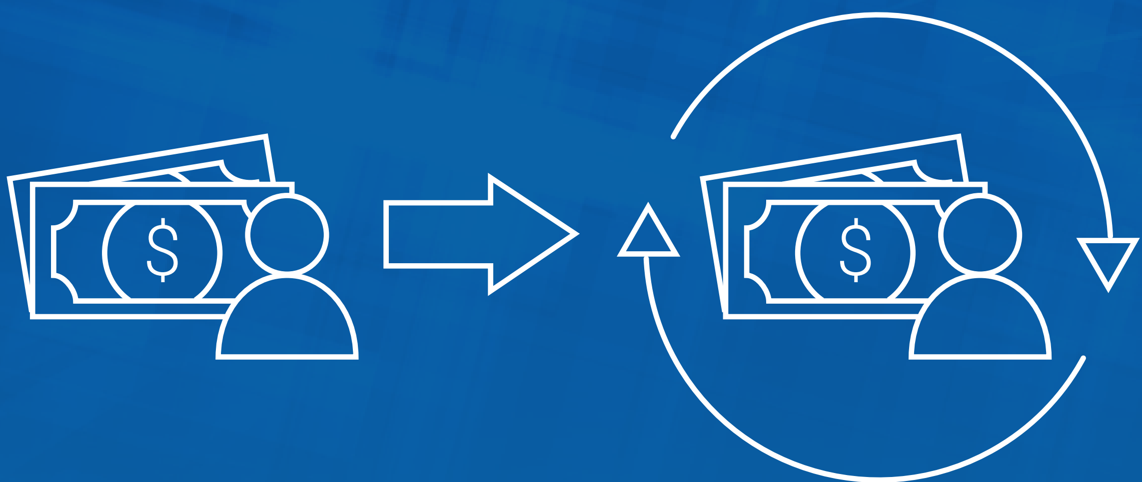
Transition to SaaS & Subscriptions

Lessons and Successful Strategies from Leading Software Companies



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> It's like "Woody's Allen's great line about relationships. A relationship is like a shark, it either has to move forward or it dies. And that's true about your company.
>
> **Larry Ellison**

> By 2020, more than 80 percent of software vendors will change their business model from traditional license and maintenance to subscription.
>
> **Gartner**

1 Introduction

In 2012, Avangate published the first edition of the “Transition to SaaS” whitepaper. At that time, the drumbeat for SaaS was growing louder by the day, and, for many in the industry – including us, the path forward for software companies was simple: either embrace and make the transition to SaaS or perish.

Well, a lot can happen in four years, and while the inevitable march toward SaaS we predicted has continued more or less unabated, a significant subset of on-premise software companies – including many of our customers — have chosen a parallel but alternative path.

Instead of transitioning directly to SaaS, these companies are beginning to test or completely replace their perpetual licenses for on-premise software products with those based on a subscription model.

In 2012, 45% of software sales passing through the Avangate digital commerce platform was subscription-based (either for on-premise products or SaaS). In 2016, subscriptions make up over 70% of the total sales volume.

As it turns out, many of the attributes driving SaaS adoption – flexibility, lower initial investment, cost predictability, etc. – can also be found in the subscription model for on-premise software. As a result, many software companies are finding success and, in many cases, new markets for their subscription on-premise offerings.

Up until now, established on-premise software companies standing at the crossroads, deciding between SaaS or subscriptions, have had little in the way of help to guide them. Yes, there is a whole cottage industry dedicated to helping cloud-based companies get off the ground but very little of it deals with subscriptions on their own, or offers assistance to existing companies seeking the best path forward for their business.

This paper is designed to help and provides a framework and way forward for traditional software companies looking to make a successful transition to subscriptions and or SaaS.

This guide details the broad trends that are driving the software industry toward subscriptions; provides an objective framework to determine what shifts may be necessary for a particular company and outlines the critical questions that will help define a company's transition.

Finally, the paper provides pragmatic, strategic tips for making the shift to subscriptions and SaaS. The best practices provided in this paper have been gleaned from our collective experience providing eCommerce services to several thousand independent software vendors.

2 The context for moving to subscription and SaaS

"Customers have moved from buying or leasing technology, to buying IT services, to 'buying' long-term relationships with providers." – Laurie Wurster, Gartner Research Director

In business, context is everything. In 2012, SaaS had just captured 16% of the global software market[1] and was seemingly poised to devour everything in its path. Back then the question for any software company not already in the cloud was not whether to transition to SaaS but at what point would it already be too late.

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[1] http://www.bain.com/Images/BAIN_BRIEF_Selling-the-cloud.pdf

Today, with the benefit of hindsight, it's now clear that the trends driving the market toward SaaS were in many cases the same pushing business to adopt subscriptions. That trend toward subscriptions is really an outgrowth of a cultural shift that arose with new technologies that are changing the way we buy and use everything from consumer goods – like razors – to entertainment media like movies, music, books and television to business and productivity solutions. For almost every purchase, buyers are being asked to weigh the benefits of paying a premium for ownership against the flexibility and choice provided by a subscription and the ongoing support that tags along with it.

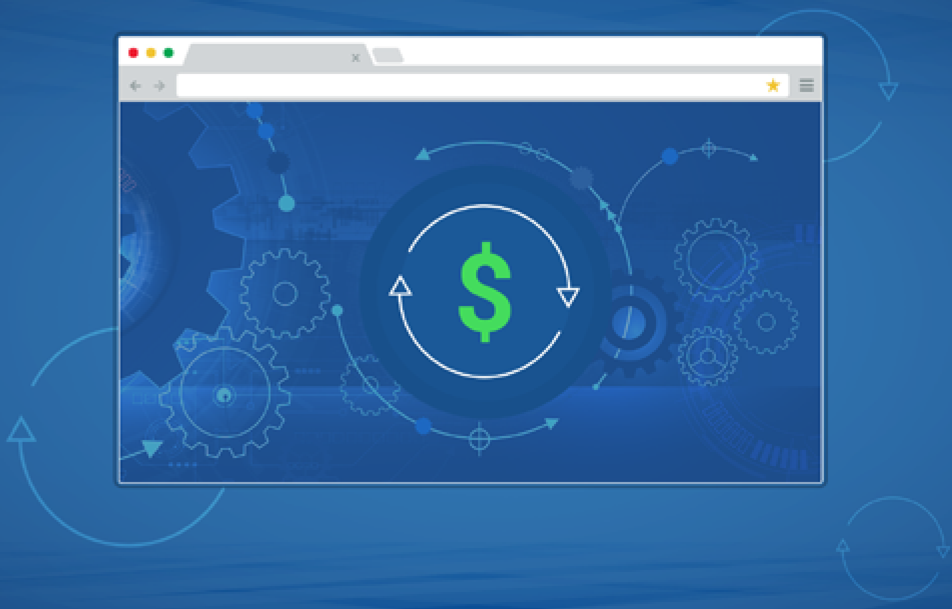
So, even in a definitively un-robust global economy, where overall software sales are only forecasted to grow at 6% annually, subscription software (which includes both SaaS and on-premise deployments) is expected to increase by 19% a year. According to IDC, subscriptions will make up more than 30% of all software sales by 2018.[2] And Gartner predicts that by 2019 subscriptions will surpass perpetual licensing and maintenance as the dominant model, if it doesn't do so before then.[3]

Companies that haven't already made an informed decision about subscriptions or SaaS must do so quickly, or risk being left behind the competition.

