SaaS Realities:
Business Benefits for Small and Mid-sized Enterprises

A research report
prepared by:

SAUGATUCK
TECHNOLOGY

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About this Report

This report is based on independent research developed and conducted by Saugatuck Technology Inc., who is solely responsible for the analysis, conclusions and recommendations presented in this report. The publication of this report was funded by SAP.

About Saugatuck Technology

Saugatuck Technology Inc. provides subscription research and management consulting services focused on the key market trends and disruptive technologies driving change in enterprise IT, including SaaS, Cloud Computing, Open Source and Enterprise Social Computing. Founded in 1999, Saugatuck is headquartered in Westport, Connecticut, with offices in Santa Clara, CA and in Frankfurt, Germany. For more information, please visit www.saugatech.com, or call +1.203.454.3900.

INTRODUCTION: CONSIDERING SAAS

Software as a Service (SaaS) is a highly-touted model for acquiring, using and paying for business functionality. Its best-known characteristics are its relative speed to implementation and low upfront costs for acquisition and deployment. As a result, SaaS is widely adopted for a variety of business and IT functions.

Less well-known are the business advantages of SaaS for ERP/enterprise business applications, especially those advantages specific to smaller enterprises. Enterprise-level SaaS can deliver tremendous value to small and mid-sized businesses.

In this paper, we consider the business advantages of moving to a Software as a Service (SaaS) model for improving business operations, and to better meet the challenges of growth, competition and regulatory compliance faced by smaller and mid-sized businesses.

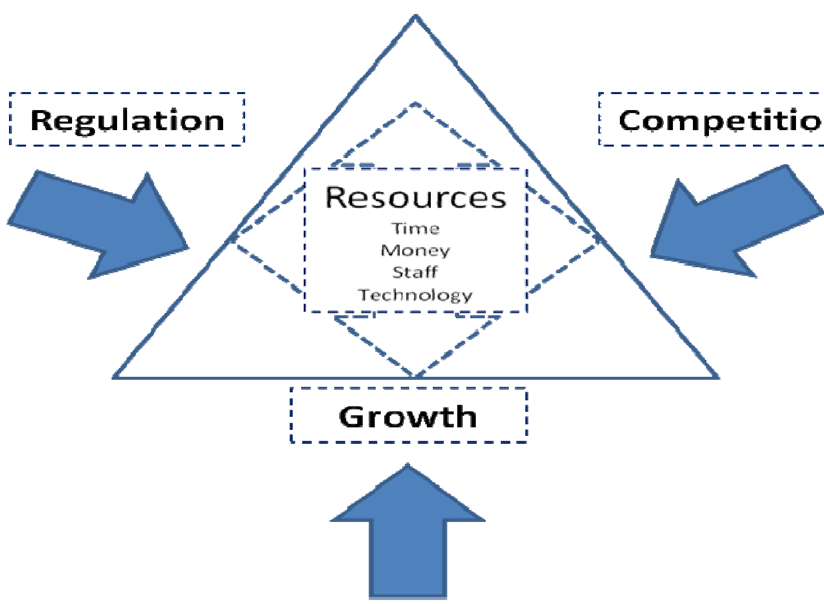
We examine the motivation for making what can be a significant change in information technology, and look at the alternatives to SaaS, and the unique ways in which SaaS delivers business value.

Finally, we look at the advantages and business benefits – financial value, new technology and improved operations – that SaaS provides to small and mid-sized businesses, including Saugatuck's latest survey and interview research with small and mid-sized business users.

FLEXIBLE, NIMBLE—AND PRESSURED

By nature, small and mid-sized companies must be flexible and nimble. Their leaders are constantly faced with the decision to invest in the business to enable improvements in operational and financial performance. Yet at the same time, they can find themselves so entangled in those operational and financial processes that finding a better way to do it can take a back seat to dealing with the latest problems.

Figure 1 – Coping with Business Pressures



Source: Saugatuck Technology Inc.

Consider the many challenges in managing these resources while at the same time coping with regulation, competition and growth (see Figure 1 – Coping with Business Pressures). Those external pressures can seem overwhelming and can distract from the necessity to make timely and effective decisions about improving internal operations and financial performance. Leaders of small and mid-sized firms may wonder whether redesigning or replacing the information technology that drives the business will lead to unintended consequences, unwelcome changes, unforeseen costs—and undermine financial goals and business objectives.

