

Why software-as-a-service makes sense

For years, organisations of all sizes have suffered through the hassles and unexpected costs that accompany deploying and maintaining a variety of traditional software applications which ironically were intended to make them more productive.

Now, a new breed of web-based software services are pushing 'legacy' applications aside and finally giving users the fundamental business benefits they've been seeking.

This new form of "Software-as-a-Service" (SaaS) has been spearheaded by salesforce.com's customer relationship management (CRM) and salesforce automation (SFA) applications, and NetSuite's 'net-native' enterprise resource planning (ERP) applications.

These companies have recognised the inherent inefficiencies of the traditional software market, including the tremendous time, effort and cost which organisations - especially large-scale enterprises and mid-size businesses - had to expend to install applications and keep them up and running.

In addition to the upfront software license fee, organisations often had to upgrade their systems to support the new applications and employ an army of consultants to customise the software to meet their specific corporate requirements. These added hardware investments and consulting fees could increase the application deployment costs tenfold.

As if generating a meaningful return on investment (ROI) from the rollout of new applications wasn't hard enough, many organisations never fully implemented their applications because of unanticipated deployment problems. Others have never fully utilised or maintained their applications because they were too cumbersome.

How SaaS and ASPs Differ

Software-as-a-Service is the delivery of business applications and software utilities via a network on a subscription fee basis. Most SaaS solutions are provided via the web, and priced on a per user or transaction basis.

SaaS isn't a new idea. In fact, it is an outgrowth of the application service provider (ASP) concept that emerged during the Dot.com era. At that time, many hosting companies tried to satisfy the software needs of large-scale enterprises and small/mid-size businesses (SMBs) by reselling legacy applications and assuming the responsibility for housing the apps on their centralised servers. Nearly all of the ASPs failed and disappeared because customers still had to assume the upfront cost of the initial software license

and weren't ready to rely on a third-party, service provider to manage their mission-critical applications.

Times have changed. Today's economy and competitive pressures make nearly any form of outsourcing fair game, and SaaS is essentially an outsourced application management business.

Unlike the hosted legacy applications, the architecture of the new web-enabled SaaS applications enables them to be sold as a 'subscription service' without the upfront, capital expense of a traditional, perpetual license agreement. The scalability of the new generation of SaaS solutions also enables users to incrementally increase their subscription levels based on their actual usage levels rather than having to acquire a traditional software license for applications which may never be fully utilised. In addition, the web-based architecture of the new SaaS applications makes it possible to roll them out quickly and access them from anywhere at anytime via the web.

The SaaS Market Penetration Model

From a sales and marketing perspective, the web-based architecture has also enabled many SaaS vendors to offer free trials and even single-user subscriptions which enable individuals to test SaaS solutions and circumvent their existing corporate applications. This has been a pivotal component of Salesforce.com's market penetration strategy as it positioned its CRM and SFA solutions as more user-friendly alternatives for salespeople frustrated with the hassles of using Siebel and other traditional applications.

As individual salespeople became comfortable with Salesforce.com, entire sales departments began to adopt it and broader organisations were forced to pay attention to the functional and economic benefits of Salesforce.com.

This market penetration model is being replicated by SaaS vendors in other sectors of the software industry, including collaboration and project management, as well as marketing and channel management.

SaaS Ecosystems

Some people believed user acceptance of SaaS would be limited to SMBs because they thought it couldn't be customised or scaled to meet the demands of larger enterprises. However, today's SaaS applications permit greater customisation and a myriad of third-party application program interfaces (APIs), clearinghouses, and platforms, such as Salesforce.com's AppExchange, are making it easier to integrate multiple SaaS solutions.

This 'ecosystem' is fuelling viable SaaS alternatives to traditional software applications for nearly every business requirement. In January, THINKstrategies launched an online directory of SaaS offerings www.saas-showplace.com that already has over a hundred SaaS providers offering over 500 solutions in seventy application areas such as accounting and expense management, compliance and risk management, document management, human resources, logistics, supply chain and vendor management solutions, as well as specific vertical markets.