The decision of which model to adopt is no doubt a complicated one and will depend greatly on the company's business model, maturity, profitability, market, organizational readiness, and more. In the following pages, we'll explore the benefits and challenges of each model and the changes companies will need to make to adopt either of them.

[2] https://www.bloomberg.com/professional/blog/software-moves-toward-subscription-model

[3] http://www.cio.com/article/2375702/marketing/tech-industry-subscribes-to-new-revenue-model.html



3 Factors driving change

It's a new world for both the makers and consumers of software. Where once the majority of software was delivered physically in boxes it is now distributed almost entirely via electronic download or the cloud. This shift in distribution combined with advances in technology has made it easier than ever for businesses and entrepreneurs to launch new software products and ventures, as well as for consumers and small businesses to gain access to sophisticated capabilities and services previously available to only enterprise organizations. This has resulted in a cultural change in how both consumers and businesses view software. With so many applications now instantly accessible – and in many cases available for free or on a trial basis, the **product** itself has taken on an almost disposable quality, elevating the importance of **service** and relationships across the industry. As these changes will only become more pronounced, let's take a closer look at the cultural and economic factors driving them.

3.1 New and more sophisticated buyers

On the B2B side, the emergence of the cloud has shifted ownership of software acquisition away from central and IT and toward business users. One recent study found that nearly half the companies surveyed split responsibility for purchases between IT and the business unit[4]. For both B2C and B2B markets, today's software companies are dealing with a completely new type of sophisticated and well-informed buyer. One that demands to purchase software when s/he wants it and have it delivered by his/her preferred method. Vendors that can instantly gratify buyers with instantaneous purchase and delivery across multiple channels are in the best position to succeed.

3.2 The economy

The global recession and slow recovery have left both businesses and consumers with less cash and more reluctance to make up-front purchases. For businesses, up-front investments (such as a perpetual license) are typically booked as capital expenses, which are more difficult to get funded, whereas a subscription can be charged to the business unit as an operational expense – and easier to pass under the radar. For both business and consumer buyers, a subscription presents far less of a risk than a perpetual license. For vendors, it also presents an opportunity to reach new customers with offerings that require little or no initial financial commitment. It will also require new ways of revenue recognition. Responding to buyer's needs may simply mean that in some cases you want to give customers the opportunity to use a product for a limited period of time. Customers that you would have otherwise lost are able to engage with your product and bring even a limited revenue, with the potential for more in the future.

3.3 The need for agility

Regardless of the macroeconomic forces driving it, consumers and businesses are looking for more agility in every aspect of their lives and operations– software included.

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[4] https://hbr.org/resources/pdfs/comm/oracle/19128_HBR_Oracle_Report_webview.pdf

3.4 Desire to increase revenue

Some software companies transition to a subscription-based model in order to increase client lifetime value and, subsequently, revenue. It sounds much simpler than it is in reality, as the new model may entail also an increased cost for supporting the business. Looking at this aspect from a different perspective, an **increased cost for supporting new products** can be a driver in itself, demanding a change in the business model.

Related to this, the need for a more stable cash flow is also a driver often stated by companies who transitioned to a recurring revenue model.

A "me too" approach is also a reason for transition, when all or the main competitors in the market switch to subscriptions, the other players feel the need to align and follow the market evolution.

Finally, **customer intimacy** is often cited as a reason for transitioning to SaaS or subscriptions. Knowing the customer better is a key requirement in the market today and the switch to a recurring model forces a more frequent interaction, with shorter feedback loops and closer relationships.

4 Transition models

The viability of the subscription model for on-premise gives software makers a strong alternative to SaaS. Now, instead of choosing between SaaS or becoming irrelevant, companies have multiple other options that allow them to remain competitive without completely reinventing their business.

We say multiple because the path to subscriptions or SaaS is rarely linear and a company can occupy a variety of transitional states along the way. The model a company chooses is typically influenced by a number of factors, including its focus, software type, and customer base.

To better understand the process of putting subscriptions or SaaS in place, let's look at the transition models and the key opportunities and challenges they face.

TRANSITION MODEL	CHALLENGES	OPPORTUNITIES
Legacy Perpetual with Subscriptions	• Supporting multiple business models. • Split IT development resources. • Sales conflicts. • Distribution • Integration with legacy IT infrastructure (mainly for complex products).	• Experiment with new products/product lines. • Expand installed base sales.
Pure Subscriptions	• Narrower short-term margins. • Technology integration (mainly for complex products). • Legacy systems and processes. • Sales conflicts. • Distribution • Market share loss.	• Consistent revenue stream. • Improved license management / enforcement. • Reduced costs from no longer having to support legacy products and versions.
Legacy Perpetual with SaaS	• Dual investment in SaaS and on-premise delivery. • Integration with current technology stack. • New/ adapted KPIs. Not cannibalizing existing customer base.	• Increased company valuation. • Greater competitiveness.

TRANSITION MODEL	CHALLENGES	OPPORTUNITIES
Pure SaaS	• Massive technological and organizational change • New/adapted KPIs. • Transitioning existing clients. • Acquiring new customers.	• Launch new versions / updates faster. • Increased revenue growth. • More predictable and recurring revenue streams. • Increased company valuation.

New KPIs are a common theme – understanding how they are calculated, how they impact the business and how you can adjust them are key challenges that you need to look at carefully (more about metrics later on in this whitepaper). License, activation and subscription management are also very different creatures that fall into the technology/ integration category of challenges. These will require, again, extra care in dealing with. For example, how will you ensure that you won't experience technical issues with blocking the activation key after a subscription is canceled?

