

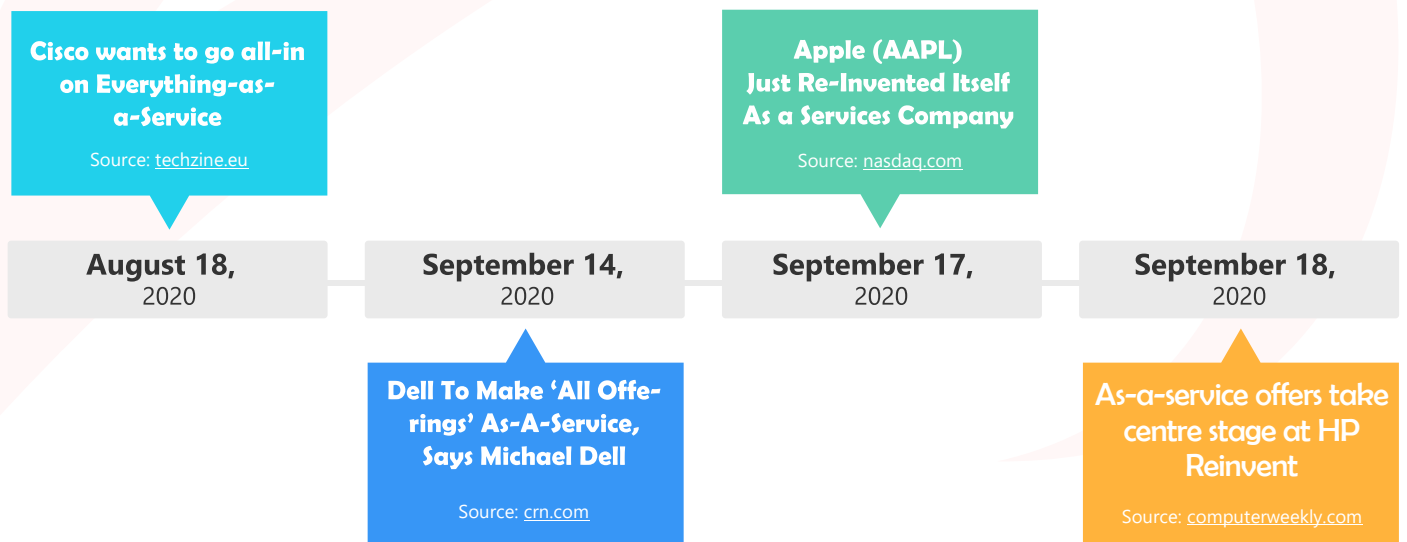


**Transforming to an As-A-Service Business Model:  
What a Software Vendor Needs to Know**



*The software delivery methods over time*

It should come as no surprise that many top hardware and software companies — think Lenovo, Dell, HP, and Cisco — are in the process of transitioning to as-a-service business models. In contrast to traditional models in which vendors sell products to customers as a one-off transaction, the buzzword “as-a-service” means that customers subscribe to a certain software, hardware or service and pay as they go in monthly, quarterly, or yearly rates. While subscription-based services are far from novel, they have taken on a heightened significance as a result of COVID-19 and the increased amount of remote work and demand for digital, cloud-based solutions it has brought on.



*Vendors re-inventing themselves as as-a-service organizations*

Although it is unlikely that businesses will completely abandon perpetual licensing and ownership of hardware assets in the future, some level of transformation to an as-a-service model is crucial for keeping up with changes in the industry and remaining competitive. Most importantly, the shift to as-a-service means that customers outcome from

using the technology becomes more important than ever, as they must continually be impressed by the impact a product has on their business in order to remain a customer.

Whether your company has already begun its transformation or is just beginning to consider what an as-a-service model will look like, it is essential to take a step back and consider some of the key questions that must be answered for a strategic and successful shift. Based on AppXite's expertise, this e-book will not only provide vendors with these central questions, but also give you the background knowledge you need to address them.

