

White Paper

Enterprise 2.0 in the Cloud: new business opportunities and effective IT investments

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EXECUTIVE SUMMARY

The Cloud is the ideal technology for delivering cost-effective Enterprise 2.0 solutions to small businesses. It is also a game-changing distribution channel that bridges software vendors with end users through service providers. What are the advantages of the Cloud for each party? How can service providers widen their portfolio with Enterprise 2.0 products to create a source of recurring revenue and how can customers save on intranet deployment and maintenance using the Cloud? This white paper casts light on the particular benefits for each link in the product delivery chain with special emphasis on new business opportunities and cost saving for the latter parties. The document can also serve as a guideline for decision-makers looking for new ways to improve their intranet investments and business development ideas.

INTRODUCTION

There are lots of debates happening around the term 'Cloud', its definition, benefits and modifications. In fact, everything that is related to cloud computing is an extremely hot topic and generally provokes fierce discussions with opinions ranging from 'the Cloud is the future of computing' to 'the Cloud is an overhyped fad'.

Many new ideas which received copious public attention throughout the history of humanity were not taken seriously and otherwise declared nonsense, often leading to rather sad consequences to their inventors. Moreover, many breakthrough ideas that are now foundational to their respective fields were labeled obscure, controversial and misleading and shelved for years until dusted off and re-introduced by more grateful heirs, finally gaining recognition and acceptance from the general public. Adoption of anything new is always a matter of public readiness: the more creatively destructive the idea, the fiercer the rebuff it meets from the society and academic establishment. Thus, ideas tend to pass through a natural and inevitable selection process on their way to the wide adoption. One would hardly argue that Einstein's theory of relativity could have been accepted in the Medieval Ages, while today's society views it not only as non-threatening, but extraordinarily useful.

We are quite far from announcing that cloud computing is the new gravitational center of the computer world. At the same time, this is undoubtedly a great step ahead in the evolution of the information technologies. Cloud computing is the paradigm shift following the shift from mainframe to client-server architecture¹. A simple metaphor previously used for depicting the Internet in network diagrams now represents a major switch of the Internet's purpose: from a passive source of information to an interactive source of computing power, business applications and a variety of services. And of course, it is a switch in user perception concerning the best computing practices.

¹ Cloud computing definition in Wikipedia: http://en.wikipedia.org/wiki/Computer_cloud

The idea of cloud computing is not new. It has been around for decades but was only implemented in large organizations as a concept now referred to as a 'Private Cloud'. Indeed, thin clients were widely used in banking, insurance, retail and many other industries at various times and stages of technological development. The modern Cloud is distinct in that mass adoption of this architecture has occurred. The high availability of broadband connections, development of huge data centers, the appearance of cloud-oriented platforms and business applications, have all made the traditional client-server approach obsolete in a wide variety of instances. Thanks to cloud computing, users now only need a valid Internet connection and an access terminal with a web browser to leverage the advantages of a fully-equipped networked computer. Anytime, anywhere.

Enterprise 2.0² technologies at some point developed the same way as cloud computing. Previously the privilege of large organizations that spent millions of dollars for custom intranet development, now Enterprise 2.0 is on the threshold of mass adoption. The market of social intranets offers competitive and cost-effective solutions for smaller businesses. The market is rapidly evolving and intranets are gaining the status of a commodity software that is shortlisted in the 'to-acquire list' of each organization along with security, CRM, e-mail and similar products.

RETHINKING BUSINESS MANAGEMENT

What is Enterprise 2.0 and why it is one of the hottest topics in today's IT?

Enterprise 2.0 is not a passing fad. It is the expression, in technology, of the well-established trend among business managers of transforming traditional vertical subordination into a horizontal structure, leveraging the power of creative communities among employees to maximize profits and competitiveness.

Enterprise 2.0 harnesses customary web 2.0 technologies and puts them at the customer's disposal to reach a new level of employee awareness and loyalty, accumulate and manage knowledge and experience, and simplify information search, internal communications and decision-making.



«Enterprise 2.0 is a system of web-based technologies that provide rapid and agile collaboration, information sharing, emergence and integration capabilities in the extended enterprise.»

