Introduction

This Talk will:

- Summarize future revenue growth areas
- Highlight models to leverage cloud, virtualization and IOD
- Explain why back office transformation & integration is so important
Changing Business Models

Big Irons

Mainframe

Extensive centralized automation

Networking Terminals

Mini

Centralized affordable automation

Client Server

PCs, LANs, Servers

Personal Productivity

Internet

www, Telecom/WANs

Interface to virtual world

Cloud

Outsourcing, SOA, Mobile, IOD

Virtual society

IT for Automation

Virtual Business

IT Transforms

Virtual Society

New business models

Connected world

eCommerce

Interface to virtual world

Gartner forecasts that the market for applications, application infrastructure, and systems infrastructure delivered as public cloud services will reach $43 billion in 2015.

Creating the right operating model to build a successful cloud business is not an easy task due to:

- operational complexity
- switch to a services based business

Software and hardware companies must move from being a product-centric company to being an “as-a-service” provider.

This is a significant challenge, especially in the highly demanding enterprise space.
Where will the Revenue Come From?
KPMG’s 2014 Technology Business Outlook reflects the viewpoints of 100 senior executives in the United States. The web survey was conducted from March to April 2014.

**Revenue**
- $100 million to less than $1 billion: 35
- $1 billion to $10 billion: 26
- More than $10 billion: 39

**Title/Position**
- Managing Director/Director: 19
- Executive VP/Senior VP/VP: 36
- C-class (CEO, CFO, COO, CTO, President, etc.): 45

**Company Type**
- Public Company: 32
- Private Company: 68
### Revenue Growth Drivers

Which do you believe will be the biggest drivers of your company's revenue growth over the next 24 months*?

<table>
<thead>
<tr>
<th>Driver</th>
<th>Percentage</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data and Analytics</td>
<td>51%</td>
<td>33%</td>
<td>19%</td>
</tr>
<tr>
<td>Mobile (including mobile devices)</td>
<td>41%</td>
<td>38%</td>
<td>48%</td>
</tr>
<tr>
<td>Cloud Computing</td>
<td>40%</td>
<td>38%</td>
<td>51%</td>
</tr>
<tr>
<td>Security</td>
<td>28%</td>
<td>16%</td>
<td>22%</td>
</tr>
<tr>
<td>Internet of Things</td>
<td>19%</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Consumerization of IT</td>
<td>19%</td>
<td>20%</td>
<td>23%</td>
</tr>
</tbody>
</table>

*Note: in 2013 the question was based on the next one to three years.

Up to three responses allowed.
Cloud Revenue Trends

Q Which best describes your cloud revenue in the last year?

2014

- Above forecast: 76%
- Met forecast: 46
- Below forecast: 8
- Don’t know: 30

2013

- Above forecast: 72%
- Met forecast: 44
- Below forecast: 28
- Don’t know: 28

May not equal 100% due to rounding
Mobile Revenue Trends

Q Which best describes your mobile revenue in the last year?

2014
- Above forecast: 32
- Met forecast: 53
- Below forecast: 10
- Don’t know: 5

2013
- Above forecast: 30
- Met forecast: 44
- Below forecast: 26
- Don’t know: 26

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Which product/service is the main driver of your mobile revenue?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Apps</strong></td>
<td>44%</td>
</tr>
<tr>
<td><strong>Platform</strong></td>
<td>29%</td>
</tr>
<tr>
<td><strong>Devices</strong></td>
<td>12%</td>
</tr>
<tr>
<td><strong>Payments/commerce</strong></td>
<td>12%</td>
</tr>
</tbody>
</table>

May not equal 100% due to rounding
What will the revenue model/s look like?
## The Main Cloud Business Models

<table>
<thead>
<tr>
<th>Model</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>SaaS</td>
<td>Software apps provided in the cloud on a subscription basis</td>
</tr>
<tr>
<td>PaaS</td>
<td>Platform as a Service – virtualized application development platform</td>
</tr>
<tr>
<td>IaaS</td>
<td>Infrastructure as a Service – computing power on an as needed basis</td>
</tr>
<tr>
<td>BPaaS</td>
<td>Business Process as a Service – provided to companies on a subscription basis</td>
</tr>
</tbody>
</table>

