomes to partnering agreements including the dissolution of the alliances and the swallowing of one partner by the other. Only one solution of these was that the partnering continue successfully largely unchanged over an indefinite time period, and it is certainly true to say that two companies running an enterprise may well lead to an ultimate outcome of the simpler 'one firm running it' type. However this is not necessarily the case.

One key factor in the life of an alliance seems to be that, if it ceases to evolve, it starts to decay. The reality of a successful partnership agreement is that it not only trades competences but also demonstrates synergies. Whereas the resource dependency perspective identifies a key part of a

company's motivation for forming an alliance, the successful evolution of that alliance depends upon the realization of synergies between the companies, and the establishment of a level competitive advantage for the partners, that each could not as easily realize alone. Important conditions for evolution include:

- perception of balanced benefits from the agreement by both partners;
- the development of strong bonding factors;
- the regular development of new projects between the partners; and
- the adoption of a philosophy of constant learning by the partners.

The benefits usually outweigh the downside if a company is careful and methodical in its search for a partner, and in the elements of the partnering agreement arrangement. The road to a successful partnering agreement is filled with obstructions that create fatal flaws in individual company strategies. Knowing the steps to follow which lead to successful partnering and how to select the right partner who has the ability to successfully adopt the partnering paradigm philosophy is the first challenge of Partnering.

2.12 Partnering pitfalls

Partnering, as with any activity, has its unexpected challenges and pitfalls. In adversarial relationships you must always watch your back. In relationships based on trust or what is perceived as trust, one can be lulled into a false sense of security. While a company needs to protect itself from these dangerous situations, it does not want to create them by exhibiting the wrong attitude toward its partners. Developing mutual interests precludes the possibility of interest conflicts, thus increasing a sense of reliability (Bhattacharya et al. 1998, Creed and Miles 1996). It is in this sense that Rempel et al. (1985) emphasize that motivations are an important source of trust. Benign motivations and mutual interests suggest that one is likely to care about the other's interest. Identifying and nurturing mutual interests is important in all types of alliances.

Conflict should be dealt with immediately. This is the best chance for moving forward in any relationship. But, improperly challenged, conflict can be the downfall and lead to the failure of a partnering agreement. Conflict emanates from the five core areas of values, goals, facts,

procedures, and misinformation. Conflict doesn't have to be a road block to a successful partnering agreement if both partner members are willing to resolve the conflict at the core level in a timely manner. The resolved conflict can lead to a stronger relationship through improved communication. Unfortunately, conflict that is left unresolved leads to fatal flaws that will erode a relationship.

Some of the more common areas of conflict in partner relationships are accessibility, culture clashes, hidden agendas, management tenure, poor communications, and unrealistic expectations. Many advocates and consultants for partnering agreements believe that the partnering agreement mortality rate is around 50 percent.

If a company waits to build partnering relationships until all the potential pitfalls are unearthed, its industry will pass it by and many opportunities will be lost. Companies, whom an organization might have been considering as a possible strategic partner, might become aligned with their competition in order to seize those opportunities before they become lost to them as well. A realistic approach is required; partnering agreements evolve to whom and what they desire to be. However, if core problems are suspected upfront, it is probably an accurate assessment and the chances for a successful partnering agreement are greatly diminished. Partnering will not change people and companies. What it does do is to remove the facades and to expose the good and bad.

Trust and the belief that partnering starts at the top management are elements that are crucial to the success of a partnering agreement. Absences of these two concepts are frequently quoted as causes for failed partnering agreements. Dwane Baumgardner, chairman and CEO at Donnelly, feels strongly about what it takes for partnering to work. He says, "If you have management that is not operating on the basic belief that it has to start at the top, those beliefs have to be held and permeated throughout the organization. For example, with employees, you have to believe your people can be trusted, that they want to work together in a supportive and cooperative fashion. The same must be true with another company. You have to believe when you form a strategic alliance that they will operate with the same motive that you operate. If you don't have those beliefs, I think you're going to run into problems."

Value is an extremely important issue in a partnering agreement. In most cases partners will have core values that are conflicting. When they concern issues like trust and integrity this is a huge problem to overcome. Corporate culture clashes, employee turf protection, and resistance of certain employees to new ideas can wreak havoc on efforts to maintain a prosperous partnering agreement.

If one of the partners does not completely embrace the principles of partnering, big challenges occur. This can include top-level executives or even supervisory and functional employees in departments, divisions, or regions within a partnering organization. For example, DuPont believes that if a contractor is looking only to maximize his profits on only one job, then partnering with that contractor is not for DuPont because the company knows there will be problems in the relationship.

Because the dynamics of a partnering agreement are constantly changing, inflexibility of partners can cause a partnering agreement to fail. Each member must be willing to compromise, especially in times of change, for a partnering agreement to work. A partner making a partnering commitment, but having a hidden agenda that would be destructive to the partnering agreement is equally disastrous. A partner deciding that it doesn't want to follow through on a commitment or one that does not have the capability to fulfil its commitment also spells problems for a partnering agreement. "Some companies are so reluctant to partner that they don't give enough access, and the partnership never gets off the ground because there is never any real cooperation," says Accenture's Nick Palmer. If the partner agreement is to thrive, partners have to leave room for the exchange of ideas needed for innovation and growth-and avoid having too many contractual controls and restrictions.

Complacency of the part of either partner is an insidious relationship-killer. The required level of confidence in partner cooperation differs according to the partnering type; it is high in joint ventures, moderate in minority equity partner agreements, and low in non-equity partner agreements. (Das and Teng 1 998) However, continuously asking questions in a way that encourages the other partner to relate their possible performance problems and shortcomings is essential and shows that caring is inherent. Questions like "What haven't we done lately?", "What is it you really need from us?" Dependency on a partner can put a business at risk. If a company

becomes the weak link in the partnering agreement and the relationship no longer delivers value to the other partner, more likely than not, the other partner will discontinue the partnering agreement to limit its exposure to possible risks.

Caught up in partner-forging ardor, companies share resources and team up on R&D. But what happens when the partnering agreement dissolves and new allies turn back into rival forces?

A partnering agreement is a "less-than-arm's length relationship," points out Warnock Davies, an alliance consultant and author of *Partner Risk*. In partnering, he explains, companies need to share a great deal of information, and that means they run the risk of having partners take advantage of company secrets. Often, he says, companies may be sharing more than they realize, not just information that is "related directly to the immediate transaction, product, or project but also information related to their strategic plans and objectives."

A situation may also arise where a company might lose control of a technology or best practice to a partner who later becomes a competitor. Two companies may be on the path toward a partnering agreement but it does not work out. A problem may arise where one of the companies may learn of the other company's best practice or innovative technology advancements during the partnering agreement talks. After the failed attempt to partner the company may duplicate the other's best practice and take away its competitive advantage in the area. Non disclosure agreements during partnering agreement talks are essential between the individuals involved.

Relinquishing some control with the expectation of greater shared returns can be a difficult waiting game for both parties in a partnering agreement. Additionally, resources can be pulled in too many directions based on collective partner decisions. Companies must be certain that they have spare capacity and that they can spare the resources devoted to the partnering agreement. If not the success of the entire operation can be harmed.

A true relationship problem poses itself in the form of a lack of third-party cooperation. All the primary members of a partnering agreement will have to give a little for the agreement to work and processes must be put in place to manage third party vendors.

If a partner receives unfavourable or harmful media coverage it can harm the reputation of the partnering company. This is because partners are usually pulled into the picture and assumed

guilty by association. Real or perceived, image and reputation are critical to any company's success.

Working with global partnering agreements is sometimes complicated and time consuming. Contracts with an overseas market, for instance, often take a long time to finalize. By the time a company gets started, especially in the technology industries, its competition may have already gotten started due to better, quicker partnering agreements. If a company is already behind and has developed a partnering agreement with an organization that is weak and slow, it will only bring the company down faster and harder. There certainly is difficulty in communicating across various time zones. Solving problems quickly when the partnering factory is located half way around the world is hard enough, but when it includes a language barrier as well, that just makes it a more formidable task. Monitoring is complicated in global partnerships, Gencturk and Aulakh (1995) found that the type of monitoring control used in foreign markets is often determined by internal and external sources of uncertainty which are not often clear.

Much time, energy, and resources will be necessary to commit to and nurture a new partnering agreement. The closer the planned relationship between the two companies, the greater the importance of the linkages between them. A company may find itself in a situation of being a small company partnering with a much larger company. A challenge in working together will involve each company's representatives. Usually, top executives of the smaller company can make decisions on the spot. Unfortunately, the employees of the giant company may have to take a proposal up the chain of command. This sometimes slows progress to a snail's pace.

Reporting structures and decision processes must be formulated upfront. This provides role specifications for everyone in the system (Heide 1994). It facilitates the process of supervision and monitoring of the partnering agreement. Authority within the partnering agreement needs to be established.

Culture clashes are a frequent partnering challenge. The failed alliance of IBM and Apple is a typical example. The infamous 1991 announcement promising cooperation eventually gave rise to Taligent Technology and Kaleida Labs. Unfortunately, the two companies could not coexist due

to differences in culture and the partnering agreement eventually gave way to a quiet 1996 break-up.

Putting all a companies partner relationship eggs in the basket of only one executive or manager is not always a smart idea. The management tenure of a partnering agreement can signal success or failure. If the company has a one-person relationship, what happens if that person is promoted out of the area, leaves the company, or even dies? Building relationships with several key contacts in the partner's organization ensures continuity and keeps you up to date with all areas of the partners business.

Staffing and training are important measures to regulate and standardize behaviour in partner agreements (Geringer and Hebert 1989). With proper staffing procedures, partners will be in a position to select people whose behaviour is more in compliance with expectations. They can also persuade people to behave properly through training (Cyr and Schneider 1996).

Inertia, or not having the emotional ownership to get the partnering agreement truly started, is a true pitfall. Add this to the confusion of having too many choices and ways to create a partnering agreement and some companies never do get started. The two sides of the sword are: If a company waits for everything to be perfect, it never will be. And if not enough energy is poured into an intelligent choice, your partnering agreement could be doomed from its inception.

2.13 Managing Risks in Alliances

Management lore on partnering is full of anecdotes of messy relationships and of allies that turned into rivals. It must be emphasised that a poor structure or partner choice can doom a partnership agreement from the start, nor that insufficient attention to post-deal partnering management can ruin a promising relationship. It may be useful to recap how companies can manage the relationship risk in their partnering agreements:

Avoid co-opetition as the risk of conflict is as high in alliances as it is between rivals.

Define the scope carefully, even among companies that are not direct rivals, to borrow a phrase from the poet Robert Frost 'good fences make good neighbours'.

Do not ignore governance, the careful structuring of the alliance in advance of the deal and continual adjustment thereafter is key to building a constructive relationship.

Build multiple bridges by enabling relationships among partners to grow at many levels of their organizations.

Do not trust 'trust', personal chemistry is good and needed, but it is no substitute for monitoring mechanisms, cooperation incentives, and organizational alignment.

Success begins at home, without a support system within the internal organization, companies external alliances are doomed to fail.

Do not stare at the downside, watch for the upside, failed alliances do not achieve what they set out to do, but successful alliances achieve much more than their original goals planned for.

These guidelines for partnering success have one thing in common: they treat the partnering agreement as an evolving organization embedded in a dynamic strategy. Managers everywhere have seen how excessive focus on the deal can lead to neglect of the strategy behind the deal. The effective use of a partnering agreement to manage risk requires a dynamic perspective if it is to be a success.

2.14 Partnering Models

2.14.1 Unisys

It was not a pretty picture, recalls Patricia Higgins, who was president of the communications market sector group at Unisys in 1995, describing the state of the company's partner program at that time: "Our partners perceived our partner policies as poorly defined. Expectations were unclear. We weren't leveraging our strengths. Our sales force was reactive and often inaccessible. Our business units were not partnering as a unified team to serve clients. And we were missing opportunities for our business, for our partners' businesses, and for our clients' businesses."

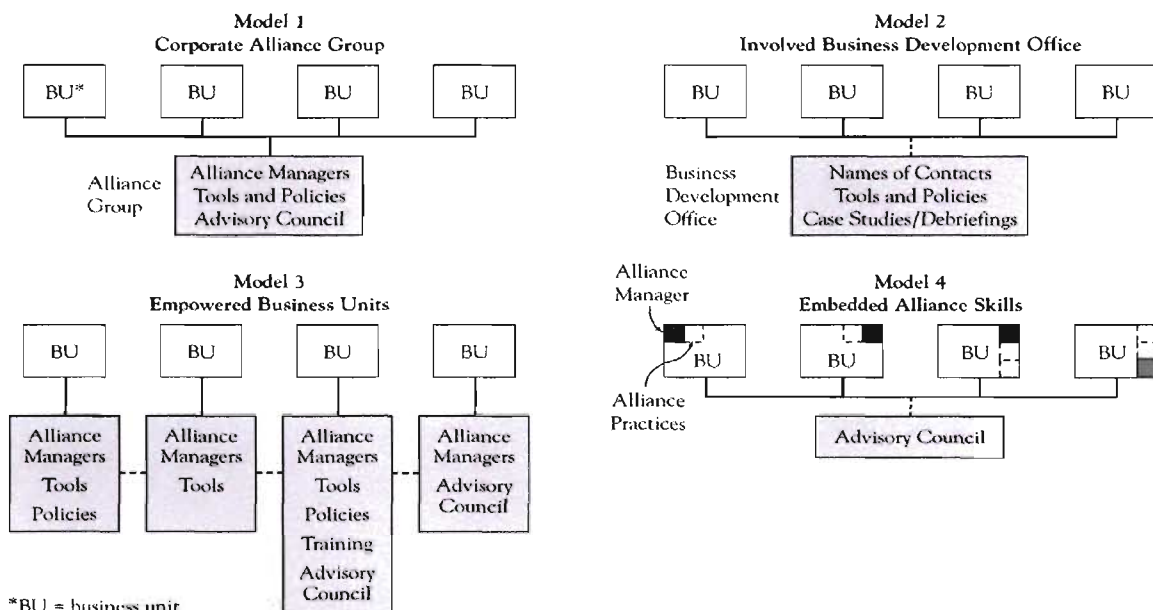
The company immediately went to work to extract the group from such an ugly and unproductive existence. This was important work for Unisys: the company had forged 130 managed alliances in the previous five years, ranking it among the top twenty in alliance formation in the Fortune 500. And partnering agreements promised to become even more important to the company in the future. With clients in over a hundred countries, limited financial resources, and the need to offer

customers total product solutions, partner agreements seemed to be the only realistic way for Unisys to compete and to grow.

Unisys began by surveying its customers and partners, asking their opinion of Unisys products and services that were created or delivered through some form of inter-firm collaboration. The responses isolated a major problem: The origin of the problem was the absence of any single contact point for a given partner agreement. “The left hand had no idea what the right hand was up to,” explained Higgins.

Over the years, the company had tackled this problem in different ways. At one time or another, they had developed different organizations that struck a balance between central coordination at headquarters and local authority at business unit levels (see Figure 2.11 below).

Figure 2.11 Unisys – Four models of co-ordinating Alliances across the corporation



Source: The Alliance Analyst: Unisys, Back from the Brink.

At one extreme lay the corporate alliance group model, in which a staff organization at headquarters was charged with coordinating alliances across the corporation, setting policies, and providing tools to business units (Model 1). One drawback of this model was that the corporate alliance group could lose touch with business realities at the local levels and might begin to impose rules that did not serve the immediate needs of the business units. On top of that, in an age

of slimmer corporate bureaucracies, the fact that the group would be a pure cost centre was a disadvantage.

One response to the cost-centre problem was to build the alliance function into staff groups that already existed, so that no new bureaucracy was needed (Model 2). This was the model, in which the corporate business development office took on the task of assembling and distributing the company's best practices with alliance management. A drawback of this approach, however, was that the group had other functions at the same time; in particular, a group like corporate development tended to be oriented toward acquisitions and deals and be less involved in ongoing management of business ventures.

At the other extreme of the centralization-decentralization spectrum in managing alliances across the corporation was complete devolution of power to the business units (Model 3). At one point, Lotus Development had such a model. The idea here is that local units be empowered to design and manage their own alliances, perhaps with tools developed centrally but subject to little oversight from the centre. The obvious drawback of this model is that it could lead to precisely the problem facing Unisys in 1995: alliances formed by different business units would not be coordinated with those of other units; at the worst, they might even be at cross-purposes to each other.

Unisys took a different tack, aiming at central coordination and consistency without adding to the bureaucracy. "Probably one of the worst things we can do would be to establish a whole host of alliance managers and support staff only to determine later we wanted to take them away," Higgins told her staff. "That could cause even more strain on an alliances." Higgins also kept the Unisys alliance organization embedded in its various business units, not off on its own in a staff department. The result (Model 4) tended to combine the best of both worlds, alliances across business units were coordinated centrally, but decision-making power on day-to-day issues lay squarely in the lap of local business units.

The Unisys model puts a lot of responsibility in the lap of the relationship managers: they develop and lead the implementation of the strategic plan; they manage and grow the partnership; they enlist the support of various parts of Unisys; they allocate resources, manage costs, form cross-company teams, and coordinate alliance activities across businesses and continents.

These relationship managers are empowered and can command respect when requesting resources or support from various business units in order to solidify and enhance the relationship. It also sends a strong signal to the rest of the organization about just how important the partnering program is. The corporation has made a commitment to put talented people in these positions because they view the success of these alliances to be directly related to the success of Unisys.

“There is a formal communication process; there is an advisory board; there are regularly scheduled meetings which formally review and measure the alliances; and there are executives in charge of alliances.” But the process is flexible. “The communication is far more informal than formal,” explains Higgins. “We put a formal process in place, but still believe that, at least for large corporations, the informal communication channels are probably the most effective.”

The Unisys corporate partnering model is built around three core beliefs. The first was the idea that alliances that spanned multiple business units needed a designated relationship executive. Second, that executive should reside in the business unit with the greatest interest in that relationship. And third, cross-divisional communication was best kept informal.

Such multidimensional complexity demanded coordination. “We not only established a relationship manager for each,” explained Higgins, “but also defined selection criteria, as well as guidelines, policies, and practices for these partnerships.”

The new model not only helped create better new alliances, it also transformed established relationships. “In the old model there was little coordination, absolutely no focus, and few opportunities to leverage our combined strengths,” says Higgins.

2.14.2 Lotus Development

Entering the mid-1990s, Lotus Development had a poor reputation as an alliance partner. It had a dominant market position and proprietary products. “We were conquerors,” Hemang Davé, Lotus’s former head of alliances, explained in 1995. “Our attitude was that we had Lotus 1-2-3 and others needed us. We had terrible follow-up on partner requests, and so much personnel turnover that even a single alliance negotiation could, as the revolving door swung, be handled by multiple Lotus executives.”

The problems stemmed in part from a lack of clarity around Partnering strategy. “Alliances were almost always optimized around a press release,” Davé recalls. “They were advanced by corporate dealmakers who never had enough time to understand the full potential value of any alliance. It was all about seeking hero value.”

The alliance strategy was uncoordinated. No single internal person or group had oversight for partnering activities. As a result, outside firms were occasionally granted exclusive agreements although it made little sense in Lotus’s wider strategy. More commonly, outside firms received custom-made alliance contracts, although the level of managerial effort to write such contracts was completely inappropriate for the amount of business that relationship was likely to generate for Lotus.

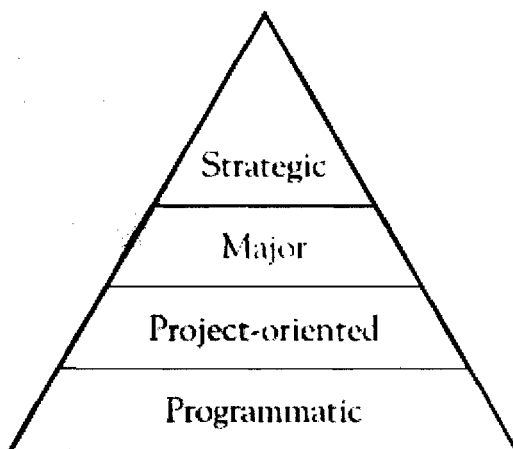
The market demand for Lotus Notes began to sizzle and they were utterly unprepared for it. Unlike earlier Lotus products, Notes required all sorts of custom application development. It also demanded far more attention to customer planning, installation, integration, and after-sales service. “We just couldn’t get Notes to market quickly enough, nor could we provide all the support Notes demanded,” says Steve O’Neill, Lotus vice president of alliances from 1995 to 1996. “For every \$1 of Notes business, there is probably \$15 to \$20 worth of ancillary business, everything from providing the hardware, training, support, right down the line. We simply couldn’t provide that. We needed to find partners who could.”

When Lotus CEO Jim Manzi and Bob Weiler, the SVP for sales, marketing, and support, realized this, they made a decision to transform the business model to one that depended on partnering agreements, and to invest in an alliance infrastructure. No more hodgepodge approach to alliances. No more inconsistency. And no uncontrolled alliances. Hemang Davé was given a charter to build an alliance organization. Davé became Lotus’s first-ever vice president for strategic alliances. “I took the job on the condition that senior management would allow me to mortgage the short term for Lotus’s long-term benefit,” Davé recalls. It ended up working so well that one of their partners, IBM, decided to pay a big premium to acquire Lotus.

2.14.2.1 The Lotus Alliance Pyramid

A task force was created made up of a dozen or so members from all over Lotus and assisted by a consultancy firm, this group met every other week for nine months. The aim was to develop a coherent partnering strategy, including the tools and processes needed for success. One critical tool developed was the new Lotus alliance pyramid (Figure 2.12 below) which created a tiered structure for the company's 10 000+ partnerships and partnering agreements. This enabled people know how much time and resources to devote to each one of these alliances.”

Figure 2.12 The Lotus Alliance Pyramid



Source: The Alliance Analyst: Lotus Straightens House and Langer on Lotus.

The Lotus alliances fall into this pyramid as follows:

Strategic: These are long-term alliances that transform the Lotus business model and touch multiple business functions. Such an alliance requires substantial investment in technology development, sales and support organizations. The firms expects the relationship to last for at least five to ten years. A separate vice president is appointed to govern each of these relationships and make sure that it has the attention and support it needs to prosper.

Major: These alliances are long-term and multifaceted, but do not play a role in changing the Lotus business model. Major partners include hardware companies that bundle Notes with their computers and provide marketing, sales, and customer support, as well as system integrators. These partners receive custom-written contracts and their own Lotus relationship managers. The latter forms a substantial portion of the staff the alliance unit.

Project-Oriented: These were alliances are single-faceted, almost always in the pure technology realm. Just as a pharmaceutical company might align with a biotech firm, Lotus links with a series of small entrepreneurial firms in the hope of generating product innovation.

Programmatic: The final group of partners, and by far the largest in numbers, are the programmatic relationships. These are alliances that are managed as a group and entail no customization, the bulk of which are simple resellers. To govern and manage these relationships, Lotus created a separate unit known as the Lotus Business Partners Program and appointed a company vice president to oversee it. With the pyramid in place, the task force started to develop corporate alliance boundary conditions, simple guidelines for how Lotus would approach alliances. They created thirty-five 'rules of thumb'.

One rule of thumb is to make sure that a partnering agreement would account for at least 10 percent of both partners' revenue in the affected area. The reasoning is that such revenue levels lead to commitment and help ensure senior management attention.

Another rule of thumb is to be channel neutral. Lotus do not want to form alliances that simply move business from one channel e.g. simple resellers to another e.g. system integrators. Nor does it want one type of channel partner to be able to undercut another solely based on price.

A third rule of thumb is to build personal contacts that were broad enough to make the alliance not totally dependent on a single individual. Success depends on broader relationships.

The Lotus partner program also included an alliance organization, a corporate home for many of the alliance staff, tools, systems, and processes. The alliance group was located in the sales and marketing organization and was led by a VP of alliances. It contains several directors and many relationship managers. At one level, the unit assumed the role of traditional business development, conceptualizing and initiating deals, and gathering, housing, and disseminating corporate wisdom on alliances but is also has an ongoing coordination and management responsibility for the alliances it forms.

As companies depend more on partnering agreements, pressures grow to build a collaborative core, an institutional capability to form and manage alliances. Lotus Development did just this,

creating the tools, processes, staff, and organizational structure needed to orchestrate its large portfolio of partnerships.

2.14.3 FED-EX

David Payton, Federal Express's managing director of strategic alliances, was unsentimental about alliances. While other practitioners waxed poetic about trust, marriage, and the art of the alliance, Payton was terse. "There is no art to it," he claims. "It is all science."

Indeed, Federal Express, one of the world's leading logistics companies, has methodically built an impressive portfolio of alliances. The company's alliances fall into five categories: distribution, electronic marketing, technology, logistics, and co-locating.

Their intense focus on partnering agreements produced some systematic thinking on a number of issues, including choosing the right partner, matching the objectives of the alliance with the right structure, and prioritizing alliances.

2.14.3.1 The Process:

Choosing the partner/s:

The first step at Fed-Ex is to determine what the company needs from a partner. "You have to look at your strategic objectives and base your choice of partner on a clearly defined, specific set of needs that have to be filled," Payton notes. What knowledge, skills, services, products, and technologies must the partner have? FedEx has a list of those that are mandatory and those that are optional. As the groups of candidates are reduced to a handful, the company considers corporate culture. Is the potential partner the type to make investments for future growth, or is it completely focused on the bottom line? Do the companies have a similar approach to corporate management, R&D, leadership, and decision making? FedEx also looks for any problems that the potential partner has that might be transferred to FedEx.

Once the alliance team chooses a partner, the deal is taken before an alliance steering board composed of executives from all over the company: marketing, IT, legal, sales, and operations. The board members review the deal on its proposed merits as well as in light of their own

needs. This means that if the board endorses the alliance, its members agree to commit resources to and champion the partner in their own functions and units.

2.14.3.2 Structuring the Deal

As part of the process for evaluating an alliance, the FedEx alliance board also looks at the structure of the relationship. FedEx believes that the main goals of the alliance should have a strong bearing on the decision. For FedEx, alliances tended to have one of four main goals linked closely to their business strategy: cost or risk reduction, knowledge generation, market expansion, and new technology acquisition. Under each goal, the company developed a list of appropriate structures (Figure 2.13 below). For example, FedEx believes that the best structures for knowledge generation are joint development agreements and joint ventures.

Figure 2.13 Common Alliance Structures at Fed-Ex

<p>Cost or risk reduction</p> <ul style="list-style-type: none">▪ Outsourcing▪ Distribution agreement▪ Licensing agreement▪ Development agreement▪ Joint venture <p>Knowledge generation</p> <ul style="list-style-type: none">▪ Joint collaborative team▪ Joint development▪ Joint venture <p>Market expansion</p> <ul style="list-style-type: none">▪ Distribution agreement▪ Joint venture <p>New technology acquisition</p> <ul style="list-style-type: none">▪ Licensing agreement▪ Development agreement
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Source: "The Cool Rationalist," The Alliance Analyst (June 1998)

2.14.3.3 Prioritizing the Relationship

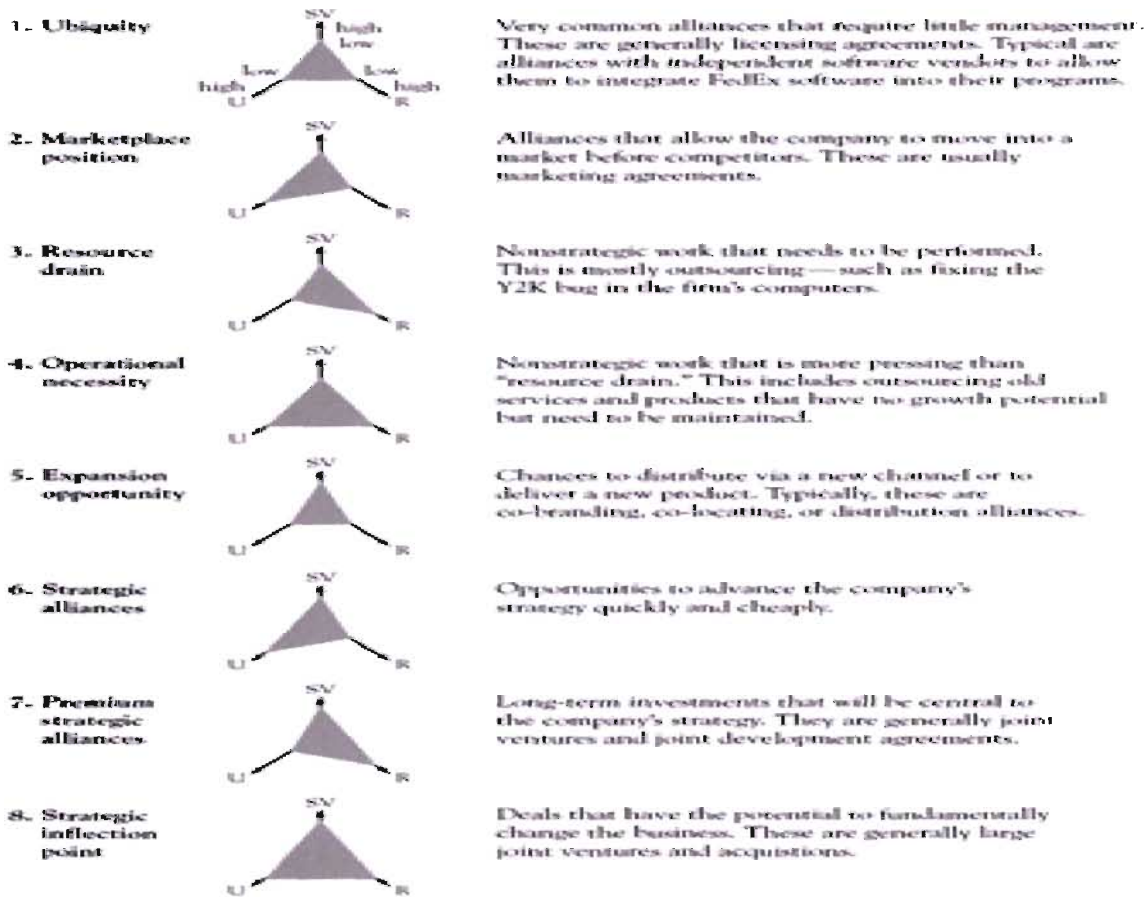
Determining the importance of the alliance is also essential to FedEx. According to Payton: “We have many more alliance opportunities than we have managers to pursue them. The company has to have a way to prioritize.” FedEx’s solution is a mapping system. This tool plots partnering opportunities along three dimensions: Strategic value, Resource requirements, and Urgency. Each variable can only be labelled as high or low. The result is eight possible combinations, shown in Figure 2.14 below. Each combination has a name and is associated with certain types of alliances.

The mapping system is intriguing. The method has two main benefits: it forces executives to think about whether an alliance was worth doing and it gives senior management a sense of which alliances in a large portfolio of deals deserves the most attention and resources.

As a way of evaluating partnering opportunities, the mapping system makes explicit what most executives understand implicitly, the need to know how an alliance fits strategically, how much it will cost, and how quickly it needs to get done. Perhaps the greatest value is found in the system’s ability to classify the company’s existing alliance portfolio. In this respect, the mapping system is a distant cousin of what some software companies like Lotus and others have done. These companies group their alliance portfolios into tiered pyramids, with a few crucial alliances at the top and the masses at the bottom. This allows senior executives to know which alliances they must focus on and which can be delegated to lower levels.

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Figure 2.14 Alliance Mapping at Fed-Ex



Note: SV = Strategic value; U = Urgency; R = Resource requirements

Source: The Alliance Analyst: The Cool Rationalist

The process may lack the elegant simplicity of the pyramid model, but the pyramid model is a coarse screening device, suitable only for companies that have few different sorts of alliances. Lumping together licensing deals, joint ventures, and co-locating agreements in one tier, for example, may do nothing more than create confusion. FedEx slices its deals more finely, providing a more useful guide for executives.

FedEx's prescription is unlikely to suit all alliance practitioners. Most pharmaceutical firms, for instance, will undoubtedly have their own way of classifying the swarms of licensing agreements and research collaborations they form each year. Fed-Ex's unsentimental posture pertaining to the

partnering process; however, is something even the most sophisticated practitioner would be wise to adopt.

