



Insights: Software as a Service



SaaS – Who Daares Wins?

Is “boxed software set to be a thing of the past?

Quite possibly, if the burgeoning Software as a Service (SaaS) sector can deliver on its huge potential. And there's every sign that it can, says Marcus Austin.

Despite its reputation for pace and changeability, revolution is a surprisingly rare thing in the software industry these days. Evolution however, remains rather more common. Take outsourced software delivery. The underlying idea behind the model has always been essentially the same: why incur the expense of buying business software when you could simply rent it and cut out all the associated headaches (and your capital expenditure) at the same time? Its many incarnations, on the other hand, have been quite different.

Beginning life in the mid-1980s as “bureau software provision”, the idea would reinvent itself in the late 90s under the guise of the “Application Service Provider” or ASP (a game if optimistic species with typically little or no track record and slow, clunky applications that no-one really wanted).

And now there's a new and improved edition for the noughties.

This time around it's travelling under the name of Software as a Service, or, a little less prosaically, SaaS. And there are signs that it could well prove third time lucky.

First of all, the timing looks pretty good.

For years we've been buying “off-the-peg” shrink-wrapped solutions that we then spend ages installing, and even longer patching and developing. This leads to the inevitable yearly upgrade, which in turn, of course, necessitates the purchase of the faster, more powerful machine you were hoping to put off for another 12 months. By its very nature, it's a model that's laborious, expensive, and prone to problems.

Also, several factors have changed drastically since the ASP went the way of the dodo, much of which has helped the outsourced model mature and, again, evolve. The primary catalyst, though, has been the rapid and relentless rise of broadband, which has removed perhaps the last remaining stumbling block for the Software as a Service model. Speed.

The upshot of all this? It seems it really could be time to send for the SaaS.

Indeed, according to Gartner, SaaS is now set to take on the world and, if the interim growth figures are anything to go by, it may well win. In 2005 SaaS accounted for just 5% of total business software sales worldwide. By 2011 Gartner forecasts this figure to rise to 25%. Why? Because conventional licensed software means buying the product, installing it, customising it, hosting it, and maintaining it. With SaaS – where you're effectively renting – your monthly payment is pretty much where your responsibility ends.

The advantages are manifold. Data and applications are available to everyone, no matter where they're located. Development time is reduced; IT staff can concentrate on the application rather than potential hardware and distribution headaches. And because it's web based and runs via a browser, there are no problems with software slowing down or interfering with other applications on the server or the desktop.

Additionally, you always get the most up-to-date version of the application,

and infrastructure costs are reduced as there's no need for expensive servers, private networks, or backup facilities.

Even so, there are still only relatively few companies that do "true" SaaS.

Many describe their solutions as SaaS, but are effectively just providing standard off-the-shelf packages via the web, or building some web functionality into standard licensed products. That's not SaaS.

Authentic SaaS would include Google's applications, Hotmail, Salesforce's CRM and related packages, NetSuite's e-commerce and accounting packages, RIM's BlackBerry service, and remote access products like LogMeln, Avenu, and MyWebEx.

Some sectors are seeing greater growth than others, according to Gartner: "... in enterprise content management (ECM) and search, SaaS adoption is in the range of 1% to 2% of total software spending. (But) within e-learning and Web conferencing, SaaS accounts for more than 60% and 70% of total market revenue."

CRM specialists Salesforce.com is perhaps the world's biggest, fastest-growing, and best-known SaaS provider. Last year its sales were £250 million and should tip £350 million this year. Worldwide it has nearly 35,300 customers and over 800,000 users in companies

including Orange, Staples, and Symantec. Not bad considering it was only founded in 1999. Salesforce's European President Steve Garnett puts SaaS's success down to flexibility and the ability to start with full functionality on day one.

"The SaaS model is scalable and ubiquitous", he says. "It doesn't matter if you have 2 or 20,000 users, or if they're based in 10 or 100 different locations. They all see the same data, and have access to the same toolset."

Salesforce claims that the average size of its clients is on the increase, but the most common SaaS adopters in fact tend to be small to medium sized businesses; particularly start-up companies without the capital or the time to buy and build a conventional solution. They need something that can be paid for as they grow, but also that can be used immediately, and tailored while they use it.

"SaaS adoption is highest in applications that support simplified, common business processes or large, distributed virtual workforce teams," comments Sharon Mertz, research director at Gartner.

"Ease of use, rapid deployment, limited upfront investment in capital and staffing, plus a reduction in software management responsibility all make SaaS a desirable alternative to many on-premises solutions, and they will continue to act as drivers of growth."

