WHITEPAPER

The 7 Habits of Highly Successful On-Demand Companies

Contents

Introduction

SaaS (Software as a Service), also known as the on-demand model, is changing the way businesses of all sizes and in all industries use software. Based on Web services technologies, these changes are so significant that they have been called a "disruptive technology." As the technologies associated with Web services, Web 2.0, and Office 2.0 mature, they make possible a new business model that requires not just new technologies, but a new approach to business altogether.

The on-demand model means the end of business as usual in the software world. For customers, the benefits are obvious and compelling: they get sophisticated functionality without up-front expenses or the hassles associated with the installation and maintenance of traditional software. For the vendors of such services, the model provides low barriers to entry and unprecedented opportunities, as well as new risks and challenges. Creating and managing an on-demand company means a whole new way of running a business, one that extends to all business areas that make up an organization.

This paper explores these challenges and provides guidelines relevant to various business areas. In the process, you'll meet some of the people from successful on-demand companies listed below, who will share what they have learned and how they have prospered.

:: **Apttus**' applications provide complete visibility into and control over the contract and proposal process. The company was started by a group of seasoned executives of private and public companies over a bottle of wine at a barbeque at Lake Tahoe. As they discussed how existing applications often failed in deployments and got horrible customer reviews, they decided there had to be a better way. Then they proceeded to build it.

:: **BigMachines** helps customers to automate pricing and discounting, generate quotes and proposals, and manage workflow routing and approvals. Founded in 1999, BigMachines has been built from the ground up as an on-demand, Web-based company.

:: **Business Objects** is a pioneer in business intelligence (BI). Founded in Paris in 1990, Business Objects continues a tradition of innovation and category definition by being the first major vendor to bring BI to the on-demand model. With over 45,000 subscribers, Business Objects has established itself as the leader in on-demand BI.

:: **Centive** was founded in 1997 by a sales compensation expert, who had a compelling vision to serve the untapped niche market of performance-based pay systems. For over a decade, Centive has helped businesses to automate sales compensation and to elevate this function to a strategic level that drives peak sales performance.

:: **CRMfusion** will achieve revenues of over $2 million in 2007, with only 6 employees. How did they do it? By offering data manipulation tools used by more than 1,000 administrators in 15 countries, CRMfusion ensures clean data by performing de-duplication, so that customers can import lists or tradeshow data—such as leads, accounts, and contacts—perfectly and without duplication.

:: **EchoSign** was born out of a need to improve the traditionally manual and arduous process of signing contracts. Jason Lemkin was convinced that an easy-to-use esignature application was the perfect solution to address the problem. He founded EchoSign in 2005, and the rest, as they say, is history.

:: **ExactTarget** makes marketing automation and email applications that specialize in creating, sending, and delivering business-critical email communications. ExactTarget was the "Best in Show" award winner at Dreamforce '06.

:: **Firepond** provides solutions for product configuration and for creating quotes and proposals. It was founded in 1983 by a salesperson who developed the first application to simplify the contract configuration for leased farm equipment, using a computer in the trunk of his car. Over the last twenty years, Firepond has remained focused on simplifying the sales process—now with a multi-tenant application that can be accessed with just a Web browser.

:: **forceAmp**, a Colorado-based company, provides tools for building custom Excel reports and for connecting Salesforce with Microsoft SQL servers, to easily access and replicate Salesforce objects.

:: **LucidEra** is to Reporting and Analysis what Salesforce.com is to CRM. The company was created in 2005, after a frustrated customer of a traditional BI solution told LucidEra's founders that "it would be easier to manage a nuclear reactor than to manage a BI solution." Since people don't need to manage nuclear reactors to get the resulting electricity, LucidEra's founders decided that the same should be true for BI solutions. LucidEra manages the underlying technology, while customers get the reports and analyses they need as a service.

- **Manticore Technology** is a privately funded company that is headquartered in Austin, Texas. Manticore Technology was started when its founders realized that B2B marketers were obsessed with a minor report (in a now legacy product) that identified which sales leads were on a customer's website, and which web pages they were viewing. Five years later, Manticore Technology is a leading provider of SaaS demand generation software, with customers across North America and Europe.
- **OpenAir** started with a simple vision: giving project-based organizations a more effective way to manage their key assets, such as their employees and their expertise. Based in Boston, OpenAir has raised over $16 million in venture capital funding to build a company that automates the services organization workflow, keeps resources off the bench, and maximizes cash flow.
- **VerticalResponse** provides self-service email and direct mail solutions. Based in San Francisco, the company was launched to address this question: can mass email be reliable, effective and affordable? "We're proud to say that we've stopped thousands of small businesses from blasting mass emails through MS Outlook and helped enterprise users recognize true ROI, without charging them for expensive—and rarely used—bells and whistles," said Joshua Feinberg, VP of Product Management.
- **Xactly Corporation's** applications make it easy to design, implement, manage, audit, and communicate about sales compensation programs. In his previous career as an enterprise software sales executive, Xactly founder Christopher Cabrera repeatedly had to walk away from sales opportunities because most SMB companies could not afford the cost and lengthy deployments of enterprise sales compensation management solutions. Sensing an opportunity, he launched Xactly in 2005 at salesforce.com's Dreamforce conference. The company has since grown to 100 employees, acquired 75 customers, and raised $27 million in investment capital.