*Carl FRAPPAOLO
and
Dan KELDSEN
Association for Information
and Image Management*

² Enterprise 2.0 definition in Wikipedia: http://en.wikipedia.org/wiki/Enterprise_2.0

Why does Enterprise 2.0 matter for business?

- Web 2.0 revolutionized the Internet. So Enterprise 2.0 can transform business
- Properly managed collective intelligence can solve tasks of nearly any complexity
- Knowledge is money. Enterprise 2.0 sets new rules for data capture, sharing and discovery
- A great solution for better team management
- The young generation is native to social media. Enterprise 2.0 gives them a their tool of choice
- It oils business processes. Customers get faster and more accurate decision-making
- Address the common challenges of information overload and storage silos

An intranet portal guides Enterprise 2.0 values and advantages in an organization's internal workspace. It is a gateway that unifies access to corporate data, enables effective communications among employees and provides rich collaboration features. It helps customers to manage files, applications, information and business processes more easily and enables personalized views.

Powered by evolving Enterprise 2.0 capabilities, an intranet portal tremendously improves business performance and minimizes risks associated with data availability and knowledge continuity. Moreover, it allows capitalization on the social dimension of an organization by leveraging deeper employee involvement and introducing creative communities.

NEW CHANNEL, AUDIENCE AND OPPORTUNITIES

Software distribution relies on a mediator to reach customers. The traditional model implies a multi-level partner network of distributors and resellers, which was copied in the context of the Internet for selling software online through a network of affiliates. The most important asset of each member of the network was established connections with customers and sub-partners. The status of an intermediary allowed businesses to add their value to the products on their way to the end user.

Clearly, the fast development of web technologies created a new sort of distribution channel for software vendors that enabled them to reach a new audience with minimum overheads. The booming Internet economy spawned thousands of companies possessing an established and loyal customer base ideally suitable for delivering a number of additional services including business applications through the Cloud.

For quite a long time service providers were too busy expanding their audience and monetizing it via a primary set of services. Hosting providers were busy selling website hosting, shared resources and e-mail accounts. All-in-one portals were concentrating on widening the features list to get as much attention from their visitors as possible to increase ad impressions and clicks. However, suddenly service providers realized that the ever-growing

Average Revenue Per User³ (ARPU) no longer showed the same galloping growth rates. It was the time for some major revaluation of the whole business development concept and adoption of some new ideas for working with the audience.

The god of ARPU graciously accepted the brainstorming outcome and mercifully lit up a promising path toward increasing the monetization of traffic to overcome the seeming stagnation brought on by market saturation. As you may have guessed, the deadlock's end was found in the wide adoption of cloud technologies to deliver applications through to the Software-as-a-Service⁴ concept to existing customers.

It really doesn't matter whether the initiator of the modern Cloud was a software vendor or a service provider. Most probably it was something of a combination of the two. The established fact is that the market quickly developed cost-effective Cloud platforms for delivering SaaS-based applications, while service providers slowly but surely started implementing the new business opportunities.

Naturally, the wide adoption of Cloud technologies represents a new business opportunity for software vendors. Service providers are a challenging unsaturated distribution channel that can assist in reaching a new audience and increasing sales volume. The primary task to get into this channel is to provide ready-to-sell products conforming to the cloud environment standards, i.e. virtualization platforms that are used to run business applications in Virtual Private Servers⁵ (VPS).

The arms' race in supporting various virtualization platforms reminds one of the competition among vendors in late 90s in supporting operating systems. Obviously, the more platforms a software program supports, the more potential customers a company may reach.

The virtualization market is still far from being saturated and there is no dominant player. The field is populated by a number of vendors delivering proprietary (VMware, Parallels, Citrix, Microsoft, Oracle) and open source (OpenVZ, Xen, VServer) solutions. However, there is no doubt that the technology has matured into an integral piece of IT infrastructure to assist businesses adopt the best virtualization practices⁶. The numbers speak for themselves: according to IDC, 18% of new servers sold in Q4 2009 were virtualized, while HP (#1 in OEM server market) registered this indicator to be 38%.

