2024

# The State of Platforms

Insights on the platform business model from data on the 50 largest software companies and executive contributors.

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## Methodology

The list of top 50 software companies was taken from 'Apps Run the World' Apps Top 500 Vendors list in July of 2023. This list is based on the amount of revenue the companies generate from selling enterprise software applications, with the company producing the most revenue in the number one position.

The eleventh company on the list, Constellation Software, acquires software companies and owns hundreds if not thousands of software companies. Due to this distinct business model compared to the other companies on the list, it was removed. As a result, the company ranked in fifty-first position, Fiserv, was added to the analysis of the "top 50" companies.

### Apps and Services Marketplaces

The data on companies' apps, app marketplace features, and service marketplaces was collected based on publicly available information, including marketplaces, partner and customer documentation, and company websites or press releases. This data was collected in July, August, and September of 2023 so is a reflection of that time period.

The total app numbers reflect apps on the company's application marketplace, not cloud retailer marketplaces where possible. Both Google and Microsoft have separate marketplaces for their clouds and at least some of their business applications, like Google Workspace. Oracle has one marketplace for its cloud and business applications so in their case, the number could not be separated.

IBM also appears to lack a central application marketplace or public documentation on their marketplaces and so they may have additional application marketplaces that were not reflected in the number of apps attributed to them here.

### Number of Employees in Partnerships, Ecosystems, and Channels

Identifying the percentage of employees working in partnerships, ecosystems, and channels was obtained from LinkedIn. This was ascertained in late 2023 by navigating to the Company homepage on LinkedIn, navigating to the People tab, and then searching for the word 'partnerships,' 'ecosystems,' 'channel,' 'alliances,' 'sales,' or 'marketing' and then seeing how many employees LinkedIn surfaced for that keyword.

These are not mutually exclusive categories. Many employees may be identified as both working in partnerships and sales, for example. Individuals often have both words in their title, listed skills or job functions. "Partnerships, channel, alliances, ecosystems" was all searched to identify the total number of employees tagged with any of those four labels.

This data relies on LinkedIn's categorization so it is only as accurate as LinkedIn's ability to identify these roles properly.

Hexagon had a number of different LinkedIn pages and it was unclear if all those pages represented all the company's employees so it was removed from this analysis.

### Partnership Org Charts

This information was collected by Partnership Leaders from publicly available sources and by asking individuals who work directly for the companies on the list. FIS Global, Dassault Systemes, and Tyler Technologies were omitted as their reporting structure around partnerships was not obtained. Roper Technologies was omitted as they own at least ten different software companies and thus have a different business structure. The data represents the remaining 46 companies.

## Acknowledgements

Thank you to Balthasar Wyss, Marina Barsoum, and Partnership Leader members for their feedback and help with compiling this report.

# Introduction

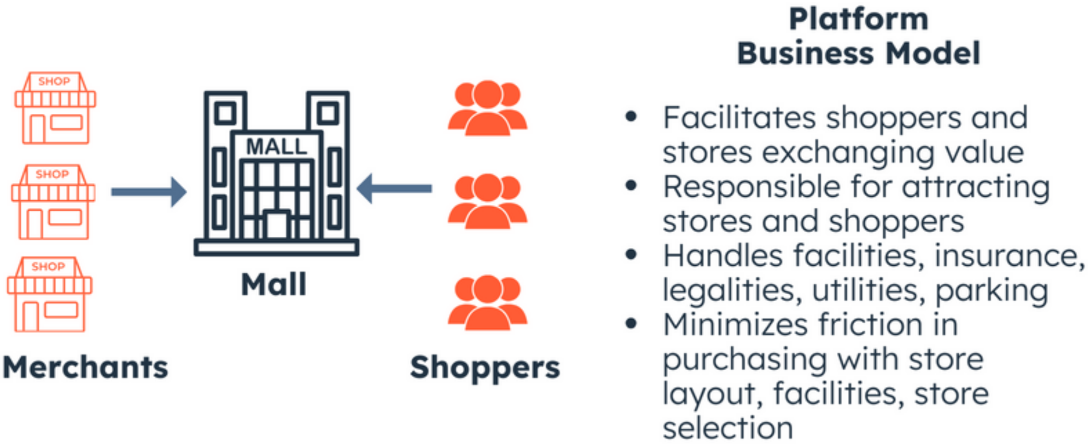
The data collected for this report shows that 50 B2B application companies driving the most revenue have a thriving ecosystem of services, channel, and technology partners. The majority of these companies have at least 700 partners, and the majority of the top 10 companies have thousands, if not tens of thousands, of partners.

This validates the rise of the platform business model in B2B software. According to leaders at McKinsey, ecosystems will drive 30 percent of the global economy by 2030. They predict that the "shift from industry sectors to customer-focused ecosystems may be the largest economic reorganization in history."

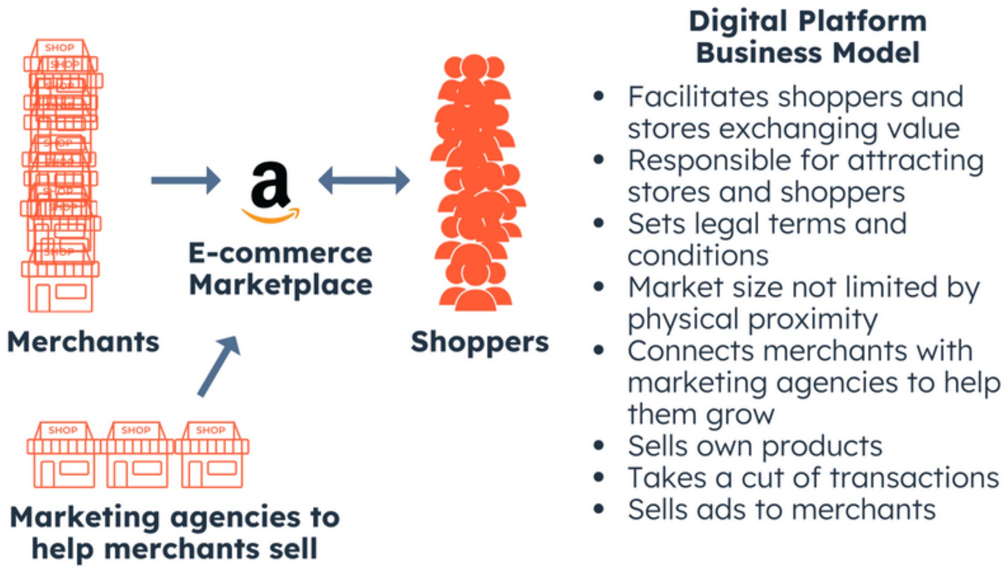
To power a significant portion of the economy today, a software company needs to build an ecosystem of partners around its platform and its products.

But what exactly is a platform ecosystem and why is it a revolutionary change in the tech industry? The platform business model has been around for thousands of years, long before the first computer. At core, a platform is any business that provides the infrastructure for third parties to exchange value.

This can be Uber facilitating riders exchanging value with drivers, a mall facilitating stores exchanging value with shoppers, or Shopify facilitating merchants exchanging value with app builders.

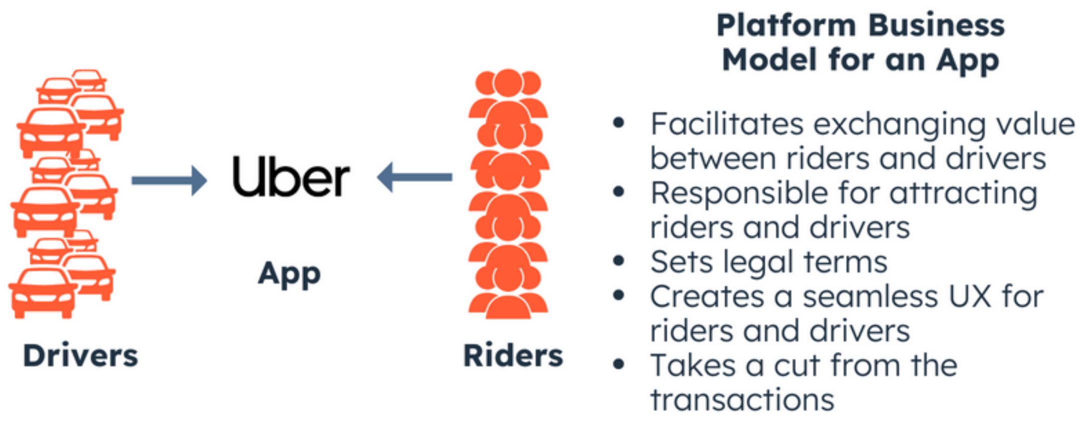



While the platform business model is as ancient as outdoor markets, technology has changed their scale. The number of participants in a digital marketplace vastly outpaces the number of participants in a market that requires the merchants and shoppers to visit in person.




With an increased TAM, more stakeholders can be introduced to the platform. Amazon, for example, connects merchants with shoppers, but it also connects merchants with marketing agencies that can help the merchants sell on their marketplace.

This model can extend to any number of apps. The "Uber for everything" concept reflects the proliferation of apps cropping up that connect consumers with third parties who have something to sell, from a ride, food delivery, pet sitting, a house rental, to excess food from restaurants.




But while there are plenty of B2B applications that connect companies that make goods or services for businesses to business buyers (such as Amazon Business), most of the top 50 software companies are not just applications connecting buyers to sellers.

Most of them are technical platforms. This - companies that are both economic platforms and technical platforms - is a recent transformation of the economy. The rise of the technical platform was only made possible through APIs and digital transformation.

Platforms like iOS, Jira, HubSpot, and Shopify built APIs and extensibility components so that third parties can build on their software. This includes app partners who can sell productized apps and agencies that can sell services customizing the platform.


**Platform Business Model for Technical Platform**

- Facilitates app partners building to platform and connecting apps with merchants
- Facilitates agencies selling, customizing, and implementing platform and connecting agencies with merchants
- Responsible for attracting merchants, app partners, and agencies
- Sets legal terms and conditions
- Creates seamless UX for customer to find services and app partners' apps
- Sells own platform and apps to customers
- Takes a cut of the transactions
- Sells ads to app partners

By introducing more invested stakeholders, the TAM around a technical platform grows larger than it ever can for an app.

Fundamentally the roles around a technical platform ecosystem are straightforward:

1. **The Platform:**
    - Pays for the infrastructure
    - Attracts the network
    - Facilitates the transactions in return for taking a cut of the value exchanges
    - Sells their platform directly to the customers and may sell components to partners

2. **The Partners:**
    - Seeking access to a large network of customers, with lowered customer acquisition costs
    - Improving their overall ROI due to the platform absorbing transaction costs and adding value to their services or products

**3. The Customers:**

- Looking for a more convenient purchasing process
- Receiving more unified solutions that enable them to better and more seamlessly meet their objectives

Understanding these core dynamics is key to designing effective strategy and operations, regardless of whether a company is a platform, a partner, a customer, or, in many cases, all of the above.

One perpetual challenge for technical platforms is that, by design, they sell their platform directly to their customers, and this inevitably puts them into competition with some of their partners. Shopify, like all technical platforms, will have functionality that competes with its app partners and professional services that competes with its agency partners. This framework adds a layer of complexity to successfully orchestrating a platform ecosystem at scale.

Apps with a platform business model can compete with their partners, but it is uncommon as it requires developing an additional function within the company, while a technical platform's competitive product features are core to their business. Uber, for example, invested hundreds of millions dollars in trying to build self-driving cars that would have competed with its drivers before giving up on the task. Eventually, they found a partner to provide those services.

Amazon is one company that has been financially successful in selling their own products that compete with partner products on their marketplace. Building an e-commerce marketplace and selling, say, batteries are two very different business functions, but Amazon has managed to do both.

The competitive-cooperative issues Amazon has encountered are similar to ones that technical platforms face: namely, concerns among sellers/partners and customers of the platform favoring their own products. Amazon has access to an incredible amount of data on sellers, buyers, and transactions, and, in theory, they can use that data to improve their own products and product strategy.

They can also feature their products more prominently in their marketplace, without having to pay an advertising fee. Without a transparent algorithm for how products are featured, sellers can wonder whether Amazon-owned brands are prioritized not for neutral criteria but because they are owned by Amazon.

If the cooperative-competition relationship is not handled well, it can drive away partners and customers. Technical platforms are not static and, over time, they will inevitably develop new features that compete directly with their partners' products or services. Technical platforms need to develop a strategy based on transparency, trust, and clear expectations.

This includes being as transparent as possible with their product road map, continuing to support customers who choose to use competing products, and driving a partner-first culture internally. This will enable platforms to continue to attract more partners and increase partner investments, despite the partners' knowledge that their products or services may eventually be deprioritized in the ecosystem if the platform launches a competing feature.

A thriving technical platform ecosystem not only requires respecting the balance between driving partner sales and direct sales, it also requires enabling successful cross-collaboration across multiple roles and partner types. Customers typically require multiple app and service partners at every stage of their journey buying and using a technical platform. Canalys predicts that by 2025, for example, a third of cloud marketplace transactions will also involve a channel partner.

A platform adds more value by facilitating connections amongst its multiple partners and customers. In addition, successful platforms make it easy for organizations to occupy multiple roles in the ecosystem. Solutions and agency partners can build and sell apps. Technology partners can build apps, send referrals, and be customers. Solutions partners and technology partners co-build around the platform, offering custom packages.

At core, the reason the list of top 50 software companies is dominated by technical platforms is that a technical platform ecosystem creates a larger flywheel than an application flywheel. The platform and all the partners align together to provide a better customer experience and a joint go-to-market.

The better customer experience leads to retention for the platform, the technology partners, and the services partners. In turn, these partners invest more in going to market together to acquire new shared customers.

This success attracts both new customers and new partners, which causes the economy around the platform to grow larger and larger.


The platform ecosystem flywheel provides a strong moat against the competition through network effects. As the number of partners grows, customers have better options, and as the number of customers grows, partners make more sales.

In addition, as customers integrate more of their tech stack to the platform, they not only receive more value, it becomes more complex and expensive to migrate off. There is little cost to switching from Uber to Lyft, but migrating from a Shopify instance with 25 integrations installed to a BigCommerce instance requires a heavy technical investment. Similarly, replacing a high performing service company that only works with Shopify is time consuming.

Partners also become embedded in the ecosystem. Service and app partners build expertise in the platform's technical infrastructure to sell more products, and their knowledge and customer base becomes more specialized to the platform.

If the platform has provided the right alignment, incentives, and community across its ecosystem, customers and partners will also be reliant on the trusted relationships they have established across the ecosystem. These relationships become a foundational part of how customers and partners are operating their businesses.

Software companies that win their market will power this technical platform ecosystem flywheel. They will continue to build better extensibility, better community, and better partner go-to-market programs.

The data collected for this report revealed that the top 5 software companies have the most apps in their app marketplaces, the highest percentage of employees working in partnerships, channels, and ecosystems, and are more likely to have a partnership leader higher up in the C-suite.

As Rob Thomas, the Chief Commercial Officer of IBM, said in May 2023, “Without an ecosystem, you don’t have a platform. And so, by definition, ecosystem went from something that was really important to something that is existential for IBM for the next couple of decades.”

This is not just empty talk. It has been backed by new investments in partner teams and programs. Thomas explained, “The most significant thing IBM did in January was to increase sales resources supporting partners by 40%. I’ve been with IBM for 23 years; we’ve never done anything even close to this in terms of a shift of resources.”

IBM is not alone in seeing platform ecosystems as a transformative shift in the way business is being done. Most large software companies are starting to realize the scope of the platform ecosystem opportunity and are making more serious investments in growing their ecosystem of partners.

Without this investment, it is impossible to capture the potential value. To some degree the investment has to be based on aggregate market data and, as Thomas phrased it, an existential belief in an ecosystem strategy. Building a platform ecosystem is not easy. Nor is it a route to a quick financial return. It is a long-term investment.

The complexity, expense, and delayed return of supporting an ecosystem is likely what deters some companies from investing more in ecosystems, despite overwhelming market evidence that, for most software companies, it is required to reach the upper echelon of growth.

The technical platform ecosystem is still a business model in flux, with best practices and internal organizational structures not clearly defined across the industry. In 2023 alone, many of the top 50 companies on the list, including ServiceNow, IBM, Workday, Zoom, Cisco, and Shopify, announced major revamps to their partner programs.

The revenue share that platforms should extract from their partners is also under debate. Google, AWS, Shopify, and Microsoft have all made significant changes to their revenue share models in recent years.

Similarly, companies are restructuring their internal teams to better support customers and partners on their respective journeys. But there is still debate and confusion around what the internal organizational chart of a platform company should look like.

