Teneo

The Global CEO Advisory Firm

Software in the COVID Lockdown

How to define your COVID-19 Lockdown phase operating model, for Software vendors

March 2020

Introduction

With coronavirus disrupting all of our daily lives, Teneo's Technology Practice hopes that you and your families stay healthy and safe. Throughout this period of unprecedented upheaval, we remain as committed as ever to providing the strategy and insight to make informed business decisions.
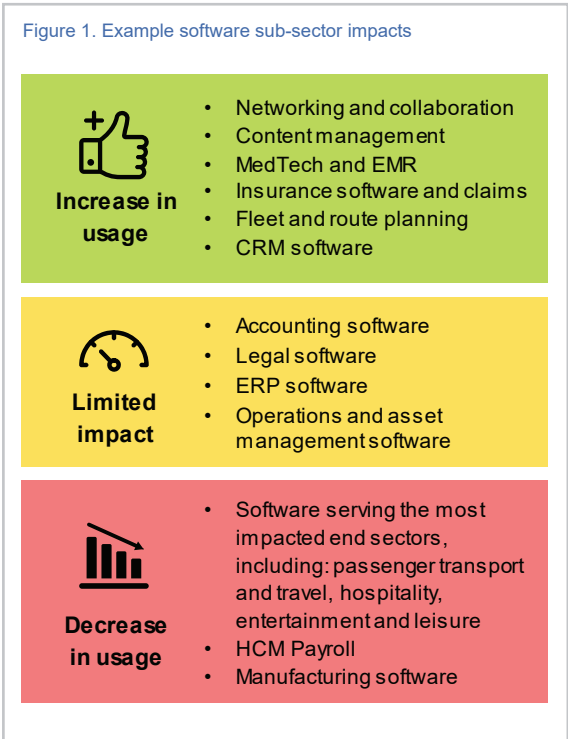
The first phase of the corporate response to COVID-19 has been focused on ensuring the safety of teams, and fortunately for most software firms, adopting home working is a viable model. On best estimates, COVID-19 means the world will be in effective Lockdown for many months. During this period, firms in all industries need to make radical changes to their operating models. Software firms will be relatively less financially affected than other industries due to the recurring revenue model. However, significant changes are still required, while simultaneously taking care not to destroy long-term value. In this paper, we explore the measures C-level software executives should be implementing to operate successfully in the "Lockdown phase".

The world following the crisis will be vastly different. Firms will have been forced to embrace remote working and the value of SaaS deployments will have changed forever. Teneo argues that over the coming weeks, software CEOs will need to develop a proactive COVID-19 Lockdown strategy. This strategy must aim to support customers, employees, and partners through these difficult times. CEOs must consider their own role during this crisis, ensuring they have access to the latest information on performance, more frequently than normal reporting cadences, and engaging their executive teams to maintain focus on the right issues. Firms that support their stakeholders through the next few months, as opposed to profiteering, will benefit during the Rebound phase and beyond.

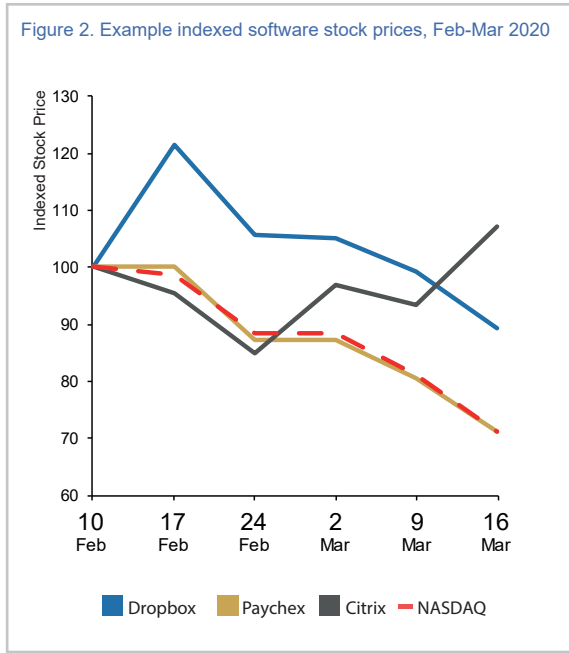# The crisis impact will be felt very differently across software subsectors

Software will be less affected than other industries wherever a recurring revenue dynamic is in play – a reminder of why investors are willing to pay a premium for the security of subscription revenue. While the performance of software stocks has been dented by COVID-19, the effect has been less than on overall indices – and certain businesses have even seen increases in stock price over the last weeks.

