

COVID-19: how SaaS companies can navigate the top-line impact

April 2020



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OVERVIEW

Software-as-a-Service (SaaS) businesses are expected to be resilient in the face of the COVID-19 crisis, given their business model. Specifics will vary, however, based upon each company's financial situation.

The pandemic and its economic implications are the first major test for the business model given many SaaS businesses were born – or achieved significant scale – after the 2008 financial crisis. The promise of financial flexibility offered by the operating expense model for SaaS now poses interesting questions as customers evaluate their financial situation and how they need to potentially reduce expenditures, including their software spend.

Our research, based on customer requests SaaS providers have been fielding in recent weeks, suggests that companies may experience potentially material top-line impact based on their customers' ability to respond to the crisis. While this was expected in businesses such as travel and hospitality, retail, and energy, the impact appears to be relatively broad (barring exceptions like collaboration and security). **Now** is the time for SaaS companies to quickly take stock of the operational implications and proactively manage the impact, **next** they need to position themselves in a positive light for customers, then they need to capitalize on lead generation as we move **beyond** the crisis.

MARKET OBSERVATIONS

As the global spread of COVID-19 has become clearer, and governments and businesses have rushed to respond, SaaS companies have started to field an increasing array of customer requests for relief (see exhibit 1).

Initially, the requests focused on payment term flexibility, whether it be an extension of the term or a move to less frequent billing. Companies also started to contemplate a pause in account suspensions and an extension of courtesy credits to smaller customers. Companies also have used the opportunity to extend free trials to generate demand while supporting their community. For example, Salesforce is offering free access to Quip Starter to its customers through September to help with team collaboration when working remotely. Cisco is offering free WebEx meetings with unlimited usage for up to 100 participants. And Adobe

is providing temporary at-home access to Creative Cloud for schools and colleges with lab access for students at no additional cost. However, we are now seeing customer requests with potentially greater ramifications, ranging from suspension of service, to license or user reduction, to the removal of overage charges.

Given uncertain timing for containment of the pandemic and reopening of the global economy, we recommend that SaaS companies proactively understand the implications for their business and establish mechanisms within sales, marketing, customer success and product development to respond. This starts with rapid customer triage, followed by programs to drive customer loyalty and stickiness, and then moving to capitalize on leads generated by free trials and expanded seats/usage.

Increasing top-line impact of SaaS customer requests/offers

Stage 1: Payment terms

- ▶ **Short-term payment holiday** – All existing customers with open balances to take an additional 30 to 60 days to make payments
- ▶ **Payment term flexibility** – Allow one-time exceptions for extended payment terms, returning to net 30 after initial invoice
- ▶ **Billing frequency flexibility** – Move to quarterly billings with the expectation customer will return to existing payment terms in 12 months

Stage 2: Credits and trials

- ▶ **Extended grace period** – For customers that cannot pay, extend the period prior to turning off the subscription
- ▶ **Paused account suspensions** – Account suspensions paused in many countries and customers will not lose access due to overdue account status
- ▶ **Courtesy credits** – For smaller customers, one-time courtesy credits/relief up to three months of their subscription value
- ▶ **Trials** – Free trials for specific products during the COVID-19 period, free seats of industry-specific software for a three-month period

Stage 3: Term and scope of service

- ▶ **Free seats** – For customers over a specific threshold, free or unlimited seats for a period of time
- ▶ **Overage** – No overage charges for customers that are on a usage-based model
- ▶ **Free services** – Additional support and maintenance during the COVID-19 season
- ▶ **Pricing/user restructure** – For certain large/key accounts, temporary license or user reduction with recovery via a ramp/extension
- ▶ **Contract pause** – For customers who may not be using their services, a two- to three-month pause made up with an extension in term



Now
TRIAGE
CUSTOMER REQUESTS

Understand financial flexibility and accounting consequences

Companies first need to assess their own financial situation and flexibility before addressing customer requests. Any actions, from extension of payment terms, to short-term credits, to suspension of service, have cash flow and accounting consequences that need to be reviewed by finance. This will influence the extent to which the company can accommodate the requests it is receiving from its customers.

Establish customer segmentation and sales review processes

The risk of sales and customer experience teams getting inundated with customer requests is real. This not only distracts from winning new business as companies rush to protect existing business. It may also result in uneven treatment of customers and undesirable impact on customer profitability and churn in the future. Sales leaders may consider establishing a rapid response team to set guidelines, review and approve requests, and provide negotiation support. An updated view of the pipeline is important for rapid response efforts – and may require greater discipline from sales teams as market volatility may necessitate more frequent updates and expanded data points. This is also the time to refresh customer segmentation, based on factors such as business risk, profitability and propensity to churn, to support triage decisions.

