YOUR BUSINESS AS-A-SERVICE
Putting the right pieces in place
Increasingly, customers are expecting digital experiences from the products and services they buy; and this development is putting increasing pressure on all types of companies to develop As-a-Service capabilities that can meet these expectations.

While an As-a-Service business model has significant benefits, capturing its full value is not easy. It requires a multi-year journey, with many challenges along the way including evolving financial models, supply chain management, and new sales and support models. Progress toward the new model must be carefully managed in order to avoid undesired impacts on near-term operations. In pursuing this balancing act, companies often make avoidable, costly mistakes that can impact growth and reduce profitability.
The As-a-Service experience can certainly be very different for companies who are starting with a clean sheet, compared with those who are augmenting or transitioning an existing business. It can be further complicated based on the type of product and specific user needs, such as hardware, medical device, telecom, or industrial firms. However, a number of broadly applicable lessons can be learned from the experiences of companies who have successfully made the pivot to a subscription-oriented business model. One of the most fundamental lessons is this: it is critical to consider the applicability of this model to your business, sooner rather than later.

As Figure 1 shows, many leading companies are already on the journey to successfully using this model.

**Figure 1: As-a-Service movers come in many varieties**

<table>
<thead>
<tr>
<th>Company</th>
<th>Dates</th>
<th>Description</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adobe</td>
<td>2012 - Present</td>
<td>Full transition to SaaS model</td>
<td>Software Marketing Applications</td>
</tr>
<tr>
<td>Inuit</td>
<td>2008 - Present</td>
<td>Successful 10-year full transition journey to SaaS</td>
<td>Software Financial and Payroll Products</td>
</tr>
<tr>
<td>ServiceNow</td>
<td>2014 - Present</td>
<td>Full transformation to Enterprise SaaS</td>
<td>Software IT and Service Management Products</td>
</tr>
<tr>
<td>Cisco</td>
<td>2012 - Present</td>
<td>Complimentary software and services that attach to core networking hardware</td>
<td>Collaboration, Securing and Networking Products</td>
</tr>
<tr>
<td>Lenovo</td>
<td>2017 - Present</td>
<td>Device-as-a-Service</td>
<td>PC and Hardware Solutions</td>
</tr>
<tr>
<td>Schneider Electric</td>
<td>2015 - Present</td>
<td>Industrial Platform-as-a-Service</td>
<td>Electrical and Building IOT Solutions</td>
</tr>
<tr>
<td>Faurecia</td>
<td>2017 - Present</td>
<td>Auto Platform-as-a-Service</td>
<td>Automotive Solutions IOT Supplier</td>
</tr>
<tr>
<td>Signify (Phillips Lighting)</td>
<td>2016 - Present</td>
<td>Lighting-as-a-Service</td>
<td>Lighting and Energy IOT Solutions</td>
</tr>
</tbody>
</table>
As Figure 2 demonstrates, waves of companies from multiple industries have adopted As-a-Service models. The first wave, which took place starting around 2008, featured many forward-thinking software providers. They were followed by hardware companies who added subscription services to their portfolios. Most recently, industrial firms have embraced Internet of Things (IoT) and other consumption models for their B2B products and services.

“When it comes to innovation, an ounce of execution is worth more than a ton of theory.”

PHIL MCKINNEY
CEO of CableLabs, Author, and Syndicated Talk Show Host (as quoted in CIO Magazine)

Based on the experiences of companies who have built successful As-a-Service businesses, here are some of the most important considerations to help accelerate transition to these new models, while avoiding unnecessary pitfalls along the way.

PHIL MCKINNEY
CEO of CableLabs, Author, and Syndicated Talk Show Host

(quotes from CIO Magazine)

“...an ounce of execution is worth more than a ton of theory.”
Embrace the need for cultural and organizational change

Early movers will confide that the hardest part of embracing an As-a-Service operating model is the cultural impact. There are significant cultural and organizational differences from more traditional operating models, including:

THE NEED FOR C-SUITE SPONSORSHIP
Unlike many other types of new products or offerings, As-a-Service requires changes across the business. Because of the sweeping nature of these changes, it is mandatory that the executives who are running the business fully support this initiative. Senior executives are the only group who can make such strategic decisions as how fast the company should move and how deeply it should invest. If there is only minimal or superficial commitment to support the initiative with appropriate resources, or to align it with the company’s strategy, the As-a-Service initiative is likely to run into trouble.

AN EMPHASIS ON BUILDING DURABLE CUSTOMER RELATIONSHIPS
It is essential that customers have a superior user experience, because if they don’t renew their subscription, the As-a-Service business will fail. A customer-centric culture is needed to help drive how products are developed, sold, supported, and renewed.

