



In 2020, looking back on this decade, what will be the single most impactful technical advancement driving business growth?

New business models are emerging from the cloud and new players are emerging with them. The cloud finally does away with the need for significant investment in licenses and thanks to the power of the Internet and cloud computing, many products are moving to subscription services delivered online-everything from music and DVDs to software and infrastructure to groceries and cars. Every day, more and more traditional players are joining the "subscription economy," often in response to changing consumer habits and demands. Why pay big bucks for something just to get stuck with one model, or one style, when you can pay a low monthly fee and get access to the whole collection? For most companies, this shift means relearning a lot about selling, pricing, packaging, and building customer loyalty. As we move to this new economy, companies need to move away from a manufacturing-oriented, product-focused way of thinking, and embrace a world of services that fundamentally changes customer relationships.

But, what will it take to succeed in this new world? Right now, business leaders need to gain a more nuanced understanding of the strategic, financial, and operational implications of a subscription-based model or they risk losing share in the time-to-market sprint. The same way the Web rocked the bricks and mortar world of business 15 years ago, enterprises need to manage the shift to a subscription economy. They need to understand that the competition will be governed by new rules, and if you cannot provide the right service at the right price, your competitors will. Make no mistake, some businesses will step up and flourish, and others will get left behind.

Mega-vendors are finding they have no choice but acquire in an attempt to stay competitive. Will they succeed in using those acquisitions to help change their companies to the SaaS culture and business model?

The market has embraced the cloud and even traditional on-premise vendors are jumping in the cloud camp. Dell is one obvious example. Known for selling low-margin "boxes" for most of its history, Dell recently made the move into offering services via the cloud. Dell's shift is clearly

paying dividends if its Q3 numbers are any indication "pricing our products based on value rather than based on cost," according to Michael Dell. And, it's working. In the recent Q3 earnings call, he stated "This is a new Dell...in Q3, our enterprise solutions and service business grew 8% to a record high \$4.7 billion." And, make no mistake: SAP acquired SuccessFactors with the intent of offering its large customers cloud-based, mission critical applications such as those for project management, ERP and HR.

Companies now live in a world in which success is not gauged by counting how many units of your product you've sold but, rather, how many customers are using your service on a recurring basis, and how successful you are monetizing those recurring relationships. According to a [recent Gartner Group report](#), "by 2015, 35% of Global 2000 companies with non-media digital products will generate incremental revenue of 5% to 10% through subscription-based services and revenue models."

As an economy and a culture, we are rapidly moving away from owning tangible goods and, instead, gravitating towards becoming members of services that provide us with experiences - such as listening to a song, watching a movie or collaborating with our colleagues.

What factors are driving the mega-vendors to buy pure-play SaaS/Cloud vendors?

Clearly, traditional vendors are just trying to stay competitive by purchasing cloud vendors. For example, much has been discussed about SAP's recent \$3.4B acquisition of SuccessFactors. Rightly, SAP has been praised for trying to bolster its cloud offerings with this move -- it's because of a fundamental shift that is taking place regarding how people consume products and services. I'm referring to the shift we are experiencing away from a 20th century product-based, "buy once" economy to a 21st century services-based "Subscription Economy" centred around recurring customer relationships.

For example, there's a very good chance you're one of the exploding number of consumers who now access their music via subscription such as Pandora or Spotify. You may even be one of the many people who have stopped renting DVDs in favor of streaming your movies over Netflix. Or, you could be one of the growing number of consumers who have eschewed owning a car to accessing one via a subscription company such as Zipcar. Or, maybe you are one of the growing list of companies who are voting "no" to buying hardware and software and instead are using apps and computing power served up from the cloud.

The cloud finally does away with the need for significant investment in licenses and thanks to the power of the Internet and cloud computing, many products are moving to subscription services delivered online. An increasing number of traditional players are joining the "subscription economy," often in response to changing consumer habits and demands.

This interview was published in [SIIA's Vision from the Top](#) , a Software Division publication released at [All About the Cloud](#) 2012.