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How Technology Vendors are Reaping the Rewards of the As a Service Economy

WHITE PAPER

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The manufacturing industry has gone from steam powered, machine-built goods, through to assembly lines, the introduction of computing power and the start of data collection to a fourth revolution. The digitization of this industry continues and now it is accelerating.

The Rise of the As a Service Economy

Fluctuating market conditions and increasing competition mean B2B buying behavior is changing. Customers need flexibility with the ability to pay as they go for the technology they are consuming.

They require a technology consumption model that allows them to scale up and down based on the business environment, which is more efficient for them as they are only paying what they use and need.

As an average of 20% of new businesses fail in their first year the up-front technology costs of setting up or running a business are relatively high. Lower entry pricing and more efficient usage payment plans mean the subscription model is firmly on the rise and, the as-a-service economy has taken hold as a result.

In a Technology Services Industry Association (TSIA) survey, more than 50% of the companies with business models based on selling products (transactional revenues) reported a drop of 10% or more in bookings. Whereas only 23% of companies with business models based on selling recurring services had the same experience.

The Power of XaaS

There are an ever-increasing number of XaaS offerings and, as shown in a recent study by Deloitte, about half of the organizations surveyed are adopting different kinds of XaaS and nearly all of them plan to be deploying it in some form within the next two years.

Device as a service (DaaS) emerged early on. It is an attractive proposition due to the ability for the customers to lease or spread the cost of their hardware, forgoing a high entry price and giving them flexibility on usage. Two heavy hitters from the technology vendor world, Lenovo and HP have launched offerings as part of their overall portfolio.

> Lenovo Managed Services and Device-as-a-Service (DaaS): customers outsource the management of their IT infrastructure to Lenovo or lease it from them.
>
> HP are positioning their offering betting for DaaS as the market begins to shift to contractual solutions.

Infrastructure as a service (IaaS), which emerged in the early 2010 has now given way to Platform as a Service (PaaS) and Software as a Service (SaaS) is still the foundation for managing resources in the cloud.

PC as a Service (PCaaS), launched by DELL in 2019 as an offering to small businesses soon followed. Now, Workplace as a Service (WaaS), where businesses can pay a monthly fee for a PC, the software, peripherals and even furniture, are a reality. More recently, Wifi as a Service (WifiaaS) packages are being offered by many Managed Services Providers, Telcos as well as Manufacturers with new managed services capabilities.

Accelerating Time to Revenue through Transformation

These new consumption and usage models are forcing businesses to accelerate their digital transformation efforts. Technology vendors are now actively seeking out new business opportunities and ways to extract additional value from their core products and make their business operations more efficient and scalable. This helps them focus on accelerating time to market to align with this new paradigm.

The XaaS economy offers technology vendors a huge opportunity for renewal and predictable recurring revenue. A traditional hardware manufacturer usually has no other revenue stream than that of the hardware itself and it is likely that this will mean they are losing market share against as-a-service vendors. Sales cycles are long and slow due to the upfront cost barrier to customers and, as they are one-off purchases, they do not generate predictable recurring revenue which reduces scope for growth.

To harness the power of the XaaS economy they are taking different approaches depending on their business objectives. Those that wish to focus on their core product, grow market share and expand their reach, empower their channel. Those that are looking to generate predictable annual recurring revenue (ARR), capture the higher margins from software and services transform their business model and portfolio. Finally, those wishing to expand beyond their current reach, increase adoption of their products in new segments, verticals and countries are building ecosystems.

Expanding Market Share by Empowering the Channel

Technology manufacturers that decide to empower their channel while focusing on their own product development have the option to either fund their channel partners, usually via MDF (market development fund), to create an eCommerce storefront or provide a white-labelled marketplace which they brand.

The channel partners add value by bundling their hardware with complementary third-party software and services and offer them on a subscription basis. The manufacturer benefits from the faster route to market, avoiding customers' up-front cost barrier and grows its market share thus benefitting from the subscription model by proxy. This approach, however, does not generate predictable recurring revenue and margins remain low. In this way, however, they avoid the costs and complexities of implementing the subscription model in-house.

