

Sales and Marketing Strategy in the IT Industry

- Collaborating with Independent Software Vendors



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Sammanfattning
Abstract

The IT industry is characterised by rapid changes and an increased level of consolidation and competition. Hardware and software developers are moving away from proprietary technologies to open-standards based technology. This makes it more difficult for large hardware vendors, such as Hewlett Packard (HP) and IBM, to lock their customers and partners to proprietary solutions. Therefore, in order to keep and increase its market share, HP needs to improve its collaboration with partners. The partners, especially local and regional independent software vendors (ISV), are important due to their applications focused on solving business problems, their ability to provide industry relevance to HP's products and their ability to influence what kind of hardware and software platforms the end-customers will choose.

We have identified key market characteristics, the ISVs' key needs and challenges, as well as what they consider crucial in order for them to recommend a certain vendor's hardware platform. Companies in the IT industry face several unique challenges; one is that there often exist conflicting interests between the different industry members, e.g. competitors collaborating with each other. This puts extra pressure on clarifying the rules of engagement between the collaborating parties. The ISVs are generally agnostic to which hardware platform the customers buy as long as their applications run on the specific platform, therefore the ISVs' vendor preference is often based on more intangible relationship factors. Factors that affect and decide the ISVs' preference are e.g. their existing vendor relationships, ease of doing business, clear point of contact and clear rules of engagement. Furthermore, many of the ISVs are interested in having joint-business planning and go-to-market strategies with HP. In order to leverage hardware, we recommend that HP tries to tie the ISVs to them and form closer relationships with the ISV community. (HP must however carefully evaluate the value of the individual ISVs and what they can offer.)

The recommendations consist mainly of how to select the relevant ISVs and, after the selection, how the ISVs should be categorised and managed by utilising HP's partner portal for developers. This would enable HP to engage more efficiently with key partners, which in turn would lead to increased leverage of HP hardware.

Nyckelord
Keywords
HP, marketing, relationship, value, strategy, IT industry, ISV, independent software vendors, SMB, collaboration

Preface

We would like to start this report by expressing our gratitude to Hewlett Packard for giving us the opportunity to conduct this project. The project represents the final part of our education required for a Master of Science degree in Industrial Engineering and Management. We thoroughly value this opportunity that has enabled us to deepen our knowledge of marketing, information technology and the IT-industry.

During the course of our work we have encountered challenges, difficulties and rewards. This has helped us grow, in terms of our knowledge, experiences and as individuals.

We would like to thank our supervisors at Hewlett Packard, Russell Shooter and Greg Healy, as well as our supervisor at Linköping Institute of Technology, Per-Olof Brehmer. Furthermore, we thank our student colleagues Rickard Legnestam and Linda Rydberg for their constructive advice and criticism throughout this project.

Finally, we thank our families and friends for their help and support throughout our years at Linköping Institute of Technology.

Sydney, April 2005

Niklas Antvik and Patrik Bihammar

Summary

The IT-industry is characterised by rapid changes with shortening product life cycles and an increased level of consolidation and competition. Hardware and software developers are moving away from proprietary technologies to open-standards based technology. This makes it more difficult for large hardware vendors, such as Hewlett Packard (HP) and IBM, to lock their customers to proprietary solutions. In order to keep and increase its market share, HP needs to increase its sales through key partners. The independent software vendors (ISV), especially the local and regional, have a key role in achieving this. This is due to their applications focused on solving business problems, their ability to provide industry relevance to HP's products, and their ability to influence what kind of hardware and software platforms the end-customers will choose. The local and regional ISVs influence is particularly strong in the mid-market segment. HP needs to offer its ISV community and other partners the right incentives for pushing their hardware and build an ISV community based on mutually beneficial business relationships.

During this project, we have identified key market characteristics, the ISVs' key needs and challenges, as well as what they consider crucial in order for them to recommend a certain vendor's hardware platform. Companies in the IT-industry face several unique challenges; one is that there often exist conflicting interests between the different industry members e.g. competitors collaborating with each other. This puts extra pressure on clarifying the rules of engagement between the collaborating parties. The ISVs are generally agnostic to which hardware platform the customers buy as long as their applications run on the specific platform, therefore the ISVs' vendor preference is often based on more intangible relationship factors. Factors that affect and decide the ISVs' preference are e.g. their existing vendor relationships, ease of doing business, clear point of contact and clear rules of engagement. Furthermore, many of the ISVs are interested in having joint-business planning and go-to-market strategies with HP. In order to leverage hardware, we recommend that HP tries to tie the ISVs to them and form closer relationships with the ISV community. HP must however carefully evaluate the value of the individual ISVs and what they can offer.

Our recommendations, based on our findings and analysis, consist of three main steps followed by a fourth step which consists of a guideline for how to implement and measure the success rate of the recommendations. We believe

that HP can increase and leverage its hardware sales through key partners by following these recommendations. The recommendations consist mainly of how to select the relevant ISVs based on specified criteria and, after the selection, how the ISVs should be categorised and managed by utilising HP's partner portal for developers. This would enable HP to engage more efficiently with key partners, the third step of our recommendations, which would lead to increased leverage of HP hardware.

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1 Introduction

This section gives a brief background to the project and then addresses and explains the purpose, outcome, target groups, definitions and general delimitations of the report.

"Men must be free from boundaries, patterns and consistencies in order to be free to think, feel and create in new ways."

- Luke Rhinehart

1.1 Background

The IT industry is characterised by rapid changes with shortening product life cycles, cost pressure and an increased level of consolidation. Hardware and software developers are moving away from proprietary technologies to open-standards based technology. This makes it more difficult for large hardware vendors, such as Hewlett Packard (HP) and IBM, to lock their customers to their proprietary solutions. To adapt to the changed market conditions HP is interested to find out whom and what influence their customers' selection of core infrastructure (servers, storage, management software and related services). In order to understand how HP works and the purpose of this report, it is important to grasp some important characteristics of the IT industry.

HP Australia primarily sells core infrastructure, these products and services make up more than 80 percent of HP's revenue. The company segments their customers horizontally into six main segments in Australia; this report focuses on the business segments with less than 500 employees: the Non-Named Commercial and Enterprise (companies with more than 500 employees but no key-account manager), Medium Business (100-499 employees) and Small Business (1-99 employees) segments.

The hardware vendors, such as HP and IBM, develop and provide hardware and, to some extent, software platforms and applications. Software vendors (also known as Tier-1 ISVs) such as Microsoft develop software platforms and programs, while independent software vendors (ISVs) develop and provide software and applications running on hardware and software platforms from the hardware- and software vendors. There are thousands of ISVs developing and providing software applications and, except for the largest ISVs; most of them do not have any direct contact with HP. ISVs are considered important in HP's perspective due to their applications focused on solving business problems, ability to provide industry relevance to HP's products and influence on what kind of hardware and software platforms they and their end-customers will choose.

HP lacks a full overview of the different ISVs' value channels, which consists of customers, ISVs, system integrators, distributors and resellers. The company is keen to explore these channels and unveil the ISVs' needs in order to discover opportunities and be able to serve the market more efficiently.

1.2 Purpose and Outcome

The purpose of this Master Thesis is to investigate how HP can gain further access to the Small Business, Medium Business and Non-Named Enterprise segments (mid-market) with core infrastructure (primarily servers, storage, management software and related services), with and through key application channels (ISVs).

The report will be used as a reference when deciding on how HP can improve its management and engagement with the ISV community around its core infrastructure. The long-term goal is to improve channel management and engagement, leverage hardware sales through ISVs and thereby increase HP's sales and market share.

1.3 Purpose Discussion

As stated in the purpose, we are to study how HP can gain further access, in order to increase sales of its core infrastructure, primarily through ISVs. In order to achieve this purpose, we have identified the following necessary steps in this process:

1. Internal analysis (understand HP's present market situation and position)
2. Theory study (use relevant research in order to get valuable information and approaches for solving the problem)
3. External analysis (input from key partners)
4. Synthesised Analysis (based on all the previous parts we now need to put 'all the pieces together' and suggest how the situation can be improved)

Together, but not exclusively, these parts are necessary in order to achieve the desired purpose. This information will be used as a base when deciding the methodology for the project (described in chapter 5).

1.4 Target Groups

This report has two primary target groups:

1. HP employees and senior management involved in management and relationships with independent software vendors and other business partners.
2. An academic audience of people with previous knowledge of marketing, information technology and business partner management.

The report can also be of interest to other parties that have an interest in hardware manufacturers and their business relationship with independent software vendors and, to a lesser extent, other business partners.

1.5 Definitions

- Unless stated otherwise, the term HP refers to HP Australia and not HP globally.
- The term core infrastructure refers to servers, storage, management software and related services.
- The term mid-market refers to the following HP customer segments: Small Business, Medium Business and Non-Named Commercial and Enterprise.

1.6 Delimitations

- The findings of this report primarily apply to HP Australia; we will only discuss HP's global operations to the extent that is required to understand HP Australia's operations and directives.
- The report focuses on the core infrastructure products (servers, storage, management software and related services) in HP's market offerings.
- The main analysis in this report will be on the independent software vendors active in the Australian mid-market business segment. The other channel members and segments will be covered briefly and primarily analysed from HP's or an ISV's perspective. We will not interview system integrators and end-customers, due to time-constraints.
- The competitor analysis covers HP's main global hardware competitors (i.e. IBM, Dell and Sun.)

2 Problem Description

This section contains information about the IT industry, HP and its relations with independent software vendors. This is followed by an analysis of HP's market situation based on the information in this chapter.

“Relativity teaches us the connection between the different descriptions of one and the same reality.”

- Albert Einstein

2.1 The IT Industry

2.1.1 Characteristics of the IT Industry

The IT industry has several characteristics that greatly affect the way the industry works and, to a certain extent, differentiates it from other industries; in order to understand this report's objectives and solutions, it is necessary to understand how the industry works, these will be presented and explained in this section.

High Rate of Product Innovation and Short Product Life Cycles

The high rate of product innovation is one of the IT industry's most important characteristics, because of its implications for the whole industry. The high rate of innovation leads to very short product-life cycles, which in turn means that assemblers must constantly upgrade their production facilities and produce in new ways (instead of refining old ways) to avoid inventory deprecation. (Curry & Kenny, 1999)

The high rate of product innovation also results in discontinuous change, when new technology suddenly emerges from 'nowhere' and in a very short time replaces the current standard; this is known as a shift of paradigms. (Moore, 1999)

Moore's law

Moore's law, a prediction by Gordon Moore in 1965, stated that the numbers of transistors per silicon chip will double each year, while the manufacturing cost remains constant. The time was revised in 1975 to every second year, but since 1961 the actual numbers of transistors per chip have roughly doubled every 18 months. (Encyclopaedia Britannica, 2004c)

However, Moore's law does not apply to all computer products: the parts that are not part of the computer core (processor, graphic card, hard-drive etc.) such as keyboard

and monitors do not decrease in price as rapidly as the internal components. (Curry & Kenney, 1999)

Modular Nature and Open Standards

One of the fundamental features of the PC industry today is that the modular nature of PC production combined with the availability of components has led to competition on every stage of the value chain in the hardware industry (Curry & Kenney, 1999). This modular nature has also started to spread to the software side of the industry, which also has been moving to creating products that adhere to open standards. Databases, middleware (see Appendix C) and, to some extent, operating systems are examples of software products that are starting to be considered as commodities. This hardware and, to some extent software, commoditisation makes it harder for computer manufacturers and software companies to lock customers to their platform. As the industry is moving away from proprietary systems to open standards companies must try to find new ways to attract and keep their customers. Examples of hardware that follow open standards are graphic cards: they all follow the necessary hardware and software standards (e.g. many graphic cards follow the AGP hardware standard as well as Microsoft's Direct-X software standard). (Healy & Shooter, 2004)

Competition and Consolidation

The IT industry has until recently been characterised by a disaggregated value-chain; the term disaggregated refers to the fact that one part of the value-chain is affected by changes in another part of the value chain. An example of this is Microsoft and Intel: if Intel decreases its price on processors, it is likely that computer sales will increase, which in turn means that Microsoft's sales would increase, since many of the sold computers probably would have Microsoft's operating system installed. (Curry & Kenney, 1999)

During the end of the 1990's the IT industry entered a phase of increased consolidation, both horizontally and vertically, that looks set to continue in the next few years. Examples of the increased consolidation are HP's acquisition of Compaq in 2002 and Microsoft's acquisition of the enterprise resource planning-system developer Navision. (Gartner from PC Magazine, 2004)

Furthermore, the industry has traditionally been characterised by horizontal competition (e.g. operating system competing against operating system and processor manufacturer against processor manufacturer). One of the consequences of the increased level of consolidation is that the competition in the industry is now both horizontal and vertical (Healy, 2004). Vertical competition means that total solutions

compete against total solutions, rather than hardware against hardware and operating systems against operating systems.

2.1.2 A Focus on Applications and Total Solutions

Many IT-analysts (e.g. Carr & McHale, 2002) predict that one of HP's corner stones, hardware, will reduce its share of the total IT-spending in the coming years, while at the same time services and software spending will increase; this is part of the trend where IT infrastructure is moving to higher levels of efficiency and off-the-shelf approaches in technology, software and some service segments. Customers are demanding higher quality, innovative software and hardware, and IT is becoming increasingly focused on solving customers' real business problems. IT solutions are being expected to provide real business solutions with applications aimed at specific business purposes; customers are demanding total (end-to-end) solutions spanning the entire solution stack (explained in detail in section 2.2.2) from hardware infrastructure up to high-end applications, which puts pressure on IT companies to become more solutions-oriented. (HP, 2004)

2.2 The Industry Channel: Definitions and Participants

This report's main focus is, as stated in section 1.6, the independent software vendors from a hardware vendor's perspective. However, it is important to understand who the main members of the IT industry are, what their different roles are and how they interact, in order to understand HP's and the ISVs' situation.

2.2.1 The Industry Channel

Waxman *et al.* (2003) define a channel as a sell-through relationship in which one firm, often referred to as a partner, acts as an independent selling party to an end-user, leveraging products and or services from a vendor or service provider in addition to, or as part of, their own goods and services. The partners generally earn profit by adding their own product/services to a customer solution. (Waxman *et al.*, 2003)

2.2.2 Solution stack

A complete (end-to-end) IT solution can be seen as a block consisting of several bricks, and is commonly referred to as a solution stack, see Table 2.1. This concept is important because many IT related companies use this stack as a way of communicating what their products do, and how they interact with other products. The different levels of the stack combined create a complete solution; the lowest level represent the actual hardware, the next level represent the operating system that runs on the hardware and so forth; each level requires that the levels below it function accurately. (Healy & Shooter, 2004)

Table 2.1: Solution Stack (Healy & Shooter, 2004)

Level	Provider or Solution
Business Processes	Accenture, BearingPoint, Cap Gemini etc.
Applications	SAP, BEA, Microsoft etc.
Database	IBM DB2, Microsoft SQL, Oracle etc.
Operating System	Windows, Linux, Unix etc.
Hardware	HP, IBM, Dell, Sun etc.

2.2.3 Hardware Vendor

A hardware vendor develops; manufactures and sells core infrastructure and hardware platforms. Apart from hardware, some of the vendors (especially IBM) are focused on offering total solutions; usually with partners (they offer hardware, software and services). Typically the term hardware vendor refers to the industry's largest vendors, such as Dell, HP, IBM and Sun Microsystems (Sun). (Healy & Shooter, 2004)

2.2.4 Independent Software Vendor (ISV)

An independent software vendor (ISV) is a company that develops, sells and often installs and manages software applications that run on hardware vendors' platforms. Examples of large ISVs are Oracle, SAP, BEA and Microsoft. There are a vast number of smaller ISVs in the marketplace developing a large range of applications from broad applications, used by most business companies, to applications used by niche companies in vertical industries. (Bruin & Raviart, 2004)

The ISV functions both as an enabler and gatekeeper, seen from the hardware vendor's perspective; the ISV can actively support or block a hardware vendors attempt to sell hardware together with the ISV's application. (Poorabia, 2004)

2.2.5 System Integrator (SI and CSI)

A system integrator (SI) or a consultant system integrator (CSI) is a company that integrates applications and hardware from several companies to build a complete (end-to-end) solution for end customers. The SI usually leads the project and designs and builds custom solutions from concept to implementation. A true SI is often distinguished by its software and consulting capabilities. Examples of large system integrators are consulting firms such as Accenture, BearingPoint and Cap Gemini. Depending on the complexity of the solution the integration can also be done by hardware vendors or by the customer itself depending on their skills and capabilities. (Waxman *et al.*, 2003)

2.2.6 Distributor (VAD)

A distributor buys and sells hardware and software vendors' products to other channel members, but normally it does not sell to end consumers. Distributors primarily sell to resellers, system integrators, ISVs or other distributors. There are two major categories of distributors: volume- (regular) and value-adding distributors (VADs). A VAD adds value to the product before they distribute them; this might be in the form of assembling a complete system or installing software. The two terms are not exclusive; a distributor can be both a VAD and volume distributor and even a reseller at the same time. (Adams & Costigan, 2004)

2.2.7 Reseller (VAR)

A reseller works like a distributor, except that it sells primarily to end customers. There are two major categories of resellers: regular and value-adding resellers (VARs). A VAR adds value to the product in some way, much like a VAD, e.g. by installing and assembling a complete system, while the regular reseller simply sells the products without modification. The term reseller is not exclusive. (Waxman *et al.*, 2003)

2.2.8 Eco-system

A company's eco-system consists of all the interconnected industry members involved in delivering a complete solution to an end customer. The eco-system in the IT industry primarily consists of vendors, independent software vendors, system integrators, value-added distributors and resellers. The members all have different roles, but they all may take part in delivering the solution to the end-customer. (Bruin & Raviart, 2004)

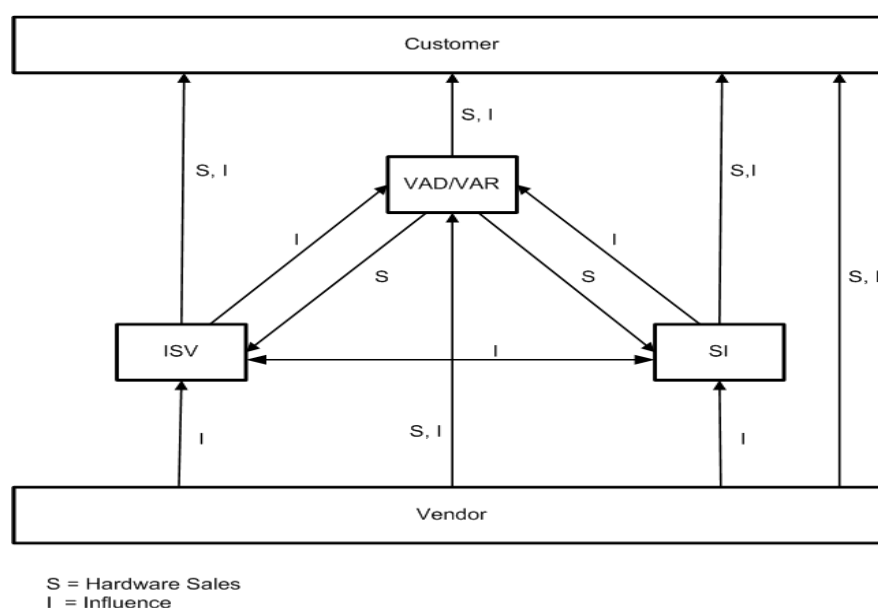


Figure 2.1: Industry Eco-System (Sumich, 2004)

The different kinds of industry members are interconnected in several ways and Figure 2.1 explains how the different industry members are connected, through influence and hardware sales (i.e. sales in the hardware vendor's perspective). A company might have several roles: an ISV might for example also function as a VAR. Furthermore, a transaction between involved parties usually consists of one contact way from vendor to customer (i.e. if the vendor sells directly to the customer, then there is normally no need for a distributor).

Companies build eco-systems around their own offerings, often to serve a specific market. Examples of HP's eco-systems are the ones that the company builds around its hardware platforms; they consist of partners delivering applications and other related software and services to HP's hardware platforms. An eco-system is very much the same as a value-creating network of interdependent partners, where each partner contributes and adds value to a customer solution. Value networks will be discussed in more detail in the theoretical framework.

2.2.9 ISVs and the Hardware Vendor

The ISVs form a heterogenic community with diverse needs and requirements. Carr & McHale (2002) state that the relationship between the ISV and the hardware vendor is a give and take relationship: while the ISVs extend to solution eco-systems of the vendor, the ISVs profit by association with vendors whose name has a market pull effect. As a result, it is in the vendors' interest to help the ISVs with porting to their platforms, compatibility testing, marketing support and in some cases even help selling the ISV's product. (Porting means that the application is made available on an additional platform.) Because of the standardisation of hardware platforms ISVs can be a lot more agnostic in terms of platform selection today than in the past. But there can still be many aspects that influence their choice of platform and preferred hardware provider. (Carr & McHale, 2002)

2.2.10 Partners' Platform Influence

The vendor's partners (e.g. HP's partners) can influence the customers' end-platform selection in several ways, hence exist several different sales scenarios, depending on if, for example, the partner influences the customer to buy the vendor's hardware, the partners sell the hardware and so forth. Figure 2.1 explains how the different actors are interconnected from the hardware vendor's perspective, while Figure 2.2 explains the two major influence cycles.

In order to understand the different sales scenarios, it is necessary to know the following terms:

- Sell through sales: the partner sells the vendor's products
- Influenced sales: the partner influences the choice of platform, but does not sell HP products
- Leveraged (or incremental) sales: sales of the vendor's products that would not have occurred without the influence of the partner (and in turn possibly the vendor's effort to influence the partner)

The terms do not necessarily have to be exclusive; a sale could for example be influenced as well as leveraging HP hardware.

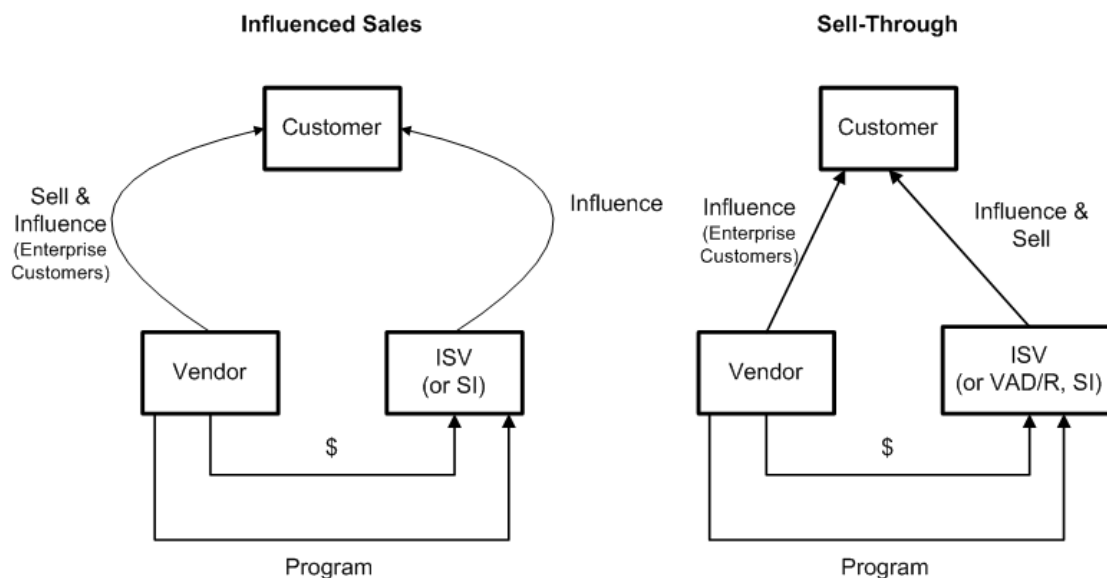


Figure 2.2: Partner Platform Influence Cycles (Sutton, 2005)

There are two major kinds of influence-cycles, illustrated in Figure 2.2. The first one, Influenced Sales, is when the ISV (or SI) only influences the end customer but the vendor (or another partner such as a VAD) sells the hardware. The vendor influences the ISV platform choice by offering it monetary benefits (e.g. discounts and marketing support) as well as technical support (e.g. porting); this is often done through a partner program.

In the second scenario, Sell-Through, the ISV both influences the end-customer, as well as sells the hardware. The vendor offers the ISV similar incentives as in the Influenced Sales scenario, with the difference that the ISV usually receives a commission for selling the hardware (the vendor does not usually have any contact with the customer unless the customer is a large Enterprise customer).

2.2.11 Conclusions

Based on the information from sections 2.1 and 2.2 we observe the major trends that affect the hardware vendors and the ISVs. First of all the commoditisation in the industry is continuing to move higher up in the solution stack, e.g. operating systems and databases can, to a certain extent, be seen as commodities today and this trend does not appear to slow down; this requires companies to either move further up in the value-chain like IBM, or shift their focus to logistics and manufacturing like Dell. The second major trend is the customers' focus on complete IT-solutions that solve their business problems. Furthermore, customers demand applications focused on specific business needs to deliver the real value in solving their business problems, to a larger extent than before. If a company wants to be more than a commodity-supplier, it has to be able to deliver total solutions with business relevance. These solutions need to be adapted to the customers' needs and require that several partners collaborate because one company alone is often not capable of delivering the complete solution by itself.

2.3 Hewlett-Packard

If nothing else is stated the information in this section is collected from the HP 2003 annual report and the HP Internet and Intranet websites, accessed in November 2004 through March 2005.

2.3.1 General Information

The two Stanford students William R. Hewlett and David Packard founded Hewlett-Packard in 1939 and the company's first product was a resistance-capacitance audio oscillator; it was based on a design developed in Hewlett's garage in Palo Alto, California, while still in graduate school. HP has since then grown to become one of the major hardware manufacturers in the world. The company merged with Compaq in 2002 and HP is now represented in 170 countries, with more than 140,000 employees and total revenues of US \$ 73 billion for the fiscal year of 2003. HP primarily sells hardware products with attached software and services and the largest products in terms of revenues are servers, printers and PCs. The company sells its products both directly to end-customers (large enterprises) and through channel intermediaries.

2.3.2 Organisation

Business Units

HP is organized around four major business units: Imaging & Printing Group (IPG), Personal Systems Group (PSG), Technology Solutions Group (TSG) and Customer Solutions Group (CSG). The present organisation was formed during a global reorganisation in early 2004 and the organisation chart is presented in Figure 2.3. A

major reason for the reorganisation was that HP wanted to be more focused on solutions that spans across the organisation, rather than being focused on what each business unit could do by itself; HP also wanted a clear strategic alignment across the organisation.

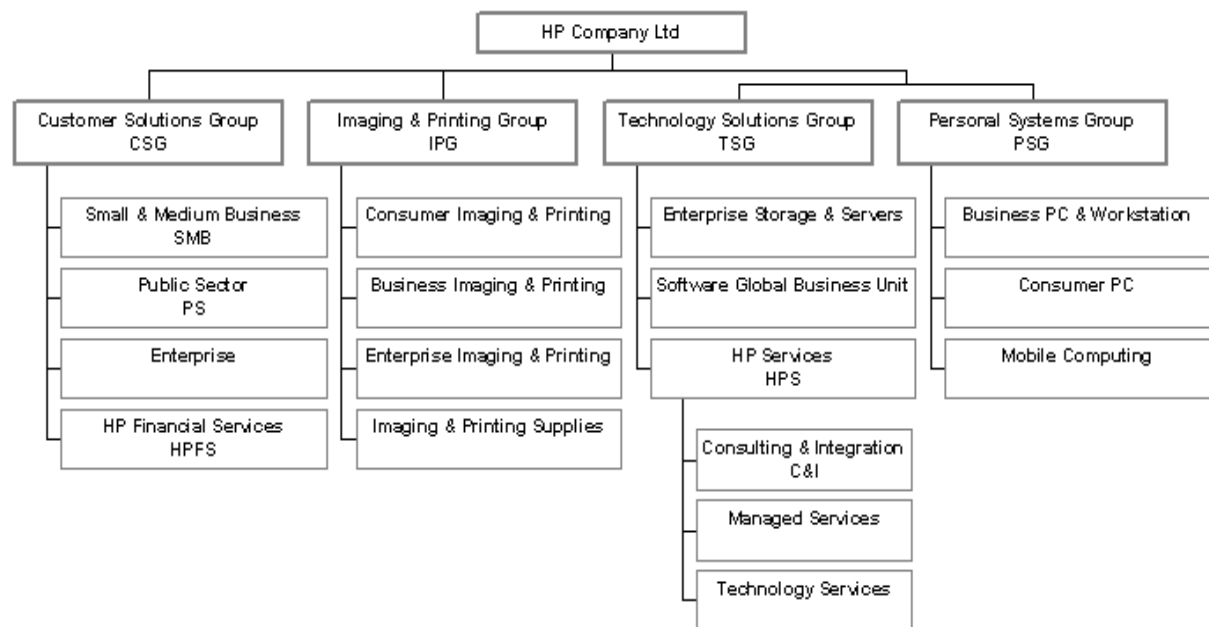


Figure 2.3: HP Organization Chart (HP, 2004)

The Imaging and Printing Group (IPG) is the largest business unit in terms of revenue, it provides imaging and printing solutions such as printers and digital photography to all customer segments.

The Personal Systems Group (PSG) is the second largest business unit in terms of revenue. Products range from PCs to thin clients and related services and solutions such as customisation and financial services and the group provides solutions for all market segments, from consumer to enterprise.

The Technology Solutions Group (TSG) develops hardware and solutions to manage and transform business and IT environments with its customers and partners. Of special interest are the Enterprise Storage & Servers unit (primarily the core infrastructure provider) and HP Services (HPS) (given the increasing importance of services). The Services unit consists of Consulting & Integration (C&I), Managed Services and Technology Services.

The Customer Solutions Group (CSG) incorporates all customer segments as well as HP Financial Services. This unit was created in 2004 with the aim to achieve a

stronger customer focus, and an organisation better aligned around customer segments, with the long-term goal to make it easier to sell HP's entire portfolio to all customer segments.

Global Business Regions

HP is globally segmented into four major business regions across the world:

- Americas (North and South America), 41 % of global revenues.
- Europe and the Middle-East & Africa (EMEA), 37 % of global revenues.
- Asia Pacific (AP or APAC), 11 % of global revenues.
- Japan, 4 % of global revenues.

