

Managing at Cloud Speed:

What ISVs Need to Know and Change In Moving to The Cloud

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About This Report

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About Saugatuck Technology

Saugatuck Technology Inc. provides subscription research and management consulting services focused on the key market trends and disruptive technologies driving change in enterprise IT, including SaaS, Cloud Infrastructure, Open Source and Enterprise Social Computing.

Founded in 1999, Saugatuck is headquartered in Westport, CT, with offices in Boston, Santa Clara, CA and Frankfurt, Germany. For more information, please visit www.saugatech.com, or call +1.203.454.3900.

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The Cloud is forcing independent software vendors (ISVs) into and through potentially wrenching business challenges. How software is developed, bought, sold, paid for, and used is changing, which in turn reshapes every aspect of the traditional independent software vendor (ISVs), from organizations to technologies to ecosystems and operations.

The keys to succeeding and thriving in this new business environment will be your firm's ability to recognize and manage key challenges.

The good news is that it can be done. Thousands of ISVs have made or are making the transition. Since 2005, Cloud IT strategist firm Saugatuck Technology has helped almost 200 ISVs begin or complete the transition to Cloud speed.

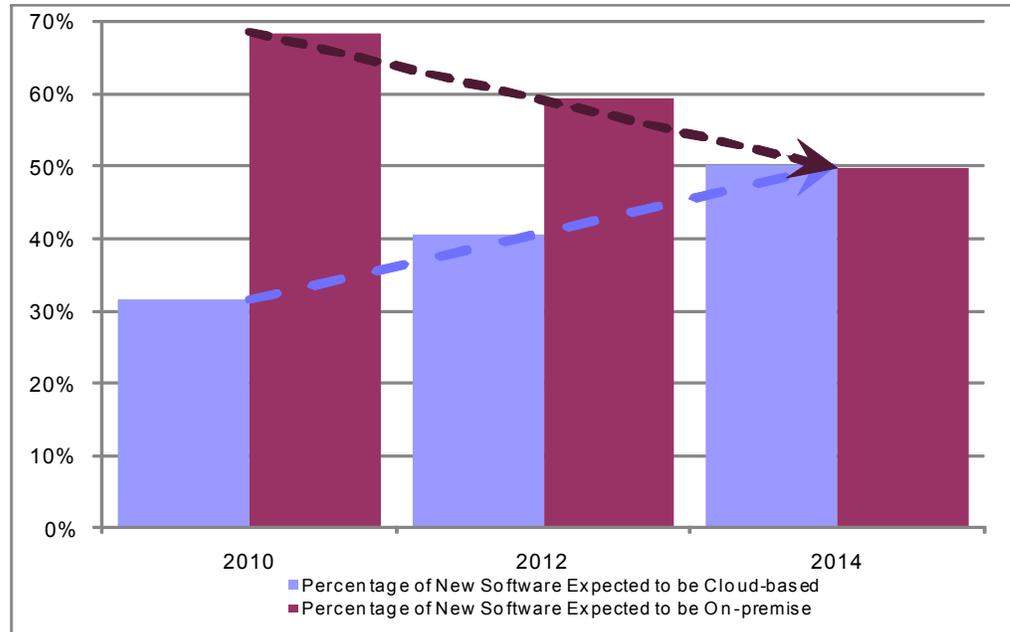
This paper uses the latest global research by Saugatuck to examine the kinds of change this brings to how software vendors do business. We will identify three key areas of change that must be understood, investigate the critical challenges that software firms face in these, and present our recommendations as to how these challenges can and should be managed.

For software buyers, users, developers, and providers, the question is no longer whether or when to incorporate the Cloud into your business. The question today is how to do it – and how to manage it at Cloud Speed.

WHAT'S THE TIMEFRAME FOR CLOUD TRANSITION?

Saugatuck research indicates that we have less than 5 years before the balance of software presence (and resulting influence of SaaS providers vs. traditional ISVs) begins to tip, as seen in Figure 1 below.

