Transition to SaaS:

Promises, Pitfalls and Planning for Success

Raj Badarinath

Sr. Director, Product Marketing

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Housekeeping Rules

1. All lines are on mute

2. Use the Questions Box on the right → ⊟ Questions

3. Questions will be answered towards the end of the webinar.

4. Unanswered questions and parking lot items will be followed up subsequently.

5. This presentation is being recorded for later playback and sharing.

6. Feedback forms will be provided at the end of session.

Your Host Today

Raj Badarinath, Sr. Director, Product Marketing, Avangate

Raj Badarinath is responsible for Product Marketing at Avangate. He has over 15 years of experience working with software and service companies to build new products, transform into new delivery models, productize services, enter new markets and new industry verticals.

Raj led product and services strategy with large enterprise CRM/ERP vendors such as Oracle, PeopleSoft and IT service providers such as Patni (iGate) and Infosys over his career. He is an also an advisor and sits on the board of multiple technology startups in Silicon Valley.

Who Is Avangate

Avangate is the agile *eCommerce solution* provider trusted by Software and SaaS companies to grow their online revenues worldwide

- **Since 2006, 2500+ Customers**

- **Deep Focus** On Software Industry Vertical

- **Consistent Growth** Of 75% Per Year

- **Locally Headquartered** In Redwood Shores, CA

- **Global Team** Of over 120 Employees
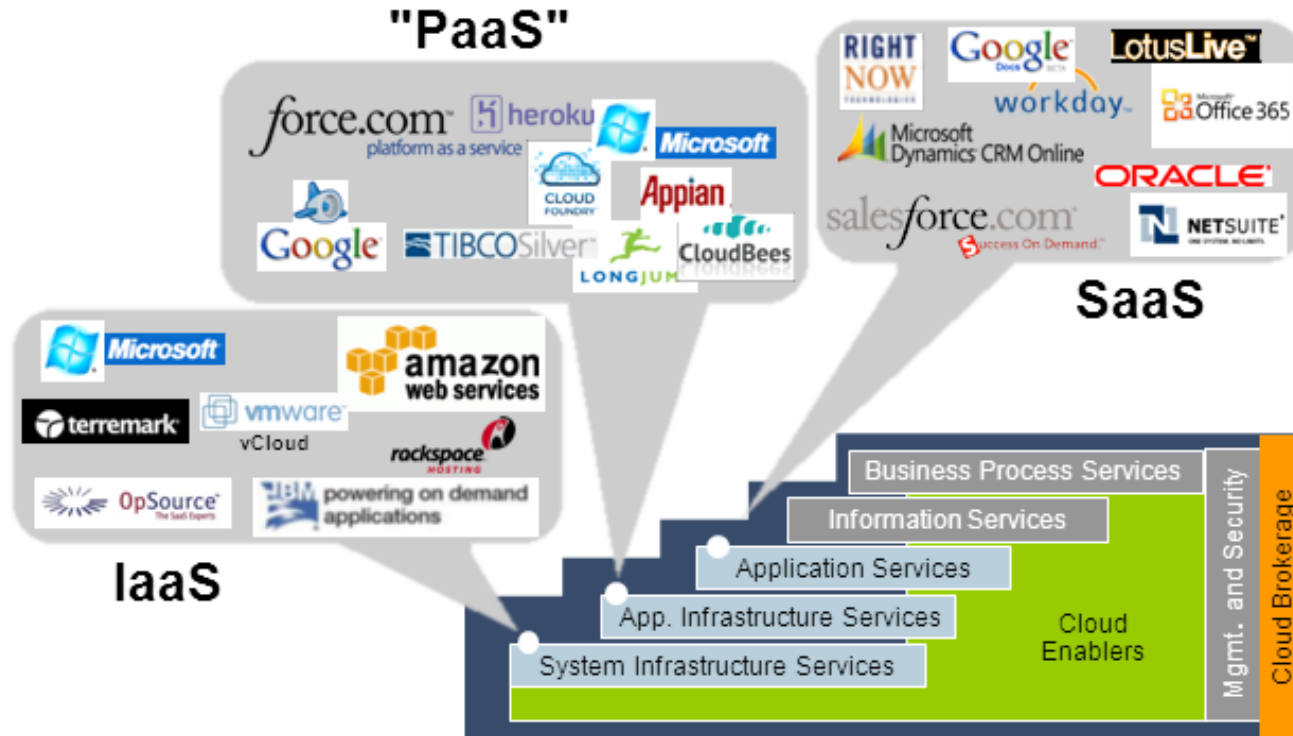 With Offices In North America, Europe, And Asia

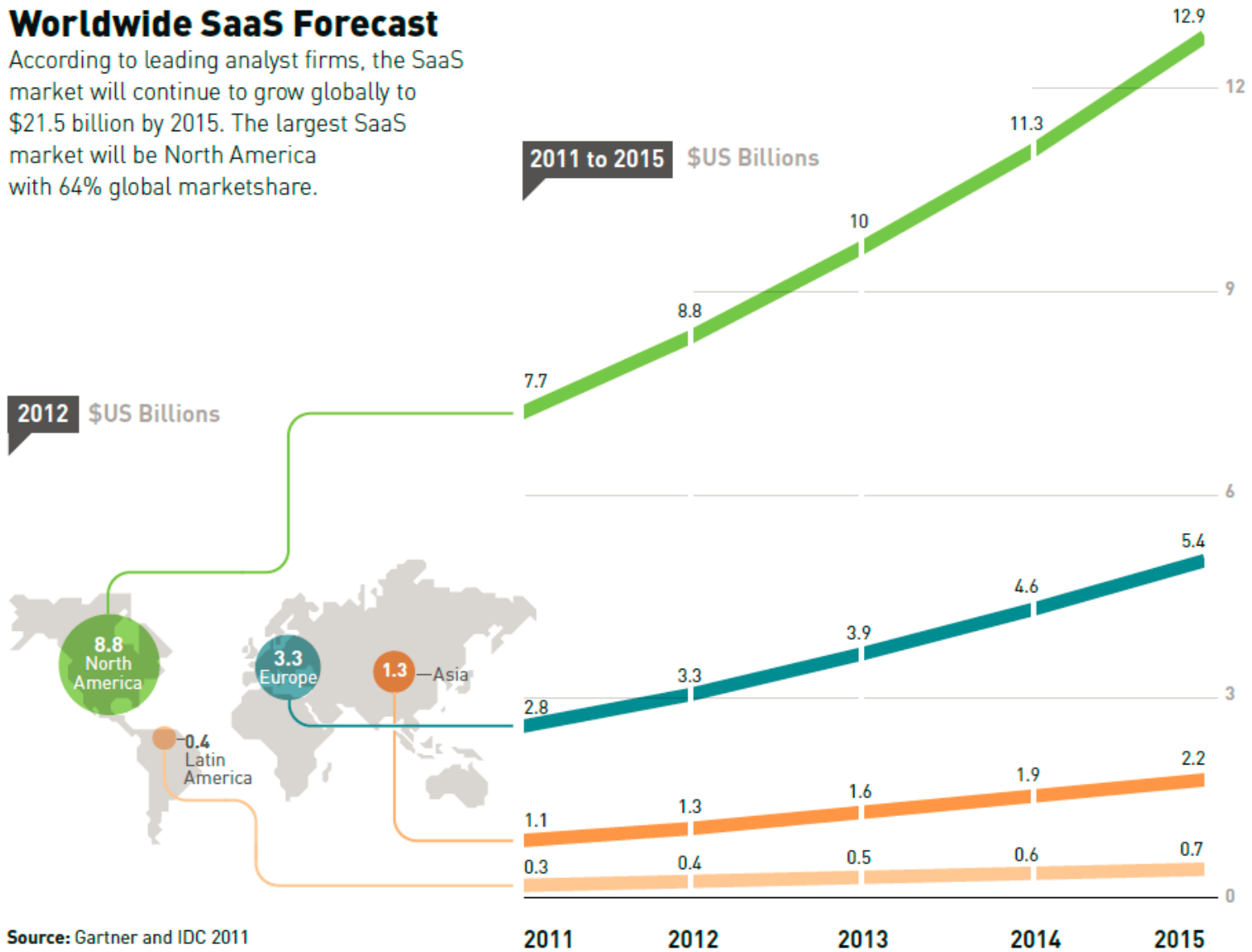# Avangate Focus – 3 Software Sub-segments

