Transforming SaaS Business Operations with Systems of Engagement

By embracing systems that are more engaging and intuitive, independent software vendors focused on software-as-a-service subscription-based business models are better positioned to more proactively manage and monetize customer transactions and interactions.

Executive Summary

Software as a service (SaaS) is a fundamentally different model of buying and selling software compared with traditional on-premises software licensing. For one thing, it requires independent software vendors (ISVs) to radically shift the way they operate their businesses.

Traditional ISVs with a large-scale mature business based on the perpetual licensing model typically rely on (or build) systems that are record-based and mimic their existing perpetual, on-premises business models. To succeed in the SaaS world, however, we believe ISVs must acquire a new set of capabilities for their business operations and business support systems. This white paper outlines how ISVs can move from traditional transaction-oriented systems to more interactive, intuitive and engaging systems to support their SaaS-based business models – systems that have come to be known as “systems of engagement.”

The Transition from On-Premises to SaaS

ISVs that move from on-premises or perpetual license to SaaS or subscription license models typically experience a major shift in the way they do business. Figure 1 (next page) depicts the essential dimensions of this change.

Systems of Record vs. Systems of Engagement

For traditional ISVs, the transformation from an on-premises or perpetual model to a SaaS or subscription model requires a new set of capabilities for business operations and business support systems. Challenges from global competition, pressures of condensed time-to-market and growing demands from target markets typically force ISVs to quickly build and operationalize their subscription delivery models. In this race, ISVs inadvertently tend to focus more on the development of an essential set of systems and processes for maintaining new transaction types that define
Making the SaaS Pivot

| Transformation of Basic ISV Offering | • Software product to software as a service.  
|                                      | • Introduction of complex hardware + software + services business solutions. |
| Evolving Sales and Distribution Models | • Transformation of the traditional software reseller channels to channels reselling hosted services.  
|                                      | • New channels for online services delivery. |
| Managing Complex Revenue Models      | • Moving from perpetual license models with one-time fees to subscription-based models with recurring revenue streams.  
|                                      | • Emerging pricing models such as on-demand or pay-per-use, outcome-based pricing, etc.  
|                                      | • Dynamic bundling options rather than fixed product licenses. |
| Need for Alternate Marketing Strategies | • Adoption of an interactive online ecosystem of partners, users, advocates and even competitors.  
|                                      | • High level of social media engagement for both marketing and customer support. |
| New and Complex Cost Structures      | • Hardware + software + services bundles introduce complex cost structures involving hosting partners and managed services partners. |
| Change in Customer Expectations      | • SaaS customers expect a completely ready-to-use business solution from the ISV.  
|                                      | • Understanding the customer’s business domain becomes a critical success factor. |

Figure 1

the new business model. These are known as systems of record (SoR) capabilities.

To sustain SaaS growth and profitability, however, ISVs must keep dropout rates low, renewal rates high and continuously monitor customer satisfaction levels to identify and convert up-sell and cross-sell opportunities. To accomplish these goals, we recommend building a layer known as systems of engagement (SoE) to extend SoR capabilities.

SoR are necessary tools, but are not the only requisites for business success. For example, an organization needs performance management systems to record employees’ performance metrics but they also need a layer of engagement over and above this system to interact with employees on a timely basis, to allow them to engage participants in the performance assessment and to provide an ongoing mechanism to track performance. Typically, an organization’s HR function complements the performance management systems by providing this type of engagement through human intervention. SoE, on the other hand, integrate existing operational systems with a rapid delivery of new user-facing apps to provide this level of engagement. SoE are thus an extension of SoR; these systems can and should coexist. While SoR remains the foundational, run-the-business layer, SoE wraps around the SoR to drive interactions and transactions.

Figure 2 compares the attributes of SoE with SoR.

Complementary Systems Capabilities

<table>
<thead>
<tr>
<th>Systems of Record</th>
<th>Systems of Engagement</th>
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<tbody>
<tr>
<td>• Transaction-oriented.</td>
<td>• Interactive.</td>
</tr>
<tr>
<td>• Regulated.</td>
<td>• Collaborative.</td>
</tr>
<tr>
<td>• Source of truth.</td>
<td>• Insightful.</td>
</tr>
<tr>
<td>• Isolated.</td>
<td>• Social.</td>
</tr>
<tr>
<td>• Train the user.</td>
<td>• Intuitive.</td>
</tr>
<tr>
<td>• Limited touch points.</td>
<td>• Multimodal.</td>
</tr>
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</table>

Figure 2
Transitioning from SoR to SoE
To get started embracing SoE, we recommend the following steps:

- **Step 1: Understand the customer journey in the subscription lifecycle.** To build a layer of SoE, you must understand the customer touchpoints in the operations and business support processes. More importantly, you need to focus on the atomized processes and subprocesses that are potentially high-touch activities with customers and partners. To identify such touchpoints and atomized processes, it is essential to study the buyer journey (or partner journey, as the case may be) in the subscription lifecycle.

