

The Real Truth About Cloud, SaaS

Rob DeSisto

24 November 2009

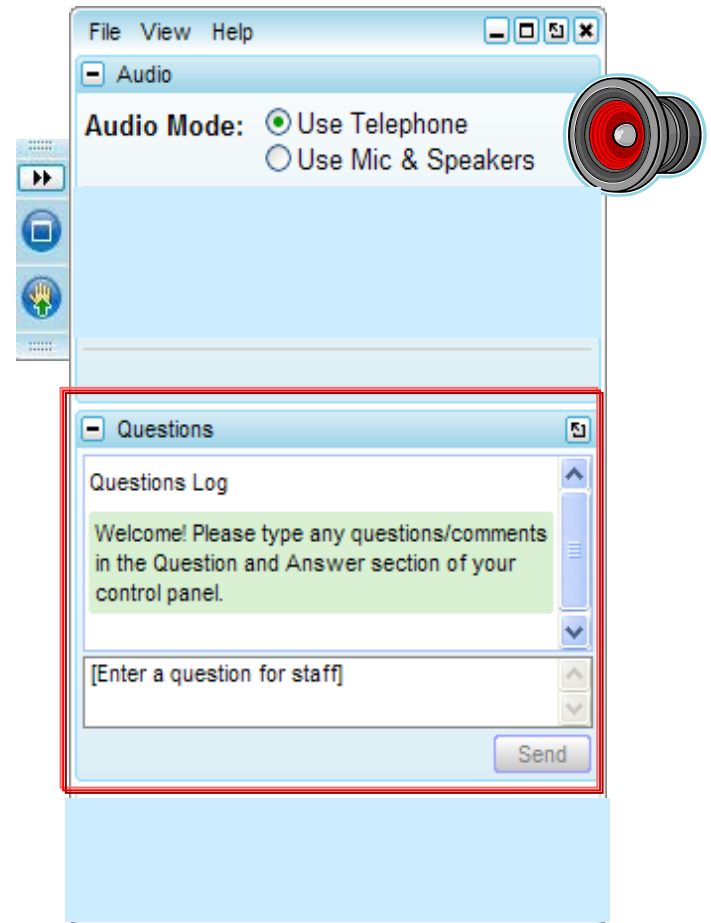
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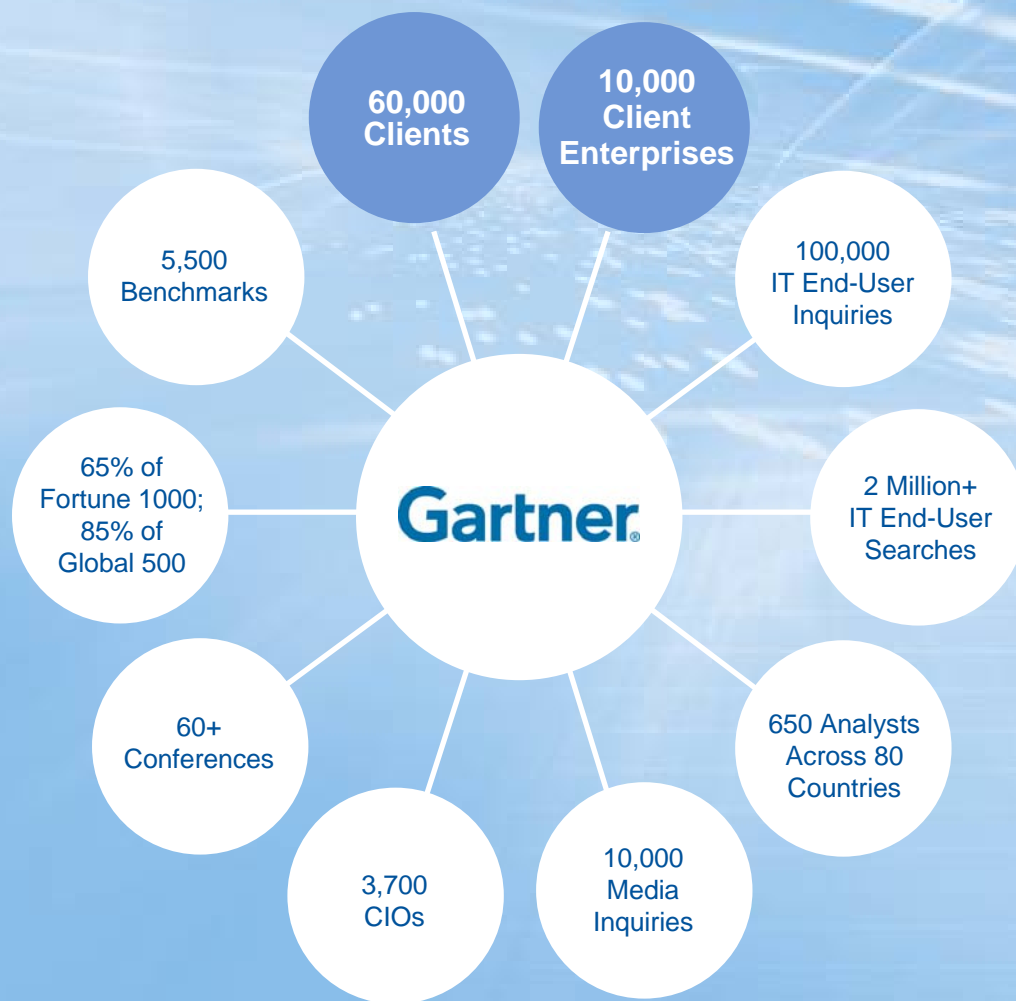
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SaaS Is the Future of IT ... Not So Fast