At the same time that there has been a rise in the number of Chief Partner Officers, partnership, channel, ecosystem, and alliance teams are still much smaller than their sales and marketing counterparts. On average, at these top companies, the percentage of employees working in sales is 7 times higher than the percentage of employees in partnerships. The percentage of employees in marketing is almost 5.5 times higher than the percentage in partnerships.

In comparison, sales averages 1.41 times higher percentage of employees than marketing.

And the partnership leaders are not necessarily on the executive leadership team. Only 17% of the partnership leaders at the top 50 software companies report to the CEO. Most frequently, they report to the CRO or Chief Sales Officer.

Partnership leaders are thus in a challenging position. They need to oversee the execution of a new business model with fewer resources and less access to the C-suite. To drive and capture the value of platform ecosystems, tech companies need to shift the structure of their teams, processes, systems, and incentives.

The partnerships that drive a platform ecosystem are deeply cross-functional, and require support from almost all business functions.

Internal disharmony at a platform company - which can occur because of conflicting KPIs, misaligned attribution models, a lack of transparency, or opposing financial incentives - can undermine both the customers and the partners' experiences. It forces customers to coordinate across multiple vendors and teams, and partners to continually negotiate with direct sales teams and other partners.

Such time-consuming friction detracts from the primary value of a platform, which is to provide more seamless exchanges of value for all stakeholders.

Platform companies today are focused on optimizing their internal teams, their partner programs, and their revenue share models to better reflect an ecosystem strategy that is built around how customers want to buy. Partners impact the buyer at every stage of the journey, not just the point of sale. As a result, more partnership leaders than ever are reporting to CEOs, COOs, Chief Commercial Officers, and Presidents.

Not all B2B software companies should strive to be technical or economic platforms, even though that is how software companies drive the most revenue. But almost every B2B software company needs to leverage multiple platform ecosystems to grow. Platform ecosystems are incredibly important channels and are only becoming more so as buyers who grew up in the digital age acquire more purchasing power.

This report provides data on the platform ecosystems of the top 50 software companies and expert perspectives on the software platform economy, including how platform ecosystems operate, where they are headed, and best practices for leveraging the business model to grow.

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# Market and Data Insights

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# Size of Platform Ecosystems at the Top 50 Software Companies

Most of the top 50 software companies are technical platforms, meaning they both have a platform business model and provide a technical platform that partner developers can build on.

The few non-technical platforms on the top 50 list are software products either in industries with few systems to be integrated, under heavy regulation, or with no functional need to connect to many other systems.

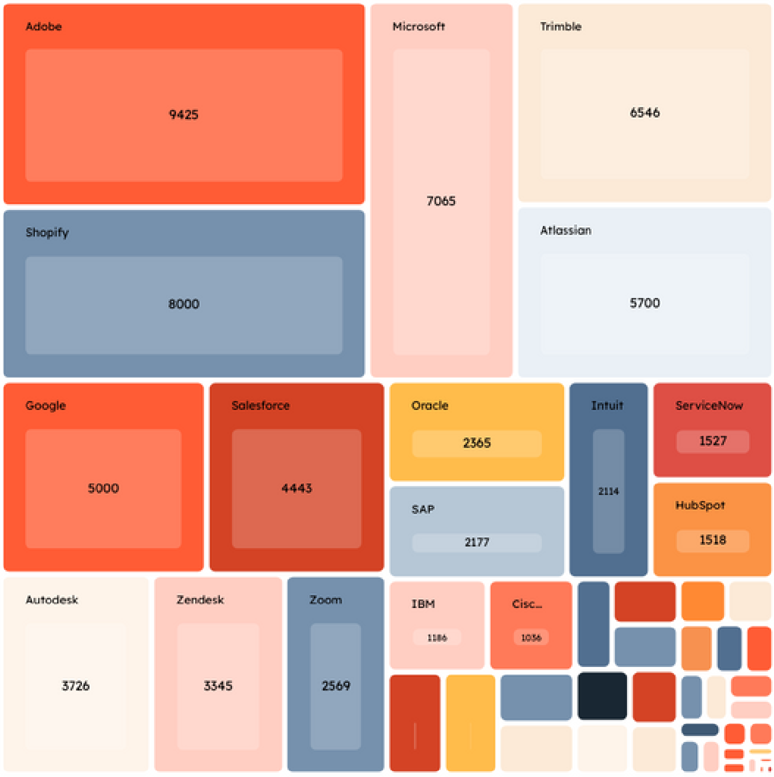
For the vast majority of the companies on this list, technical platforms like Shopify, HubSpot, ServiceNow, or Google Workspace, the ability to connect to other software and extend the platform is incredibly valuable to the customer. These platforms play a key role in their user's work and serve as a source of truth for their particular domain area.

Being able to extend the functionality and programmatically bring data in and data out of a software platform enables customers to both accomplish more objectives and work more efficiently.

This core customer need to consolidate around the platform creates the opportunity for platform companies to attract partners who can build extensions and integrations. These partners - SaaS companies or independent developers or agencies - can then sell their product to the platform's customers.

App marketplaces are where technical platforms enable partners to list their integrations or extensions and where their customers can discover, (sometimes) purchase, and install those apps.

The size of the marketplace - how many apps are listed - is one key indicator of how large the technology ecosystem is around a platform. The average number of apps in the 50 largest software companies' marketplaces is 1,498.




Apps in the 50 largest software companies' app marketplaces

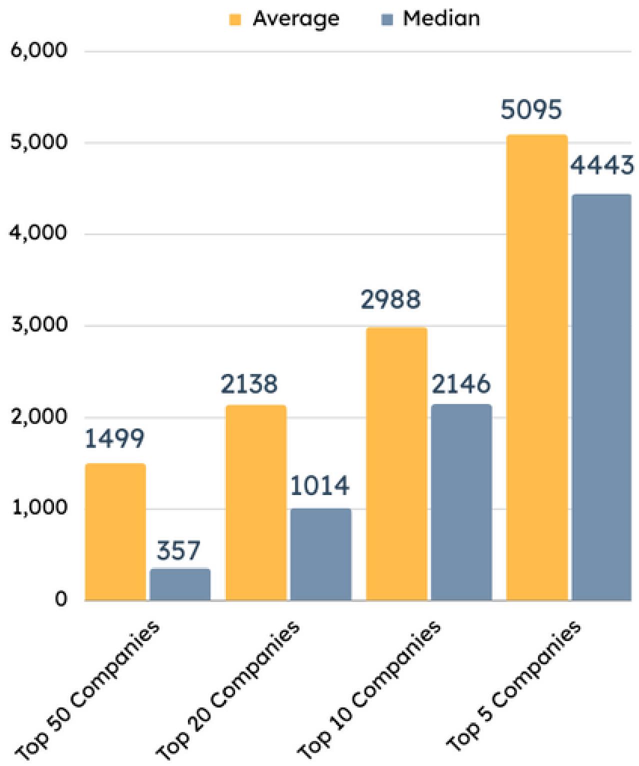
**1,498 average**

**357 median**

Even when comparing the top 50 software companies to the 20, 10, and 5 most successful software companies, there is a stark increase in the number of apps the company has in its marketplace.

The median number of apps in companies' marketplaces doubles from the top 50, top 20, top 10, to the top 5 companies, indicating a clear line of growth in ecosystem size even amongst the largest software companies.

## Number of apps in the largest software companies' app marketplaces




This data complements [earlier data collected by Pandium]() that found, in 2022, the 100 largest SaaS companies averaged 691 apps, with a median of 94. In addition, Pandium reported that the 1000 fastest growing SaaS companies averaged 98 apps, with a median of 15 apps.

The trend line between Pandium's data and the data collected for this report is clear: as software companies grow larger, they generally embrace a platform ecosystem to continue to increase revenue. Conversely, in the world of software, it is very challenging to increase revenue past a certain point without powering a large ecosystem of technology partners around the product.

# Service Partners in Platform Ecosystems

For software companies, platform ecosystems involve both technology partners and services or channel partners. For technology partners to proliferate around a platform, they need extensibility and APIs that enable them to easily build products to the platform.

A software company will often have fewer technology partners and more services partners if they are in industries or market segments where data is still heavily regulated, for example, or where customers utilize many homegrown systems.

Of the top 5 software companies, SAP has the fewest apps in their marketplace with 2,177. Most of SAP's 24,000 partners are services, resellers, consultants, and implementation partners.

SAP is very invested in their ecosystem of partners and in building APIs and extensibility to their platforms. They are one of few large companies who have a Chief Partner Officer who reports to their company's CEO. According to the IDC, for every $1 SAP makes, services-led partners drive $8.81 in economic value and software-led partners drive $10.01 in economic value.

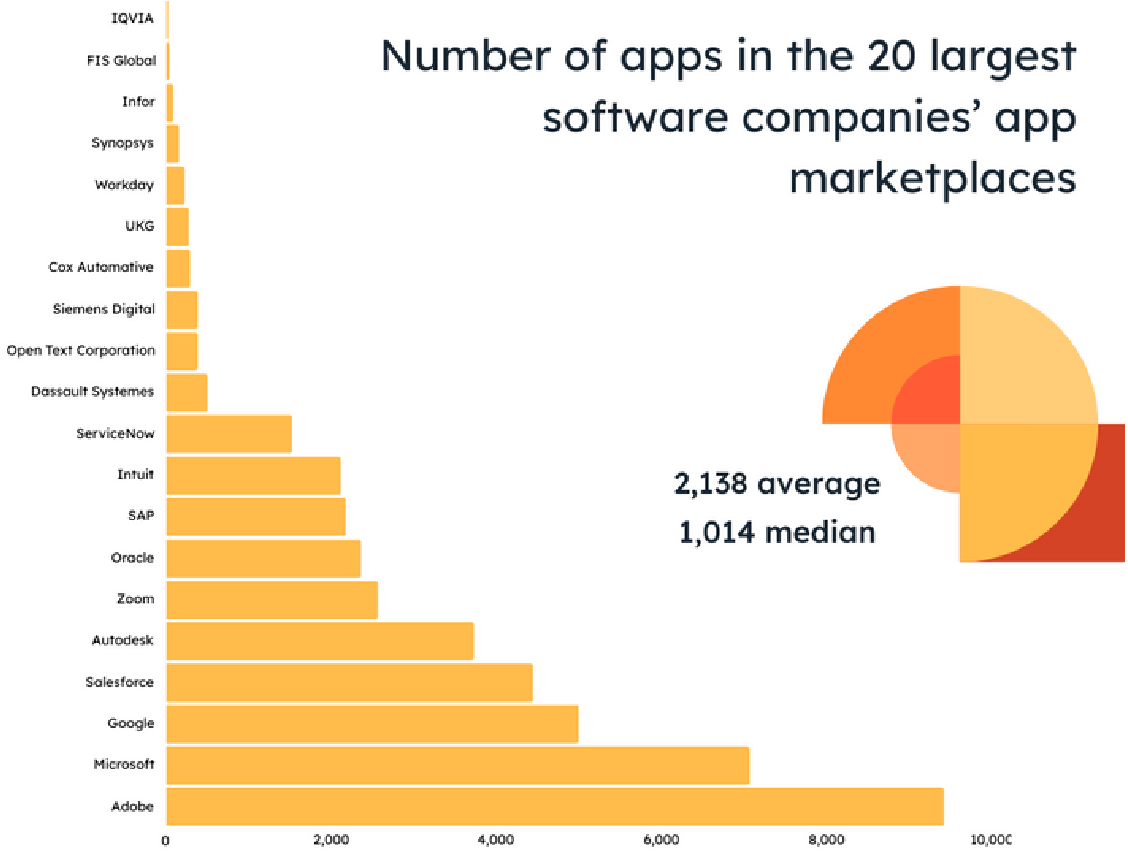
One of the reasons SAP has more service than technology partners is because SAP's technology has long been used by large enterprises, who often have highly custom needs and are in various phases of digital transformation.

In the case where customers utilize custom or niche software, a productized app that can be sold on a marketplace is driving less value. In custom situations, a service company is much more relevant as they can build custom integrations to the customer's homegrown software or legacy systems.

In addition, SAP has products that handle sensitive financial and employee information, and belong to software categories that are generally less integrated, like ERP, HR, and supply chain management software.

Compare this to Microsoft with 7,065 apps in its AppSource marketplace. These apps can integrate with or extend Dynamics, Teams, Outlook, Excel, PowerPoint and many other business line software that does not involve sharing highly regulated or personal data.

In the top 20 software companies, there are only 3 companies with less than 150 apps: FIS Global, Infor, and IQVIA.




Like SAP, Infor sells ERP, financial products, workforce, and supply chain management software. FIS Global offers financial technology. IQVIA provides healthcare software, another vertical that is not yet highly interoperable and handles highly sensitive and regulated information.

When platforms are moving data that is less regulated and less sensitive, like marketing or sales data, it is easier for companies to build more public APIs and extensibility for their partners.

This interoperability leads to a proliferation of software and technology partners as newcomers can more easily acquire customers from the platform. A marketing analytics app, for example, may invest heavily in the Zoom ecosystem by solving an attribution problem for Zoom Webinar customers and extending the platform in a key way.

This is not a loss to Zoom: in such a case, the marketing analytics app gets a new customer, the Zoom platform becomes more valuable to the customer and thus stickier, and the customer is more satisfied with both the analytics startup and Zoom than if the tools were not integrated.

But this requires Zoom to build accessible APIs and extensibility.

When systems have fewer APIs or little extensibility - which tends to be true in healthcare, financial, government, and other industries with more heavily regulated data - the platform generally continues to build more features to meet the customer needs, but accepts that not all customer needs will be fulfilled. Point solutions from would-be partners of the platform have to deliver enough value as a standalone solution or one that has a limited integration.

Unless interoperability improves, the number of productized solutions around a platform will only grow so high. In contrast, when point solutions can deeply extend a core technical system, there is an almost infinite number of point solutions that can continue to be added to meet niche customer needs or extend functionality further.

Service partners can provide custom development work for individual companies when extensibility is limited either by the platform or the customers' legacy systems. But service partners can also flourish around platforms that are highly extensible. Microsoft, for example, has over 7,000 apps in their AppSource Marketplace in addition to over 30,000 in its Azure Marketplace, and it reports having more than 400,000 partners total.

This complexity of increased extensibility and thousands of point solutions can support more service partners as they become experts in customizing the platform through both development and supporting the integrated point solutions.

## Key Takeaways:

- The top 50 software companies have an average of 1,498 and a median of 357 apps in their app marketplaces. The top 5 software companies, in comparison, have an average of 5,095 and a median of 4,443 apps.
- The majority of the top 50 software companies are technical platforms that attract a large number of technology partners to build to their platforms. Ones that are not are primarily in industries with heavily regulated data or legacy or custom systems.
- Service partners can provide custom development services in ecosystems with restricted extensibility, and provide custom development and management of integrated point solutions in ecosystems with high extensibility. The top 50 software companies typically have at least hundreds of service partners, and the top 5 software companies have at least thousands.

02

# App and Services Marketplaces

Marketplaces are a foundational mechanism by which platforms connect customers and partners to facilitate exchanges of value. Canalys predicts that $45 billion in software and services sales will go through cloud marketplaces by 2025. Businesses are more interested than ever in purchasing digitally, and all of B2B e-commerce hit 1.7 trillion in 2021.

According to McKinsey, businesses view B2B e-commerce as the most effective sales channel - preferable to in-person, phone, email, or video channels - and most businesses are now willing to spend over $500,000 in a single e-commerce purchase.

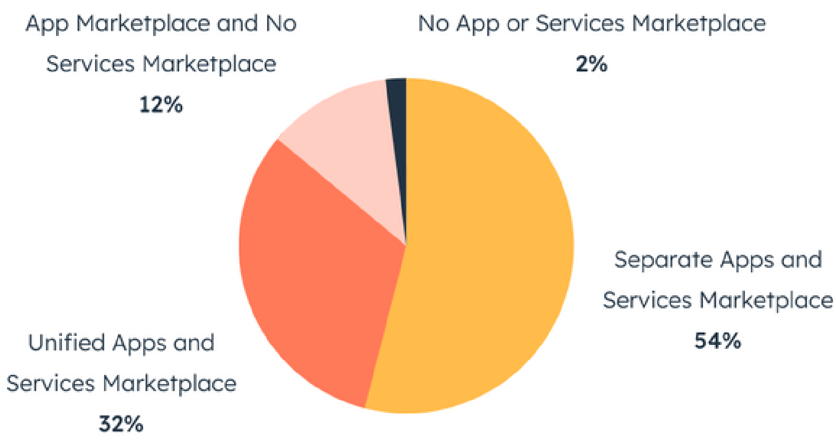
Yet most software companies' app marketplaces are not yet transactional and even fewer sell partner services through a marketplace. The marketplaces most likely to be transactional are technical platforms with large ecosystems.

