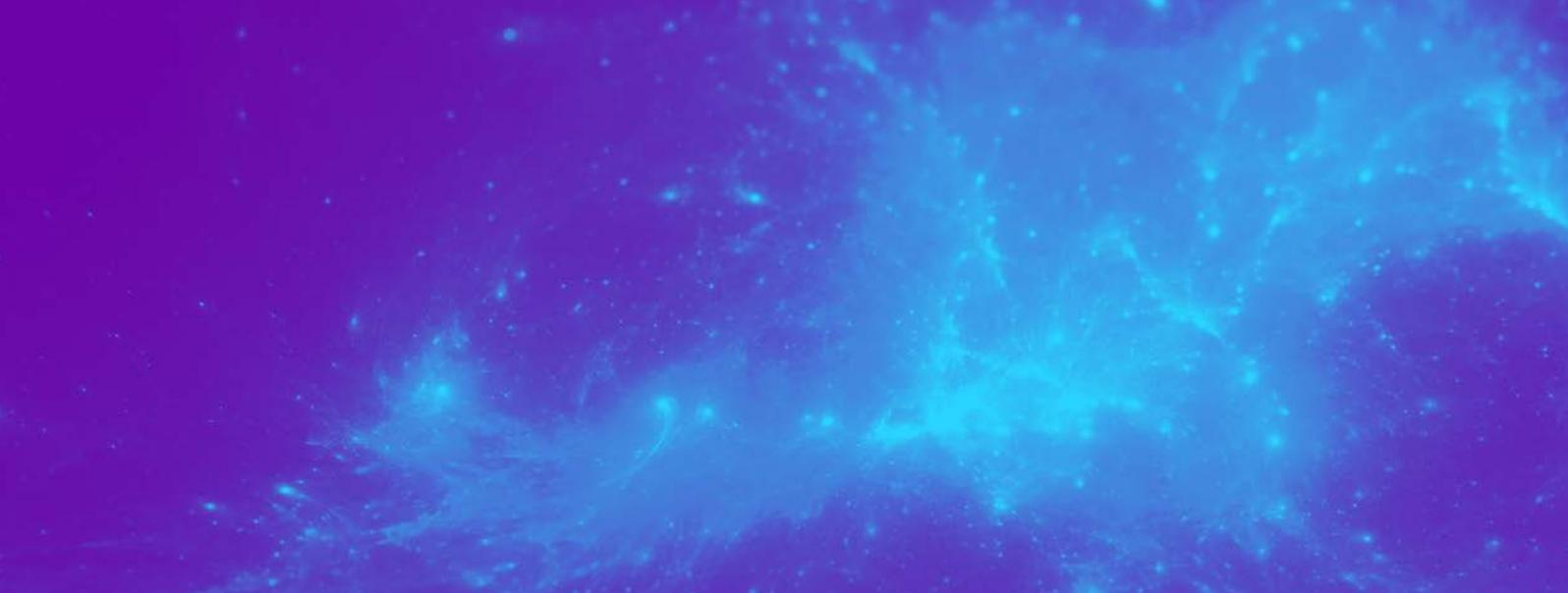


BearingPoint® // Beyond

**Partnership ecosystems:
A narrowing window
of opportunity for IT &
Technology companies?**

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Introduction

IT & Technology companies are under immense pressure. On the one hand, as digital transformation envelopes each sector around the world, IT & Technology companies are in the vanguard of this change and businesses look to them for help. This presents lots of new opportunities for revenue growth – a desirable position indeed. On the other hand, many established IT & Technology companies face disruption themselves from new technologies and business models that blur the line between physical and digital worlds. Dealing with declining revenues and job cuts, IT & Technology companies – just like their customers – have to overhaul their technology and business models to provide new ways to consume their services and much more compelling solutions to customer problems.

Few innovations (improvements, products and services alike) are created entirely in-house, therefore the right partner ecosystem is paramount to success. While tech giants like Facebook, Amazon and Google, invest heavily in R&D, they also use lean start-up approaches to “launch new services fast – and fail even faster”. The co-innovation and development of these services mean that these companies launch prototype services and then use continuous customer feedback to perfect it. This new, digital approach to doing business means a higher hit rate when it comes to launching new, innovative products and services.