Figure 1: Cloud-based Software = Half of All New Software by YE 2014



Source: Saugatuck Technology Inc., 2010 global SaaS survey; n = 790

What we see is that the majority of new software purchases by all types and sizes of user firms worldwide will be Cloud-based (i.e., SaaS) by YE 2014. We can expect an earlier tipping point in emerging industrial and commercial markets that



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have less established traditional software (e.g., China, India, Brazil), and in markets that have more widespread availability of inexpensive broadband networking (e.g., US, UK, central and northern Europe).

Meanwhile, our work with ISVs of all types, sizes, and business models indicates that ***it takes between 24 and 36 months to transition a typical ISV business to a Cloud-based model. This means that there is not a lot of time remaining to adjust every core aspect of your existing business, and it is a very limited time in which to build a thriving and competitive new line of software business.***

WHAT IS CLOUD SPEED? CONSTANT INNOVATION, CONSTANT MANAGEMENT

When it comes to the software business, “Cloud Speed” is less an actual speed, and more a condition of constant responsiveness to markets, customers, partners, and all other aspects of an ISV’s ecosystems.

In this environment, solutions are acquired and deployed more rapidly, payback is achieved more rapidly, and ongoing enhancements are implemented more rapidly, with the net effect being a more fluid environment for the buyer, the user, and the provider.

For ISVs especially, moving at Cloud Speed requires significantly improved and changed abilities to manage all aspects of the business, because customers’ expectations are constantly rising, while competitors are constantly innovating to build and maintain market advantages.

MANAGING CHANGE TO IMPROVE YOUR SPEED

The transition to Cloud-based business and technology models changes the entire ISV business - and must be done while managing existing technologies, partners, customers, users, and especially revenue streams.

How can you manage such a broad and deep range of change? First understand areas of greatest change; second, learn how to manage change to minimize disruption for the business.

At the heart of any SaaS company are Technology, Organization, and Operations. What’s different in moving from the on-premise company to the SaaS company? How does “Moving at Cloud Speed” manifest itself here?

This section, including Figure 2 on the following page, presents these three key areas of business challenge facing ISVs in their transition to the Cloud.

Technology Challenges

Your solution architecture is obviously important. Depending on which path you take to the Cloud (virtualization, single tenancy, multi-tenancy and/or combinations of these), the Cloud technology platform you select should position you to respond to change, and quickly. In the near term, many organizations err in choosing a solution that may get them to the Cloud quickly, but prevent them from responding at Cloud Speed. Single-tenant and virtualization-based solutions may deliver a billable solution in less than eighteen months, but the cost and time involved in implementing enhancements – a more transparent user interface, ongoing performance enhancements, real-time integration APIs, user-driven customization, for instance – in order to keep pace with competition will certainly be more expensive than a multi-tenant solution and, in many cases, simply impossible.



Figure 2: Understanding SaaS Challenges at Cloud Speed

<i>Areas of ISV-to-Cloud Change</i>	<i>Key Management Challenges</i>
Technology	<ul style="list-style-type: none"> • Technology strategy formulation and management • Architecture/platform selection and exploitation • Solution Quality • Infrastructure selection and implementation • Ongoing R&D management • Integration and customization
Organization	<ul style="list-style-type: none"> • Organization transition plan • New financial models • Marketing – position, messaging and value proposition • Sales model and compensation • Partnering strategy • Migrating existing customers • Distribution channels
Operations	<ul style="list-style-type: none"> • Security • Service levels • Customer Support • Back up & recovery • Operational metrics • Initial functional requirements and ongoing enhancements • Monetization

Source: Saugatuck Technology Inc.,

SaaS buyers we have polled over the past six years seem not to care at all, or very much about multi-tenancy at the root of a Cloud solution, so the decision here is not designed to drive customer demand. On the other hand, Cloud providers with multi-tenant solutions are more responsive and show a lower cost of operations, driving higher profits to the bottom line. In a Saugatuck case study on Concur, one of the real Cloud transition successes, CEO Steve Singh noted the following advantages to multi-tenancy:

- Ability to upgrade the service with new features without impact to the core technology stack.
- Ability to offer opt-in features to customers (and cost-effective free trials).
- Ability to do low cost provisioning and minimize overhead costs.
- Ability to integrate with services on the other side of the firewall (within the customer’s premises).
- Ability to analyze which elements of the application are being used (or not used) and provide feedback to customers based on real usage.
- Ability to deploy the application with no training required.



