eBOOK

SoftwarePricing PARTNERS

Don't Lose an Engine on Your Way to SaaS

Flight plan priority #1 is protecting your existing support and maintenance revenue stream–here's how to do it

You need both engines to make it successfully to SaaS

There's a widespread assumption that software companies transitioning their products to software as a service (SaaS) licensing necessarily take a massive revenue hit. We don't agree. The trip to SaaS can be far less bumpy if you use smart pricing and packaging strategies to smooth the transition for your customers while protecting your existing stream of recurring support and maintenance revenue.

It's true, of course, that every product you sell via subscription rather than perpetual license means lower upfront revenue. And it takes a while for subscription revenues to surpass what you would have received for perpetual licenses. For this reason, it's absolutely critical to keep recurring revenues from existing customers going strong.

If you don't protect this revenue stream, the risk involved in transitioning to SaaS skyrockets:

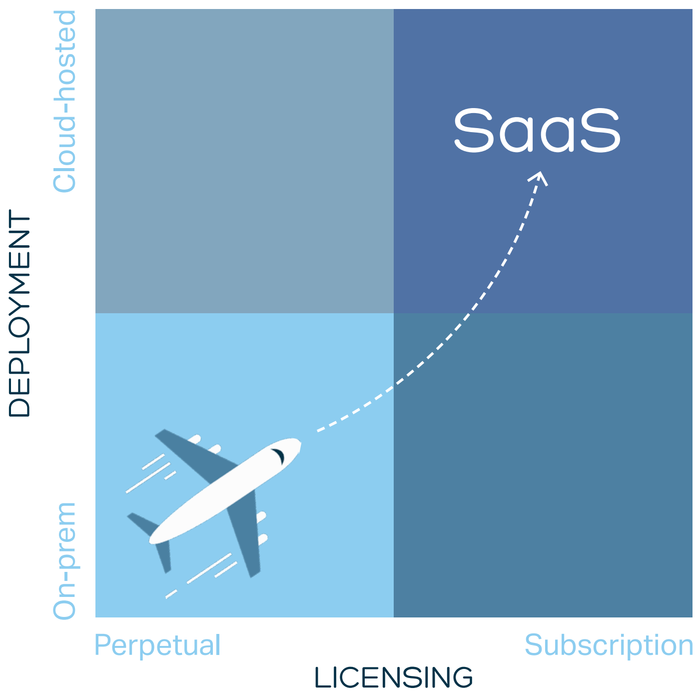
You could take a big revenue hit from unhappy customers defecting to competitors.

You might have to divert resources from the transition effort to solving the issues of unhappy customers. That will slow your growth rate in booking new SaaS customers.

This ebook shows how to lower these risks and make a successful journey to SaaS.

SaaS doesn't have to turn your world—and your customer's—upside down

The low-risk way to get to SaaS is easier to see if we look at the trip in two dimensions, as shown in this matrix.



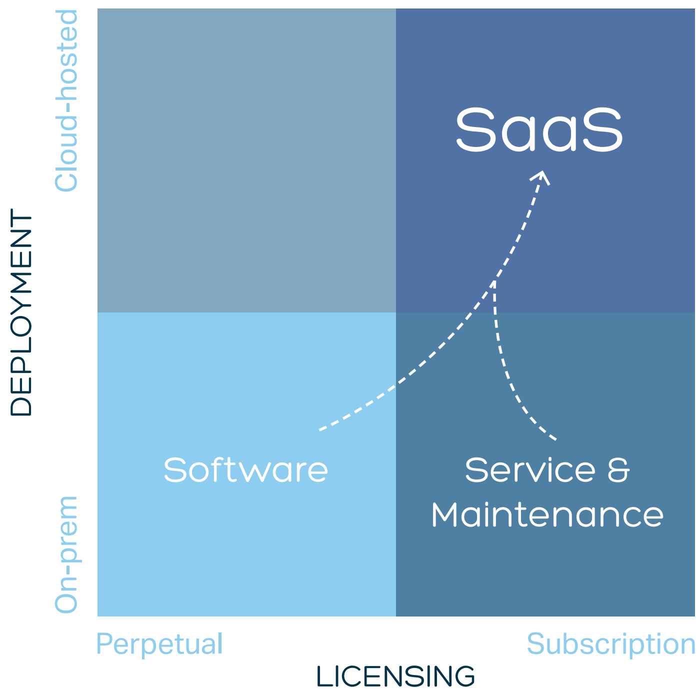
Deployment (Y axis). Most established software companies are navigating a trajectory from on-prem deployment to cloud-hosting. Cloud deployments, of course, never include 100% of product features at the beginning. The choices you make about what to offer in the cloud and when must respond not only to market trends and competitive pressures, but also to the needs of your existing customers. At the same time, cloud deployment is an opportunity to improve or reimagine products in ways that not only appeal to new sales prospects, but entice customers to take the trip with you.

Licensing (X axis). You're also navigating a trajectory from perpetual licensing to subscription licensing. This is where a well-conceived monetization strategy—how you package features, license (by seat, by user, by number of employees, etc.) and price—is essential. The right choices make all the difference in SaaS success, including smoothing the way for existing customers.