The company has been represented in the Asia Pacific region for several decades, with the regional headquarter located in Singapore. HP Australia makes up 2 % of the global revenues and belongs to the Asia Pacific region.

Informal Organisation

HP has an alternative presentation of its organisation, which gives a better overview than the formal business unit organisation in Figure 2.3. The company is structured around six different functions:

- HP Services (consulting and other services, e.g. IT infrastructure and electronic business processes) (part of TSG)
- Support Services (support of hardware, software and network)
- Hardware (HP's hardware offering, e.g. servers and printers) (part of PSG, IPG and TSG)
- Software (HP's software offering, e.g. management software) (part of IPG, TSG and PSG)
- Strategic Partnerships (management of its key partners, e.g. planning, joint research, consulting and sales) (part of CSG)
- Financing (provides financing solutions to HP's customers) (part of CSG)

2.3.3 The HP Market Offering

We have divided HP's internal market offerings into three main categories: hardware, software and services. Hardware still makes up the largest part of HP's revenues and profits, but the software and services part are growing and the company's ambition is to grow these businesses.

Hardware

HP is to a large extent a hardware vendor with 80 % of the company's revenue coming from hardware in 2004. HP sells a vast range of hardware products: servers, storage,

PCs, workstations, notebooks, handhelds, printer and imaging products. The company's ambition is that its products should have the largest or the second largest market share on the market; this ambition is being fulfilled in most of their hardware product offerings (e.g. in servers, storage, desktops and printers).

Software

HP's software offering portfolio consists of three major parts with attached services:

1. Hardware Attached Software
2. Opencall Telephony Services Software
3. Management Software Portfolio:
 - a. Core Infrastructure Management Software
 - b. OpenView Management Suite

Hardware attached software refers to the software that is necessary to run HP's hardware. Opencall is a middleware for telephony services software with no end applications. It is used by ISVs to develop applications and solutions on top of the Opencall middleware such as SMS, MMS and other services.

The management portfolio consists of two parts: core infrastructure management software (primarily server- and storage management software) and the OpenView management suite. The latter is HP's suite of management modules such as helpdesk, network monitoring, security, software distribution and industry management. OpenView runs 'above' the applications and help monitor and manage them to improve service quality by maintaining a consistent application performance and to drive down operational costs of running applications. HP works together with ISVs around OpenView in two ways according to Muller (2004): the first is when a customer has selected an ISV application and realises that it is a mission critical application that needs management software (e.g. OpenView). The second scenario is that the ISV builds manageability support for OpenView into their existing applications to compete with their larger application competitors; this in turn gives the ISV's customers an OpenView preference.

Services

HP's services are primarily based around its hardware and software products. The services lie under the HP Services (HPS) business unit (see Figure 2.3). The Services unit is divided into three subunits:

1. Consulting & Integration (consulting and integration of HP and other companies' products/solutions)
2. Managed Services (e.g. managing outsourced IT-departments)

3. Technology Services (total solutions and other services)

2.3.4 Characteristics of HP's Market Offering

Overview

HP has strived to move towards a solutions oriented organisation that has a clear goal-congruent strategy, which aligns all of its business units. This concept runs across the whole organization and in this section we examine the most important of these initiatives associated with these alignment processes. Two initiatives affect all of HP's market offering: the first is the Darwin Architecture that states that all of HP's products should be standardized and modular. The second initiative is Adaptive Enterprise (elaborated in the following section), which is a framework for how HP should promote and sell its market offering. Adaptive Enterprise is of more interest than the Darwin Architecture for this report, given the Adaptive Enterprise's focus on solutions, rather than technology.

One should note that, even though HP is trying to align the organisation and its market offering, this is not the reality today. There exists several different views of what the goals are and how they should be reached; this in turn makes it difficult for partners and employees alike to grasp what HP actually stands for. (Armstrong, Shannon, Sutton & White, 2004)

Dynamic Market Offering: The Adaptive Enterprise

Overview

The Adaptive Enterprise (AE) was launched in 2003 as a framework, based on the Darwin Architecture product guidelines, for how to sell and market HP's market offering. The goal of AE is to enable HP's customers to adapt to changing business demands, with the help of IT technology and this is summarised in four goals:

1. Aligning IT technology to a changing business strategy (assess if the IT technology is efficient, effective and delivering business value, and identify the business' key areas)
2. Infrastructure cost and complexity (architect and integrate the IT infrastructure to make it simplifying, standardizing and modularising)
3. Deliver consistent and predictable services (manage and control the IT environment)
4. IT applications integrated to enable business (integrate and link IT with customers, suppliers and partners)

These goals form the foundation for the actual framework that is divided into three main categories, depending on the customer's needs and HP's offering, see Figure 2.4.

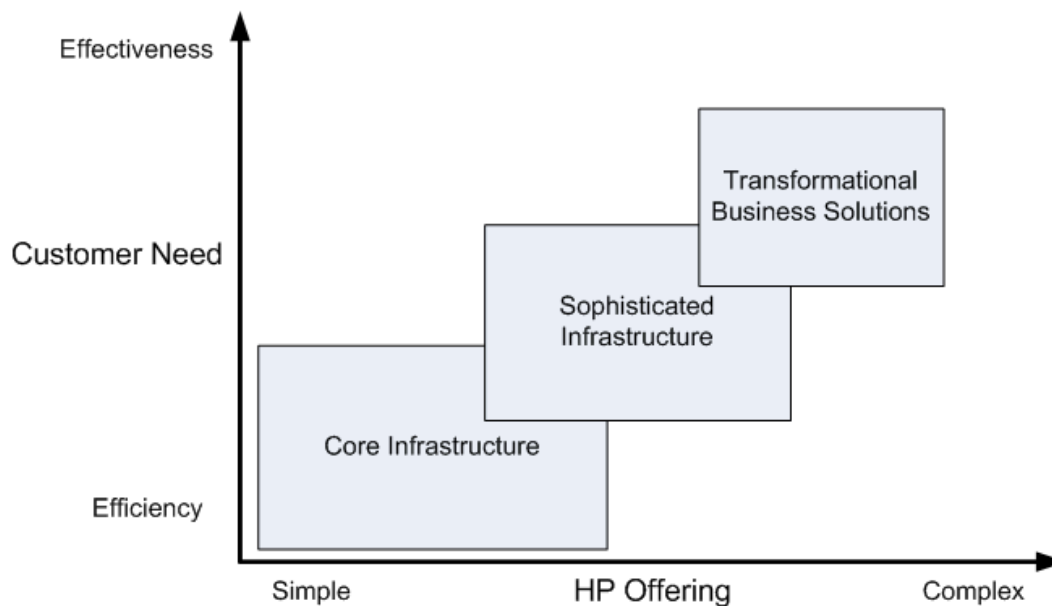


Figure 2.4: The Adaptive Enterprise Framework (HP, 2004)

The vertical axis in Figure 2.4, Customer Need, starts at Efficiency, which means that the customer is product and cost-focused (e.g.: We need a new server; how much will it cost us?) The top end of the vertical axis is Effectiveness, which means that the customer is solutions focused and interested in trying new approaches (e.g.: How could we change our sales-process with the help of IT to make it more effective?). The horizontal axis describes the complexity of HP's offering to its customers: it starts with Simple and ends at Complex (solutions). (HP, 2004)

Different Levels of The Adaptive Enterprise

The Core Infrastructure level consists of basic infrastructure solutions such as servers, storage, management software and attached services. The technical requirements are primarily compatibility between different hardware solutions, whereas the collaboration requirements are low (loose collaborations). This level makes up approximately 80 % of HP's revenue. (Sumich, 2004)

The Sophisticated Infrastructure level is made up of more advanced solutions that transfers the IT infrastructure, but keeps the business processes the same. The technical requirements are primarily compatibility, with porting being important: HP has to strive to be the preferred platform vendor to port to (Denyer, 2004). In terms of collaboration, it requires standardized-partnering (close partnerships with ISVs

providing standardised applications). This level makes up approximately 18 % of HP's revenue. (Sumich, 2004)

The Transformational Business Solutions level has the aim of transforming business processes to utilise new IT infrastructure (change both the business processes and the IT solutions), with technical requirements being compatibility, overview and redesign of business processes and customised applications. This in turns puts pressure on partnerships: the level requires deep relationships to deliver tailored solutions. In terms of revenue, it makes up approximately 2 % of HP's revenue. (Sumich, 2004)

Criticism against the Adaptive Enterprise

The Adaptive Enterprise has been criticised by some partners and customers as being a poor imitation of IBM's partner program and their On-Demand business initiative. However, the initiative is relatively new and is not fully integrated into HP's product line and organization; it takes time to align such a large organisation as HP to an initiative of this size and scale. (HP, 2004)

2.3.5 Market Segmentation

Segmentation Overview

HP's market segmentation since the beginning of 2004 is based on its customer segments, in contrast to the earlier model that was based on its products and services. The key global horizontal segments are Enterprise & Public Sector, Small & Medium Business (SMB) and Consumer (private persons). HP Australia has further segmented their customers into six segments, see Figure 2.5 and below for a list of the segments:

1. Enterprise-Named (The top 250-300 customers, each one has a key account manager)
2. Commercial (400-500 customers, each one has a key account manager)
3. Non-Named Enterprise (more than 500 employees but no key-account manager).
4. Medium Business (100-499 employees)
5. Small Business (1-99 employees)
6. Consumer (private customers)

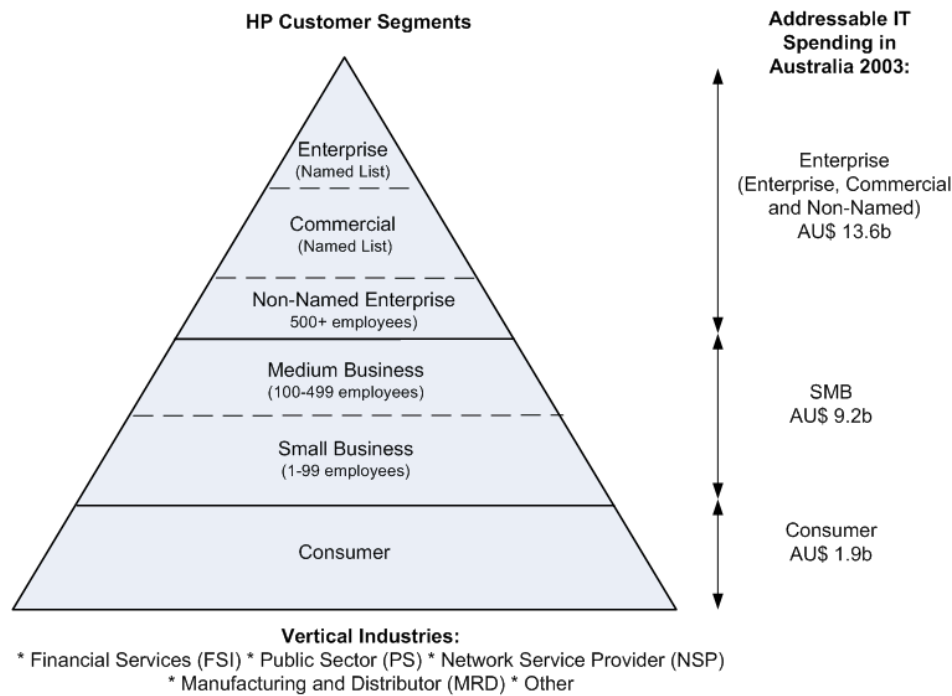


Figure 2.5: Customer Segmentation (HP, 2004)

In Australia, the Enterprise segment (which consists of Enterprise, Commercial and Non-Named Enterprise) consists of approximately 2800 companies and accounts for AUD 13.6 billion of the addressable IT spending. Out of this revenue, the 100 largest customers account for AUD 6.5 billion of addressable it spending. HP has 250-300 key accounts (Named Enterprise) and 400-500 customers under the Named Commercial segment. The Medium Business and Small Business segment (SMB) makes up a total of AU\$ 9.2b of addressable IT spending in 2003, while the Consumer segment represented AU\$ 1.9b. As stated earlier we will use the term mid-market to refer to the Small Business, Medium Business and Non-Named Enterprise segments.

This model is furthermore segmented into the following industry (vertical) segments that run through the horizontal customer segments:

- Network Service Providers (NSPs), e.g. telecom (part of Enterprise through Non-Named Enterprise segments)
- Public Sector (PS), e.g. government (part of Enterprise through SMB segments)
- Financial Service Industry (FSI), e.g. banking (part of Enterprise through Non-Named Enterprise segments)
- Manufacturing, Retail and Distribution (MRD) (part of Enterprise through Non-Named Enterprise segments.)
- Other (customers that do not fit in to the industries above)

2.3.6 Customer and Sales Management

Sales Management

The vertical industry teams (FSI, NS, PS and MRD) handle direct sales to the Enterprise segment, and each vertical segment has an Enterprise Account Manager (EAM) responsible for that segment; the EAM has an EAM direct vertical sales team that sells direct to these customers. The 250-300 Enterprise named accounts are considered to be key accounts and have an assigned account manager.

Furthermore, The Commercial and Non-Named Enterprise are managed through the Solution Alliances Team (SAT) who has responsibility for the relationship with certain ISVs and SIs, while the actual sales (and the channel revenue target) for the larger clients is done and owned by the Solution Partnering Organisation (SPO), who also has the largest marketing funds available; some of the named commercial accounts also have account managers assigned to them. The SAT can be seen as the one of the teams that is responsible for laying the foundation for the Adaptive Enterprise in that they manage the ISV and SI partner relationships.

Channel intermediaries are used to sell to the SMB and non-named Enterprise segments, they are hence approached through indirect sales; these accounts are managed by the regular sales organisation

Channel and Price Management

HP has two organisations responsible for channel- and price management; responsibility for sales and pricing management lies within the CSG, and is part of the regular sales organisation. At the same time, all channel management such as contacts with retailers and campaigns is the responsibility of the Solution Partnering Organisation, which works independently of the CSG.

This gap between channel management and pricing has led to problems, with excessive channel discounts in addition to existing discounts and unaligned campaigns launched by either of the organisations. (Canalys, 2004)

Furthermore, some of HP's engagement rules for its partners and customers are not appreciated. ISVs and partners are allowed to lead projects and sales in most cases; however, they are not allowed to sell or lead into HP's Enterprise and Commercial Named-Accounts. HP's rules are different compared to competitors such as IBM who allows their ISV partners to sell to all clients and customers. One should note that managing the channel in an optimal way is difficult according to Canalys (2004): if the

channel members complain to little, their margins and rules are probably too favourable. Likewise, if they complain too much then the margins or rules are probably too unfavourable.

The fact that channel members have to deal with two unaligned business units when they buy from HP makes it harder to motivate the channel members. It also makes it more difficult for HP to deliver an aligned and correctly priced market offering. Furthermore, the roles and responsibilities between the SAT and the SPO are a bit unclear and the fact that SPO has more of the marketing funds adds to the friction between the two organisations.

2.3.7 Independent Software Vendors (ISVs)

Categorisation and Management

HP's primary categorisation of the ISVs is based upon revenue opportunity, but they are also categorised based upon strategic importance, such as if the ISV might be a gatekeeper to a certain market. An example of a strategically important ISV is BEA, a medium-sized company in Australia, whose middleware platform is important in several industries. The categorisation results in three main categories of ISVs:

1. Tier 1: Global ISVs, e.g. Microsoft, Oracle and SAP
2. Tier 2: Local and Regional ISVs (of reasonable size), e.g. MXL
3. Tier 3: Other ISVs (small)

Tier-1, or First-tier, ISVs are often major software vendors such as Microsoft and Oracle. They are usually managed directly through the Solution Alliances Team. HP has an Enterprise Account Manager responsible for each ISV in this segment. HP invests direct collaboration resources and individual portals in working with these ISVs. (Shooter, 2004)

Tier-2, or Second-tier, ISVs are large regional and local ISVs. They are usually found in the First-tiers' ecosystems and can be seen as the First-tiers' ISV community; it is common for them to develop applications or perform services based upon the first-tiers' solutions. An example of a second-tier ISV is MXL who develops applications for the education vertical segment based on Microsoft's .NET platform. (Shooter, 2004)

The last segment, Tier-3, contains the small ISVs that do not fall into the other two categories. Their only point of contact with HP is indirectly through the Developer

Solution Partner Program (i.e. HP has no direct contact with these ISVs and they do not receive any resources through HP Direct). (Shooter, 2004)

We will generally refer to Tier-2 and Tier-3 ISVs as Mid-Tier ISVs.

2.3.8 Collaboration and Partner Programs

HP has several programs aimed at different partners, in addition to the key-account management of the largest and most important partners and customers. The most important program when it comes to the smaller ISVs, not directly managed by HP, is the Developer & Solution Partner Program (DSPP). This section also gives a brief description of how HP manages its enterprise partners and customers.

Enterprise Programs

Account managers manage the major Enterprise customers and partners (the companies that are on the Named-List). The SAT has account managers for the major ISVs such as Microsoft, Oracle and BEA (a global middleware developer) as well as for system integrators. The SAT works in close relation with the vertical industry sales team when delivering joint solutions to end customers; many of the deeper collaborations with larger partners have their own portals and management tools to facilitate co-operation between HP and the partners. An example of this is HP and BEA's strategic alliance; together they have an on-line portal with joint-value propositions, sales-, technical and marketing information.

Developer & Solution Partner Program (DSPP)

The Developer Solution Partner Program (DSPP) was established with the goal that it should function as an umbrella program for smaller developers (ISVs and SIs) that were not handled directly by the SAT. It should also function as a framework and give HP a better overview of its current developer programs. The DSPP's two primary goals are to provide:

1. Technical support and assistance (porting, test-drive, training, support etc.)
2. Marketing assistance (marketing support, go-to market etc.)

The program has one level of membership, and there are no requirements on the companies that wish to join the program, except that they sell HP products. Furthermore, the members are not categorised in any way. DSPP has approximately 4500 registered members worldwide and 160 members in Australia. Of these 160 members, 140 are ISVs and 20 are system integrators. The program in Australia is mainly active as a technical resource and assistance program; this is however something that HP wishes to change and develop.

HP estimates that less than 100 of the 160 current members are of interest to the company in regards to possible business opportunities (Sutton, 2004). The ideal solution would be to have an active part of the DSPP program with 100 partners (excluding the 20 largest handled by the Solution Alliances Team) where HP has full knowledge of their vertical industry, applications, skills, customers etc, to be able to create a community and give leads to partners which in turns leverage HP's core infrastructure (Sutton, 2004). This reflects the views of Carr (2004) who states that the most important parts of a developer program are to segment and to be able to leverage the different communities.

Measurement

HP has several key metrics for measuring the success of the DSPP: availability and performance of the partner portal, customer satisfaction, number of members, and usability of resources available to partners (i.e. setting goals for usage of certain resources and reaching targets). Common for all the metrics are that they are more focused on existing businesses than how to create new opportunities for its members.

Creating a Community

To create a community of developers might be one way to increase sales of HP's core infrastructure, but it is a major challenge considering the limited resources HP can invest in the vast amount of ISVs in the marketplace. Limited resources refer to the fact that HP has minimal resources available for individual management of the ISVs. Different companies have tried different ways of achieving successful developer collaborations: Oracle with access to hosted environments and IBM with bundled resources aimed at particular requests, such as Linux. IBM's program also contains industry-segmented information such as solutions, partners and leads. Communication and categorisation play important roles: the developers must be able to get information about potential partners and their skills, in combination with the possibility of interaction.

An important characteristic of the mid-tier ISVs is that HP focuses on is that they are not in a position that requires them to adhere to strict hardware neutrality, such as Microsoft who does not recommend hardware (because it has to be neutral between its suppliers). This differentiated approach would however require the program to be structured into different levels.

HP has started to segment their ISVs in Europe; it launched an invitation to a more exclusive part of the DSPP-program called DSPP Select, which includes extended

benefits to 200 of its most promising partners. This might be part of a solution, but it is important that it addresses the need for industry leverage (Carr, 2003). The DSPP could benefit by several changes in order to make it into a more useful and active partner program; these suggestions are discussed in section 7.2.

2.3.9 Conclusions

The main conclusions on HP's situation, based on the information from section 2.3 (Hewlett-Packard), is that even though HP has a very complete hardware portfolio, they have to work hard on offering more total solutions either alone or, more likely, together with its partners, in order to serve the customers and fulfil their needs successfully. The company offers solutions together with partners, but this could be done more efficiently. The processes around collaborating with ISVs need to be developed and structured; HP's ISV program has to offer the ISVs resources and support and at the same time set up their own requirements on their ISVs. Furthermore, in the future it would be wise to gain capabilities in order to offer a larger part of the solution stack by itself, to a larger extent than what is being done today. Last but not least: in order to be successful in achieving these goals, HP needs to be able to communicate its offerings both to its partners and customers.

2.4 Analysis

This section contains a synthesised analysis based on all information in chapter 2: Problem Description. The analysis is of interest because it gives a good representation of how HP views the industry and its role within it as well as the market opportunities it has identified; see the resulting SWOT analysis in Table 2.2 for the actual SWOT matrix.

HP's major strengths are its best of breed solution stack with partners (though underutilised) combined with its brand image, excellent products and broad hardware product portfolio. The company has several weaknesses and many of them stems from its unstructured ISV management, which in turn means that HP does not leverage the full potential of the partners' solutions; HP does not effectively package and communicate the offerings that actually are available to its customers. The major threats that HP faces are the increasing commoditisation of hardware and the lack of incentives that HP offers its ISVs. We believe that there exist several opportunities if HP manages to offer its ISVs attractive incentives and to leverage its partners' solutions to create attractive total solutions. We further believe that this can help bring relevance to HP's products and that it is a good way of dealing with and overcoming the increasing hardware commoditisation that HP faces. This requires a clear strategy that can be executed both internally and together with partners.

Table 2.2: Internal SWOT-Analysis of HP's Market Situation

	Strengths	Weaknesses
Opportunities	<ul style="list-style-type: none"> • Best of breed solution stack with partners • Brand image with market pull • Market leader in hardware with excellent products • Broad hardware product portfolio 	<ul style="list-style-type: none"> • Capitalising on vertical industry opportunities with new go-to-market strategies together with partners • Improve ISV partner programs
Threats	<ul style="list-style-type: none"> • Not utilising the full potential of partners' solutions • Unaligned channel management • Unstructured ISV management with weak industry leverage 	<ul style="list-style-type: none"> • HP is not fully adapted and aligned to meet hardware commoditisation • Lack of incentives for ISV collaboration

With a clear grasp of the IT industry and HP's situation, we will now address and explain relevant theory, which will serve as a guideline for further analysis.

3 Theoretical Framework

This chapter covers necessary marketing theory to enable the reader to understand the objectives' theoretical foundation.

“In theory, there is no difference between theory and practise; in practice, there is.”

- Chuck Reid

3.1 Marketing Essentials

Kotler *et al.* (2001) define marketing as “the delivery of customer satisfaction at a profit”, with the goal of marketing being “to attract new customers by promising superior value and to keep current customers by delivering satisfaction.” In order to achieve this goal, it is necessary to have a rudimentary knowledge about marketing essentials such as strategy, business relationships and product and service marketing; topics that are covered briefly in this section.

3.1.1 Strategy

Core strategy

The British military historian Liddell Hart defines strategy as “the art of distributing and applying military means to fulfil the ends of policy” (Hart, 1967), this definition is applicable to businesses if we remove the word ‘military’. Strategy can also be defined as “an elaborate and systematic plan of action” (Word Reference, 2004), while a more informal definition by Wilson (1999) states that strategy can be seen as a way of “not playing the current game better, but is all about preparing to define and play the next game.” It is of interest to note Kotler *et al.* (2001) who state that a marketing strategy should be based around a company’s micro- and macro environment, i.e. the company’s internal capabilities should be matched with the external conditions. All of the definitions emphasize slightly different aspects of strategy, but they share a common denominator: strategy is about setting goals and implement plans in order to reach them.

With strategy defined, it is easy to see why a company needs a good strategy and the ability to execute it: to achieve competitive advantage and, hence, long-term profitability (Anthony & Govindarjan, 2003). A successful strategy has three corner stones required to create competitive advantage, according to Kotler *et al.* (2001):

1. Market segmentation and targeting: satisfying human needs
2. Positioning

3. Building customer relationships, customer satisfaction, quality, value and service

These corner stones executed and implemented correctly can all lead to creating competitive advantages. Since the objectives of this report are based around the third corner stone, we will primarily cover theory related to these subjects.

Aligned Strategy

It is important not only to have a clear and concise strategy; it should also be well aligned and goal-congruent, which means that all parts of the company should be working towards the same goals in a co-ordinated way. The strategy should combine both financial and non-financial targets to achieve the desired goal. A way of increasing the chance of reaching the goals is through participation among the employees; once management has set the goals, they should let people in the organisation set their own units' targets and plans for implementation, to increase the sense of participation and willingness to reach the goals. However, the goals should be reviewed and approved by management. (Anthony & Govindarjan, 2003)

Goals, and how to implement them, should be set at appropriate levels (e.g. corporation-, company- and business unit level) and they should all be congruent. It is crucial to have an aligned strategy and to actively prevent sub-optimisation, which might take place for example in a company with a strong business-unit focus, with a poorly designed reward-system. In our opinion, predictability is also of critical importance. Furthermore, once the strategy and how to implement it has been set, the staff must be given enough time and resources to implement the strategy. (Anthony & Govindarjan, 2003)

Measuring the Results

Companies need to be able to measure its activities; to see how well they perform them and what areas can be improved. Without measuring it is difficult for a company to know what it does and how well. Things that are not measured are usually not done to satisfaction. One should take note that measuring is difficult and measurement systems needs to be redesigned at regular intervals, to prevent people adopting to and tweaking the system, instead of striving to perform well. (Anthony & Govindarjan, 2003)

3.1.2 Product- and Service Marketing

Kotler (2000) emphasizes the differences between product- and service marketing. There are four main factors to consider in product marketing, and they are known as the marketing mix or the four P: s. The marketing mix for products consists of:

- Product (i.e. the product)
- Price (consideration and strategies)
- Promotion (strategy and communications mix)
- Place (distribution channels).

A service is defined as “any activity or benefit that one party can offer to another which is essentially intangible and does not result in the ownership of anything” by Kotler (2000). According to the same source, there are five main characteristics of services that need to be considered when a company is making its marketing strategy:

- Inseparability (produced and consumed at the same time)
- Intangibility (cannot be seen, felt etc.)
- Lack of ownership
- Perishability (they cannot be stored for later sale or use)
- Variability (the quality depends on who, when, where and how the service is provided)

These service characteristics are the major reasons why the marketing mix for services consists of seven factors: the four P: s from the product marketing mix and, in addition to them, Kotler (2000) adds the three P: s of service marketing:

- People (appropriate staff – consumers make judgements of the service based on the employees they interact with)
- Physical evidence (where the service is delivered)
- Process (the system used to assist the organisation in delivering the service)

While the differences between the two kinds of marketing still exist, it is important to recognize that the differences between products and services have diminished during recent years. The main reason for this, according to Kotler (2000), is that the both services and products are starting to become more similar, e.g. a product might have some intangible components and a service might have some tangible components. According to Lusch & Vargo (2004), the focus is shifting away from tangibles toward intangibles, such as skills, information and knowledge. The degree of tangible and intangible components in a company's offering may also be a part of a company's strategy to differentiate itself from its competitors (Kotler, 2000).

Some researchers such as Dull *et al.* (1995) are of the opinion that it might be time to add one additional 'P' for 'Partnering' to the marketing mix. They stress the importance of partnering, especially for business marketing and argue that it is common to describe partnerships in marketing terms (Dull *et al.*, 1995). We will examine this concept in detail later in section 3.5: Business Relationships.

3.1.3 Push and Pull Marketing

Marketing activities can be divided into two categories, push or pull, depending on the goal of the marketing. A pull strategy strives to create knowledge and demand among end-consumers for a product or service through advertising and promotion, so that they start demanding (pulling) it from the distributors. An example of pull-strategy is TV-adverts targeted at children, the children cannot afford to buy the products but they will ask their parents; the pull strategy usually requires high spending on marketing and promotional activities. A push strategy uses a company's marketing and sales force to create consumer demand by addressing the consumer itself and, in a way, bypassing rivals. An example of this is mobile phones advertised for example by Sony Ericsson at a mobile retailer: Sony Ericsson tries to push out its product or service to the market. (Kotler *et al.*, 2001)

3.1.4 Business to Business Marketing

Business markets have several unique characteristics that make them different from consumer markets, e.g. fewer and larger customers, professional purchasing, several buying influences and close supplier-customer relationships to mention a few. Companies selling business products and services face well-informed buyers who are skilled in evaluating competitive offerings. In business markets the sales force, price and the company's reputation for reliability and quality, all play an important role. (Kotler, 2000)

We argue that two of the most important characteristics in business markets, especially in the IT industry, are the complexity of the market offerings and the relationships that link companies together.

Complex Market Offerings

In business markets it is particularly true that customers often do not look for goods or services per se; they look for solutions to business problems or solutions that serve their own value-generating processes. Customers do not buy goods or services; they buy the benefits that they provide. Therefore, companies should focus on delivering business solutions that solve customers' actual business problems. Customers buy

offerings consisting of goods, services, information, personal attention and other components. (Grönroos, 2000)

Many business customers prefer to buy a total solution for their problem from one seller; the total solution often consists of several separate companies' products. As mentioned in chapter 2, the term solution stack is commonly used to describe the total solution and its different parts. Often there is not one company that can provide the full solution stack alone; instead different firms provide different parts of the full solution stack and this makes the buying and selling of total IT-solutions complex.

(Gerstner, 2002)

Complex Relationships

In business markets the relationships between market channel members can be quite complex, this is partly due to the complexity of the market offerings discussed previously. In the IT industry, channel members often have mutual, conflicting and separate interests at the same time. At the core of each channel member lies the desire to maximize the opportunities of their own products and market offerings. In doing so it can often be in their interest to build and maintain a relationship with another channel partner, that provides another part of the full solution stack, while at the same time they also have different and conflicting interests; this means that channel members can be both partners and competitors at the same time. The term co-opetition is often used to describe this form of relationships. This kind of relationship is particularly common in the IT industry, and it is characterised by its complexity and difficulty of managing. (Gerstner, 2002)

We will examine these relationships in detail later in this framework, but before we do we will cover one important aspect of marketing: the concept of value.

