

# Top 8 Growth Techniques Used By Fast-Growing Software Companies



## Software Monetization Guide 2020

**10Duke**



## An Inside View: The 8 Top Monetization Methods Used by the World's Fastest Growing Software Companies

As a provider of licensing engines to some of the fastest growing B2B software businesses around the world, the 10Duke team is able to see the type of license models, product configurations and online ecommerce solutions that are being deployed by the best in the business. B2B software sales are hard – as a vendor, you need to use every advantage you can in today's hyper connected, fast-paced business environment. Excitingly, this hyper-connectivity also means that there is a huge market available to you globally if your products and systems are designed correctly.

But what does 'designed correctly' mean? In this whitepaper our aim is to share some of the insight we have gained as a provider of licensing APIs to B2B software vendors who have proven effective at monetizing their software and scaling their businesses, [fast](#). It summarizes the top 8 capabilities that you, as a software vendor, will likely need to have if you want to emulate their success. So, without further delay, here are the top 8 common techniques shared by some of the fastest growing software companies around the world today:

1

**The Fastest Growing software companies recognise that their customers are online and have taken a 'digital first' approach to interacting with them.**

Of the 7.7 billion people in the world, more than [3.6 billion of them](#) are connected to the Internet. If you are selling software applications to a business audience then you're safe to assume that many of your potential customers are online and can interact with your products and company over *http*. This creates an incredible

opportunity for your business. But in order to take advantage of it, successful companies have completely rethought how they utilise digital channels and taken a 'digital first' approach. This means that they have designed their systems to focus on primarily serving customers via online channels.

If your customer base is global, it means you have to be able to serve them 24 hours a day, 7 days a week. To do this using people is difficult and expensive (for example, if you want to answer customer enquiries with a human customer service agent). Serving your customers with technical solutions, by contrast, means it is easier to always be able to help, provided these solutions can provide a great level of service and responsiveness.

Just like you, your customers are busy. They are juggling personal lives with a never ending to-do list at work and so, while your customer is likely to be always online, they have even less time available to engage with you and your products.

Into this mix of always-on, attention deficient and highly expectant customers, you have to provide a leading-edge software value proposition. It is no small feat. But it is those same factors that are enabling companies to deliver software solutions that are scalable and more easily monetized.

2

**The Fastest Growing software companies recognise that they can't just offer a website. They need to offer a complete ecommerce experience.**

Companies that are succeeding are offering an online presence with more than just information about products and the company that sells them. Gone are the days of a simple website with product lists and a phone number to call. Customers are accessing your products from multiple devices and because they are busy, you need to support them wherever, whenever, whatever device they may be on.

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The fastest growing software companies that we see are capitalizing on the online opportunities are provide in-depth product information along with the ability for interested users to try those products and potentially purchase them all within one or two online sessions. Irrespective of all of the bells and whistles of your product and the in-depth production orientation you'd like to give them (in an ideal world), the reality is that your customers are time poor. Their initial interest in your product has to be capitalized on and that means providing them with the ability to access and try your products without ever having to talk to you.

The more friction you add into this engagement process, the less likely it is that they will become a customer and therefore you are reducing your own capability to scale. You need to be able to support them while their exploring and purchasing intent is there and the best, most scalable means to do this is via your online presence.

3

### **The Fastest Growing software companies recognize that they are selling to individuals, not faceless companies.**

Even if you are selling B2B, you are ultimately selling to the individual user. Even if he or she doesn't have the purchasing authority to make the actual purchase they will likely have the authority, either alone or with a group of colleagues, to demonstrate the value of your software internally so as to justify an investment in your solution.

In turn, your online offering has to adopt a [personalized approach](#) to how you interact with them:

- Easy to access
- Shows them products, service and content they are interested in
- Is relevant and context aware

In turn, your personalized experience has to

provide the quality that they are expecting. The most successful B2B companies have recognized that their customers are using several different online systems in both their private and professional lives.

The online experience individuals have gained using services like Google, Facebook or LinkedIn have changed the expectations of what a professional tool should offer.

Being able to self-serve, with an online experience that is easy to navigate, with a clean and simple user interface have now become basic pre-requisites for B2B online offerings and help to avoid the challenge of [interaction debt](#).

Imagine the ease of use of Google services, combined with the connectivity and sharing of Facebook or LinkedIn combined with the specific application that you are selling to end users. That combination is what successful B2B software companies are providing to their customers today.

Fast-growing software companies understand that their most valuable connection is to the end user, irrespective of what corporate entity is paying the bill. Even as individuals move from employer to employer over the course of their career, or from university into the professional world, if you have developed a relationship with them - by providing a value-adding software product that is easy to understand and use, you are establishing a relationship of trust and delivering value. It needs to be easy for people in these companies to test, purchase (for themselves and/or for their team) and use your products internally in a B2B environment. The more technical or administrative hurdles you put in the way of allowing an interested customer to access and use your product, the less your business will scale.