Nearly half of the top 50 software companies have transactional app marketplaces, for example, compared to research from Pandium that shows only 14% of the top 100 software companies and 5% of Series D software companies have transactional marketplaces.

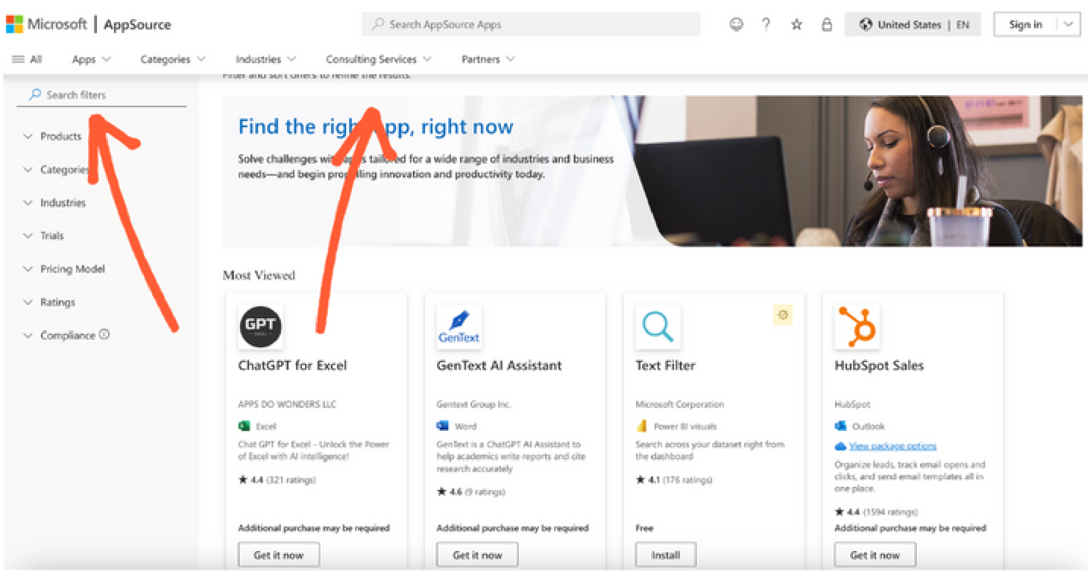
Whether a platform's marketplace is transactional or not, it serves to help customers connect with partners. All but one of the top 50 software companies have an app marketplace.

Services marketplaces are commonly referred to as service directories, but here the labels marketplace and directory are being used interchangeably. Eighty-six percent of companies in the top 50 have a services marketplace where customers can search for a services provider.

## Unified and Independent Marketplaces at the 50 largest software companies

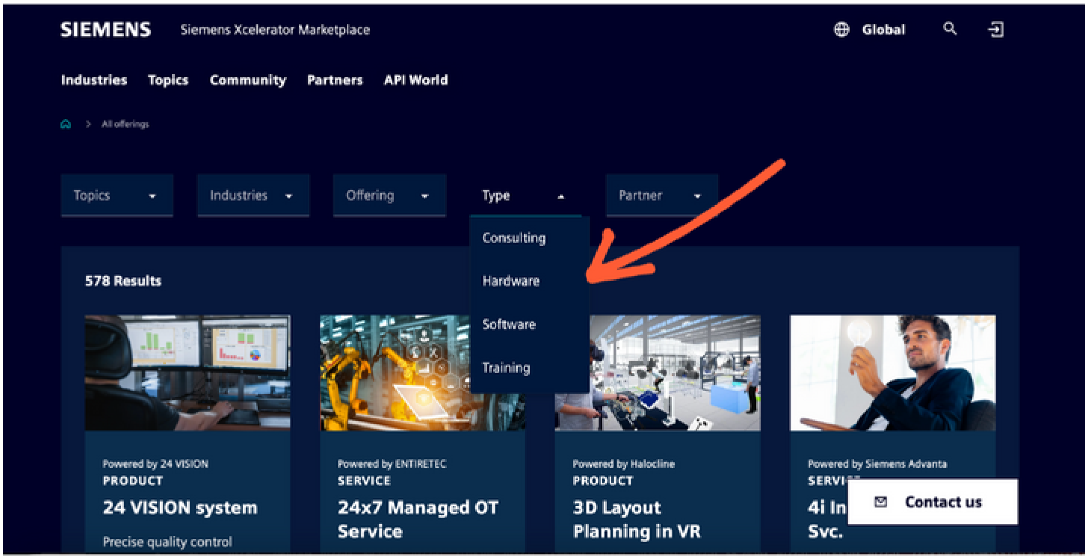



Nearly a third of top software companies have a unified app and services marketplace where a customer can find both a services and app partner in the same place. This typically means the top of the marketplace has one tab for services and one tab for apps, and the structure of each homepage is the same, though the filters may be different.




*Credit: Microsoft AppSource*

In some unified marketplaces, apps and services are listed on one homepage and must be distinguished by using filters displayed on the left hand side of the marketplace or from a drop down.

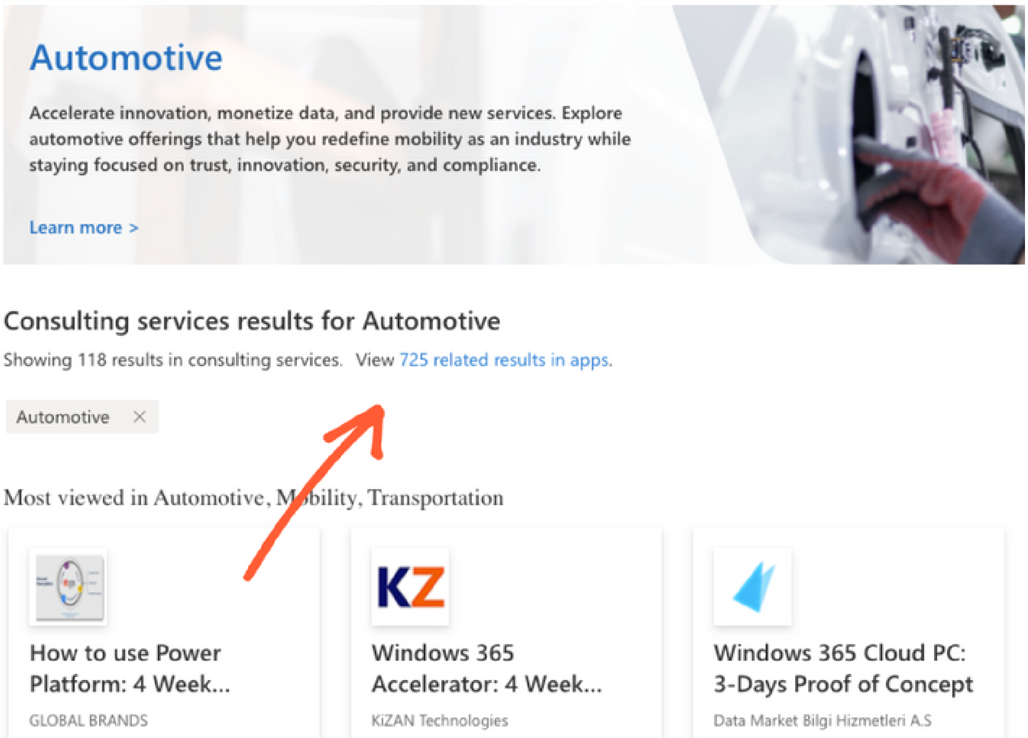



*Credit: Siemens*

The unified marketplace provides a one-stop shop for finding a partner to help extend and service the platform. Taking it a step further, some unified marketplaces recognize that many customers will need both an app partner and a service partner to help accomplish their goal and surface related suggestions.

When a user filters for Automotive services, for example, in the Microsoft AppSource, it will suggest related Automotive apps. Similarly, if the user searches for an Automotive app, the marketplace will also suggest and link to agencies that provide automotive services.

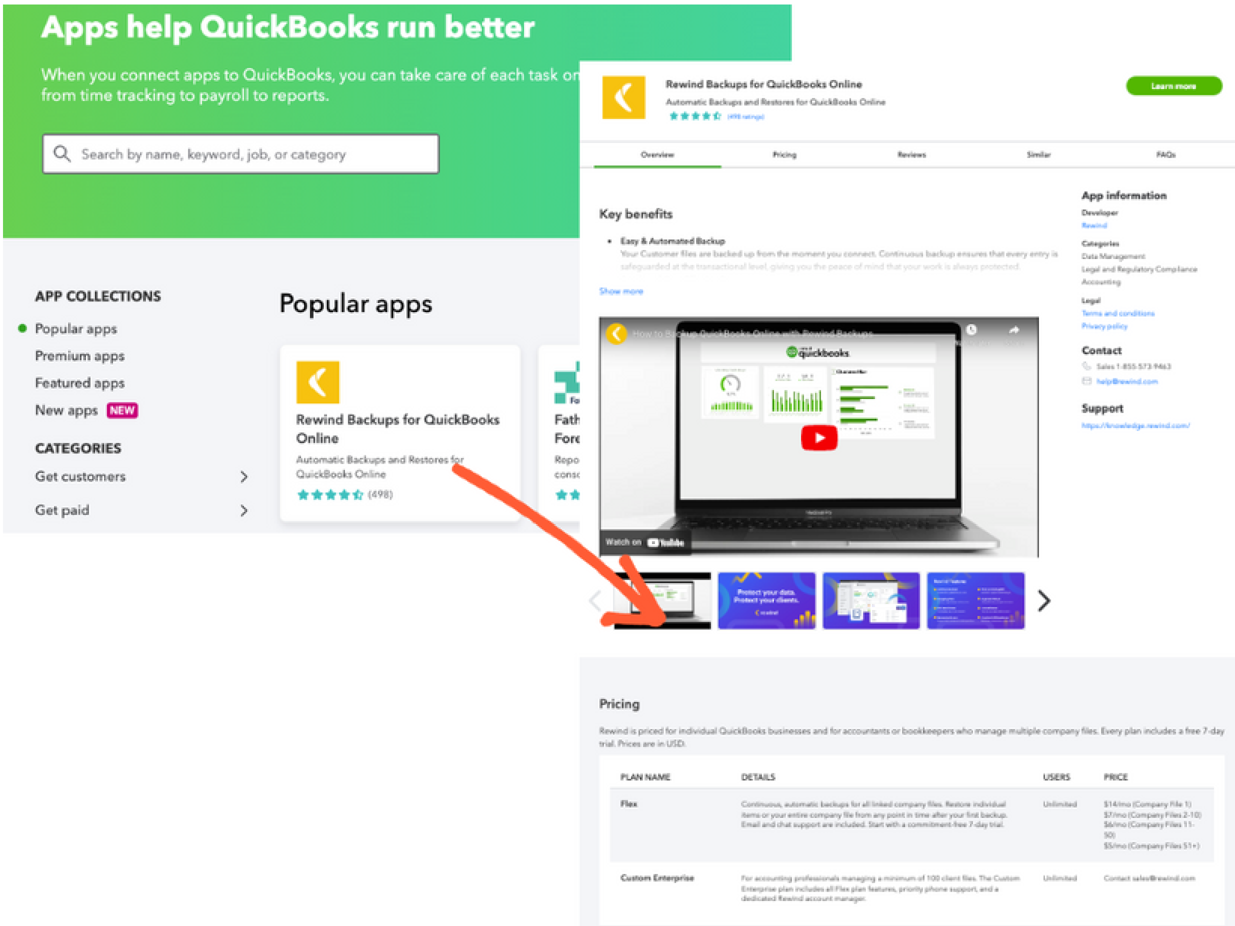
*Credit: Microsoft*



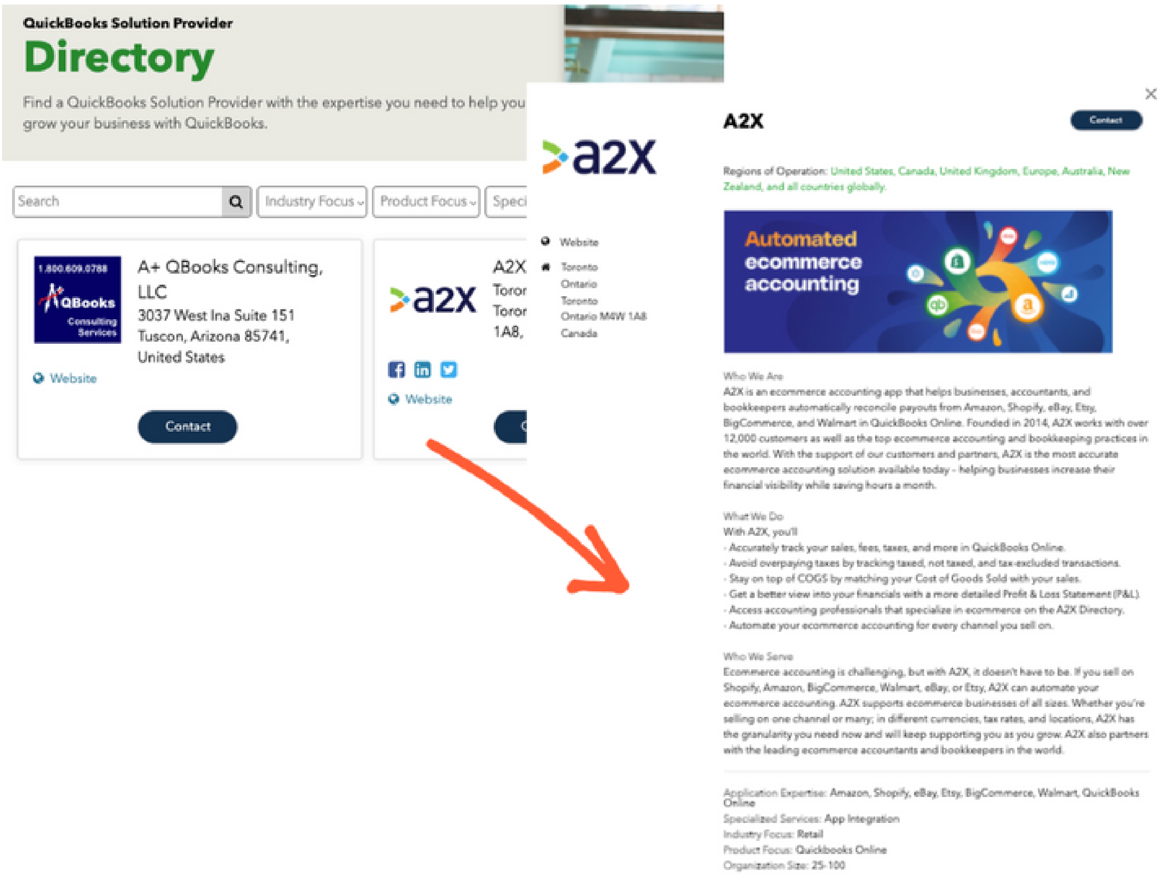
These cross-ecosystem features can also exist in companies with separate app and services marketplaces. The HubSpot Solutions Partner Directory, for example, has ‘integrations’ as a filter in their Solutions Partner Directory so customers can easily locate services partners who are, for example, self-identified experts in Aircall or PandaDoc, HubSpot app partners.

Similarly, Quickbooks’ service provider listings has a line to specify what other systems and apps the services partner is an expert in.

A little over half of the top 50 software companies have two separate marketplaces, one for apps and one for services partners. In these cases, the features of each are more customized to the partner type. Compare, for example, the layout for the Quickbooks app marketplace and service marketplace.




*Quickbooks’ App Store, Credit: Quickbooks*




*Quickbooks' Solution Provider Directory, Credit: Quickbooks*

The information, filters, reviews, demo video, and the call to action differs in Quickbooks' services and app marketplace to better help the customer connect with the right partner.

The decision to unify app and services marketplaces depends on the nature of the buyer and transaction. In many cases, the marketplaces are separate not due to a strategic choice, but because they were built from different functions within the company at different times.

The advantages of separate marketplaces are increased customizations around the partner and customer experience and the ability to continue to tailor the experience over time. The disadvantages may be added navigation, lower discovery, a more disjointed partner experience, and separate research processes for the customer.

Organizations should seek to understand the customer journey and how they prefer to connect with partners to optimize the UX of their marketplaces. Consider whether customers may be searching for both a service partner and an app partner at the same time or for one project. Know whether customization is necessary because of the partner agreements around monetization or required CTAs.

