

## As SaaS Goes Mainstream, ISVs Invest In Channel Support Tools

January, 2013

### Introduction

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It is hard today to find an independent software vendor (ISV) without a software-as-a-service (SaaS) offering. In fact, many startup software firms offer SaaS solutions exclusively while larger enterprise software companies are investing more in SaaS products through R&D spending or major acquisitions. As SaaS matures, its use in the enterprise is rapidly increasing. Forrester's technology adoption surveys point to a significant shift in the usage of SaaS products in software categories like security, IT management, and enterprise process applications. Consider that by 2013, 33% of enterprise process applications used globally will be SaaS-based.<sup>1</sup> As ISVs adapt to the shift of their product portfolio toward SaaS, channel partners must also adapt. Distributors, VARs, and OEMs have well-established business models, honed to support software vendors that distribute and sell on-premise software, but these partners must undergo a meteoric transition as they gear up to sell and renew SaaS products.

In September 2012, Avangate commissioned Forrester Consulting to create a Technology Adoption Profile (TAP) to understand the importance of the channel for ISVs, even in the face of challenges associated with selling software-as-a-service (SaaS) products via channel partners. For the purpose of this profile, Forrester Consulting draws on existing Forrester Research data and a custom survey of 53 US- and UK-based SMB and enterprise software publishing professionals. This TAP explores how ISVs are increasingly reliant on channel partners to acquire and retain customers for their SaaS products. The results show that a channel distribution strategy is gaining importance, although ISVs are worried that their partners are failing to deliver on the promise, value proposition, and customer experience of using SaaS software; more so, these shortcomings represent quantifiable risks to the sustainable growth and future safeguarding of their SaaS revenues.

### ISVs Expect The Channel To Play A Greater Role In Distributing Their SaaS Products

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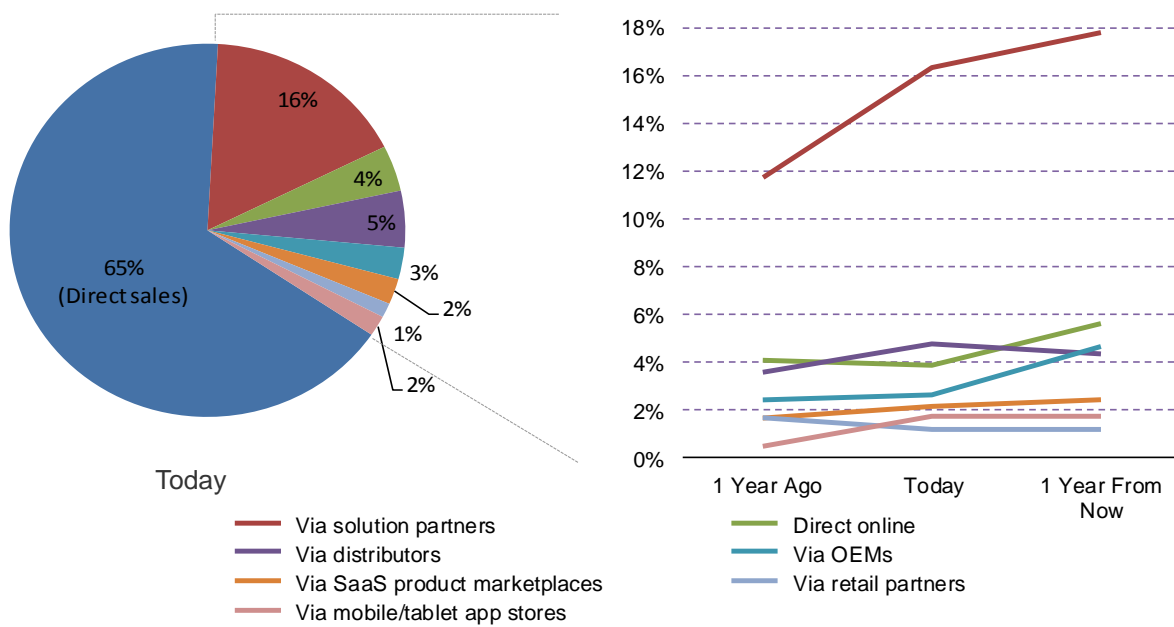
ISVs have long relied on their direct sales force for the lion's share of software revenues, but times are changing. When asked about the strategic role of their sales channels, respondents reported that in 2013 they expect the direct sales force will generate 60% of SaaS revenues, down from 72% in 2011 (see Figure 1). In past studies, Forrester has determined that more than one-quarter of firms are centralizing the procurement and management of SaaS cloud applications.<sup>2</sup> Consequently, these firms are changing their sourcing strategy, looking to solutions partners who can supply and centrally manage the entire end-to-end SaaS portfolio. The ISVs surveyed in this study are experiencing this shift away from the direct channel — by 2013, they expect 18% of SaaS revenues to come from solution partners, up from only 12% in 2011. Beyond the growth in channel partner sales, ISVs are also seeing growth from their direct online channel. Although this channel is still nascent, especially for B2B software publishers, their customers — small and medium businesses — are increasingly acquiring, managing, and renewing SaaS products