And now, welcome to the seven habits of successful on-demand companies.

Habit 1: Make Leaders Accountable

Any major project or initiative depends on executive sponsorship for success—the on-demand world is no different. Whether you're a pure-play on-demand startup or an established traditional ISV, there is no substitute for the vision and unifying force that an executive leader can bring.

Given the advantages of the on-demand model, supporting the vision of an on-demand initiative is easy. What's harder is defining the *particular* characteristics such an initiative needs to be successful and selecting those metrics that can track success. Although many executives gravitate towards easy, logical metrics such as *revenue* and *profit and loss*, the most important underlying day-to-day metrics of an on-demand business—such as *adoption rates*, *system utilization*, and *attrition*—may be unfamiliar or, worse yet, unavailable.

In short, you need to answer the following questions: What are the most important indicators of success? How can we measure them? And who is responsible for meeting them? To address the challenges associated with these questions, consider these suggestions:

- Find a leader who understands that an on-demand model requires a new way of thinking about business—one that sees customer relationships as on-going service opportunities, not as one-time transactions. Making sure that the leader supports this approach is critical, especially if he or she comes from a traditional software background.
- Consider the customer lifecycle for your particular company. What stages does it include? For each stage, determine the key metrics that are the important drivers for that stage and build your company's goals around them. For example, if your lifecycle stages range from acquisition to enablement to maturation, the corresponding metrics could range from *# of leads generated by free trial* to *login rates* to *product adoption and usage*.
- Establish a way to regularly communicate metrics. Regular status meetings are one way to keep everyone on track and on the same page. You can also embed metrics in dashboards and make them publicly available, so that everyone is always up to date and can check for progress or problems at any time.
- Establish clear ownership of the key metrics to foster a sense of responsibility and to provide accountability. Even though metrics could be spread across departments, functions, or teams, they should also be tied to high-level, company-wide metrics and goals. For example, the product management team could own the metrics associated with product adoption, usage, and customer feedback. The metrics for renewal rates should be owned by the sales and marketing teams, rather than a back-office department. Regardless of how you assign metrics, the people who own them must have the power to make decisions that affect them.

Focusing on Leadership and a Culture of Measurement with Habit 1

Whether on-demand companies start as SaaS vendors or transition from a traditional software model, strong leadership and commitment, along with a disciplined approach for defining and measuring success, are always key ingredients for success.

Business Objects is a large traditional software company that is making a successful transition to the on-demand model. Steve Lucas, VP of On-Demand Software & Services, comments on this shift and how it has impacted the company's operations.

> *"Although Business Objects has a traditional software heritage, we knew we needed a comprehensive on-demand strategy to stay competitive in the evolving software market. This led to the creation of a dedicated on-demand business unit, which was responsible for pioneering new ways to engage and retain our customers. More importantly, this shift made us focus more than ever on delivering solutions that will make our customers successful over the long term."*

Morris Panner, the CEO of OpenAir, agrees with the importance of executive sponsorship:

> *"Executive teams who are deeply invested in a company—both on a financial and personal level—run firms more thoughtfully. In our company, several senior executives are founders or early investors, and all have been with the firm for over six years. This level of commitment invigorates the entire company, and I think you can see the result in the quality of our application. We also hire staff with a long-term perspective, to go with our long-term aspirations. Our product is developed with roadmaps stretching years into the future, not just a few months. Such decisions about the product and the firm can only flow from the top."*

Centive is an example of a company that leveraged its success with traditional software solutions to become an exclusive on-demand provider. Michael Torto, President and CEO, summarizes his company's transition as follows:

> *"We had a successful seven-year history as a traditional vendor of sales compensation solutions, so the decision to move to the on-demand model required careful consideration and full executive, employee, and board-level commitment. Every aspect of company operations had to be reviewed and adapted to support the on-demand model and our new solution, Centive Compel.*
>
> *The key was finding people with the right kind of experience and structuring the company internally to align with the on-demand model. We began by hiring a new VP of Engineering who had experience and expertise in building highly scalable, multi-tenant solutions and gave him a dedicated team of engineers. We hired a new VP of Sales from the largest outsourced payroll provider to manage our sales delivery. And we tasked our VP of Professional Services to focus exclusively on building a new professional services group dedicated to deploying and supporting an on-demand service. Next, we divided the company into two separate business units so that the on-demand unit could have total focus on the new business model.*
>
> *Once we proved that we could be successful with this business model, we divested our legacy on-premise application and became a 100 percent on-demand service provider. These steps not only enabled our company to successfully transition to a new business model, they also demonstrated to our customers, prospects, employees, and industry influencers that on-demand was the future for Centive."*

And BigMachines' CEO Godard Abel shares one of the less publicized benefits of running an on-demand company—real-time access to operational metrics.

> *"In addition to all the implementation and upgrade advantages, on-demand applications provide a Web-based reporting infrastructure that is much more accommodating to real-time updates, and that can help executives manage their businesses more effectively, using real-time metrics. Metrics are only valuable if they're updated and if they allow you to take corrective action before your company is committed. This is especially true when measuring sales activities like opportunity pipelines, pricing and discounting actions, and quote hit rates—all of which require very real-time visibility."*

Habit 2: Deliver Apps your Users will Love

With the on-demand model, software is delivered completely via a Web browser. For application developers, this is a double-edged sword—although they can develop more quickly for a single platform and version, they must also meet the high user expectations created by consumer applications such as Amazon.com and Google.