5 Define your customer transitional path

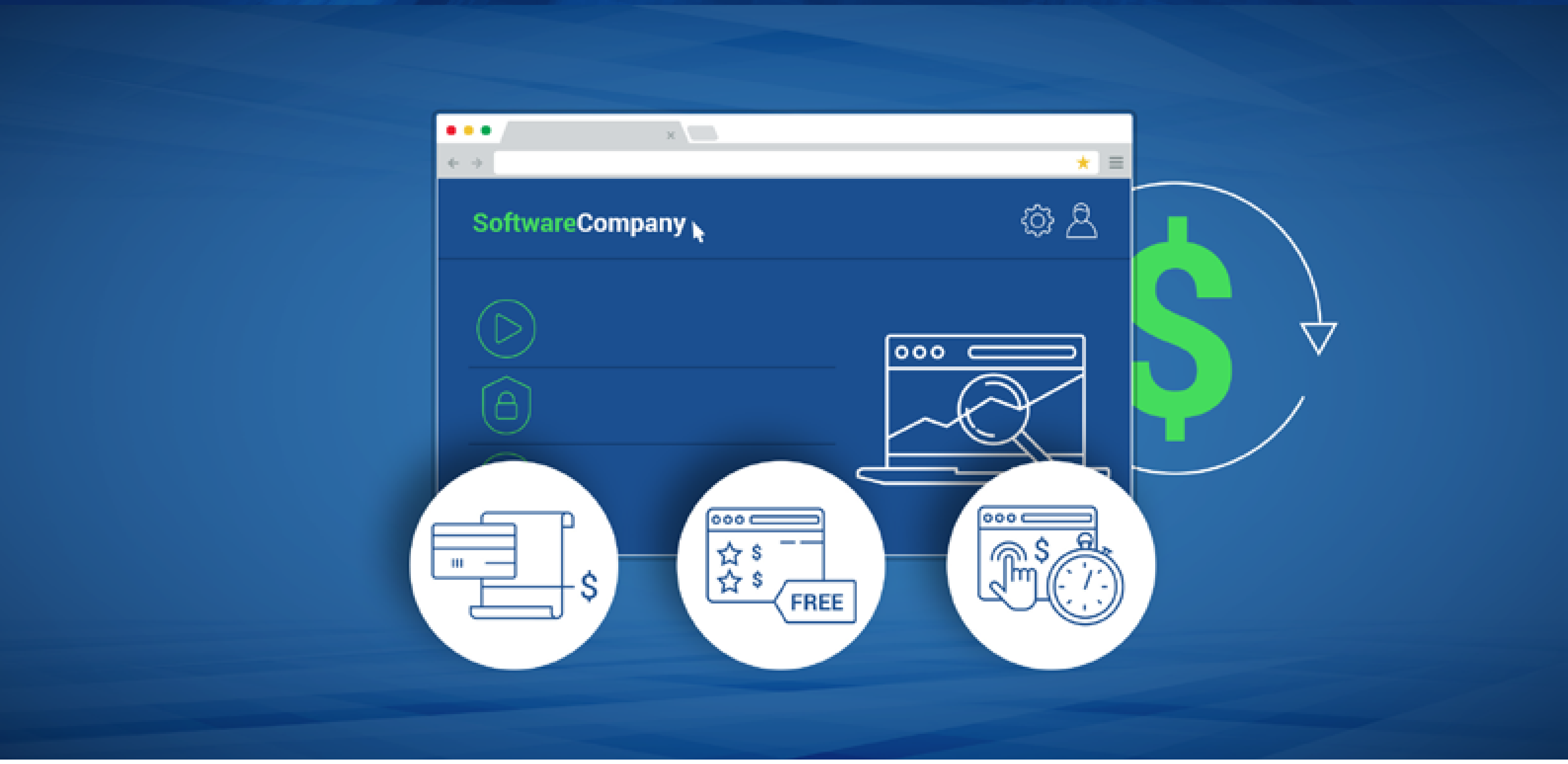
Traditional software companies looking to make the transition to subscriptions or SaaS face a number of internal and external challenges that place them at a disadvantage to their born-in-the-cloud competition. While obstacles, such as incompatible sales, marketing and finance methods and structures, are certainly difficult, they are not insurmountable – as the many companies that have successfully gone before prove.

Below, we outline some of the strategies you'll need to consider to clear your way and take the first steps toward your transition.

When transitioning to SaaS or subscriptions, an important decision will be what to do with your current customer base. Below we've outlined some of the typical paths our customers have taken as they transitioned to SaaS and subscriptions:

- Introduce new products / business models to everyone and provide existing clients with the ability to use both versions of your products, whether they be subscription or SaaS based.
- Introduce your subscription/SaaS offering to new clients only and leave existing clients on your legacy on-premise/perpetual products.
- Discontinue your existing products and transition all clients to your new SaaS or subscription-based products.

This is also a good time to consider your end-state strategy and goals. It may make sense for you to retain your perpetual products now, but eventually it may be better for you to move everything to SaaS or subscriptions. The trend, at least for simple, out-of-the-box products, is to eventually move everything to SaaS or subscriptions (even if it takes years to transition everything), as that is where the simple market is going. For more complex, customized solutions, it's still very much dependent on the individual business and its market and competition.

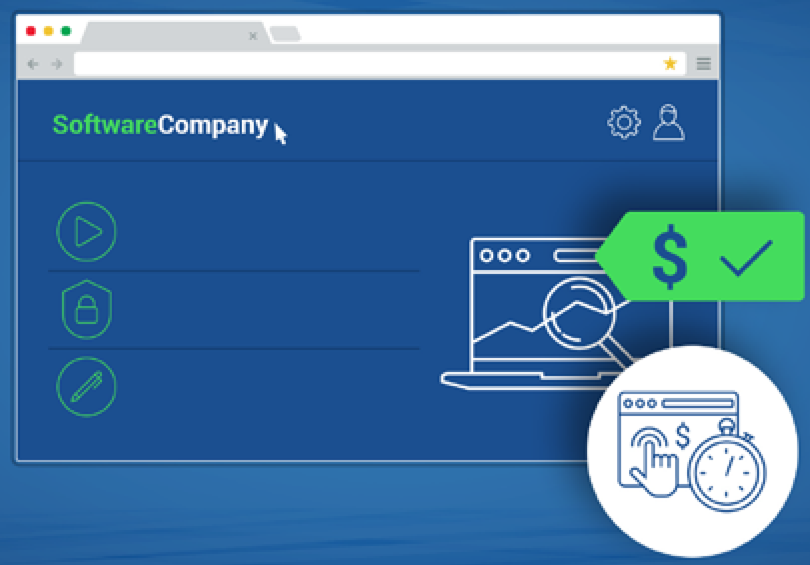


6 Find a monetization model that best fits your need

Compared to subscriptions and SaaS, the perpetual software license model is relatively simple. While the perpetual model gives you the option to charge separate fees for the license and maintenance or restrict and monetize usage with individual or floating seats, subscriptions and SaaS opens the door to a variety of new monetization models — such as freemiums and pay as you go — that you can use to transform your business.

