

The Business Benefits of Software-as-a-Service: Making the Most of the On-Demand Advantage



A White Paper for Growing Businesses

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Executive Summary

Software-as-a-Service (SaaS) is a growing phenomenon in worldwide business today. From the original ideas of outsourcing the data center and having third parties manage the software (the ASP movement of the turn of the century) to true SaaS today, the tsunami of outsourced IT and new methods of accessing business software solutions gives CIOs the applications they need to deliver, without the infrastructure and capital costs of bringing applications on site.

Research backs up the widespread adoption of SaaS in business:

- IDC reports that it expects customer spending on SaaS to increase to \$14.8 billion by 2011.¹
- Gartner Group reports that SaaS revenue in enterprise application software alone will grow 21% in 2007 — to reach \$11.5 billion by the end of 2011.²
- Two out of three businesses are either buying or considering buying software via the subscription model.³
- McKinsey reports that the proportion of CIOs considering adoption SaaS applications in the coming year has gone from 38% a year to 61%.⁴

SaaS — also referred to as "on-demand software" — is not "same old software — as a service." It represents a breakthrough in technology delivery, serving as a powerful catalyst for changing the value proposition and economics of business management.

This white paper, one of the **NetSuite Business Series for Growing Businesses**, explores the business advantages and considerations in moving to "on-demand" — and running your business via Software-as-a-Service.

To grow your business, you want to invest in:

- Your people
- Tools and technologies that give you insight into your business
- Timely opportunities that can differentiate you from your competition.

In the current economic climate, the challenge is finding a way to do all of the above without adding to your on-site IT infrastructure and staff.

¹ Erin TenWolde, Research Analyst, IDC. August 2007.

² "SaaS Demand Set to Outpace Enterprise Application Software Market Growth." Gartner Group. August 2007.

³ "Businesses Get Serious About Software-as-a-Service." InformationWeek Research. Reported in InformationWeek, April 14, 2007.

⁴ Abhijit Dubey. McKinsey. Panel at the SIIA OnDemand Summit. San Jose. November 8, 2006.

Enter Software-as-a-Service (SaaS): here we will look specifically at the business benefits to mid-market companies. This paper will explore the advantages of SaaS as an alternative to sinking valuable investment dollars into high-cost-of-ownership/low-return business strategies.

But first we will define the terms we are using. Consider the following industry definitions:⁵

- **On-Premise**
 - Software developed internally or purchased via a perpetual license
 - An up-front capital expense
 - Software that runs entirely within the hardware systems of its owner or licensee
 - The consumer is responsible for the management of the software installed
 - Customers may be on many different releases of the software
- **Hosted software**
 - Licensed software for which the supporting infrastructure and application support is outsourced to a third party
 - Single tenant software
 - The consumer may configure the software, but the technical infrastructure that hosts the software and its management is outsourced
- **ASP**
 - Application service provider
 - The software developer often hosts the application directly
 - Popularized today through standalone applications that are delivered over the Internet
 - Multi-tenant application⁶
 - Created a reputation as inflexible and hard to customize
 - The consumer accesses the software and does not manage it.
- **SaaS** (also referred to as on-demand)
 - Software-as-a-Service
 - Hosted software based on a single set of common code and data definitions that are deployed in a one-to-many model by all contracted customers at any time
 - Hosted software sold on a pay-for-use or a subscription based on usage metrics (instead of a perpetual license)
 - “Pay as you go” operational expense rather than a capital expenditure
 - Highly responsive and scalable (upwards and downwards) solutions that cover entire business processes
 - User access to the application is over the Internet
 - Flexible and customizable solutions
 - The applications are multi-tenant and Web-native
 - The management, support, and upgrading of the software and the infrastructure that supports it is the responsibility of the solution provider

Research indicates that a sizeable proportion of organizations expect that on-demand services would allow them to adopt new applications they could not have previously cost justified.

⁵ Brian Sommer. TechVentive, Inc. 2006.

