

It's Here to Stay and Growing, Growing, Growing... What Can SaaS Do for You?

BY BARI FAYE SIEGEL

Larry Ellison, CEO of Oracle Corporation, was quoted in September 2005 (Infoworld) as saying: "I believe, over time, more and more software will be delivered as a service. I totally believe that...We have to be good at this, or we have a problem."

That was three and a half years ago. In IT years, it might as well be a lifetime. If we know anything about this industry, we know that anything uttered that long ago should be old news. But, when it comes to SaaS (Software as a Service), Ellison's thoughts are still alive and kicking. In fact, they may be truer than they were back then.

Software as a Service is more than simply software delivered over the Internet by an application service provider. And, it's not the traditional client/server model either. Providers of SaaS deliver business solutions via the Internet using a shared infrastructure on-demand model that by design and architecture reduces upfront costs and Total Cost of Ownership (TCO) as well as delivering increased business performance.

SaaS enables businesses to minimize infrastructure and maintenance costs while accessing the latest technology and business solutions with more frequent upgrades. It is also one of the fastest growing IT sectors globally. With SaaS, users get lower up-front costs, lower total cost



Pictured (left to right): Kevin Loo, vice president of Technology and Product Development at CyberShift, Inc., George E. Mach, founder and CEO of Apex IT Group, LLC, and Marc Kalman, CEO of eZCom Software Inc.

of ownership, no need for additional infrastructure, greater level of support, and access to latest technology.

TechNews recently spoke with some industry leaders about the SaaS explosion. Kevin Loo, vice president of Technology and Product Development at CyberShift, Inc., George E. Mach, founder and CEO of Apex IT Group, LLC, and Marc Kalman, CEO of eZCom Software Inc. shared their views on Software as a Service -- the benefits, challenges and everything in between.

The Pros....

Which type of applications are offered in an SaaS-based delivery model?

KALMAN: Eventually, most if not all applications will be delivered in some sort of SaaS model. We most commonly see applications in accounting, customer relationship management (CRM), enterprise resource planning (ERP), email



campaign management, business integration (B2Bi), security management, and human resources.

MACH: Virtually any application can be converted to an SaaS-based model.

Why would an organization currently employing a custom client server-based application with a web interface transition to an SaaS-based delivery model?

KALMAN: This may depend on how custom the client server based application is. If you can find a good SaaS provider for a comparable application your company is using, you are likely to be better off long-term. Many SaaS applications are highly configurable and without any program

development may likely “customize” to fit your company’s needs.

MACH: This is dependent on the direction of the business. If a business has invested significant resources including infrastructure, custom applications, and resources for support, it may not be the best business decision. However, if an organization needs to upgrade or decommission a legacy application it may make business sense to look into transitioning into an SaaS-based delivery model for line of business applications.

LOO: SaaS is a cost-effective deployment method where a software application is hosted as a service and delivered to users via the Internet. Business application solutions offered through SaaS eliminate the infrastructure technology – such as dedicated hardware and maintenance of them - and investment challenges – such as expensive upgrades and costly annual maintenance agreements - associated with traditional license agreements, making it easier for organizations to take a best practice approach to managing their operations.

What should be the cost justification of developing an in-house custom application verses choosing an SaaS provider?

MACH: The cost justification comes from tangible and intangible costs. There are

clearly tangible infrastructure costs including equipment, development, testing, QA, and support for deploying an application in house. If an SaaS provider fills the business needs of an organization by way of having the necessary information systems to support that need, then it makes logical sense to do away with all of the upfront infrastructure costs and ongoing maintenance associate with it. There are cost analysis and evaluations that always need to be performed when weighing this decision. The total cost of ownership comes into play here, and the evaluation needs to be traditional application deployment costs verses SaaS based delivery costs of the application.

LOO: Rather than a single expense at the time of purchase, SaaS pricing consists of an initial set up fee and a recurring subscription fee, with hosting and maintenance charges typically paid monthly. SaaS changes the economic model from a capital expenditure to a manageable monthly operating expense. It doesn’t take a lot of upfront investment to use the software. There is no need to purchase additional servers, storage devices and other IT equipment.

What companies are benefiting by SaaS?

