



OpSource™
The Business of Web Operations

Why Software as a Service?
Helping Our Customers Reduce Costs and
Increase Revenue

WHITE PAPER

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Introduction

The world has seen numerous so-called disruptive technologies come and go. Some have had a profound impact on how we run our businesses and go about our daily lives and many have not. Some were long lasting and others were gone in a flash. Software as a Service (SaaS) is proving to have great potential to impact our lives in almost every way. Take for example a small business in Kansas that now has immediate access to a global market by listing its products on eBay. Consider a mid-size company that, due to the cost of the software license and required infrastructure, could never afford a true sales force automation tool, but now thanks to salesforce.com has a best-of-breed CRM system for \$59.00 per user per month, with no upfront cost Families can now share photos with friends across the country with services like flickr. The list goes on and on. The list goes on and on.

The examples above share the following key elements:

- The software is paid for as it is consumed;
- The consumer has no software, hardware, or infrastructure to purchase, install, or maintain;
- Apart from a personal computer and an Internet connection, all parts of the solution are provided by the software vendor.

These critical differences between the SaaS model and the traditional perpetual license model are driving the adoption of SaaS. In the traditional model of software delivery, the customer acquires a perpetual license and assumes responsibility for managing the software. There is a high upfront cost associated with the purchase of the license, as well as the burden of implementation and ongoing maintenance. ROI is often delayed considerably, and, due to the rapid pace of technological change, expensive software solutions can quickly become obsolete.

SaaS eliminates the problems associated with the perpetual license model. By offering significant advantages to both users and software developers, SaaS is breathing new life into the software industry. SaaS stimulates growth and innovation and creates new opportunities for selling and using software. The following is a discussion of the primary benefits of SaaS from both the customer and vendor perspectives.

User Benefits

Lower Cost of Ownership - Because the software is paid for as it is consumed, the customer does not have to pay a large upfront cost for a software license. Additionally, since no hardware infrastructure is required, the user spends less on hardware, maintenance, and administration. This means that customers now have access to applications they could never afford in the perpetual license model. Furthermore, SaaS makes it possible for customers to immediately recognize value from their software purchases.

Focus on Core Competency – The SaaS model frees the customer from the responsibility of installing and maintaining the software, which means that the customer no longer has to devote internal IT resources to making sure that their applications work properly. In addition to saving on costs, this allows the customer to remain focused on their core competency and utilize resources in more strategic areas.

Access Anywhere - Users can use their applications and access their data anywhere they have an Internet connection and a personal computer. They do not have to be at their office or access the corporate network through a VPN or other method in order to use their applications. This enhances the customer experience of the software and makes it easier for users to get work done. In addition, users can take immediate advantage of the features and functionality of an application simply by launching a browser. There are no lengthy deployments to administer. Can you think of a better word?

Freedom to Choose (or Better Software) – The pay-as-you-go nature of SaaS enables greater flexibility in terms of technology choices. It is now easier for users to select applications they wish to use and to stop using those that no longer meet their needs. Customers can avoid accumulating “shelfware” and make more efficient use of their applications. Ultimately, this freedom leads to better software applications. In order to retain business, vendors must be receptive to customer needs and wants.

New Application Types - Since the barrier to use the software for the first time is low, it is now feasible to develop applications that may have an occasional use model. This allows for a highly collaborative environment where some users may use the software rarely, but are important to the overall experience. Take the example from above where a family shares photos using flickr. The application experience is available to all family members with no commitment or upfront costs.

Faster Product Cycles - Because of the development and testing processes utilized in SaaS, product releases are much more frequent, but contain fewer new features than the typical releases in the perpetual license model. This new process gets bug fixes out faster and allows users to digest new features in smaller bites, which ultimately makes the users more productive than they were under the previous model. Additionally, it is not necessary for the customer to continually upgrade the software. Each time the user accesses the software, it is the “latest and greatest” version that’s available.

Vendor Benefits

Increased Total Available Market - This might be the number one reason for a software vendor to adopt the SaaS model. A product will appeal to a much larger audience if it is delivered this way. The user benefits of lower upfront costs and reduced infrastructure translate into a much larger available market for the software vendor, because users that previously could not afford the software license or lacked the skill to support the necessary infrastructure are potential customers. A related benefit is that the decision maker for the purchase of a SaaS application will be at a department level rather than the enterprise level that is typical for the perpetual license model. This results in shorter sales cycles.

