

SOME BENEFITS OF ON-DEMAND TECHNOLOGY

Return on investment (ROI) was once the only benefit associated with on-demand technology. But as on-demand technology and software as a service (SaaS) gained traction users discovered many additional reasons to use these solutions that even the vendors may not have forecasted. This Beagle Research Group Executive White Paper discusses some of the benefits now being seen in the market as reported by senior executives at vendor companies that helped develop the technology.

ABSTRACT

The subject of unintended consequences is never far from any discussion of innovation — sometimes an otherwise good idea is shot down by the market place due to unintended consequences. Perhaps due to selective memory we tend to think of unintended consequences as a bad thing but just as often something positive shows up where you never would have expected it.

No one has perfect forward vision in part because once an idea reaches the market place it develops a life of its own and the most successful ideas act like a snowball placed high on a winter hillside. An idea that has merit and gains traction in the market will start a cascade of additional benefits — unintended and unexpected — that few if any people pondered during the first stages of innovation.

With many years of accumulated experience in the on-demand market behind us, we thought it would be a good idea to ask some successful CEOs of on-demand companies what benefits they noticed their customers enjoying beyond what may have been written on the label or promised in the sales cycle.

This is not a scientific survey in that we have not set out to develop quantitative data to be sliced and diced. Rather, it is anecdotal reporting on the reality currently observable in the market by some of the people who helped shape that market. We specifically asked our respondents to steer away from ROI and most financial benefits for the simple reason that those benefits have been covered a lot already. What we found might surprise you.

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INTRODUCTION

Since 2000 on-demand computing has been making steady progress in dethroning the established paradigm of on-premise software delivered through a conventional license. The licensed software business model has had a good run that continues today even as on-demand technology nibbles away at the edges and takes more than an occasional big bite out of enterprise computing.

Originally deployed as a solution that was only somewhat better than on-premise applications, on-demand applications or software as a service (SaaS) — two of the numerous monikers the technology is known by — were sold primarily for their low cost characteristics and easy ROI.

The argument went that on-demand was better because it helped its users to avoid a variety of costs which often added a whole number multiplier to the cost of the software alone. On-demand also took a lot of risk out of the picture when it removed the variability of hardware, operating system, database and middleware from the equation. In its place there was a single, per-seat charge that was often invoiced monthly.

Thus, the primary and very early benefit of SaaS was its relative ease of delivering a quantifiable ROI. Keep in mind that this all happened in an era when conventional IT departments were suffering major burnout from the trials of implementing first ERP (frequently to beat the Y2K deadline) and then CRM. The hallmark of each of these solution types was the same — expensive software licenses coupled with high professional services fees to customize and in many cases integrate the solutions with an enterprise's other systems. When early on-demand vendors bragged about their ROI, they knew they were on the right side of a powerful issue and they rode it into the sunset.

Today, we have more than eight years of experience with on-demand solutions and the early adopter era is a memory. We thought now would be a great time to find out why, beyond low cost, customers are buying on-demand solutions in increasing numbers. We decided to ask a group of on-demand vendor CEOs and senior executives what their customers were telling them were the reasons many of them select on-demand solutions over traditional software. This approach may not be perfectly scientific, but it has a pragmatic advantage — vendor CEOs will not fund approaches to the market or messages that do not work.

Why do people do this and why should others want to know? It's the way markets grow and it is a conversation that ought to be had as we stand on the threshold of even more profound changes in enterprise computing driven by SaaS.

SOME BENEFITS

SaaS benefits come in many flavors. Our major criterion for the benefits we collected was that they provided something other than ROI. We felt that ROI has been over

done and that, important as it may be, other benefits had to exist. Our panel gave us a lot to consider and the benefits went in two directions — to the customer as well as to the vendor.

CUSTOMER INTIMACY AND COLLABORATION

The model relationship between SaaS vendors and their customers is significantly different resulting in better customer intimacy, collaboration and loyalty. Because SaaS is fundamentally a pay as you go relationship paradigm, vendors are very aware that attrition is always an option. Even when a multi-year contract is in place on-demand vendors typically only recognize one month's worth of revenue at a time which reinforces the idea that everyone in the vendor organization needs to "earn their stripes" every day. As a result of the vendor's need for intimacy most vendors maintain a dialog with their customers either directly, via analytics or both.