2.14.4 Eli Lilly

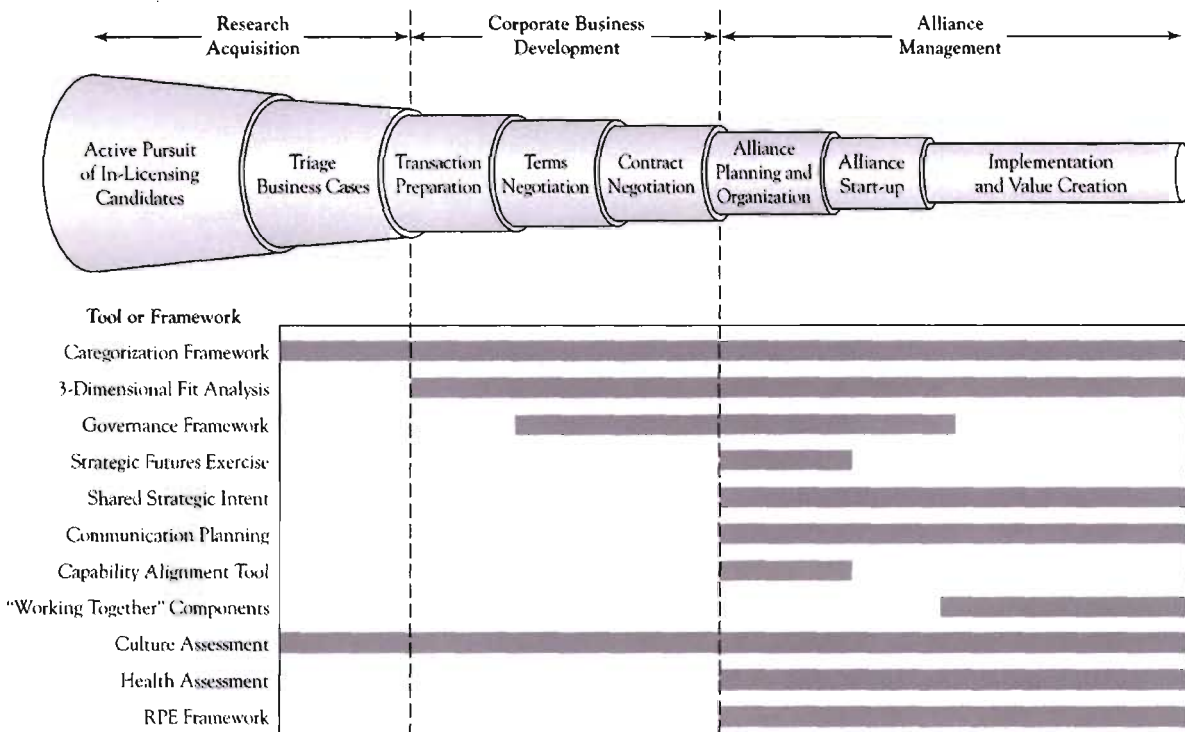
During eighteen months in 2000 and 2001, a team of executives at Eli Lilly & Co. focused on a single task: improving and institutionalizing the company's capabilities in creating value from its many alliances and partnerships, especially those with smaller biotech firms. Their mission was to invent a new culture and process that was critical to the company's future. This was a charter from the very top of the corporation.

If partnerships have been and will be increasingly important to Lilly's future, what was management doing to improve the organization's partnering capabilities? In response to this type of question, the company came up with a system with which they eventually ran and managed all corporate partnering agreements, the Lilly Alliance Management Process (LAMP).

LAMP is a road map used to streamline and simplify the partnering process. Lilly was too serious about a capability in alliances, and therefore needed to systematize its approach, training managers, creating management structures, and assessing success according to predetermined criteria, all with the goal of making alliances work better.

LAMP was the logical result of much pre-work and research, illustrated in Figure 2.15 below. The first new component was the Office of Alliance Management (OAM), which is the integrator, intermediary, and catalyst for best practice performance. If alliances are to work, there has to be an organization responsible for making them work.

Figure 2.15 Process and Tools in the Lilly Alliance Management Process (LAMP)



Source: 'Managing Alliances at Lilly,' In Vivo

The biggest responsibility for the OAM in any particular alliance is to serve as the advocate for the collaboration itself, not for one side or the other. Its aim is not simply to get the best results for Lilly but to get the best results for the partnership. This image of the organization as a kind of alliance ombudsman represented a major shift for Lilly, as it would for any organization, large or small, accustomed to concentrating on its own interests.

The team also made the roles and responsibilities of those involved in leadership of alliances clear to people inside and outside Lilly, in order to empower them to do perform their functions effectively as analysis showed that lack of clarity for key leadership roles was one of the leading elements of alliance failure. Every alliance has its own three-person management lead team responsible for the collaboration's success, an alliance champion, an alliance leader, and an alliance manager.

Alliance managers use an extensive tool kit that Lilly has developed to assist them in their roles. The kit documents processes, tools, frameworks, and approaches that the manager can use to

support the alliance leader and the alliance itself at each phase of its development. Among other things, there are tools to clarify and gain consensus on the strategic intent of the alliance; to identify, align, and leverage the capabilities of both partners; to map and align the work processes of each partner so that they could more effectively work together; and to assess an alliance's health.

Another of the OAM's important tools, is a database called Partners, aimed at a third component of the alliance management plan: to capture, codify, and systematically share what the OAM was learning about partnering skills. Lilly knew it wanted the OAM to be a learning organization, which also meant being a teaching organization. To achieve that, it needed to specify learning as someone's clear responsibility and develop a tool to support it.

The database facilitates training, helping those involved in alliances develop their skills in using the fundamental tools and processes. Training is part of the formal orientation sessions at the beginning of a new alliance. The OAM also provides help on an as-needed basis.

In its first year, the OAM trained nearly five hundred Lilly managers and research scientists. It also held its first "alliance summit," where external alliance experts and Lilly senior management reinforced the importance of alliances to an audience of almost a hundred key managers in Lilly and discussed best practices that they could help instil in the organization. The point these sessions reinforced over and over again: create an appropriate partnering culture for the company.

The OAM and Lilly senior management are convinced that they are making Lilly a more partner-friendly organization. At the level of individual partners, their annual Partner Health Surveys showed that the new management processes are working. Survey respondents indicated that Lilly that it had materially improved its ability to recognize and resolve difficulties in a partnership, and that it did so at an earlier stage, before they could become barriers to success. The qualitative evidence is also compelling. For instance, the company's alliance partners more and more frequently call the OAM to ask its counsel on the best way to work with Lilly; they clearly view the OAM as an honest broker.

Lilly's team believes that this kind of brand management, promoting the idea that Lilly cares about its partnerships, will in the end win them more key partners. Economically, they believe, the

deals are going to be much the same: valuable new products and technologies would command relatively similar deal prices. But Lilly is betting that its edge in the market place will be non-financial: it hopes to stand out in its ability to make partnering successful.

2.14.5 IBM PartnerWorld Channel Program

Program Strategy

- \$500 million investment in “SMB Advantage”. Program is designed to assist channel partners in reaching the small-to-midsize business market
 - Aggressive marketing effort in SMB is more a repositioning of its current strategy than development of a new initiative
 - Program is designed to help regional ISVs attract mid-market customers
- Value Advantage Plus initiative was launched as a sales incentive built on IBM’s value net strategy
 - Rewards partners for selling proprietary solutions with IBM software and eServer hardware lines to SMB customers
- “Start Now” go-to-market offerings are now designed specifically for SMB customers
 - Start Now offerings attempt to provide IBM and its Partners with solutions that allow them to gain entry to SMB organizations early with a focus on developing deep relationships with SMB customers to continue to market solutions as the customer’s business progresses

Requirements

- Customer Satisfaction Surveys have replaced References for PartnerWorld for Software, Developers, and Systems and Services. While the enforcement date and minimum satisfaction scores have not been determined in all cases, the move to Customer Satisfaction Surveys over reference requirements supports IBM’s initiative to focus on end-customers needs and partners ability to execute effectively
- Participation in PartnerWorld for Software has moved from a location to a country-based membership. In addition, in the case of PartnerWorld for Software, even though competency requirements can be aggregated by country, there has been no increase in certification or revenue attainment requirements

Benefits

- Reimbursement caps through the “We Pay Offering” have increased for Advanced Business Partners and Members with an accepted Technical Certification
 - The maximum reimbursement levels for Advanced participants are now \$15,000 (USD)
 - The maximum reimbursement levels for Member participants are now \$6,000 (USD)
- Access to “Run Your Business Software” at the Member level is now dependent on having a prerequisite Technical Certification

Sales Tools available to partners on the IBM PartnerWorld Program

- | | | |
|-------------------------------------|---|---|
| Lead Management | ▶ | <ul style="list-style-type: none">▪ The PartnerWorld Lead Management (PWLM) application is an on-line tool designed to facilitate the uniform lead collection, lead passing and recording of sales lead feedback from IBM's Business Partner (BP) sales channels worldwide. Available to all PW Tracks, all tiers. Functions included:<ul style="list-style-type: none">▪ Web based Profile for BP to see / initiate updates▪ Programmed BP Selection Tool for IBMers to objectively assign leads to best profiled and best performing BPs▪ Web based application that guides and tracks BP's lead actions / status reporting 24 hours per day, 7 days a week▪ Reports Leads' status / results back to IBM's internal opportunity management systems for sales, campaign, and brand management use▪ Keeps BP "scorecard" and favors responsive, skilled, higher level "closers" for future lead assignments |
| Market Research | ▶ | <ul style="list-style-type: none">▪ On-line research from IDC and MSI Consulting group. Research includes: presentations, white papers, channel publications, executive summaries and seminars. Available in value package for PW for Developers, all tiers▪ Tool to add IBM marketing links to partner Web site. IBM will pay each time a user from a partner Web site visits ibm.com and buys an eligible product. Available to all PW Tracks, all tiers. Commissions:<ul style="list-style-type: none">▪ 3-4% All IBM Personal Computer hardware products, features, options▪ 3% Refurbished Personal Computers▪ 3% eServer xSeries products, features and options▪ 4% eServer pSeries (640 models only) with its features and option▪ 5% Selected Software products▪ 4% Selected Storage products which include: LTO Ultrium Tape, LTO Tape Systems and FAStT 200Technology▪ 4% IBM Learning Services courseware and classroom offerings▪ 3% Printing Systems |
| IBM Affiliate Program | ▶ | |
| IBM Fee Offering | ▶ | <ul style="list-style-type: none">▪ A tool that allows IBM Business Partners to earn fees (up to 10% of the purchase price) when their marketing efforts result in their end-users purchasing eligible IBM Personal Computer Products directly from IBM at prices and terms established by IBM. Available to all PW Tracks, all tiers. |
| Business Partner Connections | ▶ | <ul style="list-style-type: none">▪ An online, self-service tool designed to help partners connect with other IBM Business Partners who possess complementary skills. Can sort by skills, knowledge and/or location or by specific solutions skills. Available to all PW Tracks, all tiers. |
| Customer Reference Database | ▶ | <ul style="list-style-type: none">▪ The Customer Reference Database (CRDB) is a sales enablement tool that contains information about customers who have agreed to be a reference for one or more IBM hardware products and/or software products. Description of the customer, their business needs, a description of the solution implemented and the benefits the customer received. Available to all PW Tracks, all tiers. |
| Sales Compass | ▶ | <ul style="list-style-type: none">▪ Compass is an on-line repository of resources, job aids, educational materials and expert advice that can help partners identify opportunities, develop sales strategies and locate valuable online sales support resources. Available to all PW Tracks, Advanced and Premier tiers. |

- Sales Simulator** ▶ ▪ On-line sales tool helps partners articulate to potential customers the benefits and business value of e-business solutions. Available to all PW Tracks, all tiers.
- eBusiness Value Database** ▶ ▪ On-line tool that provides sales information based on hundreds of interviews in all geographies in the major industries where IBM sells. Available to IBM Certified for e-business Business Partners.
- Signature Sales Resource** ▶ ▪ On-line resources including sales tools, marketing collateral, customer references, presentations, online demonstrations, differentiators, competitive information, and links to other Web sites. Available to all PW Tracks, all tiers.
- Competitive Advisor** ▶ ▪ An on-line business assessment based structured interview tool that identifies customer's business problem areas and maps them to potential ISV solution remedies. Available to all PW Tracks, all tiers.
- Small Business Portal** ▶ ▪ On-line tool for small business solutions, support and services. Offers ways to make more money and the education it takes to attract customers and close sales. Available to all PW Tracks, all tiers with a focus on Small Businesses.
- IBM Profiler for eBusiness** ▶ ▪ On-line tool that produces a report containing a gap analysis of current and target stages of adoption by business unit, short and long-term planning suggestions, and business value assessments. The report profiles selected business units, with comparisons to other businesses by industry, and contains links to collateral, deliverables and suggestions for solutions. The report can be customized to include the partners offerings and collateral. Available to all PW Tracks, functionality mediated by tier .
- Executive Assessment Tool** ▶ ▪ On-line selling tool that helps Partners identify prospects and develop a business case, present proposal, and close new business. Available to all PW for Software participants, all tiers.

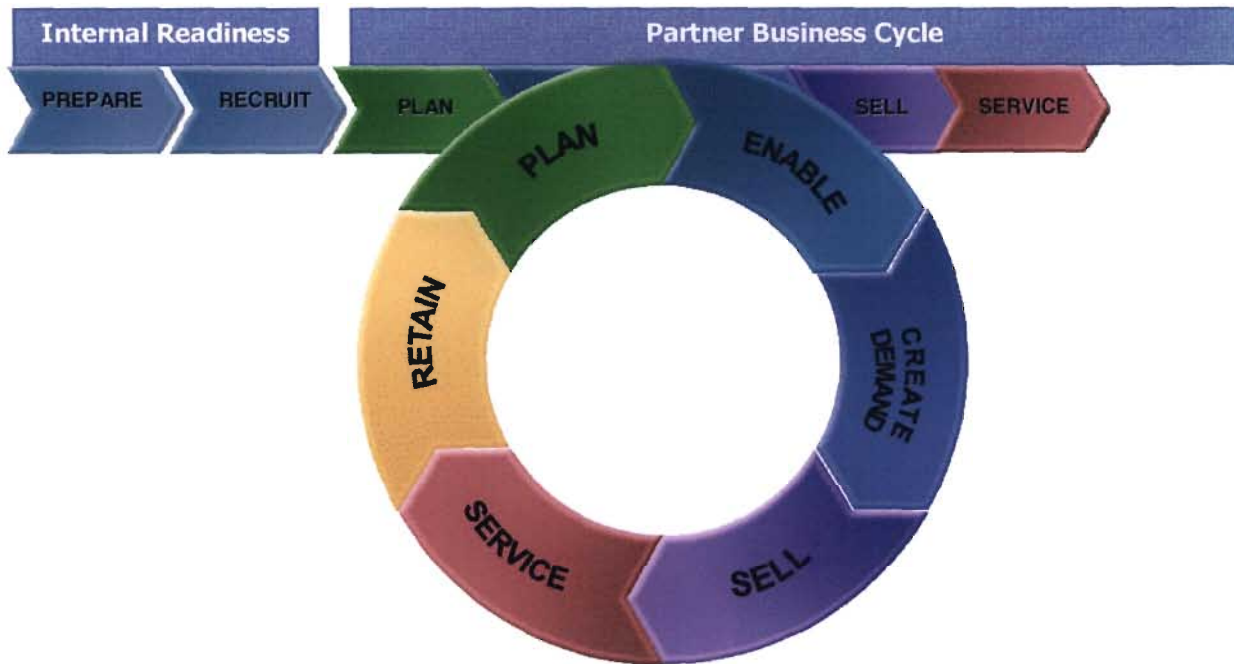
Marketing Tools available to partners on the IBM PartnerWorld Program

- Partner Plan** ▶ ▪ Collaborative tool which simplifies and speeds the planning process by providing a step-by-step process designed to foster success in achieving joint co-marketing revenue
- Campaign Designer** ▶ ▪ On-line tool that helps create customized, end-to-end marketing campaigns. Allows partner to customize direct mail, Web banners, print advertising and other campaign
- Dun & Bradstreet** ▶ ▪ On-line database tool providing access to marketing information. Availability: Discounted access to PW for Developer members, all tiers.
- RTM Channel Advantage** ▶ ▪ On-line tool and methodology designed to help partners win new customers and achieve greater revenue from current ones, expand the business and enter new markets or
- Repeatable Solutions Sales** ▶ ▪ On-line tool for building go-to-market plans, validating those plans in the market and initiating demand. Availability: No requirements other than participating in PartnerWorld
- Competitive Marketing Information** ▶ ▪ On-line tool that provides Global information on winning marketing against the competition. Availability: No requirements other than participating in PartnerWorld

Source: <http://cikb/Topics/default.aspx>

2.14.6 The Partner Execution Framework (PEF)

Figure 2.16 the Partner Execution Framework



Source: Project Ulonwabo Proposal for Partner Engagement

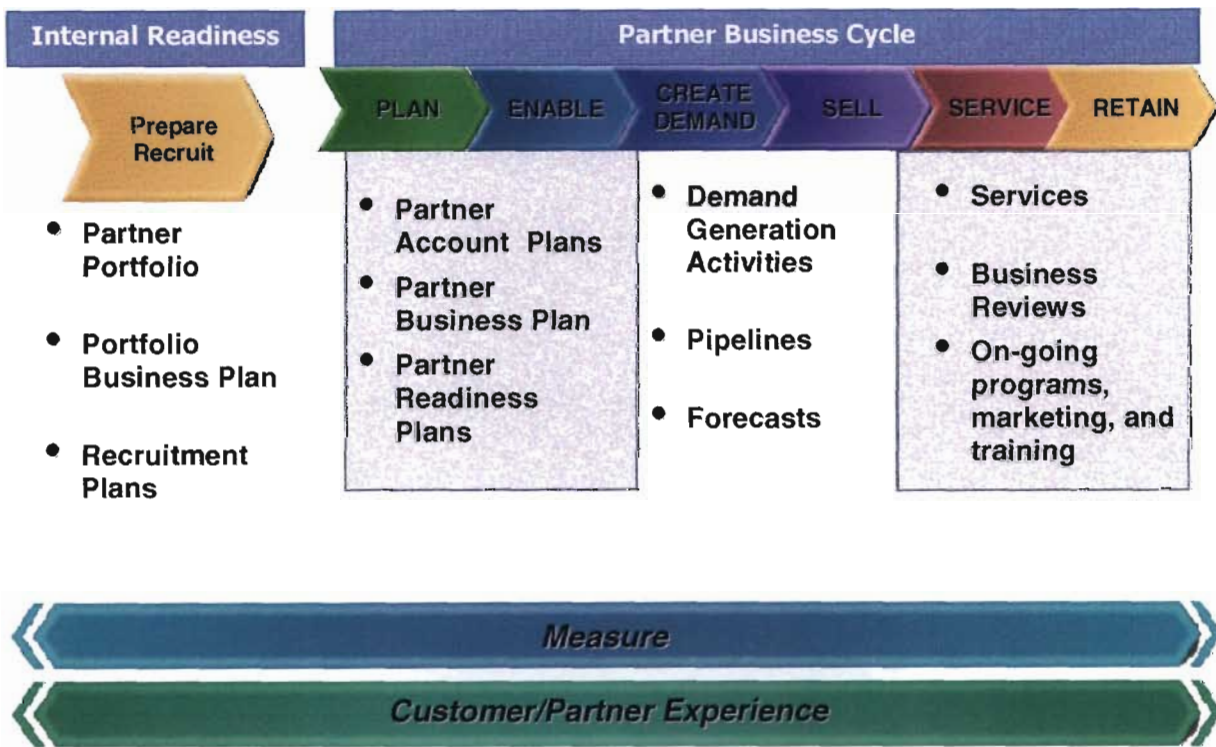
The Partner Execution Framework above was developed in Microsoft South Africa in 2004 by a task team on the 'Ulonwabo' project who as a CPE project are attempting to tackle the issue of poor partner satisfaction ratings. It is an evolution of past partner programs and borrows from best practices partner programs from many internal and external sources. These include adapting partner and channel programs from companies in the same industry, out of the industry, competitors, and partners etc. in an attempt to create the 'best' partner execution framework that meets the need of Microsoft and their partners. It is a model for engaging and managing business with partners.

The Framework is divided into two major sections:

- Internal Readiness activities for Microsoft in which the Partners do not play an active role
- And
- The Partner Business Cycle which specifies a set of joint Partner and Microsoft activities.

The Partner Execution Framework is designed to increase Partner Account Manager (PAM) and Partner Engagement Manager (PEM) effectiveness, increase the amount of face-to-face time spent with partners, improve partner relationships and satisfaction, create real value for partners who are managed by Microsoft on a 1:1 basis and ultimately drive revenue for both Microsoft and partners. Key processes and output are specified by the framework.

Figure 2.17 PEF Internal Readiness and the Partner Business Cycle



Source: Project Ulonwabo Proposal for Partner Engagement

Each phase of the Partner Execution Framework sets forth a set of deliverables and key actions.

2.14.6.1 Internal Readiness phases

Prepare: Determining which scenarios will be adopted by the subsidiary, providing input on how partner resources will be pulled in to support the scenarios, focus is on analyzing and updating the Partner Portfolio as well as creating a Portfolio Business Plan.

Recruit: Focus is on recruiting new partners and enlisting existing partners. Plan and execute recruitment of new partners, create annual business plans for new managed partners and activate

the partnership with the company. Enlisting existing partners involves identifying potential partners and the planning and executing of a 'to partner' campaign.

2.14.6.2 Partner Business Cycle Activity Phases

Plan: Developing Partner Account Plans for each managed partner and conducting annual Business Planning with existing managed partners.

Enable: Determining the need for Partner Readiness activity, developing content for sessions as necessary and planning and executing the readiness activities

Create Demand: Supporting Microsoft campaigns and partner-led demand generation activities, by customising/localising campaign material for partners, engaging partners in company led demand generation activities and driving, supporting and monitoring partner led demand generation activities.

Sell: Participation in co-selling activities and management of the pipeline. Performing sales forecasting and partner pipeline management activities, managing partners as a virtual sales team, including company sales people and managing selected opportunities together.

Services: Focus is on facilitating linkages to the different Services divisions within the company.

Retain: Focus on on-going activities to deepen and strengthen the partner relationship. Conduct regular business reviews with partners, build trust based relationships with key executives at managed partners, ensure mindshare is maintained and seek opportunities to expand the relationship, drive partner events and reward /recognition programs, establish partner experience programs(e.g. Partner Action Council) and drive partner PR and marketing.

Measurement activities and Partner satisfaction activities are also specified throughout the entire framework model and highlights key areas within each phase where measurement and reporting occurs.

2.14.6.3 Objectives of the Partner Execution Framework

The main objectives of the engagement model would be the:

- recruiting and qualifying of the right partners
- building and planning the business at the right level with the partner
- executing and driving the business with the partner

- continuously looping feedback into the process

The success factors represent desired outcomes within each phase to ensure a positive partner experience. The list of success factors is intended to be a representative model and should serve as a general guide. It is very likely that each subsidiary has additional success factors or metrics it will want to achieve through the framework.

The one caveat is that the Framework is a work in progress and is still evolving. One example of this is the Portfolio Development process, some subsidiaries may go through a detailed analysis of their current portfolios while others may use a combination of qualitative and quantitative analysis with greater emphasis on qualitative data. The framework currently provides guidelines but is not necessarily a detailed prescriptive process.

2.15 Summary

Strategic partnering/partnership/alliances are no longer just a strategic option but a necessity in many markets and industries. Dynamic markets for all kinds of end products and technologies, coupled with the increasing costs of doing business, have resulted in a significant increase in the use of partner agreements. Yet, practitioners are finding it increasingly difficult to capture value from partnering.

The hurdles discussed above should not stop companies from approaching partnering. There are many models that can be adopted and/or customised to meet the partnering needs of a company, these range from channel partner programs to complicated focused strategic alliance programs. A company needs to ensure it has a strategic and cultural fit with the program it adopts. Companies need to be clear on what partnering is and is not. It is not instant gratification, nor a quick fix. It is not a flavour-of-the-month management strategy. Strategic partnering agreements are separate entities that have come together to solve their individual business problems in a way that serves the whole mutually. It is sharing core competencies that overlap and create synergies. The struggle is a necessary part of any relationship that is valuable and lasting.

3 Chapter Three - Research Methodology

3.1 Introduction

In 1975 two young men from Seattle founded Microsoft, the company began with an improbable Vision: *"A computer on every desk and in every home."* At that point in time, only a handful of people around the world knew what a personal computer was, so the venture was a great leap of faith and daring. Microsoft's revolutionary idea became a reality and helped create a new industry that has transformed how people work, live, learn, and play.

Today, Microsoft is a global organization with a comfortable presence in 72 countries worldwide and annual revenues in excess of \$32 billion. Hailed as the world's leading manufacturer of software for personal and business computing the company has not stopped innovating since its inception. On Fortune magazine's 2003 list of most admired global companies, Microsoft is ranked number seven. Their sales force and management personnel meet with customers and partners around the globe every day to solve business problems of a rich variety of businesses and consumers. Microsoft would like for everyone using their products to have a positive opinion of and a sense of value for those products.

All full time employees from around the world are required to attend the Microsoft 'MS 101 Essentials' orientation program held in Redmond, Seattle in order for them to imbibe the vibe of Microsoft and ensure that a consistent approach to their products, customers, partners, go to markets etc. is achieved worldwide. As part of the Microsoft team, the employees are reminded that they represent Microsoft to their customers, partners, and even to the community in which they live and work. They are encouraged to take the time to learn more about who they are as a company, and are told that they will be proud and excited to find that they work for the 'best software company in the world, Microsoft' run by some of the 'best leaders and visionaries in the world.'

There are more than 500 million PCs in use around the world today, and the reason is simple: the capability for information technology to help people and businesses realize their potential is very real, and virtually limitless. In business, 50% of capital spending goes into information

technology, and the percentage is growing. Increased efficiency and productivity aren't the only reason why. More and more businesses have come to understand that people are the most valuable asset and knowledge the most important product, and that the key to really unlocking their value is information technology. Governments all over the world are using technology to make services more accessible and allow citizens to give input on important issues. In homes, schools, libraries and community-based organizations around the world, PCs are enabling people to communicate and connect with others who share common interests, concerns and dreams.

Yet, there is still so much opportunity. Only 16 percent of households worldwide have a PC, and those that do only use their PC three or four hours a day at most. In smaller businesses and many larger businesses, accounting, manufacturing, data collection, communication and collaboration are still done the old fashioned way. Just as the automobile enabled vast new opportunities and fundamentally transformed and improved the way people around the world work and live, Microsoft sees a truly unique opportunity through their industry leadership to provide value at every level: from core technologies to complete solutions, and to help people and businesses realize their potential. By advancing the frontiers of technology and breaking down the barriers holding back demand, they have an opportunity to help people through software almost every hour they are awake or their business is operating.

To achieve this, the company's mission must be enduring. About three years ago, Microsoft formulated a new vision for the company i.e. "Empowering people through great software - any time, any place and on any device" to better capture what they are doing now at Microsoft through the richness and capabilities of software. The fact that their first vision statement, "A computer on every desk and in every home," was relevant for more than 20 years is a testament to how relevant and visionary it was. Over the next century, the company may have several different vision statements to best state what they are trying to accomplish, but their mission need not change and will probably endure far into the future.

As an industry leader, Microsoft has an important role in the world and the industries they touch, important in the contribution they make and the responsibility that comes with that. Customers expect the company to hit a very high bar in terms of product and support quality, delivering on commitments, and providing excellent customer and partner-focused decision making. The

industry wants the company to be more actively engaged and open about who they are and about their roadmap for the future. The company's pending settlement with the DOJ (Department of Justice in the U.S.A) adds new responsibilities that the company must deliver on. The company has stated unequivocally that they are committed to working with the DOJ and other government agencies around the world to ensure the settlement is a success and that the relationship is positive and constructive going forward.

The events of the last four years and the changes in the industry make 2004 a good point for the company to take stock of themselves and their mission, to understand how others perceive them, and to think about how they can do a better job explaining who they are and what matters to them.

3.2 Key Leaders Involved in Crafting the Microsoft Strategy

These executives are some of the key leaders setting Microsoft's core direction and developing broad strategic and business plans for the entire company.



Bill Gates

Bill Gates is one of the co-founders of Microsoft. As Microsoft's Chairman and Chief Software Architect, Bill Gates works with the company's development teams to turn great ideas into innovative software and services.



Steve Ballmer

Steve Ballmer is President and Chief Executive Officer of Microsoft Corporation. Ballmer joined Microsoft in 1980 and was the first business manager hired by Bill Gates.



Orlando Ayala

Orlando Ayala is the Senior Vice President of the Small and Mid-market Solutions & Partner Group (SMS&P). Ayala is leading a worldwide effort to realize significant growth in the largely untapped business segments. His group works closely with the Business Solutions division to create business solutions for this segment. He oversees the company's channel efforts, supporting the world's largest partner network.



Kevin Johnson

Kevin Johnson is the Group Vice President of Worldwide Sales, Marketing and Services (MSG). He is responsible for the strategic and operational leadership of Microsoft's sales, marketing and service professionals on a global basis.



Simon Witts

Simon Witts is the Corporate Vice President responsible for marketing Microsoft's enterprise products and service offerings to the corporate, government, and education accounts and partner channels.



Jim Allchin

Jim Allchin is Group Vice President of the Platforms Group with overall responsibility for the product delivery, engineering and technical architecture of the Microsoft® Windows® operating system, Microsoft .NET, the Windows Server System and new media technology. His group's mission is to build platforms software that consumers and businesses will make an integral part of their day-to-day activities

To meet the expectations people have of Microsoft as an industry leader, and to take advantage of the opportunities reflected in their mission statement, there are a number of things the company must prioritize and value as a company, these include:

3.3 Microsoft's Mission

Steve Balmer, CEO, Microsoft Corporation, recalls when he told his parents 22 years ago that he was dropping out of Stanford Business School to join a small company called Microsoft in the far northwest corner of the U.S., his father asked the first question: "What's software?" His mother asked him an even more interesting question: "Why would a person ever need a computer?" It seems funny now, but it's a reminder of how far the IT industry and Microsoft have come that no one ever thinks to ask such questions anymore.

Every company has a reason for being, a mission that motivates its actions. Microsoft's mission is a simple declaration of their intent in the world. It is a powerful and authentic reply to the questions "Why do you exist? What is your purpose in the world? What is it you want most to achieve as a corporation?" Microsoft's answer: "To enable people and businesses throughout the world to realize their full potential."

Today, the company uses software to help people get there. Over time, this is meant to evolve to be a combination of software and software services. But the company's mission is not just about building great technology. It's also about who Microsoft is, as a company and as individuals, how

they manage their business internally, and how they think about and work with partners and customers.

Delivering on such a bold mission will take all of the ability, intelligence, commitment, and potential that rests within every employee at Microsoft. No matter what their job function, employees are encouraged never to underestimate their role in helping the company deliver on its mission. The better each individual does their job, the better their products become and the more potential the company will ultimately unleash.

“True, there may be easier paths, lesser missions. But none of them leads to greatness. Our mission keeps all eyes on the higher road that stretches before us and helps us walk it together”. Microsoft's success can be pinned down to two key aspects: “our vision of technology and the values that we live by every day as a company. Achieving Microsoft’s mission requires great people who are bright, creative, and energetic, and who share a clearly defined set of values and tenets.” Steve Balmer, CEO, Microsoft Corporation.

3.4 Microsoft’s Values

The Microsoft values guide all employee behaviours, at every single level, and are required to shine through in all interactions with each other and other stakeholders. Microsoft employees are defined as ‘great people who share the following values:’ Kevin de Petrio, Senior VP of Human Resources, Microsoft

3.4.1 Integrity and honesty

Integrity and honesty can be demonstrated in many ways. Often when people think of these two attributes, it is in relation to helping Microsoft make their most weighty and significant decisions. But here is the paradox: honesty and integrity are perhaps best demonstrated in the smallest decisions and gestures. Not in the extraordinary, but in the everyday.

3.4.2 Passion for customers, partners and technology

Everywhere you look at Microsoft, there is passion. People who work there go to work each day because they have a zeal for technology and what it enables customers to do. Sometimes office

lights are on after other businesses have long closed for the evening because employees are on the trail of innovations that will change the world. But it's not enough to develop innovative technologies. It must be developed with the needs of partners and customer squarely in mind.

3.4.3 Open and respectful with others

People who are respectful of others understand that how work is accomplished is as important as the work itself. Employees at Microsoft understand that getting the best from co-workers is often accomplished by being approachable, constructive, and considerate. What does it mean to be open? Listening to another's point of view, even if it is contradictory to one's own point of view. Diverse perspectives are encouraged as they can point out pitfalls one has not necessarily seen. Openness is the willingness to hear bad news, knowing that the sooner one hears it; the faster it can be corrected. Openness is remaining approachable and easy to talk to, no matter your level.

3.4.4 Willingness to take on big challenges

From the very beginning, Microsoft has tackled big challenges. More than 25 years ago, the company was established upon a challenge that many deemed unreachable: "A PC on every desk and in every home." It is stressed within Microsoft that one does not have to be a Chief Software Architect (Bill Gates) to take on big challenges. They can be found in every single job at Microsoft. The trick is being able to recognize them. If it is the right thing for the customer, partner, or team - then it's the right thing for Microsoft.

3.4.5 Self-critical and committed to personal excellence

The products created at Microsoft are always improving. But this dedication to quality is not exclusive to their products; it should be evident in all employees, as well. All employees are encouraged and coached to improve over time. As each individual gets better at what they do, Microsoft gets better at what it does. If this is to happen employees must see themselves as they really are. But being self-critical can sometimes be difficult. This openness to uncertainty and the unknown takes a fair amount of courage and is rewarded with feedback that is measured, thoughtful, and focused on making individual and team performance even stronger.

3.4.6 Accountable

Accountability at Microsoft is about keeping ones word and taking responsibility for the commitments one makes. When an employee says he will do something, he has to do it. If a deliverable is promised, it's as good as done. Trust is built over time in just this way. Not only with fellow employees, but with customers, partners, and shareholders alike. Being accountable takes vigilance. Sometimes the unforeseen arises and what has been promised cannot be delivered. But even in those circumstances, employees are required to find an accountable way to respond and resolve the problem.

3.5 Microsoft Tenets

Microsoft's overall business strategy is encompassed in the company's tenets. While each individual divisions or group may have their own initiatives and business objectives, the tenets are the unifying business strategy that helps Microsoft deliver on their mission. No matter what the job function or responsibilities, the tenets fix all eyes on the overarching strategy that will help the company succeed even further.

3.5.1 Great people with great values

Helping change the world in the way Microsoft aspires to is not an easy task. They need to recruit and maintain people who are creative, energetic and bright, absolutely passionate and committed to the company's mission. They need people who have their own strong personal values, as well as those necessary to be successful at Microsoft. These are the kind of people who, with their passion for helping others realize their potential, will push themselves to ask: What does the customer and partner need? How do you build it? How do you make it successful? How do you support it? Great people are bright, creative and energetic and hard to come by.