Clearly, the key to successfully managing any firm of any size is managing growth in a cost effective manner. Managing growth also requires dealing with a variety of challenges relating to information technology—hardware, software, networks, people and processes. *Information technology can enable growth, but it can also inhibit growth if it is not sufficiently responsive to competitive pressures or to regulatory change.*

MAKING OPERATIONAL IMPROVEMENTS

Many leaders ask themselves, when is the right time to invest the time and resources to make those operational improvements that can directly or indirectly impact profit? When will the cost of change be worth it? Are there signposts that can signal when the time is right? When is there potential for greater return on investment in operational systems? What are the business conditions that should compel such a change?

The best time to determine when to make a change in information technology is when business conditions dictate. These compelling business conditions might include any or all of the following:

- Establishing a new location
- Serving new markets
- Facing sudden sustainable growth
- Preparing for recession
- Establishing a new sales channel
- Integrating a new supply chain
- Facing more disciplined governance or financial reporting
- Being held to more stringent performance goals
- Establishing a new business model
- Facing more aggressive competition
- Responding to higher expectations from customers

Any of these conditions may be compelling in itself, but more than one would argue strongly for a closer examination of the long-term usefulness of the current IT solution. Upon assessment, if the current IT solution should be found wanting in its functionality or in its adaptability to evolving market conditions, the time would be right to consider a change to improve business operations and boost financial performance.

The alternatives for improving business operations are several. Two are familiar approaches to most firms: Purchasing a software package from a vendor or from a market partner, or, engaging a system integrator to select and install software and integrate it with the other software already in use.

In the first case, the burden for selection, installation and ongoing maintenance of the software—and any necessary supporting hardware and networking—falls on whatever IT organization exists within the firm.

In the second case—and this is often the route taken by smaller firms —a value-added reseller (VAR) or systems integrator (SI) shoulders the burden of selection and installation, leaving only the ongoing maintenance of the IT solution and its associated resources, which can be outsourced to a hosting vendor. There are variants of either case, but the common elements are purchasing software and paying annual maintenance, implementing/integrating it or having it implemented/ integrated, and then running and maintaining it or finding a vendor to manage those tasks.

SOFTWARE AS A SERVICE

A third alternative is the market phenomenon known as Software as a Service, or SaaS.

In this case, no large initial outlay of capital is required to license the software. SaaS is typically purchased on a "per-user, per-month" basis, although year-long and even multi-year discounted commitments are often negotiated. This may ease significantly the burden of licensing software for smaller enterprises, and puts the price directly in relation to its use. With SaaS, you do not pay for shelfware (as occasionally happens with vendor software), you pay for the seats of users that actually need to use the software in their normal business day. In some instances, casual usage can also be licensed on a "per-user, per-month" basis. In other cases, SaaS is priced according to the number of transactions, as in travel expense management, or according to the number of employees in an enterprise, as in human resources management. However, the most common pricing for SaaS is "per-user, per-month."

Let's take a closer look at what you purchase in this manner. SaaS is considerably more than software – it is a business service, providing the software and managing it for the customer.

Included in this business service is the entire range of data center infrastructure services: networks, storage, operating systems, databases, application servers, Web servers, and of course, disaster recovery and backup services. Moreover, a full range of data center operational services – authentication, availability, identity management, production monitoring, patch management, activity monitoring, software upgrades and customization – are also provided.

You don't have to install the software, it is already installed and ready for you to use. You don't have to manage the hardware, the software or the network. Especially, you do not have to manage the people, the technicians, or hire or train them. The SaaS provider manages all this data center infrastructure remotely for the SaaS customer.

On the application software level, the SaaS provider ensures a continuous stream of ongoing upgrades to the business solution, all behind the scenes. Unlike in a hosted software setting, the new releases and functional upgrades are all included in the "per-user, per-month" pricing (or whatever other metric may be appropriate). There is no annual maintenance surcharge of 20% of the list price of the vendor software.