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## The Fastest Growing B2B software vendors have recognized that the ways in which customers can be monetized have changed.

No longer is software simply sold on a perpetual license fee basis. The vast number of online services have shown, both in the B2C and B2B markets, an incredible variety of ways it is possible for companies to charge for the software they provide. The top five monetization methods for both B2C and B2B software models include:

1. **In-app purchases** where a customer is able to buy add-ons to an application in order to enhance their experience. For example, [purchasing digital goods](#) or add-on modules.
2. **Software licenses** where a customer licenses access to an application on a particular [license model](#) for a period of time.
3. **Advertisements** that are incorporated into an application, [showing ads for 3rd parties](#)
4. **Voluntary Contributions** where the customer voluntarily pays a suggested amount for [access to a service](#)
5. **User Data or User as Product** in which the user's data and browsing habits are harvested and [sold to 3rd-party advertisers](#).
6. **Open Source Plus** in which an open-source product is monetized through the provision of [value-adding software enhancements or services](#).

Fast growing software companies know that their customer's expectations are also changing in regard to how software applications are charged for. In the B2B context, the most common methods of monetization are issuing software licenses or taking an open-source plus approach. But the rules are being rewritten online in terms of what is possible and

acceptable. Successful ISVs monetizing online have bet that their customers will be open to non-standard, flexible means of monetization and it is a bet that is paying off handsomely. If you follow a similar pattern, it creates the opportunity to monetize your application in ways that are best-suited to the function of the applications itself. For example,

- i. Charging for resource usage on a high-CPU based engineering app that is only used infrequently.
- ii. a short-term paid trial to allow a user to initially use an application more flexibly (perhaps at a higher price) before they commit to a longer term or extend the license to include colleagues.

Amazon Web Services (AWS) offers the best example of varied monetization models as, within the context of the same overall branded offering, it charges for different services based on time, storage used, IO, support levels, CPU cycles and a number more. It has chosen monetization methods that are appropriate and understood by customers in the context of a particular service offered, and it has [reaped the benefits](#).

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## The Fastest Growing software companies are not afraid to use changing expectations about how products are monetized to their own advantage and how they 'package' the product they sell.

Given the variety of monetization methods that are emerging online, the expectations of your customer in terms of what they might see in the case of a B2B monetization model have changed. They are more open to a variety of models and they expect to be delivered a 'product' that not only has a variety of more flexible purchasing options (i.e. the license model) but also in regard to how the product is described and the features it offers are charged for. We see that this process of 'packaging' a product for sale has become much more flexible, more granular. With AWS in

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the lead, the fastest growing software companies charge for products or services specifically on the basis of the value they provide.

Based on the data that we are seeing, companies who are able to package their product in modules or license on a feature by feature basis, are better able to monetize their overall application.

Rather than selling one product as a monolithic offering a more granular product approach allows a buyer to purchase what they think they need at the start and then migrate up the product package chain as and when their requirements broaden.

Taking a more modular, feature or service based approach also allows a customer to traverse the product options easily when the time comes to upgrade or extend a product purchase.

In practical terms this could mean:

- License by access to feature or feature combination
- License by product or product suite (a group of related products)
- License by function- the ability to do something (eg. run a job) for a period time.

What is crystal clear is that being able to offer more granular, feature-based monetization options to customers is a critical capability for any software company that wants to be competitive and grow quickly.

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**The Fastest Growing software companies are able to control access to the applications and the way they prefer to sell them.**

Wanting to sell a product in a particular way and actually being able to do it in practical terms are

two very different things. While many companies have identified their 'ideal' way of monetizing their software in theory, only the most successful have been able to follow through and deliver in practice.

These 'rules' on which software applications are sold, the license models, are changing as companies selling B2B are adapting to the new realities of doing business online. There has been a substantial move away from perpetual licenses to monthly or annual subscriptions. Subscription is very much the 'model of the day' and works well for certain products or online services (think Netflix or Evernote). If it fits your product, use it. From an implementation perspective, there are an increasing number of technical solutions available, like Stripe, that support the implementation of a simple subscription model that is relatively easy to implement in practice.

But subscription [may not be the best model for your product](#), and in cases where it isn't successful software companies are deploying products with more varied license models. Modern licensing solutions can support a variety of different license models on which your customer can easily license and use your products. The license model needs to be appropriate for the product that is being used. This is exactly what we see emerging as best 'practice' within the B2B software market . For example:

- Access for users or teams within a company (floating or subscription models)
- Access for users from different companies (project-based licensed enabled on a floating or subscription models)
- Pay per use time (for example CPU cycles) – (use time-based model)
- Access to files (consumption or metered license model)

The license manager you deploy has to support your preferred way of monetizing your product and not limit you to a certain license model because of limitations of the license manager itself.

