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Creating a Path to Monetization:

How Enterprise Software
Companies Can Win Developers
and Create Thriving Ecosystems



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Introduction



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In 2011, technology investor Marc Andreessen famously said that “software is eating the world.” His observation is as true today as it was a decade ago, but with a new twist: It’s not just software that’s taking over, but digital platforms that connect software developers and customers in entirely new ways.

For enterprise independent software vendors (ISVs), platforms present tantalizing possibilities to develop more innovative products faster than ever before, driving both revenue and competitive advantage. However, many enterprise ISVs stumble because they overlook one of the most important aspects of a thriving platform: an ecosystem of third-party products and services that offers developers a clear path to monetization.

This white paper explores why developer ecosystems are so critical to ISVs, the challenges associated with developer recruitment, the barriers to monetization, as well as strategies on how to overcome them.

The Power of Platforms

Today’s multi-sided, cloud-based technology platforms are relatively new, but the business model behind them is anything but a fad. IDC has predicted that by 2018, more than 50 percent of large enterprises—and more than 80 percent of enterprises with advanced digital transformation strategies—will create or partner with industry platforms.¹ Moreover, 40 percent of IT and business executives worldwide believe that adopting a platform-based business model and engaging in digital ecosystems are very critical to their business success.²

KEY TAKEAWAYS

- > An increasing number of enterprise ISVs are reorienting their business to platform strategies.
- > Developer ecosystems are the core of every successful software platform, but recruiting developers is increasingly difficult.
- > Providing a clear path to ecosystem monetization is one of the most important factors in attracting developers.
- > An integration layer that connects ISVs’ existing systems to third-party commerce solutions is the least disruptive, most cost-effective way to create and monetize ecosystems.

¹ “Adopting an ecosystem view of business technology,” by Driek Desmet, Niels Maerkedahl, and Parker Shi, McKinsey & Co., February 2017

² “Platform Economy: Technology-driven business model innovation from the outside in,” Accenture, Technology Vision, 2016



What Is a Platform?

“A platform is a business based on enabling value-creating interactions between external producers and consumers.” Platforms create “matches among users and facilitate the exchanges of goods, services... thereby enabling value creation for all participants.”³



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Looking across the global market, there are already numerous examples of platform company success. In fact, the top 15 public platform companies represent \$2.6 trillion in market capitalization, while there are more than a hundred startups—mostly driven by platform strategies—with a total valuation of more than \$500 billion and growing.⁴

Not every platform is a technology company; there are car companies (Jaguar Land Rover), healthcare systems (Kaiser Permanente), manufacturers (Caterpillar), financial services providers (Goldman Sachs), publishers (Houghton Mifflin Harcourt), and many others. However, given their digital expertise and customer base, enterprise ISVs are ideally positioned to become platforms and reap the wide range of benefits they can deliver.

The Core of Every Successful Software Platform: A Developer Ecosystem

Salesforce.com is a software industry pioneer. When the company launched in 1999, it was one of a handful that offered SaaS business software, a revolutionary product at the time. Less than 20 years later, in August of 2017, Salesforce.com announced that it had reached a \$10 billion revenue run rate faster than any enterprise software company in history.⁵

One of the main reasons for Salesforce.com’s success is that it recognized the importance of developer ecosystems early on. In 2005, the company launched its AppExchange, a marketplace for business applications purpose-built for the Salesforce.com platform. Today, the AppExchange offers more than 3,000 applications and components that extend and add value to Salesforce.com’s core products.

³ “Platform Revolution: How Networked Markets Are Transforming the Economy and How to Make Them Work for You” by Geoffrey G. Parker, Marshall W. Van Alstyne, and Sangeet Paul Choudary

⁴ “People First: The Primacy of People in a Digital Age,” Accenture, Technology Vision, 2016

⁵ “Salesforce Announces Record Q2 Earnings, Surpasses \$10B Run Rate Milestone Faster Than Any Enterprise Software Company in History,” Press release, Salesforce.com



The AppExchange has been so successful that an entire economy has sprung up around the ecosystem. In fact, by 2022 IDC predicts that the “Salesforce.com economy” will generate \$164 billion in new revenue and 585,000 new jobs in the finance sector, and \$159 billion in new revenue and 638,000 new jobs in manufacturing, just to name two examples.⁶

Even more impressive, Salesforce.com has also created a viable path to monetization for its ecosystem (while generating its own sizable revenue streams). By 2022, the Salesforce.com ecosystem will be more than five times bigger than the company itself, meaning that for every dollar Salesforce.com will make, its ecosystem will make \$5.18.⁷

“Platforms beat products every time.”

