

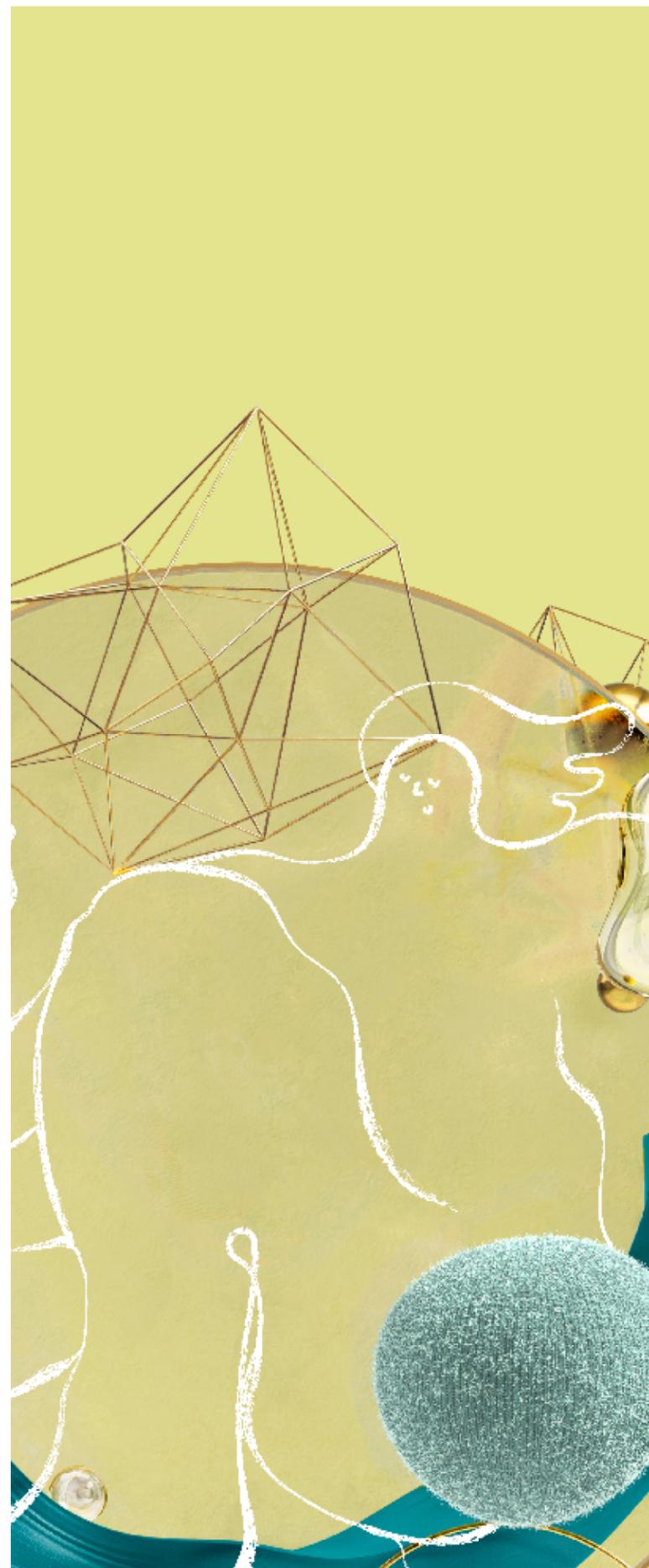


# New Business Models: XaaS

Everything as a service

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# Beyond Traditional Models: The Impact of XaaS on Business Growth

*“Is your business looking for a way to generate recurring revenue while also providing ongoing value to your customers?”*

In today's digital world, SaaS (Software as a Service) has led the way in changing how we use and think about services. But it's not just about software anymore. Now, there's a mix of products and services coming together in new ways. These combinations are shaking up old industries, offering tailored solutions that fit both businesses and their customers better than ever before.

