

Cloud Computing & SaaS: What Does It Mean for Your Business?

For Entrepreneurs, Software Companies, and Businesses

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Independent Consulting Services

Business Strategy and Execution

- Articulate business value
- Build a compelling brand
- Execute long- and short-term business strategies.



- **SOLUTION LAUNCH**
Get positioning and messaging right—the first time. Leverage your strengths to accelerate sales.
- **STRATEGY ALIGNMENT**
Execute a winning sales strategy—fast—by aligning marketing and sales with business objectives. Sales methodology workshops and account planning help your teams succeed.
- **BUSINESS PLANNING AND EXECUTION**
Gain the agility your business needs today—with the strategy you need to drive future growth.
- **MARKETING MATERIALS**
Focus your web site and sales collateral, webcasts and newsletters to reflect the value you provide.

Today's Topics

- The language of the cloud
- Adoption trends
- What it means to your business
 - Business executive making a buying decision
 - Application development company
 - Starting out in business
- Opportunities

What is Cloud Computing? We're all in.

- Cloud Computing refers to both the applications delivered as services over the Internet and the hardware and systems software in the data centers that provide those services.
 - Cloud Computing is accessing computer resources provided through networks rather than running software or storing data on a local computer.
- Who's in the Cloud?
 - Everyone: Amazon (AMZN), Salesforce.com (CRM), IBM (IBM), Oracle (ORCL), and Microsoft
 - Covers everything from extra server space and storage to software applications



Lexicon

SaaS – Software as a Service

Business or personal applications that are running on hardware remotely (off-site) and accessed over the Internet

Multi-tenancy

All instances of an application run in a single logical environment rather than dedicated individual “stacks” as one application per customer

PaaS -- Platform as a Service

A Cloud-based development “layer” to which developers can create SaaS application