Select Client List

SaaS & Cloud Services

Avangate

Software

Startups & Shareware
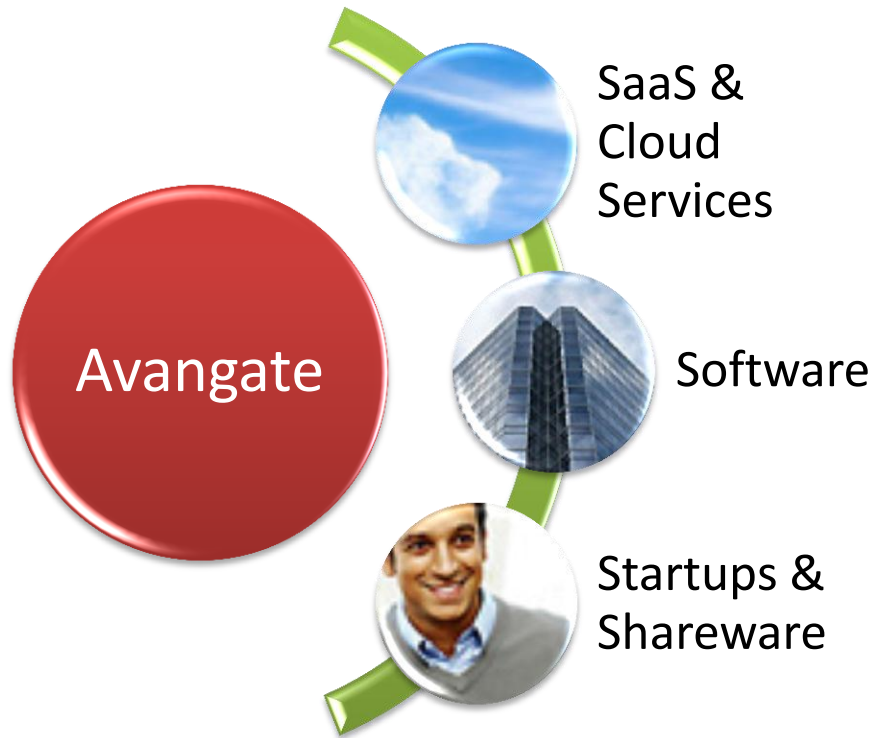
So, Let's Get Started

What is SaaS?

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 marketshare.

2011 to 2015 $US Billions

- 12.9
- 11.3
- 10
- 8.8
- 7.7

- 5.4
- 4.6
- 3.9
- 3.3
- 2.8

- 2.2
- 1.9
- 1.6
- 1.3
- 1.1

- 0.7
- 0.6
- 0.5
- 0.4
- 0.3

2012 $US Billions

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

Source: Gartner and IDC 2011

2011   2012   2013   2014   2015

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Who Are You?
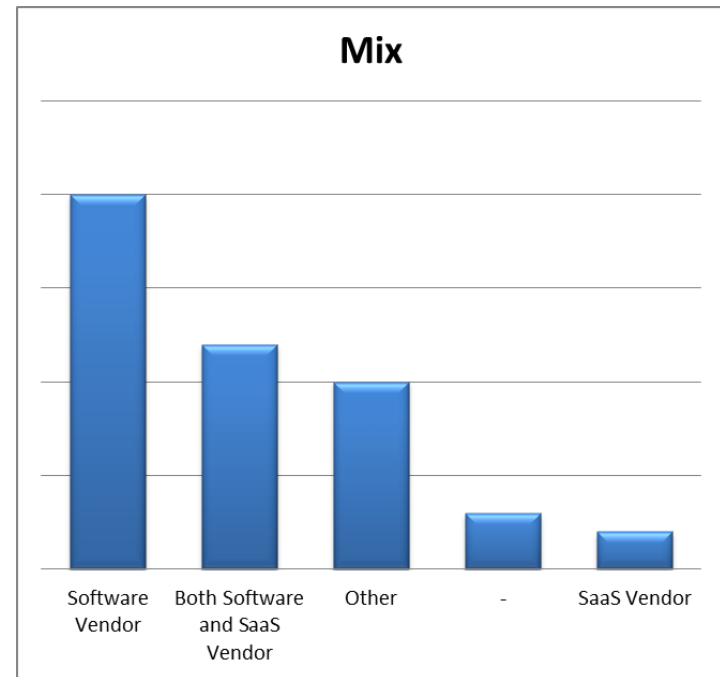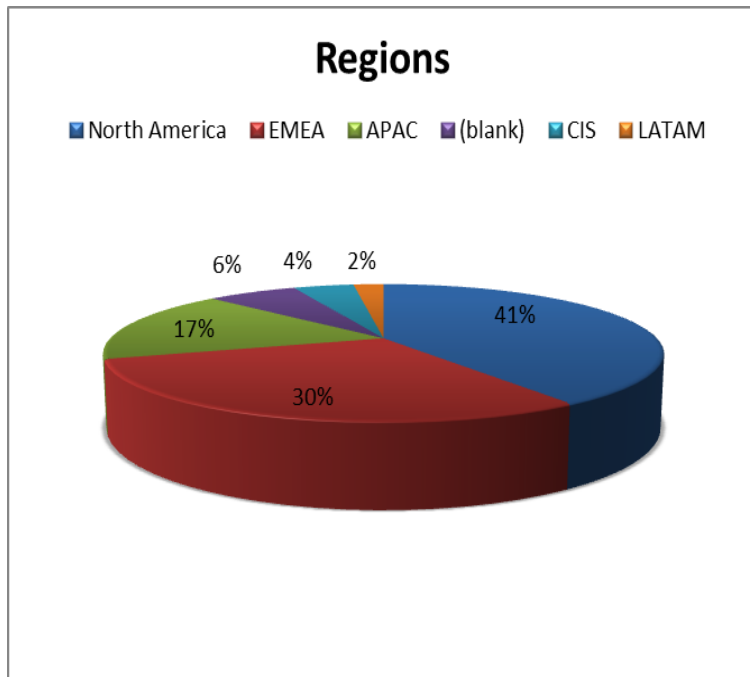
The Shift Of Applications To SaaS & Online

2010 Applications Market

ESD + SaaS = 34%

- ESD 21%
- SaaS 13%
- Physical 66%
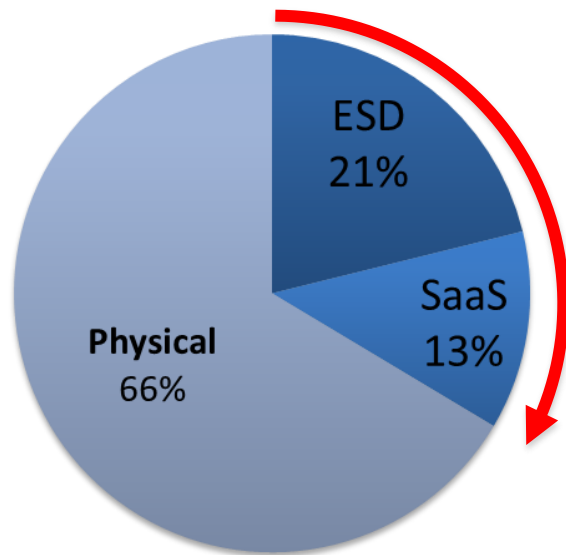
Applications Market, $133B

2014 Applications Market

ESD + SaaS = 72%

- Physical 28%
- ESD 43%
- SaaS 29%
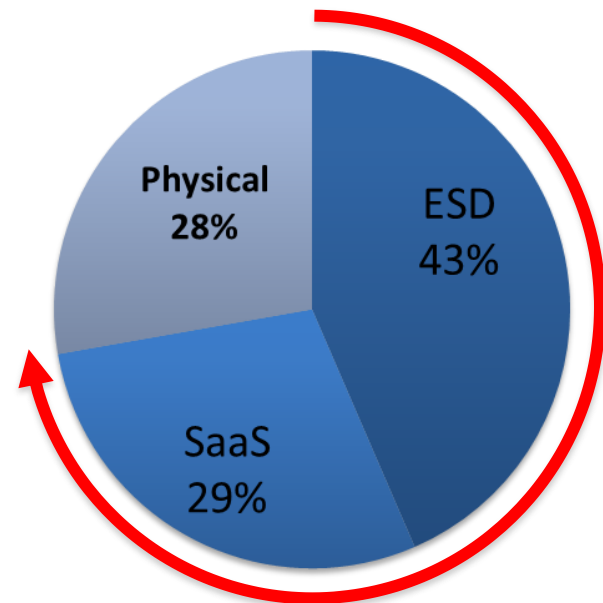
Applications Market, $167B

