Trends in Software Distribution – transition to SaaS

Software-as-a-Service ...
Challenge or Huge Opportunity?

Marc Kriegs
EMEA Sales Manager
CeBIT 2013
Your presenter

Marc Kriegs – EMEA Sales Engineer

• Thirtysomething

• Grew up with a vinyl record player, a C64 and a b&w TV

• Now: two smartphones, a tablet, a 2-monitor-PC and three notebooks

• 9 years international experience in E-Commerce (Sales & Project Management)

• Sales Engineer at Avangate BV since 2011

• Based in Hamburg, Germany
The Agenda

Trends in SaaS & Software Distribution

- The (short version of) the rise of SaaS
- SaaS – the market, the customers
- What can it mean for software vendors & publishers?
- SaaS use cases
- recommendations
SaaS ...
...and where it came from
cloud computing
SaaS (software as a service), has grown from a tiny sliver of the enterprise software market just a few years ago to 10 percent in 2009, according to Gartner, which predicts that slice will expand to 16 percent by 2014.

It’s everywhere
The “evolution” of software distribution
The rise of Software-as-a-Service

Growing acceptance for digital delivery and services

Big players (Amazon, Google, Apple, Salesforce) pave the way

Hosting space gets cheaper and cheaper

Decentralized consumption and working habits
Both Simple and Customized Markets “SaaSify”

Simple/Configurable

SaaS

ESD / On-Premise

Customized
SaaS ...

...and the impact on the software industry
Software vendors I:

Some retrench in current business models
Software vendors II:

35% are in process of trying to move to SaaS - 
*Saugatuck Technologies*

66% of those will offer some portion of their application via SaaS within a year - *Gartner*

8 out of 10 new software ventures are starting on SaaS - *IDC, 2012*
About half of SVs worldwide plan to create a separate entity or BU to being the migration to Cloud and SaaS – Saugatuck Advisors

50% will FAIL ONCE before rolling out a successful SaaS strategy - Montclair Advisors
SaaS ...

...market and customers
**Worldwide SaaS Forecast**

According to leading analyst firms, the SaaS market will continue to grow globally to $21.5 billion by 2015. The largest SaaS market will be North America with 64% global market share.

**2011 to 2015 $US Billions**

- 2011: 1.1
- 2012: 1.3
- 2013: 1.6
- 2014: 1.9
- 2015: 2.2

**2012 $US Billions**

- North America: 8.8
- Europe: 3.3
- Asia: 1.3
- Latin America: 0.4

Source: Gartner and IDC
The Shift Of Applications To SaaS & Online

2010 Applications Market

- **ESD + SaaS = 34%**
  - ESD 21%
  - SaaS 13%
  - Physical 66%

Applications Market, $133B


2014 Applications Market

- **ESD + SaaS = 72%**
  - ESD 43%
  - SaaS 29%
  - Physical 28%

Applications Market, $167B
Customer Segments

End-State Selection

New Customers

SaaS Only or Crossover

New SaaS Product

Existing On-Premise Products

Existing Customers

Who?

Traditional

Hybrid
The call for SaaS

Customers Want Low Costs, Speed, Control, Anywhere

Forrester Research, 2011

Consumers Already Used To Accessing SaaS / Cloud Services Everyday ... although too often assume that it should be FREE
Why SaaS? Why Now?

A summary

- Customers **are ready**
  - More acceptance for on remote data - less security / integration concerns
  - Mobile / Access anywhere
  - Collaboration / Sharing becomes more common
  - Consumerization of B2B decisions

- **Simplify/Accelerate Product Evolution** in fast changing markets

- Benefit from **scale economics** in high growth markets

- Monetize the **long tail** ("Farewell, Pareto!")
SaaS ...

...and possible consequences
Perpetual License Model

How Your Software Looked Yesterday/Today

Release 1: $20,000
Customer Purchase

Release 2: $20,000

Release 3: $20,000
Customer Purchase

Time
Subscriptions
The Model of Tomorrow

- **free trial**: none or X days
- **minimum term**: X months
- **on-going**: (until contact Customer Care to cancel)
- **price change**: 
- **upgrade/downgrade (prorated)**: 

**Promotions**:
- $ off or % off
- # of months
- retention promo
- promo
- promo

**Pricing**:
- 1,000 users @ $15
- 500 users @ $20
- 50 users @ $50
- 50 users @ $50

**B2C**

**B2B**
SaaS ...

...and how to monetize it
Avangate Introduction

Avangate is the agile commerce-as-a-service provider trusted by thousands of Software and SaaS companies to accelerate their online revenue worldwide.
Avangate Helps Sell More Software. Globally.
Over 2,700 Customers. 4,000 Resellers. 37,000 Affiliates.

