AppDirect

INDUSTRY BRIEF

# Hypercompetitive Software Landscape Demands an Ecosystem Strategy

## Introduction

In today's landscape, what's the second most important capability for technology companies after creating a viable product? Building a software ecosystem around that product and making it part of a more comprehensive solution, rather than trying to have the product stand on its own.

If there was any doubt that we're now in an ecosystem economy, just look at any list of technology companies ranked by market capitalization. Those at the top are generating much of their revenue from the vibrant digital ecosystems they have created.

Take Salesforce, for example. Arguably, one could view Salesforce as its own economy. Together with its sprawling network of ecosystem partners, by 2026, the company's ecosystem is expected to become six times larger than Salesforce itself. Similarly, the HubSpot ecosystem is predicted to grow faster even than the company's platform, growing from $4.8 billion in 2020 to $12.5 billion in 2024.[1]

Not every company can become a Salesforce or HubSpot, but that doesn't mean they should ignore the power and urgency of creating an ecosystem to amplify growth. According to a Gartner® report, and a great indication of the importance of ecosystems, 46 percent of surveyed technology providers have created their own ecosystem, and 46 percent participate in another provider's ecosystem.[2] Likewise, nearly one-third (30 percent) plan to create a referral program by 2023.[3]

While software ecosystems are complex, a successful ecosystem is within reach for nearly any software company, given the right strategy, technology, and expertise. This brief can help you get started by understanding the trends driving the software industry toward ecosystems and how your company can launch its own ecosystem.

## Ecosystems Set to Grow to Nearly One-Third of the Total Global Economy

Digital ecosystems could represent $60 trillion in global revenue by 2025 with a potential increase in total economy share from about 1 to 2 percent today to approximately 30 percent by 2025.

**Source: "How Do Companies Create Value From Digital Ecosystems," McKinsey Digital, August 2020**

# Software Companies Face an Innovation and Talent Crunch

The SaaS model means that today's software companies can deliver more powerful, enterprise-ready technology to their customers than ever before. However, they can't deliver everything their customers need on their own—and certainly not in the condensed time frame that customers and the market demand.

The pressure to create new solutions and functionality is intense, with stakeholders clamoring for continued high growth of recurring revenue. Yet, the demand for developer talent is at an all-time high, with no immediate relief in sight. Slightly more than one-third (35 percent) of companies hope to hire more than 50 developers in 2022, while an ambitious 15 percent are intent on hiring more than 200. Many will be unable to fill all their open job listings as nearly half of employers are struggling to find suitable candidates to hire.[4]

Building a collaborative ecosystem provides an elegant solution. An ecosystem allows software companies to offload some of their R&D pressure to third parties that create and co-innovate solutions to complement their own. The result is a more robust solution for customers, value creation for the software company and its ecosystem partners, and competitive differentiation, which is critical for succeeding in an ecosystem-driven economy.

To make this work, at a minimum your company needs two components: A way to onboard your partners and a way to showcase them to your customers.

### PARTNER PRODUCT ONBOARDING AND MANAGEMENT

You need a way to easily onboard partner products, whether open ecosystem-style or by invitation only. Ideally, you should be able to onboard products yourself and/or enable partners to onboard and manage their own products and pricing using self-service workflows that let you maintain control.

### STOREFRONT

Empower your customers to discover technology products within your ecosystem with a storefront that delivers a consumer-like experience and user interface. You should be able to showcase (and eventually sell) any type of product all within the same storefront.

## Partner Programs Need a Technology Upgrade

In the software industry, ecosystems are not a new concept. Partner solution programs have been popular for decades—far longer than the invention of platform-based ecosystems. Microsoft launched its Certified Solution Provider program back in 1992. Today, 95 percent of Microsoft's commercial revenue is influenced by its partners.[5]

Make no mistake, having a partner logo wall on your website doesn't mean you have an ecosystem. Today, software companies need the right digital tools for their ecosystem to make it easy for third-party developers to participate as well as create a frictionless experience for customers.

While the specifics can vary depending on the model and structure of an individual digital ecosystem, the overarching goal for digital tools should be to make ecosystem participation and usage as straightforward as possible and enable a self-service approach, which will help you scale faster. Most often, this means deploying an ecosystem-centric platform for marketplace development that supports sign-up, partner and product onboarding, marketing, pricing, and lead tracking for a referral model. As you move to an ecommerce model, you'll need an ecosystem platform with integrated checkout, subscription management, billing and cross-partner revenue reconciliation, provisioning, and other functionality to automate and scale full monetization.

### The Era of Subscription Commerce Is Here

Almost every B2B company — 95% — now offers a subscription-based product and 97% say they rely on ecosystems to bring digital products to market and do so faster.