When users interact with on-demand applications, they expect constant availability, an intuitive interface they can customize, and automatic upgrades that leave all their customizations intact. They are also constantly on the lookout for more and better features. Because of these expectations, on-demand companies must delight their customers day after day to keep them coming back.

Creating such apps requires commitment, planning, resources, and constant communication to your users. As you develop your product strategy, keep these points in mind:

- Because fast development cycles require faster approaches to development, it pays to implement agile development processes. Faster development requires breaking down complex R&D projects into smaller, independent components that can be developed in a short period of time. You'll save time by avoiding the complex interdependencies of traditional projects, but the real savings come from not having to support multiple platforms and versions—you can develop, package, and deploy a single version to all customers.
- A critical and often overlooked step in creating a product users will love is making sure that it's always available. To minimize downtime and poor performance, you will need to invest in an infrastructure that supports a reliable, scalable architecture. Typical hardware and software components needed for creating on-demand solutions include application and database servers, network bandwidth, security certifications, backup tools, and monitoring systems.
- Customers love to personalize their applications to fit the way they work. By building your apps with a single code base, customers can easily customize them with tools that work on the application's meta-data layer, knowing that their customizations won't be lost when the app is updated. A single code base makes your life easier all the way around—instead of tracking multiple code bases, versions, and worrying about incompatibilities, you can focus your development efforts on pleasing your users.
- Set up a process that includes communication paths to let users know what's new and what's coming. Once you fine tune your process for creating better, faster applications, you'll need a structured way to notify your users and to tell the world. Pre-release communications and launch events—either live or online—are great ways to drive adoption among existing users and to get new ones.
- The beauty of the on-demand model is that you can track and analyze behavior patterns of all your users quantitatively, down to the mouse click, instead of relying solely on surveys or other subjective feedback from a subset of users. Make sure that this information is available to all employees involved with creating or marketing your product.
- Listen to your users. Create feedback mechanisms that let you keep taking the user's pulse, so you can give them more of what they love—and fix what they don't. Strategies for getting subjective user feedback include user acceptance testing (which is critical before you ever release a product), surveys, preview programs, focus groups, user groups, and sites such as salesforce.com's IdeaExchange (http://ideas.salesforce.com), where customers can make product requests.
- Create a "Chief Customer Advocate" position, with the mandate to always take the customer position on all decisions that affect the customer experience, from R&D to pricing to events. Make this person the voice of the customer internally—and make sure that this voice is heard.
- Ensure that both quantitative usage statistics and subjective user feedback drives your current development efforts and future product plans.

Giving Customers What They Want with Habit 2

There are many ways to be responsive to your users and to create products they will love and recommend. The companies below share their approaches to the never-ending challenge of continually improving how their products look, work, and grow.

Joshua Feinberg, VP of Product Management for VerticalResponse, explains his company's strategy for product development:

> *"Our clients not only expect rapid development and enhancements, they demand it. We're committed to adding features and upgrades driven by direct user feedback. We solicit suggestions, comments, and complaints from all user types, including small business owners and large online retailers. We also track and categorize all incoming feature requests in real time, so we can remain agile and adapt quickly.*
>
> *Our strategy is to roll out upgrades to all users with a single push and to run targeted follow-up communications to highlight that the features they asked for have been added. We find that this approach promotes loyalty because customers feel like their voices are heard above all the noise. From a product management standpoint, we conduct needs assessments for all customer types to ensure that every segment is represented. Our engineering team thrives on the iterative process of building, launching, and tweaking, rather than keeping new functionality locked up in the lab for months on end. The excitement of frequently releasing new features to a hungry customer base is really satisfying and serves as a motivating factor for all parties involved in new product development."*

The company forceAmp came up with an innovative process for making sure that users can provide feedback even before the app is released. Bill Emerson, President of forceAmp, describes how his company can deliver new products rapidly through a prototyping process.

> *"At forceAmp we use a process called "iterative prototype" to develop our applications. The goal is to build a prototype as quickly as possible for review by end users. That feedback is used to produce the next prototype. The trick is to decide when to break out of the loop. We consider two factors: the barrier to entry of the current prototype, and whether the value proposition for the product meets the target purchase price. Some products fall out because they never successfully address these factors. For each successfully launched product, there is another product that never made it out of prototype."*

Jason Lemkin, the CEO of EchoSign, believes that ease of use is paramount in encouraging user adoption; he has seen applications with tremendous value fail because their value wasn't immediately obvious. But in addition to making sure external users love the app, he stresses ease of use for internal users as well.

> *"The faster your users "get it," the faster they'll become champions on your behalf. To help them get it, our goal was to make our application as easy to use as email. This has reduced training, eliminated the need to download the application—and with it, IT involvement—and helped users to become independent.*
>
> *You obviously want your external users to love your app, but don't forget about your internal users. They'll love it if the application can track detailed customer usage patterns **and** then present that data in a flexible format that's targeted to them. Customer information is invaluable for every department in the organization—Development can determine scalability requirements, Marketing can create loyalty programs, Sales can determine reference accounts and customer purchasing patterns, and Support can alert Finance to audit requirements in case a customer "over indulges."*

Bill Santo, CEO of Firepond, Inc. stresses the need to not just communicate the benefits of the core application to customers, but also the key advantages of multi-tenancy over enterprise or hosted applications.

