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Accelerate your SaaS journey

App, market, and partner considerations for independent software vendors

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Businesses increasingly prefer to consume Software as a Service (SaaS). For independent software vendors (ISVs), that shift demands bold new ways of thinking, enhanced infrastructure and service capabilities, and innovative go-to-market strategies. Savvy ISVs are exploring a partner-based, managed cloud approach to SaaS to improve time to market with new applications to save money, reduce risk, and refocus their attention on building great software.

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In the U.S., the enterprise Software-as-a-Service (SaaS) market is expected to grow at a healthy 16.3% compound annual growth rate (CAGR) through 2017.

Changing software marketplace

The as-a-service model is moving with tremendous force across the software marketplace. Consumers have long shown a clear preference for the affordability, easy access, and simplicity of the Software-as-a-Service (SaaS) approach.

Increasingly, enterprises of all kinds are now also demanding the clear benefits of cloud-based, as-a-service software. They like the economy and predictability of pay-by-the-drink pricing, easy up or down scalability, less risk, simpler updates, and far lower up-front investments in software and infrastructure.

Research and industry observers confirm this growing trend. In the U.S., the enterprise SaaS market is expected to grow at a healthy 16.3% compound annual growth rate (CAGR) through 2017.[1] Frost & Sullivan research indicates that SaaS growth now outpaces that of traditional license software, ASP hosting, or Infrastructure as a Service (IaaS).

A Forrester study shows that enterprise applications buyers expect SaaS to be a viable option for most software categories.[2] While on-premise software currently dominates the enterprise space, Forrester states business-class SaaS will continue to gain acceptance and maturity.

Know the SaaS challenges

For most ISVs, the question is not whether to take their business to the cloud but rather when and how to make that move. The implications are far-reaching from a technology and business model perspective.

Not only does the independent software vendor have to build out IT assets and competence, there are many other impacts the ISV has to consider when migrating to a SaaS model. These vendors must understand the impact of migrating from a perpetual licensing model. Normally, the move consists of an up-front fee, deployment services fees, and then ongoing maintenance fees to a SaaS model—with generally little to no up-front fee and an ongoing, flat, and subscription-based revenue stream. And they need to determine the right price for SaaS that is competitive but also generates a healthy profit margin.

The shift to SaaS means that ISVs' upfront license fee payments are changing to smaller but longer-term, as-a-service revenue streams. Analysts expect SaaS revenues to be more predictable and more sticky, margins to be lower, and back-end churn to be a determining factor in the health of an ISV business.

In the cloud, independent software vendors no longer only deliver a product and provide

maintenance. They now deliver a service and essentially become a service provider. Most know how to develop and sell software but lack the infrastructure and expertise to deploy those applications, manage and support them on a daily basis. At the same time, they will be taking on new infrastructure-related risk—along with the responsibility of securely and affordably delivering applications while meeting new price and service level expectations.

As service providers, delivering these additional services requires independent software vendors to additionally invest in new IT assets and skills, which is a major concern for them. And with SaaS, customers expect to be able to use the application almost immediately, paying only for what they use. Also, they expect to be able to call a helpdesk 24/7 for any issues with using their SaaS. All this might require significant changes to the ISV daily operations.

On the contractual side, there is a change from a relatively simple license sale to a service contract with strict service-level agreements (SLAs) and penalties—plus the need for extensive, automated reporting of achieved service levels. Linked to that, independent software vendors must take care that their SaaS meets all kinds of local data sovereignty and industry- specific regulations. They also must adhere to the extensive security requirements posed by enterprises to critical business applications.

Technically, the ISV software may not be fully ready for cloud and needs to be adapted, which is yet another investment and a drain on development resources. It becomes important to enforce strict release and version management controls as the independent software vendor now becomes responsible to keep the application running.

Explore the real opportunities

SaaS holds very real promise for independent software vendors. As service providers, ISVs expand their value chain by delivering the total application stack, not just licenses. The increased scope of services implies that they gain a foothold into the wallet share of their customers' IT spend.