3.2 Understanding and Creating Value

3.2.1 Value as a Cornerstone

The value concept is at the very core of marketing, in consumer as well as business markets. Anderson *et al.* (1998) emphasise that a selling company has to be capable of understanding, creating and delivering value to its customers. Further, a company has to deliver value not only to its end-customers, but also to all of the participants in its eco-system. Therefore the concept of value applies to end-customers as well as all other firms a company has relationships with. A company has to consider the firms involved in business relationships not only as partners, but also as customers in their

own right; often the companies have to collaborate to deliver the total value to the end-customer. (Kotler, 2000)

In sections 3.2 and 3.3, we break down the concepts of understanding, creating and delivering value and explain how they are reciprocal.

3.2.2 Understanding Value: Customer Needs, Wants and Demands

The quintessential purpose of a product is to satisfy customers' needs. Therefore a company must start by understanding the target market's needs, wants and demands. Kotler (2000) defines these fundamental parts as follows: needs describe basic requirements; needs in turn become wants when they are directed to specific objects that might satisfy the need; demands are wants for specific products backed by an ability to pay and a product is any offering that can satisfy a need or want. (Kotler, 2000)

A company needs to know the long-term needs and desires of their customers. It is not always easy for a company to understand these needs; some customers are not fully conscious of their needs, or they might have difficulties in articulating these needs. Bergman (2002) distinguishes between three types of needs:

1. Basic needs
2. Expressed needs
3. Unrealised needs

Basic needs are so obvious and expected by the customer that they do not even express them; the basic needs can be seen as a prerequisite. The expressed needs are what the customer expects and finds important, while unrealised needs are needs that the customer cannot express since they are not aware of them. It is vital for a company to understand these needs to be able to create and deliver value to the customer and achieve satisfactory customer satisfaction. (Bergman, 2002)

3.2.3 Definition of Value

In straightforward terms, a company's product or offering will be successful if it delivers higher value and satisfaction to the target buyer, than its competitors do; the buyer chooses between different offerings on the basis of which offer is perceived to deliver the highest value (Kotler, 2000). There exist several different yet similar definitions of value in the business marketing literature. Some of the definitions that are of interest to this report are presented in the section below.

Anderson (1993) defines value as “the perceived worth in monetary units of the set of economical, technical, service, and social benefits received by a customer firm in exchange of the price paid for a product offering, taking into consideration the alternative suppliers’ offerings and prices; and is inherently framed against a competitive backdrop”. Kothandaraman & Wilson (2001) defines value as “the relationship of a firm’s market offering and price weighted by the consumer against its competitor’s market offering and price”.

Kotler (2000) defines value in very simple terms as a ratio between what the customer gets and what he gives. The customer gets benefits and assumes costs, value can be said to be the quotient between these benefits and costs ($\text{value} = \text{benefits} / \text{costs}$). The benefits can be quantified in different ways, depending on the perceived importance of the benefit and on the perceived performance of the benefit (Kothandaraman & Wilson, 2001).

A synthesis of these definitions gives that a common denominator is that value is perceptual in nature. Value can be measured, quantified and expressed in monetary terms. This has the implication that it is possible for companies to measure and track the value that their customers perceive. Further, value needs to be viewed with respect to the set of benefits that the customer receives with the product offering and it should be weighted against competitor value (Anderson, 1993).

Value Measurement

There are many factors that customers take into consideration when they evaluate their perceived value. Some of these are quality, service, price, cost and lead-time, factors that in turn can be broken down into more tangible components; these factors are weighed against other suppliers’ market offerings. Wilson, Corey & Ghingold (1990 see Walter *et al.* 2002, p. 4) state that one way to assess value is to measure the benefits of an offering by using a model with multiple attributes, each important to the customer. Johansson *et al.* (1993) suggest an interesting approach to illustrate and quantify value, see Figure 3.1. The figure illustrates some important attributes that determine the total customer value and each metric in the equation is broken down into measurable factors. (Johansson *et al.*, 1993)

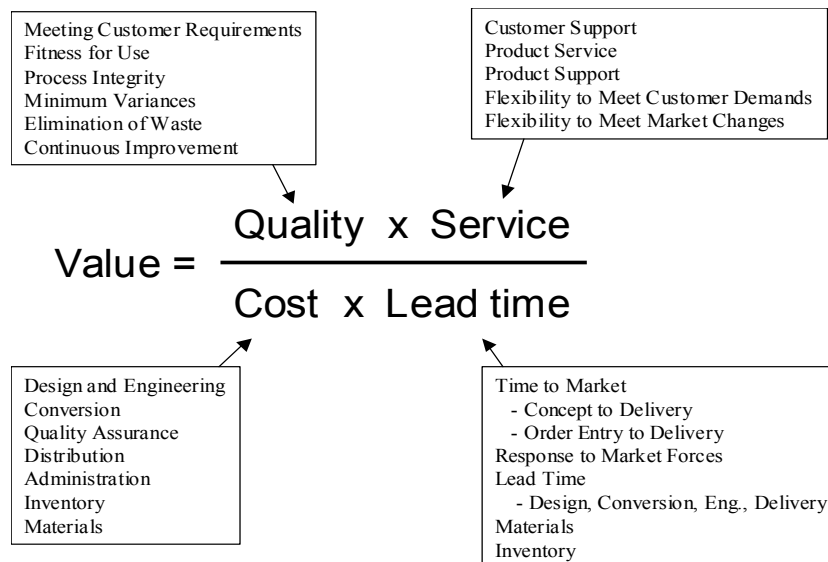


Figure 3.1: Total Value Metric (Johansson *et al.*, 1993)

3.2.4 Customer Satisfaction and Loyalty

Kotler (2000) defines satisfaction as a person's feelings of pleasure or disappointment, resulting from comparing a product's perceived performance (or outcome) in relation to his or her expectations. As this definition makes clear, satisfaction is a function of perceived performance and expectations; if the performance falls short of expectations, the customer is dissatisfied. If the performance matches the expectations, the customer is satisfied. Likewise, if the performance exceeds expectations, the customer is highly satisfied or delighted. (Kotler, 2000)

In business marketing customer satisfaction is defined as "...an organizational buyer's overall post-purchase evaluation of a service supplier" by Bernarth *et al.* (1999); it is a comparison between expectations and outcome performance. The expectations of a customer, and the extent to which these expectations have been met, affect the level of customer satisfaction (Bergman, 2002). In straightforward terms: high overall perceived value, i.e. the performance has greatly exceeded the expectations, leads to high customer satisfaction which in turn lead to high customer loyalty; but, this is by no means a guarantee in today's competitive markets. Furthermore, companies should try to measure customer satisfaction and track the changes that take place over time, even if the measurement is a crude way that does not give an exact view of the actual situation (Grönroos, 2000).

Companies want their customers to remain loyal to their products; because keeping a customer is often worth a lot more and is more cost-effective than finding new customers. A customer who is not loyal to a specific company's products will switch to a competitor's products if given enough reason. Switching cost, the cost for the

customer to change its supplier can have a major impact on customer loyalty, as switching costs can lead to customer lock-in effects. (Egan, 2004)

However, it is becoming more difficult for companies to lock in their customers in the IT industry; it used to be possible to lock in customers to proprietary systems, but with the increased level of standardisation these lock-in effects as well as the switching costs have decreased. (Gerstner, 2002)

An important and long-lasting way to retain customers is to ensure high customer satisfaction; Kotler (2000) states: highly satisfied customers are less likely to switch to a competitor's product. High satisfaction is therefore related to high customer loyalty, but loyalty is not guaranteed or proportional to satisfaction. For instance, Xerox management believes that a delighted customer is worth ten times as much to the company as a satisfied customer. The key to generating high customer loyalty is to deliver high customer value. (Kotler, 2000) This is also central to Kothandaraman & Wilson (2001), who states that satisfying customer needs is no longer enough; a company has to create better value than their competitors do.

We believe that the challenge of attaining, and keeping, customer and partner loyalty is particularly difficult in the IT industry. The evolution towards open-standards, as opposed to proprietary systems, has increased the level of choice for all participants. This has reduced the needs and benefits of remaining loyal to one particular vendor; instead members are trying to optimise their own benefits, by remaining flexible in terms of platform preference.

3.2.5 Creating Value

The Market Offering

As discussed in section 3.2.2, companies need to determine the needs and wants of the target markets and deliver the desired satisfaction more effectively and efficiently than competitors do (Kotler 1997, see Kothandaraman & Wilson 2001, p. 2). The characteristic, both tangible and intangible features, of a company's market offering is the fundamental way for a company to create value and compete against its competitors. The company has to put together and differentiate their market offering and ensure that their offering is perceived as delivering superior value, compared to its competitors' offerings; one should note the word 'perceived' used in conjunction with value, i.e. the perceived value might be more important than the actual value. (Kotler, 2000)

When analysing the satisfaction of a market offering, Egan (2004) suggests that the following satisfaction drivers, that generally involve progressively more personal contact with the service supplier, can be used:

- Core product or service – the basic product or service
- Support services and systems – services around the core product
- Technical performance – in delivering the core product and support services
- Elements of customer interaction – how the supplier interacts with the customer
- Affective dimension of services – emotional feelings around the interaction

The total market offering consists of goods, services and other components such as information and personal attention; all components should be considered when quantifying the value of a total marketing offering, e.g. product components such as features and service components. Furthermore, to create a competitive market offering, companies have to look beyond the core product; they have to look at all features surrounding the core product mentioned above, and offer added value on top of the technical solutions. (Grönroos, 2000)

In today's competitive situation the core product is not enough to produce successful results and a lasting position in the marketplace; what counts is the firm's ability to manage the additional elements better than its competitors. Moreover, the core product is less often the reason for dissatisfaction than the elements surrounding the core. In other words it is not enough to compete with the core product; one needs to compete with the total service offering. Grönroos (2000) argues that there has been a transition from the product as the dominant element of the offering to management of human resources, technology, knowledge and time in order for the firm to create a successful market offering. (Grönroos, 2000)

Grönroos (2000) statements above concur with what can be seen in the IT industry today, where customers more and more demand a complete solution, made up of hardware, software applications and services, to their problems. The customers evaluate the value and satisfaction of the solution based on all components of the solution and not only the product itself.

When discussing a company's market offering it is important to remember that the market offering consists not only of the company's own products and services, but also of its partners attached offerings. The total solutions demanded by customers demand can often not be delivered by a single firm. Therefore a company's market offering is

often combined with other companies' market offerings to create the complete solution that is delivered to the customer. (Prahalad 2004, see Bolton 2004, p. 23)

3.3 Delivering and Promoting Value

To be successful, a company should develop a competitively superior value proposition and a superior value-delivery system. The value-delivery system includes all the communications and channel experiences the customer will have on the way to obtaining the offering; companies usually need help by marketing channels with various functions. (Kotler, 2000)

3.3.1 Marketing Channels

According to Davidson (1997 see Kotler 2000, p. 490), marketing channels (e.g. sales channels) can be seen as different sets of interdependent organizations, which are involved in the process of making a product or service available for use or consumption. All channel functions have three things in common according to Kotler (2000): they use scarce resources, they can often be performed better through specialisation and they can be shifted among channel members.

3.3.2 Sales Channel Strategy

Sales channels (distribution channels) are used to effect transactions with potential buyers and they include not only the distributors and retailers, but also other channel members such as ISVs that facilitate transactions. In simple terms: vendors want to reach as many customers as they possibly can, and an efficient way of doing so is by making sure that various channel members put the vendors' products on the market. (Kotler, 2000)

A company can sell through one or more sales channels, depending on its channel strategy. Gabrielson *et al.* (2002) state that a company can sell either through the two forms of a single channel (direct or indirect), or by using multiple channels (dual or hybrid). There are pros and cons associated with the different strategies, but they depend to a large extent on the company's actual distribution and market situation. Historically, PC companies up until the 1990's sold through a single channel, either direct as Dell did or indirect as Compaq did. (Gabrielson *et al.*, 2002)

In a direct distribution channel the producer sells directly to its end customers by using its own sales force, where as in the indirect sales channel the producer does not sell directly to its end customer, instead it uses different kinds of intermediaries (Hardy & Magrath, 1988). An indirect channel can have either a first-tier structure or a second-tier structure. First-tier refers to the use of resellers or retailers that sells directly to end

customers, while second-tier refers to the additional layer, distributors, between the sales subsidiary and the resellers or retailers. It is important to realize the different levels of control that exists with the choice of either a direct- or indirect channel approach. In the direct model the producer owns the channel and can therefore do as it see fit; with the indirect channel it becomes harder to control how the products are sold and marketed. In the IT industry today it is common that vendors use multiple (also known as hybrid) sales channels. This means that a vendor sells its products through a combination of direct and indirect channels. (Gabrielson *et al.*, 2002)

3.3.3 Motivating and Evaluating Channel Members

Channel members can to a large extent influence the success of a company; Kotler (2000) is of the opinion that it is important that a company views its intermediaries in the same way that it views its end customers. The company has to understand the intermediaries' needs and construct a channel positioning and strategy, such that its channel offering is tailored to provide superior value to these intermediaries. A company that wants to improve its channels' performance can do that in several ways; they can provide training programs, market research programs, and other capability building-programs. The company must constantly communicate its view that the intermediaries are partners in the joint effort to satisfy end-using customers. It is important to identify the intermediaries' motivations and incentives for the relationship: they can aim for a relationship based on cooperation, partnership, or distribution programming. Most producers see the main challenge as gaining intermediaries' cooperation and they often use positive motivators, such as higher margins, special deals premiums, cooperative advertising allowances, display allowances, and sales contests. (Kotler, 2000)

It is important for suppliers to position themselves as the preferred supplier for its channel intermediaries. To be considered as such, a supplier has to be seen as interesting and attractive to its channel partners. Attraction can be based on several factors, such as financial, technological or social factors. Attraction is a basis for a relationship to develop, but it also needs trust and commitment, concepts that will be discussed in more detail in section 3.5: Business Relationships. (Grönroos, 2000)

Vendors not only need to motivate but also evaluate their channel members to determine if they live up to the expectations. The vendor could evaluate them by using several measurements such as the channel member's contribution to the company, (e.g. in terms of sales contribution, vendor share of sales and the value they add to vendor offerings) and the risk it represents. (Kothandaraman & Wilson, 2001)

3.3.4 Promoting the Market Offering: The Value Proposition

The Value Proposition

It is vital for a company to communicate the market offering and its value to its customers, i.e. it is not enough to understand and create value. This is because, as mentioned in section 3.2.3: Definition of Value, customers base their verdict about a product on the perceived value, not the actual value of the product; hence, the importance of communicating the benefits of a certain offering. A company's value proposition (VP) is a statement about the resulting experience and benefits customers will have from the offering and their relationship with the supplier (Kotler, 2000). Lanning & Michaels (1988) state that behind any winning strategy, there must stand a superior VP that contains the benefits (not attributes) for the targeted segments, along with the approximate price the company will charge. Both of the definitions stress the importance of identifying the benefits for the customers, though Lanning & Michaels especially stress the importance of having a concrete and clear proposition.

A value proposition should contain information about the target customers, information of the benefits from the customer's perspective; the benefits should be clearly expressed and be concrete. Furthermore the VP should have information about the trade-offs the company has to do (what to do and not to do) and the price for the product or service. (Lanning & Michaels, 1988)

Developing a Value Proposition

Lanning & Michaels (1988) recommend that companies use a systematic approach when they create their value proposition, in order to be consistent and not miss out on the benefits of having a clear VP. They recommend the following process for creation of a value proposition:

1. Identify what the benefits for the customers are (not vague factors like 'good quality', but measurable factors such as 'delivery time'). This usually involves management attention and quantitative and other market research (e.g. listen to customers and suppliers).
2. With the identification in step one, it is possible to segment the potential buyers (into segments of buyers who are interested in roughly the same benefits and willing to pay similar prices).
3. With the information gained in the first two steps, it is now possible to assess the opportunities for the different business units to deliver superior value to each of the segments; different units might have different chances of delivering superior value profitably. The company should develop several VPs for the

different business units in able to have more options when evaluating, in order to be able choose the most competitive VP.

4. After the actual creation of the VP, it is time to evaluate it together with the other VPs that the company has developed. Some questions to ask are:
 - Is the value proposition viable in light of the competitors' offerings?
 - Is this the best of several VPs considered for the company?
 - Is the VP achievable and what changes in the company need to take place?

With this step-by-step guide it is feasible to enhance an offering and ensure that a proper evaluation is done: i.e. does the product have a market and are the customers willing to pay for it? (Lanning & Michaels, 1988)

3.4 Organisational Structures for Value Creation and Delivery

3.4.1 The Value Chain

The value chain was created by Michael Porter as a tool for identifying ways to create more customer value, by classifying value creating activities and offering ways to improve them. It can also be used to evaluate cost and performance in each value-creating activity. There are nine different activities sorted into primary and secondary; upstream and downstream, see Figure 3.2. The primary activities are the value-creating activities, while the secondary activities are support-activities. The upstream activities (Inbound Logistics, Operations and part of the Outbound Logistics) are called upstream since they are done together with suppliers and the flow of the activities is towards the company (moving upwards). The downstream activities (Outbound Logistics, Marketing and Sales and Service) are called downstream activities since they are targeted towards the company's customers (moving out from the company). (Porter, 1985)

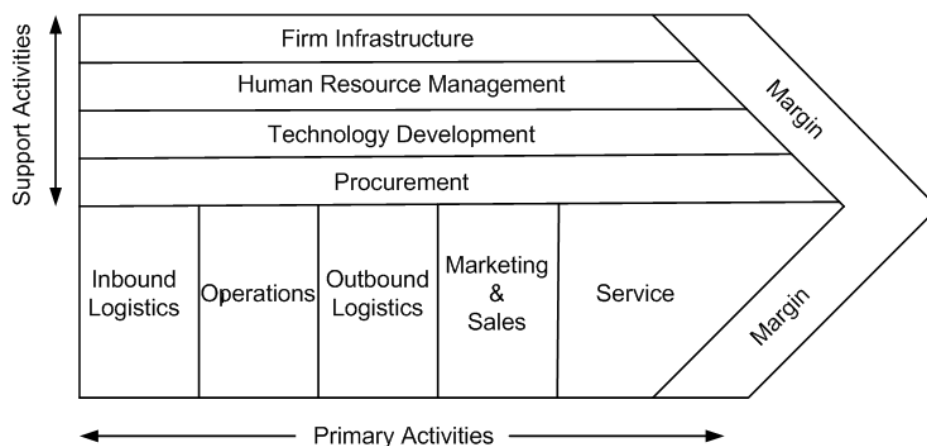


Figure 3.2: The Value Chain (Porter, 1985)

Three features characterise the activities according to Porter (1985):

1. They use purchased inputs, human resources and a combination of technologies.
2. They have both a physical and an information-processing component
3. They create and use information

It is of interest to consider how the value chain is connected (internally and externally) and how the activities of one company interact with the outside world: the value chain is a system of interdependent activities, which are connected by linkages; the linkages in their turn require activities to be co-ordinated to function correctly. Interdependent value chains could form value-creating systems, which together make up a complete market offering. (Porter, 1985)

The value chain is a powerful tool since it makes it possible to see a company's suppliers, customers, activities and other important contributions in a structured way that gives a good overview of the situation according to Porter (1985). Kotler further emphasises the importance of the value chain by stating that a company needs to execute its activities in a better way than its competitors, in order to achieve competitive advantage (Kotler, 2000).

3.4.2 Value Constellations and Value-Creating Networks

Value constellations and value-creating networks can be described as dynamic forms of value-chains that are focused on the participating companies' collaboration. A common scenario described in the form of value-creating networks is when companies together create a market offering and compete in the form of networks of companies against other networks. Strategy researchers such as Kothandaraman & Wilson (2001) use the term value-creating network to describe this form of collaboration, while Gomes-Casseres (2003a & 2003b) and Normann & Ramirez (1998) instead use the term value-constellations. The different definitions of the value-creating networks and constellations stress different parts of the co-operation between the companies, but they all agree that this form of group-competition has increased in recent years (Gomes-Casseres, 2003 & 2003b).

The value-creating network is focused on relationships, core capabilities and delivering superior customer value, as well as the way in which these three corner stones are connected, see Figure 3.3. These three areas and the linkages are of crucial importance if a company will succeed or not in today's competitive marketplace. (Kothandaraman & Wilson, 2001)

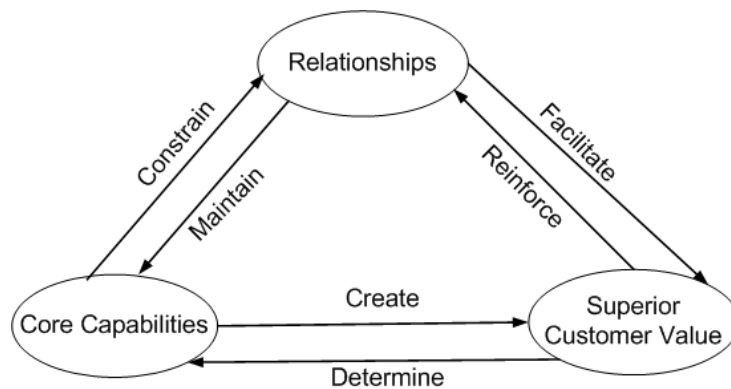


Figure 3.3: Value-Creating Network (Kothandaraman & Wilson, 2001)

Strategy researchers Normann & Ramirez (1998) argue that value production lies in building a fit between relationships and competencies utilizing all partners' knowledge. Kotler (2000) argues that to be successful a firm has to look for competitive advantage beyond its own operations, into the value chains of its suppliers, distributors, customers and other partners to create a superior value-delivery network, with whom it has built mutually profitable business relationships. Kotler (2000) and Gomes-Casseres (2003a) agree that competition is usually not between companies, but rather between value creating networks.

In our opinion it is useful to discuss value creation and delivery both in terms of value chains and value-creating networks. The value chain is a useful tool for internal analysis of the company's value delivering activities, whereas the value-creating network approach is useful when analysing and evaluating different partners and other forms of collaborations.

When analysing value-creating networks it is of great interest to discuss business relationships between the companies in the constellations: relationships, aimed at creating and delivering value, have to be developed between the interconnected firms in the value constellations. The next section is dedicated to exploring business relationships and relationship marketing, because of its great importance to this report.

3.5 Business Relationships

Business relationships are defined in different ways by different strategy and marketing researchers, but with similar substance. Håkansson (1995 see Egan 2004, p. 175) defines a business relationship as a "mutually oriented interaction between two reciprocally committed parties". Håkansson further states that business relationships are characterised by:

- Business relationships are connected (by networks)

- Relationships are confrontational (and therefore innovative)
- The relationships include elements of both market and hierarchy
- They are between buyers and sellers

Egan (2004) states that by the very nature of interdependency of most business markets, business relationships of one sort or another are inevitable. As an example of the frequency of business relationships and alliances Gummesson (1999 see Egan 2004, p. 200) noted that in 1999, five major US high-technology corporations (AT&T, Digital Equipment, HP, IBM and Sun Microsystems) together represented 400 formal alliances and countless informal ones. This implies that managing relationships in one form or another is a necessity in business-to-business marketing. It is important to be aware that there are many complications and challenges around building business relationships. The difficulty in forming successful relationships was illustrated in a study by McKinsey (see Egan 2004, p. 201) that showed that out of 49 collaborations between enterprise companies, one-third failed.

Due both to the importance and complications involved in business relationships a lot of resources have to be assigned to planning, managing and in other ways handling relationships. Egan (2004) states that important decisions need to be made concerning the validity of collaboration, the level of closeness and the probable duration of a relationship. Many fields of research have studied the complexity of business relationships and the importance for business firms to build successful relationships, to remain competitive in the marketplace. Relationship marketing is one of the major fields that have contributed to the study of relationships and we will explore their findings in the following section.

3.5.1 Relationship Marketing

We are of the opinion that when discussing relationship marketing, then Kotler and Grönroos's definitions combined give a good overview of the central issues of relationship marketing. Kotler (2000) states that relationship marketing has the aim of building long-term mutually satisfying relations with key parties (customers, suppliers, distributors and other partners), in order to earn and retain their long-term preference and business. Relationship marketing builds strong economic, technical and social ties among the parties and it cuts down on transaction cost and time, transaction move from being negotiated each time to being a matter of routine (Kotler, 2000). According to Grönroos (1996), relationship marketing is a mean of identifying, establishing, maintaining, enhancing and, where necessary, terminating relationships. To conclude, Egan (2004) stress that the common theme is that companies should compete through the development of long-term relationships, with all their stakeholders.

Relationship Strategy

Grönroos (2000) defines a relationship marketing strategy as a strategy that tries to create competitive advantage, based on relationship management. He states that there are three tactical elements of a relationship strategy:

1. To seek direct contacts with customers and other business partners
2. To build a database covering necessary information about customers and others (e.g. partners)
3. To develop a customer-oriented service system

Grönroos (2000) distinguishes three important strategic requirements of a relationship strategy (possible implications for the IT industry emphasised by this report's authors):

1. Competing with a total service offering (*end-to-end solution*)
2. Process management perspective (*manage the process of creating value*)
3. Establish partnerships and a network to handle the whole service process (*build an ISV community and other partner communities*)

The three strategic requirements set the strategic base for the successful management of relationships; they are required to successfully implement relationship management (Grönroos, 2000). There are advantages and benefits in forming relationships, but there are also challenges and costs involved, see section 3.5.6.

There are many aspects that influence to what extent successful relationships can be formed. To start with there has to be a mutual interest in the relationship; all the involved parties must see value in and have a goal with the relationship. We will discuss some important factors for a relationship to be successful in the next section.

Relationship Factors

A synthesis of the factors that Egan (2004) and Grönroos (2000) consider to be of high importance in relationships result in the following relationship factors: trust, commitment, attraction, risk, closeness and communication. These factors are covered in the following sections.

Trust, Commitment and Attraction

Trust, commitment and attraction play an important role in relationships (Grönroos, 2000). The existence of trust and commitment among parties is considered central to the success of relationship marketing strategies (Morgan & Hunt 1994 see Egan 2004, p. 100). Morgan & Hunt (1994) define trust as confidence in the exchange partner's reliability and integrity and state that mutual trust between relationship parties is crucial for the success of the relationship.

Commitment implies the importance of the relationship to the parties and their desire to continue the relation; it also suggests that both parties will be loyal, reliable and show stability in the relationship with one another. It is therefore a desire to maintain a relationship, often indicated by an ongoing investment into activities that are expected to maintain that relationship. (Egan, 2004)

There are several precursors to trust and commitment, including relationship termination costs, relationship benefits, shared values, communication and opportunistic behaviour (Morgan & Hunt 1994 see Egan 2004, p. 105). The third key concept in relationship marketing is attraction; this means that there has to be something that makes a supplier interesting to a given customer and the other way around. Attraction can be based on, for example, financial, technological or social factors (Grönroos, 2000).

Risk

The greater the perceived risk is, the greater a customer's propensity to engage in a relationship. A relationship over time is likely, but not certain, to lower the perceived risk as the consumer learns more about the terms and security of the arrangement and gets to know the supplier. The perceived risk may reduce with increased self-confidence leading, perhaps to consumers manifesting increased transactional marketing behaviours. On the contrary, leading brands are believed to offer psychological reassurances against the risk attached to purchasing and as a consequence create a sense of belonging. There may therefore be forces working both for and against the establishment of long-term relationships associated with risk. (Egan, 2004)

Companies must be aware of the special risks that are caused by the actual relationship: lack of control, no certain knowledge of how long a relationship will last or if your partner will change the objectives or team up with a competitor. These potential risks must be managed continuously; to minimize the potential damages from the risk one should carefully consider and evaluate the following issues before entering in the relationship: what success for the relationship actually means, the strategic and financial goals, how the goals are to be measured and what the goals and incentives for the partner are. By considering these factors, the company reduces the potential damage caused by the relationship. (Bamford *et al.*, 2003)

Closeness

Trust, commitment, attraction and risk all affect the level of closeness of any relationship. Closeness is an integral part of the notion of a relationship, in that very close and less close relationships exist in most vertical industries. When the ‘distance’ between the parties is shorter, deeper relationships are likely to develop. Close relationships are acknowledged to be more solid and likely to be longer lasting; the level of closeness in relationships may be influenced by a number of factors, including e.g. communication, trust, commitment, mutual goals and so forth. (Egan, 2004)

Communication

A company needs to create communication and interaction processes that facilitate relationships. The whole chain of activities has to be coordinated and managed as a total process, which requires a process management perspective. But, having set up processes for relationship management does not determine if a relationship has developed. A relationship has developed when a customer or other party perceives that a mutual way of thinking exists between the parties. A mutual way of thinking means there is two-way commitment between the parties. (Grönroos, 2000)

3.5.2 Relationship Value

In the analysis of the value concept, we have stressed the importance of delivering value, not only to end-users but to all parties in a company’s ecosystem; this section develops the value concept to include relationship value. Walter *et al.* (2002) state that the value created by one partner for the other is at the heart of a successful relationship. The researchers theorize that relationships are driven by the need to create value. Trust is the doorway to successful relationships, while value creation is the glue that leads to commitment; commitment in turn ensures a future for the relationship. (Walter *et al.*, (2002)

It is important to try to consider the lifetime value of a long-term relationship. Egan (2004) claims that the lifetime value concept suggests that a company should avoid taking a short-term view of the profit of any individual; the company should instead consider the income derived from the company’s lifetime association with the customer. The downside of the lifetime value concept is that there is no guarantee that the customer will stay loyal to the supplier; this is particularly true in businesses with low exit barriers (e.g. retailing) and in rapidly changing, competitive markets (e.g. telecommunications). If customers perceive that the only difference between alternative companies is the size of the ‘bribe’ offered them, they are likely to become increasingly promiscuous, actively seeking the highest bribe available. (Egan, 2004)

The IT industry is indeed a rapidly changing market and it is a big challenge for vendors, like Dell, HP, IBM and Sun, to differentiate themselves to both end customers and independent software vendors. Therefore we believe that it is particularly important for companies in this industry to differentiate themselves through relationships and to offer higher relationship value (e.g. trust, ease of doing business or discounts) than their competitors, both to end-customers and to intermediaries.

