

# Software

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## Improving Your Software Business for Profitable Growth

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The software industry has been one of the high flying sectors in terms of stock performance recently. Over the last five years the sector has doubled in value compared to the S&P, thanks, in part we believe, to the way that many software companies have taken advantage of revenue growth opportunities in the market by consolidating for scale and scope shifting architecture towards Web 2.0/SOA, and adopting fundamentally new business models, such as Software as a Service (SaaS) and vertical solutions.

This accelerated growth, however, has come at the cost of operational mechanics. Back-end infrastructure, systems and processes are often ripping at the seams to support these business model changes and ever more complex go-to-market strategies and policies. For many software companies, this means that the top priority is no longer how to sustain top-line performance, but how to improve and streamline business infrastructure to achieve the benefits of scale.

Most software companies have had a patchy record when it comes to business improvement. Many companies have done a reasonable job improving the front-end marketing and sales aspects of the business to drive revenue growth. However, where many companies are now struggling is with alignment of the

back-end infrastructure to sustain ongoing business operations. This misalignment can be summarized in Figure 1.

We believe sustainable market performance is going to be driven as much by operational effectiveness as by pure front-end, innovation-and growth-particularly if the economy continues its downward trajectory. So winning strategies will need to be more granular for both operational and growth aspects. And, critically, these strategies need to be clearly aligned and coordinated from a governance perspective to realize sustainable benefits.

### Front-End/Back-End Misalignment: Two Steps Forward, How Many Back?

Most software companies have made reasonable progress in driving growth through front-end initiatives covering product innovation, channel management and customer insights. One area where we're seeing real improvement is in new product introduction. Many software companies have dramatically reduced the time to market with rapid innovation in new releases. Several software companies have developed stop-gap arrangements for new product introduction by the creation of multiple variations of products for different customers. They have also made some progress in the move to Electronic Software Delivery and new service models such as SaaS.

Most software companies have also successfully expanded their software footprint into vertical markets at the industry level, focusing on retail cus-

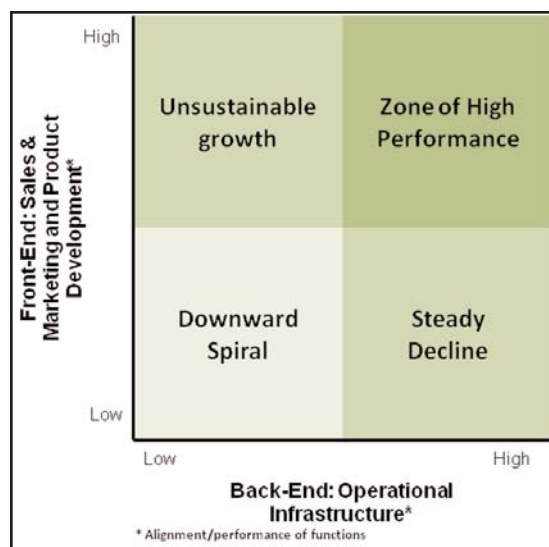


Figure 1.

tomers versus federal government, education or manufacturing customers. These software propositions are being finely tuned based on industry solution templates designed to reduce time to market and drive customer loyalty.

The challenge for software companies is that, while each incremental variation in product, channel and customer segments can drive incremental revenue, it can also drive significant complexity and overhead cost at the operational level. So, while accelerated growth of the past few years holds the promise of scale economies, it's actually led to dis-economies of scale in the immediate term. The consequence is that most software companies have struggled to align policies, processes and infrastructure to support the innovation-driven growth they have enjoyed.

One area where this issue is immediately obvious for customers is entitlement management. Most software companies have always had challenges in tracking and reporting on customer entitlements, but the challenges have become particularly acute as the variation in entitlement structures have continued to grow, and many software companies have shifted more of their revenue focus to ongoing maintenance streams. It appears that keeping track of seats, upgrades and licensing is fairly ad hoc at many companies. Their internal systems just aren't set up to capture and track the disparate details so it's difficult to provide back-end support. In short, there's a misalignment of infrastructure.

Another challenge is that with so much transition as a result of industry mergers and acquisitions, sales structures, channel mix and incentives can become misaligned very quickly. Sales force productivity often isn't nearly as high as it could be because the right kinds of tools simply aren't in place across the organization. Incentive systems often vary across merged organizations and in some cases, sales forces are in competition with one another. This channel conflict is particularly prevalent among external partners, another consequence of industry M&A that hasn't yet been addressed.

All of these issues are part of a basic need to revisit the fundamental business architecture of the organization and create a more mature and scalable infrastructure with processes and governance mechanisms that meet the demands of today's market. This "business infrastructure improvement" exercise can then be leveraged for future growth opportunities such as SaaS, and emerging market penetration.

