

# THE **BUILDER'S** GUIDE TO NEXT **GEN SAAS**

Build as a Service (BaaS)

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The year of the pandemic saw markets suffer and businesses come to a jarring standstill. But one industry, showed tremendous resolve - SaaS.

The pandemic bolstered the cloud's value proposition and pushed the adoption of cloud-based software further into the mainstream. Organizational and end-user sentiment towards the cloud is no longer tinged with caution, but has reached a level of mass acceptance.

The estimated growth in IT spends in 2021 underlines this SaaS-readiness. Remote work environments are the new normal, so it's no surprise that analysts expect enterprise software to lead the pack.

## But there's a problem

Despite increasing customer and enterprise spend, astonishing pace of digitization, and exuberant investor interest, SaaS startups' failure rate remains surprisingly high.

**This paper delves into the reasons for this contradictory behavior, and how the key to reversing the trend lies in our approach to SaaS product development.**



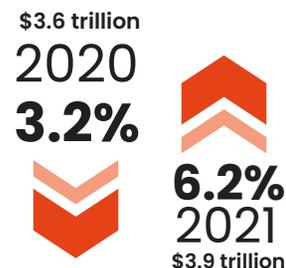
# PART I: It's Not About The Benjamins

## IT SPENDS ARE HEADING NORTH THIS YEAR (AGAIN)

At \$3.6 trillion, global IT spending suffered only a marginal dip in 2020, down 3.2% from 2019. Not bad when you consider other industries took a double-digit beating.

In 2021, the future already looks promising as global IT spending is forecast to reach \$3.9 trillion, an increase of 6.2%.

As remote work environments increase in quality and number, enterprise software is slated to make a strong comeback in 2021 (8.8%) and 2022 (10.2%).



**Table 1. Worldwide IT Spending Forecast (Millions of U.S. Dollars)**

	2020 Spending	2020 Growth (%)	2021 Spending	2021 Growth (%)	2022 Spending	2022 Growth (%)
Data Center Systems	214,985	0.0	228,360	6.2	236,043	3.4
Enterprise Software	465,023	-2.4	505,724	8.8	557,406	10.2
Devices	653,172	-8.2	705,423	8.0	714,762	1.3
IT Services	1,011,795	-2.7	1,072,581	6.0	1,140,057	6.3
Communications Services	1,349,891	-1.7	1,410,745	4.5	1,456,637	3.3
<b>Overall IT</b>	<b>3,694,867</b>	<b>-3.2</b>	<b>3,922,833</b>	<b>6.2</b>	<b>4,104,906</b>	<b>4.6</b>

Source: Gartner (January 2021)



## ENTERPRISE & END-USER SPENDING ARE GROWING AS WELL

The proportion of enterprise IT spending on public cloud computing is set to increase. So is global end-user spending on public cloud services, which reached \$257.5 billion in 2020, and is now set to touch \$304.9 billion in 2021, marking a growth of 18.4%.

Analysts expect SaaS to dominate this domain in 2021 as well (no surprises there), with revenues estimated at \$117.7 billion. The 26.6% growth projected for application infrastructure services (PaaS) in 2021 is significant. This increased demand for PaaS makes sense when you consider the prevalence of cloud-native applications, and that employees are going to need more robust, scalable, and content-rich platforms to work on.

\$257.5 billion  
**2020**

\$304.9 billion  
**2021**



**Table 1. Worldwide Public Cloud Service Revenue Forecast (Millions of US Dollars)**

	2019	2020	2021	2022
Cloud Business Process Services (BPaaS)	45,212	43,438	46,287	49,509
Cloud Application Infrastructure Services (PaaS)	37,812	43,498	57,337	72,022
Cloud Application Services (SaaS)	102,064	104,672	120,990	140,629
Cloud Management and Security Services	12,836	14,663	16,089	18,387
Cloud System Infrastructure Services (IaaS)	44,457	50,393	64,294	80,980
Desktop as a Service (DaaS)	616	1,203	1,951	2,535
<b>Total Market</b>	<b>242,697</b>	<b>257,867</b>	<b>306,948</b>	<b>364,062</b>

