Monetizing SaaS
Going Beyond Subscriptions

An Avangate Webinar Featuring Forrester Research Inc

4 September 2012

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Today's Speakers

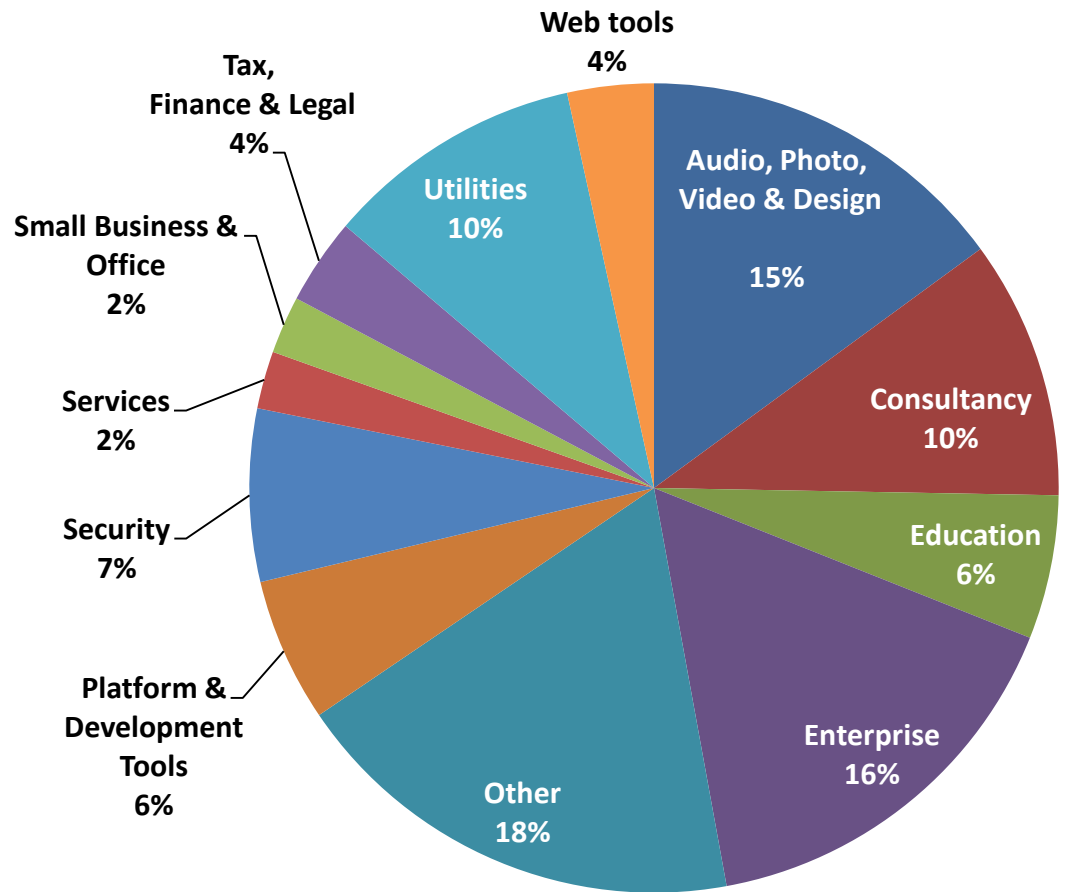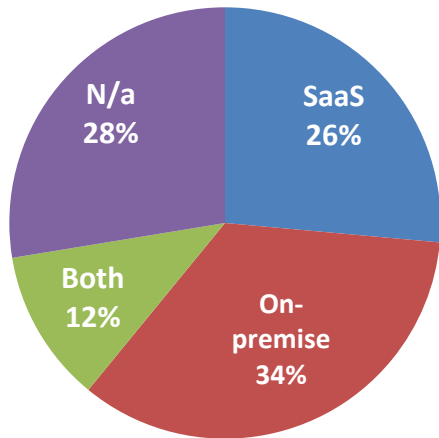**Peter Sheldon, Senior Analyst, Forrester Research**
Peter Serves eBusiness & Channel Strategy Professionals. He focuses on eCommerce technology and services solutions, including B2C and B2B eCommerce platforms, mobile commerce, digital media, CRM and multichannel retail, among others. Peter has specific expertise helping eBusiness leaders understand the integration challenges between eCommerce and back-office technologies.

Michael Ni, SVP Products & Marketing , Avangate
Responsible for Avangate's direction and go to market strategy. Prior, Michael was VP Products at Amdocs customer management, retail and commerce applications. Previous roles include executive positions at leading enterprise CRM/ERP vendors, technology startups, and in marketing strategy consulting.

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Who Are You?

Left pie chart:
- SaaS 26%
- On-premise 34%
- Both 12%
- N/a 28%

Right pie chart:
- Audio, Photo, Video & Design 15%
- Consultancy 10%
- Education 6%
- Enterprise 16%
- Other 18%
- Platform & Development Tools 6%
- Security 7%
- Services 2%
- Small Business & Office 2%
- Tax, Finance & Legal 4%
- Utilities 10%
- Web tools 4%