In addition, because the SaaS model offers rapid and frequent system deployment, when customers have requests or when a good idea comes along, it is relatively easy to make the good idea part of the service quickly rather than waiting for an annual (or longer) product enhancement cycle. Combined with multiple release cycles within a given year, SaaS vendors are better able to concretely demonstrate their commitment to their customers than their conventional colleagues.

"SaaS vendors not only design, produce and support a product; we also deliver the product, manage and secure the data, and manage seamless upgrades. It's a considerable step forward from the status quo of traditional software relationships which are primarily transactional in nature. Because we, as a SaaS vendor, have far more frequent upgrades, our customers realize a faster response to their requests for incremental and alternate functionality. And, importantly, our channel partners are involved in this collaboration as well."

~ Zach Nelson, CEO, NetSuite

MARKET INTELLIGENCE

SaaS vendors manage a great deal of data on behalf of their customers though this is not the first time that vendors have managed customer data; for instance, the facilities management era saw a similar trend. What's different this time is that SaaS vendors have the ability — with proper safeguards and permissions — to peer into the aggregate data of an industry.

"[There is great benefit in] benchmarking and industry health reports based on real customer data (scrubbed of any identifying information) that our clients opt-in to sharing — think about [the potential value in] a weekly report of the health of small and mid-sized businesses in America based on real financial results from thousands of companies, and about benchmarks a CFO can use to compare how his company is performing compared to data from peer companies."

~ Mike Braun, CEO, IntAcct

In a traditional facilities management scenario, large enterprises might be sequestered on their own servers behind the firewall of the services provider. The enterprise and its vendor might be able to gather aggregate statistics about the individual company's usage but it would be difficult or impossible to capture and meld data from several companies to analyze trends in the broader market. Having access to that kind of information would be a boon to C-level business managers, economists, venture capitalists and others interested in developing accurate metrics or in benchmarking specific industries. In an on-demand model it is far easier for groups of like-minded people to agree to pool data stripped of any identifying characteristics for analytic purposes.

ON-LINE

On-demand technology has spawned many things — numerous companies, at least one distinct business model and a new kind of application which we refer to as WebNecessary. We define WebNecessary applications as those that integrate and leverage the Internet as a part of the value proposition delivered to customers. That value proposition is fundamentally different from the value delivered by using the Internet simply as the delivery medium. Using the Internet as the delivery mode simply provides lower costs and better ROI. WebNecessary applications take the value proposition further in several important ways:

1. They involve the Internet as an active part of the value proposition.
2. They support innovative business processes that, in most cases, could not be easily supported any other way.
3. They are collaborative, bringing together people from disparate roles, geographies, and organizations to participate in these business processes.

The WebNecessary concept is a new idea for on-demand and one that will become increasingly important as application developers and users begin to push the definitions of applications and business processes.

“Connectivity to the internet is a significant benefit to On-demand computing. Business users and the applications they use increasingly need connectivity to more relevant information services, increasingly available on-line. Information that drives innovation and enhanced decision making within enterprises comes as much from the outside as it does from the inside. On-demand applications can persist as a set of services called by other applications or equally call services from other public sources.”

~ Anthony Lye, Senior Vice President, CRM, Oracle Corporation

“By hosting thousands of organizations' CRM systems across many different industries, SaaS vendors can gain valuable insight that one single company running its own CRM system on premise would never be able to obtain. When a client faces a challenge, the SaaS vendor can tap into its cumulative expertise to provide the practical advice necessary to appropriately and rapidly address the situation. While a client may face such a crisis just once, we can bring to bear our experience with numerous clients to help resolve the issue.”