MARSHALL VAN ALSTYNE
MIT INITIATIVE ON THE DIGITAL ECONOMY



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Salesforce.com is probably the most well-known enterprise software platform and developer ecosystem, but there are numerous examples of enterprise ISVs that are testing the platform waters, or are rapidly scaling their developer ecosystems. In 2012, SAP launched a developer ecosystem, and its current SAP Cloud Platform ecosystem has more than 700 partners.

More recently, Workday announced that it was opening its platform to third-party developers. As Workday CEO Aneel Bhusri explained, “Every one of our big systems integrators is lined up to either want to extend on behalf of customers, or come up with ideas where they would like to build their own intellectual property on top of the Workday Cloud Platform... Opening our cloud platform puts Workday in a strong position for continued growth for years to come.”⁸

ADP has also been a leader in this area. One of the first human capital management (HCM) technology platforms of its kind, the ADP Marketplace includes more than 90 apps that complement ADP’s core solutions. The company’s investment in its ecosystem has helped it vault past the competition. As analyst firm Constellation Research stated in a recent report: “ADP has turned the innovation corner and is becoming a next-gen HCM vendor.”⁹

The Race to Recruit Developers to Ecosystems

A growing number of executives see SaaS applications as critical to their businesses. In fact, 60 percent of organizations say cloud-based business solutions are transforming how they operate across the entire enterprise.¹⁰ With demand at an all-time high, demand for business application developers is also at an all time high, which means enterprise ISVs must recruit from a shrinking talent pool.

There are many ways to attract developers to your platform—providing opportunities for skills-building and certification, for example—but one of the most effective ways is to give developers a clear path to monetizing their products.

⁶ “The Salesforce Economy Forecast: 3.3 Million New Jobs and \$859 Billion New Business Revenue to Be Created from 2016 to 2022,” IDC, October 2017

⁷ Ibid.

⁸ “Workday results, renewed acceleration in 2020?,” by Steve Brooks, Enterprise Times, March 2, 2018

⁹ “ADP Positioned as Innovative Next-Gen HCM Vendor in New Report by Constellation Research,” Press Release, ADP, February 14, 2018

¹⁰ “The Transformation Impact of Business Apps on the Enterprise,” Harvard Business Review, 2016



In a recent survey by Accenture, 69 percent of developers said return on their investment is the most important factor when choosing a developer ecosystem.¹¹ As the analyst firm explained, “a bedrock for developers is to monetize their development investment.”

Turning back to Salesforce.com, one of the reasons the AppExchange ecosystem is so successful is that gives developers tangible ROI for their investment in the platform. For example, Salesforce.com gives its developers tools that enable them to cut development time by 40 percent compared to traditional methods. Moreover, the platform allows developers to cut the cost of quality assurance by 45 percent, and time to market by 39 percent. Once on the AppExchange, developers are able to increase market reach by 13 percent and improve their sales close rate by 39 percent.¹²



Barriers to Creating a Path to Monetization

If building the next Salesforce.com AppExchange were easy, then every enterprise ISV would already have a thriving developer ecosystem. However, there are real barriers to pursuing a platform-based, ecosystem-powered business. Some have to do with company culture and reorienting to an open, API-based model. More often than not, though, the biggest obstacles to launching or scaling a developer ecosystem are ISVs’ existing technology and processes.

Here’s the crux of the problem: Enterprise ISVs are no strangers to selling software, but almost all of their internal systems and processes are geared toward direct, first-party sales. Indirect third-party sales—transactions where the ISV may have little to no involvement with the buyer—are the fuel for ecosystem monetization, but the solutions that many enterprise ISVs have in place are simply not built for third-party commerce.

Some ISVs have tried to put a band-aid on the issue by providing a directory or listing of third-party applications that integrate with their core products. However, without true third-party commerce systems, ISVs can’t bill for or accurately pay out for transactions, or ensure a superior customer experience with on-demand provisioning. For developers, this approach turns an ecosystem from an innovative, revenue-driving opportunity into the one thing that no ISV or developer wants—a major hassle.

