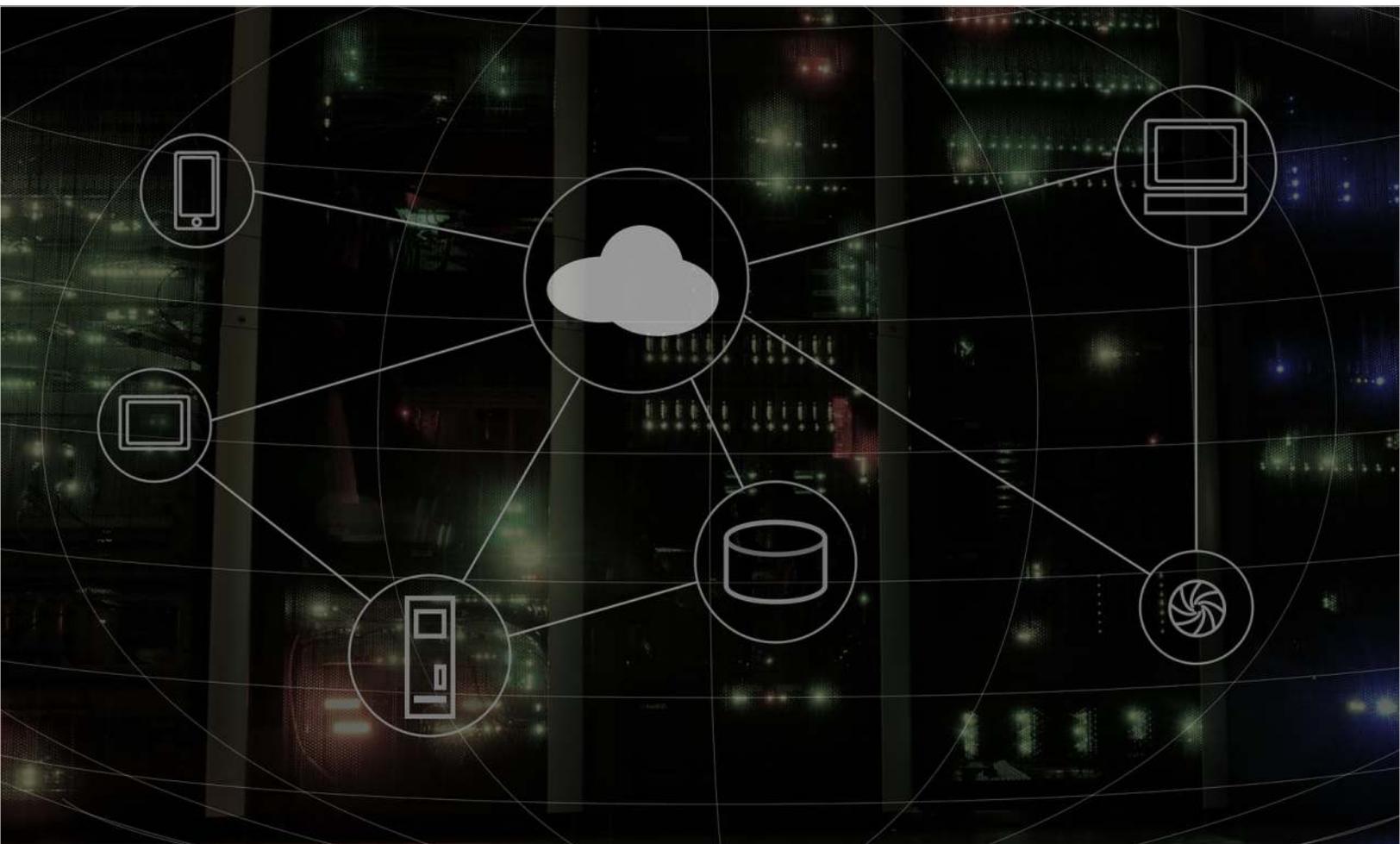


So You Think You Can SaaS

by Chella Palaniappan



If you are a startup, emerging or established independent software vendor (ISV) with a great business idea to build a new business or grow your existing business, chances are you are thinking about the new SaaS (Software-as-a-Service) model to deliver the new product to the market as opposed to the licensing model. You may even be considering a hybrid approach, using both these models and gradually transitioning to a full SaaS model. And rightly so, because the SaaS market is projected to grow to \$95 billion in revenue worldwide and capture about 12% of the software market over the next five years.