**Source: "The State of B2B Subscription Commerce in the New Normal," AppDirect, 2021**

# How to Launch and Scale a Software Ecosystem Quickly

Creating an ecosystem of applications that complement your core solution starts by removing process and technology barriers for the partners you want to attract. This means delivering a solution for your ecosystem partners that showcases third-party products, streamlines partner management, and gives you a path towards full ecosystem commerce and monetization.

Here are four things to keep in mind as you begin to build your ecosystem:

## 01

**Buy, don't build**—The fastest, lowest-risk way to launch your ecosystem is to buy an off-the-shelf platform rather than investing the time, cost, and resources to develop your own capabilities. Marketplace development platforms are now a proven technology category with reputable implementations.

## 02

**Configure instead of customizing**—Choose a configurable solution instead of one where you'll need to invest in creating and maintaining extensive custom code. Look for a low-code or no-code platform that puts the power in the hands of your business users to create the experience you want for your ecosystem partners and customers.

## 03

**Insist on scalability**—As your ecosystem gains momentum, you want a solution that can help you scale processes effectively and efficiently through automation. For example, your solution should enable partners to self-serve and manage their own product information and pricing. Automating lead tracking is another important enabler in scaling your ecosystem.

## 04

**Create a path for monetization**—Look for a platform solution that meets your business needs today but also lays the foundation for easily transitioning to full monetization as you expand your ecosystem and capabilities. No need to over-architect on day one when you've laid out an easy path forward for when you're ready.

## Make a Smooth Transition to Full Monetization

Many companies begin their ecosystem journey with a referral marketplace, with the goal of growing it into a full ecommerce capability.

> In a recent survey, 90 percent of business leaders say they expect to increase revenue directly attributed to their partner ecosystem, and 74 percent expect to see double digit year-over-year growth.[6]

However, owning the ecosystem or participating in other vendors' ecosystems is not an either/or proposition. Both of these goals are possible and don't have to be standalone choices.

That said, if your company's current or future goals include one of the following objectives, you'll need to plan for a platform that allows you to transition to full monetization without needing to rip and replace existing ecosystem tools.

- Own the ecosystem
- Own the customer relationship
- Make the revenue from your ecosystem a core component of your business

Here's what you'll need from your platform to make the transition from referral storefront to ecommerce ecosystem go smoothly:

- Checkout, automated billing, subscription management, and provisioning
- Vendor reconciliation and payouts, including end-to-end revenue share management
- Robust reporting and developer dashboards to track and visualize activity and success
- And other capabilities such as product lifecycle, order, and identity/access management

# Conclusion

Software companies that lag in developing an ecosystem strategy are putting future success at risk, potentially impacting their ability to generate continued revenue growth, maintain competitive differentiation, improve customer stickiness, and innovate faster. In the current hypercompetitive ecosystem economy, that could be a losing proposition.

Compare that to software companies that launch and scale an effective ecosystem. They're creating value for all involved—the software vendor, third-party developers, and customers. One of the most effective ways to begin generating that value quickly is to adopt a technology commerce platform that can monetize all partnership models and scale with the ecosystem strategy.

**Whether you are launching a new ecosystem or expanding an existing one, AppDirect is here to help. Try the AppDirect Starter Edition to get hands-on experience creating a marketplace risk free.**

1 "The HubSpot Ecosystem: Nearly $19 Billion in New Opportunity Ahead," IDC, March 2021
2 Gartner, "Emerging Technologies: Digital Solutions to Enable Ecosystems and Marketplaces," John Santoro, Mark Paine, Ilona Hansen, March 12, 2021
3 "Channel/Partner Marketing Benchmark Survey," Channel Marketer Report and Demand Gen Report, January 2021
4 "Developers Are in Short Supply," Owen Hughes, ZDNet, January 2022
5 "4 Things to Know About Microsoft's Cloud Partner Growth," Wade Tyler Millward, CRN, February 2021
6 "Channel/Partner Marketing Benchmark Survey," Channel Marketer Report and Demand Gen Report, January 2021



## ABOUT APPDIRECT

AppDirect offers a subscription commerce platform that removes the complexity of building a recurring business model. Sell any product, through any channel, on any device—as a service. Our platform opens up endless opportunities for commerce innovation, giving businesses the freedom to grow. AppDirect also powers AppSmart, a B2B technology marketplace and ecosystem connecting technology buyers with expert advisors to make it easier to sell, buy and manage telecommunications, cloud and business services.

Headquartered in San Francisco, AppDirect is trusted by brands such as Microsoft, Google, Deutsche Telekom, Jaguar Land Rover, ADP, and many more.

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