Just like the tech giants, IT & Technology companies need a collaborative and experimental mindset if they are to capitalize on today’s opportunities and stay relevant to their customers. Through a complementary partner ecosystem, IT & Technology companies can create much more compelling and sophisticated products and services for customers that are harder for competitors to simply copy.

This model for success in a digital age is well known but, to date, very little research has been conducted in this area and as a result there is limited insight available. IT & Technology companies’ expectations of, and progress with, partnership ecosystems are largely unknown – as are the challenges in establishing them.

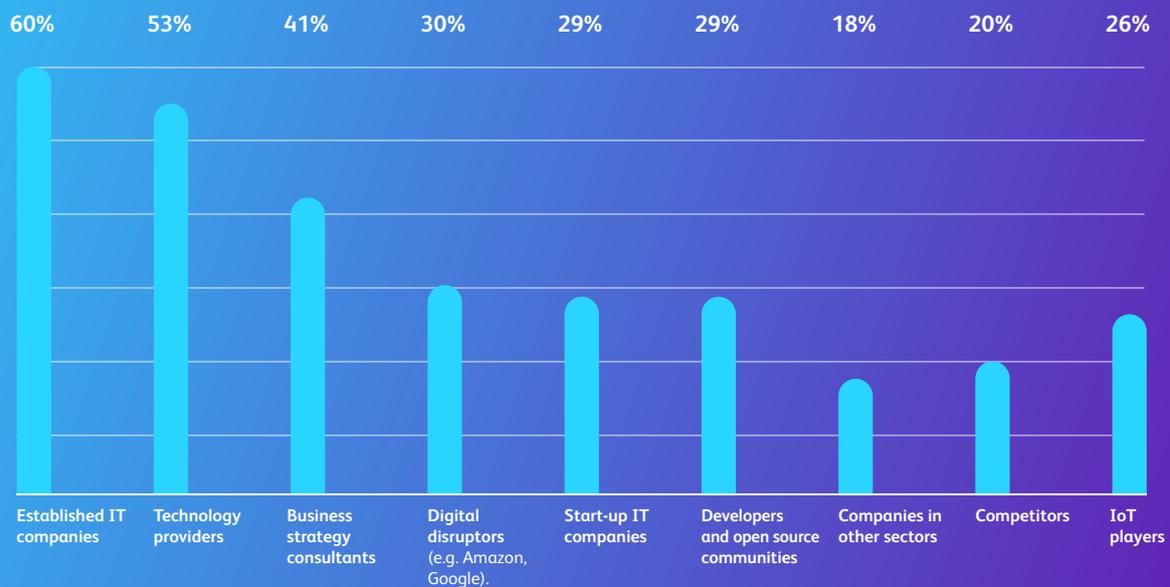
To support IT & Technology companies in establishing and executing their ecosystem strategies, BearingPoint//Beyond has commissioned large-scale primary research into the issue. The research, conducted by Coleman Parkes, interviewed 90 executives from enterprise IT & Technology companies across Europe, Asia and the U.S. 435 executives across the telecoms, automotive, transport, banking and insurance sectors were also surveyed, to rank the progress of IT & Technology companies against other industries driving significant digital change.

The results reveal that, although the IT & Technology sector is ahead when it comes to establishing partner ecosystems, there is still work to be done. Before they can hope to enjoy the same ‘S-curve’ growth as the internet superpowers, there are many short-term obstacles to overcome.

State of the nation: Opportunities in abundance, but time is running out

As technology is the key enabler of digital transformation, it stands to reason that IT & Technology companies are currently the preferred partners for those sectors experiencing mass disruption such as telecoms (62%). These sectors are struggling to bridge the technology gap that they are experiencing as a result of digital. This presents a huge opportunity for the IT & Technology sector to capitalize on this trend by expanding their role and participation in building partner ecosystems over the next few years.

