Software as a Service: The Myth and Promise of No Software

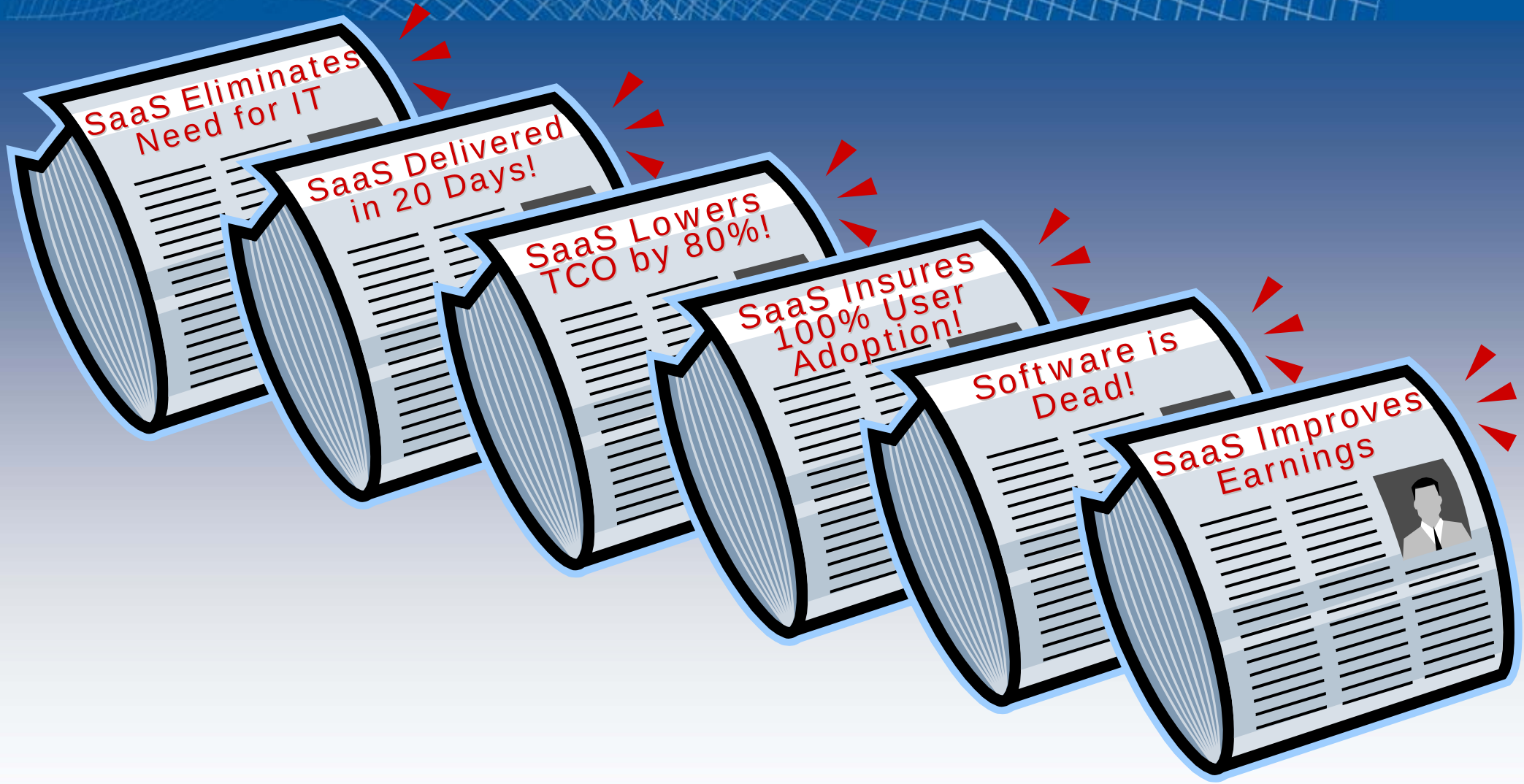
Scott Nelson

Gartner

Midsize Enterprise Summit® 2007

Gartner

SaaS: Overhyped or Panacea?



SaaS can provide value in the right situations.
Ensure that it's the right solution for your organization.

Gartner

Key Issues

1. What are the business and technology drivers for adopting a SaaS model?
2. What's needed to develop a SaaS capability and how will this evolve?
3. What key commercial protections are necessary to make the SaaS model work?
4. Which applications and vendors will emerge to best enable SaaS?

