

# **Multiple-Tenancy Hosted Applications: The Death and Rebirth of the Software Industry**

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## Executive Summary

While most of the software industry is struggling, one sector is experiencing strong growth: multiple-tenancy hosted applications. These applications allow multiple customers to be hosted securely on a unified host, while individual clients still maintain control in a scalable atmosphere.

Its resiliency in these tough economic times derives from the extraordinary value proposition of hosted applications for customer service and CRM software. Multi-tenancy hosted applications are increasingly attractive to middle-market and enterprise corporate buyers, particularly important in this period of a challenged economy for companies and heightened accountability for IT executives. Compared to conventional environments, a multi-tenancy hosted application environment:

- Accelerates significantly time-to-benefit from years to a few months or even *weeks*;
- Decreases investment dramatically—up to a 50 percent or more savings with customer service and support software; and
- Relieves the customer burden of steep investment costs related to infrastructure, licensing, deployment and integration complexities, and shifts any headaches to the vendor.

There are some practical technology reasons that are very convincing. A multi-tenancy hosted application environment:

- Deploys more quickly and easily;
- Costs far less to acquire and own than conventional premise applications;
- Gives customers greater flexibility in regulating the length and provisions of the contractual relationship with the vendor; and
- Allows new opportunities like trying out the software before purchasing.

The new ASP business model incorporating multi-tenancy has revolutionized the hosting environment, driving costs down and capabilities up. Unlike ASPs in the 1990s, the multi-tenancy hosted environment today is stabilized by a proliferation of available applications, by efficiency, by more variable terms and by stronger technology. Costs are also better controlled, because multi-tenancy hosting enables tens or hundreds of clients to run smoothly from one piece of hardware vs. one client per piece of hardware.

Customer satisfaction tends to be higher than in a non-hosted environment because the headaches are taken out of maintenance, and 24x7 support and upgrades are provided for the customers. Proactive monitoring of servers by vendors improves uptime over hardware-intensive premise software, and security is more easily managed.

All these benefits have been great news for corporate buyers of all sizes, because customers now can utilize applications at a reasonable cost—and, with quick deployments and rapid ROI, they no longer have to worry whether promised future business benefits from enterprise software providers will ever materialize.

And this also has been positive news for the handful of perceptive software vendors who had the foresight to fashion their original architectures to accommodate the multi-tenancy environment required for delivering hosted applications.

These vendors, from RightNow Technologies and Salesforce.com to Upshot, have developed significant architectural and business advantages over most enterprise providers. They can create low-cost, multi-tenancy hosting for any sized customer.

Others can't—or won't. The others, with cumbersome models for hardware-intensive application hosting, have simply become too infrastructure- and management-intensive to continue to be viable. The key here is why won't others do it? Companies have to architect their software for multi-tenancy from the ground-up, and almost none have. Vendors do so for obvious reasons—they can sell additional hardware/software and consulting services on every order.

Customers unfortunately end up paying for an obsolete and less flexible technology and business model.

## **Infrastructure Costs: The App Killer**

Because multi-tenant application hosting eliminates infrastructure, it offers radical cost savings over conventional enterprise software. When a company implements a conventional application, large costs arise in addition to the software itself:

- Hardware installation.
- Deployment and implementation of a database.
- Employment of a database administrator.
- Management of upgrades and support.

In other words, it has to build an entire operation around the software in order to actually get any business value out of it. Conservatively calculated, the costs associated with hosted applications are roughly half those of premise software. Yankee Group recently evaluated costs of a premise-based customer interaction center with CRM software. Building one from scratch could cost you more than a million dollars. Yankee recommends exploring hosted software options as an alternative.

## **Specific Benefits**

Based on the experiences of current users, the following powerful benefits exist from a hosted environment vs. premise software in addition to the economic advantages listed above:

### **Faster time-to-benefit**

Application hosting eliminates the long road to ROI. Farsighted service providers already have the requisite architecture, infrastructure and personnel in place to make the application run. Corporate customers can start enjoying the benefits of the application immediately.

Planning an enterprise software deployment, acquiring the right hardware, installing and customizing the software, training IT staff on its structure and idiosyncrasies, working out the inevitable bugs in the system—all of this takes time. Months and even years can go by before the business sees any results for its effort and investment.

### **Fewer headaches**

People don't like pain. Yet the ownership of enterprise software is rife with pain-points: maintaining performance, troubleshooting failures, monitoring hardware, dealing with its impact on the network and ensuring adequate security. These tasks don't just generate costs.

They also create aggravation for IT departments and end-users that are probably under enough pressure already.

With multi-tenancy application hosting, the vendor assumes all of these headaches. The vendor is responsible for all the underlying infrastructure and technical management necessary to deliver functionality to the end-user. Corporate customers can therefore focus on resolving their existing business challenges, rather than adding new ones.

### **Easier upgrades**

Upgrades can create risk and operational hassles. They introduce new, unknown elements into a well-tuned, complex enterprise environment.

Application hosting eliminates the labor and much of the risk associated with these periodic upgrades, since the service provider performs the upgrade transparently as part of its services or allows the upgrade to be handled by the customer on the customer's time. Along with the upgrade itself, the service provider typically provides rollback capability to ensure that—if there is any problem with the new version of the application—the customer can immediately return to the pre-upgrade environment without any business interruption.