And if the needs of the business should expand significantly, it is simple enough to add licensed seats without any worry about purchasing additional computer hardware, software or networking—or hiring the additional trained IT technical staff to manage it. In fact, that may be the most significant unstated and unexpected benefit of SaaS: *It is a completely scalable business resource that does not require large capital expenses at any time.*

The Advantages of SaaS

Clearly, it is important to consider the business advantages of each potential solution before deciding. Let's take a minute to consider all the advantages of SaaS as a solution. SaaS offers certain *business advantages* to small and mid-sized businesses that other potential solutions do not:

Financial Value

- **Time to Value** – SaaS is quickly installed and more quickly made part of the work process when compared with on-premise software. Often it is possible to self-provision a trial use, or "try before you buy," a SaaS solution to get a feel for how it looks, feels and operates. Typically, once licensed, a SaaS purchaser is up and running in a matter of days or weeks, rather than months, as is more frequently the case with traditional vendor software. As a consequence, the SaaS purchaser can begin to realize the business benefits earlier. The payback period is much quicker, and the ROI is significantly better than with vendor software.
- **Affordability** – SaaS does not require large up-front investment, and especially in a recession presents less of a financial hurdle when compared with on-premise software. Businesses with limited capital budgets and limited IT support will find SaaS is far more suitable to their needs than vendor software. Studies comparing the total cost of ownership of SaaS versus on-premise vendor software consistently show approximately 30% lower costs with SaaS, whether the implantation is for 30 or for 300 users.

New Technology

- **Continuous Innovation** – Instead of twice yearly upgrades, SaaS solutions can be enhanced on a regular and almost continuous basis. Major releases may also appear annually, consolidating all of the enhancements along the way. One of the key enabling SaaS technologies, multi-tenancy, makes possible this continuous stream of enhancements. SaaS users do not have to wonder whether a new release or upgrade will break their system or cause a significant delay in parallel testing prior to switching over into full production. The SaaS provider assumes this responsibility behind the scenes and without intrusiveness.

Improved Operations

- **Customization** – It has become increasingly easy to adapt SaaS solutions to fit the needs of small and mid-sized enterprises. Some SaaS solutions exploit multitenancy to enable customization by programmers or system integrators. Other SaaS solutions target end users with easy-to-use configuration capabilities that allow non-programmers to easily modify their look-and-feel or their business processes. For many businesses, configuration may be a more appropriate approach, due to its simplicity and lower cost (no programmer required).

- **Integration** – Integration support was first designed for the business partners of SaaS providers, whose complementary solutions were enabled to drop in seamlessly as though part of the original SaaS solution. Web services APIs enabled this integration and were also purposed to address the needs of SaaS customers with on-premise applications that had to integrate with the SaaS provider's solution. Today Service Oriented Architectures (SOA) and web services APIs are hallmarks of most if not all SaaS providers, making integration with on-premise software and home-grown systems considerably easier.

  Three additional means of achieving seamless integration with other enterprise applications on premise include: Web-based SaaS integrators, SaaS integration appliances, and SaaS system integrators. The first of these, the Web-based SaaS integrators, provides point-and-click integration services on a monthly SaaS subscription basis with no software packages or hardware appliances to install and maintain. The second of these, SaaS integration appliances, enable customers to rapidly complete application-specific integrations using a configuration, rather than a coding approach by using a pre-configured templates addressing dozens of the most widely-used formats. These same SaaS integration appliance providers will also perform any consulting tasks as required, which can be especially helpful for complex integrations. Finally, there are now quite a number of SaaS system integrators that specialize in connecting SaaS with on-premise applications. The integration challenge has now been fully addressed.

- **Fewer Technical Resources** – Possibly one of the least-anticipated SaaS benefits is that it requires significantly fewer technical resources to manage than on-premise software, reducing the strain on IT organizations. For the small or mid-sized enterprise, this is an enormous advantage. At the same time, by utilizing the expertise of the SaaS provider, which has state-of-the-art data centers and technology at its disposal, even the smallest firm can take advantage of the latest in leading-edge technologies, including messaging and collaboration capabilities that might otherwise be beyond its reach. In this way, the firm can obtain access to next-generation technology without having to manage it.

- **Focus** – Without the distraction of managing the IT function – hardware, software, networks and technicians – the company will be freed up to focus on its core competencies, its core value-add. SaaS is a way of outsourcing the onerous aspects of the essential IT systems the small or mid-sized company needs to run its business and manage the challenges of growth, regulation and competition.

FINANCIAL VALUE, NEW TECHNOLOGY AND IMPROVED OPERATIONS

Saugatuck's global surveys of SaaS user executives from 2007 and 2009 show that the most frequently cited-expected benefits were essentially unchanged over the years—suggesting a strong consistency over time in the value that executives see in SaaS (see Table 1).