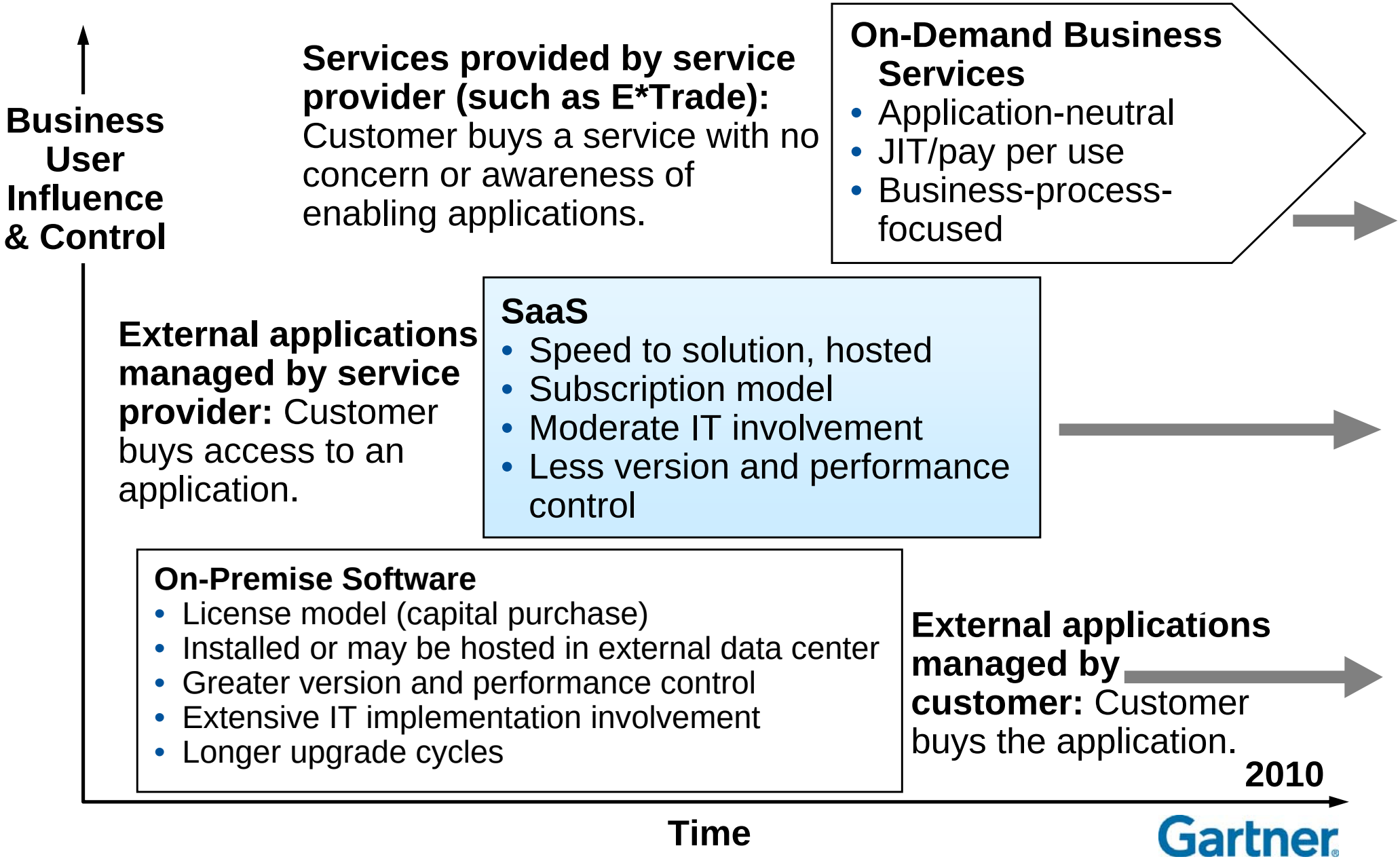
Gartner

Key Issues

1. What are the business and technology drivers for adopting a SaaS model?
2. What's needed to develop a SaaS capability and how will this evolve?
3. What key commercial protections are necessary to make the SaaS model work?
4. Which applications and vendors will emerge to best enable SaaS?

