OVERLAYING A SAAS BASED SUBSCRIPTION MODEL ON A TRADITIONAL ON PREMISE CHANNEL – AN OVERVIEW

Transitioning from a perpetual to a subscription business in a two-tier context has been done at several top technology vendors but not without pain, sweat, blood and mistakes. The path is challenging and laden with heavy choices. Should you deliver SaaS through a channel model or direct, if direct what form does the channel need to take to assist? Are you competing against your partners? Have you considered the trusted advisory role that partners assume, and the power they can wield on customer decisions? How will you support the partners in their change of business model to one that is increasingly consultative?

Perpetual and subscription models should be kept separate for the most part or at least for a long time.

For example, at VMware, vCloud Air Network (sold on a subscription basis via an MSP) is an extension of vCloud Air (purchased on a perpetual license basis directly from VMware). The primary point of qualification for participation in the subscription program is that the MSP must sell vCAN and deliver managed services to end customers (versus services based on the sale of perpetual licenses that are owned by the end customer). If the end customer implements the technology within their own infrastructure and is only serving its own employees, then the end customer is permitted to use perpetual. If they are using that same deployment, but delivering services to a 3rd Party Company or Individual, then they are required to join the MSP program and pay based on the consumption of those licenses. As if it was a utility.

It is important to keep in mind and prepare to track usage with automation through software tools that monitor the usage of specific licenses locally and convert them into points or real dollars on a monthly basis.

Full migration to an opex system could be disastrous to a company due to the timing of the revenue based on usage versus the capex expenditure up front. A gradual migration is often more appropriate although you can expect fierce resistance to the model from both the partners and legacy oriented partner management, unless you have already modified the internal compensation plans to accommodate both models.

Based on the pricing model, eventually the cost of an opex model will exceed that of the capex expenditure. It is better to define a way to address existing channel & revenue models for compensation at the outset.

Let’s now consider from a bird’s eye view what the paperwork could look like through the distribution chain.

Typically the MSP program administration would be on the vendor side. If a distributor or aggregator is kept in a position between the MSP and end customers, then the responsibility for collection of revenue on a monthly basis may fall on them. The contract that obligates the MSP to pay for usage is governed by the relationship between the aggregator and the MSP/end customer.

The vendor holds the aggregator responsible for revenue collection. The MSP to end customer relationship is a contract between those entities and does not involve the vendor nor the aggregator as long as that MSP adheres to the guidelines of the program.

For the contractual framework we might consider a foundation agreement that consists of the base terms and conditions common to all solutions, along with a (complimentary) exhibit that contains specific T&Cs for the type of offering (e.g. SaaS Module.). Alternatively, we might consider a simple Master Subscription Agreement that combines the two in a single document

The vendor must deploy an administrative team to manage program operations and the metering tools used to track usage. Otherwise, service providers must manually monitor and report to the aggregator in accordance with the aggregator's reporting process. It is essential also to deploy a financial forecasting team to track revenue and identify trends in usage and a dedicated commercial team to promote the program, provide oversight on usage, and to provide insight to drive additional methods of revenue development, driving the program through MSP sales channels. The MSP channel sales and marketing activities are well served by global outsourcing through Gorilla Corporation.

Internally it is crucial to implement a compensation model for the internal sales organization that aligns to the new business model. Frequently new sales people are hired to work within the new operating parameters, it is often thought that the fundamental DNA of this kind of commercial resource is different.

For partners the fundamental change in revenue flow is even more dramatic if they come from a traditional model. The cashflow implications are significant. Many vendors are smoothing the transition over by offering the partners a front loaded margin model on secure long term end user contracts. Likewise many vendors are focusing their partner recruitment efforts on onboarding "Born-in-the-Cloud" partners, and this inevitably proves successful when properly handled.

Distributors have been creating specialized business units to handle SaaS sales through MSPs. They drive additional benefit to their bottom line by extensively cross selling into their channel accounts. There are many large vendors that have already successfully broken ground on this and a number of distributors that have pioneered subscription licensing programs through proactive management of MSPs.

Nevertheless, convincing and enabling a traditional partner to move to SaaS is hard and requires a separate program that complements any existing channel programs you might have.

People often associate the SaaS model with Business and consumer applications like CRM, ERP, collaboration, but in recent years companies like AWS, Microsoft Azure, Google Compute Engine, IBM SoftLayer, Red Hat and others have blazed the trail in proving the model also in infrastructure provision.

The long term benefits of having a "sticky" cloud based consumption that echoes that major telecommunications and media models has been proven as a means to manage and maintain a customer base with a predictable sources of recurring revenue.