> *"Maintaining one core baseline of code is a huge benefit to customers—we can produce feature-rich applications at much lower costs for them. For example, every time we release a new product version, those features are instantly available to all users; they have no expenses and don't have to wait to get "upgraded." And because we're not upgrading, implementing, and maintaining multiple baselines of code across our customer base, we can focus on innovation, security, and scalability, and feature enhancements."*

Habit 3: Create a 24/7 Demand Generation Machine

On-demand vendors are finding innovative ways to generate leads, without spending lots of money on traditional marketing and advertising. And because it is possible to closely monitor how customers use on-demand applications, it's easy to design add-on solutions and upgrades based on first-hand knowledge of user behavior.

Some approaches to demand generation are based on technology, others depend on imagination and effort. All of them focus on people:

- One great way to generate interest is to offer something for free, such as valuable information in a format that fits your audience, whether that's a comic book or a white paper. But the most compelling approach—one that actually accelerates the sales cycle—is letting customers "test-drive" lightweight versions of your solution on the Web. By giving away free trial versions you let people try your product without risk and without commitment, while generating well-qualified, knowledgeable leads for your sales team.
- Establish a comprehensive database that includes all existing and new leads, even leads considered "dead" or "unqualified." You may find that, by using frequent e-marketing initiatives to different segments of the database with targeted offers of free articles or invitations to webinars or events, you can resurrect dead leads or close unconverted opportunities.
- Guerilla marketing efforts work particularly well in the online world. Make your company and solutions memorable with videos, humorous promotions, and creative messages that are so engaging that people pass them on to others. Done well, it's a way of letting others do your marketing for you.
- Because services tend to be a referral-driven business, your customers are your best sales people. For that reason, closely track the number of customers willing to become reference customers and make sure everyone in your organization knows these customers. All marketing materials should include customer examples, testimonials, and ROI metrics. And all presentations and events should include customers who tell their story—and yours.
- Even if you have just one product, one message does *not* fit all. If you want to target more than one market segment, make sure you tune and package your message to fit each audience. For example, to sell to large

companies, you might want to stress how your product will improve user productivity in an enterprise environment. For a small customer, you may want to focus on the fact that you have a turnkey solution.

Putting Lead Generation on Auto Pilot with Habit 3

Successful on-demand companies make the most of the opportunities for automated lead generation that result from using the Web as a platform. Start-ups, in particular, benefit from this low-cost approach to effective marketing.

Manticore Technology has put many aspects of Habit 3 to good use, including coming up with a "competition killer" with its 30-day free trial. *"We knew that if a prospect had to choose between two comparable demand generation solutions, one offering a free trial and the other requiring a $20K implementation and signed contract, the business would be ours to lose,"* said Christopher Doran, VP of Marketing.

> *"We knew that with on-demand software, the old rules of sales and marketing were obsolete. We also knew that if we created a demand generation solution that could be quickly implemented and integrated with Salesforce, we would be a hit with saleforce.com customers. AppExchange and Dreamforce have been Manticore's best source of hot leads—hands down."*

Xactly also uses the "free trial" approach with excellent results. According to Steve DeMarco, VP of Business Development Xactly also leverages its partnership with salesforce.com and the consolidated power of the AppExchange marketplace as a demand-generating powerhouse.

> *"Selling and marketing an on-demand application is much different than selling on-premise solutions. The days of making multi-person, face-to-face sales calls are over; that approach is just too inefficient and costly. Instead, we're constantly looking to creatively market, create demand, and sell our products in innovative ways, both over the phone and by using the internet.*
>
> *We found that it's critical to develop a partner ecosystem for referrals and for making integration between applications easy. Demonstrating the application online, so that prospects can see and "test drive" the application, is both efficient and people like it. We partnered with salesforce.com from very early on, and much of our success is a result of that partnership and our efforts in co-marketing and co-selling, as well as our participation in the AppExchange marketplace.*

ExactTarget uses multi-channel marketing to attract, engage, and convert new business leads. This strategy includes search engine optimization (SEO) and search engine management (SEM) efforts, speaking engagements, webinars, trade shows, online advertising, blogs, and print advertising to attract potential customers to the ExactTarget website. Of these approaches, the most effective is a pay-per-click SEM strategy, followed by online advertising. Joel Book, Director of eMarketing Education, summarizes the company's strategy:

> *"Once we attract someone to the ExactTarget website, he or she has different ways to engage with our company, including subscribing to our e-newsletter, downloading white papers, registering for webinars, or requesting a demonstration of our solution. Once we convert these website visitors, we use permission-based email to educate them about email best practices and to show them great examples of email in action.*
>
> *We supplement our email communications with outbound calls that help us to better understand a prospect's needs. These calls are also invaluable in educating prospective customers about SaaS and the benefits our 24/7 solution provides. All interactions with prospective customers are recorded in Salesforce, which serves as our "database of record" for managing our entire conversation with prospects, from pre-sale all the way through the post-purchase phases."*

Habit 4: Sell a Service, Not a Product

As an on-demand provider, you're not just selling a software product, but a complete service that includes delivery, support, and ongoing maintenance. This approach impacts how your sales team interacts with customers before, during, and after a sale and presents special challenges related to pricing, fulfillment, and customer loyalty.