Source: Gartner (January 2021)

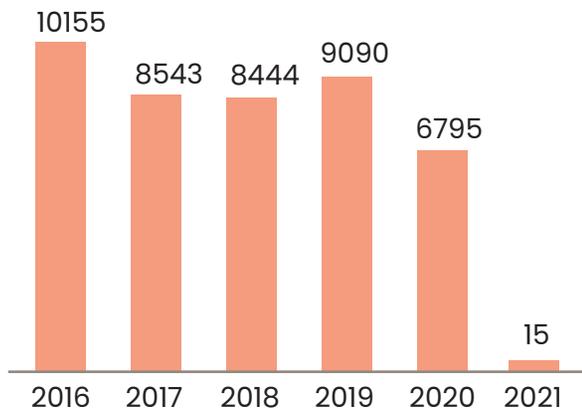


## THE SAAS FUNDS ARE ROLLING

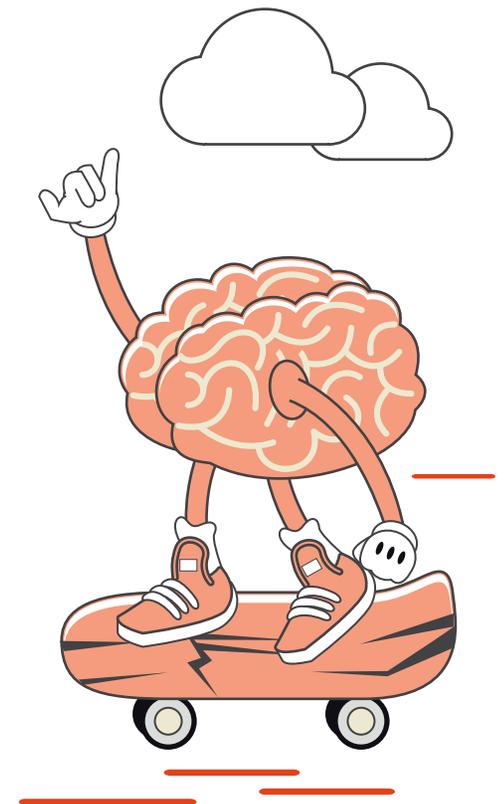
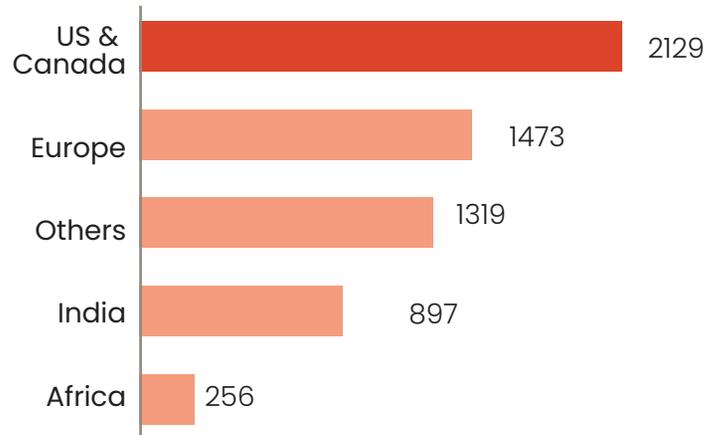
Competition in SaaS remains fierce. At first glance, it appears like the total number of new companies launched each year has dipped slightly, but a deeper look shows us what's really happening.