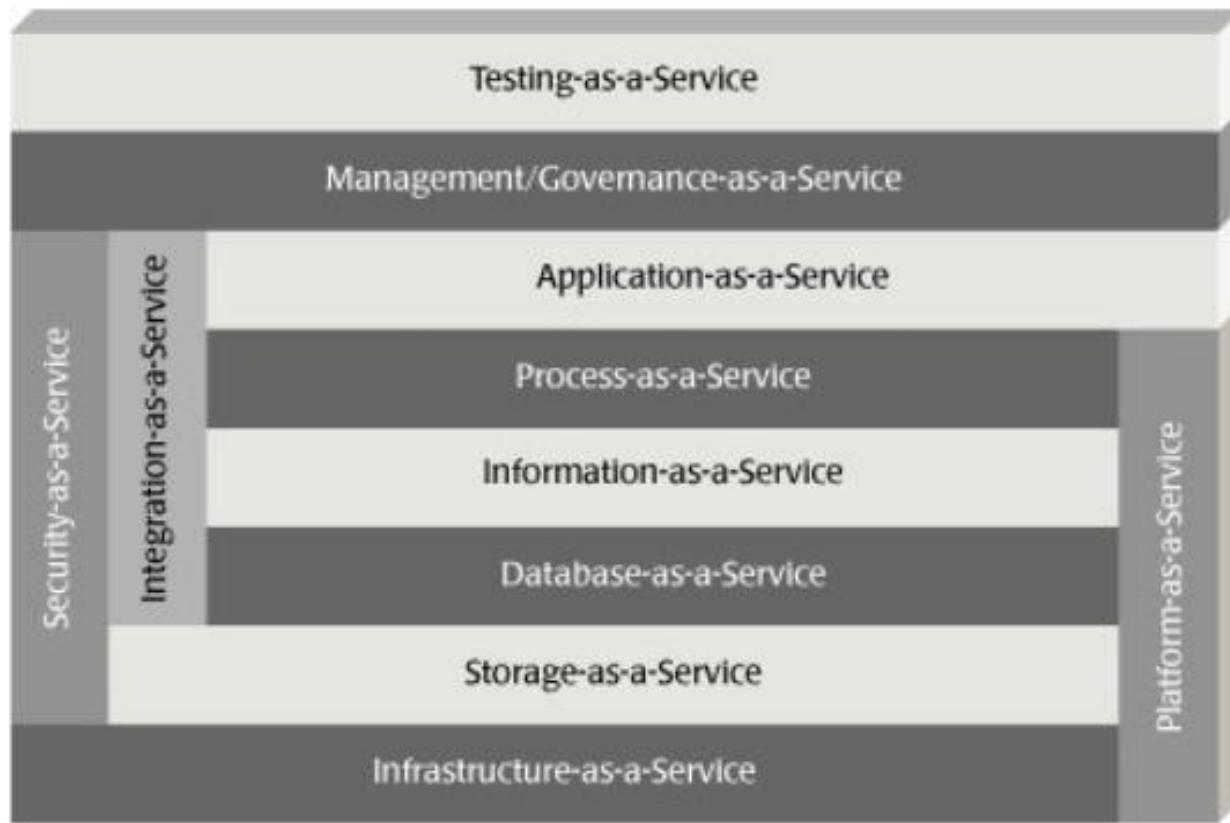
IaaS -- Infrastructure as Service

The underlying hardware environment– the data center and network

STaaS – Storage as a Service

Off-premise storage capacity is part of the IaaS or may be subscribed to separately to store the rapidly growing data saved by today’s organizations

An Integrated “X-as-a-Service” Stack



Source: Linthicum, D. 2009. Cloud Computing and SOA Convergence in Your Enterprise: A Step-by-Step Guide. Addison-Wesley Information Technology Series.

On-Premise Software vs. SaaS

Licensed Software

- Pay upfront; capital expense
- High upfront cost and annual maintenance costs
- Cost for applications, maintenance, infrastructure and IT/application resources
- Longer time required to install and configure applications
- Not much control over vendor after purchase
- Greater risk for users
 - The consumer is responsible for the management of the software installed
 - Customers may be on many different releases of the software

Software-as-a-Service (SaaS) Solutions

- Pay-as-you-go-operational expense
- Lower upfront subscription costs depending on number of users per month
- Cost for annual subscription and minimal IT/application resources
- Faster implementation and time-to-productivity
- More control over relationship with vendor
- Better risk sharing with vendor

The High Cost of “In-House”

- Cost of a database, operating system(s), middleware, and other infrastructure software licenses
- Recurring costs for infrastructure software upgrades and maintenance contracts
- Cost of IT staff or external IT contractors
- Cost of a database administrator
