

# **Alternative Licensing Strategies: Enabling growth of the SME customer segment**

*Insights from two SKP studies in the US, UK and Germany*

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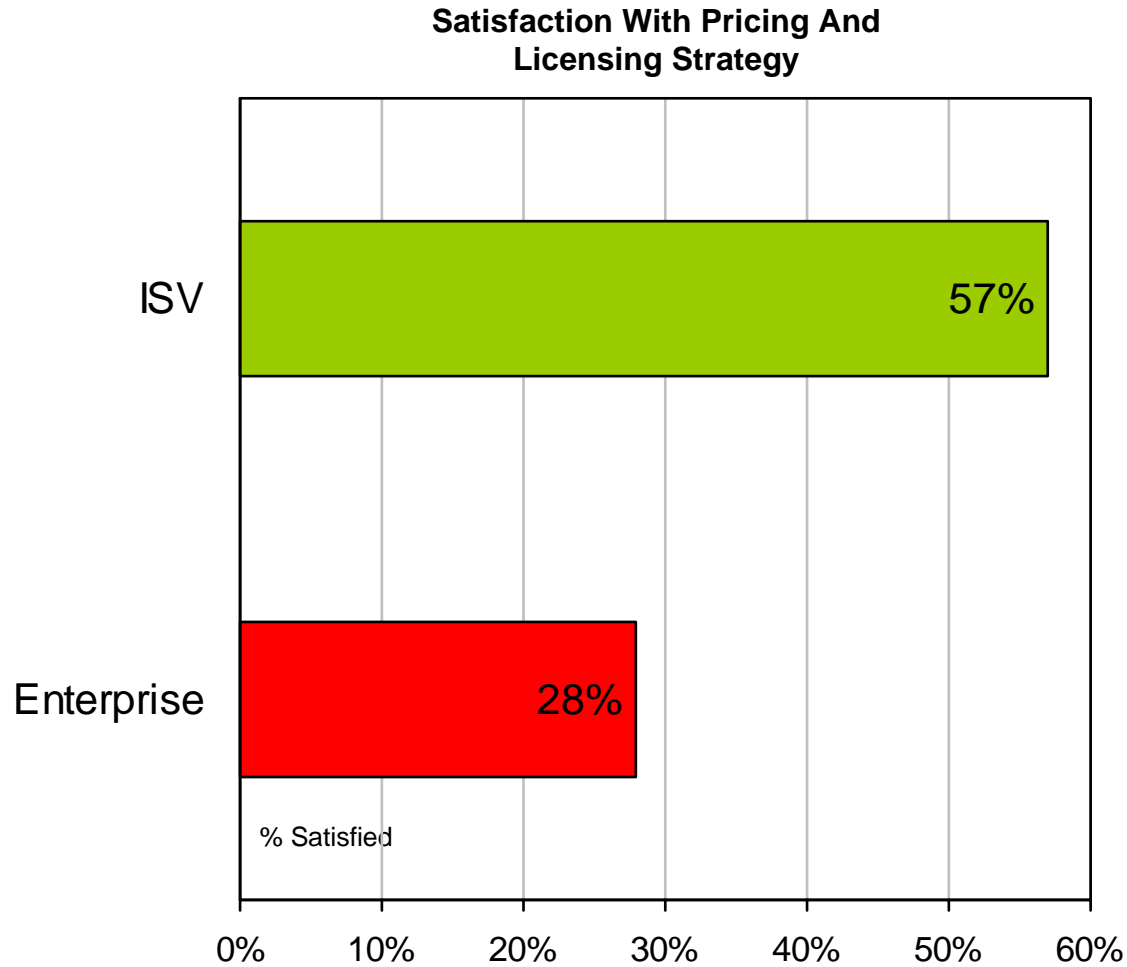
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# Recent research indicates companies are unsatisfied...

Enterprises are unsatisfied with the current ISV's licensing strategies



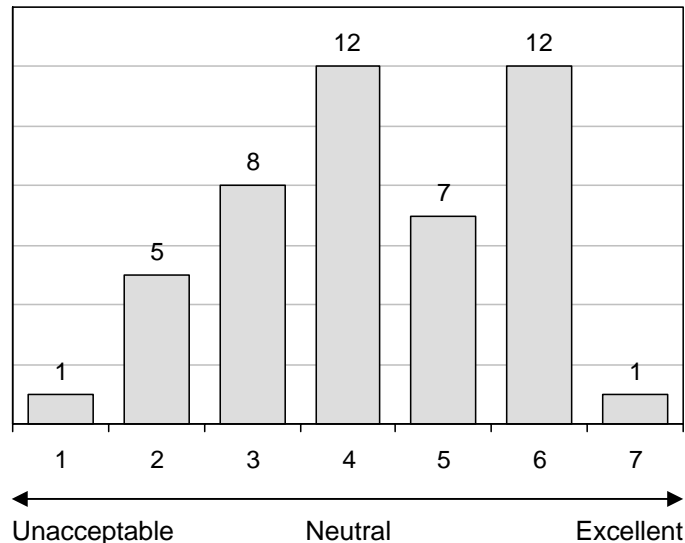
Source: SIIA survey Oct. 2005

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# ...SMEs accept current licensing models, but see room for improvement

SMEs are neutral to positive regarding current license models. They want greater transparency and contract flexibility. Many feel they must accept what is currently available.

