In search of the Next Generation Application

Ian Spence, CEO of Megabuyte, shares his views on the SaaS sector.

In the early days of Megabuyte, immediately after the financial crisis, I remember very clearly when the industry started to talk more about the arrival of SaaS and its likely impact on the software sector. Salesforce, which was already eight years old, was making a lot of noise about SaaS with its "no software" battle cry but there was little change for most software companies at that time. Indeed, many software CEOs I spoke to at the time saw SaaS as nothing more than another buzzword that they could safely ignore, while some simply saw it as a move away from initial licence fees to some kind of recurring revenue model.

Fast forward 10 years and things could hardly be more different. In many parts of the market, especially where the customers are SMEs, SaaS delivery is considered to be the norm. That said, there are also parts of the market where there has been much less movement in that direction. Nevertheless, there is a much wider understanding of benefits of SaaS delivery to the customer, and how running a SaaS company is very different from a software company with a more traditional technology platform and revenue model.

However, there still seems to me to be less understanding of how SaaS can potentially be a much broader facilitator of digital transformation. If we think about it in simple terms, software has really been an automation tool up to now. Its speed and efficiency may have improved dramatically over the last 40 years, but it still essentially automates the same tasks as it always has. However, the inherent interconnectedness of SaaS and the simplicity of its delivery through a web browser makes it capable of so much more. In this article, I will outline some of the key elements of what I believe SaaS can become; I call it the Next Generation Application.

SaaS by default

Before we dive into the detail of now the next generation applications might evolve, we first need to have some

Ian Spence, CEO of Megabuyte

terms of reference about what a SaaS application actually is. Hopefully I don't need to spend too long on this but it's important to be clear that SaaS means a single instance of the product and almost certainly multi-tenanted. Why is this so important? Simply because so many of the growth opportunities afforded to those SaaS companies that embrace the concept of the Next Generation Application are only available if the application in question is a genuine SaaS product. With that definition clear, we can now look at the key elements of the Next Generation Application.

Data analytics, Automation and AI

I will start with the one area currently receiving the most hype; Data analytics, automation and AI. Lumping these three potentially massive areas of development into one bucket may seem like a gross over-simplification but, bear with me, it does make sense. First of all, to state the rather obvious, the term AI has become grossly over-used as the true instances of artificial intelligence at work in

the enterprise are extremely rare. For the most part what is optimistically described as AI, is actually the clever automation of data flows and processes using algorithms. In no way is the machine learning for itself, it is merely applying a clever algorithm in an automated environment. There are of course some very exciting AI developments AI healthcare, transport and many other industries but much of what is called AI is actually more mundane data analytics and automation.

Having said all of that, exact definitions are not actually that important in the context of an undoubtedly substantial opportunity to create new data analytics, automation and AI applications. But perhaps an even greater opportunity is for existing SaaS companies to embed this functionality into their applications in order to enhance existing areas or to create whole new areas of activity. Take an accounting application, for example, that understands the task you are trying to do – such as creating an invoice or setting up a new supplier and is able to fully automate that process for you. Or a customer management application

that can not only triage incoming calls more effectively but can then complete the required action without human intervention. Or an application in the legal sector which can automatically understand which information is client confidential and which is not. There are an almost unlimited number of such examples and the number is growing all the time.

IoT

The Internet of Things is perhaps less of a buzz word than it was a couple of years ago but, in my view, it is actually now becoming more prevalent and mainstream. The notion that data on the location, condition and environment of a large number of assets can be captured remotely by embedding a very low power device transiting a low bandwidth message is well on the way to becoming pervasive. Think smart meters, pay-as-you-go insurance, logistics, retail, smart buildings, industrial maintenance and many more.

From the perspective of a SaaS application, IoT data is just another stream of data that must be managed through the software. Here again, we can see new applications being built specifically to manage IoT data in a given scenario or existing applications being extended to enable them to manage this data.