Enhanced Competitive Differentiation – The ability to deliver applications via the SaaS model enhances a software company’s competitive differentiation. It also creates opportunities for new companies to compete effectively with larger vendors. The tangible value that customers can realize from the SaaS model versus the perpetual license model is a compelling selling point. Going forward, software companies will face ever-increasing pressure from their competitors to move to the SaaS model. Those who lag behind will find it difficult to catch up as the software industry continues to rapidly evolve.

Lower Development Costs & Quicker Time-to-Market - The major factor reducing the development costs of SaaS applications when compared to traditional applications is testing. Testing time and expense are reduced by a combination of the agile software development process, of small and frequent releases, and the fact that the application is developed to be deployed on a specific hardware infrastructure. Combined, these factors mean that testing is done in smaller chunks and performed on a copy of the actual hardware used in the production environment, rather than a large selection of whatever hardware a customer may have in their environment. Therefore, testing complexity, time, and costs are all reduced. This, in turn, provides the software developer with overall lower development costs and quicker time-to-market.

Effective Low Cost Marketing - Between 1995 and today, buyers’ habits shifted from an outbound world driven by field sales and print advertising to an inbound world driven by Internet search. The SaaS delivery model is perfect for marketing programs that exploit this shift. The techniques are typically easy to implement and are highly effective at producing, capturing, and capitalizing on inbound traffic in a very cost-effective manner.

Predictable MRR Revenue -Traditionally, software companies rely on one major release every 12-18 months to fuel a revenue stream from the sale of upgrades. This puts a lot of pressure on the organization to hit an arbitrary date to meet corporate financial commitments. In the SaaS model the revenue is typically in the form of Monthly Recurring Revenue (MRR). MRR is far more predictable and less tied to the development schedule of the next release of the software. MRR also eliminates the strain of end-of-quarter discounting for the vendor.

Improved Customer Relationships – SaaS contributes to improved relationships between vendors and customers. In the traditional model of software delivery, vendors are less accountable for the performance of their software. Once the software is sold, it is largely up to the customer to make it work. The SaaS model creates a more symbiotic relationship between vendors and customers and provides vendors with greater opportunities to please their customers.

Summary

For most users and software developers the benefits of moving to the SaaS model are clear. As stated by industry analyst firm Gartner, “The software industry has embraced SaaS; traditional software goliaths are transforming into SaaS players and emerging SaaS-focused companies are entering the marketplace.” (IDC, “Top 10 Predictions for 2006: Software as a Service,” Amy Konary and Erin Traudt, February 2006, #34872.) Most new software developers will choose to develop exclusively for the SaaS model. Companies currently selling a perpetual license product will probably choose to continue to offer the perpetual license product along side a SaaS offering and, over time, phase out the perpetual license product. This is a profound shift for the software industry. As customer demand for applications delivered via the SaaS model continues to grow, vendors will find opportunities to create and sell products, resulting in a “win-win” for both sides.

About OpSource

OpSource™ delivers Software-as-a-Service (SaaS) and Web applications for on-demand companies, with hundreds of applications, millions of users and billions of transactions supported daily. OpSource On-Demand™, the leading Web operations solution, is defining how Web-based software is delivered. By choosing OpSource as their Web application delivery partner, companies are freed from investing in and managing the complex and costly infrastructure and services necessary to deliver applications over the Web. They can instead focus their resources on developing, marketing and selling their applications and services. Further, by using OpSource Connect™ companies can leverage Web services such as OpSource Billing CLM™, OpSource Analytics™ and OpSource End-User Support™ and integrate their applications with other SaaS applications over the Internet as well as with enterprise applications behind the corporate firewall. OpSource On-Demand is suitable for companies at any stage of growth, with any type of on-demand application. OpSource is the only company to offer Success-Based Pricing, a pricing model that allows businesses to begin with a modest minimum commitment and scale expenses as revenues increase.

Headquartered in Santa Clara, CA, OpSource has Web application delivery centers in Virginia, London and Bangalore. For more information about OpSource, visit www.opsource.net.



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