

SaaS Revival: The Curious Case of Software-as-a-Service

The exponential benefits of open source inherent in SaaS offerings are no secret to Small- and Medium-Businesses (SMBs). But why does this technology mysteriously remain firmly tucked away in the clouds?



For
Small
Business



SaaS: A CLOUDED PERSPECTIVE

When it was first introduced in the market back in 2006, this new technology kid on the block was hailed as the final jigsaw to business' perennial cost-efficiency puzzle. We might dismiss the first two years of its sluggish adoption to a mere "introductory adoption passing phase". But when the economic downturn struck in 2008, the perfect stage was set for this tech phenomenon to finally fulfil initial expectations and shift into mainstream gears. When the economy entered into a recession in 2009, businesses scrambled into a cost-cutting frenzy and the SaaS market burst into prominence. This can be attributed to its "renting" appeal for software and services in a shaky market, rather than purchasing them. However, today, the "next big thing" has not managed to ruffle many feathers, and its current status – is basically still just that – as we watched the tumbleweeds roll into 2010. Whilst it has been made no secret over the years with well-documented testimonials by countless IT experts endorsing the business cost-saving benefits of SaaS, yet the cloud mystery remains.

According to IDC figures, SaaS displayed a certain level of optimism with software revenues doubling between 2006 to 2008, taking as much as five per cent of the total software market.¹ However, when ERP (enterprise resource planning) software CEO Harry Debes first predicted the demise of SaaS by 2010², most would not have expected the self-fulfilling reality of his prophecy which is now beginning to unravel with its invisible marketing ink dying up together with the patience of business owners. A recent Spiceworks report revealed: 63 per cent of SMB IT professionals do not plan to use any cloud computing solutions over the next six months, regardless of their budget increases.³ If caution was the answer to uncertainty in the current economic terrain, then SaaS would be a default call to place SMBs back on the recovery path. Why, then have SMBs not jumped on the SaaS bandwagon as they continue to reject any potential cloud-centric IT proposals by Managed Service Providers (MSPs)?

¹ Software as a Service (SaaS): Cloudy in SMBs, Ron Exler, 5 Oct 2008

<http://www.mcpressonline.com/analysis/analysis-of-news-events/software-as-a-service-saas-cloudy-in-smb.html>

² SaaS market will 'collapse' in two years, Victoria Ho, ZDNetAsia, 28 Aug 2008

<http://www.zdnet.com/news/saas-market-will-collapse-in-two-years/218408>

³ State of SMB IT April 2010, Spiceworks

<http://www.spiceworks.com/voice-of-it/>

SaaS DEFINED



Firstly, SaaS is defined as any software provided and used in a utility computing context, where the services provider delivers the functionality of the application or utility infrastructure software over a network, through a services interface. Typically, this functionality is sold via a subscription model, or on a utility-style, “pay as you go” (PAYG), or per unit, basis.⁴ The SaaS business model represents a shift from a buy (on-premise) to a lease (hosted online, or “in the cloud”) acquisition model for IT solutions.

Over the years, SaaS has evolved from its predecessors performing similar functions under different names such as Application Service Providers (ASPs), On-Demand software, Cloud Computing applications, etc. SaaS is no longer a “one-size-fits-all” business as it has become increasingly ubiquitous. SaaS is available for virtually all software solutions – from customer relationship management (CRM) to Web content management. Research experts Gartner listed the top five most commonly used SaaS enterprise applications (respectively ranked) as: financials (accounting); e-mail; sales; expense management; and customer service and support.⁵ Along with the many new vendors which entered the SaaS market with new services and applications offered, businesses now find difficulty getting past the marketing clutter to get to the truth behind SaaS, especially with SaaS MSPs creating an illusionary perception that the only way for SMBs to save money is to go to the web.

HOUSTON, WE HAVE TWO BIG PROBLEMS

A recent Forrester survey suggested two main reasons behind SMB reluctance towards SaaS adoption. 51 percent of SMB survey respondents cited security and privacy concerns as their top reason for not moving into the cloud.⁶ In addition, SMBs need a true value proposition on why they need to move their data out of their premises and the real business value (benefits) they derive out of it.

A Gartner analyst has further suggested that SaaS is a technology still very much in its emerging stage, with both SaaS providers and users still on the learning curve.⁷ SMBs are particularly vulnerable to confusing marketing messages because many of their IT decisions are based on cost and convenience. Many SMBs are looking for enterprise applications that can keep up with their rapidly expanding businesses, requiring a smaller upfront investment and lower costs. The biggest drivers to adopt SaaS are the perceptions that it is more cost-effective than an on-premises (buying) solution from a total cost of ownership standpoint, and that SaaS is easier or faster to deploy than an on-premises solution. In addition, SMB owners are also skeptical and concerned about costs that can actually be saved versus using on-premises solutions with low labor rates.