KALMAN: Initially, SaaS appealed to smaller companies. However, with advancing Internet technologies and SaaS providers offering more enterprise functionality, larger companies are now benefiting by SaaS as well. As with any application you plan to license for your company, appropriate due diligence is a must.

LOO: SaaS used to be thought of as a solution for smaller companies without sufficient IT resources or the benefits of a large company's IT infrastructure. Today, organizations of all sizes are benefiting from an SaaS deployment. Companies without sufficient internal resources or companies that do not want to divert IT resources to specific application projects can benefit from SaaS.

The Cons...

Have you ever seen an SaaS Project Fail? If so, what are the root causes of the unsuccessful implementation?

KALMAN: Since an SaaS application is generally "off the shelf" barring configuration and potential data migration, any failure caused is likely the result of the project management or implementation team more so than the SaaS application itself. It would be no different than comparing a traditional software deployment of one company to another, except that here an SaaS implementation provides access to a hosted software solution that has likely been used and implemented successfully time and time again. To satisfy any concerns regarding deployment, you should perform proper due diligence on an SaaS provider's ability to implement you correctly, including client references.

MACH: Yes I have. The old saying goes, garbage in, garbage out. Any enterprise application needs executive support. If the executive community does not support an application integration project it can fail. Other pitfalls can be not doing your diligence and choosing an application that does not meet all of the business requirements. Other issues I have seen or latency or connectivity issues which can discourage an end user from working on the web based application.

LOO: For an SaaS project to be successful, a technology project level commitment is required. A strong project governance with the appropriate project support is essential to the successful rollout of an SaaS system. SaaS is an IT project, but without the headaches and investments of the infrastructure and technology.

What if an SaaS provider I choose goes out of business? What happens to my data?

KALMAN: This topic should be addressed in your company's disaster recovery plan. Most SaaS providers offer a means by which you can download key data on an adhoc or scheduled

basis. In addition to the data, your disaster recovery plan should identify how your company will replace the SaaS application, inclusive of importing backed up data, configuration and training of a new system, and any "down time" your company will face as a result.

MACH: It is imperative that you choose an SaaS based provider that has a long standing reputation. Do your homework before you choose a provider. Ask them if they have an export feature or the ability to backup your data to your specified location. Ensure that you consult with an IT Attorney who understands EULA's (End User License Agreements) and has the knowledge of knowing what to look for in an SaaS provider agreement.

LOO: In an SaaS arrangement, the client owns the data and, in fact, can request a copy of their data at any time. The data is backed up on a regular basis and generally secured and housed off site at a secure location. When evaluating SaaS vendors, be sure to look at their operational practices, security and system architectures. Is the vendor compliant with SAS 70 Type II and Canadian CICA 5970 auditing standards and Sarbanes-Oxley? Having these controls in place mitigates compliance risks factors and ensures the security of your business critical applications.

Are there security risks associated with an SaaS solution?

KALMAN: It is reported that a top reason for security breach is a disgruntled employee proliferating data from within the four walls of a company. By incorporating SaaS, you remove access to the servers via virtualization. A security assessment should be part of your due diligence process in selecting an SaaS provider, however most SaaS providers make significant investments into securing your data as well as securing the server farm.

MACH: The security risks associated with an SaaS are equal to deploying an application in house. Always make sure permissions are set so only key users have access to the correct data. Most security breaches occur from inside the company, and it is important to evaluate an SaaS providers security practices including Physical and Network Security.

LOO: Make certain to ask and understand what support levels the vendor provides. In many cases, there are service level agreements (SLAs) you cannot set up internally, but can require of an

SaaS vendor. Whereas the internal IT department has a multitude of responsibilities that may result in ever-shifting business priorities, the SaaS vendor has both the technical knowledge and application expertise and is contractually bound to provide high levels of availability and superior performance. In an SaaS partnership, the vendor is responsible for the technology, hardware and ongoing support services while the customer is responsible for the pay-as-you-go investment based upon the pre-defined service level agreement.

And Everything in Between...

How are current economic conditions affecting SaaS?

KALMAN: The economics of SaaS make sense in any economy, but particularly a down economy. SaaS lets a company pay less and receive more. It is estimated that TCO for SaaS is as much as 40 percent less than that of traditional enterprise software.

MACH: Today's economic conditions are evident by some of the world's largest organizations cutting jobs, getting acquired, or going bankrupt. These economic hardships are clearly affecting the increase in transitioning to an SaaS. Regardless of size, a company can decrease the cost of building, deploying, and maintaining applications.

