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Saving money can be a major motivator for making the transition to software as a service. But the savings that come with SaaS aren't found only on the client side. Moving to the SaaS model can be a wise financial decision for software vendors as well as their customers. This article offers an in-depth exploration of the financial advantages of cloud services and resulting business practices, considering the savings and benefits for vendor and client alike.

### **The Beginning: A Transformative Model**

SaaS is often thought of as a major money-saver primarily because the model distributes basic IT costs for servers, storage, and maintenance over multiple clients, which also improves a vendor's ability to offer relatively seamless upgrades and updates. However, there are plenty of other "hidden" ways that SaaS can be financially prudent for vendors and their customers. SaaS not only offers obvious efficiencies in terms of shared server storage and easier updates, but also redefines and improves the entire customer relationship for software companies.

In a departure from the traditional software sales model with large upfront costs and limited ongoing interaction, SaaS offers an opportunity for clients to get started with an offering on a small scale and ramp up usage over time while building a close relationship with the vendor. And there are many additional cost advantages the SaaS model can offer.

### **Pressure-Free Sales and Painless Onboarding**

SaaS redefines the software sales process, removing the emphasis from a large initial license sale with high costs, and transitioning the focus to a close customer relationship that grows over time. While this model can reduce commission for salespeople and diminish initial returns for vendors, it also creates additional opportunity for incremental revenue to accelerate throughout the lifecycle of the client relationship.

The SaaS model makes an ongoing relationship, not an initial sale, the central point of customer interactions. This transforms the traditional lengthy initial implementation engagement into an accelerated onboarding period backed up by regular training, allowing for a shorter time to market and return on investment. Customers benefit by making a fast, affordable transition to using effective new tools, and vendors benefit from more close-knit customer relationships that cost less to initiate and also offer the potential to generate more revenue in the long run. SaaS providers need to deliver reliable solutions to their customers every day, not just intermittently, and have to build relationships accordingly.

Vendor benefits: Increased lifetime client value

Client benefits: Rapid onboarding with low upfront costs

### **Renewals and Upgrades**

In keeping with a focus on the customer, contract renewals are the lifeblood of SaaS. The model makes renewals less painful and less expensive than in the traditional software model. With SaaS, there's no need to install (and pay for) a costly, cumbersome new server instance, or deal with complex updates to intricate systems integrations created during a months-long implementation. Upgrades and maintenance are performed "behind the scenes," often involving minimal downtime or downtime only during off-peak hours. SaaS enables customers to wake up and log in to a new and improved system, with all customizations intact. With SaaS, updates also happen more frequently, giving clients regular access to useful new tools. Gone are the days of expensive, involved "upgrades" that cost more than the initial implementation did, as well as "end-of-life" panics where vendors stopped supporting specific software versions and left customers stranded or at the mercy of independent systems integrators. Relieving customers from the pain of costly upgrades and the panic about version support is a priceless benefit of SaaS.

Renewals can also be automated and made an expected part of the customer's SaaS subscription, relieving the vendor from the pressure to scramble for major contract renewals periodically. It's also easy for SaaS providers to determine how often customers are logging in to use the system, giving the vendor an advantage when it comes to encouraging upgrades or developing strategies to expand client usage. Dedicated customer account managers or

customer success managers can work closely with individual clients to promote usage and determine ways to expand and customize the system to meet client needs. This close relationship offers the customer increased responsiveness to their needs and allows for more rapid attainment of solutions. In short, both sides succeed—and save money—when the focus shifts from the transaction to an on-going vendor-customer relationship.

Vendor benefits: Ongoing revenue, standard version for clients

Client benefits: Seamless renewals and upgrades

### **Maintenance and Support**

SaaS savings are often envisioned as stemming largely from shared server space. Installing software on a multi-tenant database “in the cloud,” rather than on onsite servers, certainly represents a significant reduction in monthly hosting bills, not to mention server maintenance. A multi-tenant model also enables SaaS providers to maintain and update only one central version of the software, making maintenance less complicated and expensive both internally for the vendor and for external customers. Multi-tenancy may involve some upfront costs to the vendor to create the redundancies and server capacity that will accommodate traffic spikes and enable effective disaster recovery. However, these costs to the vendor will stabilize over time as they are spread out over more and more customers, and having a SaaS software provider manage server capacity is typically much cheaper and more convenient for customers than having to do it themselves.

Using a SaaS provider allows clients to focus on their unique core competency. SaaS vendors that provide responsive services and meet appropriate uptime guarantees can ease a great deal of strain on client IT budgets as well as on employees. And because many SaaS contracts are inclusive of service, upgrades, and support, clients gain multiple benefits at a greatly reduced cost.