⁶ For more information on multi-tenancy and other technical aspects of Software-as-a-Service, please see the NetSuite white paper, “The Technical Advantages of Software-as-a-Service,” available at www.netsuite.com.

The ASP movement at the beginning of the century introduced a novel concept for application use: “apps on tap.” While the term died away with the ASP model,⁷ the concept is still useful for us to consider: business applications that are available and paid for like your utilities — think electric power — and are there when you need them, while you only pay for what you use.

The business reasons for the very high adoption rates of SaaS, as stated by industry analysts, include:

- More rapid access to state-of-the-art technology
- Shift in focus to core business management, rather than disproportionate attention on the computer environment
- More rapid time to production
- Improved security, performance, and availability
- Reliable access to data, anywhere, anytime
- Greater ability to scale as business needs change
- Lower cost of business solution ownership
- Predictability of costs over time
- Avoidance of technology lock-in
- Increased risk mitigation with better support for compliance.

SaaS in the Market Today

Business solutions delivered as service are a rapid and substantively growing presence today. Researchers IDC and Merrill Lynch forecast that close to \$8 billion dollars will be spent on SaaS solutions in the Americas alone in 2008.⁹ THINKstrategies has found that enterprises of all sizes are rapidly adopting SaaS to overcome the hassles and costs of implementing traditional packaged applications.¹⁰

And the growth in SaaS deployments is a worldwide phenomenon. Barriers to SaaS adoption are perceived to be lower in Europe than North America.¹¹ Saugatuck Technology reports that European SaaS adoption will follow very similar patterns to what has occurred in North America, albeit with a 12-18 month lag, reflecting the increasing level of comfort that centralized IT organizations have SaaS.¹²

“SaaS is now beyond the 'tipping point.' This applies not only to the North American market (where adoption rates are even higher), but what appears to be an emerging breakout scenario for Europe, which is poised for equally rapid growth 2007-2008.”⁸

— Mike West
Saugatuck Technology

7 Many of the turn-of –the-century ASPs were caught in the dot.com bust with unsustainable business models; some provided only point solutions that were not competitive. Most pre-dated the multi-tenant architectures that support competitive SaaS solutions today.

8 SaaS Adoption Tsunami: Redefining Software and Services. Mike West. Saugatuck Technology. March 27, 2007.

9 Figures from IDC and Merrill Lynch, 2006. Chart created by Brian Sommers, TechVentive. 2006.

10 Jeffrey M. Kaplan, Managing Director, THINKstrategies. “Will Software-as-a-Service Grow Significantly in 2006? If So, What Apps Will Be Hot?” Smart Biz. Jan 09, 2006.

11 “The State of Enterprise Software Adoption in Europe.” Kevin Lucas. Forrester Research. January 29, 2007.

