

Top 10 Mistakes Executives Make When Launching a SaaS Company

Abstract

Opportunities abound in the market for SaaS applications. Learn from the experience of the top SaaS provider in the industry—salesforce.com—and don't make these mistakes when you launch your SaaS company.

The market for software-as-a-service (SaaS) applications is booming. Gartner predicts that by 2012, more than 66 percent of all independent software vendors (ISVs) will offer some of their applications via the Web as software as a service, either exclusively or as an option.

For ISVs, that means there's unprecedented demand for such applications, while the barriers to entry have never been lower. As a result, the time for bringing to market innovative new solutions has never been better.

There are also some potential pitfalls, however. Here are 10 mistakes to avoid in those business areas that are mission critical for any organization: finance, marketing, promotion, and the application development process itself.

Remember: the SaaS Business Model is Different

Because the SaaS business model is driven by recurring revenues rather than large, up-front fees, companies must manage their business differently, including how they set up financial processes, invest in resources, and use the built-in advantages of the SaaS model. After all, SaaS isn't just about a paradigm shift in technology. It also requires a business and cultural shift in how companies are organized and run.

Mistake #1: Running your SaaS operations like a traditional enterprise software company

Because SaaS companies don't survive from one "big sale" to the next, companies must set up financial structures to take advantage of a model based on recurring revenues. That means their financial processes—including collections, invoicing, and renewals—should closely track revenues and expenses. It also means carefully managing fixed costs and setting up accounting practices that shorten the order-to-cash cycle. In addition, it requires close monitoring of key financial metrics, including those that are indicators of future income, such as lead flow, renewal rates, and attrition.

Mistake #2: Under-investing in lead generation or relying on field sales too early

Managing fixed costs—particularly sales headcount—and getting strong early adoption are critical to jump-starting the SaaS business model. Many SaaS vendors are finding innovative ways to generate leads and accelerate sales cycles without spending large sums on traditional marketing and advertising.

Successful strategies include offering "test drives," frequent e-marketing initiatives, guerilla marketing efforts, evangelizing customer references, and segmented marketing. With all of these approaches, it's important to track metrics such as lead flow closely. When you do invest in sales headcount, it's also important to provide incentives not tied to large deals, such as rewarding customer event participation, getting reference customers, boosting adoption rates, and ensuring low attrition.

Mistake #3: Neglecting to build programs to encourage—and track—product usage

User adoption is especially critical to the SaaS business model because customers can leave at any time if they're not happy. However, one of the built-in advantages of SaaS model is that you know exactly how customers are using your product. Harness that power! Because you can see all the mouse clicks and usage statistics for your products, it's easy to measure user adoption, test new features, and spot potential problem areas. Then you can use this information to drive your marketing programs and keep tabs on the health of the account.

Avoid Common Marketing Mistakes

As with any product, effectively promoting your SaaS application is very important. Some strategies will be similar to classic marketing efforts, and others will have a different focus. All should have one goal: getting new customers and retaining existing ones.

Mistake #4: Relying on a "build-it-and-they-will-come" mentality

Just rolling out a SaaS product won't guarantee success. These days, having a SaaS product is table stakes in the enterprise software industry. Marketing 101 principles still apply: you need correct pricing, compelling offers, and sales discipline. You also need an aggressive promotional strategy that includes defining your key audiences and targeting them through all available channels.

Mistake #5: Waiting to establish a customer success organization

Because your revenues will be spread out over time, you need to have built-in incentives to make your customers successful so they'll renew their contracts. By helping customers drive user adoption and recognize ROI benefits long after the initial implementation and rollout, you can help ensure that success. One of the best strategies is to designate dedicated employees to act as ongoing consultants, advocates, and coaches. Separate from your sales and support teams, these employees can advise customers on how to best use the application, communicate with your product team regarding customer requests, and generally serve as internal advocates for customers. Their goal: 100 percent referenceable customers; no attrition.

Mistake #6: Underestimating the power of customer references and “volunteer evangelism”

Another way to maximize your marketing dollars is to let your customers do some of your marketing for you. It won't just save you money; it's also a highly effective approach because customers tend to trust another customer's experience more than any company's marketing pitch. Be sure to include customer quotes or testimonials in all your collateral, and invite customers to join your events to share their success stories, both online and live. Use customer references for every product claim or new feature—and compensate your employees for getting those references.

Mistake #7: Neglecting user communities

User communities are a great extension of volunteer evangelism. By empowering the user community, you help customers get the most from your product, which in turn boosts user adoption. You also get a ready-made user group for real-time focus testing and you can reduce support costs: Community members can help each other instead of calling you. You'll find that leaders will emerge from your user population. Empower them with the resources they need and listen to them!

Don't Rely on Traditional Application Development

Just as the SaaS model is based on a different business model that requires new approaches to common business disciplines, traditional approaches to application development also just won't do. One of the advantages of the SaaS model is agility and speed—make sure the same is true of your development processes. And the sooner you have a product, the sooner you'll earn money.

Mistake #8: Using traditional methodologies to deliver Web-based applications or services

Monolithic releases designed and implemented with waterfall-type project methodologies aren't suited for the rapid iterations common to SaaS applications. In the SaaS universe, it's OK to release products that aren't complete—as long as you engage your customers and incorporate their feedback into future product iterations. Agile development methodologies work well and allow you to incorporate customer feedback into upcoming releases on a regular basis.

Mistake #9: Building a technology infrastructure from scratch—or cobbling together third-party solutions

Just say no! Do what you do best and outsource the rest. Various vendors—including salesforce.com, with its Force.com platform—provide ready-made solutions for application development. Unless you can demonstrate a clear competitive advantage along every tier of the technology stack you need for development, why bother building it and reinventing the wheel?

Mistake #10: Getting caught without an API strategy

Integration is key for SaaS vendors, and an application programming interface (API) helps to accomplish that goal. Be sure you have an open API strategy from Day 1. Your customers will thank you because it will make it easy to integrate with their existing systems. It's also great for you because you'll be able to partner easily with complementary vendors and Web services to create new mashup solutions. Such a strategy will also entice the developer community to create new extensions to enhance your product line.

By making the most of the advantages inherent in the SaaS model and avoiding these mistakes, you'll be on your way to SaaS success.

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