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## The Fastest Growing software companies recognise that successful monetization isn't just about charging more.

Selling software of any kind inevitably involves coping with some degree of unauthorized usage or IP theft. In a B2B context, both aspects have to be dealt with and should form part of your monetization strategy. It is best thought of as plugging any potential revenue leakage through having the ability to accurately issue, monitor and enforce licenses.

In today's world of online, this means having the ability to issue, monitor and enforce licenses in real-time. This has typically been done with a key-based licensing solution together with a Software Asset Management (SAM) solution to aid in license compliance. But the challenge of this traditional approach is that it is both a complex and reactive solution to the issue of unauthorized software usage. It also introduces several layers of complexity and administration to being able to issue, monitor and enforce licenses. In so doing it also introduces more moving parts and more friction into the process and therefore acts as a brake on scalability.

By contrast, the best of the new cloud-based licensing solutions provide the ability to issue, monitor and enforce licenses seamlessly and automatically. There are minimal moving parts to the system due to clever design and this makes it simpler for customers to use and for vendors to deploy and manage on an ongoing basis. This is the type of approach that we see the fastest growing software companies taking. Companies like [AWS](#), [Seequent](#) and [Atlassian](#).

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## The Fastest Growing software companies are running an integrated solution that extends beyond their core product and includes a variety of supporting services.

Companies that are monetizing scalably and successfully in a B2B context have been able to include a variety of supporting, yet critical elements in order to create a comprehensive online offering. These moving elements include:

- The development of the core application(s) being sold
- A licensing manager to control access to the application or its features
- A payment provider to accept online payments
- The ability to keep track of your customers - who is using your software and who is paying for that usage.

Most software businesses focus primarily on their core application, but all of the supporting tools represent key parts in being able to offer a scalable online proposition to the market. The 'enabling' tools are also required to make the process of monetizing your software easier. When it comes to licensing, most traditional license managers introduce a huge amount of friction into the license process; an on prem license server, the administrative cost of issuing, reconciling and revoking software keys. This friction is the enemy of scalability and significantly hinders growth.

Similarly, when it comes to taking payment, traditional PO processes involved a lot of hassle and even the largest B2B buyers are now enabling their teams to make online purchases. Being able to offer an online purchasing ability that still meets basic B2B requirements like VAT invoices, purchase histories and the like, presents the opportunity for your business to get rid of another key friction point in the monetization process.

Keeping track of your customer is also a typical friction point for most software businesses. At worst, customer data is kept in a spreadsheet. Customer data can also typically be spread out between an ERP system and a CRM system. With the requirements set out by GDPR, centralizing customer data and being able to track and

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surface the data you hold on individuals may be a painful process to go through initially, but it will have a significant benefit for your business in the longer term. When you hold customer data centrally, you are better able to protect it, you are better able to use it to more effectively serve those same customers and create opportunities for monetization.

## Conclusion:

The manner in which business is done online in the 21st Century is rapidly changing with each passing year, but there are common techniques shared by the most successful software companies selling B2B that have defined a 'best-practice' approach for anyone looking to scale their own business.

First is the recognition that doing business online is the norm and it also offers incredible opportunities to scale your business globally to any potential customer who has access to the internet.

Second, recognise that while you may sell B2B, you are selling to individuals and your online offering has to both recognize this and provide them with a User Experience that is on par with any consumer-oriented online service. Expectations are defined in the consumer world and the B2B world has to match them.

Third, customers are more used to applications being monetized in 'unusual' ways, even in the B2B context. A perpetual license plus 20% maintenance need not be the only way...

Fourth, a software vendor has to think about their product in a different way and 'package' it so as to take advantage of the new rules and methods by which it can be monetized.

Fifth, a software vendor has to have the ability to actually implement and control access to an

application based on the rules it has defined. If it can't do this, revenue leakage will become a major issue, and work against growth.

Sixth, to enter the league of the fastest growing B2B companies a software vendor has to recognize that successful monetization goes hand in hand with the ability to prevent authorised usage in as friction-less way as possible.

Seventh, the most successful companies have been able to deploy integrated online offerings that not include their core product(s) or service(s) but also have an effective licensing capability, the ability to process online payments, and an ability to have a centralised view of the customer.

**Doing business online in the 21st century is a hyper-competitive environment. Those companies who have shown their ability to deliver an online offering that meets all of the capabilities described in this paper are those that are seizing the opportunities presented by doing business online.**

For some examples of companies following this playbook, including some you may have heard of and others you may not have, please check out the links below:

<http://aws.amazon.com>

<http://www.maxon.net>

<http://www.salesforce.com>

<http://www.mailchimp.com>

<http://www.atlassian.com>

<http://www.splunk.com>

<http://www.sequent.com>

<http://www.slack.com>