Monetizing SaaS – Going Beyond Subscriptions

PETER SHELDON
Senior Analyst

September 4, 2012

@peter_sheldon

Agenda
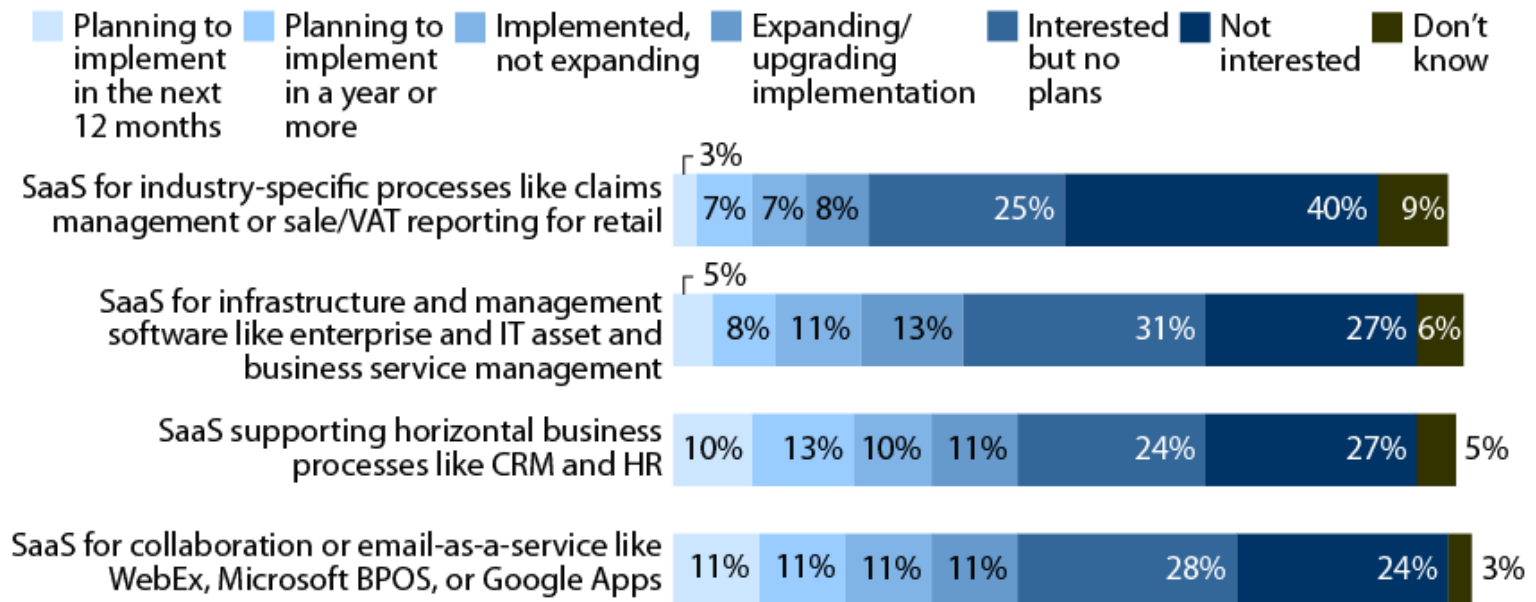
❯ *Why software subscriptions are all the rage?*

❯ *The unseen challenges for ISV's*

❯ *Navigating the solution landscape*

❯ *Considerations for successful SaaS monetization*

SaaS subscription revenues will reach 17% of ISV revenues by 2013

Global software market
(US$ billions)

Left chart ($354):
- Non-SaaS $26
- SaaS $10
- Operating systems $26
- Non-SaaS $122
- Middleware $132
- Applications $196
- Non-SaaS $180
- SaaS $16

Right chart ($476):
- Non-SaaS $31
- SaaS $31
- Operating systems $31
- Middleware $180
- Applications $264
- Non-SaaS $149
- Non-SaaS $214
- SaaS $50

SaaS share of total software revenues
- 2010*: 7%
- 2013*: 17%
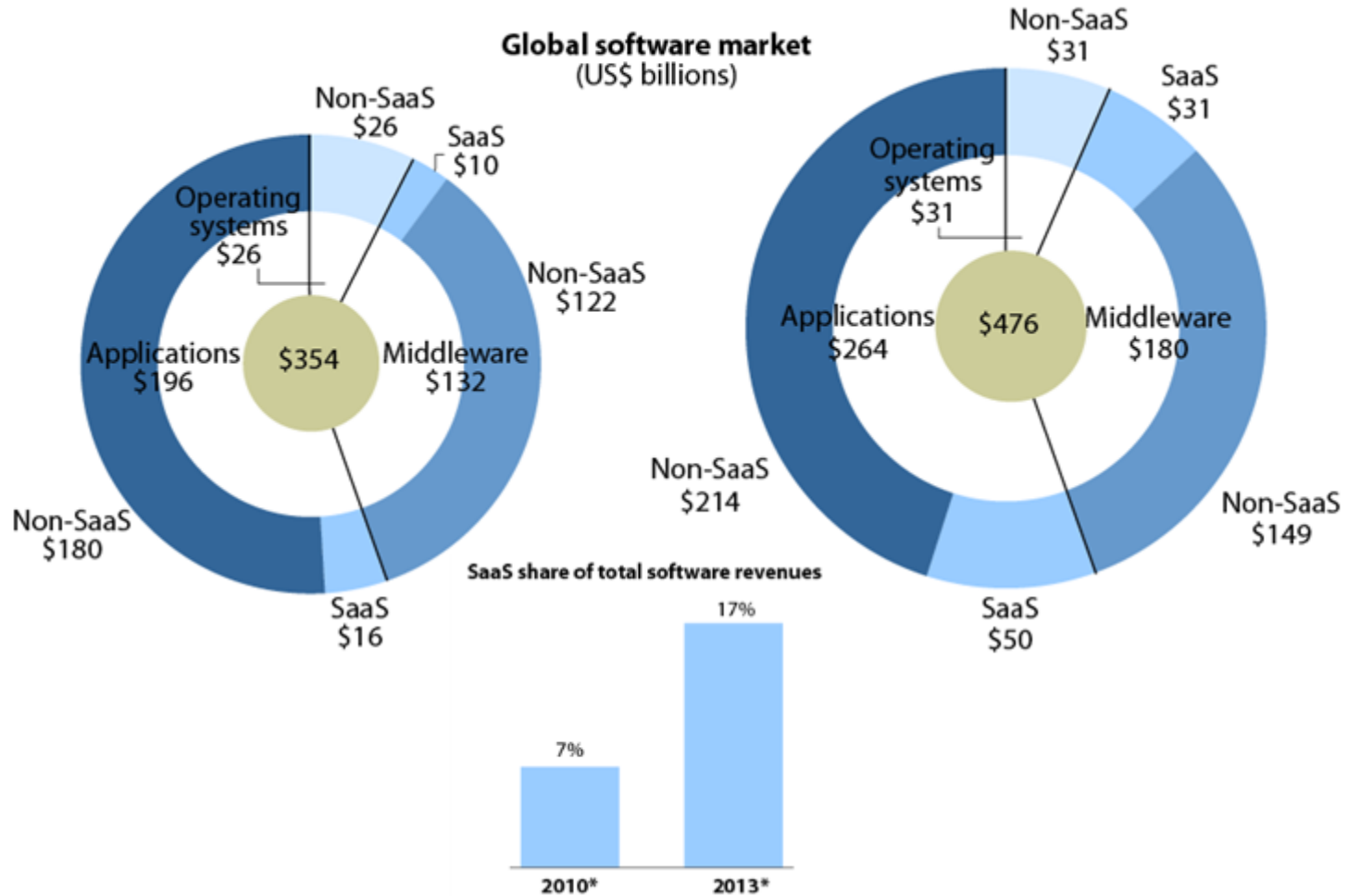
Firms have strong intentions for the adoption of SaaS software

