PRIMER: SOFTWARE AS A SERVICE (SAAS)

SaaS Primer

TABLE OF CONTENTS

SECTION 1: **EXECUTIVE OVERVIEW**

Executive Overview

Software-as-a-Service (SaaS) is the hottest segment of the software market, with a 40% CAGR forecast through 2014. Analysts and software vendors are still measuring the exact impact of SaaS to the traditional "software license" business, but many predict that SaaS will have an impact on the current on-premise model comparable to that of client/server on mainframe computing.

SaaS benefits end users, but also the MSPs and Telco's (i.e., managed service providers), and it is selectively applicable to business problems, applications and software vendors. In addition to driving technology change, SaaS is transforming the entire sales process; rather than purchasing licensed software outright, customers typically sign a 12-month agreement and are able to change vendors without significant capital expense. To service providers, new customer acquisition and retention is critically important.

SECTION 2: **WHAT IS SAAS**

What is SaaS?

SaaS is a software deployment model in which software (not only applications) is delivered and managed as a service by the vendor, to simultaneously meet the needs of multiple customers. Instead of installing and maintaining software, users simply access it via the Internet, via a Web browser, freeing themselves from complex software and hardware ownership and management. A widely cited example of SaaS is the service model used by ADP to provide payroll and other business services to multiple organizations via an online interface.

SaaS applications are sometimes called Web-based software, on-demand software, or hosted software. Whatever the name, SaaS applications run on a SaaS provider's servers. The provider manages access to the application, including security, availability, and performance. SaaS is priced on a subscription service basis, often based on the number of users or seats; discounts are often given for larger numbers of users.

SECTION 3: **SAAS BENEFITS**

SaaS Benefits

What is it about SaaS that has generated so much excitement? We should begin by noting that SaaS is still an emerging technology, and that not so long ago, many technology and industry leaders considered SaaS to be little but hype. Clearly, minds are changing, but to understand why – and see what's fueling strong SaaS revenue growth – we need to understand the practical benefits of SaaS to end users.

Benefits to customers

Consider two opposing paradigms of software implementation: in the (traditional) on-premise model, multi-phase deployments can require months to accomplish, burning through thousands of man-hours on the part of dedicated IT support personnel while creating an ongoing requirement for maintenance of the installed software – i.e., patches, fixes, upgrades, and further integrations. There is also the risk that the software itself may become obsolete, from a competitive standpoint. In the contrasting SaaS model, global enterprises can be "up and running" in days, or in some cases (literally) in minutes. Software hosting, security, backup and recovery, patch/fix maintenance, and version upgrades become the responsibility of the SaaS vendor. And in a key financial differentiation, SaaS is paid for as an *operational expense* ("OpEx") which can be fully expensed against current quarter revenues,

whereas the purchase of licensed software (and the hardware to host it on) is a *capital expense* ("CapEx"), which must be depreciated over time.

Further, with the SaaS model, IT personnel can focus on improving the day-to-day technical operations of their firms, instead of troubleshooting 3rd-party software or maintaining aging infrastructure. Even more important, SaaS allows CIOs to redistribute scarce IT budget resources and concentrate on building core competencies. In summary, the customer benefits of SaaS include:

- Accelerated software deployment with less risk
- Lower up-front costs
- No additional hardware and software to buy
- Lower internal staffing requirements
- The opportunity to focus on use, not operation
- Greater reliability, security and privacy
- Lower TCO and quicker time to value
- Increased agility to scale, upgrade, and meet changing business requirements

SECTION 4: SWEET SPOT

The SaaS Sweet Spot

SaaS is not a trend but an architecture and business model, and industry leaders and analysts commonly agree that SaaS is not an appropriate delivery mechanism for all software products. Not all applications should be "SaaSified" nor offered as service. Generally, the more detached the application's functions are from the rest of the company's operations, the *more* suitable it is as SaaS offering. For example, if a function can easily be outsourced to a third party vendor, that function can typically be accomplished via a SaaS application.

Functions within the company, that depend upon many other internal systems for inputs, and from which many other systems need to get their outputs, are *not* a good "fit" for SaaS – for example, an Order Processing Module needs to talk to Sales Management, Manufacturing, Sales Accounting, Warehousing and Finance systems. This module will require extensive integration with legacy systems and applications, causing the user/company to sacrifice many of the presumed benefits of SaaS.

Government regulations regarding privacy of personal information (e.g., identity information, credit card information, medical information covered by HIPAA rules, etc.) may render certain types of data highly sensitive. Consequently, some customers may be reluctant to store that data off-site, on a SaaS vendor's servers. In reality, the SaaS provider may have a more secure and robust environment, but convincing the customer of that fact can be a "hard sell." At the same time, potential SaaS customers can be assured of these facts about SaaS: virtually every major bank and financial institution, every Fortune 1000 corporation, and many departments of the US Federal government (including the military) trust and use SaaS. The global success of Salesforce.com, ADP, and CA Technologies' On Demand unit (which currently has more than 120 enterprise clients) amply demonstrates that SaaS is safe, secure, and broadly accepted.