### Entrepreneurial Activity in SaaS

Number of Companies founded Y-o-Y



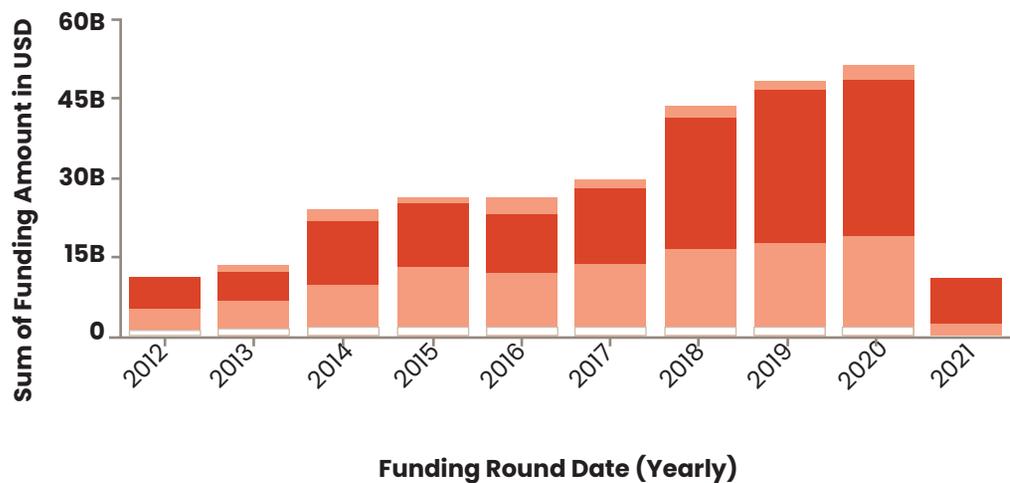
Number of Companies founded in 2020-2021 by Geographies



A look at the **growth trend in funding** amounts shows the pandemic hasn't made the slightest dent. Investors' pockets are growing deeper. The trend appears to continue in 2021, with early-stage funding growing faster than other stages.

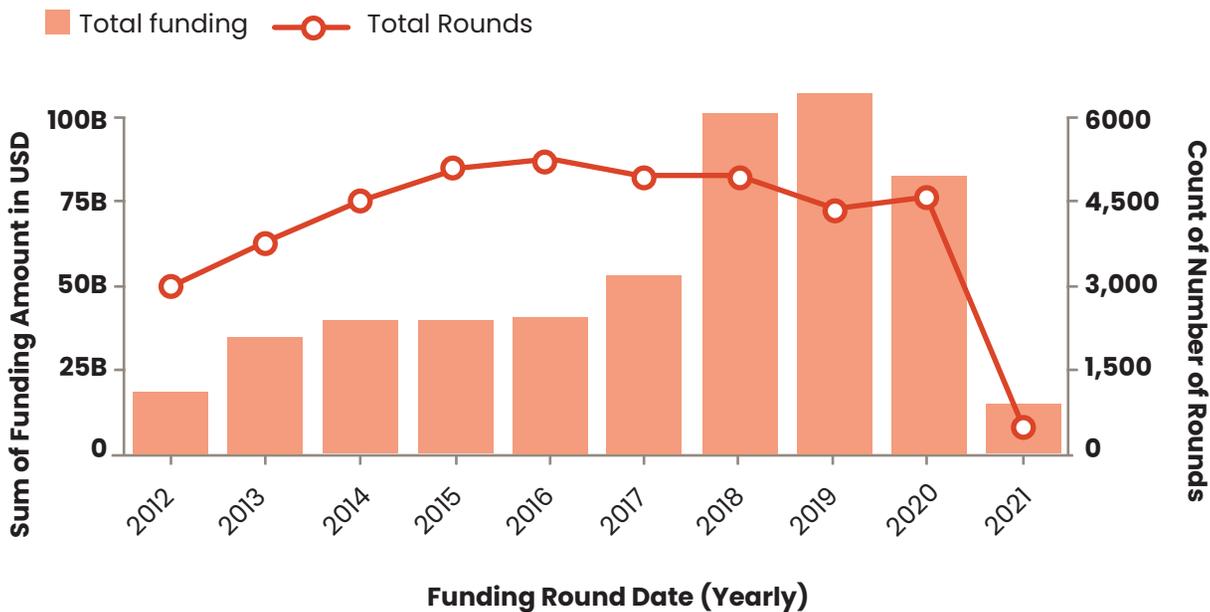


Seed Stage Funding
  Early Stage Funding
  Late Stage Funding
  PE Funding
  Other Funding