Source: IDC WW Electronic Software Distribution, 2010-2014 Forecast, IDC WW SaaS 2010–2014 Forecast and 2010 Vendor Shares, 2010, Avangate Analysis

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In Good Company
Avangate Platform Survey - Bifurcated

What % of Your Sales Are Subscription-Based?
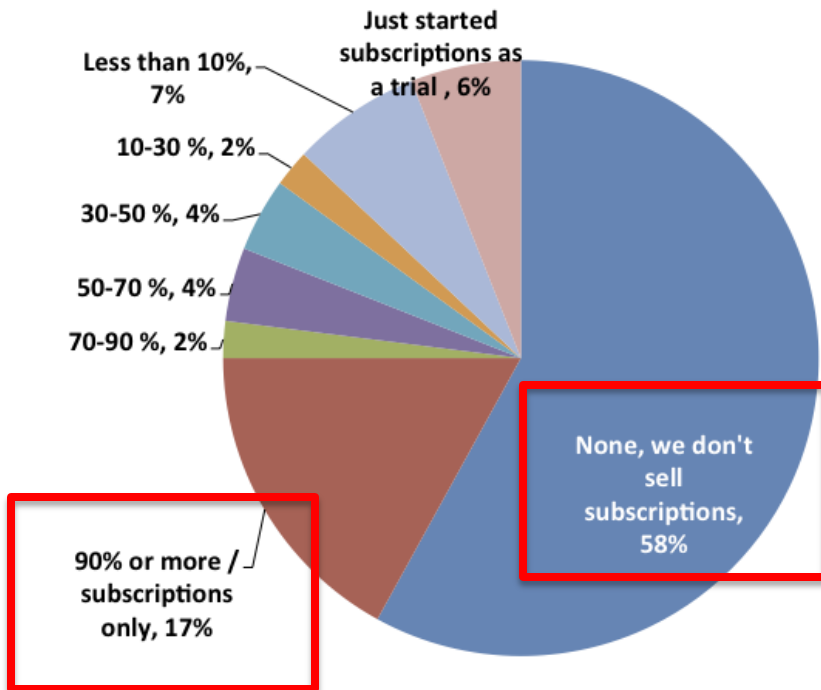
- Less than 10%, 7%
- 10-30 %, 2%
- 30-50 %, 4%
- 50-70 %, 4%
- 70-90 %, 2%
- 90% or more / subscriptions only, 17%
- Just started subscriptions as a trial , 6%
- None, we don't sell subscriptions, 58%

How Are You Using Subscriptions Today?

- Paid trial + Renewal, 4%
- On demand, 4%
- Free trial + Renewal, 10%
- Yearly renewal, 17%
- Monthly renewal (1, 3, 6 months), 12%
- Not using subscriptions, 53%
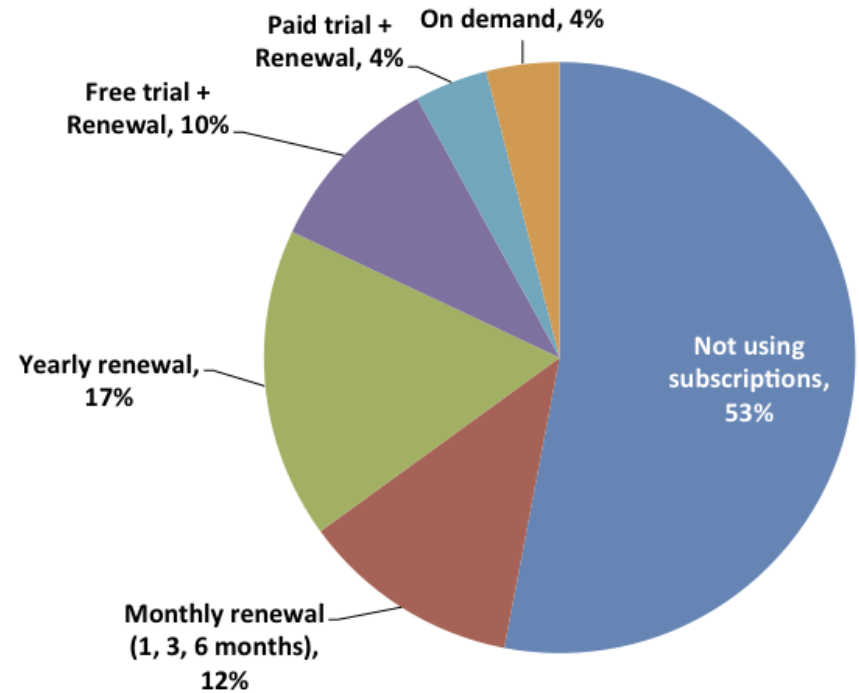
Source: Avangate SkyCommerce Cloud Platform Survey Data Sep-12

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Core Concept

Technology Shift → Business Model Shift

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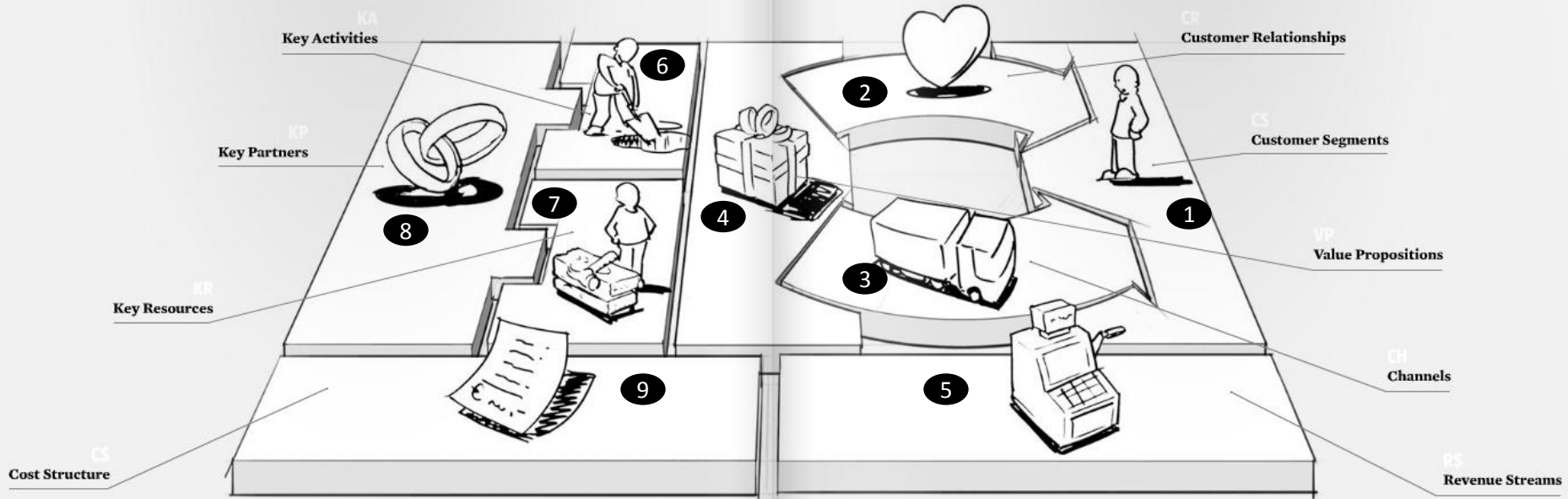
businessmodelgeneration.com

Customer Segments

End-State Selection

Who?