Today, only 18% of IT & Technology companies partner with companies in other sectors. Instead, 60% are partnering with established IT companies, 53% with technology providers and only 26% with Internet of Things (IoT) players. These results suggest that many IT & Technology companies are channeling investment into sustaining innovation by adding features to existing products, a very typical way to run a business in a highly competitive market.



Which of the following types of entities are you currently partnering with?

This is in contrast to disruptive innovation: embracing new digital technologies and business models to create a new market and value network, or displace established market-leading companies by offering something radically better. Sustaining innovation ignores trends like Anything as a Service (XaaS) and follows old linear industry models, but more importantly, risks investing in features the market doesn't value and allowing disruptors to undercut with a focused product, offering drastic improvement, at a lower price point.

Worse still, it is clear that IT & Technology companies understand the dilemma but are failing to be more radical in embracing change. When asked how partnerships will alter over the next two years, IT & Technology companies plan to considerably increase partnerships with other sectors – including logistics (19% to 25%), telecoms, retail, banking and automotive (12% to 19%). Interestingly, over the same period, these sectors expressed a declining interest or need to partner with IT & Technology companies as they believe they will have gained the confidence, skills and expertise in the new digital technologies. The result: it is essential for IT & Technology companies to forge ahead with partnerships now, as down the road they will be squeezed out by traditional sectors adopting IT & Technology capabilities as a key part of what they need to be in a digital age.

Ahead of the game: Positive partner ecosystem progress and ambitions are high

Of all industries surveyed, the IT & Technology sector has the strongest consensus (69%) on the need that it must develop partner ecosystems to drive innovation in the face of digital disruption. While the sector may be overlooking some immediate opportunities, the good news is that IT & Technology companies are prepared for internal and external partnerships. Nearly half (48%) of IT & Technology companies already have a partner ecosystem in place – more than any other sector surveyed.

“An ecosystem is an open, multi-sided collaboration between different parties. These parties can include: the internal units of an organization, current and future business partners, and customers. An effective ecosystem will enable an exchange of ideas/products/services or information in an alternative way and will include operative processes and tools to share the benefits between the parties. Such an ecosystem can help generate new ideas, drive innovation, expand offerings, increase reach and grow revenue.”



This sector also understands the value of partners in taking advantage of new, digital opportunities. BearingPoint//Beyond put forward five potential partner ecosystem models (see box-out). It asked each IT & Technology company to identify which was most similar to the ecosystem they had in place or planned to introduce in the future and matched their answers to each of the five models.

Almost half (44%) most closely matched 'model two' – using a partner ecosystem to increase revenues by selling new products or services to existing customers. A quarter of answers (24%) most closely matched 'model one' – using a partner ecosystem to drive business growth, innovation and new revenue. 16% most closely matched 'model three' – using a partner ecosystem to increase customer loyalty and retention. 12% are focused on a model that increases efficiency and profitability internally, and just 3% on improving efficiency in the use of channel partners.

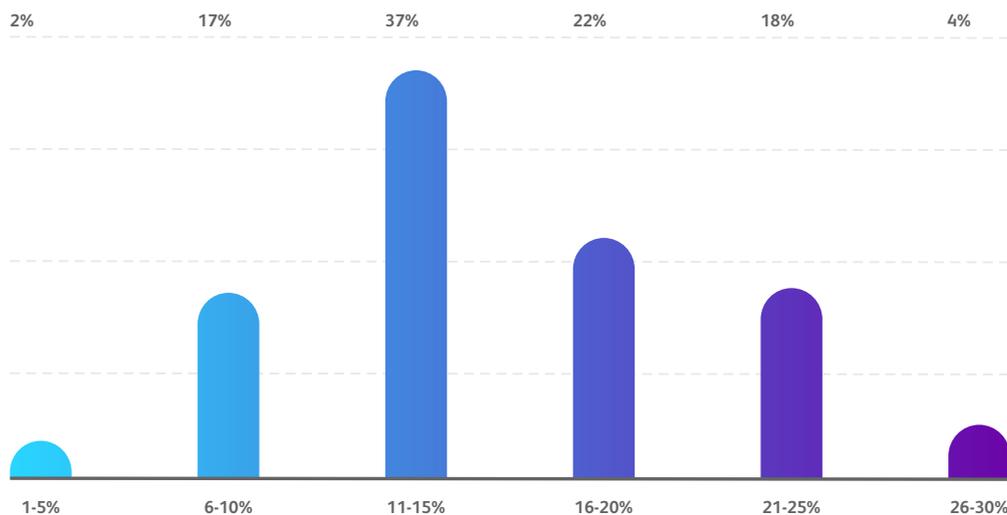
Model 1: focuses on business growth, innovation and creating new revenue sources through collaboration with other partners.