12 SaaS Adoption in Europe: A Closer Look at Rapid Growth. M. West and M. Koenig. Saugatuck Technology. May 25, 2007.

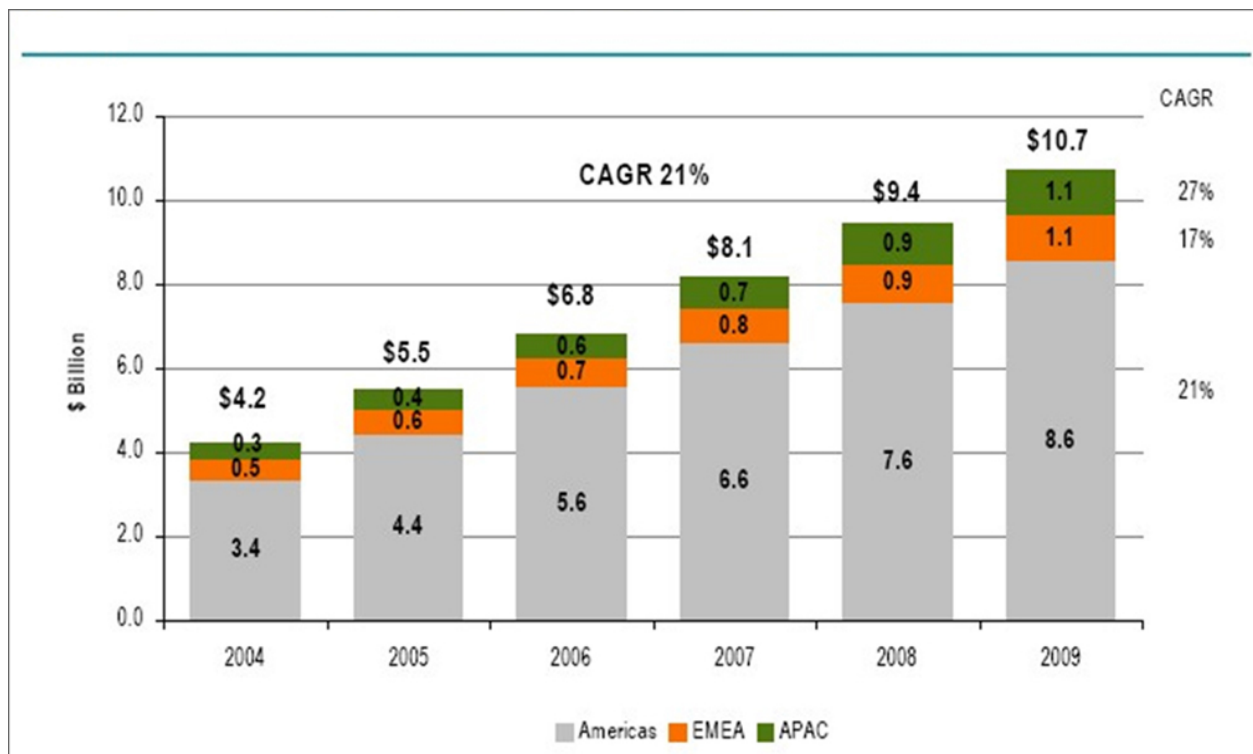
Software-as-a-Service (SaaS) is gaining ground among small and medium-sized businesses (SMBs) in Japan, according to AMI-Partners. On the adoption base, Japan small and mid-sized businesses using at least one type of application via SaaS model is expected to grow by 20 percent, from 13 percent to 15 percent.

The Software-as-a-Service (SaaS) market in Asia (excluding Japan) increased 92.5 percent in 2006 to reach a market size of US \$154 million, and will grow 83 percent in 2007, according to Springboard Research. The market researchers forecast that the SaaS market in Asia will reach US \$1.16 billion by 2010, based on a compound annual growth rate of 66 percent. By then, SaaS will comprise 15 percent of the enterprise software application market.¹³

India is the fastest growing SaaS market in Asia Pacific, with revenues exceeding US \$48 million by 2008, up from US \$7 million in 2005.¹⁴

Figure 1 summarizes the anticipated growth of Software-as-a-Service in the Americas, EMEA, and Asia.

Figure 1. International Growth Projections for Software-as-a-Service



Source: IDC, Merrill Lynch

¹³ "The Software-as-a-Service Market in Asia Pacific, 2006 to 2009: Expanding the Reach and Appeal of Software." Springboard Research. July, 2007.

¹⁴ "The Software-as-a-Service Market in Asia Pacific, 2005 to 2008: Blazing New Routes-to-Market." Springboard Research, June 2007.

Michael Mankowski, Senior Vice President, Tier 1 Research, sees SaaS gaining significant traction across all sizes of companies as its value proposition resonates with firms who:

- Do not want/cannot afford an IT staff;
- Require a rapid ROI (just about every company on the planet);
- Want a predictable cost structure;
- Want universal access to their business functionality any time, anywhere;
- Seek worry-free upgrades; and
- Want to quickly ramp up new business functionality without having to engage consultants/integrators.¹⁵

Software-as-a-Service provides a lower cost of entry and typically requires less staff to implement because onsite installation and maintenance are nonexistent. Additionally, on-demand solutions take less time to deploy. SaaS is simply cheaper, faster and requires less human capital.

