



Software Industry Transformation From Products Into Services

2010-06-22 Pirkka Palomäki, CTO

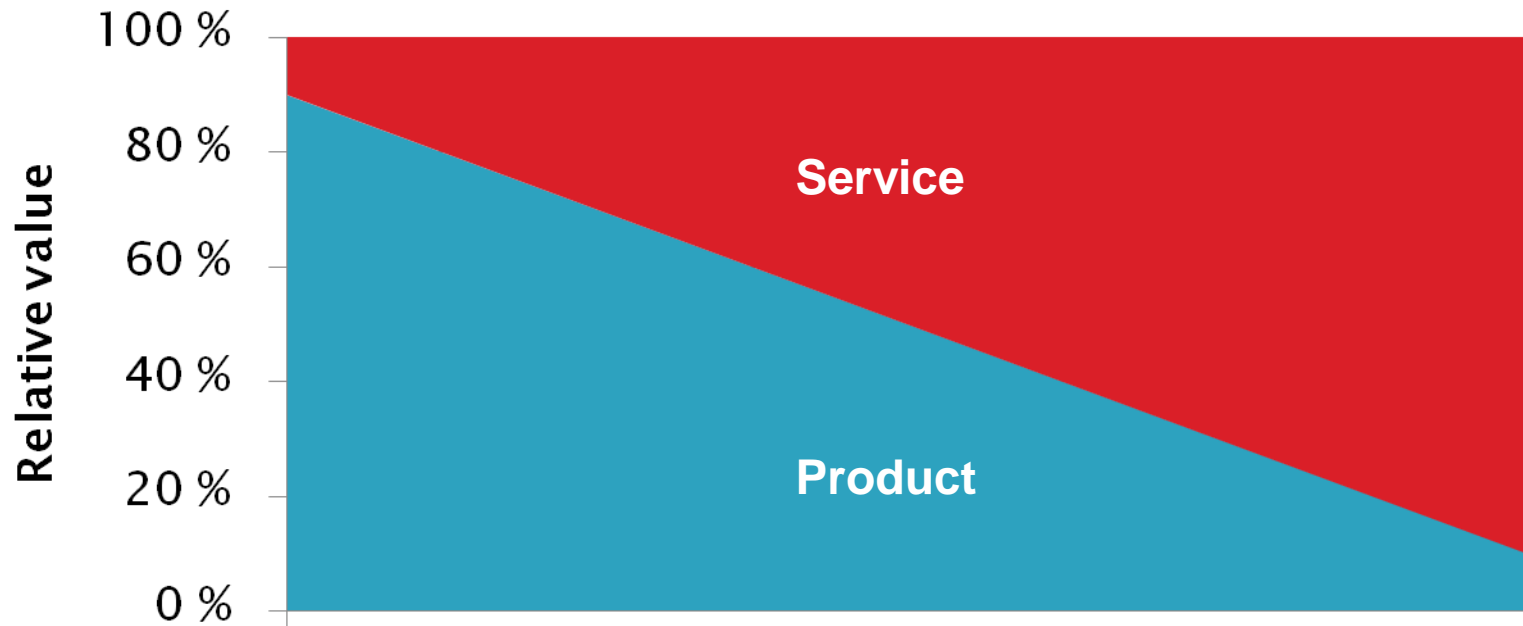
Agenda

- The difference of a product and a service
- Reaching mass markets as one of the drivers in the transformation
- An example of the transformation: Case F-Secure
- Summary

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What is a product and what is a service?



- there are products with services, as well as
- services with products as the means of production

- Where is the tipping point when customers perceive the main value in a product or a service?

Example: Car




Examples of related services

- Service contracts for ease of maintenance
- Leasing contracts for monthly payments

Services complement the core product offering

- the proportional value of services may increase
- yet the main value proposition is a product, even in the leasing case

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- many products have related services; software comes typically with support and maintenance services
 - monthly payments do not transform a product into a service alone

Car transforms into a service




Value proposition

- Main proposition - getting from point A to point B
- Product (the car) still essential as the means to deliver the service

Differentiation with customer experience

- ease of ordering
- friendliness of the driver
- also the underlying product has a role in differentiation (e.g. limousine vs. regular taxi)

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- service adds value in customers “processes”
 - customer experience key to differentiation in services
 - products can play an important element in differentiation

Software as a Service (SaaS)¹⁾

- is a **model of software deployment** whereby a provider licenses an application to customers **for use as a service on demand**
- SaaS vendors **may host the application** on their own servers or **download the application to the consumer device**, disabling it after use or after the on-demand contract expires
- **Centralized feature updating**, which obviates the need for end-users to download patches and upgrades.
- Save money by not having to purchase servers or other software to support use; **no up front capital cost**