Year	Seed Stage Funding	Early Stage Funding	Late Stage Funding	PE Funding	Other Funding
2012	726M	5.24B	4.62B	591M	0
2013	981M	5.86B	6.21B	1.03B	150K
2014	1.23B	9.44B	11.6B	2.25B	0
2015	1.49B	12B	12.2B	1.12B	5.33M
2016	1.6B	10.9B	11.5B	2.43B	0
2017	1.52B	12.9B	14.5B	961M	0
2018	1.5B	15.2B	24.9B	2.45B	0
2019	1.7B	16.9B	28.9B	492M	0
2020	2.3B	17.4B	29.1B	2.21B	0
2021	163M	2.89B	8.03B	54M	0

The size of funding rounds in 2021, and the success percentage of those rounds, is heading up as well. While the total number of start-ups that took birth in 2016 may have been higher, investor interests and entrepreneurial activity align more strongly now. SaaS start-ups are solving problems that investors consider valuable, and investors are making the funds entrepreneurs need available.



Year	Total Funding	Number of Totals
2012	13.2B	2591
2013	29.1B	3288
2014	32.7B	3907
2015	33.3B	4373
2016	34.6B	4516
2017	45.1B	4275
2018	87.3B	4293
2019	90.9B	3827
2020	71.2B	3955
2021	11.7B	346

The number of SaaS companies acquired each year is also increasing year on year. So, clearly all of this entrepreneurial effort is going in the right direction, and creating value that makes successful exits possible.

Year	Acquisitions
2011	272
2012	284
2013	373
2014	567
2015	703
2016	820
2017	850
2018	993
2019	1013
2020	1060
2021	99

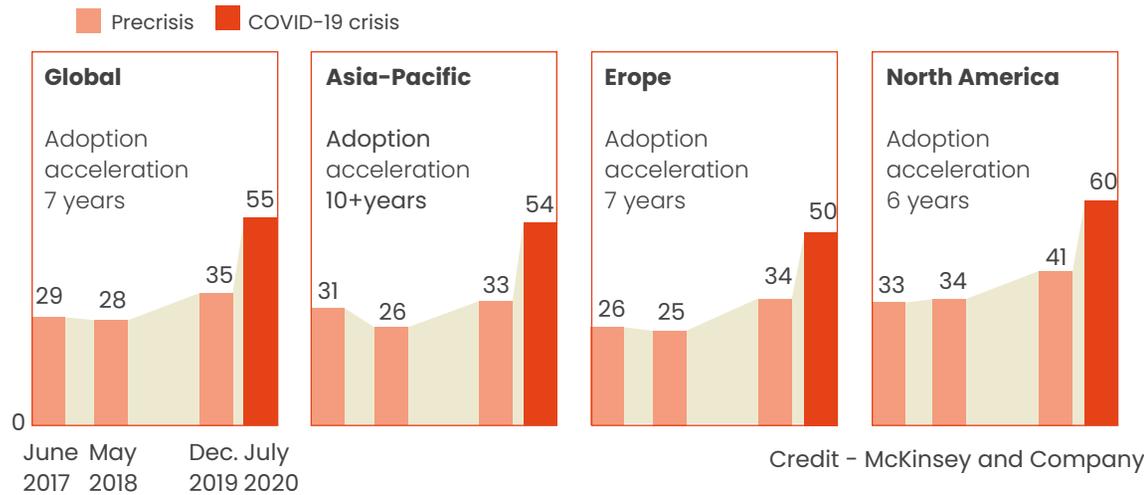


## A SEVEN-YEAR NITRO BOOST

The need for on-demand, scalable cloud models has forced companies to accelerate their digitization plans. The pandemic made digitization a necessity, and advanced adoption of digital technology by seven years!



### Average share of products and / or services that are partially or fully digitized, %



## A PARADOXICAL CONUNDRUM

**All the data so far paints a pretty picture, doesn't it?**

The money pouring into IT is showing no signs of sluggishness. Entrepreneurs are keeping the spirit of innovation alive, more so than ever before. Investors and consumers continue to back new and exciting software products. And early-stage funding is generating large numbers, indicating that at least some level of product-market is being achieved.

