

Building and Selling Software in a Declining Market:

4 Ways to Work Smarter and Beat the Competition

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The software industry is in turmoil. Like most other sectors, the industry is consolidating, technology is changing, sales are spiraling down, sales cycles are elongated and there is pressure on prices.

This paper explores some of the specific options for making it through this economic downturn for ISVs (Independent Software Vendors) and enterprises who run their businesses using a core, competitive advantage software platform.

Software Industry Trends

Software companies generally fall into one of the following stages of a company lifecycle: Startups, Emerging, Mature, Declining and Transformation. In 2008, revenues for the Software 500 as ranked by Software Magazine totaled \$451 billion, up 14.7% from 2006. Revenues for the Software 500 range from \$1m to \$74bn (IBM). Stock prices however plummeted in 2008.

More than 100 companies in the Software 500 are new companies; several of them are offshore Indian companies. Leaders in revenue growth were emerging companies and smaller firms. Revenue per employee was also higher among smaller firms.

Software innovation was high during 2007-2008. But with the downturn, the following trends are likely in 2009:

- ❑ Stocks will remain at lower levels
- ❑ Financing will be hard to obtain and mergers and acquisitions will be low
- ❑ Open Source software companies will show growth
- ❑ More companies will move to the SaaS, software over the internet model
- ❑ Emerging and more competitive companies will move into the Software 500, and decliners will move out
- ❑ Innovative startups and growth companies will gain market share and obtain financing
- ❑ More companies will move to the SaaS, software over the internet model. For example, a leading SaaS thought leader, THINKstrategies has found adoption of SaaS is accelerating not only among small- and mid-sized businesses (SMBs), but also large-scale enterprises

Implications for Software Companies

What does this mean for ISVs that build and sell software or enterprises that use software as their primary platforms? Companies need to grow, improve or re-invent their business depending on which stage of the company lifecycle they are in. In all cases, however, they need to:

- ❑ Move fast and either maintain or realize a competitive advantage
- ❑ Reduce development and operational cost and time
- ❑ Keep entry level investment costs low for customers
- ❑ Increase customer satisfaction and retention levels
- ❑ Bring innovation into their software solutions and improve ways of doing business with customers
- ❑ Be creative relative to financing software projects

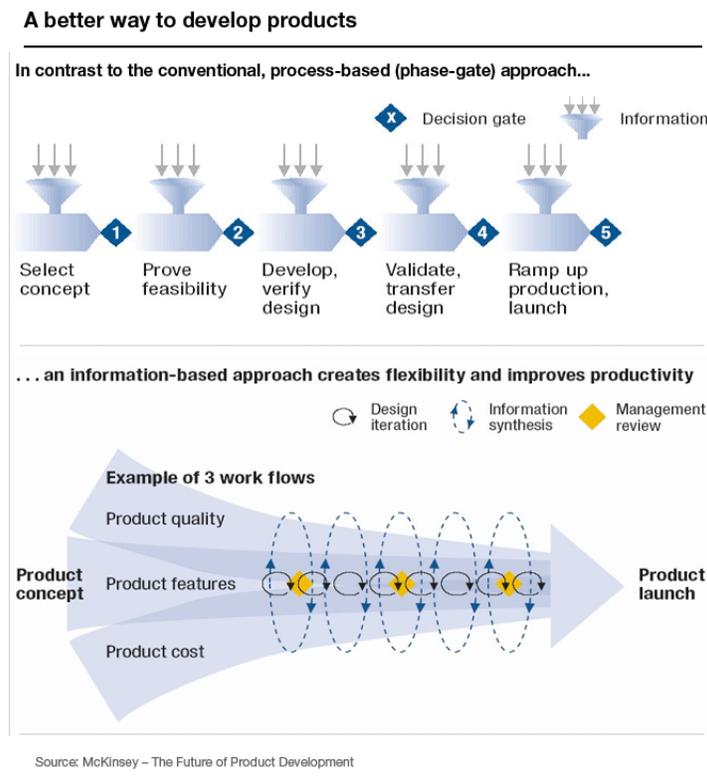
Many of these initiatives can be achieved by implementing 4 specific action steps that will help software companies maintain their competitive position and actually thrive in this declining market.

