

White Paper: How to Successfully Transition from Traditional Software to SaaS Subscription Model

Best practices for companies looking to make the change

Abstract: In this White Paper we outline the main considerations companies should take regarding Stakeholders and the Products when transitioning from a traditional software company to a SaaS subscription model business.

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Introduction: Transitioning to a subscription model or SaaS from traditional software

An increasing number of traditional software companies are switching to cloud-based and SaaS subscription models - and with good reason. As we see more companies take the leap, we're gaining insight on the advantages of transitioning, which include: potential for faster revenue growth over time, increased agility, and more predictable revenue. But aside from witnessing the advantages of switching to the subscription model, we can learn from these other companies and gain valuable best practices for other software companies looking to take the leap.

Let's think about these best practices in two components: stakeholders and products. Approaching a software to SaaS transition with these aspects in mind, will improve the overall experience of the transition and result in a successful switch.

Stakeholders

As with any type of business, there are people involved who are an integral part of the growth and formulation of the company. In most cases stakeholders can help make decisions about the business and products or services, can dictate the overall performance, and even are an integral part of communication and crisis management. Stakeholders have a vested interest in the success of a company, and therefore need to be considered when undertaking a major business model transition.

Considering customers

Whether or not you've been in business for a long time, you may have loyal customers who have bought each update of your software regularly, and have stayed true to your brand. Changing your business model on them may intimidate you for a number of reasons, one of which being that your customers may not be adaptable to change. But in fact, it just may be that the opposite is true. Your most loyal customers may love your product, but not necessarily the format that it comes in. They may be craving a cloud-based solution, rather than needing to buy a physical product each time they want to access more features or improvements.

Secondly, you could be missing out entirely on a new generation of users who simply do not want to be bothered with a one-time purchase when they know how quickly technology moves. For digital natives, there can be an expectation that a one-time purchase may soon become outdated or even obsolete, and therefore may be less willing to open their wallets for a solution that doesn't allow for automatic updates. For your company to stay relevant in the long game, you may need to consider who the next loyal customers may be, and adapt to their expectations and needs. One example you'll see studied frequently is Adobe's transition with the launch of the Creative Cloud in 2012. By 2016, [over 30% of it's SaaS solution customers were new to the company](#), showing just how valuable it can be to rethink who might want to use your products.

So how do you go about addressing your current customers, find out if they are open to the change, and then discover what they need to process the change? Give them your undivided attention because it all comes down to change management. We're guessing you know your loyal customers fairly well, and giving them a platform to be heard can make them feel even more valued. Conduct phone or email surveys, gather groups of customers together for brainstorming and feedback sessions, and find beta testers who are willing to try your new SaaS products for comparison. You should never go through a business model transition blindly. Your customers are your best assets and should be treated as such. While you have your priorities from the outside looking in, your customers will provide you with an important perspective that can ensure you get the transition right.

With the 2012 launch of Adobe Creative Cloud, the SaaS version of its winning Creative Suite, the company began offering subscription-based packages for its popular Photoshop, Illustrator, and other flagship programs. There are a few key best practices that we can learn from their transition, especially when it came to managing their customers.

Adobe learned quickly that their subscription offerings didn't fully cover all their bases. While they were focusing on professionals and B2B sales, they didn't fully cater to private use and B2C opportunities. Customers who were into photography and design as a hobby felt that the tiers available didn't suit their needs or budgets for using the tools sporadically, or for simply tinkering around. Through listening and [responding to the feedback that they received](#), they were able to adopt a solution that made sense for these customers, recapturing an audience who might otherwise be lost.

Considering Investors

For most companies, shareholders and investors play a big part in the particulars of what business decisions are made, and how. In business, it's crucial to make our customers happy, but we also have our investors who are looking for us to make a profit. When a major change is considered, investors want to know how it will improve the bottom line, and at the end of the day, make them more money.

When transitioning to a SaaS subscription model, traditional software companies may find hesitation from their investors regarding how that transition should be executed. Some may worry that valuation may decrease, or that scalability won't be fast enough. Luckily we have historical precedent to predict what outcomes may occur in order to satisfy our shareholders. In an article published by [Harvard Business Review](#), the authors found that when it came to enterprise solutions switching to SaaS models in recent years, investors did prefer certain things: the first is that the original product was kept in place as a "fallback" or parallel option, and secondly, that the SaaS product is new, not simply a conversion of an existing product.