Keep in mind, you're already charging for subscriptions

One secret to smooth SaaS transitions is realizing that you're already charging for subscriptions in the form of access to support and maintenance services. One way to smooth the transition for some customers is to simply add an additional fee for accessing the most current version of software.

That's just one of the many packaging and pricing levers you can use in creative ways to achieve your goal of transitioning your customer base to SaaS.



But aren't some customers going to object to paying a higher subscription fee for access to a product they've already licensed in perpetuity?

You're darn right they will!

In fact, if you don't handle the transition right, you'll be shocked by the level of emotion you'll encounter from customers who feel betrayed.

You could also lose out on your final opportunity to recapture revenues "left on the table" with existing customers.

Do it right by following the five essentials in the rest of this book.

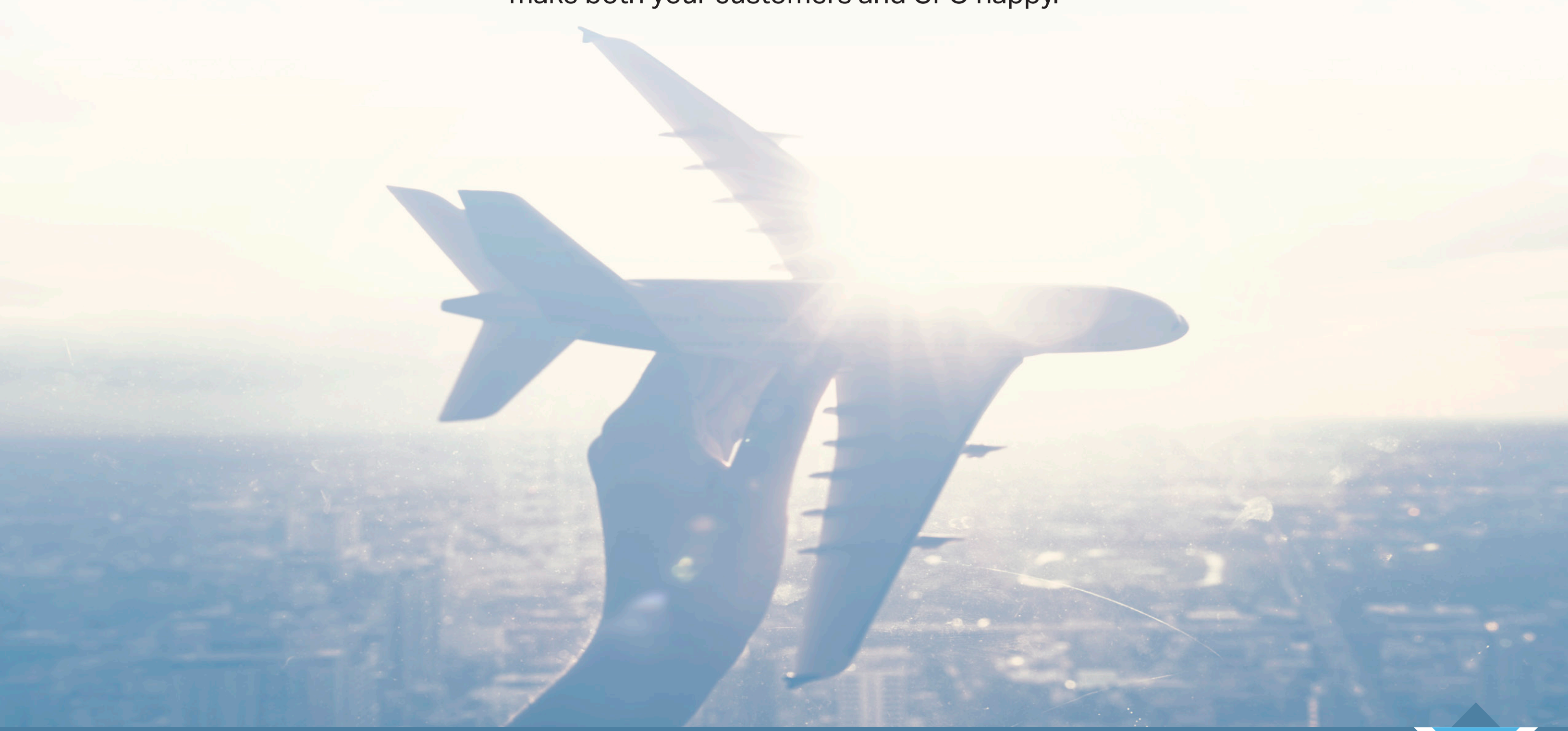
ONE:

DON'T GIVE FREE RIDES!

Above all, avoid the mistake most software companies make of grandfathering existing customers into SaaS. If you give out access to your new software as a gift, you will seriously impact your transitional revenue stream.

With some customers, you'll also throw away your second, and last, chance to correct pricing mistakes made in the original sale of the on-prem license. All too often we see bad deals—which have allowed customers to egregiously overuse software without paying fairly for its value—moved right onto the cloud. Once that happens the lack of parity between value and price only worsens, and goes on forever.