### Building Up the Back-End

Let's look at some new ways to think about retooling and aligning back-end infrastructure. In short, what can you do to move to the top right quadrant, the high performance zone?

Looking across the customer lifecycle, we see eight distinct phases: identify, configure, quote, order, install, support, manage and renew. For each phase, we suggest actions to reduce current customer and operational challenges and move to a new more simplified approach.

- **Identify:** Create a single-source of "truth" for customer identity data and streamline data collection and management process across the organization. This is critical for entitlement management, developing creative buying programs and proactive renewals/up-selling efforts.

- **Configure:** Transition from complex pricing and licensing menus across multiple product silos to a solution-based configuration with easy-to-understand pricing and licensing. This can

have both top-line and bottom-line impacts. By simplifying product offerings a company can improve its operational effectiveness and efficiency. Structured processes and policies can drastically reduce time to market and revenues can grow as customer satisfaction increases and the sales force can effectively sell the portfolio offers.

- **Quote:** Eliminate complex price lists with SKU-based discounting. Self-service tools with pre-approved discounting can immediately impact sales force productivity and reduce revenue leakage with the help of consistent practices across regions and channels.

- **Order:** Create automated order entry systems and systematically track sales and channel identity through the process. Processing sales orders from channel partners with a consistently used identity code is important for channel reporting, compensation and satisfaction. Similarly, processing orders correctly and promptly is critical for accurate revenue reporting and sales-force compensation.

- **Install:** Reduce the burden of install activation processes by providing unrestricted access for trusted customers and channel partners. Erring on the side of making the installation process easy by reducing "protection of software" and beefing up the verification process is an effective way for most of the enterprise customer market since the vast majority of enterprise customers want to be compliant.

- **Support:** Develop self-service tools for online support and integrate service and technical support across product portfolios. Service should be an essential component of strategy; explore making this a revenue center for value-added service. With most customers willing to pay for good service, customer service-based differentiation can become important as the scope of offerings increase and CIOs start to work with a few trusted software partners in a relationship that is more strategic, with shared objectives and results, than a typical vendor relationship.

- **Manage:** Develop a single view of customer entitlements and invest in Software Asset Management technologies to improve deployment tracking. This requires maintaining a single source of "truth" for customer entitlement data and managing a clear product information base, which is dynamically linked to customer purchase orders. Software companies should also investigate using software tagging to enable easier discovery of product deployments. A new set of ISO standards (199770) is under development to drive industry-wide adoption of software tagging.

- **Renew:** Proactively manage renewals and leverage channel partners where appropriate to increase timely renewal rates. Linking renewals to the customer support organization and developing a targeted marketing plan can create up-selling opportunities and is essential to sustaining revenue growth and increasing wallet share.

### Reaching the Zone of High Performance

Achieving simplification isn't simple. But, we believe these infrastructure investments can help drive significant business improvement, both short term and long term. In the short term, the company is likely to stop revenue leakage and improve account coverage to increase sales productivity and potentially increase average pricing. In the longer term, top-line revenue growth can be accelerated through increased customer, channel partner and employee satisfaction, as well as faster new cus-

customer adoption, stronger renewals, up-selling and cross-selling. Sales productivity can be improved through increased channel leverage, reduced time spent on non-sales admin activities and faster time to market. Operational costs can be contained through a reduction in manual workarounds, lower customer care call volumes and increased use of customer and channel partner self-service. And the resulting data integrity and business flexibility, not to mention enhanced business intelligence, can help reduce business risk and improve long-term operational sustainability.

Getting there, of course, takes some doing. It requires a combination of a simplified go-to-market operating model, scalable infrastructure and end-to-end governance across all improvement initiatives. To enable the business to move faster, companies must have a rationalized and solution-led product portfolio with simplified licensing, pricing and SKU structures, appropriate license enforcement and compliance policies. The route-to-market strategy and discounting policy must also be improved and standardized around a regional operating model.

Aligning the business infrastructure to support this standardized go-to-market operating model is key. There must be a business architecture roadmap that links business drivers to the IT

front and back offices and a single source for master data model elements, including product, customer, channel partner, entitlement and contract data. Online services and applications must be scalable to easily adjust to inevitable and frequent changes. The backbone of all of this is a re-engineering of the organization's business processes to drive repeatable efficiency savings.

A retooling this dramatic is a major transformation and can only be effective with an end-to-end governance model, a strong project management office, rigorous performance tracking, ongoing communications and training, along with significant focus on change management. But, by taking on a stronger business improvement program, by moving to the top right quadrant, the high performance zone, we believe companies can leverage the benefits of scale to experience transformational growth and performance in the years to come.

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