

Is SaaS Really Better Than Software Licensing?

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Is SaaS Really Better Than Software Licensing?

Introduction

- SaaS:
 - Business model for 3rd party provision applications and data
 - Utilizes cloud computing, services oriented architecture (SOA) and other leading edge computing technologies
 - Not perpetually licensed
- Look at SaaS total value proposition from business customer perspective including risks by comparing SaaS and Software
- Questions
 - What makes SaaS a better value than Software?
 - What makes SaaS a lesser value than Software?
 - What should the SaaS service level agreement (SLA) guarantee?
 - How is the ownership, care and disposition of SaaS data addressed?
 - What are the main business models through which customers can acquire SaaS?

2 Biggest Challenges for SaaS

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What Makes SaaS a Better Value Than Software?

- No Up Front Investment
 - SaaS is accessed via Web browser or rich client
 - End of the IT Department?
- Lower Total Cost of Ownership
 - SIIA claims software license price is 5% of TOC while SaaS subscription is 80-90% of TOC
- Pay As You Go
 - No (or less) guessing about future requirements
 - Fixed expense becomes more variable

3 Biggest SaaS Value Drivers

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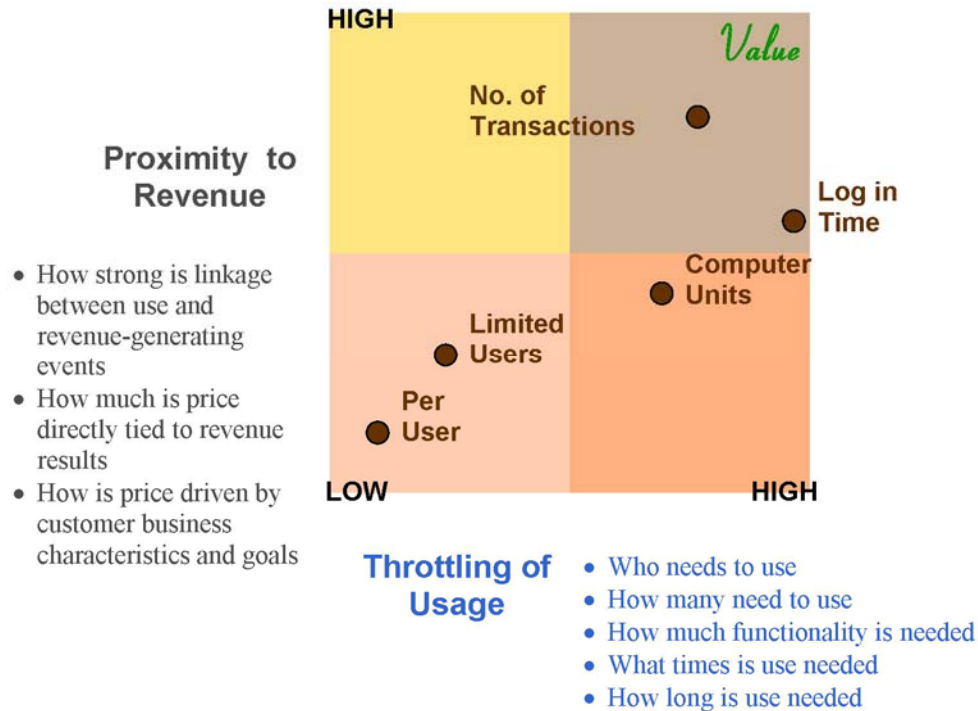
What Makes SaaS a Better Value Than Software?

- Pay As You Go
 - Pricing schemes—Value turns on proximity to revenue and use scalability
 - Users—Equivalent to licensing (e.g., Salesforce). Least value.
 - Limited and Other Classes of Users—Accommodates for different types of Web usage like functionality (e.g., Coghead and other PaaS). Better value.
 - Metered Usage—Log in time (e.g., Wrapped Apps Elastx); number of concurrent users, amount of data processed, no. of transactions completed (e.g., LeCayla). Best Value.
 - Computer Resources Consumed—Proprietary methods of defining units, referred to as “utility computing” (e.g., Amazon EC2). Value unknown.
 - Free Apps—Advertising supported, hosting and other services fees only (e.g., office.com). Why not?

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What Makes SaaS a Better Value Than Software?

- Pay As You Go



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What Makes SaaS a Better Value Than Software?

- Software Warranties Replaced By SLAs
 - Eliminates maintenance agreements at 15-20% of license fee
- Versions and Upgrades Replaced By Agile Development
 - Bug fixes and enhancements on continuous basis
- No Asset Management Costs or Auditing
 - No copies of code, only authorized users
- No Breach of License Terms and Revocation
 - “Doomsday device” of software licensing
- No Reverse Engineering Interoperability Issues
 - SaaS applications utilize Web services APIs for “mashups”
- No Source Code Escrowing
 - Movement of data to substitute provider
- No Patent Infringement Liability
 - Intellectual property considered assumed into service

**3 Biggest Software
Administrative Issues
Eliminated**

**4 Biggest Software Legal
Issues Eliminated**

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What Makes SaaS a Better Value Than Software?