After a sale, traditional software vendors have the luxury of leaving behind the code and shifting the burden of implementation to 3rd-party consultants and, ultimately, the customer. But if you're selling subscriptions and usage-based solutions, your revenues depend on customers who keep coming back. This financial model poses both external and internal challenges.

One of the greatest external challenges is overcoming customer fears—particularly in IT departments—of another company "owning" mission-critical code, as well as fears related to availability and uptime. The reputation of salesforce.com's service delivery and the success of its customers has done a great deal to calm those fears, as dozens of companies—including some of the nation's largest banks—have entrusted some of their most critical data to salesforce.com.

On the business side, challenges include how to price your services and how to address the concerns of your sales people, who may feel less important working within a business model where success depends more on financial discipline and on-going customer service than it does on large, one-time sales.

As you consider these challenges, keep the following suggestions in mind:

- The fact that the on-demand model shifts the implementation burden from the customer to the vendor is one of the model's great advantages. Be sure to communicate how IT departments benefit by not having to deploy, update, or otherwise maintain the solution, so that they are free to focus on value-added projects that contribute to their organizations' business goals.
- In the eyes of most customers, this freedom comes at the price of controlling their own code and the availability of the product. To successfully overcome such concerns, you must have a solid plan for dealing with security and downtime—or better yet, show a solid record of availability. Salesforce.com addresses these concerns with a great security infrastructure and the website www.trust.salesforce.com, which gives customers access to real-time and historical system performance information and updates, incident reports, and maintenance schedules.
- To address customer fears related to making a commitment to an unknown model, explore offering a Service Level Agreement (SLA) that addresses typical customer objections. This agreement should provide minimum guarantees related to delivery metrics, such as system uptime, performance, scalability, and so on. SLAs can be particularly helpful when working with large companies, who may hesitate to trust smaller on-demand companies with mission-critical data and processes.
- In terms of pricing a service, on-demand vendors typically use one of two approaches. If you have regular users and want to grow your user base across an entire department or company, a user-based pricing model generally works best. If your solution is used by a small, finite group of users that perform repeated activities with your solution, a transaction-based model may be your best bet. In either case, always test your ideas around pricing with a small set of customers. They are usually more than willing to tell you what they'll pay for and how they would like to see their payments calculated.
- When it comes to motivating your sales teams with incentives that are not tied to large deals, the key is coming up with other metrics for measuring success. In defining what these metrics should be, look at those that support your most important goal: customer loyalty. Examples might include event participation, recruitment of reference customers, speed of implementation, adoption rates, or low rates of attrition. Once you know what to measure you can decide what to reward. At that point, the typical incentives will do the trick.

Creating a Service Culture with Habit 4

Across the board, salesforce.com's on-demand partners agree that the challenge of selling a service means that they have to approach business differently, in a way that affects all aspects of a company.

Bill Santo, CEO, Firepond, credits salesforce.com with paving the way for companies such as Firepond by proving the value of the on-demand model across multiple market segments. He discusses the implications of this model:

> *"A SaaS vendor does not recognize revenue until subscribers come onto the network. This simple but compelling economic fact properly aligns the interests of the vendor and customer. As SaaS vendors, we need to drive innovation not just at the application level but straight through to the service and integration levels. Lack of user adoption directly impacts our revenue.*
>
> *In the SaaS operating model the historic distinction in the software industry between licenses, services, and maintenance revenue becomes irrelevant. What counts are satisfied users logging onto your network every day and achieving meaningful results for their business. If you don't have compelling content, you lose subscribers. That's the SaaS world, and it's here to stay."*

Glenn Wilson, President of CRMfusion, shares his perspective on why a service culture is essential to the success of on-demand companies.

> *"Step number one when it comes to SaaS products is to remember that they must be used in order to be sold. There is no "shelfware" in the on-demand world. Keep your applications up to date but add functionality based on the users' needs, not on what you think they need. We can tell you up to the minute who is using the tool and what their current usage pattern is. More importantly, we can tell who is not using the tool, so a customer success manager can give them a call to see if there has been a change in employees or if they don't understand the benefits of the tools. With a perpetual license (speaking from my previous life at a software company) you concern yourself with the "Big Initial Sale." After that you'll wait 18 months until the next release and then pursue the "Upgrade Business." In the on-demand world you're concerned about making the customer successful every day."*

Apttus takes a holistic customer approach by having a specific role in the organization responsible for managing customer interactions. Kirk Krappe, CEO of Apttus, shares this method.

> *"Selling a service is selling yourself—you are delivering the service. We make sure every customer experience is tier one—from the product demonstration, to support response times, to new releases. In fact, we have a function called "first impressions," where someone is responsible for the quality of every interaction with Apttus."*

Manticore Technology has adopted a compensation model that helps drive a service-oriented relationship. Christopher Doran, VP of Marketing, explains his company's philosophy.