The Facts:

- On-premises software spend is 13 times greater than software as a service spending
- SaaS does **not** eliminate "shelfware"
- One vendor, salesforce.com, represents 14.6% of the total enterprise software as a service spend
- CRM SaaS is 20.4% of total CRM application software spend; removing salesforce.com drops the percentage to less than 9.9%
- Only three publicly traded pure-play SaaS applications vendors have demonstrated sustained profitable on a GAAP basis

Key Issues

1. Will SaaS really be the technology deployment disruptor it is hyped to be?
2. How will SaaS providers meet or exceed the business and technical needs of user organizations?
3. What will be the best practices user organizations should take for leveraging SaaS?

The Vendor Case for SaaS



- Vendors claim SaaS total cost of ownership is less than on-premises software
- Vendors claim SaaS provides more rapid innovation
- Vendors claim SaaS provides "only what you need" functionality on a "pay for use" basis
- SaaS vendors claim they have an attractive business model
- Vendors claim SaaS is quicker to implement and adapt than on-premises software

Evaluating Whether SaaS Is Less Expensive Than On-Premises

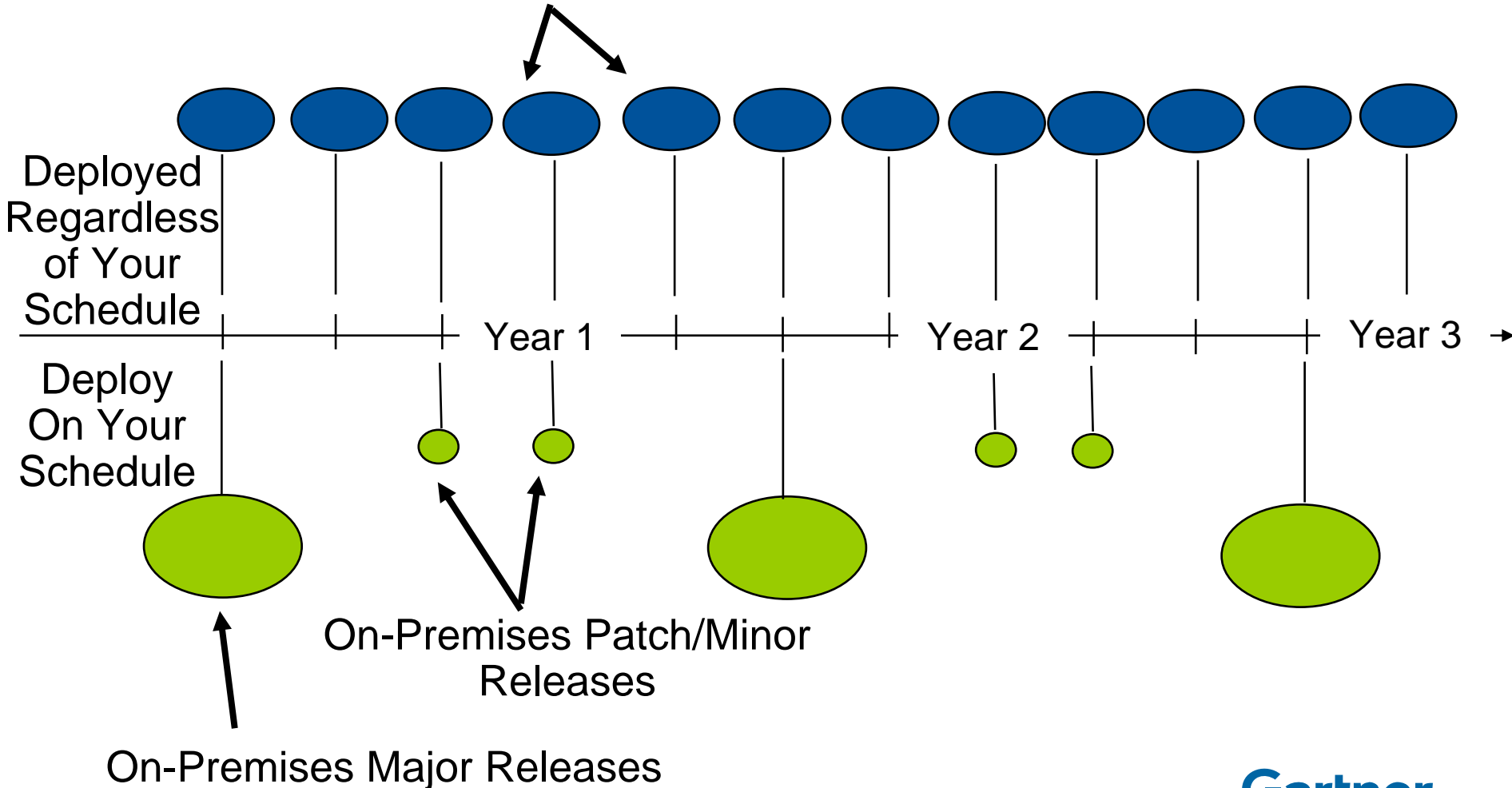
SaaS will be less expensive if you can answer **Yes** to the following:



