

THINKstrategies



The Future of IT in Large Corporations

A Whitepaper on Software as a Service

On Behalf of the Enterprise Software as a Service Working Group

Abstract: Why Business as Usual Won't Work Anymore for IT

Large corporations are becoming increasingly frustrated with the long deployment cycles, high costs, complicated upgrade processes and information technology (IT) infrastructure demanded by traditional software applications. Many are realizing that the future of IT is moving away from data center, system and infrastructure management and more toward business process improvement.

Software as a Service (SaaS) has become one of the fastest growing segments of the IT sector because it provides organizations with 'turn-key' software solutions that can be implemented quickly, while avoiding the incremental infrastructure costs and eliminating the ongoing administrative resources of traditional on-premise applications.

This whitepaper will demonstrate how large corporations such as Iomega, MasterCard, BT and Xerox are experiencing significantly reduced total cost of ownership (TCO) and increased return on investment (ROI) with their software applications by adopting SaaS solutions and focusing more on business process improvement than IT infrastructure maintenance.

The Pitfalls of Traditional, On-Premise Software

Despite the fact that large companies have become more reliant on sophisticated software such as customer relationship management (CRM), e-commerce and workforce performance management (WPM) to run their business, a majority of these organizations are dissatisfied with their return on investments. Corporate executives are frustrated with the time, effort and cost required to deploy new business applications, as well as the ongoing resources consumed to keep them up and running, plus the cost to stay innovative.

Over the past three years, Nucleus Research has published studies indicating that more than 61% of Siebel Systems' reference customers have experienced a negative return on investment (ROI) on their software implementations. Nucleus also suggested 57% of SAP's reference customers had not achieved a positive ROI.

In his 2003 Harvard Business Review article entitled "IT Doesn't Matter", follow-on book "Does IT Matter?", and latest commentary in the MIT Sloane Management Review, Nicholas Carr challenged the strategic value of traditional on-premise systems. In each of these commentaries, Carr advocates that large enterprises should no longer invest in on-premise technology and applications, but instead leverage a growing array of on-demand services in order to gain a competitive advantage.

SaaS is enabling large companies to more quickly deploy business software, more easily administer these applications, obtain best-in-class capabilities and redirect their scarce resources to strategic initiatives, such as business process improvement.

The Emergence of SaaS

THINKstrategies defines SaaS as ***a software solution that is hosted and supported by a vendor as a service, which is accessed by users via the Internet, without the need to deploy and maintain an on-premise IT infrastructure.*** Whereas some people associate SaaS with 'pay-as-you-go' subscription pricing, SaaS is more indicative of the hosted deployment model. In fact, SaaS can be priced via subscription, annually or perpetually.

SaaS has generated growing industry attention and customer acceptance because it offers a simpler method to adopt and administer essential business software applications such as enterprise spend management, e-commerce, workforce performance management (WPM), and customer relationship management (CRM). It also makes it easier for end-users to access and use these applications via the Internet.

SaaS does not require additional IT infrastructure investments in new servers and databases to store data, or private networks to permit user access. Instead, companies can leverage the SaaS provider's hosting facilities and take advantage of web-based access. The SaaS model also substantially increases application reliability because vendors perform frequent backups and utilize redundant hosting facilities to reduce the risk of "down-time". By comparison, on-premise software deployments don't offer this safety net.

These SaaS attributes let companies focus their limited in-house IT resources on more strategic corporate initiatives rather than reacting to daily application availability, maintenance and support issues.

In a survey published by Summit Strategies in May 2004, 31% of large companies (those with more than 1,000 employees) said they currently use software as a service, and an additional 11% said they were in the process of evaluating SaaS offerings.

AMR found that 40% of all companies are currently using hosted applications, and 49% will use them within the next 12 months. Gartner forecasts large companies will fulfill 25% of their application demands with hosted software by 2010. IDC predicts the SaaS market will grow at a 21% compound annual growth rate (CAGR) during the next four years, reaching \$10.7B worldwide in 2009. By comparison, Forrester Research predicts the market for traditional on-premise enterprise applications will only grow 4% through 2008.

These statistics clearly indicate that SaaS is gaining greater acceptance and mainstream momentum, especially with larger corporations. This suggests the future of IT is also moving away from on-premise system administration.

The Business Benefits of SaaS

The primary reasons that companies are turning to SaaS rather than continue to struggle with traditional on-premise applications are:

- Faster deployment time and reduced time-to-market
- Reduced IT infrastructure acquisition and maintenance costs

- Greater ease of use and added business value
- Reliability and scalability

The following customer case study examples illustrate how large enterprises are benefiting from each of these SaaS attributes. These examples describe specific SaaS providers and the dramatic impact they have had on some of their larger customers.