- Cost of reiterative integration of diverse, fragmented or homegrown applications
- Cost of multiple applications, multiple support contracts
- Cost of reiterative customization (customizations that have to re-built with each new revision of the underlying software)
- IT costs and concerns associated with maintaining and upgrading separate applications (including the test center, time and expertise required to pilot all new software releases before putting them into production)
- Cost of training to keep administrators current with new infrastructure technologies (data communications, operating systems, data bases, web servers, etc.)
- Recurring costs for software solution maintenance contracts

Perceptions that Make Buyers Nervous: Issues Perceived Today

- Security capabilities and reliability
- Concerns about ability to scale operations for large enterprise customers
- Concerns with entrusting a third party to store and manage critical employee data
- The level of configurability of on-demand applications

All are becoming less of an issue

Stats and Facts:

THE MARKET AND BUYING TRENDS

U.S. Cloud Computing: A \$13 Billion Market

- The amount spent on Cloud technology will reach \$13 billion by 2014.
- Software-as-a-Service spending will increase by 112 per cent over the same period.
- It is expected that Platform as a Service (PaaS) market size will reach US\$ 400 Million by the year 2013
- Infrastructure-as-a-service (IaaS) budgeting will stand near \$4 billion in three years. It is expected that IaaS will increase at a CAGR value of 52.53% for the period spanning 2010 - 2013