The business and technical delivery implications of the SaaS model are vastly different than those of the licensing model and many nuances need to be clearly understood in order to fully leverage what promises to be a gateway to new markets that will open up for ISVs. The purpose of this document is to help you better understand and be prepared to make your foray into the SaaS model successfully.

As you read through this white paper, you will realize that there is more to SaaS success than just repackaging your current application and delivering it over the web.

Introduction

SaaS is a new method of delivering the value of a software solution. With SaaS, the software solution looks like a service whose value is directly linked to the actual use of the service. Hence, the customer is billed on the use-as-you-go model, i.e., on a monthly basis rather than a lump sum basis relative to the traditional licensed software.

The major benefits for SaaS users are:

- A very short ramp up time for implementation
- No large up-front cost to the customer since they pay for the actual usage on generally a monthly basis
- No other infrastructure cost since all you need is a browser
- No long term contract to bind them to the service since the cost of switching vendors is relatively small

For the ISV however, the decision to offer software in the SaaS model should be well thought through and planned. The major benefit for the ISV is that SaaS offers a recurring revenue stream and smooths the revenue stream as compared to the license model.

However, there are several strategic and operational issues that you would need to address:

- Is your next generation software naturally suited for SaaS deployment? Examples of this are:
 - ✓ Information services companies such as Google, Thompsons, Reuters, Bloomberg, etc.
 - ✓ Customer Relationship Management(CRM) and Human Resource Management (HRM) such as Salesforce.com
- Are there factors that can inhibit adoption of a SaaS solution in your market?
 - ✓ Application and data security and integrity issues
 - ✓ Buyer concerns for a vendor lock-up
- Will your software deliver better value to the market via a SaaS model?
 - ✓ Will the solution be more effective and reduce the cost of operations?
 - ✓ Will it expand the addressable market for you? Salesforce.com brought the price of entry down for the SME market and expanded the market
- Will your SaaS revenue cannibalize your license and maintenance revenue? Many established ISVs may be better off with a hybrid model to prevent this from happening
- Is it technically feasible to convert your existing software for SaaS deployment?
 - ✓ Architecture requirements and scalability issues
 - ✓ Testing, release mechanisms
- Do you have the financial strength to endure the longer payback period based on a periodic billing cycle for the revenue?
- Are your internal operational systems in tune with the SaaS model of business?
 - ✓ Sales and customer service
 - ✓ Development and release methodology

Next we explore these issues and the options available to you in greater detail.

Business Strategy

You need to have your business strategy clearly defined before you embark on SaaS. You should work through your operational challenges such as security levels, data privacy, SLAs, backup, recovery and retention, pricing and sales channels. Security and data privacy are two of the most important challenges for companies adopting the SaaS model. You should create meaningful operational metrics that allow delivering service and operational excellence and not just product excellence.

The organizational and cultural characteristics of SaaS companies are still evolving – collaboration and customer intimacy are critical to your sales and is quite different compared to the software license model. If you are an established ISV moving to a SaaS model, you may require a new brand, identity and communication strategy.

All these changes in strategy and operations will make sense only if the investments made in them are backed up with sound marketing / business strategies and the sales estimates meet target revenue projections over time.

Licensing/Pricing Strategy

You have probably done your research on your competitors, the price points and how to package the service. However, it is essential in the changing business environment that you have a good billing platform that can be used to offer a different priced offering quickly.

A free limited offering is an excellent way to get new business. Your free offering could be time limited – with features available for a limited time, say 30 days. Or it could be a free limited-feature version that could be used for a long period of time. Most SaaS offerings are priced on a per-user license model.

However, sometimes it may make more business sense to base pricing on volume of transactions or operations. You could also tie the pricing to support levels needed. Although some companies offer a-la-carte capabilities and tie them to pricing schemes, this could increase the administrative overhead – so this approach should be considered only after considerable thought.

To have a flexible licensing and/or pricing strategy, it is important that the software system developed contains hooks to make the aforementioned options possible. The system should be able to track usage volumes per user and across a client account.