Firms' plans to adopt the following SaaS offerings/approaches

Legend:
- Planning to implement in the next 12 months
- Planning to implement in a year or more
- Implemented, not expanding
- Expanding/ upgrading implementation
- Interested but no plans
- Not interested
- Don't know

Category	Planning to implement next 12 months	Planning to implement a year or more	Implemented, not expanding	Expanding/upgrading	Interested but no plans	Not interested	Don't know
SaaS for industry-specific processes like claims management or sale/VAT reporting for retail	3%	7%	7%	8%	25%	40%	9%
SaaS for infrastructure and management software like enterprise and IT asset and business service management	5%	8%	11%	13%	31%	27%	6%
SaaS supporting horizontal business processes like CRM and HR	10%	13%	10%	11%	24%	27%	5%
SaaS for collaboration or email-as-a-service like WebEx, Microsoft BPOS, or Google Apps	11%	11%	11%	11%	28%	24%	3%

Base: 1,031 North American and European IT/services decision-makers from enterprises with 1,000 employees or more

Source: Forrsights Services Survey, Q3 2011

Although consumer's still shy away from commitment

"For each of the following types of applications, please indicate which you pay for via a recurring subscription or a one-time purchase fee."

	Only access for free	Pay once	Pay for a recurring subscription
Security (e.g., antivirus)	42%	13%	15%
TV/movies	59%	6%	5%
Magazines/newspapers	59%	4%	4%
Games	44%	15%	3%
Music	51%	13%	3%
Cloud storage/sync (e.g., Dropbox, SugarSync)	78%	3%	2%
Finance (e.g., expense management/budget tracking)	66%	9%	2%
Productivity (e.g., word processing)	49%	22%	2%
Education	73%	4%	2%
eBooks	72%	9%	1%

Base: 5,147 US adults

Agenda
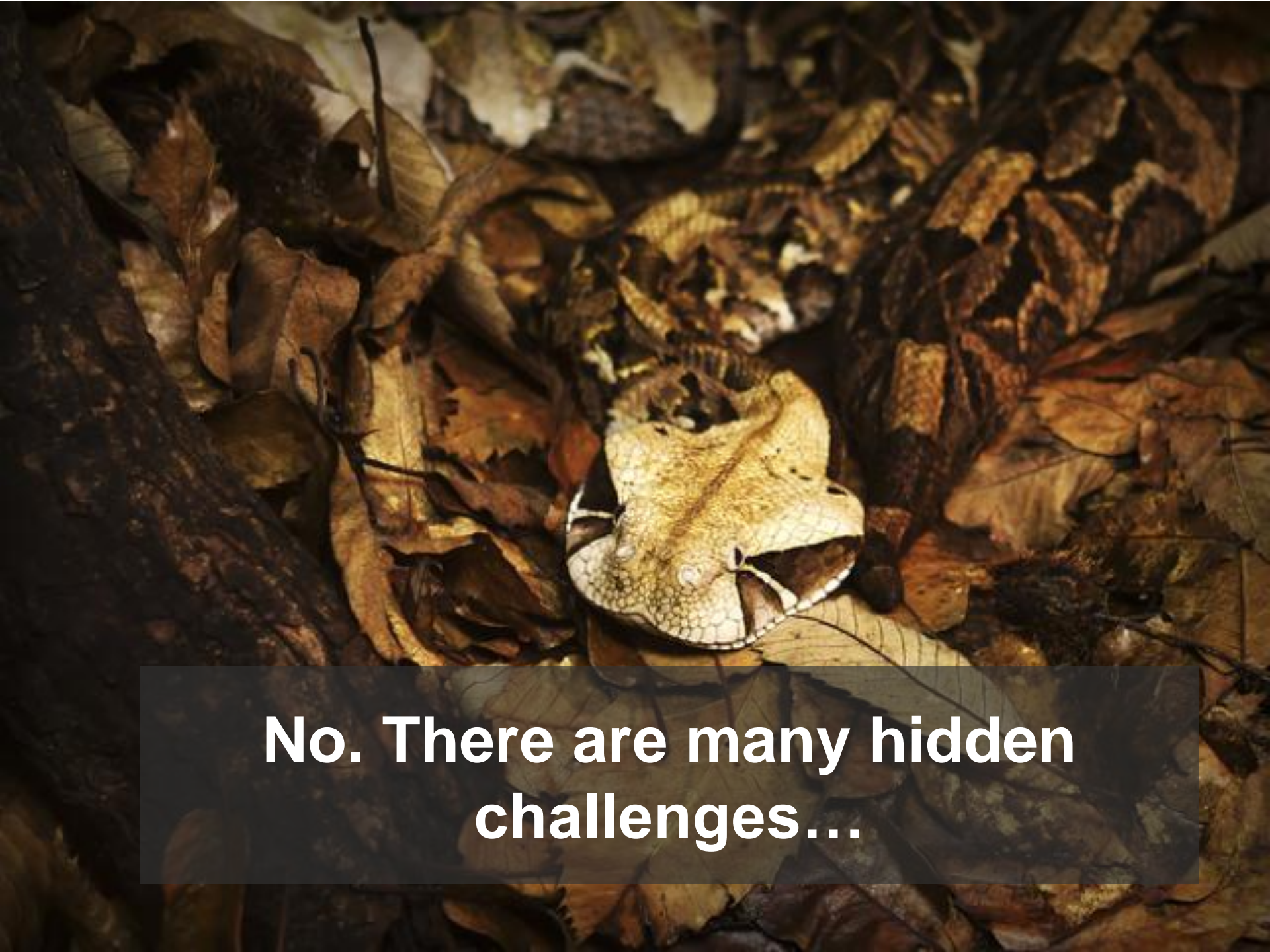
No. There are many hidden challenges…