4 Ways to Work Smarter and Beat the Competition in a Declining Market

1. Speed up the Development Process and Time to Market

Software companies need to speed up the software development process and go to market faster. There are no more 12 month project lifecycles. There are no more detailed waterfall methodology projects. There are also no more 18 month implementations. 100 days to beta and 6 months to launch software is the new mantra.

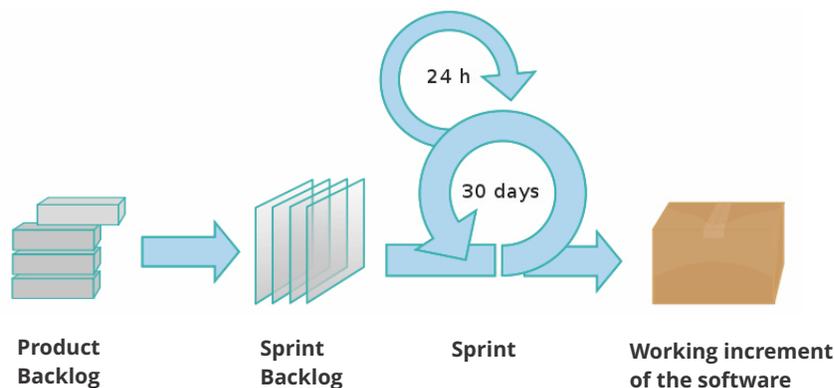
McKinsey successfully captured how products need to be developed in the current scenario by adopting an information based iterative approach that is goal oriented.



Agile development and RAD methodology also lend themselves well for adoption to shorter development cycles and faster time to market. The focus should be:

- ❑ Quickly prioritizing and converting Marketing Requirements Documents(MRDs) into features for prototyping and launch
- ❑ Building Agile teams that can work on these requirements
- ❑ Having daily meetings and adopting methodologies such as Scrum to get things done fast without much documentation
- ❑ Leveraging offshore teams to use best practices, increase productivity and extend the work day

Agile Development



The prerequisites to be met before going agile:

- Teams need to break from the “old work culture”, if any – peer reviews, open discussions and accountability is enforced by Agile methodologies
- Basic architecture and core requirements should be frozen beforehand
- Technical challenges should be anticipated, prototyped and validated
- There should be a process for continuous integration

2. Move to a SaaS (Software as a Service) or Hybrid SaaS Model

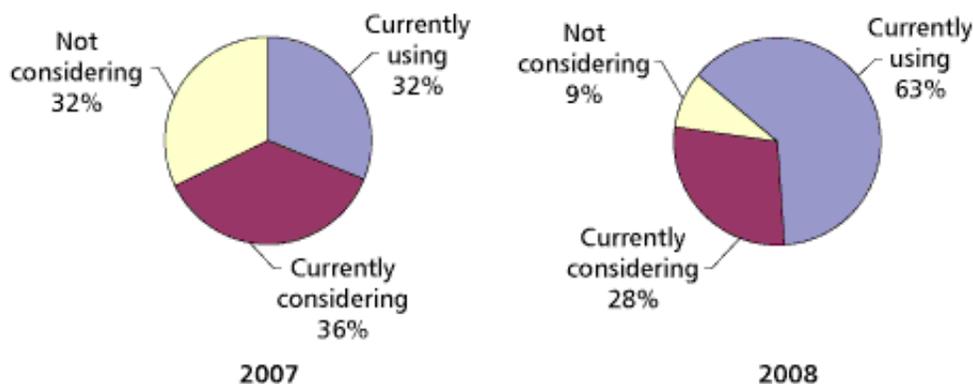
A new generation of web-based, on-demand, Software-as-a-Service (SaaS) solutions are gaining acceptance among organizations of all sizes. The rapid growth of SaaS is driven by the following primary forces:

- ❑ The intensifying business challenges posed by the growing financial crisis, rising operating costs, escalating competition and changing workplace requirements
- ❑ Growing frustration among end-users and executives with the costs & complexities associated with

- the costs and complexities associated with traditional, on-premise applications
- ❑ Broad-based acceptance of consumer-oriented, on-demand services that are setting the standard for software ease-of-use and cost-effectiveness
- ❑ The rapid evolution of enabling technologies which make it more economical to develop and deliver SaaS solutions

Over the past three years, THINKstrategies and Trigent have seen a steady increase in customer interest and adoption of on-demand SaaS solutions. THINKstrategies' most recent survey of over 100 companies conducted in October 2008, in conjunction with Cutter Consortium, found 63% of the companies had adopted a SaaS solution, nearly double the percentage in 2007!