Here are few of the major ones, along with their key features.

MODEL	SAAS	ON-PREMISE SUBSCRIPTION	FEATURES
Flat-rate Subscription	✓	✓	Subscription licensing allows the buyer to rent the software over a time period, such as a month, a year, etc. They typically include free updates and technical support over the contract lifetime. Variations inlcude extra options such as tiered pricing for different levels of packaging, giving your customers more choice. This requires mechanisms to upgrade or downgrade during the contract, should your customers choose to switch.
Usage-based (metered)	✓		Usage-based or metered licensing enables your customers to “pay as you go” based on some measure of consumption, e.g. number of accesses, storage capacity, data transfer, minutes, you name it. Usage-based is to a certain extent easier to sell (only pay for what you use), but it comes along with more complicated systems to track and bill that consumption.
Hybrid	✓		Combination of flat-rate subscriptions and usage billing. Customers pay a flat rate up to a specified usage level, after which they pay per usage unit. Mix and match this with a tiered model.
Freemium	✓	✓	A freemium model offers a limited feature set for free, without a time limit. A popular way to engage new customers and prove the value of upgrading to a paid (premium) version of the software.
Trial	✓	✓	Trials are typically time-based and provide the user with a free version of the software to use over the period covered. Trials can be free or paid, or free with upfront payment details.



7 Get the pricing right

Determining the appropriate price and model (with or without free trial, with a freemium forever version, etc.) for your new subscription or SaaS products or services is one of the most important and difficult decisions a software business can make. Set the initial cost too high and you risk pricing yourself out of business. Set it too low, and you could find yourself at the bottom of the market, with a customer base unlikely to provide much value over the long-term.

To compete with born-in-the-cloud companies, you also need to be able to distinguish your SaaS and subscription offerings from your legacy perpetual license products. Your pricing needs to reflect the realities of the new cloud-based market and offer a cost structure that gives customers the innovation, flexibility and service they demand for the price and terms they are willing to pay.

You'll also need to take into account how you are going to monetize your product / service. Is your eCommerce provider or payment gateways able to handle subscriptions / SaaS / usage-based billing?

Below are some pricing best practices we've developed from working with thousands of companies around the world.

7.1 Understand your costs

You must understand the scope of both the tangible and intangible costs before effectively pricing your SaaS or subscription products. Decide on and relentlessly measure your key cost metrics with the benefit of real-time feedback to the organization during the transition, allowing for constant improvement and adjustment. The cost to offer a SaaS or subscription product can vary greatly from a perpetual license, and until you can determine what that is, you won't be able to price your offerings accurately. Additional cost can come from hosting, new accounting systems, support. Cost saving items should also be factored in. For example, discontinuing support for legacy versions of the software can provide you with significant savings.

7.2 Define your audience

Pricing decisions shouldn't take place in a vacuum. As an on-going business, you should already know who your best customers are and what features and capabilities are most valuable to them. Unless you're going for the bottom of the market, you should always aim for the highest-quality customers who will renew their service and help you grow your business long-term. With your analysis, you should also be able to segment your audience into different user and skill levels and determine if a tiered structure that offers – for example entry-level and premium pricing packages – is appropriate.

7.3 Segment your solution

Moving to a subscription or SaaS allows you to reinvent your solution. Determine the well-defined, repeatable parts of your current solution, which are common over a wide range of customers, and make that your core SaaS or subscription product.

If there are other features or capabilities left over, figure out how they could be offered as an add-on or upgrade. This is a ripe time to experiment and test to see which components the market wants most and what it's willing to pay for them. Make provisions also for how those features and capabilities will be sold to and activated for your clients. For a large client base, you'll want to scale using self-service activation for example.

7.4 Start with your current pricing

Unlike startups, you already have a roster of paying customers. Use that to your advantage to establish baseline pricing. A common formula many companies use is the 36-month calculation, where you take the cost of the perpetual license and maintenance fee per user and divide it by 36 to derive a monthly subscription price. Clearly, you also need to factor in the additional costs you'll incur. Make sure to also take into account the other side of the equation, i.e. the cost savings your customers will receive by switching to the new model. This is especially relevant for complex software, where reductions in hardware, maintenance, support and IT staffing level costs can provide your buyers with major savings.

7.5 Experiment with trials and freemiums

A popular strategy that is widely deployed by Avangate customers is to allow new prospects to use some version of the product for free. Usage is the new way to engage, and engagement leads to monetization. Trials and test drive programs are a good way to get early feedback and ensure that a more focused approach to conversion can follow. But be careful, because, like with pricing itself, an effective trial or freemium requires a delicate balance between providing value and an incentive to convert or upgrade. A paid trial or a free trial with payment details will increase the barrier for sign-up, but in exchange will ensure you have more qualified sign-ups that are more likely to turn into paying customers at the end of the trial. Decide on the best option based on your target audience and your goals.

7.6 Be careful with tiered pricing

Most SaaS and subscription companies offer tiered pricing or pricing plans ranging from entry-level to power user, premium, etc. This aims to attract a wide range of users with differing needs or skill levels.

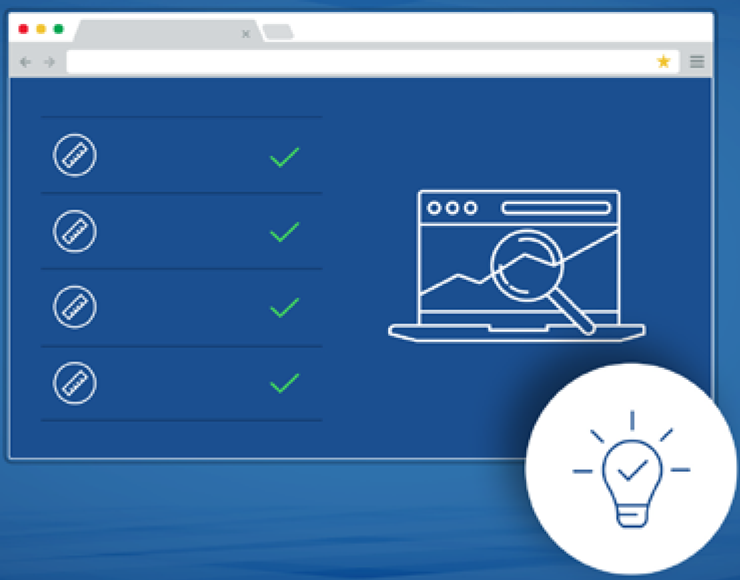
In reality, that is not always the case. Companies like Salesforce and Concur can afford to maintain an inconsistent pool of low-level users because they have resources from investors and high-end clients. Smaller companies need to choose customers wisely and use their resources intelligently. Improving service quality with limited resources is never easy, which is why it is important to charge your clients a competitive price for a full suite of services.