Gartner

Evolution of Business Software Delivery



Gartner

SaaS Drivers: SaaS vs. Traditional On-Premise Software

SaaS

- **Risk Mitigation**
  - Avoiding an IT bottleneck
- **Speed of Deployment**
  - Limited IT capital budget
- **Resource Constraints**
  - Limited business justification required

Traditional On-Premise

- **Complex Business Process Integration**
- **Transaction-Intensive Processes**
- **Sensitive Data**
- **Deep Functional Requirements**

Gartner

CRM on Demand Provides Better TCO for Moderately Complex Applications

Assumptions: 400 users, moderate complexity, $84 per user per month *or* $1,250 per license with 20% maint. fee, no cost difference for business change mgmt., training, configuration, customization; assumes no hidden on-demand fees

On-Demand Costs

Assumes 4% Annual Upgrade Expense

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
On-Demand Subscription	$336,000	$336,000	$336,000	$336,000	$336,000	
Upgrades	$13,400	$13,400	$13,400	$13,400	$13,400	
Subtotal	$349,400	$349,400	$349,400	$349,400	$349,400	$1,747,000

On-Premise Costs

Assumes Incremental Hire

Assumes 30% Initial License Cost

License	$500,000					$500,000
Maintenance		$100,000	$100,000	$100,000	$100,000	$400,000
DBA/Support	$135,000	$135,000	$135,000	$135,000	$135,000	$675,000
Upgrades				$150,000		$150,000
Hardware*	$100,000					$100,000
Subtotal	$735,000	$235,000	$235,000	$385,000	$235,000	$1,825,000

