

ASK THE EXPERT: Software as a Service

By Chris Schin

As the software application industry continues to evolve and progress, price and complexity have edged some organizations out of the competitive landscape. These companies have suffered because they lack the budget or expertise to pursue the appropriate applications needed to run their businesses. Many of these organizations have discovered how to get around those limitations by utilizing a more on-demand approach to software applications. This software as a service (SaaS) model has helped them increase productivity, reduce IT costs, and upgrade their software applications.

Nevertheless, many organizations are confused over what the SaaS model is and how it works. The lack of standards categorizing the on-demand software services industry has resulted in multiple terms trying to define essentially the same idea. This creates confusion for customers who would prefer SaaS and vendors who wish to provide that opportunity to them. Consequently, organizations that would benefit most from the SaaS model of running their IT infrastructure are simply left to find a resolution on their own.

Using his expertise in the SaaS market, Director of Product Management at Symantec Chris Schin discusses the SaaS model, its benefits and growth, and how organizations can begin to employ these opportunities to maximize their resources and grow their businesses.

WHAT IS SaaS?

SaaS delivers software to customers through a Web page. With SaaS a vendor or service provider hosts the program centrally and creates the ability for customers to access the software through a Web browser and have access to it regardless of their location, while paying a usage fee on a periodic (subscription) basis instead of paying perpetual licensing fees. In other words, all application processing is done from a central, hosted location, making the software available from anywhere in the world. This idea gives organizations the ability to achieve economies of scale without the enormous cost associated with them.

WHY SaaS?

From a market-opportunity standpoint, software vendors are always looking for ways to help customers solve problems. Customers have challenges trying to constantly run their core businesses, driving them to look for more efficient ways to business and differentiate themselves. Using different types of applications and technologies can be a competitive advantage in their markets.

SaaS has created a prime opportunity for these companies to use the products they have not been able to use in the past. The growth of SaaS offerings demonstrates market acceptance for the model.

WHAT ARE THE BENEFITS OF RUNNING SaaS?

With SaaS, vendors or their partners run the software programs for their customers, making sure they are up-to-date and available, and giving customers the benefit of vendor expertise in making the programs run effectively.

Customers also have the ability to outsource the management of an application to experts at another organization and gain the economic advantages associated with paying only the subscription fee for using the service instead of having to invest up front.

WHY NOW?

Technology advances have made it easier to deliver SaaS. Most companies today have broadband connections which makes access to a centrally hosted application easier and faster. Moreover, the cost of the systems, storage, and other things that are needed to host and run an application centrally are also dropping, and their performance-to-price ratios continue to rise.

IS SaaS TARGETED AT CONSUMERS OR COMPANIES?

In the current evolution of SaaS, the target market has generally been the smaller end of the enterprise segment, specifically small and medium-sized businesses (SMB).

These companies face many of the same challenges as the Global 1000 but often lack the resources and expertise to deploy and manage traditional software used by the Global 1000. With SaaS, SMBs that don't have the resources to obtain and manage best-of-breed software applications are now given the opportunity to reap the benefits of an enterprise-class product at a fraction of the cost and with significantly less complexity. They no longer have to cover the up-front costs of hardware, software, and resources. Instead, the companies that host SaaS applications are able to leverage economies of scale to make the applications more affordable for SMBs.

That said, while SMBs are a focus today, as offerings mature, the SaaS concept can provide benefits for all types of customers.

HOW MUCH OF SaaS IS MANAGED BY CUSTOMERS VS. MANAGED BY THE SERVICE PROVIDER?

Small businesses can be divided into mainly two categories of technical expertise. Some are more tech-savvy and will want to have more input and understanding of what is going on, but still contracting to outside resources to host the software. These businesses often request the ability to log into their own dashboard and control everything they would like to control, without having to worry about hosting the software on their network.

On the other hand, some SMBs do not have the depth of technical expertise as larger organizations and may require more hands-on consultation and expertise to run their

software and applications for them. These businesses will have less input and detailed understanding of what is going on but still maintain the peace of mind that their network is working properly.

HOW DO CUSTOMERS PURCHASE SaaS?

Over the past few years, SaaS has been purchased directly from a vendor, where the end-user will contact a vendor to set up the service, or visa versa. That model has seen a great deal of success in the past, and still continues to see success today, but it is limited in its ability to reach customers.

During the past several months, however, there has been a shift toward purchasing SaaS through the vendor's channel partners. Many channel partners indicate they want to take on more of the provider and advisory role. With the ability to build deeper relationships with their customers, they are better positioned than vendors to offer SaaS along with additional value-added services to end-users, ensuring the best overall solution and experience for the customer.

HOW BIG IS THE SaaS OPPORTUNITY?

Looking at the market as a whole, analysts are predicting companies will increasingly demand more SaaS after testing the service on a limited scale. Market predictors indicate by 2009, \$10.7 billion will be spent on SaaS worldwide, whereas only \$4.2 billion was spent on SaaS in 2004.

Moreover, analysis shows markets for SaaS are growing much faster than their traditional software model counterparts. Granted, software sales will not go away but there will be a different type of customer, particularly in the SMB market, who want the service without the upfront costs of software and hardware purchases and perpetual licensing fees.

WHAT ARE THE SECURITY AND AVAILABILITY IMPLICATIONS FOR USING A SaaS MODEL?

Customers should expect their vendors to take measures to ensure the security, reliability, and availability of their customers' data, taking into consideration data encryption services that allow only the end-user to see what the data contains and hosting the applications in multiple data centers to ensure redundancy and availability of the application and data in times of disaster. Vendors also need to provide true Service Level Agreement (SLA) guarantees at different price points, allowing customers to pay for exactly what they need. Ultimately, SMBs should demand from their SaaS providers enterprise class capabilities.

As the market continues to develop, more and more security and availability measures will be put into place.

HOW CAN A COMPANY THAT SELLS SOFTWARE BE SUCCESSFUL IN SERVICES?

The opportunity exists for traditional software companies to be successful in SaaS. However, selling a service offering is different than selling a software product; often requiring vendors to redesign their business processes and infrastructure to meet the pay-as-you-go model and creating separate marketing, sales, finance, and support procedures for selling services.

Moreover, providing centrally hosted applications that are available via a Web browser and able to support large volumes of customers often means vendors need to redesign their software.

Despite all of these challenges, software companies can leverage many of their core strengths, including an established customer base, expertise in their specific application area, brand awareness, and channel relationships. As SaaS evolves, many customers will want to integrate traditional software with SaaS offerings.

WHAT ARE THE MAJOR BENEFITS FOR SMBs OF THE SaaS MODEL?

The SaaS model provides SMBs with the ability to eliminate a large part of their IT costs, reduce risks they have when acquiring new software, influence the quality of products and services through an ongoing relationship with their service provider, and change usage demands as the business grows and develops.

SMBs can also roll out, implement, or eliminate applications as they see fit. If the software doesn't work properly, businesses can choose to stop using it instead of being over-provisioned or stuck with it. Overall, SaaS provides a much less risky investment while giving SMBs access to enterprise-class applications they otherwise might not be able to afford. ENS

As director of product management, Chris Schin is responsible for coordinating all business related aspects of Symantec's SMB-focused Software as a Service (SaaS) initiatives, including coordinating pricing, support processes, and service plan structures. Prior to joining Symantec, Schin launched and ran an independent consulting practice helping technology startups with market research, strategy creation, and ROI and competitive analyses. Schin holds a bachelor's degree from Dartmouth College in Philosophy and an MBA from UC Berkeley's Haas School of Business. If you have a question for Symantec's expert, call: Ellen Hayes at 617-796-0353.

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