7.7 Monthly or yearly subscriptions?

Defining the billing cycle is also important. Take into account how your clients interact with your product, the learning curve and the need your product serves.

Promoting annual subscriptions (maybe also with a discount) increases the revenue, which in turn helps increase product quality and will ultimately drive renewals. The longer your clients spend with the service, the more likely they are to renew.

By charging annual subscriptions up front, customers are more likely to engage with the service in order to get their money's worth. In the process, they become more dependent on the service and more likely to renew. This kind of client is also more willing to take on the learning curve of a new product and show greater commitment to your service.



8 Learn the new metrics

In addition to disrupting how a business operates, the transition to subscriptions and SaaS also necessitates a change in how the company measures and analyzes its health. These new metrics – like monthly recurring revenues (MRR) and customer lifetime value (CLV) – are also critical for strategic planning and forecasting. In order to be valuable, these metrics should be provided on a real-time basis and paired with analytical tools and reporting that give business leaders the big-picture visualizations and actionable insights they need to improve processes and outcomes.

A short list of these key metrics is included in the table below.

METRIC	DESCRIPTION	WHY IT'S IMPORTANT	HOW IT'S TYPICALLY CALCULATED
MRR	Monthly Recurring Revenue	Calculating MRR correctly is critical to financial forecasting and reporting and measuring growth and momentum.	Sum the total of all monthly subscriptions and leave out any one-time payments or expenses. While it may seem simple, many companies make common mistakes -- such as not factoring in discounts or prorating quarterly or yearly bookings -- leaving them with an incorrect monthly revenue forecast.
ARR	Annual Recurring Revenue	Like MRR, ARR is critical to financial planning and forecasting. ARR should only be used by businesses with subscription contracts of one year or more. Otherwise, MRR is the better metric.	Like MRR, ARR is the sum of all yearly subscriptions and expansion revenue, and should not include one-time payments or expenses. While rules about how to calculate ARR vary by company, internal consistency is important metric. This metric helps track momentum and growth from period to period.
CAC	Customer Acquisition Cost	Cost of acquisition is a key indicator of present and future profitability and growth, and its importance cannot be overstated.	Calculate CAC by dividing the amount spent on new customer acquisitions (typically marketing) by the number of new customers gained for the period covered.
ACV	Annual Contract Value	ACV is a key metric that is used by SaaS and subscription companies to gauge the potential for future growth.	ACV measures how quickly a company is adding new contract bookings, by separating them out from renewals and total contract value of multi-year deals.

METRIC	DESCRIPTION	WHY IT'S IMPORTANT	HOW IT'S TYPICALLY CALCULATED
CSR	Customer Satisfaction Rate	Customer satisfaction and loyalty are key metrics that correlate strongly to customer retention and revenue growth.	CSR is typically measured with a customer experience program that uses one or more of the common methodologies, such as NPS (or net promoter score), to gauge customer sentiment overall and at various points along the customer journey. Mostly used for complex SaaS.
CLV	Customer Lifetime Value	CLV or LTV as it sometimes known is perhaps the most important of all the SaaS or subscription metrics. If calculated correctly, CLV will give you the lifetime value of each customer and a more accurate metric for planning across all of your operations.	CLV calculations can be simple or complex depending on your business and whether you're looking to calculate an actual versus a forecasted value. The simple calculation is just the product of the average contract value and the average contract duration. More complex calculations use historical customer data and other factors to predict future value.
RR	Renewal Rate	One of the key value questions for any software or services business is the rate of customers who renew their subscriptions.	There are several ways to calculate the renewal rate, depending also on the number of products and the billing periods. Renewals can be reported according to their initial purchase date or according to their expiration date. A simple formula for the Renewal Rate (% R/E) is the percentage of successfully renewed subscriptions out of total number of expired subscriptions.

METRIC	DESCRIPTION	WHY IT'S IMPORTANT	HOW IT'S TYPICALLY CALCULATED
CR	Churn Rate	Churn rate shows how many customers you lose over a given period of time.	Churn rate is the percentage of customers who cancel (or do not renew) their subscription out of the total number of customers.
E	Expirations	Number of expired subscriptions	Expirations include automatic and manual subscriptions and equal the total number of expired subscriptions during the past year, displayed on a monthly basis.
TCR	Trial Conversion Rate	The trial conversion rate is the percentage of people who sign up for a free trial actually end up buying.	To calculate for example the 45 day trial-to-paid conversion rate for a month you would take all the accounts (active trials, expired trials, paying customers, etc.) that have their 45th day (since account creation) falling in that month. You then see what percentage of these accounts are now paying. This gives you the 45 day trial-to-paid conversion rate for that month.

Knowing the right metrics is clearly not enough, you need to also track them with the right **reporting and analytics** in order to understand the big picture of the customer value and optimize your business.

Get insights into trends by region, product lines, customer cohorts. Evaluate subscriptions over time, compare attrition rates and analyze churn. The right analytics should give you the data and tools to manage your subscription business, grow and forecast revenue more effectively and efficiently.

All in all, reporting should provide insight into the actions required to increase engagement and renewals.

9 The subscription lifecycle

For the new business models that you are introducing, you need both visibility and control over every stage in the customer lifecycle.

The subscription lifecycle starts with a trial or a sign-up and continues with upgrades, downgrades and then repeated renewals or cancellations – you will need tools to help you convert trial users to paying customers, steer basic users toward more advanced services, increase overall renewal rates and prevent cancellations.

- **Renewal time** - Reduce churn by giving customers multiple ways to renew - automatically, via self-service (manually), directly or through channels. Configure renewal pricing, and extend promotions and discounts. Enable customers to renew directly, with full partner attribution, or through any channel or touchpoint.

- **Upgrade to a better plan** - Manage upgrades across touchpoints and channels.
- **Prorations** - The billing rating engine you use must automatically calculate prorated charges and synchronize with billing.
- **Co-terminations** - Automatically align billing charges of subscriptions with different expiration/renewal dates.

Tips: Schedule automated, multi-language notifications for renewals and dunning.
Offer options for automatic and manual renewal. Enable single-click in-app purchases for renewals and upgrades. Reward loyalty with discounts and special upgrade offers.

Besides the billing cycle, you also need to think of the contract period – is it limited to a certain period of time (after the subscription expires or renews) or not, do you offer a grace period.