New Customers

	SaaS Only or Crossover

Existing On-Premise Products

New SaaS Product

Traditional	**Hybrid**

You Are Here

Existing Customers

Customer Relationships
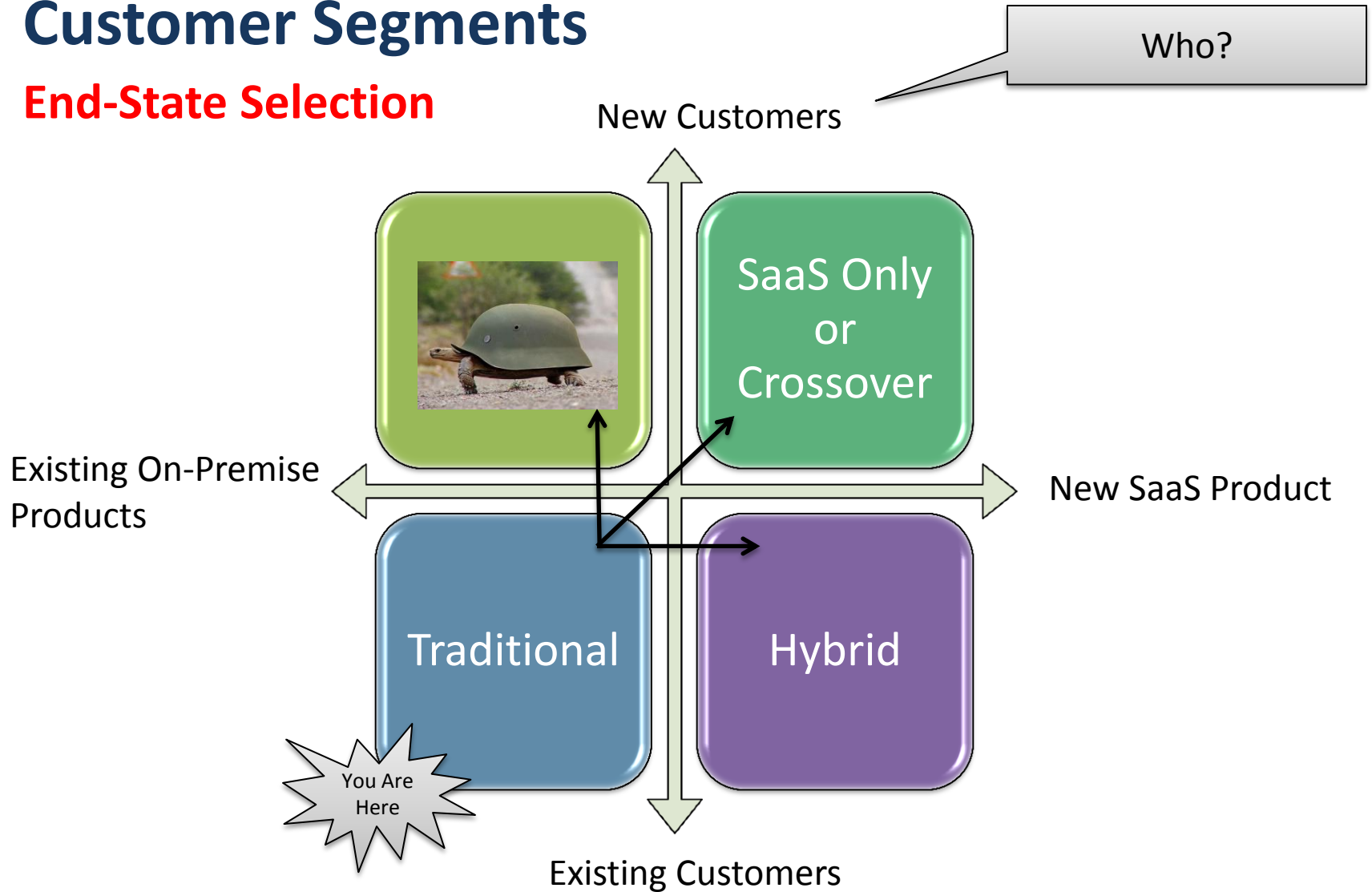
Transactions → On-going Relationships
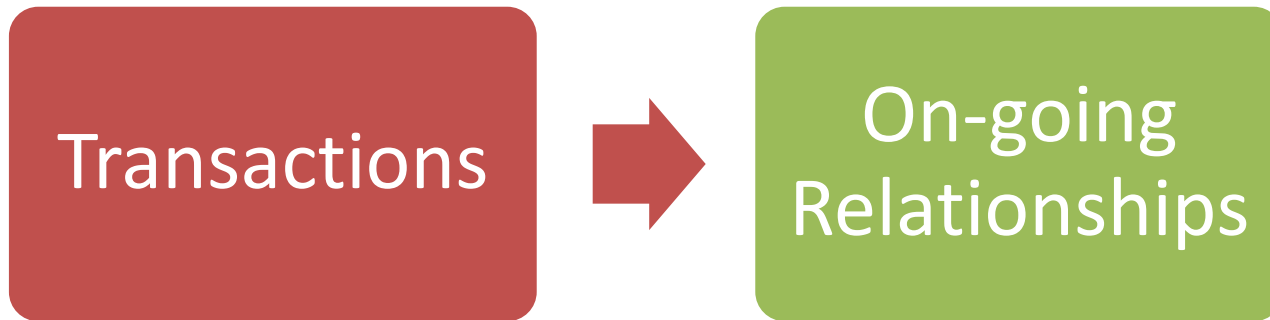
Perpetual License Model

Today

Perpetual License Model

Release 1: $20,000	Release 2: $20,000	Release 3: $20,000
Customer Purchase		Customer Purchase

Time →

To Subscriptions (or Both)

Tomorrow

promo
$ off or % off
# of months

retention promo

price change

promo

upgrade/ downgrade (prorated)

free trial
none or X days

minimum term
X months

on-going ....(until contact Customer Care to cancel)
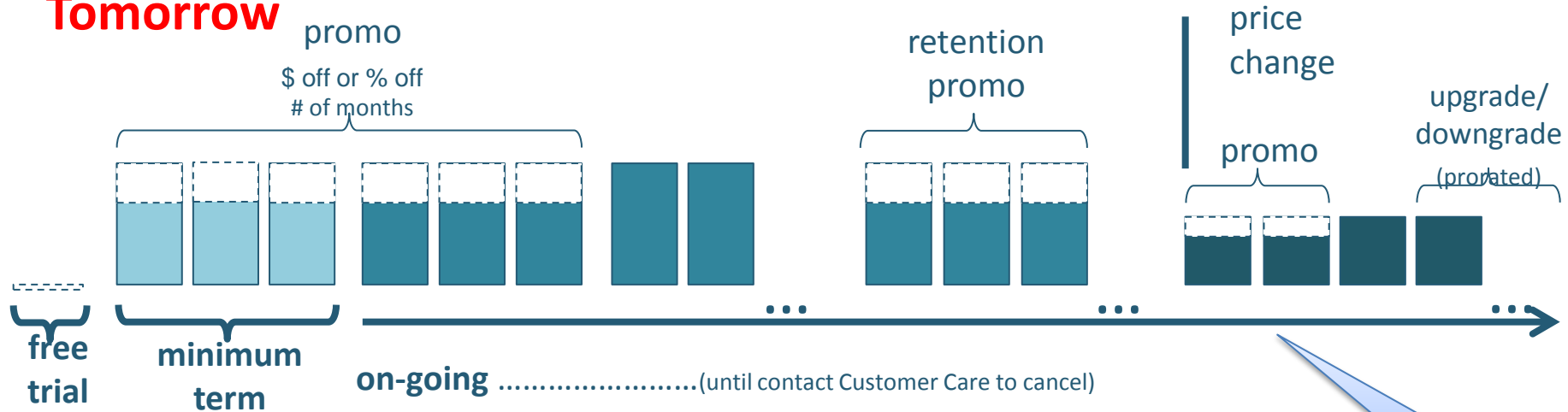
1,000 users @ $15

