

Update

SaaS Market Shifting from Point Solutions to Platform Strategies

by Jeffrey M. Kaplan,
Senior Consultant,
Cutter Consortium

Software-as-a-service (SaaS) is rapidly evolving to emulate the software industry as a whole. Although most people associate SaaS with Google's collaboration- and productivity-oriented applications and with Salesforce.com's customer relationship management (CRM) and sales automation solutions, the truth is that SaaS alternatives now exist for nearly every legacy application category.

In fact, nearly three-quarters (72%) of the people who responded to Cutter's third annual SaaS survey reported that they are using these Web-based solutions to fill unmet needs. More than a quarter of the respondents (28%) are hoping that these solutions will cut their costs by 20%-30%.

As customers become more receptive to SaaS alternatives to legacy applications, their expectations are also rising. In response, the SaaS market is also undergoing a maturation process that resembles the shift that occurred in the traditional software industry when companies like Microsoft, Oracle, and others expanded their software products to full-service suites with multi-dimensional capabilities.

Just as legacy independent software vendors (ISVs) sought to better position themselves by expanding their product portfolios

from point solutions to fuller functional suites, many SaaS vendors are moving from offering simple point solutions to promoting the power of their SaaS platforms.

Today's SaaS platforms are built on a combination of "multitenant" architectures, third-party integration technologies, and cooperative business partnerships or "ecosystems."

This is the second in a series of *Executive Updates* based on Cutter's SaaS survey. In Part I, we addressed the overall SaaS adoption patterns and satisfaction levels reported by the survey respondents. (For more information on survey demographics, refer to Part I, "SaaS Movement Accelerating" [Vol. 8, No. 22].)

This *Update* examines how the SaaS market is evolving from a series of specific horizontal and vertical market solutions to a set of powerful platforms.

LEVERAGING HORIZONTAL AND INDUSTRY-SPECIFIC SaaS CAPABILITIES

While the majority (54%) of our survey respondents are utilizing horizontal SaaS applications, more than a fifth (21%) are employing industry-specific SaaS solutions, and another quarter is using both (see Figure 1).

As Figure 2 shows, CRM is the most commonly used horizontal SaaS solution. This shouldn't be surprising given the prominence of Salesforce.com, the premier player in the SaaS market. Content/document management is the second most popular horizontal SaaS solution, followed by collaboration/productivity and human resources management.

It is noteworthy that a quarter of the survey respondents are using or considering IT management SaaS solutions. The implications of this finding will be discussed in Part III.

The survey respondents identified application features, service pricing model, and customization capabilities as the top three criteria for selection for a SaaS provider (see Figure 3).

SAAS COMPANIES SHIFT FROM POINT PRODUCTS TO PLATFORM STRATEGIES

As SaaS gains mainstream acceptance, various SaaS providers are repositioning themselves as platform players to expand their sphere of influence in the market. This shift entails morphing their core products into development platforms.

Just as legacy application vendors like Microsoft, Oracle, and SAP sought to build software suites to win a greater share of their customers' application requirements, SaaS companies today are seeking to win market share via their platform strategies.

Aligning with a SaaS company that has adopted a platform strategy offers benefits to customers and third-party software developers as well. It enables third-party software developers to avoid many of the costly steps of building and

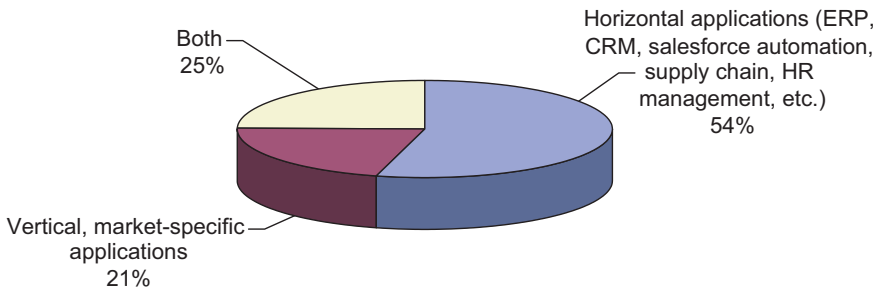


Figure 1 — Types of SaaS solutions being used or considered.