Don't grandfather. There are so many better ways to handle the transition that will make both your customers and CFO happy.



TWO:

START A NEW CONVERSATION ABOUT VALUE

Successful software monetization strategies align product packaging, licensing and pricing with the customer's perception and experience of value. Existing customers will view the transition to SaaS more favorably if you help them see the additional value to be gained from the move.

Use packaging levers to create a value difference. Package your cloud software so that it includes new features and capabilities not available in the on-prem version. Create marketing fanfare around these improvements and train your sales team to focus conversations on helping customers understand and appreciate them.

Here are a couple of additional points that can be worked into value conversations:

Perennial upgrades. One way to talk about the transition to SaaS is that customers are replacing a perpetual license to a particular version of your software with access to perpetually upgraded software—always your latest version. Up to now, they've probably been paying for upgrades. Pointing that out helps defend SaaS prices and substantiate the new value.

Rightsizing. An advantage of SaaS is that customers generally pay only for what they need. It's easy to dial numbers of users up or down, and some software is also instrumented to measure and charge for actual usage. This benefit can be very attractive to customers who have the uneasy feeling they've paid for shelfware in the past. (In general, it's not necessary to bring up unused seats if your customer doesn't. But be prepared to talk about it and include it as one element in a custom transition plan.)

Roadmaps. In some cases it's helpful to share your development roadmap for the cloud version of the product so customers get excited about added-value features to come.

Follow these general principles, and be prepared to adjust the conversation to individual customer needs. Here's how…

THREE:

SEGMENT YOUR CUSTOMERS—AND GIVE EVERYONE FIRST-CLASS ATTENTION

One of the biggest mistakes you can make on your trip to SaaS is treating all existing customers the same. Improve your chances of success, segment your customer base.

At minimum, you'll have segments for customers that are going to pay more once they transition to SaaS, those that will pay about the same amount, and those that will pay less. By interviewing a representative sample from each segment, you'll be able to craft appropriate transition programs.

When Software Pricing Partners helps clients with SaaS transitions we go further with segmentation. Using analytics to balance factors like time since purchase of on-prem license, size of license, amount paid and target SaaS price (usually about 75% of list), we generate more granular segments for better tailored transition strategies.

In most cases, your transition strategies should include assistance with adapting business processes and data sources to the cloud architecture. This is another opportunity to use packaging—"We're offering you services from our cloud acceleration program free of charge"—to increase customer perception of added value.

While your goal is to get nearly every customer on board for SaaS, don't expect them all to arrive at this destination at the same time.

FOUR:

ALLOW ENOUGH TIME FOR THE TRIP

Some of your clients may be willing and able to move to SaaS within a matter of months. Others may take much longer, as they wait for valued features of your product to become available in the cloud and/or prepare their internal business processes for the change. Generally, we recommend conducting a phased roll out accommodating different customer segments, with a total transition period of as many as three years.

If you try to force your entire customer base to convert over abruptly, you'll be at risk for creating:

Product roadmap chaos. Customers under pressure will return the favor and put pressure on you to accelerate features they need on your product roadmap.

Price discounting chaos. Customers will try to make you pay for their discomfort with demands for deep discounts in SaaS pricing. Get tangled up in this problem, and you'll actually be working hard to achieve the opposite of your goal for moving to SaaS: Instead of building revenues and profits, you'll be eroding them.

Both can be disasters that become major distractions for the people in your organization leading the way to SaaS. They're also confusing and dispiriting to your sales and support teams that actually have to get customers there.

FIVE:

PREPARE YOUR FLIGHT CREW FOR SUCCESS

Your salesforce will be far more convincing in conversations with customers about the added value of SaaS if they believe there's added value in it for them as well.

All too often software company execs lay down an edict to "Maximize SaaS sales!" without adjusting incentives and compensation structures to encourage this shift. Not surprisingly, existing customer transitions lag behind plan and most new sales continue to be on-prem implementations. Sales people can do the math.

The problem is, of course, that subscription-based licenses can cause delays and uncertainty in compensation. Instead of receiving commissions up front based on the full booked value of the deal, sales people may have to wait months to be paid on actual usage-based value or some other metric. During that time, something could change in the customer's organization that affects the metric and dilutes the value of the deal—and the sales person shoulders all that risk.

There are many things software companies can do to share this risk and reassure their sales people that their efforts to transition clients will be fairly compensated. Possibilities include paying 50% of the commission based on the declared value of the deal and 50% on actual value. Or offering an advance, with commission accruing only after the upfront payment is covered by incoming revenue.

There are literally dozens of possibilities for mixed compensation models like these. Talk to your salesforce as part of early-stage SaaS planning. Let them know that while they may not get everything they want, their views and welfare are being considered.

Up, up and away!

Yes, you can make it to SaaS–with all its advantages for stronger revenue streams and deeper, more durable customer relationships–without taking a major revenue hit along the way.

We know. We've helped hundreds of software companies make the journey successfully.

Give us a call.
704.765.2399

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To realize your organization's full growth potential, contact
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