TATA CONSULTANCY SERVICES

Redesigning the Value Chain of SaaS Companies

Abstract

Independent software vendors (ISV) are rapidly evolving to adopt Software-as-a-Service (SaaS) as a core product strategy and scale up to meet market demands. This requires them to radically alter their value chains for a smooth transition to the SaaS model.

SaaS Introduces Fundamental Changes

The software space has experienced a fundamental change from one-time license pricing to over-a-period deferred spends. As a result, the global SaaS market, which was valued at $23.88 billion in 2014 is expected to reach $164.29 billion by 2022.[1]

With SaaS products in areas such as customer relationship management, human resource management, and service management gaining in popularity, traditional ISVs need to reinvent and transform themselves to develop and deliver software as point solutions and services, rather than traditional packaged products.

How SaaS-enabled ISVs Differ

The SaaS-based product value chain differs significantly from its typical license-based counterpart.

Inbound activities

While inbound activities remain focused on product vision and research, the emphasis is more on selecting the development platforms and software. Products can either be developed on Platform-as-a-Service (PaaS) offerings or built from scratch. Decisions related to infrastructure, platforms, and software tend to vary based on product strategies.

Operations

Activities such as product development add a new dimension to preparing the core team for continuous product release and deployments, with Agile and DevOps gaining prominence. Further, since products need to be designed for the SaaS model, there is additional focus on measuring product usage, integration with IT systems, analytics, API architecture, and support and services requirements.

Outbound logistics

The outbound and logistics pillar for the SaaS-based product value chain is the primary differentiator. The type of subscription is a critical factor that enables product functionality access to the end user. Customer onboarding processes play an important role in enterprise product delivery. This pillar also adds activities relevant to platform integration, with IT systems running the business.

Sales and marketing

Instead of retail, online selling is the primary sales channel in the SaaS value chain. Usage-based billing adds additional

scenarios to create compelling value propositions for customers since they need not pay for the software as a whole, but only when it is used. Analytics plays a much larger role in the success of the SaaS model. With recurring revenue being their lifeline, customer retention is a critical parameter for SaaS-based product businesses. Analytics techniques are deeply integrated into products to measure and improve customer engagement, product quality, sales and marketing effectiveness, and product support services.

Service

Product service and support in SaaS are tagged to subscriptions and requires additional customer provisioning and onboarding, tenant customization, billing and subscription management, and product function support. The IT function needs to implement new systems or modify existing systems to adapt to changes in licensing, billing, procurement, payments, sales and marketing, and customer relationship management.

	Traditional ISVs	**SaaS ISVs**
Product management	▪ Long-term execution plan ▪ Periodic customer feedback	▪ Frequent releases ▪ Continuous feedback loop to capture real-time customer sentiments
Product development and testing	▪ Agile or Waterfall development models ▪ IT systems independent of product team	▪ Agile development, continuous integration and release, DevOps methodology ▪ Product and IT teams collaborate
Software packaging and deployment	Products are packaged as installable modules and are installed by product experts	Products are hosted as solutions on the cloud, with automatic provisioning in real time generally
Sales and marketing	Through third-party resellers and OEMs or product and channel partners	Through online channels such as e-commerce websites with shorter sales cycle due to lower initial cost of subscription
Product support and maintenance	▪ Product support over call, chat, emails, and online forums with defined L1, L2, and L3 support streams ▪ Complex product environments and custom environments make patch releases or custom fixes cumbersome	▪ Round-the-clock support through online forums and chat clients ▪ Support is more critical and complex ▪ DevOps and other automation practices are a norm
Implementation and customization	Heavy customization	Easy customization

Key changes that ISVs need to implement across the value chain in order to successfully adopt the SaaS model.

Transformation to next-generation SaaS

Key challenges

The first challenge for companies seeking to transform to a SaaS model is competition from new-age SaaS companies, which do not have legacy products, and are more agile and responsive to market needs.

Secondly, increasing demand of SaaS products poses a challenge due to lack of scale and shortage of talent to develop products. Also, supporting IT systems are not fully geared to manage the rapid growth.

Thirdly, the existing analytics techniques and IT systems of ISVs are not equipped enough to extract insights on customer retention.

Five key aspects for adopting SaaS model

To ensure a seamless transition to the SaaS model, companies need to revamp their traditional value chain and reorient software product development, the way the business is run, revenue recognition, financials, sales, marketing, product service, and support.

Five critical steps in the transformation journey are:

1. 'SaaSifying' products and tweaking product strategy by hosting products in the cloud, re-architecting for SaaS, and building products from scratch

2. Making IT versatile by changing IT systems that run the business, including customer management, metering, billing, and revenue recognition

3. Dealing with complexities to facilitate seamless onboarding through self-provisioning, continuous support, and customer intelligence

4. Gearing up for ongoing customer relationships instead of one-time sales

5. Preparing for changes in revenue recognition and cash flows by adapting finance systems and overall finance management practices

Conclusion

Increasing SaaS adoption has created a huge growth opportunity for product companies. As companies move to a SaaS model, they need to transform their value chains, which entails altering their product and IT strategies. Fierce competition in the SaaS market has put immense pressure on product companies to launch products using SaaS-enabled models.

SaaS-based subscription models offer opportunities such as anytime-anywhere availability, shorter implementation cycles, greater agility, and competitiveness. SaaS reduces operational hassles and makes for far easier system upgrades.

References

[1] Transparency Market Research, "Strengthening Software Outsourcing Trend to Drive Global Software as a Service (SaaS) Market to US$164.29 bn by 2022" 5 (October 2015), accessed May 16, 2016, http://www.transparencymarketresearch.com/pressrelease/software-service-market.htm

About The Author

Gajanan Kamble

Gajanan Kamble heads the Software Product Engineering Services group of the High Tech business unit at Tata Consultancy Services (TCS). He has been with TCS for 18 years, and has played key roles in product development, pre-sales, business development, and customer relationship management. Kamble works closely with global technology companies in the software product engineering space.

Contact

Visit the Hitech page on www.tcs.com

Email: HiTech.Marketing@tcs.com

Subscribe to TCS White Papers

TCS.com RSS: http://www.tcs.com/rss_feeds/Pages/feed.aspx?f=w
Feedburner: http://feeds2.feedburner.com/tcswhitepapers

About Tata Consultancy Services Ltd (TCS)

Tata Consultancy Services is an IT services, consulting and business solutions organization that delivers real results to global business, ensuring a level of certainty no other firm can match. TCS offers a consulting-led, integrated portfolio of IT and IT-enabled, infrastructure, engineering and assurance services. This is delivered through its unique Global Network Delivery Model™, recognized as the benchmark of excellence in software development. A part of the Tata Group, India's largest industrial conglomerate, TCS has a global footprint and is listed on the National Stock Exchange and Bombay Stock Exchange in India.

For more information, visit us at www.tcs.com

Experience certainty. IT Services
Business Solutions
Consulting

TCS Design Services I M I 12 I 16