

Update

SaaS Movement Accelerating

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Over the past three years, Cutter Consortium has been charting the growth of the software-as-a-service (SaaS) market by conducting a series of annual surveys that was the first to discover widespread interest and adoption of SaaS solutions among organizations of all sizes.

Our previous surveys dispelled a number of misconceptions surrounding SaaS at the time. For instance, many analyst firms and other industry observers viewed SaaS as a peripheral trend that might appeal to small and medium-sized businesses but would not gain acceptance in large-scale enterprises. They also believed that SaaS was only suited for simple, standardized business functions and not complex, enterprise-wide deployments.

Cutter's surveys have found widening adoption and overwhelming satisfaction with SaaS applications, which range from collaboration and productivity tools aimed at end users to enterprise resource planning (ERP) management and financial management systems that can handle the needs of broad-based organizations.

In the past year, growing customer interest and press attention has driven the major independent software vendors (ISVs) — including

Microsoft, Oracle, and SAP — to acknowledge that the SaaS movement is real and to respond with their own roadmaps for satisfying their customers' escalating demands for SaaS alternatives to legacy applications.

This is the first of a new series of *Executive Updates* based on our latest SaaS survey results. Our findings provide further evidence that SaaS adoption is continuing to grow and that SaaS users are continuing to be very satisfied with the business benefits they're generating. These SaaS users are quickly becoming SaaS evangelists who are encouraging their peers to adopt SaaS solutions to meet their IT and business objectives. This is helping to accelerate the growth of the SaaS movement.

DEFINING TERMS

SaaS is one of those terms that can mean many things to many people. For the purposes of our survey, Cutter Consortium defined SaaS as:

A software solution that is hosted, supported, and delivered by a provider as a service, and can be accessed by users via the Internet, without the need to deploy and maintain additional on-premise IT infrastructure.

Purists, especially today's Net-native SaaS providers, might argue that

SURVEY DEMOGRAPHICS

Cutter Consortium conducted its third annual SaaS survey via the Web in October/November 2007. The survey was completed by 95 respondents, representing a broad cross-section of industries worldwide.

Approximately 30% of the respondents hold senior positions, and another 17% are in IS/IT management. Nearly 40% responded with an enterprise-wide perspective, and another quarter has responsibility for a single department.

Approximately a quarter of the respondents works within companies with annual revenues over US \$1 billion. A fifth have revenues under \$1 million, with the remainder in between.

our definition is too broad. They would prefer to limit SaaS to those Web-based applications that are built on a “multitenant” architecture and permit a “one-to-many” software distribution and pay-as-you-go subscription fee model that is more scalable, flexible, and economical than traditional software hosting.

We have intentionally made our definition more open-ended because we have found that the meaning of SaaS is in the eye of the beholder. As our survey results will show, customers are primarily interested in how a SaaS solution can accelerate their time to value rather than how the solution is architected.

THE FORCES DRIVING SAAS

A combination of factors is fueling the growth of SaaS, including:

- Competitive and customer pressures
- Changing business environments
- Technological advancements

Globalization and e-commerce have fundamentally changed the competitive landscape. While they have both opened new market opportunities for companies of all sizes, they have also lowered the barriers to entry in nearly every industry. This has created intense competitive pressures that in many cases have transformed numerous

mature industries into price-sensitive, commodity markets.

In this competitive environment, customer loyalty has become more difficult to attain and sustain. Therefore, companies must work harder to win and keep their customers. Ironically, they must achieve greater customer intimacy while working to reduce their costs so they can compete on price as well as value.

In order to respond to these competitive and customer pressures, many companies are pushing their employees out of centralized offices into less expensive remote offices and offshore locations. This trend is aimed at reducing costs and moving employees closer to customers. But, it also creates a new set of management challenges for companies as they try to coordinate their dispersed resources.

Traditional, on-premise, packaged software was not designed to respond to these escalating business challenges. These legacy applications require companies to make a substantial, up-front capital investment and withstand extended deployment cycles. The software was designed for highly centralized and relatively stable business requirements. And, the software depends on a dedicated support staff to keep it up and running.

Given today’s business pressures, more companies are seeking to convert their capital budgets to an

operating expense that they can adjust to meet fluctuating needs. They would also like to accelerate their application deployment capabilities to better respond to changing requirements. In addition, they must make their applications and corporate data available to employees working outside the company firewall. And, they must refocus their limited inhouse resources on strategic initiatives rather than allowing them to be distracted by the day-to-day problems associated with supporting their applications.

Broadband networks, Web 2.0 innovations, and virtualized data centers, along with a myriad of other technological advancements, have combined to permit a new generation of Web-based, Net-native applications to emerge that provide a reliable and secure alternative to legacy software products. The attractiveness and viability of these SaaS alternatives is most clearly seen in the rapid growth of Salesforce.com, which recently announced that it has won its one-millionth customer!

