



WHITE PAPER

# The Software Sales Balancing Act

Five Ways to Sell More  
in the On-Demand World



# The Software Sales Balancing Act

## Five Ways to Sell More in the On-Demand World



WHITE PAPER

### Introduction

The Software-as-a-Service model has delivered a range of incredible advantages to the market, from lower upfront costs, to ease of accessibility, to an explosion of SaaS services that can solve a seemingly endless number of business pain points.

Despite these benefits, traditional software distribution channels have failed to keep pace with on-demand and subscription-based delivery models, a fact that has led to a fragmentation in monetization strategies.

The data are clear: In the previous world of on-premise licensed-based software, 70 percent of software sales were channel based. Today, only 23 percent of SaaS sales go through a channel. Similarly, 80 percent of on-premise software vendors operate a channel program to enable other companies to sell their products, while only 20 percent of SaaS vendors operate the same model.<sup>1</sup>

Modern software vendors are neglecting indirect sales channels in favor of highly expensive and limited direct sales models. It's not hard to see why: Many of these vendors lack the tools and technology needed to support a balanced distribution approach that includes indirect sales strategies.

To complicate the issue, history shows there is no "silver bullet" to solving the challenges surrounding SaaS sales and distribution. Each company is unique and will have different needs at different stages of growth. In short, there is no be-all, end-all way to monetize software; this makes experimentation critical to identifying the right route to market.

### DISCUSSION AREAS

- › Direct Sales: Self-Service Commerce and Sales Teams
- › Affiliates and Referral Programs
- › Reseller Programs
- › Listing in Application Marketplaces
- › Building an Application Marketplace
- › Building In-House Solutions vs. Working with a Provider

1 "SaaS Now Revolutionizes the Channel," Sand Hill, April 2014



However, experimentation with different sales models often comes with high costs and risks. Which model is right for your organization? How much should you be investing in these models to get your product to market? Should you build technology to support your efforts or work with a vendor?

This white paper discusses approaches to these questions and more. It explores the five distribution strategies that have proven to accelerate growth for the most successful software companies, and also describes how they have increased customer reach while minimizing cost of customer acquisition. In addition, the paper examines the question of building a marketplace solution in-house, as opposed to working with a technology provider.



WHITE PAPER

## One: Direct Sales — Self-Service Commerce and Sales Teams

Due to its low cost of customer acquisition and scalable framework, self-service commerce has emerged as the most heavily adopted SaaS distribution mechanism. In fact, almost 90 percent of SaaS vendors are utilizing self-service commerce—including free trials and self-service purchases—or a direct sales team to get their product to market.

An overwhelming majority of SaaS vendors are using this model, most likely because the business case seems very straightforward; if you have a product, selling it yourself directly to customers makes sense. It can also be incredibly effective. Take Zendesk, for example: Fresh off a recent IPO, the popular SaaS-based customer support company currently serves over 50,000 customers, all of which came through either their direct sales teams or self-serve signups.<sup>2</sup>

If implemented correctly, a direct sales strategy can prove to be one of the most scalable monetization models available. However, it does present its own challenges. Many SaaS organizations, for example, will select a billing engine that is only relevant for their current stage of maturity. As such, SaaS vendors are forced to transition to a heavier-grade billing engine that offers more flexibility once they reach a certain stage of growth. A more robust billing engine enables these vendors to experiment with different channel models, create multiple pricing plans with upgrade paths, or expand internationally.

However, the jump from a “startup” billing engine to a “growth-stage” billing engine often carries a high price; a full-scale “rip and replace” can take months of engineering and operations time, not to mention the distraction to the overall business. Often, the cost is simply too much, in both time and dollars, to warrant a transition, so vendors are stuck with inflexible systems that cannot grow with

*The jump from a “startup” billing engine to a “growth-stage” billing engine often carries a high price; a full-scale “rip and replace” can take months of engineering and operations time, not to mention the distraction to the overall business.*

<sup>2</sup> [United States Securities and Exchange Commission, Form S-1 Registration Statement, April 2014](#)



them. For this reason, the choice of which billing engine to use is one of the most critical that a SaaS vendor needs to make.

## Two: Affiliates and Referral Programs

Just over half of SaaS vendors, 56 percent, currently operate an affiliate or referral program, making them another popular sales model.<sup>3</sup> There are a few basic types of these programs: In one, customers refer others to a product for some form of incentive; in the other, vendors establish formal relationships with affiliate partners who direct qualified leads to the vendors' websites or products, once again in exchange for an incentive.



WHITE PAPER

One of the strongest examples of a successful referral program is Dropbox. The cloud storage company encourages users to invite a friend to join in exchange for 500MB of free storage. This program famously helped Dropbox grow from 100,000 registered users to 4 million registered users in just 15 months, a jump that represents a staggering 1,950 percent year-over-year growth rate.<sup>4</sup>

Another common referral strategy is based on the use of affiliates who share leads with an organization in exchange for a portion of revenue or a one-time payment. For example, online store platform Shopify operates one of the most successful SaaS affiliate programs, paying out \$2.3 million in referral fees in 2013 and \$1.1 million in 2012. Given that affiliates accounted for roughly 23 percent of Shopify's revenue in those years, its program can be considered a runaway success.<sup>5</sup>

Unfortunately, these success stories don't provide a description of all of the heavy lifting and complex backend processing needed to build and operate these types of programs at scale. To create these programs, Dropbox and Shopify needed to divert valuable engineering resources to developing in-house solutions, and their teams were forced to build capabilities that are outside of their core competencies. Partner onboarding, lead registration and tracking, incentive payout configuration, payment reconciliation and remittance—all of these features required significant risk to build out from scratch.