The impact of COVID-19 on software businesses will vary depending on the nature and end-sector focus of the offers (figure 1).

Figure 1. Example software sub-sector impacts

Increase in usage
- Networking and collaboration
- Content management
- MedTech and EMR
- Insurance software and claims
- Fleet and route planning
- CRM software

Limited impact
- Accounting software
- Legal software
- ERP software
- Operations and asset management software

Decrease in usage
- Software serving the most impacted end sectors, including: passenger transport and travel, hospitality, entertainment and leisure
- HCM Payroll
- Manufacturing software

Certain subsegments stand to benefit from the current crisis; networking, collaboration and content management tools will see significant usage spikes as a result of increased working from home. Insurance claims management providers should expect to see an uptick in business, as will MedTech serving hospitals, fleet planning and warehouse management solutions selling to a booming home delivery market. These expectations can already be seen in investor responses to stocks in these segments (figure 2).

At the other end of the spectrum, certain software subsegments are exposed to industries facing significant demand headwinds, such as passenger transport and hospitality management. We expect these businesses to face significant challenges in

Figure 2. Example indexed software stock prices, Feb-Mar 2020

Legend: Dropbox, Paychex, Citrix, NASDAQ

the coming months: usage may drop close to zero and support teams may have little to do. Customers may pursue radical cost-cutting measures as they fight to survive, and your solution may be the target. Providers of ERP may be, to some extent, immune, though will be subject to general downward pressures as investors liquidate positions across the equities markets. Similarly, the size of software provider may also determine the level of impact felt from the COVID-19 crisis. SME providers – or those exposed to SME end-customers – may see cashflow challenges as customers either fold or delay payments to their suppliers. There is the potential for liquidity crises in this end of the market as receivables days increase sharply.

For many, the outlook in the coming months is negative. But even for the more fortunate businesses which stand to benefit, the operational challenges arising from significant upward or downward swings in demand will be immense. Spiking hospital admissions will push millions more patient visits through MedTech software systems and EMRs. The same is true for networking and collaboration vendors, where it's not unrealistic to think that hundreds of millions of additional people will start working remotely around the world – many of whom won't have set up remote access previously. Ticket volumes could multiply, and support teams could be overrun.

Regardless of your circumstances, all software firms should take actions to prepare for Lockdown and the rebound beyond.

The value of SaaS has just changed fundamentally and forever

For providers of both On-premise and SaaS software solutions this will be an interesting period, as the inherent value of SaaS has just increased immeasurably.

The COVID-19 outbreak will eventually be brought under control, whether by quarantine measures, vaccination, or herd immunity. But it would be naive to see its impact as wholly temporary. Many see the level of change to day-to-day lives we are currently experiencing as an inflection point, particularly for proponents of home working or online grocery shopping. New habits will be established.