The challenge of delivering superior customer, as well as relationship value, goes back to the value concept: there has to be mutual value in participating in a relationship; for example, even if the supplier regards a relationship as a long-term commitment on their behalf, it will be the customer who will ultimately define the relationship. Another aspect of relationship value is the amount of value each party in a relationship can offer to the other. Egan (2004) states that the balance of power and dependency in relationships are very much a function of the relative importance and value to both parties. If the power is imbalanced, the more powerful party has little incentive to engage in joint problem solving. (Egan, 2004)

Relationship Benefits

The amount of relationship value links back to the amount and importance of the benefits of being in the relationship. Grönroos (2000) presents three types of benefits for a customer to maintain a relationship with a service provider:

1. Confidence: reduced anxiety, faith in the service provider, feeling of trustworthiness
2. Special treatment: extra services, special prices, higher priority
3. Social benefits: familiarity with the service provider

Egan (2004) further adds that the benefits of a supplier-customer partnership are, among others, characterized by the fact that the supplier gains in-depth understanding of the customer's requirements, that both companies become familiar with the customer's or partner's 'way of doing things' potentially reducing misunderstandings and improving speed of response; furthermore it can mean a reduction of the cost of sales, greater certainty of future revenue and potentially an increased information flow and trustworthiness. It may also give both partners a better opportunity to focus on their 'core competencies', enabling them to leave other aspects to their trusted partner. (Egan, 2004)

Poorabia (2004) notes that deep relationships in the IT industry are usually characterized by the customer's increased focus on the application instead of the technology, reductions in the frequency of vendor issues and an improved ability to meet the customer's different requirements, than would have been the case without a deep relationship.

However, it is important to notice that there are not only benefits, but also costs associated with participating in relationships.

Relationship Costs

Relationship costs can be seen as the amount of time and resources that has to be devoted to maintaining the relationship. The deeper the level of the relationship, the more costs the relationship involve; it is therefore important for organizations to determine if, and how much, it is worth investing in a relationship. Relationship costs can be divided into direct relationship costs (e.g. maintenance, technical services and training), indirect relationship costs (e.g. mistakes and complaints) and psychological costs (e.g. insecurity and lack of control). (Grönroos, 2000)

A deeper form of relation, partnership, carries additional costs and risk; the most central factors are the risk of becoming heavily committed to the wrong partner ('backing the wrong horse'), cost of resources, the likelihood that external suppliers will be unwilling to bid against favoured suppliers and the risk that the supplier or customer becomes complacent (Egan, 2004). One must consider all of these factors when evaluating the value of a relationship.

Evaluating Perceived Value in Relationships

The relationship value, weighting relationship benefits against costs, has to be evaluated when engaging in any relationship; the value also set the extent to which relationships can be developed. Grönroos (2000) presents the following equations to describe and evaluate the Customer Perceived Value (CPV) in relationships:

- $CPV1 = (\text{Episode benefits} + \text{Relationship benefits}) / (\text{Episode sacrifice} + \text{Relationship sacrifice})$
- $CPV2 = (\text{Core solution} + \text{Additional services}) / (\text{Price} + \text{Relationship costs})$

These two equations illustrate how the parties in a relationship weight the perceived benefits against the costs or sacrifices of being in the relationship. This can help a company evaluate the value of each of its relationships and prioritise between different relationships when applying resources to the relationships. The real issues are how a

company identifies its best customer and other partner relationships and how it retains them economically. (Egan, 2004)

After having evaluated the profitability of a firm's relationships, it can be valuable to segment the relationships based on the profitability. Grönroos (2000) presents an idea of segmenting customers based on the long-term profitability of the relationship. We believe that this can be applied to any relationship, segmenting relationship partners based on the profitability of the relationship can help companies decide which partner to provide the best service and the most resources.

3.5.3 Relationship Forms

We use the term relationship in a broad sense; it is evident that relationships can be at very different levels in terms of depth, closeness, formality etc. Therefore it can be worth categorising the relationships into different forms. We will describe three relationship forms, arranged according to the increasing level of formality. The different relationship forms are individual networks, partnerships and alliances. Since it is a common occurrence in the IT industry we will also discuss the special form of relationship called co-opetition, which involves relationships with competitors.

Individual Networks

Business relationships can exist both at an organizational and an individual level; at an individual level networks are seen as relationships between individuals (as opposed to organizations). An individual-network consists of a collection of individuals who are likely to have organizational affiliations and can use the benefits derived from networking, for the good of their individual companies. Networkers use their contacts in a sometimes systematic, but more often ad-hoc way. The relationships between individuals at different firms can have a great impact on the success of the relationship between the affected firms. (Egan, 2004)

Partnerships

Partnering are a more formal way of collaborating than individual networks and partnering can take many forms, Egan (2004) gives a broad definition of partnering: "a relationship between customer and supplier organizations, recognized as such by the parties involved, whose principal objective is a shared increase in the effectiveness and efficiency of joint responsibilities within the remit of their relationship". Partnerships often involve contractual commitments and adaptation of the included firms' business processes. Brennan (1997 see Egan 2004, p. 179) argues that the purpose of a partnership approach must be to improve the efficiency with which a value-adding system functions.

Varadarajan (2000 see Egan 2004, p. 192) categorise partnership (though he uses the term collaboration instead of partnership) into industry and external partnerships. In industry partnerships, relations are with competitors in the same market sector and the objectives may include effectiveness and efficiency of distribution channels, servicing or other support facilities and market sector growth or market sector dominance. The partners tend to be rivals competing for market share in the same product/service market, in the same market segments, in different segments or in different geographical markets. (Varadarajan 2000, see Egan 2004, p. 192)

Partners from different industries in external partnerships usually bring different skills, competencies and assets to the relationship; they are often propelled by the complexity and multiplicity of technologies underlying the product. The relationships may be for the purposes of improving the total package offering, create a distinctive advantage in an existing market sector or to take advantage of a new market sector. Companies are beginning to recognise the possibilities that partnerships can result in a positive sum game, where a degree of cooperation results in greater value creation and enlargement of the market for all participants. (Egan, 2004)

Alliances

An alliance is the closest and most formal relationship form considered in this report. The cooperation between companies is based on relationships between them; there are several kinds of relations, from the informal one without commitment, called a relation, to the structured and written relationships, contracts. Leading alliance and relationship researches, e.g. Bamford *et al.* and Gomes-Casseres, use a broad definition of alliances that we will narrow to suit the scope of this report. Bamford *et al.* (2003) define every kind of relation in between these two forms as an alliance, while Gomes-Casseres (2003a) defines an alliance as “[a] structure to manage an incomplete contract between separate firms and in which each partner has limited control”.

Having noted these two definitions, we narrow them down by referring to an alliance as a more formal collaboration between companies than a partnership; we use the term alliance for unique, close and formal relationships between companies. For stakeholder companies discussed in this report it is very difficult to achieve such close relationships, because of the differences in interests that exist between the firms. However, it is still crucial to build relationships between the companies, even though there are limits to how close and unique these relationships can be.

Co-Opetition: Collaborating with Competitors

Collaborating with competitors, co-opetition is especially important in the IT industry, because of customer demands to have total solutions delivered to them and the built-in complexity of hardware and software. Until the 1990:s the main reasons for co-opetition were setting standards, sharing risks and entering emerging markets; in the late 1990:s three new reasons for co-opetition emerged: expanding product lines, reducing costs, gaining market share and creating new businesses. Before starting the collaboration, a company should evaluate its desired partners according to the threat they represent. A good way for deciding how big a threat competitors represent is to sort them into three different categories: current competitor, near-term competitor and distant competitor; this categorisation in combination with knowing the scope of the desired alliance can minimize the risks a company faces in co-opetition. (Bamford *et al.*, 2003)

The main risks associated with co-opetition are technology leakage, giving away the strategic intention, customer defection, slow decision-making and business fire sale (e.g. when the company is forced to sell the joint-venture) (Bamford *et al.*, 2003). These specific risks associated with co-opetition underlines the fact that companies do not usually enter into co-opetition without strong reasons.

3.5.4 Managing Relationships with Limited Resources

A key challenge of this study is to explore the possibilities of managing relationships with limited resources (i.e. managing relationships with a wide number of small ISVs). Some companies hope to solve this challenge through the concept of mass customisation, which refers to the notion that by leveraging certain technologies, companies can provide customers with customised products while retaining the economic advantage of mass production. One way to try and do this is to build customer and partner programs, which all leading vendors have done with more or less success. Today many companies use IT-technology to build customer and partner portals where they provide electronic rather than human resources to their customers and partners. These attempts, i.e. to utilise technology to save staff costs (cash machines, Internet information services), may discourage the development of close relationships. By removing the human element in the process, the company reverts to relying solely on the more easily replicated core product and support services, to achieve any differentiation from its competitors. However, some partners may be content to operate at lower relationship intensity. (Egan, 2004)

3.5.5 Relationship Retention

Egan (2004) argues that most retailers depend on some form of customer retention program, offering added value to loyal customers in an attempt to sustain long-term relationships; he further claims that the problem with loyalty programs is that there is always the risk that competitors quite easily can replicate these relational programs, why it is doubtful whether they can give companies long-term competitive advantage. Therefore it is likely that where differentiated advantage is low and programs can be easily replicated, the ability of relational strategies to develop lasting competitive advantage is minimal. Where everyone in an industry is, effectively, offering very much the same incentives (i.e. frequent flyer programs) the net benefits are marginal. Egan (2004) says that many loyalty programs are nothing more than crude attempts to increase short-term sales without adding to the long-term relationship with the customer. Some companies have, however, managed to introduce tactics that have successfully created membership-type relationships that assume affiliation of some sort. (Egan, 2004)

3.5.6 Reasons For and Against Deep Relationships

Overview

Strategy researchers are divided on the issue if a company should enter into deeper relationships, or if they should compete by its own right. Bamford *et al.* (2003) are of the opinion that companies benefit from deeper alliances; they argue that although there are risks associated with deeper relationships, they tend to create value long-term and it is absolutely necessary to enter into deeper relationships with customers, suppliers and partners to be able to successfully compete in the global market. (Bamford *et al.*, 2003)

Porter (1985) is of the opinion that the best strategy for a company is to compete independently of other companies. The reason for this preference of independence is that mutual trust is critical when it comes to forming a successful relationship, but companies are primarily interested in their own short-term profit and well-being, which makes it very difficult to build mutual trust. Bamford *et al.* (2003) are also of the opinion that mutual trust is critical, but they argue that it is possible for companies to collaborate long-term. Instead of deeper relationships, Porter (1985) favours independency with complete competition, where the company is free to choose which suppliers and short-term partners they want at the moment and not be tied down by earlier agreements and commitments.

When Relationships Are Not Realistic

There are several ‘clear-cut’ situations when the development of deeper relationships is either undesirable, or not possible. Palmer (1996, see Egan 2004, pp. 47) discusses several reasons and situations that make customer-supplier relationship development unrealistic, these include:

- Where there is no reason why, or little likelihood that, a buyer will purchase again from a supplier
- Where buyers/sellers want to avoid a relationship as it may lead to a dependency on a seller/buyer.
- Where buying processes are formalised in a way that prevents either party developing relationships based on social bonds.
- Where a buyer’s confidence lowers the need for risk reduction.
- Where the costs associated with a relationship put the buyer at a cost disadvantage in a price-sensitive market.
- Where the seller has little opportunity to develop relationships due to the undifferentiated nature of the market.

It is of interest to this report to identify when buyers want to avoid a relationship, as it may make them dependent on a seller. This situation may exist when the buyer feel that any benefits associated with the relationship are outweighed by lost opportunities elsewhere. Customers may decide that a sole-agent relationship would limit them, e.g. restrict the chance of a quick sale through a larger number of estate agents and choose instead to open up the contract to other suppliers; they are forgoing any benefits of the relationship (e.g. reduced commission) in favour of the benefits of plurality (e.g. wider coverage). (Palmer 1996, see Egan 2004, p. 47)

This is very much the case with ISVs who are not keen on committing themselves to one hardware vendor, but rather want to sell their applications on as many platforms as possible (e.g. different proprietary and open standard platforms by HP, IBM and Sun), to avoid missing out on possible opportunities.

Another concept that we want to emphasize is the difficulty of building relationships when the cost of the relationship put the buyer at a cost disadvantage, in a price-sensitive market. In that situation it may be more profitable for buyers to keep their eyes open for the best deal available, rather than narrow the field and commit themselves to one supplier; in price-sensitive markets customers may prefer to play suppliers off against each other. In situations like this, where the consumer will be unlikely to perceive any advantage from a relationship, suppliers should be looking to

qualify whether costly relationship-building strategies are a viable proposition. (Palmer 1996, see Egan 2004, p. 48)

In the IT industry today, it is common that end-customers and ISVs have both the opportunity and the need to play the hardware vendors off against each other to get the best possible price. Egan (2004) argues that in markets with highly undifferentiated products or services, where customers are likely at any time to switch supplier, suppliers should consider whether ‘seduction’ (e.g. promotional discounts), rather than potentially costly relational strategies is more cost effective. We believe that it is evident that the products and services in the IT industry have become more commoditised in recent years and therefore more undifferentiated. This has made it more difficult for the vendors to oblige customers and ISVs to form relationships with them. On the other hand, we do not believe that ‘seduction’ strategies are likely to result in any long-term competitive advantages; hence we argue that it is still important for hardware vendors to develop relational strategies as a means of building competitive advantage.

We will discuss conclusions and implications from the Theoretical Framework in the following chapter: Problem Discussion.

4 Problem Discussion

This chapter contains a problem discussion based on the Theoretical Framework. It also includes an analysis of the detailed objectives of this project, which are analysed regarding content (desired output), methodology and delimitations.

“Everything is vague to a degree you do not realise till you have tried to make it precise.”

- Bertrand Russell

4.1 Overview

The chapter starts with aggregated conclusions and implications based on the theoretical framework, which is put in relation to the purpose of this report. The conclusions and implications have two purposes; the first is to give an overview of the different theoretical concepts discussed and how they could be applied to the IT industry (and the collaborations that exists between the different parties within it). The second purpose is to serve as a guideline for the analysis and recommendations of this report; this discussion is followed by a presentation of the detailed objectives.

4.2 Conclusions

Companies strive to achieve long-term profitability by serving customers and hence selling products and services; this in turn means that to achieve profitability the companies must create and deliver value. To create and deliver value in a dynamic and highly competitive market, such as the IT industry, companies must often deliver total solutions to customer problems. This is particularly true in the IT industry today where it is getting harder to lock in customers by using proprietary standards. Companies also often find that they cannot supply customers with a complete solution by themselves, but need partners in order to do so.

We are of the opinion that it is not enough with an excellent product: companies cannot afford to ignore the intangible parts of an offering. The vendor must differentiate itself through relationships that offer higher value (e.g. trust, commitment, ease of doing business etc.) both to its customers and partners, than the competitors' relationships do. When it comes to partnerships and co-opetition there are several risks involved for the participating companies, but deeper relationships can generate many opportunities and are often a necessity in many industries. As discussed, this is certainly true in the IT industry, with the demand for total solutions, which in turn requires the providers to collaborate with their competitors. It is plain to see that relationships in general and forming alliances in particular are not an easy task.

Successful collaborations exist in many different forms depending on the purpose and goals of the involved parties; what they all have in common is that they are not created overnight, but develop over time. The desired level of closeness and/or the complexity of the relationship often determine how long this takes (e.g. a deep relationship requires a stable and predictable internal organisation, where the employees know what is expected of them). We stress the importance of the existence of mutual benefit and value in a relationship; all parties must be able to make a contribution and profit, in order for them to have an active interest in the success of the partnership (which is necessary to successfully collaborate long-term).

In short, the challenge is to profitably create, promote and deliver value to all parties in the relationship.

4.3 Implications

It is important to have the over-all goal of all parties, to achieve long-term profitability, in mind when discussing the implications of the concepts discussed in the theoretical framework. In order to achieve profitability, a company needs an attractive offer compared to its competitors in order to be able to sell its products and offerings. The first step in achieving this is to identify the customers and understand their wants and needs as well as what they perceive as high value. It is the customer who decides and judges the value delivered to them and it is therefore crucial to identify and understand what the customers (i.e. in the case of this report mainly HP's ISV partners) consider to be of high value.

To be successful as a hardware vendor, the vendor needs to create and promote an attractive value proposition and offer total solutions; this might require that the vendor collaborates with parties that have different and even conflicting interests, and together create a joint offering delivered by the companies (which together form a value constellation). Collaborating around an offering must be attractive to all parties, and it is important to realise that any participant in this value-constellation can influence the customers' opinion and preference. We believe that HP has to influence and deliver high value to all participants in the value constellation, in order to be seen as an attractive vendor. HP cannot, and should not, try to expand its own business into small niche markets, since this is most likely more effectively and profitably done by partners. Related to this is the challenge of identifying which partners that are important, i.e. which partners that add value and profit to the vendor's own market offerings and therefore are worth collaborating with.

We argue that the complexity and competitiveness in the IT-marketplace put constraints on the level and closeness of the relationships that can be developed between companies. Therefore we believe that it is unlikely or at least rare that unique alliances can be developed with many of the ISVs; the ISVs will be reluctant to commit to using hardware exclusively from one hardware vendor, since they want to sell their applications on as many hardware platforms as possible. Having said that, we still believe that building relationships with ISVs and other members of the industry is key for vendors like HP. If HP can offer its ISVs attractive incentives, terms and conditions while at the same time increase its own sales through the ISVs, then it is in both the ISVs and HP's interest to create successful relationships of mutual value. Companies have to manage their relationships better than their competitors, in order to gain competitive advantage and create higher customer satisfaction than its competitors. In order to achieve this communication is crucial, since all partners, and also HP internally, must be aware of what value HP can add and offer.

Deep relationships and delivery of complex offering requires trust, commitment, predictability, consistency and communication (and hence ease of doing business), both internally (HP) and externally (to partners). Contact points have to be well structured and facilitated, the concept of consistency also applies to HP's internal organisation; the employees must know and be comfortable in their roles in order to successfully carry out their tasks. Once the strategy for the value-delivery and offerings has been decided, HP needs to align the organisation to work towards the goals, without constant turmoil. It needs a common front to partners, in order to achieve trust, predictability and hence credibility.

Furthermore, it is important to measure how well the company is reaching its goals, which requires that the company, preferably together with its partners, decide on how to measure their performance.

4.4 Detailed Objectives

We will describe our detailed objectives in regards to three areas, in accordance with Lekvall & Wahlbin (2001): content, delimitations and methodology.

4.4.1 The Objectives

The purpose forms the foundation for the detailed objectives that are presented and analysed in this section; we will therefore state it again here in conjunction with the detailed objectives:

The purpose of this Master Thesis is to investigate how HP can gain further access to the Small Business, Medium Business and Non-Named Enterprise segments (mid-market) with core infrastructure (primarily servers, storage, management software and related services), with and through key application channels (ISVs).

HP and this report's authors agreed on the detailed objectives of the report during the initial phase of the project; the objectives can in other words be considered given since they have been taken into consideration during the whole project. They objectives were decided upon by an analysis of what the purpose meant in practical and detailed terms.

The objectives of this report consist of six reciprocal parts:

- 1. Analysing the existing Australian ISV channel and defining the role they play in the current value chain.*
 - a. Understanding who the partners are and what they currently do in the value chain.*
 - b. Understanding the requirements of the value chain.*
- 2. Analysing the reasons behind platform selection and recommendation from a customer, ISV and HP perspective.*
 - a. Understanding partner objectives, motivations and incentives when recommending and selecting a platform.*
- 3. Developing an engagement model for how HP should deal with the ISVs.*
 - a. What are the linkages between the partners in the value chain.*
 - b. Identifying what HP performs well and where improvements can be made.*
- 4. Suggesting how to measure success in serving the market efficiently with relevant metrics.*
- 5. Suggesting a Value Proposition to market, aimed at the ISV partners.*
- 6. Suggesting how HP can build linkages between the ISV and other partners in the value chain.*

Detailed Objective 1: Analyse the ISV Value Channel

Analysing the existing Australian ISV channel and defining the role they play in the current value chain.

- a. Understanding who the partners are and what they currently do in the value chain.*
- b. Understanding the requirements of the value chain.*

The desired output is clear and concise information regarding the members of the Australian ISV channel; the channel primarily includes the ISVs, SIs, hardware vendors and customers. The output includes requirements and linkages between the different partners in the value chain. The methodology used is internal analysis, followed by external analysis; these two parts will then be synthesised to attain a neutral overview (see section 5.2.1 for more information regarding the different steps in the work process.) The main delimitation is that we will focus on ISVs, because of this report's scope and resource limitations; it would require a substantial amount of extra time to meet all the partners (e.g. system integrators and distributors), which is not feasible considering this report's time constraints.

Detailed Objective 2: Platform Selection

Analysing the reasons behind platform selection and recommendation from a customer, ISV and HP perspective.

- a. Understanding partner objectives, motivations and incentives when recommending and selecting a platform.*

The desired output consists of three parts: information about the objectives, motivations and incentives for the partner, ISV and HP respectively. These views will be gathered and then used in the synthesised analysis (see section 5.2.1 for more information.) The main delimitations are the same as for Detailed Objective 1.

Detailed Objective 3: Developing an Engagement Model

Developing an engagement model for how HP should deal with the ISVs:

- a. What are the linkages between the partners in the value chain.*
- b. Identifying what HP performs well and where improvements can be made.*

The desired output is information about the linkages in the value chain and information regarding what HP performs well and what needs to be improved in order to be successful. The methodology used is mainly an external- and synthesised analysis (see section 5.2.1 for more information.). The main delimitations are the same as for Detailed Objective 1.

Detailed Objective 4: Measure Success

Suggesting how to measure success in serving the market efficiently with relevant metrics.

The desired output is metrics based on information gained in the previous objective. The methodology will be analysis of the results from the previous objective and the main delimitations are the same as for Detailed Objective 1.

Detailed Objective 5: Value Proposition

Suggesting a Value Proposition to market, aimed at the ISV partners.

The desired output is a value proposition from HP to its ISVs. The methodology will be to use the information gained during the internal and external analysis, and use that to create examples of a value proposition. The main delimitations are the same as for Detailed Objective 1.

Detailed Objective 6: Build Linkages Between the Partners

Suggesting how HP can build linkages between the ISV and other partners in the value chain”

The desired output is a concrete plan on how HP can build linkages, triangulate, between the ISVs and other partners, to help leverage HP core infrastructure. The methodology is to use the information gained in the previous objectives and use that to give recommendations and suggestions. The main delimitations are the same as for Detailed Objective 1.

5 Methodology

This section contains a theory discussion regarding methodological and research approaches, information dimensions, stakeholders, data collection, analysis and sources of error. This framework is then applied to analyse our report from these dimensions.

“What sets us against one another is not our aims – they all come to the same thing - but our methods, which are the fruit of our varied reasoning.”

- Antoine de Saint-Exupery

5.1 Theory

When choosing and analysing the different kinds of approaches and other factors related to the methodology, there are several factors that need to be analysed in detail; these will be covered in this chapter.

5.1.1 Methodological Approach

There are four generic methodological approaches when conducting a study, according to Lekvall & Wahlbin (2001):

- Explorative (gives rudimentary knowledge of a certain area)
- Descriptive (describes the facts and conditions in a certain area)
- Explicate (explains how different variables and relations are interconnected)
- Predictable (predict what will happen; the major connections need to be known to be able to achieve this)

A report usually consists of several different methodological approaches: a common scenario is that the first part of a report is explorative, followed by a more descriptive part when the basic facts of a studied area are known. (Lekvall & Wahlbin, 2001)

5.1.2 Research Approach

A report's research approach has two dimensions: the first is if the research approach is qualitative or quantitative. The vertical dimension, quantitative or qualitative, describes how the information is described and analysed. A qualitative approach means that the data cannot be expressed as numbers or quantified in a meaningful way, while a quantitative approach means that the data is expressed in numbers and it is analysed with statistical (mathematical) methods. (Lekvall & Wahlbin, 2001)

The second dimension can be seen as a cross-section approach and is divided into two parts: experimental or survey, see Table 5.1. The horizontal dimension's first approach is the case-analysis, which refers to an in-depth study of an issue or object. This

approach is considered appropriate for explorative research, where one does not know in advance what areas are of importance and which to discard. The other horizontal approach is the cross-section, which is divided in a survey and an experimental part. The name cross-section refers to the fact that a cross-section of a target population at a certain time is studied. With a survey approach one studies the ‘real world’, while one try to control the studied objects and outcome with an experimental approach. (Lekvall & Wahlbin, 2001)

Table 5.1: Methodological Approaches (Lekvall & Wahlbin, 2001)

	Case-analysis	Cross-section	
		Survey	Experimental
Quantitative Approach	Analysis of financial information from the main competitors’ annual reports	A survey of 200 customers’ attitudes to a certain product	A test of several lay-outs in a department store
Qualitative Approach	In-depth analysis of procurement-processes at four customers	Interviews with 50 consumers, focused on the reason and motivation factors when buying a product	Rarely used.

5.1.3 Information

Information is divided into two main categories, primary- and secondary information. Primary information is first-hand information, while secondary information is collected by an intermediate part (not by oneself). (Lekvall & Wahlbin, 2001)

Primary information can be collected either through direct observation or by interviews. While there only exist one ‘kind’ of direct observation, interviews can be done in several ways: written questionnaire, personal interview, telephone interview and interviews through the Internet. These different methods can be combined during research. (Lekvall & Wahlbin, 2001)

Secondary information can be collected in several ways, since it is indirect information it is important to have a structured process when deciding what information to use.

According to Brehmer (2004), it is crucial to consider the following three factors when deciding which information to be used:

1. Relevant: is the literature relevant to the objectives?
2. Context: in what context is the literature written?
3. Target group: which is the target population and how does that affect the literature?

These factors are not only relevant when it comes to secondary information, but also when analysing primary information.

5.2 Method

This section describes the work process and the methods that we have used when conducting the project. We have chosen not to include the preliminary problem- and theory study that was conducted before we arrived in Australia, since the objectives changed to such a great extent once we arrived in Australia that most of the work we did in Sweden were not relevant.

5.2.1 Work Process

The process of creating this report is divided into five major parts, see Figure 5.1.

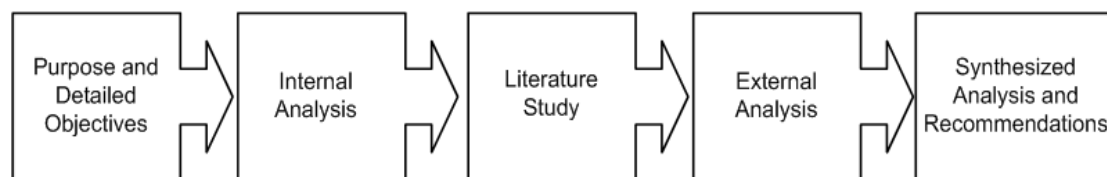


Figure 5.1: Work Process

This report combines several methodological approaches. The first three parts (Purpose and Detailed objectives, Internal Analysis and Literature Study) are explorative: how does the IT industry work and what are its main characteristics? During the Purpose and Detailed Objectives phase we established the objectives together with our supervisors at HP and the University; this was done to ensure that the report would have a necessary degree of academic depth, but also to ensure that we focused on relevant issues that were of importance to HP.

We conducted the Internal Analysis after the Purpose and Detailed Objectives were completed and the analysis was based on our objectives and purpose. It consisted primarily of information research on the intranet, interviews with key personnel at HP and guidance from our supervisors at HP. Our supervisors selected most of the interviewees who they thought would be of interest for this study, but we had the

freedom to contact any person we saw fit given the scope of this report, which we did when we thought certain issues needed to be clarified.

The Literature Study was based on topics that we considered to be of importance, given the directions from the objectives and the information we got during the internal analysis. We have strived to use both established ‘classics’ in marketing such as Kotler (2000), but also to combine that information with more recent research by scholars and consultancies (e.g. McKinsey).

After the Literature Study when we knew more about what we wanted to accomplish, based on the Internal Analysis and information gained from the literature, we then revised the detailed objectives together with our supervisors at HP; the actual changes consisted of fine-tuning the detailed objectives and involved only minor changes.

These first three parts of the work process then evolved into a more descriptive part, where HP’s and the ISVs’ value chains were analysed (the External Analysis followed by the Synthesised Analysis and Recommendations). The External Analysis consisted of meeting with key partners (identified by our supervisors at HP) and conducting a qualitative interview. We were given the freedom to suggest companies that we thought could be of interest. During the latter part of the External Analysis, when we knew the connections between the different actors in the value chain, this approach merged into a mixture of an explicable and descriptive approach. The research method used has primarily been a qualitative survey-approach with personal interviews, since we have conducted few and deep interviews, rather than many ‘shallow’ interviews. The personal interviews were complemented by e-mail and telephone contact with the ISVs that did not have the possibility of meeting us in person.

The qualitative interviews were followed up with a quantitative e-mail survey where the partners had to rank the areas of most importance to them as well as how they perceived that HP is performing in these areas. More information about the survey can be found in Appendix E.

The last part of the work process, the Synthesised Analysis and Recommendations, consisted primarily of analysis based on the data that we have received in the previous stages; we used the Internal Analysis in conjunction with the External Analysis to highlight the differences and gaps between HP’s perception of these factors compared with the external companies’ views. We then took this analysis and reviewed it with the key HP people in order to hear their opinions about our findings.

5.2.2 Information

Collection of primary information has primarily been done through personal interviews combined with a written questionnaire. There are certain risks involved when using different data collection methods (see section 5.3.3), hence the importance of being aware of the risks and try to minimize their impact, in order to avoid distortion of facts. Secondary information has primarily been collected from three sources: Internet, articles in journals and marketing literature.

