



SaaS 2.0: Software-as-a-Service
as Next-Gen Business Platform

Executive Summary



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About Saugatuck Technology

Saugatuck provides research-based consulting services that combine business planning and market assessment with first-hand research of executive technology buyer trends. Founded in 1999, Saugatuck is headquartered in Westport, CT. For more information, visit www.saugatech.com or call 203.454.3900.

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About this Report

This independent research study was developed between January 2006 and April 2006 by Saugatuck Technology Inc., who is solely responsible for the analysis, conclusions and recommendations presented in this report. Mark Koenig led the development of this report, co-authored by Saugatuck colleagues Bruce Guptill, Bill McNee and Jim Cassell.

We especially want to thank the more than 40 senior business and IT executives who contributed to this analysis through their participation in executive interviews, and the more than 155 who participated in our survey. In addition, we thank the senior executives from the following IT vendors and venture capital investment firms who shared their insights with us:

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eMeta	OpSource
Employease	PerfectCommerce
Greylock Partners	RightNow Technologies
IBM	SilkRoad Technology
InfoStreet	Trident Capital
Jamcracker	Workday
Ketera	

The full 34-page version of this Saugatuck Research Report (#239SSR) can be purchased at www.saugatech.com/239order.htm for \$1,295.00. For more information, visit our website or contact Chris MacGregor or Bill McNee at 1-203-454-3900.



INTRODUCTION: SAAS AT THE TIPPING POINT

Software-as-a-Service (SaaS) is one of the most compelling and challenging IT and business innovations of the past two decades. Not surprisingly, SaaS is generating tremendous interest, heated debate, and broad spectrum of opinion regarding its impact on users and vendors.

Through research surveys and interviews over three years, Saugatuck has developed a series of positions and frameworks regarding SaaS deployment, utility, spending, and evolution across multiple industries worldwide. This report summarizes and presents Saugatuck's latest research, analysis and insight regarding the current reality and the likely future of SaaS.

SaaS is now at a critical "tipping point" between the current generation of software functionality delivered as a service (what Saugatuck calls SaaS 1.0), and the emerging generation of blended software, infrastructure, and business services arrayed across multiple usage and delivery platforms and business models (what Saugatuck calls SaaS 2.0).

This report delivers the following:

- Saugatuck analysis of SaaS from user spending and motivation to vendor business strategies and market forces.
- What's next for SaaS, and why, including the factors driving (and the obstacles impeding) SaaS evolution.
- How user and vendor business executives need to transition their businesses to deliver the optimal value of SaaS to their firms.

Throughout this report, we will present Saugatuck research data and analysis to illustrate and guide the reader through this interesting and challenging transition to a new generation of business process integrated with software and services.

Key Research Insights

Saugatuck's SaaS research includes surveys and interviews with hundreds of user executives over the past three years. These have been supplemented by personal interviews with user executives and managers tasked with acquiring, evaluating and optimizing SaaS for their firms. In addition, Saugatuck has interviewed dozens of vendors, from traditional enterprise business application and tools vendors, to hybrid software/IT services providers, to emerging, pure-play SaaS vendors – as well as several leading venture capitalists. We have utilized the insights gained to provide our clients with valuable market intelligence and guidance in developing or refining SaaS strategies and plans.

That intelligence, and Saugatuck analysis, indicates that SaaS is beginning to shift from a pure software application delivery scheme to a very sophisticated usage and delivery model for business process functionality. The following key points substantiate this shift:

- SaaS is entering a period of accelerated adoption, driven by the acceptance of SaaS as a viable software delivery model by the SMB market.
 - ♦ *Traditional business drivers such as efficiency and customer service are clearly leading SaaS customer adoption.* SaaS adopters have been primarily seeking to reduce software costs and improve service levels



for business applications. But, adopters are increasingly discovering SaaS offers additional flexibility, customization, and configurability for specific business or market conditions.