3.5.2 Excellence

Excellence must be at the core of everything Microsoft does and is central to everything the company value; excellence in their people, excellence in every part of their relationship with customers and partners, excellence in their product quality, excellence in how they make decisions and orchestrate work internally to be efficient and predictable, and last but not least excellence in shareholder value

3.5.3 Trustworthy computing

Trustworthy computing is a long-term vision that describes a time when people will be able to rely on their computing systems for dependable service in the same way they count on electricity today. Trust in computing is vital to help protect public safety, national security, and economic prosperity. It is a global challenge that will involve researchers, governments, and industry.

The more the world realizes the possibilities enabled by information technology, the more Microsoft needs to deepen their customers' trust at every level. Core to this is being predictable in everything they do. Their products and solutions must be available when customers and partners need them, the integrity of their information must be secure, and their privacy must be assured and protected. They must also provide tools so that other software developers can build applications that are trustworthy. As a company and as individuals, the need to earn trust every day not only through their products, but also through their responsiveness and accountability to customers and partners and the degree to which they make high quality decisions with customer and partner issues in mind. If there are real and good reasons to change plans (e.g., to close a product line, to change licensing terms, to change a delivery schedule or spec, or even to do an upgrade) responsibility for these changes must be taken and their impact on customers established and communicated upfront.

“Achieving our goals will take fundamental research and advances in engineering, as well as changes to business culture and business processes.” Scott Charney, Microsoft’s Chief Trustworthy Computing Strategist

3.5.4 Broad Customer Connection

At the end of the day, Microsoft will make progress on their mission by helping millions of people and businesses - from the "bottoms-up." It was a massive groundswell that launched the PC revolution and the Internet revolution. It was huge communities of developers, technical people partners and consumers who were passionate and created the demand. Microsoft must understand the needs and uses of technology by these millions of people today, have innovative ways to show them new and interesting means of realizing their potential, and support them well when they

have questions. There is a requirement to be able to see beyond general trends to the interests of smaller communities that have the potential to become very large and influential.

3.5.5 Innovative and Responsible Platform Leadership

A clear technology vision and the platform and roadmap for it are the heart and soul of the company's focus on creating new opportunities for customers, partners and the industry. Microsoft has an enormous opportunity to harness innovation in a manner that enables their platforms i.e. Windows and .NET - to better help customers and partners realise their potential. Their mission requires them to lead the industry responsibly, by expanding platform innovation, benefits and opportunities, by being open in discussing their future directions, getting feedback, and working with others to ensure that other products and the Microsoft platforms work well together.

3.5.6 Enabling People to do New Things

Microsoft can no longer focus narrowly on the PC or desktop software. Their mission requires that they do excellent work in a broader set of areas to help customers and partners and to enable the company to grow. This does not mean that they will be in every part of the software business. Microsoft systematically identifies and brainstorms new areas. Some of that work leads to the incubation of new products, some to new scenarios that will be integrated into existing businesses, some may lead to acquisitions of key talent or experience, and some may lead to integrating more deeply with new or existing partners. The key is clear focus on important customer and partner scenarios that drive the Microsoft offerings in the marketplace. Most of their new product efforts start with a small team of very talented people inside Microsoft who have end-to-end customer scenarios in mind like the 'Tablet PC'. In terms of acquisitions: 'FrontPage', 'Hot Mail' and 'Great Plains' are examples of where Microsoft established a footprint in a significant new space, and has since added a lot of value in those markets.

3.5.7 A Global Inclusive Approach

There is a lot of responsibility to customers, partners, shareholders, employees etc. that comes with the company's success and the mission they have undertaken. The mission is global, for all people and businesses of the world irrespective of where they are geographically or what their economic means. Microsoft cannot solve the problems of the digital divide alone, but they can and

do innovate in ways that continue to lower the costs of these technologies. The company is determined to fully pursue their mission in all corners of the globe and in keeping with what they value and what the citizens in each country value. To achieve these goals, they need to be a company with a diverse workforce and partner base. This diversity must take account of race, gender, nationality and every other aspect if the company is really going to enable all people around the globe to fully realize their potential.

3.6 Diversity and Community Affairs

Microsoft has made a corporate commitment to the principle of 'Diversity'. To them this concept is defined as understanding, valuing, and incorporating the differences among people that they find in their communities and in the global marketplace. For the company to reach its full potential and empower other companies to do the same, they must attract the best and brightest workforce from all walks of life, all races, all religions, and all countries. Diversity is important to Microsoft, not only because it is seen as a way to enrich the workplace and enhance the lives of employees, but also because it enables Microsoft to better serve the needs of partners, customers and communities. A diverse workforce is a channel that opens up new ways to approach and solve problems and yields other significant business benefits, including an enhanced ability to:

- Capitalize on a diverse market
- Attract and retain the best and the brightest employees
- Innovate through increased creativity
- Increase company adaptation, ensuring survival
- Reduce business-related mistakes brought on by not understanding customers, clients, and markets







The company's commitment to diversity also means that they strive to build products that are accessible to everyone, including people with disabilities. They actively seek to bring the benefits of information technology to underrepresented individuals and communities. Microsoft makes substantial cash and software donations on an ongoing basis to help thousands of organizations provide access to technology to underserved communities, including public libraries, colleges and universities, as well as community-based non-profit agencies. Microsoft has implemented several

comprehensive strategic business initiatives to promote and integrate diversity at every level within the organization and to demonstrate this commitment locally, nationally, and globally.

3.7 Microsoft’s Core Businesses

Microsoft constantly updates and improves their products and in the same spirit they continually change and evolve the company to be in the best position to accelerate new technologies as they emerge and to better serve their partners and customers. The seven core business units are strategically positioned to offer the greatest potential to serve Microsoft’s partners and customers in the coming decade. With a profit and loss (P&L) structure that aligns strategies and objectives among the development, sales, marketing, and services organizations, this organizational structure allows a rational allocation of resources across primary businesses, streamlines long-term planning, and drives Microsoft's long-term growth.

Table 3.1 Microsoft’s Seven Core Business Divisions

     	<p>The Windows Client business includes Windows desktop, living room and laptop operating systems, such as Windows XP Professional Edition, Windows XP Home Edition, Windows XP Media Center Edition and Windows XP Tablet PC Edition.</p> <p>The Information Worker business encompasses Office and earns more revenue than any other. It includes other desktop productivity software such as Visio and Project, collaboration-oriented server software such as SharePoint Portal Server, and Real Time Collaboration (RTC) Server</p> <p>The Business Solutions Group (BSG) offers business management software and services that help small and midsize organizations automate processes, make more profitable decisions, and accelerate growth. BSG combines the business management solution assets of Great Plains, the online services of Microsoft bCentral and the integrated business applications of Navision.</p> <p>The Server Platforms Group includes the Microsoft Windows Server System™ integrated server software, software developer tools, and Microsoft Development Network MSDN®.</p> <p>Windows CE & Mobility, featuring mobile devices including the Windows Powered Pocket PC, the Mobile Explorer microbrowser, and the Windows Powered Smartphone software platform.</p> <p>MSN, including the MSN® network, MSN Internet Access, MSNTV, MSN Hotmail® and other Web-based services.</p>
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Home & Entertainment, including Microsoft Xbox®, consumer hardware and software, online games, and future TV plans.

Source: <http://infoweb/default.aspx>

The Microsoft field, sales, marketing and management employees target the Business Decision Maker, IT Professional, Developer and Executive Circle audiences within the Enterprise and Small and medium segments of the industry.

3.7.1 What is .NET?

Even though Microsoft's .Net is not a separate core business offering of Microsoft's, it is the singularly much talked about and misunderstood 'concept' in the industry which gives rise to much debate as to what it actually is? .NET is a set of Microsoft software technologies for connecting information, people, systems, and devices. This technology is based on Web services, small building-block applications written in XML, a universal language for data exchange. Web services can connect to each other as well as to other, larger applications over the Internet (or company Intranet). .NET is infused into the products that make up the Microsoft platform, providing the ability to quickly and reliably build, host, deploy, and utilize connected solutions using Web services, all with the protection of industry-standard security technologies.

.NET is the biggest "bet the business" strategy for Microsoft since Windows NT was developed in the early 90's. Microsoft is working diligently to provide the best foundation for using .NET-connected software, including smart clients, servers, and developer tools. However, the vast majority of XML Web services and applications that participate in this connected universe will be developed by the rest of the industry including Microsoft partners, customers and third parties. That's why a critical component of the Microsoft .NET platform strategy is "evangelism" of the .NET platform to the developer community and creating strong strategic relationships with system integrators, ISVs, start ups and the venture capital community. "NET is the platform on which we are building a new foundation for connecting, systems, people, devices, information." Bill Gates, Chief Software Architect and Chairman, Microsoft Corporation, Microsoft Global Briefing, July 2002

3.7.2 Microsoft's Services Division

Microsoft Services is the worldwide division that oversees all the company's services offerings. The mission of Microsoft Services division is to drive and secure worldwide adoption of .NET, deliver integrated solutions-focused services, and strengthen intellectual capital, methods, readiness, and knowledge transfer.

In the field, one of the companies' goals is to integrate services and licensing into every solutions package. Microsoft Services form the basis of secure, strategic, and sustained partner and customer relationships. Including services allows the company to:

- Increase partner and customer satisfaction
- Provide customers with a complete solution: licensing, service and support
- Ensure alignment of business and technology objectives
- Accelerate solution development and deployment
- Encourage knowledge transfer and teamwork

The solutions developed for customers include offerings from:

- *Microsoft Consulting Services (MCS)*

MCS, with the extended relationships Microsoft's service partners, is dedicated to delivering quality consulting services to customers and partners to accelerate the realization of business value and to ensure timely, seamless, and successful implementation of Microsoft business solutions.

- *Product Support Services (PSS) and Premier PSS*

PSS is dedicated to helping every business, organization, and individual be more successful with Microsoft products. Premier services offer individualized customer support options and a dedicated Technical Account Manager. PSS offers assistance with specific Microsoft products as well as customized support options for the Enterprise.

3.8 Microsoft's licensing

A software license grants a user the right to run or access a software program. One has the right to run the software but there are ongoing requirements that determine how the software can be used. These requirements include such things as deployment eligibility, transferring software to other users and downgrading to previous versions of the software.

Microsoft software licenses generally come with one of two kinds of agreements which specify how the user may use the software. The first kind is called an End User License Agreement (EULA). When one acquires a license for software from a retailer or purchases a new PC with software already installed, it comes with a EULA. A EULA either comes in the box on paper or cardstock or pops-up onscreen when new software is installed. A user must typically accept the terms and conditions before installing the software. The second agreement type, called a Product Use Rights (PUR), is similar to the EULA except that it pertains to software licensed through a Microsoft Volume Licensing program. The PUR, together with the volume licensing program agreement under which a license is acquired, governs the use of Microsoft Volume Licensing software.

Microsoft Volume Licensing Vision

"Providing licensing options that fit the customer's long term business plans is as important to our relationship with them as providing innovative products and services."

3.8.1 Microsoft Licensing Options

Microsoft licenses software in three primary ways: Full Packaged Product (FPP), Original Equipment Manufacturer (OEM), and Volume Licensing.

3.8.1.1 Full Packaged Product (FPP)

FPP is boxed, shrink-wrapped software. Licenses for this type of software are acquired through retail outlets. FPP is for consumers who are looking for a small quantity of software licenses.

3.8.1.2 Original Equipment Manufacturer (OEM) or System Builder

OEM and System Builder software licenses are acquired when a computer is purchased with software legally preinstalled. For example a DELL machine pre-installed with software from a Retail store like Incredible Connection.

3.8.1.3 Volume Licensing

Microsoft's Volume Licensing is suitable for organizations that need multiple copies of Microsoft software. Volume licensing is a flexible and economical way in which to acquire from five to thousands of licenses for software. Microsoft Volume Licensing programs are meant to provide potentially substantial savings, ease of deployment, flexible acquisition and numerous payment options, as well as other benefits

Microsoft's volume licensing model is aimed at giving customers the best value for their investment. Microsoft offers a range of volume licensing programs to help customers meet business goals such as: reducing the cost of license management, taking advantage of volume pricing for their software acquisitions, predicting the budget and cash flow impact of software acquisition, maintaining competitive advantage by ensuring access to the most up-to-date software versions and technology.

3.8.1.3.1 Software Assurance Offering with Volume Licensing

Software Assurance is an offering available with Microsoft Volume Licensing programs that helps companies get the most from their software by providing more value, more assistance and more manageability. With Software Assurance, training and deployment resources are accessible that enable employees to work more efficiently than ever. Software Assurance also allows an organization to acquire the right to use tomorrow's technology at today's prices and provides the ability to spread payments annually instead of upfront. Organizations with Software Assurance coverage are eligible to use new versions of the covered software that are made available during their term of coverage.

See Appendix 4 for more a comparison of the different Microsoft Volume Licensing programs.

3.9 Competition

3.9.1 Linux and Open Source Software

Microsoft's greatest competitor - Linux is gaining interest in every market around the globe. At first glance, Linux seems to offer a low cost, secure, "good enough" alternative to products from Microsoft. Linux poses a challenge not only in the operating system market, but in the productivity applications and development tools markets as well. Its growing popularity has led to the rise of a huge community of developers, both commercial and volunteer, who are developing a wide range of server products, desktop applications and development tools that run on top of Linux.

Microsoft realises the need to effectively counter false perceptions about Microsoft products and curb growing enthusiasm regarding Linux. Educating partners and customers is key to achieving this goal. It's necessary to approach Linux and open source from a partner and customer-centric view, so that the company can both understand what is drawing partners and customers to it, in order to provide a response that focuses on business value to the partner and customer.

It is important to understand that Linux and open source competitors come in two categories: commercial and community.

3.9.1.1 Commercial

Companies like IBM have invested money, marketing influence, and intellectual property into hand-picked community elements of the Linux offering in an effort to "harden" those community-based Linux offerings that play a core role in their own commercial Linux strategies. Commercial companies often use Linux as a "loss leader" by exploiting its low or free acquisition cost to sell their own, often costly, products, middleware and/or services on top of the Linux kernel or other community-based elements of the Linux stack. For example IBM has not invested in JBOSS, for example, which comes out of the community, but is in direct competition with IBM's own J2EE/WebSphere strategy. Typically, these commercial vendors pick and choose their investments in "community Linux" with their own profitability ultimately in mind.

3.9.1.2 Community

Literally thousands of software projects are currently taking place within the open source community. While some projects such as the Linux kernel and Apache receive funding, intellectual property, and R&D support from companies like IBM and Oracle, and others are built by large volunteer communities, many others are marginal at best. Customers and partners who adapt these software packages will often experience varied levels of success with them. In addition, just about every open source project, from Linux on down, lacks a coherent future roadmap or a dependable support program. However, it is important to recognize that broad-sweeping statements that characterize all community-based Linux offerings as not being commercial quality are ineffective.

See Appendix 5 for more information on the Key Industry Players and their Linux strategy.

3.9.2 Growth of the Linux and Open Source Movement

3.9.2.1 Satisfaction with Open Source is increasing

Recent results of the Microsoft Worldwide Satisfaction Survey(FY04 1st July 2003 to 30th June 2004) demonstrates a shift in perceptions of partners and customers about business opportunities and ROI.

An audience of 7,000 IT Pros around the world were asked, "Considering everything you know or have heard about the company(Microsoft), its products, its service and support organization, would you say you are very satisfied, somewhat satisfied, somewhat dissatisfied, or very dissatisfied?"

- Only 22% of the IT Pros were very satisfied with Microsoft, a decline of 7% from FY02(1st July 2001 to 30th June 2002) and 19% from FY01(1st July 2000 to 30th June 2001), while 57% were very satisfied with Linux, an increase of 7% from FY02.
- 19% of the IT Pros were dissatisfied with Microsoft, an increase of 4% from FY02 and 10% from FY00, while 0% were dissatisfied with Linux.

3.9.2.2 Market Dynamics

Non product-related issues that are shaping customer and partner perceptions favorably regarding Linux and other open source applications around the globe can be divided into three main areas:

3.9.2.2.1 Anything-but-Microsoft

Some users have decided that any alternative, even an inferior one, is better than buying from Microsoft. This decision is sometimes caused by bad partner and customer experiences with anti-piracy enforcement efforts or security issues, or dissatisfaction with Microsoft's licensing programs. Some governments believe they can build a better local software economy if they base it on open source. Some customers want to buy from a range of vendors (not keep all their eggs in one basket), and not just Microsoft.

3.9.2.2.2 Pragmatism and Perception

A number of partners and customers believe Linux is less expensive to acquire and operate, and is more reliable, and secure than Microsoft offerings. Often this is based on experiences or comparisons with the old versions of Microsoft Windows and Office. That is why getting customers to deploy the latest versions of the companies software is extremely important to Microsoft. Kevin Johnson, Group VP of Worldwide Sales, Marketing and Services (SMSG) at Microsoft states that customers who choose Linux due to its low acquisition cost and acceptable functionality in commodity workloads such as file and print often don't know the facts about total cost of ownership (TCO) and total cost of deployment (TCD). When these are factored in, Microsoft claims to be the most cost-effective choice in the long-run, and both partners and customers need to be educated about this.

3.9.2.2.3 Momentum

Industry buzz prompts both partners and customers to evaluate Linux and other open source software for fear of potentially being "left behind" or "not in the know." In addition, key software vendors like IBM, Oracle and SAP are heavily promoting Linux. Finally, Linux on x86-based hardware is a popular platform for customers and ISVs seeking to move off expensive RISC-based UNIX boxes. Microsoft needs to counter this by communicating the momentum behind the Microsoft platform, and by promoting their alternative for UNIX migrations.

3.9.3 Microsoft's Linux and Open Source Competitive Messaging Overview

Microsoft's Linux and open source positioning statement:

“Microsoft products deliver superior business advantage to our customers and partners through integrated and innovative software that enables people and businesses to realize their potential. We strive to make technology easier, allowing our customers to spend more time managing and growing their businesses. Our products are engineered to be familiar and easy to use, and support a broad choice of applications with an emphasis on security and consistent interoperability all at a lower total cost of ownership.” Internet 3

The key engagement areas Microsoft is focusing on as a company in FY05 (1st July 2004 to 30th June 2005) from a competitive strategy point of view is: (1) winning the server opportunity and move customers off NT4, (2) winning the Unix migration platform shift, (3) winning with business value on the Desktop, (4) securing the Partner channels and (5) winning with Developers.

The three pillars of the Microsoft value proposition to partners and customers are: Integrated Innovation, Lower Overall Cost / Higher Value and Stronger Security.

3.9.3.1 Integrated Innovation

Microsoft's Integrated Innovation means that the company's products and solutions are easier to manage, simpler to use and deploy, provide greater overall value and a lower operational costs. IT spends less time managing infrastructure and more time adding value to the business and meeting strategic needs.

While other companies are cutting investments in R&D, Microsoft is investing approximately \$4.8 Billion USD a year to bring new innovations that improve people's lives and delivers competitive advantages to business. In order to meet evolving and future needs for technology, Microsoft is creating innovations in areas such as clearer screen text, tablet devices, Digital Rights Management and more.

3.9.3.2 Lower Overall Cost

Microsoft products are engineered for consistency, interoperability, and a cutting-edge approach, making them easier to use and more reliable, so partners and customers can spend more time adding value and productivity. Microsoft products are familiar and easier to use, so customers can reduce costs required to maintain day-to-day operations and free up investment for innovations that drive new business value.

Microsoft takes responsibility for building products that work together in simple and familiar ways and bringing the latest innovations into those products and the industry ecosystem through partners and Original Equipment Manufacturers(OEMs), in other words, being an innovation leader that maximizes technology and lowers customers overall costs.

3.9.3.2.1 Lower TCO with Third Party Validation

- IDC studied total cost of ownership (TCO) of Windows vs. Linux servers and found they cost the same over a 5-year period in simple workloads, because Windows is easier to deploy, train on, use, and maintain.
- Gartner Group's model shows the total cost of migration and training required for new desktop suites is more expensive to customers than Windows; customers can achieve a 15 – 30% lower TCO with Windows XP than with versions of Linux.
- American Institute for Research (AIR) found Windows users could accomplish tasks on average in half the time of Linux users, which translates to significant time and money savings for business and personal users alike.

3.9.3.3 Stronger Security

Microsoft products are consistently engineered to conform to rigorous security and reliability standards. Microsoft commits to continuously make a significant investment of time, money and resources to train employees, institute new policies and monitoring processes and create innovative development tools to improve their software. These efforts will result in more secure code. When breaches occur, the Microsoft Software Update Service immediately issues patches to help ensure that valuable computer data is protected.

In the last 18 months Microsoft has re-trained 18,000 developers, instituted a wide array of new, more secure development practices, provided their developers with enhanced tools and delivered a broad set of tools to both consumers and business customers. They are working closely with industry partners, influentials, and directly with customers to do everything they can to make sure that their partners and customers get and stay protected.

In addition, Microsoft Windows 2000 received the highest level Common Criteria Certification yet achieved by any operation system – a globally accepted standard conducted by independent government auditors for evaluating the security of IT Products and systems. No commercial Linux distribution or other open source application to date has received as high a security rating.

Microsoft acknowledges that wide-spread virus attacks like the ‘Slammer’, ‘Blaster’ and ‘SoBig’ targeted at the Microsoft operating system have had a huge negative impact that has lead even more partners and customers to consider Linux. While no single solution, or set of solutions, can ensure security for Microsoft’s customers every sales team at Microsoft is encouraged to meet with their customers and partners and have a conversation to make sure there is a plan in place for security awareness, assessment, and a process for emergencies.

See Appendix 6 for selected case studies on Microsoft wins over Linux.

3.10 Microsoft’s FY05 World Wide Corporate Initiatives

Each year, Microsoft forges a set of corporate initiatives to clearly focus the company’s efforts for the coming year in answer to changing market conditions, competition in the marketplace, feedback from partners and customers, changing environmental factors etc. The company has earned the reputation of a proactive leader which instigates rapid revolutionary change in the industry. The FY05 Worldwide Corporate Initiatives include:

3.10.1 Customer and Partner Experience (CPE)

This initiative encompasses the company’s work towards becoming more focused on and connected with customers and partners. Microsoft’s goal of building optimal business relationships with its customers and partners based on respect, accountability, and integrity

triggered the creation of a new department called Customer and Partner Experience (CPE). Top executives and appropriate groups are assisting to ensure that CPE strategies and tactics are employed. This includes developing the critical success factors from the proper segmentation and targeting model, to companywide feedback loops, to establishing accountability for CPE across the company. Three key pillars address the challenges Microsoft faces in providing critical improvements in the customer and partner experience:

- Become a more partner and customer-centric culture through employees and focus
- Provide a consistent, predictable, and quality experience of understanding and responding to customers/partners needs
- Structure, measure, and reward customer and partner care

The CPE initiative will be discussed in greater detail later in this case study.

3.10.2 Commercial Software Initiative (CSI)

This is to improve Microsoft's image and trust by engaging customers and partners about the value of the Commercial Software Model and the benefits of the Microsoft integrated software platform. Businesses, governments, and educational entities around the world are examining whether software known as "open source," "free," and "non-commercial" can deliver more value and benefit than commercial software produced by companies like Microsoft. Perceptions exist that open-source software is not only free, but more reliable and more secure than commercial software. Open source advocates are pushing for open-source software preference legislation in national and local jurisdictions that would block Microsoft's ability to compete. Competitors and other agencies are attempting to position Microsoft's products as too expensive for businesses, schools, and governments thereby creating a problem for the company. Microsoft's CSI initiative is focused on changing these perceptions. It is aimed at providing convincing evidence that: the commercial software model creates vibrant and sustainable local software economies; Microsoft's in-country partners retain a majority of the revenues from software solutions built on their platform; and that the Microsoft platform creates exponential customer value through their vast developer and partner community.

3.10.3 Partners and the Partner Ecosystem

This initiative is aimed at enabling partners to realize their full business potential by Microsoft delivering incredible business, technology, and relationship value to the worldwide Microsoft partner community. Partners influence the way in which the Microsoft products and solutions are adopted and deployed, and they drive how the value of Microsoft's platform is perceived and realized in the marketplace and the home. In short, Microsoft's success is dependent on a successful, profitable, and satisfied partner ecosystem.

Microsoft's 775,000-partner strong Partner Ecosystem is diverse. Channel partners identify their majority company focus in one of three dimensions; resellers, services providers, or ISVs. A large percentage of their partner business can also be identified in multiple sub segments. Microsoft channel-strategy and partner-management resources need to be applied uniquely across partner sub segments.

3.10.4 Go To Market Focus

These are the specific key solution areas that Microsoft's sales, marketing, partnering, and services teams will focus on in FY04. GTMs are the focal points for the company's sales, marketing, partnering, and services efforts in FY04. Each GTM maps to sales opportunities that address the most important customer needs and help partners and Microsoft achieve business priorities. The GTMs enable Microsoft to cross-sell multiple products and services and also orchestrate all of their internal resources around a common customer and partner need i.e. to achieve maximum revenue.

All of the corporate initiatives for FY05 either directly or indirectly affect the company's partner and customer relationships. This is due to the lowest partner satisfaction scores ever recorded in the history of Microsoft and the high number of partner complaints recorded in the Response Management System in 2003/4. See Appendix 7 for more details.

3.11 Microsoft's Partners

As can be seen from the four corporate initiatives for FY05, maximizing partner and customer value are now at the heart of most strategic decisions taken by the company. For almost its entire history, Microsoft has recognized partnering with other companies as a key to their success. As

the company has moved through its life cycle, partners are now at the core of Microsoft's business model. Worldwide, over 775,000 Microsoft partners sell, service, or integrate the Microsoft platform with their own products and services to meet the needs of customers. Partnerships are responsible for 96% of Microsoft's revenue, assisting the company to build long-term relationships with customers, increasing their operating efficiency, and extending the reach of the company's sales force far beyond anything they could possibly place in the field on their own.

Every one of the company's interactions with customers and partners is seen as an opportunity to build loyalty to the Microsoft brand. Loyal customers and partners generate long-term revenue, refer other potential customers and partners, and are well insulated from the competition. But the company has learned the hard way not to take loyalty for granted. Loyalty is affected by the customer's or partner's perceptions of the value they receive from their relationship with Microsoft and its products and services. These value perceptions are influenced by the cost of doing business with Microsoft, Microsoft's competitors, Microsoft's image within the industry, and the overall quality and performance of the companies' product and service offerings.

3.11.1 Industry Perspective

To understand the business needs of their customers and partners, Microsoft needs to grasp the unique needs of their customer's specific industries as well as the business needs that are common to all organizations. These two types of industry perspective are defined by Microsoft as vertical and horizontal industries.

3.11.1.1 Vertical Industries

A vertical industry is a general category of public or private sector organizations engaged in the same type of business. Telecommunications and financial services are examples of vertical industries. In every vertical industry, there are several segments. For example, manufacturing has thirty-five segments from chemicals to aerospace. Microsoft focuses its development, sales, and marketing efforts on a few targeted vertical industries. Industry experts in their Industry Solutions Group (ISG) continuously study and analyze industry trends and issues to guide the creation of Microsoft end-to-end business solutions that are uniquely suited to the needs of that industry.

3.11.1.2 Horizontal Industries

A horizontal industry is defined as a business activity that is common to any type of business. Examples include automating business processes, empowering employees, connecting to or keeping track of customers, integrating business partners, and developing and maintaining an agile core infrastructure. Microsoft and their partners have created solutions that integrate leading technologies, applications, and services into packages designed to solve these common business needs for both enterprise and small to medium sized organisations.

3.11.2 How Microsoft works with Partners

There are three core ways that Microsoft works with their partners:

3.11.2.1 Direct sales to customers expanded with partner applications and services

Microsoft sells solutions to customers directly and usually uses partner application/service components, or subcontracted partner services to expand the offer. This increases the breadth of the solutions that can be provided, and the technical expertise that can be offered to customers. It also, adds to the number of resources in the field who are building Microsoft brand awareness, and allows them to offer service and solution capabilities to customers that would not have been possible without partners. For example, using a partner like HP allows them to offer hardware support in addition to support for the Microsoft operating system. This model only constitutes 4% of Microsoft's revenue.

3.11.2.2 Selling to partners

Microsoft sells services to partners to support them in their efforts to service and sell Microsoft products in the marketplace. This represents a major revenue stream for Microsoft and an opportunity to develop long-term relationships with partners.

3.11.2.3 Selling through partners

Microsoft builds service offerings jointly with partners. The offering packages some Microsoft products and services with a partner's service to create added value or to solve a particular problem. In some cases these services are Microsoft branded and typically include a very visible connection to Microsoft. For example, Microsoft Authorized Premier Support (MAPS) and the Datacenter OEM Service offering are blends of Microsoft and partner services.

3.11.3 Types of Partners

3.11.3.1 Affiliate Partners

Externally, this program is branded as Microsoft Partner. Affiliate Partners include a wide variety of partner business models including resellers, value-added providers (VAPs), System Builders, ISVs, ASPs and other IT professionals that sell products or provide services to third-party customers.

3.11.3.2 Global Service and Technology Partners

Organizations in this group have signed a formal Global Alliance Agreement with Microsoft that commits them to a partnership through a worldwide effort. There are three segments to the Global Service and Technology Partner group:

- *Global Service Partners* – Provide the consulting and systems integration services to design, implement and support Microsoft-technology-based enterprise solutions e.g. (Price Waterhouse Coopers (PwC)).
- *Global Technology Partners* -The core focus of these partners is typically hardware, storage or networking technology; however, they often have a significant portfolio and services as system integrators, ISVs (Unisys, Compuware), and even offer outsourcing services (Unisys, HP).
- *Global Independent Software Vendors (ISV)* - Provide business applications built on the Microsoft enterprise platform to meet the specific horizontal and vertical industry Line-Of-Business (LOB) solution requirements of Microsoft's enterprise customers.

3.11.3.3 Microsoft Certified Partners

Independent companies that offer their clients new technology through consulting, deployment, remote and onsite maintenance, helpdesk support, packaged software applications, hosting services, training, and more. Microsoft Certified Partners include a broad range of expertise and vendor affiliations and have experience ranging from networking, e-commerce, collaboration, business intelligence, and other leading edge disciplines.

3.11.3.4 Managed Partners

Some partners are so critical or strategic to Microsoft business objectives, that they have an assigned Microsoft account manager. These are referred to as “managed partners.”

Whether or not a partner is “managed” has nothing to do with the level of engagement. There are Certified, Gold Certified, and even registered partners who are “managed” while others in these categories are unmanaged. Engagement with unmanaged partners is accomplished through programmatic engagement.

3.11.4 Partner Tools & Resources

Partner Technical Readiness Team

The Partner Technical Readiness team works with the Partner Program teams and the Microsoft field, to identify/prioritize the top technical readiness requirements by partner segment and portfolio. They develop training strategies that will deliver the right solution at the right time for each partner segment in order to support partners with training strategies that keep them on the cutting edge of Microsoft technologies and solutions.

Partner Portfolio Tool

The Managed Partners Portfolio Tool was created to assist with tracking partners capabilities in delivering Microsoft go-to market (GTM) areas. It enables business managers to assess partner's capabilities in delivering Microsoft portfolios. The tool also highlights a partner's strengths and weaknesses therefore outlining the areas to focus on improving. Partners are currently assessed by a number of different criteria, including roles and portfolio specific questions. There are plans for a more formal process and procedure to be formulated and implemented to lend greater credibility to the use and increase its usage.

3.12 Microsoft's Customer and Partner Experience (CPE)

"CPE will be one of two top priorities for the company in FY04. We all need to execute against the company tenets and exemplify the values in our day-to-day activities to drive true change in our customer's and partner's experience." -Steve Ballmer

Improving Customer and Partner Experience (CPE) is about earning partner and customer satisfaction, building trust and ultimately winning loyalty. Microsoft's long-term vision is to be known as a loyalty leader, both inside and outside their industry. This will be measured by the degree to which their customers and partners are satisfied, how often they recommend their software and their likelihood to repurchase software or renew contracts. To make certain each and every employee understands how they can improve customer and partner experience, CPE performance goals are a standard part of yearly performance planning and review.

The goal is to drive partner and customer-centric behaviour now and in the future. In addition, a variety of "listen, respond and improve" mechanisms are being put in place to improve Research and Development, and to improve the way Microsoft serves their customers and partners with their sales, marketing and services initiatives. The long term goal is to ensure that over time, the results of the current and future CPE programs and initiatives will transition to simply the way they do business at Microsoft.

3.12.1 Background of the Microsoft CPE Initiative

For several years, there has been great activity around Microsoft to drive Customer and Partner Experience (CPE) improvements; however, there hasn't been a shared vision around what an "excellent customer and partner experience" would look and feel like, and to rally the many activities toward a single, common goal.

The Corporate CPE Group researched and benchmarked global loyalty leaders in late 2002. The objective was to learn more about the foundation and infrastructure these companies have in place that enable them to cultivate high degrees of satisfaction and loyalty among customers, partners, employees, and channels. The research resulted in identification of twelve critical success factors common to all top loyalty leaders relevant to Microsoft's business.