Covering everything from customer satisfaction, marketing, financing, and sales to blunders to avoid, AppXite's advice will bring your hardware or software business one step closer to thriving as a service.

## What is the first thing CEOs and other key decision makers should consider when leading a transition to an as-as-service model?

First and foremost, do not underestimate the gravity of this transition. When executed correctly, it will result in nothing less than a complete shift in your company's culture and way of conducting business.

Therefore, you cannot delegate this transformation to someone within the company who lacks considerable decision-making power. Instead, it must be intentionally and clearly communicated from the top down, and the consequences for every element of your company, from your IT department to your marketing strategists, should be fully outlined.

The best formula for success is to make it loud and clear, not only internally but especially to your customers, that you are undergoing this transformation. By keeping it a secret, your likelihood of success is drastically diminished, and you will be missing the opportunity to let customers know that you are actively trying to improve your business in accordance with their needs. Consider making a public announcement like this one from [Dell](#) or [Cisco](#), and then be as transparent as possible over the course of the transition.

### The common pitfalls of digital transformation include:

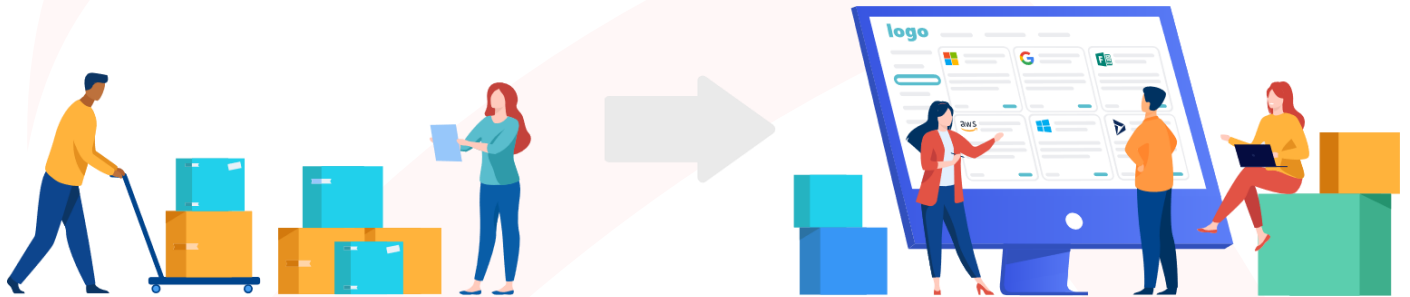
- Poor or nonexistent cross-functional collaboration
- A lack of employee engagement
- And a lack of accountability
- Inadequate management support



Source: <https://www.mckinsey.com/industries/retail/our-insights/the-how-of-transformation>

## How will as-a-service change my company's overall approach to business?

Prior to subscription-based services, vendors usually had a one-time interaction with a customer. You sold them a product, be it a software package or a laptop, and in doing so, effectively wished them the best of luck and made them responsible for using it to suit their needs. If they wanted the latest version of the product, they would come back to you and buy a new one.



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*If customer satisfaction and delivering value in the form of customer outcomes was not your number one priority before, it has to be with as-a-service offerings.*

With software-as-a service (SaaS), you are now responsible for taking care of your product over the course of its entire lifespan, which is essentially endless. “Taking care of” is perhaps a misleading phrase — you not only have to keep up the product and make sure it continues functioning, but you must also constantly be asking how you can improve your product to deliver value to your customers.

Therefore, your guiding question during the transformation to as-a-service should be “What is my customer using my software for?” The answer to this question is never “for the sake of using our product.” This might sound obvious, but all too often, companies forget that customers are using products to carry out tasks that are essential to their own businesses, or are part of their own delivery to their own customers. You never open a browser or an application on your computer just so you can say you opened it; you might use it to check your email, play a game, watch a video, and so forth. In the same vein, you have to constantly be interrogating what your customer wants to achieve using your software and making it better in achieving those results.