SaaS buyers don't exhibit the same behaviors as your existing customers

Selling extensions is core to the business model

The subscription experience needs to be embedded in the product experience
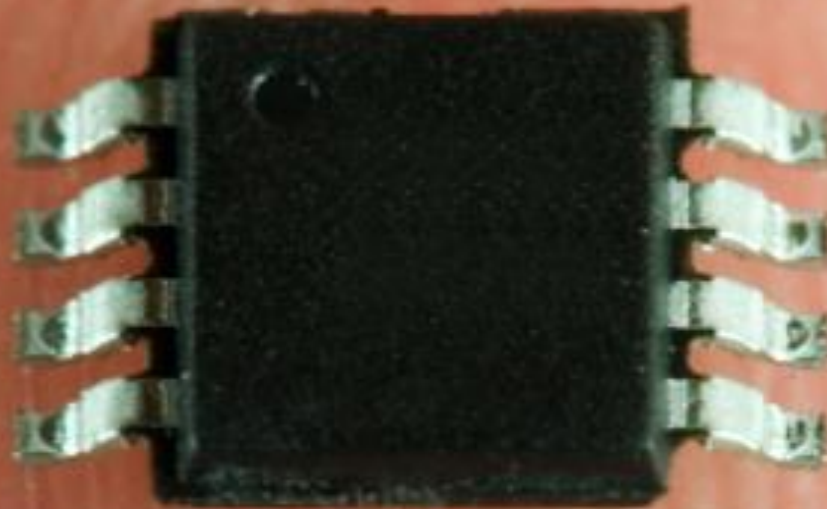
Managing fraud detection and chargeback risks is crucial

Revenue recognition is a big headache with recurring business models

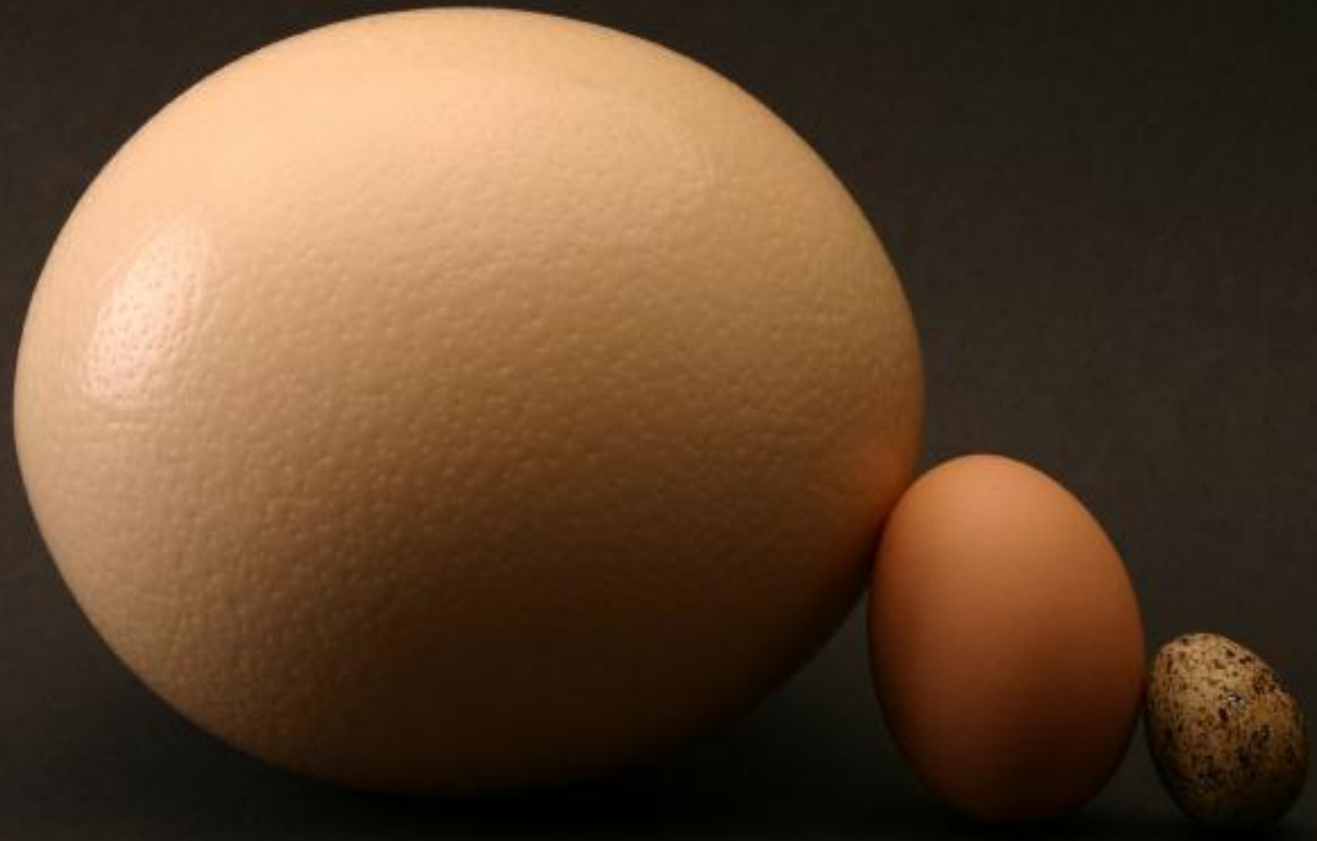**Managing and enforcing entitlements across enterprise account structures is complex**

Retaining customers requires many tactics

Subscription based business models alone no longer cut it

Now, multiple business models are used to monetize SaaS

SaaS comes in different sizes

Freemium is everywhere

Legacy perpetual ownership products live side-by-side SaaS products

MICROTRANSACTIONS

Because buying the game is never enough.