From these findings, Microsoft built and deployed the world wide CPE Framework in 2003, comprised of the three key pillars - Culture, Listening and Accountability - which summarized the 12 CPE Critical Success Factors. See Appendix 8 for more detail on the critical success factors. These success factors are currently being used by the company to drive an excellent and

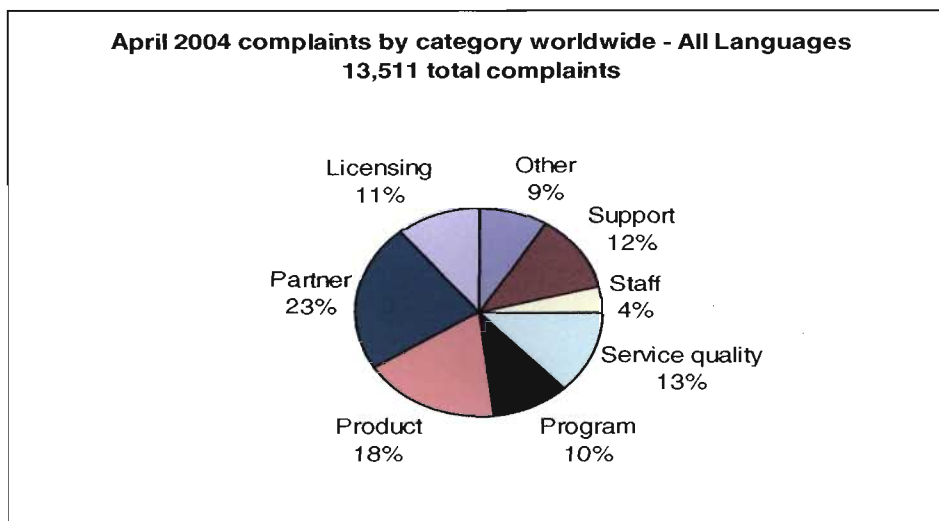
brandable experience for Microsoft's customers and partners. Additional key efforts such as the Microsoft Quality Customer Experience (MSQCE) and Trustworthy Computing (TwC) continued to make strides in 2003 targeted at improving customer and partner experience.

3.12.2 Microsoft's World Wide Top CPE Issues

In the monthly report which summarises the world wide customer and partner top issues that were submitted in the Microsoft Response Management system (RMS) and require corporate support for resolution, the highest ranking category for three months in succession since the inception of RMS has been the 'Partner' category coming in at 23% for April 2004. See Appendix 9 for statistics from February 2004 to April 2004.

The issues categorized on the pie chart have been identified as recurring, systemic and/or having significant impact on customer satisfaction as well as potential impact on customer and partners' future business with Microsoft.

Figure 3.1 Worldwide Partner Complaints for April 2004



Source: Internal Microsoft April FY04 CPE Newsletter

Stemming from the above graph, FY05 marks the transition from performance objectives or goals to commitments, an effort dedicated to driving greater focus, execution excellence, and

accountability for all employees. One of the company priorities to which all employees are required to align their commitments is customer and partner satisfaction and is aimed at increasing partner and through it, customer satisfaction.

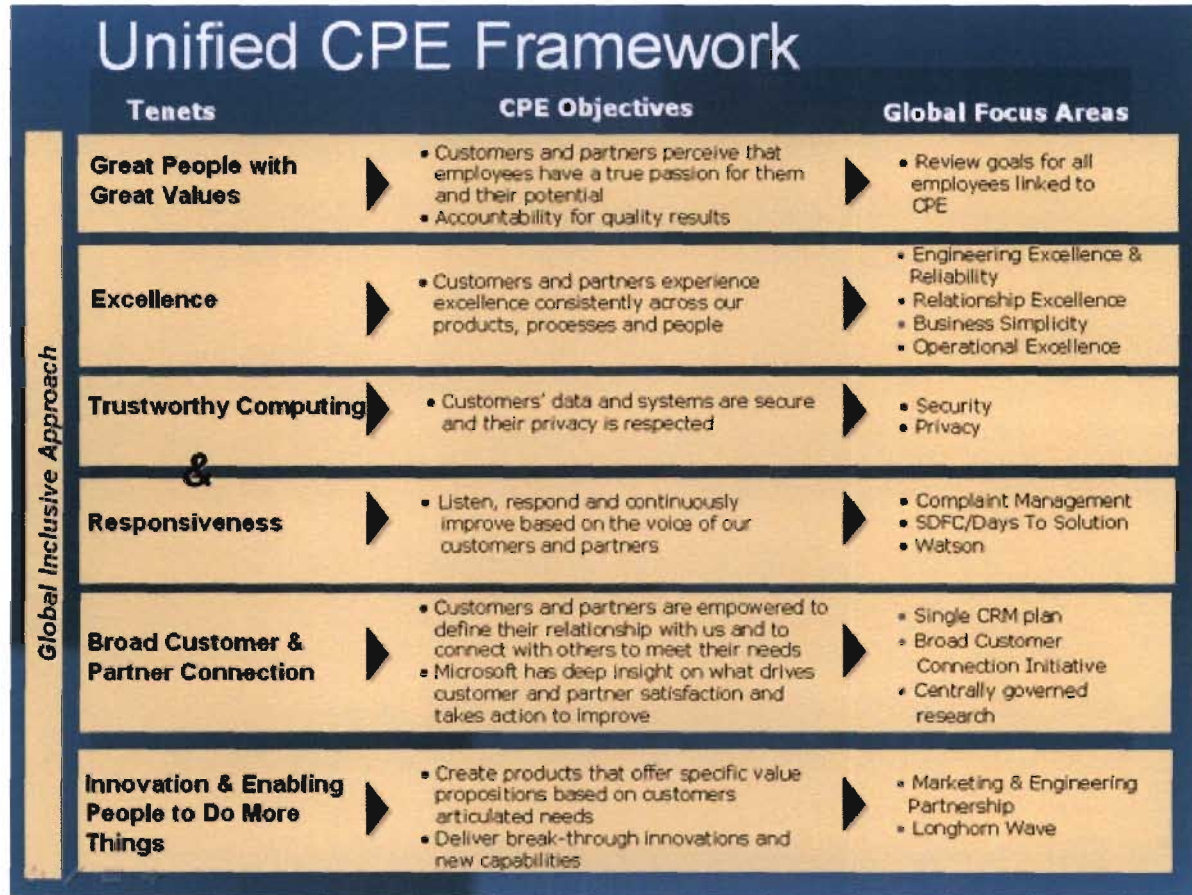
In quarter two of FY04, senior executives and key leaders throughout the company recommended unifying the customer and partner experience initiatives into a common vision and goal, bringing together disparate efforts to optimize resources and investments, and ultimately produce a greater impact on improving the experience for the company's customers and partners.

3.12.3 Evolution of the CPE Strategy

While the CPE strategy remains founded in the company tenets and the 12 CPE Critical Success Factors, going forward the strategy incorporates the work of MSQCE, TwC and other key CPE initiatives taking shape across the company. The Company Tenets and 12 CPE critical success factors create the long-term vision for excellence in their customer's and partner's experience. To drive action in the coming years the company plans to build their strengths in global focus areas that allow incremental increases in customer and partner satisfaction while they also build the stepping stones toward truly loyal partner and customer relationships.

The plan is for all these focus areas to be executed with a level of a global, inclusive approach in mind to ensure predictability and consistency in the company's customer and partner experiences, no matter what group or geography of the business they are interacting with. Each of the global focus areas have an assigned subject matter expert to assist cross-functionally and provide resources to the CPE Plan Owners. Figure 3.1 below provides more detail on the unified CPE framework linked to the tenets adopted by the company.

Figure 3.2 CPE Framework



Source: <http://smspweb/C2/Partner%20Program/default.aspx>

3.12.4 CPE Execution Plan

Groups of people throughout the world in MS have been identified and will be held accountable for developing and executing on a CPE plan aligned to a selected number of the global focus areas and are driven by a designated plan owner with the assistance of subject matter experts. Executives, plan owners and the associated organizations will be held accountable for CPE plan execution through the Business process reviews (BPR), Middle of the year reviews (MYR), Strategy Reviews, Staff meetings and performance review goals. A CPE Plan with executives and owners per LOB and division within Microsoft has been formulated to drive this initiative. See

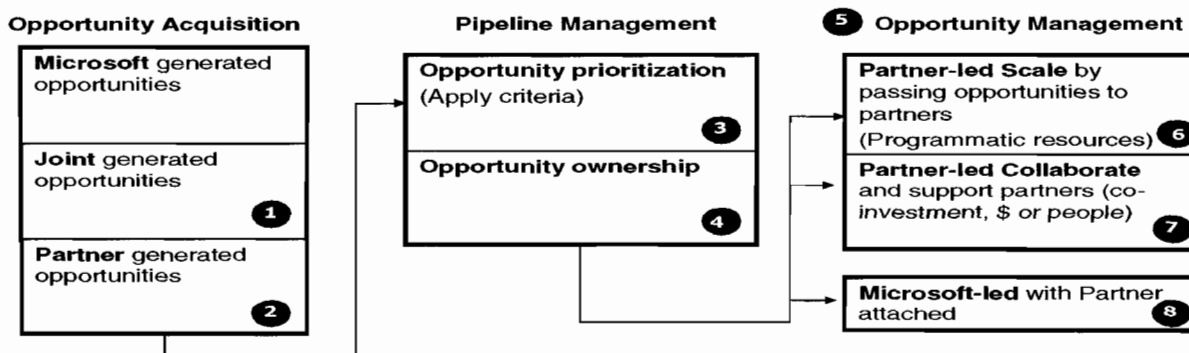
Appendix 10 for more details on the CPE Plan with executives and owners per LOB and division within Microsoft.

3.12.5 CPE and an Integrated Partner Centric Engagement model

3.12.5.1 Microsoft Enterprise Sales Model

The Microsoft Enterprise Partner Group (EPG) sales model formulated in the late nineties defined a new, closer way of working with enterprise partners. It was meant to expand Microsoft’s visibility into partner pipelines, generate more net new opportunities with and through partners, and reduce the number of partner opportunities with competitive technology. Enterprise sales management (via the Partner Account Manager role) was supposed to work to actively manage the Microsoft pipeline, plus the sum of managed partner pipelines. Partners were promised the ability to secure resources from the Microsoft account and specialist units, and Microsoft was to have the ability to leverage the partners selling resources. The following diagram outlines the Enterprise sales model:

Figure 3.3 The Microsoft Enterprise Sales Model



Source: <http://infoweb/default.aspx>

The model does look good on paper but, unfortunately was never executed upon in its entirety. This has led to inconsistent approaches to partner management in the Enterprise space which in turn gave rise to biased and unfair treatment of certain partners. This is one of the reasons behind the dismal scores received in the latest partner satisfaction survey, where the Enterprise partner group received the lowest partner satisfaction scores ever recorded in Microsoft’s history. The model has to a large extent been abandoned by the company due to the lack of management

commitment in driving its adoption and a lack of training provided to employees in using the model.

3.12.5.2 Microsoft Small and Medium Solutions and Partner (SMS&P) Selling Model

Partners are the primary sales force for the small and medium market targeted by Microsoft. Currently there is no formal framework that has been formulated to assist with engaging with these partners; however a variety of models sponsored by different and consistently changing management teams have been implemented over the years.

Currently leads are generated either by partners or customers who call Microsoft directly asking for advice, these leads are not entered into any sales/opportunity management system but are owned by the relevant partner account managers(PAM's) who are not monitored in terms of deals closed with partners but rather by revenue generated by partners. In most instances there is no collaboration/contact between the PAM and partner unless initiated by the partner.

3.12.5.3 Microsoft World wide Partner Program (MSPP) – Channel Management

Microsoft recently unveiled its strategy for delivering new value and benefits to its entire worldwide network of industry channel partners. At Microsoft's Worldwide Partner Conference, the company announced The Microsoft Partner Program (MPP), its new vision for channel success. MPP is delivered in a partner-centric approach intended to enable all partners to expand and evolve their businesses in the technology solution areas based on customers' needs.

It must be emphasized that the MPP is a model that is meant to manage the entire channel in its entirety; it does not have the capability or capacity to be used as a 1:1 partner engagement model.

Hence there exists a definite need to build a 1:1 partner engagement model for the companies strategically managed partners. See Appendix 1 and Appendix 2 for the requirements and benefits of the MSPP.

3.12.5.4 Microsoft Solution Selling Process (MSSP)

In FY04 Microsoft adopted a solution selling model that is focused on the customer's business drivers and provides a consistent process for customer engagements worldwide. The Microsoft Solution Selling Process (MSSP) aims to approach sales engagements from a customer-centred perspective, identifying and responding to customer business needs rather than leading with MS products and license offerings. MSSP supports solution selling in enterprises, while at the same time its basic elements apply to any type of sales engagement.

The Microsoft Solution Selling Process Model is made up as follows:

3.12.5.4.1 Discover Value

Step 1: Demand Generation - Defining an opportunity. What are the customers' needs, and which Microsoft offerings can best help them attain their goals? The evidence of value amassed during this stage will be crucial during the entire sales engagement.

Step 2: Prospect- Alignment of a GTM with the customer's needs, a deeper look at the decision-making process of the company is necessary. Who makes the decisions, and how do they define value?

Step 3 – Understanding the Customers' Needs - Each separate "audience" needs to be addressed, and the demonstration of business value must reflect an understanding of the pains of each audience, an assessment of how those pains will be alleviated, and an explanation of how a Microsoft offering fits in with the customers' business goals and objectives. Create a Value Proposition

3.12.5.4.2 Design Value

Step 1: Develop - In the Solution Strategy Briefing (SSB) the sales person will present the suggested value proposition to the customer, and refine it based on sponsor feedback. Here the partially qualified opportunity becomes fully qualified, and the value proposition is put to the test.

Step 2: Solution - with a fully qualified opportunity, the proposition can be analyzed for proof of the business value of the solution. Cost, benefit, and risk analyses is done.

Step 3: Prove - The findings are presented to the customer in an onsite Proof of Concept (POC) meeting. The salesperson demonstrates the capability of Microsoft to exceed the customer's requirements.

3.12.5.4.3 Realise Value

Step 1: Close - Negotiations with the customer are based on the demonstration of business value of the IT solution. Metrics that will need to be tracked during the support step of the engagement are agreed. This will be the measure of success or failure.

Step 2: Deploy - after the contract has been signed, the engagement enters the deployment step. This begins with the confirmation of the case for deployment, and the involvement of Business Value experts to support the process.

Step 3: Support - The support plan is finalized, executed, and its progress monitored. The metrics captured in the Close step are monitored and measured against the assessment in order to compile evidence to drive future deployments.

The MSSP is meant to assist the sales force to engage with customers early in the buying cycle and develop "trusted advisor" relationships with customers. However the cycle is incomplete and usually unsuccessful as there is currently an unattended need for delivering industry-leading solutions with or through partners which needs to be addressed. According to Gartner, "It is advisable, taking into account that 96% of all Microsoft Revenue is generated through partners, to include their partners in their selling process." Unfortunately it has been discovered through partner and customer surveys that the MSSP is seen as being totally customer focused and therefore fails miserably at integrating the managed partners into the sales cycle.

3.13 Summary

Over the last 20 years, Microsoft has created a \$32 Billion business, with over 12,000 employees in 72 countries! They have also created an ecosystem fuelling over 9.5 million jobs with resellers, ISV's, and service partners. They have a vibrant development and ISV community with 4000,000 developers subscribing to MSDN, 260,000 ISVs and 2800,000 resellers.

With these achievements on their track of record, Microsoft clearly stands for all proponents and detractors alike as a model of a business success story. However FY 04 started with some of the most formidable challenges: navigating through many challenges the company y faces, with Linux and OSS inroads like never seen before, with some of the lowest scores in customer and partner satisfaction and image and perception that the company has ever known, with many local and regional governments more distrustful about Microsoft, with a weakening economic environment and a slowdown in the company sales coupled with a weakening dollar against a strong Euro, and the recent European Union (EU) case ruling against Microsoft, all of this while radically reorganizing their field organization through the company's transformation efforts.

All of the above shows that being a business role model in 3 to 5 years from now involves much more than simply focusing on achieving the numbers and that harnessing the challenges stated above is the key to a new cycle of growth for Microsoft.

For Microsoft to realize its partner vision of becoming a Trusted IT Partner to the broader marketplace, it must first be recognized as an inclusive and responsible leader that listens and responds to the needs of its partners. Furthermore, every region needs to step up to owning the global agenda of Microsoft Corp, around market dynamics unique to each region, helping set the direction and shape the global vision of the company.

4 Chapter Four - Evaluation of the Case Study

4.1 Introduction

In the rapidly changing business environment it is vital that Microsoft builds and maintains superior relationships with the partners in its channel, especially their managed partners. Creating and maintaining those relationships is a complex and arduous process that requires great skill and diverse experience. Partners are looking to the company not just as a resource for technical knowledge, leads and funding they are looking to the company for leadership, value add and best practice ideas on how to make their businesses more successful. They need to partner in order to achieve their top line growth and meet other business objectives. The unique dynamic of partner relationships holds true here, i.e. if the partner is successful then Microsoft will be successful.

Because several viable options are available to their managed partners it becomes difficult to clearly differentiate the Microsoft partnership from all the others. Partners make choices based on the business strategy and personal benefits they will accrue from a particular relationship. They look at how well Microsoft understands their needs, how well the offered partnership matches those needs, how the partnership will help them achieve their objectives, and how consistent the partners interactions are with them. Depending on the level within their organisation, partners also have different perspectives on how they measure value. Some look at the details of what the partnership offers, others look at the value proposition the partnership contains, some focus on the overall results the partnership delivers and some use a combination of factors. Understanding which members of the partner organisation will be focusing on which area of the relationship is key to maintaining a successful and profitable relationship.

The MS CPE issue has multiple reasons for its initiation; one being the need for Microsoft to better understand the business of their managed partners. A shift from external versus internal focus, listening versus telling, solutions versus product focus and long term versus short term focus is required. This will enable the company to learn again the art of building up the business with the partner.

“Strategy gets you on the playing field, but execution pays the bills.” Gordon Eubanks, President and CEO of Oblix, Inc.

In a team environment, it is tough if not nearly impossible for the company to develop a compelling, consistent message without, a standard process or framework as a guide, a well coordinated team, a consistent message and a clear understanding of the partners business and personal goals. A blueprint for successful partnering is required to give the company a standard process as a guide, introduce PAMS/PEMS to the tools that support the process and shows them how to develop a compelling partner message from the partner’s point of view. The framework will assist in building and communicating the value of the partnership in order to increase the share of business the partner gives to Microsoft.

4.2 Key Findings

The word ‘partner’ has been overused and misused by organisations so much in recent years that it has been practically relegated to a ‘buzz’ word, a word that vendors, suppliers, companies and people use with passion, but have little action to back it up with. But a partnership is a unique type of relationship. It is different from a vendor/customer relationship and different from a provider/supplier relationship. It should be a relationship of equals where both parties have an equal investment, equal opportunity and share equally in the risk. This is not currently the case with Microsoft and their managed partners, the current ‘relationship’ is very one sided with the partner seemingly to sit on the loosing side of the scale.

If Microsoft intends to call the companies in the Microsoft distribution channel ‘partners’ then they need to treat them as partners and become an equal party to the relationship , share in the opportunity and the risks. As a starting point this means the need to gain a better understanding of what their managed partners are all about, how they make money, what challenges they face internally and externally, what goals they have in common and how they can best work together to achieve those mutual goals. Cognisance needs to be taken of why both parties need to work together, Microsoft needs partners because:

- They sell the companies products and technology to the end customer

- Microsoft has a 'through the channel partner' revenue model representing 96% of its revenue
- Partners add value to the products and technology in order for the end customer to experience real business value from the Microsoft platform
- Partners make the Microsoft products and services work in the real world by providing the necessary services and expertise to the end customer
- Due to their sheer size and number of products, the company does not have and will never be able to have a sales and field force that will be able to efficiently and effectively support and service their products around the world
- Microsoft would cease to exist in their current capacity without a partner channel; it is their extended sales force. Ultimately partners are the virtual sales and marketing arm of Microsoft.

Partners need Microsoft because:

- They need a technology platform upon which to build applications and real world value
- They want to focus on their core competencies of service or business applications software, hardware or distribution and not on software
- They want to work with a supplier that offers superior technology for their target markets

From the above it can be seen that Microsoft can never lose sight of the fact that they need their partners as much as their partners need them, some may argue that they need their partners more than their partners need them due to the large number of competitors in the market that provide similar or better benefits that match the partners needs.

Given the significant share of revenue covered by the Microsoft managed partner base and their current reluctance to always push Microsoft products pro-actively, a partner execution framework is essential in converting partners and at the same time achieving the company's' strategic CPE goals.

As part of their CPE initiative, Microsoft needs to identify and implement a partnering blueprint that will enable employees to successfully partner in the corporate arena and thereby increase both the partner and Microsoft's win ratios. Currently the emphasis, in the sales and engagement

models employed by Microsoft, is on the 'sales' aspect or the revenue generated by sales and not on the 'partner' or the value proposition that enables and empowers a partner to achieve their objectives while assisting Microsoft in achieving their goals.

In 2005 Microsoft needs to focus on driving tight alignment with both the Enterprise and the Small and medium segment teams at the regional and subsidiary levels to create more focus around a consistent partner engagement model for the company which is meant to flow into a customer acquisition strategy. This will enable Microsoft to increase penetration in all markets while striving for high customer and partner satisfaction ratings. Some of the reasons to support this include:

- Partners currently do not significantly push MS products, sometimes leading to customer scepticism on their value-added especially on the MS simple products such as Office.
- Key partner bottlenecks are early in the sales funnel, at 'consideration stage, specifically 'consideration to sell the latest versions of the products pro-actively.
- Accounting for 86% of revenues 'managed partners' deserve specific focus. PAMS are the most effective and direct levers to convert neutral partners and ensure their readiness. The PAM and PEM role is even more critical when it comes to competitive products in order to support growth.

Pitfalls in the current MS partner management engagement and execution reveal the following:

- Unclear partner selection, mostly based on past history, leading to frequent under-representation of low revenue/high potential partners such as influencers or important competitive partners.
- Lack of consistency in the partner engagement methods used around the world and in the different divisions
- Lack of a consistent, structured set of procedures and processes to engage with partners and add tangible value to the partner business.
- Lack of a clear value proposition from a partner perspective
- The revenue visibility is capped to a few days for resellers and a couple of weeks for influencers, due to limited business planning and forecasting skills

- Low level of partner face time (+/- 20%) frequently due to the ‘self fulfilling prophecy’ that PAMS do not have much to offer their partners.
- Infrequent or non-systematic measurement of partner and PAM performances, preventing objective assessment and timely corrective reactions.
- Disconnect between what Microsoft perceives as partner key business requirements and the actual pain points of partners.

There is currently a major disconnect between Microsoft issues and their managed partner issues.

Table 4.1 Disparity between Microsoft and Partner Issues

Microsoft Issues	≠	Partner Issues
Training and readiness – number of certified professionals, presenting products in best light, number of dedicated resources.		Uncertainty – what is the best revenue generating choice, how do we differentiate in the crowded market, how do we handle change in partnership programs and support?
Selling Cost – time and resources required to help, winning the deal through any partner		Lack of trust with – Microsoft as a company, PAMs as individuals, platforms or products markets
Forecast completeness and Accuracy – on a subsidiary, regional and world wide basis, planning is incomplete		Partnership Costs – how much dedicated resources are required, what training is required, capacity to meet expected sales and marketing activities, achieving ROI on expenses
Microsoft Goals – revenue, certification, market share, CPE, product innovation etc.		Pipeline confidentiality – are customers protected, who has access to the pipeline, will they be leakages?
Territory Coverage – sales and delivery capacity, customer options		Company Goals – revenue across multiple LOB’s, profitability and margins, customer satisfaction, brand reputation, growth
Partner Mindshare – Platform and product competitors, other LOB partnerships, piracy		Internal Issues – politics/personal agendas, competing platforms and products, resource

	availability, focus
Partner loyalty – partner dedication changes between partnership reviews, satisfaction levels	

Source: <http://infoweb/default.aspx>

4.2.1 Role of the Partner Account and Partner Engagement Manager

Strengths PAM – Microsoft PAM really drives additional revenue and raised CPE:

1. Some PAMS establish and maintain very good relationship with certain managed partners which lead to increasingly high satisfaction levels with those partners in particular
2. Some partners consider the access provided by some PAMS to pre-sales and technical resources considered to be very valuable to their businesses.

Weaknesses PAM – PAM performance can be strongly improved:

1. There is little structure in the way partner assessment and resourcing by the PAMs
2. The business planning processes is very weak and there is limited reporting and forecasting techniques available, especially for influencing partners
3. The efficiency and effectiveness of PAM's day-to-day operations (daily planning and content delivery) is found to be wanting. Relevant topics and information is not effectively communicated to partners and limited marketing support is available to provide PAMS with appropriate content.
4. There is limited activity measurement and monitoring skills in place for PAMs as well as limited transparency on partner performance and pipeline and on PAM performance.
5. Currently resource allocation to partners is based purely on MS revenues, no further assessment of possible risks, potential and quality of relationship is done.
6. The experience and skill level of most PAMS is lower than expected, this combined with a lack of tools, support, process and procedures makes the partner experience negative.

4.2.2 Microsoft Partner Program – Channel Management

The new Microsoft Partner Program aimed at Microsoft's entire channel worldwide represents a new concept in partner relationships for the company. The program is a single program that consolidates all of the previous partner channel offerings into an integrated framework. It is designed to recognise partner expertise; reward partners for the total impact they have in the technology market place; and deliver value. The program is open to organisations of all sizes and to those representing all sectors of the technology industry.

The Microsoft Partner Program builds relevance and value into the tools and resources provided to help partners succeed in the market on a general level which was lacking in the past. There are benefits and generalized resources to support all stages of the partner business cycle, helping them to plan their business, build and maintain expertise, market and sell, provide service and support and retain customers.

The channel partner program adds major value to partners on a general level but it must be remembered that this is Microsoft's way of reaching and interacting with the entire partner base breath, it does not provide a framework for 1:1 depth engagement with strategic partners. This is a gapping hole that needs to be addressed.

4.2.3 Response Management System

The RMS tool is a step in the right direction for the company as it is a facility that enables the collection direct information and intelligence from the partner base. This can be labelled the 'voice of the partner and customer' and shows commitment on Microsoft's part to listening to their partners and customers. Currently, as the project is in its pilot phase, the tool is only accessible by a select group of partners worldwide, in FY05 the tool will be rolled out to the entire base of Microsoft partners worldwide. Collecting and analysing this sort of data is key in improving satisfaction, however partners and customers alike will now be waiting to see what Microsoft does with this information that they have provided. Excellence in execution is key in this space as it will build credibility and loyalty with partners.

4.2.4 CPE initiative

The evolution of Microsoft's business to becoming a loyalty leader as well as an industry leader is not a simple change that the company has to go through. It's a journey that Microsoft started two years ago, and the company is only now beginning to see early signs of positive change in certain arenas. One key to Microsoft's future lies in their ability to improve partner and customer satisfaction, with their products, services, people, and their approach to providing leadership in the industry. The results from the most recent Customer and Partner survey continue to show that company is lagging behind customer and partner expectations and their competitors in satisfaction levels. The effort to improve customer and partner satisfaction is called 'CPE': Customer and Partner Experience. This is one of the key initiatives the company is currently focusing on.

Executing on the CPE initiative will help the company place renewed focus on building partner satisfaction that ultimately leads to loyalty. By aligning their CPE efforts around the Company Goals, Values, Tenets and other key action areas, the efforts to improve customer and partner satisfaction will be streamlined, simplified, and unified. All employees need to be involved at all levels, from a divisional level, to daily outlook and approach, to action-driven performance review goals for every employee.

The benefits of this coalescence will be 1) a focused, cross-company intelligence for solving critical customer and partner issues end-to-end, and 2) a collaborative focus to address the drivers of satisfaction (See Appendix 11 for more detail on satisfaction drivers) by building proven loyalty leader critical success factors. Under the direction of senior executives Kevin Johnson and Jim Allchin, which shows senior commitment, the CPE Strategy for the Company is evolving to bring the isolated and varied pockets of CPE activity together in FY05 and drive a holistic approach for maximum overall impact to customer and partner satisfaction.

There is no silver-bullet solution, success lies in getting the fundamentals correct first and then building on that platform. By considering customer and partner impact for every significant decision, the company will continue its journey towards the ultimate shift to a customer and partner-centric culture.

4.2.5 Partner Story

Current partner categories include Strategic, Major, Corporate, Medium and Small business segments.

- Overall partner satisfaction is low; Microsoft still trails on most of its competitors in this regard.
- It's not all about products and security. Engagement and value is what really matters. Microsoft can differentiate from their competitors and improve satisfaction by making engagement with partners' structured, predictable, easy and value adding.
- Expectations have broadened. Partners have extended their definition of value to include product use and the ease of doing business with Microsoft. Partners continue to express significant frustration with the sheer hassle of doing business with Microsoft. The company must meet these broader needs to drive up satisfaction.
- Senior leadership needs to drive systematic approach, so that the impacts of business unit level investments scale broadly across the organization.

Once again there is no silver bullet solution. Satisfaction driver analysis shows that, beyond addressing security/product quality, the company can most effectively increase partner satisfaction by improving "engagement." Engagement includes lowering the hassle factor, but it also means working through and with partners in ways that make customers more productive at what they want to do. This effort has to go well beyond delivering great products or solving single issues. Microsoft has a strategic opportunity to use partner "engagement" to gain competitive advantage, as no competitor appears to meet or exceed those needs satisfactorily today.

Although the company has many "engagement" related initiatives currently underway, they need to optimize their investments by quickly identifying and expanding those projects that have the greatest potential to scale up and out across the organization such as a partner execution framework. Tools and processes to support Microsoft's investment in customer/partner engagement must include investment prioritization criteria, aggressive results tracking, forums for best practice sharing, and a rigorous discipline with respect to both investing and divesting.

4.2.6 Partner Engagement

Key to increasing partner satisfaction at Microsoft is building stronger, deeper relationships with managed partners. Much more than just focusing on revenue, the company needs to show how the relationship with Microsoft assists the partner organisation, and remove the obstacles and challenges that are preventing partners from achieving their business objectives. Retaining partners means building and maintaining a 'trusted advisor' relationship with the key executives in the partner organisation.

To partner successfully, a company must tailor the partner message to the unique needs of every partnership agreement and the key players within that organisation. There are many benefits to this approach:

- The company becomes more creative in the way it presents and packages the components of its partnership agreements.
- They become more competitive, because the competition cannot predict its behaviour as easily
- It will present a more compelling relationship, which will encourage the partner to invest more in the partnership
- The PAM/PEM and the company as a whole becomes a 'trusted advisor' because they understand the partner business better and look at everything through the eyes of the partner as well.

In his book "The trusted advisor" David Maister defines a trusted advisor as 'the person the client turns to when an issue first arise, often in times of great urgency, a crisis, a change a triumph or a defeat....' In order to gain these benefits, Microsoft must adjust the way the company currently works. It is nearly impossible to elevate a relationship with a partner to 'trusted advisor' status if the company does not focus on the partner's needs and requirements. As Microsoft works to improve their partner relationships they need to strive to achieve trusted advisor relationships with at least some of their partners in their portfolio. This will benefit them in accelerating the efficiency and effectiveness of those partnerships.

4.2.7 Key Feedback Tools

There currently exist a few key events and tools which the company uses to measure the pulse of partner satisfaction. These are crucial to collecting feedback from the Microsoft partner community and also shows the company's commitment to listening to the needs and requirements of partners:

- Worldwide Partner Conference – targeting 5000 partner executive attendees annually. Partner evaluation forms are handed out. The company needs to use the information gathered wisely to create loyalty in this 'executive' segment as this is where the key business decisions are made.
- Worldwide Partner Forum - quarterly forum across competencies to share strategy, leadership and feedback with a select set of Enterprise and SMS&P partners. The company needs to use these sessions as a conduit to get their partner and strategic messaging to the broader base.
- Response management system (RMS) – currently this tool is only accessible by a select group of partners, in FY05 the tool will be rolled out to the entire base of Microsoft partners worldwide.
- Monthly managed partner satisfaction surveys – currently this type of survey is only done voluntarily by certain PAMs in certain countries. There is no consistent format or process that is followed. The survey needs to be made mandatory for all PAMS and PEMS to complete monthly in order to evaluate the regular on-going satisfaction of the managed partners. Action plans are developed and executed monthly to ensure healthy partner satisfaction ratings.
- Annual Partner Satisfaction survey – once a fiscal the entire Microsoft partner base is surveyed to measure NSAT ratings, once again it is all about execution, and the partner community is waiting to see the actions from a Microsoft point of view to address their issues.

4.2.8 NSAT Metrics

Net Satisfied partners (NSAT) = dissatisfied partners (DSAT) less very satisfied partners (VSAT)
NSAT is the key measure for Microsoft subsidiaries around the world when it comes to partner satisfaction. The table below describes the overall NSAT targets globally by partner segment with a view out three years to establish the partner contribution to the executive NSAT targets at

Microsoft. A key tool in achieving these goals is the implementation and drive for adoption of a Partner Execution Framework.

Table 4.2 Microsoft World wide NSAT Targets for the next 3 years

Nsat Targets	Weighting	FY03	FY04	FY05	FY06	FY07
MS - Classic	-	-	-	-	-	-
Mgd Partner	25%	125	135	137	139	140
Certified Non Mgd / telemanaged	25%	116	124	128	131	134
Affiliate / Registered	25%	99	123	125	127	131
Mgd ISV	25%	123	135	142	143	144
Weighted total	100%	116	129	133	135	137

Source: <http://infoweb/default.aspx>

4.3 Competitive and External Analysis

An investigation into Microsoft’s key competitors reveals the following:

4.3.1 IBM

4.3.1.1 Strengths

- 25% of IBM revenues come from annuity-like contracts
- Open standards, cross-platform applications and Linux undermine its chief competitors (Sun & Microsoft)
- Continues to invest heavily in its partner base, to drive applications towards its Linux and Unix server lines
- Dominant in application servers, database and Unix servers - key building blocks of internet infrastructure
- IBM is the “gold standard” for complex strategic e-business projects for large enterprises
- Partnerships with the majority of key independent enterprise software application vendor
- IBM’s new PartnerWorld Channel Program is hailed as one of the best channel and partner programs currently in existence as value is created for partners.