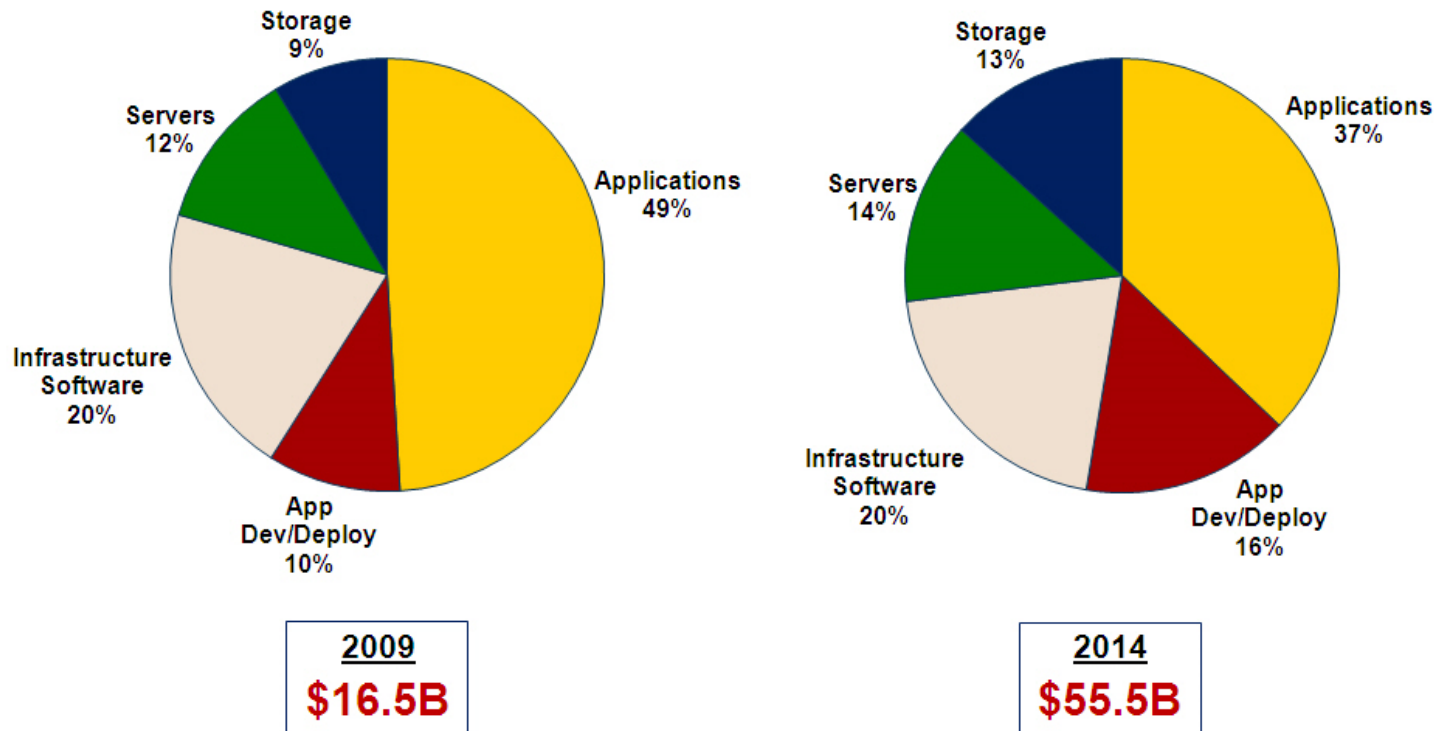
“US Business Spending by Size of Business and Vertical, 2009-2014: Cloud Computing and Managed Hosting Services.” In-Stat. 2010.

"The professional services and healthcare verticals will see the largest growth in spending on cloud computing services, growing over 124 per cent between 2010 and 2014."

Greg Potter
Research Analyst, In-Stat

Worldwide Growth: \$55.5 Billion Market

Worldwide Public IT Cloud Services* Spending (\$B)
by Offering Category
2009, 2014



Source: IDC, June 2010

* Includes spending on Applications, Application Development & Deployment Software, Systems Infrastructure Software, Server capacity and Storage capacity provided via the public Cloud Services delivery model.