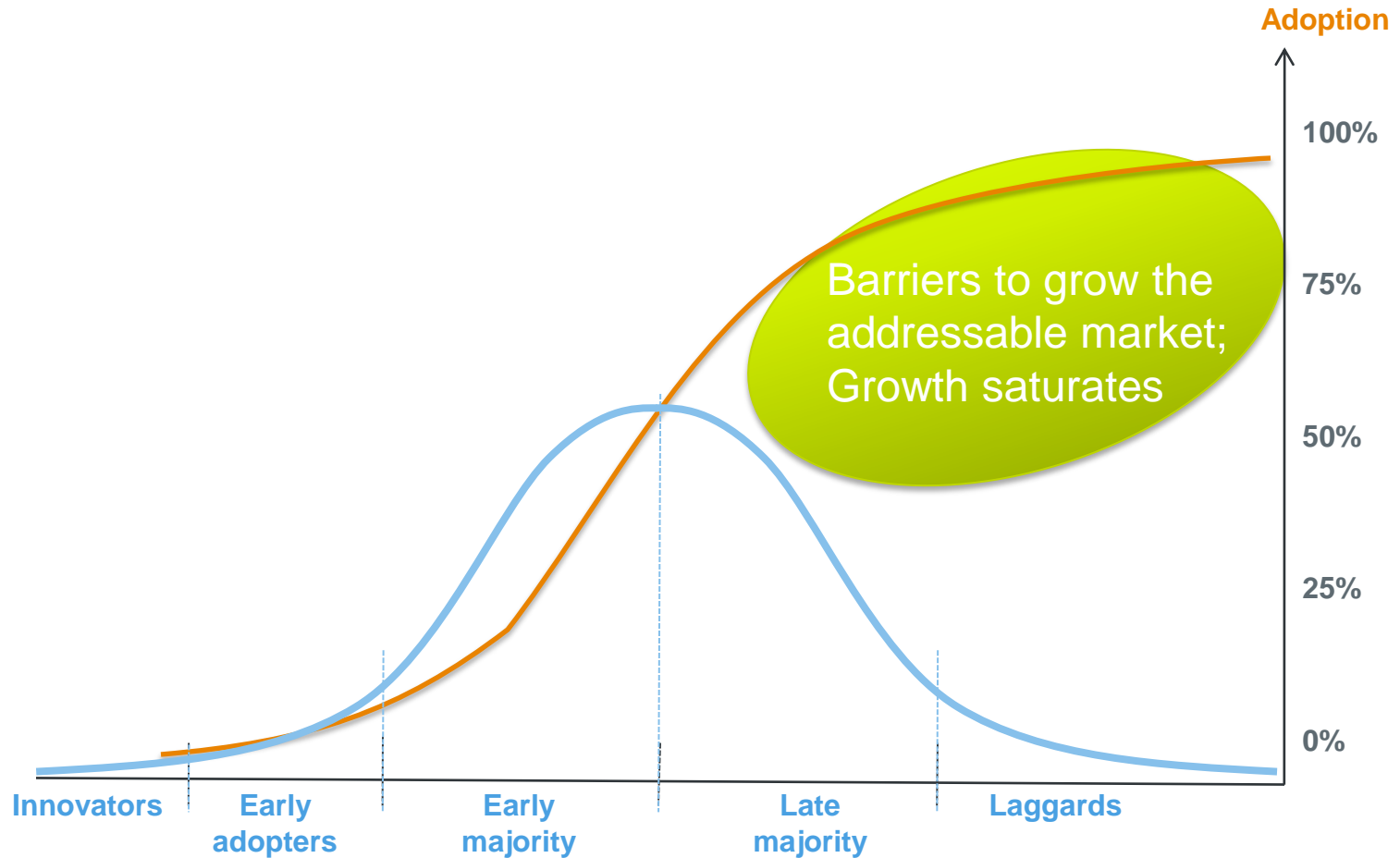
¹⁾ Definition adapted from: <http://en.wikipedia.org/wiki/SaaS> (2010-06-14)

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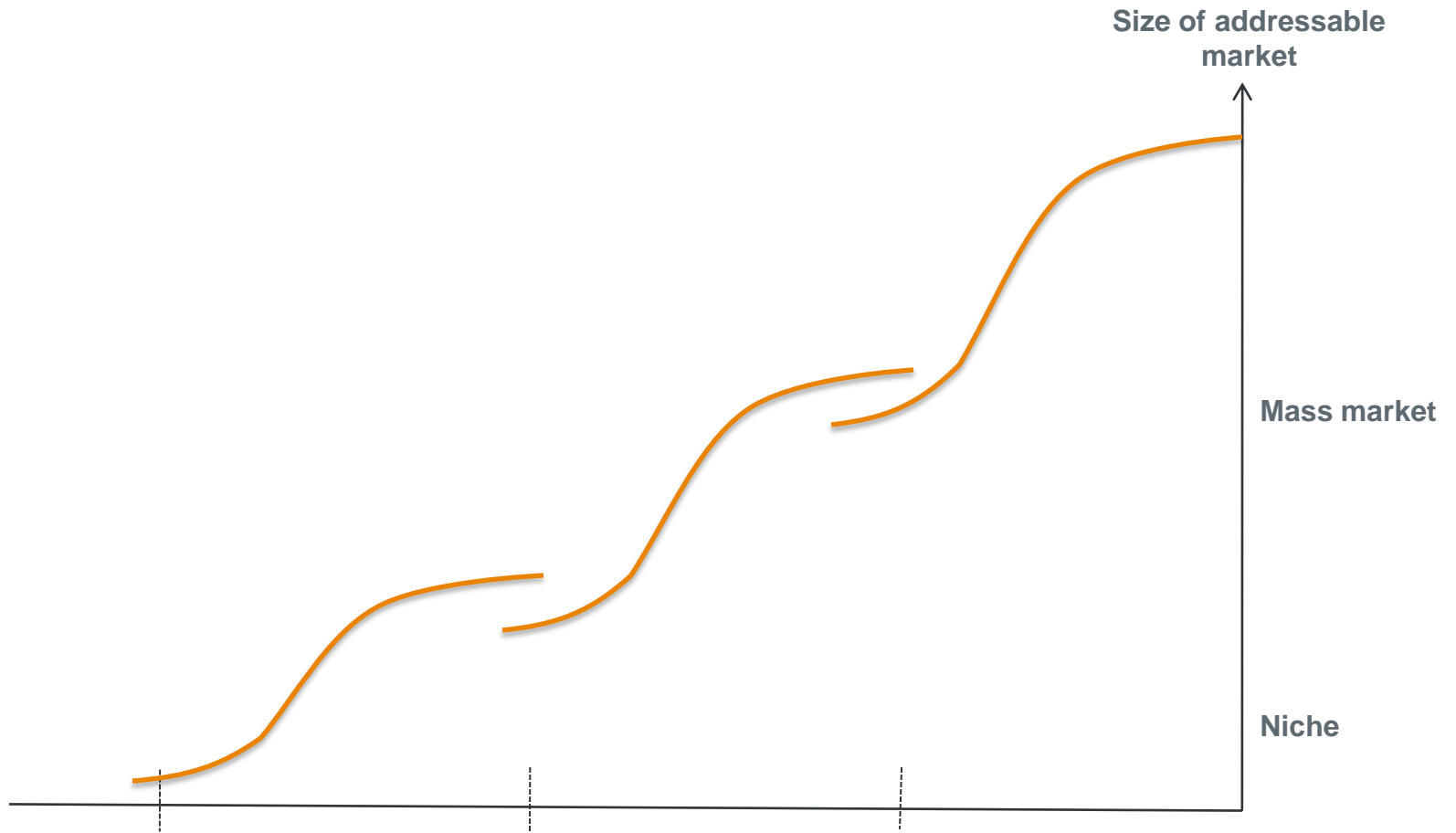
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How to break through to the mass market?

