Software Start-Up Evolution

Key Considerations for a Software Vendor Dreaming of Becoming a Solution Provider

About 5 years ago, you had a great idea. With a small group of talented engineers, you created a compelling software platform. You tested it in the market and closed deals with early adopters who recognized the genius of your platform. Cash started flowing, but to sustain your growing enterprise, costs were accelerating. Faith in your product and grit kept you going – you could almost see the promised land of start-up riches on the horizon.

5 years later, you are still attracting customers – even larger, up-market players are showing interest. But some unplanned impacts are postponing your multi-million-dollar payday:

1. Your early customers are asking for new capabilities that are not exactly aligned with your "out-of-the-box" platform, but you must pull these requests into your roadmap, or your customers start shopping.
2. Your current and target customers have integration and operational support expectations that go beyond your resource plan and financial model; you provide services that were not contemplated in the original contract, for free.
3. As you move up-market, your product is included as a sub-component in larger transformation programs, which gives you exposure and revenue. Still, they are sold and managed by larger software providers or SIs. You are now removed from direct customer contact, have limited control over the program's ultimate success, and are frequently blamed for broader program issues.

One significant strategy to achieve sustained growth and relevance is the addition of new services. Whether these are professional services/consulting, support offerings, value-added features, or entirely new product lines, the decision to expand your portfolio is complex and laden with potential rewards and risks.

The CEO of a small software company with a great product once told me, "I never wanted to offer services, I only ever wanted to create a great product and sell it off the shelf. But the reality is I am pulled into providing services I don't have a mechanism to charge for or watching SI's take money that I could be earning."

This is a common sentiment. It is often the natural evolution of tech start-ups. The pioneer and poster child for SaaS platforms, Salesforce.com was famously built on the idea of simply delivering software through an Amazon-like website. Anyone could easily subscribe to and download their product. Today, Salesforce Professional Services employs more than 10,000 consultants, and there is an entire industry of third-party firms that provide SFDC implementation and integration services.

While not everyone aims to become Salesforce, every ISV start-up eventually faces a pivotal decision:

- Stay true to your vision of being a pure-play product vendor and choose to limit your growth (and hope someone buys you to add to their portfolio, which probably includes the services capabilities you lack), or
- Transform your vision and capabilities to become a SOLUTION provider. But that means more than hiring a few project managers. It means a fundamental change in corporate culture, the way you do business, and the way you make and spend money. This will require top-down buy-in, change to incentives for teams/ organization, retraining, and the possibility of having to restructure business units.

This article explores the critical considerations that software providers should evaluate before adding new services.

1. Strategic Alignment

Every new service should align with the provider's long-term vision and mission. Strategic alignment ensures that new offerings reinforce rather than dilute the company's brand and purpose.

- **Vision and Mission:** Ensure the services support overarching business goals and values. Will the new services springboard you into a broader market position and thereby support corporate growth strategies?
- **Market Positioning:** Consider how the new service fits within your current market position. Will it enhance your positioning or create confusion?
- **Synergy with Existing Offerings:** Assess whether the additional service complements or competes with existing solutions. Will the new services leverage existing strengths and/or create new demand for the current product portfolio?
- **Demand and Loyalty Generation:** evaluate which services will make customers see you as more reliable and easier to do business with. Will the new services – such as system integration, testing, managed services, or BPO make it easier for customers to buy, implement, and retain the broader product-based solution?

- **Business Objective Focus:** Avoid shiny and trendy for the sake of being cool. The siren-song of the latest CX analytics or world-changing mobile app has led many noble entrepreneurs to the rocky shoals of the technology Sirenum Scopuli.