Yankee Group¹⁶ compares licensed software to Software-as-a-Service in the following chart (Table 1):

Table 1. Value Comparison: Licensed Software vs. Software-as-a-Service

Licensed Software	Software-as-a-Service (SaaS) Solutions
Pay upfront capital expense	Pay-as-you-go-operational expense
High upfront cost and annual maintenance costs	Lower upfront subscription costs depending on number of users per month
Cost for applications, maintenance, infrastructure and IT/application resources	Cost for annual subscription and minimal IT/application resources
Longer time required to install and configure applications	Faster implementation and time-to-productivity
Not much control over vendor after purchase	More control over relationship with vendor
Greater risk for users	Better risk sharing with vendor

The High Costs of On-Premise Software

Businesses today can spend a huge amount of their budget on the software packages that they use to manage their business operations. They also spend an even larger amount on the hardware, networking, and operating software infrastructure that is required to support those applications. But they spend even more than that on the staff to service and manage them.

¹⁵ Michael Mankowski, Senior Vice President, Tier 1 Research. Ibid.

¹⁶ "SMBs Prefer an Integrated Business Applications Suite." Yankee Group. 2006.

The initial and recurring costs of providing applications in-house can exceed a whopping \$10,000 per user, per year.¹⁷ Hardware costs comprise less than 15 percent of this total. The remaining 85 percent include costs of network and communications infrastructure; the cost of personnel required to develop or acquire, maintain and update applications; and on-going technical support.

In part, it is the increasing cost and complexity of on-premise hardware, increased storage requirements, the need for more sophisticated firewalls, security, and the data center that is far too complex to manage internally that drives mid-market businesses to Software-as-a-Service. But there are even more challenges faced by users of on-premise business applications. Business management solutions installed in-house characteristically incur the following IT and technology costs:

- a) Cost of a database, operating system(s), middleware, and other infrastructure software licenses
- b) Recurring costs for infrastructure software upgrades and maintenance contracts
- c) Cost of IT staff or external IT contractors
- d) Cost of a database administrator
- e) Cost of reiterative integration of diverse, fragmented or homegrown applications
- f) Cost of multiple applications, multiple support contracts
- g) Cost of reiterative customization (customizations that have to re-built with each new revision of the underlying software)
- h) IT costs and concerns associated with maintaining and upgrading separate applications (including the test center, time and expertise required to pilot all new software releases before putting them into production)
- i) Cost of training to keep administrators current with new infrastructure technologies (data communications, operating systems, data bases, web servers, etc.)

Companies considering their software spend often forget or ignore the cost of user training, and more importantly, the long-term cost of software maintenance — upgrades, integration expenses, and the cost of conducting these tasks over and over again — each time requiring more payments to consultants, integrators, VARs, or other “experts.” They also ignore the cost of IT time: the amount of time the IT staff spends on software management and upgrades. **Yankee Group concludes that IT systems and applications support people account for 30 percent to 60 percent of total five-year costs.**¹⁸

The Business Benefits of Software-as-a-Service

Experts agree that there are many very distinctive business benefits to running a business via Software-as-a-Service. These include lower cost of ownership, access to state-of-the-art versions of your application, faster time into production, and access to a superior computing environment than most customers can provide for themselves. Equally compelling, however, is the concept of focus within your company: the ability to focus on your business and not be distracted by the upheavals of managing a technology infrastructure and the IT staff to keep it under control.

¹⁷ Several studies conducted by independent consulting organizations such as Gartner Group, Forester Group, and the Tolly Group.

¹⁸ «TCO of On-Demand Applications Is Significantly Better for SMBs and Mid-Market Enterprises.» Yankee Group. June 1, 2005

Let's look at what research tells us are the principal benefits of the SaaS model for accessing business management applications.

SaaS Advantage 1: Cost of Ownership

The cost of initial start-up may be the most well-known in cost savings with SaaS. Because the subscription model for licensing provides predictable costs (not possible with licensed software), budgeting and planning is easier and more reliable. In addition, with modular product availability, companies do not pay for functionality they do not need or want to use.