> *"When consumers go to a restaurant, they expect a positive experience—pleasant interactions with staff and good food. The same should be expected of on-demand software. At Manticore Technology, whether it's Sales, Marketing, Development, or Support, every employee is responsible for ensuring that the customer finishes that interaction with a good taste in their mouth—it keeps them coming back for more. Manticore Technology has adopted an account executive model, where AEs are compensated for closing business and subsequent renewals. We've found this to be a perfect blend of driving new business, encouraging product adoption, and providing superior customer service."*

Habit 5: Make Customer Success a Religion

Because renewals are critical, there's nothing more important than customer service, customer satisfaction, and customer success. This fact of life forces on-demand vendors to behave less like product companies and more like service companies, such as restaurants or phone companies. In addition, on-demand companies must continually drive up- and cross-sell opportunities to keep users coming back and—hopefully—to get them "addicted" to their service.

The challenge associated with this habit is how to best structure the company to meet these goals, ranging from staffing issues to infrastructure decisions.

- Deliver programs to drive customer adoption and success, such as offers for free initial training, ongoing webinars, online resources, events, and local user groups. In addition to providing materials about your solution, be sure to highlight success stories and profile customer heroes—most people consider best practices shared by their peers to be far more credible than marketing pitches from a company.
- Measure satisfaction with surveys or contact customers directly and resolve any complaints as quickly as possible. Complaints aren't necessarily bad news—surveys show that customers who had a complaint that was successfully resolved become more loyal than customers that never had a complaint at all.
- To keep costs down, set up a self-service portal or community-driven website to help customers get acquainted with your solutions. Use any customer information you gather to make sure these sites answer the most common questions, offer the most popular documents and best practices, and give users a chance to connect with each other.
- Consider creating dedicated customer success teams. Unlike traditional sales reps, these individuals act as ongoing consultants and coaches to customers. It's an approach that has been shown to drive renewals and upgrades.
- Motivate your customer-facing employees. Tie compensation and bonuses to customer success metrics. Such metrics could consist of a combination of objective metrics such as *login rates*, *application usage*, and *attrition*, as well as more subjective metrics based on service ratings and whether customers agree to act as a reference. In addition, provide these employees with resources they can use to encourage customer loyalty, such as free training, gifts, and discounts on future products.

Getting Customer Service Religion with Habit 5

In the on-demand model, keeping customers is just as important as getting them. As a result, successful vendors make customer retention and customer success a top priority in their companies.

LucidEra follows the best practice of having dedicated staff that advises, coaches, solicits input, and ensures that customer requests are met. Ken Rudin, CEO of LucidEra, describes this approach as follows:

> *"We have created a Customer Success Team to focus on doing whatever it takes to ensure that our customers are successful with LucidEra. This team works with the customer throughout the entire lifecycle. First, they help with the initial implementation. Then, they work with the end users to give them an overview of LucidEra's on-demand reporting and analysis solution and to help them in using it most effectively. The team also proactively reaches out to customers to engage with them, to answer questions, and to make sure they are getting true value. If we keep our customers happy and engaged, they will want to renew their subscriptions."*

Centive has achieved a truly amazing result: over 90 percent of active customers have agreed to act as references for the company. Frank Ernst, the General Manager of AppExchange Business Solutions, explains how Centive achieved this impressive vote of confidence.

> *"Serving the customer is job #1 at Centive. With over 10 years experience in the pay-for-performance, incentive-compensation management arena, we decided to institutionalize customer service with our own employees through their incentive compensation plans. For example, instead of creating bonus incentives around service team utilization levels—which is a more common practice in professional services and consulting organizations—we measure our teams on customer-focused metrics, such as success in meeting the customer's target go-live date and whether customers are willing to provide references for Centive with the press, analysts, or prospective customers.*
>
> *We know that when a customer is happy with the level of service they get, they will continue to subscribe and be a convincing advocate when speaking about us. Our customer-focused incentive plans ensure that our employees are rewarded for delivering the highest level of service and that our customers receive the most value from our solutions."*

Joel Book credits his company's commitment to customer service as the major reason for ExactTarget's consistently high annual renewal rates. He describes ExactTarget's approach like this:

> *"Our success hinges on our ability to serve our customers better than our competitors. To accomplish this, we continue to invest heavily in our customer service and support infrastructure, which includes account managers, customer support (help desk) representatives, implementation specialists, deliverability consultants, integration specialists, and strategic services professionals. All of these individuals share in maximizing our customer's success and satisfaction.*
>
> *In addition to serving existing customers, we also sponsor a wide range of educational seminars and presentations for anyone who wants to learn what leading email marketing practitioners are doing and how to apply these best practices to improve their own performance. As part of our continuing education commitment, ExactTarget executives speak at more than 100 industry conferences and conduct more than 50 in-house, customer-sponsored seminars each year. Our formal evaluations, as well as the informal feedback we get, show that this program is having a huge impact."*

Gordon Abel, CEO of BigMachines, explains how the company has made customer success a driving force within the organization

> *"Customer success is one of BigMachines' company values, and we spend a huge percentage of our team's resources trying to achieve it. We track user activity within our application very closely to ensure our customers are successfully adopting the solution and our management team reviews these numbers regularly to identify any potentially unhappy customers. All of our employees know our customers come first, and we also know that there's always more we can do. Like continual process improvement, it's a never-ending activity."*

Habit 6: Develop Highly Disciplined Financial Processes

Because revenue is collected over the course of the contract instead of in up-front fees, on-demand companies must manage their finances differently. In contrast to traditional software companies that can use large upticks in revenue to mask lax accounting practices, the recurring revenue model affords no such luxury. As a result, success is more dependent on back-office teams such as Finance and Accounting providing stable financial processes, rather than on Sales closing large deals.