5.2.3 Stakeholders

This project has several stakeholders; each member has different requirements, needs and interests. The stakeholders are identified in this section, and the results are used in section 5.3. The focus will be on the internal stakeholders at Hewlett-Packard, and the ISV community. However, other external stakeholders that affect the selection of core infrastructure platform have to be taken into consideration as well. The need, requirements, interests and hence, perspectives differ between the stakeholders. There exist different and even conflicting interests between both external and internal stakeholders. A major part of the information in this report is based on internal- and external interviews, therefore it is of interest to consider and analyse these differences, and evaluate if there are similarities and common as well as conflicting interests among the stakeholders.

The primary internal stakeholders are the Solution Alliance Team (SAT) and the Customer Solutions Group (CSG). They are considered primary stakeholders, since Russell Shooter, head of the SAT and Greg Healy, Corporate & Enterprise Marketing Director (for CSG) are the HP-internal project owners. Secondary internal stakeholders are the other business units who might be affected indirectly by the project.

The primary external stakeholders are the ISVs that we have interviewed and, indirectly, the other ISVs who might be affected by the implications of the project. Secondary external stakeholders are the SIs, distributors and resellers that we have been in contact with, or other companies that indirectly might be affected by this project, e.g. the Solution Partner Organisation.

5.3 Method Discussion

When conducting a report it is important to realize that the chosen method can affect the actual analysis and its results. There are bound to be sources of error in every survey; in transferring information from one individual to another, facts and statements are misinterpreted or lose their context. It is therefore vital to carefully and

methodologically assess and analyse the different sources of error that might affect the report. Our chosen method has had several implications for our findings, though it is hard to determine and conclude exactly how they affected the end result; however, we will try to identify and analyse what implications our chosen method might have for this report's results.

5.3.1 Interview Process and Selection

The interview process and the selection of the interviewees are of interest, considering that the information we got from the meetings represent a substantial amount of the information that this report is based upon.

The selection process for the internal and external interviews consisted of an initial discussion with the supervisors from HP where we discussed the objectives; we then discussed and got suggestions from our supervisors about which internal HP personnel and external partners they thought would be of interest to meet. We were however free to suggest partners and personnel that we thought could be of interest (we did this at the end of the internal analysis and the external analysis when we knew what information we did not have but needed).

The actual meetings were set up in the way that the interviewees were contacted by one of our supervisors' personal assistants, who introduced us with a short brief of our project; the meetings were then set up and conducted by us at the partner's office.

During the last part of the report, Synthesised Analysis and Recommendations, we independently set up several meetings with HP personnel that we wanted to discuss our findings with and get feedback from. However, we did not let them 'decide' our findings, but we wanted to use the resources made available to use as efficiently as possible.

5.3.2 Degree of Generalisation

It is of interest to know how far a study's findings can be generalized to apply to other areas. Our method has primarily been a qualitative case-analysis, i.e. few but extensive interviews and it is difficult to generalize findings from such a study according to Lekvall & Wahlbin (2001). Our external interviews with partners are too few to be able to describe the surrounding with certainty. However, our external interviews combined with the internal interviews of key HP personnel have given us a broad perspective based on the interviewees' industry knowledge and this makes it probable that the study's findings are valid. We are of the opinion that this report's findings can

be of interest and, with modifications, used in marketing and relationship issues at other companies in high-tech and dynamic markets.

5.3.3 Sources of Error

Reliability

Reliability is a measure of how well the report can resist the influence of external distractions; i.e. would the result be the same if the survey were to be done again? Low reliability means that the results would be different each time the study was conducted. Unfortunately, it is difficult to get a high degree of reliability in qualitative surveys because of the difficulty of getting identical answers each time a question is asked. Other factors that affect the reliability are stress, motivation, tiredness and similar factors. (Lekvall & Wahlbin, 2001)

The interviews we have conducted can be divided in two sets: one set of HP-internal interviews with primary and secondary internal stakeholders, and one set of external interviews with partners related to the project. In the HP-internal set of interviews our interviewees had plenty of time set aside for our meetings; the interviewees also had a strong interest in ensuring that we got the information required to conduct good external interviews and reach relevant conclusions, which would help them in their work. It is therefore our assessment that the reliability of the information collected during the internal interviews is satisfactory, both for the primary- and secondary stakeholders.

During many of the external interviews, we would have liked to have more time to be able to discuss some topics in more detail; it is likely that some answers might have been less black and white and new angles of issues would have risen. Therefore the reliability is lower for the external- than the internal interviews; this applies to the primary external stakeholders. However, we assess that the degree of reliability is sufficient for the external- as well as the internal meetings.

Validity

Validity is a measure of how well the survey measures the actual situation. A high degree of validity means that a survey gives a good representation of the actual situation. It is difficult to, other than approximately; decide how high the degree of validity is. The validity is usually high in qualitative surveys where the need for simplifications is less evident, and consideration is given in the phrasing of the questions. One must also take the different objectives and motivations that the interviewee has into consideration: is it in their interest to give a truthful description of

what the actual situation is like? To further add to the difficulty of reaching high validity, different people interpret different situations in different ways. (Lekvall & Wahlbin, 2001)

We have strived to use a clear and consistent terminology in our interviews, to minimise the potential risks for misunderstanding. Furthermore we have followed up several of the interviews when we were unsure of exactly what the interviewed person meant. All the interviewed personnel can be considered stakeholders, and they all have different motivations and incentives, when it comes to providing information. In our opinion, all internal (HP) stakeholders have given a truthful view of the actual situation. However, it is important to note that several ISVs have chosen not to respond to repeated efforts of establishing contacts; this might imply that our results are valid for the ISVs that are interested in further collaboration with HP, while they might be less true for the ISV community as a whole.

The fact that we have not met with any end-customers or ‘pure’ SIs (e.g. Accenture) might lower the study’s validity. The reason for not doing this is that we did not have enough time to do so and the focus of this report is, as stated, on the ISVs. There is however a certain risk that the results might have shifted slightly if we would have had time to interview end-customers and SIs. Their views have now been brought to us by information from industry analysts (i.e. Gartner and IDC), HP and the ISVs, which can be seen as ‘filters’. Even though it would have been desirable to meet with some SIs and end-customers, we do not believe that the results would have differed greatly, since (our opinion) all of the interviewees and industry analysts have had a good perception of the marketplace and its actors. However, it is always better to get information directly from the source.

In regards to the qualitative survey conducted after the qualitative external interviews (see section 6.4.2), all of the participating ISVs were interested in a relationship with HP and already had some form of contact with HP through the Australian DSPP Manager (Gareth Sutton), which might have affected their answers. Another weakness with the survey is that the sample of ISVs who have participated in the survey is too small to draw statistically valid conclusions: the number of interviewed ISVs can be seen as representing a qualitative case-analysis approach, whereas the methodology of the survey is better suited to a quantitative survey approach, which requires a larger sample. Furthermore, not all of them have filled in answers to all questions. Hence the results are based on a very small number of the total ISVs in the marketplace and might not represent the ISV community as a whole. These weaknesses have most likely affected the performance rating as well as the important ranking on many of the

offerings. However we do believe that the survey results give a rough idea of what offerings the ISVs value the most and what are of less importance to them, since they have been used in conjunction with the qualitative in-depth interviews.

We believe that the external interviewees tried to answer our questions as truthfully as possible. However, we noticed that some people wanted to stress facts or situations in a certain way, to convey their company's view and interest on a certain issue. We have been aware of this risk and strived to minimize its impact by carefully analysing the information from each person, with consideration taken of his or her own incentives and motivations. Having said that, it is inevitable that some misconceptions and misunderstandings exist in our report. However, we do not think they have affected this report in a way that lowers the validity to unsatisfactory levels.

6 Findings and Analysis

This section contains the findings and analysis, as well as their implications for HP. The chapter is primarily divided into a findings part, an analysis part and a synthesised analysis, which in turn forms a foundation that the recommendations are based on.

“We must learn to tailor our concepts to fit reality, instead of trying to stuff reality into our concepts.”

- Victor Daniels

6.1 Introduction

This chapter contains the findings and analysis, as well as their implications for HP. The information in this chapter is primarily based on the internal and external interviews, as well as a quantitative survey, conducted during October 2004 to March 2005; these have been used in conjunction with conclusions drawn from the theoretical framework. (See section 4.2 and 4.3 for more information about how the theoretical framework has been used.)

6.2 Reasons for Vendors to Collaborate with ISVs

We identified several reasons for a hardware vendor to collaborate with ISVs, during our internal interviews with HP personnel. According to Sutton (2004) the main reasons can be divided into offensive and defensive motives. The offensive motives are:

- Leverage HP hardware through giving the ISVs incentives to increase the HP vendor split of the ISVs' hardware sales and influence
- Help increase the ISVs' sales through joint marketing and sales efforts, and thereby also increase HP hardware sales

The main defensive motive is:

- To protect the HP vendor split and market share of ISVs' sales from competitors who are trying to increase their sales and vendor splits by building their own ISV communities and tying the ISVs to them.

Further, Sutton (2004) and Bovis (2004) described a number of important gaps in HP's market offering and operations that the ISVs can fill; the main gaps are presented below:

- Applications are closer to the customers' business needs than hardware infrastructure

- HP is dependent on ISV partners to offer and deliver total, end-to-end solutions
- Vertical industry solutions - ISVs vertical industry focused applications give vertical relevance to HP's horizontal solutions
- Mid-market penetration – ISVs have greater influence and penetration into the SME market

These are all strong reasons for HP to build strong relationships with key ISVs in order to fill its gaps. Bearing the vendor's reasons for collaboration in mind, we will now give an overview of the partner findings in the following section.

6.3 Partner Findings

6.3.1 Introduction

We start this section by giving an introduction to the partner findings. First of all: the interviewed partners (see Appendix F) have high respect for HP as a partner and they all state that HP has an excellent product offering and a strong market position, with the HP brand having a strong market pull effect (stated by e.g. Holly, OBS and MXL). However, competitors such as IBM and Dell also have strong brands and product offerings. Furthermore all partners, including HP, have limited resources; many partners do not have enough resources to integrate and sell their products on more markets and platforms than they are doing today (e.g. Holly and MXL). Hence there is a need for vendors and partners to help complement each other with marketing, sales and business support, and together create total solutions.

It is of interest to note that the global software vendors (e.g. Microsoft, Oracle and SAP) generally are agnostic when it comes to which hardware platform their customers buy; they generally have no interest in promoting certain vendors. However it is necessary to allocate resources to remain close relationships with these due to their size and influence on the market, therefore HP has assigned account managers to the global ISVs. The regional (Tier-2) and local (Tier-3) ISVs are interesting from a hardware vendor's perspective not due to their size, but rather since they are keener to promote a certain vendor, given the right incentives (e.g. MXL, CDN, PJA and QAD). Another factor that further increases this trend is the fact that these ISVs generally have greater influence on platform selection, in the small- and medium-sized business markets, a market segment that most large vendors have difficulties approaching and reaching out to. The bottom-line here is that it is more difficult to motivate the allocation of resources to these smaller ISVs since there, due to their limited size and market share, is no guarantee that they will give the appropriate return on investments and resources.

When we refer to ISVs and the ISV community in the remaining part of the report we are referring to the Mid-Tier ISVs i.e. Tier-2 and Tier-3 ISVs if nothing else is stated.

With an overview of the partner findings, as well as the vendor's reason for collaboration, we will now present our general findings in the following sections; these sections are based on our qualitative interviews with ISVs and other partners (a list of the interviewed partners and information about them is available in Appendix F.)

6.3.2 Partners Agnostic to Hardware Platform

The partners (ISVs, distributors, resellers and software vendors, e.g. Oracle, Microsoft, Avnet, BEA, and Tower Software) are generally of the opinion that hardware platforms have become commoditised and are considered to be more or less the same. A common perception is that hardware products are commoditised boxes, and that it therefore does not matter if they buy from HP, Dell, or IBM (and to some extent Sun even though they only run Unix OS and do not use Intel processors). Therefore they are often considered to add little value to the ISVs' product offerings and solutions. This is especially true when it comes to the Tier-1 ISVs; they all take an expressed agnostic standpoint when it comes to hardware platforms (e.g. Oracle, Microsoft and SAP). The move from proprietary systems towards commoditised open-standards based systems has decreased the value of hardware, and hardware platforms are now at the lowest level in the solution stack. Because of this standardisation trend the ISVs have the 'luxury' of being able to be agnostic to hardware (compared to the situation 10-20 years ago) and can therefore take an opportunistic approach, which they are keen to do since this is in their own interest (in order for their part of the solution stack to get a larger share of the total revenues).

The incentives for collaboration and platform preference are not mainly related to the product, which many consider a prerequisite (e.g. PowerFront, OBS and MXL) but more to factors such as price, support and soft values (e.g. ease of doing business, marketing and sales support, mutual interest etc.), according to the VAD Avnet and several ISVs (e.g. Holly, PowerFront). However, many of the smaller ISVs tend to recommend and work with one vendor's products: the education ISV MXL, as well as PJA work exclusively with HP hardware. But even here the commoditisation trend can be seen: the voice-recognition ISV Holly used to work exclusively with Sun, but are now starting to work with other vendors as well as they are expanding from Unix to Linux OS.

Implications for HP

HP's dependence on hardware can both be seen as a strength and weakness, the strength being that HP can use its lack of competing solutions to promote itself as a more neutral partner than its competitors (e.g. IBM or Sun) who sometimes have competing software and offerings. HP can therefore take the opportunity to market itself as the partner friendly best-of-breed vendor. As discussed above: the intangible parts of a vendor's offerings have increased in importance due to the hardware commoditisation. Some of the most important collaboration factors today are relationship factors, marketing support, business planning, clear point of contact and rules of engagement, openness, mutual interest and ease of doing business. These factors highlight the value of relationships as discussed in section 3.5, and especially section 3.5.1 and 3.5.2.

Competitor Comparison

IBM is more focused on software platforms (middleware, databases and management software) and services than HP, while Dell and Sun are hardware focused (even though Sun has service capabilities in certain niche segments and Dell is trying to start a commoditisation trend in services (much in the same way as they did in hardware). HP can be seen to be in between the two extremes and the situation is such that it faces a risk of being stuck in the middle between Dell and IBM. (HP, 2005)

6.3.3 Hardware Platform Selection

When discussing platform preference it is important to have the channel members' main motivation in mind: to sell as much of their own products and solutions as possible. In other words they are looking for the least resistance to closing their own sales and therefore are often not interested in pushing a specific hardware platform if they feel that it could risk the deal. This section will cover the different parties' attitudes when it comes to platform selection.

There are several specific factors that determine how much a partner can influence the selection of the hardware platform, though there exist some general differences depending on the size of the partner, type of customer and vertical segment. According to Fersht *et al.* (2002), supported by our findings, channel partners argue that many end-customers usually do not demand a specific architecture; instead the channel partner can give advice and actually decide the platform. The level of influence is also depending on the type of customer; enterprise customers often have a global platform strategy and it is generally easier for ISVs to influence customers in the mid-market (the SMB and SME segments). However, during our interviews with key-partners we

have found that while partners can have a large influence, they are often reluctant to use it, unless given the right incentives.

The vertical industry segment is of importance, e.g. in the Health segment where customers (primarily healthcare providers) often demand mission critical solutions, since patients' health might be at risk if something goes wrong. (Sutton, 2005)

Furthermore, HP has individual account managers for its top 250 large accounts and is therefore not as interested in having ISVs influence the enterprise customers. According to the sources that we have interviewed (e.g. Avnet, Tech Pacific and internal HP interviewees) some of the key reasons (not ranked in any special order) for end-customers platform selection are:

- Support
- Liability
- Size of the vendor
- Pricing
- The customers present IT-infrastructure and compatibility issues

Many of the companies interviewed argue that in most of the cases the end-customer already know and have decided what platform they want (according to BEA and Avnet in 50-70% of the cases), while roughly 30% of end-customers sit on the fence and let the ISVs, system integrators (SIs) or distributors/resellers (VAD/VAR) decide the platform (argued by Avnet). We believe that it is important to keep in mind that all customers are different when reading these statements. It is more common that large enterprise customers already have a preference, since they have invested heavily in infrastructure and have a global vendor strategy whereas customers in the small- and medium business (SMB) segment are more open to being influenced. Many of the enterprise corporations separate their platform and application purchases (i.e. they have several ISVs competing for the application contract and several vendors competing for the platform contract), according to Healy (2005). This trend is to some extent contrary to the solution focus, since large corporations have the possibility and capability, usually with the help of a system integrator, to purchase different levels of the solution stack separately from different companies to cut costs.

Independent Software Vendors

The different channel members' estimations on the level of ISVs' influence on platform selection differ. What most interviewees agree upon (software vendors such as Microsoft and Oracle, as well as smaller ISVs such as Holly and Tower Software) is that the ISVs influence is strongest in the mid-market (the SMB and SME segment),

while it is weaker in the Enterprise segment where the large corporations (e.g. Telecom) usually have globally decided hardware-strategies (according to e.g. Microsoft, Oracle and Avnet). IDC consultants Bruin & Raviart (2004) argue that, as SIs and ISVs are increasingly partnering to develop and jointly market solutions, the SIs are no longer neutral. Hence the need for targeting ISVs, in order to also influence the SI, has increased.

Another interesting statement by Oracle is that ISVs often operate at the department or division level of the customer and exert a strong influence there, mainly because their applications often are aimed at a certain business function. It is common for large ISVs to influence on higher levels (CIO, CFO, CEO) of the customers. Furthermore, the interviewees (e.g. Techpac, Avnet and PowerFront) agree that the earlier one engages in the sales cycle, the greater ones' influence is.

A prerequisite for the ISVs platform preference is that their applications run on the platform in question. If that prerequisite is fulfilled, the following factors influence their choice and preference (according to an aggregation of our interviews e.g. Avnet, Tech Pacific, internal interviewees and interviewed ISVs):

- The customer's opinion
- Fees, margins and discounts
- The application's performance on the platform
- Ease of porting and configuration
- Ease of doing business

The customer's opinion is usually the most important factor, whereas the other factors are not ranked in order of importance. Many of the smaller ISVs express limited influence on the end-customers' platform selection (e.g. MXL). The most common scenario, according to them, is that the customer already has selected the platform when they come to them; this is especially true for enterprise customers according to Healy (2005). ISVs are generally influenced by the end-customer (according to BEA in more than 50% of the cases), while the second most important influence comes from the SIs (according to e.g. Tech Pacific and Holly).

It is important to be aware that the expressed lack of influence might be because the ISVs do not entirely understand or value their opportunities to influence customers today. The ISVs might still have opportunities to influence their customers' selection; one way can be through bundling their application together with a specific vendor's platform to increase both ISV and vendor sales (e.g. a joint market offering). VISION

Gateway expresses an interest in bundles, thanks to the power of the HP brand: *“Having the ability to bundle our application with the market leader in server technology and a brand as globally powerful as HP will enable us to gain access to a larger customer base, lend us credibility and shorten our sales cycle”* (Avnet Research Report, 2005).

Avnet argues that the ISVs can influence the customers' platform selection in roughly one third of the cases, but that the ISVs often look for the lowest cost of the total solution and the least resistance to closing their deals. Other players such as software vendors (e.g. Microsoft and Oracle) and other distributors (i.e. Tech Pacific), as well as some small ISVs (e.g. Holly), argue that the ISVs do have a strong possibility to influence their customers' platform selection, but often choose not to because hardware platforms are irrelevant to them and they do not have any incentives to do so. Tech Pacific is of the opinion that the vendors themselves have the most influence.

System Integrators (SIs)

According to many of the ISVs and distributors (e.g. Tech Pacific, Avnet, MXL, Red Hat and Holly), system integrators are considered the second most important member when it comes to influencing hardware platform selection, because of their proximity to the customers. IDC consultants Bruin & Raviart (2004) argue that the ISVs have a large influence, but that the SIs best are approached both directly and indirectly, through the ISVs.

The distributor Tech Pacific argues that the SIs' main influence is when customers are buying new applications, while Oracle argues that SIs as well as software vendors influence customers at the top-level and smaller ISVs influence at the department levels of the customers. According to Oracle this is because SIs work at a higher level of the customers and influence them at the top-level (CIO, CFO, CEO) as they are more focused on a broader solution and not only one specific function.

Value Added Distributors (VADs)

Value added distributors (e.g. Avnet and Tech Pacific) often do not have much influence on the customers' hardware platform selection (according to themselves), but are important to give HP reach and for joint market and triangulating opportunities. According to Avnet important aspects for VADs in working with and promoting vendors are:

1. Business Assistance (margins, discounts, business planning etc)
Importance: very high, HP Performance: low

2. Marketing Support (events, leads etc.)
Importance: very high, HP Performance: low
3. Technology Support (training, support, certification etc.)
Importance: low, HP Performance: very high

It is interesting to notice that this ranking corresponds with our external interviews as well as our survey (see table 6.1 and section 6.4.2).

Implications for HP

The importance of the ISV community is evident, in particular because of the possibilities to leverage HP's core infrastructure to the mid-market (the SMB and SME segments) where ISVs have their strongest influence. This is also supported by recent articles by Red Herring (2005) and News.com (2005), which show that IBM has managed to increase its profit by investing in better management of its ISV-partners. Therefore it is important that HP works on improving its relationship with key ISVs (see section 3.5.1 and 3.5.4 in the theoretical framework for discussions about the pros and cons of relationships and how to manage a relationship with limited resources) and develops a strong ISV strategy with a credible value statement and compelling reasons for promoting and giving them preference, and that HP promotes its ISV strategy properly.

When it comes to working with their distribution partners it seems as HP needs to re-evaluate what the VADs find of most importance and focuses accordingly. The VADs have stated that HP is performing best where it is of the least importance and worst where it is considered to be of most importance to the VADs. However it is important to be aware that the VADs might be acting opportunistically and complain to get more attention and funding even though they are quite content with the present situation. This is supported by a report by Canalysis (2004) that states that if there are not any complaints from channel partners, then the terms and conditions are too favourable.

Competitor Comparison

Many companies (e.g. IBM, Sun, Microsoft and Oracle) have realised the importance of the ISV community and have allocated substantial resources to building and managing their ISV communities. IBM allocates substantial resources to sales, marketing and technical support and also addresses other needs of its partners; and, more importantly, the management and engagement are based on a clear and concise long-term strategy. According to Red Herring (2005), IBM will dedicate 1000 sales specialists globally to work directly with channel partners (i.e. ISVs, SI, VADs and VARs) focused on the small to mid-sized business market. Furthermore, according to

CNET News (2005) IBM has boosted its investment in partner-related programs in the past two years (in 2004 it spent US \$1 billion on efforts to recruit and work with ISVs): more than one-third of its revenues can be attributed to partners. This results in that IBM is seen as more predictable and consistent in their partner approach and strategy. Distributors have expressed that they consider IBM to have the leading partner and channel strategy with channel groups etc. However, dealing with IBM can be frustrating due to their large size and many different business units with different agendas (according to e.g. Avnet and Novell). Sun has a strong position among its traditional customers and partners, but has not managed to expand beyond them, and is being threatened by decreasing market share and open-standards, in particular Linux. (HP, 2005)

6.3.4 Products and Technology

The products are important, but the ISVs (e.g. Dalet, MXL and PowerFront) argue that while products and technology are important, it is more seen as a prerequisite. They see the performance of the different vendors' products as cyclical: sometimes one vendor (e.g. HP) is better, while a few months later a competitor (e.g. IBM) is better due to a new product release. Furthermore, some ISVs (e.g. Callista, Tier-3 and Holly) state that porting (primarily from Unix to Linux) is very important, while others were not interested at all. Porting is especially important when it comes to proprietary platforms: if an ISV's application is unavailable on a HP platform, it will be impossible to leverage HP hardware through that ISV, since they can not recommend hardware that their application does not work on. The different needs in terms of technology show that the ISVs' needs often are unique.

While we do not base any of our recommendations on the importance of the technology or porting (since we cannot influence HP's product portfolio and porting capabilities), we have included it to highlight the importance of good products, as well as to show the need for further studies whether it is worth investing in porting centres and capabilities. This section does not contain information about competitors and implications for HP, because of the reasons stated above. In conclusion we argue that good products and technology are a prerequisite for developing ISV relationships.

6.3.5 Importance of Competitive Pricing

A majority of the ISVs that we have interviewed (e.g. Dalet, PowerFront and Sophos) all stress the importance of competitive pricing: it does not matter if the product is slightly better than the competitor's if it is too expensive. We do not base any of our recommendations on this finding since we will not be able to change HP's pricing policy, hence this section does not contain information about competitors and

implications for HP. We included this section in order to stress the importance of having competitive pricing (also, most companies try to quantify the price/performance ratio - not just the price.)

6.3.6 Differences in Interests between Vendor and ISVs

As we have discussed previously (e.g. in section 2.1.1): the IT industry is a very complex industry, with both horizontal and vertical competition. Due to this characteristic there are often differences in interest between the vendor, the ISVs and other partners. A good example of this is HP's preference for scale-up solutions (few but very powerful computers that HP sells at a high margin) versus Oracle's scale-out preference (many regular computers that HP sells at low margin). This type of conflicting interests between parties is common in the industry and therefore it is necessary to find a way to deal with these issues and still be able to work together. The conflicting interests often lead to opportunistic behaviour from all parties, which undermine trust. The ISV SIR states that they have *"worked with hardware vendors in the past and they are only focused on getting us to sell [their] hardware"* (Avnet Research Report, 2005). This makes it hard to build trust and commitment without clear agreement on where collaboration is possible and where it is not.

Implications for HP

Conflicting interest between partners is more of a rule than an exception in the IT industry. In order to avoid conflicts it is important to identify where collaboration is realistic and where it is not early on in the relationship. Also, it is important to agree on the rules of engagement and extent of the collaboration. Here it is of interest to note the special characteristics of co-opetition, as discussed in section 3.5.3, as well as 3.5.6 with information about when relationships are/are not realistic).

Competitor Comparison

Some competing vendors face even more conflicting interest between them and the ISVs, the most relevant example would be IBM who has a more complete software and services portfolio that sometimes compete with the ISVs applications and products (e.g. BEA and Novell). IBM is however trying to get rid of their negative image as competing with their partners by focusing more on software middleware and platforms rather than applications. Dell who focuses on hardware and does not aspire to have a total solution stack, hence it is almost free from conflicting interest. The flip side to this is that they are dependent on partners for almost all services; many customers that require a complete solution see this as a drawback. Sun has some conflicting interests in the sense that they want to promote their Solaris platform as much as possible.

6.3.7 Channel Conflict

ISVs and distribution partners (e.g. Avnet, Tech Pacific and ISVs playing in the enterprise segment such as Holly) are of the opinion that HP has an unclear channel strategy when it comes to how and what to sell, as well as with and to whom to do so. ISV OBS states *“We have found it hard to commence project work from sales to execution [because of unclear rules of engagement]”*. VADs in particular are complaining about channel conflict due to HP’s direct sales and lack of clarity about the channel strategy and its rules and conditions. Many partners feel that HP is stuck in the middle and is trying to compete with Dell’s direct model and IBM at the same time, which causes HP to be changing its strategies, terms and conditions unpredictably and too often. One source of irritation is that HP’s ISVs are excluded from selling hardware to enterprise customers; they feel that HP breaks them off and instead sell the hardware themselves. In that sense HP in other words competes with its channel members. ISVs want to be allowed to sell HP hardware into HP’s Enterprise accounts without going through HP’s direct sales teams. Partners are also irritated that HP does not follow the agreed rules of engagement.

Implications for HP

Partners, in particular distributors, are irritated over HP’s unclear channel strategy, which harms the trust and commitment in HP’s relationships with these players. Obviously the distributors would prefer if the majority of HP sales went through the channel, as once was the predominant case. This is however not realistic in the industry today as Dell and other players have changed the rule of the game by introducing more direct sales models and it would be ignorant of HP not to react and adapt to these changes. The most realistic way of avoiding channel conflict is to have a clear agreement on the channel and engagement rules with the affected parties to remain loyal to these rules. Hybrid sales channels put a lot of demand on communicating a clear strategy both internally and externally, to avoid unnecessary hostility, irritation and bad will. As recommended in the previous section, 6.3.6, we recommend the reader to read section 3.5.6 in the theoretical framework, which contains information about reasons for and against deeper relationships, as well as when relationships are/are not realistic.

Competitor Comparison

Different competitors have taken different approaches in their channel strategies. Some sell exclusively through channel intermediaries, while others exclusively sell directly (i.e. Dell). However, hybrid channel strategies have become more common (e.g. HP, Sun and IBM). Furthermore, IBM lets their partners sell hardware by themselves to all of their own IBM accounts, including their enterprise accounts,

which is a significant difference compared to HP whose policy is to sell to their enterprise accounts exclusively through their direct sales teams (Costigan, 2004). Some level of tension is inevitable in a hybrid sales-channel; Dell avoids this tension by exclusively selling directly, while IBM and Sun minimises the tension by having clearer and more predictable rules of engagement (Fersht *et al.* 2002).

6.3.8 Ease of Doing Business

The most common critique to HP given by external partners (e.g. Avnet, Tech Pacific, BEA, MXL and FNS) during our qualitative interviews is that HP lacks predictability and consistency. This in turns undermines the ease of doing business and makes it difficult to build deeper relationships based on trust and commitment with HP. For example: companies have expressed how their HP contact person has changed up to four times in one year (e.g. Avnet). In order for a business relationship to be successful it is paramount to build a mutual understanding and trust between the parties; this is particularly difficult to achieve when HP lacks guidelines and routines for collaboration and engagement. The ISV FNS states that they “...based on the lack of contact we are leaning more towards IBM and Windows kit”. However, the ISVs that have known contact persons are very pleased with HP’s performance, such as Sophos who states that “[HP contact person] *has been extremely helpful*”, and “[HP contact person] *is sensational. I simply wish there were 10 of him.*” Having said that, HP should only strive to establish closer relations with the ISVs that represent a real revenue, strategic or tactical opportunity.

In short: external parties are requesting improved ease of doing business, and to do so HP has to improve their consistency and predictability in dealing with partners. Again, these findings are in line with our theoretical discussions around relationship factors and value; see section 3.5.1 and 3.5.2 in the theoretical framework.

Implications for HP

We believe that it is key for HP to improve the perception of being unpredictable or even difficult to do business with in order to position themselves as the preferred vendor and partner for ISVs and other partners. To improve these areas, HP has to work on both its internal and external routines and processes in dealing with their partners. Alignment-initiatives are underway and major schemes are in place to achieve this in different contexts in the organisation. We will discuss a foundation that can help improve ease of doing business with the ISVs and other partners in section 6.6.