If you adopt this mindset, you will also inherently move away from using the bells and whistles of your product to sell it and instead focus on solution and outcome marketing. Apple advertisements which show the iPhone in action — being used to listen to music, make videos, take selfies at parties — are a great example of this. Apple has keenly identified what their consumers are taking out their iPhones to do and are selling the full customer experience rather than simply a piece of metal and glass.



Features vs benefits

In short, be sure you're marketing what the customer can achieve with your product rather than just its technical specifications. There are still too many companies who list all of their product's features on their website rather than focusing on how the customer will succeed with the solution.

## How can I ensure that my product will contribute to customer success?

Stemming from the driving question of "What is my customer using my product for?" is the follow-up question, "What goals are my customer trying to achieve by using my product?" You will need to define these objectives in conjunction with your customer rather than coming up with what you think their definition of success should be. If you skip this step, you run the risk of designing and optimizing your product to achieve results that do not interest your customer.



User Personas

First, you can collaborate with your customer to see what they are aiming to achieve. Are they looking to increase revenue, productivity, or efficiency? Do they have other concrete metrics in mind? Then, you can take a data-driven approach to figuring out which of your offerings and models are furthering the customers' goals, rather than just assuming that they are. You should pay attention not only to the outcomes themselves, but also the processes which were most effective for reaching these objectives, and put as much fuel as you can into optimizing these.

With as-a-service offerings, it is no longer enough to ask whether your customer is happy with your product. You have to go the extra step in figuring out what your customers like about your product and then continue to obsess over how you can make your soft- or hardware suit them even better.

Overall, you have to keep in mind that when you transform to an as-a-service model, a consumer is not buying your product and expecting it to stay the same. Because they are paying repeatedly for your soft- or hardware or service, they also expect that your product will constantly be tweaked and upgraded. In this sense, they are expecting the worth of your hard- or software to increase over time.



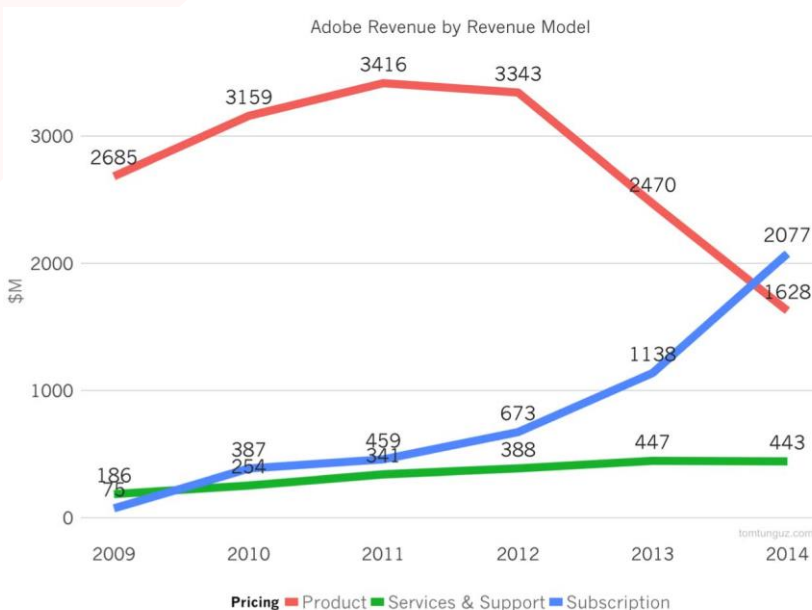
*A successful as-a-service business is made up of exactly this combination of a customer-centric orientation and consistent delivery of customer-desired outcomes.*

By knowing precisely what your customer is using your product to attain, over time, you can deliver more value to the customer by implementing new features, improving processes, and so on.