In the published study, the authors found that “investors increase their valuations of the software vendor’s stock by an average of 2.2% if the vendor makes clear in its announcement that the SaaS offering is provided in parallel to a perpetual licensing model.” In this case, we can see that while potentially costing more in resources to keep both models running, investors value the two options as a smarter choice for long term profit gains.

Additionally, when enterprise B2B companies released a stand-alone SaaS product that differed from their traditional software offerings, they saw an increase in valuation as well. Application performance management software company Dynatrace released a SaaS entity in 2014, which was subsequently brought into the entire product line after a two year transition period. The research conducted by Harvard Business Review found that when companies *did not* create new SaaS products, but rather used new cloud-based iterations of former software, valuation was reduced by 3.5% on average.

Considering Employees

When all is said and done, when customers are on board for new cloud-based products and investors are prepared for changes in cash flow, you still need to make sure your employees are prepared to handle the transition. Change management is a difficult component of any organization and even if you have a great, close-knit relationship with your team, you should never just wing a major company overhaul.

Your employees can be your steadfast beacon that keep you on track and staying true to brand. While it’s easy to get carried away when changing a major component of your business, your employees know the real company inside and out, and can make sure that mission, vision, and message is executed continuously. Lean on your senior staff and employees who have been there the longest when you’re unsure of product features, package offerings, or subscription tier pricing. They work with the customers and your products day in and day out and can contribute greatly to securing a new model that doesn’t alter the image and goals of your entire company.

Reliance on clear communication and feedback was a hallmark of [workforce management software company Kronos’ transition into SaaS](#). As the global leader in their industry, Kronos looked to change their model to 65% of their revenue coming from cloud SaaS subscribers by the end of 2019. They knew they couldn’t achieve the ambitious goal without their staff on board.

With the help of Boston Consulting Group, Kronos established an internal task force they called the “Transition Management Office.” This office was appointed a leader, who would rally the troops and ensure the progress of the mission. The progress was reliant on two things: well established and outlined work streams, and regular progress check ins and reporting. In tandem with the TMO, a communications campaign called “Make the Shift” was established to provide actionable tasks, valuable feedback, and inform employees of crucial new policies and

practices. With 5,000 employees worldwide, Kronos needed a major internal operation to ensure the proper management of change. But even for smaller companies, a serious and strategic approach to moving the company forward together will be hugely beneficial, and help secure future success.

As a traditional software company, you may also need to consider restructuring your compensation setup for your sales staff when transitioning to SaaS. If you have a high-touch sales process, and sales professionals attain commissions for sales performance, you may need to completely overhaul how you manage achievement and reward. While it's still possible that you will have a high-touch sales process with the SaaS subscription model, you should consider how you will track that process, and also consider how securing renewals, or subscription upgrades will also be compensated. You may, in fact, choose to forego the traditional sales commission set-up after making the transition, but talk to your staff about what they want and need to continue to perform at their best for your company.

Products

As we've discussed, changing to SaaS subscription model really isn't as simple as putting your software programs in the cloud and charging a recurring fee rather than a one-time purchase price. Making the transition successfully actually presents a lot of challenges, and not just for the stakeholders involved. When transitioning to SaaS, we discussed that you should actually be offering new products. It makes sense from the investor and customer perspective, and it's possible to have your original software offering as backup throughout the transition, which can potentially be phased out later in the future. A lot of consideration and planning should go into your new product offerings, and there is a process for getting them right.

User experience

In the beginning of product development, designers and engineers in every field typically think about the problems that need solving for their target audience, and how to do that in a way that is appealing. We often call this function versus form (or form versus function, depending on who you ask). But there's an important third element that is becoming more commonplace: user experience.

User experience, or UX, is a crucial third component that is being used in product development, and especially in the SaaS and internet realms. Products need to be designed how the users will intuitively interact with them, and/or use them in ways that are most enjoyable. Form and Function are still important aspects, but in transitioning to a SaaS subscription model, you should place priority on developing through how your customers will want to use your SaaS tool.