SENSITIVITY TO RATE AND PACE
While most companies measure time in months and quarters, As-a-Service businesses operate based on seconds and minutes. This includes how fast products are released, the measurement of metrics, the speed of the sales process, and time-to-value for the customer.

LEARN FROM MISTAKES
The approach to innovation is quite different than at a traditional hardware or industrial company. Traditional businesses have little tolerance for failed initiatives; they see them as wasted budget, with largely negative consequences for those involved. By contrast, As-a-Service firms experiment with multiple ideas, test them, and then scale the winners. In this model, the idea of “failing fast” is not only acceptable, but necessary.

INCREASED COLLABORATION
This model requires a significantly higher degree of collaboration between groups than is seen in more traditional models. In fact, in the As-a-Service model, groups are frequently consolidated in order to improve collaboration and business velocity. New functional groupings often include DevOps (Development + Operations) and Customer Success (Services + Training + Support + Account Management). Whatever form it takes, a high degree of collaboration is at the heart of moving quickly and delivering value to the customer.
The As-a-Service model is centered around delivering a superior customer experience that makes offerings easy to implement, adopt, renew and expand. When it comes to designing the customer experience, traditional businesses tend to use the waterfall approach that is common in the technology industry, where a product is built for what it can do, instead of what customers need it to do. By contrast, successful As-a-Service companies are very skilled at building out an experience that meets the needs of the user. Companies that offer As-a-Service options without achieving differentiation around user experience (UX) are making themselves vulnerable to disruption. A great UX will help to ensure product stickiness. If customers find it is easy to use the product, they will more rapidly adopt and consume its functionality, creating a barrier against switching.

Early movers in As-a-Service were quick to compress the post-sales processes and their respective teams—including professional services, training, and support—into a single team focused exclusively on making their customers successful, often called Customer Success. The team’s primary objective was to be customers’ internal advocate in order to ensure they received value from the product or service. This was a big shift from the reactive way most companies had previously handled their customer relationships. Companies also found that it helped to hire employees who were experienced in working in similar subscription-based environments that were aligned around customer success.

Successful As-a-Service companies deliver their offerings using cloud-based platforms, which can capture data that can inform product development, optimize operations, and better comprehend how to fine-tune the customer experience. This is only possible, however, if user telemetry capabilities are built into products and platforms, so that DevOps and customer success teams can carefully monitor usage, performance and uptime.

This telemetry data can also be rolled up to calculate business metrics and Key Performance Indicators (KPIs) that inform leaders how to run their subscription business. Instrumentation will build in the proper telemetry, as well as analytical capabilities that enable As-a-Service companies to offer proactive services geared to fixing problems before they happen.
The sales model for As-a-Service products is substantially different from a traditional hardware or industrial product sales model, which is based on collecting a one-time upfront payment. By contrast, As-a-Service sales activities are typically geared towards capturing market share with higher velocity, using a *Land and Expand* approach. Employing a subscription model, this approach combines a lower upfront payment with ongoing fee collection.

In this Land and Expand model, sales quotas and commissions must be aligned in order to motivate sales teams to use more direct, rapid sale tactics. This often requires new types of sellers with different technical skills. Existing sales teams need to be retrained to fit into the new roles of *hunter* (new accounts) and *farmer* (existing accounts).

As-a-Service sales activities are also more aligned to a direct sales model and less dependent on selling through partners. Instead of using distributors and resellers, the new channel approach for As-a-Service is more of an ecosystem play that leverages Systems Integrators (like Accenture), Independent Software Vendors (ISVs) and Managed Services Providers (MSPs) who understand how to manage a long-term customer relationship. Like the direct sales team, channel partners who want to participate in this new model will also need transformational training to successfully embrace new sales and post-sales (customer success) activities.

The success of an As-a-Service offering is dependent on the underlying business and transactional infrastructure supporting the service. Organizations should understand the public and private cloud products supporting Customer Relationship Management (CRM), Contract-Price-Quote (CPQ), billing and entitlements. These solutions may be required for support of the core business, or may exist in parallel to it. Either way, the new subscription infrastructure will enable new types of sales activities, monetization strategies (consumption) and a more frictionless experience for customers.

Another advantage of this purpose-built subscription infrastructure is that it makes it easier to integrate acquired SaaS or subscription software companies into the company's transaction systems, which can eliminate a lot of unwanted manual processing.

It is critical to incorporate security and compliance into the service delivery platform, as well as a robust disaster recovery capability, and to consistently manage to the Service Level Agreement (SLA) that has been defined with the customer.
Recognize that it’s all about agile platforms

One of the biggest changes from a traditional operating model is the importance of a product and services platform for the business. This platform is used to securely deliver the As-a-Service offerings, monitor their usage, allow customers to self-serve, and provide a foundation for developers to build new solutions. When a platform is implemented properly, it can enable an As-a-Service business to scale exponentially without a proportionate increase in operating costs. In fact, it is largely this opportunity for margin expansion that makes these companies so valuable.