  Figure 3, above, describes the high-level “extended” quote to cash cycle most ISVs follow for building a subscription model.

- **Step 2: Create and prioritize a list of atomized processes within the customer lifecycle.** The next step requires a prioritized list of atomized processes for adding a new layer of SoE capabilities based on:
  > Processes that have a high-touch and high-frequency engagement with customers and partners.

Atomized Processes Across the Subscription Lifecycle

**Figure 4**

**Transitioning from SoR to SoE**

**Figure 3**

**Atomized Processes Across the Subscription Lifecycle**

<table>
<thead>
<tr>
<th>Extended Quote to Cash Stages</th>
<th>Atomized Process</th>
</tr>
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<tbody>
<tr>
<td>Offer</td>
<td>Quote-to-Order</td>
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</table>

**Figure 4**
Processes that provide opportunities for intelligent and personalized demand generation and conversion rates.

Figure 4 (previous page) illustrates how high-touch atomized processes are delivered in SaaS business support.

- Step 3: Execute! The final step is to gradually transform your SoR to SoE capabilities. Figure 5 provides an indicative fulfilment list of atomized processes and SoE opportunities in SaaS business support.

Looking Forward
Before ISVs can start executing on the steps outlined in this white paper, there is some ground work required as organizations begin the transition from SoR to SoE. Here are three important steps ISVs should take to create an effective SoE strategy for their subscription business:

- Evaluate the transactional foundation of your SaaS business. The first step in a successful SoE strategy is to understand the inherent strengths and limitations of your traditional SoR. What systems come together in the architecture of your SaaS business to deliver subscription-based services to partners and end customers? What are your core systems and what are the ancillary systems that are more external facing? Traditional ISVs often have a number of systems and portals interacting together in the SaaS business, often with a subscription billing platform for metering, rating and payments at the core. In addition, there are integrated systems such as ERP for order management, validation and invoicing; financial systems for bookings, commissions and revenue recognition; customer
and partner portals for self-service and entitlement management; support systems for case management; etc. It becomes critical for ISVs to evaluate these systems and identify gaps that limit external engagement. For example, ISVs often find that their existing ERP systems cannot handle subscriptions as effectively as they can handle perpetual licenses. This becomes an opportunity for ISVs to build or buy an SoE subscription billing platform that is more intuitive and interactive for customers and partners.

- **Listen to your stakeholders.** Before ISVs start building SoE capabilities, it is important to understand customer and partner pain points in the subscription lifecycle. ISVs should design “voice of the customer” or “voice of the partner” initiatives to investigate customer pain points during the customer journey: from learning about your products to ordering, using and eventually paying for your products. Surveys and interviews of customers or partners who cancelled a subscription or opted not to renew a subscription can also provide insights into engagement gaps manifest in your SaaS business. For example, you would be surprised to find that several customers opted out of the subscription not because the product itself was bad but because the subscription experience was not intuitive or agile enough to meet their changing needs. These gaps become potential starting points to build SoE capabilities.

- **Measure and monitor a set of key performance indicators (KPIs).** ISVs should monitor a set of basic metrics that provide insights into customer (or user) sentiments. Churn rate, lifetime value, cost of acquiring customer, average revenue per customer, etc. are among the basic measures used to gauge the performance of subscription businesses. Monitoring trends on these measures can help ISVs set the right targets for an SoE initiative. It can also help ISVs assess the business benefits from their investments in such SoE initiatives.

While this white paper provides only an illustrative list of SoE capabilities that can transform SaaS business operations, it offers insight into the potential scope for ISVs to increase engagement with customers and partners. The more engaging the system supporting your SaaS business, the more tuned in your organization will be to customer needs in this rapidly evolving market.

Businesses that attend to customer demand and expectations are more likely to adapt their SaaS offerings and stay ahead of the curve. Embracing SoE capabilities is thus a step toward sustainable growth and profitability for any company’s SaaS business.

**Footnote**

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