The predictability of the recurring revenue model rewards companies that set up their financial structures to make the most of the model's advantages, such as the ability to defer revenues and to build a backlog. However, without CFO discipline around accounting practices that shorten the order-to-cash cycle and the close monitoring of key financial metrics, on-demand companies can get into trouble.

To successfully manage a company with this financial model, it is critical to set up financial processes—including collections, invoicing, and renewals—that closely track revenues and expenses. You also have to stay on top of those metrics that are indicators of future income, such *lead flow*, *renewal rates*, and *attrition*. And that's not just the financial types; everyone in the company should be constantly aware of those metrics.

When setting up your financial structures, keep the following best practices in mind:

- When considering creating an on-demand company, a central question is this: How much money do we need to raise? Many on-demand entrepreneurs find that they can "bootstrap" and self fund their companies, rather than raising the typical $1-5 million in traditional venture capital. Because the development cycles are shorter and solutions are marketed and delivered online, you don't need raise large sums of capital to fund long R&D periods before initial customers are won. That means less up-front risk because you can test different products, business models, and the market response before fully committing with large amounts of capital.

- Renewals are critical. You must avoid attrition—if customers leave when their initial contract is up, the financial model falls apart. During periods when a large number of contracts are due for renewal, CFOs must closely track renewal rates. CFOs should prepare contingency plans to maintain cash flow if renewal rates are lower than predicted.
- A great way to keep down administrative costs is to implement automated payment tools such as self-service portals. That way, customers can access and control their accounts online instead of calling a representative or the billing department.
- With greater visibility into metrics across the organization, capital planning can be tied to actual business developments, so that CFOs no longer need to overplan capital expenditures. For example, because you can measure system usage and the growth of the customer base, you can calculate exactly what infrastructure investments are needed to maintain or improve service delivery. By growing slowly initially, you can determine rule-of-thumb capital planning ratios for your specific organization.
- Because R&D in on-demand companies is generally more efficient than in traditional software companies, headcount can grow slowly at first and then gradually over time. However, be sure to hire enough service-oriented, customer-facing employees to ensure that end users adopt your solution and customers upgrade to enhancements and renew their contracts.
- Because initial fixed costs tend to be larger because of one-time infrastructure investments, consider the impact of those costs. You many want to consider leasing or outsourcing parts of your service delivery operation, rather than owning the entire infrastructure.

Focusing on Finances with Habit 6

For VerticalResponse, the pay-as-you-go model has shortened the sales cycle. When prospects learn that there is no contract, coupled with the fact that they pay only for what they use, barriers to entry disappear. CEO Janine Popick explains VerticalResponse's approach this way:

> *"Our service has been built on the SaaS model since inception. Because we're not currently based on monthly subscription fees, we recognize revenue when the customer uses our service. I think it's important to nail this down from a finance point of view as early in a company's development as possible, because, if this isn't defined until later, you could end up having a liability on the books instead of profitability. This could seriously hurt the company valuation.*
>
> *Our business model led us to a "controlled growth" strategy when it comes to managing cash flow. Getting prospects into the funnel at a reasonable acquisition rate is our primary focus. Second to that is closely monitoring conversion rates and adjusting marketing to increase those rates. We have developed metrics around customer conversions that have become highly predictable over time, so that we can effectively manage our expenses.*
>
> *We've set up our service so that, for over 80 percent of our customers, we have service self fulfillment. That means that a customer can purchase our service and use it immediately, without ever having to speak to an employee. Of course, then can if they want to. We also have customers at a higher spending level who require being invoiced. We have set customer spending tiers, so that, for customers who are willing, we can invoice them on a monthly basis."*

OpenAir emphasizes operational excellence in their financial practices. Thomas Brennan, CFO of OpenAir, explains:

> *"Managing a recurring revenue stream business presents many unique challenges. While the predictability of your revenue streams may be enhanced, the single "big bang" transformational sale isn't available. Therefore, more so than usual, figuring out and regularly tracking the appropriate performance metrics is critical to the financial management of an SaaS firm. On the micro level, the devil is in the details. You have to ensure you're billing everything you should, know what's billable and not, and collect those billings and map them to the appropriate cost measures. It's a complicated task—those firms that fail to tightly manage this process will find it challenging to achieve success."*

Bill Emerson, President of startup forceAMP, describes how his company has been able to grow without raising venture capital.

> *"For us, the main advantage of the recurring revenue model is that is reduces the initial startup capital required. Because our second-year revenues were almost double our first-year revenues, forceAmp has*

been able to bootstrap the company without the kind of capital that used to be required to start a software company."

Habit 7: Take Your Place in the Mashup Universe

Many of the best opportunities to enter new or vertical markets come from technology relationships with other companies that offer on-demand Web services. Because these solutions can use the Web as a platform to "mash up" two or more existing applications via their APIs, new and often unusual partnerships are becoming common.

Mashups provide a greater aggregate value than either application alone. Critical to finding partnerships is knowing what solutions are out there and which could either enhance or be enhanced by your solution. Avoid building functionality that already exists—the world has enough currency calculators and calendar apps.