Whether partner marketplaces are unified or not, they should help the customer more easily find the type of partner they are looking for with the minimal amount of additional research and time. This benefits the platform, partners, and the customers.

Large consumer marketplaces typically have more advanced marketplace features and it is likely B2B platform marketplaces will adopt more of those features as the volume of transactions grows. In his contribution to this report, Peter Evans, the Chief Strategy Officer at McFadyen Digital and Co-chair of the MIT Platform Strategy Summit, covers marketplace strategy and how platform marketplaces should be looking to adopt deeper features like AI-based search, facilitation across partner types, dynamic pricing and bidding, and customized recommendations that create a better exchange of value for both customers and partners.

## Key Takeaways:

- Over half of companies have separate app and services marketplaces. Almost a third (32%) of top companies have a unified marketplace.
- Almost 15% do not have a services marketplace at all, compared to 2% who lack an app marketplace.
- Marketplaces can improve the customer experience by suggesting related services or apps when the customer is searching for one partner type. Looking to the future, platform marketplaces should adopt deeper features, like AI-based search, facilitation across partner types, dynamic pricing and bidding, and customized recommendations that create a better exchange of value for both customers and partners.

03

# Partner Experience and the Monetization of App Marketplaces

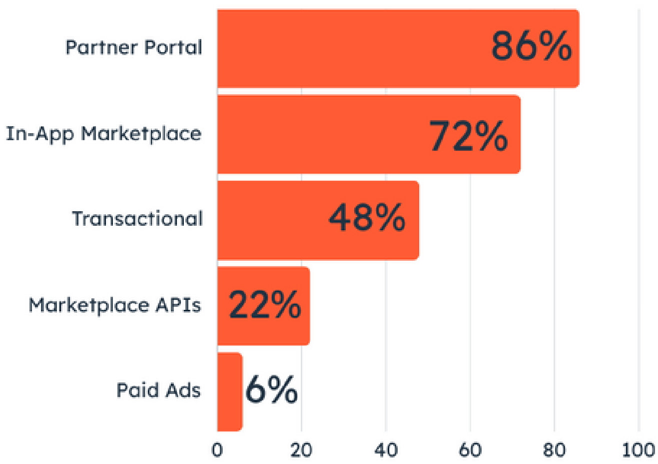
The partner experience around a marketplace requires an easy way for partners to submit, update, and track their app listing and results. This is typically managed through a partner portal, and 86% of top companies provide one to partners.

Partner portals enable partners to manage their marketplace listing and view analytics on their app's performance. It may also provide them with the ability to register a deal, access marketing assets, receive leads, see listing analytics, or request support.

An in-app marketplace enables the customer to login and install or purchase the app from the marketplace. Marketplaces that are not in-app are public websites with information on the apps and require the customer to install or purchase the app another way.

Nearly three quarters of top software companies have built an in-app marketplace. In-app marketplaces benefit the customer as they make it more seamless to install or purchase the app. This in turn benefits partners by driving them more business.

### Percentage of 50 largest software companies with these app marketplace features




In-app marketplaces also typically provide partners with analytics around the app. These analytics can include listing views and interactions, installs, uninstalls, uninstall reason, leads from customers who interacted with the listing, and, if relevant, transaction summaries.

Industry wide, most app marketplaces, despite the name, are not transactional. In non-transactional marketplaces, the customer can browse for apps and potentially install them if they are free, but they have to go to the partner site or the platform checkout to purchase the app or the product the app is integrated to.

Generally only platform ecosystem nodes can successfully have transactional marketplaces. Customers see value in consolidating their billing and purchase experience around their system of record. But consolidation means only so many systems can process the transactions. As a result, the larger the software company and its ecosystem, the more likely they are to have a transactional marketplace.

Nearly half of the top 50 software companies are transactional. As one would expect, the percentage of transactional marketplaces drops the smaller the company size and its ecosystem. Pandium found, for example, that only 14% of the top 100 software companies and 5% of Series D software companies have transactional marketplaces, a significant drop from the top 50 covered in this report.

Most commonly, platforms take a revenue share from partners when they build a transactional marketplace. These fees typically vary from 3% to 20% of the purchase. In the last few years, both consumer-facing marketplace and B2B platform marketplaces continue to experiment with the revenue shares they take from partners.

In 2021, Shopify removed their revenue share entirely for the first 1 million their app partners transact, and lowered it to 15% for any additional revenue. Similarly, Microsoft and Oracle lowered their revenue share from 20% to 3% in 2021, and AWS lowered theirs to a flat 3%, effective January 2024.

In 2022, SAP created a free tier for partners to publish free solutions in its marketplace, reduced its lowest tier partners' fees from 20% to 15%, and kept their highest tier partners' fees at 25%. Autodesk currently takes 0% of all its app marketplace transactions, but explicitly notes "at some point in the future," they may raise the fees up to 30%.

Revenue shares often differ by partner tier or by product line. Atlassian, for example, takes a 15% revenue share for cloud apps, and a 25% revenue share for data and server apps. Adobe's Creative Cloud Marketplace takes 10%, while its Commerce Marketplace takes 15%.

These fees are set depending on what partner behavior the platform is trying to motivate. Shopify, for example, removing their fee on the first one million in sales for app partners will incentivize more app partners to get started and smaller developers to build to Shopify.

Other factors include the human tendency to believe there is a connection between the quality of a service and the price, meaning 0% fees could lead to partners devaluing the marketplace. Lower revenue shares can also be viewed by the platform as covering the operating costs of the marketplace. When Microsoft lowered their fees from 20% to 3%, they explained, "Our fees are only intended to offset our operational costs of invoicing and billing customers, and operating the marketplace."

There is also a competitive element to fee structures as platform ecosystems that operate in the same space compete for partners. Microsoft, for example, was the first cloud marketplace to lower their fees to 3% in 2021, and said, "We are not trying to take a share of our partners' revenue. Our ecosystem is a channel for us to help partners sell their solutions, not the other way around, unlike other cloud vendors."

Google cut their cloud marketplace fees to 3% mere months later, and AWS, who already had fees that were around 5%, ended up cutting theirs to 3% two and a half years later.

For partners listing on the marketplace, a revenue share extracted as part of a transactional marketplace is a business loss. But it may be a net gain if it leads to more customer purchases and more go-to-market investment from the platform.

As the revenue from app marketplaces is not typically a large portion of a SaaS company's total revenues, platforms may decide to reinvest the revenue share back into the ecosystem. SAP, for example, explains their higher revenue shares for higher tier partners by the deep support and access they provide to those partners.

The top 50 software companies do not typically publicly report the revenue they make directly from their app or service marketplace. Despite not being a large portion of their revenues, for large platforms that charge 10-30%, it is likely still a meaningful amount of revenue. But the revenue from transactions is only a small portion of the economic value that platforms drive by providing a marketplace.

Atlassian is a company that does partly report their marketplace revenue in their financial statements. In their 2023 fiscal year, they report transacting $700 million for third party apps in its marketplace. Atlassian has varying revenue shares for different apps, but they usually take 15-25%, which could potentially put their direct revenue from the marketplace in the $100 to $140 million range.

This aligns with the fact that Atlassian reports its marketplace revenue but includes perpetual licenses and some technical services in the same line item, which collectively added up to over $229 million for 2023.

With over $3.5 billion in annual revenue, depending on how much revenue they make from perpetual licenses and some technical services, Atlassian's Marketplace revenue likely represents somewhere around 2.5-3% of their total revenue. In its risk factor section of its annual report, Atlassian notes that if the Atlassian Marketplace "does not continue to be successful, our business and results of operations could be harmed."

This is explained in part by them believing a successful marketplace will continue to "supplement our promotional efforts and build awareness of our products, and … facilitate greater usage and customization of our products."

In other words, while the direct revenue is certainly valuable, Atlassian also sees its Marketplace as part of its platform ecosystem flywheel: a way to jointly go to market with partners and to improve the customer's experience of their own products.

In order to power that flywheel, transactional marketplaces may invest back in the partner experience so that partners are able to sell more successfully. AWS, for example, doubled their marketplace upgrades from 2022 to 2023 and plans to continue this trend in 2024, adding more "features, integrations, and APIs." Forrester found that sellers on the AWS Marketplace are able to close deals 50% faster and for 4 to 5 times more.

Almost half of the transactional marketplaces at the top 50 software companies provide marketplace APIs. These APIs typically enable partners to programmatically pull marketplace data around their app, their listing, and their transactions.

This avoids having to export or copy data from a partner portal, and makes it easier to report on the transactions. It encourages partners to invest more seriously in the marketplace as a channel. No top 50 company without a transactional marketplace offers marketplace APIs.

Other ways companies invest in the partner marketplace experience is providing them with access to marketing resources and other services to improve their listing and outcomes. Adobe, for example, provides packages the partner can buy. These services are delivered by an agency that Adobe contracts, creating a larger ecosystem of stakeholders.

Amazon's consumer marketplace takes this one step further and provides a directory of partner agencies its sellers can connect with to help them run better ads in the marketplace.

Few B2B software company marketplaces offer paid promotion within their marketplaces. Of the top 50 software companies, only 6% have paid promotional opportunities in their marketplace.

Salesforce, one of the three top 50 software companies that have ads, offers a variety of advertising packages to both app and service partners to purchase a more prominent placement in their AppExchange marketplace. These range from $2,500 to $20,000.

The general lack of ads in top app marketplaces is the opposite to large consumer-facing marketplaces, like Amazon, Etsy, Ebay, and Walmart, all of which offer sellers the ability to pay to promote their listing to consumers.

This is a growing source of revenue for consumer marketplaces. Amazon made $38 billion and Walmart made $2.7 billion from paid ads in 2022.

Though the largest consumer marketplaces are processing a higher volume of purchases and data, most likely, this option will become more common in B2B marketplaces as they continue to expand as channels.

In addition to driving revenue for the platform, ads enable a wider swath of partners to grow in the ecosystem. Traditional marketplaces feature apps in order based on their partner status or recognition, volume of positive reviews, purchases, or installs. This gives larger and incumbent companies more visibility when a customer is searching for a particular type of app or product category.

With ads, newer companies who may not have as many purchases or reviews can pay to get more visibility. Customers can benefit from this by being exposed to more products who have signaled through their ad expenditures they believe in the value of their product for the marketplace customers.

Of course, the impact of ads on the customer experience can be mixed. Marketplaces can undermine the customer experience if they allow too many ads or make ads so prominent they interfere with the customer's ability to find what they need.

Marketplaces are able to more accurately provide data to sellers on their conversion rates and customer segmentation compared to traditional advertising that leads the customer to a different site for purchases. With transactional marketplaces, the ad targeting, conversion, and purchase data exists entirely on their platform.

This end-to-end data can enable partners to more accurately target their ads, which, if that occurs, better serves customers as the ads they see are more suited to their actual interests.

Shopify introduced ads to their app marketplace in late 2023, explaining that 60% of installs came from customers searching the marketplace, which favored the more established apps that are displayed first. Ads would be an opportunity for newer apps to get more visibility and jumpstart their following and growth.

As B2B app marketplaces grow larger and process more transactions, ads may become another potential avenue to drive more value for the platform, the partners, and customers.

More broadly, business buyers continuing to embrace digital purchasing options will lead to the role of app and service marketplaces for platforms and their partners becoming a more pivotal source of revenue and value exchange facilitation.

## Key Takeaways:

- Over 85% of top software companies offer a partner portal for their app marketplace. 72% offer an in-app marketplace where customers can install the app directly from the marketplace.
- Nearly 50% of top 50 software companies’ app marketplaces are transactional. This compares to 14% of top 100 software companies and 5% of Series D companies as reported by Pandium.
- Transactional marketplace typically extract a fee from partners ranging from 3% to 20%, but these fees may lead the platform to invest further in the partner experience and partner go-to-market. 22% of top companies built marketplace APIs, for example, and all of those have transactional marketplaces.
- Only three top software companies provide paid ads in their marketplace. However, most consumer marketplaces do, and as volume and transactions grow for B2B software marketplace, moderate ads might benefit partners and customers.

04

# The Size of Partnership Teams and their Reporting Structure

Large platform ecosystems need internal functions to support the partner experience, partner operations, and to orchestrate the experience across stakeholders, including customers. This is an incredibly complex task that has to dot line through the entire business to be effective.

The rise of the Chief Partner Officer is a sign that organizations understand the difficulty - and the immense value - of supporting a platform ecosystem. The Chief Partner Officer is an executive leader who is responsible for ensuring the platform and partners are aligned in driving value together in service of the customer.

When SAP first created the role of Chief Partner Officer at their company in 2019, they issued a press release stating, “IDC estimates SAP’s partner economy to be about US$100 billion and projects that to double over the next five years … To help reach that potential, SAP is developing a next-generation ecosystem, which will refine the partner experience and allow partners to innovate and develop their own IP on SAP Cloud Platform.”

Their newly appointed Chief Partner Officer explained further, "The role of the partner for us at SAP has evolved. We don't see the partners anymore as only indirect when selling or reselling through partners. We see partners playing a key role across the entire life cycle of the customer."

Similarly, Microsoft created this role in 2022, announcing, "Nicole [Dezen]'s elevation to CPO at Microsoft shows our new, deeper approach to channel and ecosystem leadership and advocacy … the increased investments we continue to make in our partner business demonstrate the importance of our ecosystem, the needs of our partners and the opportunity we have to serve customers together."

Elevating partnership leaders from overseeing channel sales to overseeing a platform ecosystem that accounts for every stage of the customer journey increases the scope and impact of their work.

Yet even on the list of top 50 software companies, this evolution is still in progress. Only 10% of the highest ranking partnership leaders at the top 50 software companies have "Chief" in their title.

The most common title of the highest ranking partnership leader is VP, with SVP and "Head of" the second and third most common titles.

In addition, the partnership leader only reports to the CEO 17% of the time.

Most of the time, they report to a different C-suite executive. In the traditional channel sales model, partnerships reported up to sales. A sales leader is still the most common executive for a partnership leader to report to.

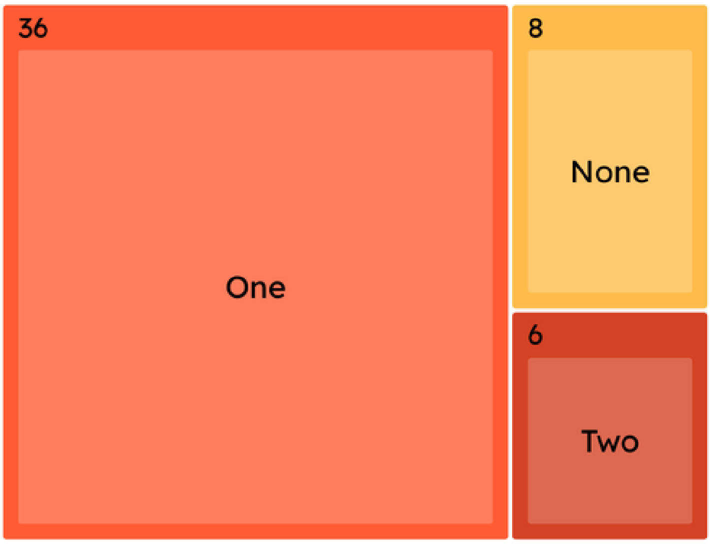
But this has diversified with the recognition that platform ecosystems are deeply cross functional and go well beyond the point of sale: even though nearly a third of partnership leaders report to the CRO or Chief of Sales, nearly 39% of partnership leaders report to the CEO, President, COO, or Chief Commercial Officer.


*Credit: Partnership Leaders*

Marketing has long struggled with the same issue of having inconsistent C-suite access, with almost half of B2C CMOs not reporting to the CEO. In addition, over 40% of Fortune 500 CEO's executive committees do not include the CMO.

Reporting directly to the CEO is certainly not necessary for success or C-suite influence, but it is one indicator of how the organization views a function, including partnerships. Most of the highest ranking partnership leaders skip level to the CEO.

## Number of Executives Between the Partnership Leader and the CEO




*Credit: Partnership Leaders*

Partnership leaders who oversee all partner types are more likely to report to the CEO or skip level to the CEO. Seventy percent of partnership leaders who report to the CEO are unified partner leaders. They are also more likely to report to a President, with 10.3% of unified partner leaders reporting to the President compared to 0% of non-unified partnership leaders.

Non-unified partnership leaders are less likely to report to the CEO as their scope is smaller and they are more focused on particular stages of the customer journey.

