

The Great SaaS Shift

Exploring how software vendors are using subscription models to change the way they do business



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Executive summary

SaaS has swept all before it,
for good reason

Software-as-a-Service (SaaS) is an unmissable opportunity for software vendors to scale their businesses and accelerate profitable growth. According to McKinsey and Company, subscription-based businesses grew six times faster than the S&P 500 stock market between 2012 and mid-2020.

By replacing charging for products with charging for access to products, SaaS keeps revenue coming in year after year, with income growth rising exponentially as the customer base grows.

As well as pleasing your customers, SaaS is an approach that investors like. Companies that increase their share of revenue from subscription enjoy higher market capitalisation. To give you our own example, Salesforce is the SaaS pioneer that generates revenue of around \$27bn and has a market capitalisation of \$166bn. Compare that to a leading UK bank earning \$22bn in revenue yet with a capital valuation of just \$31bn in 2022.

While the benefits are clear, the shift to subscription cannot be achieved in a single leap. It's a journey of many steps that calls for a rethink of your products, customer lifecycle and business capabilities.

For example, subscriptions change the entire quote-to-cash process, because now a customer doesn't just represent a one-time sale, but a lifecycle from acquisition to renewal. Businesses making the shift will need to connect customer touchpoints into one holistic journey, something that requires new capabilities and new cross-functional partnerships.

The Salesforce platform provides a comprehensive set of capabilities that can help software vendors at every stage of their SaaS transformation.

In this publication, we look at the reasons behind the phenomenal growth of subscription software, how it can benefit your customers and the steps needed for success in SaaS.

“Salesforce Revenue Cloud has allowed us to easily manage our subscription business and create recurring relationships.”

Ruchika Chopra, Head of Business Systems, Juniper Networks



02

Ditch the disk – the growing dominance of subscriptions

Not so long ago the only way to obtain software was to buy a product stored on a physical medium such as a CD-ROM and install and maintain it on an enterprise's on-premises hardware for users to access. The internet and the rise of cloud computing changed all that, enabling businesses to subscribe to software and use it from anywhere, anytime and on any device.



Offer pay as you go to boost your business

Software-as-a-Service (SaaS), as the subscription revenue model became known, is sweeping away the on-premises approach to running software. By delivering applications from the cloud, SaaS has transformed software from being a commodity that's purchased and installed, into a service that provides the capabilities required.

Today, SaaS is a gigantic sector, valued at nearly 187 billion USD globally in 2022¹ – and continuing to grow.

Salesforce was a pioneer, launching its Customer Relationship Management (CRM) product in 1999 as the first built-from-scratch SaaS solution. The sheer convenience and flexibility of delivering apps over the cloud has helped to power Salesforce's spectacular growth. SaaS has enabled Salesforce to expand quickly into new areas, capturing the digital transformation wave sweeping across all sectors. Between fiscal years 2017 and 2022 (ending in January), Salesforce's annual revenue increased at a compound annual growth rate (CAGR) of 25.9% to \$26.5 billion.

If any company knows how to use the power of SaaS to generate revenue growth, it's Salesforce.

¹ <https://www.grandviewresearch.com/industry-analysis/saas-market-report>

\$187BN

Is the value of SaaS globally in 2022¹



Did you know?

Salesforce's subscription billing capabilities automate the entire subscription billing process, eliminating billing errors. Manage free trials, freemium offers, set-up charges, one-off transactions, discounts, refunds and renewals all in one place.

02 Ditch the disk – the growing dominance of subscriptions

Success story:

PTC converts 90% of its customers to SaaS

Following a CEO-led transformation to migrate to a SaaS model, digital solutions provider PTC has converted 90% of its customers to a subscription model since 2016. This has helped drive increased profits and set up PTC for double-digit ARR growth over the past three years. PTC rolled out Salesforce Revenue Cloud as part of its subscription transition, helping it to achieve 95% recurring revenue.



“Our business is based on a subscription business model, which provides flexibility to customers and increases predictability and consistency of billings for PTC.”