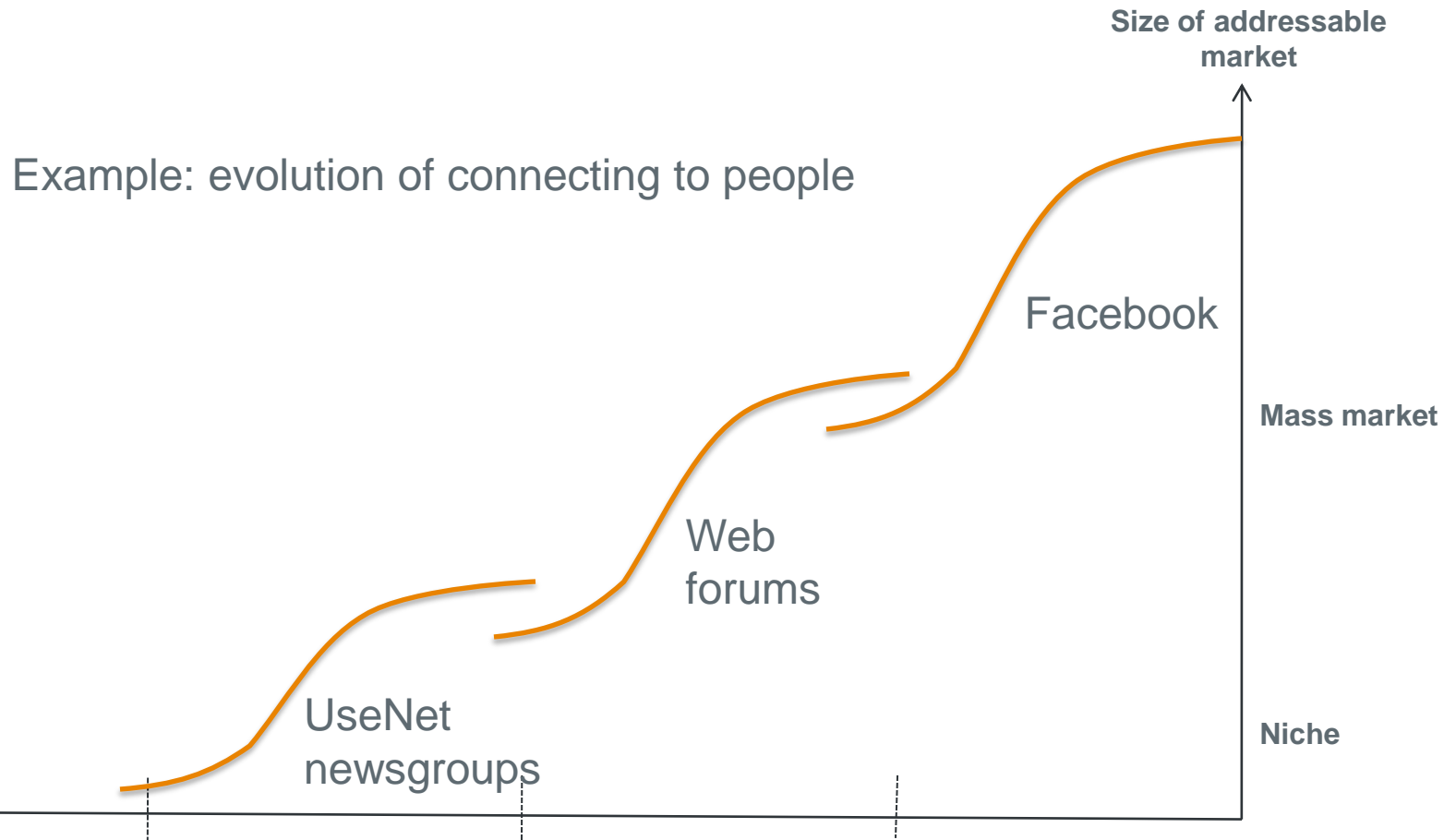
- Diffusion of innovations



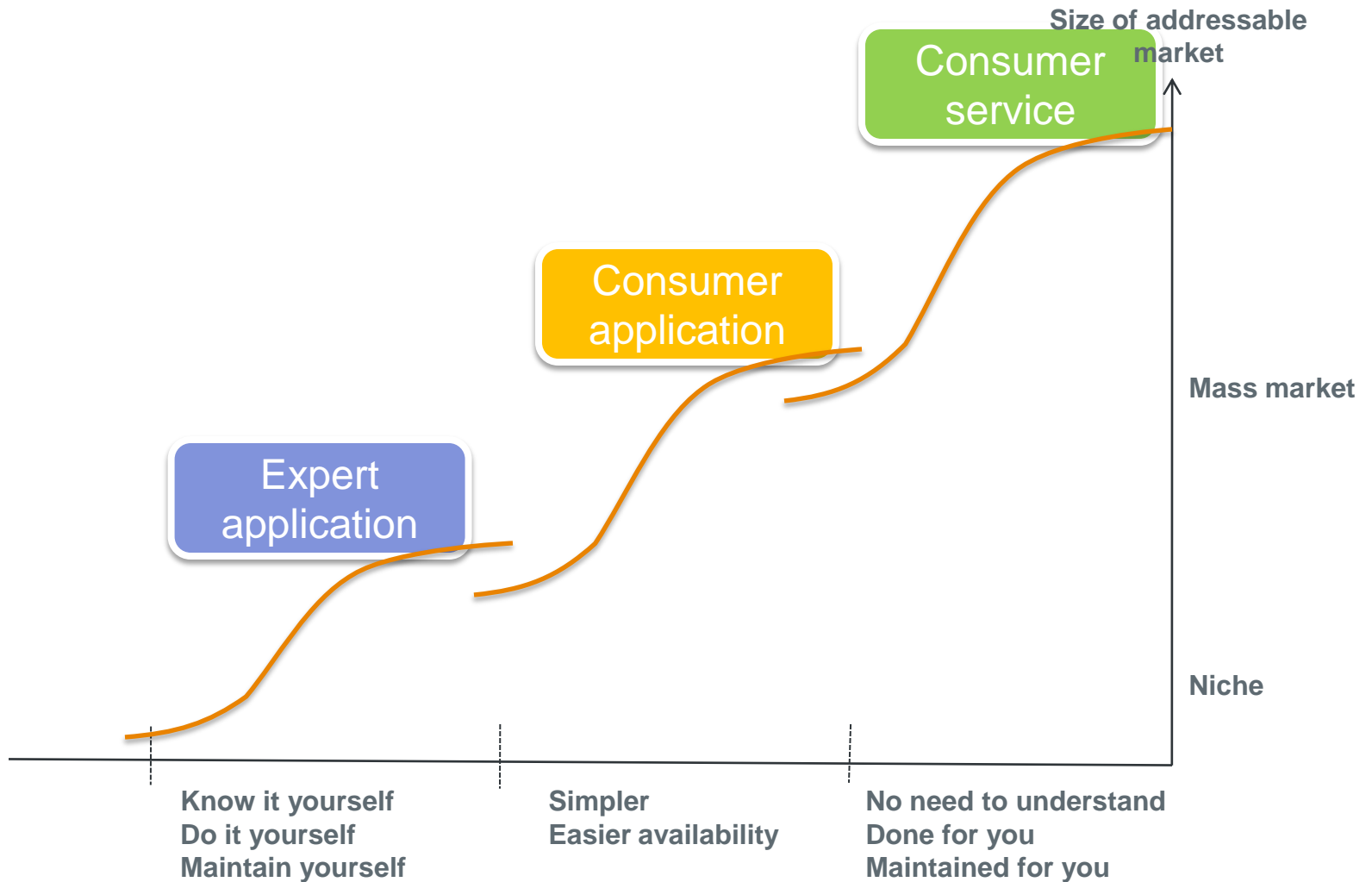
Future innovations grow the addressable market