Competitor Comparison

IBM has a better image among the ISVs and distributors (among others Avnet and Tech Pacific), much thanks to its clearer channel and partner strategy. Its partner program is often referred to as the best practise in terms of partner programs (with clear rules of engagement and attractive terms and conditions). Dell only sells direct to the end-customers, but has clear rules of engagement for its ISVs. However, in this segment Dell is still a marginal player. Sun's ISV community management also has a good reputation, with predictable and clear rules. (Fersht *et al.*, 2002)

6.3.9 Joint Market- and Sales Strategies

In the survey, collaboration support (i.e. marketing support and business planning) was ranked as the most important vendor offering. Many of the ISVs, e.g. MXL, IBA Health, VISION Gateway and AGFA, as well as Blue Reef according to Avnet Research Report (2005), are interested in developing joint market and sales strategies together with HP in order to grow and expand their market shares, reach new markets and increase sales through association and close collaboration with HP. An example of this is IBA Health that is interested in *"market place development and channel to market"*. Many of the ISVs see great opportunities for improving their relationship and engagement with HP, through having reoccurring joint business planning meetings with HP to discuss mutual opportunities. During these meetings rules of engagement, joint market- and sales activities such as go-to-market strategies can be developed, in order to capture possible opportunities. A further example is QAD that would like to *"work with HP on a managed service model."* It is important to remember that the engagement has to be clear and consistent. (OBS states that they *"need more input and visibility"* in terms of business planning.)

Large software vendors (e.g. Microsoft and Oracle) find it important to agree on where they should and should not cooperate, while the smaller ISVs (e.g. MXL and AGFA) have further needs to discuss and address joint business opportunities. It should however be noted that many of the ISVs have unrealistic expectations on what the hardware vendor can and should provide for them: Holly states that they want HP to *"bring deals both in Australia and in the US"*, and Peace Software would like access to *"potential clients that prefer the HP platform"*; i.e. they want access to HP enterprise accounts or benefits without. Here HP must be careful to evaluate if they will get enough in return for offering them potential leads. A potential outcome is that HP by offering leads will breed a sense of loyalty among the ISVs, which will result in mutual benefits (introduction of HP to the ISVs' accounts). Another factor to take into consideration is the fact that HP must not be seen as to favour a particular ISV, since that might deter other ISVs from recommending HP.

Implications for HP

We believe that HP should develop a programmatic and generic approach for conducting joint business planning meetings with selected ISVs as well as with other important partners (e.g. distributors Avnet and Tech Pacific), at an early stage in the relationship around joint market opportunities. It is important to keep in mind that the ISVs are likely to be overenthusiastic about the opportunities that could arise from working closer with HP. Many ISVs (e.g. MXL) are hoping that HP can help them sell and promote their products directly, and actively introduce them to HP accounts and new markets, most of which is not realistic to HP. Therefore as we already have stated it is crucial to make the ISVs realise how far the collaboration can go and agree on this early on in the relationship.

Competitor Comparison

Other hardware- and software vendors (e.g. IBM and Microsoft) have structured business planning and joint GTM-strategies in place. IBM has a very well structured partner program; the program includes compulsory business and collaboration planning where IBM and their partners agree on what is expected from the partners and what they will get in return. Sun also has a well-structured partner program, and is successful in offering its partners leads to improve loyalty to Sun's platforms We will elaborate on IBM's and Sun's partner strategies further in section 6.4.3. (HP Intranet, 2005)

6.3.10 Perception that HP Services Lack Capabilities

During our qualitative interviews, software vendors (e.g. BEA and Microsoft) as well as some smaller ISVs (e.g. Holly and OBS) expressed that they are of the opinion that HP Services in general, and its subunit Consulting & Integration in particular, either do not add enough value or are not well known in the marketplace; especially compared to competitors such as IBM's Global Services organisation. BEA states that *"the problem with HP today is that they are marketing hardware boxes and not business solutions"* and, furthermore, they state that *"HP Services is not adding sufficient value"*; they perceive it as that there is a knowledge gap between HP Services and application vendors. The ISV OBS states that *"We have been amazed by the level of knowledge of some of HP consultants: very low!"* In the survey HP's software integration services received a performance rating below average. It is important to notice that the survey sample is too small to have any statistical significance and it might be that some of the participating ISVs have had a bad experience with HP Services.

In general it seems as smaller ISVs (e.g. MXL and Tower Software) have a better perception of HP Services and some of them (e.g. Tower Software) are solely interested in dealing with HP's service organisation to provide integration and implementation services around their technologies and services, but are not interested in dealing with hardware products per se.

Whether the perception that HP Services lacks capabilities is right or wrong, falls outside the scope of this report since HP Services is not a stated stakeholder of this project and we have no way of influencing HP Services. We will therefore not go into this in more detail, except state the partners' concerns, as well as say that we believe that it would be valuable for HP to more efficiently communicate HP Services capabilities to their partners and customers.

Implications for HP

According to the feedback from both our internal and external interviewees (e.g. BEA, OBS, Holly and Avnet) it appears as if HP needs to improve the capabilities of their service organisation, or promote itself better in the marketplace. Some of the interviewed partners either are not aware of HP's service capabilities or perceive them as adding to little value. This is important to address in order to enhance its image and gain a better perception in the marketplace.

Competitor Comparison

IBM Global Services has a much stronger image than HP Services (and its subunit Consulting & Integration) according to many of the interviewees (both HP internally and external partners such as Oracle, Microsoft, Novell, BEA, Holly and Avnet). Dell's service business is perceived as weak, although they have been making inroads into some markets (primarily servers) according to Oracle. Dell is trying to commoditise services as well as hardware, e.g. with a fixed-price list; however, the services unit is still in its infancy. Sun has problems with their service capabilities, according to Sumich & Sutton (2005). (HP, 2005)

With the general research findings presented, we will now cover the more specific findings and analysis concerning the collaboration and incentives in the following section.

6.4 Analysis

This section contains factors concerning collaboration and vendor incentives. The findings are a result of both our qualitative, as well as our quantitative analysis.

6.4.1 HP and Partners: Qualitative Analysis

To facilitate the development of the relationship between the vendors and the ISVs, we have identified and categorised the ISVs' different needs. We first tried to identify the factors that are important to an ISV through qualitative internal interviews as well as some initial external interviews with VADs and ISVs. We have divided the unveiled factors into two groups: tangible factors (hardware) and intangible factors (services). A systemisation of the ISV demands by Bovis (2004) and Sutton (2004) gives the following significant intangible factors:

- Leads (to generate business and to grow)
- Relationship (ease of doing business and trust)
- Neutrality (does the hardware vendor's solution stack compete with the ISV's application?)
- Brand (reputation and pull effect)
- Coverage (geographically and vertically)
- Financial support (margin, discounts, rebates, marketing funds etc.)
- Marketing support (go-to-market strategies etc.)

Likewise, a systematisation of the demands by Bovis (2004) and Denyer (2004) give the following tangible factors:

- What infrastructure and standards does our application run on?
- What is our customer's installed base/ present infrastructure (ease of integration)?
- Is the application mission critical?
- Is scalability required (e.g. multiprocessor)?

Seen from HP's perspective, these factors (tangible and intangible) are critical when ISVs decide which platform to use. The increased hardware commoditisation has made the intangible factors more important: the ISVs are not locked to a certain vendor because of tangible factors to the same extent today as earlier. The lock-in effects that still exist in the business when discussing open-standards systems have started to move towards the intangible factors mentioned in the list above.

During our qualitative interviews it became clear that to give a good overview, the ISVs needs and requirements can be categorised into three categories:

- Sales and Marketing Support
- Technical Support
- Collaboration Support

This categorisation is also used by McHale & Carr (2002) when discussing ISVs' needs from the vendor's perspective. Below we will present and discuss the qualitative findings of these categorised needs from the ISV interviews.

Sales and Marketing Support

Marketing support and business planning have been expressed as important offerings during our qualitative interviews. Many of the regional and local ISVs (e.g. AGFA, MXL and PowerFront) have expressed interest in having joint business planning meetings with HP and other relevant partners, in order to address new and present business and market opportunities. AGFA states that they want to “*Maintain a close relationship at both a strategic and operational level*”, and PowerFront states “*Any help that HP could provide would be amazing.*” The power of the HP brand is also an important factor that some of the ISVs (e.g. MXL, VISION Gateway and PowerFront) want to utilise when dealing with customers.

The partners are also interested in developing joint go-to-market strategies, where the companies together offer total solutions (e.g. VISION Gateway). An example of such an event is when HP teamed up with a computer security ISV (Sophos), a Linux operating system provider (Red Hat) and a system integrator (Commander), to offer a complete computer security solution running on HP hardware, with the joint offering being promoted, sold and implemented by the system integrator. The sales support is especially important for many ISVs and, while HP is not interested in selling ISV applications (since the volumes are too small and it would require extensive product knowledge), it could team up with distributors to do this. HP could categorise its partners according to their different skills, capabilities and market opportunities to make similar initiatives easier.

Furthermore, the ISVs that sell hardware want margins, fees and discounts on the HP hardware products they sell, according to Avnet Research Report (2005), Fersht *et al.* (2002) and Tech Pacific (margins protection is also of importance). Furthermore, many partners want promotion and to be introduced to HP accounts (e.g. Peace Software and Holly), in exchange for them to be interested in giving leads to HP. It should be noted that the ISVs are pleased with the pull effect of the HP brand.

We are of the opinion that HP could work more efficiently with its partners by having a clear and consistent channel strategy, as well as having closer contact with relevant partners; this is also stressed by Carr & McHale (2002), which see it as necessary if the vendor wishes to capture new opportunities through ISV-partners.

Technical Support

Technical support such as porting, infrastructure and integration services are important to some ISVs, while others are not interested. For the ISVs that request it, it is usually of high importance and the primary technical needs and challenges many of the ISVs, e.g. Holly and Callista, as well as Internet Sheriff according to Avnet Research Report (2005), are help with porting and certification to different platforms, primarily to the Linux platform. Holly states that they need *“Support with Linux, helping to get the software so that it can be generally available on Linux.”* Furthermore, ISVs are interested in receiving and using test equipment, access to test centres and getting technical support on equipment. These are areas in which many ISVs are interested in collaborating with HP, according to our meetings, as well as recommendations from IDC analysts Carr & McHale (2002). However, HP must evaluate the pros and cons of offering help with porting and other technical support and consider what they get in return.

Hardware and hardware support can be seen as a prerequisite and has to be compared to what HP's competitors do, what they charge etc. However, there exist opportunities for HP just by promoting its actual offering better, e.g. IT24 and UniqueWorld state that they *“would like greater information about the DSPP program”* and Yartoo Software states that *“Development partner programs are very confusing and we would like further assistance, as to which suits us best”* (Avnet Research Report, 2005).

Collaboration Support

Collaboration factors are important to all of the interviewed parties: most of the partners (e.g. Avnet, Tech Pacific, BEA, MXL, AGFA and IBA Health) want to facilitate doing business with HP as they see opportunities for their own business to grow and benefit from collaboration and association with the HP brand (e.g. VISION Gateway, OBS and PowerFront). However, many of the partners have expressed that HP needs to be more predictable and consistent in their approach with clear point of contacts, clear rules of engagement and channel management (e.g. Avnet, Tech Pacific, OBS, NETed, and FNS). We will discuss this further in section 6.1.6: Ease of doing business.

6.4.2 HP and Partners: Quantitative Analysis

The qualitative interviews gave a good general picture of what factors are important to ISVs in collaborating with vendors. However, it proved itself difficult to establish what factors the ISVs find of most importance in their relationship with hardware vendors solely through qualitative interviews. Therefore we also conducted a ranking survey in conjunction with the qualitative interviews; in which we had the ISVs rank

which vendor offerings they consider to be most important, as well as how well HP is currently performing in regards to these offerings. The 15 offerings in the survey were chosen based on the factors found through the qualitative internal and external interviews. The survey results are presented in Table 6.1, they give a good overview of what factors the ISVs find important as well as how they perceive that HP is currently performing. We have included more detailed information (i.e. the actual survey and methodology information) about the survey in Appendix E.

Table 6.1: Ranking of HP's Market Offering

Ranking	Offering	Average Ranking of Importance (Rank 1-15) 1=most important 15=least important	Average Rating of HP's Performance (Rate 1-5) 1=poor, 5=excellent
1.	Collaboration - marketing support	3.7	2.3
2.	Collaboration - business planning	4.6	2.8
3.	Clear point of contact	5.1	3.5
4.	Competitive server and storage pricing & rebates	5.9	3.8
5.	Clear rules of engagement & predictability	6.6	2.9
6.	Best in class server and storage technology	6.7	4.4
7.	Local porting / technical support	7.1	3.0
8.	Access to appropriate channel partners (e.g. distribution, SIs etc.)	7.9	3.7
9.	Software integration services	8.0	2.8
10.	Vendor brand value and market presence	8.2	4.0
11.	Comprehensive range of infrastructure services	8.8	3.2
12.	Global presence	9.5	4.3
13.	Broad product portfolio – range of products	10.7	4.1
14.	Hosting Facilities (HP Managed Services)	11.6	3.0
15.	HP Financial services	13.3	3.8

General Conclusions from the Survey Results

First of all we would like to clarify that each ISV often have unique and specific needs in terms of what offerings they find important from a vendor: e.g. some ISVs might need a lot of support in terms of porting their applications whereas others might be

able to handle this quite well without much support. We do however believe that the survey results give a rough idea of what offerings the ISVs value the most and what are of less importance to them.

The Most Important Offerings

The survey results, as well as our qualitative interviews, have showed that marketing support and relationship factors (i.e. Business planning, Clear point of contact and Clear rules of engagement & predictability) are among the most important collaboration factors. They are all in the top five ranking of what the ISVs see as important offerings from a vendor together with competitive pricing. At the same time HP has received low performance ratings on all but one of these offerings (2.3, 2.8, 3.5 and 2.9 respectively); only clear point of contact has received a performance rating above average and this could possibly partly be due to the fact that the interviewed ISVs have an established contact person at HP. As these factors have all received the top five ranking in terms of importance at the same time as HP has received low current performance ratings on most of them (from 2.3-2.9) these factors will be our major focus in the following recommendations. We will give a brief report on the survey results below and then further elaborate the findings that we find of most importance in later sections. It should be noted that based on the information from our qualitative interviews, as well as comments by the respondents, some factors that have received a high importance ranking are seen as prerequisites; this primarily applies to competitive pricing and good products.

Marketing Support and Business Planning

Marketing support and business planning was ranked as the first and second most important offering from a hardware vendor according to the surveyed ISVs. The small ISVs often struggle to make their name and products well known in the marketplace. They are interested in piggyback riding on well-established vendor brands such as HP and IBM, in order to gain credibility and get better exposure in the marketplace. Furthermore, the second place ranking of business planning indicates that there is a big interest from the ISVs side to have a close relationship with hardware vendors. At the same time HP received some of its lowest performance ratings on these two offerings. As a conclusion there is plenty of room for improvement in these fields and the high importance rankings indicate that there is value in achieving this, as it can help build stronger incentives for ISVs to consider HP as their vendor of choice.

Clear Point of Contact, Rules of Engagement & Predictability

Clear point of contact and rules of engagement were ranked as the third and fifth most important offerings respectively. This highlights the importance of ease of doing

business and predictability in a relationship; it is also important that all parties involved in the relationship have agreed on the rules and extent of the collaboration. These factors can be seen as relationship factors, whose importance are hi-lighted in the theoretical framework in section 3.1.4, as well as section 3.5.

Conflict can arise both with ISVs and VADs around engagement in different customer segments: VADs feel threatened by vendors increased direct sales model and ISVs sometimes feel frustration when engaging with vendors in enterprise customer sales. Clear rules of engagement received a poor rating in terms of HP's performance, which indicates that the ISVs are not pleased with the current performance in this field. Clear point of contact however has received a descent performance rating of 3.5. We would like to state that it is important to note that the ISVs interviewed all have some form of collaboration and a contact person at HP today. As this is not the case for most of the ISVs in the market place this might give a biased view of the ISVs opinion as a whole. In our qualitative interviews HP has received a lot of critique in terms of clear point of contact, e.g. in the shape of often changing contact persons.

Products and Pricing

The general opinion among the ISVs and VADs that we have interviewed and surveyed is that good products are important (ranked as number 6 in the importance survey), but are seen as a prerequisite. They simply expect their hardware vendor partners to have good products, and are of the opinion that hardware is becoming increasingly commoditised. The ISVs have rated the performance of HP's products very high at 4.4. This indicates that they already are quite pleased with HP's products today and hence might take the opportunity to focus their 'complaints' and requirements in other fields.

Competitive pricing was ranked as the fourth most important in the survey ranking and was the only offering that is not related to relationship values in the top 5 ranking. HP's performance in terms of pricing has received a good rating at 3.8. Price and product are two important factors in marketing and it is no surprise to find that they are ranked as highly important.

Furthermore, HP has received a good performance ranking both on its products and pricing. However, good products and competitive pricing can both be said to be a prerequisite for vendors to tie ISVs to their offerings. Also, in the scope of this report we have to consider these factors as constants (as we can not change these factors) and hence have not made a deep analysis of them.

Low Ranked Offerings

There are a few surprises in terms of offerings that received a low ranking in the importance survey. Global presence and a broad product portfolio received rankings far down at number 12 and 13 respectively. One explanation to the low importance of global presence might be that the small ISVs often are local players present only on the Australian market. The low importance of a broad product portfolio might partly be because the ISVs only sell a small subset of HP's full product portfolio. Vendor brand value and market presence was ranked at number 10 on the ranking, which contradicts with some ISVs interest in piggy-back riding on the HP brand, but that this is important is still validated by the fact that marketing support was ranked as the most important vendor offering. HP did however receive very good performance ratings on all of these offerings (4 or above).

Another surprise was the number 11 ranking of a comprehensive range of infrastructure services as well as the number 9 ranking of software integration services, which are often seen as main value adding services offered by a hardware vendor. This could be because they already have established relations with other system integrators (e.g. Commander). Further HP's performance rating on these services was 3.2 and 2.8 respectively, software integration services received a rating below average.

Implications for HP

HP needs to consider what it should and should not offer the ISVs. This is of critical importance since offering too much will lead to reduced profit, while offering too little will push the ISVs away from HP and into the arms of its competitors. We believe that the importance ranking in our survey gives a good indication of what HP needs to focus on to help attract ISVs and as a consequence increase HP's sales, market share and profit. As a conclusion of the findings of both our quantitative survey and qualitative interviews we will focus our recommendations on the relationship and engagement factors that all are in the top ranking of the importance survey: marketing support, business planning, clear point of contact and clear rules of engagement & predictability. This is both due to their high importance ranking as well as their low performance rating.

With a good grasp of the industry, as well as our findings and analysis, we will now present the competitor findings and analysis in the following sections. This is then followed by a synthesised analysis of the complete chapter.

6.4.3 Competitor Analysis

It is important to get a comprehensive view of HP's global competitors in order to grasp the challenges and the competition that HP faces in the marketplace. HP's main competitors in selling core infrastructure to the commercial segments of the market (primarily the Enterprise and SMB segments) are IBM, Dell and Sun, even though Dell is weak in the Enterprise segment. The main differences between the companies are:

1. Core competence (their unique capabilities)
2. Technology and platforms (the technology they use and the platforms they develop on)
3. Solution stack, services and industry coverage (the parts of the solution stack they offer, and the industry coverage they have)
4. Partner and sales strategies (sales channels and partner depth and breadth)

These areas will be analysed in the following sections.

Core Competence

The companies have different core competencies, though all of them have good hardware products with similar performance. HP's strength is its ability to deliver best-of-breed solutions together with partners and its broad hardware portfolio. Dell's strengths are cost effective manufacturing and logistics processes, which enables the company to be the low cost leader. IBM's core competences are its complete solution stack and strong service capabilities in combination with its successful partner network, which leverage IBM products. Sun's strengths are its reliable Unix operating system, combined with its technology, software and service capabilities aimed at building and maintaining networked environments. (HP, 2005)

The differences between the four companies focuses are clear: Dell focuses on hardware, IBM on services and solutions, Sun on networking and connectivity, while HP tries to deliver both hardware and solutions, including services. HP faces the threat of being 'stuck in the middle' between Dell's low cost offering and IBM's strong service strategy. Sun are considered to be in a troublesome position, similar to HP, facing competition from the low-cost-oriented Dell and the solutions-oriented IBM. Sun's dedication to the Unix platform also poses a threat as Unix is losing market share to Linux and Intel-based platforms, even though Unix is still considered the OS of choice for mission critical systems and applications, which gives Sun a niche to play in. (HP, 2005)

Technology and Platforms

The vendors have different strategies when it comes to the choice of technology and platforms. Dell has some hardware development, but primarily uses standardised Microsoft and Intel platforms. Dell has no Unix platforms, however, the company has an expanding Linux business (Red Hat Linux). HP and IBM have more extensive research and development and they focus on both proprietary technologies; good examples of proprietary systems are HP UX (HP's Unix platform) and Alpha processors and IBM's Mainframe and AIX operating system. However, they use open-standard based systems as well such as standardised Intel-based platforms running either Windows or Linux. (Bovis, 2004)

Sun's primary strengths are its Unix OS, called Solaris, and its hardware platform (primarily servers running their proprietary Sparc, RISC-processors). A weakness for Sun is that its technology is becoming less attractive today, when cheaper non-proprietary solutions are available, even though as discussed in the former section it seems as Unix will remain strong in some mission critical niches. Although the company is trying to move to focusing on software (Unix Solaris and solutions) and services they are lagging behind e.g. IBM. (HP, 2005)

Solution Stack, Services and Industry Coverage

Among the different companies, it is only IBM that aspires to and comes closest to deliver the complete solution stack by itself. All the other is dependent on partners to deliver different parts of the solution. IBM's major focuses are services and software, though it utilises these areas for leveraging IBM hardware. HP offers services and management software, but is more hardware oriented than IBM; hence it is more dependent on partners to offer applications and other parts of the complete solution stack. Dell is further down in the solution stack than HP and focuses mainly on hardware and to some extent applications that support its hardware, such as server software. Sun does provide more software and applications than HP (e.g. Java and Solaris), but has decided to let partners do most of the services and application development (its services are mainly focused around its hardware and represented 34 % of its revenues in 2004). (HP, 2005)

The companies' industry coverage varies. IBM has been successful in vertical (industry-based) solutions and their sales force is trained to drive industry solutions. Furthermore, IBM focuses heavily on services, which make up a substantial part of their revenues, roughly half according to CNET News (2005a), and services also have a higher profit margin than hardware. The main customer segments are Financial Services, SMB, Public Sector, Industrial and Communications. (HP, 2005)

HP has good horizontal infrastructure, but they are often perceived as lacking industry relevance. Sun cannot offer a complete solution stack by itself, but is working with partners to offer solution stacks in several niche markets focused on Unix; its primary strengths are its reliable hardware and OS. Sun's main customer segments are Telco and Financial Services. (HP, 2005)

Dell is strong at delivering cost effective horizontal solutions to price sensitive customer segments but is weak in terms of industry solutions, and in the enterprise segment. Key customer segments are Public Sector, Higher Education and SMB. Dell is skilled at up- and cross selling to leverage their existing stack. This means that they are good at expanding and utilizing existing smaller accounts and, with them as a base, it can sell more to the same company and its partners. (HP, 2005)

IBM and HP has a strong history in the enterprise segment and both are focusing on increasing their sales in mid-market segments (SMB and commercial), while maintaining and growing their Enterprise sales. Dell is stronger in the mid-market segments but is increasing its sales in the Enterprise segments. Competition between the vendors is tough, but of the different companies Sun is having difficulties expanding outside its traditional segments. (HP, 2005)

Partner and Sales Strategies

HP, IBM and Sun have different sales channel strategies than Dell: HP and IBM sell both direct and through intermediaries such as distributors, resellers and ISVs. This contrasts to Dell who exclusively sells direct to its end customers. Furthermore, the companies have all chosen different alliance- and partner strategies. Regarding Go-to-market strategies, Sun is clearly focused on the indirect markets, i.e. letting partners do large amounts of the selling, integration etc, much like IBM. Sun has also created communities, vertical industries, where it connects different kinds of partners in order to create leads for partners and keep them to the sun platform (a voluntarily lock-in effect) in a cost-efficient way; this has generated incremental sales revenue for Sun. (Fersht *et al.*, 2002)

IBM has a formalised and coherent partner program, PartnerWorld, for collaboration with ISVs and other partners. The program was established in 1999 and it is divided into three main levels of membership, depending on the size and revenue opportunity of the partner and its commitment to IBM. The company has managed to align the organization to this program and many members in the IT industry consider it to be the 'best practice' partner program. PartnerWorld consists of a technical part and a

marketing and sales part; the marketing and sales part is designed to help give leads to the members and to help connect the ISVs with other ISVs and partners in their industry or to create new solutions for other industries. In short: the purpose is to increase and develop the companies' businesses. The members are, in addition to the three main levels, categorised horizontally, vertically and based on the platforms their products run on. IBM has managed to create an attractive programmatic offering with productized solutions (more than 80 %) for vertical and horizontal markets. (Carr, 2003)

According to CNET News (2005) IBM are investing US\$ 1 billion globally to recruit and work with independent software vendors, and more than half of its software revenue comes from partners.

Dell sells all its products direct and they have a partner program focused on facilitating doing business with Dell, rather than creating leverage and leads for their partners. However, since Dell's focus is on hardware, it is dependent on partners for the more advanced services that customers might demand. (HP, 2005)

Sun manages its partners through its Sun Developer Connection Partner Program as well as the iForce solution program. The programs have a good reputation among partners and Sun performs e.g. marketing and technical activities better than HP's DSPP-program (e.g. discounts, joint marketing and selling, access to Sun's sales force and access to development and demo equipment). (Fersht *et al.*, 2002)

Sun has made it clear that they, together with partners, wants to promote total solutions and with the help of a programmatic approach, they can be said to have achieved this. Furthermore, Sun does primarily only sell to Enterprise customers directly, while its partners sell and integrate in the other customer segments; Sun has received praise for its consistent and clear channel rules. (Carr, 2003)

HP has no catch-all partner program like PartnerWorld; instead it manages the largest enterprise customers through account managers and unique programs, while the smaller ISVs that fall outside of any other program are managed through the DSPP-program, the DSPP-program primarily functions as a technical and marketing resource program at present, though work is underway to expand its use for marketing and sales purposes.

Conclusions from the Competitor Analysis

Some of the partners that we have met have stated that HP Services is not as well perceived as some of its competitors (i.e. IBM Global Services). It is important to state that the partners that we have met are not the target group for HP's service offerings and therefore might not give a valid perception of HP's service capabilities. In any case, services are a part of the market that continues to grow in importance partly because of the decreasing margins in hardware. IBM has achieved its transition to a service and solutions-oriented company, while at the same time leveraging hardware through its service unit. Furthermore, IBM is seen as having been consistent in their focus on partnering with important ISVs and other partners.

HP is considered to be a competent vendor with capabilities stretching beyond hardware, but is still perceived as being more hardware focused and hence at a low level in the solution stack. Dell, aimed at providing cheap hardware, achieves its hardware dominant strategy through its direct-sales model and excellent logistics management. We believe that one of HP's biggest threats is to fail promoting their strong unique capabilities and therefore risk to be seen as being stuck in the middle between the two extremes (IBM and Dell). Sun is still strong in its traditional verticals (Telco and Financial Services), where Sun has been successful in expanding its services unit, without alienating its partners. However, Sun has not been able to grow outside of these segments.

Having touched on some of the major challenges for HP we want to conclude this short comparison by making it clear that HP is without doubt one of the major vendors in the industry with excellent products, strong capabilities and great opportunities for the future. HP has a somewhat unclear strategy (i.e. what its focus is), and has not responded to the changed market situation in the same way as its main competitors (i.e. IBM, Sun and Dell). However, it should be noted that not doing the same as the competitors does not necessarily mean that it is a disadvantage: reactive ad-hoc management based on competitors' moves have seldom proven itself useful in the long-term. That said, we still believe HP would benefit from a clearer strategy.

6.5 *Synthesised Analysis*

HP is standing at a crossroad, where it has to decide on how to tackle its opportunities and threats and (as is the focus of this report) how to build, manage and engage in relationships with its ISVs and other business partners to be successful in the future. We believe that it is possible for HP to tap the opportunities, this will however require long-term commitment with a clear strategic vision, hard work and endurance at all levels of the organisation. The analysis forms the foundation for the SWOT analysis presented in Table 6.2, which in turn lays the foundation for the actual recommendations, found in the next chapter (chapter 7: Recommendations).

Table 6.2: SWOT-Analysis of HP's ISV Situation

	Strengths	Weaknesses
Opportunities	<ul style="list-style-type: none"> • Decide and agree on clear rules of engagement • Communicate the HP value proposition • Focus on vertical as well as horizontal solutions • HP has neutrality: use partners to create 'best of breed' solution stack • Improve the ISV management (e.g. DSPP program) • Promote HP's strong brand, broad product portfolio and excellent products • Give the ISVs strong incentives to work closer with HP 	<ul style="list-style-type: none"> • Improve execution • Improve management and engagement with the ISVs • Improve vertical solution relevance • Improve predictability and consistency – ease of doing business • Decrease channel conflict and clarify channel strategy
Threats	<ul style="list-style-type: none"> • ISVs are generally agnostic to hardware 	<ul style="list-style-type: none"> • Hardware commoditisation with decreasing margins • Different and conflicting interests among channel members • ISVs generally agnostic to hardware • HP's service organisation i.e. Consulting & Integration perceived as weaker than competitors (i.e. IBM)

An in-depth analysis of the different parts of the SWOT-analysis is presented in detail in the following sections.

Strengths-Opportunities

HP can utilise its strengths to capture several opportunities that exist in the marketplace today. If the company effectively communicates its value proposition (e.g. excellent products, broad product portfolio, global reach, open best of breed solutions, partner neutrality etc.) to partners, while at the same time laying a foundation for engagement with them (e.g. clear rules of engagement, vertical and horizontal solutions, joint business planning, connect partners, improve the DSPP program etc.).