Faster Deployment Time and Reduced Time to Market

In 2004, **MasterCard International** decided to replace its employee performance evaluation and goal-setting applications in favor of a SaaS alternative. The financial services company found its internally-developed applications no longer satisfied their needs since they were not integrated with one another, leaving employee review and goal-setting processes uncoordinated. The applications also could not be easily accessed remotely, making it hard for employees to complete reviews outside their offices. There also was no automated way to notify users of updated information, making it tough for managers to monitor employee efforts to achieve their goals.

MasterCard's human resources department believed a SaaS solution could overcome these challenges, and selected *SuccessFactors'* workforce performance management solution to meet its needs.

In just two weeks, MasterCard implemented SuccessFactors' application suite to support its approximately 5,000 employees.

"We are very pleased with the rapid rollout and ongoing reliability of the SuccessFactors WPM application service," reports Ed Stutz, MasterCard's Director of Human Resource Solutions & Systems.

A major reason MasterCard experienced a fast time-to-market with SuccessFactors is because it could be implemented incrementally and funded as a business expense rather than a capital expenditure.

Acquiring on-premise software often requires additional IT infrastructure investments in servers and databases to store data, private networks to permit user access and security systems to protect the valuable information. This typically results in extensive approval procedures, multiple review committees and executive approval to make these capital investments.

MasterCard was able to make the decision to deploy SuccessFactors' SaaS solution at a division level because the IT infrastructure impact was limited and the applications could be acquired on a subscription basis that would be accounted for as a business expense rather than a capital expenditure. This permitted an easier and quicker project approval and application installation.

Another example of the faster deployment times that SaaS permits can be seen in the case of ***Iomega Corporation***. The storage solution developer wanted to replace its contact center environment because its existing one had reached the end of its useful life. Iomega also wanted to integrate new email and on-line chat features.

Rather than continue to rely on traditional on-site software applications, Iomega selected *RightNow Technology's* integrated multi-channel contact center SaaS solution. This CRM solution now enables Iomega's customer service operation to more quickly and efficiently resolve customer service questions worldwide via phone, email, chat and the web.

Reduced IT Infrastructure Acquisition and Maintenance Costs

Another key benefit of SaaS is that it eliminates the IT infrastructure required to support new on-premise applications. It also significantly reduces the cost of application maintenance and eliminates the issue of IT infrastructure becoming obsolete over time.

In addition to MasterCard's rapid deployment of SuccessFactors' SaaS:

"SaaS has enabled MasterCard to significantly improve the quality and consistency of our workforce management programs while eliminating the burden on our internal IT staff to develop and maintain these applications," according to Ed Stutz, MasterCard's Director of Human Resource Solutions & Systems

According to Mike Nikzad, Vice President of Customer Relations at Iomega Corporation, ***"RightNow's hosted software cut Iomega's customer support systems operating costs in half. The company achieved these cost-savings by eliminating software and server maintenance fees, private data line charges and other related infrastructure expenses."***

In addition to these case studies, another industry sector experiencing success with SaaS is eCommerce. This is a business that depends on an integrated suite of secure applications to ensure that transactions are processed quickly and potential threats are mitigated to prevent costly downtime and valuable data from being compromised. *Venda* offers self-service eMerchandising, eMarketing and sales applications to support today's increasingly complex eCommerce environments. *Venda's* SaaS solution helped ***British Telecom's (BT)*** Retail online store reduce IT and content management costs immediately, and achieved a 244% ROI within five months according to a Nucleus Research report. ***Xerox*** used *Venda* to provide its product resellers with a fully integrated B2B commerce service increasing their overall profits and reducing inefficiencies achieving a 232% ROI in 13 months.

"Venda manages an unbelievably cost effective platform providing consistently branded but personalized eCommerce sites to our resellers in multiple languages and currencies. With integration into our SAP back-end trading system and marketing database, we are providing resellers and consumers with low maintenance, easy-to-use sites. It works so well we just keep adding more sites and are expanding the solution into four more countries this summer," said Steve Emecz, e-Business manager, Xerox Document Supplies Europe

MasterCard, Iomega, BT, Xerox and other large enterprises are also learning that SaaS eliminates the hassle and cost associated with software updates and upgrades. Rather than dedicate IT resources and acquire additional infrastructure every time an on-premise software vendor releases a new

version of software (usually every 12 months), SaaS subscribers receive a continuous stream of software updates and upgrades automatically, without the need to re-code customizations or re-create integrations.

Greater Ease of Use and Added Business Value

While reducing costs is a key driver for many large companies to consider SaaS, these solutions also must provide greater functionality than on-premise software applications in order to drive business impact.

One area SaaS surpasses the functionality of on-premise solutions is in its web-based access. As you'll remember, MasterCard's employees now access the SuccessFactors performance review and goal-setting system via the Internet, whenever and wherever it is convenient. The software also was specifically designed to resemble MasterCard's previous performance review and goal-setting forms to make it easy for employees to adopt and use.

