

THINKstrategies



# A Software-as-a-Service Primer for Independent Software Vendors

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## Introduction

*Software-as-a-Service (SaaS) is a fundamentally different way of developing and delivering software solutions to meet users' rapidly changing requirements.*

Unlike many of the over-hyped technology trends of the past, SaaS is producing real business benefits for organizations of all sizes across nearly every industry, and threatening to reshape the software industry

The fact is that SaaS is perfectly positioned to respond to a 'perfect storm' of market forces,

1. **Economic forces** driven by the downturn in the economy and uncertainty in the market.
2. **Business forces** driven by changing customer demands and escalating competitive pressures.
3. **Technological forces** driven by rapidly changing organizational and workplace requirements.

What differentiates SaaS from previous technology developments which failed is that this round of innovation is producing tangible and measurable business benefits which are enabling organizations to respond to the forces above in a more flexible and economical way.

THINKstrategies' customer surveys, as well as research from other sources, clearly show that IT/business decision-makers are increasingly implementing SaaS alternatives, a trend which is quickly reshaping the software industry and placing new pressures on software vendors.

The purpose of this primer is to outline how independent software vendors (ISVs) must respond to these realities in order to meet the changing needs of their customers, employees and business partners; and ensure their long-term viability and competitiveness in this rapidly changing environment.

This primer is based on THINKstrategies' extensive experience working with successful SaaS and cloud computing provider, as well as IT/business decision-makers in enterprise organizations and venture capital investors focused on the 'on-demand' services market.

This primer also encapsulates the key elements of THINKstrategies' **SaaS Readiness Assessment Service (RAS)** and **Scorecard**.

The SaaS RAS Scorecard examines fifteen (15) business and operational areas which are essential to successfully develop and deliver cost-effective and competitively viable SaaS solutions. These areas are based on THINKstrategies' extensive experience in the SaaS marketplace.

THINKstrategies has also benefitted from studying the best practices of over 1200 SaaS vendors listed on the Software-as-a-Service Showplace ([www.saas-showplace.com](http://www.saas-showplace.com)), the largest and highest ranked, online directory and resource center of SaaS solutions and industry best practices. The directory is divided into eighty (80) application, industry and enabling technology categories. For more information regarding THINKstrategies' consulting services, visit [www.thinkstrategies.com](http://www.thinkstrategies.com), or contact us at [info@thinkstrategies.com](mailto:info@thinkstrategies.com).

## Defining SaaS

*SaaS is one of those terms which means different things to different people.*

THINKstrategies defines SaaS as a software application that is developed and delivered by a provider as a service which users can access on a pay-as-you-go basis without the need to deploy and maintain additional on-premise IT infrastructure or additional software.

Some people also refer to SaaS as a hosted service, an on-demand solution or even an Application Service Provider (ASP) offering. However, SaaS is fundamentally different from previous hosting models.

SaaS solutions are designed to serve a highly dispersed user population by capitalizing on the ubiquity of the web. They are more user-friendly because SaaS vendors can see how users are employing their applications and continuously enhance the applications to satisfy users' evolving needs. And, SaaS solutions are more economical to deliver and continuously update because of their multi-tenant architecture. SaaS vendors can also aggregate user data to produce valuable benchmark statistics that can enable users to benefit from industry best practices and change the nature of the vendor-customer relationship.

Because of these fundamental differences, today's SaaS solutions are experiencing far greater success than their ASPs predecessors for the following reasons,

1. ASPs were outsourcers who were simply moving existing 'legacy' applications out of the customer's data center, and operating it in a centralized and remote data center.
2. ASPs didn't have a better pricing model or offer any new functionality. User organizations still had to make a significant upfront investment in perpetual software licenses and hardware to power the software. They also had to continue to pay exorbitant maintenance fees.
3. The legacy applications were also inflexible, required considerable customization, and were difficult to access remotely by employees and authorized third-parties.

## Transitioning to SaaS: More Than Hosting Legacy Apps

Established ISVs seeking to transition all or part of their software applications to a SaaS model must recognize that this migration process requires more than simply hosting their existing applications in their own data centers and offering a pay-as-you-go pricing scheme.

Customers are also seeking more user-friendly applications which can be acquired on a more incremental basis to accelerate their deployment and time-to-value, while mitigating the risks associated with software in the past. Customers are also expecting that their SaaS solutions will be easier to access and enhanced on an ongoing basis in response to their evolving needs.

This means that ISVs must,

- **Re-architect** their applications to leverage the ubiquity of the web.
- **Repackage** their applications to make them easier to acquire and deploy.

- **Restructure** their revenue-recognition methodologies to comply with the accounting standards associated with selling services rather than products.
- **Reorient** their R&D, sales and support staff, as well as their channel partners to properly develop, sell, deliver and manage SaaS solutions which meet their customers' changing expectations and the rapidly evolving competitive landscape.

Not only is the ISV assuming greater responsibility for the success of its applications, it must fulfill this promise in a highly efficient fashion in order to deliver quality solutions at a competitive price.

In many cases, this means that established ISVs must change their operating models, personnel, and go-to-market strategies in order to succeed.

Making this type of 'big bet' requires a high level of confidence in a clearly defined roadmap in order to be successful.

## Implications of the Changing Competitive Landscape

THINKstrategies survey research, in conjunction with Cutter Consortium, has seen a dramatic increase in customer adoption of SaaS solutions. High customer satisfaction, renewal and referral levels has helped to fuel this growth.