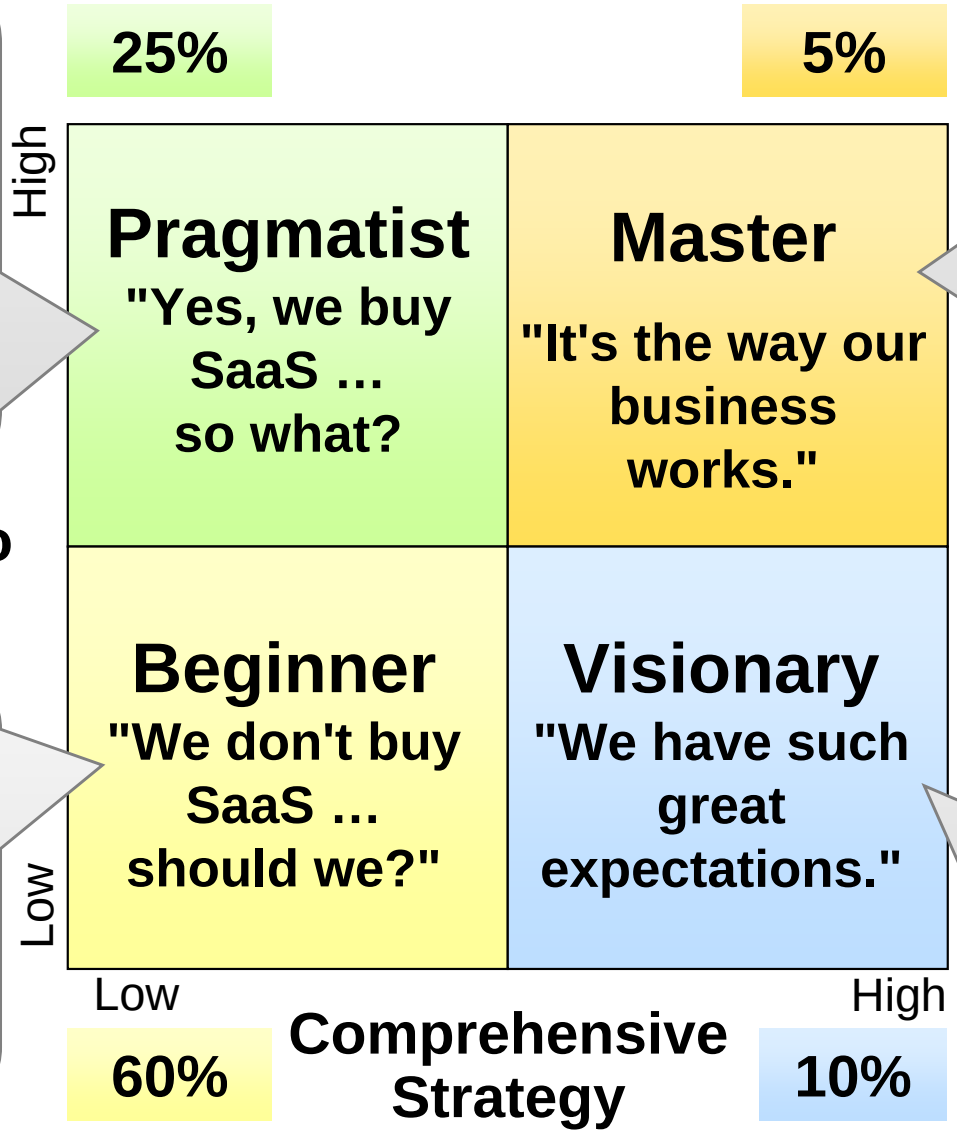
Assumes No Excess Capacity

*Some on-demand vendors require users to source ACD, IVR infrastructure for a contact center; therefore, no savings occur when compared with on premise.

Increased Demand for 'Good Enough' Applications Accelerates SaaS Adoption

Percentages are estimates for 2007.

- Anticipate and support business users' possible attraction to application utility.
- Acceptance of "good enough" for standardized (or noncore) apps.



- Improves the organization's credibility curve with business.
- Enables workforce's focus on business issues.

- Evaluate core and noncore applications.
- Solution fit is more important than delivery model.
- Begin testing.

- Process, applications, information and knowledge integration.
- Workforce impact.
- Struggle among custom and standard business applications.

Gartner

Key Issues

1. What are the business and technology drivers for adopting a SaaS model?
2. What's needed to develop a SaaS capability and how will this evolve?
3. What key commercial protections are necessary to make the SaaS model work?
4. Which applications and vendors will emerge to best enable SaaS?

Gartner

SaaS Generational Model

	First Basic Competence	Second Functional Effectiveness		Third Intraenterprise Integration	Fourth Business "Ecosystem"
Strategy	• Departmental • Baseline capabilities	• Departmental • Competitive differentiation		• X-dept. • 360-degree view (customer/ asset/item data)	• Collaborative processes, multienterprise • Immediate access
Techno-logy	• Limited or no configuration/ customization/ integration	• Configuration/ customization required • Integration w/ applications and data	• SOA support • Lack of standards mediating process integration between SaaS and on-premise • Advances needed in MDM, CDI, BPM	• Business process modeling • Customer/ master data integration	• Collaboration tools, broad availability of application services/create consortia
Adoption	Mainstream	Early Adoption		Infancy	Infancy

Challenge Gap

Gartner

Business and IT Partnership Remains Critical to Developing a SaaS Capability

By involving the IT and procurement organization early and often, it can:

- Identify the *right solutions* and *suppliers.*
- Ensure integration with other on-premise systems, and that data is properly specified.
- Negotiate favorable terms and conditions.
- Ensure adequate security.
- Ensure adequate data center operations.

Gartner

SaaS Provider Operational Best Practices

Operational Task	Best Practice
System Monitoring	24/7 transaction-level, intervals no longer than 15 minutes apart (ideally 5 minutes) with customer portal access
Help Desk Support	24/7 help desk with escalation
Change Management	Adequate notice of service changes, opt-in for release enhancements, opt-out release rollback if changes fail in production
Server Staging	Provides staging server for the customer to test changes before placing them into production
Data Recovery	Supports full data and rule customization recovery on contract termination

Gartner

Securing a SaaS Environment

Network — logical and physical connectivity of systems	• 128-bit or stronger encryption and two-factor authentication to connect from customer LANs to production backbone • Provider performs external penetration tests at least quarterly, and internal network security audits at least annually
Platform — hardware and software	• Provider has a documented policy for "hardening" the operating system under Web and other servers • Provider has a documented set of controls to separate data and security information among customer applications
Operations — facilities management, platform operation and deployment	• Provider performs background checks on personnel with administrative access to servers and applications • Documented process for security alerts from IT partners • Procedures for business continuity and disaster recovery
Applications — deliver business functionality	• Provider certifies the security of scripts and integration code; documented procedures for installing security patches • Provider offers application- or transaction-based intrusion-detection services
End Services — consulting, systems integration, customization and management skills	• Documented identity management and help desk procedures • 75% of security staff have security industry certification • Provider's security staff averages more than four years of experience in information and network security