10 Recurring payments and revenue recovery tools

What about monetization? How do you charge your customers? Clearly, the acquisition moment is simpler, but when it comes to recurring payments, the complexity increases.
The payment methods you accept need to come with recurring capabilities to avoid service disruption. You will need also advanced capabilities or revenue recovery tools to decrease churn. For example, take into account the need to update customers' credit card automatically, route transactions intelligently and improve authorization rates globally.

Tips: Ask your payment / ecommerce provider for a list of payment methods supporting recurring charges. Visa, MasterCard, PayPal should be on that list and if you sell globally, other local payment methods are just as important. Make sure they are appropriate for the new models you are about to adopt.

Ask your provider about the revenue recovery tools described in the table below. They can help you reduce revenue leakage and obtain important revenue uplifts, up to 10-20%.

We recommend reviewing your current payment charges and operational costs – including risk/fraud management, taxation compliance and filing, foreign exchange fees, financial reconciliation and others – to get a complete picture.

REVENUE RECOVERY TOOLS	
Payment Failures Prevention	Intelligent Payment Routing enables matching or routing card transactions to the payment gateways best equipped to handle them and retry authorizations using a failover or back-up gateway.
Billing Continuity	Account Updater Services enables the automatic updating of subscription customer card data when cardholder information changes or goes out of date.
Expired Cards	Expired Card Handling enables the identification and updating of expired cards for increased authorization rates.
Retry Logic	Configurable Retry Logic enables automatic recovery of payments for soft card declines, improving renewal rates.
Retention Strategies	Monitor the impact of your recovery strategies and use the insight to adjust and optimize your tactics to reduce churn and recapture more revenue.
Churn Prevention	Use solutions focused on fighting active and passive churn, maximizing recurring revenue and increasing customer lifetime value: • **Pro-active subscription enrollment** - Use special deals to deepen loyalty and incentivize your customers to enroll in automatic subscription renewals. Automatic Renewal Rates can be four times higher than the Manual Renewal Rates. • **Reactive churn prevention strategies** - Counter customers' decision to cancel with the right combination of cost and service incentives at the point of exit. If all else fails, at least collect feedback from churning customers and cycle their input back into your products / services as optimizations.

11 Put a support structure in place

In subscriptions and SaaS, renewals and increased usage are the lifeblood of the business. It can be difficult to make the shift from one-time licenses to maintaining a continuous, ongoing customer relationship, but with SaaS and subscriptions, the “service” part is more important than the “product” part. Providing excellent service at every touch point is required, even when handling many more support cases than usual.

Below are some of the key elements you'll need to build the customer support structure required for SaaS and subscription products.

11.1 Account management tools

Managing subscriber accounts is more complex than making certain the software works or that subscribers are paying their bills. Account management tools that track customer queries and other subscriber activities allow you to better understand how customers are using your software and enable you to provide them with better support wthen they contact you.
In addition, enable your CSR teams to manage payment, billing and delivery info, place new/upgrade orders, extend custom pricing, update credit card info and extend billing cycles. Also, grouping multiple subscriptions to respond to more diverse customer requirements.

Tip: centralize customer management, including support for role-based access; find customers and subscriptions in a single place.

11.2 Self-service support

With the switch from perpetual to subscription, the customer is assumed to gain greater control over the use and terms of their service. You'll need to empower that control with tools like self-service portals and in-app purchases and upgrades. Providing customers with self-service control over their services translates into greater usage and engagement.
Given the choice and tools, most SaaS and subscription customers would prefer to solve their problems themselves directly online than spend time on the phone or a chat with support. In addition, these self-service tools will reduce the burden on your support team and will allow you to scale faster.

Tip: Enable self-service with API-based or customizable hosted customer portal to reduce support costs and increase subscribers' loyalty.

11.3 Customer succes teams

In addition to offering support over the phone, email or chat/social and managing customer self-service portals, consider creating dedicated customer success teams that are responsible for ensuring product adoption, particularly in strategic accounts, for complex products. This additional investment will prove instrumental in ensuring a long-term customer relationship, as well as improving renewal and revenue predictability. The customer success team should typically be a cross-functional team that incorporates support, implementation and documentation staff.

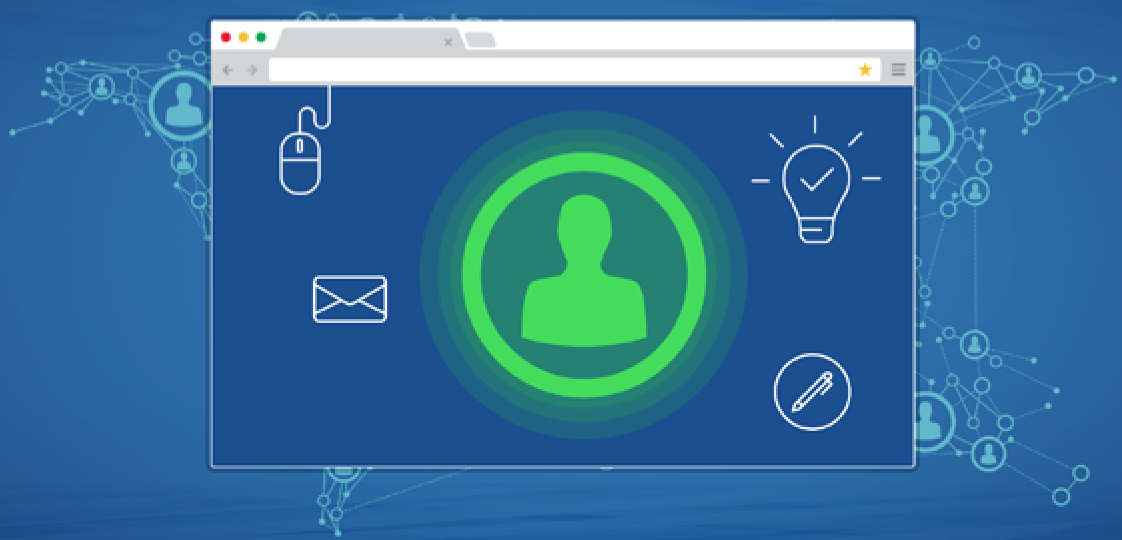
Tip: Specifically for SaaS, the next level is to employ customer success software tools like Gainsight or Totango. These perform sophisticated analysis of customer behavior to create a health score that allows companies to identify quickly any red flags, optimize customer relationships and ultimately increase customer retention rates.

11.4 Channel enabled sales

This point was briefly mentioned above, but it deserves a chapter on its own. Reseller and affiliates incentive programs have changed to cater for the new, subscription-based sales. This is only normal, as partners will not be incentivized to make a sale knowing they only get a small piece of the pie. After all, they are bringing you recurring business and expect to be rewarded in the same way.