Key Players

Areas

- Customer Relationship Management (CRM)
- Enterprise Resource Planning (ERP)
- Supply Chain Management (SCM)
- Human Capital Management
- Content, Communication and Collaboration (CCC)
- Digital Content Creation (DCC)
- Integration as a Service
- Platform as a Service
- Backup and Storage Service
- Compute Services

Sample Providers

- Salesforce.com, Oracle.com and RightNow
- SAP, NetSuite and Workday
- Descartes, Ariba and Ketera
- Taleo, SuccessFactors, Halogen, Ultimate Software, Workday
- Cisco WebEx, SumTotal and IBM LotusLive
- YouTube and Adobe
- Pervasive, Cast Iron Systems and Boomi
- Force.com, Google App Engine, Azure, NetSuite's BOSS
- Amazon Web Service (S3), Nirvanix, and RightScale
- Amazon Web Services (EC2), GoGrid and SkyTap



**SO WHAT DOES IT MEAN TO YOU
AND YOUR BUSINESS????**

If You Are:

- A business executive making a buying decision
- An application development company that creates software
- Starting out in a business venture of your own

WHY A BUSINESS EXECUTIVE SHOULD CARE ABOUT SAAS

Where We Are Now

Executive Use

- 40% of executives have been using SaaS for more than 3 years
- 62% will increase their SaaS use this year
- 60% project SaaS in vertical applications within 2 years
- In 2011, more than 70% of US data centers will hit capacity

Source: Peter Coffee, Salesforce.com

Extent of Use

- SuccessFactors now lists over 2,200 customers on its web site.
 - They claim to have 3,000 customers who generate some six million users of their software.
 - That averages out to 2,000 users per customer.
- Salesforce.com has two million users across a customer base of 69,000 firms.
- NetSuite has approximately 6,500 customers.

Large Enterprise SaaS Customers

Workday

- Carlyle Group
- Chiquita Brands International
- Flextronics
- H.B. Fuller
- Life Time Fitness
- Sony Pictures Entertainment
- Valspar
- Lenovo
- Arrow Electronics
- Brady Corporation

Salesforce.com

- Allianz Insurance
- Avis Budget Group
- Cisco
- Dell
- Google
- Kaiser Permanente
- Motorola
- NBC Universal
- Ryder
- Sprint Nextel

Success Factors

- American Airlines
- Arrow
- Avnet
- BT
- Clear Channel
- ConAgra
- Expedia
- GAP
- Hilton
- ING
- Kawasaki
- Kimberly Clark
- SEGA

RightNow

- British Airways
- Cabela's
- CarFax
- DeVry University
- Drugstore.com
- Electronic Arts
- Eurostar
- Graco
- Nikon
- Overstock.com
- Travelocity

Why a Business Executive Should Care about SaaS

Economic Reasons

- OPEX not CAPEX:
 - “Pay as you go” operational expense rather than a capital expenditure
 - A subscription-based on usage metrics (instead of a perpetual license)
- Lower cost-of-business solution ownership
- Predictability of costs over time
- The management, support, and upgrading of the software and the infrastructure that supports it is the responsibility of the solution provider

Why a Business Executive Should Care about SaaS, continued

Functional Reasons

- More rapid access to state-of-the-art technology
- Highly responsive and scalable (upwards and downwards) solutions that cover entire business processes
 - Greater ability to scale as business needs change
- User access to the application is over the Internet
 - Ubiquitous and relatively inexpensive
- Flexible and customizable solutions

Expected Results

- Shift in focus to core business management, rather than disproportionate attention on the computer environment; redeploy headcount to strategic IT initiatives
- More rapid time-to-market and time-to-production
- Improved security, performance, and availability
- Reliable access to data, anywhere, anytime
- Increased risk mitigation with better support for compliance
- Avoidance of vendor lock-in.

