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Trends Driving the Revolution in SaaS Sales Strategies



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Introduction

Software-as-a-Service (SaaS) is dramatically changing the way software vendors go to market. In the world of on-demand cloud service commerce, traditional sales strategies are quickly becoming obsolete.

For decades, software vendors have relied almost exclusively on the retail model to reach small and medium-sized businesses (SMBs), with retailers buying solutions at wholesale prices and reselling them to customers. For enterprise customers, vendors served their needs with proprietary hosted deployments requiring large-scale custom implementations.

The Channel Takes Center Stage

With the increasing popularity of cloud-based solutions, the traditional retail model is quickly breaking down. Today, customers can go directly to vendors for software solutions, a trend that has spurred the majority of vendors to invest a disproportionate amount into direct sales channels. This strategy, however, presents a major drawback: Direct sales alone simply can't accommodate the massive scaling that SaaS software can drive. SaaS vendors have already started to respond, moving more of their business to the channel. Today, 35 to 45 percent of SaaS software revenue comes from the channel.¹ Given that less than a quarter of B2B SaaS vendors have channel programs, this is a substantial amount.²

KEY TAKEAWAYS

- › The channel is becoming increasingly important to SaaS companies, driving up to 45 percent of revenue.
- › The ability to experiment with different channel models quickly and cost effectively is key to success.
- › Reseller programs can enable significant revenue growth, but creating a program requires advanced tracking, reporting, and management capabilities.
- › Flexible, scalable cloud-based billing systems are essential for SaaS sales.

¹ <http://cloudstrategies.biz/saas-now-revolutionizes-channel/>

² Ibid.



However, SaaS vendors that do have channel programs are becoming increasingly savvy. Of these, 56 percent have referral or affiliate programs, while 43 percent have reseller programs. These vendors have also invested a significant amount of time in their channels, with three years being the average length that their programs have been up and running.³

Despite their rising popularity, SaaS channel strategies can be difficult to plan and implement. According to Gartner, “Defining sales and channel strategies is not a one-size-fits-all proposition; there are many moving parts making the management of a multichannel (direct, indirect, online, and phone) approach complex and sometimes challenging—even for the largest providers.”⁴

The ability to experiment with different distribution channels quickly and cost-effectively is key to finding a successful go-to-market strategy for SaaS. In a recent survey, 100 percent respondents from B2B SaaS companies said they planned to invest more in channel distribution over the next two years. Clearly, now is the time to prioritize your strategy for the channel.⁵

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GARTNER



The Growing Importance of the Reseller Channel

Confronted with an increasing number of choices, cloud service buyers are looking for trusted advisors to simplify the purchase process and make it as cost effective as possible. In fact, 84 percent of customers want an established partner relationship to assist them in the process, and 63 percent want one source for all cloud services.⁶

Resellers are ideally positioned to fill this critical role, but they need to be enabled by SaaS vendors to provide a seamless buying and customer service experience. Without proper training and technical support, four in 10 resellers say customer demand outpaced their capacity to deliver, while almost 20 percent have lost a deal because a customer wanted a cloud solution they could not provision.⁷

On the flipside, streamlining the reseller process—often called partner relationship management (PRM) in industry parlance—can drive significant results. A recent Accenture report found that, “Executed correctly, [PRM] initiatives can potentially

³ Data based on a small AppDirect survey of business application developers taken at the 2015 Small Business Web Summit. Data are not broadly representative of the cloud service industry overall.

⁴ “Sales and Channel Strategy High-Tech Initiative Overview,” Gartner, January 2014

⁵ AppDirect Small Business Web Summit Survey, 2015

⁶ “Successful Cloud Partners: What IT Solution Providers Need To Know To Build High-Performing Cloud Businesses,” IDC, 2014

⁷ Fourth Annual Trends in Cloud Computing, CompTIA, 2013



drive partner support cost savings of 32 percent annually, while increasing revenues by 20-30 percent.”