Gartner

SaaS Architecture Models

	Managed Hosting Service	Isolated Tenancy	Shared Execution	Multitenant/ Single Version	Multitenant/ Multiversion
Application Execution Infrastruc.	Dedicated	Dedicated	Shared	Shared	Shared
Application Versioning	Multiple	Single	Single	Single	Multiple
Data Separation	Physical	Physical	Physical	Logical	Logical

- Supports SaaS

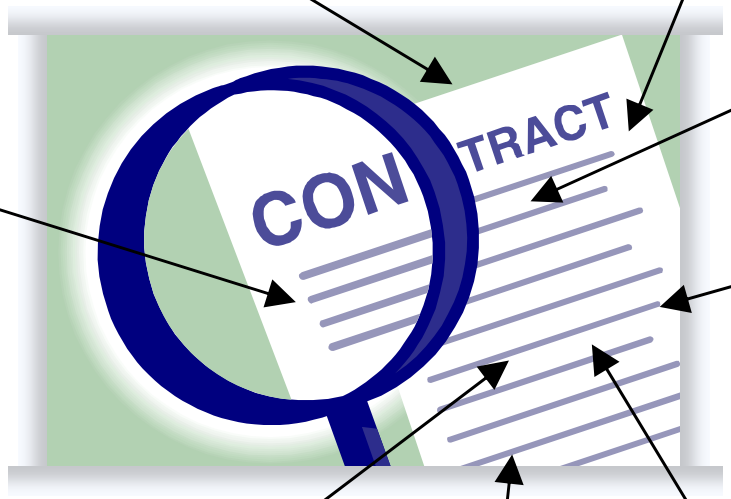
When to Consider:	• **Heavy customization** • **Version & performance control** • **Potentially highest cost** • **Risk-averse for data security**	• **Performance control** • **Risk-averse for data security** • **Potentially lower cost than managed hosting**	• **Potentially lower cost than isolated tenancy due to shared execution infrastructure** • **Risk-averse for data security**	• **Least cost to serve, but data security, version and performance control are possibly an issue**	• **Version control** • **Less-than-managed hosting service, but potentially more expensive than other models**

Key Issues

1. What are the business and technology drivers for adopting a SaaS model?
2. What's needed to develop a SaaS capability and how will this evolve?
3. What key commercial protections are necessary to make the SaaS model work?
4. Which applications and vendors will emerge to best enable SaaS?

Gartner

Avoid SaaS Contract 'Gotchas'



Free Pilots' Contingencies

Initial Setup Costs

Unlocked Discounts

Reducing User Fees

Term of Licenses

Fee for On-Premise License Conversions

Hidden Pricing Metrics

Fees for Customers or Business Partners

Gartner

Unplanned Service Downtime Leads to Lost Productivity

- **On-premise best-in-class is 99.5%. SaaS providers only guarantee back-end application, not IP connectivity; they must support 99.9% to be equivalent.**
- **Impact of downtime is dependent on business function (call center vs. salesperson). Consider your productivity loss due to downtime (mission-critical vs. casual).**
- **Contractual assurances:**
  - Penalties (one day of fees for each full or partial percentage point below the SLA during any single month)
  - Audits of SLA compliance
  - Escalation clauses