- Will you *Reduce* or avoid *Hiring* new head count for functions such as software engineering, database administration, backup, patch management and system infrastructure upgrades if you use SaaS?
- Will you *Reduce* or avoid *Purchasing* additional hardware (servers, storage) if you use SaaS?
- Will you avoid *Buying* additional database or application server licenses if you use SaaS?
- Will the SaaS offering provide must-have functionality *Not Available* as part of your ERP suite?

The SaaS Evolutionary Release Process Can Outpace Enterprise Absorption Rate

SaaS Incremental Releases



SaaS Does Not Prevent Shelfware

Assumption:

- 2000 users at \$60 Per User Per Month (Two-Year Contract)

Subscription Accrual Rate:

Time	Users Added	Users Deployed	Subscription Expense	Shelfware Rent
6 months	300	0	\$720,000	\$720,000
12 months	500	300	\$720,000	\$612,000
18 months	1,200	800	\$720,000	\$432,000
24 months	0	2,000	\$720,000	\$0

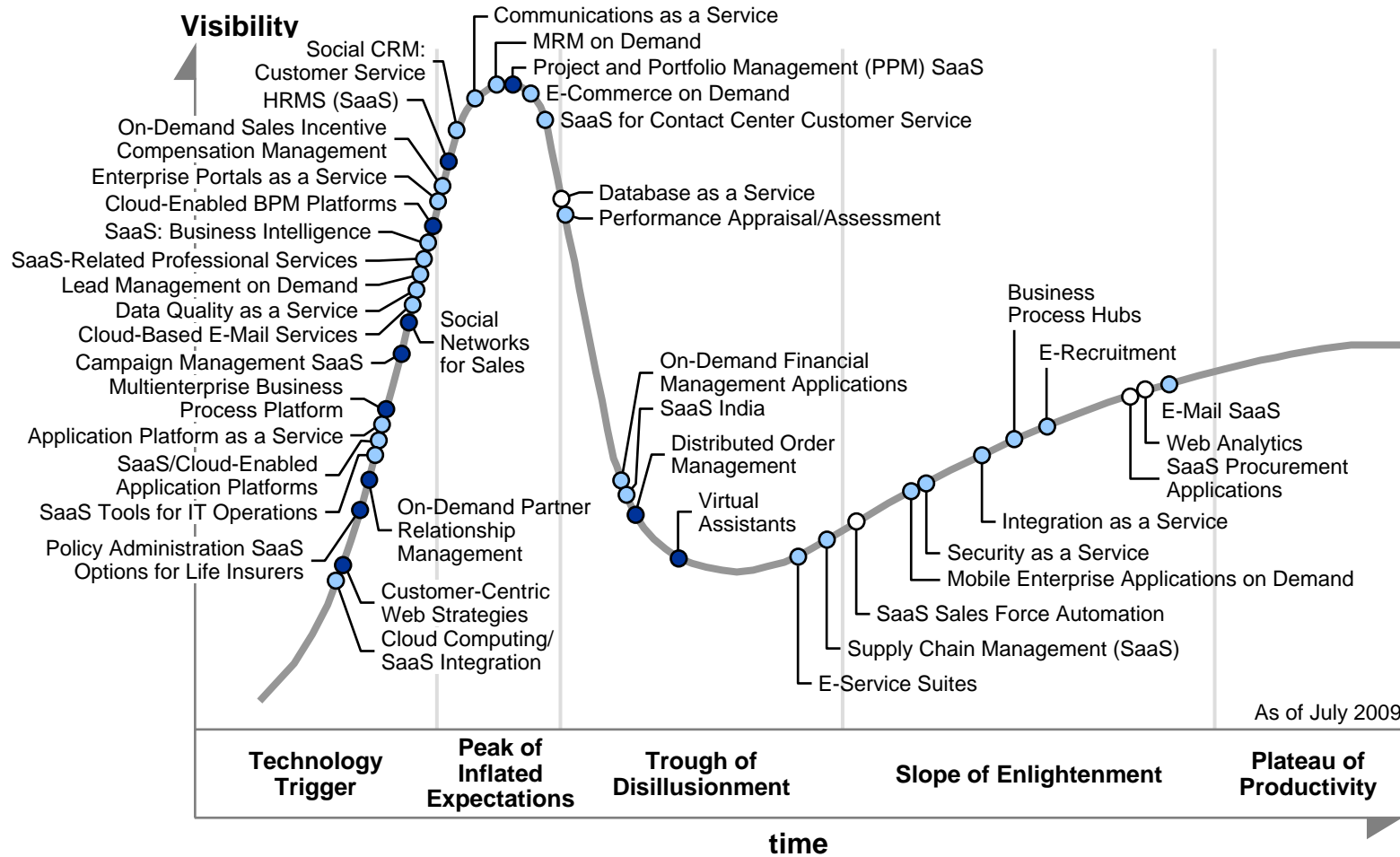
Total Shelfware Rent: \$1,784,000

The Verdict — Software Regardless of Delivery Model Is Challenging



- SaaS total cost of ownership is not guaranteed to be less than on-premises alternatives
- 90% of SaaS offerings are not "pay for use"