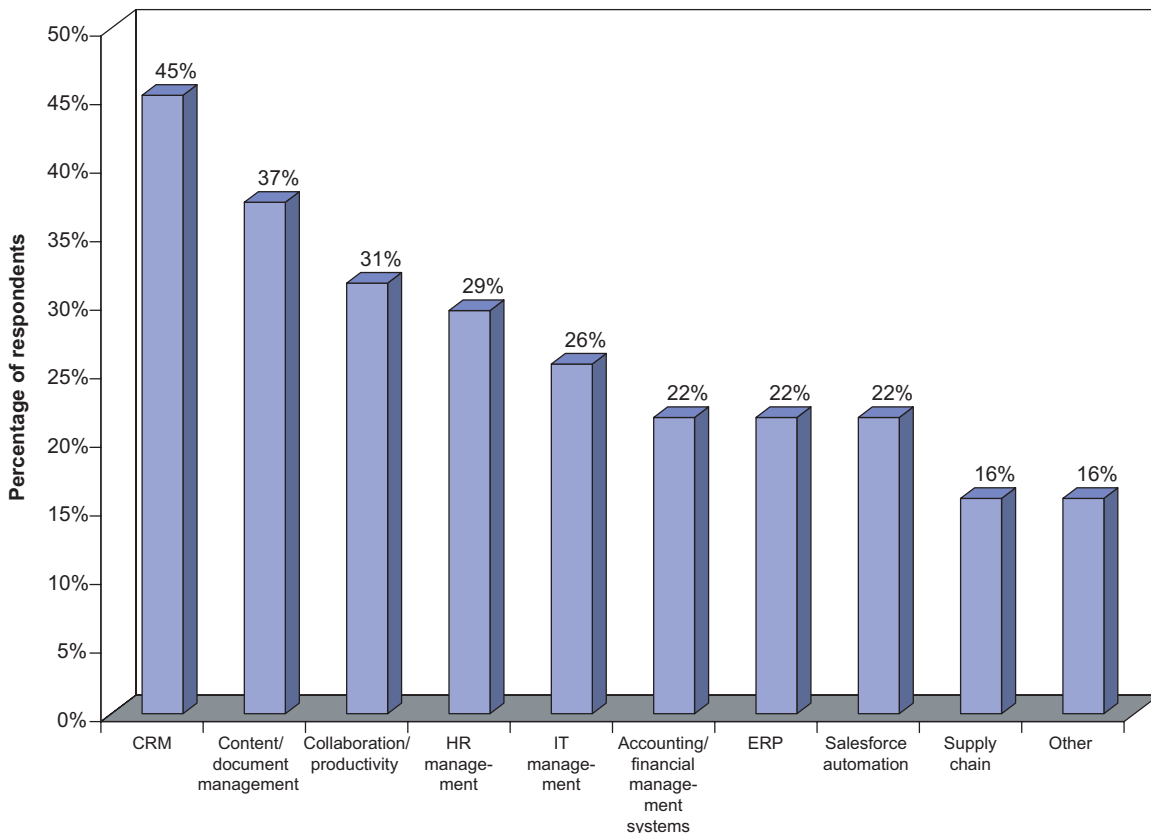


Figure 2 — Types of horizontal applications being used or considered. (Please check all that apply.)

delivering their SaaS solutions. The old do-it-yourself approach creates inefficiencies for ISVs and developers that add unnecessary costs and complexities to the development process and extend the time-to-market cycles.

By aligning themselves with an established platform provider, SaaS companies can also overcome customer concerns regarding integration issues. As Figure 3 shows, nearly a fifth of the respondents (19%) report that the third-party integration capabilities of SaaS providers are a top consideration. Even more importantly, Figure 4 shows that a quarter of the survey respondents who are not planning to adopt SaaS are hesitant because they are uncertain about the integration capabilities.

Salesforce.com has spearheaded this shift with its AppExchange partner “ecosystem” and Force.com development toolkit. The

AppExchange is Salesforce.com’s third-party integration and marketing clearinghouse. The Force.com development toolkit enables software developers and ISVs to build SaaS solutions on the development code and framework that Salesforce.com has used to build its own on-demand applications. The platform also permits these developers and ISVs to integrate their applications to Salesforce.com’s applications.