In the current rapidly evolving business landscape, organizations tapping into the 'Everything As A Service' (XaaS) model are setting themselves apart. By weaving XaaS into their offerings, these enterprises unlock new avenues, reaching untapped segments and expanding their footprint in the market. But the advantages don't stop at differentiation. A well-executed XaaS approach ensures steady revenue inflows, leading to improved profit margins. This strategic shift doesn't just uplift a company's present stature—it augments its long-term industry relevance. The ascendant valuations of XaaS-driven firms bear testament to this trend. Additionally, by adopting XaaS, businesses can enhance scalability, cultivate deeper customer bonds, and nimbly adapt to market fluctuations.

However, the transition to a XaaS model has its challenges. For businesses accustomed to traditional models, shifting to a service-oriented approach requires a fundamental rethink of operations, sales strategies, and customer engagement. Initial investment costs

can be significant, with organizations needing to overhaul legacy systems and processes. Training personnel to sell and support services, rather than tangible products, is another hurdle. Furthermore, as businesses rely more on recurring revenues, they must ensure consistent service quality and continuous innovation to retain customers. There's also the complexity of managing subscription-based billing, which might necessitate new financial systems or practices. In essence, while the rewards of XaaS are plentiful, the journey demands careful planning, adaptability, and a willingness to embrace change.

Through the lens of the customer, the XaaS model reshapes the traditional purchasing landscape. Rather than making substantial upfront investments in products, customers now subscribe to a company's offerings, seamlessly coupled with relevant services. This evolution from a tangible product to an encompassing service not only amplifies the range of available services but also lays the groundwork for informed upselling and cross-selling strategies rooted in data insights. Payments, often structured around usage or regular intervals, epitomize the move from bulky capital expenditures (Capex) to more digestible operational expenses (Opex). Such a transition empowers customers with greater financial flexibility, the freedom to only spend on actual consumption, and ultimately, a pathway to more efficient overall expenditure.



Building on this understanding of the XaaS model, it becomes clear how impactful it can be. To truly grasp its reach, let's dive into a few real-world examples that showcase its transformative power in everyday business.

XaaS Models (Everything as a Service)				
Software	Platforms	Infrastructure	Content	Products
Provide software to customers through a subscription-based pricing model. Customers pay a monthly or annual fee to access the software, which is typically hosted in the cloud.	Provide a platform that allows customers to develop and deploy their own applications. Customers pay a monthly or annual fee for access to the platform.	Provide infrastructure, such as servers and storage, to customers through a subscription-based pricing model. Customers pay a monthly or annual fee for access to the infrastructure.	Provide access to exclusive content, such as articles, videos, and audio content, through a subscription-based pricing model.	Provide access to physical products, such as hardware, cars, food, or office supplies, on a regular or ongoing basis through a subscription-based pricing model.
Salesforce - a customer relationship management (CRM) tool that allows businesses to manage their sales, marketing, and customer service operations.	Google App Engine - a PaaS solution that allows developers to build and deploy web applications on Google's cloud infrastructure.	Amazon Web Services (AWS) - a cloud-based infrastructure service that provides computing, storage, and networking resources.	Netflix - a streaming service that provides access to a wide range of TV shows and movies.	Volvo - a Products-as-a-Service solution that offers customers a monthly subscription service called Care by Volvo, which provides access to a vehicle with the flexibility to upgrade or end the subscription within 3 months.

Above we've touched on a few examples, the XaaS world is expanding rapidly with more industries jumping on board. From utilities offering Heat, Power, and Light as a Service to the telecom sector introducing Connectivity as a Service, and even the transportation world exploring Railway as a Service. Take Signify, for instance: they offer businesses a Light-as-a-Service plan where companies pay a monthly fee for lighting. This means no upfront bulb costs and they even handle the design, setup, and maintenance of the whole lighting system in a building.



# The Business Case for XaaS: Scalability, Efficiency, and Innovation

After discussing the various XaaS models, it's time to delve into the advantages that successful XaaS implementations can offer businesses.

## I. Recurring Revenue Model

Switching to the XaaS model brings a host of benefits, and one standout is the shift to a recurring and steady revenue stream. Instead of just banking on single sales, businesses now enjoy a more regular income, making financial planning smoother. With consistent subscription payments, companies can map out their growth, investments, and resource allocation more confidently.