The same is true for the software industry, in which the value of SaaS solutions over On-premise has just increased immeasurably. Firms increasingly need employees to work remotely, and be able to access their technology from a variety of locations. Circumstances for some are even more extreme, with customers finding they are unable to access their offices to maintain server rooms during a quarantined Lockdown. The 'service' element of SaaS has also become more critical, with the expectation of software assistance being particularly important as support ticket volumes rise with remote working, and in-house IT teams are out-of-office.
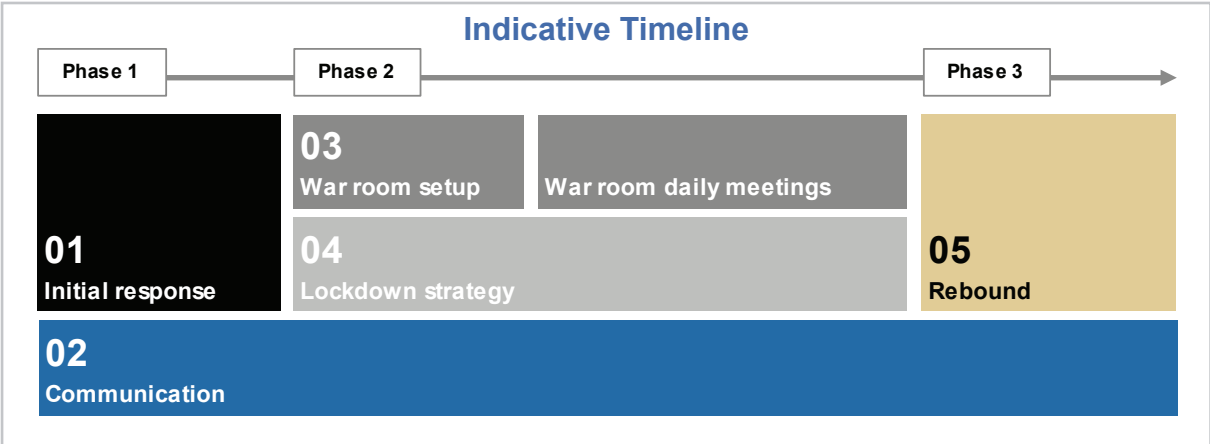
How can the software CEO best position for this trend? It could provide an opportunity for SaaS vendors to migrate the stragglers in the legacy On-premise base. A compelling narrative is available today for SaaS vendors, who can offer a smoother, opex-based cost profile and capability in remote implementations.

Even if immediately realizing the benefits of renewed SaaS demand looks challenging under current conditions, software CEOs should plan to capitalize on likely demand during a later Rebound phase. Risk mitigation, of which disaster recovery will play a part, will be front of mind for most businesses as the 'new normal' is built.

Drivers of SaaS demand

SaaS demand driver		Typical signficance	Impact of lockdown	Rationale
Service	SaaS expectation of a customer success mentality, driving adoption and usage	●	↑	Remote working means end users will benefit disproportionately from direct proactive support and value realization assistance
Simplicity	Outsourcing the complexity of hosting infrastructure	●	↑	Customers will welcome having non-core activities taken from off their hands in an increasingly complex operating environment
Security	Improved security and disaster recovery from dedicated cloud providers	◔	↑	Cybersecurity is a growing threat while end users are distracted and communicating in unfamiliar modes, and resilience will be a stronger focus going forwards
Accessibility	Browser-based SaaS applications are more accessible for end-users, especially remotely, than many On-premise products	◔	↑	SaaS options are more appealing for remote working, and the removal of On-premise infrastructure will be welcome in situations where facilities are locked down
Onboarding	Cloud providers can typically offer more rapid provisioning and a better onboarding experience than On-premise providers	◔	↗	Remote onboarding will gain increasing value with remote working and the minimization of social contact
Less CAPEX intensive	Unlike On-premise, there is a limited Capex requirement: SaaS has a smoother, Opex-based cost profile	◑	→	As liquidity becomes more important, the SaaS investment profile may become more attractive

What should software vendors be doing?

Indicative Timeline

Phase 1	Phase 2		Phase 3

03
War room setup

War room daily meetings

01
Initial response

04
Lockdown strategy

05
Rebound

02
Communication

01 Initial Response

Your immediate response to the crisis will focus on the safety of your staff and on protecting business critical processes. For most, this includes implementing remote working where possible, and rethinking operations for personnel who must be on site. Corporate travel restrictions should also be implemented immediately.

Some roles may be required to pivot quickly towards short-term, tactical response. Some level of technology enablement will likely be required to support these changes, as will a greater level of communication regarding immediate term changes and policies.

As a Chief Executive, you will require an enhanced level of visibility and communication with your organization throughout this period; taking a more hands-on approach will be required. Consider elements of your strategic agenda which can be de-prioritized to release bandwidth for guiding the organization, partners and customers through this difficult period.

Figure 3. Key words appearing in software vendor customer communications, published 10th-20th March 2020

02 Communication

Employee engagement
Regular communication with employees and team members is imperative, especially when everyone is working remotely.

Do: Focus your messaging on health and wellbeing and job security. This will build trust within the organization and maintain employee motivation

Don't: Avoid answering the hard questions. There is a lot of uncertainty in these unprecedented times, and it is your responsibility to ensure that your employees have a good sense of what may unfold

Customer engagement
The tone is key. It is important to provide comfort that the company is dedicated to supporting its customers . Key words vendors are using already to communicate with their customers are illustrated below (figure 3).