Yet, despite these glowing positives, a staggering 7.5 out of 10 VC-backed startups fail. Yes, that's right. 75% of young, talented SaaS companies with a proven product and financial backing shrink into oblivion.

So, it's not the funds and it's not the idea, but something is clearly not working.



# PART II:

## Execution

When a SaaS start-up or a digitization project fails, the typical analysis includes some usual suspects. An unforgiving user, a dynamic market, a fragmented device ecosystem...yes, these are all factors, but we believe the real complexity lies elsewhere.

No doubt, today's user is hard to satisfy. The SaaS model makes it easy to acquire new users, but also makes it easy for those users to move to alternatives offered by competitors. The customer is king, and well aware of it. Indeed, churn is the top reason for SaaS start-up failure.

Yes, the market is dynamic. Its barriers to entry are lower than ever, and creating a moat is harder than ever. The mobile device ecosystem is exploding, and performance expectations across devices and platforms is skyrocketing.

The battle for talent is untiring. Next-gen products and software need next-gen skills to build. With every new start-up that enters the market, the fight for top-shelf technology skills intensifies.

**But the evolution of these factors is not unexpected. Something else has to be at play...**

## PRODUCT-LED GROWTH

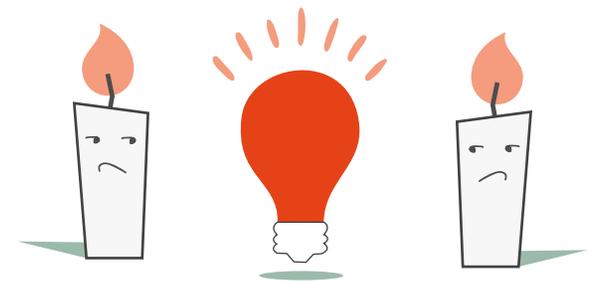
Until recently, flashy marketing could conceal fishy products. But not anymore. Customers aren't enticed by glitzy ads and fancy tech anymore. For them, the product experience is now the hero, the superstar.

Traditional marketing and customer acquisition strategies do not work in a product-led scenario. **This is because the product is no longer just a part of the customer experience; it is the experience.**

This shift in mindset heralded 'product-led growth', an effective strategy, but one that creates a whole new set of hurdles for SaaS companies.

To flourish in this finicky market, SaaS companies need to build products that have mass appeal but still feel tailor-made. The expectations from a product's experience are extremely high. For those who get it right, the rewards come in the form of high growth and scalability. For those who don't, there is no safety net to cushion the fall.

Product-led growth means you focus all your energies on knowing your customer and building a product that leads your growth. If your product comes up short, so do your prospects of growth.



## VERTICAL SAAS

When businesses migrate to the cloud, they naturally look for solutions that fit their specific needs. **The pandemic massively disrupted every sector, making the value of sector-specific solution soar.** Building a Vertical SaaS solution today brings immense advantages.

Vertical SaaS products need less marketing and sales spend compared to their horizontal counterparts – one of the reasons why publicly-listed vertical SaaS companies generate 20-25% more profit than their horizontal peers. Vertical SaaS providers are also able to gain deeper insights and extract more value from each customer. Post the initial adoption, word-of-mouth is a much stronger driver in Vertical SaaS.

These advantages act as a double-edged sword, however. Established vertical SaaS companies make it harder for new entrants to find a footing. **The same factors that were a competitive advantage for older players act as a moat that newer entrants must cross to succeed.** Vertical SaaS products are expected to conform to considerably higher standards of performance and reliability, and take greater accountability for results. The ones who don't meet these elevated expectations drown in the moat.

## DATA SECURITY

A data breach in today's privacy-sensitive market is a death knell for that company. Whether it's data at rest or data in transit via APIs, users are extremely wary of how their information is managed.

Security and privacy features have become value propositions in themselves.