Examples of licensing models:

Basecamp offers multiple license types - all based on the number of projects and storage space. All plans are free to try for the first 30 days.

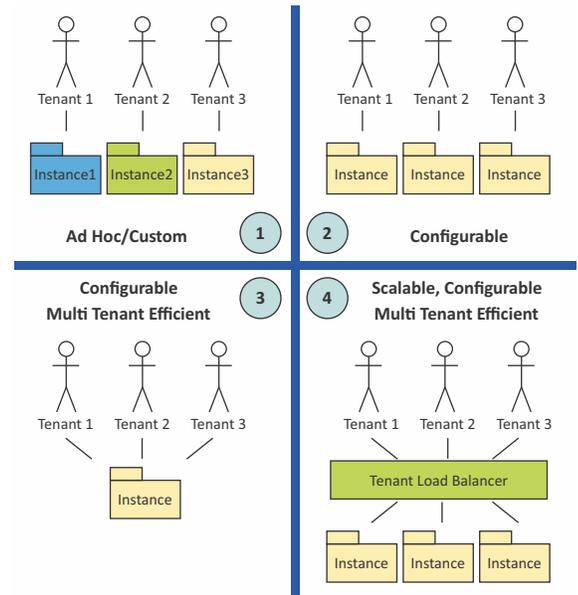
TickSpot a time tracking service provider that provides a limited featured, single project free forever.

SalesForce.com offers different editions and the license is usually based on the number of users. They too offer a free 30 day trial – without a credit card.

Architecture

As you build your application, you must ensure that the architecture is multi-tenant efficient, highly scalable and configurable. If you are starting a fresh development, it is advisable to adopt a Multi Instance, Multi Tenant (MIMT) architecture. If you are rewriting your application, it may be easier to move to Single Instance, Multi Tenant (SIMT) model first before progressing further.

Ensure that the architecture will deliver the economies of scale that your business model demands. The architecture should support self service and/or automatic provisioning, metering of usage along multiple dimension to support your billing and SLA monitoring. For more information, you may read the useful article about multi-tenant data architecture from Microsoft. [Click here](#)



SaaS Maturity Model - © Microsoft

Options and Integration of Other Web Services

Expand your service offerings beyond the features provided by your software application. Reach across the market landscape and build bridges/conduits from your software application to complementary service providers. Form strategic partnerships with companies whose service offerings dovetail with your product and find ways to market the combined products and share revenue. Work with partners to provide more value added services and cross and up sell your services.

For example, a prospect management and qualification software solution for the mortgage industry that Trigent built, works with over 60 credit reporting agencies so that the customers do not need to change their existing relationships. The same software integrates with over 6 Loan Origination software solutions.

Sometimes your SaaS solution can be integrated with applications that your customers often use, even though they are offered only in the traditional installed software model. You could extend this concept and create a new eco-system or join an existing one to fuel your growth.

Salesforce.com has built an application framework, API and tools that help other developers to build widgets and integrations to other applications. Popular integrations include Skype for communication, Vertical Response for direct mail and Google AdWords for online marketing, analytics, etc.

Operations and Infrastructure

Software development and operations are two completely independent challenges. Excellence in one area does not guarantee excellence in the other. It is often preferable to build an application on a single technology and infrastructure stack. Platform lock-ups are an often accepted way of operations. However, you should have a well understood and clear exit strategy if things do not go well. You may be able to obtain a payment arrangement with your infrastructure vendor that is more in line with how you get paid. Ask your platform provider what they are willing to invest in to help grow your business. For example, maybe you can work through their channels.

- **Data, Data, Data** - Since you are asking clients to trust you with their data, you should ensure that the data is secure, safe, adequately backed up and portable. For example, what if the users want to stop using your service and take their data with them? You should understand that customers retain the ownership of their data. Contracts and operations should reflect this fact. It is important that your infrastructure is regularly tested and certified to comply with SAS70, and PCI (Payment Card Industry) Data Security Standards.
- **Billing and Provisioning** - Your business needs a robust billing and provisioning application. Billing features could be built into the license implementation and with your application software. Provisioning needs a separate application – this is most likely to be tied closely to the system that will be used by the sales team.
- **Support** - You will be asking clients to trust you with their core business operations. Hence, they will expect to be adequately supported. You should have a structured way for them to get email or telephone based support. Define and publish expected response times for each of these mechanisms and severity levels. Also, use this approach for adopting a better revenue model.