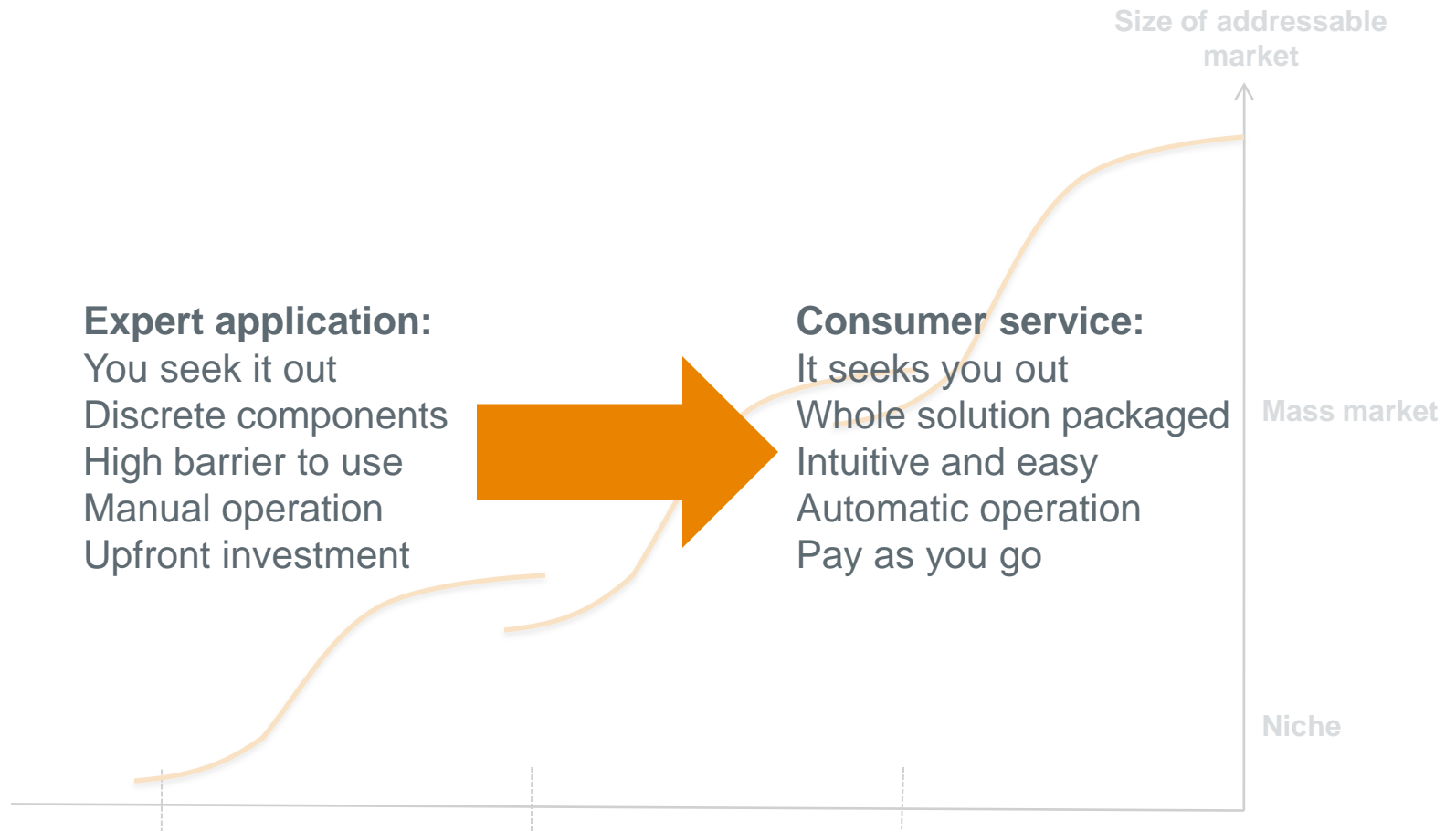
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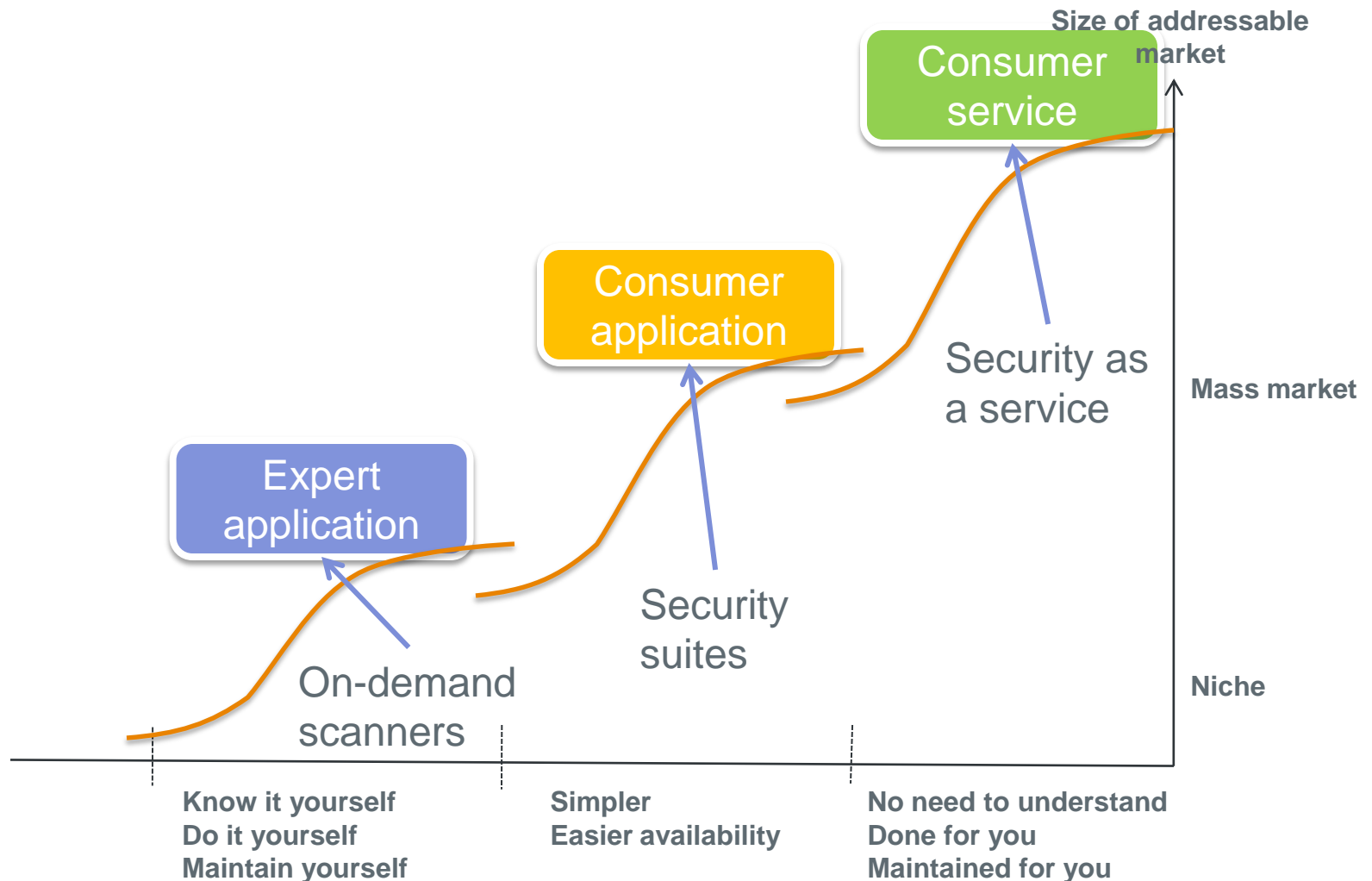
Transformation from products into services