500 users @ $20

50 users @ $50

50 users @ $50

B2C

B2B

1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12

P P P P P P P P P P P P

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Channels

Sales + Marketing → Distribution
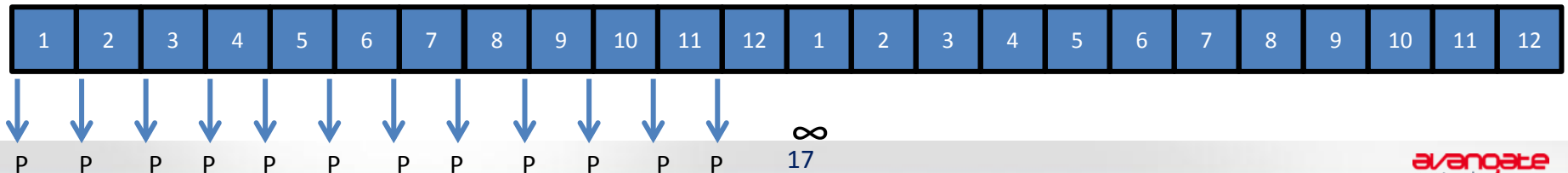
Online / In-App Orders | Mobile | Customer Portal / Self-Service | Contact Center | Channel / Partner | Affiliate Network | Market-places
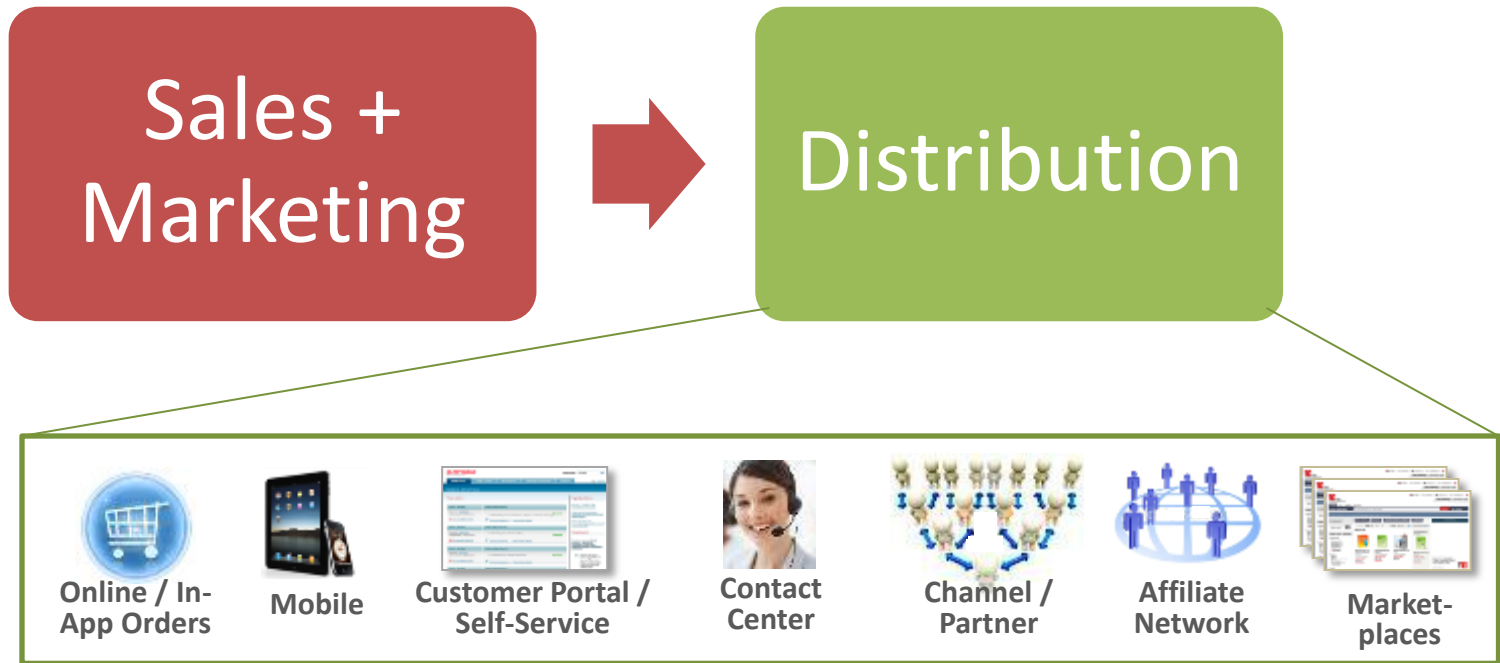
Are Channels Dead for SaaS and Cloud Services?

"What percentage of your company's revenue is indirect, through channels?"

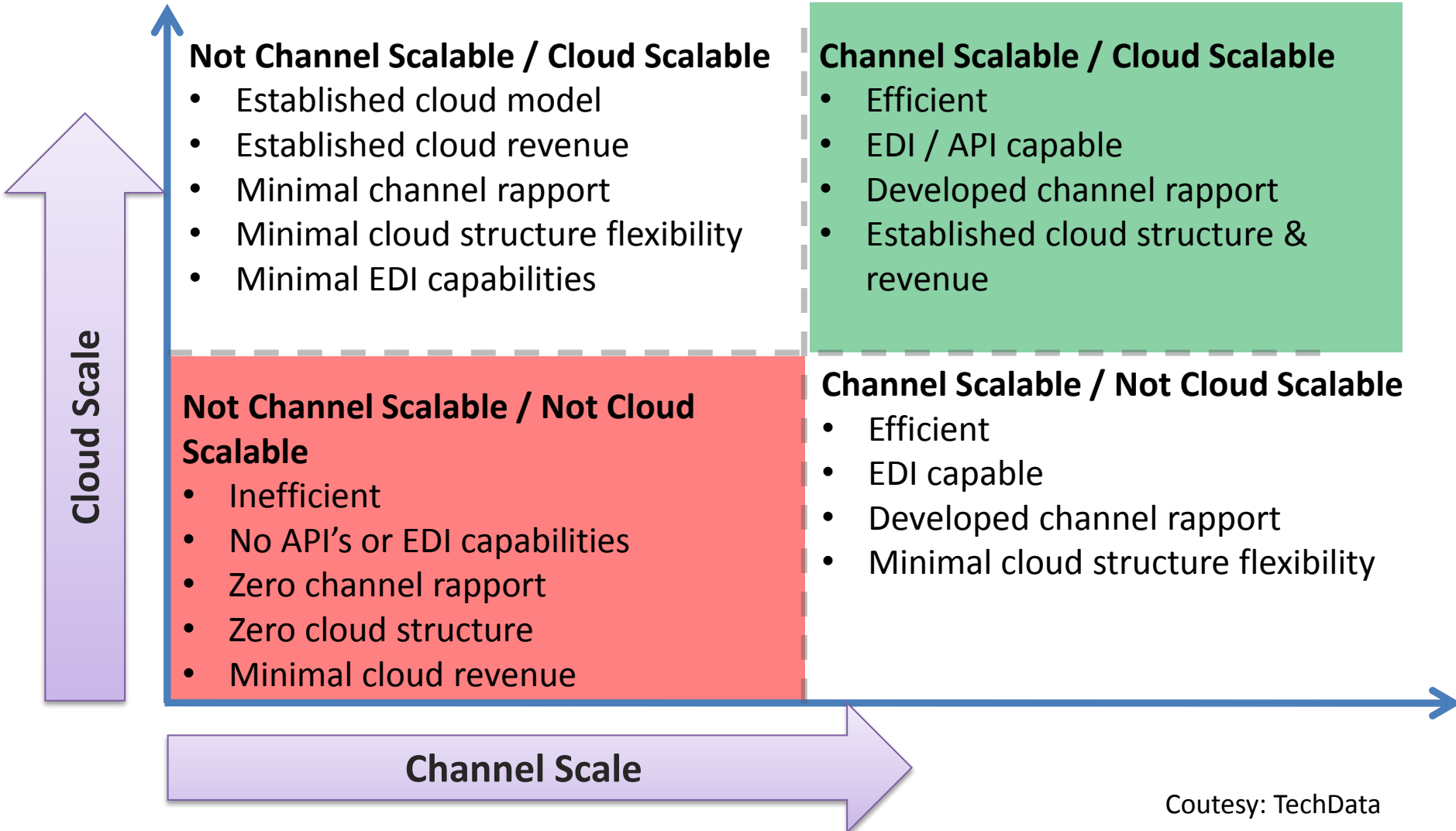|	Today	Planned, 12 r from now
20,000 or more employees (N = 107)	61%	64%
5,000 to 19,999 employees (N = 135)	62%	64%
1,000 to 4,999 employees (N = 144)	53%	55%
100 to 999 employees (N = 149)	54%	57%
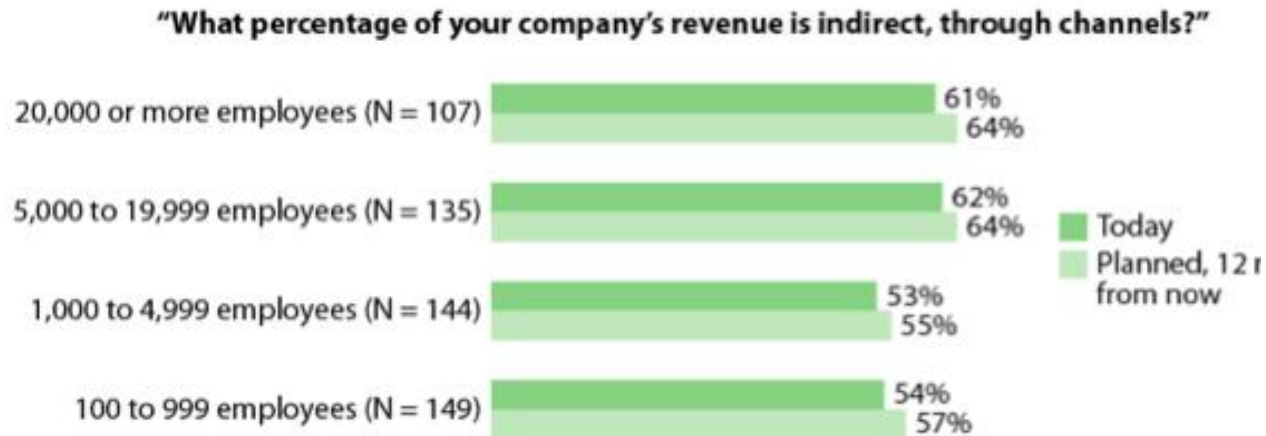
Base: B2B high-tech marketing executives at companies with 100 or more employees