## Satisfaction with current licensing models



## Comments

- Customer satisfaction does not depend on SMEs country of origin.
- Dissatisfaction with current licensing models are due to intransparent pricing policies and poor contract flexibility.
- Usually SMEs stick to their ISVs, unless internal requirements change and/or the changes at the vendor (policies, mergers,...).
- Serious failures (e.g. support failures) lead to a massive decrease in trust and loyalty. Consequently SMEs turn away from their ISV.



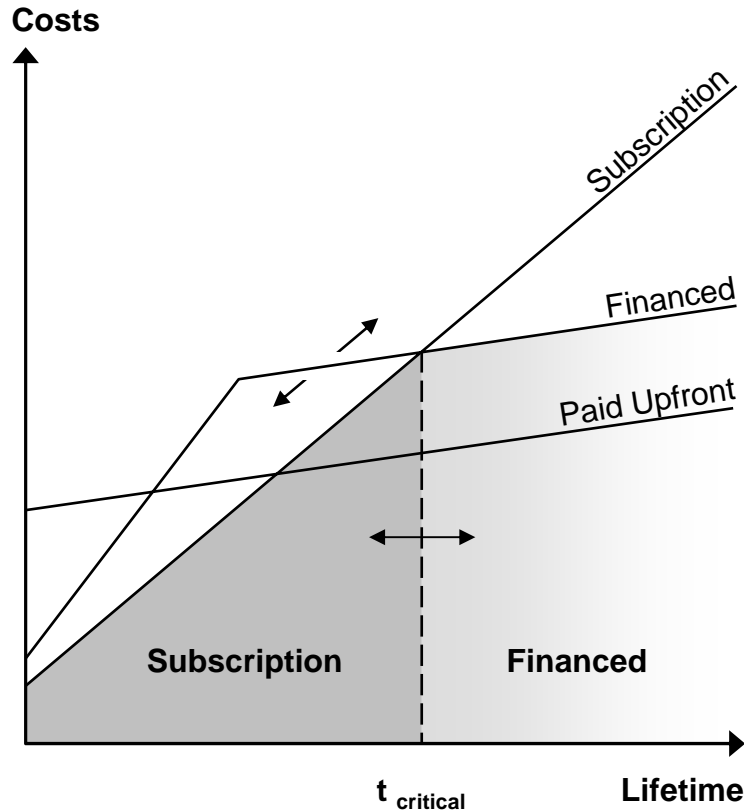
*"Licensing is a full time job"*  
- UK IT Director (Professional Services)

Source: SKP research with SMEs in US, UK and Germany, 2006

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# There is not a general trend toward subscription licensing among SMEs

Periodic subscription is well established for non-critical business applications (e.g. data services and virus protection), but infrequent elsewhere.



## SMEs preferences

- Long-term software usage at most SMEs leads to high cost perceptions of subscription models
- Periodic subscriptions are confused with perpetual licenses paid over fixed time (financing) in some instances
- SMEs favor perpetual licenses in critical business areas...they want to "own it"
- Periodic subscription offers SMEs the perception that they have the opportunity to "quit". SMEs benefit from financial independence and flexibility

# The smaller the company, the higher the acceptance of longer contracts

Since smaller companies tend to use their software longer than large companies, they tend to be more likely to accept longer contract terms. Locking in prices also further reduces management complexity.

**Contract duration preferences by SME size**

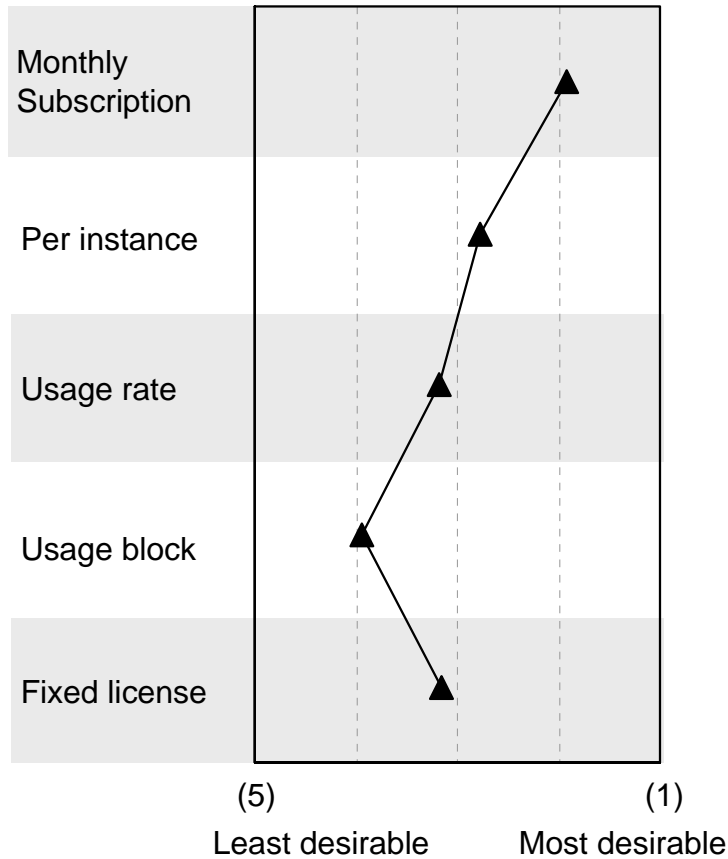
	No Minimum Duration	1 Year Minimum	3 Year Minimum
<b>Larger</b> (1000+)	+	+	-
<b>Medium</b> (501-1000)	-	+	+
<b>Smallest</b> (251-500)	-	-	+
<b>Smallest</b> (100-250)	-	+	+