In 64% of top companies, there is a unified partner leader that oversees all partner types. In the remaining 36%, there are two or three partnership leaders who are peers overseeing different partner types.

For the top 10 software companies (omitting Dassault Systemes, whose reporting structure was not obtained), 89% have a unified partner leader. The one exception has a unified partner leader for all business outside of cloud, which has its own unified leader for the cloud products. This heavily suggests the largest platform companies are moving toward unifying partner types under one partnership leader.

## Partnerships Org Structure at the Top 9 Software Companies

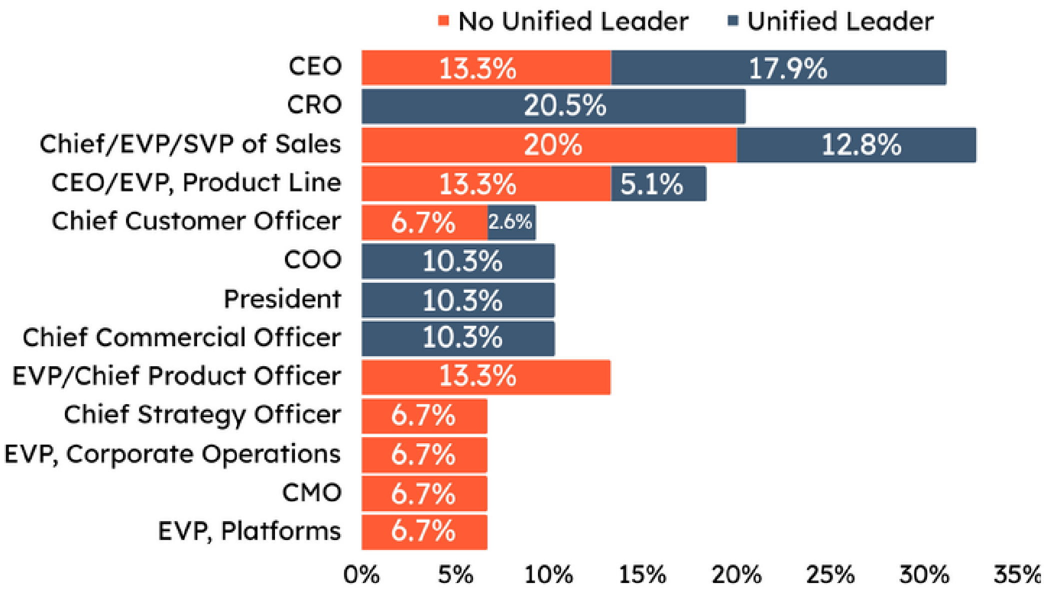
*Ommitting Dassault Systemes

| | | | |
|---|---|---|---|
| Chief Partner Officer → | President, Industry and Partner Sales → | EVP and Chief Commercial Officer → | CEO |
| EVP and GM Global Alliances, Channels, and Emerging Products → | President, Global Strategic Customers, Channels, and Alliances → | COO → | CEO |
| | | Chief Partner Officer → | CEO |
| | VP of Business Development → | EVP Experience Cloud → | CEO |
| Same Company | SVP, Head of Strategic Partnerships and Global Ecosystem → | EVP Corporate Operations → | CEO |
| | SVP, Cloud Partner Ecosystem → | EVP NA Cloud → | |
| | SVP, Business Operations and Ecosystems → | EVP and GM, Small Business and Self-Employed Group → | CEO |
| | SVP, Global Partnerships → | Chief Commercial Officer → | CEO |
| | Global SVP Partnerships → | Co-President → | Co-CEO |

*Credit: Partnership Leaders*

As Laura Padilla, who ran all partner types at Zoom, explains in her contribution to this report, one partnership leader owning all partner types makes it easier for organizations to prevent conflict across partners and align incentives across the customer journey.

Reporting Structure by Whether Partnership Leader Oversees all Partner Types




*Credit: Partnership Leaders*

Splitting the partner types under different partnership leaders may align those partners more closely with one function. If channel or agency sales, for example, is run by one partnership leader and technology partnerships are run by another, it may make sense to have the former report to sales and the latter report to operations or product.

This advantage of partnership leaders reporting to different functions can be tighter alignment with functions that may deeply impact their goals. The risk is different partner types become siloed from each other and from other internal functions that might help them drive more impact for the customer and the platform.

Because unified partnership leaders align less with particular functions that overlap with one partner type, they typically report to executives with broad commercial scope, such as the CEO, CRO, President, or COO.

The model trending toward a unified partnership leader at the top 50 software companies suggests that it may be the best framework for providing internal and external alignment. As different partner types collaborate or take on different roles, it may be that a unified leader can better ensure a consistent partner and customer experience. This expanded scope can also give the leader greater power within the organization, which, in turn, can aid them in acquiring C-suite influence and orchestrating alignment across all stakeholders that power the platform ecosystem flywheel.

# Number and Type of Employees Working in Partnerships

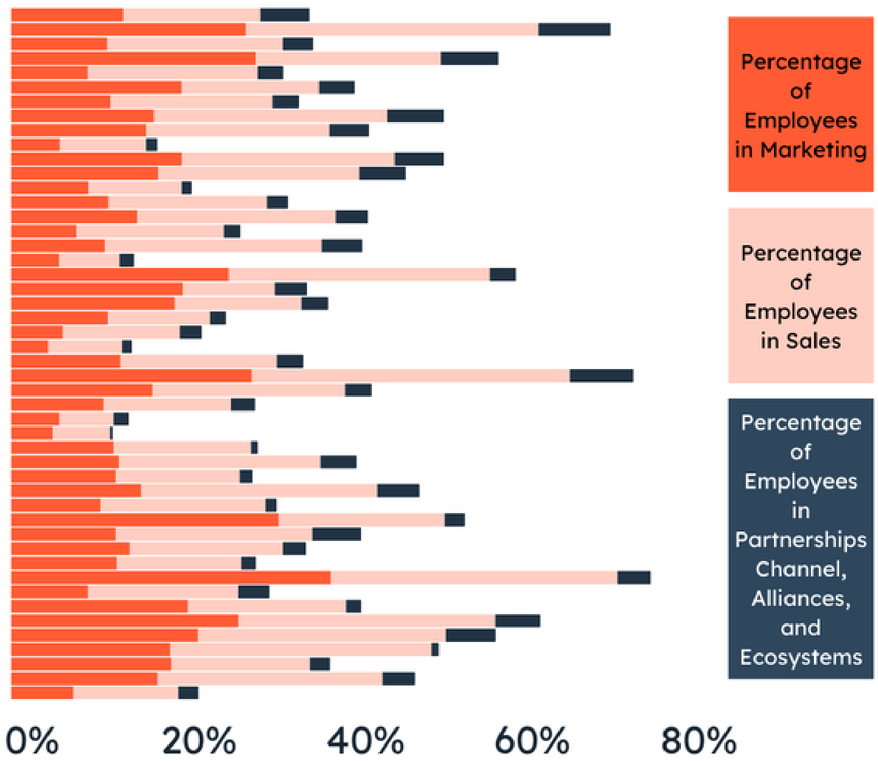
While the Chief Partner Officer is becoming a more common title, partnership teams are still small compared to marketing and sales.

To estimate the number of employees working in partnerships, channels, ecosystems, alliances, marketing, and sales, the company's employees were filtered on LinkedIn using the specific keywords.

Based on the data, the number of employees working in partnerships, channels, alliances, and ecosystems is significantly lower than those working in marketing and sales within the top 50 software companies.

On average, the percentage of employees working in sales is approximately 7 times higher than the percentage of employees working in partnerships, channels, ecosystems, and alliances. The percentage of employees working in marketing is almost 5.5 times higher.

In comparison, sales averages 1.41 times higher percentage of employees than marketing.



There are several potential reasons for the significant difference in headcount between partner roles, and sales and marketing. The investment in partnership headcount may still be lagging behind the relatively new recognition of the ecosystem business model. Restructuring teams and reallocating focus is a complicated process.

It may also be that partnerships headcount is both more efficient and better embedded in other functions than marketing and sales. Partners can act as outsourced marketing, services, and sales so one partnership headcount may be able to drive and influence more revenue than one direct sales person or one SDR, for example.

Internally, partnership headcount may also orchestrate and leverage other functions rather than needing those functions to specialize in partnerships. Partner managers may work with their field marketing teams to put on events with partners, for example, but the marketers may be considered field marketers, not partner marketers, since they do not specialize in partners and only utilize partners when it helps drive their goals.

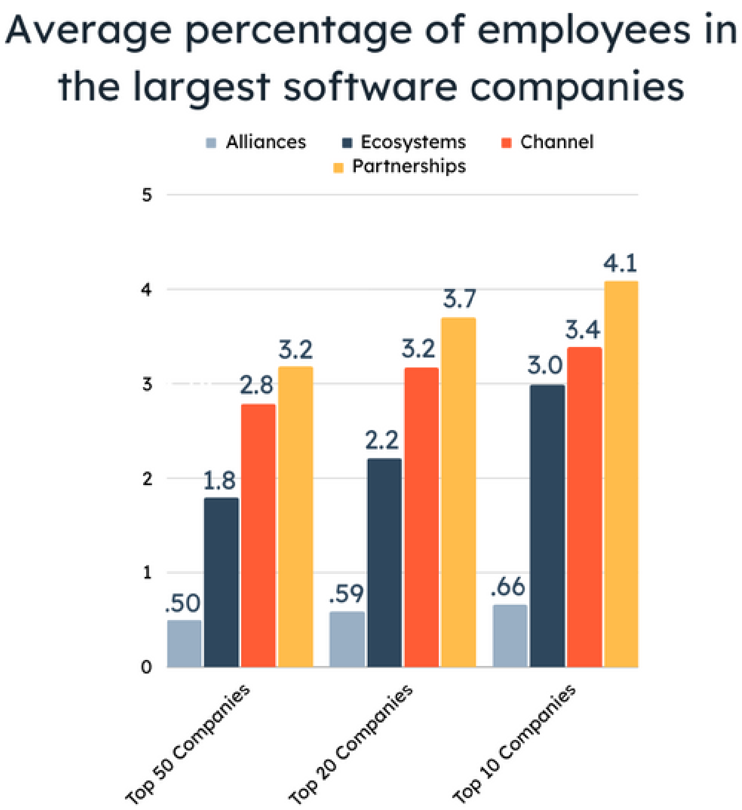
Another reason for the headcount disparity might also be that the C-suite and board are not fully convinced going to market through and with partners merits as much investment as direct motions that they can more fully control. The partnership leader's general lack of proximity to the CEO combined with the lack of headcount suggests at least some level of executive uncertainty about the scope of the function and practice of partnerships.

As organizations continue to invest in resources and attribution methodologies for supporting partners in a platform ecosystem, it is likely that the value added by partners and the team sizes needed to drive it will become clearer.

# Partnerships, Channels, Ecosystem, and Alliances

The evolving language around partnerships is a sign of the business model changing from a more linear distribution channel to a platform ecosystem. Employees today work in partnerships, channels, alliances, and ecosystems, and not every organization uses those labels consistently.

More broadly, partnerships and ecosystems are considered more reflective of the new platform ecosystem business model than the label channel, which is heavily associated with a more linear relationship with partners that often focuses on reselling or distribution. Alliances tend to refer to more strategic partnerships.




Organizations have the highest percentage of employees working in partnerships, followed by channels, ecosystems, and alliances.

It appears that many companies still associate the term ecosystem with technology partnerships: the number of apps in a company's marketplace has a relatively strong correlation with the percentage of employees working in ecosystems, but the number of apps does not have a strong correlation to the number of employees working in channels or partnerships.

Both the percentage of employees in channels and ecosystems have a strong correlation with the percentage of employees in partnerships, indicating that partnerships is a term that applies to both traditional and ecosystem business models.

In fact, the percentage of employees labeled with partnerships, channel, alliance or ecosystems is only .22% larger than the percentage of employees labeled with partnerships, indicating employees labeled with channel, alliance or ecosystem are typically also labeled with partnerships.

The correlation between employees working in ecosystems and channels is weaker than with partnerships, but still positive. This reflects that organizations that foster a platform ecosystem will continue to support different types of partners and relationships.

As the size of the company increases, the percentage of employees working in partnerships, channels, and ecosystems also increases. This increase is most significant for ecosystems, indicating that the largest software companies most understand the value of platform ecosystems and are most invested in leveraging them.

## Key Takeaways:

- Chief Partner Officer is a trending title, reflecting the growing importance of the ecosystem business model. But at the top 50 software companies, the most common title for the highest ranking partnership leader is VP and only 10% have "Chief" in their title
- The highest ranking partnership leader only reports to the CEO 17% of the time.
- Unified partnership leaders oversee all partner types at their organization. In 64% of the top 50 and 89% of the top 9 companies, there is a unified partner leader. Unified partnership leaders are more likely to report to the CEO.
- The percentage of employees in sales is 7 times higher than in partnerships, and the percentage in marketing is 5.5 times higher. In comparison, the percentage of employees in sales is 1.41 higher than in marketing.
- Ecosystems continue to be associated with technology partnership for some companies, with the percentage of employees working in ecosystems positively correlated with the number of apps in a company's marketplace.
- The top 50 software companies have the highest percentage of employees working in partnerships, followed by channels, ecosystems, and alliances, in that order. As the size of the company increases, the percentage of employees working in partnerships, channels, ecosystems and alliances also increases. The shift is the largest for ecosystem employees, indicating the largest companies are more invested in the ecosystem business model.

# Perspectives

01

# The Journey to Becoming a Technical Platform

## By Avanish Sahai, Managing Director, Exbourne Group

### Becoming a Technical Platform

The commonly understood definition of a platform is a business entity that is facilitating interactions between producers and consumers at scale.

A platform does not need to be a technical platform. Some successful technology companies, like Uber, AirBnB, or Ebay, have platform business models without being that far along their journey as a technical platform.

Uber, for example, connects drivers with riders. While it is a successful platform in providing an easy way for drivers to connect with riders, third party developers building on top of Uber is not a significant part of their business model. They have no app or extension marketplace. Uber has only just recently released limited APIs, for example, which would enable third party developers to build products that can leverage Uber's API to provide additional services to Uber drivers.

In contrast, technical platforms enable third party developers to build integrations and extensions on their platform.

Many of the largest technology companies offer technical platforms. Shopify, for example, enables third party developers to build apps and extensions to Shopify for merchants to purchase. The same is true for Atlassian, Google, AWS, Microsoft, and many more large tech companies.

As a result of how many of the most successful tech companies are technical platforms, a lot of startups and growth stage technology companies aspire to be technical platforms. Being a platform may not cause their success; but becoming a platform often cements their success by aggregating greater value and driving stickiness.

But it isn't easy to become a technical platform. There are generally three phases to becoming a technical platform.

**Phase Zero**
Expose and document APIs, enabling customers and other software companies to connect

**Phase One**
Customers and software companies use these APIs and extensible components to build integrations and apps

**Phase Two**
Proliferation of developers building integrations and extensions on the product, underlying technical infrastructure to support these builds, the ability for customers to discover these extensions and apps, usually through an app marketplace or directory, and some programmatic support for builders

**Phase Three**
More complex apps and extensions are built on the technical platform, mature marketplace with more complete functionality, developers consider learning the platform to be a career asset, the market economy around the platform is large enough for businesses to exclusively focus on it, mature partner program supporting developers, and service providers supporting the ecosystem

## Framework for Deciding Whether to Be a Product or a Technical Platform

Not every software product should become a technical platform. It depends on the problem being solved, how the product fits with current tech stacks, and customer usage. Ultimately, one has to be confident that the platform would simplify complexity for a large set of consumers and producers.

With that broader vision, there are still three criteria to meet before proceeding.

### 01 Platform Mindset

It is incredibly complex to build a successful platform due to the heavy technical lift and, on the business side, the coordination across a high number of internal and external stakeholders. It is not for the faint of heart.

To be successful, a company has to understand platforms and adopt a platform mindset across the entire company, including the C-suite and the board. It is the only way to align all business functions around the platform's success. It is also needed to support the substantive upfront investments that do not have an immediate return.

The platform mindset will lead to prioritizing interoperability, the support of third party developers, and a commitment not just to an exceptional customer journey but also a commitment to an exceptional journey for the partners and developers that support the platform ecosystem.

Supporting that partner journey requires a programmatic approach, with a partner program that provides the right incentives - financial, technical, and for broader go-to-market benefits - to continually motivate the partners and the behaviors that benefit the partner, the platform, and the customer.