Force.com leverages Salesforce.com’s Apex Code. Salesforce.com’s integration platform capabilities are based on a set of APIs, design specifications, service provisioning, and support requirements. Force.com enables ISVs to build their applications more quickly by allowing them to focus on the features and functions of their SaaS solutions rather than software development architecture and service delivery infrastructure. Force.com provides ISVs and developers the software

development and service delivery ingredients they need to build and deliver their SaaS solutions

By encouraging a wide array of ISVs to build their applications on Force.com and link their applications to the AppExchange, Salesforce.com is also expanding its reach into additional application markets. Since its inception in 2005, more than 60,000 developers have added over 200,000 applications and custom objects to the AppExchange, resulting in more than 40,000 customer downloads.

Other SaaS companies are trying to emulate Salesforce.com’s platform strategy. For instance, NetSuite has created a SuiteFlex platform that enables ISVs and channel partners to cater NetSuite’s applications to specific industry requirements. In conjunction with its technological foundation, NetSuite’s platform is enhanced by its growing ecosystem of third-party relationships.

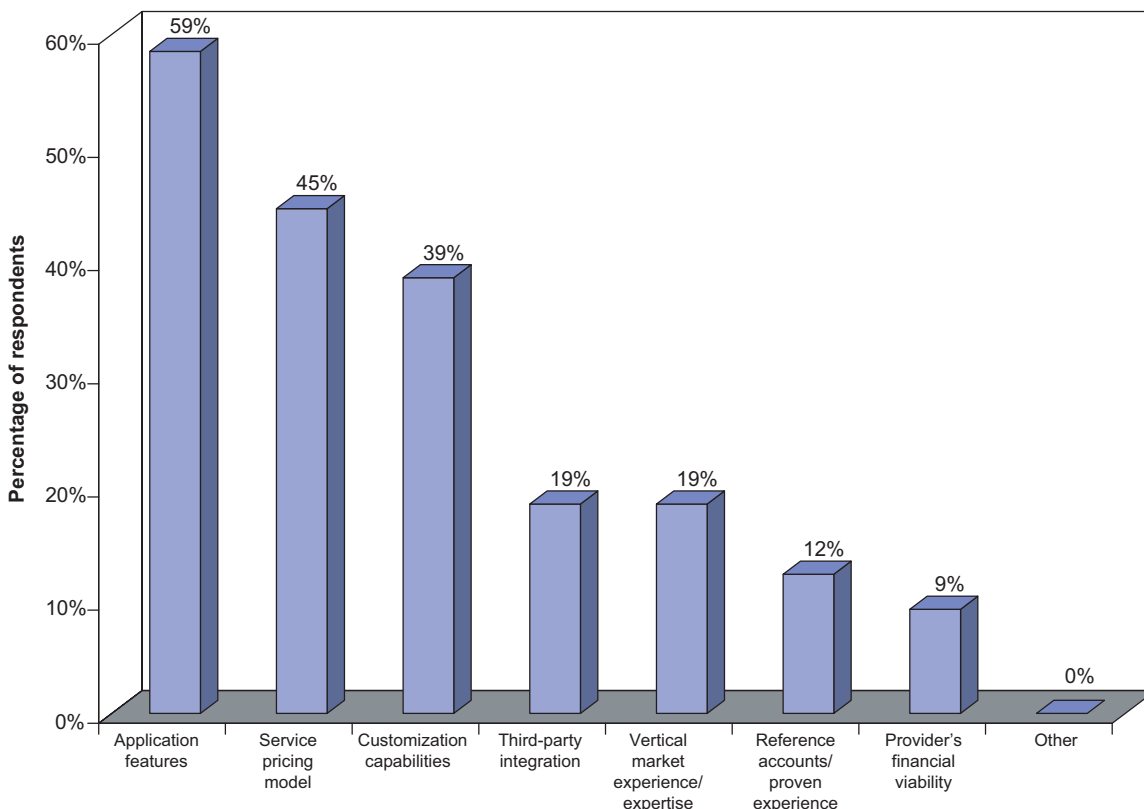


Figure 3 — Most important criteria for selecting a SaaS provider. (Please select your top two reasons.)