Source: SKP research with SMEs in US, UK and Germany, 2006

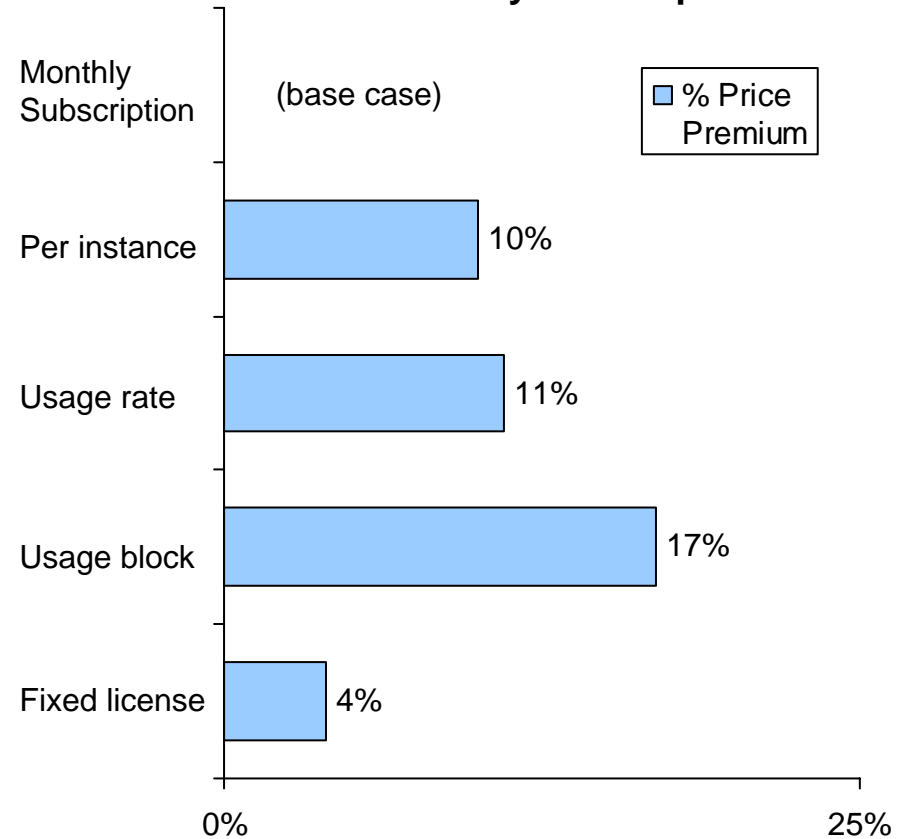
# Key finding: Customers are willing to pay more for simplicity

Customers willing to pay more, yet pricing structures routinely charge less. ISVs are doing a poor job of communicating the value proposition.

### Pricing Structures Desirability



### Premium Potential for Switching to Monthly Subscription



Source: Customer interviews; SKP analysis

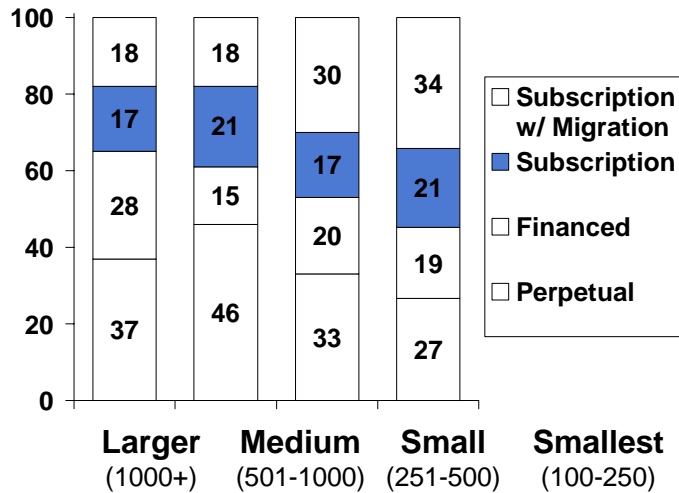
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# Despite the appeal of subscription, perpetual license is still prevails