³ <http://www.investopedia.com/terms/a/arpu.asp>

⁴ SaaS Wikipedia definition: http://en.wikipedia.org/wiki/Software_as_a_service

⁵ VPS Wikipedia definition: http://en.wikipedia.org/wiki/Virtual_private_server

⁶ "Virtualization Market Accelerates Out of the Recession as Users Adopt «Virtualize First» Mentality", Apr., 2010, <http://www.idc.com/getdoc.jsp?sessionId=&containerId=prUS22316610&sessionId=73E024224F808A17B960B15C013D3DE3>

THE MAN IN THE MIDDLE

Service providers stand right between software vendors and end users. They have accumulated a loyal customer base that is accustomed to purchasing services online. This constitutes a ready pipeline for selling SaaS-based products from the Cloud.

At the same time, some product categories already are experiencing intense competition in this channel. For example, selling security products is not as lucrative as it was just a couple of years ago. Nowadays, it is hard to find a service provider with no anti-virus or backup option in its portfolio. This is good for the customer but not really attractive for the service provider anymore. Rivalry and poor vendor channel regulations lead to a significant drop in prices and margins. We estimate that in the short-term security will no longer be a source of revenue but rather a must-have support service in the portfolio that requires royalties to be paid to the vendor.

Are there any other options that can help service providers to generate more sales and increase ARPU? Of course there are. And Enterprise 2.0 is one of them.

Enterprise 2.0 is on the threshold of mass adoption. In the short-term, social intranets will become as much of a commodity as anti-virus software. According to IDC, the worldwide enterprise portal market already exceeded \$1 billion and will show healthy gains until 2013⁷ despite the negative global economic climate experienced in 2009. What is most important is that the market is still unsaturated and early adopters can get additional benefits, significantly reinforcing their market positions and even re-positioning their market offering.

Let's have a detailed look at how service providers can benefit from this opportunity.

- **Increase Average Revenue Per User**

Selling additional products leads to an increase of the most important performance indicator, which underpins most of the service providers development strategies.

- **Create a new source of recurring revenues without increasing overhead**

SaaS-based Enterprise 2.0 solutions generate continuous revenue streams as customers pay monthly fees for using the software. At the same time, deploying and maintaining a mature SaaS-customized product doesn't require substantial investments or ongoing expenses.

⁷ IDC, Worldwide Enterprise Portal Software 2009-2013 Forecast Update,
<http://www.idc.com/getdoc.jsp?sessionId=&containerId=217441&sessionId=D5795D0FB28CC4DE317AA43D107ECA94>

- **Build customer loyalty and attract new customers to the core business**
Offering new products will result in growing customer loyalty as customers identify those service providers which are bringing best-of-breed services to them.
- **Initiate more core services sales**
New customers that are attracted by new product availability will undoubtedly purchase more core services.
- **Diversify business and widen the product portfolio**
Putting all your eggs in one basket has never been a clever strategy. By adding new products and services to your portfolio, you extend business footprint, ensuring its sustainable growth and continuity.
- **Cross-promotion**
Enterprise 2.0 is a hot topic in both B2C and B2B communications. Introducing new services will result in more media and community attention and initiate more publications and discussions.
- **Improve competitiveness by offering new, high-demand services**
Success in the highly-competitive service providers market is only possible through a strong competitive stance. Enforcing your offer with Enterprise 2.0 will give you a convincing advantage.

Choosing the right Enterprise 2.0 partner is another challenging task. There are a number of important points to be considered in order to ensure the best business performance and safeguard against distressing eventualities.