Assess operational and technical requirements

Operations and IT teams that had initially focused on business continuity given the move to “work from home” are now able to quickly assess operational implications of offers like free trials, removal of overage charges, and even suspension of service. Implications may include infrastructure capacity constraints as usage rises and corresponding costs increase. Suspensions of service pose other questions for operations and IT, from feasibility of maintaining customer data and configurations to the ability to rapidly restore service. In addition, there may be new reporting requirements that need to be addressed in accommodating customers.





Next

DRIVE CUSTOMER LOYALTY AND STICKINESS

Call to action for customer success

As customer accommodations are made, customer success managers (CSMs) will be as critical in driving usage and renewals. For example, they can share success stories and use cases to help customers better navigate COVID-19 impacts. This may include helping a retailer do more with its online campaigns or HR work with furloughed employees to access expanded government aid. At the same time, if customers are given free seats or expanded usage at no charge, there will be opportunities to support adoption by new users so that they can be retained after temporary accommodations end.

Rapid rollout of new product features and functions

As customer success teams focus on usage and renewals, they will gather input for the product development teams on new features and functions that can help customers, particularly as they navigate shutdowns and work from home due to COVID-19. For example, customer IT departments may benefit from new service management capabilities to support remote workers. Companies may look to financial solutions for additional reporting to support crisis decision-making. SaaS providers who rapidly deploy new product capabilities to help customers will have another mechanism to drive customer loyalty.

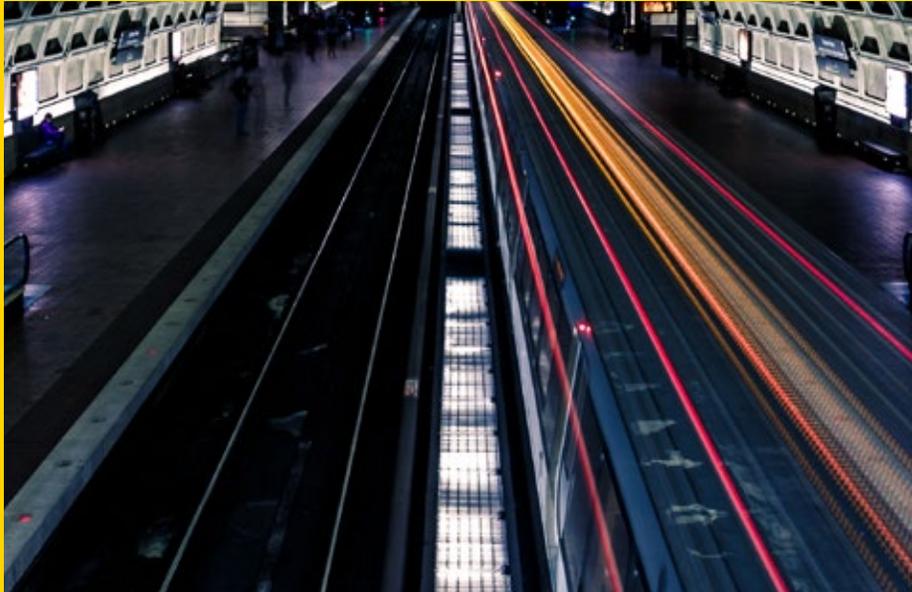
Beyond

CAPITALIZE ON LEAD GENERATION



As we move beyond the immediate impact of COVID-19, sales leaders can plan campaigns to capitalize on the investments made in free trials, suspension of overage charges and free services, with corresponding adjustments to sales team structures and incentives. For example, they may consider assigning sales pods to convert leads generated from free trials or repurposing inside sales resources to work with field sales teams to sell virtually. They can also establish bonuses for expanding subscriptions. Similarly, they can add incentives to sell premium services where free services were offered.

CONCLUSION



As the COVID-19 pandemic tests the resiliency of customer bases, SaaS companies must proactively assess and manage the near-term impact to their top-line. This will require a coordinated effort across the leadership team – along with the recognition that, if navigated successfully, current challenges will provide an opportunity to build customer loyalty and expand customer base.

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US SCORE no. 08805-201US
2003-3463253
ED None

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