A truly global, cloud-delivery platform also opens new geographic, vertical industry, and channel marketing opportunities. A well-planned SaaS transition can position an independent software vendor to compete against some of today's newest and most aggressive software providers. By leveraging the latest cloud services, these vendors can reduce risk and better align costs with revenue.

On the sales-and-marketing front, SaaS offers a lower barrier for adoption, whereby providing the independent software vendor an ability to attract new customers. The value of each sale will shift from one-time, high-monetary value to lower-value, annuity-based revenue. This drives the need for a more cost-effective, go-to-market approach that facilitates smaller deals with shorter sales cycles.

Ask the right questions

While the SaaS trend is clear, questions remain. Hewlett Packard Enterprise (HPE) believes that most independent software vendors understand and accept the shift toward the cloud-based model. Many, however, remain hesitant and are naturally concerned about how the new revenue model will work, how enterprise security issues will affect them, and how to meet their customers' SLA expectations.

Transitions and timing are very real issues. Many ISVs are uncertain as to which applications should remain in the traditional environment, and which should be moved to the cloud.

The market shift from license-based to the SaaS model will take time. No doubt perpetual

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The shift to SaaS means that independent software vendors' upfront license fee payments are changing to smaller but longer-term, as-a-service revenue streams.

There are 10 considerations that independent software vendors should consider as they begin the journey toward the as-a-service cloud model.

licenses will remain in place for the foreseeable future. ISVs naturally wonder when and how to make the move, how to avoid cannibalizing existing sales, and whether to offer both models during this time of change.

To create and deliver secure and affordable SaaS applications, they need a comprehensive set of solutions and capabilities—from cloud platforms and infrastructure to applications transformation, sales and marketing support, and assistance with end-client software adoption.

The following "Top 10" list describes the factors independent software vendors should consider as they begin the journey toward the as-a-service cloud model.

Top 10 SaaS considerations

1: Business transformation
Independent software vendors face a number of transformative challenges as they evaluate the shift from the perpetual licensing business model to a subscription-based licensing approach. The key challenge is the move away from upfront CAPEX revenue and toward smaller, but more predictable, as-a-service revenue streams. To achieve optimum balance, they must manage both streams during the crucial transition period between these business models.

This shift requires companies to abandon their long-held role as software builders. They need to become brokers of a suite of software-based services capable of supporting new and

traditional delivery models. This change is coming to the ISV marketplace but the shift will take time. While up to half of their new business is SaaS, as much as 80% of their revenue still comes from perpetual licenses.

2: Applications transition
For independent software vendors, the move toward this new approach requires a transformation from applications hosted at their customers' sites to a single-tenant, and eventually a multitenant, SaaS environment using highly standardized infrastructure cloud components. Each environment is different, and the ultimate cloud-based SaaS model offers a number of distinct advantages—as discussed elsewhere in this paper.

As they begin the journey toward the as-a-service model, independent software vendors should adopt a formal and proven approach to transitioning applications to the cloud. A logical, three- step journey toward SaaS makes sense for most of them: assessments to define the roadmap, applications modernization, and risk-appropriate management of the cloud-based portfolio.

The assessment phase should begin with a rigorous evaluation of an ISV's current state, and may leverage automated tools and established criteria to generate profile data for each application. Initial evaluations will focus on which applications can move to the cloud, the need for preparation and integration, and on identifying appropriate cloud platforms—such as external enterprise cloud services, utility services, web hosting, or external providers.

HPE Helion SaaS Accelerator delivers a complete set of services for independent software vendors seeking to migrate, transform, and run their applications in the cloud or in a SaaS model.

The crucial modernization phase may include application rationalization, modernization, or the development of new solutions. Excluding those applications selected for retirement, independent software vendors may select one of four key applications strategies:

1. Rehosting is a noninvasive lift-and-shift approach.

2. Replacement substitutes for aging applications running on various outdated platforms with new and more standard technologies.