- Efficiencies
 - Data Storage and Security
 - Example: EMC Mozy Service-as-a-Storage \$5 per GB per mo. (2008)
 - Responses to Government Subpoenas and E-Discovery Requests
 - e-Discovery average cost \$1-3 million per TB (2008) according to GlassHouse Technologies
 - SOX Audits
 - For >\$75 mil. annual rev. company average cost \$1.7 million (FY 2007) according to Financial Executives International

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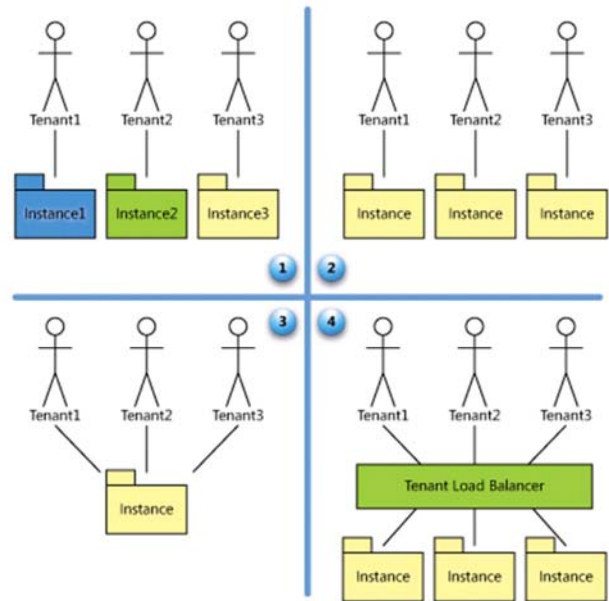
What Makes SaaS a Lesser Value Than Software?

- Multi-tenancy obstructs custom application development
 - “One Size Fits All”
 - Viewed as reason why SaaS business model will succeed where ASP failed
 - Delivery architectures—Value depends on business goals
 - On Demand: Separate application copy per customer and dedicated servers. Resembles ASP model except for Web services based code. Most customizable, updates unavailable, and most expensive.
 - Virtualization: Single application environment configured to run on shared servers with other applications. Customizable or configurable, fast updates if applicable, and less expensive.
 - Multi Tenancy: Same application copy for all customers and only on shared servers. Configurable but not customizable, fastest updates, and least expensive.

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What Makes SaaS a Lesser Value Than Software?

- SaaS Maturity Model



Frederick Chong and Gianpaolo Carraro, MSDN Architecture Center Article
"Architecture Strategies for Catching the Long Tail" (Microsoft Corporation,
April, 2006)

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What Makes SaaS a Lesser Value Than Software?

- Non-Value Based Pricing
 - Many providers pricing at 3 year break even point with perpetual license plus 15% maintenance
- Non-Value Based Multi Year Subscriptions
 - Drivers are service provider internal problems: 1) revenue not recognized all up front like perpetual licenses and 2) reconciliation with existing software licensing revenue streams necessitated
- Terms of authorized usage can prove more onerous than licenses
 - Example: Cannot operate similar systems internally
- Customer cannot choose associated providers
 - Example: Network carrier, security auditing

**4 Biggest Problems with SaaS
Subscription Terms**

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What Makes SaaS a Lesser Value Than Software?

- Compliance with laws and regulations
 - Customer still under legal obligation
 - Can impact facilities, data, applications themselves, and personnel
 - Example: FDA Guidance on how clinical trial computer systems capture data and electronic signatures, how they are updated, etc.
- Customer foregoes opportunity to develop intellectual property
 - Example: Copyrightable code, patents for business processes

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What Should the SaaS Service Level Agreement (SLA) Guarantee?