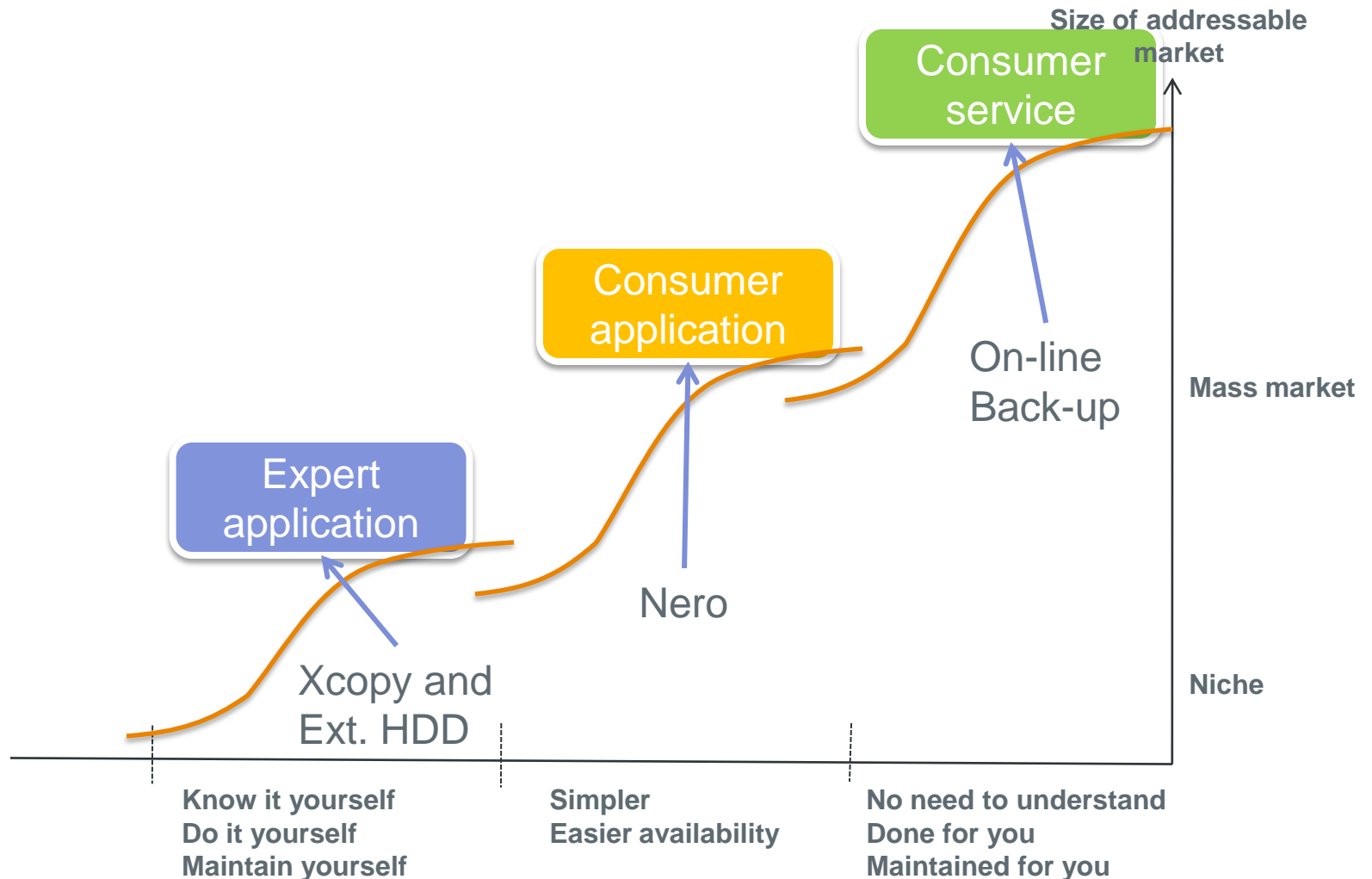
Evolution from expert applications to services enables the breakthrough