Where Move to SaaS Makes Sense



- Skilled IT staff on board
- Highly customized applications
- Recent ERP deployment
- Robust data center
- Disruption-super-sensitive

- Limited IT Expertise
- Ageing hardware
- Infrastructure not the investment priority
- Capital sensitive
- Start-up organization



Beware of SaaS-querade: Hosted Is Not SaaS; Don't Let Your Vendor Tell You It Is!

SaaS-querade: When On-Premise Vendors Try to Pass as SaaS Vendors

By Brian Sommer | April 24, 2010, 7:58pm PDT

Summary

On-Premise software masquerading as SaaS? Who would do such a thing? Well, just about every on-premise apps vendor is SaaS-querading these days and customers could be the ones who get burned.

Topics

Software, Software-as-a-service, PaaS, Vendor, Workflow Management, Multi-tenancy, Software As A Service (SaaS), Tools & Techniques, Cloud Computing, Managed

Customers who don't see through the fakery will get stuck with old, expensive solutions

Lately, my phone and calendar are getting filled with calls from vendors who want to tell me all about their re-purposed, on-premise applications. The calls have a few familiar aspects but they're all masquerades. And, mostly, they're bad for software users.

First, the pattern:

An on-premise vendor, seeing softness in new license sales numbers, starts to (finally) realize that Software as a Service (SaaS) is real. So, the vendor decides that a 'hosted' ERP application is a close enough facsimile to a SaaS solution. All the hosted product needs is a bit of SaaS marketing and it's a done deal. Right? Wrong!

A dear friend of mine is a software marketing pro. She told me that her ERP product is about to get a big splashy marketing campaign announcing its SaaS credentials. I immediately said that this can't be as its an old school ERP product that the vendor sometimes hosts. She replied that whether the solution is hosted by the vendor or in someone else's cloud is immaterial to a customer.

Source: blogs.zdnet.com/sommer

WHY A SOFTWARE PROVIDER SHOULD CARE ABOUT SAAS

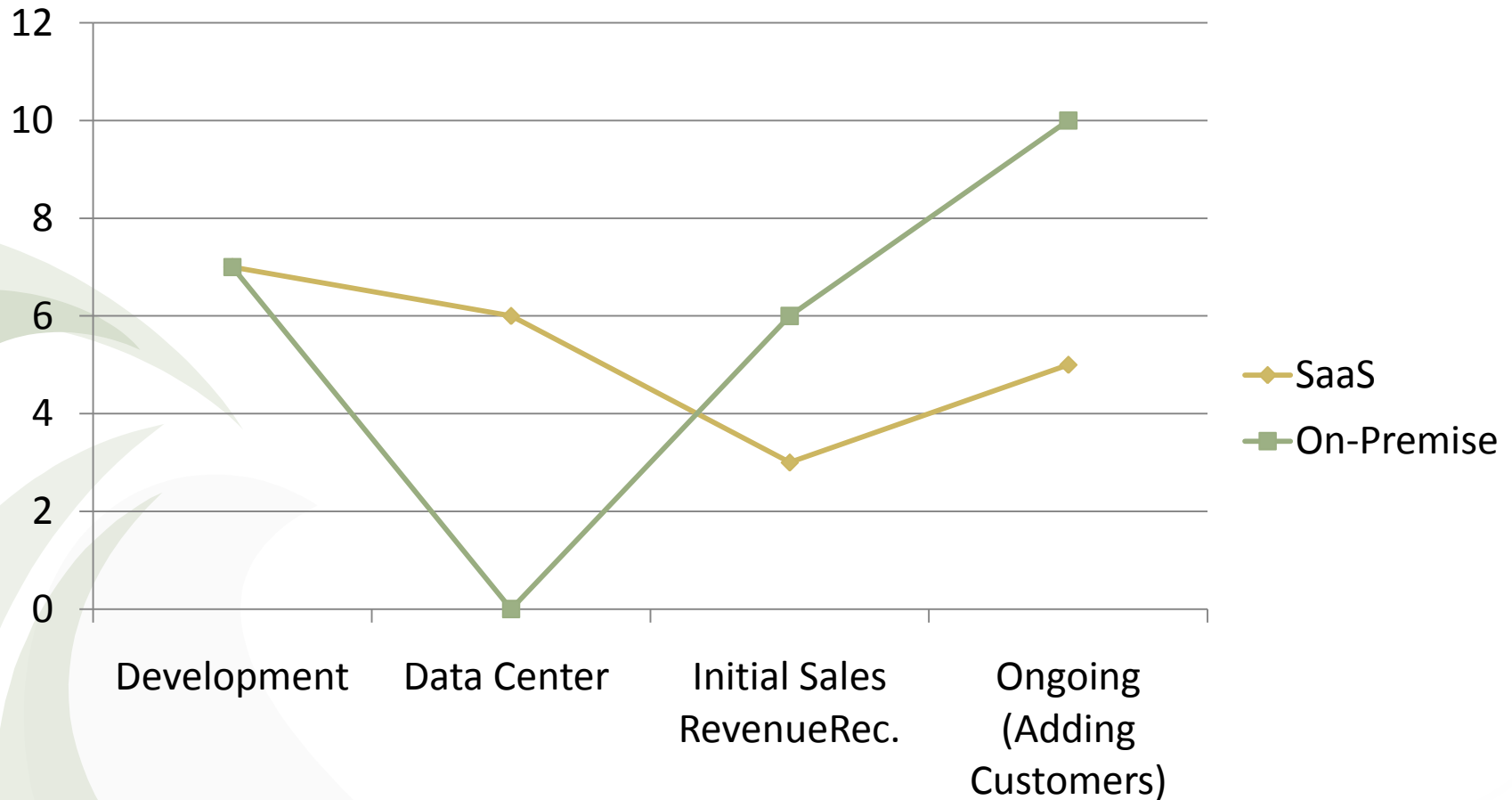
Why a Software Provider Should Care about SaaS