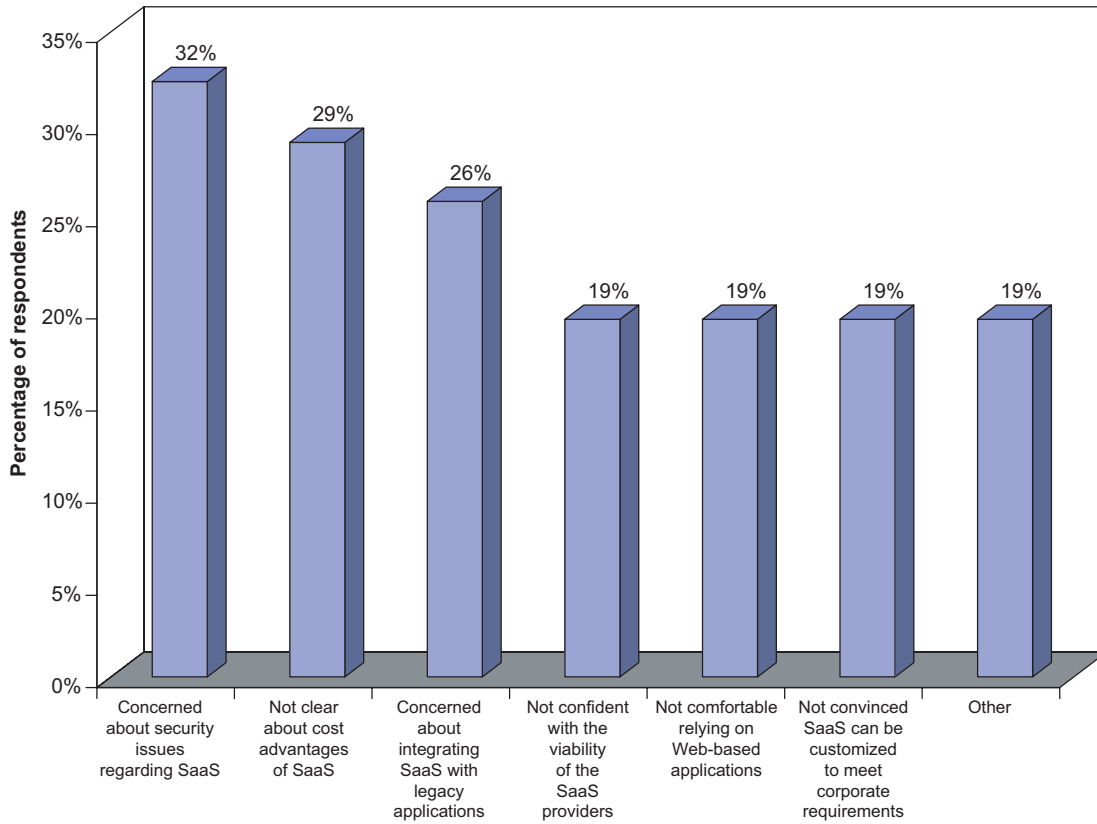


Figure 4 — Primary reasons companies are not considering SaaS. (Please check all that apply.)

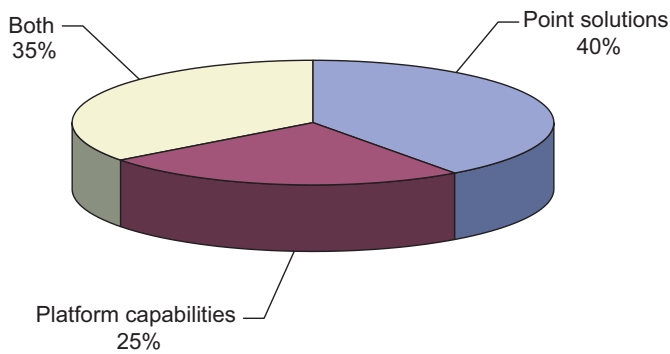


Figure 5 — Selecting SaaS companies offering point or platform solutions.

A quarter (25%) of the respondents to Cutter’s SaaS survey reported that they are selecting SaaS providers that offer platform capabilities (see Figure 5). Nearly a third of the respondents (35%) said they are selecting SaaS companies that offer platform and point solutions.