PTC annual report

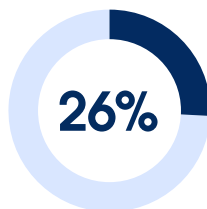
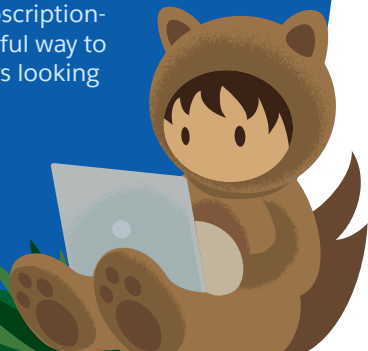


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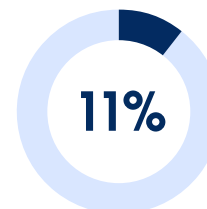
The shift to SaaS is accelerating

While the adoption of SaaS business models has grown steadily over the years, the COVID-19 crisis forced many companies to adapt their operations for remote and hybrid working. This has accelerated digital transformation and spurred SaaS use.

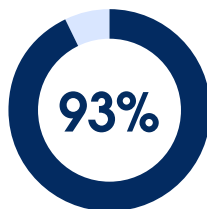
For hi-tech enterprises looking to scale up in the business-to-business (B2B) arena, SaaS offers flexible ways to tailor offers to the diverse needs of all customers, from the highest revenue accounts to the long tail of lower volume clients. In today's increasingly unpredictable environment, offering subscription-based software is a powerful way to attract new B2B customers looking to reduce risk.



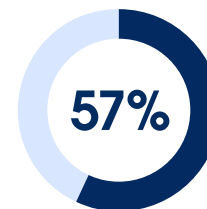
Higher than expected growth in the SaaS market because of the pandemic²



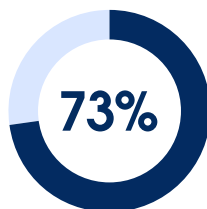
Expected CAGR in the SaaS market from 2022 to 2028³



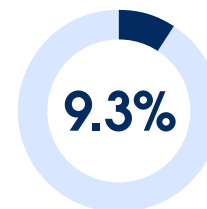
Of CIOs plan to adopt cloud SaaS⁴



Of organisations will use hybrid or cloud-based SaaS by 2023; up from 46% in 2021⁵



Of organisations plan to switch or are switching all their systems to SaaS platforms⁶



Salesforce's share of the public cloud SaaS market in 2020⁷

² <https://www.enterpriseappstoday.com/stats/saas-statistics.html>

³ <https://www.grandviewresearch.com/industry-analysis/saas-market-report>

⁴ <https://www.enterpriseappstoday.com/stats/saas-statistics.html>

⁵ <https://www.businesswire.com/news/home/20210331005591/en/Companies-Accelerating-Adoption-of-Cloud-Based-HR-Platforms-Amid-Pandemic-ISG-Survey-Finds>

⁶ <https://www.enterpriseappstoday.com/stats/saas-statistics.html>

⁷ <https://www.enterpriseappstoday.com/stats/saas-statistics.html>

03 The shift to SaaS is accelerating

Success story: Egress maintains growth through continuous improvement

Email cybersecurity provider Egress has been using Salesforce since 2018 to support rapid growth - bringing greater consistency, visibility, and efficiency to its business. Turnover also doubled between 2018 and 2021, and 85 new recruits joined the company in 2020 despite the pandemic.

“We have shifted from a start-up to a scale-up business, and we need platforms and partners that can support our future goals,” says Daniel Hoy, Director of Strategic Partnerships at Egress. “With Salesforce, we can unlock new insights and efficiencies to take us to the next level.”

As its business grew, Egress needed to ensure it could track every customer transaction on every channel, for which they use Salesforce B2B Commerce.

But Egress didn't just want to boost profitability; it also wanted to improve customer intimacy. In November 2020, Egress introduced *Service Cloud* to support this vision - enabling agents to view past and current customer transactions, which helps them respond to queries more efficiently.



 egress



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Five ways SaaS empowers your customers

Organisations have a superb opportunity to improve their competitiveness by offering their software products under SaaS arrangements. That's because SaaS delivery brings several benefits to their customers.