The risks and costs of subscription clearly outweigh the value for SME customers. Smaller customers, who often have the most to gain, also see the most risk

What customers say:\*

**Subscription generally appeals...**



What customers choose:\*\*

**...but perpetual license prevails in trade-offs**

Subscription w/migration  
**Subscription**  
 Perpetual w/financing  
 Perpetual w/upfront payment

Subscription w/migration	+	+	-	+
<b>Subscription</b>	-	-	--	-
Perpetual w/financing	+	+	+	+
Perpetual w/upfront payment	+	-	++	+
	<b>Larger</b> (1000+)	<b>Medium</b> (501-1000)	<b>Small</b> (251-500)	<b>Smallest</b> (100-250)

\*Constant sum allocation question







\*\*Card Sort conjoint measurement

Source: SKP research with SMEs in US, UK and Germany, 2006



# SME software buying behavior...seperating fact from fiction

Our clients wanted to confirm their hypothesis, but they often got debunked instead. Many assumptions from larger enterprise segments did not hold up in the SME segment.

Their original hypotheses	Customer confirmation?	New hypotheses
<p><b>SME Customers are unhappy</b> with our current licensing models and require something new</p>		<p>Customers are satisfied with the current model and <b>don't see the value</b> of something new</p>
<p><b>Purchase drivers differ by country:</b> Different regions have substantially different purchasing criteria</p>		<p>Purchasing drivers are relatively constant across regions. Adoption of new models is higher in the US, but <b>base drivers are the same.</b></p>
<p><b>Purchase drivers vary by company size:</b> We will see significantly different buying behavior in companies from 100 to 2500 employees</p>		<p>Buying process tended to become more rigorous at larger SME customers, but purchasing <b>drivers remained remarkably consistent</b> across size.</p>
<p><b>Decision makers:</b> We identify and deals with key decision makers and contract negotiators.</p>		<p>Decision makers vary by company, but generally <b>business people drive software selection</b></p>
<p><b>SaaS can be a driver for SME market growth:</b> SaaS will address key customer business issues and encourage increased SME adoption of our software</p>		<p>Customers have a poor perception of SaaS value. <b>Saas can't be a driver of growth until SMEs understand and embrace its value.</b></p>
<p><b>Product feature importance:</b> We accurately perceive the importance of product feature attributes for our clients and prioritize appropriately.</p>		

Source: SKP analysis; anonymous customer interviews; interviews and workshops with the client teams

# Although willing to consider SaaS, most SMEs still see barriers ahead

Many IT decision makers are willing to consider SaaS for a variety of applications...

***“As long as firm's and end-users' needs are met, we will consider all options.”***

– USA IT Director (Professional services)

***“We’re open-minded to SaaS. As we grow, our focus and priorities change and we may want to consider having someone else manage the solution.”***

– UK IT Analyst (Logistics)

***“We’d be willing to consider it for certain independent processes.”***

– Germany IT Manager (Professional services)

***“We don't really need to own the software, so whatever works out best from an ROI standpoint looks good to us.”***

– USA CEO (Logistics)

***“We could use this with analytics, processes which create new data and are not depended on any other data, where there’s no integration required.”***

- Germany IT Manager (Discrete Manufacturing)

...but only after it overcomes specific perceived issues

## Barriers

- Uptime / reliability / connectivity
- Data security / privacy
- Desire for complete control over software
- Potential for cost overruns / “cost explosion”
- Internal resistance to changes in IT approach
- Integration with existing IT framework
- Infrastructure capabilities (e.g. bandwidth capacity)

## Importance



= frequently mentioned barrier    = infrequently mentioned barrier

# To overcome barriers, SaaS will have to offer cost or service benefits

## Many consider lower TCO as a precondition for adopting a SaaS solution

***“We would consider it up to the cost saving potential, especially for project management applications (MS Project, Proviso)”***

– Germany IT Director (Professional Services)

***“We’ll probably become more interested [in SaaS] in the future, but it has to provide the same functions and have a cost advantage.”***

– UK IT Manager (Discrete Manufacturing)

***“The cheapest TCO regardless of model is the best...period.”***

– US CIO (Professional Services)

***“No, we would not use SaaS today; it is not cost efficient, the costs are too high in relation to the time in use.”***

– Germany IT Director (Professional Services)

***“We’d need to see savings over the in-house model.”***

– US Director of IT (Wholesale Distribution)

***“As long as SaaS performs the same as in-house, and if it is cheaper, we would consider it.”***

– US CIO (Professional Services)

## Some mentioned that other advantages could make SaaS attractive at a comparable TCO

***“[SaaS] is attractive because it makes everything someone else's headache.”***

– US CEO (Logistics)