- SaaS provides a more evolutionary approach to functional enhancements but will be challenging for some organizations to absorb
- SaaS vendors take longer to achieve sustained profitability
- SaaS is quicker to implement and configure for less-complex problems

Hype Cycle for Software as a Service, 2009



Years to mainstream adoption:

- less than 2 years
- 2 to 5 years
- 5 to 10 years
- ▲ more than 10 years
- ⊗ obsolete before plateau

Role of SaaS Changes as Market Segments Evolve

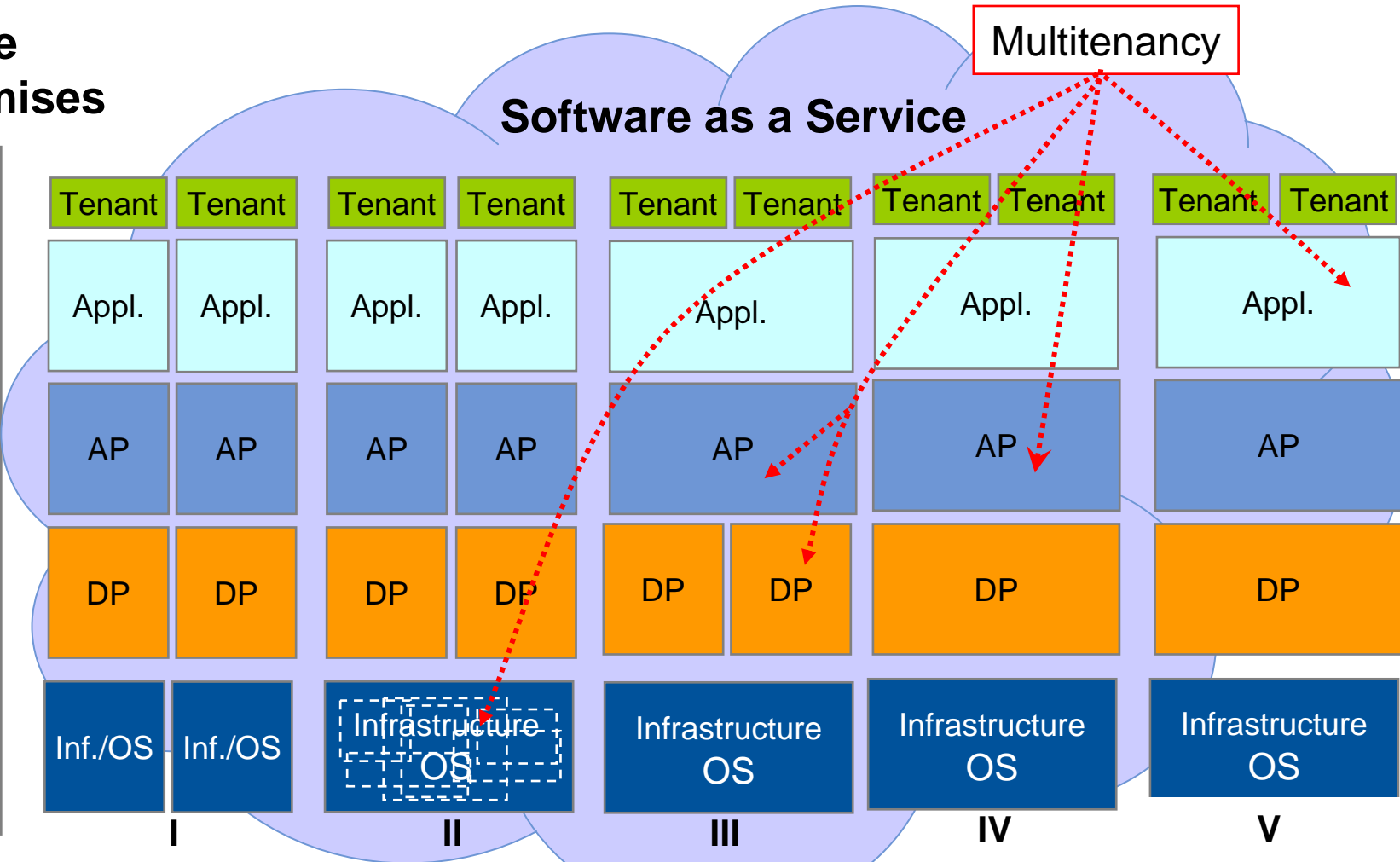
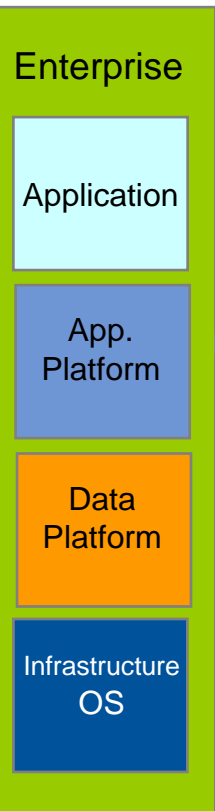
Segment Maturity	SaaS Value Proposition	Potential Value Magnitude	Vendor Risk
Emerging	Easy for users (and IT) to experiment because of low barrier to entry; early experimentation leads to earlier exploitation for business benefit	High	High
High Growth	Lessen the effect of skill shortages and make it easier to move away from the product, managing peak loading	Modest (a lot of switching costs will remain)	Moderate
Mature	Exploit SaaS provider's economies of scale to drive down cost, managing peak loading	High	Low
Decline	Lessen the effect of skill shortages and make it easier to move away from the product	Moderate	Moderate