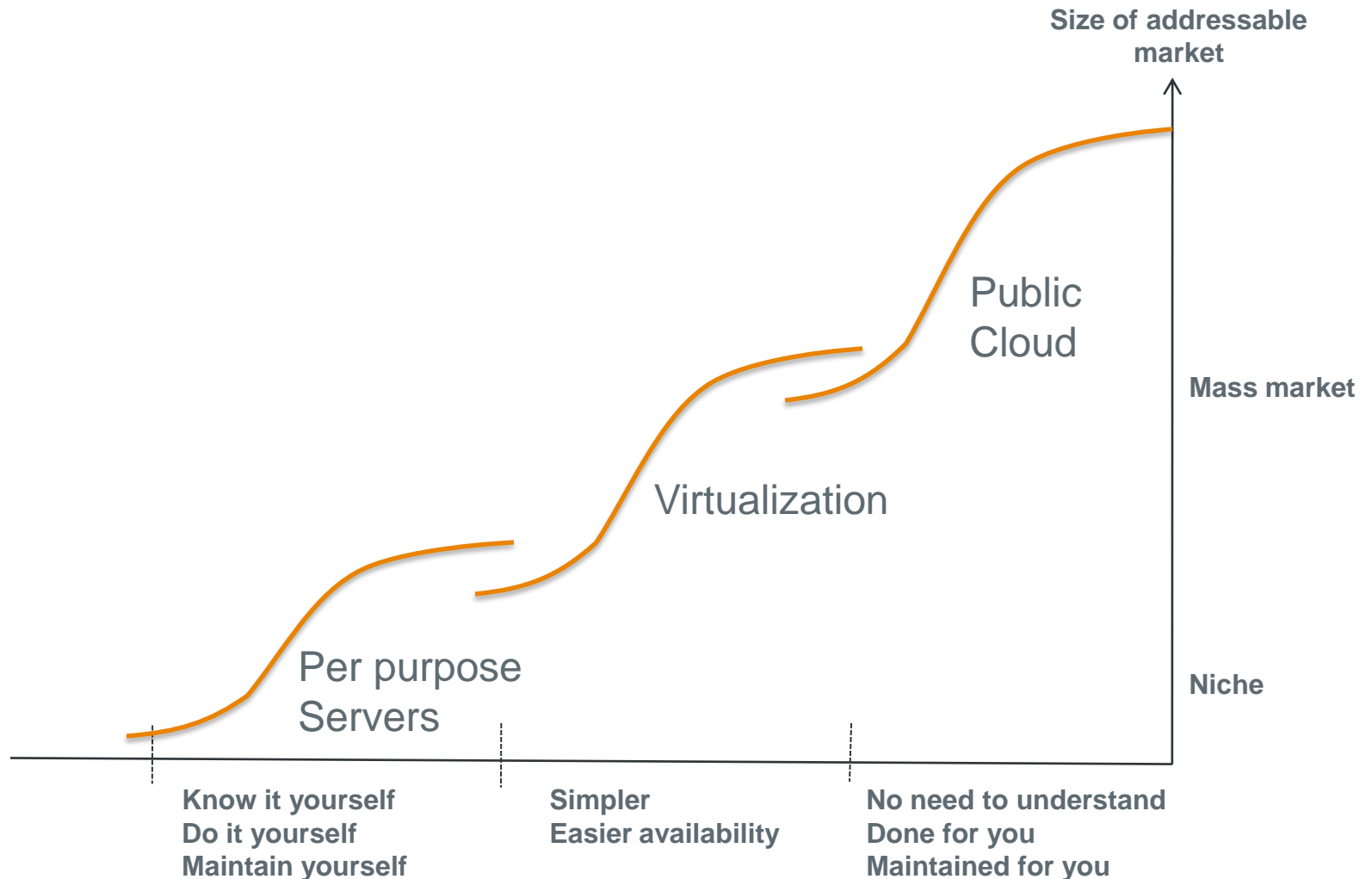
IT technology adoption and consumer service evolution: Protecting against viruses