For customers, this means no hefty upfront fees when trying out new services. They can spread out payments, making it easier to adopt innovations.

Especially for products with high initial costs, this model is a game-changer. Instead of a big one-time payment for hospital systems and equipment, costs get spread out. This lowers the entry barriers, scales the solutions, and can even enhance outcomes, like ensuring more patients get MRI scans when needed. The principle holds true for other pricey items like aircraft engines, industrial cranes, or cars.

## II. Customer Acquisition and Success Management

XaaS models are not merely about acquiring new business partnerships. Their core strength lies in fostering and sustaining these partnerships over the long term. Retaining a business partner is paramount, as the revenue they generate over the course of the relationship often surpasses the initial

investment made to secure that partnership. Through the available data of a XaaS model, companies can closely monitor how their partners utilize their services, facilitating deeper insights into their needs and preferences.

Leveraging this data allows businesses to refine their offerings to align more closely with their partners' requirements. For instance, a cloud service provider might analyze usage patterns to offer optimized storage solutions, while a machinery manufacturer might employ advanced analytics to predict when equipment maintenance is due, preventing potential operational disruptions. By truly understanding their business partners, companies can tailor their offerings, fostering trust and ensuring reliability. This solidified bond ensures that businesses consistently deliver unparalleled quality, be it in the form of robust data analytics, efficient manufacturing components, or cutting-edge software solutions.

For companies considering the XaaS approach, it's vital to maintain a consistent focus on optimizing partner satisfaction. This remains the most effective strategy to guarantee that they're always delivering maximum value.

## III. Competitive advantage and valuation

Deloitte's research underscores a compelling narrative: 25% of companies leveraging XaaS (Everything As A Service) claim a pronounced competitive edge. Notably, firms that deem XaaS paramount to their operations tend to outshine their counterparts.

But what does this mean for valuation and competitive positioning? The ramifications extend well beyond operational metrics:

- 1. Higher Market Capitalization:** Companies that employ XaaS models frequently witness elevated stock prices due to anticipated consistent revenue.
- 2. Resilience in Market Downturns:** With predictable recurring revenue, XaaS companies can better weather economic downturns, making them more attractive to investors seeking stable returns.
- 3. Enhanced Investor Perception:** The market tends to reward predictability. Subscription models, with their inherent revenue stability, often appeal to institutional investors.
- 4. Leveraging Data for Strategic Decisions:** The continuous data stream from XaaS models provides valuable insights into market trends and customer preferences, potentially leading to more informed strategic choices and product development.
- 5. Potential for Greater Earnings:** The PE ratios for many XaaS companies exceed industry norms. For instance, Netflix stands at 47.4, Salesforce at 62.0, Microsoft at 36.4, and Adobe at 42.8, while the S&P 500 average is around 22. This suggests that the market anticipates higher future earnings for these firms.
- 6. Economies of Scale:** As more clients subscribe, XaaS providers can achieve economies of scale, further improving their profit margins and attracting investors.

In sum, XaaS doesn't just redefine business models—it reshapes market valuation metrics. Firms that are adept at integrating XaaS are strategically positioned to leverage these benefits, enhancing their competitive stance and boosting shareholder value.

# Navigating the Shift to XaaS: Strategies for Successful Implementation

Moving towards XaaS can provide numerous advantages for businesses, but it's important to take the necessary steps to ensure a smooth transition. For many organizations, investing in resources, infrastructure, and talent may pose a challenge, but with careful consideration and planning, it can be achieved.

## I. Setting the North Star

As companies transition to XaaS models, they're faced with decisions that can redefine their business operations. Seeing products as assets, rather than just sales commodities, signifies a major shift. Furthermore, establishing a profitable route in the XaaS landscape requires a well-considered strategy, especially in pinpointing revenue streams and unique offerings.