Vendors Love to Use the Term, But What Does "Multitenancy" Actually Mean?

Software On-Premises

Software as a Service

Multitenancy



Isolated Tenancy

Server/OS Virtualization

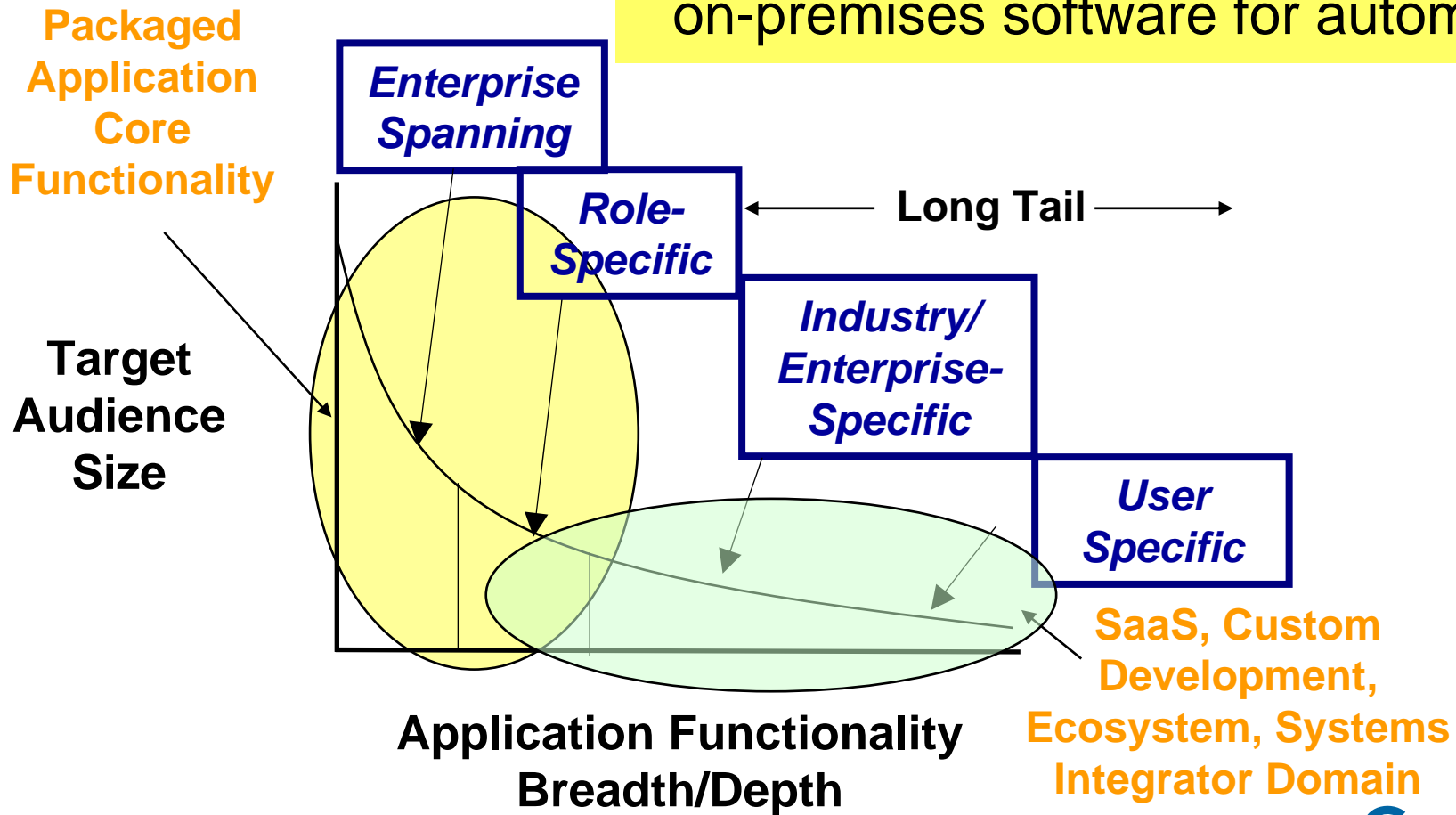
Isolated Data-Tenancy

Multitenant Application/Data Platform