Do: Show resilience. There is likely to be an increase in phishing and hacking, and so maintaining resilience in your data center and security will comfort customers

Do: Publicize business continuity and ensure customers know you will be there to help with disaster recovery

Do: Consider accelerating delivery of the migration from On-prem to Cloud, which will demonstrate your commitment to customers and your ability to be flexible

Investor / Market engagement
It is important to communicate more regularly, and you will get credit for updating your investors more often, even if you may not be able to be as prescriptive on guidance or visibility.

Do: Publish financial metrics such as balance sheet strength, as there will be more market scrutiny than ever before

Do: Provide granularity on financials, such as recurring and SaaS revenue

Do: Manage expectations on bookings if you will be negatively affected during the crisis

Do: Consider the channels through which you communicate. Now is a great time to explore video announcements, virtual roadshows, AGMs to ensure press releases are dynamic and engaging.

Don't: Forecast too far into the future; while the SaaS industry is relatively robust, markets overall remain extremely volatile and no one can predict what is to come.

03 War Room

You will need to appoint a senior, fully dedicated COVID-19 war room team. This team should be made up of the heads of each functional department and meet daily during the lockdown phase. Certain departments may have spare capacity, for example, your M&A team, and could be ideal candidates to chair the committee. As CEO, you need to ensure you have daily contact with this war room team. As a minimum, a software war room team should have representation from finance, sales, HR, communications, product and operations.

04 Lockdown strategy

Moving into the Lockdown phase, you will need to consider how to sustain your organization in this 'new normal' situation for an extended period, potentially many months. This will involve changes to the business model and operational processes, across multiple functional areas. We urge CEOs to act now in making these changes; simply waiting for the Lockdown phase to end is not a feasible strategy.

Setting up a new daily cadence of workstream reporting will be critical in monitoring changes and issues over this time. Consider how changing volumes of customers and staff will impact the business, and how repurposing capacity across functional areas could support dealing with these impacts. Avoid taking any drastic cost-cutting measures if you can, be flexible, and see this time as an opportunity to build for the Rebound.

Below we consider, for both ends of the usage spectrum, what could be a sensible "COVID lockdown strategy" for a software firm, by functional area.

GO-TO-MARKET
Licensing

Expected sector impacts

For any customers wishing to move to SaaS, a prolonged transition where existing On-premise rights are retained may be valuable

For some vendors this process will naturally reduce unwanted license concurrency, while for others a concurrency offer will become a competitive advantage

Actions/ recommendations

Consider widening hybrid rights offerings to remove friction and balance sheet impacts for customers needing an immediate solution

Refresh concurrency strategies in accordance with value and changes to usage. Potential to invest in telemetry to better understand usage patterns

Key messages

Consider changing customer use cases and how licensing can support customers

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GO-TO-MARKET
Pricing

Expected sector impacts

Customers in most sectors are going to have stricter budget controls during the Lockdown phase and exhibit a higher level of price sensitivity

If you have a usage/consumption-based element in your pricing model you will likely face dramatically different revenue profiles which need to be understood

Using the crisis as an opportunity to enhance relationships with customers is important. The reputational impact of aggressive pricing during thi period will be heightened

Actions/ recommendations

Avoid lowering prices as that will be challenging on the upswing, but be cautious with price increases

Regular price increases on renewals should be assessed; don't assume you continue as usual

If you have a usage-based pricing mechanism, you need to flow scenario planning through your revenue model to understand financial impact. If you are experiencing a surge in usage, you may need to cap pricing or introduce further volume-based discounting tiers on the usage pricing matrix

If customers request discounts due to financial hardship you could think about re-packaging and offering a leaner, core-functionality-only product

Alternatively, this could be a good time to move customers onto some form of consumption-based model, if they are not currently using the product this protects against churn risk and gives you some upside on the Rebound

Key messages

Be cautious of aggressive pricing to existing customers.

There may be some opportunity to incorporate an element of consumption in your revenue model, but this must be a win-win.

