

Transition to cloud

Your guide to transitioning to a cloud subscription
or consumption usage model.



What is a cloud subscription or consumption usage model?

Introduction

Subscription SaaS

Largely led by the “as-a-Service” movement, SaaS companies have been employing cloud subscription models since their inception.

The major difference between a cloud subscription SaaS versus a traditional software licence relates to the timing of purchase. A traditional software licence is purchased either as a perpetual or annual licence with or without maintenance as a one-off payment. By contrast, a cloud subscription incorporates maintenance and is charged as a fixed rate monthly payment. It can usually be paid quarterly or even annually, but the calculation is based on a monthly rate.

Typically perpetual software licences also require the installation of physical software, which can dramatically increase the cost of deployment, whereas a cloud-based SaaS only requires a compatible browser.

Consumption SaaS

Consumption SaaS usage is similar to a Subscription SaaS as it's calculated on a monthly basis. Unlike a cloud subscription however, it's not a fixed amount and the customer pays only for the services he or she “consumes”, similar to the usage charge amount you see on your gas or electricity bill. In the context of IT, many companies are starting to offer various IT services under consumption models.



This e-book is intended to provide you with a guide to help you transition, by covering some of the issues you could face along the journey....

What's driving the change?

As information technology infrastructure improves, it becomes faster, more flexible and more efficient.

In the 1990's and early 2000's, customers were required to invest a large amount of capital expenditure to support their company's IT and operational needs. However, over the course of the last 5-10 years, the delivery of IT services is no longer required to be on-premise and can be delivered virtually by the cloud. With these improvements, customers are starting to question large expenditures on IT that require them to dip into their capital budgets when it can be funded via the operating budget.

The Technology Services Industry Association (TSIA) describes this phenomenon as “changing economic engines” and asserts that technology companies are facing pressure from their traditional revenue streams, which have been predominantly derived from product and services revenues¹.

Despite the internal and external pressure organizations are facing to change, adopting one of these models is not an easy switch, and requires a significant amount of planning, time and resources.

1. Middlekamp, M, 2015, *The State of Expand Selling*, TSIA.



Employees & Incentive Programs

As a company's largest asset, people can make or break the successful implementation of a cloud subscription or consumption usage program. As part of the initial product development, have your product marketing teams engage early with the frontline teams who will be responsible for promoting the new cloud product range either directly to customers or indirectly via channel partners.

Mobilizing commitment early, while not necessarily the guarantor for success, goes a long way to preparing people for change.

One of the first (and biggest) concerns employees and even channel partners will have is how the new program will affect current incentive and sales compensation programs.

Regardless of whether you are adjusting existing programs or developing new ones, the process can be potentially damaging to employee morale, especially if the new programs don't operate in the employee's favour. A good approach is to select some of your employees to participate in the program's design.

Next step is to prioritise your objectives. Is it to:

- Transition customers from old products to new ones
- Attract new customers
- Retain customers

Ideally your compensation program should cover all three, but it can be tricky to create a "one-size fits all program". As an example [HubSpot](#) designed its sales compensation programs to drive certain objectives related to each stage of its start-up cycle.



Product, Pricing & Marketing

Developing a cloud strategy is entirely similar to undertaking any new product introduction (NPI) process. For those new to NPI, the process typically involves representatives from Marketing, Sales, Support and Finance and usually starts with some detailed market research and identifying customer needs. With that as your base, you can tailor your new offering around what the market is telling you. Most marketers will say market feedback is the most critical part of the NPI process.

It is often the Marketing team that will lead the NPI process where they seek input and/or acceptance from all other functions, and also coordinate timelines and delivery schedules.

At a high level, below are some of the key focus areas by function:



Channel Programs

Most large IT manufacturers operate with a network of channel partners who sell products and services (and renew them) on their behalf, adding an additional layer of complexity.

Assuming the organization has a well-established channel or partner program, then rolling out a cloud program via existing processes is entirely feasible.

However, as discussed in the Employee and Incentive Programs section, a cloud program may result in much anxiety due to changes in compensation patterns. In a similar way to employees, organizations that solicit feedback from the channel before the launch may be able to potentially reduce the negative impact created from such a big change.

A possible approach could be to identify a “Channel Champion” with whom to run a pilot test before a full launch across all partners.

An additional consideration regarding the channel also involves the system and support mechanisms to capture the cloud invoicing information.

Will your partners be able to provide monthly data, and how will you know they’ve done it compliantly? Do they have mechanisms to capture the information?

Adopting a purpose-built system that can address these challenges is a possible avenue to review.

Systems, Security & Data

Before rolling out a new cloud strategy, the implications for system and security support as well as data management need to be addressed.

A “Technology Plan” can be a useful document that details the systems used by the organization to manage the operation.

The plan includes: a description of the strategic intent, technical elements, and the criteria or metrics required for successful IT management. It may also cover plans for future implementation of performance-enhancing tools and technologies that link into the organization’s strategic plan.

The systems integration requirements for interfacing with upstream and downstream systems such as self-service, channel partners, billing, entitlement, and others should also be addressed.

A monthly billing cycle attached to a new cloud program will lead to a potential explosion of additional data (in fact x12 existing data inputs) creating pressure on existing teams to process. It’s essential therefore that the systems are automated as much as possible to reduce the “new” burden this data has created.

Some organizations mistakenly believe that Excel will be able to handle the additional volume of data, however Excel is a financial application and does not scale in the same way a purpose-built system can, and cannot provide the alert notifications and reporting (without significant manual intervention) to make it efficient.

A good question to ask your IT and business teams is - will your current systems be able to process the x12 information at the existing pace?



Operations

Preparing your operations team is also a critical part of the overall implementation of a cloud program.

Typically the operations team will be physically processing purchase orders, organizing billing and updating systems with the required information. If a new system is adopted as a result of this transition, these teams will need to be provided with formal training.

Ideally, organizations will establish formal processes and workflows for staff to follow and confirm adherence to process standards on a regular basis. Related aspects include account and partner management, major account management and coordination with other organizations; Sales or Support.

All of these processes associated with service delivery contribute to creating and maintaining strong customer relationships.

In addition to these sales processes mentioned, other key processes and programs necessary to maintain strong customer relationships include profiling the customer, documenting service interaction, setting proper expectations, following through on commitments and keeping the customer engaged.

Conclusion

The time to move is now. Failure to keep up with the technology changes could lead to market share erosion and can impact profitability.

By investing time and resources to undertake a comprehensive review of each of the above sections within your organization, you will be setting yourself up for a successful cloud program implementation that helps:

1. Attract new customers
2. Retain existing ones, and
3. Deliver customer-focused solutions.

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