

## BASWARE IN 2013: TRANSITION TO SOFTWARE AS A SERVICE

*The technology transition is a complicated and difficult task, but the end is in sight. Changing people's mindset remains the largest obstacle.*

— Basware CEO Esa Tihilä

### INTRODUCTION

In 2013 Basware CEO Esa Tihilä was leading the €114 million company, originating in Finland, through a large and critical transition. Basware was the global leader in two complementary businesses. First, it was a software vendor for automated Purchase-to-Pay solutions for Business-to-Business (B2B), focusing on the Accounts Payable side. Second, it was an electronic invoicing (e-invoicing) operator through its open commerce network. Basware called this business “Automation Services.”

As a software vendor, the company's products interacted with customers' existing systems such as enterprise resource planning (ERP) systems that integrated and managed information across an organization. Basware's software business historically had three parts: License Sales, Maintenance, and Professional Services (consulting). In the previous decade, the enterprise software industry had begun a major technological and business model shift. It was moving from selling perpetual licenses, in which the software was installed onsite, inside customers' firewalls and on customers' own servers, to selling Software as a Service (SaaS). With SaaS the vendor stored a client's data in an external server or in the cloud, and serviced and maintained the software and relevant hardware. With license sales, customers paid hundreds of thousands of dollars upfront for software installation, whereas with SaaS, customers paid as they went based on usage. Basware was in the process of making SaaS available for its existing 2,000 Nordic and global license customers, while reaching out to new customers with the SaaS model. Tihilä said that while the new roadmap was clear and the end was in sight, the transition from license to SaaS remained bumpy.

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Debra Schifrin and Professor Robert A. Burgelman prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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At the same time, Tihilä was rapidly growing the Basware Commerce Network, through which the company automated transactions (e-invoicing, purchase orders, and product catalog messages) between 900,000 active suppliers and buyers in 100 countries. There were an estimated 63 million transactions in 2013, and the number of transactions was growing at a fast enough rate that Tihilä targeted 150 million transactions by the end of 2015. The Automation Services business was growing at 50 percent a year in volume and revenue. Tihilä believed speed was the name of the game in growing this commercial network, both because each transaction brought in money and because the network's size was Basware's competitive advantage.

The shift to the SaaS model was critical for Basware. The company's software licensing and installation business had seen a sharp decline in the previous few years, and the company's profitability had dropped almost 40 percent in 2012. Because of the losses in revenue from declining licensing business, overall company growth was just 5.5 percent, despite the very fast growth of its other businesses. (See **Exhibits 1 and 2** for Basware financial data and key figures and **Exhibit 3** for Purchase-to-Pay overview.) A challenge for Basware was that since customers using SaaS paid for the software as they used it, revenue was divided over several years rather than all coming upfront, which had an immediate impact on the profit and loss statements (P&L). However, Tihilä said the recurring revenue model created a longer-lasting, closer, and more lucrative relationship with customers in the longer term. Basware was also introducing a new generation software solution called Alusta, a cloud-based platform for business-to-business transaction collaboration. Alusta was created from the ground up to optimize SaaS offerings. Basware was trying to get existing customers to switch to Alusta and sell the technology to new clients. However, launching Alusta was proving more expensive and time consuming than management had expected.

All these changes constituted not only a strategy shift but a culture shift as well. The sales force had to be retrained, and a new incentive structure needed to be created. Also, Basware began monitoring its operations more closely and switching some employees' focus, which met with some internal resistance.

Tihilä had spearheaded many of Basware's changes and had a clear agenda for the company's future. Basware was already the leading e-invoicing operator in Finland and the rest of the Nordic region, Germany, and the Benelux countries, and had presence elsewhere, but Tihilä wanted the company to become a global leader. To achieve this goal, Tihilä invested in growth, moved from a geographic model to a functional model, and standardized Basware's offerings. He also wanted to maximize Basware's transaction volume, and connect as many suppliers and buyers to the Basware Commerce Network as possible. In addition, he wanted to increase future profitability through smart investments, and complete the transition from onsite licensing to SaaS and the cloud. (See **Exhibit 4** for Basware Strategic Direction.)

## **BASWARE HISTORY**

Basware was founded in 1985 as a technology consulting company called Baltic Accounting Systems (BAS), and its main activities were supplying mainframe-based software systems from the U.S. to Finnish companies and building financial planning systems. In 1990, five members of

the management team bought the company,<sup>1</sup> after which Basware went through an important change in strategy and function. (See **Exhibit 5** for timeline of Basware's major milestones.) Matti Copeland, senior vice president for strategy, said the legend was that during the summer of 1997 Basware was running out of projects, so it began reaching out to clients and asking if they had anything for Basware to work on.

Some of the corporate executives with whom Basware had been working were returning from vacations and had huge piles of invoices on their desks to be approved. And they said to Basware "Can you come up with some software that would automate this process?" And that led to the thinking within Basware about how that would work and how that process could be done. And that was the birth of Basware as it is now.<sup>2</sup>

In 1998, BAS came up with its first software in Invoice Processing (IP) and Accounts Payable Automation and renamed the company Basware. At that point, Basware turned from mostly a consulting company into a software company and launched functions such as support and development. In 2000 Basware was listed on NASDAQ OMX Helsinki Ltd. It was one of the most successful initial public offerings (IPOs) in Finnish history.

In 2002 Basware began its e-invoicing business, and in 2004 the company launched its Procurement Management (PM) system to complement the Invoice Automation software (software used in Accounts Payable Automation.) A year later, Basware launched its full Purchase-to-Pay solution. Basware hit a big milestone in 2010 when it broke €100 million in revenues.

As the company grew in revenue and personnel, there remained a strong owner's voice, as the five founders still owned a large part of the company and some served as board members. Tihilä, who became CEO in 2011, was the first CEO who was not a founder.

## **BASWARE'S ENTERPRISE SOFTWARE PRODUCTS**

### **Enterprise Resource Planning (ERP) Industry Overview**

ERP products were giant pieces of software that tied together and supported a wide range of internal business processes, including those important to Basware: procurement, invoicing, spend tracking, and other accounts payable (AP) and accounts receivable (AR) functions. Worldwide revenue for ERP was \$42.5 billion in 2012, a growth rate of 4.6 percent over 2011, which had been a 11.3 percent growth over 2010. According to global market intelligence firm IDC, the market was forecast to grow to \$57.6 billion by 2017.<sup>3</sup>

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<sup>1</sup> The five members of the management team who bought the company: Kirsi Eräkangas, Antti Pöllänen, Sakari Perttunen, Ilkka Sihvo, and Hannu Vaajoensuu.

<sup>2</sup> All quotes are from interviews with case authors unless otherwise noted.

<sup>3</sup> IDC Competitive Analysis, "Worldwide Enterprise Management Applications 2012 Vendor Shares," July 13, 2013.