Place strong emphasis on building trust and loyalty

GO-TO-MARKET
Sales

Expected sector impacts

Demand will build, as SaaS looks more relevant to new working practices, but new purchases are less likely

The existing trajectory of Sales toward e-marketing and product led growth (sales made within the product) will accelerate

There is an opportunity to build loyalty with customers, by treating them helpfully and fairly

Actions/ recommendations

Consider refocusing parts of the sales team towards customer success or first line support

Review sales team compensation plans in line with a revised focus away from new sales and towards loyalty

Re-tool sales toward remote means where necessary, e.g. LinkedIn Pro

Support customers who wish to move to SaaS, e.g. with a 6-month payment holiday, but only where this is a win-win

Consider the potential for heavy discounts on upsell, where risk is lower

Key messages

Enable remote sales. Emphasize the value of SaaS and focus on building loyalty and pipeline.

Sales will come later

GO-TO-MARKET
Channel

Expected sector impacts

The channel will also find it hard to sell. Smaller channel resale partners will struggle significantly, delivery partners will face liquidity challenges

Actions/ recommendations

Understand where your channel partners may be in distress and consider measures to support them; you will need them more in the Rebound

Consider channel incentive change. Providing incentives to support value realization / customer success, or focusing on renewal rather than net new business

Key messages

Support your channel eco-system and work with them to prepare for the Rebound

ONBOARDING
Professional services

Expected sector impacts

Onsite project delivery will cease

Remote onboarding methodologies will become essential

Projects will delay / cancel and bench will soar

Actions/ recommendations

Consider how and where professional services headcount can be redeployed, e.g. diversion into support / sustainment or deliberate programs around pre-configuration or new onboarding methodologies

Key messages

Leverage benched Professional Services resources to redefine the future onboarding experience

VALUE REALIZATION
Support

Expected sector impacts

Some vendors will find themselves with dramatic surges in support requirement (high use case), while others will find themselves in a lull (low use case)

The type of support required on the whole is likely to decline in complexity, toward basic support around remote working

An uptick in support demand provides a unique opportunity to drive increased engagement in customer communities and empower customer admins to take internal leadership roles

Actions/ recommendations
High use case

Repurpose developers to staff-up helpdesks

Consider further ticket or customer segmentation to deal with highest impact first, and improve triage capabilities

Use proactive customer communications, improve customer engagement with support and/ or drive self-services

Invest in system admin training and community activity to turn this into a long-term benefit

Low use case

Prioritize sustainment development resource to close off

Key messages

Drive changes in self-service and customer community behaviors

VALUE REALIZATION
Success

Expected sector impacts

This period offers a unique opportunity to partner with customers and build greater engagement and loyalty for the future

Customers will move to new styles of interaction with you, which may remain for the future

Actions/ recommendations

Use the unique position of customer success to focus on deliberate, proactive COVID-19 hypercare and help customers through disruption

Work to understand new use cases for all existing customers, for now and for the future. Re-incentivize teams towards this where necessary

Use this as a longer-term opportunity to establish an effective tech-touch model, with greater emphasis on digital platforms to drive adoption and engagement

Key messages

Focus on a form of COVID-19 hypercare and understanding new use cases for customers

VALUE REALIZATION
Retention

Expected sector impacts

Retention risk profile will likely change considerably during Lockdown. Across the customer base, this will depend primarily on usage and pricing model

Remaining close to customers and cancellation risk will be more important than ever

Automated renewals now pose a risk, if they distract from proactive renewals discussions

Actions/ recommendations

Conduct a full contract review to understand exposure to revenue risk and mitigate. Seek to establish a clearer and closer to real-time view of cancellation risk than normal

Review auto-renewal set-ups; these may not to be appropriate or desirable at the moment, especially for high-use customers

Review any high-use customers on usage-based pricing; this may not be an appropriate time to issue large bills

Key messages

Get closer to your retention risk profile, don't assume renewals can continue as usual

TECHNICAL DELIVERY
Product management

Expected sector impacts

The world will be fundamentally different after the pandemic is over, with existing roadmaps or even whole products potentially becoming more or less relevant

There may be existing functionality which can be rapidly adapted for higher-value use cases during Lockdown

Actions/ recommendations

New pieces of non-core functionality may become critical, for example to enable remote working or greater self-service. Typically items which do not usually feature prominently enough in roadmaps

Re-evaluate the timing and scope of releases to minimize the risk of edge case performances issues

Investment in defining pre-configurations around new use cases may be less developer-intensive and prove valuable to customers with entirely changed requirements