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Given the superior advantages of multi-tenancy, consider whether to implement a single-tenant or virtualized solution as a temporary solution, while preparing a multi-tenant platform solution behind the scenes.

But Moving at Cloud Speed for an ISV in transition goes well beyond the solution platform architecture to include R&D management for innovation and efficiency, solution development and enhancement, extending solution customization capability and the ease of integration with other Cloud and on-premise solutions. Performance, too, and the reliability and robustness of the ISV's Cloud solution figure in here and in a big way.

Key challenges to manage: Technology strategy formulation and management, Architecture/platform selection and exploitation, Solution Quality, Infrastructure selection and implementation, Ongoing R&D management, Integration and customization

Buyer Expectations to manage: Ease of Use, Performance over Features, Ease of Integration, Customization Capability

Organizational Challenges

Moving to the Cloud affects every aspect of an ISV's organization, from management practices to Finance to Sales to customer support. For example: The entire sales skill set, process, and compensation plan will need to change as you move from selling and supporting a software product to software as a service.

It's more than Sales, of course. Many ISVs moving to the Cloud have found it necessary to create a separate organization, involving not just direct sales, but also channel management, customer support, partner management, and R&D and IT that reports up to the CEO, separate from the legacy organization. Hybrid organizations with both Cloud and on-premise offerings, face special challenges, as Cloud buyer expectations are far more elevated.

As Saugatuck noted in its case study on Kadient (formerly Pragmatech), the re-branded Cloud company Kadient found it necessary to spin out their on-premise offerings under a subsidiary in order to create separate organizations responsive to different user expectations. Migrating existing customers to the new Cloud offerings was managed in a three step process:

- Segment the on-premise customer base and identify those who are most likely to migrate to the new platform
- Offer pricing incentives to motivate customers who may or may not move, and
- Help them plan when and how to do the migration

Sales compensation also had to be managed entirely differently for the Cloud, as commissions on recurring revenue streams from Cloud solutions required a very different approach than for commissions on the large up-front license agreements for the on-premise sales organization.

Another key difference is the increased customer intimacy in the Cloud, something often unanticipated by on-premise vendors that migrate. For point-of-sale vendor POSitive, for instance, the move to the Cloud proved to be a much more proactive and intimate experience with customers in more frequent communications on a first-name basis. Culturally, there are significant changes in customer expectations that the organization must be prepared not only to accommodate, but encourage. The goals and performance objectives of the Cloud organization must be tuned to Cloud



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Speed, managed at Cloud Speed and rewarded accordingly.

Key challenges to manage: Organization transition plan, managing sales and marketing sales compensation, partnering strategy, migrating existing customers, managing customers and partners, distribution channels for value-added services

Buyer Expectations to manage: Accountable, Responsive Sales and Customer Support

Operational Challenges

The SaaS/Cloud world requires a different kind of business model – a service vs. a product model of operation. At its foundations, a Cloud solution is a promise to the customer to deliver superior functionality, predictably and responsively. It is not just secure, robust and dependable. It is about service excellence in all aspects that touch the customer. That includes service levels and service level transparency, the availability of operational metrics, and billing capability that provide the customer with data, inquiry capability and dashboards for intuitive understanding. Because profitability is in part based on the length and increasing depth of the customer relationship, retention-oriented practices are strongly recommended.

The inward-facing functions must also move at Cloud Speed to enable the solutions management and support organizations to manage their customers proactively, before complaints have a chance to appear. Another key to profitability is improved efficiency, as the experiences of Concur and other successful Cloud companies have validated. In interviews with these successful Cloud companies, we have been told time and again that the R&D function has an inward-facing responsibility to provide greater efficiencies and enable, via lower cost of operations, steadily increasing profit margins.

The key to success in a transaction-intensive Cloud business is to constantly reduce unit costs. Not only does this expand margins for current customers but also for future customers as well. This means you have to leverage technology in order to scale. If you have to leverage people to scale then you cannot reduce costs. At least 50 percent of R&D spending at Concur, for example, is focused on operational improvements (e.g., decreasing customer on-boarding time, or making system updates with less customer disruption).