At the heart of a successful XaaS journey is a clear goal. Research underscores the importance of setting a clear and ambitious target, but also advocates starting the journey with manageable, achievable steps. Companies with a sharply focused objective in their XaaS approach often reap the most rewards, standing out both within their organization and in the broader market.

In essence, embarking on the XaaS journey with a clear objective and a comprehensive understanding of one's business model is crucial, offering direction and clarity at every step.

## II. XaaS enabling capabilities

In a world that's quickly adopting XaaS models, businesses are facing the challenge of a seismic shift in operational methodologies. Deloitte's studies indicate that about 65% of an organization's operational dynamics are likely to be affected by this transition. Adopting a XaaS-centric approach is not a one-off activity; it demands constant innovation, an attentive ear to customer feedback, and proactive engagement. Unlike the traditional model where

businesses released periodic software updates, XaaS mandates agile team collaborations and nimble planning.

### Identifying Capability Gaps

For sustained growth in XaaS, it's pivotal to gauge business from a customer's lens and to refine scalable, effective solutions. A crucial component in this model is understanding and optimizing asset usage, which directly influences pricing decisions. It's imperative to acknowledge that transitioning might reveal some operational gaps. The XaaS operating model diagram below pinpoints potential capability gaps. Use it as a guide to fortify your XaaS strategy.

### Quoting and Entitlement: The Backbone

XaaS demands robust systems that streamline the journey from lead generation to cash collection. The mantra should be "one quote, one order, one invoice" to seamlessly manage orders.

**Quoting:** For B2B entities with intricate XaaS solutions, a CPQ (Configure, Price, Quote) system is indispensable. It's the nerve center, harmonizing product configurations, pricing, and quoting. Given the multifaceted nature of B2B XaaS offerings, CPQ ensures a swift, precise, and consistent quoting mechanism. But it's no cakewalk. Integrating a CPQ demands addressing subscription management, pricing dynamics, system harmony, team training, scalability, and adaptive change management.

Consider healthcare, where quoting often hinges on outcome-based KPIs such as pay-per-use or the outcomes of scans. Factor in prerequisites like maintaining a >90% machine utilization, and you realize the intricacies involved in the quoting design.

**Entitlement:** Post quote approval and order placement, a unified invoice should seal the deal. This is where entitlement management shines, ensuring precise invoicing based on product utilization.

For instance, with varied customer systems pegged on outcome-based KPIs (like machine utilization or scan counts), the importance of precise invoicing can't be overstated.

A well-rounded entitlement strategy encompasses both in-house and third-party products. The real challenge often lies in the underlying IT and data management infrastructure. A XaaS-friendly business model necessitates an adaptable data model, primed for tweaks in any monetization strategy.

## III. Pricing

Switching from the usual business approach to the XaaS model alters pricing strategies. In traditional models, a product has a one-time price. In contrast, XaaS emphasizes pricing based on outcomes and benefits rather than the product or service. This new method introduces more pricing options, but also adds complexity. For detailed subscription plans, like consumption-based models, individual prices for every feature become necessary. Specialized software ensures this pricing remains manageable.

Considering revenue generation with XaaS, various models are available, influenced by factors like risk tolerance, market competition, and customer preferences. Selecting the right pricing plan for the target market and the XaaS product's stage in its lifecycle is vital. In the early phases, simpler plans like "unlimited" or "pre-set amount" subscriptions are recommended

due to their minimal disruption to existing systems. As the XaaS product evolves, plans based on usage or achieved results may become more appropriate. Implementing these necessitates significant changes in operational processes. Moreover, accurate measurement of usage or results, termed "entitlement" in XaaS, becomes crucial. Dedicated tools for providing price estimates for these models are also essential.

Here's a breakdown of some plans:

**Unlimited subscription:** A single fee allowing endless use and access for a designated period.

**Pre-set amount subscription:** A single fee granting access up to a specified limit for a designated period.

**Subscription with additional charges:** A basic subscription that incurs extra costs if usage exceeds the allocated limit.