CUSTOMER ADOPTION OF SAAS HOLDS STEADY

Approximately one-third (32%) of the survey respondents are using SaaS solutions and an even greater portion (36%) is considering SaaS (see Figure 1).

The adoption level is consistent with our past surveys. Sixty percent of the respondents have been using a SaaS solution for more than a year.

More important is that 80% of the respondents who are considering SaaS are very likely to roll it out to their organizations within the next 12 months (see Figure 2).

WHY COMPANIES ARE ADOPTING SAAS

Survey respondents rated the following four statements as their primary reasons for adopting SaaS (see Figure 3):

1. Accelerate deployment process
2. Subscription, pay-as-you-go model
3. Eliminate additional infrastructure costs
4. Allow internal IT/application staff to focus on more strategic projects

As Figure 4 indicates, current SaaS users are gaining clear business benefits in these areas. They are generating greater ROI and cost-effectiveness from their applications. They are lowering their staff support requirements. And they are achieving better application reliability and performance.

As a result, 100% of the survey respondents reported they are satisfied with their SaaS solutions, and 92% said they would recommend SaaS solutions to other organizations.

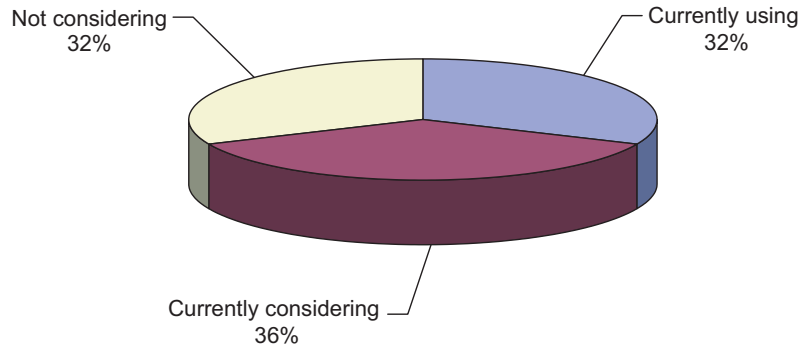


Figure 1 — Are you currently using or considering using software-as-a-service (SaaS)?

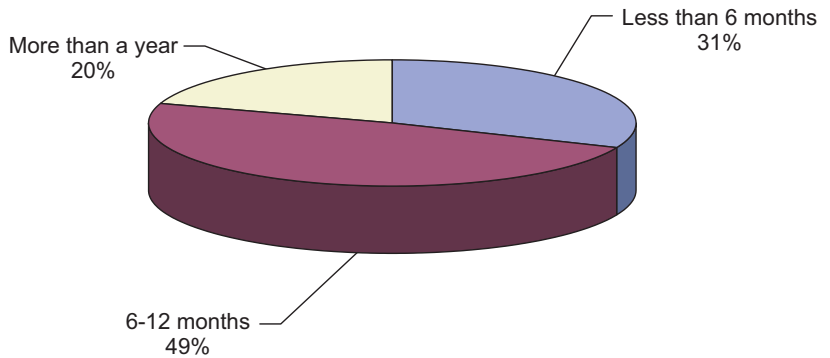


Figure 2 — When do you think your organization will adopt SaaS?