IT technology adoption and consumer service evolution: Preventing loss of valuable content



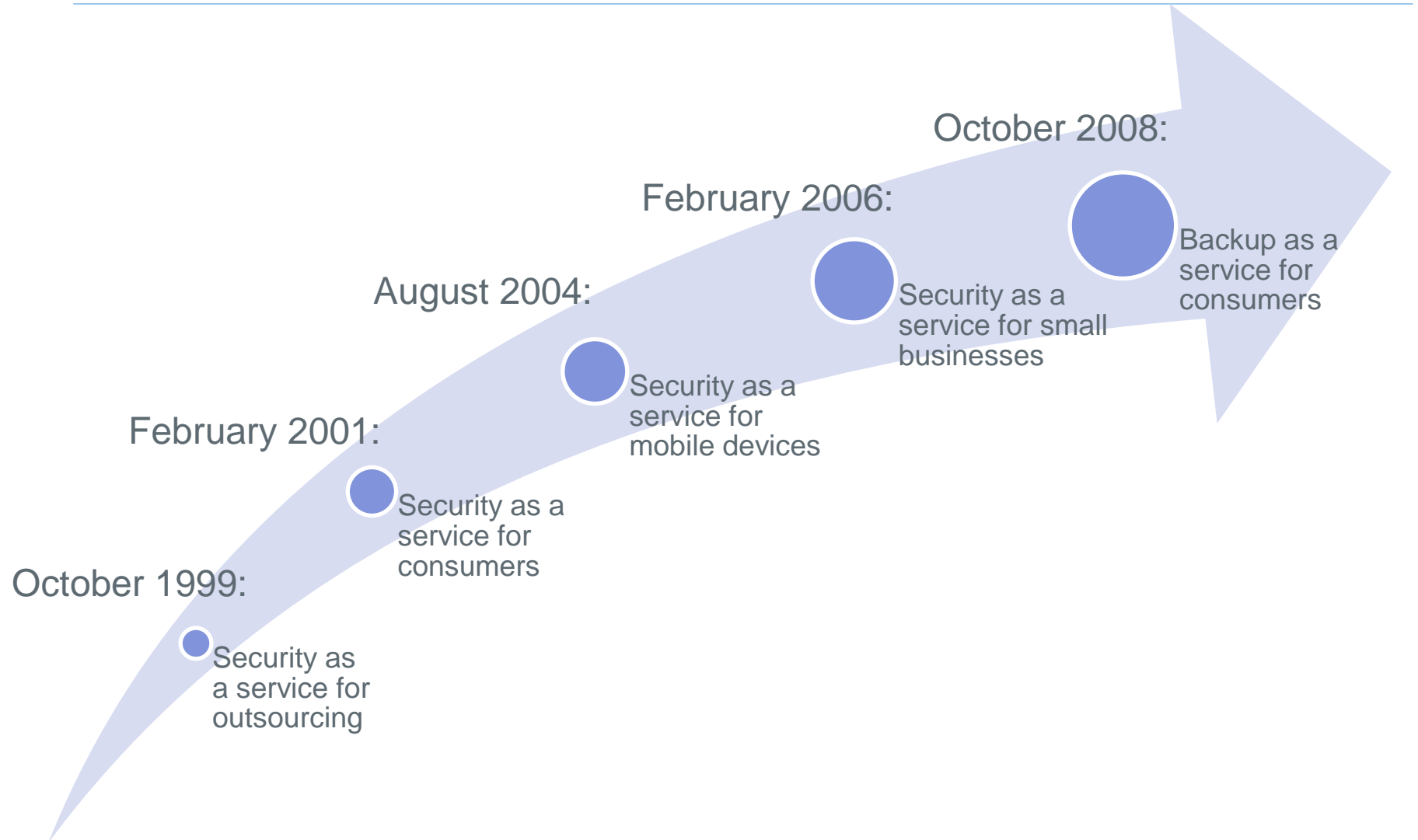
Cloud as a natural follow-up of a similar evolution



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Some milestones in services at F-Secure



The business model innovation for consumer security

- Security was already a proven market in the late 90's
- Security has a natural service characteristics “built-in” – fresh goods
- F-Secure realized that not all consumers didn't want to buy security software, but they would like to use the Internet and the computer being concerned about security issues
- Business innovation: why not let people buy secure Internet connectivity, instead of Internet access and security software separately