Only with the advent of the Software-as-a-Service did the economics of managing the technical aspects of a business change radically — allowing businesses to use sophisticated software applications over the Internet, availing themselves of more robust solutions with better security and management with greater economy than they could ever purchase and manage in-house.

According to The Gartner Group, application outsourcing can reduce total cost of ownership (TCO) by 50 percent or more in some cases. In part this is due to the fact that the on-demand provider acts as a technology aggregator, allowing organizations to capitalize on the economies-of-scale of a shared data center, network, and management services. SaaS provides cost-avoidance, freeing organizations from capital investments, upgrade and ongoing management costs.

One area of significant savings, often overlooked, that is incurred with the on-demand model merits mention: the savings gleaned by eliminating the cost of lost productivity. With an on-premise data center, costs are incurred from:

- The inability to access applications due to computer downtime
- The inability to access applications due to computers taken offline for upgrades or replacements
- The inability to access applications due to software upgrades
- Lost productivity due to overly complex systems issues impacting performance of the physical environment
- Lost productivity due to employees re-entering the same data in different applications
- Lost productivity when users struggle with difficult or arcane applications.

Another cost issue often overlooked is the cost of remote access. This cost is mitigated in the on-demand environment because SaaS provides remote users continual access to core business data — anytime, anywhere. Web access eliminates the expense and need for dedicated T1 lines, cumbersome on-premise Citrix implementations, dial-up support, and the like, to tie remote or traveling users to corporate data.

The cost of professional technology staff is one recurring issue that business owners raise when discussing the cost of ownership. Certain specific skills come at a higher cost than others, such as database administrators, network administrators, and security specialists. SaaS allows users to share the expertise of high-demand, high-cost professionals by distributing the cost across all the users.

Technical staff time is also saved because the on-demand applications solely need a Web browser for application access. Unlike the client/server models in which an administrator had to load code on each client workstation or laptop, today's browser-based systems require no more than the initial Internet software that shipped on the laptop or

“IDC believes the midmarket in particular represents a source of opportunity for SaaS, as it has provided an alternative to costly software acquisition and given access to many small- and medium-sized businesses that otherwise could not afford software.”

— Erin TenWolde
IDC Research

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PC. And the time to upgrade all of a company's client devices can be significant, leaving the user unable to work during the process.

The final point that is compelling about the SaaS cost models is its predictability of expenditure over time, which is vastly different from that of on-premise solutions. And for the accounting team, the cost of access is an operating expense, not impacting the books the way a huge capital investment in on-premise software would be.

SaaS Advantage 2: Faster Time-to-Production

The time to deploy an application determines just how quickly the organization can benefit from it. Unfortunately, large and complex implementations can take months or years to complete, especially when IT professionals are in short supply, users are located around the world, and disparate new business units must be brought on-line. Organizations often find that are they simply cannot upgrade infrastructures, adopt and deploy new technology fast enough to keep pace with their business needs. And protracted in-house implementations consume already limited IT resources that could be used to pursue more strategic business goals. The impact of time-to-production correlates with productivity loss in terms of personnel unable to do their jobs at maximum efficiency until the new system is deployed.

An on-demand model allows you to move at the speed of business, unencumbered by hardware, software, network, and staffing constraints. As a result, organizations can focus on the competitiveness of their operations, rather than IT.

SaaS Advantage 3: Enhanced Scalability

Companies expand and decrease in size over time; witness the compression in employee counts with the dot.com bust at the start of this century and the following expansion. While most proponents of the SaaS model talk about the ability to seamlessly add companies, employees, higher volumes and transaction counts over time, it is important to note that both business expansion and contraction is accommodated easily in the SaaS model. The on-demand model is designed for rapid scaling; applications are immediately available to new users when they are required, giving organizations the flexibility to expand operations without waiting for their IT infrastructure to catch up. Organizations can simply "turn on" new applications, as they are needed. This guarantee of flexibility is not possible in any other business model today.