***“We'd have to see that the vendor could do a better job managing the software than we could.”***

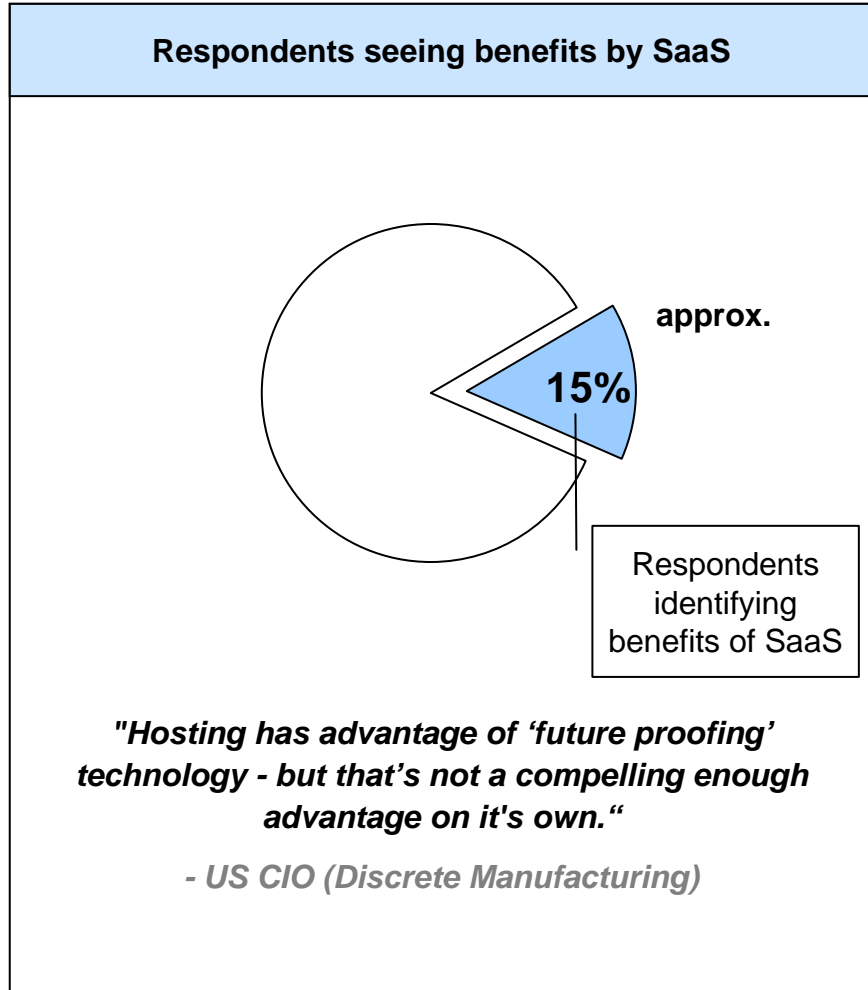
– US IT Director (Discrete Manufacturing)

***“If a system’s not running well, I would love to be able to [call and] say, ‘Fix it, mate.’”***

– UK Head of IT (Professional Services)

# Key challenge: Benefits of Software as a Service still elusive

Software as a service's advantages have only gotten through to the market piecemeal so far.



**Potential benefits**

- **Opportunity to “back off“ - SMEs improve financial flexibility.**  
*"It lets you try before you buy."*  
- UK IT Operations Manager (Professional services)
- **ISVs guarantee higher security standards than internal data management.**  
*"ISVs standards are even better than corporate ones."*  
- UK IT Director (Discrete manufacturing)
- **Internal resources savings (e.g. hardware, staff)**  
*"Our company would gain additional IT know-how. But I don't see the difference to maintenance agreements."*  
- Germany Head of IT (Wholesale distribution)

*"If a system's not running well, I would love to be able to [call and] say, 'Fix it, mate.'"*  
- UK IT Manager (Professional services)

- **Low upfront investments**  
*"Interesting for smaller firms with less than 10 employees, which may have liquidity bottlenecks."*  
- Germany Managing Director (Professional services)