What is the difference between SaaS and Cloud Computing?

KALMAN: Cloud Computing is any subscription-based or pay-per-use service that offers existing technology to a company via the Internet. This may include use of virtual servers with access to licensed server installed software. In essence the same licensing of desktop installed software you might normally obtain, however everything is virtual to your company via the hosting provider. SaaS is a subset of Cloud Computing that is a single hosted application capable of supporting thousands of customers via a multi-tenant architecture, and is often associated with low upfront investments.

MACH: The difference between SaaS (software as a service) and Cloud computing are used interchangeably. SaaS is a hosted application usually by a third party who built the application, owns the code and application infrastructure and offers a pay as you go model. This provider delivers application updates in real time, and maintains the application infrastructure and

availability. The applications are typically web based. Cloud computing can be termed as the entire IT infrastructure including line of business applications, server and network infrastructure resources, applications such as word processing and spreadsheets like Google Apps. The SaaS can run in the cloud. Cloud computing can be a NAAS (Network as a Services) Daas (Data Center as a Service) or delivering IT resources over the web. Providers such as IBM, Amazon, and Apex IT Group offer cloud based services or IT as a service delivery model. The benefit of this is that the company subscribing to a cloud service does not need up front infrastructure and can pay as you grow or scale back as the business scales. This is a very economical choice for

LOO: Software-as-a-Service (SaaS) is a model of software deployment where an application is hosted as a service provided to customers across the Internet. Cloud computing refers to the delivery of services or software from a location other than your current one. Cloud computing enables users and developers to utilize services without experience or control over the technology infrastructure that supports them. The cloud is a metaphor for the Internet. Most of the current Cloud Computing offerings provide computational capabilities and not application capabilities.

Is SaaS a fad or is it here to stay?

KALMAN: SaaS is a sensible model for both user and provider. It's this "win win" scenario that makes it so appealing, and why industry analysts such as Gartner Group and IDC are projecting SaaS to double over the next five years to be a \$12 to \$18 billion industry. I believe we are still at the early stages of SaaS adoption and we will see a flurry of solutions and advanced feature sets become available over these next five years.

MACH: Industry analysts such as Gartner, The Yankee Group, and IDC seem to hold a lot of weight in their predictions and have been fairly accurate. SaaS is expected to grow at a 32 percent CAGR between 2007-2011, and SaaS providers continue to increase revenues and new client acquisition. Other mainstream vendors including Microsoft, IBM, and Sun are transitioning to an SaaS based or Cloud Computing Model. So I am confident in my comments that SaaS is here to stay. SaaS will affect a lot of the big software providers whose business model relies on heavy license and renewal fees as well as custom

development services. The transitions to SaaS can affect players like Microsoft, Oracle, and SAP. These players have foreseen these issues and are taking the steps to transition to an SaaS based delivery model. This transition to SaaS can have an impact on internal development departments declining need for in house development resources but increase the need for talent in the SaaS provider. So the transition is already in progress.

LOO: SaaS is not a fad. According to analysts at Forrester Research, an independent technology and market research company, SaaS adoption is being driven by improving software flexibility, independence from internal IT, and relief from software upgrades. Rather than expensive on-premise implementations that require additional hardware, dedicated resources and expensive upgrades, an SaaS deployment of software offers a cost-effective alternative. More and more SaaS applications are developed and becoming available because the benefits are overwhelming.

How does SaaS impact globalization?

MACH: SaaS can fuel globalization considering SaaS delivery concepts are web-based. This allows an organization to recruit talent from around the world and collaborate on the same information as if it were local to that user. A sales force can now deploy sales information quicker, technical workers can now track information from anywhere in the world and become more productive, finance and accounting personnel can access financials from anywhere and make decision faster. Supply chain management can find information faster so a plant floor worker can see the status of raw material development in an overseas plant. The globalization benefits are outstanding. So the impediment can come into play if an SaaS based provider does not provide globalized services such as multi language support.

LOO: SaaS enables globalization by providing a single platform approach from which to consistently deliver the same solution with the same standards anytime and anywhere.

MORE

Read more about the SaaS services provided by Cybershift, eZCom Software and Apex IT.



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