Table 1: Most Frequently-Cited SaaS Benefits for Small and Mid-sized Firms

Top SaaS Benefits - 2007	Top SaaS Benefits - 2009
Simplify software management	Reduce capital and/or operating costs
Reduce capital and/or operating costs	Simplify software management
Speed implementation	Improve service levels
Improve service levels	Speed implementation
Faster time to market	Faster time to market

Source: Saugatuck Technology Inc.

These benefits fall into two categories: Financial Value and Improved Operations, as follows:

Financial Value:

- **Reduce Capital and/or Operating Costs.** Acquiring, using, and especially paying for software as a service enables not only less upfront investment. It also enables ongoing, predictable cost management based almost directly on business operations.
- **Speed Implementation.** The sooner that new systems get up and running, the less disruption there is to the business, and the sooner the business can take advantage of its new capabilities.

Improved Operations:

- **Simplify Software Management.** For any firm, but for smaller firms especially, managing software—including updates, consistent implementations, and training—is among the most costly of IT expenditures. SaaS pushes most software management costs back to the software (SaaS) provider.
- **Improve Service Levels.** Reduced costs and reduced management needs enable any available IT resources to respond faster to, and spend more resources on, business needs.
- **Faster Time to Market.** Faster software implementation at lower costs means most firms are able to implement new ways of doing business, or to just get back to business, much sooner than possible and with more resources available, than with most traditional software implementations.

From year to year to year, we see these benefits ranked at the top of business executives' lists, because these are core business benefits derived from technology delivered, used and paid for as a service.

Clearly, smaller and mid-sized companies respond to benefits that can make it easier to manage the daunting challenges of growth, regulation and competition.

By focusing on these key SaaS benefits — improving the financial picture, assuring the latest in technology, and making quick and painless operational changes—we can see SaaS has moved to the forefront of business priorities for small and mid-sized enterprises.

MAKING THE CORRECT DECISION

Even so, SaaS may not be the answer for every firm of every size. There are several situations that might dictate the choice of a traditional software vendor license.

Consider a traditional vendor software license if the application that needs updating is tied to the core value-add of your business, i.e., your differentiation. If you have already invested significantly in internal IT, <u>and</u> your internal IT is closely connected to the value you provide, you may want to consider improving operations by re-investing in your core capabilities. Or, if regulations require the data you manage to remain behind your firewall, and the SaaS provider cannot make that happen, you should definitely rebuild your IT capability to improve operations.

Conversely, consider SaaS if your company has a limited capital budget, limited information technology resources, or a distributed workforce in a sales- or service-oriented business.

SaaS enables smaller and mid-sized firms to manage growth, regulatory compliance and competition without also dealing with a variety of challenges relating to information technology.

SaaS is more easily affordable, immediate in its impact, and provides modular functionality in a way that is easy to extend and change, and easy to integrate with other systems.

SaaS means financial value, new technology, and improved operations. Consider the change to SaaS.

Sponsor Perspective

SAP Is For Great Companies: Not just Great Big Companies

Fast-moving businesses face unique challenges. Often, survival depends on your ability to turn a profit, scale and adapt quickly, but at the same time you have to build for sustainable growth and put in place the company and processes you need to be successful a year from now. Software as a service (SaaS) is increasingly an answer for companies facing these challenges.

Software as a service has matured, and is now a viable and reliable means for companies to gain the benefits of a unified business application strategy, with the integration and maintenance of the software being included in the cost of the solution.

With a fully integrated SaaS solution, companies can gain the benefits of the individual applications and begin to align objectives across departments with end-to-end processes that you to streamline, find opportunities, cut cost and waste, and build a business that is ready for growth and change. This means that you can do more with less and focus on what you are good at and let software vendors, like SAP, do the rest.

If the time has come for a unified IT strategy to help your business and you are interested in a complete, integrated SaaS solution, visit (www.sap.com) to find out how SAP Business ByDesign can help you:

- Take advantage of a fully integrated business offering including ERP, HR, CRM, SRM, Project Management and more.
- Easily measure business performance.
- Gain full visibility into sales and sales pipelines to make sound investment decisions.
- Track performance metrics, e.g. revenue per employee, customer attrition and supply chain costs.
- Capitalize on opportunities that emerge from changing market conditions; change course as needs dictate.
- Extend your solution as growth dictates.
- Automate business processes.

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