Model 2: focuses on increasing revenue streams from existing customers by selling new products/services, e.g. product bundles.

Model 3: focuses on increasing customer loyalty and retention through the ecosystem.

Model 4: focuses on increasing efficiency and profitability internally by leveraging relationships in the internal ecosystem to improve business efficiency and remove silos.

Model 5: focuses on improving efficiency in the way the business currently uses its channel partners.



If you were able to successfully develop your ecosystem, by what percentage would you expect your revenues to grow in the next two years based on your current level?

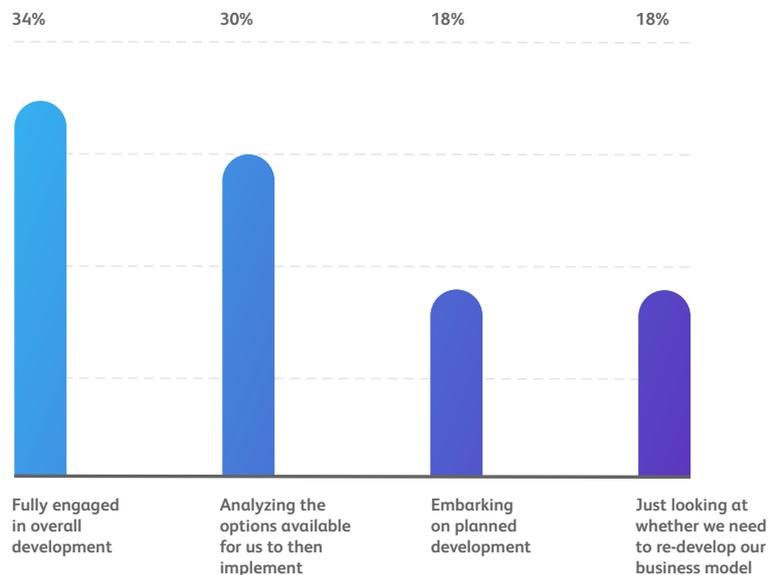
Looking forward, ambitions are high. When asked what the percentage revenue uplift was expected in the next two years from a successful partner ecosystem, a significant 44% of IT & Technology companies expect their revenues to grow by more than 16%, and of that, 22% anticipate growth of more than 21%. More than a third (37%) anticipate an 11-15% increase in revenues and 17% expect to see 6-10%. Only 2% expect just a 1-5% revenue boost in the next two years. This suggests a positive future for Technology & IT companies.

These ambitions are closely linked to the benefits IT & Technology companies expect to gain from a partner ecosystem. 60% noted business and financial outcomes as the most important benefit gained, while 40% cited IT-related issues experienced today.

IT & Technology companies see the value, but are still doing very little

When it comes to having a clear digital strategy in place, IT & Technology companies are a little hazier than other sectors. 46% of IT & Technology companies have defined their digital strategies and are implementing them, while 53% are still in the planning phase. Compare this to the telecoms sector, where 55% have defined their digital strategies and are implementing them, and the technology sector