- Rockin’ and rollin’ since 2006
- Deep focus on software and cloud services
- Consistent growth of 75% per year
- US headquarters in Redwood Shores, CA
- EMEA headquarters in Amsterdam, NL
- Global team of 120+ Employees
SaaS ...

...and if / how to get there
The question: How To Get There?
To SaaS... or not to SaaS – that is the question!
Transition Is Hard

More Than Delivery Mode … Cross-Organizational Impact

- **Goto Market**
  Deal volume (Lower GM) → Acquisition / Adoption, Measureable (Cost to Acquire), Simple solutions → Competition, Channels/ Resellers For Distribution

- **Sales Focus**
  Telesales, Shorter Sales Cycles With Longer Term Contracts Paid Over Time, Compensation, Beyond The First Sale (Sell Service, Not a Product)

- **Product / Architecture**
  Scale, Integration of On-Premise / Cloud, Sensitive Data, Customization, **10%+ of Revenue**

- **Development**
  Acceleration of Cycles Changes Everything – Comp, Hiring, Staffing, Ecosystems no longer around 12-36 month traditional cycle

- **Operations / Support**
  Multiple Business Models, Service @ Every Touch Point, SLA’s, Expanded Support (No Longer 3rd Parties for Success), Automating Revenue Systems
Add transitions to add each line and graphic one at a time
Michael Ni, 7/10/2012
Transition Is Hard

Channels Still Important …
- Channel accounts for over 50% of tech industry revenue

... Pressured to Consolidate
- Traditional roles of implementation lose value
- … shifting to Systems Integration & education / process Expertise
- Already becoming hybrids (15% self-identify as MSPs, 52% have a MSP business)
- Average # of strategic partners increased from 4 (2011) to 5.8 (today)

Tech vendor Channel marketing budgets increased by 30% in 2012
Case Studies

A Journey To Embrace New Revenue Models

Reezaa Software
- Traditional, Subscription Business Model, Operational Support Systems

Total Defense
- Hybrid, New SaaS Product as Part of Total Solution

TeamLab
- Pure SaaS Start-up, Spin-Out From Traditional Shareware
Reezaa (Traditional / Shift To Subscriptions)

Reezaa Media is a software development company whose flagship products include Multimedia/PDF Converters. Other products include multimedia rippers, encoders, cutters, splitters, and joiners.

Reezaa is a mp3 converter Converts all formats Video and Audio to MP3, WMA, WAV, OGG, FLAC, AMR, AC3, AAC. Reezaa supports AVI, WMV, MOV, 3GP, MP4, FLV, RM, RMVB, VOB, DAT, MPEG, WAV, WMA, ASF, OGG, RA and all DVD formats. Features include Drag-Drop Software, Convert Audio Files to MP3, Convert Video Files to MP3, Convert Youtube Videos to MP3, Change and Edit MP3 Bitrate, Rate and Audio Channel, Batch Convert Mode, and Online Send Feedback and Questions.
Embracing New Subscription Model ...

... With Traditional Download Product

- **Target**: Existing B2C customers
- **Customization**: None
- **Objectives**: Longer-term customer relationships, capture value of updates
- **Market**: low pressure for change
  - Used to purchase utilities
  - Virtually no costs for installation and running
- **Strategy / Financial**: traditional product, switch from perpetual to subscription licensing.
- **Product**: No change, except providing updated versions.
- **Operations / Support**: Subscription billing, expanded account management, notifications
Subscription Model Success

Total Net Income Up 25% Due To 162% Increase In Renewals

Traditional Delivery Model (ESD) still makes sense, even as customers shift from Pay Up Front to Pay As You Go models
A Global Leader In Malware Detection And Anti-Crimeware Solutions.