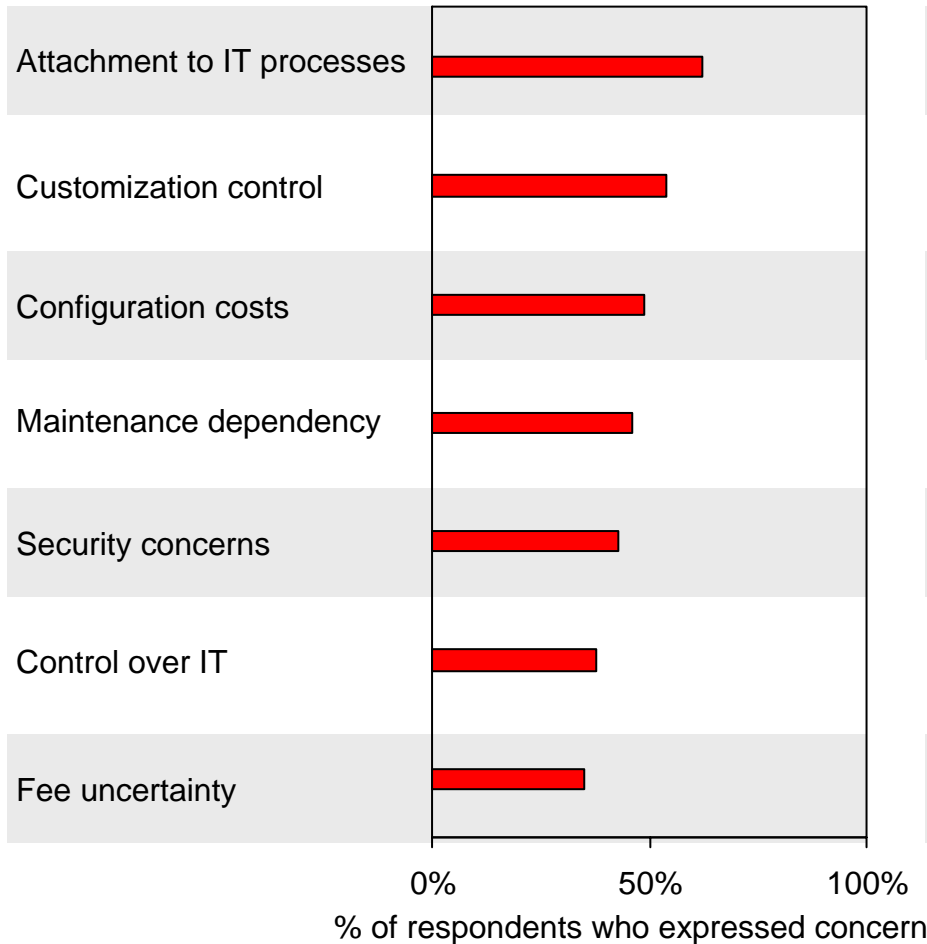
Source: SKP research with SMEs in US, UK and Germany, 2006

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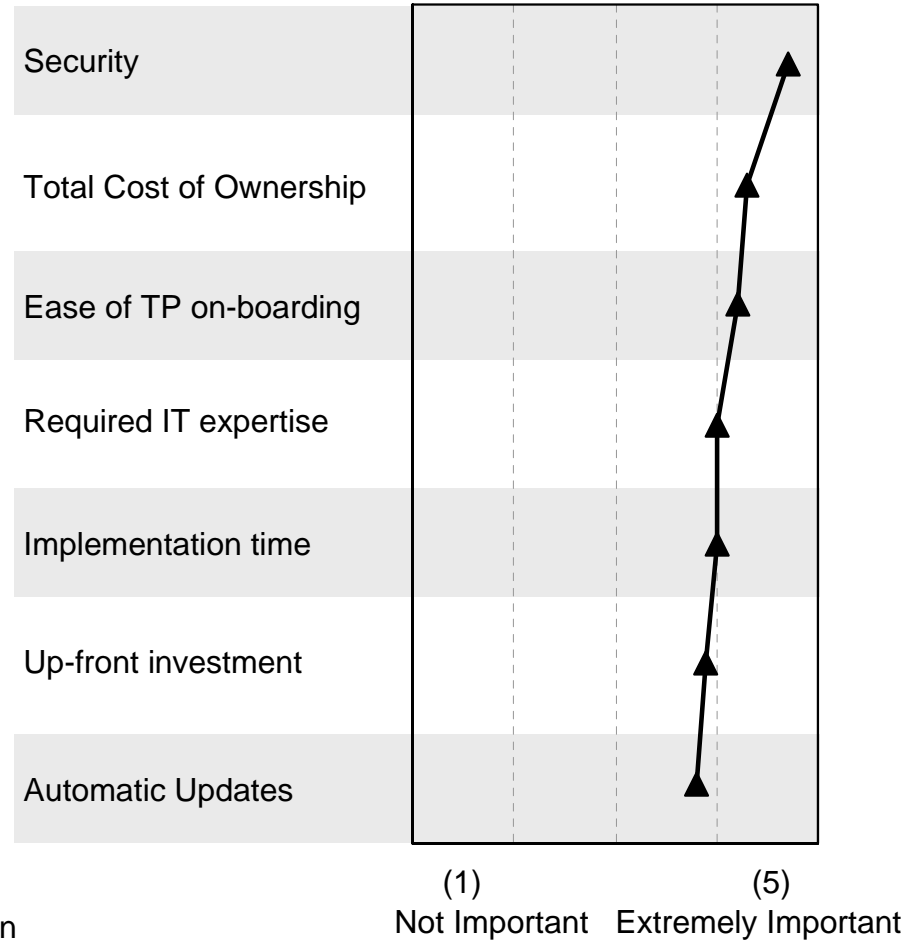
# Inhibitors and drivers to adoption of hosted services

Attachment to IT processes is a significant barrier to hosted adoption. Security is also a main decision driver and perceived barrier that deserves significant attention in product messaging.