Time saving: By avoiding the need to install and set up your applications on their own hardware, ready-to-use software helps your customers shorten their time to market

Scalability: Being cloud-based, your SaaS applications are easily and rapidly scalable, enabling your customers to respond to changing market demand

Applications are always up to date: Your customers receive upgrades and updates from the cloud as soon as they are ready, saving them time and resources

Ease of use: Your applications are available to use anywhere, on any device, including mobile, making them easy to access

Budget friendly: SaaS enables better and more predictable budgeting so your customers can be confident they are paying only for what they use.



SaaS security is no longer a barrier

While some 57% of tech leaders cite SaaS security and compliance as a concern⁸, the reality is that large SaaS platforms are highly secure.

Salesforce leads the way in SaaS trust and security by implementing modern security architectures that protect data at every level, with access being tightly controlled to prevent unauthorised breaches. The scale of protection exceeds that possible in most individual company data centres, which has resulted in many large enterprises, even those handling highly sensitive data, adopting SaaS products with confidence.



⁸ <https://financesonline.com/saas-software-statistics>

05

Technology that scales up SaaS revenue

Did you know?

Around 75% of B2B decision makers prefer digital self-service⁹

It's not enough to just offer your products under a SaaS delivery model. Unlike the commitment of an outright purchase, a subscription is easy to cancel, especially in the early days of an engagement. That's why churn is an ever-present risk for SaaS companies that must be countered by exceptional customer service. It's the only way to scale up your SaaS business.

The Salesforce platform offers ever-improving technologies to sharpen your focus on the SaaS customer experience.

Artificial intelligence: AI works seamlessly within Salesforce products to predict customer behaviour, boost personalisation and improve security. **Salesforce Einstein** is an integrated set of AI technologies that helps you adapt your products and services to new opportunities, deliver proactive service to address potential churn, personalise marketing campaigns and create smarter apps for customers.

Industry-focused platforms: While the fundamental needs of SaaS customers are common, different industry sectors demand tailored approaches. Salesforce Industry Clouds provide sector-specific

capabilities, such as data models, built to address the unique needs of your customers' industries. According to Gartner, industry vertical products can save 30% of customisation time by 2026.¹⁰

Low code and no code development: Speed up your time-to-market of SaaS-based apps through simplified interfaces that enable business managers to quickly develop app features without the support of scarce and costly coding professionals.

Mobile first platforms: A defining characteristic of SaaS delivery is the ubiquitous availability of apps. Salesforce solutions offer equal capabilities for users regardless of device, mobile or fixed, enabling rapid responses to the fast-changing needs of your SaaS customers.

Advanced analytics: Expanding the automation of processes and workflows to free up resources calls for advanced data analytics. Salesforce continuously develops its analytics technologies to help you gain valuable insights to improve SaaS customer experiences and reveal business performance in real time.

9 <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/these-eight-charts-show-how-covid-19-has-changed-b2b-sales-forever>

10 <https://www.gartner.com/en/documents/4009001>



05 Technology that scales up SaaS revenue

Success story: Trellix automates CPQ as it transitions to a recurring revenue model

Wanting to free up IT resources and reduce the time to configure new products, cybersecurity specialist Trellix decided to simplify and automate its Configure, Price and Quote (CPQ) capabilities. Working with Salesforce, the company has cut the time to deliver quotes by automating and tracking approvals, as well as building confidence in the quoting process by notifying sales team members of configuration errors in near real time.

In addition, the complexity of billing for its recurring revenue model has been tamed by integrating CPQ and automating key processes. This has resulted in an 80% reduction in Stock Keeping Units (SKUs) and more than halved invalid orders.



Trellix

Did you know?

AI-enabled chatbots are increasingly automating the resolution of customer queries, freeing up human agents to focus on more complex cases. “Our customers have rated automation-resolved cases at the same level as agent-resolved cases: in the low 90% range. We see this as a huge win,” says Samantha Philip, CS Systems Developer, Sun Basket, a Salesforce platform user.

06

Transform your business into a SaaS powerhouse



Based on its long experience, Salesforce recommends high tech companies follow a proven, staged process to efficiently implement their SaaS transformation.