The platform mindset also entails shifting out of a purely competitive point of view. Platforms will compete in sales with their third party developers or service providers, sometimes marginally and sometimes significantly. The priority should remain providing a comprehensive and diverse variety of offerings to the customer over seeking to penalize providers with overlapping or competing features.

A platform mindset at the top and throughout the company ensures sufficient time and investment not just in building the platform, but also in the operations, processes, and systems required to capture, track and enable the value the platform is creating. That, in turn, leads to continued support of the platform, its business processes, providers, and customers.

## 02 System of Record

A technical platform needs to be the system of record for some business or consumer process, whether that process is in product, HR, marketing, IT, or sales. HubSpot, for example, is the system of record for businesses for their marketing, sales, or service functions, while ServiceNow does the same for IT management, IT assets and security incidents.

A system of record powers much of its users' workflows and processes, and it is where users in that function look for data on individual records and on overall performance. It is made more powerful and efficient with additional data from other sources. This large scope enables systems of record to support an entire ecosystem of apps and extensions.

On the consumer side, for example, the iPhone is the main device by which many consumers run many aspects of their life, from calling, texting, connecting to the internet, reading news, and gaming. As a result, Apple was able to attract and enable a large number of third party developers to build apps for the iPhone.

## 03 Customer Adoption Flywheel

As more apps and extensions are added to a technical platform, it should drive greater adoption of both the platform product and the apps. The apps should tie together sophisticated business processes and extend business flows in a way that drives more value for the customer. This app and extension adoption should enable the customer to tackle more use cases and accomplish more with the product.

There are gray zones but if a company is a system of record and can power a customer adoption flywheel, it likely should be a technical platform when the business can adopt the platform mindset. Before aiming to become a technical platform, companies need to consider whether these three factors are present in their business model and product.

A platform vision should ensure that incentives align: customers should benefit from the producers, producers should be attracted and motivated to continue to invest in the platform, and the platform should have a way to support these interactions and transactions in a way that is ultimately profitable.

02

# Growth and Transformation of Digital Marketplaces

## By Peter Evans, Chief Strategy Officer, McFadyen Digital & Co-chair, MIT Platform Strategy Summit

There is an expression that everywhere there can be a digital marketplace there will be a digital marketplace. Available data appears to confirm this adage. Digital marketplaces now exist serving multiple sectors (horizontal marketplaces) and in specific consumer and industry segments (vertical marketplaces). On the consumer side, according to Merkle, $2.5 trillion of B2C are facilitated by marketplaces.

These are not just digital native companies like Amazon. Traditional retailers, like Walmart and Macy's, are also embracing digital marketplaces. Macy's, for example, has moved to a marketplace model. They have brought on over 200 brands to sell through their marketplace and are aiming to grow to 6,000.

On the business to business side, Forrester reports that B2B e-commerce reached $1.7 trillion in 2021, accounting for 16% of all B2B sales, and they anticipate it will reach $3 trillion and 24% of all B2B sales by 2027. Looking broadly at the impact of the digitization of commerce, Gartner predicts a whopping 80% of B2B purchasing will be through digital channels by 2025, furthering the importance of digital marketplaces.

Like with consumer marketplaces, there are B2B marketplaces for a wide variety of products and services. Different platforms match pharmacies with drug wholesalers, nurses to hospitals, salons to equipment and beauty supplies, and businesses with software and services.

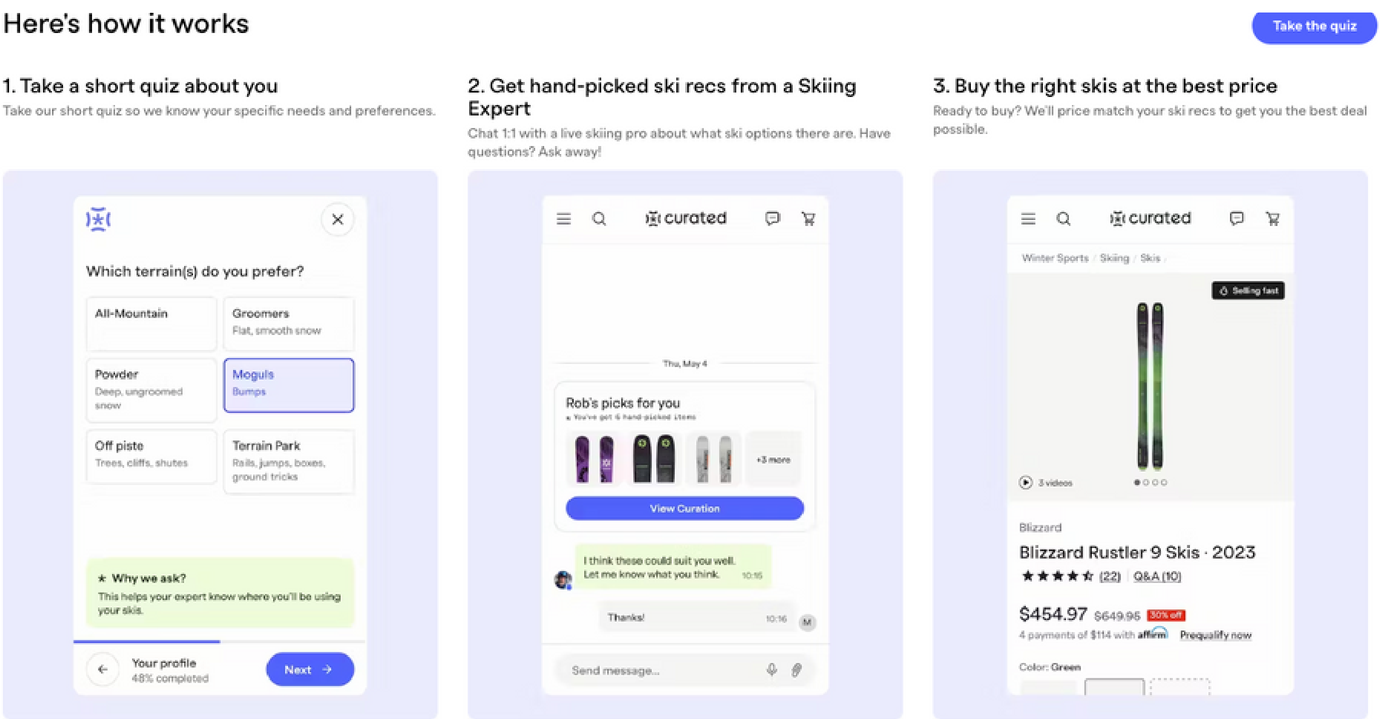
At the same time, marketplaces are not static but are evolving to embrace new technologies as well as new ways to serve customers and market pressures.

# Marketplace Strategy

Marketplace strategy involves many elements. It requires understanding a company's business objectives and how these goals can be achieved through a marketplace business model. It requires a detailed understanding of the buyer journey, the seller journey, and how these translate into features and the right monetization model. It also requires making the right technology choice of either build or increasingly what to buy amongst a growing number of vendors that specialize in ecommerce, drop ship and multi-vendor software capabilities.

Marketplace business models can accommodate interesting innovations, such as matching buyers and sellers and buddling this with unique expertise. Take the example of [Curated](). This platform sells products like high performance skis and climbing gear, but they also connect the buyer with a coach who can give personalized expert advice.

Instead of bifurcating finding products and finding a trusted advisor separately to help with a complicated and expensive purchase, Curated makes it part of one experience so the consumer can connect with an advisor who helps avoid the very common experience of buyer's remorse, where someone makes an expensive purchase that they later regret.




*Credit: Curated*

For a consumer, this type of equipment can be expensive and complicated. Instead of expecting the consumer to research on their own, or take the recommendation of the platform, Curated matches consumers with independent experts to help them make an informed decision.

This benefits the consumer as they get neutral expert advice, and the freelance producer because they get a commission and tips, and the platform because the consumer likely ends up making a better purchase that they are more satisfied with.

Not all strategic moves play out, even for the largest and most successful marketplaces. Take the example of Amazon's move to offer a premium service that allows customers to opt for assembly of furniture and appliances upon delivery. This move aims to compete against Wayfair, Ikea, Home Depot, and Lowe's, which already provide similar options.

Initially launching in Virginia and two other markets, this service involved drivers unpacking, assembling, and even removing packaging. They can also take back the item immediately if the customer is dissatisfied.

However, Amazon ended up closing applications for furniture installation service producers. On the consumer side, the marketplace results for assembly services currently come up empty. While there is a clear demand for furniture installation and assembly, it appears that Amazon was unable to attract and vet a sufficient number of reliable installers or to align the level of demand with the available supply.

In the B2B SaaS context, aligning product and service producers can be executed as well. If the business is buying an application in a marketplace, the platform can also recommend consultants who can help to implement or manage the app or related products.

When a business clicks on an app product or category in the Microsoft AppSource marketplace, for example, the results include a link to related third party consulting services and industry clouds.

Other B2B platforms go farther in combining the experience of purchasing software and services. AWS's Marketplace, for example, enables channel partners to sell services and third party software on the marketplace. Customers can choose to purchase software and services at the same time, or separately, and from the software producer or a channel producer.

In many cases, businesses require a combination of technical expertise and goods like logistics services or software. In the past, businesses would have just hired a large integrated consulting firm to handle such a project, but now this can often be accomplished through digital marketplaces.

Digital marketplaces that combine multiple producer types into one experience for the consumer (whether an individual or a business) are on the forefront of marketplace strategy. If done well, this type of multi-sided platform – where the platform helps the buyer to connect with independent service producers and independent product producers – can provide a better experience for every stakeholder in the ecosystem.

## Shallow Versus Deep Marketplaces

Another distinguishing feature of a marketplace is the depth of services it integrates into the marketplace to serve sellers, buyers, third party developers or all three. Enabling multiple seller types is one example of the distinction between shallow and deep marketplaces. A shallow marketplace will just provide fixed goods with a fixed price for one set of buyers and one set of sellers. Deeper marketplaces layer in additional producer types and more complex services and features for both buyers and sellers.

Building an effective deeper marketplace requires complex orchestration and a detailed understanding of all the stakeholders on the platform.

| Shallow Marketplace | Deep Marketplace |
|---|---|
| One seller/producer type | Multiple seller/producer type |
| One buyer/producer type | Multiple buyer types, business buyers with complex purchasing structures |
| Fixed prices | Dynamic pricing, private offers, bidding |
| Fixed goods | Custom packages, dynamic inventory, bundling services and products |
| Basic seller features, such as listing capabilities | Seller services, seller advertising, advanced analytics, dynamic offers, ability to action buyer engagement on listings |
| Basic buyer features, like filters and search | Advanced search and categorization, private marketplaces, advanced discovery engines, personalized display, expert assistance, AI-powered support |
| Transactional | Community, curation, cultivated expertise |

## Embedded Features and Services

Embedded insurance solutions can also open up new revenue streams for digital marketplaces. By partnering with insurance providers and offering insurance options to customers, marketplaces can earn commissions or fees from the insurance transactions, contributing to their overall revenue generation.

uShip provides an example. This online marketplace connects individuals and businesses in need of shipping services with a network of transporters. The platform specializes in facilitating the transportation of large and bulky items, including vehicles, furniture, motorcycles, boats, freight, and other oversized goods.

However, in the world of moving, damage is not a question of if but when. To better manage the insurance needs of its marketplace, uShip's turned to Tint to provide embedded insurance for uShip's transport marketplace. By better leveraging its historic data and Tint’s embedded insurance solutions, uShip was able to offer a more tailored and innovative insurance program that not only safeguarded customer items but also empowered uShip's internal team with greater control and flexibility.

Marketplaces may connect their sellers with any number of third party service provider types, depending on what they sell. It could include marketing or advertising agencies, shippers, software companies, implementation specialists, or consultants to advise on pricing, product, or go-to-market strategy.

AI is going to further enhance the capabilities deep marketplaces can provide sellers. AI will result in better fraud detection, better advertising tools, and provide sellers with easy-to-use content generation engines for text, images, video, audio, 360 views, and VR. In addition, AI will drive more sophisticated discovery engines that enable better matching between sellers and buyers, providing a service to sellers and buyers.

## Community

Marketplaces and platforms that have fostered strong communities, providing a sense of belonging, purpose, and affinity for their participating users. Marketplaces can also become deeper by creating a sense of community and curation.

Companies like Esty, Patreon and Fitbit all provide examples of platforms that cultivated and benefited from a strong sense of community. Community plays a crucial role in driving network effects for marketplaces. Network effects occur when the value of a product or service increases as more people use it. In the context of marketplaces, a strong and engaged community can significantly enhance the network effects, leading to several key benefits.

A vibrant community encourages active participation from both buyers and sellers within the marketplace, leading to a larger pool of offerings and a more diverse range of products or services. As more users join the community, the overall value and attractiveness of the marketplace increase, attracting even more participants.

A strong community fosters trust and credibility within the marketplace, as users rely on the experiences and recommendations of other community members. Positive interactions, reviews, and testimonials within the community contribute to building a positive reputation for the marketplace, attracting new users and fostering long-term engagement.

Finally, a strong community fosters a sense of belonging and loyalty among users, making it more challenging for them to switch to competing platforms. This increased "stickiness" contributes to the sustainability and long-term success of the marketplace, as users are more likely to remain active participants and advocates for the platform.

B2B marketplaces can create the same sense of community. B2B communities are more focused on cultivating expertise, authority, and professional goals than a lifestyle or personal values. B2B companies will certify service consultants in their products and offer courses to help them get better at using those products, for example.

One way to create a deeper B2B platform is to build out a training and certification component that brings people deeper into the platform ecosystem. This fosters a sense of investment and commitment. It also often leads to consultants sharing that certification on other networks, like LinkedIn, that then attracts more consultants and buyers to the platform.

Building community around a marketplace requires a brand identity that should be layered into the marketplace experience itself in addition to the entire experience for sellers and buyers. Loyalty programs, events, awards, and classes can all further contribute to the benefits that marketplaces can gain from investing in community.

## Future Trend: Circular Marketplaces

To date, platform marketplaces have largely supported linear consumption rather than circular models of production and consumption. Most digital marketplaces support linear consumption so far, where products and packaging become waste after use. However, there is an opportunity for platforms to evolve to support the circular economy more, through facilitating the reuse, repair, refurbishing and recycling of materials and products.

Consumer-oriented circular platforms like Poshmark and Back Market are emerging to facilitate sharing, leasing, repairing, refurbishing, and recycling. They build community, provide quality assurance, and increase accessibility to sustainable options. B2B circular platforms enable transactions between businesses. They provide valuable data, enhance discovery of usable waste materials, and allow complex cross-border transactions. Platforms could help enable the circular economy by reducing transaction costs, expanding the reach of materials beyond their original industry, and creating new matching markets between buyers and sellers.

The global circular economy is estimated at $410 billion currently, with platforms making up a quarter of that. By 2030 it could be worth $1.5 trillion, with platforms accounting for nearly 60%.

Platforms can scale rapidly to reach large audiences. Circular platforms specifically can help companies meet extended producer responsibility laws and reduce waste. Opportunities exist to establish new circular platforms around battery and plastic recycling. However, challenges include overcoming the “chicken and egg” problem of attracting buyers and sellers, changing traditional supply chains, ensuring quality and reliability, and managing logistics.

Overall, circular platforms incentivize durable, repairable, and recyclable product design. By shifting from linear to circular models, they can enable a more sustainable world. Connecting the platform and circular economies is key to realizing the potential of circular platforms.

## Conclusion

Digital marketplaces continue to grow rapidly across consumer and business sectors. As they evolve, platforms have an opportunity to not just expand their reach but also increase their depth by orchestrating multiple producer types, embedded services, community-building, and circular models. The future belongs to the deep, circular marketplace. By combining economic and social value, these next generation platforms can better serve all stakeholders while also contributing to sustainability and greater material security. The goal should be digital ecosystems that are not just transactional, but transformational.

03

# How Partners Drive Value in the Era of Ecosystems

## By Laura Padilla, Partner and Head of Business Development, Sapphire Ventures

The value of partnerships has changed as the traditional model of looking at partnerships one-dimensionally has been replaced with a multi-dimensional discipline. The days of the typical channel model has been supplanted by a rich ecosystem one, where partners impact the entire customer journey, product roadmap and revenue. As a result, how businesses measure partnerships has to shift.

When evaluating which metrics capture the business impact of partnerships, one has to consider the partner type, their role in the customer journey, and where they can add the most impact to the business's core products and strategic goals.

Where partners add the most value will change by the product, the maturity of that product, and the business's stage of growth. It needs to be constantly evaluated and change with the business.