Finally, the ROI model for SaaS must make sense, and technology needs to be readily available to all users. In general, a good target market for SaaS will have one or more of the following characteristics:

- High numbers of users
- Distributed user community
- Independent business process (detached from legacy systems)

- No need for high level of integration with other applications
- Not a highly regulated industry
- "Try before you buy" business model is appropriate

According to one technology industry poll, the most popular current uses for SaaS are: IT Management and Support, Customer Relationship Management (CRM), Payroll Services, Human Resources and Accounting.

SECTION 5: **SAAS ADOPTION**

SaaS Adoption

According to research by the Cutter Consortium, the number of companies using SaaS applications doubled between 2007 and 2008, and 63% of interviewed companies were using SaaS at the beginning of 2009. According to Forrester Research, 99% of enterprises will consider using the SaaS platform within the next 12 months. Even more important, *over 90% of companies using SaaS were satisfied with the quality of service* and were planning to *adopt the model to support other business processes.*

Typical on-premise challenges are driving SaaS adoption in organizations of all sizes. In many cases, on-premise applications fail to produce the ROI that organizations expect, requiring a higher TCO than anticipated. According to researchers, 31% of software projects are cancelled before they can be brought to completion, and 52% take twice as long to implement as planned. There is a growing perception both in IT and in business and government, generally, that SaaS can provide many of the answers to these challenges.

SECTION 6: **WHO OWNS THE DATA?**

Data Ownership

Under the typical SaaS agreement, the customer retains legal ownership of its data, stored in any SaaS solution. More experienced customers will definitely scrutinize the section of the agreement that precisely defines data ownership, archiving arrangements, and transition of information upon contract expiration. Customers should also be aware of the SaaS provider's capabilities in the areas of data backup and recovery, security, and potential to scale the application globally to N-users.

SECTION 7: **CUSTOMIZATION**

Customization

The feature requirements of most SaaS solutions are driven by common business processes in targeted segments. Product features, SLAs and hosting policies will be balanced against reasonable service prices. While most of the customers will be satisfied with "standard" terms and features, many SaaS vendors are designing their solutions so they can be configured to meet the growing number of specific business needs, while remaining within the boundaries of the standard solution architecture. For example, the widely-used Salesforce.com CRM solution is highly customizable, enabling a particular firm or department to develop and present to its users custom workflows, dashboards, reports, and more. Through their "AppExchange," Salesforce also offers hundreds of add-on applications from ISVs, most of which expand the capabilities of the core application via applets that run natively within the larger CRM interface (i.e., "native mash-ups"). CA Technologies' first SaaS offering on the AppExchange is CA Agile Vision (team edition).

Most reputable SaaS vendors will also make exceptions to standard contracts and terms, and some vendors will even ensure their government or financial customers (in exchange for premium pricing) that saved data will not be transferred to offshore locations.

SECTION 8: **VENDOR SELECTION PROCESS**

The SaaS Vendor Selection Process

In contrast with the traditional on-premise sales process, customers typically follow these five rules in selecting SaaS vendors:

- **Treat all vendors as equal – traditional and SaaS**. Typically, the selection process will include on-premise as well as SaaS vendors. When looking to acquire service or software, users will consider all current vendors they are using in-house, plus open source vendors, and homegrown solutions and commercial off-the-shelf vendors. SaaS solutions will 'come out on top' only if the problem to be resolved matches a SaaS sweet spot, as discussed above.

- **Define TCO before closing the deal**. Analysts are calling on customers to look beyond the hype and start measuring costs such as incremental bandwidth, security audits, integration and customization, increased capacity management, and ongoing support, etc.

- **Plan ahead for the implementation**. Customers are seeking help in measuring needed resources, such as network, people (auditing, security, maintenance, customization…), plans for auditing, integration architecture and costs, and scalability based on the number and distribution of users.

- **Define implementation costs and effort**. Many customers new to SaaS are likely to forget that even if they don't own the infrastructure, they still need to test and QA, monitor security management and protection, user administration, etc. This is now part of the best practices for any SaaS implementation.

- **Look for well-defined and measurable SLAs**. Not only for performance and availability of the service, but also for business continuity, MTTR, data security and archiving, scaling ability, updates and upgrades commitments.

SECTION 9: **SUMMARY**

Summary

The "move to SaaS" has real momentum, and is based upon and backed up by a set of technology capabilities that are (in 2010) sufficiently proven, reliable, and widely adopted so that no one can "dismiss" SaaS. There are clear financial and technical benefits to the SaaS model – versus the traditional on-premise model of purchasing and installing licensed software – which accrue to both customers (end users) and service providers. At the same time, SaaS is NOT a panacea; not all business functions are appropriate for SaaS, and firms requiring extensive integration of data feeds from legacy systems may conclude that an on-premise implementation is, for them, the more logical option.

CA Technologies has a well-evolved and aggressive SaaS strategy which has driven significant growth in numbers of enterprise SaaS engagements, and promises even greater growth in the years ahead through the application of our ITM SaaS vision. SaaS will never "replace" all of CA's well-established on-premise software products, but it is a vital element of the firm's portfolio of offerings.

For additional information, please visit our website at www.ca.com/ondemand.