- The software application is based on a single set of common code and data definitions
 - One code set delivered, supported
 - One fix to a problem or bug fixes it for all
 - (Downside: one bug can break it for all!)
- Therefore, one-to-many model deployment to all contracted customers at once
 - The applications are multi-tenant
 - The applications are Web-native
- Ability to deliver upgrades, new functionality, new applications faster
- Can promote partner, customer development by an open PaaS

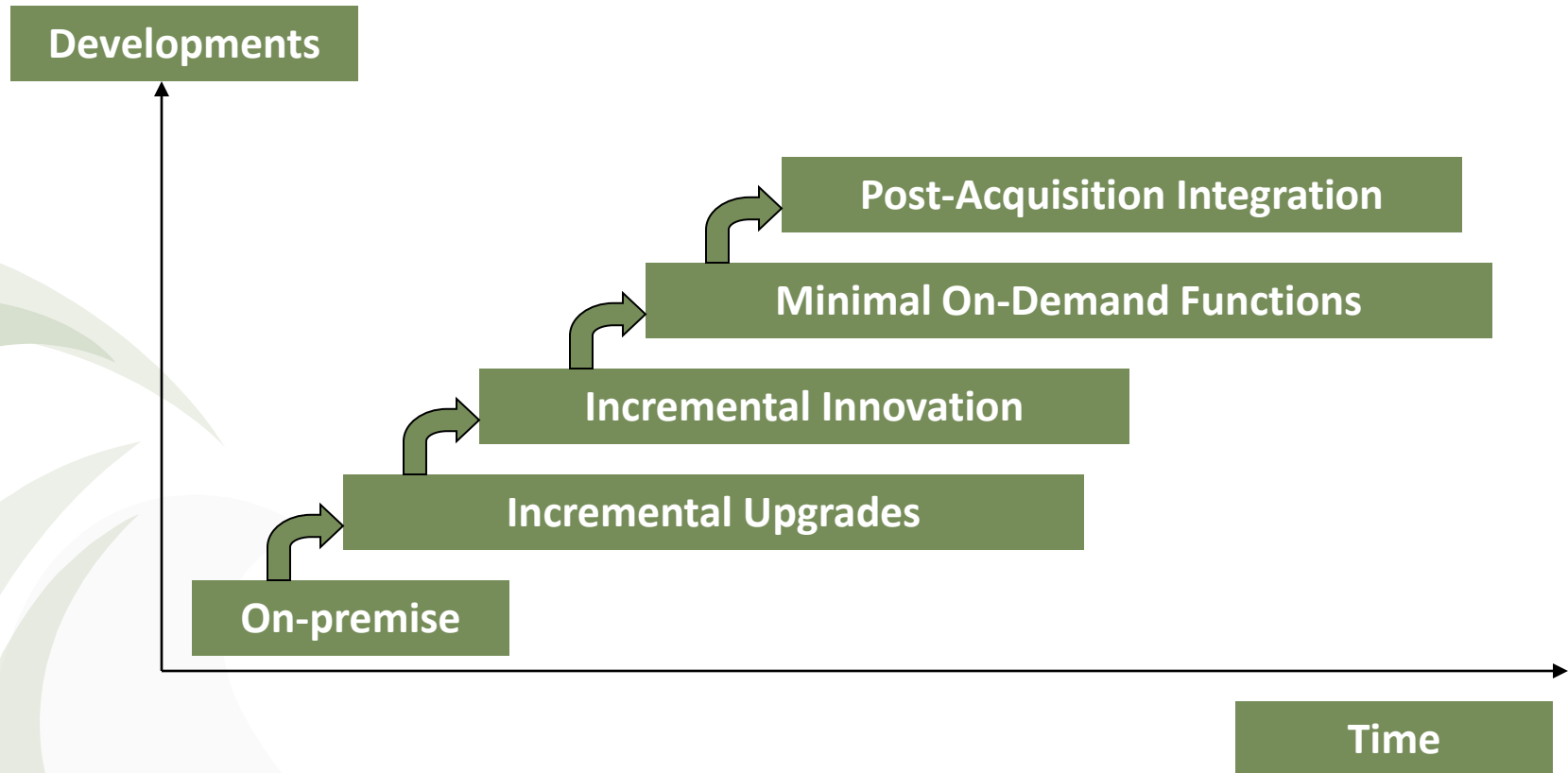
Risks for SaaS Software Providers

- The market for SaaS applications, while growing rapidly, is still at an early stage of development
- Financial Risks:
 - The expenses (product, hosting, sales) are generally incurred up front
 - Plan for peak? Plan for average?
 - Resulting revenue is recognized over the life of the customer agreement
 - Hockey stick model of cost vs. revenue
- Rapid growth in the customer base will result in increased losses.
 - Increased growth in the number of customers will result in recognition of more costs than revenue in the short term, even though the customer is expected to prove profitable over the long term
- This also means that a significant downturn in the provider's business may not be reflected immediately in operating results, which increases the difficulty of evaluating the future financial position.