~ Greg Gianforte, CEO, RightNow

REDUCED RISK

Early marketing for on-demand solutions stressed the operational benefit of fast and reliable deployment which was a contributor to ROI. Given the situation at the time — with many CRM projects going over budget and over cost — these benefits were significant. There is no telling how many CRM deployments went ahead precisely because of the reduced risk profile presented by on-demand technology.

As it turns out, some of these operational benefits work in both directions; they are as important to the vendors involved as they are for the customer organizations. For example, it is well understood that on-demand applications take responsibility for computer hardware and software out of the picture for the customer organization, greatly reducing the cost for a particular solution and contributing to its ROI but the same dynamic manifests itself in a different way for the vendor.

“Being able to deploy your product as a service and eliminate the overhead associated with installing software on a customer’s premises provides a huge benefit to a company’s “go-to-market” strategy...There are substantial benefits in being able to prove an application’s ability to impact business during the proof of concept/evaluation phase. A true multi-tenant application gives a company the ability to deliver a production like experience within days or hours if the technology and business process are architected together.”

~ Brian Zanghi, CEO, Kadient

The vendor of an on-demand solution simply needs to ensure operability of the solution in a small variety of Web browsers and a single “stack” or combination of operating system, database, middleware etc. Gone are the days when a software developer needed to test a new version of a product with multiple combinations of disparate stack elements. This greatly simplifies the job of the vendor and reduces the load on the R&D group enabling it to spend more development time developing the solution.

“Companies are discovering that on-demand technology has revolutionized their business process well beyond the capacity of legacy and on-premise systems. Real-time web-based visibility has become indispensable in reinforcing plan objectives, providing tactical direction on how best to achieve plan and motivating for greater levels of sales performance. Instant “anytime, anywhere” access to the right data and tools for every role in the sales organization transforms companies from reactive to proactive, and empowers them to leverage their business investment like never before.”

~Michael Torto, CEO, Centive

INNOVATION

For vendors and potential vendors there is no greater benefit to come from on-demand technology than the increase in their capacity to innovate. Arguably more than any other advancement in modern computing, on-demand technology has provided opportunities to innovate through the reduction or elimination of numerous barriers.

“At the highest level SaaS enables companies to become more entrepreneurial so they can meet their business goals more quickly.”

~ David Thompson, CEO, Genius.com

Vendors have also discovered that they can address smaller markets for their solutions because SaaS has greater reach. Historically, many organizations have developed small solutions in-house using PC tools and often spread sheets either because IT or the specific department could cobble together something that worked or because there were no commercially available applications to begin with. Interestingly, sales force automation (SFA) started this way.

On the other hand, many vendors could see definite market need for such applications but those markets were thin — vendors could only sell a few seats per customer and the costs of sale outweighed any potential profit. Consequently, many applications were either not developed or were developed as orphans by the in-house staffs, disconnected from the enterprise’s data and IT infrastructure.

SaaS changed the picture for orphan applications. On-demand technology gives customers greater access to essential automation for their unique business processes. Whether a company uses applications developed by third parties or builds applications in-house using on-demand tools, on-demand technologies lower the cost and risk profiles associated with these efforts and enable more people to take a chance and succeed at building something that is instrumental to their companies’ successes.

Where a company might have relied on a spreadsheet-based application in the past, it now has the ability to build a solution that is based on a database and integrates well with other organizational data. The results are far reaching. These applications don’t get old and fail under heavy use the way spreadsheets or PC based applications do; instead they evolve with the business. And because these applications are based on real databases they are auditable and capable of participating in workflows, which in many cases adds another level of rigor and security to business processes making compliance with standard practices easier and the processes themselves more effective.

“The benefits of Software as a Service and Platform as a Service come down to a simple concept: innovation, not infrastructure. Why is that important? Innovation is being held hostage in the enterprise by the unreasonable demands of the failed promises of client-server. I am not just talking about expense. It’s just too daunting for most enterprises to get to the long list of apps that every CIO knows will add value. This is not a question of ROI, although I know that our customers do better than just about anybody’s. It’s a question, ultimately of why we implement technology: to do more, better, faster — all to the delight of our customers. SaaS applications can be customized or custom built more easily, and deployed practically instantly. In the end, SaaS frees the customer to focus on the business, not the software to run it.”