**Inhibitors**



**Decision Drivers**

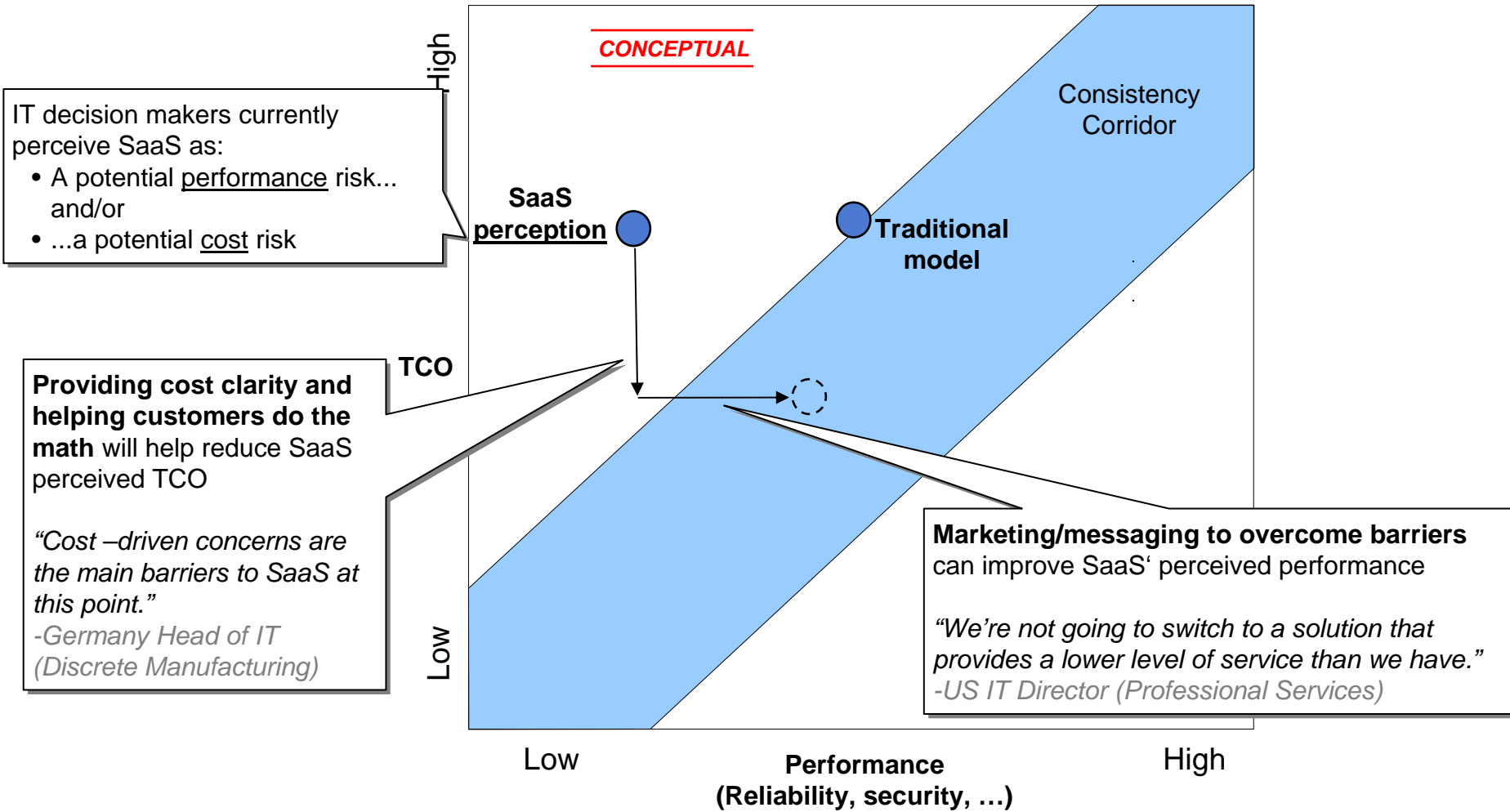


Source: Customer interviews ; SKP analysis

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# SaaS must overcome barriers and change value perception

Current mid-market value map



Source: SKP research with SMEs in US, UK and Germany, 2006

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# Many SMEs would only consider SaaS on non-mission-critical software

Most agreed that SaaS would not work for a “mission critical” application

*“We’d only use this for non-mission-critical applications. I’m still not convinced about SaaS, if something happens to it and you start losing money, it’s just too big a risk.”*

– US VP of IT (Discrete Manufacturing)

*“Conceptually, it sounds like a great idea. In practice, however, too many things could go wrong – we’d still like to keep our mission-critical applications in-house.”*

– US CIO (Professional Services)








*“Many of our mission-critical applications are highly customized. SaaS would probably be considered only for standardized solutions.”*

– UK IT Director (Professional Services)

*“There are still widespread concerns about data transfers and network errors with regards to SaaS... therefore we would only consider it for non-critical processes.”*

- Germany IT Manager (Discrete Manufacturing)

Those SMEs who would consider a SaaS solution at all targeted non-mission critical applications

Application	Likelihood
▪ HR management	
▪ Accounting	
▪ Sales force automation	
▪ Billing	
▪ Customer relationship management	
▪ Desktop applications (MS Office, etc..)	
▪ E-mail	

 = frequently mentioned application     = infrequently mentioned application

# Key findings: SaaS must overcome hurdles before broad acceptance

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**1** IT decision makers are receptive to the idea of Software-as-a-Service...