Multitenant Business Application

SaaS Support for Core End-to-End Enterprise Business Processes Will Continue to Lag

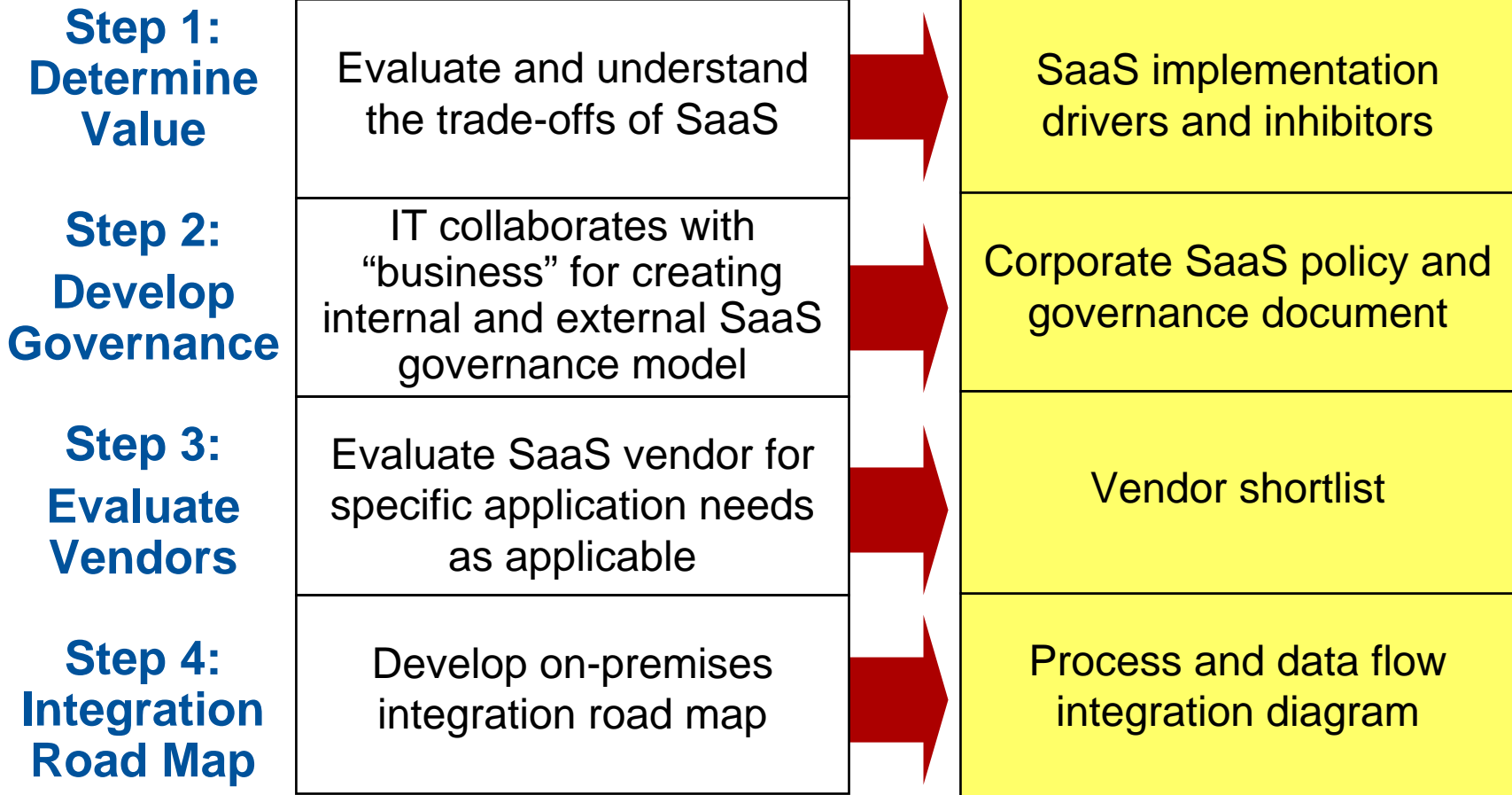
90% of large enterprises spanning end-to-end business processes will rely on on-premises software for automation.