**Irrespective of how loyal users are, they'll happily switch to a new service if they feel their data is being compromised.** For enterprise SaaS, especially in sensitive domains like finance, data integrity is a key differentiator. It is no longer acceptable to build a product or software first and conduct security checks later. Security must now be built in at every stage of the development process.

DevSecOps is an incredibly useful tool in this regard. While DevOps helps build quicker apps that function better and improve continually, DevSecOps helps achieve all this without compromising on security. But integrating a 'Security as Code' culture takes dexterity and experience. You need to be highly proficient in assessing IT capabilities, creating business cases, building a DevOps roadmap, and auditing application lifecycle maturity. Hard skills to source, and a catastrophic risk to build products without.

## A MOUNTAIN OF CHALLENGES

When you consider a SaaS startup has to overcome these challenges while maintaining a razor-sharp focus on consumer demand, hiring quality talent, and supporting an increasingly remote workforce, that 75% failure rate suddenly starts to make a lot of sense.

Markets demand a lot (possibly too much) from SaaS founders and IT teams. Expecting startups to check all the boxes in a brutal and grueling business environment such as this is not just unfair...it's preposterous.

**Modern problems cannot be solved using traditional methods. The time has come for a collaborative revolution.**



# PART III:

## BaaS – The Bridge That Builds

Build as a Service (BaaS) is a unique model of product development that acts as the integral link between a great concept and a groundbreaking innovation.

From SaaS product companies to organizations planning digital transformation initiatives, BaaS leverages the combined power of six core capabilities to fulfill a broad range of design and development needs.



### User Experience (UX)

Whether it's building an MVP, redesigning interfaces, or designing a product from the ground up – the BaaS model facilitates collaboration between UX and UI teams to deliver a top-quality end product. User Experience is the cornerstone of a successful SaaS roadmap, and BaaS brings all the UX architecture horsepower you need to race ahead of the competition.



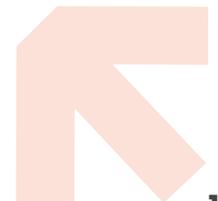
### Frontend and Backend Development

B2B, B2C, and B2B2C products today need complex, heavy-duty front-ends for video-based learning, video streaming, dash-boarding, and diagramming. BaaS brings the capability to build backends that can sustain high-load, highly-scalable products and software, and frontends that brings those intricately designs interfaces to life.



### Mobile Development

Mobile devices have become the holy grail for software products. SaaS companies cannot thrive by just building 'mobile-friendly' apps; they must deliver unparalleled mobile experiences. Customers want to use apps that feel seamless across channels and devices. BaaS helps companies achieve this with zero compromise on performance, speed and security.





## Serverless

The future is serverless. This means scalability will get easier, costs will go down, and infrastructure handling will not be a problem anymore. But going serverless requires expertise. And that's where BaaS comes in. It helps you build secure, error-tolerant and highly available applications, and deploys them via rapid CI/CD pipelines in multiple regions and environments.



## DevOps

By leveraging the superior DevOps capabilities of the BaaS model, you can easily visualize your desired state, identify trackable metrics, and develop a product architecture that suits your needs. BaaS also makes the application development and delivery process seamless by using cloud-native and traditional workload automation.



## Quality Assurance

To deliver a winning product, SaaS companies must make user satisfaction their main priority. This means that QA and testing must advance beyond mere bug detection. Automation testing, performance testing, manual testing, compatibility testing, and continuous integration – BaaS controls product quality during every stage of the process.



# The Key is Flexibility

All companies that end up making a difference usually have one thing in common – they go against the grain. They break tradition. They don't adhere to hackneyed practices. They build products using non-traditional models.

What makes Build as a Service (BaaS) so powerful is its innate flexibility. It allows companies to build fresh, innovative products in unique ways. It lets them pick and choose their battles, to decide which technologies they want to leverage, and to set the speed at which they wish to sprint.

With BaaS in their arsenal, SaaS companies can digitize faster, build without compromise, and better navigate the turbulent waters of a rapidly evolving digital ocean.





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