Social, communication and collaboration

I mentioned earlier that interconnectedness is at the heart of the Next Generation Application and perhaps the most obvious manifestation of this is how collaboration technology has been embedded into many SaaS applications, or is has been the basis of new applications. Many would argue that Skype is the granddaddy of collaboration applications, but there have many since then. And the functionality of these applications has developed substantially over time. At the collaboration end of the spectrum, one of the most high-profile application in this field currently is Slack, which is a fully-functioned collaboration application, while, at the communication end of the spectrum we have application such as Twilio.

But it is not just collaboration that is important in this category; we can also include here the increasing integration of Social into applications. The obvious example is Microsoft's acquisition of LinkedIn; while it remains a stand-alone application for now, it seems inevitable that it will be integrated into the Microsoft application stack at some point. Another key element within this category is Cloud storage. For example, while Dropbox is clearly primarily an enterprise storage application, is also includes some very neat collaboration technology.

Distributed ledgers

I will conclude with perhaps a bit more of a long-term opportunity, but possibly the most significant of all; distributed ledgers. This technology, of which Blockchain is the most well-known, enables secure transactions without the need for a trusted third party and has fuelled the recent bubble in cryptocurrencies. However, many in the industry believe that it will become the basis for much of the world's commerce over the coming decades. We are now starting to see the early signs of this technology being applied to more mainstream financial services and even enterprise applications. For me, it will probably be at least five years before we see distributed ledger technology really coming to the fore but, on a 10 year view, this one could be the most disruptive trends of all.

Embrace change; before you think you need to

Having looked at the key elements of the Next Generation Application, it is also important for SaaS CEOs to understand the how and the when of developing these elements so as to capture the growth opportunity but not over-invest. My take on this is fairly simple; invest in new product elements just before your customers realise they need them. This is of course easy to say and much harder to do and requires a strong product management function to execute effectively.

This is especially true of established software companies looking to make the so-called SaaS transition. Getting the timing right on this has been central to shareholder returns for many established software companies over the last decade. Develop too slowly and you may make more profit in the short term, but your competitive position will be eroded with a concomitant impact on your longer term growth prospects. But develop too quickly and you risk wasting shareholders' money and, even worse, cannibalising your existing products unnecessarily.

Perhaps the most high-profile example of developing slowly is Sage. I remember attending a conference many years ago and listening to Paul Walker, the then CEO of Sage talking as though nothing had changed and that Sage could continue the same strategy as it had pursued though the last two decades in order to remain successful. In some ways he was right, Sage shares have trebled over the last 10 years and the company is more profitable than ever. But for those of us that have watched the software sector over that time, it has been abundantly clear that Sage has been on the wrong path for many years, underinvesting in its product and losing market share to SaaS newcomers and old adversaries alike. The result more recently has been slowing growth and investor pressure as it has become increasingly clear that it may be too late for Sage to effectively make the SaaS transition.

Looking at the other end of the spectrum, AIM listed provider of asset management software Statpro is a great example of over-investment in SaaS transition. More than five years ago, the company embarked on an aggressive SaaS transformation strategy and invested tens of millions of pounds in the endeavour over the following years. Statpro also prematurely curtailed development on its existing core product in order to switch it out in favour of the SaaS version. And the result of all of this investment on the growth trajectory of the company? Effectively nothing. The transition to SaaS did not extend Statpro's addressable market, as the management team had originally hoped, and it does not appear to have given it a meaningful competitive advantage with which to drive enhanced growth either. The result has been substantial underperformance of Statpro shares against the broader technology sector.

So, in conclusion, I believe that all software company CEOs should be looking at how they can embed the four key elements of the Next Generation Application into their longer term development roadmaps. How much emphasis they put on each area, and how rapidly they develop will depend on the dynamics of their part of the market. But one thing is for sure, if they wait to see a tangible financial impact of new competitors on their businesses before making a change, it may well be too late.