- Two Kinds: 1) Operational & 2) Business
- Operational—More than 99.9% uptime and credits
 - Application availability and functionality
 - Data retrieval time, errors, storage capacity and security
 - Network availability, outages, bandwidth, throughput, latency and geographic access
 - Problem resolution
 - Disaster recovery

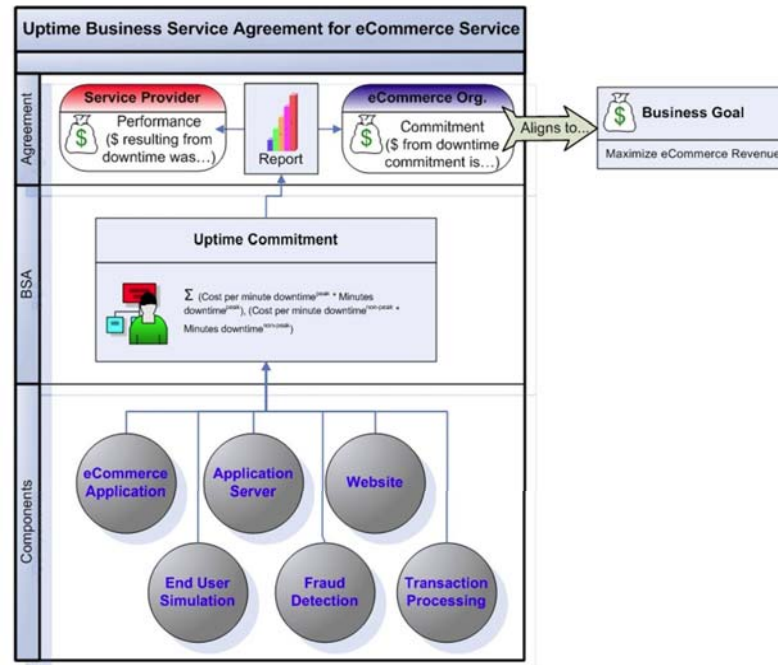
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What Should the SaaS Service Level Agreement (SLA) Guarantee?

- Business
 - Business operations data
 - Example: Number of users, usage behavior, transactions performed
 - Impact on business operations
 - Example: Time to complete tasks, performance quality, employee and customer satisfaction
 - Impact on revenue and costs (ROI)] **Single Greatest Advantage of SaaS Over Software**

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What Should the SaaS Service Level Agreement (SLA) Guarantee?



Oblicore Executive White Paper "From Service Level Management to Business Management" (Oblicore Inc., December, 2006)

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What Should the SaaS Service Level Agreement (SLA) Guarantee?

- Other Issues
 - Drafting—Make term in contract or subject of ongoing management
 - Metrics & Monitoring—Service level management (SLM) tools, ITIL v3 Service Operation framework (e.g., Oblicore); Customer specific metrics (e.g., Norton & Kaplan Balanced Scorecard)
 - Integration with On Premise Systems & Multisourcing
 - Credits, Penalties, Lost Profits
 - Continuous Improvements
 - Problem of Opaque Provider Relationships—Can service provider fulfill SLAs?

Main Point Is SLAs Are Not Simple and Need To Be Negotiated

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How Is the Ownership, Care and Disposition of Data Addressed?

- Issues created by provider's possession and control of customer and related third party data **e.g., car mechanic**
 - Is the provider entitled to an artisan's lien on data when payment disputes arise?
 - What are the provider's obligations to keep customer data (bailment) and make it available after the contract ends? **e.g., compilation authorship, public or third party data**
 - Does the provider get rights to use customer data for its own purposes?
 - Can the provider generate aggregate business intelligence data using customer data?
 - Who is liable to third parties for claims against data such as violation of copyright, privacy laws or common law conversion?
 - Who bears the cost of responding to Government subpoenas and e-discovery requests and who controls defending against the request?

FRCP 45(d) says no e-discovery of 3rd party if undue burden or cost

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How is SaaS Sold On the Market Today?

- Business Model Impacts Value Proposition
- Differentiated By Key SaaS Components
 - Who is selling the Application? (ISV, Aggregator, Ecosystem)
 - What kind of platform is included in the offering?
 - Technical (e.g., hosting, multi-tenancy)
 - Business (e.g., billing & provisioning, user admin)
 - Development (extension of functionality, mashups)
 - Who is the Service Provider? (Application, Platform)
- SaaS ISVs **Resembles Software VAR Model**
 - Sold directly by ISV or through reseller channels, ISV contracts with third party white label platform and third party provider
 - Example: DocuVantage document management service

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How Is SaaS Sold On The Market Today?

- SaaS Catalogs **Go-to-Market Accelerator for ISVs**
 - Resold by an aggregator (business but not technical or development platform), aggregator contracts with a third party provider for provision of platform and ISV contracts with other third party provider for service provision
 - Example: Proto spreadsheet dashboard service sold on Strikelron platform; Zoho office suite sold on Jamcracker platform
- SaaS Ecosystems
 - Sold directly by platform (full service business, technical and developer platform), platform contracts with third party provider for platform provision, ISV contracts with same provider or another provider for service provision
 - Example: Salesforce AppExchange; Web Ex (Cisco) Connect Marketplace; Savvis entering market