- ◆ Large enterprises have been the most prevalent early adopters of SaaS, as they seek to supplement existing enterprise applications and support distributed workforces.
 - ◆ Over the past few years, SMBs have been more cautious in SaaS adoption, with many taking a “wait-and-see” attitude. However, SMB executives are now leading the SaaS adoption charge (2006-2010), and are embracing SaaS as a business critical, strategic investment at twice the rate than larger enterprises.
 - ◆ SaaS 1.0 is characterized by horizontally-focused applications with web-services-based front ends and multi-tenant data models on the back ends. Multi-tenancy allows for economies of scale that were previously unavailable under the single-tenant application hosting model.
 - ◆ Due to its highly decentralized procurement model, most user executives substantially underestimate how many applications are already in use in their companies today.
- Key market drivers will evolve from today’s cost-effective software management solutions (SaaS 1.0) to enabling companies to change how they do business (SaaS 2.0).
 - ◆ SaaS is now entering a period of accelerated market adoption (or a “tipping point”). SaaS 2.0 will incorporate advanced SOA and business process management technologies to provide *richly configurable applications with robust application and data integration capabilities*, along with improved workflow.
 - ◆ The business drivers for SaaS 2.0 will be about *helping users transform their business structures and processes*, and the way they do business. In this way, SaaS 2.0 has the potential to have much in common with *Business Services Provisioning*.
 - ◆ With this shift, it is very clear that SaaS is *not about the technology*. The nuts and bolts infrastructure and application functionality that make up a solution is becoming much less important, *while the business results that can be achieved and “getting the job done” are increasingly paramount*.
 - ◆ *SMB executives are embracing SaaS as a business-critical, strategic investment at twice the rate than are executives of larger enterprises*. Further, SMBs have a higher propensity to adoption application that are database-driven, and that support a highly distributed workforce.
 - ◆ While human resources/benefits administration, travel services, and a variety of core back-office and financial functions have led the way thus far (e.g., payroll, accounts payable, billing, accounts receivables), *specialized vertical applications, CRM and collaboration technologies such as email will see the highest rate of new SaaS adoption over the next two years*.



- ◆ The relatively low ranking of "pre-existing vendor relationships" as a key priority when selecting SaaS providers (10th on a list led by Price, TCO, Ease of doing business and Vendor Reputation) is an important *warning signal to software vendors*.
- ◆ While a one-size fits all deployment and licensing model (founded on the principals of net-native, pay-for-service, multi-tenancy) works well for SMBs, large enterprises will have much more demanding requirements for flexibility in how they want to deploy, pay for, upgrade, integrate and customize their SaaS applications.
- ◆ Improving system price performance, as well as accelerating SOA, open source and utility computing adoption will all have a multiplier effect on SaaS 2.0 growth.
- ◆ Accelerated adoption of SaaS will further be driven by the establishment of credible and advanced advertising-supported revenue models.
- Customers and stakeholders will discover that the business impact of SaaS is heightened by the SaaS "Network Effect" - the use of one common solution across many market participants, introducing new economies of scale and opportunities to improve business performance.
- "White-label" vertical SaaS solution stacks will come to be the primary vehicle for SMBs to access business functionality – especially for "small" enterprises. Saugatuck expects numerous new entrants to bring solutions of this nature to market.
- Sales channels (SI, ISV and VAR) will be critical to SaaS adoption growth, as companies will still require application and data integration with their IT environment.
 - ◆ Non-traditional channels (e.g., banks, telcos, web portals) will become key success factors for some SaaS solution categories.
- SaaS Integration Platforms (SIPs) – solution hubs that provide application sharing, delivery, and management solutions – will become critical to broader market adoption.
 - ◆ Three or four dominant SIP Master Brands will emerge by 2010, and will manage more than 30 percent of core SaaS offerings to users. Monitoring and billing capabilities of these platform providers will enable increasingly attractive pricing.
 - ◆ Further, these capabilities will create such value-added services as analytics, domain-specific best practices consulting, and business process-specific services.
 - ◆ *Ultimately, it will be large enterprises that demand richer SaaS integration and management services for the increasing complexity and mission-critical nature of SaaS 2.0.*
- Software vendors face a fundamental rethinking of how they are organized, how they build software, and how they go to market. This will affect vendors' core strategies and frameworks around product architecture, product management, pricing, licensing and sales models, as well as customer care.

Saugatuck SaaS Survey Demographics

What is your title?	
Title	Percent
C-Level	18%
Vice President	13%
Director	22%
Manager	28%
Other	19%

What is your primary area of responsibility?	
Function	Percent
Information Technology	36%
Financial & Operations	32%
General Management	14%
Marketing & Sales	9%
Other	9%

What were your company's annual revenues in its most recently completed fiscal year?	
Revenues	Percent
Less than \$500 million	29%
\$500 million to \$1 billion	14%
\$1 billion to \$5 billion	22%
Over 5 billion	35%

How many employees does your company have?	
Employees	Percent
Up to 1,000	13%
1,000 to 5,000	15%
5,000 to 10,000	18%
Over 10,000	54%

How many employees does your company have?	
Employees	Percent
Financial Services	30%
Government	26%
Communications & Telecomm	13%
Transportation	9%
Publishing & Media	7%
Manufacturing	6%
Other	9%



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The full 34-page version of *SaaS 2.0 Software-as-a-Service as Next-Gen Business Platform* can be purchased for immediate download at www.saugatech.com/239order.htm for \$1,295.00.

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For more information about this or any other Saugatuck report or service, or to arrange a personal briefing (upon availability), please reach us through the contact information below.

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