Key messages

Re-prioritize roadmap towards new use cases and focus on pre-configuration where possible

TECHNICAL DELIVERY
Product development and engineering

Expected sector impacts

Development scrum teams may not be well adapted to remote working

In low-use cases, this period presents a unique opportunity to focus on other activities

Actions/ recommendations

In high-use scenarios, allocate more junior developer time towards sustainment and cut back on new functionality

In low-use scenarios, allocate time to paying down technical debt

It may be necessary to rapidly adjust scrum and agile methodologies to operate remotely

Consider how to retain robust testing and QA processes where junior and QA resources are working remotely

Key messages

Low-use scenarios present a unique opportunity to pay down technical debt. In high-use scenarios, sustainment should be the priority

Operations

Expected sector impacts

Dramatic usage changes may present an issue for those on poorly architected platforms or without flexible infrastructure

The role of third party provision may prove decisive – increased demarcation is likely between vendors owning and operating their infrastructure and those relying on hyperscale operators

For vendors with an element of hardware in their solutions, supply chain disruption will be felt more strongly (and any virtualization agenda will become more pressing)

Actions/ recommendations

For those seeing crashing demand, make sure you are taking out cost in 'no regrets' areas early on

Reallocate and repurpose costs to fit new usage profiles – for example, shifting deployment of any reserved instances with hyperscale operators for use in production (for high demand cases) or development (where demand is low)

Where vendors find themselves reliant on third party code paid for on a different usage-basis to their own, negotiation of new commercial terms may be needed to limit cost-exposure

Closely monitor security, as the current dis-location increases the potential for security breaches to customers

Key messages

Act rapidly to accommodate any new demand and ensure costs follow new usage patterns

Strategic finance

Expected sector impacts

Accommodating customers may lead to a hit on short-term liquidity and increased billing complexity. However, this is likely to pay off longer term

Changing usage profiles may have implications around revenue recognition

Actions/ recommendations

New KPI frameworks may need to be quickly established to give leadership the best view on the scale and extent of disruption, while longer-term measures may need review

Monthly recurring revenue may offer greater revenue predictability than annual recurring revenue

Key messages

Emphasis on existing KPIs may need to change, and new ones will likely be required

Employee care and engagement

Expected sector impacts

This situation offers a unique opportunity to build employee engagement through a difficult time

Contractor eco-systems are likely to be badly impacted

Remote working brings an increased risk of Cybersecurity breaches and incidents

Actions/ recommendations

Restrict future hiring decisions, unless usage is high and/ or likely to remain

This could be a good time to advance any contractor conversion strategies and/ or ensure that contractor eco-systems are protected

A focus on employee mental and physical health and security, for example through virtual social events, could deliver high returns in engagement and loyalty

Remind personnel about phishing, fraud and other possible attacks

Key messages

Focus not just on your employees but also on conserving your wider eco-system

05 Rebound

The Rebound phase will bring a number of changes. We expect that latent customer demand which has built over the course of lockdown will quickly be released. This will include demand that would have been built anyway, as well as additional demand driven by the value of SaaS changing fundamentally as a result of the crisis. Vendors will need to be set up appropriately to capture this demand, and careful to ensure that they do so in an appropriately priced and profitable manner. Sales and channel will likely require significant additional capacity, as will onboarding.

At the same time, we expect a number of new considerations around product, which will need to be prepared for in advance of Rebound. New use cases will emerge and change in how customers interact with existing products may be considerable. Developing an understanding of these ahead of time will be critical to ensure strong positioning.

Vendors should also not miss the opportunity to carry forward successes made during Lockdown to future operations. If the Lockdown phase has been properly managed, enhanced loyalty from current customers should be carried forward and converted into NPS. There should also be new tech-touch models of interaction in place, which have the opportunity to create a dramatic shift in future cost base.
Advice: bank on the rebound, protect and build for this, and carry forward the relationships and loyalty built now into that time.