Affiliate and referral programs are a very popular first-step into indirect channel sales because they can help companies expand reach at a relatively low cost (provided a company has a solid funnel for lead conversion already in place). However, to avoid the risks of in-house development, the majority of vendors will need to find a solution that allows them to build out and experiment with this model in a cost-effective way.

3 AppDirect Small Business Web Summit Survey, 2015

4 [Dropbox: Startup Lessons Learned, 2010](#)

5 [United States Securities and Exchange Commission, Form F-1 Registration Statement, April 2015](#)



## Three: Reseller Programs

Reseller programs are one of the most attractive channel initiatives for SaaS vendors, since they can generate revenue at incredibly low margins. Moreover, when partners are doing the heavy lifting and selling products for a company, that company can focus on what matters: innovating and building software. For this reason, a large portion of SaaS vendors, 44 percent, operate some form of reseller program.

Xero, a SaaS-based accounting solution, provides one of the best examples of a company creating a successful reseller program. In 2009, Xero acquired 12,000 customers solely through traditional direct sales and self-service efforts.<sup>6</sup>

After evaluating strategies to rapidly accelerate growth, the company decided to take a risk and build a new go-to-market approach that utilized resellers.

In this scenario, accountants who used Xero would become resellers of the product, offering the solution—paired with their accounting expertise—to their customers. In what proved to be a very wise move, Xero led a campaign through telemarketers to engage nearly 2,000 accounting firms in New Zealand to educate them about the value of cloud computing and the use of Xero as a tool to augment their accounting services. In just three years, Xero grew from 12,000 customers to 135,000, 60 percent of which were acquired through its reseller program.<sup>7</sup> Today, Xero has more than 540,000 users, which is a testament to the ongoing success of its sales strategies.

Similar to other channel programs, building a reseller program is no easy feat. From a technical perspective, vendors need to overcome significant engineering hurdles, such as architecting a reseller role into their backend systems that is capable of spinning up new user accounts, managing seats and licensing, and facilitating payment reconciliation. In addition, SaaS vendors need a deal registration mechanism to help ensure resellers are not cannibalizing their own sales teams' accounts.

From a business standpoint, vendors also need to build a certification program and onboarding process for partners, as well as to track payments across the program. This includes invoicing partners for their portion of revenue based on incentive models assigned to them by the vendor. Overall, these technical and business challenges can quickly add up to a situation where the cost and risk associated with implementing a reseller program seem to outweigh the benefits. Once again, finding a flexible solution that accommodates the complex nature of a reseller program is critical.



6 "Operating update," Xero Blog, 2009

7 "How Xero Added 120,000 Customers in Three Years," Digital First, 2013



## Four: Listing in Application Marketplaces

First widely used in the consumer space, application marketplaces are a popular way to distribute SaaS software, with 68 percent of SaaS vendors using this channel to sell their products.<sup>8</sup> In the SaaS sector, three main types of app marketplaces have emerged over the last decade, and it is important for vendors to select the marketplace type that best maps to their distribution goals. The three types include:

*In the SaaS sector, three main types of app marketplaces have emerged over the last decade, and it is important for vendors to select the marketplace type that best maps to their distribution goals.*

### APP DIRECTORIES

This type is most often used by an independent organization that wants to drive traffic or leads to various SaaS vendors. This strategy is very similar to the referral / affiliate model described above; however, a directory uses a marketplace-like listing as the primary driver of traffic to off-site vendors.

App directory providers will typically monetize by offering temporary marketing campaigns that include placing products on a featured portion of their marketplaces, such as the main page. Onboarding into an app directory typically requires that a vendor to upload marketing assets and create an app profile. Examples of this model include GetApp.com and Capterra.

### ADD-ON STORES

With the recent explosion of open APIs, add-on stores have become a very popular way to feature services that have been built on top of a SaaS platform. Add-on stores also provide a powerful way to incentivize adoption of an API by developers and end users.

A strong example of a successful add-on store is the Atlassian Marketplace. A SaaS-based project management and messaging company, Atlassian launched its marketplace in 2012 with 1,000 integrations to third-party services. Since then, Atlassian has onboarded about 1,700 add-ons and processed over \$30 million in transaction volume in 2014 alone.<sup>9</sup>

Listing in add-on marketplaces will typically require an integration with the SaaS provider's API in order to build an "add-on" to its platform. Once integrated, vendors will be required to onboard their add-ons by uploading marketing content and creating an app profile on their listing.