You can define a set of metrics for all partner types. All partner types, for example, can influence deals. When trying to open a new geographic market, though, your focus will be on resellers. Technology partners, although important from a solutions POV, won't add the sales traction and influence resellers will and so they won't drive the same type of international expansion.

Invest in the partner types that drive the metrics the business cares about most at that time.

If the business is prioritizing new pipeline or growing a specific market, that would be a different set of partners than building a product solution set to attract a new set of buyers. Understanding the company strategy, goals for the stage the company is at and the role partners can play is critical to the success of the partner program.

## Channel Partners

Even in an era of ecosystems, channel partners are instrumental in driving business value. How they drive value both in the customer journey and market expansion has evolved.

Channel partners are often easier to measure the impact of as their goals often align closely with the sales team and these teams usually report to the CRO. At Zoom, we looked at how much revenue was sourced from partners, the partner yield (revenue booked per partner), and bookings per product.

One has to break these metrics and goals down by geography and segment, such as SMB or enterprise, as partners will have different roles based on those types of variables.

We found at Zoom that referred partner leads closed faster and were higher quality than other leads. When reps worked with resellers, they closed more deals and achieved quota at a higher rate. Also partner deals churned at a lower rate and had higher NDR.

There are other business benefits that should be factored in, such as the benefits from using partners' contract vehicles. This may be particularly valuable if it circumvents a long approval process or having to understand the intricacies of a new region. In international markets, partners able to transact in local currency and language also add incredible value.

# Technology Partners

ISV or technology partners are the hardest to establish clear metrics when it is a co-sell model. Companies do this very differently. Because technology partners are product driven, it is frequent to have conflicting internal stakeholders around prioritization of the integrations and value expected. Product teams will always prioritize core product features over integrations unless the technology partnership is an OEM or resell model that will drive hard incremental revenue.

Before investing in co-selling and co-marketing, the integration needs to be high quality. Otherwise, the customer is driven to a dissatisfying experience or drops off. Tracking usage after an integration is launched can help organizations understand whether the integration is meeting standards and providing customer value.

Once an integration is built, co-selling, influencing deals, and jointly going to market in the field should be the focus. Frequently, technology partners can uniquely unlock deals or drive upsells. At Nutanix, we looked at how we could get more workloads to run on our platform by becoming certified with partners.

For example, we got SAP certified. This made customers more comfortable running SAP workloads on the Nutanix platform, unlocking a new use case our sales reps could go after. We looked to see how many SAP solutions were running on our platform before and after certification and shared that with stakeholders.

Also expanding use cases is an important value of tech partnerships. At Nutanix, VDI was the largest use case for our customers so partnering closely with Citrix added immense value to our sales efforts.

That was a clear example of moving the needle to get new customers. Ultimately, the goal with tech partnerships is how to unblock more revenue for the company.

At Zoom, technology partnerships, like all partnerships, sat under the CRO and it was revenue driving. We looked at what were the most requested apps from customers and what we thought customers would use in conjunction with our products. Once the integration was built, we invested in co-marketing.

Co-marketing should lower CAC. At Zoom, our cost per lead for co-marketing was much lower and the conversion rates were higher. The returns from campaigns were much higher. This was true at Riverbed and Nutanix as well. Technology partners were influencing 30% of all leads at Riverbed.

Building a marketing engine with partners can be super impactful. This can include field events, marketing kits, and campaigns that are based on compelling joint value propositions.

Technology partners can also drive direct revenue through platform sales. At Zoom, we took our APIs and sold it per seat or per minute to ISVs that used it inside their products. That was one our fastest growing revenue streams and within two years of launch, it was 15% of our overall partner-driven revenue.

Organizations should look to see if they can take a piece or component of their product or platform and enable partners to consume it. This drives direct revenue, and it can also be a way to acquire new customers if the brand is exposed to the end user through the ISV partner's product.

At Zoom, when we were less known, we wanted our brand exposed to the end user to build brand equity and attract new users. But after we grew, we allowed partners to remove the branding. This is another example of shifting the partner focus as the core business's strategic goals and priorities change.

## Strategic Partners

Large strategic partnerships will always be more bespoke in how their value to the business is measured. It depends on the two companies, the products, and the goals. For Zoom, partnering with large telcos was very lucrative due to their sales footprint and ability to develop a new product set built on the telcos network.

One element to consider is whether any strategic partnership risks cannibalizing other revenue driven by other partner types. In that case, it worked because the telcos use of Zoom was very customized and essentially provided a different product to the end user.

The pricing model and terms of use should also ensure that partners can't undercut direct sales or each other. As a partner program grows, put in place structures and incentives to minimize channel conflict. This should include different discount structures and sales motions according to the partner offering. For example, if partners compete for the same business, partnering with the customer's preferred partner can lead to channel conflict when several partners are involved in the sales journey with the prospect. If more than one partner added value in the sales process you may need to compensate both partners to mitigate conflict.

## Internal Alignment and Leadership

Internal dynamics can significantly impact the success of partnerships because they are deeply cross-functional. Owning all the partner types at Zoom helped me to prevent conflict and align across partner types.

Once technology partners build an integration and they start joining the sales motion, it was critical for me to build the model in a way that allowed fair competition among all the partners. Upmarket or enterprise deals can have all partner types attached to one deal which made it important for us to be seen as one team where we could work through any compensation or incentive issues across the partner and sales spectrum.

Channel partners may compete with one another and tech partners may compete with channel partners. By owning all partner types, I was able to build clear swim lanes that prevented unnecessary conflicts. In the world of platforms, sitting under one business leader can help maintain clear alignment internally and externally.

Ideally, this partner leader reports to the President of GTM or the COO. Those roles think strategically and cross-functionally. They understand every piece of the business.

The role of the partner leader has evolved in the last five to ten years. Channel sales leaders grew up with a different model that was focused more purely on distribution or sourcing revenue. Partnerships today are much more complex and have more points of impact.

Channel leaders need to evolve or they will not be successful in the new world of platform ecosystems. The mentality has to shift.

The partner leader who will be successful now understands how partners impact every stage of the customer, product, and sales journey, both internally and externally.

04

# Enabling Collaboration Across Different Partner Types

## By Meg Higgins, SVP of Global Partners, Avalara

I lead all global partnerships, channels and alliances, including our technology partners, SIs, VARs, strategic platform partners, agencies/firms, and business development and partner services.

I view different partner types as part of a Venn diagram. There is a lot of overlap between technology partners and channel partners. In addition, channel partners are enabling and attaching to a lot of our technology partners.

We have deep relationships with ERPs, for example. We work directly with Oracle and their business and product teams. But there are also a bunch of channel partners and firms that play an important role in recommending Oracle. They are subject matter experts and often influence whether businesses buy Oracle and, if they do, how the businesses configure and implement it across their tech stack.

These are 3-way relationships and, as the solution platform, we help technology partners and channel partners work better together. Our focus is how we enable and activate those relationships to drive more business and provide customers with a more seamless experience.

One of the ways we have done this so far is through our certification program. This program enables channel partners to validate that they are experts in both our technology and in integrations to other software. They can showcase their deep expertise not just in Avalara's platform, but in partner platforms and products.

We have over two hundred certified partners that have specializations in different technologies and have gone through extensive training to implement Avalara services. We depend on our channel to support end customers in recommending and implementing products.

To facilitate effective 3-way partner collaborations, one should enable internal teams to work well with different partner types. Right now we are investing in matching mechanisms to enable our sellers to more efficiently identify which partners should be brought into a deal. The goal is for our selling team to be able to quickly find the right partner through relevant filters.

Part of this can be done through technology, via CRM or Partner portals, that empower sellers to understand the best partners for a particular account, and part of it can be done through enablement on partner services and products.

But one also needs to spread the partner story across the inside of the business. Internal storytelling aligns different business functions around leveraging and supporting different partner types.

For the sales organization, for example, partnership leaders need to educate the sales team and push the narrative that partners increase win rate, ASP, and conversion rate. They should also understand the impact of a services partner versus a technology partner.

One can't just tell these stories once. One has to keep repeating the message.

KPIs also need to align with partners and within the company. Goals should be aligned so individual teams and partners are collaborating toward the same goal. Our technology partners, for example, can see the amount of commissions they are getting from driving installs of their integration. This aligns us around a joint GTM.

Nine times out of 10 when partners are not being fully leveraged it is because people are being goaled and measured in a way that is counterproductive. Sales teams should not be financially disincentivized for bringing in partners to a deal, for example.

My technology partner team is goaled on total ecosystem growth, which includes bookings, ARR, attached revenue, and deal velocity across all technology partners. These KPIs reflect their role is strategic and they need to make sure all the components work together to drive value.

Supporting 3-way partnerships as a platform is operationally complex and requires technology, robust enablement, strategic storytelling, and KPI alignment. When done well, though, it can build a strong moat around the business and provide a well-orchestrated and satisfying customer experience.

05

# How Stripe Drives GTM Value with Partners

## By Tim Tsao, Global Head of Partner Programs, Stripe

The Stripe Partner Ecosystem has been a foundational layer of growth for Stripe, with consulting partners that help our users go-live with payments, technology partners creating integrations to major ERP, CRM, and systems of record, and SaaS platform partners embedding Stripe into their products.

Among the many GTM initiatives that our partnerships team drives, we find the following strategies especially effective:

### Co-marketing

Scaled marketing programs include standard program features such as: co-funded and fully-funded MDF, partner directory that drives leads from customers looking for third-party solutions, and marketing toolkits.

Developing content that can be aligned with the unique branding of each partner and establishing a shared asset library is important, including: campaigns, marketing content, and events, and finally co-branded white papers, blogs, and case studies.

The effectiveness of customizable marketing materials has been validated by a Forrester study that when choosing vendors, 89% say it's very important/important that vendors provide them with relevant content at each stage of the buying process.

However, we have gone further, to provide marketing advisory workshops and additional funding to activate marketing plans (outside of MDF) and pilots to intercept customers early as they sign up for Stripe and serve them packaged offerings from partners to accelerate implementations to go live.

## Co-selling

Next, co-selling is often the most desired motion from our partners. Specifically, partners want a Stripe AE to get involved in their deal for pricing support, combat objections, help navigate and coordinate internal Stripe resources, and set up the customer for support and customer success teams.

According to a recent Crossbeam study, deals are 53% more likely to close when a partner is involved and deals close 46% faster with partners. Sometimes, co-selling starts at the planning stage where account mapping through Crossbeam, joint value prop development, and strategy alignment takes place.

At Stripe, we support this with strong incentives, including scaled revenue share platform partners; funding for POCs, competitive migrations, discovery workshops, and API modernization initiatives; and referral incentives for partners that submit co-sell leads to SPE. And because these partner leads are usually lightly qualified already, they convert at double the rate as Stripe inbound leads.

## Joint Solutions

Stripe also has integration-driven partnerships where each partner's technology supports the other. With our technology embedded into the partner's products, our role is to support their GTM activities.

Another key area of opportunity that we have seen is with the consulting ecosystem that surrounds a large tech vendor like SAP, Adobe, Oracle, Microsoft, and AWS. Mutual services and integration partners are creating joint solutions for key industry use cases such as automotive, hospitality, and retail.

Once launched, these solutions are the root driver of significant GTM momentum that drives incremental revenue for Stripe and our partners.

## Community Enablement & Engagement

Partners need to be engaged and educated through ongoing enablement, training, and certifications. AWS commissioned a Total Economic Impact study from Forrester which cited a 10-20% partner conversion improvement as an outcome of training and certification.

Stripe provides comprehensive technical training to partners for free, and industry-leading certification that partners can use to increase their payments-domain eminence publicly. Specific to platforms, we also help with GTM sales education on how to deploy Stripe as part of their embedded product offering (ex: risk, compliance, pricing & value, back office management, implementation) and how to sell payments and position Stripe (most platform sales teams are not accustomed to selling payments) – all delivered by our partner portal or by our partner teams globally.

We also drive partner-to-partner connections that foster sharing of best practices and content that partners can take to their users. We do this typically around events and where there is a natural environment for sharing.

06

# Unlocking New Value in the Partner Ecosystem Through Co-building

## By Nate Bray, Chief Innovation Officer, LoanPro

GTM has changed. Over the past 10 years, SaaS companies found a competitive advantage by leveraging direct sales teams, winning keywords, and running clients through custom drip campaigns tailored for conversion.

Fortunately or unfortunately, it's no longer enough to go to market alone. We are in the infrastructure age, a transition era that will be defined by emphasis on partner-enabled innovation, efficiency, and growth across all sectors reliant on technology. This is where container-based cloud computing meets the ecosystem.

We have no choice but to learn how to co-build through partnership. We are currently witnessing early validation of this via vertical SaaS companies partnering with incumbent legacy players that traditionally built their own tech stack. We see large banks in financial services, revenue cycle management providers in healthcare, and established national insurance brands all leaning into deals with VC-backed point solutions. Both have an opportunity to win by finding new markets to enter, creating new revenue streams, and reducing customer attrition.

## What is Co-building?

This involves blending company strengths, technologies, and existing customers to innovate products or services. The chief aim is to create something that neither company could create alone. An easy example is combining specialized hardware and software to create a holistic user experience.

Co-building opportunities are wide open in every major industry. Stripe now has hardware for POS, vertical SaaS companies are becoming payments companies, and most recently, Amazon and Hyundai announced how they are co-building a digital car shopping experience powered by AWS with Alexa residing in the vehicle. This is co-building at its finest.

## When You Should Not Co-build

Dedicated executive leadership, funding for the project, and decision-making frameworks are the obvious foundations for co-build to work, but some details lie beneath the obvious.

Here are six sins I have committed in the past that dismantled my co-build partnerships. It's 30 million dollars of my mistakes. If you are running into the following conflicts early, be thankful. You now have all the support you need to NOT proceed. If your path is clear of the following, you have something extraordinary and will win your unfair share of the market.

01 **Customer Solution Overlap**

This occurs when two partners offer similar products or services, which may confuse customers or dilute the value proposition rather than bolster it.

02 **Political Misalignment**

This refers to a situation where partners have differing internal policies, goals, or corporate cultures that clash and impede collaboration.

03 **Revenue Cannibalization**

This happens when a new product or service offered through the partnership takes sales away from one partner's existing products.

04 **Technology Integration Issues**

If you identify that the technology stack is unable to connect and scale without heavy ongoing supervision and maintenance.

05 **Competitive Product Offerings in the Market**

This describes a scenario where there are many similar competitive products or services being offered by other providers in the market, making it difficult to differentiate the partnership based offering.

06 **Conflict Over Intellectual Property Rights**

This is a dispute between partners regarding the ownership, use, or distribution of jointly developed intellectual property.

## When You Should Co-build

In the case you pass the "When You Should Not Build" test and the path looks clear, here are a few signals you should make a "Co-Build Bet" and dedicate resources to the opportunity.

01 **Speed to Market**

The ability to develop and launch a product or service in the marketplace more quickly than launching alone.

02 **Expanded Market Offering**

Increasing the variety of products or services a company provides to appeal to a net new and broader customer base.

03 **Resource Optimization**

The strategic use of a company's assets and resources in the most efficient way to maximize output and minimize waste.

## 04 Learning Opportunities

Situations or initiatives that allow individuals or organizations to gain new knowledge or skills that are critical to the long-term strategy of the company. .

## 05 Product Expansion

Unlike expanding to a new market, this is the strategy of expanding the range of products or services offered to your existing client base

Finally, I want to emphasize the human aspect of co-building. The best part of any successful partnership resides not in the technologies, strategies, or market insights but in human creativity and collaboration. People drive everything forward, making the impossible possible.

Inevitably, my experience has taught me that "WHO you are working with regularly outweighs WHAT you are working with." Smart people find product-market fit or not, faster; they will identify the value drivers faster; they will see strategic alignment or misalignment quicker.

People are, and will always be, the secret sauce to building something special. There has never been a better time to commit to fostering our partnership relationships, bringing transparency, respect, and a pursuit of excellence.

07

# Strategic Frameworks for Leveraging Technology Platform Ecosystems to Grow Your Business

## By Michelle Eatherton, VP, Global Partner Strategy, HubSpot

In today's technology landscape, platform ecosystems have become a fundamental driver of business growth. Leveraging these ecosystems can enable companies to access new markets, enhance their offerings, and create innovative solutions for customers.

Before diving into a technology platform ecosystem, it's crucial to determine the role your organization should play within it. There are four primary roles to consider:

01

**Platform Owner**

If your company owns the technology or infrastructure to create a platform, you take on the role of the platform owner. This position allows you to set the rules, standards, and pricing within the ecosystem, giving you a significant advantage in terms of control and influence within the ecosystem. Popular examples of platform owners in the technology industry today include Amazon, Microsoft and Salesforce.