**Freemium:** Basic services are complimentary, with charges for advanced features.

**Pay-per-use:** Charges based on actual usage, potentially with a minimum commitment.

**Value-driven:** Pricing based on achieved benefits, using clear metrics for evaluation.

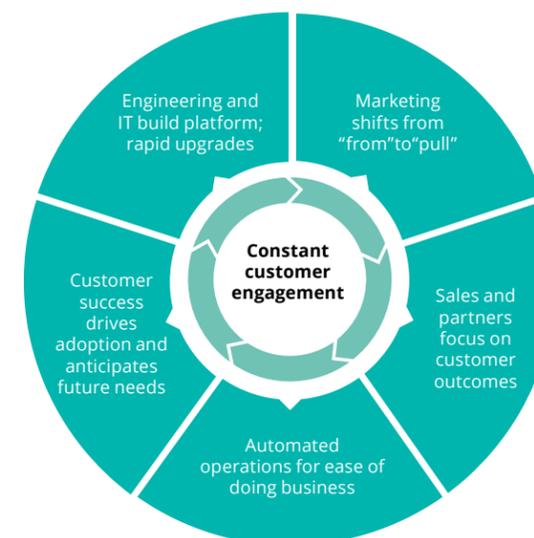
In conclusion, transitioning to an XaaS model necessitates a rethinking of traditional pricing strategies. The focus shifts from a static price point to a dynamic, value-driven approach. While this offers businesses greater flexibility and potentially higher revenues, it also introduces complexities that require careful management. Choosing the right pricing model and tools, while keeping abreast of market changes, will be pivotal for businesses to maximize their XaaS offerings' potential and ensure sustained growth in this evolving landscape. Adopting the right strategy not only benefits businesses but also ensures that customers receive maximum value, fostering longer-term relationships and trust.

## Traditional operating model

**Traditional business model:** Siloed with long planning cycles



**FMC with XaaS in: FMC:** Data-driven and interconnected with short planning cycles



**IV. Investment**

Transitioning to an XaaS model alters a company's financial landscape. Rather than transferring assets directly to clients, they are now provided on a service basis. This shift from capital expenditure (CapEx) to operational expenditure (OpEx) necessitates a different accounting approach for clients.

Furthermore, the establishment of XaaS requires substantial investment. Given the deferred payment structure associated with XaaS, companies need strategies to finance initial overheads and adapt to evolving cash flow dynamics.

One approach is through self-financing, where businesses allocate a portion of their ongoing revenue towards the requisite infrastructure and human resources for XaaS. By strategically reinvesting profits, firms can methodically fund the necessary transformations.

Alternatively, businesses can explore external financing avenues. This may involve seeking venture capital, engaging with private equity stakeholders, or procuring loans or credit facilities from established financial institutions. It's imperative to note that each of these options comes with distinct implications, encompassing aspects such as equity allocation, interest

obligations, and repayment conditions. Notably, several banking institutions are now crafting financial products tailored explicitly for XaaS business models.

Strategic partnerships can further expedite the transition to an efficacious XaaS framework. It is, however, paramount to cultivate these partnerships judiciously. Potential collaborators should ideally offer complementary services, capabilities, or resources, facilitating a collaborative cost and risk-sharing mechanism for the XaaS enterprise. Properly aligned partnerships can provide pivotal access to capital, technological acumen, industry expertise, and expanded customer networks.

**Illustrative breakdown of an operating model into services**

■ Services that typically have minimal capability gaps ■ Services that typically have minor capability gaps ■ Services that typically have critical capability gaps