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Sharon Mertz,
Research Director, Gartner.

A recent IDC survey backs up Gartner's research. According to the study 5.1% of PC-owning small firms and 15.2% of PC-owning medium-sized firms are planning to move to SaaS solutions within the next 12 months.

Another aspect of SaaS popular among businesses is that it doesn't entail huge upfront costs,

and that you only have to pay for what you use – so there are no problems with not having the right number of software licences, and no visits from the Federation Against Software Theft (FAST) in the middle of the night.

If you start with 30 users and move up to 50 and then go down to 40, you still only pay for 40 users. Plus, unlike boxed software,

the cost remains the same even come upgrade time.

Another advantage is the ability to work with the product from the first second you register as a customer. The full system is up and working in seconds rather having to be installed and distributed with servers having to be tweaked and prepared.

SaaS is not without its drawbacks however.

Common criticisms include:

- **Stability:** How can I guarantee the site will always be up and running?
- **Control / data:** My data is no longer in your domain. If the SaaS provider goes under won't my data could go down with it?
- **Security:** If you can log into the site, can't other people?
- **Competitiveness:** If everyone's using the same package, won't I lose my competitive edge?

Stability and reliability are key to the take-up of SaaS. Salesforce.com had early issues with the stability of its service, so it launched trust.salesforce.com, which gives users a minute-by-minute view of its servers' performance, and details any forthcoming work and reasons for any outages or problems.

Not all SaaS companies go this far, but most take security and reliability very seriously, guaranteeing uptime by providing data and applications on multiple servers. So if one goes down, functionality transfers "seamlessly" to another. In addition, most also mirror their servers around the globe, so if a datacentre is disabled for any reason, another takes over.

Some providers have even been known to bury servers in old nuclear bunkers.

Security must also be weighed up against ease of use, however. SaaS applications tend to rely on good old fashioned usernames and passwords, so they're accessible from the office, from home or on the road. However this also means that they don't have the protection of an office firewall.

Most SaaS applications offer secure encrypted connections however, so when the data is travelling over the Internet between you and the provider it's completely secure.

What they don't tend to offer though, is education on keeping passwords and usernames safe. Because of this, many SaaS applications allow you to restrict what can be viewed and who can do what with the data, as well as generating automatic email alerts to notify a manager or a higher user when a record is deleted, saved, or viewed.

Overall, in most cases, your data is safe – probably safer than it would be if you were dealing with it yourself – as it is shared between so many servers and is often backed-up on a minute by minute basis.



But what if the company folds?

Who owns your data then? And who might get access to it? Despite security often approaching military levels, few SaaS providers can give a cast-iron guarantee that their sites will be operational 24x7x365. Then again, who can?

With this in mind, in addition to providing multiple redundancy and security measures, most suppliers offer pretty stringent Service Level Agreements (SLAs), which give the user a deal more protection and rights than anything you're liable to see on the back of a boxed product. They commonly include clauses that refund a proportion of your costs in the event of system failure, and that release the source code for the application and the data should the company go down.

As such, maintaining real control and ownership over your data is probably the biggest gamble you'll take by choosing an SaaS approach as an alternative to a shrink-wrapped product. But it's a gamble where the

odds tend to be stacked very much in your favour.

The last disadvantage is the question of competitiveness; i.e. if you're running the same software as the next company, then aren't you sacrificing your competitive edge in some way? The stock answer to this is invariably "It's not what it is that makes the advantage, it's what you do with it." Every company has Microsoft Office but does that mean that every Powerpoint demo and annual report you produce detracts from your value proposition?

Inevitably the move to a hosted SaaS solution will have an effect on in-house IT headcount; if there's no expensive hardware and software to maintain and support then potentially there's no need to maintain and support a hefty IT staff either. Should this turn into an issue rather than a benefit, one obvious answer is to reassign such staff to more strategic activities focused on improving the company elsewhere, or helping it concentrate on core competencies.

This may yet prove a moot point however. As yet, nobody seems to know if SaaS will actually lead to a reduction in IT staff, and there appears to be little evidence, real or anecdotal, either way.

So does SaaS finally tick all the outsourcing boxes?

It certainly looks that way. It's fast, it seems to have some real credibility and, as with solutions such as Salesforce, it has the ability to be added to and enhanced by third parties. However there are still a few niggles, and it still isn't right for everyone.

If you have enough cash then owning software outright remains a good choice. Swapping and changing between SaaS suppliers can be just as hard – if not harder – than changing licensed products, and while developing with SaaS looks set to get significantly easier, it's never likely to be completely straightforward.

Then again, evolution never was.