SaaS Advantage 4: Improved Data Security

A company's corporate jewels are very often in its data, whether it is customer lists, formulas, strategies, or secret sauce recipes. However, many mid-sized companies lack the ability for reliable fail-over and backup capabilities.

When looking at the outsourcing of backup alone, Lauren Whitehouse, an analyst at the Milford, Mass.-based consulting firm Enterprise Strategy Group, says the strategy has become increasingly popular because many CIOs lack the budget and wherewithal to invest in elaborate backup plans.

"When you don't have the resources to build out an elaborate and bleeding-edge backup strategy, this is a great alternative," she says. "It's affordable, it's safe, it's trustworthy and, most importantly, it works."

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In general, the SaaS provider has far more resources to provide thorough and extensive data security options than a single company can provide for itself. In addition, the computer centers are guarded and secured from the casual access that employees may have to on-premise data sites. While corporate sabotage may be rare, it is generally caused by internal (often disgruntled) staff or ex-employees. And beyond the security of backed-up data, are issues of computer availability and performance, database tuning, and many factors that are better managed in a professionally run center that is conducted as a business unto itself than in a small- or mid-sized company trying to focus on its own business operations.

SaaS increases both data and plant security — at a far lower cost.

A SaaS provider's security systems far exceed what a small to medium-sized business could afford to deploy. These providers have the technical resources to deploy quality firewalls and physical security and can spread that cost over a number of customers. As a result, the businesses that deploy via the SaaS model enjoy a much higher level of security than they could ever have on their own.

SaaS Advantage 5: Better, Faster Support and New Functionality

SaaS creates advantages for the solution provider who develops, distributes, and maintains the software solution. These advantages create very real benefits for companies who use SaaS as well. Thus, costs saved by the supplier are passed to the customer in that all customers are on a common release — easing vendor support for multiple versions dispersed all over the world.

The real-time nature of the on-demand model directly provides a much faster feedback loop for the company's development organization. With typical on-premises deployment, it can take months or even years to get software implemented, gather user feedback, make the software changes, get new releases deployed, and create any bug fixes necessary to keep customers happily up and running. With the visibility the provider gets from hosting the application in a closely managed environment, the supplier of the solution can always get faster and better feedback and dramatically shorten response time to customers, on the one hand, and the time to develop and deploy fixes or features that customers want and need on the other.

This is radically different with an on-premise application:

When an on-premise application seems to be “broken,” and the customer reports it to the vendor, the cause could easily be related to hardware in the customer site, interaction with other software, the network, or other components into which the remote support site has no visibility. Because in an on-demand scenario, the entire environment is known to the support and development teams, they do not have to second guess what might be going on at the customer location. In addition, the proximity of the development organization to any manifestations of a software problem means they can be addressed rapidly and thoroughly. This allows constant close monitoring of the performance and characteristics of the software and allows support to quickly react to and fix functional or architectural problems were any to result.

At NetSuite, the customer support and development organizations are right on site to immediately review and address anything that is appearing as a problem to the user community.

And, only with SaaS does the customer have the benefit of painless upgrades, rather than planned downtime wrestling with new software editions.

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SaaS Advantage 6: Business Predictability

Uncertainty is a hallmark of IT projects: as many as 70 percent are not completed on time, on budget, or at all. Applications, particularly those that are business critical, must reliably perform the function for which they are needed, at the level of service that is required. However, shortened technology release cycles and overnight obsolescence often means new business applications are incapable of running within an existing technology infrastructure.

Additionally, mission-critical applications encounter frequent uptime, security and performance challenges, which can mean downtime, lost customers and millions of dollars. SaaS provides increased freedom from technology churn, while supplying more predictable and reliable IT operations than many organizations can achieve internally. Today, on-demand providers such as NetSuite are delivering service level agreements (SLAs) for 99.5 percent application and system uptime, helping organizations avoid the opportunity cost losses of system downtime.