**3** Current segmentation by industry does not reveal significant differences...

**2** ...but need to see advantages over current models in order to choose it.

**4** ...but firms most willing to try SaaS share certain traits:

- Smaller IT departments
- Technology is not a primary cost driver
- Use standardized software
- IT values software that is easy to track and manage



# Take Aways: How can companies drive greater SaaS adoption?

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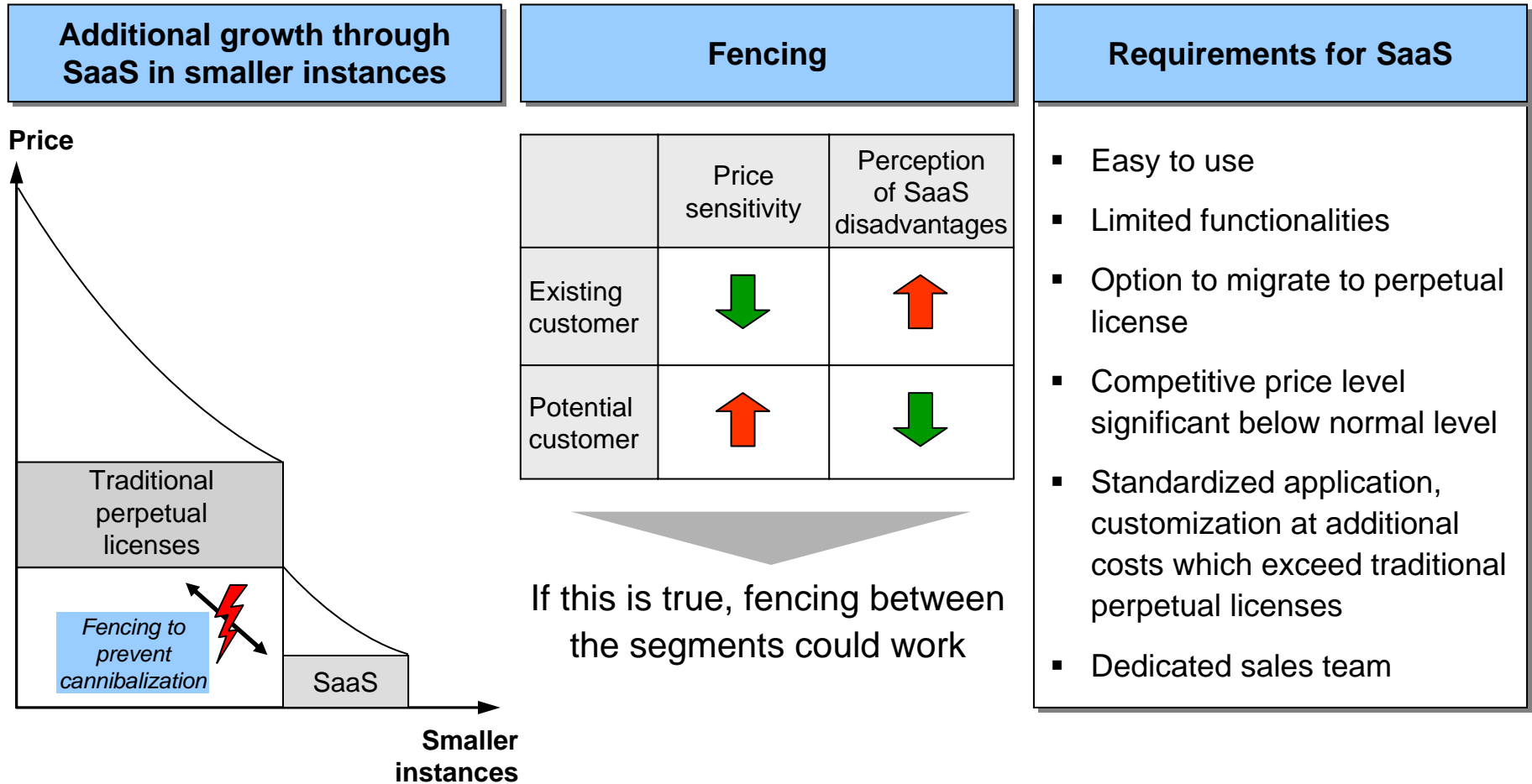
- 1 Help customers better understand the SaaS value proposition and reassess its risks and rewards**
- 2 Focus SaaS efforts on SMEs most likely to be willing to adopt SaaS**
- 3 Focus SaaS offerings in non-mission-critical applications and applications that require less customization**
- 4 Consider an SaaS offering as an option to strengthen broaden reach in SME market**

Source: SKP research with SMEs in US, UK and Germany, 2006

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# For now, SaaS could help provide access to the tail end of SME market

SaaS may attract potential customers with high price sensitivity. Feature fencing is critical to avoid cannibalization and promote up-sell. Value perception gap must be closed to ultimately challenge traditional license model for mainstream usage.



Source: SKP analysis

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# Thank You !

For a copy of this presentation, contact:

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