Individual developers are not the only ones attracted to these platforms. Partners who want to build value-added solutions also prefer the use of platforms because they offer a way for both parties to monetize these new solutions. Customers like to buy solutions from companies that have broad ecosystems, like Salesforce, Amazon and Microsoft, because they offer access to a wide variety of products and services through their platform partners.

Development of these platforms requires a deliberate agile product engineering strategy that is fundamentally different from the traditional waterfall approach, with its typical 12- to 18-month release cycles. As-a-Service products are developed using an incremental approach with frequent updates, which requires an agile, fast-paced set of software engineering practices. This approach typically includes the release of Minimal Viable Products (MVPs) to test customer adoption in order to build value over time, rather than relying on big-bang releases. As-a-Service product engineering groups also need the talents and skills required to take advantage of the latest technologies and development techniques used to drive innovation.
As-a-Service requires changing not just the product, but also the operating model and the infrastructure. Executives seeking to build a new As-a-Service business often get stuck thinking inside of their existing functional silos. Instead of focusing on problems at the level of, say, a billing system issue, it’s important to recognize that in a subscription-based business model, everything is interconnected, and problems need to be addressed holistically. Figure 3 illustrates this operating model’s interconnectedness across multiple functional areas.

As the organization undergoes the necessary transformation, it is essential that an integrated, cross-functional operational and financial plan be in place before making any major investments in products and infrastructure. The As-a-Service Plan should also include selecting the proper operating model, leadership, funding strategies, organizational structure, change management and governance, because this type of project will impact most functions across the organization. Understanding and planning for these critical-path activities across functional areas will help to ensure the company is investing wisely in its new subscription offerings.

Figure 3: The as-a-service model requires interconnected processes

<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>FINANCIAL</th>
<th>ORGANIZATION &amp; CULTURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>How will you monetize your software?</td>
<td>How much investment is required?</td>
<td>Do you have the right people, with the requisite expertise in SaaS?</td>
</tr>
<tr>
<td>What will be your new operating model?</td>
<td>Are you prepared for tighter cost management due to reduced cash flow?</td>
<td>Are you implementing SaaS-specific org structures like Customer Success?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PRODUCT ENGINEERING</th>
<th>SALES &amp; MARKETING</th>
<th>QUOTE TO CASH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will the code base need to be refactored or entirely rebuilt?</td>
<td>How will you manage your channel relationships differently?</td>
<td>Can you adequately quote and process orders for complex subscription models?</td>
</tr>
<tr>
<td>How are you engineering for scale and liability?</td>
<td>Are your sales processes aligned with a “land and expand” selling model?</td>
<td>Are engineering and operations systems aligned for entitlement?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ACCOUNTING</th>
<th>CUSTOMER SUCCESS</th>
<th>PLATFORM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are you prepared to reliably recognize returning revenue?</td>
<td>How do you re-architect your renewals organization to manage the ongoing customer relationship?</td>
<td>Are you looking to stand up your own multi-tenant infrastructure or leverage the cloud?</td>
</tr>
<tr>
<td>How will you manage billing based on monthly plans and usage?</td>
<td>Do I need a dedicated customer engagement team?</td>
<td>Are your operations currently leveraging SaaS technology?</td>
</tr>
</tbody>
</table>

Source: Accenture
Getting started

Now that you have seen some of the top considerations associated with building a successful As-a-Service business, your first step is to evaluate your current situation and then build out an action plan for the next 12 to 24 months. And the initial decision a company must make in building its As-a-Service business is which operating model approach to take.

Typically, there are three different ways that companies will begin their As-a-Service business journey:

• The first way is a “pilot” approach, where a small Tiger Team builds, launches and operates the new SaaS products and business. To succeed, this approach requires tight cooperation and support from the rest of the company.

• The second approach is to build a “business inside the business,” which often involves setting up a new ring-fenced unit that is responsible for all aspects of the As-a-Service offerings.

• The third method is “transforming the whole business,” which is more common for a software company than for a traditional hardware or industrial firm, because the operating model changes required are more in line with a completely digital business.

In the technology industry, pilots are a commonplace way to test new product and service ideas prior to undertaking a broader market rollout. Many companies prefer pilots because they are limited in scope, require smaller investments and are less disruptive. But when considering the overall company strategy, it may turn out that a more robust approach to As-a-Service is required in order to take advantage of a limited market window, or to fight off potential competitors. Remember, this isn’t just introducing a new product or product line; it represents an entirely new operating model.

Whether the organization chooses to begin with a pilot or build out an entire As-a-Service business model, the benefits can be significant. By creating a solid plan, and selecting an experienced and trusted partner like Accenture, it is possible to avoid pitfalls and build a valuable As-a-Service business.
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