Post pay / usage-based billing is essential for certain services

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There are many ways to skin a cat

Build-in-House

Assembling a home grown solution may be viable in the short term, but should not be underestimated and will likely constrain growth in the long-term
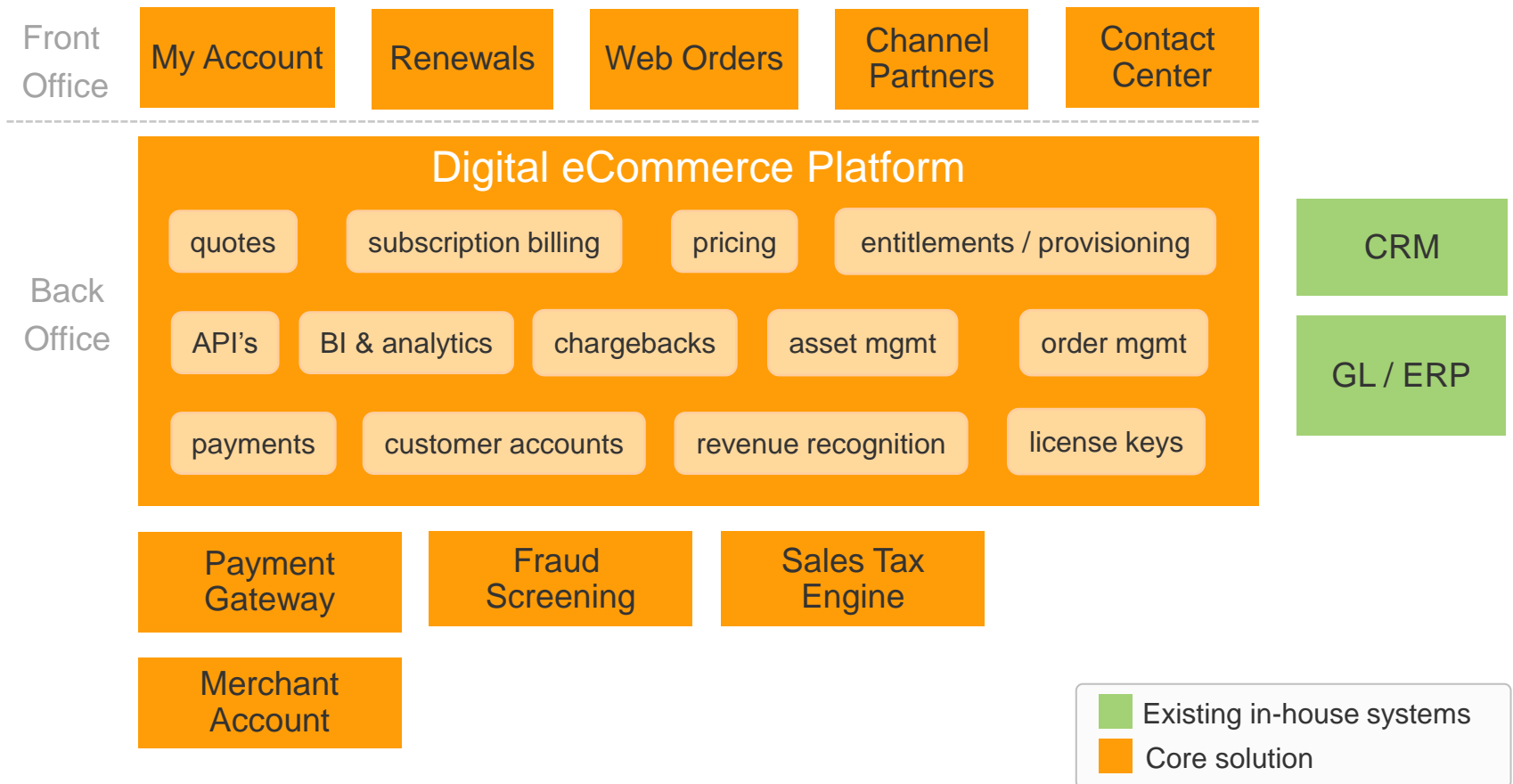
Front Office				
My Account	Renewals	Web Orders	Channel Partners	Contact Center

Back Office

- quotes
- subscription billing
- pricing
- entitlements / provisioning
- API's
- BI & analytics
- chargebacks
- asset mgmt
- order mgmt
- payments
- customer accounts
- revenue recognition
- license keys

CRM

GL / ERP

- Payment Gateway
- Fraud Screening
- Sales Tax Engine
- CDN
- Merchant Account

Legend:
- Custom development
- Existing in-house systems
- Required partner solutions