Key Actions

1. Secure high-volume quoting technology and set up pricing governance
2. Set out a framework for prioritization and pricing deals to ensure you are doing the 'right ones'
3. Establish additional partner relationships for implementation
4. Call up your contractor eco-system to support onboarding

Key principles and recommendations

In summary, we urge software businesses to adhere to 5 key principles over this period:

Look after your business, but don't take advantage of the situation or of customers. Perceived 'sharp practices' will be particularly damaging over this time, so only offer customers what is truly a win-win

Use this as an opportunity to build enhanced trust and loyalty with customers, employees, contractors, and partners, who will value your support now more than ever

Get close to customers through hypercare, and strive to understand their new needs, both immediate and for the future

Where usage is low, use this as an opportunity to address technical debt and build for the future. Where usage is high, re-prioritize and re-allocate; focus on current customers above all else

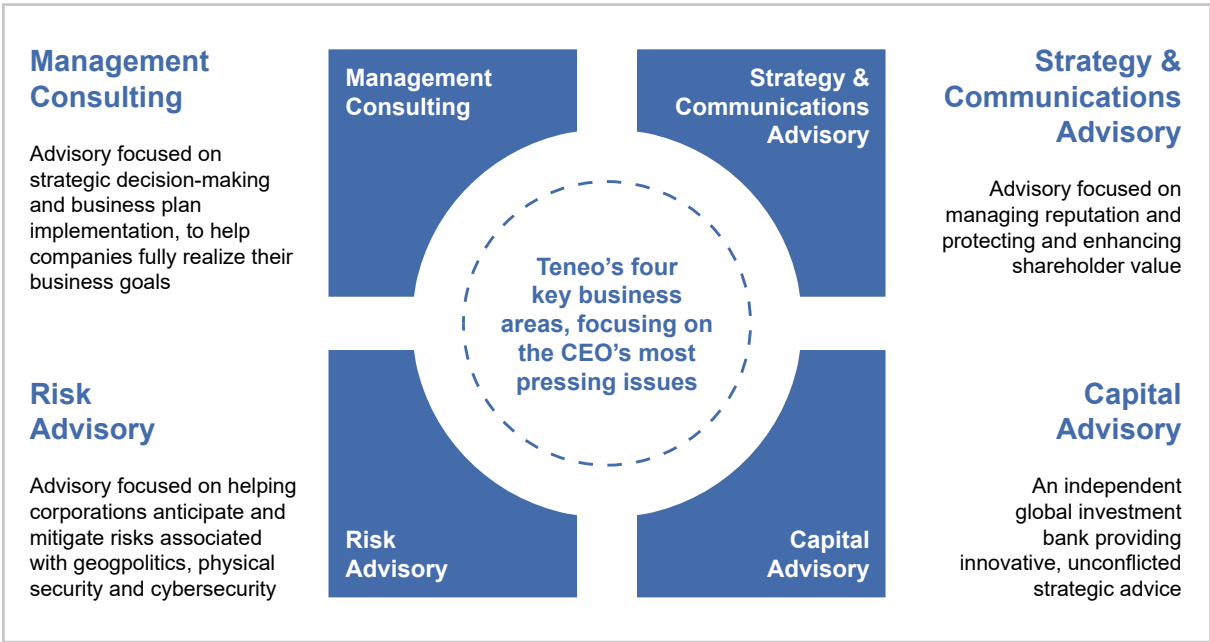Prioritize real-time reporting and enhanced communications; they are now more important than ever

Getting in touch

If you would like to talk about the content of this publication, please feel free to reach out to us at the contact details shown overleaf.

About Teneo

Teneo is the global CEO advisory firm, providing strategic counsel to CEOs and senior executives across their full range of key objectives and issues.

Our clients include a significant number of the Fortune 500 and FTSE 350, as well as numerous other global corporations. With over 800 professionals in 19 locations around the world, Teneo's team is made up of highly diverse people providing unparalleled experience and expertise.

Management Consulting

Advisory focused on strategic decision-making and business plan implementation, to help companies fully realize their business goals

Management Consulting

Strategy & Communications Advisory

Strategy & Communications Advisory

Advisory focused on managing reputation and protecting and enhancing shareholder value

Teneo's four key business areas, focusing on the CEO's most pressing issues

Risk Advisory

Advisory focused on helping corporations anticipate and mitigate risks associated with geopolitics, physical security and cybersecurity

Risk Advisory

Capital Advisory

Capital Advisory

An independent global investment bank providing innovative, unconflicted strategic advice

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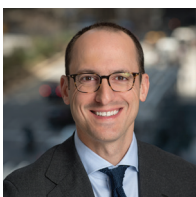
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