We are of the opinion that HP can increase their core infrastructure sales, and possibly other areas as well (services, management software etc), by communicating its value proposition and improve its partner management and engagement. The motives for this are twofold: an offensive motive, increase HP's share of the ISV's vendor split and increase the ISVs' sales and leverage HP hardware, and a defensive motive, protect HP-accounts, market share and share of ISV's vendor split.

Weaknesses-Opportunities

HP has several weaknesses that, however dire they may seem, can be turned into opportunities. Today's management and engagement with its ISVs is far from perfect, and there exist great possibilities for HP to improve in these areas. HP needs to be consistent and have clear rules of engagement; it also needs to focus on developing as well as improve the execution of its strategies.

One weakness is the fact that HP is perceived as lacking important service capabilities, which in turn means that they risk being seen as adding limited value to the ISVs. If in fact there is any truth to HP lacking service capabilities this is a very difficult task to 'fix', and it lies outside of the scope of this report. We simply state that we believe that it is as much a matter of clarifying and promoting HP Services to its partners and customers as improving its capabilities.

HP needs to improve its management and engagement and be consistent, to capture opportunities for leveraging its extensive and top-of-the line product portfolio, and drive incremental hardware sales.

Strengths-Threats

The ISVs are generally agnostic when it comes to hardware selection, and while this can be considered a threat, it also implies that none of HP's competitors have better products and therefore the competition and collaboration incentives will be based on

other values. This implies that excellent products is a prerequisite and opens up for a number of opportunities in becoming the preferred vendor to the ISV community.

HP must give the ISVs and other partners the right incentives to promote and sell its hardware; otherwise they risk losing market share to competitors.

Weaknesses-Threats

HP faces several threats that highlight the company's weaknesses: the hardware commoditisation, together with the fact that some ISVs have the perception that competitors can provide services of higher value than HP. HP must also fight off competitors (primarily IBM and Dell) that are trying to get access to HP-accounts and 'steal' market share. Furthermore, there are different and conflicting interests among channel members, which highlight the importance of having a clear channel management with clear rules of engagement.

HP must establish clear channel rules and focus on collaboration to provide the business solutions that customers require.

6.5.1 Implications

The main implications, based on the complete chapter, are that it is important to have a clearly aligned organization with a clear strategy and goals that are in line with what the company wants to achieve, as well as plans for how they intend to reach these goals. Companies also need to have a long-term commitment to their strategy in order to show consistency and predictability to their customers and partners as well as to their internal organisation, as stressed in section 3.1.1 in the theoretical framework. HP already has excellent products, its focus should be to have a clear strategy of what, how and with whom they should collaborate to provide total solutions with industry (vertical) relevance. They also need to improve their internal and external engagement processes with their ISVs and other partners.

A substantial part of the feedback and critique given by the interviewed parties comes back to the need for a well-structured management and engagement model for collaboration with ISVs and other partners. We believe that this engagement model needs to be facilitated by well-structured internal processes and routines; a foundation for successful collaboration and relationships needs to be in place. Relationships are key, as stressed in section 3.1.4.

In short, the main foundation that we base our recommendations on is that HP should improve its management and engagement with a twofold objective: an offensive and a

defensive. The offensive objectives are to increase HP's share of the vendor split, the second is that it can help to increase the ISVs' sales, and through this leverage HP hardware. The defensive motive is that we are of the opinion that competitors threaten several HP-accounts, i.e. if HP does nothing they might lose market share to competitors.

6.6 Closing: Success Factors

Based on the findings and analysis, we have identified key success factors that are of special importance when it comes to successfully addressing the challenges involved in dealing with relationships in the ISV community. By addressing the areas these factors cover, HP would stand a good chance of achieving the stated purpose of this report: increased core infrastructure sales, with the help of key partners.

We have identified the following success factors for this foundation:

- Knowledge: of the market and the ISV community
- Strategy: clear, executable, consistent, and predictable
- Internal understanding: across the organisation
- Infrastructure: channel, triangulate capabilities with distribution partners
- Communication: solid, credible and consistent
- Consistency: resource allocation, clear roles, responsibilities and accountability

Many of these success factors refer to improvement of internal processes and communication. An example of internal communication gaps that need to be filled is the gap between Solution Alliance Team (responsible for relations with ISV and SI partners), Solution Partnering Organisation (responsible for channel partners) and the customer sales organisation. It is important to ensure that the roles and responsibilities in the internal organisations are clear around how to engage with the ISV community: everyone needs to know the internal processes and be clear on the points of contact and responsibilities when dealing with a particular ISV for a particular purpose, whether it is regarding sales, business planning, support or other issues.

The recommendations which address the areas that the success factors cover are described in the next chapter.

7 Recommendations

This chapter contains the recommendations, which consist of: selection of relevant ISVs, categorisation and management of the ISV community, partner engagement and how to execute, implement and measure these recommendations. The chapter also contains a brief section covering the resource requirements for implementing our recommendations.

"Nothing astonishes men so much as common sense and plain dealing."

- Ralph Waldo Emerson

Our recommendations are based on chapter 6: Findings and Analysis, particularly on the success factors described in section 6.6. These factors form the base for the recommendations, which are elaborated further in sections 7.1 through 7.4; the chapter also includes a description of the resource requirement in section 7.5, as well as a closing of the chapter in section 7.6.

Our recommendations consist of four parts, preferably (but not necessarily) to be executed sequentially:

1. Selection of ISV partners, based on revenue opportunity and other attributes
2. Categorisation and management of ISV partners: use the DSPP more efficiently
3. Partner engagement: promotion, joint business planning, rules of engagement
4. Implement and measure (the recommendations and the performance)

The recommendations, summarised in Table 7.1, start with selecting the ISVs that HP should work closely with, based on relevant criteria. Once the interesting ISVs have been selected, they need to be categorised and a structure for the management of them has to be developed, in order to facilitate management and information sharing within the organisation. The next step is the actual engagement with the partners and this involves several reciprocal activities that will be presented in further detail below. The last step is to implement and measure the preceding steps and this is a challenge that must not be underestimated, since it determines the real outcome of the recommendations. The execution, implementation and measurement is to be done continuously during all of the previous steps, and once implemented, HP should regularly evaluate and measure how well the engagement is being performed.

Table 7.1: Recommendations

Recommendation	Why: Benefits for HP
1. Selection of ISV Partners	Prerequisite to the other recommendations
2. Categorisation and Management of ISV partners	Improve structure and knowledge to enable engagement
3. Partner Engagement	Increase the success of partner relationships
4. Implement and Measure	Monitor and ensure that the implementation and its benefits are successful

The recommendations do not have to be executed sequentially, though in our opinion it would be most beneficial to do so. An example of this is the third recommendation, Partner Engagement, which would be valuable to execute in its own right. All of these steps will be further elaborated and discussed in detail in the following sections.

7.1 Selection of ISV Partners

As there are thousands of ISVs in the marketplace and HP has limited resources to engage with them, it is critical for HP to address resources to the right partners (those who add value) in the community. The ISVs represent an important channel player, crucial to capture the market. As Gartner (2005) states, *“Relationships can make or break a vendor in a market -Ensure that your channel partners are on your side at all times”*, and they further underline the importance of partners by stating *“Do not rely on direct activities for growth.”* The fact that it is crucial to select the right ISVs is underlined by our analysis in section 6.3.2 and 6.3.3, where we discuss the fact that most ISVs are platform agnostic, unless given the right incentives. However, if given the right incentives, they can influence the platform selection to a large extent.

If HP manages to select key ISVs and successfully engage with these, it can potentially lead to increased leads, sales and business opportunities and, in the longer-term, market share. It can also extend HP’s horizontal offerings and give them vertical relevance that solves real business problems, through the connection between HP hardware and ISV applications.

HP must start by considering how much value (e.g. profit, strategic or tactic reasons) an ISV can generate and decide if the ISV is worth collaborating with. We argue that

out of the thousands of small ISVs, HP has to select, as large a number as they have resources to handle, the key ISVs with ‘killer’ applications in each vertical industry segment. Naturally, the importance of the ISV has to be related to its revenue potential. But, the key ISVs should be determined based not only monetary value, but also strategic and tactical value (e.g. size, market share, revenue, potential revenue contribution to HP, strategic or tactical interest etc.). A prerequisite when selecting ISVs is that HP and the ISV must have some mutual or complementary needs and goals or, at least, HP has to give the ISVs the right incentives to favour HP products over competitors.

How

Extensive market research, analysis and dialog with ISVs and other partners have to be conducted in order to assess the capabilities and value of the ISVs. Market research and analysis can, to some extent, be bought from market researcher firms like Gartner and IDC. Since more specific research and analysis is needed for the profiling research, HP needs to assign this research to suitable consultancy firms, channel members or conduct it internally. A suggestion is that HP can use some of its VADs that it has a close relationship with, since the VADs have natural connections with the ISVs. Some general research data is available and a lot of work of profiling the ISVs has already been done. All this data has to be analysed and can be used during the selection process. The final decisions and selections have to be made internally to ensure that the selection is made according to HP’s ISV strategy.

The selection should be based on the potential revenue that the ISV can generate for HP (this requires a quantification of the revenue potential), but also, when applicable, on particular strategic and tactical values the ISV might have for HP. In short, by a synthesises of the reasons found during our internal and external analysis we would recommend that HP segments its customers by the following criteria (in descending order):

1. Revenue opportunity
2. Strategic reasons (e.g. gate-keeper to markets or other clients, vertical industry presence and give relevance to HP horizontal offerings)
3. Applications in key vertical industries
4. Tactical reasons (e.g. if an account might be easy to get because of trouble with their current hardware vendor)
5. Other criteria (e.g. large potential)

A process for selecting the ISVs could, using the criteria mentioned previously, be by going through the list of potentially interesting ISVs and select the interesting ones

through the mentioned criteria. Obviously it also needs to be investigated whether the selected ISVs are interested in collaboration or not.

The account managers dedicated to these mid-tier ISVs (recommended as a required resource) should manage the ISVs that are selected in this process. The evaluation process should be conducted several times per year (e.g. every quarter) in order to take changes in the marketplace into account.

Competitor Comparison

Many other vendors (e.g. IBM, Microsoft and BEA) are conducting similar ISV research to investigate, identify and understand the needs and requirements of the ISV community. It is not uncommon that ISVs that we have met with (e.g. Agfa and FNS) also have been approached by competitors to HP. It is not enough to screen and select ISVs; the interest to collaborate has to be mutual. There is a constant pressure on vendors to provide ISVs with incentives for them to be loyal to a certain vendor. While we do not recommend that HP mimics its competitors, we believe that valuable lessons can be learned from the competitors and that they can be adapted to fit HP.

7.2 Categorisation and Management of the ISV partners

Structuring the information gained from the research and selection of ISVs is vital to make the most use of this valuable information. It also makes the information accessible in an efficient manner to the whole organisation (e.g. the sales organisation, the Solution Alliances Team and the Sales Partnering Organisation, and potentially also to external triangulating partners). This would help the field force to better identify the ISVs when opportunities come up and can result in sales leads, increased sales and triangulating opportunities (for example between ISVs, SIs and VADs).

With the selection process completed according to the information in the previous recommendation, we recommend that the selected ISVs should be categorised based on relevant attributes. This means that HP must gather information about each ISV in areas such as: size, revenue, profit, hardware revenue, capabilities, platform and OS compatibility, GTM strategy, the most important customers and partners, and so forth. This information should be made available to all relevant internal stakeholders, and a well-structured knowledge database over the selected ISVs should be made accessible (through an internal portal through its partner program: Developer and Solution Partner Program, see section 2.3.8), to help improve the management and engagement with HP's ISV community.

When categorising the partners it is important to differentiate between the partners and their different needs (e.g. large/small ISVs and VADs have different needs and requirements). We are of the opinion that HP should tap directly into the Tier-1 ISV's (such as Microsoft, Oracle, SAP, BEA etc.) sub ISV community to avoid unnecessary dependency on Tier-1 ISVs. It is not economically justified to have direct contact with all ISVs, but HP could manage the interesting mid-Tier ISVs relatively cheap through the DSPP-program.

How

The most obvious way to collect all this information and manage the ISV community is to invest in extending and improving the DSPP-portal's content and function and make it known and accessible to the whole HP organisation (primarily the Solution Alliances Team, the Solution Partnering Organisation, and the vertical sales teams). Categorisation of the ISVs can be based on a number of factors, some of the most relevant ones are:

- Size and revenue potential
- Vertical industry focus
- Type of application (horizontal or vertical)
- Platform and OS compatibility
- Whether the ISV sells or only influences hardware sales

We will go into more detailed discussions regarding categorisation in the next section. We strongly believe in categorizing the key ISVs in each vertical industry, to better be able to find and track the relevant ISV for each industry solution. Carr (2004) supports this by stating that vendors and enterprise developers are starting to recognise the link between developer programs' membership rates and their ISV revenues. It would also be valuable for HP to implement different categories in the DSPP-program based on the revenue opportunity and strategic importance of different ISVs. The ISVs with the largest revenue opportunity and commitment to being an HP partner could become 'platinum; and 'gold select' members and receive special treatment whereas less valuable ISVs would fall into the standard category. We believe that HP can allocate resources more efficiently through the use of categorisation. (A description of how to implement the categorisation is presented in the following sections.)

Developer and Solution Partner Program (DSPP)

Benefit Levels and Criteria

As described briefly in section 2.3.8, HP has a partner program called Developer and Solution Partner Program (DSPP), which is used to programmatically structure and

manage its ISV community. HP's DSPP program in Europe segments its different ISV partners into different levels, depending on their size, revenue potential, commitment to HP and other factors. This is done in the form of the DSPP program, which has been divided into four different levels (Elite, Platinum, Gold Select and Gold members) (HP, 2005). We present a suggestion of how to implement this on the Australian market below, see Figure 7.1. Given the size of the Australian market, we believe that three benefit levels give a good categorisation of the Australian ISV community (which is why the Elite level is missing).

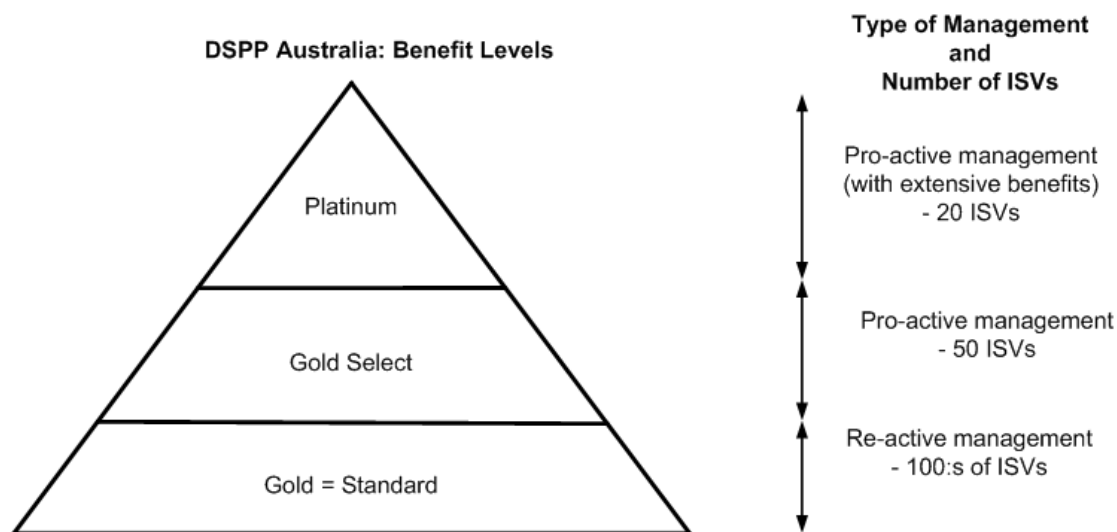


Figure 7.1: DSPP Segmentation

The categorisation into the different benefit groups should be based upon:

- HP Revenue opportunity
- Vertical industry or horizontal solution focus
- Whether or not applications are sold directly to end-customers
- Dedication to HP (HP' vendor share of the ISV's hardware sales)

We have included an example of how these factors might be used when defining the different benefit levels. This was done by merging our findings, information from HP (2005) regarding HP EMEA segmentation of the DSPP and information from IDC analysts Carr (2003) & (2004) as well as Carr & McHale (2002). The results are presented in the following sections.

Gold (Standard)**Requirements:**

- Hardware revenue opportunity of at least AU\$ 1 million

Benefits

- Re-active treatment through DSPP portal and telephone contacts
- General: access to the DSPP network, rules of engagement
- Sales: (small) discounts, margins
- Marketing: listed on the DSPP, possibly occasional marketing support
- Technical Support: Available resources through the DSPP

Gold Select**Requirements:**

- Revenue of at least AU\$ 1 million
- Leverage HP hardware (at least AU\$ 0,5 million)
- Dedication to HP: at least 50 % of the hardware they sell should be HP hardware

Benefits

- Pro-active treatment with dedicated personnel (the two roles assigned to the mid-tier ISVs)
- General: access to the DSPP network, rules of engagement (for this level)
- Marketing: joint collateral on HP platforms, event support
- Sales: discounts, connection to the HP sales force through Enterprise Account Managers, visibility within HP sales force
- Technical Support: Available resources through the DSPP as well as additional access to porting centres, access to and loaning of equipment etc.

Platinum**Requirements:**

- Revenue of at least AU\$ 5 million Significant market position
- Vertical niche applications that are industry leaders or horizontal applications with a leading marketing position.
- Leverage HP hardware (at least AU\$ 1 million)
- No demands for a certain percentage of HP hardware (given the ISVs' size it is unrealistic to demand e.g. 30 % HP hardware)

Benefits

- Pro-active treatment with dedicated individual account manager
- General: access to the DSPP network, rules of engagement (for this level)
- Marketing: Marketing funds, detailed joint-business plans
- Sales: Access to HP sales force, special discounts, margins protection
- Technical Support: Available resources through the DSPP as well as additional access to porting centres, access to and loaning of equipment etc.

DSPP Information Requirements

The more general information that should be available about each ISV includes:

- Type of application (horizontal or vertical)
- Vertical industry focus
- Industry solution
- Size and revenue potential (markets, turnaround etc.)
- Whether the ISV sell or only influence hardware sales
- OS and platform compatibility
- Integration capabilities
- Key customers
- GTM strategy
- Key partners and triangulating opportunities

How to Use the DSPP

The DSPP portal could include an ISV matrix where the ISVs are categorised based on revenue potential, application type, vertical industry, technology capabilities, GTM strategy, triangulating opportunities, partners, customers etc; Carr (2003) emphasises the importance of developer programs being able to segment and leverage their communities. It should be possible to browse and search ISVs suitable for a specific deal (also for the members of the DSPP), based on all the different information and criteria presented above, to facilitate collaboration and opportunities. Furthermore, HP should try to use the DSPP to let partners interact with each other, under HP's supervision. An interesting, scenario is to investigate the opportunities for joint ISV portals with key partners such as BEA, Microsoft, SAP and Oracle. It is also worth looking at possible structures for triangulating opportunities with VADs e.g. Avnet and Tech Pacific/Ingram Micro.

Part of the information in the DSPP-portal should also be made available to the members of the DSPP-program, but has to be filtered depending on the category and benefits of the external partner when they access the portal.

Competitor Comparison

IBM and other vendors (e.g. Microsoft) have dedicated far more resources into managing their ISV community and, even more importantly, it is done through a clear and well-planned strategy. As we have mentioned earlier IBM will dedicate 1000 sales specialists to work directly with channel partners (i.e. ISVs, SI, VADs and VARs) focused on the small to mid-sized business market according to Red Herring (2005). Furthermore, according to CNET News (2005) IBM has boosted its investment in partner-related programs in the past two years, in 2004 it spent US \$1 billion on efforts to recruit and work with ISVs. There is a risk that the ISV community will perceive IBM as the preferred vendor if HP does not proactively respond to this threat.

7.3 Partner Engagement

7.3.1 Decide and Promote the HP Value Proposition

As we have mentioned earlier: vendors are competing to become the preferred partner for the ISV community and it is therefore vital that HP promotes itself in an appealing and credible fashion to the ISV community.

The research we have done has shown that there is uncertainty in the marketplace about what capabilities and value HP can offer to the ISVs (see for example section 6.3.10). Furthermore, many ISVs (e.g. MXL and PowerFront) find it difficult to communicate their needs and recognize the potential in a deeper relationship with HP. This can be due to a lack of understanding of HP's offerings and solutions, or to some extent be because HP lacks certain capabilities. To many ISVs the hardware platform is just 'a box that the application runs on', which puts pressure on HP to communicate its full potential and offerings.

It is important that HP clearly defines and promotes exactly what HP's capabilities are and what an HP solution is to the different ISVs, because of the reasons stated in previous sections. Gartner (2005) stresses the importance of the perception of the vendor: "[The vendor's] *Reputation is key in many markets*". HP needs to provide a real value statement and value proposition with compelling reasons for collaboration and take it to market with substance and credibility. Furthermore, they need to provide a substantial ISV strategy with a roadmap, white papers, specified GTM strategies, margin protection and clear rules.

It would be valuable to formulate and sell 'the HP Story' to ISVs where HP communicates its open solutions approach, partner neutrality, broad product portfolio, the power of the HP brand and other offerings that the ISVs value. The story should be

articulated in a simple and effective matter and be taken to market with substance and credibility.

How

The value propositions as well as road maps, white papers and a credible HP story need to be developed and agreed upon internally, based on research of what the ISV community value and need, as well as to compare HP's offerings with competitors'. These then have to be communicated and promoted externally to the ISV community in a credible fashion and be backed up with substance. In other words: HP must be careful not to promise more than it can deliver, since this will have a negative impact on the ISVs' trust.

The HP story can for example be formulated as follows: *"HP is the vendor that can offer a truly open solutions approach with best-of breed-solutions through our expertise in partnering with prominent ISVs. We are truly neutral and partner friendly vendor and therefore do not compete with or lock in our partners as opposed to our competitors. Our broad portfolio and capabilities make us the obvious choice as the preferred vendor for ISVs."*

HP's Value Proposition to the ISVs:

HP's most attractive offerings that can be used as a foundation for an attractive value proposition are listed below:

- Excellent products and a broad product portfolio, technology leadership and innovation in e.g. servers, storage, printing & imaging, and management software etc.
- Marketing and business support
- Association with the HP brand offers market pull and credibility
- Global presence and market dominance
- Service and integration capabilities – HP Services offer services, consulting and support
- HP is neutral, has open solutions (middleware, databases etc.) and is partner friendly, as opposed to IBM and other vendors
- HP offers channel access to key distribution and integration partners. HP is a major IT partner with well developed partner ecosystems and can offer triangulating opportunities, sales leads and marketing support etc.

In short, HP offers the ISVs:

- Great products and competitive pricing
- Marketing support and resources

- Collaboration and business support
- Access to sales channels and triangulating partners
- Technical support and resources

Since many ISVs (e.g. MXL, Holly and Peace Software) do not know what they can ask or expect from HP it is also important to clarify what HP will not offer the ISVs:

- Sales engagement of ISV products (i.e. access to the HP direct sales force)
- Resources without commitments

Further HP should avoid being opportunistic with small one-off deals with ‘uninteresting’ ISVs. HP should focus on deals with key ISVs that are part of the overall strategy. The flip side of being to opportunistic is that HP might burn bridges and miss more valuable long-term opportunities with the ‘interesting’ ISVs.

Competitor Comparison

IBM provides and sells their message to the ISV community through white papers, road maps and, most importantly, they deliver what they promise and they have been credited as the best practise vendor in terms of ISV engagement. As has been described in our findings and analysis Sun also has a good reputation for delivering on its promises.

7.3.2 Ease of Doing Business

One basic, but often over-looked, incentive for collaboration is ease of doing business. This was found to be of high importance among the ISVs and ease of doing business is one of the strongest incentives for ISVs to work with a specific vendor (see section 6.3.8). The major building blocks to achieve this are predictability and consistency, which can be achieved by establishing general guidelines for partner engagement. Clear point of contact and clear rules of engagement is key to increase ease of doing business and predictability. Many problems can be avoided if the ISVs know the general terms, rules and conditions (see section 7.3.4: Agree on Rules of Engagement). Any successful relationship is built on trust and commitment; it is a prerequisite to build predictability and consistency in the relationship between the parties. This may seem as very basic, but many ISVs just want to know where to turn and feel a sense of commitment; structure and control can lead to increased business with these ISVs.

How

Some of the key ways to improve ease of doing business with HP’s partners are:

- To have a clear point of contact for the ISVs (e.g. an account manager)
- To have business planning meetings with the ISVs

- To agree on rules of engagement
- What to do and not to do together

We believe that it is necessary to assign permanent roles with clear responsibilities within the organisation, in order to address this important requirement for building successful relationships. These roles should be focused on coordinating, managing and reviewing different ISV groups, as well as for specific ISVs, and HP should strive not to change these positions too often. Furthermore, they should be responsible for coordinating the efforts both internally (between different business units e.g. SAT, SPO and the sales teams) to build a unified front, and externally (between ISVs and the triangulating partners, such as VADs and SIs).

Once these contact-points and rules are in place the approach and engagement can be made programmatic in order to require as little resources and continuous direct contact as possible, preferably by using the DSPP-program. It will however require initial as well as ongoing resources for categorisation, business planning, agreeing on rules of engagement, coordination etc. HP has to communicate this generic approach internally and communicate the HP story externally. Further HP should develop road maps and white papers for both internal and external use.

Competitor Comparison

IBM has a single centralised partner governance and management with programmatic processes (the PartnerWorld program), clear expectations and requirements as well as roles and responsibilities that all help build predictability and credibility. Road maps, clear and well-known points of contacts and white papers are available to the ISVs to promote and sell the IBM story.

7.3.3 Joint Business Planning and GTM Strategies

The majority of the ISVs that we have met with have expressed a desire to have joint business planning meetings with HP (e.g. MXL, PowerFront and OBS), see section 6.3.9. Joint business planning meetings will help clarify the opportunities, limitations, rules, approach and the extent of the relationship with a particular ISV. This will increase predictability, trust and commitment of the relationship and reduce conflicts and tension. Anderson *et al.* (2004) support this suggestion by arguing that business planning needs to be done at all levels, from the largest alliances and channel relationships down to smaller partners (e.g. small ISVs and SIs). We believe that it would be valuable for HP to do this, but only with relevant ISVs, where they should focus the discussions on joint business opportunities and GTM strategies in order to develop successful relationships that generate real value. As mentioned in section

7.3.2: HP should strive to develop a programmatic approach for conducting these meetings at an early stage in the relationship; that established forms for how to conduct business planning etc. exist is important according to Carr (2004) and Carr & McHale (2002). We want to stress the importance of being clear on what joint opportunities exist, how these can be addressed, where conflicting interest may occur and how these can be handled.

Examples of issues that need to be discussed at business planning meetings are:

- Mutual goals and aims of the collaboration
- Rules of engagement
- Sales quotas (e.g. expected share of HP gear sold by the ISV)
- Compensation (e.g. margins, rebates and product discounts)

How

The first step is internal, in the sense that HP has to achieve alignment and agree on a programmatic approach of conducting ISV business planning meetings. Necessary information (such as white papers and road maps) that ensures internal and external consistency needs to be developed. Furthermore, HP should have a dedicated contact person responsible for conducting these meetings with certain ISVs and group of ISVs. It is key that the coordinating roles ensure that all necessary information about the ISVs is available to the dedicated contact person who conducts the ISV meetings.

Competitor Comparison

IBM has, with the help of its partner program, PartnerWorld, managed to establish an effective way of conducting business planning meetings, GTM Strategies and so forth, e.g. with the help of established road maps and white papers. This programmatic approach is very cost affective and the agreements, capabilities etc of the ISV-partnership is easy accessible for all parts of the organisation.

7.3.4 Agree on Rules of Engagement

Conflicts in a relationship can create hostility and lack of trust between the involved parties. If such conflict emerges towards HP, it becomes difficult to build commitment in the relationships between HP and its ISV community and any other involved partners.

We believe that it is important to agree on the rules of engagement for a particular collaboration to avoid any such of conflict and insecurity between both internal and external parities as well as to increase the predictability and consistency (see section 6.3.6 and 6.3.7). This is especially important when collaborating with competitors with

conflicting interest (co-opetition). Unclear channel rules can explain the present channel tension and conflicts between vendors and channel partners. This point is emphasised by Anderson *et al.* (2004) who state that it is key to define the depth and breadth of all partnerships.

One problem that HP has with the smaller ISVs is that they do not know where the opportunities for collaboration start and end. This insecurity on what to do together and what not to do can be avoided by clearly agreeing on and state the rules of engagement, through an early business-planning meeting.

All these problems and issues (including predictability and consistency) could be improved by laying a foundation of rules communicated to all parties. This foundation should focus on expectations, benefits and rewards, because of their importance for a successful collaboration.

We believe that agreeing on rules of engagement is one of the most important topics during business planning meetings. Examples of issues and rules that needs to be discussed are:

- Explain HP's sales strategy i.e. in which customer segments HP will sell direct and in which the channel (VADs, VARs, SIs and ISVs) will sell
- What HP and the ISV will do together and what they will not
- Whether the ISV will sell or only influence hardware sales

How

HP and the partner should decide what they will collaborate on, during the business planning meetings recommended in section 7.3.3. (Internal alignment is key: that all HP personnel deliver the same message to partners.) Furthermore, of equal importance is to decide what they will not do together, how things should be done and with whom. Again: developing road maps and white papers can help to communicate these rules both internally and externally.

Competitor Comparison

IBM communicates clear expectations and requirements, as well as benefits in terms of targets, share goals, discounts and bonuses. They have business planning meetings, and develop road maps and white papers to communicate the rules of engagement. When it comes to avoiding channel conflict different vendors have chosen different approaches in their channel strategies. It is almost impossible to achieve a successful channel strategy, hence some level of conflict is difficult to avoid. One key-take away can however be observed: vendors have to be consistent in their strategies and not

bend or break the rules, because while this might give the vendor an increased short-term profit, it will hurt the company in the long term.