4.3.1.2 Weaknesses

- IBM’s divisions continue to operate independently
- Concern about IBM’s domination of Linux by its distributors and partners

- Investment has yet to translate into proportionate demand for its Linux services and continues to act as a drain on resources, e.g. investment in SuSE
- Personal systems and Microelectronics businesses continue to act as a drag on its overall performance
- Services offer lower margins than products, but continue to account for a growing proportion of revenues

4.3.1.3 Opportunities

- IBM believes its hosting services will be a \$5bn business by 2005, driving software sales
- IBM is targeting SMBs, where it predicts strong growth
- By extending its branding onto consumer goods such as Nintendo's Game Cube, IBM aims to strengthen its appeal to the consumer market
- Java, Linux and OSS exploit developers enthusiasm
- WebSphere, business innovation services and outsourcing continue to be amongst IBM's fastest growing markets

4.3.1.4 Threats

- IBM is currently making too many enemies due to its success. Competitors feel that they have to merge to survive, for example HP and Compaq
- Introduction of hosting services effectively means that IBM is fighting itself for sales of hardware and software
- If the momentum behind OSS and Linux slows down, so too will revenue growth and partner base
- Linux threatens IBM's UNIX revenue base
- Growing threat of IBM to Microsoft, Sun, Oracle and EMC results in these companies becoming more aggressive against IBM

4.3.1.5 Performance

Overview

- Q2 2004 EMEA revenues were up by 1% to \$5.7bn, while globally revenues declined by 6%

- Hardware revenues in EMEA are expected to decline by 6% in 2004, software revenues increase by 3.8% and services by 8%
- Germany and Italy are IBM's best performing markets, the UK the worst
- IBM's long-term outlook for its EMEA operations is positive

Products

- Service revenues account for close to 41%, software 15% and hardware 39% of total revenues
- Services are now the largest business segment, service expertise attracting customers and ISVs, wraps around software and hardware
- Hardware revenues are flat, microelectronic, mid-market server and storage revenues continue to grow
- WebSphere and DB2 continue to perform strongly, while Lotus and Tivoli revenue are stagnant due to product transitions.

4.3.1.6 Product Range

Services

- IBM is increasingly solution-selling, maximising its revenues per client
- Outsourcing demand remains strong and server consolidations are driving a healthy ITS business. BIS demand in EMEA remains strong
- IGS revenue is generated from Outsourcing (40%), Integrated Technology Consulting (36%) and Business Innovation Services (24%)

Software

- S/390 recurring software revenue is key, with close to 60% of IBM's software revenue in 2003 deriving from IT. The S/390 installed base continues to expand WebSphere, MQ Series, and DB2 for open systems, plus Lotus/Domino and Tivoli system management software are all expected to post double-digit revenue growth in EMEA in the coming year

Hardware

- IBM is particularly pleased with the momentum behind zSeries servers and stated MIPS growth of more than 40% year-on-year

- Customers have driven growth by using mainframes for consolidation or adopting Linux to centralise dispersed workloads like file, mail or print serving
- Microelectronic revenue decreased substantially, principally due to the cyclical downturn
- IBM's Unix revenues are falling but not as rapidly as other competitors in the Unix market space

4.3.1.7 Marketing

Budget

- IBM's 2004 EMEA advertising budget stood at \$426m
- IBM traditionally allocates 40% of this budget for above-the-line advertising; Below-the-line media spend accounted for the rest.
- EMEA media expenditure is expected to increase at 2%-5%, as IBM consolidates its marketing activities and establishes a global marketing strategy.

Marketing Strategy

- IBM's marketing strategy falls in line with the corporate-wide branding strategy
- IBM's "solutions for a small planet" and "e-business" campaigns put emphasis on positioning IBM as a brand in tune with customers' requirements
- Key message: "IBM products deliver a high return on investment"
- IBM maintains a strong emphasis on developing and promoting its brand.

4.3.1.8 Resources

Organisational Issues

- Since July 2002 IBM has laid off or announced future lay-offs involving close to 4,000 staff worldwide, representing in excess of 1% of its global workforce
- EMEA executives expect job cuts to impact the region more heavily in the coming months than the US
- The German, UK and Italian markets are expected to be the most heavily affected due to the concentration of IBM employees in these countries.

Channel Issues

- In the first half of 2004, sales through IBM business partners grew by 7%

- Close to 40% of IBM's revenues were delivered through the channel in 2003
- IBM has increased its support of the channel, e.g. pumping more than \$50m into a revamped PartnerWorld for Software program
- The amount of training dollars available to IBM's partners is doubling to \$50,000 per partner location.

4.3.1.9 IBM Summary

- EMEA revenue growth outperforms worldwide growth
- Hardware is the only product line to decline in Q3 2004
- IBM continues to invest in open standards and cross platform applications and exploit developer enthusiasm
- IBM's agnostic stance enables it to partner with a large number of ISVs
- IBM has identified SMBs as a key revenue driver in 2005

See Appendix 12 for a comparison of the MSPP and the IBM PartnerWorld program

4.3.2 Novell

4.3.2.1 Strengths

- Good technology
- Large installed base

4.3.2.2 Weaknesses

- Poor strategy execution
- Limited offering to Small and Medium enterprises(SME's)
- Complex products require complex selling

4.3.2.3 Opportunities

- Network Solutions market
- Large enterprises
- NetWare 6 upgrades
- Partnerships with systems integrators

4.3.2.4 Threats

- Linux & Microsoft erode installed base
- Development of network management tools by competitor OS vendors

4.3.2.5 Performance

Overview

- Efforts to reshape themselves as a provider of Network solutions are proving very difficult
- 2003 revenues declined 12% year-on-year
- Without CTP services revenues year-on-year decline was 18%.
- Revenue will stabilise in 2004 as a result of CTP and NetWare 6 revenues.

Products

- Directory Enabled OS (NetWare) declined 30% in 2003 to \$423m. The release of NetWare 6 should stabilise revenues
- Management/Collaboration declined 14% to \$245m and growth will be flat in 2004
- Net Directory Services grew 4.6% to \$31.3m and Net Content Services grew 27.5% to \$6.4m
- Services grew 15% to \$214m but this was entirely due to the CTP acquisition

Products Overview

- NetWare 6 released Q4 2003
 - Award for Technical Excellence accolade from *PC Magazine* in Nov 2003
 - Nominated Best Networking Software at COMDEX 2002
 - iFolder and iPrint extend NetWare functions to the web
- Net Directory Services
 - Very slow growth
 - Moving into wireless device management by acquisition of Callisto software
- Net Content Services
 - Fastest growing product line at Novell but only accounted for \$8m in 2003
- Education and Services
 - Growth from acquisition of CTP
 - Unclear how CTP, which is strong in EMEA, will drive licence sales

4.3.2.6 Marketing

- Marketing has minimal low impact
 - NetWare 6 launched and went unnoticed
 - Marketing budget very small compared to competitors
 - Marketing resources will be centralised in the US and heads are being lost in EMEA
- Product complexity requires new approach
 - Targeting system integrators and solutions providers
 - Training and support programmes required for partners
- Novell's marketing strategy and brand is confused
 - CTP positioning still unclear
 - Is it a Product or Services company?
 - What is Novell offering the SME sector?

4.3.2.7 Resources

Organisation issues

- 19% reduction of the workforce or 1,400 people
- Continual state of reorganisation over the last 12 months
- Departure of Eric Schmidt and appointment of Jack Messman as CEO
- Symbolises the departure of product developers and the ascendancy of the consultants
- Reduction of sales heads as product range and business model become reliant on large enterprises

Channel issues

- Novell has had limited success in recruiting new partners
- No additions to CSC, Cap Gemini and Deloitte Touche
- New "Clear Channel" initiative launched in December 2002 to eliminate channel conflict but has not been seen as focused or successful by partners.

4.3.2.8 Novell Summary

- Efforts to reshape itself as a provider of Network Solutions are proving very difficult

- NetWare 6 confirms that Novell now has little to offer the SMB sector
- The senior management team is in a constant state of flux and has a poor track record of strategy execution
- The Content and Directory Services segments are too small in both value and growth to make a significant impact on the market
- Despite the acquisition of CTP and numerous channel initiatives, a successful model for Novell's newer products has failed to emerge

4.3.3 Oracle

4.3.3.1 Strengths

- Leading brand in Database market
- Large installed base
- Growth in licence renewal and product support
- Good at customer 'lock-in'

4.3.3.2 Weaknesses

- Losing database share to DB2
- Perceived to be expensive; availability of cheaper alternatives eating into market share
- 'Piece part' manufacturer

4.3.3.3 Opportunities

- Application server market
- On-line services for the SME sector
- Application sales will drive further database sales

4.3.3.4 Threats

- ISVs switch to DB2 or SQL
- Competitor offerings more tightly integrated into complex solution offerings
- Market saturation and slowing adoption

4.3.3.5 Performance

- Accelerating worldwide weakness as new license sales declined 27% in Q2 2003
- Services revenue is flat
- Overall EMEA revenue decline of 2% in Q2 2003
- Database sales declined 6% in Q2 2003
- Application sales declined 41% in Q2 2003
- Oracle continues to struggle to gain traction in the applications business but growth is high relative to the rest of the market
- Database business is losing market share to Microsoft and IBM
- Executives predict return to growth in Spring 2005

4.3.3.6 Product Range

Database

- Release of Oracle 9i in 2003, with key enhancements around cluster scalability, online operations, data analytics and ease of use.
- Decline of 5% year-on-year in
- Growing more slowly than IBM's DB2

Applications

- Applications decline less severe in EMEA than the rest of the world
- Initial quality problems have been resolved
- Close to critical mass of reference sites
- Targeting Business Enterprise Application(BEA) customers with Oracle application server

Services

- Consulting and Education services is declining as Oracle encourages partner development
- Support is the fastest-growing business area as Oracle moves to on-line model

4.3.3.7 Marketing

- Worldwide sales and marketing costs fell by 8.5% in Q2 2003
- Despite economic pressures, Oracle's marketing budgets are holding up, with annual advertising expenditure remaining at about \$206m

- Oracle continues to direct efforts towards the printed media and influencing business decision makers
- Oracle has spent \$70m worldwide on the 'Unbreakable' ad campaign and plans to send a further \$30 million.
 - Claims it has been its most successful campaign to date
 - Attracting hackers to challenge the claim
- Over the next six months Oracle plans to become more aggressive promoting web-services

4.3.3.8 Resources

- Q2 2003 headcount down 2% from peak of 43,308 nine months ago
- Pay freeze implemented at the beginning of 2003 will continue until the middle of 2004
- Technical staff being lost to systems integrators
- Operating costs have fallen 10% year-on-year as business is moved online
- Market is increasingly approached through the Channel and supporting partners
- Pursuit of applications licences is diverting database revenue to DB2

4.3.3.9 Oracle Summary

- Oracle claims its revenues have stabilised and expects an overall decline of 15% in 2004
- Continues to defend database market share and use customer platform to drive application sales
- Application Server business grew 50%+ year-on-year and is set to be Oracle's fastest growing product going forward
- Seeking to attract SMEs with hosted solutions
- Keeping services headcount flat and enhancing relationships with SIs

4.3.4 Sun Microsystems

4.3.4.1 Strengths

- Incorporating SOAP, Java and XML, Sun's web services proposition is strong
- Close to half of the world's developers already use Java
- The release of US3 refreshes Sun's hardware line-up

- Product line provides the infrastructure required by the fast growing wireless and hosting industries
- Remains the standard in Telecoms infrastructure
- Has Java as a competitive weapon

4.3.4.2 Weaknesses

- Dual O/S strategy: LINUX/Solaris
- The threat of Linux
- Weak storage portfolio
- Proprietary hardware
- Expansion into unfamiliar oil, gas and healthcare markets stretches Sun's resources
- Confusion of hardware and software strategy in the market

4.3.4.3 Opportunities

- Success in the Telecommunications segment could help establish the next generation wireless segment
- Liberty Alliance will allow Sun to offer an alternative to Microsoft's Passport and generate demand for its products
- Focus on bringing infrastructure, e-commerce, wireless and portal based solutions to small and medium-sized enterprises (SMEs)
- Commitment to developing its storage line-up enables Sun to capture greater revenues from hardware

4.3.4.4 Threats

- Sales are being undermined by the buoyant market for second-user hardware following the collapse of many dot-com companies
- Over reliance on high-end servers has over-exposed Sun to cuts in corporate IT spending
- IBM is challenging in the Unix market segment
- Linux and Windows Server 2003 will potentially push Sun into the niche high end
- Possible loss of control of Java

4.3.4.5 Performance

Overview

- Revenues declined by 43% year-on-year during Sun's Q1 2004
- European revenues fell by 38% year-on-year to \$808m, to account for 28% of revenues

Products

- Sun is suffering from the effects of price pressure in the low-end server market
- Sun claims to be hitting its targets with its high-end "Starcat" line
- Both hardware and software revenues fell in 2003
- The only revenue line that sustained any momentum was SunService, which increased revenues
- The underlying threat of recession and general economic uncertainty suggest a gloomy year for Sun during 2004

4.3.4.6 Product Range

Software

- Concentrating on B2B infrastructure, Sun aims to add Web services to its Java platform and iPlanet products
- Interested in finding a migration plan away from the Microsoft's monopoly, Sun has released in Beta version StarOffice (6.0)
- Sun is pushing hard in wireless technologies through its membership of the "open mobile architecture initiative", which includes AT&T Wireless, NTT DoCoMo, Vodafone and Nokia

Hardware

- Sun is set to refresh its workstation line-up with a 1.05GHz version of the UltraSparc III processor
- Continuing the battle for the fastest Unix server, Sun now offers its 900 MHz UltraSparc III processor in its midrange server line. Previously the fastest processor Sun offered in this line was 750MHz

- Sun is targeting Wintel customers with the release of its new entry-level server Sun Fire V880. Professional Services offers customers assistance in NT Migration and server consolidation
- Sun continues to develop its storage line-up through acquisitions (HighGround) and partnerships (Hitachi)

4.3.4.7 Marketing

Budget

- In 2003, Sun's EMEA advertising budget was \$20.4m, although the majority of advertising funds are channelled through its partner funding programmes
- The US's control of the worldwide budget reinforces its control over the regions and limits the independence of the local approach to the market
- Sun executives report a tightening of marketing and communication revenues since the beginning of the year
- The EMEA budget is broken into 10% for MEA, 10% for Central Europe, 60% Northern Europe and 20% Southern Europe.

Marketing Strategy

- The activities of each country are restricted by Sun's use of a central media-buying agency; this ensures a common quality and message in its approach
- Sun stresses differentiation at the product level in its marketing messages
- Sun targets directly its customers' senior management
- Sun executives predict a pronounced shift away from targeting the financial service and telecommunications communities toward the health care, retail and service sectors.

4.3.4.8 Resources

Organisation issues

- Sun employs close to 9,000 staff, 55% of which are located in its largest revenue generating markets, the UK, France, Germany and Italy
- In May Sun's Scottish employees were informed that they would lose three months of their salary increase in a drive to cut costs

- In Germany up until September 2003, Sun had not implemented the US model of mandatory holidays, preferring to scale down international travel and non-essential costs
- Despite the current slowdown, sales quotas remain set at last year's levels.

Channel issues

- The Linux threat has forced Sun to focus on the developer community
- To target the ASP market Sun announced its Destination ASP programme which aggregates its entire offering
- The recent launch of the Sun Channel to Developer Access Programme strengthens the utilisation of its partner base
- Sun's EMEA Online Service Centre (OSC) centralises its service offering
- Sun has created a new category in its iForce partner programme - 'volume channel provider' - to target the small- and mid-size business (SMB) market.

4.3.4.9 Sun Microsystem Summary

- EMEA performance is now slower than the US
- The SunFire V880 positions Sun against Wintel
- Sun is restructuring its channel to increase sales from SME's
- Marketing budgets are increasingly allocated towards Sun's partner base
- Wireless, Hosting and embedded devices are projected to be key revenue generators for Sun
- XML, SOAP and Java are bolstering Sun's open source credentials

4.3.5 Lindows

4.3.5.1 Strengths

- Channel partner and re-seller networks
- International distribution channels

4.3.5.2 Weaknesses

- Loss of brand equity after Operating System(OS) name change

- Profit model (free or low-cost of Linspire OS adversely affects ability to charge for licensing directly to consumers)
- Weak cash position (ended 2003 with \$250,000 cash)
- Accumulated deficit of \$11.86 million
- Losses of \$4.1 million on \$2.1 million in revenues for 2003
- Will pay \$10.4 million from IPO (estimated at \$57.5 million) to CEO for repayment of loan
- Click-n-Run software lightweight, may need augmenting for full functionality

4.3.5.3 Opportunities

- Anti-Microsoft sentiment in Europe (particularly Netherlands and Benelux) where Lindows sales were blocked during lawsuits
- Niche market of selling to cost-conscious consumers who are looking for a bare-bones PC

4.3.5.4 Threats

- Competition from Red Hat, Novell, Turbolinux, Mandrake, Xandros

4.3.5.5 Strategy

- Go after low-end OEMs with low-cost licensing plan to make Linspire attractive to them
- Focus on desktop and laptop platforms rather than servers
- Currently available in 120 countries; plan to target emerging markets
- In conjunction with Canadian government, expect 30,000 Linspire machines to be deployed within a year
- Linspire Education Program - Started program for academic institutions to install Linspire on all their desktops for \$500
- Linspire Insiders program - support other Linspire operating system users through postings on message boards and forums. Linspire Insiders often become Linspire Consultants

4.3.5.6 Products

- Linspire 4.5
- LinspireLive
- Linspire Laptop Edition
- Linspire International Editions
- Desktop Linux Enterprise Assessment Kit
- Linspire Media Computer
- Linspire WebStation
- Linspire Business Station

4.3.6 Red Hat

4.3.6.1 Strengths

- Strong cash position and investment backing
- Vendor partnerships
- OSS community support
- Engineers with deep Linux knowledge base
- U.S. and WW market share (69.1% share of WW server shipments, 41% of all WW Linux OS revenue for 2002, IDC 9/03)
- Channel – owns 55% share of indirect market (IDC)
- Multi-architecture support

4.3.6.2 Weaknesses

- Desktop penetration at profitable volumes
- Pricing (user resistance to higher licensing & support fees and difficulty of making profit margins on services)
- Cracking the European market and channels

4.3.6.3 Opportunities

- Backlash against Microsoft by consumers and governments
- Corporate IT cost-cutting

- Selling desktop to server customers such as Cisco and Amazon

4.3.6.4 Threats

- Novell/SuSE software strengths
- Novell and SuSE customer base (esp in Europe)
- Novell may beat Red Hat to market with OEM deals to preload SuSE
- Intellectual property claims similar to SCO
- Kernel fragmentation
- Support revenue siphoned by big vendors such as IBM, which offers customers support through IGS

4.3.6.5 Red Hat Summary

Table 4.3 Summary of Red Hat

Red Hat	
Product(s)	Red Hat Desktop
Pricing	\$2500 starter subs for 10 desktops; \$13500 for 50; \$3500 hosted
Support	Subscription includes 30 days phone support; 1 year web helpdesk support
Customers Targeted	Enterprise and SMB. Initial focus on certain enterprise workers such as accounts payable, customer services, call centers
Customers	Has a base of Linux WS users at Oracle, Pixar, Dreamworks. IVM in Germany is considering Red Hat for its 8,400 Linux desktops
Key Partners	IBM, Oracle, Dell, HP, BEA, Sun
Channel	Initially available direct and OEM shipments expected within 12-18 mos. from IBM, Dell, HP
Apps	Evolution, OpenOffice, Mozilla, GAIM; bundled with Adobe, Macromedia, Citrix ICA client, Java, Real Player
Stack	IBM Tivoli, GNOME desktop

Source: <http://cikb/Topics/default.aspx>

4.3.7 Microsoft versus Linux

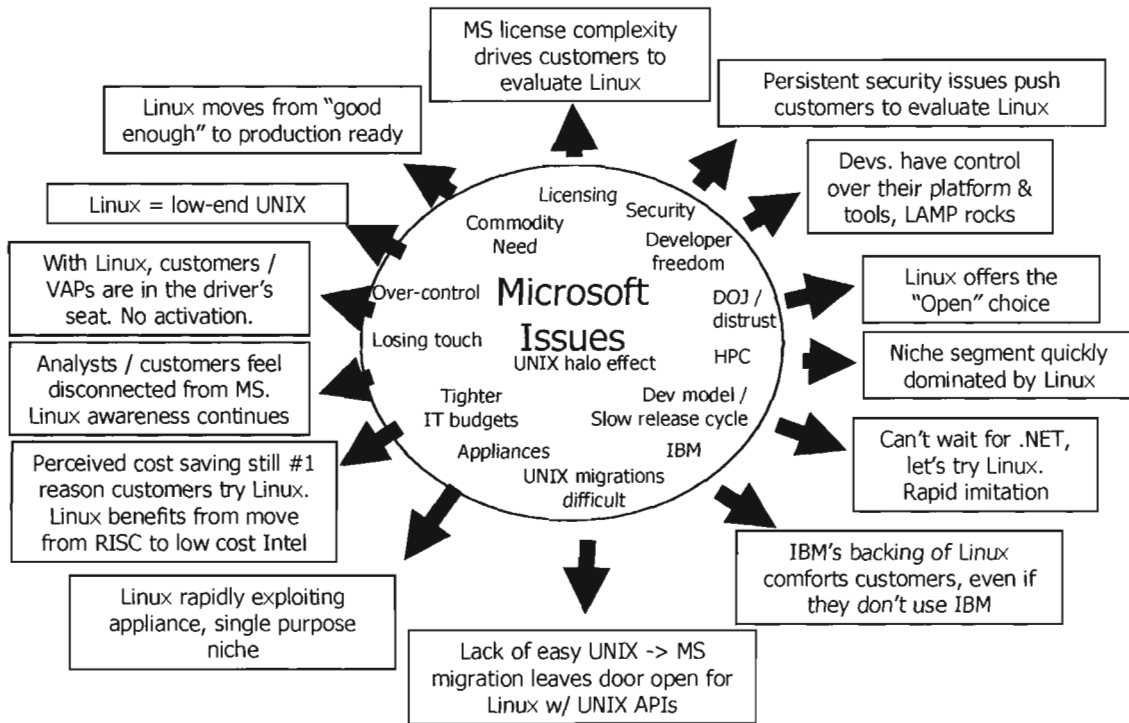
There has been a lot of activity on the Linux front in the past few months, with new product releases and much attendant press coverage touting the potential of Linux. Deployments worldwide so far have been in government settings and on the desktops of Linux vendor employees (notably IBM and Novell). The bigger threats will come from big-name vendors Novell, IBM, and Sun, with niche players Turbolinux and Lindows, both of whom have significant financial problems, not posing a significant challenge.

Red Hat released a relaunch of its Linux Desktop product in May. Red Hat's primary strengths include its position as current leader in market share and vendor relationships. In March, Novell released SuSE Linux Desktop 9.1 Personal and Professional, and they have a major deal for OEM distribution with HP. Novell has a strong position in technical expertise with its acquisition of Ximian and SuSE, and SuSE has given them a strong position in the European market. IBM's strategy around the desktop has been revealed more clearly with the release of Workplace Client Technology, which enables users of any OS to take advantage of server-based applications. Analyst Rob Enderle sees the breaking of the link between OS and application as a significant competitive move against Microsoft.

Sun released its Java Desktop System 2 in May 2004, and has a significant deal with the consortium China Standard Software Company to provide the technology for an open-standard desktop throughout China. This is part of Sun's overall strategy to focus on marketing to emerging markets and especially governments. Early reviews of JDS have not been favorable, however, and Sun's lack of a clear messaging strategy around their desktop plans is also a significant weakness where customers are concerned. While the above companies are focusing heavily on the enterprise space, Lindows (with its Linspire OS) is targeting the consumer market and building relationships with low-end OEMs. Lindows is not a significant threat on the desktop as the company is in relatively dire financial straits. Turbolinux is also a relatively niche player, with its market entirely in Asia. The company is in a weak financial position with losses the past few years, and it has had two changes of ownership over the past couple of years.

The diagram below outlines the reasons as to why Linux and the vendors that support Linux are able to exploit cracks in Microsoft's armour and why they represent a major threat to Microsoft in the marketplace:

Figure 4.1 Reasons for Linux proving to be a threat to Microsoft



Source: <http://cikb/Topics/default.aspx>

Other reasons include the following:

- **Microsoft is Microsoft**
 - Media tendency is to root for the underdog, root against the “establishment” and fuel the competitive tendencies of companies to further more, better coverage opportunities. The Boston Globe (2001)
- **Microsoft is validating the Linux movement**
 - In taking off the gloves to compete with Linux, and recognising Linux as a threat, the media and Microsoft further highlighted the potential for Linux to “endanger” Microsoft.
- **Negative messaging offending rather than challenging target audience**

- Negative messaging from Microsoft, against a “movement of the people” is having a difficult time finding its target and is taken personally by the developer community. “Big company vs. little developer” mindset is being created in the development community as opposed to MS messaging attacking large companies such as Sun, Oracle etc. This is damaging to mind share for Microsoft.” Attitudes Toward Shared Source and Open Source” survey by Hart Research
- **The audience has earplugs**
 - Evangelizing the evils of Linux to Linux developers and the Linux converted community by MS is not shifting pre-disposed perceptions.
 - Need for Microsoft to expand audiences and target markets and look at areas where Linux is able to gain enterprise footholds in order for Microsoft to defend on more than emotion (i.e.: IT Managers, CIOs, Business Decision Makers, Academia, Govt. Community, Legal Community, etc.)
 - With the Developer community, Microsoft needs to re-visit its cultural development and help “make Microsoft cool for the Academic and burgeoning Developer communities.” Economist (2001)
- **Need to move the rhetoric from emotion to fact**
 - Microsoft needs to provide factual TCO analysis, Benchmark results, Customer, Partner and 3rd party endorsements that are credible, unbiased and neutral, that have not been sponsored or supervised by Microsoft. These must prove that MS is the better offering available to the developer, end user and retail community.

In January 2004 Microsoft surveyed randomly chosen partners and customers worldwide to better understand the pros and cons of working and partnering with Microsoft versus Linux or Linux vendors.

The table below is a summary of the findings:

Table 4.4 Why Microsoft wins and losses against Linux

Why Microsoft Wins:	Why Microsoft Loses:
<p>Common themes across all regions</p> <ul style="list-style-type: none"> • Long term relationship building is key to the sale • Proofs of concept, pilots and TCO studies validate the platform (Security, reliability, scalability, and lower TCO) • Selling business value 	<p>Common themes across all regions</p> <ul style="list-style-type: none"> • Linux works • Linux is favoured by the UNIX community (Windows is not considered an option) • IBM lends credibility to Linux • Linux is easier to buy (licensing), perceived as cheaper, more secure, reliable and scalable
<ul style="list-style-type: none"> • Internal MS advocates can counter Linux internal support • Windows 2000 application is easier to build/deploy thru tools and expertise availability • Lower TCO than a Linux platform thru integrated management technologies and services, and single platform (server/desktop/apps) management • Star Office and other Linux desktop applications have incompatibility issues with Windows counterparts 	<ul style="list-style-type: none"> • Linux is perceived as more secure (or at least a less visible target) • Open source provides flexibility and ability to extend/support the platform • Customers feel that with Linux you avoid a single vendor platform lock-in • Migration from UNIX to Linux is easy (in-house and engineering/scientific applications)
<ul style="list-style-type: none"> • Fast time to market thru applications availability and out of the box functionality • Platform value thru integrated services and functionality thru infrastructure and services (Exchange/collaboration) 	<ul style="list-style-type: none"> • Linux/Open source is used as a political gain tool (build local SW industry, savings go to the poor, no US dependency)
<ul style="list-style-type: none"> • .NET Strategy provides a compelling long term view to the customer • Single platform (servers, desktop and applications) management is easier than an heterogeneous architecture 	<ul style="list-style-type: none"> • Young IT Pro's come out of college proficient in Linux (and not Microsoft) technologies • Open source provides flexibility and ability to extend/support the platform • Migration from UNIX to Linux is easy (SUN/Oracle to Linux in house application migration)

<ul style="list-style-type: none"> • Windows 2000 applications are easier to build/deploy thru tools and expertise availability • Reliable and secure platform (based on successful support, pilots and proof of concept) • .NET Strategy provides a compelling long term view to the customer 	<ul style="list-style-type: none"> • Linux is perceived as more secure (or at least a less visible target) • Cost

Source: <http://smspweb/C2/Partner>

See Appendix 22 for the list of Accounts and partners surveyed

4.4 Creating Competitive Differentiation

The discussion above shows the intense rivalry and fierce competition Microsoft faces not just from a Linux and open source point of view but also from other competitors in the industry. It also builds on the evaluation of the Partner satisfaction issues that the company currently faces and the reasons for the problems. Since 96% of Microsoft’s revenue worldwide is generated by its partners it follows that their relationship with their managed partner base is pivotal in creating a competitive advantage which will mitigate or altogether dismiss the competitive threat to a great extent. Executing a Partner Execution Framework in conjunction with the new Microsoft channel partner program will create a competitive differentiator for both Microsoft and its managed partners.

The partner program allows Microsoft to build out a segmented channel first through the MS competency framework, and then by the particular segment and vertical markets each partner serves. With the program in place, the company can build a targeted sales force that will align partners with their business groups, GTMs and customer segments to drive product adoption.

Enrolment in the Microsoft Partner Program creates the opportunity for partners to achieve competitive differentiation and generate greater profits for their businesses. Competencies allow partners to specialize against the broad Microsoft product line. By enrolling in a distinct competency, partners become eligible for targeted training and enablement, access to unique web portal assets, improved account management and specialized sales and marketing engagement via

the GTMs and through partner marketing approaches. Gaps in partner coverage will be determined by comparing current channel capacity to the modelling results. This gap will become the subsidiaries recruitment target.

Once the capacity models are complete, the segment teams, the partner teams, and the marketing and business group teams should work together to craft an overall partner-led business plan using the Partner execution framework. The collective plan must direct the right number of partners, with the right skills, towards the sales and marketing effort required to generate enough prospects. The plan must also define an agreed upon approach to tracking to pipeline and closure to facilitate the desired results

4.4.1 Delivering Partner Value via the Partner Business Cycle and the PEF



The partner business cycle provides the framework that can guide, if implemented, the company's partner facing FY05 execution. Executing on the key strategies aligned with each phase in the cycle will provide a way to speak the language of the partner.

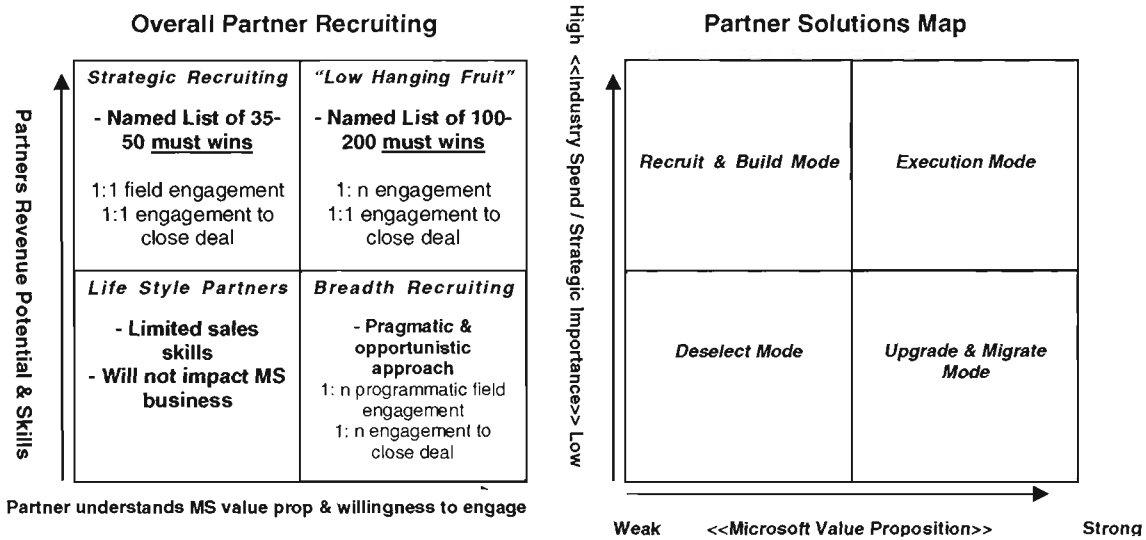
4.4.1.1 Plan & Recruit



The frameworks will initially drive the analysis and the ensuing list of partners to recruit in order to fill the gaps in the capacity model. The model on the left in Figure 4.2 below represents a total view across all Microsoft partner segments and the recruitment model to use. The model on the right represents the specialized approaches needed in strategic recruiting in the partner segment to complete the solution mapping process for deeper and strategic integration.

Strategic solution areas with no strong Microsoft-based partner offering should be considered the primary target for recruiting the development and migration of Intellectual Property onto the Microsoft platform. Strategic industry solution areas that already have a strong Microsoft-based partner offering provide targets for focused partner activity.

Figure 4.2 Partner Recruiting and Solutions Map



Source: Project Ulonwabo: Proposal for Partner Engagement

Recruitment must be adopted as both a proactive and defensive approach to securing markets within focus including but not limited to the following:

- Strategic recruitment – by competency, by solution area, competitive targets including the likes of Novell Platinum, SAP, UNIX and AS400 VARs, and Sage partners.
- Must Wins recruitment – Novell Gold and local market partners for cross selling.
- Breadth recruitment – Linux vulnerable variable application providers (VAPs) and Integration service vendors (ISVs).

4.4.1.2 Targeted Training and Enablement



Training is perceived by partners as one of Microsoft’s strongest industry assets. In FY05 the company needs to broaden this asset beyond technical training and readiness to include marketing and business skills, and competency specific content for managed partners. In addition, the company needs to set a goal of capacity building at the partner organization level as well as on the individual level. The field staff should own the localization of all content associated with training and enablement.