¹¹ “Engaging the Developer Community: What Developer Ecosystems Need to Know,” Accenture, 2018

¹² “The Salesforce Economy Forecast: 3.3 Million New Jobs and \$859 Billion New Business Revenue to Be Created from 2016 to 2022,” IDC, October 2017



Removing the Barriers to Ecosystem Monetization

To become successful platforms, enterprise ISVs must find a way to remove the technology and process barriers to ecosystem monetization. In practice, this means delivering a fully featured developer solution that can power multi-sided omnichannel commerce for every party across the ecosystem.

Since it's nearly impossible to retool first-party commerce systems to handle a third-party model they were not built to handle, there are two approaches that ISVs can pursue. The first is to rip, replace, and rebuild commerce systems with solutions that can power both first- and third-party transactions.



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To do this, an ISV would need to update every internal system related to sales, marketing, and customer management, including billing, accounting, CRM, ERP, and potentially many other mission-critical technologies. The cost, complexity, and near-certain disruption to the business make this approach a non-starter for all but the most ambitious ISVs.

The second option is to create an integration layer that connects the first- and third-party commerce systems and acts as an interface for data flowing between them. Powered by APIs, a layer of this type is among the least disruptive and most cost-effective ways to transition to an ecosystem-centric platform model.

If an ISV decides on option two, the question then becomes: Should ISVs build the integration layer themselves or work with a third-party to implement one?

“The creation of open APIs—and developer ecosystems around them—will allow enterprises to massively scale distribution of their digital platforms and services through third-party digital innovators, accelerating adoption and revenue.”

IDC¹³

Additional Ecosystems Must-Haves

In addition to omnichannel commerce, developers are more likely to develop for a platform if the ecosystem offers these specific elements:¹⁴

- > 90% market relevance
- > 78% opportunities to learn new technologies
- > 53% a focus on the latest technology
- > 44% future-looking solutions

¹³ “IDC Predictions Provide a Blueprint and Key Building Blocks for Becoming a Digital Native Enterprise,” IDC, October 2017

¹⁴ “Engaging the Developer Community: What Developer Ecosystems Need to Know,” Accenture, 2018



Build vs. Buy: The Commerce Integration Layer

No matter what the solution, the decision whether to build technology in house or work with a third-party provider often boils down to a few familiar factors. Here are the elements that enterprise ISVs should consider when making the build versus buy decision for the commerce integration layer.

Cost: Working with a third-party integration layer provider will often be more cost effective than building your own technology. Why? A proven, tested solution won't break when you launch, and working with an experienced provider can eliminate costly strategy and / or implementation mistakes.



Time to Market: Working with a partner that offers both industry expertise and technology that is easy to configure and launch can accelerate time to market considerably. Planning, integration, and deployment can be achieved in far less time than building in house.

Control: Working with a partner does not mean you can't be in control of your solution. When researching providers, select one that allows you to have control over APIs, the integration layer, and every aspect of your developer ecosystem.

Expertise: A third-party provider spends every day focused on the technology and best practices needed to launch and scale developer ecosystems quickly and cost effectively.

Security: With the right third-party provider, the research, development, and management of enhanced security features is left to ecosystem specialists.

Key Questions to Align and Get Started

Before you can make the build versus buy decision, you need to understand your organization's current technologies and capabilities. Here are a few key steps to take before you get started:

- > Assess every system involved in the order to cash process (CRM, billing, accounting, etc.)
- > Determine if existing applications provide capabilities for third-party developers or resellers to login and manage their products, orders, etc.
- > Establish requirements and scope to build support for third-party transactions outside of the existing order to cash process
- > Determine requirements and scope to develop APIs to connect systems through the integration layer



Conclusion

Platforms are transforming the software industry. This new way of doing business offers unprecedented opportunities to innovate, scale, and drive more revenue faster than ever before.

Many companies, such as Salesforce.com, SAP, and Workday, are taking advantage and creating entire economies around their platforms. The secret to their success are strong software ecosystems, but with competition at an all time high, how can enterprise ISVs attract developers?

Providing a clear path to monetization and return on investment are critical to creating a thriving developer ecosystem. However, many enterprise ISVs have legacy technology that was not built to accommodate the third-party transactions that enable ecosystem monetization.

For these companies, implementing an API-based integration layer to connect existing systems to new monetization solutions is often the fastest, most cost-effective way for enterprise ISVs to become platform leaders in the digital economy.



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No Pressure Advice from Industry Experts

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