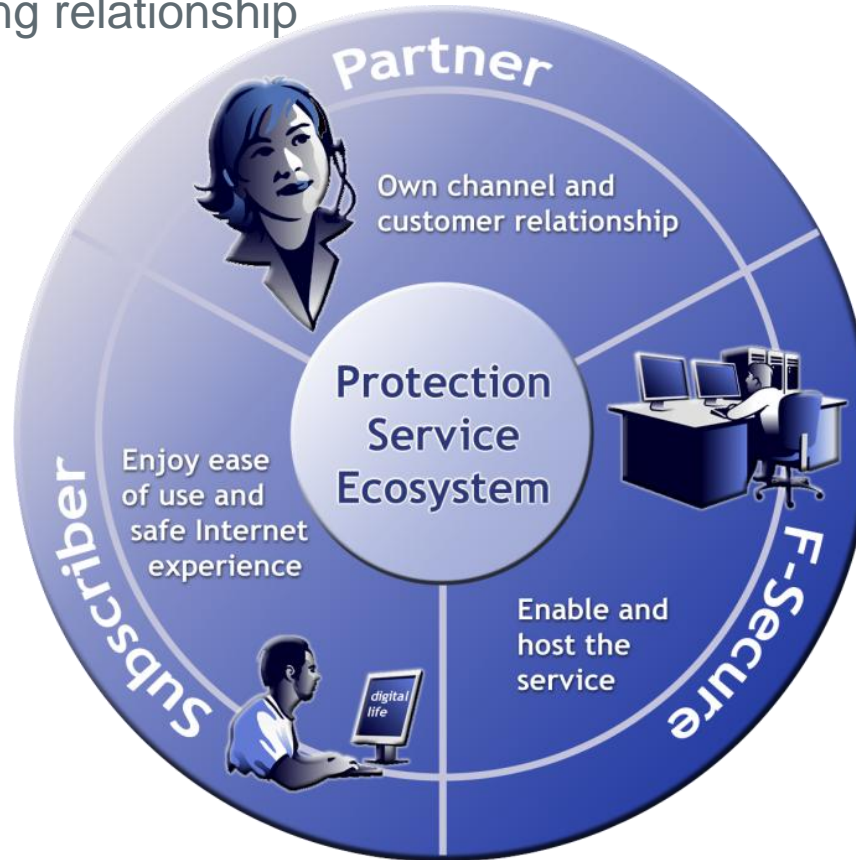


- Security offered as a subscription service via broadband ISPs in 2001
- Monthly subscription, billed with the broadband access fee
- Automatically maintained, one point of contact for support

Roles in the business model

Partner

- Known brand
- Customer and billing relationship
- Support



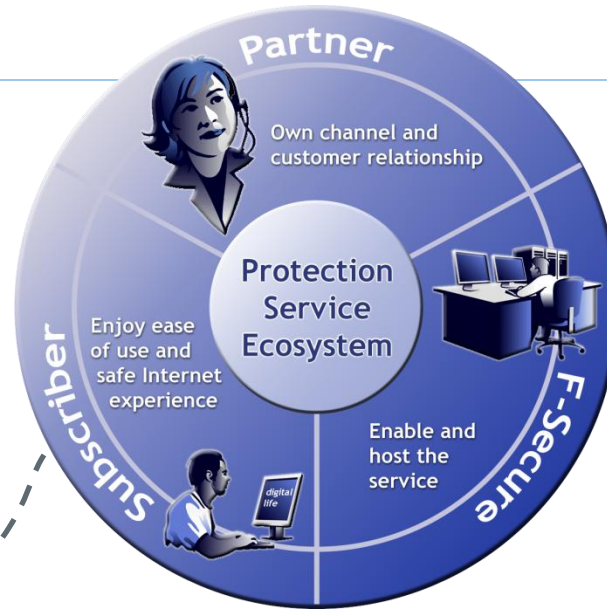
F-Secure

- Turnkey solution
- Hosting and delivery
- Co-branding
- Marketing support

Portfolio View

Seeding and marketing applications:

- Health Check
- Online Scanner
- World map



Systems & Tools:

- VAS delivery platform
- In-the-cloud protection services
- Service automation / expert systems
- Storage
- Update infrastructure
- Support tools and information systems

Value added services for personal computers and smart phones:

On-line backup, storage & sharing	Parental control	Anti-Malware	Anti-theft (lock , wipe & trace)
System tuneup / booster	System updater	Browsing Protection & Privacy	Firewall, intrusion prevention & application control
		Email safety/productivity	

Steps in the transformation

- Innovation in business model
- A separate independent cross functional team (a subsidiary) formed to build the business model, processes and offering
- Building a turn-key, hosted model for an easy sign-up and fast start with new partners
- Co-branding and mass customization a key differentiator while leveraging the shared technology stack from other businesses
- When the business became more mature the subsidiary was merged back to the main company; currently the biggest and fastest growing business area

Examples of activities to increase the size of the business

ARPU

X

TAKE-UP
RATE

X

ADDRESSABLE
SUB BASE

- Understanding end customer needs
- Building new services
- Enhancing existing services
- Upselling and cross selling

- Ease of discovery and deployment
- Customer satisfaction
- Point-of-sales training
- Using support as a loss leader
- Marketing support

- New partner recruitment
- Innovations to attract new types of partners

Transforming a software product company into a service business¹⁾

- A company needs to understand the importance of establishing an independent and dedicated cross-functional team that focuses strongly on customer involvement in service development
- The company should also be prepared for low profitability in the initial commercialization phase of service-oriented solutions and slow advancement in a service culture
- The company needs to learn and, then, teach the customers and customers' customers to adopt a new way of thinking

¹⁾ Komssi, M., Kauppinen, M., Heiskari, J., Ropponen, M., Transforming a Software Product Company into a Service Business: Case Study at F-Secure, Proc. of the 33rd Annual International Computer Software and Application Conference (COMPSAC), 2009, pp. 61-66

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Summary

- Monthly billing alone will not transform a product into a service
- Customer experience is a key element to differentiation in services
- Services will in many cases drive the expansion of the addressable market
- Transforming a product to a service takes time and money
- Dedicated and focused teams will help (if not essential) in transformation
- Both the needs of end-customers and partners need to be continuously understood and addressed (the classical win-win-win)
- Dedicated programs needed to increase the average revenue per user, increase the service take-up rate and to grow the addressable subscriber base

Protecting
the
irreplaceable