Four Actions You Can Take to Get In Front of SaaS Curve

Action

Outcome



Determine Value: Evaluate and Understand the Trade-Offs That SaaS Presents

Upside

- Fits in an operational budget
- Limited platform "heterogeneity"
- Limited infrastructure overhead and management
- Lower short- to medium-term total cost of ownership
- Faster implementations
- Potential for increased innovation

Downside

- Potential for "shelfware as a service"
- No asset value/cost management
- Possible governance issues of application portfolio
- Release management dictated by the provider
- Third-party application tools limited
- Vendor management (including oversight of operational management)
- Security concerns
- Longer-term total cost of ownership uncertainties
- On-premises to on-demand (OP2OD) integration

Components of a SaaS Implementation and Governance Policy

Business-IT Relationship

- Configuration change management ownership
- New release validation
- Technical integration
- Budgeting allocation
- System administration
- ...and more



SaaS RFP Template

- Data center operations
- Architecture
- Security and privacy
- Disaster recovery capabilities
- ...and more

SaaS Contract Requirements

- Uptime and reliability clauses
- Data ownership provisions
- Security and privacy assurances
- Disaster recovery guarantees
- Renewal price caps
- ... and more

Vendor Management

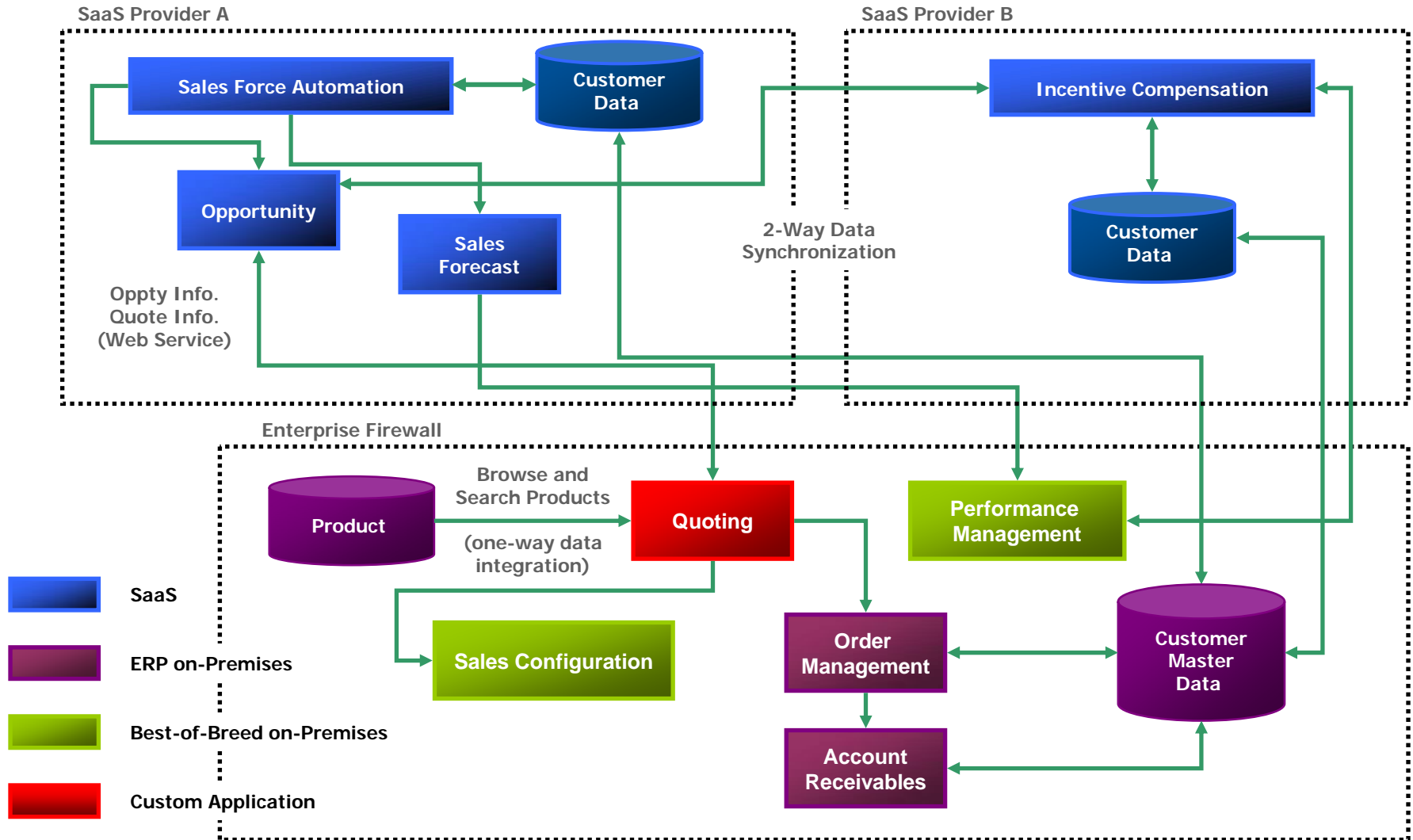
- Communication protocols
- Internal contract ownership
- Risk mitigation strategy for vendor going out of business
- ... and more