Use A Recurring Billing Platform

Using a platform to manage subscriptions will simplify many of the challenges but requires assembling multiple solutions together
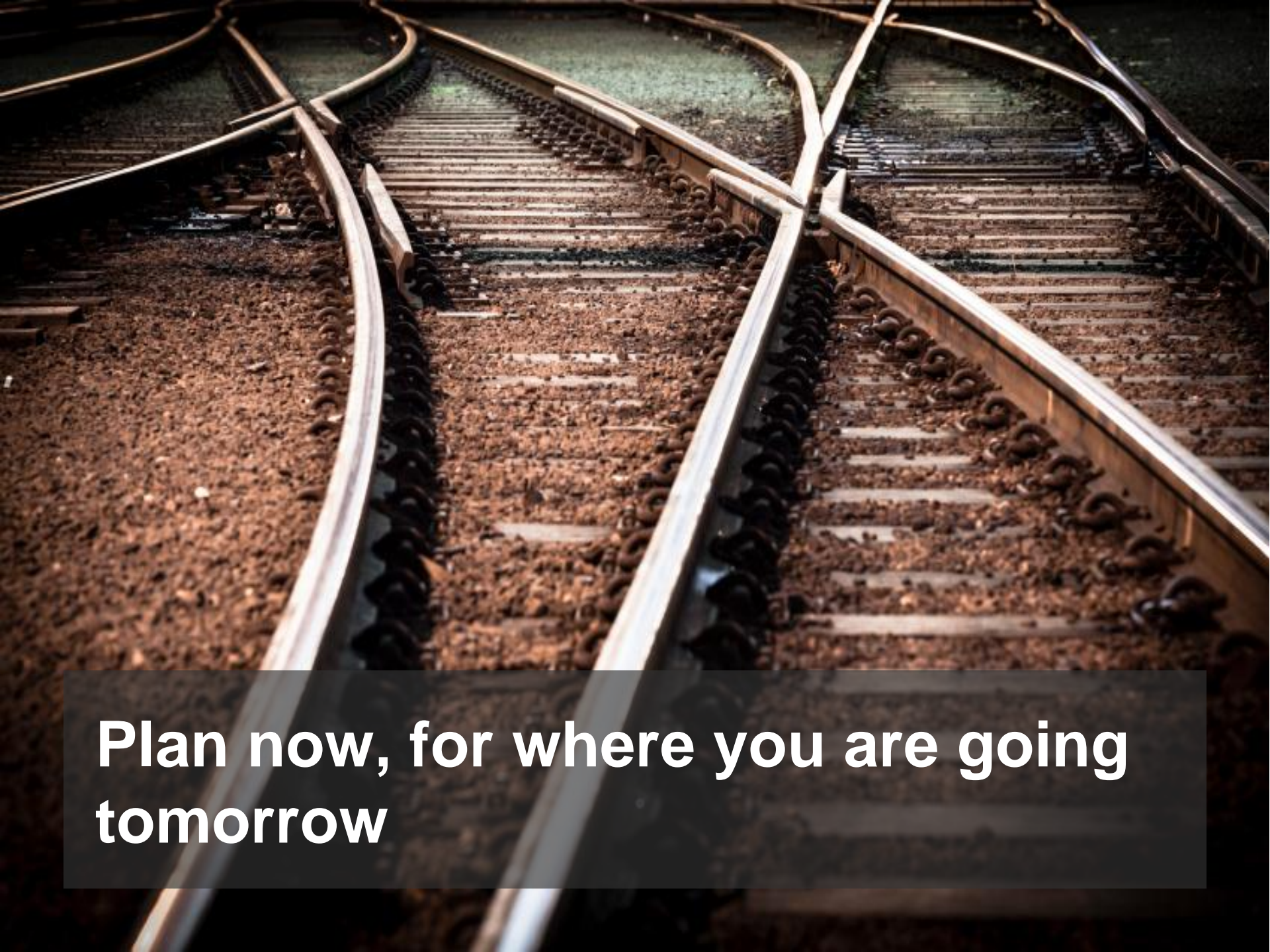
Front Office

| My Account | Renewals | Web Orders | Channel Partners | Contact Center |

Back Office

Subscription & Recurring Billing Platform

- quotes
- chargebacks
- entitlements / provisioning
- API's
- BI & analytics
- subscription billing
- pricing
- payments
- customer accounts
- revenue recognition

license keys

asset mgmt

order mgmt

CRM

GL / ERP

Payment Gateway

Fraud Screening

Sales Tax Engine

Merchant Account

Legend:
- Custom development
- Existing in-house systems — Optional partner solutions
- Core solution — Required partner solutions

Outsource To A Commerce Partner

Full service digital commerce solutions provide an integrated suite of solutions and services across channels and markets, but may be overkill in some scenarios

Front Office

My Account	Renewals	Web Orders	Channel Partners	Contact Center

Back Office

Digital eCommerce Platform

- quotes
- subscription billing
- pricing
- entitlements / provisioning
- API's
- BI & analytics
- chargebacks
- asset mgmt
- order mgmt
- payments
- customer accounts
- revenue recognition
- license keys

CRM

GL / ERP

Payment Gateway

Fraud Screening

Sales Tax Engine

Merchant Account

Existing in-house systems
Core solution

Agenda

- ❯ *Why software subscriptions are all the rage?*
- ❯ *The unseen challenges for ISV's*
- ❯ *Navigating the solution landscape*
- ❯ *Considerations for successful SaaS monetization*

Plan now, for where you are going tomorrow

Understand your integration requirements to GL, CRM and other backend back-end systems

Consider your merchandizing requirements

Empower your channel partners

Channel partners are critical to a successful SaaS strategy

How frequently does your firm subscribe to cloud (SaaS/web-based/hosted) buy software from the following channels or sources?

- ■ Never
- ■ Occasionally (1% - 25% of the time)
- ■ Frequently (26% - 50% of the time)
- ■ Most of the time (51% - 100%)
- ■ Don't Know

	Never	Occasionally	Frequently	Most of the time	Don't Know
Direct from the software vendor, whether through its website, phone, or salesperson	17%	24%	22%	33%	3%
From a software vendor's solutions partner	35%	32%	18%	11%	4%
From an application hoster (e.g., Rackspace, Opsource)	51%	27%	11%	7%	4%
From a vendor-sponsored online application marketplace	52%	30%	10%	5%	4%
From a communications service provider (e.g. AT&T, BT, Orange, Deutsche Telekom)	57%	28%	9%	3%	4%
From a third-party online application marketplace (e.g., AppDirect, OpenForum, OfficeArrow)	71%	18%	4%	2%	5%
Brick-and-mortar retailer or its online store	80%	13%	2%	1%	4%

Base: 683 IT decision-makers, line-of-business professionals, information workers and channel partners