### **Greater reliability**

Enterprise software implementations are complex, with lots of interdependent segments. Failure of any components can result in a significant business interruption. Unfortunately, it's very expensive to provision true fault-tolerance for these applications. Most companies remain at risk and typically experience periodic downtime.

On the other hand, because they support multiple customers with common infrastructure, application service providers can more efficiently invest in network and systems redundancy. Hosted applications are therefore, much more reliable than internally deployed ones.

### **No more broken promises**

The application hosting model simply doesn't allow for such gargantuan project failures like the ones large enterprise software vendors are experiencing. Either service providers deliver within the deadlines they've been given, or they lose the customer's business.

## **Not Your 90's ASP**

Despite the sustained success of hosted application, some market observers remain skeptical about the evident supremacy of hosted solutions. This is primarily because many of them witnessed the rapid fall from grace experienced by application service providers (ASPs) in the late 90's.

However, today's application hosters are a far cry from the unsuccessful ASPs of the last decade. The overwhelming majority of those failed ASPs simply attempted to take existing applications and offer them to customers on a "rental" basis. Companies basically took a rack of hardware out of their premise and moved it to a data center, and were charged a premium to have their applications hosted. This was a fundamentally flawed strategy that did not deliver the business benefits that today's service providers deliver.

Successful application providers today have built their software from the ground up for multi-tenancy over the Internet. This requires radically different software architecture from the client/server applications of the last decade.

Also, Internet application technologies have evolved significantly over the past few years. Dynamic HTML, XML and Web Services are all key enabling technologies for hosted applications. These technologies did not exist or were still immature when the first ASP trend fizzled.

These enabling technologies are also being used to overcome one of the shortcomings that plagued early ASP initiatives: problematic integration with existing and/or other hosted applications. There are numerous examples today of companies that have successfully performed a variety of high-value integrations in very short order and with relatively simple programming.

To some extent, the failure of 1990's ASPs was almost a prerequisite for the success of today's application hosters. Despite the fact their technologies and their business models were impractical, they laid the groundwork for the emergence of multi-tenancy. They also proved that corporate buyers were, in fact, ready for an alternative to conventional software deployment. A sound alternative has now emerged and is being embraced by companies of all sizes and across all vertical markets.

## **The Mid-Market**

One more factor weighs heavily in favor of hosted software models. For years, technology vendors have wrestled with how to best serve the needs of the middle-market. Mid-market companies need quality business software as much as their larger counterparts, but may not readily have the capital or trained resources to acquire it. These companies may have been shut out of software technologies like ERP and CRM because they simply could not afford them.

Application hosting relieves mid-market companies of many of the financial and technical burdens associated with deploying and managing the infrastructure required to support conventional enterprise applications. By doing so, it gives these companies access to the technology they need to compete with larger companies.

This is borne out by the evidence provided by the customer lists of today's successful application providers, which include many mid-market companies and divisions of Fortune 1000 companies. Fortune 1000 companies are increasingly making the consideration for their own corporate IT. Application hosting removes the technical, logistical, and financial obstacles that have previously prevented the tech sector from adequately servicing their needs.

## **Conclusion**

The hosted application market is growing. This is because hosted applications offer corporate customers a value proposition that makes sense, while conventional software only offers dramatically increased infrastructure costs and risks.

Corporate customers will benefit from the newly conceived hosted models because they will get the results they seek sooner and more reliably at a lower cost. Enterprise software is being reborn in the form of applications delivered as hosted services.

## About the Author

Greg Gianforte is founder and CEO of RightNow Technologies, the world's leading provider of hosted customer service and support solutions. Greg holds a BE in Electrical Engineering and an MS in Computer Science from Stevens Institute of Technology. He has taught Computer Science at Montana State University as an adjunct professor. Greg co-authored Reducing the Cost of LAN Ownership and The Business of Running a Network published by Von Nostram. Prior to RightNow Technologies, Greg was founder and CEO of Brightwork Development, a LAN Management software pioneer acquired by McAfee (now Network Associates) in 1994.

## About RightNow Technologies

RightNow Technologies, a recipient of UPSIDE Magazine's 2002 Hot 100 Private Companies Award, is the leading customer service solutions expert, engineering business solutions that deliver rapid time-to-benefit and quick return on investment. RightNow delivers these benefits to more than 1,000 customers such as: Air New Zealand, Ben & Jerry's, British Airways, Cisco, Fujitsu, Maxtor, Orbitz, Remington, Sanyo, and more than 100 public sector clients including the Social Security Administration and the State of Florida.

RightNow's multi-channel service suite, which is Section 508 certified, supports Web-based self-service, case management, email response management, live chat and collaboration, and reporting and service metrics. RightNow Locator, which directly links a company's Web presence with its real-world locations, provides customers the information they need to purchase products or obtain services locally.

Founded in 1997, RightNow has offices in Bozeman, Dallas, London, and Sydney, with an associated office in Tokyo. RightNow's products are available in 14 languages worldwide. For further information visit <http://www.rightnow.com/>.

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