4.4.1.3 Create Demand



Through Partner Marketing

FY05 is meant to be a year of innovation in the company's GTM model and to achieve this MS needs to shift to a strong through partner marketing approach in all customer segments in an effort to drive more targeted outreach by partners into the customer spaces.

To achieve this goal with partners, Microsoft needs to shift to a blended "through partner - to customer marketing model" which will enable and fund partners to execute seamlessly within the company's GTM model, and provide Microsoft teams a line of sight into results.

Enabling partner-led marketing execution will require creation of a scalable programmatic engine to serve partners engaging across all customer segments. The engine must be designed to:

- Establish a baseline marketing skill set within the entire partner base;
- Provide self service access to customer offers which map to solution selling, GTMs, and marketing services across partner competencies;
- Allow deep customization of materials to accommodate unique partner-customer opportunities and/or local market dynamics; and
- Scale based on level of partner engagement with Microsoft.

The field staff should own localization of all content associated with this effort.

4.4.1.4 Sell



The partner engagement approaches is tailored to support Microsoft's segment specific sales models. FY05 is viewed by MS as an important year for sales pipeline velocity in the different partner spaces.

Partner-led selling is a critical new approach for the company in FY05 that will have both revenue and CPE impact to MS, their partners and customers. Through a partner-led approach the company can drive both short-term revenue and deployments to secure long-term revenue (Enterprise Agreement renewals) by identifying where partners can lead the sales process. The company will need to drive towards consistency across segments, as partner-led selling is already

the established norm for reaching small and medium-sized customers and this needs to filter into the Enterprise space as well.

The partner-led sales model defines a new, closer way of working with all managed partners. It expands Microsoft's visibility into partner pipelines, generates more net new opportunities with and through partners, and reduces the number of partner opportunities with competitive technology. Partner sales management (via the PAM role) will need to work to actively manage sum of managed partner pipelines. Partners will need to have the ability to secure resources from Microsoft's account and specialist units, and enabling Microsoft to then also have the ability to leverage the partners selling resources.

4.4.1.5 Service



The strategy for partner enablement and engagement execution needs to be driven by partner teams with services leaders and individual contributors tasked to focus on services delivery. With a model where the MS Services division is made to focus on driving new technology adoption, incremental demand for partner solutions and services will be created. The Services division's primary role with partners has to be to provide technical assistance and support for Microsoft technology at key project milestones.

4.4.1.6 Retain



Cross-Segment Engagement

Many partners who currently cut across customer segments and verticals are dissatisfied in dealing with multiple uncoordinated Microsoft resources. FY05 initiatives to improve coordination need to include: coordination processes (the lead PAM concept), an Account Management survey with a cross segment MS resource coordination focus, and a Cross Segment Partner Council in each subsidiary. Subsidiaries should be prepared to work with the Managed Partner teams from all divisions and the vertical teams to implement these types of initiatives.

4.4.2 Advantages of the Partner Engagement Framework

The partnering execution framework will be a guideline for PAMS and PEMS in their managed partner engagements. It will enable PAMS and PEMS to:

- Segment their portfolio of partners and develop a plan of attack for each segment: in order to determine the optimal portfolio of partners, spend the right amount of time with the right partners and actively seek to improve the portfolio performance through a systematic approach.
- Define and understand the partners' business challenges on a tactical and consequential level: in order to build a relationship that helps accomplish the partners' key business requirements thereby adding value, build the partners emotional commitment to the partnering agreement and develop a unique relationship with each partner and improve CPE as measured by high partner satisfaction.
- Develop effective Account Plans and Readiness plans: in order to understand both the partner and Microsoft objectives, spend time on activities that assist the PAM achieve the individual goals Microsoft sets for each partner, remain focused on the partners and activities that make the most significant impact and target messages and communication to the right people in the partner organisation,
- Prepare appropriately for creating a collaborative business plan with the partner: in order to guide the partnership to achieve the objectives of both Microsoft and the partner organisation, build value in the partner organisation by removing emotion from the discussions and dealing with the issues on a business level, change the tone of conversation from an internal focus on 'Microsoft revenue' to one of 'Partnership achievement'
- Effectively coach partners staff on marketing campaigns and sales opportunities: in order to leverage their marketing and sales staff for increased efficiency and revenue production, lay out the groundwork for future years of revenue production with assistance from Microsoft, position both partner and Microsoft positively against the competition and build the confidence in the partners staff that Microsoft and the PAM cares about their individual as well as organisation success.

- Effectively present the benefits and value of the partnering agreement: in order to explain to the partner and make them understand how the relationship helps them, help to build the perceived value of the partnering agreement and build partner confidence when they can see the tangible and intangible results of the partnership,
- Conduct regular business reviews: in order to change the overall conversation from just pipeline management to one of overall business health, build a relationship based on trust and mutual benefit and provide consistent, predictable behaviour to partners as the trust is evolving.

The overall value that can be seen to emanate from employing a structured framework for partner engagement is diverse for the many stakeholders. This can be seen from the value table below:

Table 4.5 PEF value to the MS Stakeholders

<u>Stakeholders</u>	<u>Value</u>
Partners	Revenue and margin enhancement Higher Visibility Additional resources and support Increased satisfaction
Partner Account Managers	Process Guidance Automated reporting Content for business meetings Increased quality face time with partners Revenue predictability
Partner Group Managers	Performance transparency and benchmarking Better partner selection – based on potential rather than history A structured model on which to base PAM compensation
Microsoft	Transparency of partners and PAM performance per country Resourcing optimization Revenue predictability Field feedback on partner programs and GTM's Reporting rhythm

4.5 Summary

FY05 needs to be a breakthrough year with partners across the company. Microsoft needs to reverse a three year declining CPE trend across all partner segments based on renewed field engagement, and a company wide commitment to partnership. A way to do this is through a Partner Execution framework in conjunction with promise of the new Microsoft Channel Partner program (MSPP). This is a necessary and not optional as it is centred on the companies promise to deliver value to partners in return for their investment as a Microsoft partner.

To deliver on the goals and objectives of the CPE initiative, FY05 must be a year of excellence and accountability in execution, and continued innovation in several critical areas, the most important of which is the partner segment. The partner teams must coordinate cross segment, subsidiary and region to establish shared goals and accountability to a common partnering execution process in order to drive impactful partnering strategies.

5 Chapter Five - Recommendations

5.1 Introduction

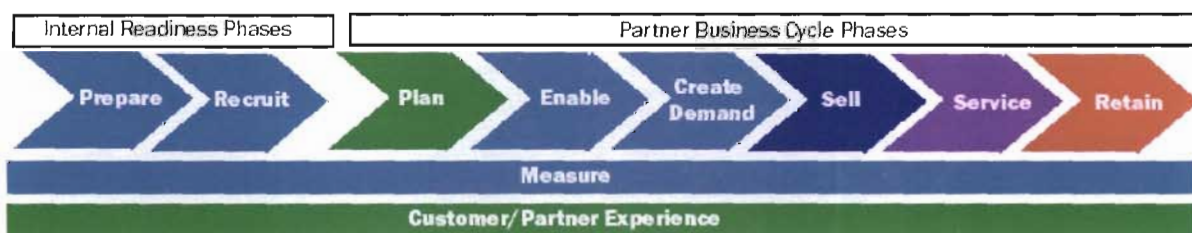
There are many areas where changes can be made at MS to ensure that the CPE goals and objectives for FY05 and onwards are achieved. One of those areas is in the identification of a sustainable Partner Execution framework and the successful implementation of said framework. The PEF identified in Chapter 3 and evaluated in Chapter 4 is seen by the author as the framework of choice for MS. This chapter will discuss in short detail the PAM skills assessment procedure which is necessary to drive the framework successfully and the methods, processes and procedures necessary for implementing and using the PEF to the optimal benefit of MS and their PAMs and PEMs.

5.2 PAM Skills Assessment

Before the Partner engagement framework can be implemented a PAM/PEM Skills Assessment to measure the skills of the PAM/PEM against the phases of the framework. See Appendix 13 for a list of key and necessary skills and knowledge required by a PAM/PEM in order to add value to Microsoft and the partnership. It assists in sizing up the PAM/PEM's fit and the eventual success or failure of implementing the Partner Execution framework as the Framework requires the PAM/PEM to drive the processes and procedures behind it.

5.3 Partner Engagement Framework

Figure 5.1 Partner Execution Framework (PEF)



Source: Project Ulonwabo Proposal for Partner Engagement

5.3.1 Portfolio planning

Initially the subsidiary should meet and analyse current and potential partners in order to create basket portfolios for the county. This should involve a great deal of analysis around GTM's, corporate priorities, local goals and objectives, divisional objectives, local opportunity, current partner portfolios, market growth, certification programs, potential and gut feel etc. The PAM managers should determine first which partners are to be managed 1 on 1, telemanged or programmatically managed. The PAMs provide critical input into this process as they work with certain partners or types of partners on a daily basis. The overall pool of managed partners should then be split according to competencies, LOB, horizontals, verticals etc. depending on the company policy and handed over to the PAMs/PEMS.

Even if a PAM has a small number of partners in their current portfolio, the 'trusted advisor status cannot be achieved with all of them as there is simply not enough time to do so. Portfolio planning should be adopted to guide PAMS to optimise their daily activities by determining which partners to spend what kind of time with. The process must analyse both soft and hard factors, subjective and objective measures. This will assist with focus, internal and external resource allocation, identification of gaps and measurement of success.

5.3.1.1 Evaluation of Performance and Potential

Analysing past performance of a partner will give insight into the capabilities of the partner to achieve current goals. It is important to consider and factor into the evaluation as many objective, quantitative measures as possible. There are a variety of formulas to do this and there is no single best way. The subsidiary should choose the evaluation criterion that best suits their objectives and goals. It is important however to look at multiple years to identify trends and highlight inconsistencies.

Performance measures include Microsoft revenue production, customer satisfaction scores, certifications, engagement characteristics(reporting, commercial, technical, relationship commitment),delivery capacity and capability, no and size of projects in the pipeline, financial stability and performance(profitability, cash flow, revenue growth, capital structure etc), other

business unit performance(competitive and complementary), target market coverage and captured share, geographic coverage, etc.

Past performance is not always an indicator of future performance, therefore it is important for PAMS/PEMS to consider other more subjective or qualitative factors. Since these factors are not 'measurable' they require a more subjective evaluation. This effort is to identify what kind of 'potential' a partner represents. This can assist in finding a 'diamond in the rough' who could be a significant revenue producer in the portfolio.

Potential Measures include Microsoft revenue potential, customer satisfaction scores with other suppliers, number of qualified resources not certified in Microsoft technology, potential to change, engagement characteristics, other LOB resources, value chain stability, delivery capacity, evaluate target market growth potential, geographic growth potential, marketing and sales potential, competitive value and potential etc.

5.3.1.2 Categorisation of Partner accounts

Once PAMS/PEMS have some data on how to rank their accounts, they will need to chart the information in a way that will help them identify which partners require what kind of attention.

It is suggested that each partner should be plotted on a 1 to10 performance ranking and a 1 to 10 potential ranking. Using an adaptation of the BCG portfolio model, each partner, based on their relative rankings, can be categorised into one of four types:

Maintain: Those partners whose performance has been acceptable to high but whose potential for growth and change is limited.

Grow: Those partners whose performance has been low to acceptable, but whose potential for growth and change is high.

Stretch: Those partners whose performance has been acceptable to high but whose potential for growth and change is high

Replace: Those partners whose performance has been low and whose potential for growth and change is low.

The portfolio of partners will be split into, give or take, 10 to 20% in stretch, 20 to 30% in grow, 30 to 60% in maintain and 0 to 10% in replace. By charting out the partners relative to each other, one can easily identify the general type of movement or goals that are required for each partner (grow, maintain, stretch or replace). This general strategy will be the guideline through which the individual partner account plans are developed.

5.3.1.3 Building the Portfolio Plan

Once the PAM knows what he/she needs to accomplish with each partner, it is time to document a plan of action. The data that was utilised to reach the conclusions in terms of categorisation and the action plan needed to execute on joint objectives needs to be documented. The Portfolio Plan is a summary document to outline the approach to the PAM's partners, the expected revenue intended to be produce and the specific goals and objectives intended to achieve in the fiscal year. This allows PAMs to 'think before they act' which will assist with focusing making each activity on a day by day basis count toward achieving the overall goals. It will establish guidelines and control distractions, commit PAMs to a plan of action and identify trouble areas and/or gaps early in the process.

Step 1 – Identify all managed partners in the portfolio and how they have been categorised i.e. grow, stretch, maintain or replace.

Step 2 – Assign grow or stretch goal percentages to each partner as appropriate

Step 3 – Specify what type of Account Plan (if any) will be completed for each partner and whether it is currently complete or not

Step 4 – complete the partner revenue goals section with specific revenue goals for each partner

Step 5 – Identify and complete the other metrics/Goals in the portfolio goals section based on what is needed to be accomplished for the entire portfolio of partners.

PAMS/PEMS can use the templates formulated in Appendix 14 to build/refine their portfolio plans. It is suggested that this template be used as a starting point, PAMs can delete what is not appropriate and add what is missing.

5.3.2 Assessing Partners

This is the process through which PAMS can assess and evaluate an individual partner as it forms the groundwork for a partner account plan, strategy and action plan. This should be done to confirm the approach to the partner, because knowledge is power and this enables PAMs to learn more about the partner business and how they can add value, to identify blind spots in discovering the partners strengths and weaknesses and knowing what to emphasize in the relationship and to uncover who makes the decisions that affect the partnership and what kind of power they wield. This section can incorporate four steps which include profiling the account, confirming/verifying the relationship, mapping the influencers and analysing the competitive landscape.

5.3.2.1 Profiling the Partner Account

The process of gathering, organising and analysing information about the partner company, its business operations and performance before investing time, money and resources into a partnering agreement. This is done to prepare for business discussions with the partner about the partnership, determine the viability of the partner account and identify areas of strengths and weakness in order to leverage their strengths to the partnerships advantage and prepare for unidentified problems upfront.

Step 1 – Research partner company information (Mission, strategic initiatives, target markets, key customers, suppliers, partners, competitors etc)

Step 2 – Research Partner Financials (Financial performance, debt, balance sheet, equity structure, revenue distribution, business model and Line of Businesses)

Step 3 – Research partnership history (Revenue distribution Microsoft vs. MS competitors, resource capacity and readiness analysis, SWOT analysis, benchmarking, peer performance comparison, historical performance against partnership plans etc.)

5.3.2.2 Confirming Relationship value

The process of gathering, organising and confirming information about the partner, account history and partnership opportunity. This information is critical to qualifying the partner and

developing a partner account strategy. This is done in order to uncover potential blind spots i.e. unknown things that could impact the positioning of the partnership, to ensure no surprises at the initial or subsequent meetings or presentations which could damage the relationship, to find out what is important to which key players in the partner organisation and enable one to listen for changes which indicates how they perceive the partnership or the PAM, warning signals etc.

Key Business Requirements(KBR) are the things the partner must achieve or perform to achieve their organisational goals. This is at the highest level of the organisation and is the level at which the decision to partner, to continue partnering or to increase or decrease the investment in the partnership will be made. Business objectives exist at each level of the partner organisation and as one goes down a level the business objectives become more tactical and specific. It is vital to understand what is important to the partner in order to position and structure the partnership in a way that helps them achieve their goals as well. Every partner is different and it is important to understand the ecosystem/value chain of each one.

Influence mapping is the process of analysing the key players' pains and sorting out the spheres of influence in the decision making hierarchy as part of an event debriefing session. This has to be done because companies don't make decisions, people do, team reviews can be insightful, it helps to understand the political influences in the decision making processes and helps sort out the real influence chain. Drawing a picture of how people are related to the influence group allows the PAM to focus most quickly on the people that matter the most.

Step 1 – Understand the key business requirements (KBRs'), the people, power hierarchy, relationships, outside relationships, consequential pains (the impact of not relieving the tactical pains), tactical pains (tasks, processes etc that prevents the partner from achieving its KBR's) and barriers that are existent in the partner organisation.

Step 2 – Answer any key questions about the partnership, why do they partner to achieve their goals, how do they decide who to partner with, what is their history in terms of relationships, who are their key competitors, customers suppliers etc and how might they influence the partnership, what industry trends may have an impact on the partnership, are there external influences that may affect the relationship etc.

Step 3 – Triangulate the information; validate the information gathered through multiple sources.

5.3.2.3 Analysing Competition

This involves understanding the competitive landscape for the partnership, from the partner's perspective. This is done because only the partners' opinion matters at the end of the day. Every organisation, including Microsoft, thinks that they are the best vendor to partner with, but there is a need to understand the partner's reasons for partnering with one company over another and determine the important relationship criteria beyond the products and technology.

Step 1 – Identify all the providers who are competing for the partner's business, who is vying for the given partner or who wants a bigger share of the partner

Step 2 - Objectively assess from the partner perspective, why they should partner with each of the potential providers/suppliers, look to relationships, recommendations, influencers, solution fit, etc.

Step 3 – Assess why they should not partner with each of the potential providers/suppliers, consider price, TCO, historical problems etc

Step 4 – Use this analysis as an internal strategy is developed or adjusted for the partner

There are many existing tools that can assist a PAM in this exercise; an example of such a worksheet is depicted in Appendix 15.

5.3.2.4 Partner Discovery

Discovery is the process of uncovering partner needs and preferences. It includes a series of events including primary research, account calls, surveys, team meetings, one-on-one interviews and secondary research using sources such as web sites, annual reports, articles, press releases, analyst reports etc. In the face-to-face or voice-to-voice events PAMS should identify and/or confirm the partner key business requirements, consequential and tactical pains and relate them to the partnership.

This has to be done to ensure continuous qualification, instead of relying on a single event, which will lead to the success or in the later case failure of a partnership. It will create credibility for the PAM from a partner point of view and will give the PAM confidence that they truly understand the partners' needs. The more time spent with the partner, the more the PAM can get to know

them and will be able to establish trust over time and often uncover some of the political and personal issues they face which can build a foundation for the partnership

Step 1 – Visit Planning: determine the minimal and optimal results that need to be achieved in the initial meeting, in order to be able to measure progress. Try to establish beforehand what the expectations of the partner are, especially for those people attending and the key players who will be present. Prepare open ended high yield questions to focus the discussion on the critical information to assist in determining strategy, uncovering individual perceptions and emotional issues. Anticipate potential partner objections and plan non defensive responses to those objections. Prepare an Agenda.

See Appendix 16 for a template that can be utilised for a pre-meeting planning session.

Step 2 – Conducting a partner visit: use the high yield questions to uncover, quantify and expand pains, discuss partnership elements and discuss competitive initiatives. Keep the discussion on a strategic level, if the answers are tactical; try to lead the partner to a strategic issue through their tactical pains. Discuss solutions, by converting partner ideas and needs into solutions best provided by the joint partnership. Position how the partnership can assist the partner relieve their pains and accomplish their key business requirements. Gain agreement from the partner that the proposed solution is in alignment with their ideas.

Step 3 – Debrief the visit; send out minutes or action points to the partner after the visit. “70% of PAMS and sales people do not follow up on calls and acknowledge confirmation in writing which leads to partners debating their level of interest in the partnership.” Infomentis (2004).

5.3.2.5 Business Planning

This is the process of setting specific goals for a partnership, determining a strategy and execution plan for achieving the set goals and approaching a collaborative business planning process with those goals in mind.

This has to be done to ensure focus is on the right initiatives within the account, to ensure optimal allocation of resources, to identify gaps in the partner or the company’s capacity to produce the desired results and make adjustments accordingly and to be able to measure success which is not possible without well defined objectives.

Step 1 – Create a detailed account plan for ‘Growth’ category partners

Step 2 – Create summary account plans for ‘Maintain’ and ‘Stretch’ category partners

Step 3 – Develop a strategy and approach for collaborative business planning with each partner

Step 4 – Jointly create collaborative business plans with partners in step 1 and 2

Account Plan

An Account plan is a document that identifies specific internal goals for a partner account, a strategy for achieving those goals and an action plan to execute the strategy. It ensures that PAMs think before they act, establishes guidelines to control distractions, commits the PAM to a plan of action and clearly assigns ownership, roles and responsibilities.

See Appendix 17 for a template of an Account plan, once again this is only a guide and can be changed as required to meet the needs of different companies or PAM’s.

Collaborative Partnership Business Plan

The Account plan is a foundation upon which the planning cycle with the partner is built. Once the plan for each partner is ready, the PAM is better prepared to sit down with the partner in a collaborative fashion and develop a plan for the partnership itself. This process is about developing a value proposition to the market and developing an action plan through which the value proposition is realised. It is a collaborative document between the partner and the company that specifies goals for the partnership and includes an action plan on how to achieve those goals. The partners should ensure that the plan is drawn up from a partnership perspective; it should be specific, honest and not limited to revenue only. See Appendix 19 for a template that can be utilised as a guide for a joint business plan. The plan should be signed off by both partners to show commitment and ensure ownership.

5.3.2.6 Sales Opportunities

One of the most critical roles of the PAM/PEM is that of virtual sales manager for every partner. It is necessary for the PAM to be able to proficiently teach the partner and partner employees the skills necessary to sell the company’s products and services. Not from a technology or product functionality point of view but from a sales process and pipeline management point of view. PAMs need to set the expectation that they are a resource that their partner can leverage to

enhance their own sales organisation's skills and proficiency. This must be done in order to leverage the channel and time. As a 100% channel driven organisation Microsoft needs to leverage their channel partners as efficiently and effectively as possible, to build a scalable model, which will encourage their PAMs to spend their time where they have the largest impact for the company long term.

Mapping to the Microsoft Solutions Sales Process (MSSP)

While there are many sales methodologies available, they all have common elements. Essentially all models have a method and process to define qualification criteria to signal what stage in the cycle an opportunity is currently in, best practice activities to follow for moving the opportunity closer to closure and how to review the status of a deal. The MSSP encapsulates all these concepts and fits into the Sell Phase of the partner business cycle. If the partner currently has their own methodology than it should be mapped to the MSPP as most models are alike. PAMs need to become intimately familiar with the MSSP and learn to translate its concepts within it to the partner sales organisation.

An action plan here is to create a collaborative sales approach that both Microsoft and the partner can accept and utilise. This is done to get on the same page as the partner by initially understanding what their current sales process is (if one exists). Commit to a plan of action as a well thought out plan of attack will make both partners more productive and motivated to close the deals. It will also help to find common ground as an exercise like this will uncover a greater degree of common ground than expected as mapping the MSPP to the partner sales model may unravel more similarities than initially thought. See Appendix 20 for a template of a Sales Action Plan. A rules of engagement template for co-selling is also available in Appendix 21.

5.3.2.7 Business Reviews

Business Reviews are bigger than just the revenue pipeline review. A successful business reviews evaluates all the elements of the business, including the pipeline, to determine the health of the partnership, identify issues and address them. This assists in keeping the entire team focused on the progress towards the goals and identifies gaps. It keeps communication open between the partners and establishes consistent predictable events where information is openly shared and

ideas freely exchanged. This will create a highly productive environment and enhances the value of the relationship. It reinforces the value of the partnership as a PAM should never pass up on the opportunity to learn more about their partners business, it is an opportunity to ask more questions, understand challenges on both sides and continually modify or fine tune the value proposition to the partner. It also allows the partner to manage a portion of their business in a systematic way.

A partnership business review is the process of reviewing the performance of the partnership with both parties identifying issues and developing action plans to address them. Both partners should define and agree on the business review meeting contents (Business management review, pipeline management review, velocity review, business planning discussion etc.) and execute the business reviews as and when planned. See Appendix 22 for a sample Agenda for a Partnership Business Review.

The core strategy in creating competitive differentiation for Microsoft through the Partner Engagement Framework is based on delivering value to partners using the partner business cycle framework across all partner competencies but it should also include:

- Targeted partner recruitment by competency and against key competitive targets.
- Launching a Partner Learning Center to enable deeper training approaches for partner individuals and partner companies.
- Shifting to a blended “Through Partner – To Customer” marketing model across all segment and LOB teams.
- Incorporating and driving the Partner Engagement framework into the Partner-led sales strategy which aligns Microsoft resources to support partner-led opportunities.
- Driving alignment between the different partner teams around partner engagement, leading to a consistent partner-led sales strategy in all segments complemented by the phone and field based Partner Technical Specialist community.
- Deeper alignment and stronger usage of services and support offerings to add value to the partner.

- Executing on the CPE initiatives in order to create partner loyalty and drive industry standards in this area.
- Implementing the Edison toolset as the internal standard for Partner Relationship Management and Opportunity Management, using the Microsoft Partner Program (MSPP), as the entry point for the Partner community to drive activation across all strategies.

General recommendations for companies include the following:

- Vendors and channel companies must take the necessary steps to know each other's business objectives and build programs that foster mutual advocacy.
- Channel companies must encourage strategic vendors to conduct joint business planning with executive sponsorship that is executed at multiple levels of each organization.
- Channel companies must focus on a limited number of strategic relationships if they wish to get the most return on their partnering investment.

5.4 Summary

Microsoft currently has the MSPP and the Partner program which is a brilliant starting point for introducing a Partner Engagement Framework for managed partners across all segments. Implementing and driving the Partner engagement Framework will definitely assist the company in achieving its CPE goals which is a priority for them in FY05.

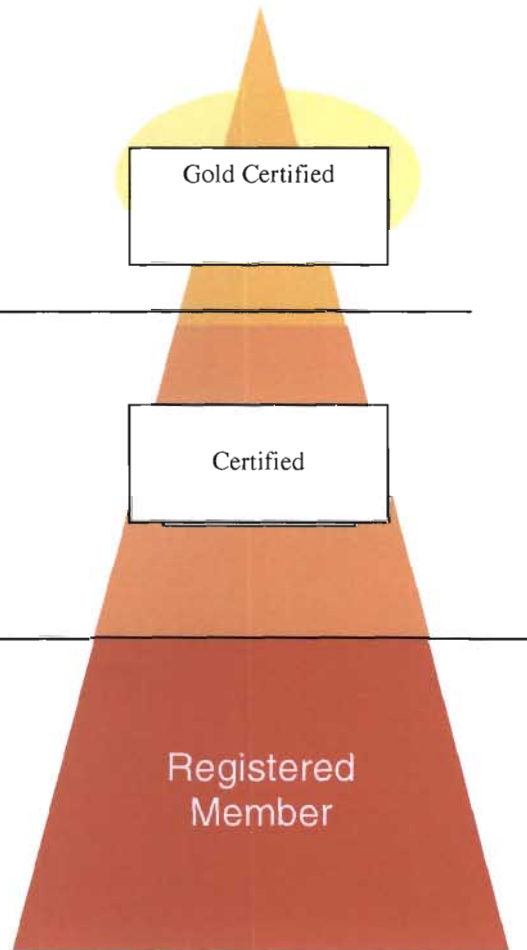
6 Appendices

Appendix I – Microsoft Partner Program Requirements

- 120 Partner Points
- At least One Competency
- Extended Web Profile
- Signed Terms and Conditions
- Fee

- 50 Partner Points
- 2 MCPs or 1 Prod Cert
- Extended Web Profile
- Signed Terms and Conditions
- Fee

- 0 Partner Points
- Web Profile
- Signed Terms and Conditions



Appendix II – Microsoft Partner Program Channel Management

Competency	Plan	Build & Maintain Expertise	Market & Sell	Service & Support	Retain Customers
Working Infrastructure Solutions	Partner Value Presentations Win SBS 2003 Return on Investment materials	Hands on Labs Win SBS 2003 Partner Guide with Evaluation Software	Marketing Template Online Partner Guide Sales Reference Materials	Windows Server 2003 Online Concierge TechNet Chats	MRD Priority Listing Win SBS Partner Award
Advanced Infrastructure Solutions	Competitive Information Best Practice Guides	Hands on Labs Webcasts Skills Assessments Additional Internal Licenses	Partner Guides Case Studies	TechNet Chats Project Guides	MRD Priority Listing Adv Infra Partner Awards
Security Solutions	Business Opportunities with ISA Server 2000	Hands on Labs Technical Web Seminars New Security Offerings: Microsoft Official Clinics Additional Internal Licenses	Microsoft Baseline Security Analyzer Partner Guides Licensing Client Access License (CAL) Guide	Project Guides Solutions Accelerator	MRD Priority Listing Microsoft Security Bulletins Security Tips Security Partner Award
Integrated Business Solutions	Technical Briefings	Technical Airlift Content Web Seminars Additional Internal Licenses	White Papers Battle Cards	White Paper – Understanding BizTalk Server 2004 TechNet Flash Newsletter	MRD Priority Listing E-Business Partner Award
Business Intelligence	Return on Investment Calculator Competitive Comparison Search Patterns and Practices – Make data available and valuable with BI	Hands on Labs E-Learning Boot Camp Additional Internal Licenses	BI Marketing Campaign materials BI Partner Guides online BI Webcasts	BI Project Guides SQL Server Accelerator for BI	MRD Priority Listing BI Partner Award
Information Worker Solutions	Communications & Collaboration Partner Opportunity Briefing Partner Readiness Development Roadmap Competitive Information Smart Client Readiness Initiative for ISVs	Hands on Labs Online Courses Additional Internal Licenses	Communications & Collaboration Solutions Marketing Campaign materials Case Studies Presentations	Microsoft Office Solution Accelerator for Sarbanes-Oxley TechNet Chats Project Guides	MRD Priority Listing Microsoft Office Systems Solution Directory IW Partner Award
Software Solutions	Deep Market Research	Hands on Labs Online Courses Quarterly Architecture Guide Additional MSDN & Internal Licenses	Channel Builder ISV ROI Sales Tool ISV Marketing Collateral & Templates	ISV Expert Column	MRD Priority Listing ISV Partner Award
Learning Solutions	Learning Product Search Exam Quicklook	Individual & Organizational Assessment Additional Internal Licenses	Certification Marketing LS Campaigns	Learning Products Purchase	Class Finder Tool MRD Priority Listing LS Partner Award Metrics that Matter tool

Appendix III – Microsoft Revenue Growth

Growing the Business:

Billed Revenue

by BG - Sell in	FY04 FC BG	FY05	growth BG	FY04 FC EMEA	growth EMEA
Client	1,555	1,489	-4.3%	1,610	-7.5%
IW	3,531	3,566	1.0%	3,708	-3.8%
S/T	2,645	2,763	4.5%	2,731	1.2%
MBS	308	361	17.3%	301	20.2%
MED	9	10	1.5%	9	1.5%
Total	8,049	8,189	1.7%	8,359	-2.0%

by Segment - Sell through	FY04 FC BG	FY05	growth BG	FY04 FC EMEA	growth EMEA
EPG	4,281	4,277	-0.1%	4,428	-3.4%
SMS&P	3,766	3,936	4.5%	3,934	0.0%
Grand Total	8,047	8,213	2.1%	8,361	-1.8%

Appendix IV - Microsoft Volume Licensing Programs Comparison

The following table compares Microsoft Open License, Open License Value, Select License, and Enterprise Agreement Volume Licensing programs.

Programs Comparison				
	Open License	Open License Value	Select License	Enterprise Agreement
Customer profile	Designed for corporate, academic, charity, and government customers with a need for as few as five licenses, who desire an easy, onetime transaction process with the flexibility of acquiring licenses from a broad reseller channel.	Designed for organizations with as few as five computers that want the advantages of Software Assurance (SA) and the ability to spread payments annually.	Designed for corporate and academic medium, large, and multinational organizations with at least 250 computers that have the ability to forecast purchases.	Designed for corporate medium, large, and multinational organizations with at least 250 computers that are interested in standardizing their enterprise and who value the benefits of centralized purchasing.
Customer benefits	Simple to use and understand. Open Business offers volume pricing with minimum license requirements. Open Volume offers greater discount for a larger up-front order.	SA is built into Open Value, which provides immediate access to the latest Microsoft software. Open Value also provides the ability to spread payments annually, which reduces up-front costs.	Recognizes customer upgrade cycle that allows for the potential of a greater point forecast.	Recognizes customer's high volume commitment with greater discount levels. Increases budgeting certainty and helps ensure compliance.
Products included	All commercially available Microsoft products listed on the product list.	All commercially available Microsoft License & Software Assurance (L&SA) products listed on the product list.	All commercially available Microsoft License & Software Assurance (L&SA) products listed on the product list.	Microsoft Enterprise Additional products available on an ad hoc basis.
Licensing offerings	License, L&SA, and SA for	L&SA and SA renewals	License, L&SA, and SA for	L&SA (Standalone SA available only)

Programs Comparison				
	Open License	Open License Value	Select License	Enterprise Agreement
	renewals or eligible Original Equipment Manufacturer (OEM) and Final Package Product (FPP) purchases		renewals or eligible OEM and FPP purchases	for renewal of existing standalone SA agreements)
Software maintenance options	SA available at time of License acquisition (L&SA). SA coverage is for two years or until the end of the term of Open License authorization number, which ever ends first.	Each L&SA counts as one order toward initial minimum of five L&SA. Subsequent orders can be as small as one L&SA. Renewal of SA coverage acquired through any Microsoft Volume Licensing program also qualifies for participation in Open Value.	Ability to acquire SA throughout the three-year agreement term and renewals but only at the time of License acquisition (L&SA) or renewal of SA. Coverage runs to the end of the agreement.	SA is included as part of the Enterprise license. SA coverage runs to the end of the agreement.
Price levels	<p>Open Business: Only requires five licenses to enter program.</p> <p>Open Volume: Each product offering (License, SA, and L&SA) is assigned specific point values to determine price levels. Points are calculated based on three product</p>	Minimum of five L&SA.	Each product offering (L, SA, and L&SA) is assigned specific point values to determine pricing levels. Points are calculated based on three product pools with a minimum three-year forecast of points to be acquired for each price level:	<p>Price levels based on the number of qualified computers in the enterprise.</p> <ul style="list-style-type: none"> • Level A: 250–2,399 computers • Level B: 2,400–5,999 computers • Level C: 6,000–14,999 computers • Level D: 15,000+ computers

Programs Comparison				
	Open License	Open License Value	Select License	Enterprise Agreement
	pools with a minimum entry acquisition level of 500 points' in each chosen pool.		<ul style="list-style-type: none"> • Level A: 1,500–11,999 points • Level B: 12,000–29,999 points • Level C: 30,000–74,999 points • Level D: 75,000+ points 	
Agreement term	Ability to purchase under the same authorization number for two years	Three years	Three years with the option to renew for one or three additional years	Three years with the option to renew for one or three additional years
Payment options	Up-front payment only	Payments spread annually or up-front	Annualized payments for L&SA and SA only	Annualized payments
Sales channel	A broad reseller channel	A broad reseller channel	Microsoft Authorized Large Account Resellers (LARs) only	Direct relationship with Microsoft, supported by Enterprise Software Advisors (ESAs)
Product fulfillment	Media must be acquired separately.	Microsoft provides media, such as CDs, for the initial product order. Additional media can be ordered for a charge.	Each enrollment receives one introductory PF kit containing an initial set of CD-ROMs for the pools and language groups selected with updates throughout the term of the agreement.	Each enrollment receives one introductory PF kit containing an initial set of CD-ROMs for the pools and language groups selected with updates throughout the term of the agreement.