To decide on UX, there are a few best practices based on usage trends and current standards. Research how today's consumers and particularly your target audiences may want the software as a service to work, and the features that are most important to them. Consider if you want

your interface to be accessible on mobile, and how that should be optimized. In one study conducted by UX design company Experience Dynamics, they found that [52% of people surveyed said that a bad mobile experience would make them less likely to engage with a company](#). Likewise, 90% of respondents said they stopped using an app due to poor performance.

SaaS solutions are meant to make life easier for users, or solve a major issue that occurs in everyday life or business. By not considering UX, you risk creating a new problem for your customers if they can't quickly and easily discover how your platform works. You may consider training and onboarding if your product is complex, but thereafter your customers should find their experience fairly easy and enjoyable.

Testing

To get a sense of what your customers will want, you should opt for beta testing each iteration of the program. Rolling out your products in test phases will help you to understand if your offerings will be successful once they hit the market. Your existing customers will appreciate both the sneak peak so that they can be better prepared to make the transition, and also will provide valuable insight into how they want these programs shaped.

As an established company, you'll have an advantage in beta testing over newly founded SaaS companies. Often, finding testers can present problems when you don't necessarily want the bias that comes with paying for testing or targeting very niche groups. Though you still may want to consider testing with people who aren't familiar with your existing products, customers are a built-in base that is easy to access.

Testing can encompass several different aspects of a SaaS offering, and you [should be specific in what kind of feedback you want from your testers](#). Consider segmenting feedback into groups, so you can ensure that your testers are focusing on one specific aspect that they can provide quality information for. For example, have one group provide feedback on user experience and ease of use. Have a second group provide feedback on your package offerings and pricing tiers. Have a third provide feedback in regards to performance and functionality [BLOG LINK]. You may not have everything perfect when the final rollout occurs, but you'll avoid simple mistakes that can easily be fixed beforehand.

If we look back to the example of the Adobe Creative Cloud rollout, they could have avoided the costly mistake of excluding a major part of their existing customers if they had simply taken more caution to get a fully representative testing group to test the SaaS offerings.

Pricing

A crucial consideration for transitioning to SaaS is cost. While the long term cost benefits can be immense due to better recurring revenue, continuous and predictable cash flow, and major reductions in overhead for producing and shipping physical products, transitions can be costly.

A primary reason for transition costs includes the extra resources (employees or consultants) you may need to manage stakeholder communications, implement change management internally, or facilitate your customer support systems. But if you take pricing your new product into careful consideration, you may be able to offset some of these costs quickly.

Bear in mind that pricing a service is also completely different than pricing a product. Several responsibilities (and costs) shift from the customer to your company including hosting, staff, maintenance, technical expertise, and upgrade projects, so it's important to price from a value perspective, especially with existing customers. You need to think about it from their perspective and make a good case for why they should pay a recurring fee - the first instinct can be "but we've already paid for this, why would we start paying a subscription fee?" Show them the advantages to becoming a "member" rather than simply a buyer.

Pricing is a huge component for the initial success of your newly unveiled SaaS platform. While monetization can seem less important than customer acquisition, a study from [Price Intelligently found that increasing monetization can actually positively affect your bottom line by 4 times as much as increasing acquisition.](#)

Pricing is a challenge because there are some dangerous pitfalls: Price too high and you won't get early adopters or customers who make the transition easily. Price too low, and you likely aren't valuing yourself properly and it will take longer to turn a profit on the new model. Plus, if you price low, it can be more difficult to increase prices later on without pushback. Don't give enough options for pricing, and you leave people out in the cold (like Adobe), but give too many options, and users can get confused.

While it sounds like this sweet spot sounds impossible to get right, testing, customer feedback, and stakeholder input will all be beneficial in making the right choices.

Conclusion

While transitioning from traditional software business model to SaaS subscription model has many components, you'll need to establish your priorities early. Stakeholders, including your existing customers, your investors, and your employees, will play a major role in the transition, and product development should happen carefully through the lense of user experience, testing performance, and pricing models. With so many companies transitioning in the last decade, we can learn from the triumphs and mistakes of others to see what aspects of a SaaS business model are most important for successfully managing the transition.