Don't underestimate the challenge of selling globally

Experiment and follow a path of continuous optimization

Thank you

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Go Beyond Subscriptions

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SVP, Products and Marketing

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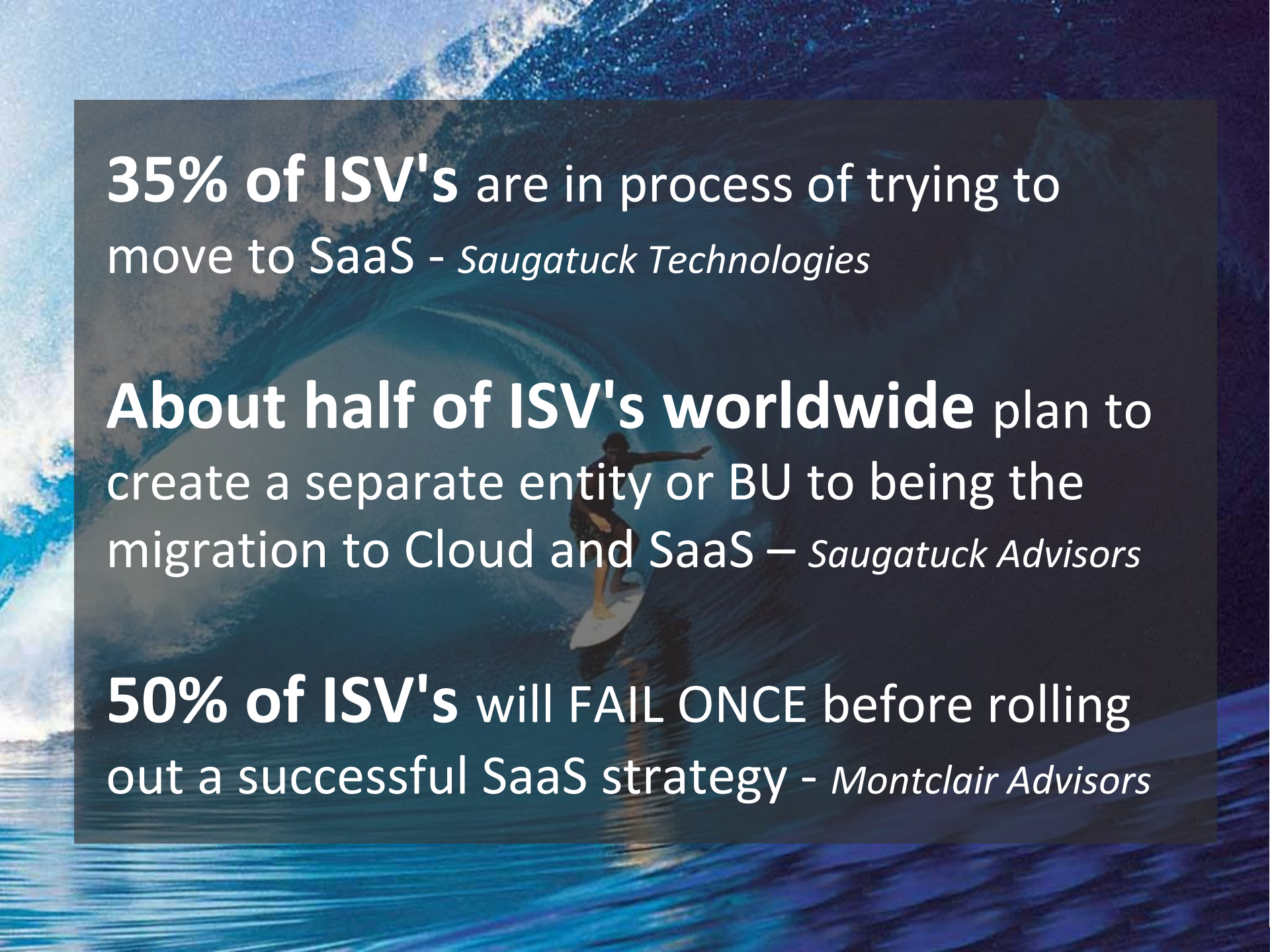
Agenda

Question on How To Monetize Your SaaS Business Model

- ➤ Facts / Figures on SaaS Market

- ➤ Framing Your SaaS Strategy

- ➤ What You Need – Going Beyond Just Subscriptions

- ➤ Customer Examples

- ➤ Wrap Up

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The Wave – A Drop From 66% to 28%

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

About half of ISV's worldwide plan to create a separate entity or BU to being the migration to Cloud and SaaS — *Saugatuck Advisors*

50% of ISV's will FAIL ONCE before rolling out a successful SaaS strategy - *Montclair Advisors*

Starts With Defining Your Strategy
Considerations, End State, Archetypes

	Traditional	Hybrid	Cross-Over	Pure SaaS
How You Target	Existing & new customers with on-premise only	All use on-premise & SaaS solutions	New customers use SaaS, existing use on-premise	Newer or non-businesses, SaaS only
Customization / Integration Level	High	Partial	Low for SaaS	Low, Add-on's
Vendor Drivers / Objectives	Lock-in, high margins, Cash Cow	Add-on revenue, competition, extend life of current platform	Competition, new markets, increased valuation	New markets(remove costs, tech barriers), disruption
Market Characteristics	Mission critical, vertical, regulated	Platform, LOB + IT buyers, bolt on processes	SMB, limited IT / infrastructure, limited funds, cyclical, LOB	SMB, limited IT / infrastructure, limited funds, cyclical, LOB
Channel Characteristics	Implementing and developing solutions	Creating solution sets, responsible for success	Aggregated demand	Aggregated demand

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Key Challenges of Subscriptions and SaaS
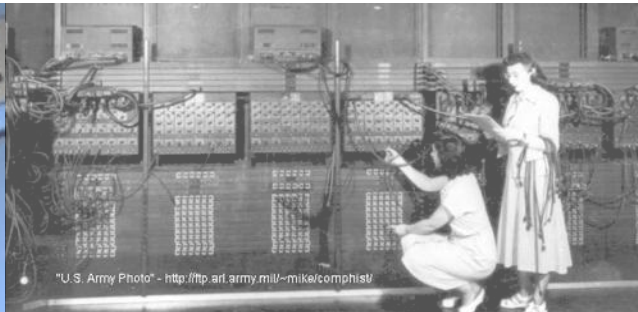
Your Customers Want…	Software Vendors Have…	Both Need…
Instant Gratification	Homegrown, Disconnected Channels	Online, Multi-channel, Beyond AppStores
Pay As You Go	Pay In Advance	Multiple Revenue Models, Automation
Personalized Service	Poor Customer Relationships / Systems	Subscriber / Renewals Management

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What You Need – Total Commerce Solution

Channel-Enabled, Flexible, Matched with Services

Monetize Every Touchpoint
- Online and Offline

Automate Your Revenue Models
- Flexibility, Automation, Billing/Payment

Accelerate Your New Market Expansion
- Control, Expertise, Scale

Retain and Renew
- Empowered Channels To Service and Engage

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What You Need. What We Do?