So it's obvious that you need also to provide support for subscriptions management across channels with the right attribution models – for affiliates or partners.

Tip: Manage channel renewals and enable partners with API based sales and support applications.



12 Open up the lines of communications

Creating a successful recurring revenue business is really about building close long-term relationships with your customer base. No matter the end game, the start of your transition must begin with open and clear communication with your existing customers. Regardless of whether you are offering SaaS or subscriptions as a replacement or in addition to your perpetual license, you need to let customers know what their options are and how the transition will impact them. From there it's incumbent up on you to create the infrastructure and processes necessary to communicate with customers at every point along their journey.

Plan specific communication paths with customers, not only for support purposes but also for education. The increased frequency of product releases with SaaS and subscriptions makes it critical to notify users what to expect from new features and how to use them.

With every release, be sure you can track what features the customers are using by building instrumentation and analytics into the platform.

Ensure you are not only tracking these metrics but setting goals to improve them for each buyer profile. Build a customer community with an internal customer champion (providing the voice of the customer) to ensure customer requests are assigned the right priority and resources are allocated appropriately.

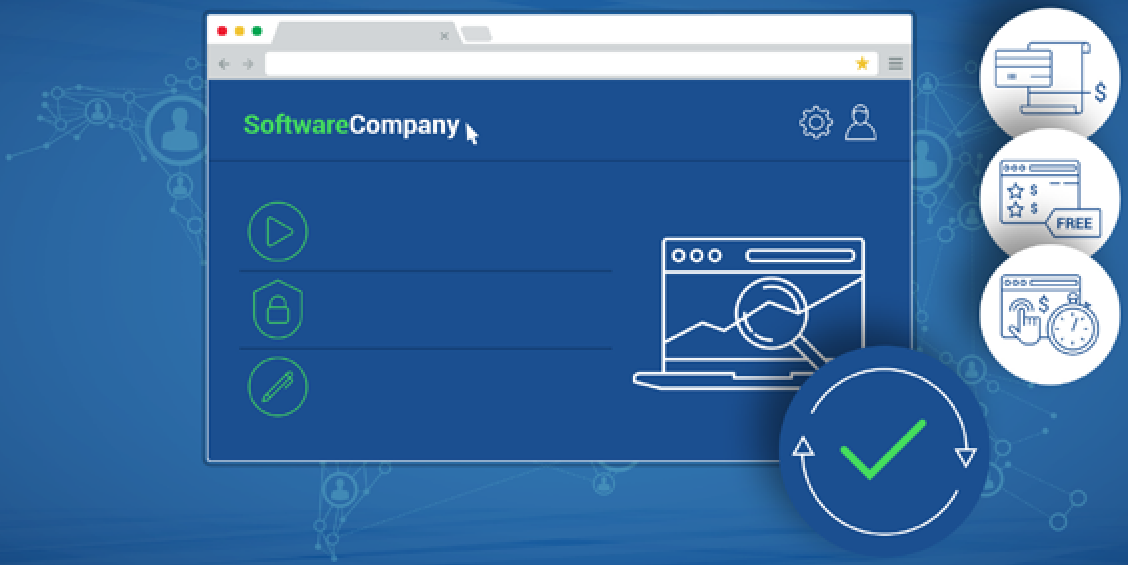
13 Make integration seamless

When a software vendor moves from perpetual licenses to subscriptions or SaaS, they're not just changing business models, but also practically everything else, including how they generate and book revenue. In many cases, the legacy business systems and technology stack will need to be reconfigured or replaced altogether in order to accommodate the move to recurring revenues.

It goes without saying that technology will play a big role in how smooth your transition to SaaS or subscription will be. Piecing together the systems necessary for eCommerce yourself or through multiple vendors could bog down your IT with integration projects for the foreseeable future. Outsourcing integration is an option, however you have to make sure that integrators really understand your business and the transition strategy to avoid any potential integration glitches.

An eCommerce solution built specifically for SaaS and software businesses is typically a better option. When evaluating such solutions, it's important to find one that would cause the least amount of disruption to your business and operations. The below checklist includes some key features you should look for when sourcing an eCommerce provider.

- Connectivity and integration with existing marketing, CRM, finance and ERP applications; Minimal need for additional development;
- Rich API set for performing additional integrations;
- Self-service tools for business (non-technical) users so they can move quickly without any IT involvement;
- Support for multiple business models, to cater for any future transitions or changes without the need for additional implementations/ integrations;
- Payment processor integration;
- Cost of integration for a complete business process flow;



14 Go beyond subscriptions

So does moving to SaaS or subscriptions just mean adding renewable subscription capability to a product and that's it? Not at all. As you think about your transition strategy, remember that the ability to invoice and collect money on a recurring timeline is just one step in a larger process.

Even as you transition to subscriptions, you need in fact to go beyond subscriptions and look at the business-model implications of change versus the revenue-model implications. You must empower your customers to interact with you everywhere they would like to engage.

You need to support multiple business models and experiment to find out which models work for your increasingly segmented customers. You should be able to sell as well as service the customer in the context of the buyer. This is true whether you sell directly, personalizing your products for your customers, or entrust sales to the resellers who own the customer relationships. No matter how you sell, you need to give all your channels the same tools to support the customer over time and grow the relationship. You need a solution that will grow revenues, improve profitability, facilitate moves into new markets, support agility, and improve customer satisfaction.

Here are a few other items that you need to factor in:

ITEM	WHAT IT ENTITLES
Product Catalog	Set up and manage your plan/subscription and configure plan options, such as payment frequency, notifications, pricing options etc.
Order Management	Manage orders including free trials. Support group/enterprise sales. Bundle, prorate orders.
Selling & On boarding - Hosted PCI Compliant ordering pages	PCI-compliant customizable product pages, checkouts and multiple ordering flows enable you to avoid the expense and inconvenience of obtaining the compliance certification yourself.
Data Portability	Import orders, subscriptions, products plans or customers when you move from one provider to another. Remember that you should always own your data!
APIs and Push Notifications	Use APIs to manage subscription details, access payment data, resend invoices, handle product info by SKU, track orders by source, manage multiple refunds, extract complex ordering data and monitor subscriptions billing and contract cycles.