directly with the vendor online, rather than through traditional sales rep relationships. By 2013, 29% of the ISVs surveyed plan to have a direct online channel, which is a significant increase compared to only 19% that operate a direct online channel today. Furthermore, by next year, those ISVs that develop a direct online eCommerce capability expect to generate, on average, 21% of their revenues through this channel.

**Figure 1**

ISVs Are Increasingly Relying On Solutions Partners To Market And Sell Their SaaS Products

**‘Thinking about the channels through which you market and sell your SaaS software offerings, what percentage of total SaaS revenues did/does/will each channel account for?’**



Base: 53 US and UK SMB and enterprise software publishers

Source: A commissioned study conducted by Forrester Consulting on behalf of Avangate, September 2012

### ISVs Have Concerns With The Performance Of Their Channel Partners

Sixty-six percent of ISVs indicated that they agree or strongly agree that channel partners are strategically important to growing revenues from their SaaS products; however, 19% reported that their existing channel partner program is failing to meet their goals (see Figure 2). With solution partners, distributors, and OEMs already accounting for 24% of SaaS sales today, and expected to rise to 27% by 2013, ISVs are concerned that their channel partners are ill-equipped to:

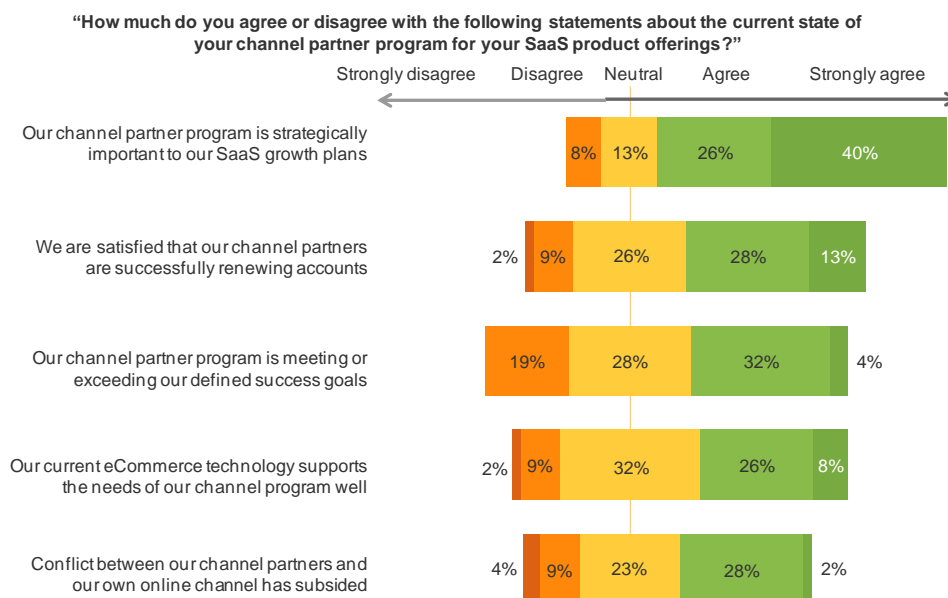
- Evolve business models.** It has taken years for channel partners to adapt to the new world of SaaS, where compensation has shifted from a front-loaded licensing model to a recurring model where partners are equally incented to renew customers as to acquire them. As SaaS matures, ISVs are keen to experiment with new business models such as usage-based billing; however, 49% of respondents were either concerned or very

concerned that their channel partners would not be able to support new or evolving business models (see Figure 3).

- Expand into new markets.** Smaller software vendors without a direct sales force in international markets are especially reliant on their channel partners for distribution overseas. However, 47% of ISVs reported that they are ill-equipped to help their channel partners market and sell into new geographies.
- Support customers directly.** Forty-two percent of ISVs reported concerns that their channel partners fail to take ownership of the relationship with the end customer over the lifetime of the account. Furthermore, 40% are concerned or very concerned that their channel partners are not servicing end customers correctly — failing to resolve technical, billing, or account-related issues as well as missing opportunities to upsell additional services or expand the existing footprint within an account.
- Renew existing accounts.** Twenty-one percent of ISVs reported that they are satisfied with the renewal rates from channel partners, although worryingly almost twice as many (41%) reported that their channel partners are failing to meet renewal goals. Although ISVs pay out competitive renewal commissions to solution partners (on average, 19% for a renewal versus 21% for the acquisition of a new account), many solution partners remain focused on the services revenue associated with delivering and implementing new projects rather than supporting existing ones that have since been completed.
- Provide visibility into accounts.** Forty-four percent of ISVs complained that they don't have visibility into the performance of their channel partners in relation to the acquisition and renewal of SaaS accounts. Solution partners lack sophisticated account tracking and lead management tools — which in turn prevents them from sharing visibility into their funnel up to the ISV vendors they support.