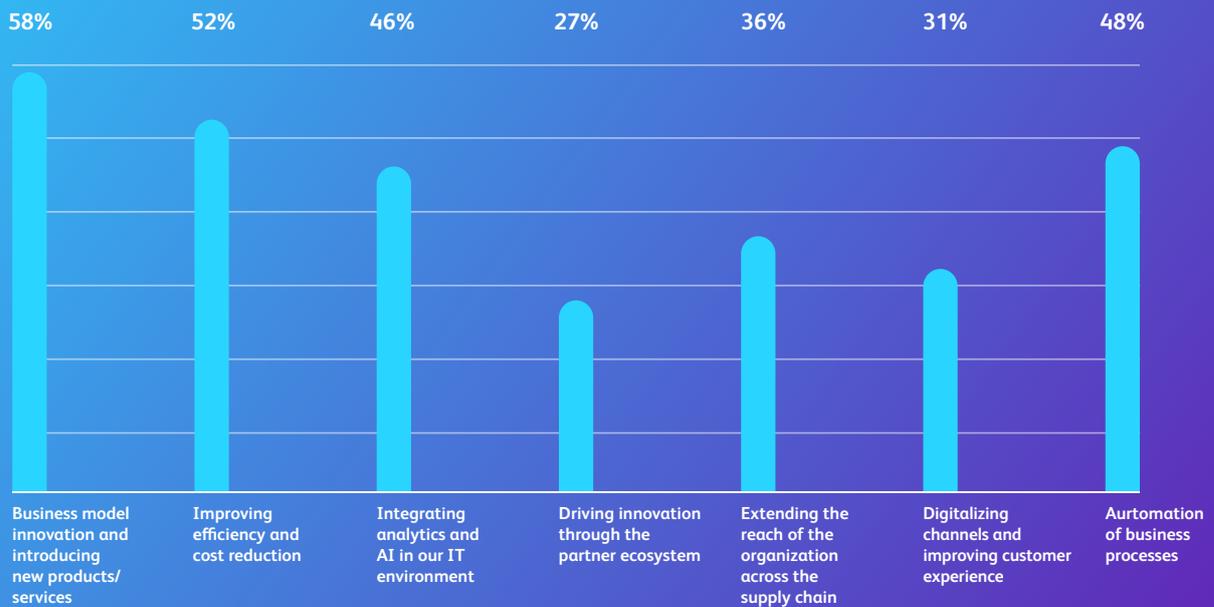
appears to be lagging behind in execution. Given how well placed IT & Technology companies are to understand the impact and options presented by new digital technologies, this is amazingly low but likely to reflect common challenges around scale and aligning stakeholders in a changing culture.



Where would you say your company is in terms of business model innovation and development of new digital offerings?

79% of IT & Technology companies believe it is important in the digital age that a company changes its business models to underpin growth (interesting given only 46% – above – have so far created digital strategies), while 58% of IT & Technology companies are focusing on business model innovation and introducing new products/services when developing their digital strategy. From this it's clear that IT

& Technology companies see the value in developing a partner ecosystem and even business model innovation. However, as it stands, very little is actually being done. Only 34% of IT & Technology companies are fully engaged in the overall development of business model innovation and the development of new digital offerings.



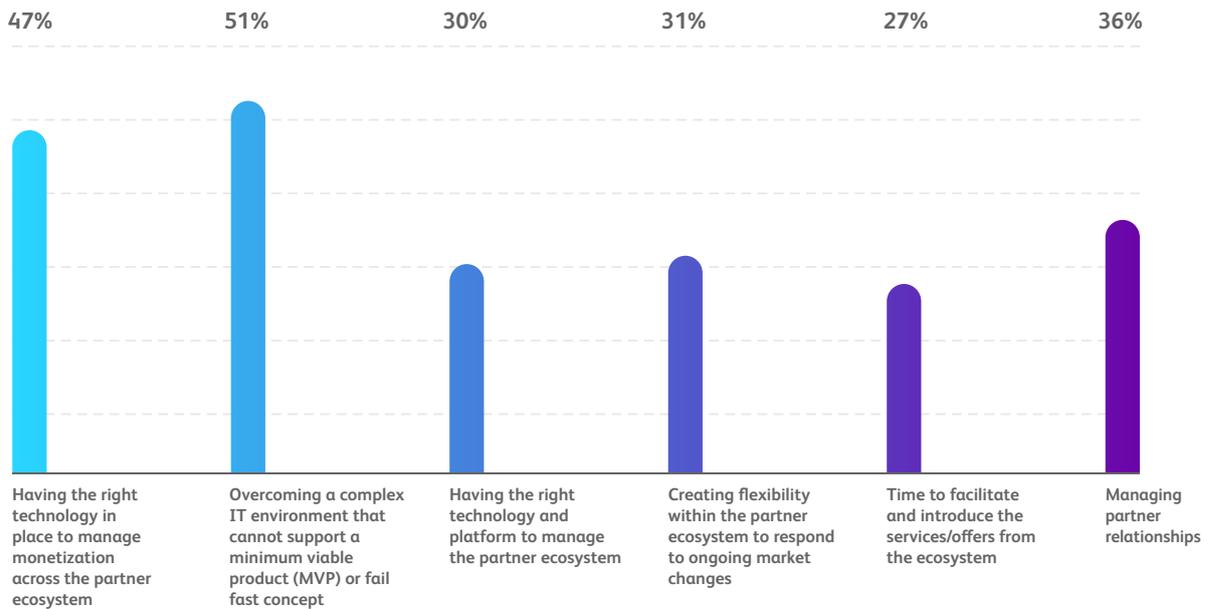
What are the key areas of focus for your digital strategy currently?