Venda's SaaS applications helped BT increase checkout conversion rates 400% and boost average on-line customer 'basket' value 250%. Overall, BT's order volume jumped 1100% in the first 6 months after Venda's solution was deployed, and its on-line fraud rate was reduced from 6% to 0.1%.

Reliability and Scalability

MasterCard's rapid implementation of SuccessFactors' workforce performance management software to approximately 5,000 employees is a good example of the reliability and scalability of SaaS solutions.

Another major application developer that has demonstrated the reliability and scalability of SaaS solutions is *Ariba*. The company provides a comprehensive enterprise spend management solution to manage the entire procurement life cycle—from plan to pay—for a wide array of industries. Ariba's applications give companies a consolidated view of data from multiple systems across the organization, enabling more informed sourcing decisions, the negotiation of better contract terms and reduced premium payments.

International Container Terminal Services, Inc. (ICTSI) turned to Ariba to improve its sourcing operations. ICTSI handled a large-scale volume of 443,373 units (called twenty-foot equivalents) during the first quarter of 2005. Automating its sourcing policies and procedures using Ariba's SaaS solutions have produced significant dividends for the company.

“Early sourcing events [permitted by Ariba] resulted in savings of up to 24%, so we incorporated the sourcing solution into our daily purchasing practices. As a result we are seeing average savings between 14-22%...and have achieved our payback over a year ahead of schedule,” according to Antonio G. Coronel, ICTSI's Purchasing Manager.

Business Success of SaaS Providers Adds to Appeal

Any apprehension that large companies might have had regarding the financial viability of SaaS providers has been relieved as rapid market adoption of SaaS has translated into strong financial growth and greater profitability among the leading software providers.

For instance, last year *Ariba* generated over \$245M in revenues, representing a 40% growth rate and a large customer base including Arcelor, Diageo, H&R Block, Hubbell, Inc., InBev, Mondi and Renault.

RightNow has achieved 29 consecutive quarters of revenue growth and 12 straight quarters of cash-flow positive growth. Its SaaS solutions also serve more than 1,300 organizations worldwide including British Airways, British Telecom, Cisco Systems, Continental Tire North America, John Deere, Nikon and the Social Security Administration.

SuccessFactors is serving over 700,000 subscribers in more than 200 large enterprises across all industries including Textron, General Motors, Cooper Tire & Rubber Company, Invitrogen, MasterCard International, Volkswagen of North America, McKesson, Reebok, MeadWestVaco, PG&E, Lancaster General Hospital, Grant Thornton, Friendly's Ice Cream and HP Hood.

Venda has more than sixty clients with 120 sites including Austin Reed, BBC Shop, British Telecom, Kiddicare, Panasonic, Ted Baker, Tommy Hilfiger, Universal, Virgin Megastore and Xerox.

The expanding customer base, rapid revenue growth and increased profitability of these SaaS leaders are leading indicators of the tangible business benefits and corporate viability of the SaaS model.

Summary

The future of IT is changing in real time out of the recognition that SaaS is a quicker and cheaper way to acquire software while consuming less internal resources. At the same time, SaaS has proven to be more scalable, reliable and functional as on-premise software. SaaS allows large companies to leverage leading edge business applications immediately, without complicated upgrade processes and the IT infrastructure demanded by traditional software applications.

The birth of IT in most companies was due to the realization that there was new technology that could be taken advantage of to improve business processes and the broader competitive advantage. Today, IT organizations are again being challenged to take advantage of new technology and apply it to improve business processes. Leading edge IT organizations are realizing that their role is shifting away from infrastructure management and maintenance, toward more business process improvement demands. SaaS has proven to be a powerful new business solution that allows IT to re-focus energy and resources to play a more crucial role within their company.

This whitepaper was sponsored by the Enterprise Software as a Service Working Group.

About Enterprise SaaS Working Group

Enterprise SaaS Working Group is an independent industry association focusing on the needs and issues of large organizations seeking to make optimal use of software as a service. By developing guidelines and defining the business case for enterprise-class SaaS implementations, the Working Group will help large private- and public-sector organizations better leverage on demand solutions as part of their overall technology and business strategies. Participating companies include Ariba, RightNow Technologies, SuccessFactors, and Vendra. For more information, please visit www.rightnow.com/saas

About THINKstrategies, Inc.

THINKstrategies is a strategic consulting services company formed specifically to address the unprecedented challenges facing IT managers, solutions providers, and investors today. The company's mission is to help our clients re-THINK their corporate strategies, and redirect their limited resources to achieve their business objectives.

For more information regarding our unique services, visit www.thinkstrategies.com or contact us at info@thinkstrategies.com.