Escalating customer demand for SaaS alternatives has generated a 'cloud-rush' of new players. A barometer of this proliferation is THINKstrategies' SaaS Showplace ([www.saas-showplace.com](http://www.saas-showplace.com)) which is the largest and highest ranked vendor-independent online directory of SaaS solutions. The directory now includes over 1200 vendors divided into 80 application, industry and enabling technology areas. And, the number of players entering the SaaS market grows daily!

Even in the best of times a market can't sustain this many players. In today's tough economy, an industry shakeout is inevitable, and will probably be accelerated as investment firms become more conservative regarding new investments and more demanding of their portfolio companies.

In response to the likelihood of an industry shakeout, IT/business decision-makers in user organizations of all sizes are shifting their procurement strategies from best-of-breed vendors to strategic suppliers who they believe have a better chance of surviving long-term.

Although these competitive trends would appear to favor the established vendors with the strongest brand or name recognition, new SaaS vendors can also survive and succeed if they have the right pieces in place.

## THINKstrategies' SaaS Readiness Scorecard

THINKstrategies is the only consulting services company founded specifically to address the unique business challenges facing IT managers, solutions providers, and investors today as the software and technology industry shifts from a product-centric to a services-driven model. THINKstrategies' mission is to help our clients re-THINK their corporate strategies, and leverage today's on-demand services—such as SaaS, cloud computing and managed services—so they can refocus their limited resources to achieve their business objectives.

In 2006, THINKstrategies created the SaaS Showplace ([www.saas-showplace.com](http://www.saas-showplace.com)) to help enterprise organizations find the right SaaS solution to meet their needs; and help SaaS providers gain greater access to IT/business decision-makers. The Showplace is an easy-to-use, online directory and resource center organized into 80 Application, Industry and Enabling Technology categories. The Showplace also includes insights and information regarding industry best practices.

Based on the insights garnered from the Showplace and its ongoing consulting work with a wide array of clients, THINKstrategies has found that many ISVs are not fully prepared to succeed in the SaaS market because they've under-estimated the organizational, operational, sales, marketing and financial requirements of a service-oriented, subscription-based businesses.

In response, THINKstrategies unveiled SaaS Readiness Assessment Services (RAS) in 2007 to help these ISVs successfully transform their business models.

Unlike traditional analyst firms, THINKstrategies works collaboratively with its clients as a 'trusted advisor' to help them develop their strategies and execute their marketing programs so they can capitalize on new market opportunities, team with new partners and communicate their unique capabilities to the marketplace.

Based on our extensive experience in the SaaS marketplace, we have identified fifteen (15) elements which must be carefully considered when planning and executing a SaaS strategy.

These elements are:

- Target Market Segmentation
- Competitive Landscape
- Corporate Management
- Functional Capabilities & Features
- Solution Packaging
- Pricing & Revenue Realization
- Service Delivery Platform & Architecture
- Financing and Capital Structure
- Security and Availability Assurance
- Service Provisioning, Billing and Testing
- Contracting, SLAs and Reporting
- Sales Strategies and Skills
- Strategic Partnering/Channel Ecosystem Strategies
- Marketing and Positioning
- Customer Support Capabilities

ISV executives can evaluate their preparedness in each of these areas on their own. However, it is often more effective to obtain the independent perspective and advice of an experienced consulting firm, such as THINKstrategies.

THINKstrategies has developed a SaaS Readiness Scorecard that measures the preparedness of ISVs in an objective manner and identifies areas that should be addressed in order to develop and deliver successful SaaS solutions.

## Summary & Recommendations

*The SaaS movement is not a passing trend.*

Although today's surge of SaaS alternatives is certainly driven by a 'perfect storm' of economic, business and technological forces, THINKstrategies firmly believes that customer migration to SaaS is a permanent transition because of the following factors,

- The inherent and systemic shortcomings of traditional, on-premise software applications.
- The measurable business benefits being delivered by today's SaaS solutions.
- The emergence of a new generation of workers who have grown up using Web-based consumer and social networking services, and will not tolerate the inefficiencies of legacy applications.

Given these realities, there is a rapidly growing array of new and established vendors entering the market to take advantage of escalating customer demand.

Therefore, ISVs must develop meaningful SaaS strategies and solutions in order to survive and thrive in this increasingly challenging marketplace.

In order to successfully migrate to a SaaS model, ISVs must transform the way they develop, package, price, position, sell, deliver and support their software solutions.

THINKstrategies' SaaS Readiness Assessment Scoreboard helps ISVs determine if they have the right pieces in place to meet these requirements and successfully capitalize on this market opportunity.

THINKstrategies has established an 'ecosystem' of partners to help ISVs identify and fill their gaps, and better position and promote their SaaS solutions.

### About THINKstrategies, Inc.

THINKstrategies is the only strategic consulting services company formed to specifically address the unprecedented business challenges facing IT managers, solutions providers, and investors as the technology industry shifts from a product-centric to a services-driven orientation. THINKstrategies has also founded the Software-as-a-Service Showplace ([www.saas-showplace.com](http://www.saas-showplace.com)), the largest and highest ranked, online directory and resource center of SaaS solutions and industry best practices. For more information regarding our consulting services, visit [www.thinkstrategies.com](http://www.thinkstrategies.com), or contact us at [info@thinkstrategies.com](mailto:info@thinkstrategies.com).