Over 50,000 businesses across a wide spectrum of industries have deployed the company's solutions, including some of the most sophisticated buyers of security technology worldwide, and over four million consumers worldwide use Total Defense's products.
Market Opportunity Driven

Cloud / Mobility Creates Customer Need For SaaS Solution

- **Target**: Current B2B customers, future B2C

- **Customization**: Mixed with rules configuration for mobile solution

- **Objectives**: Penetrate with whole solution, block competition, extend the life of the current platform

- **Market**: Edge, non-core, mobile, offloading infrastructure

- **Channel**: Resellers play key role in education, configuration, success ... *distribution* B2C easier
Embracing The New Model

Lessons Learned ... and Still Learning Them

- **Strategy/Financial**
  - Experienced Exec Team
  - Accelerated past dip w/ M&A

- **Goto Market**
  - Sub-segmented customers
  - Enabled existing channels to handle / renew

- **Sales Focus**
  - Accelerated – rapid trials vs. IT barriers
  - Servicing – away from acquire & renew cycle

- **Product / Arch**
  - Completely different team → M&A
  - Everything measurable – reporting ‘aaS’

- **Operations / Support**
  - Worldwide SLA delivery
  - Beyond transparency – proactive comm
TeamLab (Pure SaaS)
A multi-function online service for business collaboration, document & project management
Collaboration & CRM ... SaaS Fit
For B2B, Collaboration (& CRM) Early SaaS Adopters

• **Target:** B2B & prosumers

• **Customization:** Configuration, not customization centric

• **Objectives:** Enter new, high growth market in 2010 pivoting from server-based product

• **Market:** Low cost, rapid innovation, shared resources, social, broad access, fast implementation, low barriers for global expansion

• **Channel:** Distribution-centric for awareness generation
TeamLab - Fully Embracing SaaS

Lessons Learned … and Still Learning Them

**Strategy/Financial**
- Created / funded new company
- Aligned for new market penetration

**Goto Market**
- Freemium / Trial → Usage Tier monetization
- Shift to benefits, not tech → online marketing

**Sales Focus**
- Channel / evangelist-reseller focused to gain broad awareness, acquisition, monetization

**Product/Development**
- 6 month prototype, rapid market iterations
- Voice of the customer guidance

**Operations/Support**
- Security / Privacy around the world
- Multi-channel user feedback – user voice
SaaS ...
Transition Recommendations
Transition To SaaS

#1 – Start with the End in Mind

- Choose the model best fits your need
- Segment your customers
- Understand your costs
- Shorten order to cash
- Leverage other ‘aaS’
Transition To SaaS

#2 – Think Customer

- **Model** to how customers will use your solution and then measure …
  - Renewals and increased usage is the lifeblood
  - Can package entitlements to maximize revenue
  - New metrics - CAC (acquisition cost), MRR, Cohort Analysis, ACV, CSR (satisfaction rate)

- Customer community w/ internal customer champion

- Include **communication paths** - notify & tell users given the constant deliveries

- Service at **any touch point**
Transition To SaaS

#3 – Build a Lead Machine

- Offer something for free - trial / test drive ... one of the “magic 3” and aligned with “rapid time to value” needs

- Land and Expand

- Make advocates. Customers are your best salespeople - customer testimonials, ROI, metrics

- Make friends. Partners for distribution, awareness, acquisition.

- Put Lead Gen on Auto Pilot ... low touch (online marketing, self-service, telesales), high qualification (when needed)
Transition To SaaS

#4 – Sell a Service, Not a Product

- **Shift your mindset** - not just leaving a piece of code behind for 3rd parties to implement and make successful

- Separation of **Hunters from Farmers** – incent on retention

- Plan to deal with **security & downtime** - show track record

- Explore **SLA** to address customer objections & concerns

- **Automate Revenue / Administration** – subscriber mgmt, licensing / entitlements, billing, payments, reporting
Transition To SaaS

#5 – Drive Customer Success

- Deliver programs to drive **customer adoption & success**
  Free initial training, on-going webinars, online resources, events best practice from peers.

- **Measure satisfaction** and **resolve complaints** quickly

- Setup self-service portals or communities to **keep costs down**

- Consider dedicated customer **success teams**

- Motivate customer facing employees with **bonuses** against customer success metrics
So you can say:

SHOW ME THE MONEY!
Thank you!

...and join us at the Avangate dinner:
eCommerce Park - Hall 6, K18 – 18.00 h

Marc Kriegs
marc.kriegs@avangate.com

Avangate Inc.
Redwood Shores CA., USA
Tel: (650) 249 - 5280

Avangate B.V.
Amsterdam, The Netherlands
Tel: +31 20 890 8080

info@avangate.com
www.avangate.com