2. Market Analysis and Customer Needs

Customers hire you to achieve a business goal, *not* because your code is the coolest. Understanding the market landscape and genuine customer need is central to designing services that are relevant and valuable. Product Teams tend to focus on product features instead of business outcomes. As a Solution Provider, shift to *outcome orientation over features*. Buyers of solutions care about *results*—cost reduction, risk mitigation, growth, not a long feature list. What are your customers asking you to do now? What are they paying someone else to do with your platform? What are their internal IT resources not particularly good at? Potential services could include any or a combination of the following for your core products and adjacent third-party platforms:

> "To create offerings that people truly want to buy, firms need to home in on the ***job*** the customer is trying to get done. When we buy a product *[or service]*, we essentially "hire" it to help us do a job. If it does the job well, we hire it again."
>
> *– Clayton Christensen, Harvard Business Review*

- Professional Services
- Consulting
- Implementation and Integration
- Operational Management
- Environment Management
- Release and Deployment
- Change Requests/Feature Development
- Production Support
- Tier 1, 2, and/or 3 Incident Management
- Customer Journey Definition
- Customer Experience Design
- System Testing and UAT
- Staff Augmentation

You may find you are already providing some of the above services, but are you being paid for them? When analyzing the opportunity to launch *AND MONETIZE* new services, consider:

- **Market Demand:** Conduct market research to verify the need for the service as an extension of your core value proposition. Assess trends, gaps, and the competitive landscape – be sure to include the competitive landscape outside current product-based ISVs. Avoid the spaghetti test of just throwing a service against the wall to see if anyone wants it.

- **Competitive Analysis:** Review competitors' offerings to determine differentiation opportunities and anticipate market response. Is someone making money by implementing your product as part of a broader solution today? How successful are they? Do they bring skills and knowledge to the table that you have a hard time replicating?
- **Target Audience:** Identify the specific customer segments that would benefit most from the new service. Every technology investment requires a business case to secure funding approval. What services can you provide to provide greater assurance that the total solution will achieve the business objectives used to justify the investment? Most often, these are defined outside IT.
- **Customer Feedback:** Gather input from existing clients to pinpoint pain points and desired enhancements. Especially pain points related to the ease or difficulty of implementing, integrating, supporting, and enhancing your products. Also, diplomatically gather points related to the providers of the services you aspire to introduce.
- **Value Proposition:** Once the focus has narrowed to a specific service, take the time to clearly define the unique value to your customers that the service will provide.

3. Technical Feasibility and Infrastructure

A brilliant idea can falter without robust technical foundations. Assess your ability to deliver the desired service reliably and securely.

- **Integration:** Examine whether the new service can be seamlessly integrated into current platforms and workflows. What new skills/knowledge will your delivery team need? Consider how to integrate the breadth of your product portfolio, as well as lead the integration of legacy and third-party platforms.
- **Scalability:** Plan for growth by ensuring the underlying infrastructure and services teams can scale with demand. Consider potential high-demand scenarios – how many engagements can you take on simultaneously before you break what may be a great solution otherwise?
- **Technology Stack:** Evaluate the compatibility of current technologies with what the new service requires. Will the broader solution change your on-prem, or private/public cloud strategy? Will the target customers of the broader solutions have different requirements from previous implementations?

- **Security:** Consider cybersecurity implications and compliance requirements for all clients (in all pertinent geographies) and yourself, especially if handling sensitive data.
- **Development Resources:** Ensure the availability of skilled personnel and development bandwidth. Create a flexible and dynamic sourcing plan that includes on-shore, off-shore, contractors, and third-party resources. Develop an effective, repeatable onboarding method.
- **Maintenance and Support:** Plan for ongoing maintenance, including bug fixes, feature updates, and customer support. If the new solution includes broader managed services, consider the appropriate model you intend to offer.

4. Financial Implications

No service expansion is complete without a thorough financial analysis. Sometimes, aggressive sales or account management team members can get very excited by an idea a customer mentioned, or they heard about on a TED Talk, and they position the investment/customer as "strategic". Some ideas and customers are, but often strategic just means "don't look too close at the financials, if we build it, they will come".

- **Cost Analysis:** Estimate development, deployment, support, enablement, and marketing costs.
- **Pricing Strategy:** Develop a sustainable pricing model, considering market standards and customer willingness to pay. Part of this includes considering how much share of wallet your customer is willing to give to you versus someone else in their stack. Procurement departments see themselves as portfolio investors.
- **Revenue Projections:** Set realistic revenue targets and model different scenarios. Model revenue projections both for stand-alone contracts and bundled with product sales. Avoid the temptation to give the services as a loss leader. It can work, but it can devalue the customer's perception of the services and set a precedent for future service work
- **Financial Risks:** Estimate when the new service will become profitable. How much patience do you have in the context of the investment required? What are the financial risks, such as sunk costs, if the service underperforms? What are the opportunity costs?
- **Funding Sources:** Determine whether current cash flows can support the investment or if additional funding is/could be needed.