## What are the financial advantages and disadvantages of as-a-service?

Financing is often a topic that is glossed over when it comes to a transformation to as-a-service, but it is one of the most important things to consider. This does not mean that your motivation behind transitioning to an as-a-service model should be purely financial; as the previous questions and answers have outlined, software vendors should be thinking of customers first and the improved outcomes and value as-a-service will allow you to deliver to them.

As concerns the financial appeal of as-a-service offerings to consumers, allowing your customer to pay for your product in small chunks will indeed free up their cash flow and enable them to invest in their own business to grow it further. However, if this is your only tactic for marketing your software as a service, you have to be aware that this strategy is only effective for getting customers to start using your product if your competitors do not offer similar services. After that, you have to develop nuanced strategies based in solution marketing to fight to keep your customers.



Source: <https://tomtunguz.com/adobe-saas-growth/>

As for your own company's finances, transforming to an as-a-service model will have a major impact. In the past, by paying for your product up front, your customers were lending you the money you needed in order to take care of expenses, pay employee salaries, and make returns on investments.

*Since software-as-a-service is based on customer-desired outcomes and you cannot charge for an outcome upfront without delivering on it, you will need to rethink the financing of your company as a whole.*

Two methods for financing your operations to consider are lending money from a bank or using investors, but each of these has its drawbacks. Depending on the country you are in or if they see your company as a risky investment, banks will often charge high interest rates ranging anywhere from 3 to 15 percent. If you choose to approach new investors or speak to those you already have, you will have to take into account that they will be looking for positive cash flows, which an as-a-service business model inherently generates the exact opposite of, in order to guarantee returns on their investments. They may then look to hold greater shares in or ownership of your company or to increase dividends. In either of these cases, you must factor all of these additional costs into the price of your product and be prepared to see it increase. This is also why many companies offer lower prices for lengthier subscriptions (paid in yearly increments, for example), and monthly subscriptions cost the customer more over the same period of time. In essence the question is who should take the financial risk, and be paid to do so.

For both your investors and your customers, transparency about what the transition to as-a-service means for your financing is key. Customers may be confused as to why they were lending you money for free in the past and wonder why they must now pay more for your product, so it is up to you as to how openly you will address this issue and what tone you will take. Likewise, the investors you were able to front money to based on these loans will also need an explanation and a plan as to how they will be compensated in the future.

To summarize, do your research on how this transformation will impact your finances to avoid being caught off guard, and be sure to adapt your communication accordingly.

### **Aside from marketing, sales, product development, and financing, what other impacts will as-a-service have on my company?**

This transformation is a crucial time to reevaluate who actually makes your company run: your employees. Moving from traditional to transactional business will put a massive strain on your operations. To name just one central example, you will need to send out twelve times as many invoices, necessitating twelve times as much reporting and calculations. You also have to think about the time that goes into making sure each of these payments is collected and the shift from paying for your service after using it, based on the outcome, rather than ahead of time.

With all of this in mind, you cannot expect your accounting department to simply work twelve times as fast. Alternatively, you will have to think about new solutions that allow you to automate as much of the invoicing and subscription management, in addition to the online delivery and operation of your software, as possible. [AppXite](#) offers transforming organizations the opportunity to do just that using our as-a-Service commerce and management Platform.



Our Platform can accommodate numerous business scenarios — including direct sales, direct sellers, and indirect sellers — which will enable your as-a-service offerings to reach end-customers quickly and efficiently. Give customers immediate access to software upon purchase, allow for self-management of subscriptions, set up custom billing cycles, and more. All in all, utilizing platforms like AppXite will enable you to reduce the cost of your as-a-service operations and your time to market while increasing revenue and customer value. By offering practical solutions to common problems posed by as-a-service systems, we hope that you will in turn be able to focus on delivering the best possible product to your customers.

We hope that these questions and answers will kickstart your transformation to as-a-service, and that you will consider partnering with AppXite as the next stage in a seamless transition.