3. Integration may use enterprise service bus or wrapping techniques to expose legacy apps as web-based services.

4. Re-architecting and refactoring is a more intrusive approach to the software code that may be needed for some legacy applications.

Robust management is key to ensuring a smooth transition to a cloud-based delivery environment. Besides the pure technical aspects, transformation management should address:

• Requirements of security and mobility

• Public, private, and hybrid cloud alternatives

• Architecture, business process, service lifecycle, and other governance issues

3: New pricing models and renewals
Independent software vendors should pay particularly close attention to the requirements of the new subscription-based model.

The SaaS model does require higher levels of customer service and support, and more extensive investments in infrastructure and delivery capabilities—all of which can be alleviated when accessed in a managed, hosted environment. And while the SaaS model eliminates the sizable up-front license revenues, it replaces those with smaller, but-lasting, flows of highly predictable revenue.

By offering business-level and return-on-investment (ROI) analysis, a trusted partner can help independent software vendors evaluate the profit-and-loss implications of a move from the license-based to the SaaS-based model. In addition to pricing implications, the move to

a subscription-based, as-a-service model may be affected by regional tax regulations, data sovereignty issues, and sales and marketing channel strategies.

They should consider carefully the timing and strategy of the move away from perpetual license sales. Industry observers expect that few ISVs will make an immediate and complete shift. Instead, most will continue to offer perpetual license software while leveraging secure cloud platforms to transition to a single or multitenant, subscription-based model. The entry of newcomers in the market with SaaS-only offerings, however, may expedite the shift to

SaaS-based solutions. The managed hosting approach to SaaS enables independent software vendors to focus on software, rather than on data centers, technical refreshes, and service-level agreements. By calling on specialists with proven expertise in cloud, applications, and enterprise IT, they can accelerate their transition to the as-a-service model while reducing the risk to their software customers.

4: Research, development, and software updates

The as-a-service model enables ISVs to greatly streamline the process of developing and updating applications.

A cloud-based delivery model eliminates the need for massive and costly new software releases every 12 to 18 months. Instead, it enables independent software vendors to make more frequent and regular—and dramatically less costly—updates to features and

functionality. Rather than waiting for big-bang releases, they can accelerate time to market for new features and improvements.

Ideally, as-a-service ISVs will develop and maintain a single version of code for use by all customers. By leveraging highly standardized hosting and applications management capabilities, they can roll out software changes through a single seamless and consistent process. They also will no longer need to develop and test for each and every combination of customer operating system, database, and platform.

By releasing software in real time via the cloud, independent software vendors eliminate the need to support N-1 and beyond releases. Thus, the SaaS model drives measurable reductions in the cost of developing, testing, updating and support applications.

5: Choosing the right cloud provider

As independent software vendors begin the transition toward the as-a-service environment, one of their most critical decisions is the selection of a dependable partner. As discussed in this HPE paper, most ISVs need far more than just a good technical managed cloud platform to successfully evolve away from the perpetual license structure and toward the SaaS model.

Success requires a broad range of strategic business insights and very specific expertise in the emerging as-a-service market. As a baseline, it demands cloud-specific infrastructure and service capabilities. To succeed in an extraordinarily competitive segment, ISVs also may need various go-to-market and applications transformation support.