### FULL-SERVICE MARKETPLACES

Instead of just offering a "connector" to a third-party SaaS product, full-service marketplaces also offer the product itself. In other words, full-service marketplaces



WHITE PAPER

<sup>8</sup> AppDirect Small Business Web Summit Survey, 2015

<sup>9</sup> "Atlassian Posts Another Banner Year With 44% Revenue Growth," Press Release, September 10, 2014



enable visitors to create new subscriptions to third-party applications without having to leave the marketplace and sign up elsewhere.

These marketplaces can be very powerful because they allow users to buy a service immediately from providers they already know and trust. For example, ADP, the world's largest cloud-based payroll company, launched a full-service marketplace to utilize its latest API and extend the power of its platform through third-party plugins and services. In addition to enabling users to purchase integrated solutions, ADP allows users to purchase complementary SaaS products using their ADP identity and bill. By providing this unified experience, ADP gives other SaaS vendors access to millions of its customers while strengthening the overall value proposition of its platform.



WHITE PAPER

Listing in full-service marketplaces requires a commitment to integrate with the marketplace provider. This can be an issue when a SaaS vendor is interested in distributing through multiple marketplaces. Since each marketplace provider will typically require its own proprietary integration, having to dedicate engineering resources to each integration can prove to be extremely costly in the long run.

## Five: Building an Application Marketplace

Lastly, some SaaS vendors have decided to go one step further and launch their own app marketplaces. Currently, 31 percent of SaaS vendors operate their own marketplaces.<sup>10</sup> While some work with third-party providers that offer powerful out-of-the-box features, other SaaS companies decide to try and build marketplace capabilities from the ground up.

There are two major areas associated with building an app marketplace that present serious challenges: 1) technical development, and 2) program management. From a technical standpoint, best practice marketplaces require four major technology capabilities:

*Some SaaS vendors have decided to go one step further and launch their own app marketplaces. Currently, 31 percent of SaaS vendors operate their own marketplaces.*

### CATALOG DISCOVERY

Users cannot procure any product through a marketplace without the ability to find the solutions they need. Search, category navigation, comparison modules, ratings and reviews, recommendations, and product profiles with robust marketing resources, among many others, are all tools and technology that a vendor should offer to create a positive discovery experience.

You'll also need to consider the backend administration for managing your catalog on an ongoing basis, including self-serve onboarding for your partners as well as a management system to feature, categorize, and manage this content on your site.



## SUBSCRIPTION BILLING AND PAYMENT MANAGEMENT

Full-service marketplaces allow customers to purchase products through a checkout flow on the marketplace site. Since multiple parties share in revenue associated with each sale, billing and payments can become very complicated, very fast. A flexible system that can accommodate subscription billing and payment management is key to success.

Factors to consider include enabling multiple payment methods, self-service account administration for users, reconciling payment with third-party marketplace partners, and PCI security compliance—all of which require a heavy investment in technology.



WHITE PAPER

## IDENTITY AND ACCESS MANAGEMENT

More often than not, businesses purchase software solutions for multiple users—20 seats of Microsoft Office 365, for example. Given this, it is critical for marketplaces to offer tools that help administrators manage access rights and group privileges for their companies. Many employees access apps on their mobile devices, so imagine if you didn't have an interface to show a list of applications that you had purchased from a marketplace. Forcing users to navigate outside of the marketplace platform to manage their services would be create a suboptimal user experience that is a confusing hassle.

## DATA AND INSIGHTS

Which consumption benchmarks should you be tracking?  
How healthy is your marketplace conversion funnel?  
How happy are your customers? Launching a marketplace involves a daunting array of moving parts that must be tracked and monitored to optimize performance and customer satisfaction. Understanding which tools to use in conjunction with your marketplace, or choosing a platform with built-in data management, will help ensure you're making educated decisions and accurately measuring success.

*Understanding which tools to use in conjunction with your marketplace, or choosing a platform with built-in data management, will help ensure you're making educated decisions and accurately measuring success.*

## PROGRAM MANAGEMENT

Successful marketplace management involves far more than just technical aspects. Most thriving marketplaces have dedicated staff that are responsible for marketplace administration.





Make sure you are prepared to hire or appoint at least one member of your team to serve as a program manager for your marketplace. Areas of ownership for a role like this include:

- > Partner recruiting and onboarding
- > Community management
- > Customer service
- > Catalog merchandising (featuring services, discounts and promotions, etc.)

## Conclusion



WHITE PAPER

The software distribution and monetization landscape has been permanently transformed. Due to the complexities of subscription billing and on-demand service delivery, today's software vendors must experiment with multiple go-to-market models to find the right path toward success. While there is no silver-bullet distribution strategy, the various examples outlined in this white paper can serve to guide your efforts as you implement new growth initiatives.

With its leading cloud commerce platform, AppDirect has helped thousands of software vendors accelerate sales more effectively and at lower cost than previously possible. The AppDirect Monetization Suite includes marketplace, billing, distribution, and reseller solutions, and provides all of the features and functionalities your company needs to be successful at any stage of growth. Whether you're a global brand or new startup, AppDirect is your go-to partner to enable you to sell and distribute software.

## 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](mailto:info@appdirect.com) or visit [www.appdirect.com](http://www.appdirect.com).

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

Copyright © 2015 AppDirect Inc.