

SPICY SYSTEMS WITH HOT SAAS

Vinnie Mirchandani — and Bill Gates — reckon “software as a service” is far more than a passing fad.

THE SOFTWARE INDUSTRY is constantly inventing new movements — with hype and profits to match. So what should we make of “software as a service” (SaaS)? Its proponents call it “the end of software”!

Actually, SaaS is not a new concept. In the Paleolithic Era of computing we called it “time sharing” — you literally rented processing time on a mainframe at a university or big corporation. The ASP — application service provider — model of the late nineties tried to take us back to the future by offering programs and databases accessed via the internet rather than on your own computers.

But more recently it’s been showing up everywhere as SaaS. Salespeople are using salesforce.com, for example, as a customer database. And Google is offering a rapidly expanding set of search, email and other applications with almost nothing to install on our machines.

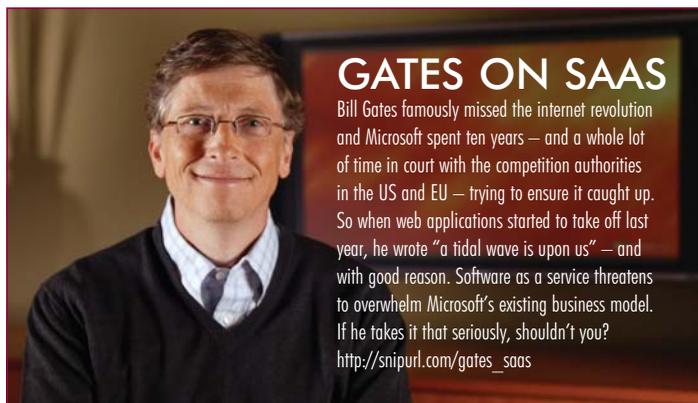
They’ve done all this without burdening our IT budgets, either. SaaS uses a monthly payment plan with little up-front cost. With Google’s applications, there’s *no* payment at all. Advertising fuels its model.

Now we’re starting to see “mash-ups”: developers can blend Google Maps, salesforce.com, who-knows-what bits of code and web services, to create exciting new applications — with barely a blip on our IT budgets. No “gulps” (so far). Just “wows”.

So should you adopt SaaS more across your business? Performance in four areas will answer that question.

Reach

To date, SaaS has been successful in focused applications — for example, Twinfield just offers accounting capa-



bilities. But we’re seeing wider solutions — CRM from RightNow and ERP from NetSuite, for example. Salesforce.com has launched the AppExchange, bringing in vendors with complementary functionality. And IBM is encouraging a number of application vendors to offer SaaS versions using its middleware.

Incumbent vendors like SAP and Sage appear to have been caught flat-footed on SaaS. The challenge for them is as much redefining their business model as it is software engineering: it’s tough to walk away from the up-front license fees they’ve traditionally charged customers, and annual maintenance incomes are even more addictive. But they won’t just watch the market run away from them. Expect SaaS versions of their own offerings to emerge and mature.

Scale

Google has shown it can scale and support millions of global users — and do so using thousands of cheap and interchangeable x86 chips. Its simplicity, up-time and innovation have set a benchmark for the SaaS world. Several SaaS vendors have had well-

publicised outages — which immediately crystallise the biggest concern about SaaS, that if you don’t own the applications and host your own data, you can’t manage the risks. True, outages happen every day for customers who run their own Oracle applications; even EDS isn’t immune from down-time in its robust outsourcing support. But when *all* your customers are on centralised servers, the howling gets much louder if you have that one glitch or you fail to scale support.

So, expect more due diligence on SaaS vendors — on their data centres and their business continuity processes. Stringent service level agreements (SLAs) will focus on up-time and other performance metrics.

Privacy

Willie Sutton said he liked to rob banks because “that’s where the money is”. The data that Google stores on behalf of millions of users is of interest to various governments — and hackers. In a shared service your data is more at risk — but, hopefully, is also defended by more sophisticated security than on your own systems. You’ll still want to understand

who has access to your financial and other data. What controls — physical, infrastructure, digital — are in place to keep prying eyes out?

Economics

On a monthly, per user basis, SaaS looks ridiculously cheap, especially since the price includes hosting and eliminates the cost of keeping databases tuned or performing tedious bug fixes and upgrades. Even with hundreds of users, the economics still look attractive compared to licenses and maintenance fees from the established software vendors.

But SaaS vendors sometimes under-hype implementation costs. You still have to convert data, re-train your users and run tests before you roll out a new system. The one good trend? Established systems integrators used to high fees on SAP and Oracle projects have largely sat out SaaS growth. This is allowing in a bunch of smaller, more focused and more reasonably priced firms to provide services around SaaS products.

Let’s not forget, though, that Marc Benioff of salesforce.com grew up at Oracle. NetSuite is run by ex-Oracle execs. Both have personal investments from Larry Ellison, Oracle’s founder. SAP, IBM and Microsoft are all planning their own SaaS offerings. Larger integrators are waiting and watching. All this means SaaS pricing will need monitoring and management. So watch out for old sauce in new bottles...

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