Source: Q4 2011 B2B Marketing Organizations And Investments Survey

Channel accounts for **over 50% of tech industry revenue**
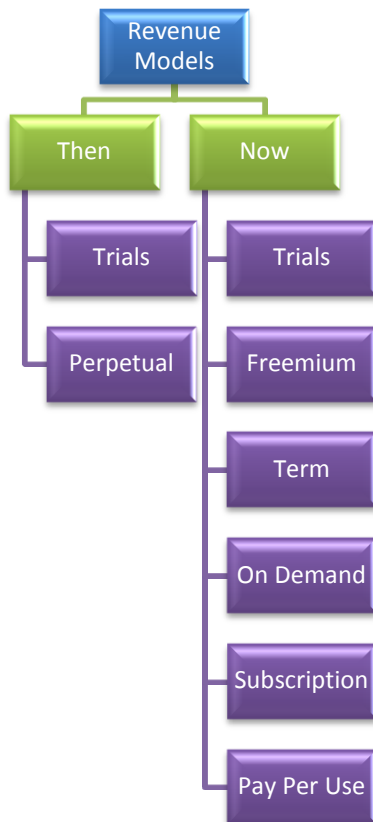
But Will Channels Work With You?

Cloud Scale (vertical axis)

Channel Scale (horizontal axis)

Not Channel Scalable / Cloud Scalable
- Established cloud model
- Established cloud revenue
- Minimal channel rapport
- Minimal cloud structure flexibility
- Minimal EDI capabilities

Channel Scalable / Cloud Scalable
- Efficient
- EDI / API capable
- Developed channel rapport
- Established cloud structure & revenue

Not Channel Scalable / Not Cloud Scalable
- Inefficient
- No API's or EDI capabilities
- Zero channel rapport
- Zero cloud structure
- Minimal cloud revenue

Channel Scalable / Not Cloud Scalable
- Efficient
- EDI capable
- Developed channel rapport
- Minimal cloud structure flexibility

Coutesy: TechData

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Revenue Streams

Need to Monetize Differently

New Models

Revenue Models

- Then
  - Trials
  - Perpetual
- Now
  - Trials
  - Freemium
  - Term
  - On Demand
  - Subscription
  - Pay Per Use

New Channels

New Markets

- Setup/NRE
- Integration
- Subscription Fees
- Services Fees
- Usage Fees

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Key Activities

"In SaaS, Service > Software"

▸ **Development**

  ▪ **Agile Development**

  ▪ **Qtrly Releases (min.)**

▸ **Administration**

  ▪ **Billing and Payments**

  ▪ **DevOps**

▸ **Support**

  ▪ **Renewal**

  ▪ **Retention**

  ▪ **Recurring**

SaaS Administration Challenges

| Capabilities	Details
Tenant Management	• Adding/Removing/Modifying Tenants through software • Configuration/Customization of features
Metering	• Recording of usage based on License Model • User based/Transaction based
Billing	• Publish invoices based on metered usage • Payment tracking
Payment Gateway	• Customers to make online payments • Integrated with Billing & Licensing
Licensing	• Support for multiple license models • User based/Transaction based/Data based
Product Analytics	• Usage of features/modules • Errors recorded/reported

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Key Resources

➲ Product Architecture

- Scale

- Support for experimentation – new pricing models, bundles, packages, promotions

- Sensitive Data – PCI Compliance, Privacy, Risk

- Customization – Extensions, Upgrades

- Extensibility – Integration, Reporting

➲ Operations

- Service @ Every Touch Point

- DevOps

- Expanded Support (No Longer 3rd Parties for Success)

- Automating Revenue Systems

- Reporting and Analytics

Cost Structure
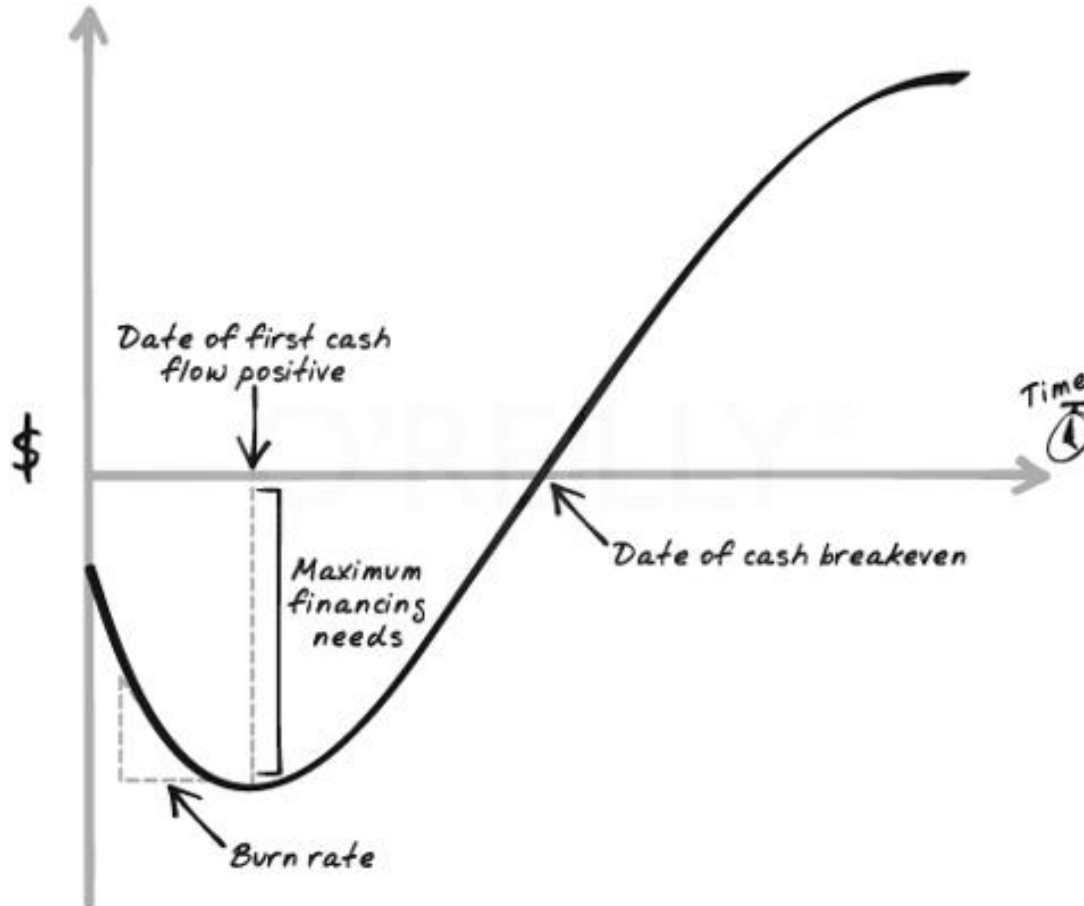
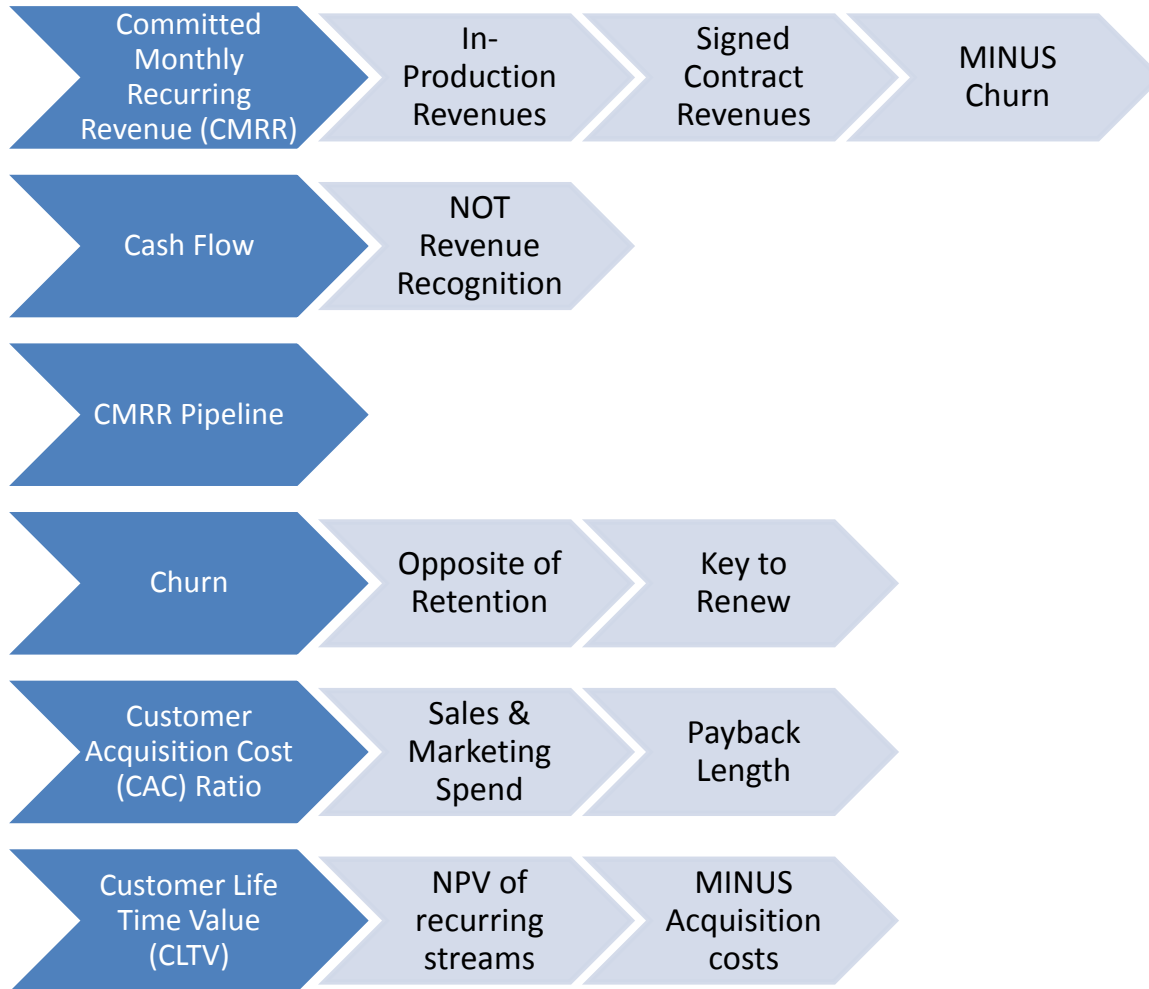- **Upfront Capital Investment**