When evaluating potential cloud providers, independent software vendors should consider these important criteria:

Operational and application expertise

- Advisory and transformation support—such as business insight on managing license-to-perpetual revenue stream changes, application-to-cloud migration services, and assessments of workload preferences

- Proven industry vertical and ISV application expertise, including insight into complex workloads, role management, and application lifecycles

Partner for revenue growth

- A partner that will provide a robust channel, support joint resell, and provide go-to-market support

- A trusted partner that promotes the ISV as-a-service offering and is not biased toward its own solution—plus has limited SaaS offering overlap

Flexible delivery

- Platform-as-a-Service capabilities, supported by application management and monitoring, middleware, and database management services

- A common management platform that enables ISVs to port once to a secure, cost-efficient, and cloud-based environment

- Global end-to-end service and quality capabilities—backed by competitive pricing and terms, and flexible delivery options—that enable independent software vendors to dramatically expand their market reach

Secure cloud

- A reliable, enterprise-grade cloud infrastructure capable of delivering SaaS to meet the needs of independent software vendors and their end customers

- Infrastructure-as-a-Service security and performance with auditable compliance to standards such HIPA, PCI, SOC2, ISO 27001, FedRAMP and regional data center sovereignty, and other security standards

6: Sales, channels, and online marketplaces

Selling SaaS differs from selling software. There is a lower barrier for adoption, providing the independent software vendors the ability to attract new customers and increase sales opportunities. They may need to adjust their sales force and compensation strategies accordingly. The value of each sale will shift from one-time, high-dollar sales to lower-value, annuity-based revenue.

This drives the need for a more cost-effective, go-to-market channel that facilitates many smaller sales deals with shorter sales cycles. An online marketplace can provide such a channel. Back-end billing and invoicing for as-a-service offerings, however, must be considered when building the service, and must align with the ISV's customer relationship management (CRM) systems.

7: Marketing needs

The marketing strategies needed in the SaaS environment differ significantly from those used in the traditional license-based model. With an online storefront, independent software vendors can sell globally and offer support for multiple languages. In the as-a-service environment, they can leverage new partners to open new channel, branding, and joint marketing opportunities.

Companies that have previously marketed only to a domestic customer base must address more global marketing challenges. These cloud-based storefronts will change ordering and provisioning and can greatly accelerate speed to market, for example. They may call for new technical support and collaborative capabilities.

8: Application monitoring and management

For organizations that have historically "built and shipped" software, actually managing enterprise-class applications can be daunting. The good news is independent software vendors can now access a robust set of application monitoring and management solutions and services designed specifically for the as-a-service environment.

Today's lighter-weight monitoring services use advanced methods to measure response times and the overall user experience, identify component-caused issues, and track and understand the overall health of as-a-service products. Remote management systems can be used to administer and operate cloud-based applications, enabling independent software vendors to focus on product development and the release of new features.

Managed solution providers can handle many key tasks for these vendors, including initial setup and onboarding activities and the generation of scripts to define end-user interactions with software. ISVs also can rely on a capable cloud-based partner to manage application service-level agreements, including satisfactory online response times, database access, middleware, and physical infrastructure performance.

A truly capable provider also can help ISVs measure and manage SaaS business-level variables. They include customer application usage, adjusting to the monthly recurring revenue model, and managing customer acquisition costs, churn, and lifetime value. ISVs should be able to view monitoring and management activities on clear, up-to-the-moment executive dashboards.

9: Customer support and relationship management

To realize the full potential of the as-a-service approach, independent software vendors must recognize the fundamental differences between this cloud-based model and the traditional perpetual license environment. SaaS requires ongoing customer support and relationship management, as opposed to traditional license-oriented contacts only at the sale or contract end touchpoints.

In the SaaS model, they must provide a higher level of support, on a global 24x7 basis, and backed by online services, usage monitoring, and other technical capabilities. SaaS requires them to support the integration of their applications into customer back-end systems.

Enterprise SaaS customers will require the independent software vendor to follow IT infrastructure library (ITIL) processes and provide interconnectivity with IT service management (ITSM) systems to handle incident and service request workflows.

10: Investor relations, forecasting, and ongoing business management

For the companies that purchase SaaS solutions from ISVs, these changes translate directly into reduced up-front costs, the lower risk of a reduced infrastructure footprint, and the greater flexibility of a pay-by-the-drink model. Together, those add up to a significantly lower total cost of ownership for those organizations compared to the traditional model of purchasing software from independent software vendors and installing it in their own IT environments.