- **Internal Impacts:** Consider how the service's financial model impacts existing processes and policies such as general accounting, revenue attribution, and commission calculation.

5. Regulatory and Legal Considerations

Software providers must operate within a growing maze of legal and regulatory frameworks.

- **Compliance Requirements:** Identify relevant industry regulations (e.g., GDPR, HIPAA) that may affect the new service.
- **Contractual Obligations:** Update terms of service and agreements to boilerplate documentation and review current customer MSAs to reflect new offerings.
- **Intellectual Property:** Secure patents, trademarks, or copyrights as needed.
- **Data Protection:** Implement measures for handling and storing data in compliance with legal standards.
- **Risk Management:** Prepare contingencies for liability or breach. The risk profile changes dramatically if you are new to post-deployment operations, and you want to get into that game.

6. Operational Readiness

Operationalizing a new service goes beyond technical deployment. Service Delivery must become a Core Competency. Too often, when buying a new platform, internal IT teams undervalue professional services, support, and implementation. Solutions are *delivered*, not just *installed*. This includes onboarding, change management, and continuous optimization. Customers will always have their current favorite SI in the wings. Do you want to report to them or your customer? If you aspire to take greater control and monetize the work you are doing anyway, create a robust professional services arm and customer success organization.

- **Standardized Methodologies and Tools:** If you plan to provide Professional Services, you must have a documented methodology for Program Governance, Program Management, System Integration, and testing to demonstrate credibility and increase customer confidence. Customers select products based on technical capabilities, but they select service providers based on whether they believe you can deliver.
- **Process Adaptation:** Modify internal workflows to accommodate new services (e.g., sales, support, billing). How will you charge for the service? Do your

receivables and accounting teams know how to bill for and categorize the new costs and revenues?

- **Training:** Provide comprehensive training for staff specific to their functions on the new service's technical and business aspects. If you are launching a new professional services offering, you cannot wave a magic wand of software engineers and transform them into customer-facing consultants overnight.
- **Resource Allocation:** Ensure adequate allocation of human, technical, and financial resources. Create resourcing plans for worst-case, most-likely, and best-case scenarios. And have a plan in case you are phenomenally successful in selling, but find your cupboard is bare.
- **Service Level Agreements:** Define SLAs and ensure you can uphold promised service quality. Negotiate adequate grace periods, especially if you are new to providing this service.
- **Supply Chain and Partnerships:** Assess whether external vendors or partners are needed. Selecting the right partners is critical to the long-term success of the new services. Many firms wait until there is an imminent engagement and then start looking for partners to fill the gaps. This results in inadequate vetting and weak partner oversight. If you are now responsible for the entire solution, you will be accountable for the timely delivery and integration from your partners. Instead, create a policy around how to select and engage partners independently from any specific opportunity and consider how to create long-term relationships with potential partners. Consider the following:
  - **Is the Partner fit for purpose?**
    - Do you need to fill technical/functional gaps?
    - Do you need to augment deployment services? (Beware of potential disintermediation if your services partner displaces your relationship with the customer.)
      - Do you need more warm bodies? For capacity elasticity/Staff Augmentation?
      - Do you need a partner that has specialized knowledge you do not currently have internally? You can use the experience to develop this knowledge internally as you deliver the solution.
      - Does the solution include a component of low-margin work/skills that are not strategically aligned with your growth vision and therefore you do not want to develop internally?
  - **Access to new customers/markets**
    - Can your partner be a sales channel?
    - Do you sign on for exclusivity?

- **Managing the Trust and Integrity Relationship**
    - Do you create a Master Agreement, and each new project is just a Statement of Work? Or is every new project negotiated from scratch?
    - Is there a potential for M&A?
- **Financial model**
    - Do you create a standard partnership/subcontracting relationship?
    - Are you always Prime?
    - Do you always bill and pass through?