Driving ARR and Operational Efficiency through Business-model Transformation

Many technology vendors who are aiming to benefit from subscription model and obtain annual recurring revenue by offering their customers XaaS bundles directly opt for a full structural transformation. The evolution from pure hardware manufacturer to ISV and even MSP means either including software and services in their core activity or acquiring companies with the skills to offer software and services on top of their hardware.

Technology manufacturers may lack the knowledge in- house to create solutions and services required and some organizations, such as Lenovo, create new business units to house their ISV initiatives. Others, such as HP make acquisitions, an example of which is Apogee, a managed printing services company. Indeed, Hewlett Packard Enterprises has announced that it will offer its entire portfolio as a service by 2022. HPE will offer entire portfolio through a range of subscription, pay-per-use and consumption-driven offerings by 2022.

In addition to the new skillsets, they must also change their business model, moving from offering a one-time purchase model to subscription-based requires an overhaul of internal disparate IT systems and processes. Subscription types are varied and can be complex. In terms of creating a bundle, there is the vendor side: recruitment, onboarding, integration, catalog listing, training, procurement, billing and analytics and so on. On the customer side: quotes, fulfillment, billing, post-sales support and analysis for cross- and up-sell opportunities.

There is also the question of route to market. As we have seen in the previous example, ecommerce marketplaces are the norm for delivery of XaaS bundles. They must also be populated with catalogs and listings in the language and currency appropriate to the markets served. In addition, automation and unification of all of these processes drives efficiency and helps avoid unnecessary cost.

It is complex, but the rewards are high, fully transformed technology vendors like xerox now report 77% of its revenue to be after-sale recurring. The difference in margins from organizations that choose to transform themselves versus enabling their channel can grow from 10-19% to 40-63%.

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Exponential Growth from the Ecosystem

The ultimate goal for the technology vendor is to increase market share, margins, attract and retain customers. To do this the vendor must extend its reach outside of its own ecosystem and use the network effect of its channel partners and distributors to consolidate its position.

By using the marketplace as a starting point and building on supplier and channel relationships, technology vendors who create platforms or eco-systems based on their offerings significantly grow their customer base, their revenue and consolidate their market share thus gaining a significant competitive edge.

By opening up their platform to developers enabling the creation of solutions, technology vendors not only extend their reach beyond their own means, but also attract and retain customers from other ecosystems.

Thanks to this approach, despite the challenges of 2020, Honeywell reported double-digit sales in several industry segments including recurring connected software businesses. Schneider Electric is another ecosystem success story. Again, in spite of a tough 2020, they "transformed faster than ever, and adopted new ways of doing things that we had previously thought impossible". - Jean-Pascal Tricoire, Chairman and CEO. Their digital transformation has made them more resilient and meant that the impact of the downturn was much lower than the global financial crisis in 2009, in addition, their margins increased to 40.4%.

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How CloudBlue can help

CloudBlue helps transform Technology Vendors into hyper-scalable as-a-service businesses by providing them with unparalleled operational efficiency to launch complex, bundled solutions with minimal time to market. Technology Vendors can this way reap the benefits of the as-a-service economy: increased margins, predictable annual recurring revenue and exponential growth through the power of the ecosystem.

The company's end-to-end cloud software and services platform can provide the means to equip a channel or vendor with the ability to bundle and monetize XaaS bundles. The 200+ pre-integrated flagship B2B vendors together with the platform that unified back-end processes (PIM, CRM for ordering etc.) significantly reduce time to market.

200+

Top-Selling Vendors

Resell third-party products
and services combined with your own offerings
– using one platform

127%+

Return on Investment

Easily onboard partners to resell your
products to create a multichannel business

21%

Reduced Customer Churn

Grow and retain customers, reducing
churn through the CloudBlue Platform

4

Reduced Months to Market

You can quickly release new products and services
to your customers while increasing your time to revenue

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