SOURCING IMPLICATIONS

In the same way that organizations judged legacy application vendors

based on the strength of their technical capabilities and the breadth of their portfolios and partner network, so too should they evaluate SaaS vendors based on their software functionality and the strength of their integration platforms and partner ecosystems.

SaaS companies seeking a strategic competitive advantage are those that are aggressively developing robust development toolkits and extensive partner relationships that

can enhance their solutions and expand their channels to market.

The success of Salesforce.com’s AppExchange and potential of its Force.com platform are setting a standard for other SaaS companies as well as expectations for SaaS customers.

In response, Microsoft and other established ISVs are beginning to promote their development platforms as potential toolkits for SaaS companies. This will raise the stakes in the platform battlefield and give customers more options to choose from.

Going forward, IT/business decision makers should examine the platform strategies of their potential SaaS vendors as carefully as they do the specific application capabilities, whether the vendor is an aspiring platform player or simply a point-solution supplier seeking to align with a primary platform vendor.

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 International Network Services (INS). Before his position at INS, Mr. Kaplan spent 13 years as a leading industry analyst and market research consultant at IDC, the Ledgeway Group, Dataquest, and META Group.

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.

The *Executive Update* is a publication of the Business Technology Trends & Impacts Advisory Service. ©2007 by Cutter Consortium. All rights reserved. Unauthorized reproduction in any form, including photocopying, faxing, image scanning, and downloading electronic copies, is against the law. Reprints make an excellent training tool. For information about reprints and/or back issues of Cutter Consortium publications, call +1 781 648 8700 or e-mail service@cutter.com.

Workshop Developers/ Presenters

Every workshop is led by one of Cutter Consortium's expert Senior Consultants — experienced IT professionals who have honed their skills and developed their methodologies over years in the field, at companies like yours.

Verna Allee
 Sanjiv Augustine
 Rob Austin
 Christopher Avery
 Sam Bayer
 Kent Beck
 E.M. Bennatan
 Bob Benson
 Tom Bugnitz
 David J. Caruso
 Ken Collier
 Rachel Davies
 Tom DeMarco
 Sid Henkin
 Jim Highsmith
 Wendell Jones
 Jeff Kaplan
 Joshua Kerievsky
 Bartoz Kiepuszewski
 Tim Lister
 Michael Mah
 Terry Merriman
 Larissa Moss
 Ken Orr
 Carl Pritchard
 Ken Rau
 Thomas Redman
 Suzanne Robertson
 Mike Rosen
 Michael Schmitz
 David Spann
 Rob Thomsett
 John Tibbetts
 Jim Watson
 Karl Wiig
 Bob Wysocki

Cutter Consortium
 37 Broadway, Suite 1
 Arlington, MA 02474-5552, USA

Tel: +1 781 648 8700
 Fax: +1 781 648 1950
 Web: www.cutter.com
 E-mail: sales@cutter.com



Workshops

In these times of intense pressure to make every development dollar and every development minute count, the maxim *you are only as strong as your weakest link* has never rung truer.

Moving your development organization up the productivity curve will improve the ROI of every one of your projects. Just trace this back and you'll discover the ROI in training is immense. And with training and workshops designed and delivered by Cutter Consortium's Senior Consultants, you can add to that equation the peace of mind you get from being trained by the best of the best.

Cutter Consortium offers inhouse training solutions from IT project management techniques to software development methodologies, improving data quality, architecting Web services applications, aligning business and IT objectives, and more.

Workshop Topics

- Agile Development Methodologies
- Agile Project Management
- Business-IT Alignment
- CIO Dashboards
- Data Quality
- Data Warehousing
- Enterprise Architecture
- Estimation Techniques
- Extreme Programming
- IT Strategic Planning
- Knowledge Management
- Metrics/Benchmarking
- Outsourcing
- Requirements Management
- Risk Management
- Software Development Practices
- Teamwork and Leadership
- Web 2.0 Technologies

For details about the courses offered in each of these areas, contact Dennis Crowley at +1 781 641 5125 or dcrowley@cutter.com, or visit www.cutter.com.