Appendix V - Key Industry Players and their Linux strategy

IBM: Key player driving Linux momentum and investment. IBM's approach to delivering Linux-based software solutions pivots on a core strategy whereby IBM's proprietary middleware and services play the critical role in piecing together a Linux-based solution stack. IBM is touting messages around "openness" and "community" throughout its marketing campaigns. Because all the IBM and open source parts typically require a high degree of integration, this is ripe territory for expensive IBM consulting services.

Sun: As Sun loses its position in the exodus from UNIX and proprietary RISC hardware to x86 hardware running primarily Windows and/or Linux, it struggles to develop an effective long-term server strategy around Linux. It appears to be focusing its Linux efforts more assertively in the desktop arena.

HP: HP looks to be attempting to reinvent itself as a services business at the core, much like IBM, though it's not entirely clear how its Linux strategy will play out. As an Intel hardware vendor HP is a leading OEM (2nd to Dell in the U.S.) in terms of Linux OS shipments.

Oracle: Oracle is using its traditional marketing tactics to drive its somewhat last minute Linux agenda and strategy forward. Given IBM's leadership on the Linux front, Oracle effectively had no choice but to respond with its own Linux push for fear that IBM might capture database share with DB2 on Linux and erode Oracle's dominant position in this space.

Novell: Amidst its steep decline and vulnerable installed base, Novell appears to be grasping at a Linux strategy by announcing a new Linux-based Nterprise software bundle and proclaiming that it will ship Netware 7.0 (due out in ~3 years) on both Netware and Linux. Most in the industry doubt that it will be able to support two platforms, and suspect that Novell's long term plan is to abandon Netware and eventually move entirely to a Linux base in an all-or-nothing effort to retain market position. Its recent acquisition of Ximian shows that it is scrambling to add in-house Linux expertise and thought leadership in an effort to develop and support a sustainable Linux strategy. Novell NDS has also been incorporated into many open source projects as a directory

service. With Ximian's Evolution Novell again has the potential to field a competitive desktop/networking product.

Red Hat: Of the Linux distributors, Red Hat is the leader with SuSE, Caldera, Mandrake, Turbolinux, Connectiva, KDS and other regional entities also serving as key players amidst the 200+ (and counting) current distributors. Red Hat's new higher-revenue pricing model and re-branding strategy show that the nature of competition surrounding Linux in the marketplace is not about open source software versus commercial software, but rather is about one commercial offering compared to another. This new business model is indicative of a broader distributor shift to a commercially-based economic model that is sustainable over time. It's unclear whether this new business model, which reflects Red Hat's attempt to move its offerings further up the application stack, will ultimately lead to partner and channel conflict. IBM has been one of Red Hat's largest advocates and financial supporters in the past. Yet, as Red Hat attempts to advance open source software further up the application stack, it is likely to run head-on into IBM's proprietary middleware offerings and it's not clear how this situation will resolve itself and what it would mean for existing customers of Linux-based solutions.

Intel: Intel and other hardware vendors like AMD are benefiting greatly from the mass move off of expensive RISC UNIX systems and on to lower-cost commodity hardware running Linux. Intel is still a strong Microsoft partner, but is also actively supporting Linux.

Dell: Among the OEMs, Dell is a leader in the US in terms of units shipped with a Linux OS, and it is growing in strength internationally.

Economic conditions of key players supporting Linux:

- **Oracle:** For the EMEA region, total new software license revenue (applications and databases) increased to \$331 million for the quarter ending Feb 2004 (+23% but a lower +8% in local currency). The y-o-y change in new application licenses was essentially flat, up 17% (+3% in local currency). New database licenses were up 23% year over year (+8% in local currency). Total EMEA revenue was \$918m - up 17% from \$785 million in the year-ago period.

- **Sun:** WW, Sun continues its struggle. From heavy declines in FY03, FY04 Q1 started at -8% growth with FY04 Q2 (Quarter ending Dec 2003) flatter at -1% growth
- **Novell:** Reported mixed FY04 Q1 results (Quarter ending Jan 2004) with license revenue (the key leading indicator of future growth) down 10.3% y-o-y to \$54.8 million and 10% below analysts' forecasts. Total revenue was \$267 million up 2.6% from \$260m a year ago
- **IBM:** Software revenue for the quarter ending Dec 2004 was \$4.3B, up 2% y-o-y. Operating system revenue which represents around 18% of total software was up 6% y-o-y whereas the Middleware revenue grew 14% y-o-y. Total revenue in EMEA was \$9.1B up 1% y-o-y. Germany showed improvement however UK fell off after a strong Q3.

Appendix VI – Case Studies of Microsoft Wins over Linux

Listed here are some of the more recent case studies that are available on why Microsoft was the preferred solution for certain customers:

Samsung -- Windows over Linux

Samsung is one of the most advanced producers of electronic equipment in the world. Their customers depend on real-time data to accurately gauge product availability and scheduled production time. Only Windows could deliver the kind of reliability and scalability that Samsung required.

New Zealand Post -- Windows over Linux on POS

New Zealand Post is one of the most progressive postal systems in the world and is offering a multitude of new online services. To support its Store operations, Post decided to upgrade to Windows instead of using Linux at POS.

"The management cost of systems management in the Windows environment is significantly lower than the cost of tooling up and training up resources in Linux environment."

Stuart Wakefield, Architecture Manager, NZ Post

CHH / International Paper -- Windows Server and Desktop over Linux

"We looked at Linux but felt it wasn't mature enough for our corporate environment and would have presented massive challenges in migrating our 600 existing applications."

Pat O'Connell, Xpedite Programme Director, Carter Holt Harvey

3M -- Windows Server over Linux/IBM Mainframe

At 3M, the centrally managed file and printer server environment had become difficult to manage and impossible to restore in a reasonable time period. IBM capitalized on these problems by aggressively promoting a Linux-on-Mainframe proposal for file/print services at 3M. In response, the Microsoft account team sprung into action with on-site meetings with 3M to combat the threat to the well-established Microsoft technology environment. Here's how the account team convinced 3M

that using Linux would be a risky proposition and that Windows 2000 Server is the safe, secure, and cost-effective solution.

National City -- Windows Server and Active Directory over Linux

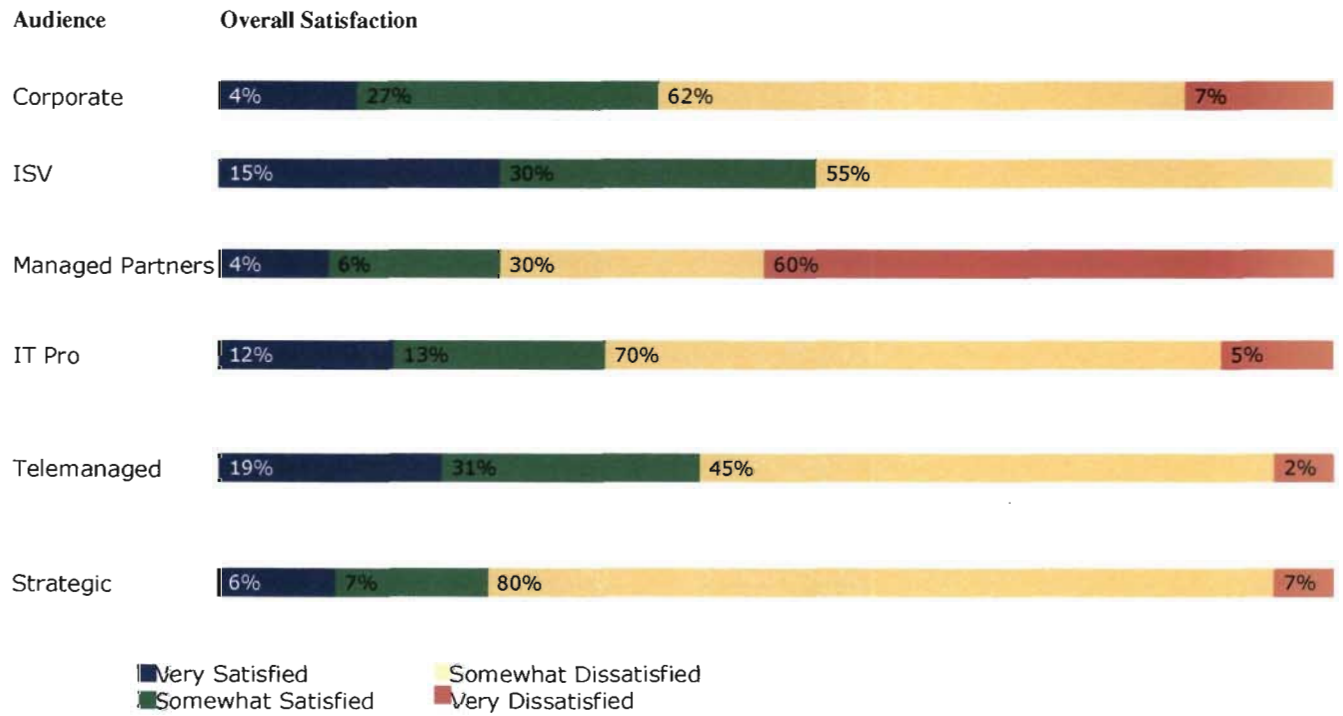
The account team was surprised when they learned that National City was considering Linux for file and print services as they migrated from NetWare. They succeeded in turning the tide by stressing to NCC their strategic commitment to their Active Directory deployment and what that means for manageability and TCO plus the important security capabilities Windows offers like IPSEC that are not available with Linux. The daily presence of PSS on site gained intelligence and early warning on this new Linux threat and offered a way to demonstrate next generation file services using SharePoint technologies, such as Team Services.

Finnish Government -- Windows XP and Office over Linux/OpenOffice

The Finnish Government evaluated Linux and Open Office, finding that Windows offered better TCO and integration with Microsoft Office than the Linux solution. Windows also delivered more business value by allowing processes to be linked and data shared. While the Finnish Government and the City of Helsinki have rejected Linux, the battle continues at the City of Turku, the second largest city in Finland.

Appendix VII – Partner Satisfaction ratings

Partner Satisfaction Ratings

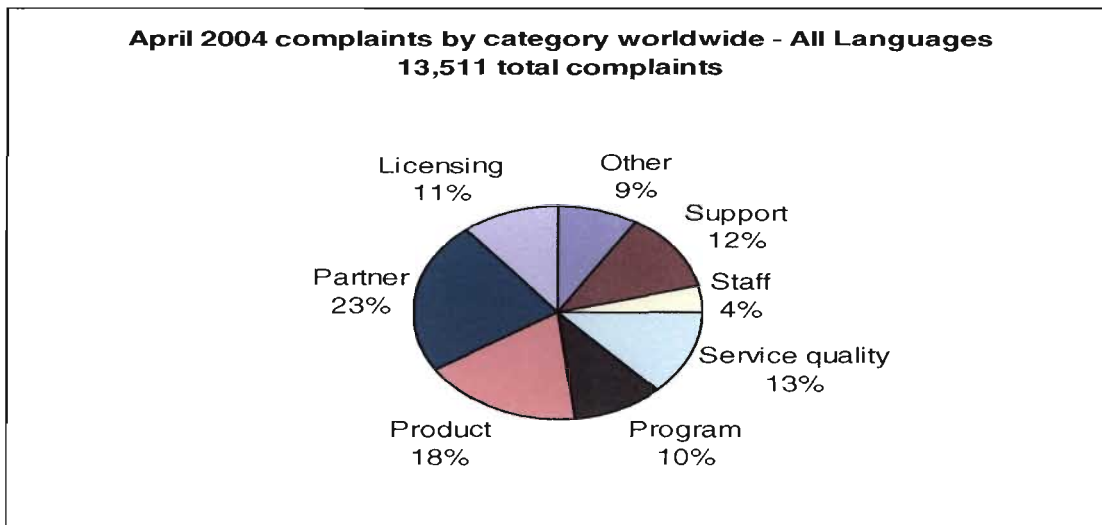


2004 Total Responses for Overall Satisfaction: **43,097**

Appendix VIII – CPE Pillars and Critical Success Factors

CPE Pillars	Critical Success Factors	
<p><u>Culture: Values & Tenets</u></p>	<ul style="list-style-type: none"> • Clear articulation and application of tenets and values (customer-focused culture) • Understand that customer and partner excellence is 'Business-as-usual', not a program 	<ul style="list-style-type: none"> • Leaders serve as highly visible role models of tenets and values
<p><u>Listen & Respond (Reactive) Improve (Proactive)</u></p>	<ul style="list-style-type: none"> • Customer and partner focus via segmentation and targeting • Establish process for response and evolution • Optimize customer and partner experience for quality, predictability and consistency (through in/direct touch points) 	<ul style="list-style-type: none"> • Establish proactive and reactive devices to continually process, understand, prioritize, and share critical customer/partner needs • Innovation and customer-focused value proposition development • Empower employees with broad degrees of freedom to meet customer/partner needs
<p><u>Accountability</u></p>	<ul style="list-style-type: none"> • Organization aligned with meeting end-user needs across the value chain • Build HR practices to support tenets and values (customer focused culture) 	<ul style="list-style-type: none"> • Clearly link customer feedback to both individual rewards and broader company financial results

Appendix IX – RMS Partner Complaints by Category Worldwide February to April 2004



Appendix X – CPE Plan with executive owners per LOB and Division

CPE Plan Executives and Owners		
	Executives	Owners
Business Groups		
Information Worker	Jeff Raikes	Betsy Frost
Business Solutions	Doug Burgum	Scott Anderson/Tracy Faleide
Mobile & Emb. Devices	Peter Knook	Jacques Bablon
Home & Entertainment	Robbie Bach	Carla Lewis
MSN	David Cole	Tony Ettlinger
Windows Client	Will Poole	Stephanie Boesch
Servers & Tools	Eric Rudder	Jon Beighle
Segments & OEM		
Partners	Allison Watson	Liam Foley
Enterprise	Simon Witts	Doug Hauger
Small & Mid Market	Orlando Ayala	Txema Arnedo
Public Sector	Maggie Wilderotter	Debbi Gillotti
OEM	Rodrigo Costa	Diane D'Archangelo
Audiences		
IT Pro	Eric Rudder	Jon Beighle/Tracie Westby
Developer	Eric Rudder	Jon Beighle
Information Worker	Jeff Raikes	Betsy Frost
Consumer	Robbie Bach	John O'Rourke
Services & Operating Groups		
MCS	Rick Devenuti	Larry Schiff
Premier	Rick Devenuti	Larry Schiff
PSS	Lori Moore Ross	Susan Joy
Licensing	Bill Landefeld	Darren Waite/Tom Crawford
Operations	Frank Holland	Cathriona Hallahan
HR	Ken DiPietro	Norman Tonina
LCA	Brad Smith	Nancy Anderson
Finance	John Connors	Stephen Collier
3 Regions + D7 Subs		
APAC	Sanjay Mirchandani	Natasha Kwan
US	Bill Veghte	Todd Weatherby
EMEA	Jean-Philippe Courtois	Kevin Dillon
Canada	Frank Clegg	Amanda Sachs
LATAM	Eugenio Beaufrand	Diana Heileman
Japan	Michael Rawding	Yasuyuki Kuwano
China;	Tim Chen	Elaine Wang
France	Christophe Aulnette	Elisa Ara Fontaine
Germany	Jurgen Gallmann	Gabriela Spindler

UK	Alistair Baker	Simon Hughes
CPE Subject Matter Experts		
Company Tenets	Global Focus Areas	Subject Matter Experts
Great People with Great Values	CPE Review Goals	Elise Jones
Excellence	Engineering Excellence Relationship Excellence Business Simplicity Operational Excellence	Cedric Coco Doug Hauger Darren Walte Russ Albright
Trustworthy Computing	Security Privacy	Steve Upner Peter Cullen
Responsiveness	Complaint Management SDFC/Days to Solution Watson	Tom Blackwood John McBride Jon DeVaan
Broad C/P Connection	Single CRM plan Broad Customer Connection Centrally-governed research	John Kahan Tbd Christopher Frank
Innovation/Enabling	Marketing + Eng. Partnership Longhorn Wave	Steve Petitpas/Dave Bossio BG Execs

Roles & Responsibilities

Executives

1. Act as sponsor for CPE Plan and activities
2. Drive accountability for effective execution of CPE Plans

CPE Plan owners

1. Own creation and execution of CPE plan for business group/sub/function in alignment with relevant GTM's
2. Select appropriate CPE global focus areas
3. Create and implement CPE quality and value metrics
4. Manage and report on progress against plan to execs in preparation for reviews
5. Coordinate CPE plan related dependencies and cross-group collaboration with SMEs and relevant groups

Focus Area Subject Matter Experts (SMEs)

1. Provide guidance on focus area for WW CPE Playbook (resources, training, tools, measurement, accountability/reporting process)
2. Provide consulting services to plan owners to ensure consistency in experience and application, and raise dependencies across plans for their focus areas
3. Connect with appropriate groups (segments and audiences) to incorporate input prescriptions and recommendations
4. Assist Plan owners with creation and implementation of quality and value metrics

CPE Corporate group

1. Provide support through CPE consulting services, issue escalation and resolution, and incubation and resourcing where appropriate

CPE Leads

1. Provide support through CPE consulting services, and project execution

All Employees

1. Understand your role in your group's CPE Plan
2. Incorporate CPE performance objectives into your performance review. These objectives should be outlined to address each of these areas for clarity: Specific, Measurable, Actionable Result oriented and Timely

Appendix XI – Microsoft Memo on Reasons for Partner Dissatisfaction

Source: <http://marketresearch/satisfaction>

Microsoft Memo

Date: March 2003

Re: FY04 WW CUSTOMER AND PARTNER SATISFACTION RESEACH STUDY

This memo summarizes the key findings from the sixth year of the Worldwide Customer and Partner Satisfaction Survey, which was fielded September through November 2003. The survey covered 71 geographies, 22 U.S. districts, and 51 international subs. A total of 43,097 Microsoft customer and partner interviews were conducted worldwide, including 1,253 competitive interviews in three geographies: U.S., Germany, and Japan.

EXECUTIVE SUMMARY

After years of positive results, satisfaction is down across audiences, segments and geographies, and the number of very dissatisfied customers has generally inclined. The most substantial increases were seen in Small (VSAT down from 30 to 21) and Medium Businesses (VSAT down from 22 to 12), as well as non-managed partners (VSAT down from 38 to 20). Managed partners, continue to have the worst dissatisfaction scores of any group.

Security was a dampening effect on advances in overall satisfaction in FY04. Microsoft is perceived to be trailing the industry on bringing to market secure products and helping people stay ahead of new security threats.

Over half of customers and partners in all categories are “somewhat dissatisfied” or “swing voters”. The sheer scale of this audience (48% to 68% of the total base, varying by audience) shows that this group must be considered as the main target for behaviour change investments – but also the greatest risk for increased dissatisfaction if our investments are ineffective.

Relative to the four overall components of satisfaction (Product, Engagement, Reputation, and Value), we perform badly against our competitors in Product (security and quality) and

Value. Microsoft has the lowest Product scores of any competitor among both IT Pro and Developer audiences. All traditional competitors – Microsoft included – substantially lag Linux in Value, Reputation and Product. All players are equally low performing in the area of Engagement, representing an immediate opportunity for Microsoft to differentiate. We must be conscious, however, that even our most bold and innovative pursuits in areas like Engagement will be diluted if we do not also shore up our performance in our weak spots (e.g., security, product quality).

Over time, customers and partners have broadened their expectations, but Microsoft still struggles to meet these expectations. Customer/partner satisfaction never relies on any “one thing,” such as licensing, antitrust lawsuits, or security. Satisfaction driver analysis shows that, beyond addressing security/product quality, we can most effectively increase customer satisfaction by improving “engagement.” This effort must go well beyond delivering great products or solving single issues.

We have identified the most critical drivers of customer satisfaction for each individual audience, segment, and community by geography. These reveal the specific areas where improvement will cause the greatest boost in overall satisfaction. There are company-wide drivers that apply to all audiences (e.g., product quality, technical support), as well as audience-specific opportunities that are prime for action. While each audience group requires unique treatment, several common themes do emerge:

Easier and simpler product deployment, updates, and patches

Simplified licensing

Improved communications that address problem solving and education

Support for usage of new features and upgrades

Greater coordination and engagement with partners

Despite Microsoft’s heightened appreciation for customer and partner focus, we must pursue a better orchestrated, more disciplined set of actions in order to materially boost satisfaction. We must pivot from a large number of comparatively small scale initiatives to a more focused list of efforts that can impact large-scale results. Centralized leadership can provide

the enablers and building blocks for these improvements, with individual subsidiaries tailoring and executing specific activities in-market that address the unique needs of their audiences.

Company-wide initiatives can help individual geographies and business units to achieve success on their CPE goals. Examples of these activities include efforts such as:

Customer Impact Assessment (CIA) process to help prioritize which major initiatives hold the greatest likelihood to impact large-scale satisfaction gains

Enhanced measurement tools to track initiative results in a more timely and consistent fashion, helping us to quickly tweak execution and better allocate investments

Improved sharing of best practices, ensuring that our successful “customer-tested” initiatives are shared more broadly and then localized

Enhanced tracking of our impact on customer “soft costs” in order to monitor and shape our performance in overall value

NEXT STEPS

Looking across audiences and metrics, roughly two-thirds of all respondents to the FY04 Worldwide Customer and Partner Satisfaction Survey reside in the swing, or somewhat dissatisfied space; tending to give Microsoft poor scores. These partners and the customers they sell to represent a significant opportunity for Microsoft. By focusing on who they are, how they differ and what moves them, Microsoft can put into action a plan for reaching these customers and moving them into the committed/loyal space. We intend to analyze this group in more detail, in an effort to better understand how to change their experiences and perceptions concerning Microsoft, thus driving greater satisfaction.

Then the focus turns to staying ahead of the market and the competition. We do that by:

- Supporting Microsoft’s current customer and partner satisfaction measurement program with a more regular “pulse” measurement process that monitors market changes and tests new potential directions we might take on both what we might do and what we might say, and how both play out in the context of the latest moves by the competition. In the future

this approach will support more informed decision-making - spotting issues as they arise and helping Microsoft initiate corrective action in real time.

- In addition, while Microsoft formally evaluates the revenue impact of major business decisions, the impact of these same decisions on partners and their customers is not usually considered with the same rigor. By creating a simple, partner and customer review assessment – or “impact” - process for decisions made across the business groups, Microsoft can better gauge the impact on customers prior to implementing any major changes and develop a feedback mechanism for tracking their impact, informing course corrections as appropriate.

Appendix XII - Comparison of Microsoft Channel program and IBM Channel Program

	Microsoft Channel Partner Program	IBM PartnerWorld
Program Strategy	<ul style="list-style-type: none"> Enable a single program framework that accommodates a broad base of partners through flexible requirements and benefits Provide partners with support and flexibility while encouraging specialized competency development 	<ul style="list-style-type: none"> Aggressively targets and recruits top mid-market partners within specific regions and vertical Generate new business by leveraging the IBM brand to market partner's solutions
Program Attributes	<ul style="list-style-type: none"> 3 tiers based upon partner's value to Microsoft Specializations to recognize higher levels of competency Value credits model allows partners to choose criteria for tier qualification based upon their business Core benefits offered to partners based on tier with the option for partners to purchase additional training and support ("a-la-carte") based on business needs 	<ul style="list-style-type: none"> Five disparate programs based on business model with no common tier status 3 tiers with fixed requirements by tier and by "tracks" (tier 1 & 2 by invitation only for PartnerWorld for Developers) Targeted benefits based on partner's business model Benefit "Value Packages", "Value Options" and "a-la-carte" allow partners to select appropriate benefits for their particular business needs
Program Strengths	<ul style="list-style-type: none"> Tele-account management offered to all tier 2 and above partners increases ease of doing business with Microsoft Flexibility for partners <ul style="list-style-type: none"> Value credits model offers partners numerous methods to achieve tier requirements Benefits are offered as an "a-la-carte" option so that partners can purchase additional support and licenses as needed Specializations that recognize partner's competency <ul style="list-style-type: none"> Evokes a sense of community among partners with similar business models Allows Microsoft to target specific product and solutions information to relevant partners Single point of contact ensures a simple straightforward relationship with Microsoft across all areas of the partner's business 	<ul style="list-style-type: none"> "We Pay Offerings" education reimbursement program offers tuition reimbursement up to \$6,000 for Member level, \$15,000 for Advanced level, and \$50,000 for Premier level participants (offered for fee through PartnerWorld for Software "Value Package") Robust licensing benefits (available for fee through PartnerWorld for Software "Value Package") <ul style="list-style-type: none"> Tier 1 - Unlimited NFR software (demo and internal use); Tier 2 - 3 copies per product release; Tier 3 - 1 copy per product release. Unlimited electronic downloads available to all tiers Demand generation support <ul style="list-style-type: none"> Market and customer intelligence databases to identify largest opportunities and generate leads IBM "Start Now" demand generation tools Clearly defined fixed requirements by tier and by track
Program Weaknesses	<ul style="list-style-type: none"> Benefits at tier 1 appear to be light, providing no clear incentive to progress to tier 1 Partners may perceive Value Credits Requirement Model as complex 	<ul style="list-style-type: none"> PartnerWorld has multiple, disparate interfaces resulting in incoherence and inconsistency across Partner Programs Lacks flexibility - partners are forced to fit into narrowly define, siloed program tracks

Appendix XIII - PAM Skills Assessment Tool

Prepare Phase:



Foundational Skills

- Possesses and maintains knowledge of MS products, technology, and competition
- Maintains knowledge of competitive landscape in partner community and competitors of specific partners in portfolio
- Possesses and maintains effective communication and organization skills
- Keeps all internal parties informed about partner relationship and solutions; regularly updates any virtual teams associated with the partner
- Is able to effectively create an agenda and efficiently conduct an internal MS meeting

Portfolio Management

- Provides Input to Leadership on Subsidiary Business Plan and GTM Selection Process:
- Analyzes partners in portfolio to determine potential fits for selected GTMs; clearly highlights strengths, weaknesses, opportunities, and threats (SWOT) of partners.
- Identifies Partners' willingness and desire to participate and/or invest in partnership
- Identifies growth/expansion areas and/or potential joint initiatives within portfolio that represent significant market opportunity for Subsidiary
- Develops Business Plan for Partner Portfolio
- Defines key targets/goals across entire portfolio
- Segments partners in portfolio into levels of engagement as appropriate for role and number of partners in portfolio (Managed vs. non-managed, highly managed vs. lightly managed, etc.)
- Defines key interaction targets/goals for each partner segment (e.g., executive interaction per quarter for each managed partner; three management interaction per month for each managed partner etc.)
- Defines general marketing initiatives/demand-generation activities for each segment

- Defines general training/enablement approach or plans for each segment
- Defines partner satisfaction strategy, metrics, and tactics
- Defines feedback strategy to solicit input from partners on how to improve MS business

Maintains balanced portfolio

- Regularly reviews partner portfolio
- Identifies portfolio gaps based on comparisons of actual (or expected) to target/goals as defined in the Portfolio Business Plan, and/or other factors
- Develops and executes strategy to replace/augment/enhance existing partners in portfolio to alleviate gaps
- Maintains high-level knowledge of MS partners in community that could be moved into portfolio, as well as non-MS partners in community that could be recruited

Relationship Management

- Influences managed partners to maintain commitment to MS platform and solutions
- Evangelizes specific partner successes inside MS and externally as appropriate

Recruit Phase:



Foundational Skills

- Possesses and maintains knowledge on MS company and processes
- Understands and can articulate MS corporate strategy and how GTMs support the corporate strategy and goals

Relationship Management

- Influences managed partners to maintain commitment to MS platform and solutions
- Influences partner to participate in GTMs which benefit both MS and partner

Plan Phase:



Relationship Management

- Co-develops with each Managed Partner a Partnership Plan or Business Plan
- Defines clear objectives for Partner, MS, and partnership
- Defines key targets/goals for MS and Partner that directly support the partnership objectives (revenue, certifications, certified professionals, enablement and other event participation, customer satisfaction levels, etc.)
- Analyzes market opportunity and defines marketing initiatives/demand generation activities to achieve revenue
- Defines marketing initiatives/demand-generation activities for any identified revenue expansion areas.
- Defines GTM participation requirements and expectations (marketing initiatives, etc.)
- Defines measurement and success criteria to be used in evaluating performance for all marketing initiatives
- Defines training/enablement plan required to successfully execute marketing initiatives and growth objectives
- Defines "rules of engagement" between MS and partner (who is responsible for what activities around marketing, demand generation, selling/co-selling, etc.; which MS personnel will interact with which partner personnel how often, etc.)
- Defines customer satisfaction strategy, metrics, and tactics

Sales Process Management (Demand Generation, Pipeline Management, Co-Selling)

- Defines Sales and Marketing Processes with partner
- Clearly identifies for the partners available resources MS provides for the partner to assist in the sales and marketing process (GTMs, pain sheets, value chains, etc.)
- Clearly defines lead management process for both parties

- Clearly defines opportunity/pipeline management process and reporting for both partner and MS (what will be reported, how often, in what format, etc.)
- Clearly defines "rules of engagement," including under what circumstances (if any) MS resources can be leveraged for marketing and sales activities, and what role those resources will play
- Establishes win/loss goals with partner; establishes pipeline movement goals and guidelines with partner (how fast should a deal move through the pipeline; how many should move from one stage to the next, etc.)