In another financially advantageous tactic, SaaS vendors often take a “self-service” approach to support, empowering customers with the tools and APIs they need to accomplish almost anything with the software components provided, and fostering customer interaction to share best practices. This approach allows scaling and saves vendors money in terms of fielding and

managing high volumes of support requests, and also eliminates vendor time and availability as roadblocks to customer achievement. However, self-service definitely doesn't mean abandoning customers. Many SaaS vendors use proactive "customer success managers" to train customers thoroughly in the software and coach them personally through the best practices and tactics that will help achieve specific business needs. SaaS companies often also foster large customer communities or "ecosystems" where clients share their strategies and tactics, helping each other along with little or no additional cost to the vendor. This model eliminates the need for vendors to provide "siloeed" support to clients developing their own individual custom solutions.

Vendor benefits: Distributing costs throughout clients, empowering clients with self-service

Client benefits: Diminished IT obligations, more business tools for success

### Standards Compliance

Along with relieving customers of the need to have an internal IT organization or spend lots of money on servers, SaaS providers can also achieve certifications such as SSAE 16 and ISO27001 and maintain uptimes that meet established service level agreements. The ability to use one provider certified under these standards alleviates the need for individual organizations to scramble for certification, enabling the cost-effective provision of standards-based services. The upfront effort necessary to achieve certification may be a hidden cost of SaaS, but it's also a hidden savings, relieving customers of the burden and cost of achieving certification on their own.

As SaaS systems collect more and more user data, it becomes more and more important for SaaS providers to adhere to data privacy regulations. Approaches for doing so may range from Safe Harbor self-certification to passing involved HIPAA audits. This can involve a great deal of upfront preparation and costly, time-consuming compliance efforts—but it's ultimately more effective for one SaaS provider to spread out these costs of compliance over many customers than for each customer to achieve costly compliance independently. SaaS providers that meet data integrity and privacy standards provide their customers a service that goes beyond mere software tools to encompass information security.

Vendor benefits: Distribution of costs

Client benefits: Assurance of standards compliance and data privacy

### **Relationships with Resellers and Systems Integrators**

Even in the SaaS world, channels are becoming more important, not less as they increasingly provide the specific buying context and information that customers need to make a buying decision. Going further, customers not only want to buy in context, but also be supported over time by the channel that sold them - whether providing guidance to get the most from the service, but also finding other add-on solutions and associated services. ISVs therefore need the channel to play a greater role in not only distributing their SaaS solutions, but to own the relationship with the end-customer beyond the first sale.

ISVs need of course to invest in technology to support the channel: portals, APIs, marketing tools, etc. As with vendors' own client relationships, resellers and SIs will benefit from support tools that focus on empowerment, not obstacles, in making best use of solutions. Resellers and SIs thus become partners in building a customer ecosystem, not rivals competing for customer dollars. The better trained a reseller or SI is in the core SaaS system, the more business can be brought in—beneficial for both the initial vendor and these channel partners.

Vendor benefits: More business from these channels

Client benefits: More engaged service and better resources from resellers and SIs, better overall solution/ ecosystem

### **Revenue Recognition**

Subscription models can significantly change how companies manage their revenue. While the typical model for on-premise software installation was to charge a large amount of money upfront and recognize the revenue immediately, the shift to subscription-based SaaS models brought with it a need to recognize deferred revenue. Because SaaS works for customers every

day, revenue can be recognized on a deferred basis as well. Upfront cash flow, ongoing subscription contracts, and deferred revenue (cash collected and accounts receivable minus recognized revenue) create an attractive financial model for SaaS while clearly recognizing what has already been paid. Offbook backlog (total contract value less collected cash and outstanding accounts receivable) also figures into the total funds coming into SaaS. These accounting models are attractive to SaaS vendors and investors alike, and significant investor interest is often prompted in new SaaS companies or when existing companies switch to SaaS.

Accounting models for SaaS can vary, but many companies find that a standardized 30-day month makes sense for accounting for revenue on a regular basis, rather than dealing with month-to-month fluctuations in number of days. Revenue recognition was previously complex, but now many SaaS solutions exist built specifically to recognize revenue from the SaaS model. And SaaS has positive financial implications for the customer as well, in terms of a more rapid ability to recover investment in the system. Initial investment is typically lower and time to implementation is shorter, saving money from all perspectives.

Vendor benefits: Deferred revenue, investor interest

Client benefits: Ongoing service, affordable prices

### Summary

The financial benefits of SaaS extend far beyond shared servers, encompassing more rapid and less costly implementations, closer customer relationships with more resources, seamless upgrades and affordable maintenance, and—perhaps most importantly—an empowered ecosystem of devoted vendor representatives, clients, resellers, and SIs, all interested in building tools, modules, and features that will boost the bottom line, improving vendors' ability to provide better tools and services for all customers.