7.3.5 Joint Market Offerings and Triangulating Opportunities

As has been discussed earlier (e.g. see section 2.1.2), customers are often interested in buying total solutions that address their business problems and needs, rather than just a piece of the full solution e.g. hardware. Therefore, HP should try to tailor total solutions that address specific business problems together with ISVs and other partners' products and services. The importance of such efforts and activities is emphasised by IDC analyst Carr (2003), as well as our analysis (see section 6.3.9). Example of such joint market offerings can be bundling HP hardware together with ISV applications aimed at addressing a specific business problem in a particular vertical industry.

This form of joint businesses can result in real win-win deals for all the involved parties and are necessary to deliver on the opportunities in a resource saving fashion. We also see this kind of joint product offerings and marketing campaigns as the most feasible and concrete short-term opportunities for HP (to do business with key ISVs with 'killer' applications). A study conducted by Gartner (2004 see HP Intranet, 2005) showed that 40 % of Australian customers prefer bundled solutions, with the preferred source of these bundles being: 32 % vendor, 24 % SI, 13 % VAR and 9 % ISV.

To succeed with such an effort it is often necessary to bring more than one partner together; therefore vendors have to build capabilities in linking (triangulating) different partners together (e.g. ISVs, VADs and SIs) to provide joint solutions and market offerings. This concept of bringing different partners together and facilitate the contact is known as 'triangulating' or 'value-netting'. A successful example of such an effort was when HP took the incentive to bundle one of their server products together with a Linux provider, an ISV's anti-spam application and a company (that was both a VAD and SI) responsible for promoting, selling and implementing the solution to the end-customer. This proves that it is possible to realize a complete GTM solution and strategy together with ISVs and other partners in order to deliver a total solution to a customer problem. It should be noted that it is very important to collaborate with the right partners and make sure that each partner delivers its part of the solution, since no chain is stronger than its weakest link.

How

To build a complete solution the following parts and parties needs to be assembled and coordinated:

- Hardware provider (HP)
- OS provider (e.g. Linux, Unix, Windows)
- Application provider (one or more ISVs)
- Integration provider (HP or other SI)
- Sell and distribution partners (VADs, VARs or SIs)

We believe that the main requirement for achieving this as well as most of the other recommendations is through creating one or more coordinating roles. These roles play an important part in discovering, realising and coordinating these kinds of efforts. Once the coordinator has discovered an opportunity, he/she has to sell the concept to both internally and to the ISV and other partners that need to be involved. Furthermore, he/she has to take part in agreeing on the different parties roles and responsibilities in pulling the joint offering effort together. It would be desirable to use the VAD or VAR as the ‘triangulator’, who leads the sales and marketing efforts of the joint market offering. Since triangulating involves different partner categories it is important that the internal organisations e.g. the SPO (channel partners) and the SAT (ISV and SI partners) are bridged to allow a process for communication and collaboration. The internal coordinating roles responsible for the mid-Tier ISV community management should be responsible for finding, selecting, negotiating and driving potential joint offerings and campaigns with ISVs and other partners as well as to facilitate internal communication to achieve an aligned unified front. The people coordinating these kinds of efforts have to be empowered to act on the opportunities that arise.

Matching characteristics (ISV, SI, VAD and HP) should be based on e.g.:

- Vertical industry competence
- Technical competence
- Integration competence
- Sales, marketing and distribution competence
- Where the application fits in the total solution stack
- Additional characteristics (e.g. size)

Competitor Comparison

Dell drives joint product offerings with software vendors and ISVs (e.g. Oracle and Red Hat). BEA links ISVs together to provide a customer solution and might use a SI or HP Services to implement and integrate the solution.

7.4 Implement and Measure

To build successful relationships and long-term collaboration, the ‘perfect plan’ is only the beginning. What actually determines the success is HP’s as well as the ISVs’ ability to implement the plans, and that they actually deliver on the promises made. Execution is what really matters at the operational level of a relationship and it is what creates long-term relationship success; a strategy is only as good as it is being implemented and executed. Furthermore, it is necessary to track and measure the execution performance in order to ensure success and motivate. In the words of Anthony & Govindarajan (2003): what gets measured gets done.

How

Implementation Overview

In short, the methodology for implementing our suggestions can be summarized in the following sequential steps (see Figure 7.2).

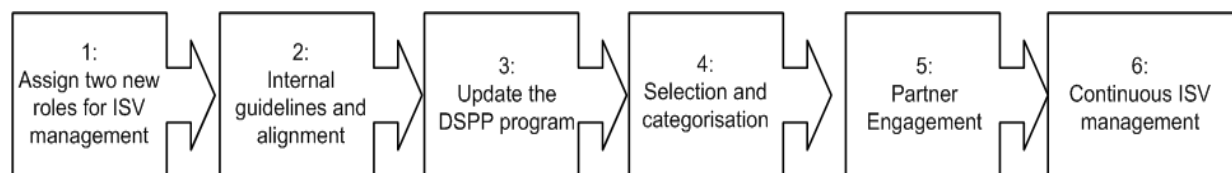


Figure 7.2: Implementation Steps

A more detailed description of what the different implementation steps (in Figure 7.2) mean follows:

1. Assign two dedicated roles to managing the ISV community. HP should also state the ISV project’s owner, which we argue should be the SAT (Solution Alliances Team) and that the two new roles preferably belong to the SAT team, to facilitate internal co-operation (*internal, cyclical*)
2. Internal guidelines and alignment, primarily done by the SAT in conjunction with the SPO (Solution Partnering Organisation) and other sales teams (agree on rules of engagement, internal alignment) (*internal, cyclical*)
3. Update the DSPP structure, done by the SAT (*internal, cyclical*)
4. Select and categorise the ISVs (requires ISV profiling) (*internal, cyclical*)
5. Partner Engagement: engagement with the selected ISVs) (*internal, continuous*)
6. Continuous ISV management: The two new roles should help the ISVs in their contact with other parts of HP’s organisation, as well as to facilitate business and capture opportunities (with the overall goal of leveraging HP hardware)

The first four steps can be seen as HP internal recommendations, in the sense that they do not require extensive external contact and, step two through four are cyclical (e.g.

needs to be done a certain number of times per year), whereas step number five and six are the continuous engagement and management of the ISV community.

We believe that it is crucial for HP to assign clear roles and responsibilities for the implementation and, given its co-operation with ISVs today, we believe that the SAT should own the project. However, it is important to align the organisation and therefore HP should strive to involve the other sales and marketing teams as well, primarily the SPO.

Detailed Description of the Implementation

First of all, the internal organisation has to be arranged so that it facilitates people to execute. Empowerment needs to be given to the people on the field responsible for the operational contact with the ISV partners. Bridges need to be built between different parts of the organisation for facilitate communication and an aligned and unified front to external partners. Roles and responsibilities need to be in place in order to be able to implement and execute the plans and deliver on the promises made.

It is crucial to be able to measure the success of how well the recommendations are implemented, and this needs to be continuously tracked and measured. To ensure that the ISVs are delivering on their promises it is equally important to track and measure their performance. We divide the measurement in two broad categories: Internal- and External Tracking Measurements. HP should follow up and analyse the tracking results, and base action plans on the analysis together with partners during joint business planning. A possible way of implementing these measurements might be in the form of developing a 'Partner Scorecard'.

Internal Tracking and Measurements:

The measures consist of strategic and financial measurement and are to be used primarily for evaluation of the selected ISVs. We suggest that HP should track and measure internally:

- Generation of leads
- Return on resources
- Return on labour hours
- Return on Equity
- Return on Investment (ROI)
- Time to decision and implementation
- Promises fulfilled and delivered
- Customer and partner satisfaction etc.

External Tracking and Measurements:

HP should set up targets for the ISV partners and track and measure these, e.g.:

- Revenue goals
- Market share
- HP share of ISV's hardware sales
- # Leads generated
- # New Customers
- Customers' up-sell
- Promises fulfilled and delivered
- Sales cycle time
- Cost savings in sales etc.

Competitor Comparison

IBM uses PartnerWorld in conjunction with a central single tracking and reporting mechanism for all ISVs. This is done in the same way in all of its business units, in all business regions, which means that the management can consistently evaluate how the company and its partner's perform and what areas need to be improved. Sun's partner programs (iForce and Sun Developer Connection Partner Program) are seen as attractive by partners, and give good opportunities for leveraging ISV solutions on Sun hardware.

7.5 Resource Requirements

This section contains the resource requirements necessary to implement the recommendations. It is important to note that the recommendations to a large extent are reciprocal; hence the resource requirements are very much interrelated as well. This is a drawback in the sense that it makes it hard to implement only a certain parts of the recommendations.

The resources required are in essence tied to the need of an increase in the personnel allocated to the management of the mid-tier ISVs in the DSPP-Program. Today one person is dedicating roughly 50 % of his time to the mid-tier ISVs and we are of the opinion that more potential would arise from dedicating full time resources to managing these ISVs more efficiently; especially through driving and creating opportunities out of the collected knowledge of the ISV community. We have together with Sutton (2005) estimated that one full-time role can manage approximately 30-50 mid-tier ISVs, and since we find it realistic that HP can actively select and manage 60-100 valuable ISVs, it would require two full-time roles rather than today's one half-time role.

These roles' main function should be to act as coordinators, both internally and externally, in selecting, categorising, managing and engaging with the targeted ISV community. The more detailed functions and responsibilities of these roles have been discussed under each recommendation previously (e.g. finding, selecting, categorising, negotiating and driving potential joint offerings and campaigns with ISVs and other triangulating partners).

In short, the resources required would be:

- Two full-time roles for managing the ISV community, which would mean 1.5 extra roles (taking the existing half-time role into account)
- Funds for ISV profiling (preferably done by a VAD or research partner)
- Funds to update the DSPP portal
- Develop road maps, the HP story and white-papers
- Funds for marketing and sales events

There are also some intangible resource requirements:

- Align the organisation to achieve a unified external front
- Internal agreement on the content and structure of what HP will offer the ISVs

7.6 Closing

The theory discussed in the theoretical framework, has proven itself useful. Traditional marketing essentials such as having a clear and goal-congruent strategy in conjunction with understanding what customers and partners value, have formed a solid base for this work. These broader topics have in turn put a focus on value and how to deliver it (in various forms of relationships and constellations). Together, they have formed an integral part of the analysis and recommendations of this report; the need to collaborate in various forms (e.g. in order to deliver total solutions) puts emphasis on the importance of having motivated partners, which in turn highlights the importance of relationship factors. This further implies that the relationships must deliver value to all involved parties; we have tried to take all this into consideration when suggesting how HP can create a robust foundation to facilitate successful management and engagement with the ISV community.

The objectives of this report have been fulfilled. The first two detailed objectives (1: Analyse the Australian ISV Channel and 2: Platform Selection) are fulfilled in chapter 6 (Findings and Analysis). The other objectives (3: Developing an Engagement Model,

4: Measure Success, 5: Suggest Value Proposition and 6: Build Linkages between the Partners) are all fulfilled in this chapter.

We conclude the chapter by stating that while we do not know if or how much of the recommendations HP will implement, there are still large opportunities to be captured by selecting, categorising and to some extent enhancing the ISV management and engagement. This report's findings can be used as a reference to help HP improve its management and engagement and in extent strengthen HP's position in the marketplace.

8 Reflections

This section concludes the report and contains the authors' reflections about what could have been done differently, areas for future studies and general reflections about the project and the process of creating it.

"Not to be absolutely certain is, I think, one of the essential things in rationality."

- Bertrand Russell

With the project completed, we would like to conclude by reflecting on topics that might be of interest to the reader, such as factors that might have affected the results of the study. First, the method: a drawback with our study is that no end-customers have been interviewed. This was a delimitation we had to make at the start of the project as the focus of the study is on ISVs, which in the project have been regarded as both partners and customers at the same time. Furthermore, it would have been desirable to have met more mid-tier ISVs to get a more solid foundation to base our conclusions and recommendations on. Had we had the interesting opportunity to interview key-competitors to HP (i.e. IBM, Dell and Sun) as well as major system integrators (e.g. Accenture, Bearing Point and IBM) it is likely that, given their input, our results might have tilted towards emphasising different findings than we have done. We do however doubt that the actual results would have been very different; we believe that the system integrators would have further emphasised the importance of integration capabilities, the hardware commoditisation trend and the need for collaboration (which all point to the importance of the system integrator), whereas Dell primarily would have focused on the hardware commoditisation trend.

There are plenty of areas, related to the project, that need to be studied further. When it comes to relationships and how to deliver total solutions, it would be interesting to further study the relationships and dependence between the hardware vendor and the system integrators, between the ISVs and the system integrators, between the different groups of ISVs themselves (Global, Regional and Local) and the implications of a company having multiple roles (i.e. acting as ISV, system integrator and distributor at the same time).

What does the future have in store for the IT industry? We believe that the commoditisation trend that affects hardware and software is going to affect services as well (it already does to a certain extent) and this will result in growing competition and customer demands for lower and fixed prices; hence the need for companies to

continuously move upwards in the value-chain (i.e. offering more advanced services in addition to basic services) or lower its costs to protect margins. Further, we believe that the importance of relationships will continue to increasingly play an important role in building total solutions and serve customers efficient and efficiently.

William Bryan once said that “Destiny is not a matter of chance, it is a matter of choice”, and we believe that this gives a good description of the challenges HP faces: the company can choose to be reactive or proactive and, to a certain extent, create its own future. HP needs to decide if it wants to focus on services, hardware or both areas at the same time. While it is possible to focus on both areas, this is a big challenge but HP might, if it succeeds, reap huge cross business-unit benefits from this broad approach (such as using the service unit as a spear-head for selling hardware to the same customer).

In terms of collaborating and building relationships with the ISV community we believe that there are a lot of untapped opportunities for HP in selecting, managing and engaging with the ISV community in a more effective and predictable fashion to increase sales and market share. It has also become apparent that many competitors, especially IBM, have realised the value of the ISVs and hence are making their own efforts to be perceived as the vendor and partner of choice to these. For HP, this implies that being successful at building their own ISV strategy is not only an offensive opportunity, but also a defensive need in order to protect HP’s market share and partner preference in the ISV community from competing vendors.

Considering the complex and vivid marketplace in which HP is operating, it is nearly impossible to predict what the future for HP will be. However, it is clear that the opportunity is out there.

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Appendix A: History of the IT Industry

Beginning (1936 to 1970)

The birth of the first computer, and with that the IT industry, is considered to have been in the year of 1936 when Konrad Zuse invented the first freely programmable computer. Encyclopaedia Britannica (2004a) states that the IT industry is “the development and manufacturing of computer hardware and software.” The transistor was invented in 1948 and this would prove to be a critical factor for reducing the size of the computers, which until then had consisted of thousands of vacuum tubes. IBM released its first computer in 1953, though it would not be until 1958 (when the integrated circuit was invented) that computers started to use the fundamental building parts that modern computers would come to use. Computers started to become affordable for large corporations and governments during the 1960s and in 1969 Arpanet, the predecessor to Internet was invented by the American military which was followed by Intel’s first microprocessor being released in 1970. (About, 2004)

Revolution (1970 to 1990)

The computer performance continued to increase greatly during the 1970s, while the prices continued to fall, and in 1981 IBM released the first ‘real’ personal computer: Acorn. A personal computer is defined as a “microcomputer designed for use by one person at a time” (Encyclopaedia Britannica, 2004b). The most important characteristics, that actually made it a personal computer, are that it was sold and marketed by outside companies (computers had almost exclusively been sold directly by the manufacturer before Acorn) and that it was made from off-the-shelf parts. The computer had a Microsoft DOS operating system, a 4.77 megahertz Intel 8088 processor and the cheapest model cost 1,565 US \$. In 1984 Macintosh created its first Apple Macintosh computer, followed by Microsoft releasing their first version of Windows in 1985. Now computers started to get popular and affordable for families, and a large number of computers targeted towards the private consumer were released (e.g. Commodore 64 and Amiga 500). (About, 2004)

Computer sales and performance continued to increase and Intel launched several new processor families (80286, 386, and 486). Parallel to this Microsoft developed a new version of Windows in fierce competition with Apple’s Macintosh, and it was released as Microsoft Windows 3.0 in 1990 (it sold more

than ten million copies worldwide, a milestone at this time). (Windows History, 2004)

The IT Age (1990's to Today)

During the 1990's the computer has established itself as an indispensable tool for governments, companies and people; today most people would probably find it difficult to perform their daily chores and work duties without computers. The main reason for this increased use and dependence on computers is the increasing performance at lower prices, combined with the global presence of Internet, whose importance it is difficult to exaggerate. Together, these factors have resulted in countless of new opportunities for communication, interaction and businesses. Today, at the beginning of the 21st century, IT affects most parts of the world and its influence looks set to increase even further.

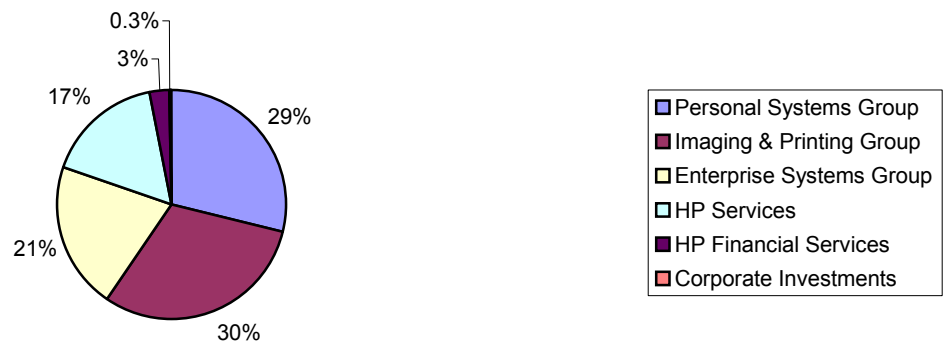
Appendix B: Additional Information about HP

HP is a global IT company that develops and sells several kinds of computer related products, from printers, handhelds to servers. HP has been particularly successful with printers, servers and storage where the company has a very high market-share, see the figure below for more information about the products and their market share.

Table: HP's Products and Market Shares 2003 (HP Annual Report, 2003)

Product Category	Global Market Share	Worldwide Position
LaserJet printers	52,0 %	1
Disk storage systems	50,7 %	1
Inkjet printers	41,2 %	1
Unix Servers	33,8 %	1
Windows servers	33,2 %	1
Storage-area network systems	31,4 %	1
Linux servers	28,1 %	1
Handhelds	25,9 %	2
External RAID storage systems	20,1 %	2
Notebook PCs	16,9 %	1
Desktop PCs	16,1 %	2

The net revenue for the fiscal year of 2003 was US \$ 73 billion and the revenue was divided on the business groups that existed in 2003 before HP's re-organisation in 2004, see the figure below. The leading business groups were the Imaging and Printing Group, Personal Systems Group, Enterprise Systems Group and HP Services respectively.

HP Revenue Overview by Business Segment 2003**Figure: HP Revenue Overview (HP Annual Report, 2003)**

HP can be seen as a hardware-oriented company that is trying to move towards a focus on solutions, which in turns means a greater focus on applications and services (even though hardware still represents the largest share of the company's revenues). However, it is of interest to note that HP Services has been increasing and this trend is likely to accelerate even further in the coming years. The primary reasons for this are the commoditisation of the hardware with lower margins, in conjunction with customer demand for total solutions (where services are a key part).

Appendix C: Computer Definitions

Application

Application usually refers to ‘application program’, which is a specific application program designed to perform a specific function directly for the user or, in some cases, for another application program. Examples of applications include browsers, word processors, databases and development tools

Middleware

Middleware is a term for an application that ‘glues together’ or mediate between two separate and often already existing programs. A common application of middleware is to allow programs written for access to a particular database to access other databases. Typically, middleware programs provide messaging services so that different applications can communicate. Middleware software makes it possible to integrate systems, processes and applications through the use of open standards. Middleware is designed to be the underlying support for applications provided by ISVs who build industry-or process-specific applications according to open industry standards.

Open Standard

Open standards enable different platforms to communicate and work with one another. This could for example enable an application to run on several platforms (such as Windows and Linux).

Platform

A platform is an underlying computer system on which application programs can run. There are two categories of platforms, hardware and software platforms. RISC and Pentium are two competing hardware platforms. On personal computers, Windows XP and Linux are examples of software platforms.

Appendix D: External Interview Questionnaire

Please note that this is a generic questionnaire, which was modified for each meeting, e.g. inserting the company's name (XXX), key facts, focusing on certain areas etc.

General Company Questions

1. Revenue, profit and number of employees?
2. What are your biggest/main challenges?
3. Who are your most important partners? E.g. for Market access, added solutions, support, implementation etc.
4. Why do you choose to collaborate with them?
5. Do you have a partner strategy (global/Australian etc)?
6. What is your GTM strategy? With which partners?

Infrastructure Platform selection

1. What do you believe are the key reasons/incentives for end-customers platform selection (products, platform price, discounts, service, support etc)?
2. Which channel member do you believe have the main influence on the end-customers platform selection (in different sale scenarios)?
3. To what extent do/can an ISV influence/affect the end-customer's platform selection?
4. What do you believe are the key reasons/incentives for an ISV's platform selection/recommendation (products, platform price, discounts, development-tools, support etc)?
5. What factors determine XXX's choice/recommendations of infrastructure platform to your customers (products, platform price, discounts, service, support etc)?
6. Which channel member do you see as your most important partner?

XXX's requirements on HP

1. What are your requirements and needs from HP as a core infrastructure provider?

2. What value can HP add to your business and offer you as a partner (both technologic- and economical)?
3. To what extent are you interested in collaboration/partnership with HP?
4. What is the most important contribution HP does/ can do to your business?
5. What can XXX offer to HP as a partner?
6. How in your opinion can XXX and HP collaborate to increase end-customer as well as XXX/HP value?

HP's DSPP-Program

1. Is XXX a member of the HP DSPP-program?
2. What are the main benefits for XXX to be part of the DSPP-program?
3. What are the most important/attractive parts of the DSPP program and what can be improved?
4. How well do you think HP's DSPP-program meet up to its competitors (e g IBM, Sun)?

XXX's Specific Requirements and Expectations

1. **Marketing Support** (Events, contests, sales support, leads, channel access)
 - a. Sales support
 - b. Access to Market / Channel access etc.
2. **Technology Support** (Tools, code, components, Labs, platforms, solution centres, training, developer assistance, certification, training and support).
 - a. What are your **technical requirements?** (Code, components, tools, labs etc.)
 - b. What are your **training requirements?** (Certification etc)
 - c. What are your **support requirements?** (Developer assistance etc)
 - d. **Attached services** (integration, repair etc.)
3. **Business Assistance** (Hard margin, soft margin, product discounts, financing support etc.

- a. What are your **financial expectations**?
 - i. Hard Margin
 - ii. Soft Margin
 - iii. Product discounts
 - iv. Financing support etc.

HP's Performance

1. What do you consider to be HP's strongest offering to you (products, platform price, discounts, margins, marketing, sales, development-tools, support etc)?
2. How does your collaboration with HP compare to your collaboration with IBM, Dell, Sun and other vendor partners?
3. In which ways are HP's offerings unique/differentiated from their competitors'?
4. What is HP doing well today compared to (better/worse) other hardware vendors (IBM, Dell, Sun etc.) and what can they improve?

XXX/HP Partnership Improvement Opportunities

1. How in your opinion can the partnership between HP and XXX be improved/enhanced?
2. Opportunities for joint offerings, value propositions etc?

Appendix E: ISV Survey Information

Methodology

The ISV Survey (see section 6.4.2) was conducted as an e-mail survey followed up by a short telephone interview to ensure that the questionnaire had been filled in correctly and to give the respondents a chance to give further qualitative feedback. The survey was sent out to 18 mid-tier ISVs and we received 10 replies, a list of the participating ISVs can be found in the table below. The respondents were asked to rank 15 vendor offerings that we had found were of importance to ISVs (through our qualitative internal and external interviews) in order of importance. The respondents were further asked to rate how HP is currently performing on each of these offerings on a scale from 1 to 5, which we found to be a suitable resolution. The questionnaire is included on the next page.

Table: ISVs Participating in the Survey

Participating ISVs	Application and/or Focus
Callista	Education Industry
Dalet	Digital media
IBA Health	Health Industry
NETed	Education Industry
OBS	Enterprise Portal and Collaboration
Peace Software	Customer Information System
PowerFront	Online business solutions
Sophos	Computer Security
Spectra Interface	Mobile Data Solutions
Tier-3	Computer Security

Limitations and constraints

We would like to state that each ISV often have unique and specific needs in terms of what offerings they find important from a vendor. E.g. some ISVs might need a lot of support in terms of porting their applications whereas others might be able to handle this quite well without much support. The sample of ISVs that have participated in this survey might not represent the ISV community as a whole. To start with the ISVs that have participated are interested in a relationship with HP and already have some form of contact with HP through Gareth Sutton. Another weakness with the survey is that only 10 ISVs have participated in the survey and not all of them have filled in

answers to all questions, which means that the results are based on a very small and not necessarily homogeneous sample of the total ISVs in the marketplace. This has most likely affected the performance rating as well as the important ranking on many of the offerings. However we do believe that the survey results give a rough idea of what offerings the ISVs value the most and what are of less importance to them.



Key offering and benefits that HP offer to your business

HP is assessing ways to assist and work with Independent Software Vendors, for mutual benefit.

The intention of this survey is to find out:

1. What functions, facilities and programs you see of benefit to your business from an infrastructure vendor
2. How you perceive HP currently performs in these areas

Your input is most appreciated and will assist HP to better meet your requirements.

Can you please rank out of importance (1 = most important, 15 = least important, **Please only use each ranking once**) the following offerings and benefits that HP can offer to your business as well as HP's present performance (1 = poor, 5 = excellent).

Offering		Importance Ranking (1st - 15th) 1=most important	HP Performance (Rate 1-5) 1=poor, 5=excellent	Comments
1.	Best in class server and storage technology	<input type="text"/>	<input type="text"/>	
2.	Broad product portfolio – range of products	<input type="text"/>	<input type="text"/>	
3.	Competitive server and storage pricing & rebates	<input type="text"/>	<input type="text"/>	
4.	Comprehensive range of infrastructure services	<input type="text"/>	<input type="text"/>	
5.	Software integration services	<input type="text"/>	<input type="text"/>	
6.	Local porting/technical support	<input type="text"/>	<input type="text"/>	
7.	Clear point of contact	<input type="text"/>	<input type="text"/>	
8.	Clear rules of engagement & predictability	<input type="text"/>	<input type="text"/>	
9.	Collaboration - business planning	<input type="text"/>	<input type="text"/>	
10.	Collaboration - marketing support	<input type="text"/>	<input type="text"/>	
11.	Access to appropriate channel partners (distribution, resellers, system integrators)	<input type="text"/>	<input type="text"/>	
12.	Vendor Brand value and market presence	<input type="text"/>	<input type="text"/>	
13.	Global presence	<input type="text"/>	<input type="text"/>	
14.	Hosting Facilities (HP Managed Services)	<input type="text"/>	<input type="text"/>	
15.	HP Financial services	<input type="text"/>	<input type="text"/>	



Appendix F: Information about the Interviewed Companies

Company	Type	Application and/or Focus
AGFA	Tier-1 ISV	Health Industry, Computer Security, Digital Imaging
Avnet	VAD	Global VAD
BEA	Tier-1 ISV	Middleware Developer
Blue Reef	Mid-Tier ISV	Network Security
Callista	Mid-Tier ISV	Education Industry
CDN	Mid-Tier ISV	Health Industry
Citect	Mid-Tier ISV	Industrial Automation Software
Dalet	Mid-Tier ISV	Digital media
GE Healthcare	Mid-Tier ISV	Health industry (e.g. medical imaging, diagnostics)
Holly	Mid-Tier ISV	Telecommunications (e.g. voice-recognition)
IBA Health	Mid-Tier ISV	Health Industry
Internet Sheriff	Mid-Tier ISV	Secure Content Management
IT24	Mid-Tier ISV	Computer Security
Microsoft	Tier-1 ISV	Windows Operating Systems, Microsoft Office suite, etc.
MXL	Mid-Tier ISV	Education Industry
NETed	Mid-Tier ISV	Education Industry
Novell	Tier-1 ISV	SUSE Linux, Network Programs
OBS	Mid-Tier ISV	Enterprise Portal and Collaboration
Oracle	Tier-1 ISV	Databases, Database Services, etc.
Peace Software	Mid-Tier ISV	Customer Information System
PowerFront	Mid-Tier ISV	Online business solutions
Red Hat	Tier-1 ISV	Red Hat Linux Operating System
SAP	Tier-1 ISV	Enterprise Relationship Programs, etc
Sophos	Mid-Tier ISV	Computer Security
Spectra Interface	Mid-Tier ISV	Mobile Data Solutions
Tech Pacific	VAD	Regional VAD
Tier-3	Mid-Tier ISV	Computer Security
Yartoo	Mid-Tier ISV	Computer Security and Production

Appendix G: List of Abbreviations and Acronyms

Abbreviation or Acronym	Meaning
AE	Adaptive Enterprise
C&I	Consulting and Integration
Core infrastructure	HP servers, storage, management software and related services.
CSG	Customer Solutions Group
CSI	Consultant System Integrator (e.g. Accenture)
DSPP	Developer & Solution Partner Program
EAM	Enterprise Account Manager
FSI	Financial Service Industry (e.g. banks)
GTM	Go to Market
HPS	Hewlett Packard Services
ISV	Independent Software Vendor
IT	Information Technology
Mid-market	Small, and Medium Enterprises (Customer Segment)
Mid-Tier ISV	A Tier-2 or Tier-3 ISV
NSP	Network Service Provider
PS	Public Sector, e.g. education
SAT	Solution Alliances Team
SI	System Integrator
SMB	Small and Medium Businesses (Customer Segment)
SME	Small, and Medium Enterprises (Customer Segment)
SPO	Solution Partnering Organisation
Telco	Telecommunications (e.g. Telstra)
Tier-1 ISV	Software vendor / Enterprise ISV (large)
Tier-2 ISV	Regional ISV (medium-sized)
Tier-3 ISV	Local ISV (small)
Triangulating	Bringing different business partners together and facilitate the contact
VAD	Value-Adding Distributor
VAR	Value-Adding Reseller
VP	Value Proposition

