The benefits of Service as a Subscription that no one talks about.

Approximately 35 years ago, the software industry took a hard look at the then current methods for selling, developing, maintaining and supporting software solutions and created the Software as a Service (SaaS) revolution. Virtually all software solutions coming to market these days are SaaS based. This approach has resulted in all sorts of changes, for the good, in software ownership, management and operation. This lead to some pretty incredible financial valuations/multipliers and some real darlings of the financial markets. But the benefits are not only limited to great multipliers but to a better experience for the customer and the company.

The result is that virtually all companies are looking for some way of delivering their offerings as a subscription and buyers have come to accept this model. Virtually all industries are trying to adopt this model, from consumer goods to home repair to phone systems to servers. The consulting industry has toyed with this area for longer than the 35 years of the SaaS revolution. Some might even say that it was one of the earliest adopters of this approach with Managed Services.

Managed Services has been around for a longtime. But Managed Services has historically been focused on very easy to define and execute activities and skills. It was focused on the tactical activities in IT, network operations, system administration, data base administrations...

Today, however, organizations are taking a closer look at those activities that have historically been more white glove, more bespoke and much more core to some of the higher end consulting practices. Businesses instead of investing in a person at an hourly rate over a long period of time are intrigued with the prospect of buying a service that provides the senior level resources needed to assist them with their systems, solutions or business practices as a subscription with the ability to provide the resource and knowledge needed and retaining the customers context/practices.

Kimberlite Partners is specialized in helping organizations create just these types of services which we like to call Managed Application Consulting or MAC. Now there are many aspects of developing, enabling and managing a MAC that are critical to the success of such offerings. In this series of whitepapers, we hope to explore critical areas that will determine your success.

In this whitepaper, we look at the benefits of a MAC Managed Service that people don't seem to talk about but provide incredible value to the customer and the provider.

The trend towards engaging with a customer in a Service as a Subscription manner which MAC Managed Services are a type of, has the obvious benefits that everyone talks about.

Annual Recurring Revenue: This type of revenue is very desirable as it is recurring, commits the customer to a longer term relationship and for many, most importantly, gets valued higher in a company valuation. The logic being, if you can demonstrate consistent renewal of the revenue, you can count on that ongoing revenue. The opposite is project revenue which must be sold each engagement and is not as dependable a source of revenue. The difference for services firms can be .5 times revenue vs as much as 2 times revenue or more.

Predictable Resource Demands: With a subscription based service, the resource demands should be predictable and make forecasting and assignment easier. Now, MAC Managed Services are built around a consumption model and thus have very predictable resource demands. Not all Service as a Subscription models have a consumption component and thus, resource usage must be developed based on historical experiences.

Ongoing Customer Relationship: Implied by #1 but worth mentioning and pointing out again, is the ongoing relationship with the customer. With the subscription comes a commitment from the customer to engage with you over a term of service and not just a length of project. This keeps you involved with the customer for a longer period of time and allows you to preserve the relationship you have worked so hard to establish. This has the potential to generate additional work and if a VAR or Solution Provider, additional license sales.

There are other benefits to Software as a Subscription and more specifically MAC Managed Services. Due to the nature of engagements for a MAC which includes proactive assistance, solution as well as execution assistance along with consulting advisement there are other benefits that most don't talk about and some would say are even more important.

1 **Customer Knowledge:** With the engagement on a long term basis with the customer, the opportunity to retain customer knowledge is extremely high. Project based work tries to put previous customer engagement members on a new project, but this is not always possible. On a subscription this is much more likely and if you actually assign a team member to the customer as with a MAC, this knowledge retention is built into the service. This benefits the customer in faster response, more informed assistance and overall higher customer sat.

2 **In the Room Where It Happens:** While Services as a Subscription does provide ongoing relationships, the proactive nature of a MAC Managed Service takes it one step further and that is being present for major initiative discussions and solution strategies. This allows the services team to be part of these discussions and suggest the best ways to utilize solutions as well as providing the opportunity to suggest ways in which the provider can help. The implications for this are #3 below.

3 **Software Usage and Stickiness:** Being in the room where these discussions are being had allows the provider who at a minimum is invested in the success of the software package and at a maximum, if the VAR, wants to ensure ongoing adoption and expansion of licenses, can ensure the best use of the software. It provides the ability to ensure maximum value is derived, best in class usage suggested and ongoing expansion of the solution.

4 **Cost of Sales Reduction:** If Services as a Subscription includes solution analysis/ design/planning and execution as a MAC Managed Service does, then the initial investigation phase of a new initiative becomes an activity covered by the subscription. The analysis and solutioning activities become a service and not a sales activity. In the best case the actual subscription may be the actual vehicle for execution further reducing the costs of the SOW creation, subsequent negotiations and resource assignments. In the worst case, the solutioning takes place before being handed off to the SOW team, still reducing costs. If the work can be done via the subscription it results in #5 *(next page)*.

5   **Time to Engagement:** Once the solutioning has been done and the work can be provided via the subscription team, the time to engagement is significantly reduced. The subscription team is already assigned and can engage immediately. The SOW creation, negotiation, resources allocation is completely removed. The customer is happy. The provider has saved money. And the Provider can be more responsive.

6   **Support Cost Reduction:** If the customer has a classic break-fix Support agreement along with a Services as a Subscription agreement, ala MAC Managed Services, then the reduction in calls to the Support organization is typically reduced by greater than 25%. The customer no longer looks to Support for assistance with non-break-fix (How do I?, Why Can't I?, Looking for?, Why doesn't it?) but leverages its Subscription team. Why wouldn't they? They know the customer, have a deeper relationship and understand the context of the question. The best part is that these questions result in more work for the Provider.

7   **Employee Satisfaction:** One interesting benefit with a Subscription agreement, specific to assigned teams as with a MAC Managed Service, is the increase in employee satisfaction. When a team is assigned to a customer, they develop deeper relationships, become invested in the success of the customer and can provide more meaningful answers and solutions to the customer. As we've discussed this of course benefits the customer but it also provides a deeper level of fulfillment and satisfaction with the customer. Additionally, with MAC Managed Services, the structure of the approach, the services provided and the methodology provides a well understood environment to work in and again higher employee satisfaction.

All of this results in higher customer SAT which is born out via NPS measurements. Lowered churn rates for the software. When measured by Kimberlite Partners, churn reduction is in the 5% range. Higher software license purchases also results, again in the 5% range. All meaningful numbers. In today's Software as a Service world, anyone would yearn for these types of results including the Publishers, Providers and VAR's, particularly in the emerging space of Product-led Growth. A happier customer, that buys more and renews easier is something everyone wants.