Percentage of Companies Using and Considering SaaS Solutions



Source: THINKstrategies / Cutter Consortium 2008

THINKstrategies' survey also found over 90% of those already using a SaaS solution are satisfied with the quality of the solution, plan to expand their use of SaaS and would recommend a SaaS solution to their peers.

As a consequence, software vendors are now contending with a growing number of SaaS alternatives that are threatening to usurp their position in the market. Microsoft is watching its monopoly position in the office productivity market being tested by Google Apps. SAP is watching its customers migrate to on-demand software from Intacct, NetSuite and Workday, as well as Salesforce.com.

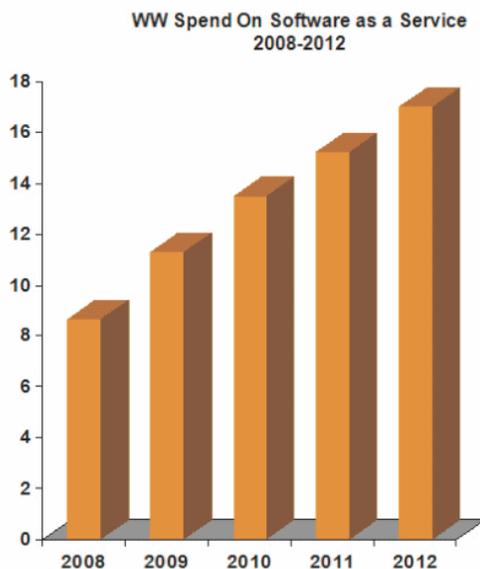
Software companies or companies doing new application development or acquisition should quickly evaluate options to either move to the SaaS model or embrace a hybrid model of SaaS and on-premise licenses. The benefits of adopting SaaS include:

- ❑ Customers will sign on to the SaaS model more easily during this downturn since the initial investment will be low and there is no perceived investment lock in
- ❑ A company's TCO is lower when adopting a SaaS model rather than the conventional licensed client server model
- ❑ SaaS companies will have a loyal renewable customer base, recurring cash flow and will find it easier to get financing
- ❑ Competitors are moving to SaaS and those companies who do not offer a SaaS or hybrid model will lose market share
- ❑ SaaS multi tenant architecture allows you to leverage a single code base with multiple customers as tenants and keeps operational costs low

Moving to a SaaS model requires rethinking business strategy, system architecture, sales and marketing, software billing and operational support. You can read about how to get your organization ready for SaaS in Trigent's White paper - So You Think You Can SaaS.

It is important to note that there are thousands of software companies and enterprises who support legacy software, have a monolithic code base, which are built on languages like FoxPro, PowerBuilder and Access. Some of these "greenscreen" applications are in sunrise sectors like the healthcare, financial and investment sectors. These companies could easily leapfrog competitors and adopt the SaaS architecture without making the incremental investment that other intermediate companies incurred during the last several years.

SaaS Opportunity growing to \$17B by 2012



The Cloud opportunity is potentially \$95 billion, or roughly 12% of the total worldwide software market, within five years

Merrill Lynch, May 2008

By 2012, 70 percent or more of businesses with greater than 100 employees will have deployed at least one SaaS application.

Saugatuck Technology, May 2008

By 2012, more than 66% of independent software vendors (ISVs) will offer some of their applications optionally or exclusively as SaaS.

Gartner, Jan 2008

Source: IDC SaaS Forecast July 2008

There is no question that the proliferation of players in the SaaS and cloud computing market has created a buyer's market for customers seeking on-demand service alternatives to traditional software products. However, no market can sustain the number of players currently entering the SaaS and cloud computing arena, and today's severe economic environment is going to accelerate a potential shake-out of many suppliers.