The tech world's greatest irony: IT & Technology companies hindered by technology

If the way the IT & Technology sector is planning to use partner ecosystems is business-led, the primary obstacles are, surprisingly, technological.

Of the 19 potential challenges outlined in the survey, just four of them were technology-oriented – but three of these made the top four challenges facing IT & Technology companies in managing and enhancing their partner ecosystem.

The number one challenge facing IT & Technology companies is overcoming complex legacy technology (51%). Nearly half (48%) noted the difficulty in identifying the right technology to manage a partner ecosystem as well as to manage monetization across it (47%).



What are the current challenges with managing and enhancing the partner ecosystem?

It seems that establishing, orchestrating, and managing an ecosystem of partners, and then using it to co-create and monetize innovating offerings, is not a simple task – even for IT & Technology experts.

As such, future business success is clearly dependent on the technology choices IT & Technology companies will make in the coming months and years.

BearingPoint//Beyond advice

Partner ecosystems are a vital component of IT & Technology companies evolving their business models to put a greater emphasis on the need to innovate to create products and services which add more value to customers – while also being harder for competitors to replicate. Successful partnering will be paramount to earning a return on investment.

The preferred model in digital is well known and used by start-ups, mature enterprises and digital superpowers alike. It combines a digital business platform that bridges internal silos and allows organizations to curate a differentiated and competitive partner ecosystem to create, trade, fulfil and monetize services in a completely automated way. Marketing moves away from broadcasting to influence customer buying behavior; data is captured for insight; and lean start-up approaches are undertaken to experiment and get rapid customer feedback on new products and services.

The aim is to underpin the new digital business model with a growth engine that continuously builds competitive advantage through a powerful network effect. These changes can be evolutionary and staged to protect the core business while building adjacent revenue streams using a hybrid business model approach.

Research shows that businesses that embrace this way of thinking grow at twice the rate of those that don't. At its core, executing on the potential of partner ecosystems comes down to IT & Technology companies defining and delivering a digital platform-based business model. For that, they need a digital platform technology solution. And they need to move fast.

BearingPoint//Beyond has been created to help them do just that. BearingPoint//Beyond provides both the guidance IT & Technology companies need to define the digital platform-based model that is right for them, and the agile digital platform that enables the delivery of that model and the myriad of business benefits it will bring. BearingPoint//Beyond supports IT & Technology companies in their drive to facilitate true innovation with and between partners, to launch and monetize new digital services at speed and to move away from complex legacy IT systems.

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BearingPoint//Beyond helps organizations reinvent their business model and grow from efficiency to innovation. Our digital platform solutions give them the start-up advantage, to move rapidly from ideas to concept to revenue, with minimum risk and cost.

This brings our clients closer to their customers, enabling them to build connections between systems and partners, while becoming more agile in face of digital disruption.

BearingPoint//Beyond is part of BearingPoint, an independent management and technology consultancy with European roots and a global reach. A worldwide consulting network with more than 10,000 people, BearingPoint supports the world's leading companies and organizations in over 75 countries, engaging them to achieve measurable and sustainable success.

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