Employee Productivity During Unplanned SaaS Downtime

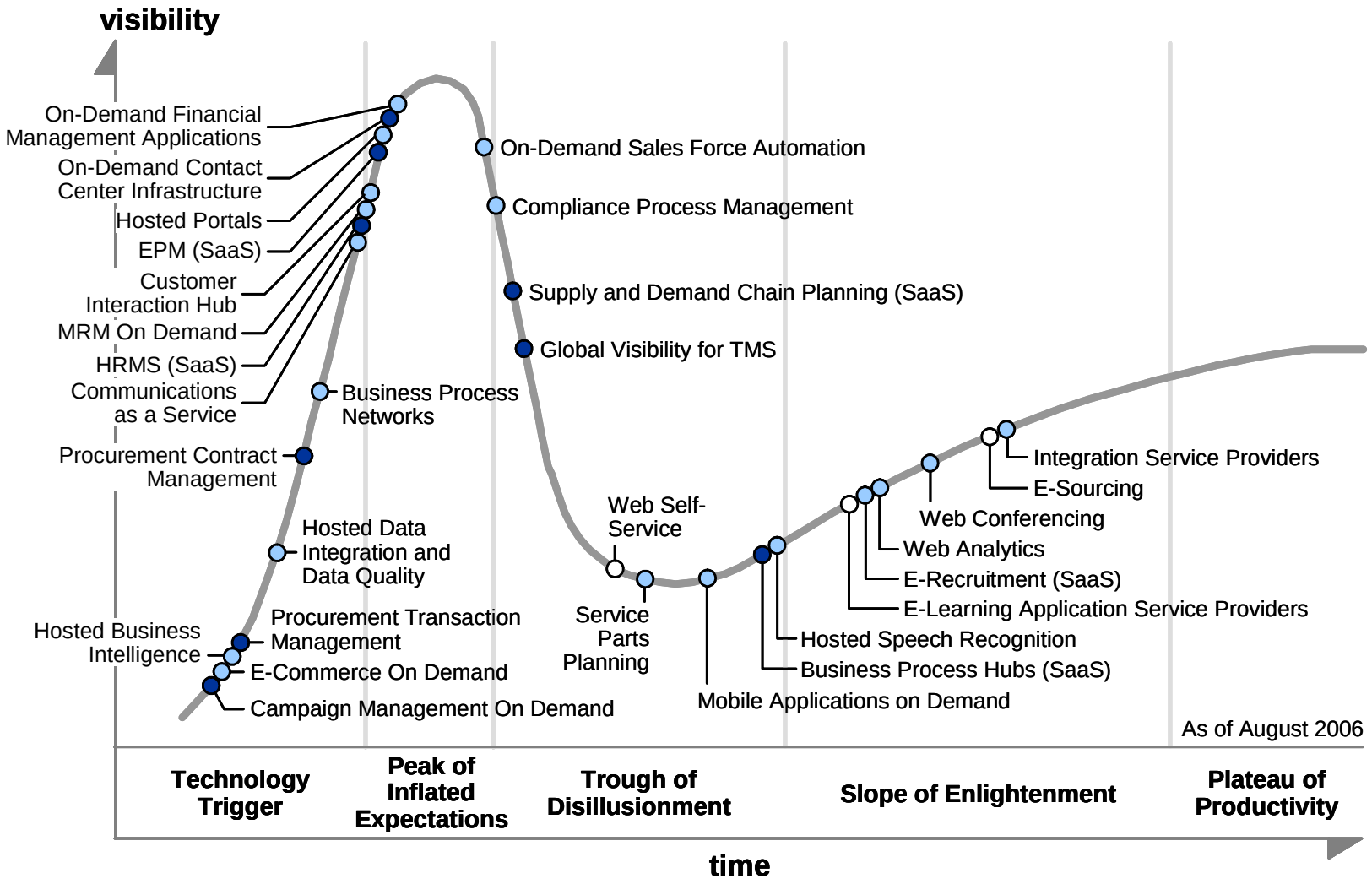
Gartner

Key Issues

1. What are the business and technology drivers for adopting a SaaS model?
2. What's needed to develop a SaaS capability and how will this evolve?
3. What key commercial protections are necessary to make the SaaS model work?
4. Which applications and vendors will emerge to best enable SaaS?

Gartner

Hype Cycle for Software as a Service, 2006



Gartner

SaaS Will Be a Primary Source of Vendor Innovation

- Lower barrier to entry for new vendors
- SaaS business model attracting venture capital
- Leveraged infrastructure enables higher R&D investment in functionality
- Rapid release schedule gets new functionality to customers quickly