CREATE THE OFFERING																			
Idea to offer																			
Strategy & portfolio management				Design & development				New product introduction				Packaging & pricing							
ACQUIRE AND GROW THE CUSTOMER																			
Market to demand		Lead to opportunity		Configure to quote		Quote to order		Order to fulfill		Monitor to usage		Invoice to cash		Record to report		Issue to resolution		Adoption to retention	
Product marketing	Mktg. strategy & planning	Lead and opportunity management	Digital sales	Configure, price, & quote	Order management	Prov. & deprov.	Licensing & entmt.	Usage telemetry	Billing & invoicing	Payments	Revenue & cost management	Customer & partner care	Tech support	Customer & product analytics	Customer success				
Trials mgmt.	Buying program		Deal mgmt.		Subscription management	Professional services delivery	Service delivery	Mediation & rating	Trans. tax mgmt.	Collections				Renewals	CX mgmt.				
MANAGE THE ENTERPRISE																			
Sales		Channel management		Corporate strategy		Data management		Finance & performance management		Legal & regulatory		Security		Talent & organization					
GTM strategy		Partner program plan & governance		Corporate strategy		Master data management		FP&A management		Contractual & compliance management		Security, risk, & resiliency management		Talent & culture					
Sales & business planning		Partner recruitment & enablement				Data governance		Management reporting		Commercial policy & rules		Identity & access management		Organization structure					
Sales compensation		Partner incentives																	
Sales enablement		Developer ecosystem management																	

# Should your organization experiment with XaaS models?

The business world is constantly changing and adopting a XaaS model can help companies grow by generating new revenue streams and staying competitive. But how do you go about implementing this strategy? What steps should you take to design and execute an effective XaaS model that meets the needs of both your business and your customers? To help you get started, we've compiled a list of key questions to consider.



How can we identify the right products/services to bundle together for the right target customer to create a competitive XaaS offering?



What are the key benefits of adopting a XaaS model for part of our business, and how can we maximize these benefits?



How can we effectively market and sell our XaaS offering to potential customers, and how can we ensure that our offering is priced competitively?

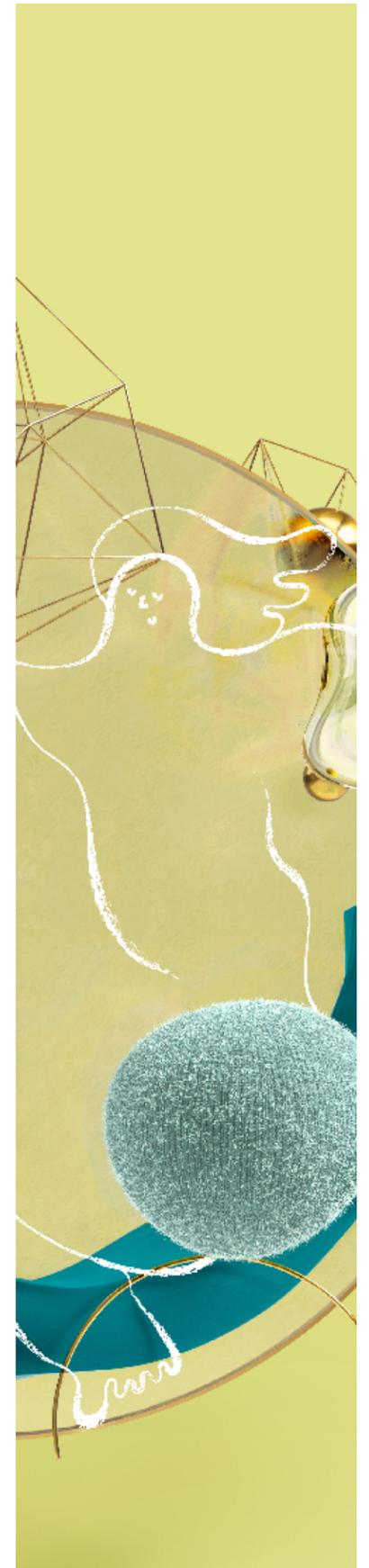


What organization, technologies, and infrastructure will we need to support a scalable XaaS model that aligns with our growth strategy over the long term?



What strategic partners do you need to accelerate your transition to XaaS?

At Deloitte, we are dedicated to helping you navigate the intricate process of creating and implementing a successful XaaS model. As you transition towards XaaS, there are many challenges that must be overcome to achieve long-term success. Our team can assist you throughout the entire journey towards a prosperous XaaS transformation. Schedule an exploratory workshop or meeting with us today to discover how you can maximize the potential of XaaS and achieve sustainable growth for your organization.



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