SaaS Advantage 7: Enhance Your Relationships

SMBs can enhance their own customer and partner relationships by giving both groups password-protected access through specifically designed customer and partner portals or dashboards, providing them with timely, individualized business information, and support and help over the Web. Businesses can also receive better support from their own accountants and consultants by providing them access to their data, if they choose. In all, SaaS makes it far simpler to integrate business partners, customers, suppliers, and the channel into a collaborative business model.

Conclusion

Software-as-a-Service is a paradigm-changing model for addressing business management. It is uniquely positioned to allow small and mid-size companies to access sophisticated, state-of-the-art technology like the “big boys.” It is well-suited to growing businesses in that it provides the flexibility to support agile, rapidly changing companies, while being scalable to accommodate rapid growth. Software-as-a-Service lowers the cost of business-solution ownership, and provides predictability of costs over time. It provides more rapid time-to-production and value while avoiding the technology lock-in of licensed applications. SaaS provides improved security, performance, and availability with reliable access to data anywhere, anytime via an Internet browser. Companies report that the risk mitigation of reliable back-up and storage, coupled with audit trails, improves their support for compliance and better governance.

And because Software-as-a-Service significantly reduces the cost of technology ownership, you can invest your capital elsewhere, allowing you to run your business, not your software.

The Business Benefits of NetSuite

NetSuite is the premier on-demand business management solution for small and mid-market companies. It is available only as Software-as-a-Service over the Web, so you have no costly hardware or software fees, no expensive integration of standalone products, or difficult upgrades to contend with. NetSuite is the first and leading on-demand complete business management suite that allows you to manage all your back-office and front-office operations with one single system. It includes everything from inventory and warehouse management to shipping automation, accounting, CRM, sales force automation, customer support, listing management, ecommerce, employee productivity tools, and much more.

Using NetSuite, your entire business — accounting, sales management, customer service, employee and partner management, and your own web store — is integrated, so you can improve your productivity by streamlining operations and automating processes across the company.

Some of the key benefits you can gain from NetSuite are:

- **Unified Business Processes across the Enterprise**
With a single, integrated platform for CRM, accounting/ERP and e-commerce, you can automate key business functions across all departments, including sales, marketing, service, finance, inventory, order fulfillment, purchasing, and employee management. Your employees no longer have to re-enter data in different systems, rectify inconsistent or inaccurate data, or wait for batch updates. Instead, all your employees view and share accurate data in real time, leading to greater collaboration among departments and increased productivity across your business.
- **Increased Visibility for Better Decision Making**
Customizable dashboards offer real-time access to key performance metrics, supporting intelligent, timely business decisions. In addition, full visibility into unified customer records results in more efficient and highly personalized sales, fulfillment, and service processes. NetSuite dashboards are role-based, providing “out-of-the-box” relevance to employees’ individual job functions.
- **Ability to Extend Processes to Customers, Suppliers, and Partners**
Given today’s need to work closely with partners through an extended enterprise, NetSuite offers self-service portals that enhance both business-to-business and business-to-consumer collaboration. In addition, proactive notification of partner-specific events accelerates process cycles and improves responsiveness, ensuring your position as a preferred partner.
- **Customization to Address Your Specific Business Needs**
NetSuite is the world’s most customizable Software-as-a-Service application. “Click-not-code” configuration and modular implementations jumpstart your business on NetSuite. Advanced customization with simpler, industry standard tools allows you to tailor business practices and processes to meet your specific company and industry requirements. Because our customization carries forward seamlessly with upgrades, we actually encourage you to highly customize NetSuite to create your one-of-a-kind software application.

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- **Support for Your Compliance Goals**

NetSuite includes audit trails that allow you to see changes that are made to data sets or business processes. Actions are “remembered” so you can always know what happened when and by whom.

- **Superior Value with an Affordable Solution**

Built as a Software-as-a-Service solution from the ground up for growing and mid-size businesses, NetSuite offers affordable pricing, accelerated implementation, and comprehensive support packages that result in unbeatable TCO. Plus, you eliminate the costly and time-consuming integration often associated with using a patchwork of disconnected systems. NetSuite also provides leading-edge professional services and educational programs that ensure efficient implementation and continued, long-term success.