**XaaS = anything as a service**
## Changing Business Models

<table>
<thead>
<tr>
<th>Core Business Model</th>
<th>Growing Business Model</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hardware Manufacturer</td>
<td>Infra as a Service (IAAS)/Managed Service Provider (MSP)</td>
<td>Cisco, Dell</td>
</tr>
<tr>
<td>Software Publisher</td>
<td>Software as a Service Provider (SaaS)</td>
<td>Microsoft, Adobe</td>
</tr>
<tr>
<td>Communications/Infra Provider</td>
<td>Managed Services Provider (MSP)</td>
<td>BT, Rackspace</td>
</tr>
<tr>
<td>Consumer Electronics Producer</td>
<td>Content and services Provider</td>
<td>Apple, Sony</td>
</tr>
<tr>
<td>IT Enabled Company</td>
<td>Cloud Services Provider</td>
<td>Amazon</td>
</tr>
</tbody>
</table>
Changing Revenue Models – Example

Software
Maintenance
Support
Partners

SaaS
Consulting
Appliances
Eco-system

Microsoft
# SaaS Considerations

<table>
<thead>
<tr>
<th>OLD</th>
<th>NEW</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-Off Perpetual License</td>
<td>Pay for what you use</td>
</tr>
<tr>
<td>Annual Maintenance</td>
<td>Monthly Usage Billing</td>
</tr>
<tr>
<td>Complex licensing metrics</td>
<td>Transparent Usage Based Metrics</td>
</tr>
<tr>
<td>Reliance on customer self reporting</td>
<td>Automated In-Built Reporting</td>
</tr>
<tr>
<td>Separate reporting tools</td>
<td>In-Built Reporting</td>
</tr>
<tr>
<td>Low safeguards against piracy/non compliance</td>
<td>Built-In Safeguards</td>
</tr>
<tr>
<td>Low touch customer support</td>
<td>High Touch ongoing support</td>
</tr>
<tr>
<td>Sales incentives on big deal</td>
<td>Incentives on ongoing customer sat.</td>
</tr>
<tr>
<td>Up front revenue recognition recognition</td>
<td>Amortized revenue recognition</td>
</tr>
</tbody>
</table>

OLD vs. NEW: The table compares the old and new aspects of software as a service (SaaS) considerations. The old approach includes one-off perpetual licenses, annual maintenance, complex licensing metrics, reliance on customer self-reporting, separate reporting tools, low safeguards against piracy and non-compliance, low touch customer support, and incentives on big deals and up front revenue recognition. In contrast, the new approach focuses on pay for what you use, monthly usage billing, transparent usage-based metrics, automated in-built reporting, high touch ongoing support, in-built safeguards, and amortized revenue recognition.
Old World v New

Product Centric/Engineering innovation
One off – big deals
Limited service provision

As a Service
Ongoing subscription
Full service provision
Why will the back office be so important?
The Back office can no longer be the poor stepchild.
Successful businesses will be those who can provide an integrated front and back office to meet customer demand.

### Continuous Customer Focus

- Product Dev
- Sales
- Pricing & Contracting
- Provision-ing
- Metering & Billing
- Channel Management
- Portfolio Management
- Financial Management
- Services & Support

### Continuous Reporting & Analytics
Old World v New

Front office is king!
Back office makes do
Customers manage the software (entitlements & deployments)

Balanced business model
Integrated front and back office
Vendor/Provider manages the software
Full usage metering – feeds billing
Learning from Telcos….

Source: Telemanagement Foundation (TMF) – OSSP and BSSP Summary Diagram
• Prioritize the customer experience (focus on service and support)

• Build the operational capabilities for XaaS offerings (a huge undertaking)

• Invest in processes, tools and organizational capabilities

• Integrate front and back office tightly (business models map to operational models)

Those who under invest in this integration will at best see declining margins, others will just not survive in the cloud world.
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