~ Marc Benioff, CEO, salesforce.com

MOBILITY

Mobility has been a growing concern almost as long as on-demand technology has been available perhaps because sales force automation was the first on-demand application and sales people are constantly on the move. As a practical matter though, conventional software systems required so much infrastructure that mobility solutions did not take off very fast due to the high overhead involved.

Mobile applications run differently than premise-based applications — they sip data and the platforms that support them run stripped down operating systems giving browser based applications an advantage. With the constant improvement in handheld devices and operating systems as well as the browser-fication of most CRM applications, it has become far easier for vendors to deploy meaningful CRM functionality for the small screen.

“It turns out that it’s very hard with on-premises applications for remote and mobile users to use the system. SaaS naturally lends itself to this model, since all you need is a web browser and an Internet connection.”

~ Mike Bauer, CEO, Intacct

BUSINESS LATENCY

There is a rhythm to business marked by vendor and customer action and reaction, offer and counter offer. But the period of the rhythm is often dictated by technology and a response is only as fast as the systems in place to convey it so overnight service is faster than mail, email is even faster and texting and instant messaging are fastest (for now). Customers of SaaS solutions have noted that latency can be removed from customer data, system availability and functional availability.

CUSTOMER DATA

Any CRM system based on a properly developed relational database that is integrated across major stove pipes (sales, marketing, service) can achieve reduced latency because multiple instances of customer data can be consolidated into a single instance of customer intelligence. The advantage that SaaS solutions bring is in deploying this advantage across the logical organization — within and outside of any building — and in bringing this benefit down the cost curve so that small companies and small departments can take advantage of this benefit. Increasingly in support situations vendors are making data available directly to customers in the form of FAQs or knowledge bases through their Web sites and that data is often managed by SaaS applications.

“Software-as-a-service is uniquely positioned over traditional software deployment in its ability to enable companies to strip latency out of critical business processes. Significantly, this extends beyond the latency which is traditionally associated with IT system performance, to cover latency which is inherent in organizational data management and business process orchestration.”

~ Brian Halpin, Vice President & General Manager, SageCRM & Dublin Operations

SYSTEM AVAILABILITY

As with customer data being made more available to users, system availability has been increased through SaaS. As noted above, SaaS has proven to be a boon to mobile users because it makes systems and applications available to users with the same ubiquity as the wireless Internet. A single code set can be presented through browsers on the desktop or in a handheld device thus providing continuity in the user experience that has not previously been available through other means.

FUNCTIONAL LATENCY

One of the hallmarks of SaaS has been the ability for a vendor to deploy a single upgrade to all users at the same time and this can be taken a step further to mobile users. Without SaaS functionality, upgrading a field sales force with software upgrades and product information could be a time consuming and expensive proposition but with SaaS it happens routinely. Furthermore, the centralized administration of SaaS solutions ensures that any mobile device can be disabled and its data destroyed should it be lost or stolen.

CONCLUSIONS

Return on investment was the first and most obvious benefit of on-demand computing and it was the starting point for many organizations to make their first forays into this new style of computing. While ROI is certainly important the practical use of on-demand applications over time has brought out numerous additional benefits that may not have been apparent when this style of computing first gained market traction. This behavior is inevitable in a new market and it has not yet run its course.

The evolving use of Web 2.0 technologies to augment on-demand CRM combined with modern social networking ideas is causing us to reconsider whole business processes. With that we are finding enterprising vendors and end users building new and innovative applications to support these processes and additional unforeseen benefits are the result.

This ongoing "virtuous circle" of benefits is one reason for on-demand technology's continuing popularity and further evidence that SaaS is not a fad but a trend with a long way to run.

ABOUT BEAGLE RESEARCH GROUP

Beagle Research Group is a consulting and market research organization focused on emerging technologies and companies that will have an important impact on the way business is conducted in the years ahead. Our work is based on professional standards of quantitative and qualitative research which informs all of our publications.



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