3. Build Customer Collaboration and Employee Interaction in your Product Roadmap

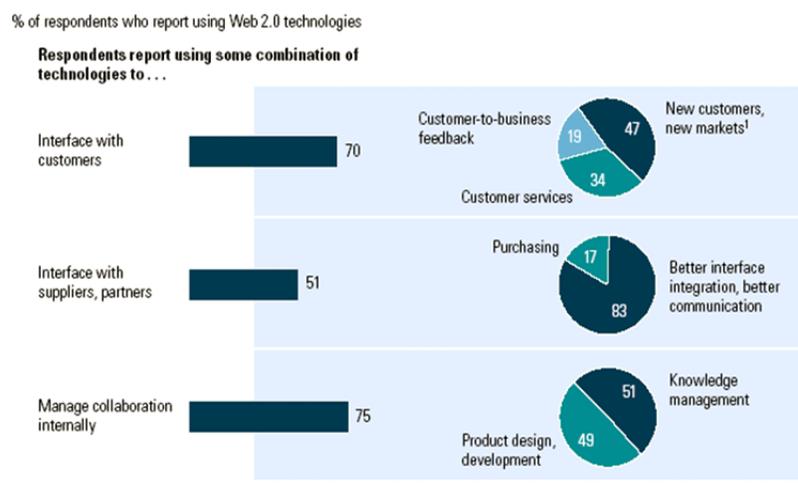
Software companies need to build customer and employee collaboration and customer relationship strategy into their product roadmap. Customer collaboration and employee interaction will yield:

- ❑ Better software products
- ❑ Customer loyalty
- ❑ Employee Retention
- ❑ Higher productivity and less conflicts within the organization
- ❑ Higher employee commitment to customer service and satisfaction

Examples of specific methodologies for customer and employee collaboration and customer interaction are Intranets, Collaboration, Web 2.0, Knowledge Based Support Systems and Customer Self Service.

Intranets, Web 2.0 and Collaboration

A McKinsey study shows how companies are using Web 2.0 technologies, including collaboration to interface with customers, suppliers and partners and manage internal collaboration.



¹Sum of responses for entering new markets and acquiring new customers in existing markets.

Source: McKinsey Survey on use of Web 2.0 technologies

The strategy should involve an active Web 2.0 and collaboration roadmap for internal and external communities. Many ISVs between \$20m - \$100m in several industry sectors do not have an active intranet for internal collaboration. A simple roadmap could begin with an active intranet with organizational workflows and expand to Wikis, blogs and customer portals for self service and knowledge sharing.

Microsoft SharePoint (MOSS) is an example of how to get started with your intranet and is a basic step for Web 2.0 and collaboration. Wikis also work well for internal collaboration. Blogs by senior management are very useful for generating interaction with customers and important customers frequently contribute to company blogs.

Internal Collaboration	Customer Partner Involvement
Wikis	Extranet
Intranets	Portals
Blogs	EDI / Web Service Interfaces
Surveys / Polls	Surveys / Polls

Knowledge Base Support Systems and Self Service

Incorporate Knowledge Based Support Systems and Self Service capabilities into your product roadmap. Customers, partners and vendors who find your company informative, enjoyable and easy to work with will be more loyal to you than your competition.

This capability can also be built on an extended intranet or extranet using Microsoft SharePoint Server, using an active blog, forum or building customer / vendor / partner portals. Customers, vendors and partners can also contribute to these collaborative platforms and help build a powerful ecosystem.