Awareness: Making potential customers aware of your SaaS products takes effective digital marketing. [Salesforce Marketing Cloud](#) offers everything needed, from identifying and segmenting audiences, to planning and running online campaigns, to marketing analytics.

Customer success: Having identified potential customers, the next stage is typically to engage them in a trial and provide the right support through [Salesforce Service Cloud](#) to help ensure the trial's success.

eCommerce: Once the trial period finishes it's time to convert the target into a subscription-paying customer by publishing products and price plans and provisioning the software. Salesforce Commerce Cloud provides all the tools needed to meet the complex online purchasing needs of the SaaS business buyer.

Onboarding: A critical stage that can be automated to develop self-service capabilities and self-paced learning to help ensure the customer gains the full benefits of your SaaS products.

Renewal and upsell: As well as avoiding churn and ensuring recurring revenue, the renewal stage is a great opportunity to accelerate growth and increase customer lifetime value.

Focusing on customer success increases the likelihood of renewal. Data analytics helps to understand customer health and identify accounts needing more support. Engaging with renewal prospects early and using automation enables the right offers at the right time.



06 Transform your business into a SaaS powerhouse



Executive checklist

The shift to subscription takes careful planning to ensure success. That calls for a rethink of strategy and operations encompassing everything from products to customer lifecycle to business capabilities.

☑ Understand what your customers need

It's important to clearly understand why your customers buy your software. That means having a deeper view of their usage of the product as well as what they say they want.

☑ Understand your customer's willingness to pay

Use customer intelligence and market insight to decide what kind of subscription plans to offer. Many companies offer three or four different SaaS plans tailored to the needs of a range of clients.

☑ How long should the plans be?

Most vendors focus on monthly plans, a minority offer only annual plans, while some offer both. It's also vital to get the pricing right. Plans should be based on the scope of the services and the value they offer while enabling customers to budget their spending with certainty.

☑ How do you win customers over?

Many SaaS vendors offer free trials. 7-14 days is common followed by a commitment for a set period (usually a year), with options for add-ons.

☑ Do you customise?

Offering customised plans gives high tech software vendors an opportunity to provide higher value for customers and a deeper engagement. It's important to ensure you have the resources available to offer customisation.

Success story: Boosting recurring revenue with Salesforce

A leading multinational software corporation focusing on the design, engineering and entertainment industries partnered with Salesforce to fully transition from a perpetual license to a subscription model.

Launching a customer success solution natively on Salesforce helped the company differentiate in customer service. A unified view of its customer and partner was also achieved by integrating Salesforce with SAP pricing/financial data, as well as license and consumption backend systems.

All of which resulted in recurring revenue jumping from 40% to 97% with 17% year-on-year growth in fiscal year 2022.

97%

Jump in revenue from 40% in fiscal year 2022



07

Conclusion: Making a success of SaaS

Companies that embrace as-a-service products can be more attractive to investors, thanks to predictable, high-growth revenue streams.

The benefits of a SaaS model are clear. Margins over a product's lifetime are higher. Subscriptions create defensible barriers to entry. Sales obstacles are lower because your customers get immediate access to your product and pay less at the beginning. And customer relationships tend to be deeper and more enduring.

However, recurring revenue calls for you to “re-win” your customer every renewal cycle. So, you need to become more customer-centric and focus on creating a great, omnichannel buying experience.

We believe Salesforce Subscription Management is a strong platform from which to stage your transition – and the best time to do it is now.

Find out more about how Salesforce Subscription Management can help you win with SaaS.

[VISIT THE WEBSITE](#)

See how companies like yours are succeeding with Salesforce.

[WATCH DEMO](#)

9 things you can do with Salesforce Subscription Management

1. Achieve efficient growth with self-service buying
2. Grow revenue on any channel
3. Drive sales and customer with any engagement layer like in-app, eCommerce, chat and more with headless APIs
4. Launch any monetization model
5. Deliver more customer flexibility with buying options like one-time purchases and termed or evergreen subscriptions
6. Support ongoing customer engagement
7. Manage all customer lifecycle actions, enabling them to buy, renew, change or upgrade on any self-service channel
8. Unify customer experiences
9. Automate mission-critical customer touchpoints like billing, collections and approvals