**Figure 2**

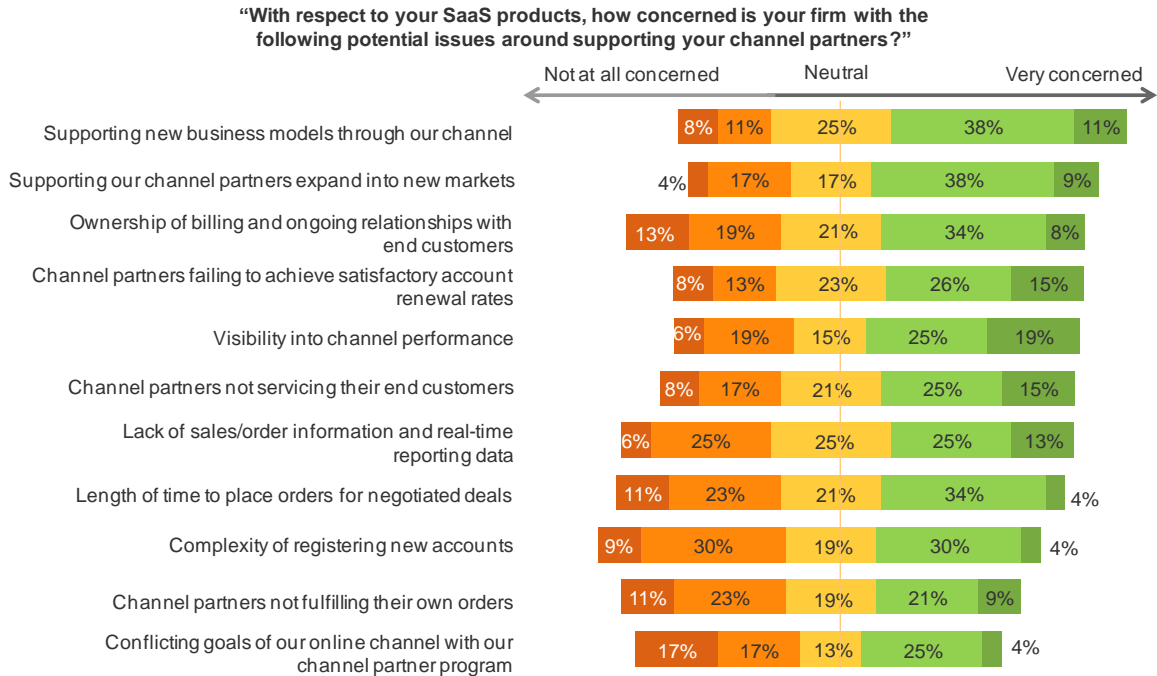
79% Of ISVs Reported That Their Channel Partner Program Will Play A Strategic Role In Growing SaaS Revenues



Base: 53 US and UK SMB and enterprise software publishers

Source: A commissioned study conducted by Forrester Consulting on behalf of Avangate, September 2012

**Figure 3**  
ISVs Have Many Concerns With The Performance Of Their Channel Partners



Base: 53 US and UK SMB and enterprise software publishers

Source: A commissioned study conducted by Forrester Consulting on behalf of Avangate, September 2012

