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Delivering on the Promise of SaaS

Ameeta Soni, VP of Marketing and Business Development
VFA

Software-as-a-Service (SaaS) is one of the fastest growing segments of the IT industry today. SaaS refers to enterprise applications that are hosted by a third party and accessed via the Web for a subscription fee. Gartner projects the current SaaS market at \$6.3 billion (6 percent of the software market) and projects growth to \$19.6 billion (25 percent of new software market) by 2011. Other analysts think that these numbers may prove to be conservative and that higher demand will be driven by customers looking to shift from the traditional and expensive cycle of buying software licenses, paying for service contracts and then having to buy upgrades. The ease of use, streamlined maintenance and support, limited capital investment and rapid implementation cycles will further drive SaaS adoption.

VFA is a global provider of facilities capital planning and spend management software. Its customers are large organizations in corporate, education, healthcare and government sectors. It has been providing its application as software as a service (SaaS) for more than five years and currently serves thousands of users. VFA's SaaS solutions meet the Best Practices for SaaS as articulated by Gartner.

Vendor Benefits of SaaS model

The SaaS model provides VFA several benefits over the on-premise model. It enables selling directly to the end-users rather than to the IT department or to a cross-functional committee. These end-user customers can utilize their operational budgets rather than the capital budgets enabling departments to keep within their budget authority and having a smaller cash outlay up-front because of the subscription model. Without the need for capital expense approval, fewer people are involved in the decision-making process, resulting in a shorter and easier sales cycle for VFA.

With this model, the subscription-based recurring revenue

stream is less lumpy than with the on-premise model, providing more predictable cash flow and good visibility into future revenues. Fewer software developers are required since there is no need to maintain multiple versions. Implementation and upgrade costs are also lower as it is easier to address maintenance for many SaaS clients at one time. VFA controls the environment and doesn't have to deal with the specific environments for the different customers. With the SaaS model, VFA is able to provide its customers with better and more responsive service.

In addition, hosting client applications allows the VFA developers to have better visibility into the product usage providing insight on product usability and functionality. The SaaS customers enjoy rapid (and less-expensive) deployment. They don't have to deal with time-consuming installations of underlying infrastructure. SaaS services typically have less customization and more configuration that is administered via a browser. The change management process is also easier in a SaaS environment since it involves only "standard" set of functions unlike on-premise scenarios where the process is complicated and lengthened with lengthy wish lists of functions from the users.

Customers can save by not buying licenses or installing applications on each user's desktop. They don't need to maintain databases, purchase servers, set up networks or pay annual maintenance/support fees for licensed software, or migrate to new physical infrastructure over time or allocate internal IT resources for upgrades.

The architectural move to service-oriented architectures facilitates smaller, more-granular and potentially more frequent upgrades, a characteristic of the SaaS model. Customers get quick upgrades from VFA and have lower total cost of ownership and higher ROI.

Vendor Challenges with SaaS model

As a new model, SaaS presents both opportunities and challenges for the software provider and end users.

At VFA, it was more challenging to develop a single applica-

tion that is configurable and that provides a personalized user experience. Integrating with the customers' other legacy applications can be difficult and expensive but is made easier with the use of web services.

Another challenge for the SaaS model of deployment comes from more frequent upgrades, which can require re-training for end users. End users and organizations don't have control over the timing of the upgrades. VFA has tried to make this situation easier for its customers by controlling the number and frequency of releases. Additive functionality can be released at anytime but functionality which changes the way people do things is bundled together and released at widely spaced intervals, with sufficient advanced notification and adequate training.

VFA continually strives to meet Gartner's Best Practices criteria for SaaS with each release of its software.

SaaS vendors must take care to address data security, storage of company-confidential data on web servers; SLA requirements for uptime and performance, backup and disaster recovery.

SaaS Trends

In contrast to most of the SaaS vendors whose customers are mostly small and mid-sized companies, the VFA SaaS clients are extremely large organizations in both public and private sectors. Today, more than 98 percent of our software is provided on a SaaS basis with an occasional customer preferring on-premise installation. The industry, at large, is now also seeing a trend among the large enterprises to increase their use of SaaS applications. Gartner projects that SaaS will see increased penetration in the large enterprise market. McKinsey also sees several factors driving the increase in adoption of SaaS. CIOs are starting

to accept that SaaS usage will offer lower up-front costs, lower total cost of ownership costs and attractive ROI.

VFA is seeing the increasing involvement of IT in the SaaS buying decisions as well. IT needs to make sure that they pick a SaaS vendor whose offering is modular, interoperable, versatile, scalable and cost efficient increasing its acceptability within the IT organization.

Currently, most SaaS applications are stand-alone and not integrated. Users continue to seek integration with their legacy applications. VFA has addressed these challenges through integration with IBM Tivoli's Maximo using web services, and other legacy systems through custom software APIs.

By virtue of operating in several different markets, VFA has industry specific customization of its software. This again is a trend that Gartner has observed.

Summary

The ease of use, streamlined maintenance and support, limited capital investment, rapid implementation cycles and ability to easily move into additional markets will all serve to increase SaaS adoption.

Ameeta is VP of marketing and business development at VFA. Over the course of her career, she has been instrumental in the success of many new technology ventures. Ameeta is a frequent speaker/panelist on marketing, product development and entrepreneurship.