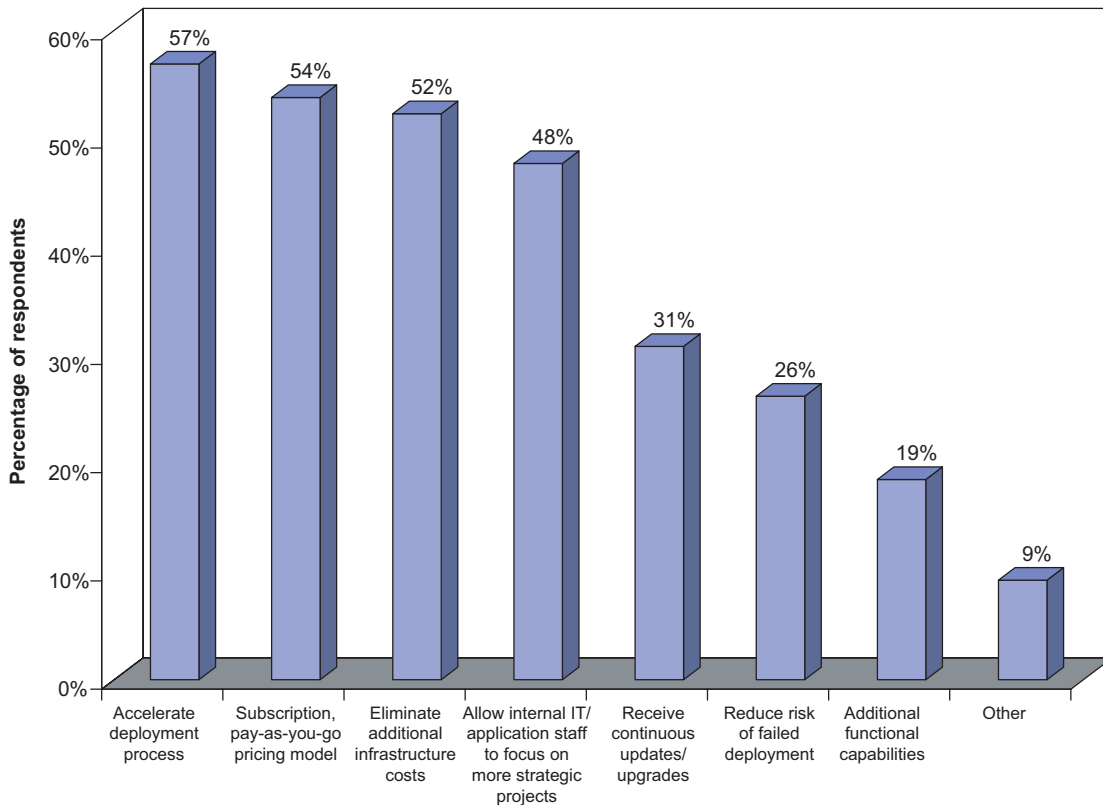


Figure 3 — Why did you adopt/would you adopt SaaS to satisfy your software application requirements? (Please check all that apply.)

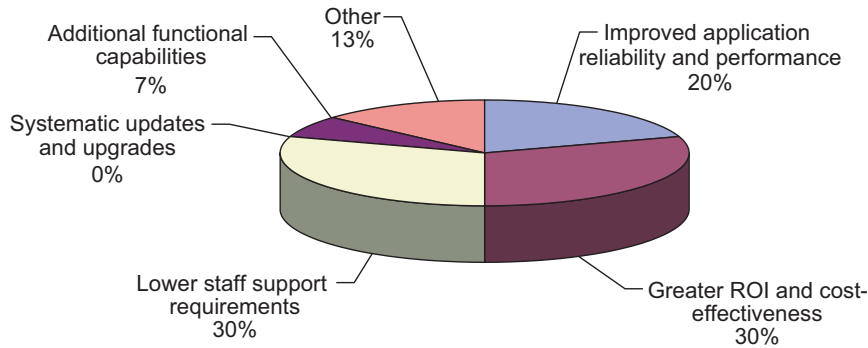


Figure 4 — What is the greatest benefit of the SaaS solution you are using?

These customer satisfaction and referral levels are unprecedented in the traditional software world where the complexities and costs of on-premise deployments and support have resulted in user frustration and added expense.

These trends are likely to produce greater growth for SaaS. They also should generate greater customer confidence that adopting SaaS is becoming an increasingly viable option for organizations that have traditionally relied on on-premise, legacy software.

WHAT THE DATA MEANS

Our latest survey clearly shows that the SaaS movement is gaining momentum. It is being fueled by real customer needs as opposed to vendor hyperbole. It is also building on a track record of success rather than false promises.

The result is that companies of all sizes are adopting an expanding array of SaaS solutions to meet their IT/business requirements. While we will look at the specific types of SaaS applications being adopted or considered in Part II, we have shown here that current customers are gaining tangible business benefit from their SaaS deployments. These are resulting in a quicker time to value at a lower total cost of ownership (TCO), which is producing extremely high satisfaction levels and strong reference-ability.

ABOUT THE AUTHOR

Jeffrey M. Kaplan is a Senior Consultant with Cutter Consortium's Sourcing & Vendor Relationships practice, and he is the founder and Managing Director of THINKstrategies, a strategic consulting firm that helps IT enterprise decision makers with their sourcing strategies; solution providers with their marketing strategies; and venture firms with their investment strategies. Prior to forming THINKstrategies, Mr. Kaplan served as VP of Marketing and Business Development at InterOPS Management Solutions — an Internet operations management services provider. Prior to joining InterOPS, he was Director of Strategic Marketing at Lucent Technologies Worldwide Services, as a result of its acquisition of

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Mr. Kaplan is a frequent speaker at industry conferences and a contributing columnist for Mass High Tech, NetworkWorld, Business Communications Review, eWeek, InfoWorld, Computerworld, InformationWeek, and the Financial Times. He can be reached at jkaplan@cutter.com.