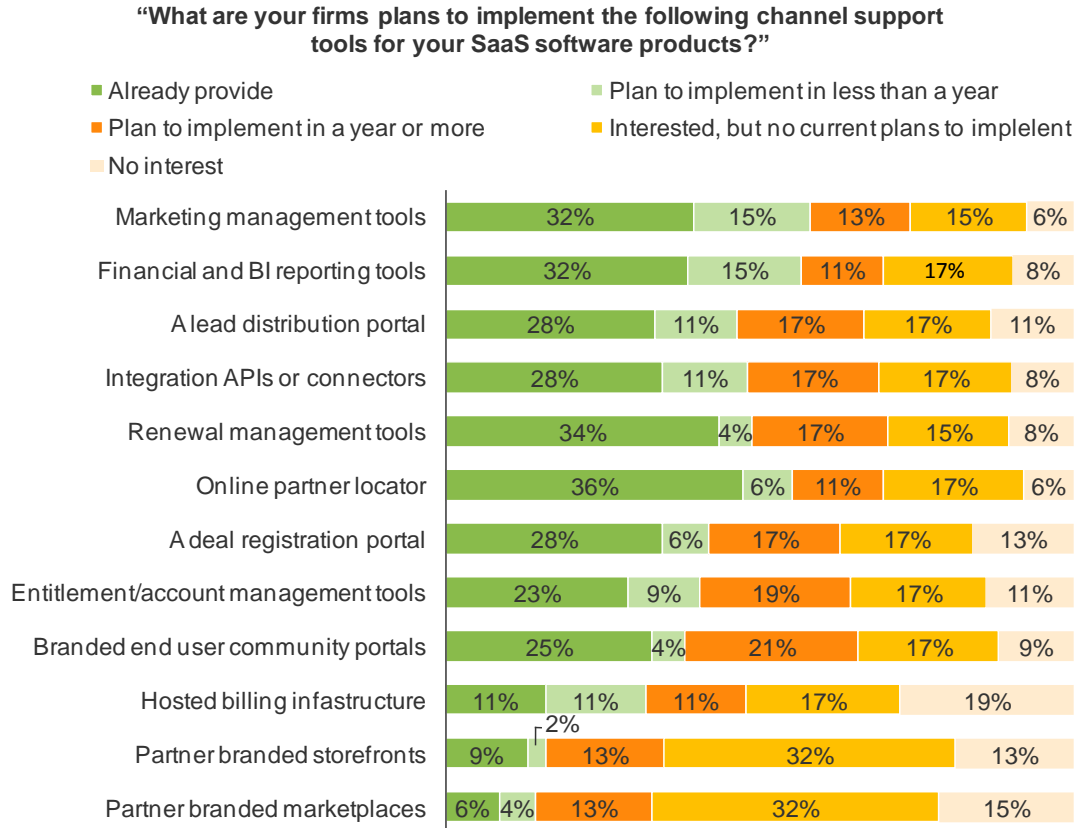
### ISVs Plan To Invest In Technology To Support Channel Sales Of Their SaaS Products

With the strategic importance of channel partners on the rise, ISVs are investing in channel support tools to better enable their solution partners and distributors to sell and renew their SaaS products. Approximately one-third of ISVs already provide such tools (see Figure 4), with a further one-third planning to implement capabilities, including:

- **Lead and deal portals.** To better support channel partners and to prevent channel conflict among partners, ISVs are developing lead distribution and deal registration portals, thereby ensuring that partners compete fairly and within their designated territories for new accounts.
- **Integration APIs.** Twenty-eight percent of ISVs plan to develop integration APIs to allow channel partners to leverage existing billing and account management systems developed by the ISVs.
- **Marketing management tools.** The effective distribution of marketing collateral, offers, and promotions down to channel partners in a timely manner is a major challenge for many ISVs. Consequently, 28% are planning to develop online tools to better enable them to communicate marketing offers to the channel.
- **Billing infrastructure.** Only 11% of ISVs today provide billing infrastructure for their channel partners to manage the collection of payment from SaaS-enabled products, although a further 22% of ISVs are planning to invest in providing this capability in the coming years.

**Figure 4**

ISVs Have Significant Plans To Develop New Channel Partner Support Tools In The Next Two Years



Base: 53 US and UK SMB and enterprise software publishers

Source: A commissioned study conducted by Forrester Consulting on behalf of Avangate, September 2012

### What It Means

Solutions partners, distributors and OEM’s are the fastest-growing channels for ISVs with cloud-based software products. By the end of 2013, these partners will account for 27% of all SaaS software revenues, up from 24% in 2012. Existing channel support tools designed for licensed software sales are ill-suited to the needs of the cloud. To ensure the continued growth and long-term sustainability of the partner channel, ISVs must invest in new technology solutions to ensure that partners are equipped to self-serve their own customers and build long-term relationships.

### Methodology

This Technology Adoption Profile was commissioned by Avangate. To create this profile, Forrester Consulting leveraged the Forrsights Software Survey, Q4 2011. Forrester Consulting supplemented the analysis with custom questions for 53 US- and UK-based SMB and enterprise software publishing professionals responsible for the channel strategy of their SaaS products. The supplementary survey was conducted in September 2012. For more information on Forrester’s Forrsights data panel and tech industry Consulting services, visit [www.forrester.com](http://www.forrester.com).

## Endnotes

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<sup>1</sup> Source: Forrester's Forrsights Software Survey, Q4 2011

<sup>2</sup> Source: Forrester's Forrsights Services Survey, Q3 2011

### About Forrester Consulting

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