

Under the Buzz

Commentary on Business Strategy Issues for Executives in Enterprise Systems & Software Companies

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Under the Buzz is an email "newsletter" authored by Philip Lay, managing director at TCG Advisors, a Silicon Valley-based firm that helps to catalyze the innovation and transformation efforts of executive teams in systems and software companies. This journal is published periodically and delivered free to subscribers via email. It is also posted on TCG Advisors' website, <http://www.tcg-advisors.com/Library/utb/utb.htm>, back issues are also available.

Does this dialogue remind you of anything you've seen before...

Pointy Head to Asok: "Asok, I need you to create a Powerpoint presentation that will save our department from being eliminated."

Asok looks puzzled.

Pointy Head: "You must quantify the unquantifiable. And that can only be done by a process that I call lying."

Asok: "Lying is a process?"

Pointy Head: "It can be, if you use enough slides."

Scott Adams - On the power of Powerpoint, March 2007

Don't Forget the Other "SaaS" Offerings

For several years now vendors and industry pundits have been abuzz about Software as a Service (SaaS). I'm not sure the same can be said for customers and users, who have gradually started to adopt as they make sense of the various SaaS offerings and discover those that they believe provide value. But since when have vendors needed the blessing of customers before working themselves into a real frenzy about "disruptive business models" as well as "new delivery models" that customers are supposedly desperate for.

SaaS even has its self-annointed standard bearer today – Salesforce.com. Marc Benioff, the company's CEO is well-known for periodically proclaiming the "end of software" as we know it, by which he supposedly means any packaged software installed from a shrink-wrapped box, or professionally implemented "on premise." Benioff learned his rhetorical skills at Oracle, where "strategy" is considered a martial art more about identifying an enemy you want to kill than thinking about how to help customers solve problems, but to his credit he has built a leading business in the SaaS mold.

As marketed today, SaaS incorporates at least three new "delivery" features as compared with traditional software packages:

1. Accessed as an internet service rather than installed as a traditional software product, on the hard drive of a client and/or server computer system(*);
2. Acquired mainly via a fixed-term or variable-term rental contract, in exchange for a monthly or annual fee that needs to be renewed after the term expires, compared to a one-time license (shrink-wrapped products for consumers) or a perpetual license (complex products for enterprise customers);
3. Actualized via contract renewal rather than via purchase of upgrade (consumer license) or maintenance contract (enterprise licenses).

() Strictly speaking, SaaS comes in two different flavors, (a) internet-based and (b) managed software installations involving "normal" licensed on-premise software that the licensee company has contracted a third party to run for them offsite. This article is about the first flavor.*

Besides having its resident "religious zealot" as well as a number of young, aggressive competitors such as RightNow, Employease, Xactly, and SugarCRM, this new approach has what many see as a natural target market ready for cultivating. In fact, in 2006 the SaaS market was starting to take off, evidenced by \$4B in subscription revenues worldwide. IDC predicts that by 2009 SaaS will generate \$11B in revenues, representing an impressive growth rate (CAGR) of 21%. The universe of customers that has been the first main target and adopter of SaaS applications is the same one that has always been poorly served by enterprise and consumer product vendors alike. It is the legions of SMB (Small & Medium Business) or SME (Small & Medium Enterprise) organizations who today represent a wide-ranging class of customer that is increasing its spending on IT solutions more than in the past due to the availability of easy-to-understand-and-use on-demand software at comfortably consumable monthly subscription rates.

This enormous group of medium-sized and smaller companies – plus, more importantly, thousands of *parts of larger organizations* such as company subsidiaries, regional offices, distribution centers, warehouses, gas stations, one-location stores, restaurants, hotels, medical and dental clinics, offices of local and state government agencies, schools, universities, and many others – has had a tough time being properly serviced by IT vendors until now. The reason is that, while they have always tended to have specific requirements and preferences sometimes resembling those of larger and more structured organizations, their budgets, resources, and appetite for IT spending have been much more aligned with those of individual consumers in the old days – and it doesn't take an Iranian nuclear scientist to know that such a contradiction (complex requirements but low budgets) doesn't make for a profitable existence for technology vendors.

With SaaS, vendors seem to have awakened to the possibility of achieving profitable growth because of the widespread availability of inexpensive – let alone, free – software tools, and the opportunity to market, sell, and support their offerings inexpensively via the internet.