Product to Revenue Cycle: Licensed vs.. SaaS

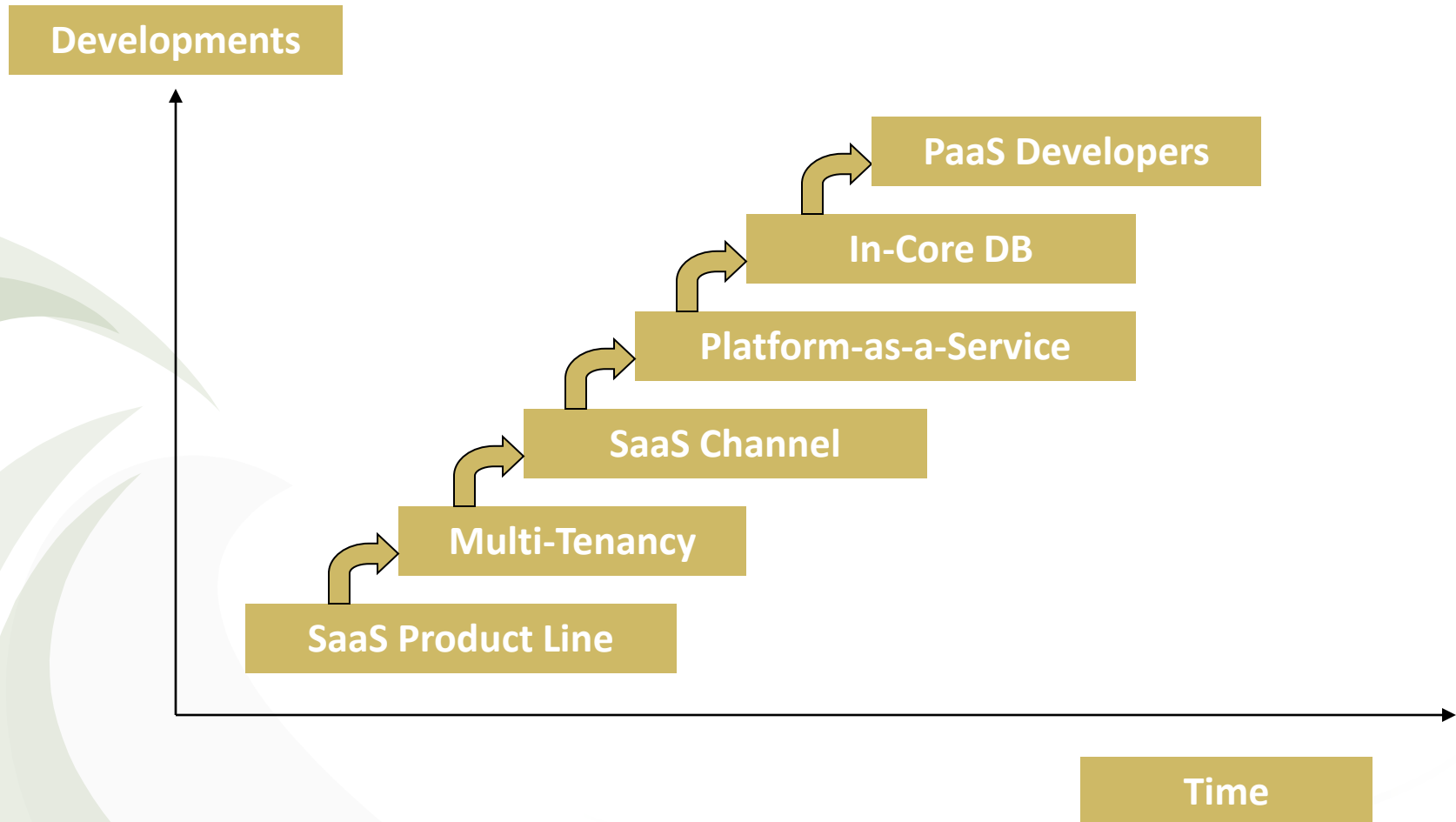


Software Business Cycle: On-Premise



Source: Vital Analysis, 2010

Software Business Cycle: SaaS



Source: Vital Analysis, 2010

WHY SOMEONE STARTING A BUSINESS SHOULD CARE ABOUT SAAS

Why Someone Starting a Business Should Care about SaaS

- Invest in business value not infrastructure
 - Select functionality you need
 - Cloud decreases investment in IT, internal data centers, hardware, licensed applications
- VCs are unlikely to support on-premise infrastructure
- The vendor's data center, security, and support will likely exceed what you can/should provide initially
- Selection criteria:
 - What does my business need first? (usually financials)
 - What does my business need second? (usually something related to the industry, sector you are in)
 - Pick the best functionality for the job – then the delivery system
 - If there is a viable Cloud solution, look at it thoroughly

Summary

- ↓ Capital Cost
- ↓ Maintenance Cost
- ↓ Latency in Applying Updates, Patches & Releases
- ↓ Implementation Costs
- Redeploy Headcount to Strategic IT Initiatives

Comparing Two of the Leading Software Platforms In The Cloud



(Credit: Dion Hinchcliffe, ZDNet)

Source: http://news.cnet.com/8301-13953_3-9917409-80.html



Questions?

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