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Going Beyond Application Hosting Solutions: *How to Develop & Bring Software as a Service to Market*

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There are three primary ways in which the buyers of enterprise applications can consume software. Traditionally, customers have acquired perpetual licenses and assumed responsibility for implementing and managing their applications, with little to no external recourse if functionality and overall performance did not meet expectations. The application hosting model was developed to meet the need for customers to offload management to a third party (while still owning the application outright), in order to free up internal resources. Finally, the Software as a Service (SaaS) model is causing a profound shift in the way software is delivered, by essentially enabling customers to subscribe to the functionality of software on a "pay as you go" basis, with the vendor responsible for performance, security, and availability.

The benefits of the SaaS model are significant. For the customer, SaaS offers reduced investment risk and total cost of ownership, as well as greater flexibility in terms of technology choices. For the vendor, SaaS adoption broadens sales opportunities, provides recurring revenue streams, and enhances differentiation. Industry analyst firm IDC forecasts that worldwide SaaS spending will increase to \$9.1 billion in 2008, while Gartner predicts that in the same year more than 50 percent of the software purchased will be via service. Like it or not, it is clear that SaaS is a disruptive technology that has already begun to change the landscape of the software industry, and vendors that choose to ignore this fact may find themselves unable to compete in the future.

For the average software company, however, bringing a SaaS offering to market and ensuring that it is secure, reliable, and available to end users 24x7 can be a daunting challenge. SaaS requires revised business models, rearchitected code, and instant proficiency in an entirely new set of operational disciplines that lie outside the core competency of most software companies. As customer demand and competitive pressures intensify, vendors are looking for guidance on how to quickly and cost-effectively bring SaaS offerings to market and deliver them to end users.

The first step to successfully launching SaaS is to address the business model issues related to SaaS delivery. This includes determining how to price offerings (per user? per transaction?), bill customers (monthly? annually?), and compensate sales representatives. Though the advantages of recurring revenue streams are unquestionable, moving away from quarterly revenue recognition is a cultural shift for the software industry.

Secondly, the software company must determine if code changes need to occur in order to have a truly service-enabled application. Software must be web-enabled with all functions carried out through use of a web browser. Vendors with client-server applications must replace the functionality implemented in the client with HTML, and possibly other technologies, that can be displayed by a browser. Furthermore, in order to gain operational efficiency, software must be multi-instance. Additional productivity enhancements and economies may be gained by moving to multi-tenant SaaS, or replacing proprietary commercial software with open source software. Web services provide an opportunity for integration with other applications and data flows.

Finally, the software company must adequately define infrastructure and operational requirements in order to deliver a scalable SaaS solution, securely and reliably, around-the-clock. Customers will expect vendors to provide availability and security guarantees via Service Level Agreements (SLAs). And, in addition to developing broad and deep expertise in infrastructure management-systems management, hosting and networking, security, disaster recovery, change control, and more—the software company must have the ability to provide 24x7x365 call center support to end users.

Agile Software, which provides Product Lifecycle Management (PLM) solutions, faced many of these issues when the company began to investigate launching its first on-demand application. As a software developer, Agile's core competency is creating and selling PLM applications, so the company selected Optimal On-Demand by OpSource, a comprehensive SaaS enablement solution, to bring its Agile Advantage 2005 application to market. "We chose Optimal On-Demand because OpSource has an outstanding track record for providing 24x7 operations and support," stated Craig Macy, Agile's VP of Products and Customer Care, SME Solutions. "We needed a partner with proven capabilities so that we could get our product to market quickly."

By selecting OpSource as its service delivery partner, Agile was able to avoid the investment risk of building an infrastructure from the ground up and developing expertise in managing that infrastructure. According to Macy, the company has achieved cost savings of over 70 percent initially, and over 30 percent on an ongoing basis, by leveraging OpSource's existing resources to deliver and support its application.

Contact OpSource at www.opsource.net