7. Go-to-Market Strategy

A well-orchestrated go-to-market strategy can determine the success or failure of a new service.

- **Marketing Plan:** Craft clear messaging and campaigns to communicate value and drive adoption. Do you start with a greenfield customer? Do you start with existing customers? Do you segment by company size?
- **Sales Enablement:** Equip the sales team with training, collateral, and tools for effective selling. Selling services and long-term contracts involves identifying and understanding customer needs. Services are often sold to different buyers than those your current sales team works with, requiring new relationships.
- **Launch Plan:** Organize a phased rollout to manage risks and gather feedback for the new service. Based on the marketing plan, what elements of the operational readiness must be complete before you attempt to launch? Do you have "friendlies" that can be a beta test?
- **Channel Strategy:** Evaluate direct versus indirect channels for delivery and support.
- **Customer Onboarding:** Develop materials and programs to ensure a smooth customer transition. Especially true if the new service is augmenting or re-badging work currently performed by the customer.

8. Customer Experience and Support

It sounds trendy, but it's true: Customer Success > Customer Support. Adding services is not solely about features; it's about delivering value and satisfaction. Support is thought of as a reactive, technical issue. Solution providers are accountable for ongoing value delivery, not just keeping the software running.

- **Account Engagement:** Implement proactive customer success teams with usage analytics and business outcome tracking.
- **Support Infrastructure:** Prepare to offer multi-channel support with appropriate governance and escalation paths. Post-deployment services are all about customer support and are specifically articulated via service-level agreements in the contract. If you are new to the service, make sure you have a reasonable grace period in the contract before the SLAs become binding and you incur unpleasant penalties
- **Feedback Loops:** Establish mechanisms for continuous customer feedback and improvement with robust account management. Ops reviews, customer advisory boards, etc.
- **Documentation:** Create thorough, user-friendly guides and help resources. Develop user training curricula and SELL training the trainer/train the user services.
- **Community Building:** Foster a user community through forums, events, or online groups.
- **User Experience (UX):** Prioritize intuitive design and usability in all customer interactions. This goes beyond your core product. Consider your program management artefacts and deliverables, operational reports, performance dashboards, etc.

9. Scalability and Future-Proofing

The addition of new services should be seen as a foundation for future growth rather than a one-off project.

- **Modularity:** Build services in a modular fashion to allow further expansion and integration later.
- **Performance Monitoring:** Set up analytics and monitoring to track usage and identify opportunities for improvement.
- **Innovation Culture:** Encourage teams to innovate beyond the initial launch, iterating based on market and technology trends.
- **Globalization:** Consider language localization, regional compliance, and international support if the service has global potential.

10. Change Management

Organizations must be prepared for both internal and external change as they evolve.

- **Communication:** Communicate changes transparently across the organization and with customers. If you are prime, consider both customer legacy and third-party vendors. Much time is wasted on large deployment programs as all the players find themselves at the Tower of Babel for the first six months. Choosing one methodology and status reporting format is more important than arguing about who has the best PowerPoint template.
- **Stakeholder Buy-In:** Involve all stakeholders—leadership, employees, customers—early and often.
- **Risk Mitigation:** Identify resistance points and prepare strategies to address them.
- **Continuous Learning:** Invest in ongoing education and adaptability for staff and leadership alike.

Conclusion

To be, or not to be, a full solution provider. Hamlet's dilemma can apply to ISVs grappling with an identity crisis: *Is it nobler* to suffer the slings and arrows of a pure off-the-shelf software provider? Or, opposing a sea of troubles, perchance dream of the undiscovered country that promises new revenue streams, market expansion, and greater control by becoming a full Solution Provider.

Success lies in thorough preparation: aligning with strategy, understanding the market, guaranteeing technical robustness, preparing financially, and ensuring readiness across legal, operational, and customer domains. Thoughtful execution—bolstered by a compelling value proposition and unwavering commitment to customer satisfaction—can elevate a software provider's reputation, revenue, and long-term prospects in an ever-changing digital landscape.