Enable Phase



Partner Skills Management

- Coordinates and/or executes enablement/training plan for managed partners
- Maps enablement / training requirements from Partnership Plans to available/scheduled programs; identifies gaps in available/scheduled programs; identifies potential capacity issues based on needs vs. available programs
- Defines, develops, and executes (or coordinates resources for) additional enablement/ training requirements based on gaps and capacity issues uncovered.
- Provides one-off soft skills coaching as appropriate
- Meets regularly with managed partner to discuss progress to plan and changes
- Tracks partner participation in enablement/training events
- Ensures portfolio partners maintain certification requirements and tracks progress on certification/certified professional goals and objectives
- Ensures managed partners meet enablement goals defined in Partnership Plan
- Regularly notifies partners of their progress towards certification/certified professional goals

Create Demand Phase



Foundational Skills

- Possesses and maintains knowledge on MS company and processes
- Understands and can articulate individual GTMs, including their target customer markets, execution timing, primary messaging, and target partners; understands and can successfully navigate and/or leverage the GTM messaging and tools
- Possesses and maintains knowledge on general business concepts (business acumen)
- Understands and can articulate marketing campaign creation and execution fundamentals; is able to provide input to campaign design and participate in campaign execution

Sales Process Management (Demand Generation, Pipeline Management, Co-Selling)

- Provides marketing leadership, mentorship, and collaboration to managed partner sales and marketing teams
- Collaborates with partner in the development of demand-generation plans; provides marketing campaign suggestions and best practice recommendations
- Assists in market data analysis to create target prospect list
- Provides marketing materials/templates from MS, creative ideas, and program suggestions appropriate for campaign (GTM and non-GTM)
- Provides assistance as appropriate to help partner execute marketing activities
- Collaborates with partner in leveraging customer success stories (case study, etc.)
- Solicits input and assistance from other MS resources as appropriate (product marketing, technical resources, etc.)
- Manages and allocates Marketing Development Funds according to partnership plans and as deemed appropriate by leadership team

- Oversees execution of rebate, royalty, and/or other incentive programs for the partner
- Provides sales leadership, mentorship, and collaboration to managed partner sales team
- Provides partner coaching, expertise, and best practice suggestions on opportunity management as appropriate
- Coaches partner on competitive strategies and competitive value propositions for MS products
- Coaches partner on common objections and best practice techniques for addressing them
- Provides partner with detailed solution sales tools as appropriate
- Regularly discusses key opportunities in the pipeline, including progress, strategy, competition, next steps, and odds for closure
- Provides partner resource assistance as appropriate (technical resource, joint call, etc.)
- Reports on lead progression as compared to goals established with partner
- Keeps partner apprised of revenue attainment against revenue goals in partnership plan
- Co-sells with partner on key, strategic opportunities
- Acts as a selling resource/active member of the partner sales team as needed and agreed to by Microsoft and partner
- Assists in qualification of account and opportunity
- Assists in competitive positioning, laying of competitive traps, and responding to competitive objections
- Assists in discovery efforts with prospect; co-develops call objectives, minimal and optimal goals, high-yield questions, and agendas
- Assists in documenting and mapping the prospect organization chart and influence relationships
- Co-develops and assists in execution of opportunity strategy
- Co-develops appropriate value propositions; compelling, personalized benefit statements; and value-linked results statements
- Assists in linking and mapping Microsoft and partner solution elements to prospect needs
- Provides technical and/or product expertise in development and delivery of value propositions and solution mapping
- Assists in development of prospect presentation and demonstrations

Retain Phase



Foundational Skills

- Possesses and maintains effective communication and organization skills
- Efficiently reports to the appropriate management and virtual team members any issues existing with the partner

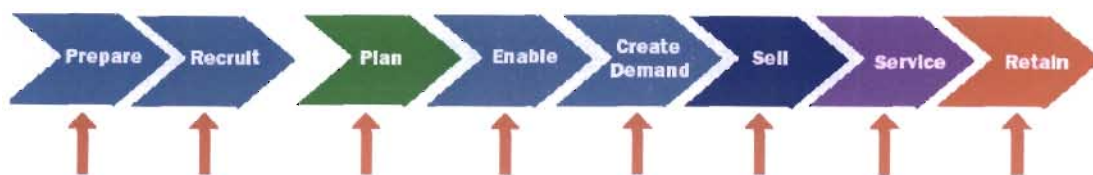
Relationship Management

- Builds a strong personal relationship with the partner or partner community through trust building activities
- Communicates regularly with partner both verbally and written about all relevant topics exhibits exceptional written and verbal communication skills
- Listens to partner communications (both verbally and written); able to decipher real needs and complaints from communication noise
- Regularly sets expectations with partner that are reasonable for both parties; clearly sets and re-sets expectations when there is a potential for misunderstanding
- Acts as liaison to partner, connecting the right people at the partner with the appropriate people at MS
- Provides timely and appropriate responses to all requests from partners
- Negotiates win/win resolutions to partnership components
- Meets key interaction targets/goals for each partner segment as defined in Portfolio Business Plan or Partner Business Plan
- Maintains a positive, business-oriented relationship with the partner or partner community
- Clearly communicates to partner the current level of their relationship with MS communicates MS strategy, rules, reasons, and requirements for achieving next level of relationship with MS
- Understands the partner/channel business model and is able to display empathy to the partner for their situation, business model, goals, and complaints

- Executes the partner satisfaction strategy, according to plan defined in Portfolio Business Plan or Partner Business Plan (ensures that metrics are collected and targets met)
- Regularly solicits feedback from the partner on all topics according to feedback strategy defined in Portfolio Business Plan; provides a clear and concise mechanism for the partner to provide such feedback on their own terms
- Responds professionally to objections raised by the partner; is prepared to answer questions and challenges to MS' direction, strategy, tactics, and procedures; is prepared to answer questions and challenges regarding competitors
- Is knowledgeable about specific industry or industries that the partner targets with its solutions (e.g., retail, financial services, healthcare, telecommunications, etc.)
- Builds relationships with high-level executives at key managed partners
- Analyzes partner business and target industries to fully understand their financial status and path to profitable business; understands role MS products and platforms play in that path shows partner MS commitment to their model by offering sound suggestions on how MS can help them achieve their corporate goals and objectives
- Identifies target executive(s) with whom to build better/stronger MS relationship(s); identifies MS personnel with whom relationship(s) should be built; develops and executes plan of interactions, events, goals, and timelines to create and build the relationship(s)
- Influences managed partners to maintain commitment to MS platform and solutions
- Analyzes partner business, specialty offerings (current), market opportunities and revenue production to clearly identify benefits (hard and soft/quantitative and qualitative) the partner receives through MS relationship
- Clearly identifies training/enablement and certification requirements to maintain current MS revenue production, as well as current relationship with MS
- Regularly communicates to partner the success and benefits the partner has derived from MS relationship (revenue, awards, recognition, press, etc.)
- Regularly provides product, industry, and competitive information to partner that applies to their business model and goals
- Provides partner with compelling business case as to why maintaining commitment to MS is of benefit to the partner's ability to achieve their strategic and tactical objectives (ROI and other factors based on above data points)

- Influences managed partner to increase commitment and share of business dedicated to MS platform and solutions
- Analyzes partner business, specialty offerings (current and potential) and market opportunity to identify potential revenue expansion areas and/or potential joint initiatives for partner (new products, new markets, etc.) based on core competencies, latent competencies, past successes, etc.
- Provides information on MS marketing initiatives partner is not currently leveraging and creative ideas on marketing initiatives and other efforts that could increase partners MS based revenue
- Provides partner with compelling business case as to why increasing commitment to MS is of benefit to the partner's ability to achieve their strategic and tactical objectives (ROI and other factors based on above data points)
- Influences partner to invest in additional MS technologies/platforms/solutions that support long-term revenue growth and partnership growth through compelling business case and other "sell to" activities; clearly identifies training/enablement and certification requirements related to the additional technologies (both technical and sales)
- Identifies key influencer(s) at partner who represents competitive interests; identifies MS personnel with whom relationship(s) should be built; develops and executes plan of interactions, events, goals, and timelines to influence the key individual(s) toward MS platform
- Clearly identifies additional MS resources that partner would have access to with an increased commitment (more leads, technical support, etc.)

General



- Possesses and maintains knowledge on MS company and processes

- Maintains knowledge of MS organizational structure, roles, and responsibilities, and can successfully navigate through the MS organization
- Understands and can articulate MS core business processes and Partner Management business processes
- Maintains knowledge of and proficiency in MS tools both for internal use and partner use; is able to provide coaching to partner on effectively using partner facing tools
- Possesses and maintains knowledge of MS products, technology, and competition
- Understands and is trained at high level on all products offered by MS
- Understands and is trained at high level on MS technology and platform solutions
- Displays passion for MS technology and solutions; is convinced MS is the most appropriate technology for the market
- Possesses and maintains knowledge on general business concepts (business acumen)
- Maintains knowledge about the computer hardware and computer software industries
- Maintains knowledge about the fundamentals of general business finance; can read and understand P&L/Income Statement, Balance Sheet, and other core financial reports
- Understands and can articulate general sales and marketing concepts
- Possesses and maintains effective communication and organization skills
- Orchestrates virtual teams from cross-functional areas within MS as appropriate for partner activities and needs

Portfolio Management

- Profiles Partners
- Encourages partners to self-profile in appropriate MS Tool
- Leverages available programs to encourage Partner self-profiling
- Collects partner profile information from partner directly
- Collects partner profile information from available resources (other PAMs, sales people, other partners, end customers, etc.)
- Collects partner profile information from research sources
- Regularly verifies existing profile data

MSL Vendor Report

University of KwaZulu-Natal

Appendix XIV – Portfolio Plan Template

Portfolio / Partner Account Manager: **Joe Bloggs**
 Effective Period of Plan: **7/1/2004** To **6/30/2005**
 Current Quarter (1, 2, 3, 4, YE): **2**
 Update Date: **9/8/2004**

Partner Accounts in Portfolio	Account Objective	Account Plan Type	Account Plan Complete?
1. Company A	Grow	Detail	Yes
2. Company B	Maintain	Summary	No
3. Company C	Stretch	Detail	Yes
4. Company D	Maintain	Summary	No
5. Company E	Replace	None	No
6.			
7.			
8.			
9.			
10.			
11.			
12.			
13.			
14.			
15.			

Portfolio Assigned Quota: **€ 3,500,000.00**

Partner Accounts in Portfolio	Expected or Actual Revenue Production				Expected Revenue Total	Assigned Revenue Quota
	Q1	Q2	Q3	Q4		
2. Company A	€ 400,000.00	€ 400,000.00	€ 400,000.00	€ 400,000.00	€ 1,600,000.00	€ 1,600,000.00
3. Company B	€ 150,000.00	€ 150,000.00	€ 150,000.00	€ 150,000.00	€ 600,000.00	€ 800,000.00
4. Company C	€ 50,000.00	€ 60,000.00	€ 70,000.00	€ 80,000.00	€ 260,000.00	€ 300,000.00
5. Company D	€ 100,000.00	€ 100,000.00	€ 100,000.00	€ 100,000.00	€ 400,000.00	€ 500,000.00
6.	€ -	€ -	€ -	€ -	€ -	
7.	€ -	€ -	€ -	€ -	€ -	
8.	€ -	€ -	€ -	€ -	€ -	
9.	€ -	€ -	€ -	€ -	€ -	
10.	€ -	€ -	€ -	€ -	€ -	
11.	€ -	€ -	€ -	€ -	€ -	
12.	€ -	€ -	€ -	€ -	€ -	
13.	€ -	€ -	€ -	€ -	€ -	
14.	€ -	€ -	€ -	€ -	€ -	
15.	€ -	€ -	€ -	€ -	€ -	

Expected Portfolio Revenue: **€ 2,860,000.00**

Assigned Portfolio Revenue Goal: **€ 3,200,000.00**

GAP#1 (Expected to Assigned): **€ 340,000.00**

GAP#2 (Assigned to Quota): **€ 300,000.00**

Action Plan to Address

Action Plan to Address

Other Metrics

	Q1	Q2	Q3	Q4
Revenue Performance				
<i># Partners Achieving Quarterly Target</i>	4	4	3	4
<i>Close Ratio of Leads</i>	50%	50%	55%	60%
<i># Projects</i>	15	20	15	20
Planning				
<i>Develop Detailed Account Plans with # Partners</i>	2	0	0	0
<i>Develop Summary Account Plans with # Partners</i>	2	0	0	0
<i>Develop Collaborative Business Plan with # Partners</i>	5	0	0	0
Profiling				
<i>Update Edison Profile on # Partners</i>	4	0	4	0
Recruitment / Retention				
<i># of New Partners Certified</i>	1	0	0	0
<i># Certified Partners Renew</i>	4	0	0	0
Demand Generation				
<i>Co-Develop # Marketing Campaigns w/ Partners</i>	4	3	3	4
<i># Partners Participating in selected GTMs</i>	2	0	2	0
Readiness				
<i># Partners in Training</i>	3	4	2	4
Selling				
<i># Joint Sales Calls</i>	25	25	25	25
Partner Satisfaction				
<i>Account Management Metric</i>				
<i>Business Value Metric</i>				
Competition				
<i>% change in Linux penetration</i>	-2%	0%	-2%	0%

Action Plan to Achieve	

Appendix XV – Analysing Competition Worksheet

Short List	Why should we partner or increase share?	Why shouldn't we partner or increase share?
Competitor 1:		
Competitor 2:		
Microsoft		

Appendix XVI – Template: Agenda Pre-planning session

Sample Agenda

- 1) Business Management (State of the Portfolio) – 25%
 - a) Significant Events in Portfolio
 - i) Changes in Partner relationships
 - ii) Significant Partner wins / losses
 - iii) Changes in Partners' business or focus
 - b) Review Specific Partner (one or two partners)
 - i) Account Plan Review
 - ii) Progress to date
 - iii) Challenges / Issues
 - iv) Action Plan to Address
 - v) Update Account Plan as needed

- 2) Pipeline Management (Overall Pipeline Health) – 10%
 - a) Current Pipeline Stats (e.g. using Edison view)
 - b) Current Portfolio revenue production
 - i) MTD
 - ii) YTD
 - iii) Compared to last month's forecast
 - iv) Server vs. Non-Server Breakout
 - c) Net new opportunities
 - d) Confirm 20% Opportunities to Partner
 - e) Lead Generation Activities Update

- 3) Velocity Management (Opportunity Management) – 50%
 - a) High Level Opportunities Review (How many, current status, what's next)
 - i) 10% Qualify
 - ii) 20% Develop
 - iii) 40% Solution
 - iv) 60% Proof
 - v) 80% Close
 - b) Specific Partner Performance Review (one or two partners)
 - i) Partnership Plan – Goals and Progress
 - ii) Significant advances made
 - iii) Challenges faced / Issues / Concerns
 - iv) What's needed to address / MS management help request
 - v) Action Plan to address

- 4) Business Planning (Portfolio) – 15%
 - a) Review Goals and Progress to date
 - b) Review Action Plans and Progress
 - i) Significant advances
 - ii) Challenges / Issues
 - iii) Action Plan to Address
 - c) Update Portfolio Plan as needed

Appendix XVII – Account Plan Template

FY## OBJECTIVES							
Account Objective:	Summary statement of the primary objective Microsoft would like to achieve through the partnership in FY##. This statement is about the entire partnership, how Microsoft would like to see it change during this plan year. Possibilities include Acquire, Maintain, Grow, Stretch, Contract, and Release.						
Partner Business Requirement(s):	Key Business Requirements (Partner's Desired Results)	Re-live the Pain – A few sentences summarizing the tactical and consequential pains preventing the achievement of the partner's KBRs.					
Relationship Value:	Attribute of the Relationship you will discuss	Pain it Addresses	Who has the Pain?	Personalized Benefit Statement			
	Competitive Advantages – What are the 3-5 key competitive advantages you have, and how will you articulate them? How do they tie to the partner's Key Business Requirements?						
	Link Value to Results – How will you articulate summary statements that highlight your value proposition for this partner? Why should they partner with you?						
Partner Players:	Name	Title	Role (re:Partnership)	Influence (High / Med / Low)	Preference + Favors MS = None - Favors Other	Degree of Contact (None / Low / Med / High)	MS Assigned Resource

FY## OPPORTUNITIES / RISKS	
Market Trends:	<i>Industry and/or market trends that represent opportunities and/or risks to Microsoft's relationship with this partner organization</i>
Competition: (from Competitive Analysis Worksheet)	<i>Summary description of the competitive landscape for this partner's mind-share – on what other partners or initiatives might this organization spend money and time?; based on that landscape, what opportunities and risks are present to Microsoft achieving its objectives with this partner organization.</i>
Other:	<i>What other opportunities and risks exist for Microsoft in managing this partner relationship.</i>

FY## QUANTITATIVE GOALS / TARGETS				
Category		Goal / Target	%Δ over FY-1	Actual YTD %
Revenue / Projects:	MS Sales:			
	% New Customers vs. Add On Business:			
	Win Rate:			
	# Sales People focused on MS Revenue:			
	Partner Satisfaction:			
Tools / Communication:	Reporting / Status:			
	Use of MS Tools:			
Certification:	# Certified Tech Staff (by type):			
	# Certified Sales Staff (by type):			
	Partnership Certification:			
Other:				

FY## QUANTITATIVE GOALS / TARGETS (cont.)				
ACTION PLAN				
Activity	Desired Results	Due Date	Owner	Current Status
Specific development activity required	↑			
↓	Activity deliverable			
	↓	↑ Date deliverable due		
		↓	↑ Primary owner of deliverable	
			↓	↑ Current status of deliverable

FY## QUALITATIVE GOALS / TARGETS				
Name	Description	Goals / Targets		
		Action Plan		
		Activity	Desired Results	Due Date
		Specific development activity required	↑	
		↓	Activity deliverable	
			↓	↑ Date deliverable due
				↓
				↑ Primary owner of deliverable
				↓
				↑ Current status of deliverable
Name	Description	Goals / Targets		
		Action Plan		
		Activity	Desired Results	Due Date
		Specific development activity required	↑	
		↓	Activity deliverable	
			↓	↑ Date deliverable due
				↓
				↑ Primary owner of deliverable
				↓
				↑ Current status of deliverable
ACCOUNT OVERVIEW				
Partner Mission Statement:	Mission statement of the Partner organization.			
Partner Organization	Partner organization documented goals, initiatives, and/or strategic direction. What is the partner organization publicly saying it wants to accomplish.			

Goals / Initiatives / Strategic Direction:						
Target Markets and Key Customers:	<i>Target markets and key customers of the Partner organization.</i>					
Key Partners and Suppliers:	<i>Key suppliers and other partners this organization has relationships with.</i>					
Employees:	Development:	Sales	Consultants	Marketing	Technology	G&A
Financials:	Current Situation					
	Balance	Cash Flow		Rating (\$)	Source	
	<i>Profit / Loss</i>	<i>Positive / Negative</i>		<i>Investment Rating</i>	<i>Source of rating</i>	
	Revenue Distribution (%)					
	Software	Services		Hardware	Other	
	<i>% of total revenue in each category</i>					
	Total Revenues (\$M)					
	FY-3	FY-2	FY-1		FY##	
	Microsoft Revenues (\$M)					
FY-3	FY-2	FY-1		FY##		
<i>Direct or Influenced Revenue to MS</i>						
Revenue Distribution (LOB)	Product / Service	Principal at Partner		% Contribution to Partner Business	Major Competitors	
	<i>Line of Business or Product/Service</i>	↑				
	↓	<i>Person at Partner responsible for revenue</i>		↑		
		↓		<i>% of total revenue this LOB represents</i>	↑	
				↓	<i>Who do they compete with in this LOB</i>	

PARTNERSHIP OVERVIEW					
Partner Category		Specialization Type		Certification Level	
<i>SI / VAR / Reseller / etc.</i>		<i>If any ...</i>		<i>MS current certification</i>	
% Revenue Distribution (MS Competitive)					
Microsoft	Competitor 1	Competitor 2	Competitor 3	Other	
<i>% of total revenue in each category</i>					
Staffing / Certifications					
# MCP	# MCSA	# MCSE	# MCDBA	# MCSD	Non-certified MS Developers
Capacity					
Average Project Size (\$)		Average # Projects / Month		Average # Projects / Year	

Engagement Depth				
Total	Reporting Commitment	Commercial Commitment	Technical Commitment	Relationship
<i>See Partnering Blueprint for more information</i>				
Readiness Analysis				
Rating				
5 = Highly trained/skilled personnel; requires no MS assistance				
4 = Trained / skilled personnel; requires additional advanced training to achieve competency and independence from MS				
3 = Trained / skilled personnel; requires intermediate to advanced training to achieve competency and independence from MS				
2 = Some trained / skilled personnel; requires basic to advanced training to achieve competency and independence from MS				
1 = No trained / skilled personnel; requires basic to advanced training to achieve competency and independence from MS				
Sales	Technical	Business Development	Demand Generation	
SWOT Analysis				
Strengths	Weaknesses	Opportunities	Threats	
Peer Comparison				
MS Revenue Category	FY-1 Actual (\$)	Peer Comparison (+ / - / =)	Market Share (%)	Peer Comparison (+ / - / =)
<i>Server / Desktop / etc.</i>	↑			<i>Comparison to Peer partners (market share)</i>
↓	<i>Actual Revenue in category in FY-1</i>		↑	↓
	↓	↑	<i>Market Share in category</i>	
		<i>Comparison to Peer partners (revenue)</i>	↓	

PERFORMANCE HISTORY									
Overview:	<i>Summary statement on the successes achieved and/or challenges faced in last three (3) years of relationship.</i>								
Category	FY-3			FY-2			FY-1		
	Forecast	Actual	% Attain	Forecast	Actual	% Attain	Forecast	Actual	% Attain
Total Partner and MS Sales:									
MS Sales:									
# Projects (by type):									
# New Customers:									
# Deals:									
Win Rate:									
Customer Satisfaction:									
Certification Level:									
Certified Sales Staff:									
Certified Technical Staff:									
Other:									
FY-1 REVENUE INITIATIVES									
Rate: (E)xcellent, (G)ood, (F)air, (P)oor									
Initiative Name	Planning	Demand Gen Execution	Business Dev Execution	Sales Execution	% Revenue Goal Attainment				

PLANNED REVIEW / REFINEMENT ACTIVITIES		
Date	Participants	Purpose

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ACTUAL REVIEW / REFINEMENT ACTIVITIES		
Date	Participants	Results

CONTACTS / RESOURCES				
<Partner Name>				
Name	Role	Title	Phone(s)	Email
Microsoft				
Name	Role	Title	Phone(s)	Email

Appendix XVIII – Joint Business Plan Template

OVERVIEW	
Partnership Vision:	<i>Short description of the overall vision of the partnership between Microsoft and this organization (i.e. Why are the two organizations creating or continuing this partnership?)</i>
Partnership Mission:	<i>Short description or list of the primary mission of the partnership (i.e. What will this partnership achieve – high level?)</i>

FY## OBJECTIVES	
Partnership Objective:	Summary statement of the primary objective of the partnership in FY##.
<Partner Logo> Objective(s) and Value:	<p><i>Key Business Requirements of the Partner organization that the Partnership can help achieve.</i></p> <hr/> <p style="text-align: center;">MS to Partner Value Proposition</p>
Microsoft® Objectives(s) and Value:	<p><i>Key Business Requirements of Microsoft that the Partnership can help achieve.</i></p> <hr/> <p style="text-align: center;">Partner to Microsoft Value Proposition</p>

PERFORMANCE TO FY-1 PLAN			
Overview:	<i>Summary statement on the successes achieved and/or challenges faced in FY-1</i>		
Category	Actual	% FY-1 Goal	%Δ over FY-2
Total Partner and MS Sales:			
MS Sales:			
# Projects (by type):			

# New Customers:			
# Deals:			
Win Rate:			
Customer Satisfaction:			
Other:			

OPPORTUNITIES / RISKS	
Market Trends:	<i>Industry and/or market trends that represent opportunities and/or risks to the partnership achieving its objectives.</i>
Competition:	<i>Summary description of the competitive landscape for the partnership; based on that landscape, what opportunities and risks are present to the partnership achieving its objectives.</i>
Other:	<i>What other opportunities and risks exist for the partnership.</i>

FY## GOALS / TARGETS				
Category		Goal / Target	%Δ over FY-1	Actual YTD %
Revenue / Projects:	Total Partner and MS Sales:			
	MS Sales:			
	# Projects (by type):			
	# New Customers:			
	# Deals:			
	Win Rate:			
	# Sales People Achieving Quota:			
	Customer Satisfaction:			
Tools / Communication:	Reporting / Status:			
	Use of Edison			
Certification:	# Certified Tech Staff (by type):			
	# Certified Sales Staff (by type):			
	Partnership Certification:			
	Misc. Training Activities:			

FY## STRATEGIC INITIATIVES		
Initiative	Description	Goals / Targets
Initiative #1:	<i>Specific initiative (revenue and others) description; could be participation in a GTM, or some other marketing / sales program.</i>	Specific revenue, projects, customers, etc. goals.
Initiative #2:		
Initiative #3:		
Undefined:	<i>Remaining goals and revenue target to be achieved through yet-to-be-defined initiatives.</i>	

PLANNED REVIEW / REFINEMENT ACTIVITIES		
Date	Participants	Purpose

CONTACTS / RESOURCES				
<Partner Name>				
Name	Role	Title	Phone(s)	Email
Microsoft				
Name	Role	Title	Phone(s)	Email

By signing below, you indicate that you have reviewed this document, understand its purpose and content, and agree to the commitments for your organization.

By _____

By _____

Name (Please Print)

Name (Please Print)

Title

Title

Company

Company

Date

Date

ACTUAL REVIEW / REFINEMENT ACTIVITIES		
Date	Participants	Results

Appendix XIX – Mapping the Partner Sales Model to MSSP to create a Sales Action Plan

Check List

- 1) Does the partner have a sales process with discrete, defined phases?
 - a) If so,
 - i) What are the discrete, defined phases?
 - ii) Is it possible to clearly map the partner sales phases to MSSP phases?
 - iii) If so, what is the mapping?
- 2) Does the partner sales team follow the sales process consistently?
 - a) If not, where do they seem to deviate from the process most often?
- 3) Does each of the sales phases (in the partner sales process) have clearly defined qualification criteria and/or requirements to proceed?
 - a) If so
 - i) What are they (by phase)?
 - ii) Is it possible to clearly map the partner qualification criteria and/or requirements to proceed to the MSSP Sales Execution Activities and Customer Evidence items?
 - iii) If so, what is the mapping?
- 4) Does the partner sales process include defined best practice activities or suggested tasks to move the sales opportunity forward?
 - a) If so
 - i) What are they (by phase)?
 - ii) Is it possible to clearly map the partner best practice activities to the MSSP Activities?
 - iii) If so, what is the mapping?
- 5) Do you and the partner have a clearly defined pipeline and deal review process?
 - a) If so
 - i) What is the process?
 - ii) Is this the same process that the partner follows on other sales opportunities that do not include Microsoft products or technology?
 - b) If not, how is it different?

Partner Sales Action Plan

Where Should I Start?		
Based on answering the above questions about my partner, what is the logical first step to establish a collaborative sales approach we can both live with?		
<div style="margin-left: 40px;"> <input type="checkbox"/> Define sales process <input type="checkbox"/> Define qualification criteria / requirements to proceed <input type="checkbox"/> Define milestone best practice activities <input type="checkbox"/> Define pipeline and deal review process </div>		
Objective or Goal		
(Make sure it is Specific, Measurable, Attainable, Realistic, and Time Bound):		
Value to Partner		
Why is having a collaborative sales approach of value to this partner?		
Action Plan		
Action / Activity / Task	Owner / Responsible	Date Due
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		

Appendix XX – Rules of Engagement for Co-Selling Template

Rules of Engagement for Co-Selling

Involvement Criteria	
<i>What criteria will be used to determine if MS resource involvement is warranted?</i>	
Sales Support	
How to request a resource, Lead time requirements, Types of events supported, Roles and responsibilities	
Issue Management	
Forum to raise an issue, Timing for raising issues, Discussion and resolution process	
Anticipated Objections	
Objection	What will they say?
11.	
12.	
13.	
14.	

Appendix XXI – Template Agenda for Partnership Business Review

Partnership Review Meeting

Sample Agenda

- 1) Business Management (State of the Business) – 25%
 - a) Partner
 - i) New Hires / Turnover
 - ii) GTM Follow Up
 - iii) Significant Events in Business (e.g. new executives, new line of business, significant revenue wins, loss of staff, change in strategy, etc.)
 - b) Microsoft
 - i) New Hires / Turnover
 - ii) GTM and other Marketing Events Update
 - iii) Significant Events in Business (e.g. new product announcements, new programs, significant revenue wins in related areas, changes in strategy, etc.)
 - c) Issues To Be Discussed regarding Partnership
- 2) Pipeline Management (Overall Pipeline Health) – 10%
 - a) Current Pipeline Stats (e.g. using Edison view)
 - b) Current Partnership revenue production
 - i) MTD
 - ii) YTD
 - iii) Compared to last month's forecast
 - iv) Server vs. Non-Server Breakout
 - c) Net new opportunities
 - d) Confirm 20% Opportunities to Partner
 - e) Lead Generation Activities Update
- 3) Velocity Management (Opportunity Management) – 50%
 - a) High Level Opportunities Review (How many, current status, what's next)
 - i) 10% Qualify
 - ii) 20% Develop
 - iii) 40% Solution
 - iv) 60% Proof
 - v) 80% Close
 - b) Specific Opportunity Review (one or two opportunities)
 - i) Current Status
 - ii) What's needed to win
 - iii) MS Resource / help request
- 4) Business Planning (Partner Engagement Health) – 15%
 - a) Readiness activities updates
 - b) Goals and Targets update and review (from Partnership Business Plan)
 - c) Identify Gaps (Plan to Actual on all goals)
 - d) Action Plan for Gaps
 - e) Review and Update Partnership Business Plan as needed

Appendix XXII – List of Microsoft Partners and Customers Surveyed per region

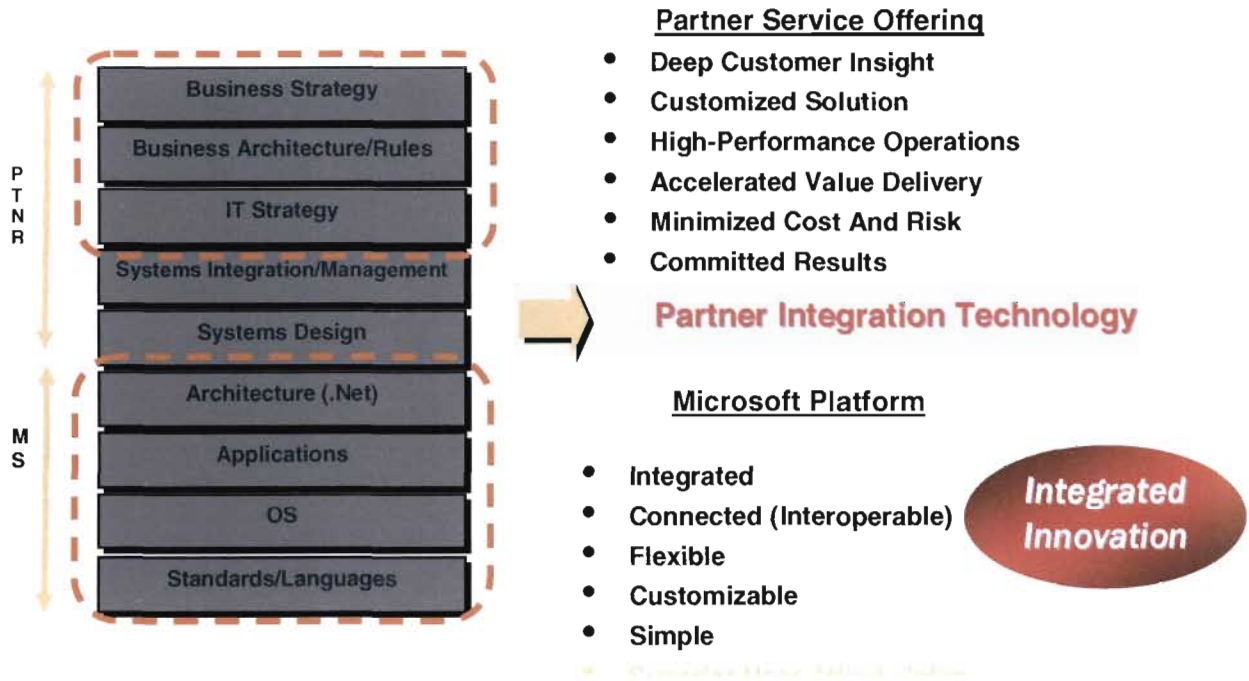
Why Microsoft Wins:

- US (9) –Ameritrade, Continental, Hard Rock Café, XO Communications, Helios Healthcare, OfficeMax, State of IL, Dept. of Humans Services, Orbital Sciences Corporation
- ASIA (5)– Election Commission, CDLS, WIPRO, National Informatics Center, Unitel
- EMEA (9) - 1&1 Internet AG, Integra, Oni Web, France Telecom (NSP), Swiss Life/Rentenanstalt, IEE International Electronics Engineering, KBC, Edcon, Université Paris 12
- ICON (10) – DNS El Salvador, Ministerio de Hacienda, Sobeys Ltd., Inova, BRB, Elektra, Gobierno del DF, Fideliqu, Fonatur, ANEP-CODICEN
- SOUTH AFRICA(5) – Sasol, , Symetrix, First Technology , SARS, JDE

Why Microsoft Looses

- US (11) - Henninger Media Services, Gardere Wynne and Sewell LLP, Clear Channel, Western Geco, NationsRent, Sprint E-Solutions, Nvidia, City of Largo, FL, Circuit City, Medstar Health, Aegon
- ASIA (4) – Malaysia Parliament, Indian Institute of Technology, Korea Airline, Justice Yuan
- ICON (8) – Bell Canada, RIM, Gobierno del DF, Aranea, Ford Mexico, Prima, Contraloria Generall de la Republica, Digitel
- EMEA (6) - *German Federal Administration*, Sonera, Eresmas, Universite de Paris, Ministere de la Defense, Ministere de la Culture
- SOUTH AFRICA(7) – Pick and Pay, SITA, Standard Bank, HP, Business Connection

Appendix XXIII – Partner Solution Based on the Microsoft Platform



7 Glossary

ASP: Application service provider
BMO: Business Marketing Officer
BPO: business process outsourcing
BPR: Business Process Review
BVF: Business Value Framework
CFO: Chief Financial Officer
CPE: Customer and Partner Experience
CSI: Commercial Software Initiative
DOJ: Department of Justice
DSAT: Dissatisfied
EMEA: Europe Middle East and Africa
EPG: Enterprise Partner Group
EU: European Union
EULA: End User License Agreement
FPP: Full Package Product
FY: Fiscal Year (1st July to 30th June)
FY01: 1st July 2000 to 30th June 2001
FY02: 1st July 2001 to 30th June 2002
FY04: 1st July 2003 to 30th June 2004
FY05: 1st July 2004 to 30th June 2005
GTM: Go to Market
HP: Hewlett-Packard
HR: Human resources
IDC: Independent Development Corporation
ISV: Independent software vendor
IT: Information technology
LAMP: Lilly Alliance Management Process
KBR: Key Business Requirements
MBO: Management by Objectives

MCDBA: Microsoft Certified Data Base Administrator
MCP: Microsoft Certified Professional
MCSA: Microsoft Certified Systems Administrator
MCSD: Microsoft Certified Systems Developer
MCSE: Microsoft Certified System Engineer
MDF: Marketing Development Funds
MGB: Microsoft Global Briefing
MS: Microsoft
MSP: Managed service provider
MS Platform: The Microsoft Windows environment and its applications
MSPP: Microsoft Partner Program
MSSP: Microsoft Solution Sales Program
MSWWPP: Microsoft World Wide Partner Program
MTD: Month to Date
MYR: Mid Year Review
NSAT: DSAT-VSAT
OAM: Office of Alliance Management
O/S: Operating System
OEM: Original Equipment Manufacturer
OSS: Open source software
P&L: Profit and Loss
PAM: Partner Account Manager
PC: Personal Computer
PEF: Partner Execution Framework
PEM: Partner Engagement Manager
PIL: Partners in Learning
PUR: Product Usage Rights
PwC: Pricewaterhouse Coopers
R&D: Research and development
ROE: Rules of Engagement
SI: Systems integrator
SMB: Small and Medium Business

SME: Small and Medium Enterprise
SMI: Security Mobilization Initiative
SMMSG: Sales, Marketing and Services Group.
TCO: Total Cost of Ownership
TQM: Total Quality Management
UP: Unlimited Potential
VAR: Value-added reseller
VRB: Value Review Board
VSAT: Very Satisfied
YTD: Year to Date

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