Gartner

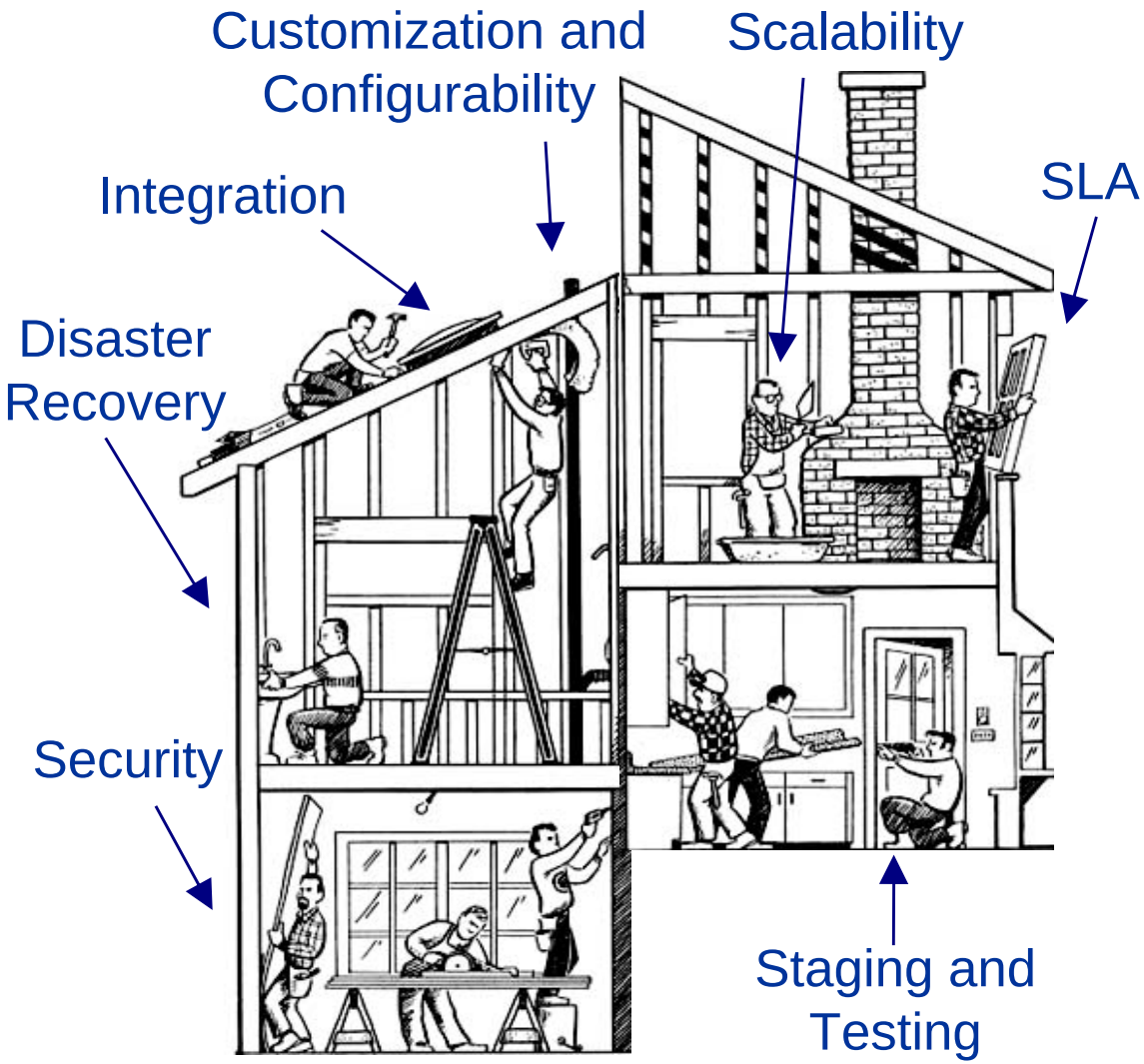
SaaS Providers: Lower Barrier to Exit

- Customers face a defined decision point on whether to continue a relationship with a SaaS provider.
- There are switching costs, but few barriers to change SaaS providers.
- SaaS providers must "win the business" every day.

Gartner

SaaS Vendor: A Dream House to Some, Finish Work for Others

Business User View of a SaaS Application



IT Person's View of the Same SaaS Application

Recommendations

- ✓SaaS is neither a fad nor a panacea. Beware of ruling it out before assessing it, but also remember that to succeed, you must still focus on business processes and people.
- ✓Consider SaaS primarily for departmental initiatives.
- ✓Evaluate the SaaS vendor's operational practices, security and system architecture — not all are equally adept at protecting your interests.
- ✓Plan on using multiple SaaS service providers to support moderate-to-complex deployments through 2010. Also, remember that integration costs will be as expensive as on-premise.

Gartner

Software as a Service: The Myth and Promise of No Software

Scott Nelson

Gartner

Midsize Enterprise Summit® 2007

Gartner

Software as a Service: The Myth and Promise of No Software

Scott Nelson

Gartner

Midsize Enterprise Summit® 2007

Gartner