In many ways, the implications for ISVs are a mirror image of those effects on their customers. For these vendors, the most basic financial implication of the emerging SaaS model is clear: Large upfront license payments will be replaced, some sooner and some later, by smaller but long-term, as-a-service revenue streams.

While independent software vendors must still invest in software research and development in the cloud-based model, they also must acquire application hosting and management capabilities. If they do those things internally, they also take on much of the infrastructure-related risk shed by their enterprise customers. So while total cost of ownership declines for those customers in the SaaS model, it may go up for the independent software vendor.

Those shifts will affect revenue strategies, forecasting, and investor expectations. In the SaaS environment, ISVs will have a limited ability to impact revenue in a quarter, simply because even large deals have limited, short-term revenue implications. There is a very real question as to whether SaaS can achieve the 35 percent to 40 percent long-term operating margins enjoyed by the perpetual software license model.

Based on the current understanding of this evolving SaaS model, many investors are expected to focus on revenues and changes in deferred revenue to estimate total ISV performance in a given quarter. To evaluate true ISV performance in the as-a-service environment, investors also must measure customer acquisition costs, rates of churn, and customer lifetime values.

Work with an experienced partner

As independent software vendors evaluate and undertake the journey toward the as-a-service model, many now recognize the value of working with an experienced and global partner. Hewlett Packard Enterprise offers more than 50 years of application and infrastructure services experience, augmented by secure and reliable cloud capabilities and a proven SaaS go-to-market strategy.

HPE has more than 100 instances of the top-three enterprise applications in the HPE cloud. The company operates 25 applications delivery centers, 23 cloud centers, and employs 50,000 applications experts.

HPE Helion SaaS Accelerator delivers a complete set of services for independent software vendors seeking to migrate, transform, and run their applications in the cloud or in a SaaS model. Built on the highly secure HPE Helion Managed Virtual Private Cloud, this solution offers an as-a-service storefront and billing record-generation tool, advisory and transformation services, application monitoring, and management of applications, middleware, and databases.

While other potential cloud providers also are directly competing with independent software vendors, Hewlett Packard Enterprise offers an experienced and trusted partnership to develop go-to-market strategies, reduce risk for their enterprise customers, and support for ISVs' business success. By collaborating with Hewlett Packard Enterprise, software companies can access the best cloud infrastructure and services solutions— and free themselves to focus on developing more productive and profitable applications.

By working with an experienced and trusted cloud and infrastructure services partner, ISVs will realize greater time to market for their cloud expansion. They also can realize substantial benefits from the software-as-a-service model. Those benefits can include deployment of a stable cloud environment capable of meeting customer SLAs, and the ability to access a broad range of operational and applications expertise.

The SaaS model also enables independent software vendors to leverage online storefronts, partner-based selling, and other revenue-enhancing tools and strategies. Flexible cloud-based delivery models offer secure, global reliability and the freedom to create a custom-tailored solution.

Conclusion

Increasingly, businesses of all kinds expect and demand the simplicity, flexibility, and economy of the as-a-service model.

Independent software vendors now accept the ongoing shift away from perpetual software licenses and toward the SaaS model. That change will drive significant change in how they sell and deliver enterprise software, and the return they gain from those efforts.

The good news is forward-looking vendors are asking the hard questions: when and how to make the transition to the challenging, but promising, cloud-based environment.

For many, the solution can be a comprehensive virtual private cloud—a reliable, scalable, cost-efficient infrastructure and service platform that is ideal for hosting SaaS. Hewlett Packard Enterprise offers unique capabilities in industry expertise and applications in ISV business requirements and the evolving demands of the as-a-service environment.

In the future, business will increasingly consume Software as a Service. By relying on a trusted application and cloud partner, independent software vendors can answer their toughest SaaS questions—then focus exclusively on being a great software company.

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