When looking for potential partners, challenge traditional notions—partners aren't limited to consultants, VARs, OEMs. Instead, look for innovative mashup opportunities to drive your business with new technologies and to unlock new relationships, channels, and markets. Keep in mind that, although leading consumer companies such as eBay, Google, Amazon, and Yahoo are known for their own services, much of their recent growth has been driven by external sites that consume selected services made accessible through their APIs.

- Identify and track Web-based services, applications, and technologies that could be potential mashup candidates. A simple Google search will yield numerous resources—including blogs, directories, and databases—that can help navigate the thousands of companies that offer Web 2.0 and Office 2.0 applications.
- Open new channels and markets by embedding your solution in apps that play in adjacent verticals or business processes. For example, if you offer a risk management solution that provides credit scores to help mortgage companies make decisions, consider mashing up your data with criminal record and educational data providers as well. This new, comprehensive solution could be easily marketed to banks and insurance companies.
- Open parts of your application via publicly available Web-based APIs. Build free mashups to show off your capabilities and to demonstrate that your app can be easily consumed by other applications or Web services. You may well inspire potential partners and developers to build new mashups that address innovative use cases.
- Seek to empower users with more data and intelligence by combining services. For example, by mashing up Google Maps with Craigslist's apartment listings, a popular existing service was greatly enhanced to give apartment hunters and landlords a new way to interact.
- Reach out to the developer community to encourage developers to extend your application in new ways via your APIs. Give them free licenses and toolkits and reward them with recognition within the community. Better yet, consider creative ways that they can profit financially from working with your APIs. It's a great way extend your R&D team to include the millions of talented developers around the world.

Making the Most of New Partnerships with Habit 7

Mashups are getting increasingly sophisticated as they extend beyond solutions at the consumer presentation level to support complex business processes that span the enterprise. Because mashups are all about combining functionality, finding compatible partners, and joining forces, forming partnerships is one of the most promising strategies for on-demand companies.

VerticalResponse is enhancing its approach to partnerships, as described by Joshua Feinberg.

> *"Our mashup strategy is fairly straightforward. It's also closely aligned with our philosophy about partnership initiatives in general: don't reinvent wheels that are already rolling smoothly. We focus on our core competencies and look for hooks with other best-of-breed providers that will result in a rich and seamless user experience. Our ultimate goal is to keep expanding our list of core competencies by including new services that we have no intention of building internally.*
>
> *In the past we always relied on our partners' APIs when designing integrated solutions, but with the recent release of our own public APIs, we're in a position to forge new relationships with ISVs, agencies, and providers. As a result, we can enhance our products without incurring the development overhead to build new functionality from scratch.*
>
> *We're also getting our developer community off the ground, which we feel will drive innovation and creative solutions to common problem. By creating a micro-site specifically for developers, we're able to cultivate a community that will be a breeding ground for ideas and collaboration."*

Glenn Wilson of CRMfusion explains his company's view of mashup opportunities and how to package them in a way that drives user consumption.

> *"There are many purveyors of web services out there just waiting to have their Web services consumed. If you include an external application within your application you must be able to support it and provide a billing mechanism. Mashups are successful because they are easy to create, but they can only become a successful commodity if they appear to the user as a component of a single application."*

According to Steve De Marco, Xactly has developed a strategic and wide ecosystem of partners to give customers tightly integrated solutions with rich functionality.

> *"Being able to seamlessly integrate with other on-demand applications is a huge advantage, both to customers and to the vendors themselves. For example, Xactly Incent is integrated with Salesforce, so that customers can estimate compensation based on opportunities in their Salesforce pipeline. We also integrate with on-demand solutions such as BigMachines for quote and configuration, and with Successfactors for employee MBO management. Our joint customers can spend their time benefiting from our solutions, rather than cobbling together multiple solutions at great expense."*

Conclusion

As the acceptance of the on-demand model grows among customers, opportunities abound for on-demand vendors, offering great potential at a low risk. By learning from other successful companies and by following the suggestions in this paper, you can turn your ideas into a successful on-demand service.

As you've seen, successful companies offer a wide range of services and use many different approaches. But what all successful companies have in common is that they know how to measure and closely track their performance, they develop appropriate financial processes, and they have made the value of customer service an integral part of their companies' DNA, to form the basis of every business area and to guide every business decision.

The Americas
The Landmark @ One Market
Suite 300
San Francisco, CA 94105
United States of America
1-800-NO-SOFTWARE
www.salesforce.com

Latin America
Alfonso Napoles Gandara 50
4th floor
Col. Santa Fe
Mexico City
Mexico 01012
+52-55-9171-1882
www.salesforce.com

Japan
Ebisu Business Tower 18F
1-19-19 Ebisu, Shibuya-ku
Tokyo, 150-0013
Japan
+81-3-5793-8301
www.salesforce.com/jp

Asia/Pacific
9 Temasek Boulevard
#40-01 Suntec Tower 2
Singapore 038989
+65-6302-5700
www.salesforce.com/au

Europe, Middle East & Africa
Ch. de la Dent d'Oche 1B
1024 Ecublens
Switzerland
+353-1-2723-500
www.salesforce.com

salesforce.com® Success On Demand.™