## 02 Builders/Application Developers

Companies that develop applications and integrate to existing platforms create value-added products and extensibility to existing platforms. This role is for companies looking to extend their offerings or tap into a broader customer base without owning the entire ecosystem and is composed of ISV, tech companies and application builders.

## 03 Service Providers

Service providers offer specialized services, such as marketing, consulting, advisory or data analytics, to help other participants in the ecosystem build, scale and analyze their offerings. This role is all about facilitating the growth and efficiency of the ecosystem's stakeholders.

## 04 Strategic Alliances

Complementary partnerships that provide products or services that enhance the platform's core offering in a multi-faceted way are an important part of a technology platform strategy. They play a role within the ecosystem as a potential customer and partner to the technology platform and work across the landscape of platform owners, service providers and application developers.

Example: Cisco and Salesforce's decision to enter into a strategic alliance in 2016 to enable better productivity of business users in the areas of collaboration, IoT services and customer service (and later on, AI within customer service) is an example of two businesses that are focused on jointly developing and marketing solutions in a multi-faceted approach.

Choosing the right role for your organization depends on your existing capabilities, business objectives, and the competitive landscape. Your role will guide your engagement with technology platform ecosystems and shape your strategy moving forward. Keep in mind that in different ecosystems and partnerships, your organization will likely play different roles. Each relationship should be structured according to the responsibilities and expectations of the role.

## Selecting the Ecosystem to Partner Within

In order to scale, almost all companies have to partner with technology platform ecosystems, even if they are also a platform and have their own partners. To make the best choice for your company, consider the following factors.

| | |
|---|---|
| **Market Relevance** | Assess whether the ecosystem aligns with your target market and Ideal Customer Profile (ICP). A technology platform ecosystem that doesn't resonate with your customer base may not yield the expected benefits. For example, as HubSpot evaluates which ecosystems to expend energy in, they must consider whether those platforms regularly attract line of business decision makers that make purchases for the small-to-medium sized enterprise ("$50 million and $1 billion in annual revenues and/or 100 to 1000 employees"). |
| **Ecosystem Maturity** | Evaluate the maturity of the ecosystem. A more established ecosystem might offer a larger user base and better-developed tools and resources. However, it can also be more competitive and challenging to enter. Consider the resources you have available on your end to make the partnership work. |
| **Competition** | Analyze the competitive landscape within the ecosystem. Consider the strengths and weaknesses of other participants, especially platform owners and application developers, to understand the challenges and opportunities. |
| **Long-term Viability** | Assess the sustainability and long-term viability of the ecosystem. A robust and evolving ecosystem will provide continuous growth opportunities. |
| **Regulatory, Compliance, and Legal Considerations** | Be aware of any regulatory and legal aspects related to the ecosystem, such as data privacy and compliance requirements. Ensure your organization is set up and prepared to meet these obligations. |

Once you have thoroughly assessed these factors, you can make an informed decision about which technology platform ecosystem aligns with your business goals and capabilities. This can change and expand over time, but this framework can help you to decide which ecosystem to invest in first and how to allocate your resources and investments as you expand your business.

## Embedding a Partner-First Culture

To thrive within a technology platform ecosystem and with partners, it's essential to cultivate a partner-first culture within your organization. This mindset shift prioritizes collaboration and the mutual success of all ecosystem partners.

Here's how to embed this culture in your organization:

01

**Prioritize Partner Success**

Focus on the success of your ecosystem partners as much as your own. Your long-term success is often tied to the success of the ecosystem as a whole, and you need to be able to articulate this story internally and externally. This starts with a top-down strategy that fosters the importance of partners within the organization.

02

**Collaborative Mindset**

Encourage a collaborative mindset among your employees and leadership. Emphasize the value of partnerships, and celebrate wins and milestones achieved through collaboration. Demonstrate the value of partnerships through shared case studies and other visible highlight mechanisms, such as feature spots during company town halls, placement on your website, and call outs during public customer events and analyst calls.

03

**Built trust**

Trust is the foundation of strong partnerships. Be transparent, reliable, and committed to your partners' success to build and maintain trust within the ecosystem. Show your commitment publicly to partners whenever possible and provide updates on progress.

**04** **Incentivize Partnership**

Align incentives and rewards with partnership goals. Recognize and reward employees for their efforts in nurturing and maintaining successful partnerships. This should be built into compensation plans across the organization and modeled by leadership as good fit behavior in the organization. Every senior leader in the company should understand the role their department plays in their company's partnership and ecosystem strategy and be able to communicate it effectively downstream.

**05** **Continuous Communication**

Maintain open and continuous communication with partners across all levels of your organization. Regularly check in, share insights, and seek feedback to foster strong relationships through mechanisms like an advisory council, quarterly business reviews, add-on partner days to customer events, and partner surveys.

Embedding a partner-first culture requires a shift in mindset and a commitment to long-term, mutually beneficial relationships. By putting your partners' interests at the forefront, your organization can foster trust and collaboration within the ecosystem.

## Achieving Cross-Functional Alignment

Driving a platform ecosystem strategy will depend on cross-functional alignment as the entire organization must work cohesively to harness the ecosystem's potential. A partner-first culture will help to underpin cross-functional alignment, but it also requires further structure and practices.

Here are some strategies for achieving this internal alignment:

**01** **Define Clear Objectives**

Clearly articulate your objectives and expected outcomes from participating in the ecosystem. These objectives should align with your business strategy and be regularly communicated to all relevant departments, including product, sales, marketing, and ops. Each audience should understand the 'why' of the strategy and what it means to them.

## 02 Establish Cross-Functional Teams

Create cross-functional teams with representatives from various departments when tackling ecosystem initiatives, including marketing, product, sales, finance, legal and operations. These teams will each be responsible for executing different parts of your strategy. One person should clearly drive the strategy, but all teams across the organization must be on board to help execute.

## 03 Foster Open Communication

Promote open and regular communication among teams to share insights, updates, and feedback. Encourage a culture of collaboration and transparency to address challenges and seize opportunities. Create a meeting cadence for all stakeholders and a comms cascade for leadership and working group members.

## 04 Training and Enablement

Invest in training and skill development programs for your employees to ensure they have the necessary knowledge and expertise to thrive within the ecosystem. Develop a robust communication plan to work back from launch and regularly monitor performance.

## 05 Monitor Progress and Metrics

Develop key performance indicators (KPIs) to measure the success of your ecosystem strategy and to keep internal teams in alignment. Regularly review (monthly at a minimum) and adjust these metrics to align with your evolving goals.

Cross-functional alignment is an ongoing process that requires dedication and communication. When different departments work together towards a common goal, your organization can fully leverage the technology platform ecosystem's potential.

# Conclusion

Building an ecosystem strategy requires a multi-faceted approach. By clearly assessing partner value and roles, embedding a partner-first culture, and implementing cross-functional alignment to support the ecosystem strategy, organizations can capture business that is transacting through platform ecosystems. As this business volume only continues to grow exponentially, organizations that adopt an effective ecosystem strategy will have a powerful competitive advantage and extend their reach in the market.

08

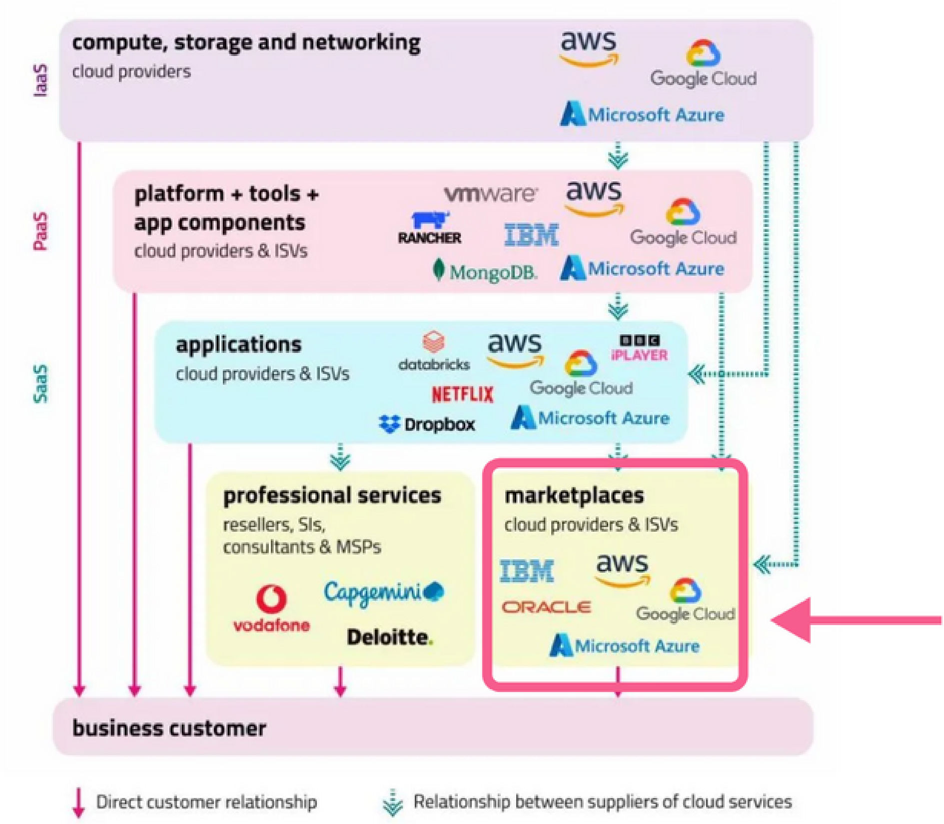
# The Rise of Cloud Hyperscalers as Tech's Ultimate Platforms

## By Roman Kirsanov, CEO, Partner Insight

For the last decade, cloud hyperscalers AWS, Azure and Google Cloud have laid essential cloud infrastructure as a service on which the rest of tech companies are built and deployed. In the process they become some of the largest and most profitable players in the tech industry.

Microsoft Azure surpassed $55Bn in annual revenue in 2023, while Amazon Web Services (AWS) is even larger at $85 Bn run rate. In a recent quarter AWS was responsible for a staggering 70% of its parent operating income, accounting for only 17% of Amazon's net sales.

These hyperscalers are now investing billions to scale third-party cloud marketplaces built on top of their infrastructure. These marketplaces are rapidly becoming platforms for purchasing software, services and soon likely hardware as well.




*Credit: Ofcom, with Roman's edits*

AWS, the largest of the hyperscalers, mirrors its cloud marketplace strategy on Amazon's successful third-party seller ecosystem. After establishing itself as a top e-commerce site and building a robust logistics network, Amazon opened its doors to third-party sellers. This strategy has proven to be highly effective. [Third-party sales have now reached 60% of Amazon's direct e-commerce]() revenue, growing three times faster than Amazon's own e-commerce segment.

Replicating this success in the software domain, AWS has expanded the product range sold on its marketplace [to 15,000+ products](). This move not only drives AWS's cloud consumption but also brings additional benefits, providing a one-stop-shop for customers.

The year 2023 marked a significant milestone for cloud marketplace adoption in the tech industry. Major SaaS players like [CrowdStrike, Splunk, Snowflake, and Palo Alto Networks reported over $1 billion in turnover through the AWS marketplace]().

This has led nearly all tech companies to reassess their GTM strategies in light of these evolving platforms. Like AI, cloud marketplaces are redefining the tech industry's landscape.

## Record $303 Billion in Commits as Hyperscalers Reach Critical Customer Mass

One of the indicators that business is a true platform is reaching a critical mass of users. Hyperscaler are passing this test with flying colors. AWS, Microsoft Azure, and Google Cloud accumulated a staggering $303 billion in customer cloud commitments, as migration to the cloud continues, now further accelerated by AI.


*Credit: Partner Insight*

Commits are multi-year contracts signed by customers, binding them to consume a specific amount of cloud services in return for volume discounts. Significantly, hyperscalers allow customers to utilize these commits to purchase 3rd party software in their cloud marketplaces.

Why? Because this accelerates their growth, customer retention, and network effects of their ecosystems. For example, an incredible 85% of UK Microsoft's customers with Azure Consumption Commitment (MACC) are purchasing via Microsoft marketplace today.

Moreover, cloud marketplaces have reached a new low in fees. Following similar moves by MSFT and Google Cloud, AWS's recent reduction in marketplace fees has set a new standard of 3% commission. This rate, comparable to credit card or Stripe fees, resets the economics of partnering, making participation in cloud marketplaces a much more straightforward decision not only for CROs, but for CFOs and CEOs of companies whose buyers increasingly prefer to buy via this new route to market.

## Driving Network Effects and 10x Growth Potential

The significance of growing 3rd-party products for hyperscalers extends beyond cloud consumption. Recent research of UK regulator Ofcom highlighted that all hyperscalers aim to make cloud marketplaces the primary online distribution channel for both first-party and 3rd-party solutions.

While marketplaces are not yet a major revenue source for hyperscalers, they "can act as particularly powerful generators of network effects" (Ofcom), specifically for customers who use the marketplace to buy with cloud commits.

By inviting Independent Software Vendors (ISVs) to offer services on top of their cloud infrastructure, cloud providers enhance their product offerings. Their customers benefit from a wider range of ISV services, which they can integrate with the cloud provider's native services to build comprehensive cloud solutions.

The value customers get from a cloud provider grows with the variety and quality of ISV services available on that platform. Similarly, ISVs tend to find greater value in aligning their services with a particular cloud provider as the provider's user base expands, offering access to more potential customers.

For example, at the recent OpenAI developer conference, Satya Nadella positioned Azure Marketplace as a platform for developers to rapidly launch their products to market, showcasing the strategic role that Microsoft's marketplace plays as a platform for accessing customers. He highlighted Microsoft's partner-focused mindset: "I always think of Microsoft as a platform company, a developer company, and a partner company."

While significant, growth of cloud marketplaces so far only represents a fraction of their full potential. Tackle recently estimated that $15Bn will flow through key cloud marketplaces in 2023 and will reach 100Bn by 2026. Jay McBain from Canalys predicts the previous forecast of $45Bn by 2025 will be reached sooner, by mid-2024.

The revenue of hyperscalers that are going through cloud marketplaces still has a potential to increase 5-10X. Applying AWS's 32% market share to Tackle's $15Bn forecast, we would arrive at $5-7Bn of annual sales attributed to AWS marketplace, or <10% of their $85Bn ARR this year. Benchmarked to the share of 3rd-party sellers in Amazon's e-commerce and factoring the growth of the cloud itself, the growth for the AWS marketplace over the next 5-7 years could be 10X.

AWS CEO Adam Selipsky recently estimated that only "somewhere in the realm of 10% of IT has moved to the cloud. And people think it's a lot higher than that...but they forget that there are a lot of IT dollars spent in the world. There's maybe several trillion dollars of IT spent per year.

Even though a lot of dollars have moved, we're probably still only in the, you know, 10-15% range. That means there's a huge amount of workloads that are still going to be moving to the cloud for years to come."

IDC pegged global public cloud services revenue at $663 billion in 2023, a 20% growth from 2022. Expectations are similarly high for 2024, with a projected five-year CAGR of 19.4%, leading to a staggering $1.34 trillion by 2027.

# Buyer-Led Marketplace Transactions & the Ultimate Cloud Platform Race

Cloud marketplaces are increasingly becoming a customer's choice for not only buying and using cloud commits, but also for discovering new products. The increase in customer-driven transactions within marketplaces in 2023 indicates a shift in purchasing behavior.

In 2023, cloud marketplaces experienced a significant uptick in adoption, with an increasing number of business application software joining their platforms. This follows the initial trend set by cloud-complementary products, such as cybersecurity solutions.

Recently, however, even the business application company that pioneered the App Store concept has announced it is offering its top-grossing products on the AWS marketplace. It remains to be seen whether business line software will achieve the same level of success, given their distinct buyer personas. Still, the rising presence of business software in marketplaces was also highlighted by Tackle's CEO at a recent event.

While helping companies with their cloud GTM strategies, we see that many software companies have honed sales through private offers and are now broadening their collaborations with hyperscalers, signing strategic collaboration agreements, automating co-selling and expanding to public offers.

As IT spending shifts towards software rather than infrastructure, becoming the first-choice platform for ISVs is crucial for hyperscalers. With AWS, Microsoft Azure, and Google Cloud marketplaces already hosting 10X more 3rd-party listings than their own products, the race to bring as many SaaS solutions as possible and make them successful is heating up.

This competition will drive the growth and innovation in marketplaces. Looking ahead, they will be not just distribution channels, but true platforms shaping the future of the tech industry.

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