Transition to SaaS:
Promises, Pitfalls and Planning for Success

Raj Badarinath
Sr. Director, Product Marketing
Housekeeping Rules

1. All lines are on mute

2. Use the Questions Box on the right →

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

Avangate

SaaS & Cloud Services

Software

Startups & Shareware

Select Client List

FICO
Genie9
TOTAL DEFENSE

Bitdefender
TOTAL DEFENSE
LAVASOFT
SERENA

Reezaa
wondershare
FusionCharts
So, Let’s Get Started
What is SaaS?

Note: Cloud services are software services.
**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.

**2012 $US Billions**

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

**Source:** Gartner and IDC 2011
Who Are You?
The Shift Of Applications To SaaS & Online

2010 Applications Market

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

Applications Market, $133B

2014 Applications Market

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

Applications Market, $167B

In Good Company
Avangate Platform Survey - Bifurcated

What % of Your Sales Are Subscription-Based?

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

How Are You Using Subscriptions Today?

- Not using subscriptions, 53%
- Monthly renewal (1, 3, 6 months), 12%
- Yearly renewal, 17%
- Free trial + Renewal, 10%
- Paid trial + Renewal, 4%
- On demand, 4%

Source: Avangate SkyCommerce Cloud Platform Survey Data Sep-12
Core Concept

Technology Shift  Business Model Shift
businessmodelgeneration.com
Customer Segments

End-State Selection

Existing On-Premise Products

SaaS Only or Crossover

New Customers

New SaaS Product

Traditional

Hybrid

Existing Customers

You Are Here

Who?
Customer Relationships

Transactions → On-going Relationships
Perpetual License Model

Today

- Release 1: $20,000 (Customer Purchase)
- Release 2: $20,000
- Release 3: $20,000 (Customer Purchase)
To Subscriptions (or Both)

Tomorrow

- Promo: $ off or % off
- # of months

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

Price change: X months

Retention promo: X months

Upgrade/downgrade (prorated)

B2C

B2B
Channels

Sales + Marketing

Distribution

- Online / In-App Orders
- Mobile
- Customer Portal / Self-Service
- Contact Center
- Channel / Partner
- Affiliate Network
- Marketplaces
Are Channels Dead for SaaS and Cloud Services?

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

**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
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

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

New Markets

$ £ ¥ €
Key Activities

“In SaaS, Service > Software”

**Development**
- Agile Development
- Qtrly Releases (min.)

**Administration**
- Billing and Payments
- DevOps

**Support**
- Renewal
- Retention
- Recurring

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**SaaS Administration Challenges**

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

<table>
<thead>
<tr>
<th>Committed Monthly Recurring Revenue (CMRR)</th>
<th>In-Production Revenues</th>
<th>Signed Contract Revenues</th>
<th>MINUS Churn</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flow</strong></td>
<td><strong>NOT</strong> Revenue Recognition</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CMRR Pipeline</strong></td>
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<tr>
<td><strong>Churn</strong></td>
<td>Opposite of Retention</td>
<td>Key to Renew</td>
<td></td>
</tr>
<tr>
<td><strong>Customer Acquisition Cost (CAC) Ratio</strong></td>
<td>Sales &amp; Marketing Spend</td>
<td>Payback Length</td>
<td></td>
</tr>
<tr>
<td><strong>Customer Life Time Value (CLTV)</strong></td>
<td>NPV of recurring streams</td>
<td>MINUS Acquisition costs</td>
<td></td>
</tr>
</tbody>
</table>

**Read:** Top 10 laws of Cloud Computing by BVP
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

**VALUE PROP**
- Incremental value – “Free” as an entry
- Usage based
- Dynamic pricing bundles

**RELATIONSHIPS**
- Transactions \(\rightarrow\) Relationships
- Renewals
- Service every touchpoint

**CUSTOMER SEGMENTS**
- Define End States for customers and markets intersection (Hybrid, Crossover)

**KEY RESOURCES**
- SaaS Architects
- DevOps
- Customer Service
- Retention specialists

**CHANNELS**
- Online Sales
- New Channel Partners
- Inside Sales

**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
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.
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

- 11% % of Renewals of sales - Sept’10
- 24% % of Renewals of sales today (May’12)

Reeza Sales Split - New Licenses vs. Renewals

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

**VALUE PROP**
- Subscription pricing

**RELATIONSHIPS**
- Renewal Servicing

**CHANNELS**
- Online Sales

**CUSTOMER SEGMENTS**
- No change

**COST STRUCTURE**
- No change

**REVENUE STREAMS**
- Multiple Revenue Models - Perpetual, Subscriptions

- New Accounting – CMRR, Churn, Cash Flow, etc
- Capex vs Opex
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.
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

**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

**Key Resources**
- Cloud services management
- Support and Renewals
- Channel staff

**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

**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

Avangate Commerce Platform

Sky eCommerce

Sky Channels
Sky Affiliates

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

Billing
Payments

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

Avangate Companion Whitepaper: “Transition to SaaS: Promises, Pitfalls and Planning for Success”


Just for fun: http://youtu.be/GQyatIpkHvM
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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Avangate generate e-sales