An full eCommerce solution that enables Software and SaaS companies to sell their products via any channel, any model accelerating global sales

eCommerce

Channel Management

Affiliate Management

Avangate Commerce Platform

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Who Is Avangate

Avangate is the agile *eCommerce solution* provider trusted by small and mid-sized Software and SaaS companies to grow their revenue worldwide

- **6 Years** in Online Commerce

- Growth of **80%+**

- **2,300+** Customers

- **Headquarters** in Redwood Shores, CA

- **Offices** in the Netherlands, Romania, UK, Taiwan, Russia

Avangate Clients

Software & SaaS - Security, Multimedia, Utilities... 2,300+ Companies

Monetizing SaaS
Customer Examples

Pure SaaS – Teamlab

Hybrid – Total Defense

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TeamLab (Pure SaaS)

A multi-function online service for business collaboration, document & project management
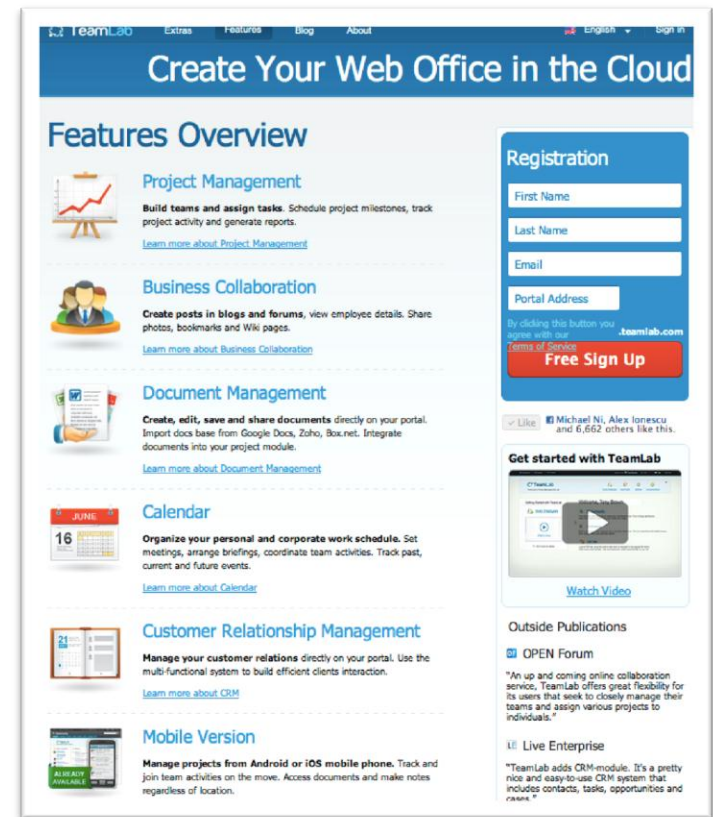
Collaboration & CRM … SaaS Fit

For B2B, Collaboration (& CRM) Early SaaS Adopters

- **Target**: B2B & prosumers

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

- **Objectives**: Enter new, high growth market in 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
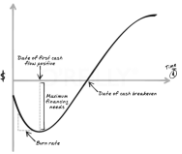
Strategy /Financial	• Created / funded new company • Aligned for new market penetration
Goto Market	• Freemium / Trial → Usage Tier monetization • Shift to benefits, not tech→online marketing
Sales Focus	• Channel / evangelist-reseller focused to gain broad awareness, acquisition, monetization
Product / 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

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

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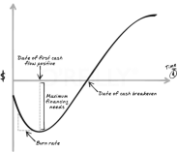
	Strategy /Financial	• Experienced Exec Team • Accelerated past dip w/ M&A
	Goto Market	• Sub-segmented customers • Enabled existing channels to handle / renew
	Sales Focus	• Accelerated – rapid trials vs. IT barriers • Servicing – away from acquire & renew cycle
	Product / Arch	• Completely different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

TOTAL DEFENSE
CLOUD SECURITY

THE NEW ERA OF CYBERCRIME REQUIRES A NEW MULTI-LAYERED APPROACH

Total Defense Cloud Security Solutions

Cloud-based security, or Security as a Service (SaaS), is an increasingly popular and effective means of gaining enterprise-class Internet security but without the need for additional hardware, tedious administration, or IT expertise.

Total Defense Cloud Security provides your organization with a versatile and flexible Web or E-mail security platform - enabling you to protect your users anywhere and on any web-capable device. As a hosted solution, Total Defense Cloud Security enables considerable advantages over traditional in-house security solutions.

▶ **Instant Deployment** - connect to the service and you're immediately up and running.

▶ **No Upfront Expenditure**- no need to purchase capital and no

▶ **The Experts Work for You** - your Web traffic is managed 24/7 by Internet security experts and modeled against other networks to detect traffic anomalies.

Monetizing SaaS

Going Beyond Subscriptions

- The **evolution of customer preferences** for SaaS software products

- **Start with the End in Mind**

- **Think Customer** → Service at Every Touchpoint

- **Classic & New Revenue Models**, including perpetual, freemium, subscriptions, and usage based billing are increasingly intertwined

- **Revenue Models** → **Business Models** iteration

- **Automate** to effectively service/entitle, bill/pay & manage margins

- **The role technology partners** in supporting SaaS monetization

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Surf's Up - Ride the Wave

Thank You!

To download the Forrester Reports or more information on Avangate and SkyCommerce, please visit www.avangate.com

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The Avangate Difference

The *only* **multi-channel, multi-model** integrated Commerce service provider that can **grow with your business worldwide**

- Integrated, cloud-based **commerce platform** for software & SaaS

- Built for agility - **minutes not months**

- Proven **global scale, local expertise**

- Comprehensive **Managed Services**

- Strategic **partnership**