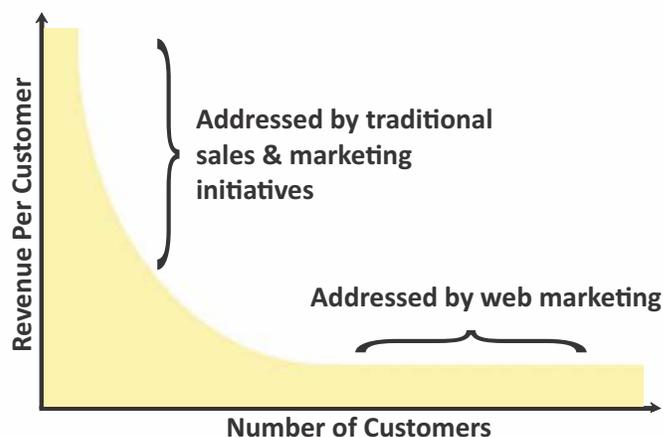
Do Not Dilute Focus

You should stay within your niche. Do not try to be everything to everyone. The focus needs to be at every level – product features and functionality, the market you serve, etc. Explore options of outsourcing everything that is non-core and non-strategic. This includes infrastructure tasks such as network, data center management, storage and recovery, and business support such as help-desk, billing, order management, etc. You may choose to work with multiple vendors to achieve this or work with a new breed of single source vendor such as [OpSource](#).

SaaS Sales

Rethink your sales organization – from team structure to compensation and incentives. SG&A expenses in a SaaS model across the industry averages about 49% of revenue. With revenue trickling in as regular monthly payments, it is imperative that you have an appropriate way to book sales and reward the sales team with commissions.

With the SaaS model, you are well equipped to address the long tail of the market. Low-cost marketing and a sales strategy primarily based on the web, such as Search Engine Optimization (SEO), Pay per Click Campaigns could target the new market. Traditional sales operations leveraging a direct sales team could look for the larger targeted prospects that result in multi-year and renewal contracts.



Hybrid SaaS Model

Many software vendors operate in a hybrid model to cater to some of their clients that are not ready to embrace the SaaS model. Though this may help you in achieving your short-term revenue goals, you should weigh your decision carefully. Even if you decide to allow your customers to host and own the applications behind the firewall, ensure that you have a single code base. Make your software application configurable relative to extending or customizing it to work behind the firewall.

Conclusion

SaaS is a very different model than the traditional software license and maintenance and client server model. In order to be successful, many issues need to be considered and addressed in the areas of:

- Business strategy
- Architecture
- Infrastructure, delivery and support
- Security, data privacy, audit ability and compliance
- Marketing, sales and direct and indirect channels
- Pricing
- Customer retention, renewal rates and support
- Choosing between in-house, third-party and offshore initiatives for development, maintenance and support

SaaS does not have to be an all or nothing value proposition. Many companies have been successfully operating in a hybrid model. However, the SaaS model is here to stay since about one-third of companies today are offering at least one, if not more applications in a SaaS model.

IDC estimates that two-thirds of companies will offer at least one or multiple SaaS applications by 2012.

About Trigent

Trigent is a CMM Level-4 technology solutions company with its US office at Southborough, MA, and India office at Bangalore. Trigent provides comprehensive solutions for business problems via outsourced software product and applications design, development and quality assurance. Trigent serves customers like Independent Software Vendors (ISVs), enterprises and SMBs in the High Tech, Healthcare, Education, Ecommerce and Manufacturing areas. Trigent's solutions help clients overcome budget, schedule and resource constraints.

To learn more about Trigent visit www.trigent.com

Our Headquarters

Trigent Software Inc.
2 Willow Street, Suite #201
Southborough, MA 01745
+1 (877) 387-4436
sales@trigent.com

Other Location

Trigent Software Ltd.
Khanija Bhavan, 1st Floor
#49, West Wing, Race Course Road
Bangalore - 560001, India
+91 (80) 2226-3000



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