As cloud-based solutions become more complex, resellers can find themselves managing a wide range of services, from billing, to user management, to customer support, to offering a single point of access, and more. It should come as no surprise then that advanced technology platforms that enable them to do all of these tasks are in high demand. In fact, 43 percent of resellers said tools to manage and maintain an online application store/marketplace are essential, followed by 35 percent who said billing and usage metering for cloud services are critical to success.

Forty-three percent of resellers said tools to manage and maintain an online application store/marketplace are essential, followed by 35 percent who said billing and usage metering are critical.



Given that providing and provisioning cloud services (that is, reselling) is anticipated to have one of the greatest growth potentials in IT over the next two years, now is an ideal time to consider whether a reseller program is right for your business.

Billing: The Foundation of Success

Billing is the backbone of any SaaS sales strategy, whether direct, indirect, or a combination of the two. It should come as no surprise, however, that legacy on-premise billing technology is no match for the new world of cloud- and subscription-based transactions.

Cloud-based billing is growing at a blistering pace. The sector was worth about \$2.4 billion in 2013, a number that is set to grow to a staggering \$9.5 billion by 2018. That jump represents a 32 percent CAGR.

The cloud is also driving a shift to subscription software. In fact, by 2018 it is estimated that 71 percent of consumer spend will be for access, not outright ownership, of products. The “as-a-Service” aspect that defines SaaS means that SaaS software companies are ideally positioned to benefit from this trend. Already, large players are taking advantage of this massive shift. Take, as an example, Microsoft: Office 365—the cloud-based version of the company’s flagship productivity suite, Microsoft Office—is its fastest growing commercial product ever.¹²

⁸ Accenture Partner Relationship Management Quick Start Tool

⁹ Fourth Annual Trends in Cloud Computing, CompTIA, 2013

¹⁰ Markets and Markets, via “Cloud billing: Who is it good for?” TForumInform, August 2014

¹¹ McKinsey Global Media Report, 2014

¹² “Microsoft Office 365 Adoption Takes Off, War With Google Apps Rages On,” CIO.com, January 2015



In general, organizations are moving away from legacy applications and platforms in favor of cloud apps like Microsoft Office 365. According to a recent survey, enterprise customers today run an average of 18 cloud applications. However, that number is expected to nearly triple to 52 applications by 2017.

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In addition to the enterprise app boom, flexible cloud-based billing plays a critical part in enabling vendors to implement reseller programs. Many software vendors believe that it is simply too complex to set up and configure their billing solution to track and share revenue with third parties. In some cases, this is true—many billing solutions can't support reseller capabilities. This is one reason why it is essential to understand a billing technology's full feature set before implementation; ripping and replacing a billing system can be prohibitively expensive and time-consuming.

Without a flexible, scalable billing engine, SaaS vendors will be unprepared for the coming wave of cloud-based applications in the workplace, and the sizable revenue opportunities they will offer. To gain competitive advantage, software developers need to build their products from the ground up at the earliest stage with a billing solution that can adapt to the changing needs as they grow.



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¹³ "Office 365 and Google for Work adoption rates to grow rapidly," CIO.com, June 2015

ABOUT APPDIRECT

AppDirect is the leader in cloud service commerce making software accessible globally. The AppDirect Cloud Service Commerce Platform unites providers, developers and consumers of cloud services into a single ecosystem. This makes it easy for businesses to find, buy, and manage cloud services from a central location and delivers new opportunities to distribute, sell, and market cloud services.

AppDirect-powered marketplaces, billing and distribution, and reselling services help providers—including Telstra, ADP, Samsung, Deutsche Telekom, Cloud Foundry, Rackspace, and others—connect millions of businesses to solutions from Google, Box, DocuSign, Intel Security, and more.

For more information contact info@appdirect.com or visit www.appdirect.com.

650 California Street, 25th Floor
San Francisco, CA 94108
(877) 404-2777

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