However, producing a successful SaaS offering can be quite a challenge, especially for companies not designed for operationally excellent execution – which includes most existing on-premise software and systems vendors, as well as systems integration companies with software development pretensions. For one thing, on-demand software needs to have virtually bulletproof reliability and stability; for another, performance needs to be fast and predictable; a third factor is that it needs to be presented in the form of a complete enough solution to keep customers satisfied despite being standard and non-customized; lastly, the user interface must be truly "intuitive" for users.

But what about "the other SaaS?" Excuse the tepid wordplay, but I'm referring to "Service as a Service" and its close relative "Service as a (piece of) Software."

SaaS #2 – "Service as a Service"

Why has no one until recently been talking about the continuing need that customers have for services to accompany their SaaS investments? After all, complex problems in business and governmental organizations haven't disappeared, particularly those that require IT in some form or another. All the emphasis to date on the product delivered as a "service" (i.e., by subscription as opposed to a perpetual license plus maintenance) merely shows how little the software itself "matters" today as the be-all and end-all. And even if the price of the software portion of the overall "service" goes to zero, customers will still pay for actual services that help them to solve important business and other problems. The difference will be in the way that services are delivered.

Coinciding with the timing of my research for this article, I saw in a recent issue of the email newsletter SandHill.com an article titled "*Services 2.0 – A New World for Systems Integrators.*" The author, Chris Barbin, is CEO of Appirio, a services company that provides strategy, implementation, and adoption services, as well as application development and integration services, aimed at helping companies to accelerate the adoption of on-demand solutions such as Salesforce.com. Like most of his staff, Barbin has a background in professional services for classic enterprise on-premise systems implementations.

Barbin describes some of the services that customers value highly beyond basic configuration, end-user training, and minor customizations, including the following:

- ◆ Domain expertise applied to helping customers know how to achieve business results from the on-demand application;
- ◆ Technical advice and training on how to use the software service most effectively;
- ◆ Customization to fit enterprise-specific requirements;
- ◆ Basic technical support and escalation management;
- ◆ Mashing up of business processes to integrate departmental or functional implementations of on-demand applications;
- ◆ Rationalization of on-premise packaged and custom applications;
- ◆ Migration from on-premise to on-demand computing and development platforms.

Some items on this list, such as "technical advice," "customization," "migration," might sound suspiciously like traditional professional services, but it's important to distinguish between *what* customers need from their vendors – i.e., high-value assistance in a number of areas – and *how* they are delivered. What is likely to no longer work is the conventional time and materials model of expensive "manual" services, now seen to be highly inefficient unless enabled by increasing use of automation. What must be made to work is to have virtually every service substantially automated and deliverable online once the service in question has been transformed from a custom, never-done-before, thing to a repeatable and relatively routine activity.

SaaS #3 – "Service as a (piece of) Software"

As these services become more repeatable and deliverable via low-touch automation, the third leg in the stool, "Service as a (piece of) Software," enters the scene. Increasingly, on-demand vendors are providing chat- or IM-based support dialoguing with users. Members of virtual commerce networks are immediately hooked up to their trading partners via the "operating platform" provided by a technology and services vendor that might have described itself as a software company in the old days, but instead has designed its business as full-time "commerce network enablement." For example, Four51, an emerging player in the print distribution business, performs exactly this function.

In this new environment every service that today is delivered via human interaction becomes increasingly automated, from trading strategy, to project planning, to systems design, to application customization, to user training, to implementation management, to problem detection and resolution, and so on.

In an upcoming issue of this journal we shall describe the growing phenomenon of Business Network Transformation that has been developing for over a decade and is now gathering steam. The on-demand "platform," aided by an overall re-architecture around modules of software and other "services" delivered through the internet, will in my view become the primary base for tech companies to contribute to the massive shift dictated by globalized competition. Virtually every organization in every industry, value chain or business ecosystem – from aerospace to waste management – is now faced with either applying or being subjected to transformational change in their traditional business, due to the impact of global competition and to the "democratization" of IT via the internet.

Over time, everything is likely to blend into a multiple "deliverable" in the form of one type of "service" or another, whether you are talking about more automated or more manual services. As this happens, vendors and customers alike will become less preoccupied with "business model" issues or with the distinction between on-demand and on-premise delivery vehicles – and more focused on solving their business problems with the most suitable tools on hand.

Under the Buzz offers commentary on enterprise software and systems business and management issues. The goal is to provide provocative and accurate insights into the latest events and thinking shaping this continually evolving technology sector. *Under the Buzz* also provides commentary on strategies for building sustainable competitive differentiation and maximizing market valuation.

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