  - Specialized skills

  - Infrastructure – Data centers, redundancy

  - Management talent

- **Sales Focus**
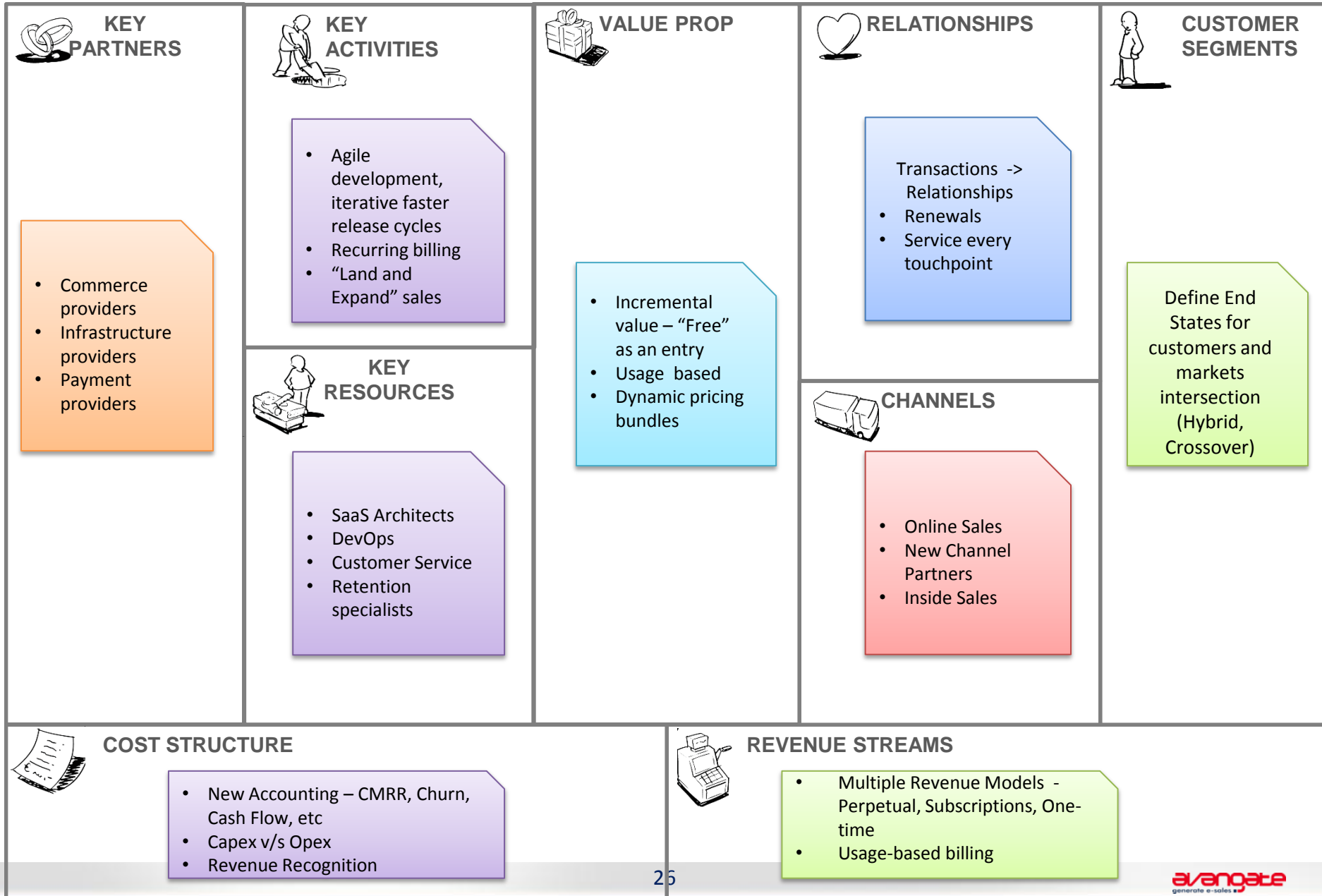
  - Inside Sales

  - Shorter Sales Cycles With Longer Term Contracts Paid Over Time

  - Compensation

  - Beyond The First Sale (Sell Service, Not a Product)

6 "C"s of Cloud Finance

Learn the lingo

Committed Monthly Recurring Revenue (CMRR)	In-Production Revenues	Signed Contract Revenues	MINUS Churn

Cash Flow	NOT Revenue Recognition

CMRR Pipeline

Churn	Opposite of Retention	Key to Renew

Customer Acquisition Cost (CAC) Ratio	Sales & Marketing Spend	Payback Length

Customer Life Time Value (CLTV)	NPV of recurring streams	MINUS Acquisition costs

Read: Top 10 laws of Cloud Computing by BVP

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Transition to SaaS: Business Model Summary

KEY PARTNERS

- Commerce providers
- Infrastructure providers
- Payment providers

KEY ACTIVITIES

- Agile development, iterative faster release cycles
- Recurring billing
- "Land and Expand" sales