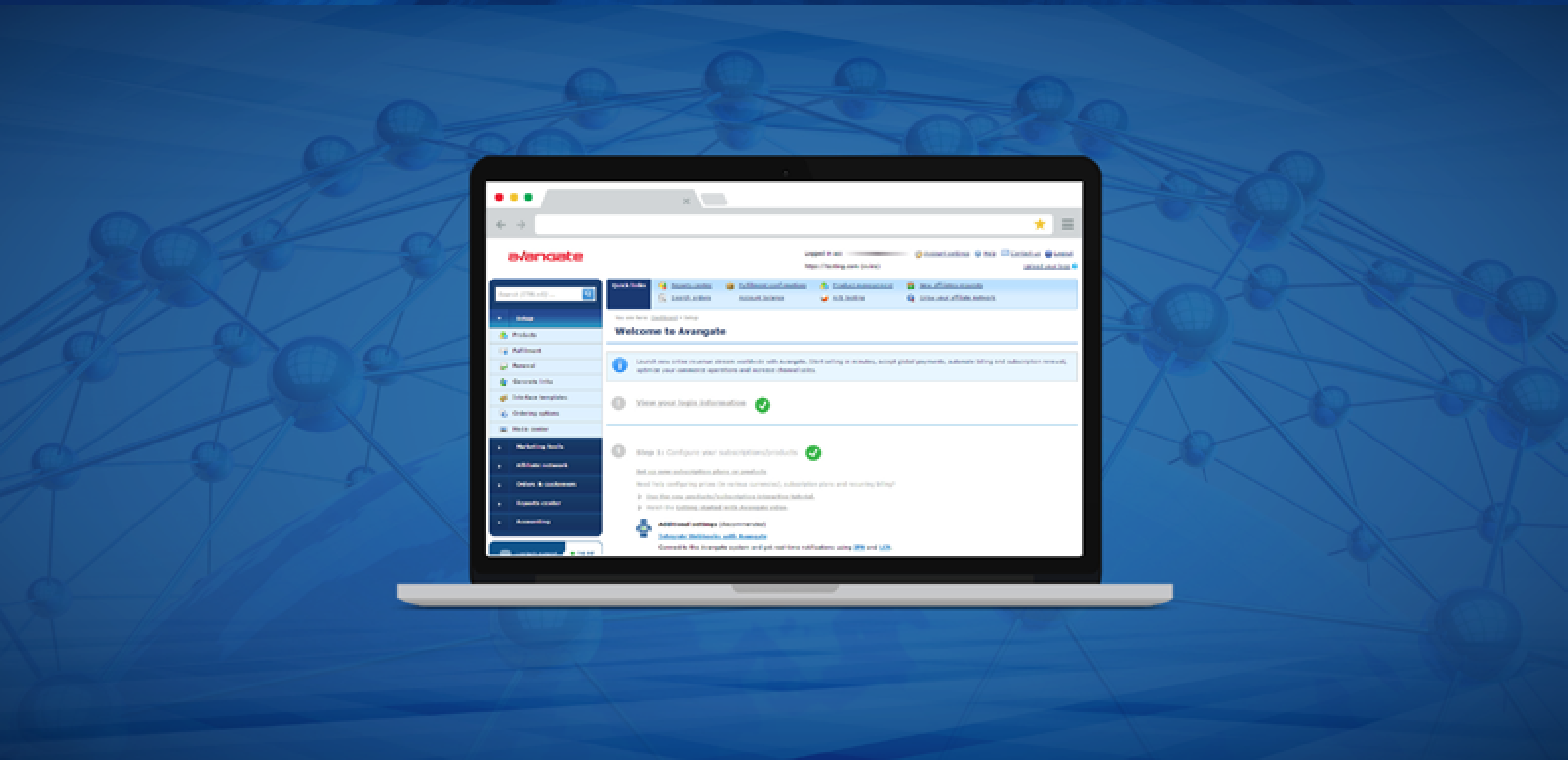
ITEM	WHAT IT ENTITLES
Merchant of Record vs. Service Provider	This has implications on how you handle (or outsource) Risk Management, Fraud Screening, Taxation and VAT.
Support	Commerce expertise and 24X7 support are also needed to successfully manage and sell subscriptions or SaaS.

15 Are you ready? The transition checklist

Even as you find your foothold with recurring revenues, return often to this guide and the fundamental steps in the transition process. Never forget that customer success on the new model will play the most critical role in establishing the legitimacy of the subscription and SaaS delivery model, and constantly strive for new ways to find, educate, and convert customers to ongoing subscription and SaaS usage.

Here's a recap of the steps you need to take to ensure that your transition is successful:

- ✓ Is it the right time for our company to make the shift from a traditional perpetual license to a subscription and or SaaS-based model?
- ✓ Are we all aligned on the key factors driving us toward subscriptions and SaaS?
- ✓ Are we clear on the most appropriate transition model for our company and what challenges and opportunities we will face as we work toward them?
- ✓ Have we figured out what customer transitional path makes most sense?
- ✓ What monetization model best fits our offering and market?
- ✓ Have we gotten the pricing right?
- ✓ Have we figured out all the new metrics we need to track?
- ✓ Do we have the right reporting and analytics in place?
- ✓ Do we have the right tools to manage the subscription lifecycle?
- ✓ Have we got recurring payments and churn prevention / revenue recovery tools in place?
- ✓ Do we have a support structure in place, both for assisted as well as self-service support?
- ✓ Have we figured out what communication strategies and tactics we need to adopt?
- ✓ Do we understand what integrations we need?
- ✓ Have we made provisions for a seamless integration process?
- ✓ Are we ready to go beyond subscriptions, test and experiment new models, and most importantly, service and support customers as and when they want to?



16 What's next?

Tip: Avangate answers the bell with everything today's software companies need to run, manage and grow a subscription business - in one easy-to-use digital commerce package. For over 10 years, we've helped businesses like yours sell more digital products and services and increase the lifetime value of their customers quickly and easily all over the world.

Want to give it a try? Sign up for FREE here!

About Avangate

Avangate, a Francisco Partners portfolio company, is the digital commerce provider that helps Software, SaaS and digital solution providers to sell their products and services via multiple channels, to acquire customers across multiple touch points, to increase customer and revenue retention, to leverage smarter payment options, and to maximize sales conversion rates. Avangate's clients include ABBYY, Absolute, Bitdefender, FICO, HP Software, Kaspersky Lab, Telestream and many more companies across the globe.

More information can be found on www.avangate.com

US HQ
One Alliance Center,
3500 Lenox Road, NE,
Suite 710, Atlanta,
GA 30326-4229, USA
(678) 666-2660

EMEA HQ
Prins Hendriklaan 26 II,
1075 BD,
Amsterdam,
The Netherlands
+31 20 890 8080

OPERATIONAL OFFICE
Blvd. Dimitrie Pompei 10A.
Conect Building, floor 2,
020337, Bucharest
Romania
+40 31 710 1610

info@avangate.com

www.avangate.com