⁴ *Software as a Service (SaaS): Cloudy in SMBs*, Ron Exler, 5 Oct 2008

<http://www.mcpressonline.com/analysis/analysis-of-news-events/software-as-a-service-saas-cloudy-in-smb.html>

⁵ *Gartner: 75% of Asia Pacific firms will increase SaaS Investments in 2010*, CFO Innovation, 15 June 2010

<http://www.cfoinnovation.com/content/gartner-75-asia-pacific-firms-will-increase-saas-investments-2010>

⁶ *Security concerns hinder cloud computing adoption*, Forrester Research, 4 Dec 2009

<http://just4business.eu/2009/12/forrester-research-security-concerns-hinder-cloud-computing-adoption/>

⁷ *Survey reveals SMB decision makers interested in the cloud*, SaaS Blog, 03 June 2010

<http://www.nobeysco.biz/node/175>

UNRAVELLING THE MYSTERY

As Internet technologies continue to improve, new functionality and user experiences are emerging. For example, browser-based e-mail interfaces which used to include limitations such as the inability to brand the e-mail service using your business domain name have been effectively dispelled with new Web 2.0 interface technologies, more sophisticated usage patterns and skills, mobilized workforces, and convergence of communication and collaboration services to integrated suites, making it easier for SaaS providers to offer business-grade products and opportunities to enable SMBs in acquiring integrated suites. For the SMB owner, what are the factors to consider before you decide to enter the SaaS phase?

Should you stick to the conventional path of procuring your own applications or move ahead into the cloud?

With key business data being stored with a third party and potentially neighboring your competition data, is it worth the risk?

Will your vendor expenses increase with profits on your investments? Can you include price protection clause in your SaaS agreements?

SMB Expert Laurie McCabe has also prescribed solution steps in preparation for your move into SaaS, summarized as follows⁸:

Understand the IT processes critical to your business. Most small businesses run at least a couple of on-premise software applications that are critical to their business, such as your accounting and financials. Select the right SaaS applications relevant to the nature of your business or which will improve a specific function in your business organization.

Identify and prioritize new requirements to streamline and automate. Consider the additional tasks and overlaps in how your switch will alter business workflows in the core on-premise solutions and processes that you're using. For example, for streamlining payments processing, does your accounting software vendor provide a payments processing service that can easily snap into the accounting application?

THE SaaS REVIVAL: TRENDS FOR 2010

Albeit the lukewarm reception towards SaaS on a global scale, SaaS has become more widely accepted in the Asia Pacific region in the past two years, with initial concerns about security, performance and availability gradually diminishing as SaaS business and computing models become more mature. Gartner has revealed in a recent SMB survey that 20 per cent of businesses plan to introduce SaaS into their organizations within the next 12 months.⁹ Flexibility will be the key towards successful SaaS implementation with adequate fine-tuning required for various technical issues such as pricing and engagement models that comply with legal requirements. As we trudge across a delicate economic terrain, SaaS provides more benefits and reasons for SMBs to shift data and/or applications, part or

⁸ *What is Hybrid Computing, and why should you care?* Laurie McCabe, 9 June 2010
<http://www.smb-gr.com/smb-education/what-is-hybrid-computing-and-why-should-you-care-2/>

⁹ *Gartner: 75% of Asia Pacific firms will increase SaaS Investments in 2010*, CFO Innovation, 15 June 2010
<http://www.cfoinnovation.com/content/gartner-75-asia-pacific-firms-will-increase-saas-investments-2010>



whole, out of their premises into the cloud. As long as business risks are clearly identified and business processes analyzed and delineated, if SaaS can improve that particular business department in any way, perhaps it's time to channel old business doubts into new optimistic territories.

To buy or to rent? Rather than look towards the majority to sift a positive lot, instead, discover the strengths and frailties within your organization and ask, "why not?"

KEY SUMMARY

SaaS refers to any software provided and used in a utility computing context, where the services provider delivers the functionality of the application or utility infrastructure software over a network, through a services interface.

SaaS services are typically sold via a subscription model, or on a utility-style, "pay as you go" (PAYG), or per unit, basis.

The SaaS business model represents a shift from a buy (on-premise) to a lease (hosted online, or "in the cloud") acquisition model for IT solutions.

For SMBs, SaaS is a technology still very much in its emerging stage, with both SaaS providers and users still on the learning curve.

Two main reasons to explain SaaS non-adoption amongst SMBs include: *security* and *privacy concerns*, SMBs find it difficult to arrive at a true value proposition on why they need to move their data out of their premises, and derive the real business value (benefits) inherent in SaaS offerings.

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