Evaluating a Vendor's SaaS Strategy



- ✓ Support SaaS Definition
- ✓ Business Model
- ✓ On-Ramp to Nowhere
- ✓ Customer Base and User Groups
- ✓ Configurability and Customization
- ✓ Preproduction Testing and Staging
- ✓ Integration Capabilities
- ✓ Platform and Architecture
- ✓ Provisioning
- ✓ Upgrade Strategy
- ✓ Latency
- ✓ Support and Service-Level Agreements
- ✓ Security and Risk Management
- ✓ Data Center
- ✓ Disaster Recovery Plan

Customer Example of Integrating SaaS With An Existing Application Portfolio



Your Action Plan

- **Monday Morning**
 - *Evaluate and understand trade-offs of SaaS*
- **Your Next 90 Days**
 - *Develop a corporate SaaS policy and governance document*
- **Your Next 12 Months**
 - *Develop an integration strategy and evaluate vendors as appropriate*

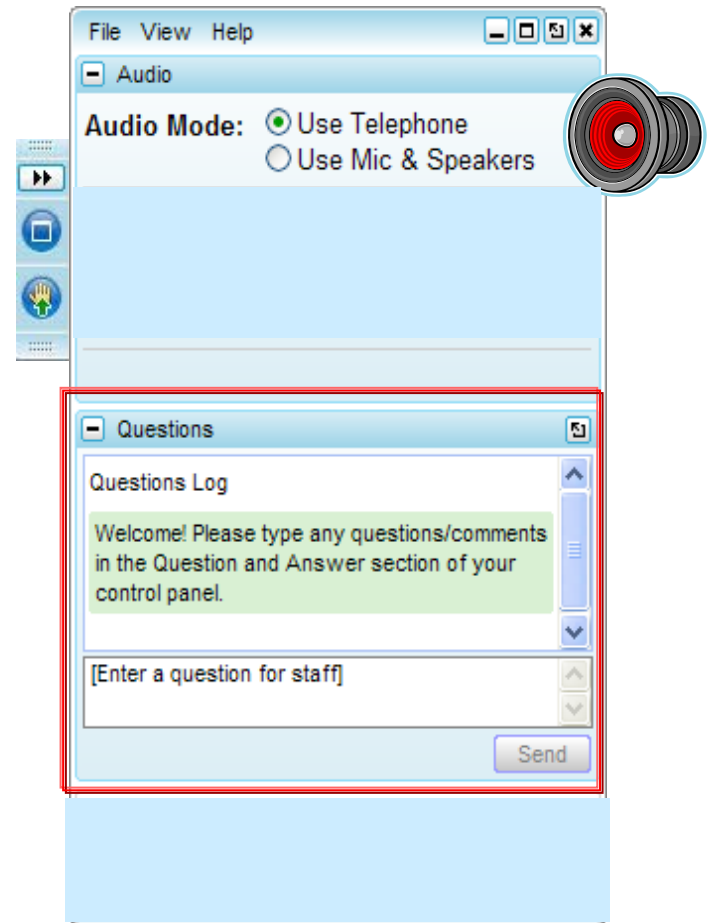
Related Gartner Research

- ***Essential SaaS Overview and 2009 Guide to SaaS Research***
Robert DeSisto, G00167279
- ***Hype Cycle for Software as a Service, 2009***
Robert DeSisto, G00169560
- ***Shelfware as a Service: Paying for Unused SaaS Subscriptions***
Robert DeSisto, G00160741
- ***SaaS Contracting Guide: Avoid Costly Mistakes***
Alexa Bona, G00162248

Thanks for participating!

Do you have any questions?

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