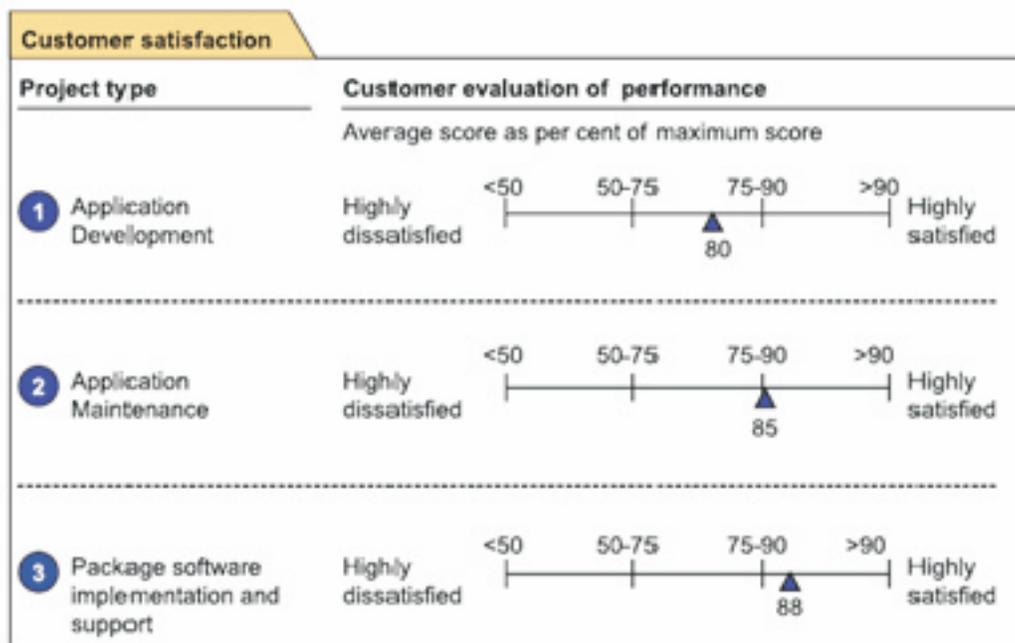
4. Reduce Cost and Maintain Low Cost

Software companies and enterprises need to find innovative ways to reduce cost and keep cost low for their customers and users. You can find ways to quickly reduce companywide license costs and operational infrastructure costs in [Trigent’s White paper - Reduce your IT Budget: Spend Money in Cost Reduction Areas.](#)

Software companies traditionally find 30-40% of their key developer staff involved in routine maintenance, bug fixing, routine implementations for new customers and other tasks that do not add value to customers. Enterprises spend as much as 70 – 80% of their software budget on maintenance and support.

This results in a significant loss of productivity and higher opportunity costs. Companies are better served diverting these resources to new development or SaaS initiatives.

Outsourcing non-core activities, maintenance and support, and non customer facing development tasks and moving them offshore yields cost savings, improves productivity and quality, and increases overall competitiveness in this economic downturn. McKinsey's exhibit below confirms that customers are very satisfied with their offshore initiatives.



Source: McKinsey360° benchmarking

Facts about Offshore Outsourcing:

- ⇒ More than 60% of software companies have outsourced development, testing or maintenance offshore
- ⇒ Offshore outsourcing reduces cost by 20-40% on average
- ⇒ A McKinsey 360 survey shows that over 85% of customers continue to be highly satisfied by offshore outsourcing

Summary

Software companies need to grab market share and work smarter in these difficult times to remain viable and competitive. In the future, only companies that innovate, reduce cost and build true value for customers will survive and will be able to get the financing they need to grow in this economy. The four ways that companies can work smarter and beat the competition discussed in this paper are to:

- ❑ Speed up the development process and time to market
- ❑ Move to a SaaS or a Hybrid SaaS model
- ❑ Build customer collaboration and employee interaction into the product roadmap
- ❑ Reduce cost and maintain low cost

Companies should partner with a proven offshore software product development company to speed up the software development process and capitalize on lower labor cost, best practices, higher productivity and an extended work day. Read more about offshore outsourcing and engagement models at www.trigent.com.

About Trigent Software Inc.

Trigent is a privately held, professional IT services company and a Microsoft Gold Partner with its U.S. headquarters in the greater Boston area and its Indian headquarters in Bangalore. We provide consulting services in various technologies including Microsoft Solutions. Our operating model is to conduct sales, customer relationships and front-end consulting (e.g., business case, requirements, architecture) onsite with our clients and perform the detail design, development, integration, testing and quality assurance offshore at our world class development and support center in Bangalore. We are a SEI CMM Level 4 company and is ISO 9001:2000 TickIT certified organization.

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