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Software-as-a-Service Myths

A consultant explains why this new breed of Web-based software has staying power

For years, organizations of all sizes have suffered the hassles and unexpected costs that accompany deploying and maintaining a variety of traditional software applications that, ironically, were intended to make them more productive. Now a new breed of Web-based services are pushing legacy applications aside and finally giving users the business benefits they've been seeking.

This new form of software-as-a-service, or SaaS, has been spearheaded by Salesforce.com's ([CRM](#)) customer relationship management and salesforce automation applications, and NetSuite's "net-native" enterprise resource planning applications.

These companies have recognized the inherent inefficiencies of the traditional software market, including the tremendous time, effort, and cost that organizations -- especially large-scale midsize businesses -- have to expend to install applications and keep them up and running.

Despite the success of these companies, many people are still skeptical about the long-term success of SaaS. Others are concerned that recent Salesforce.com outages represent a fundamental fault line in the SaaS landscape.

As someone who has consulted with a variety of SaaS users and vendors and manages a rapidly growing directory of SaaS players, which can be seen at [saas-showplace.com](#), here's my response to some of the most common myths associated with SaaS.

Myth #1: SaaS is still relatively new and untested.

Salesforce.com has been in business over five years, has more than 399,000 subscribers at 20,500 companies worldwide, and is growing at about 80% a year. NetSuite has been in business eight years, and company officials say it has thousands of customers globally using its online applications.

The oldest and biggest SaaS purveyor? ADP ([ADP](#)) -- the world's largest payroll application outfit -- has been in business for nearly 60 years, generated \$8.5 billion in revenues last year, and served about 590,000 clients worldwide.

Myth #2: SaaS is just another version of the failed application service provider, or ASP, and hosting models of the past, and will suffer the same fate as its predecessors.

While SaaS isn't a new idea, the economic climate and rapid advancements in application development tools have combined to make today's SaaS providers more successful than their predecessors.

The ASPs and hosting companies of the dot-com era failed for two reasons. First, they did not fundamentally change the architecture of their software applications, but simply resold legacy applications to organizations that didn't want to house them on their own systems. The up-front and ongoing costs of hosting legacy applications proved to be too much for the ASPs to withstand.

The second reason the ASPs and hosting companies failed: Only a small segment of the market was willing to outsource their application needs to relatively untested outfits because most companies during the dot-com era felt that their IT operations and business applications were a strategic asset.

Times have changed. Today's economic and competitive pressures make nearly any form of outsourcing fair game. Many companies now consider various IT functions and business applications commodities and not core competencies. This has made SaaS, essentially an outsourced application management business, more attractive today than ASPs and hosting services of the past.

Myth #3: SaaS only relieves companies of the up-front costs of traditional software licenses.

SaaS not only alleviates the costs of traditional perpetual licensing fees but also eliminates the need for additional IT infrastructure investments to support new applications.

A variety of enabling technologies, such as service-oriented architecture and Web services, permit SaaS to be more easily provisioned and metered based on actual usage levels. This means companies no longer have to pay for excess capacity. The bottom line? Lower total cost of ownership and quicker time-to-value.

Myth #4: SaaS is only for small- and midsize businesses and will not be accepted by large-scale organizations.

Companies of all sizes are taking advantage of SaaS. The scalability of the new generation of SaaS solutions enables users to test the reliability and performance of on-demand applications in limited deployments, and expand their adoption incrementally.

Many SaaS vendors have emulated Salesforce.com's market penetration strategy of appealing to individual users with free trials or low-cost single-user subscription fees with the intent of permeating the market, and then winning business unit and enterprise-level adoption in major corporations.

Today, Salesforce.com counts a growing number of Global 2000 and other brand-name companies as its customers, including AOL ([TWX](#)), Avery Dennison ([AVY](#)), Nokia ([NOK](#)), Perkin-Elmer ([PKI](#)) and SunTrust ([STI](#)).

Myth #5: SaaS only applies to applications such as customer relationship management and salesforce automation.

While SaaS certainly makes sense for many front-office functions and team-oriented collaboration purposes, SaaS solutions are emerging to address nearly every business application need. These range from accounting and financial applications to supply chain and channel management solutions.

For example, Aramark ([RMK](#)), Dow Chemical ([DOW](#)), HP ([HPQ](#)), Honeywell ([HON](#)), Hyatt Hotels, Roche, and Wachovia ([WB](#)) rely on Taleo's ([TLEO](#)) SaaS talent management solution. On-demand supply chain management vendor Click Commerce ([CKCM](#)) boasts Arrow Electronics ([ARW](#)), Delta, Tyco ([TYC](#)) and Volvo ([VOLVY](#)) as customers.

Myth #6: SaaS will only have a minor impact on the software industry and will fade over time.

A third of the respondents to THINKstrategies' recent survey said they are already using SaaS, and another third said they are planning to adopt SaaS in 2006. Other research firms have generated even higher ratios.

As SaaS gains mainstream acceptance, it is becoming an important disruptive force in the software industry. And as long as the quality and reliability of SaaS solutions continues to improve, the appeal of SaaS isn't going to go away.

In response to these numbers and other industry trends, Microsoft Chairman Bill Gates stated in an internal memo that became public last fall: "This coming 'services wave' will be very disruptive....Services designed to scale to tens or hundreds of millions will dramatically change the nature and cost of solutions deliverable to enterprises or small businesses."

Myth #7: It will be easy for the established software vendors to offer SaaS and dominate this market.

Nearly every established software vendor is being forced to determine how to revamp their legacy application business models to join the SaaS movement. This isn't a small challenge.

Legacy software companies have to re-architect their applications to make them work on the Web. They also have to redesign their sales and financial models to accommodate the pay-as-you-go SaaS fee structures. And they have to rebuild their corporate cultures to make them more service-oriented rather than product-centric.

It could be argued that Siebel was acquired by Oracle ([ORCL](#)) last year because it wasn't up to the task of fighting off Salesforce.com. Now Oracle, Microsoft ([MSFT](#)), and SAP ([SAP](#)) must respond to the SaaS movement while trying to avoid cannibalizing their existing software business in the process.

Myth #8: SaaS is only for corporate users.

Anyone who uses McAfee ([MFE](#)) or Symantec ([SYMC](#)) antivirus software to protect their home PCs likely uses their subscription and 'live update' features, which represent another example of SaaS. Microsoft's new

"Live" version of its popular Office productivity applications is aimed at small and midsize businesses and the home user. And don't look now, but online gaming and video-on-demand also can be considered forms of SaaS.

By Jeffrey Kaplan