Most ISVs have no experience with either the customer-facing or the inward-facing service responsibilities of the Cloud provider. This is an entirely new set of competencies that an ISV moving to the Cloud must acquire and improve to be competitive. Moreover, the explosive growth of this market makes finding the experience and expertise to develop and manage these capabilities must be a very high priority, if an ISV is to make the transition to Moving at Cloud Speed.

Key challenges to manage: Security, service levels, back up & recovery, operational metrics, initial functional requirements and ongoing enhancements, facilities to automate and efficiently “manage” the processes required for a SaaS business, and service excellence

Buyer Expectations to manage: Secure, Robust Services, Verifiable Service Level Agreements (SLAs)



THE NEED FOR PARTNERS

One critical lesson that we have learned in working with ISVs is that no one can get up to Cloud speed efficiently and effectively by themselves. Even global market leaders as IBM, Microsoft, Oracle, and SAP are bringing in partners to help with their own transitions.

Partners can help in many ways. They can take on the stuff you need to do, but aren't expert in, or they can provide you with technology platforms to enable you to drive your core value better than you could by building it yourself. Figure 3 below lists typical areas where partnering helps to reduce the costs and the time needed to shift an ISV's business into Cloud Speed.

Figure 3: ISV Partner Value Propositions for Shifting to Cloud Speed

<i>Areas of ISV-to-Cloud Change</i>	<i>Typical Partner Value Propositions</i>
Technology	<ul style="list-style-type: none"> • Strategy formulation and management • Architecture/platform selection and exploitation • Solution development / porting to Cloud • Infrastructure selection and implementation • Ongoing R&D management • Providing /enhancing integration and customization
Organizational	<ul style="list-style-type: none"> • Financial/business model consulting services • Organizational design and transition planning • Business transformation services • Compensation design, management, and services • Sales and sales compensation strategy • Migration plan for existing customers • Ongoing management of customers and partners • Channel program development • Developing channels for value-added services
Operations	<ul style="list-style-type: none"> • Sales and marketing management • Channel program management • Customer service management • Professional services management • Service excellence culture • Service level management • Security and privacy • Back up & recovery • Operational metrics • Subscription billing and payments

Source: Saugatuck Technology Inc.,

Technology. Many of the technological needs for partners stem from the need to re-architect and innovate. To be competitive in most markets, Cloud solutions must be architected to take advantage of the cost and technological benefits of multi-tenancy. Most ISVs moving to the Cloud lack at least some technological re-



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sources to adapt, re-design, or re-architect their existing offerings and supporting tools and systems. And given that Cloud competitiveness requires constant, cost-effective innovation, practically all software vendors will need significant technological help from partners such as PaaS providers just to stay in the game.

Key areas where ISVs need Technology help in migrating to the Cloud include:

- Strategy formulation and management
- Architectural selection and exploitation
- Solution development / porting to Cloud
- Infrastructure selection and implementation
- Ongoing R&D management
- Providing / enhancing integration and customization

Bear in mind: your Cloud customers will value ease of use and performance over features, ease of integration and customization capability .

Organization. The Cloud requires not just technological speed and innovation, but an organization that promotes and enables business speed and efficiency as well. Remember: Cloud-based software and services is a new kind of business. This means new or improved financial and business models, organizational design and business transformation, compensation design, especially for the sales and customer service organizations, customer migration and management and channel development.

It is critical to understand that customers will interact directly with your firm every day that they use your software. So to be competitive, your firm must promote customer intimacy, whether through responsive sales and customer support, through user communities, or through other means. This may mean building, rebuilding, or outsourcing of sales and/or support functions, as well as partnering with training firms or organizational consultants to help create and then manage customer communities.

Typical ISV needs for partners span the entire range of organizational functions:

- Financial/business model consulting services
- Organizational design and transition planning
- Business transformation services
- Compensation design and services
- Sales and sales compensation strategy
- Migration plan for existing customers
- Ongoing management of customers and partners
- Channel program development
- Developing channels for value-added services

Bear in mind: your Cloud customers will especially value accountable, responsive customer sales and support.