KEY RESOURCES

- SaaS Architects
- DevOps
- Customer Service
- Retention specialists

VALUE PROP

- Incremental value – "Free" as an entry
- Usage based
- Dynamic pricing bundles

RELATIONSHIPS

Transactions -> Relationships
- Renewals
- Service every touchpoint

CHANNELS

- Online Sales
- New Channel Partners
- Inside Sales

CUSTOMER SEGMENTS

Define End States for customers and markets intersection (Hybrid, Crossover)

COST STRUCTURE

- New Accounting – CMRR, Churn, Cash Flow, etc
- Capex v/s Opex
- Revenue Recognition

REVENUE STREAMS

- Multiple Revenue Models - Perpetual, Subscriptions, One-time
- Usage-based billing

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2 Case Studies

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

Reezaa (Traditional -> 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

Certified By

Editors' Pick
Top 5/5 Rating
www.brothersoft.com

CHIP
DOWNLOAD.eu
FEATURED DOWNLOAD

Editor's Review
EXCELLENT ★★★★★
SOFTPEDIA

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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 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

Reeza Sales Split - New Licenses vs. Renewals

+ 25%
+ 12%
+ 162%

2011
2012

Total   New licenses   Renewals
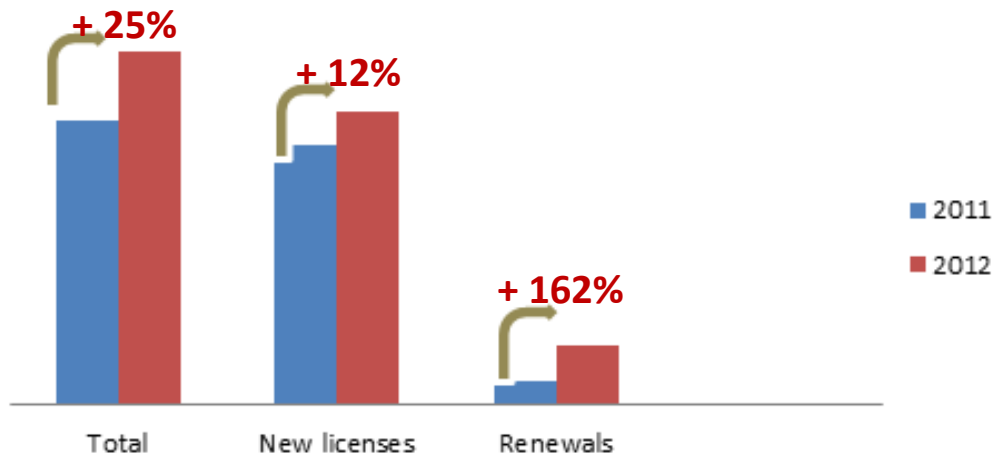
- **11%** % of Renewals of sales - Sept'10

- **24%** % of Renewals of sales today (May'12)

Traditional Delivery Model (ESD) still makes sense, even as customers shift from **Pay Up Front** to **Pay As You Go** models

Perpetual to Subscriptions: Reeza Summary

KEY PARTNERS
- Commerce providers
- Infrastructure providers
- Payment providers

KEY ACTIVITIES
- Subscription billing, expanded account management, notifications

KEY RESOURCES
- No change

VALUE PROP
- Subscription pricing

RELATIONSHIPS
- Renewal Servicing

CHANNELS
- Online Sales

CUSTOMER SEGMENTS
No change

COST STRUCTURE
- New Accounting – CMRR, Churn, Cash Flow, etc
- Capex v/s Opex

REVENUE STREAMS
- Multiple Revenue Models - Perpetual, Subscriptions

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Total Defense
Hybrid - Both Download and SaaS For Current Customers

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.

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Market Opportunity Driven

Cloud / Mobility Creates Customer Need For SaaS Solution

Embracing The New Model

Lessons Learned … and Still Learning Them
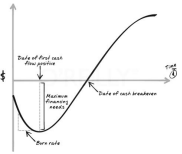
Strategy /Financial	• Experienced Exec Team • Accelerated past dip w/ M&A
Goto Market	• Sub-segmented customers • Enabled existing channels to handle / renew
Sales Focus	• Accelerated – rapid trials vs. IT barriers • Servicing – away from acquire & renew cycle
Product / Arch	• Completely different team → M&A • Everything measurable – reporting 'aaS'
Operations / Support	• Worldwide SLA delivery … burning cash • Beyond transparency – proactive comm

Hybrid: Total Defense Summary

KEY PARTNERS

- Commerce providers
- Infrastructure providers
- Payment providers

KEY ACTIVITIES

- Subscription billing
- Integration with back office ERP
- WW operations

KEY RESOURCES

- Cloud services management
- Support and Renewals
- Channel staff

VALUE PROP

- Subscription pricing for B2C and B2B
- Multiple users

RELATIONSHIPS

- Renewal Servicing

CHANNELS

- Online Sales
- **Reseller management

CUSTOMER SEGMENTS

B2c and B2B (new) for cloud services Subsegment for SMB

COST STRUCTURE

- New Accounting – CMRR, Churn, Cash Flow, etc
- Capex v/s Opex

REVENUE STREAMS

- Multiple Revenue Models - Perpetual, Subscriptions

What Software & SaaS Companies Need

Online / In-App Orders
Mobile
Customer Portal / Self-Service
Contact Center
Channel / Partner
Affiliate Network
Market-places

Touchpoints
Online, API-based, Account Mgmt, Branded, Rules-based, Personalization / Localization

Distribution
On-Board, Activate, Empower, and Manage across Indirect Channels

Commerce Engine
Acquire, Scale, Retain, Expand leveraging Marketing Tools, Order Management, Fulfillment / Provisioning and Revenue Assurance

Billing

Payments

Systems of Record
Extend and Integrate across Customer, Product, Pricing, License / Subscriptions, Order, Financials

Avangate Commerce Solution

Online / In-App Orders   **Mobile**   **Customer Portal / Self-Service**   **Contact Center**   **Channel / Partner**   **Affiliate Network**   **Market-places**
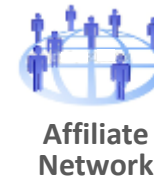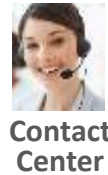
Sky eCommerce

Sky Channels
_____
Sky Affiliates

Avangate Commerce Platform

Billing

Payments

Systems of Record
Extend and Integrate across Customer, Product, Pricing, License / Subscriptions, Order, Financials

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The Avangate Difference

- **Built For Agility –** minutes not months

- **Channel Enabled –** instant worldwide distribution

- **Complete Solution –** software, SaaS, and cloud services

- **Commerce-as-a-Service –** scales with your business worldwide

- **Strategic Partner –** focused on growing your business

Questions?

Please use the Q&A panel on the right.

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Resources

- Avangate Companion Whitepaper: "Transition to SaaS: Promises, Pitfalls and Planning for Success"

- http://www.businessmodelgeneration.com/downloads/business_model_canvas_poster.pdf

- Just for fun: http://youtu.be/GQyatIpkHvM

The Business Model Canvas

Designed for: Designed by: On: Iteration:

Key Partners
Who are our Key Partners?
Who are our key suppliers?
Which Key Resources are we acquiring from partners?
Which Key Activities do partners perform?

Key Activities
What Key Activities do our Value Propositions require?
Our Distribution Channels?
Customer Relationships?
Revenue streams?

Value Propositions
What value do we deliver to the customer?
Which one of our customer's problems are we helping to solve?
What bundles of products and services are we offering to each Customer Segment?
Which customer needs are we satisfying?

Customer Relationships
What type of relationship does each of our Customer Segments expect us to establish and maintain with them?
Which ones have we established?
How are they integrated with the rest of our business model?
How costly are they?

Customer Segments
For whom are we creating value?
Who are our most important customers?

Key Resources
What Key Resources do our Value Propositions require?
Our Distribution Channels? Customer Relationships?
Revenue Streams?

Channels
Through which Channels do our Customer Segments want to be reached?
How are we reaching them now?
How are our Channels integrated?
Which ones work best?
Which ones are most cost-efficient?
How are we integrating them with customer routines?

Cost Structure
What are the most important costs inherent in our business model?
Which Key Resources are most expensive?
Which Key Activities are most expensive?

Revenue Streams
For what value are our customers really willing to pay?
For what do they currently pay?
How are they currently paying?
How would they prefer to pay?
How much does each Revenue Stream contribute to overall revenues?

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Thank You!

Stay Tuned for Next Webinar with Forrester Research:

"Subscriptions: The Next Frontier for Software?"

January 29th, 2013

Register at www.Avangate.com

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