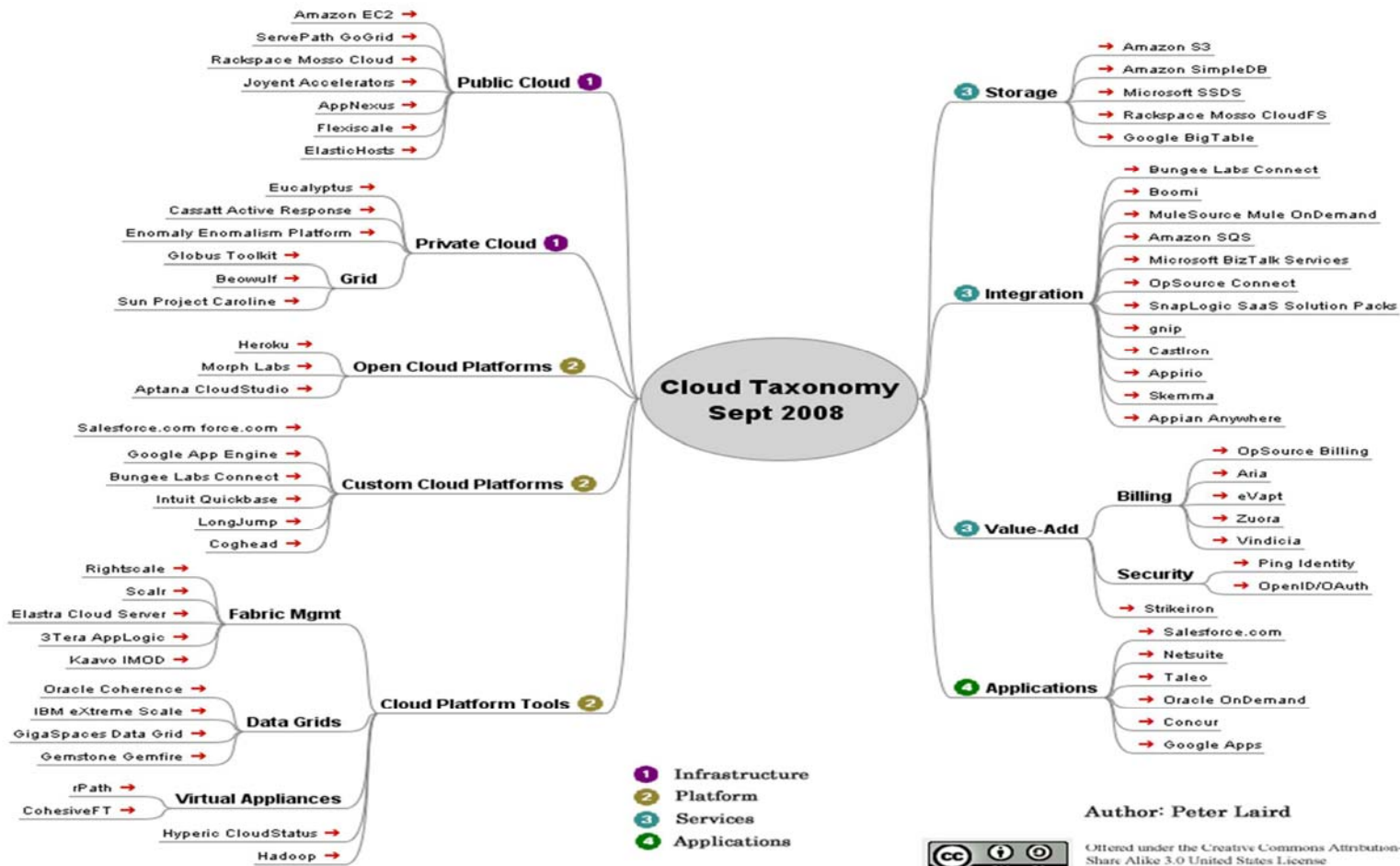
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How Is SaaS Sold On The Market Today?

- Platform as a Service (PaaS)
 - “Do It Yourself”
 - Development environment provided through third party platform
 - Example: DreamFactory resold through all of Amazon Web Services, WebEx Connect, Salesforce.com AppExchange and Intuit Quickbase
 - Development environment integrated into platform
 - Example: Bungee Connect, Salesforce Force.com, Google App Engine

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How Is SaaS Sold On The Market Today?



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Recommendations

- Threshold Question:
 - Does your business want computing at the lowest price, regardless of the risks?
OR
 - Does your business want to launch or migrate a mission critical system to SaaS without increasing risk or creating new ones?
- Find SaaS providers who understand enterprise level concerns and who will negotiate terms
 - Example: Growing recognition in media of gap between SaaS industry and enterprise requirements
- Establish lead provider or governance entity to manage all components and enforce obligations
 - Example: Conversation with president of leading SaaS platform about “glue”

2 Biggest Takeaways