Operations. To be competitive, Cloud ISVs need a culture and mantra of “service excellence” inextricably woven into how the company operates. The capabilities required to enable this and translate it to daily operations (such as service level management, security and privacy, backup and recovery, operational metrics and



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subscription billing and payments) are outside the experience and expertise of most, if not all ISVs moving to the Cloud. Partnering with consultants and proven providers of services such as, in particular, licensing management or billing and payments is the only reliable way to acquire this expertise. Cloud ISVs can ill afford to dedicate limited resources to areas such as licensing management, which are not areas of strength, and do not directly contribute to revenue.

Typical areas that ISVs require partners for this include:

- Sales and marketing management
- Channel program management
- Customer service management
- Professional services management
- Service excellence culture
- Service level management
- Security and privacy
- Back up & recovery
- Operational metrics
- Subscription billing and payments

Bear in mind: your Cloud customers will especially value secure, robust solutions and verifiable Service Level Agreements (SLAs).

NET IMPACT: CHANGE AND PARTNER TO MAKE CHANGE WORK

As we noted at the beginning of this paper, ISVs today have a three- to five-year window of opportunity before a majority of software buyer demand shifts to Cloud-based solutions. Given a typical two- to three-year migration for most ISVs to SaaS/Cloud-based business models, ***there is not much time remaining to adjust every core aspect of your existing business.***

The good news is that it can be done, and is being done, by small and large ISVs around the world. The keys to success are planning, understanding the scope of change, and making the right choices in what can and should be done in-house versus what you will need to partner for.

Identify what needs to be managed in all three critical areas – Organizational, Technology, and Operational – and how each should be changed. Then determine the best way to manage, using our guidelines provided earlier in this paper. Be open to new ways of managing – and to partnering with firms that cost-effectively provide your firm with advantageous solutions, even in areas that you currently provide for yourself. There are clear benefits from partnering:

- Lower costs: Don't spend unnecessary resources getting up to Cloud Speed.
- Better solutions: Get the best the market has to offer in terms of expertise, experience and innovation.
- Faster results: Don't waste precious time, while others move past you.

The bottom line? ***To get up to Cloud Speed, take advantage of others already moving at Cloud Speed.***



SPONSOR PERSPECTIVE:

SafeNet Sentinel® Cloud Services*The Key to Achieving Software Monetization in the Cloud*

While the future of software delivery is clear, the path to software monetization in the cloud becomes foggy for service providers and established software publishers alike. While delivering software as a service opens many doors for software vendors, it also presents a new set of access control, operations, data collection, and business agility challenges.

As early adopters of SaaS have realized, it is not easy to find the right catalog segmentation, feature bundling, and pricing models in the cloud. It takes time, experimentation, and most importantly service catalog flexibility. As with traditional software consumption, ensuring user compliance with the terms of a service agreement is critical to profitability.

Before SaaS, data collection was a premium feature of most software licensing and entitlement management systems, used to forecast trends and make informed business decisions. In the cloud, usage data is not only used for business intelligence but is vital for supporting business critical processes such as billing, therefore, it is essential that cloud service providers are able to easily track, organize, and report on service usage.

SafeNet's Sentinel® Cloud Services bring the company's more than 25 years of experience in software protection, licensing, and entitlement management to cloud, enabling software monetization of applications delivered to a work station, embedded within hardware or hosted as a service in the cloud.

Sentinel Cloud Services

- Easily design feature-level authorization into your business models
- Automatically provision and manage end-user service agreements
- Guarantee end-user service agreement compliance
- Support billing processes and gain instant insight with usage tracking and reporting
- Quickly adapt service pricing and bundling strategies without re-engineering

Sentinel Cloud Services are currently in beta. Please visit www.sentinelcloud.com today to apply.

And our Cloud Service Monetization specialists are available at any time via email, at: SaaS@safenet-inc.com

To learn more about SafeNet's complete portfolio of Sentinel Software Monetization solutions visit www.safenet-inc.com/sentinel





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