- **Margin restrictions**
The best partnering scheme is getting a hard channel price from the Enterprise 2.0 vendor with no restrictions on your add-on services and margins.
- **Competition**
Make sure the software vendor maintains a strict non-competition policy, that is, that they avoid selling their SaaS-based products directly. Otherwise, existing customers may end up migrating to the vendor.
- **Reasonable pricing**
The main consumers of SaaS-based Enterprise 2.0 solutions are small businesses that normally choose this deployment option to cut expenses on intranet installation and maintenance. Therefore, the channel price should not exceed \$2 per user per month to allow your added value.
- **Fair revenue share**
Look for a vendor that charges only for actual users, provides an unlimited number of trial product instances and offers at least a 30-day payment delay.
- **Customization options**
Enhance your branding opportunities by securing the right for at least basic customization and adding your logo to the main user interface. The white label option shall also be considered, but usually it will impose extra fees.
- **Entry fees**
Partnering with some big boys may require some initial project investments. At the same time, you may find vendors with competitive products, established

reputations and Cloud support that provide a variety of no cost advantages to boost your business.

- **Product maturity**

When selecting an Enterprise 2.0 vendor service, providers may consider partnering with a company with a successful track of Cloud deployment and success stories with other providers confirming their readiness and commitment. A very important feature is open product architecture supporting various billing options and virtualization environments.

- **Vendor support**

To maximize Cloud business performance, service providers should look for vendor support in sales and technical training, co-branded activity, complimentary NFR licenses, lead distribution, pre-sale support and 2nd line technical support.

- **Worldwide coverage**

Cloud architecture escapes geographical limitations. So a partner agreement with a software vendor should allow selling Enterprise 2.0 solutions to customers worldwide.

BUDGET-FRIENDLY ENTERPRISE 2.0

The Cloud provides a wide range of great opportunities for customers, especially for small businesses looking for cost-effective Enterprise 2.0 solutions. Naturally, an organization with some 20-30 users really needs an intranet solution to secure robust business communications and collaboration but cannot undertake the whole spectrum of associated additional costs and technical responsibilities. Initial investments and upkeep expenses may be too high to meet strict budget limitations.

The main advantage of SaaS for small businesses is a much better Total Cost of Ownership⁸ (TCO) indicator. In the case of Cloud deployment, the customer evades a number of expense items, including hardware and additional software acquisition, system maintenance and staff upkeep. Usage of the Enterprise 2.0 solution is billed according to the actual usage time and allows for cost reduction when the software is idle. Customers can easily scale the solution according to the number of intranet users – either increasing or decreasing the number of licenses.



«The underlying goals of Enterprise 2.0 are to improve the workplace. We find that the “2.0 world offers inspiration, technologies, and insight into how to create this improvement.»

Gil YEHUDA
2.0 Adoption Council

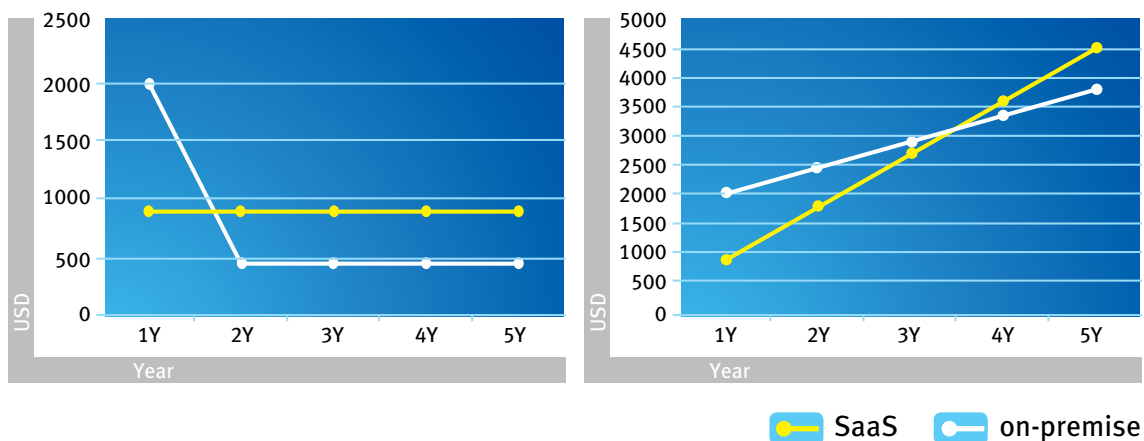
⁸ About Gartner TCO: <http://amt.gartner.com/TCO/MoreAboutTCO.htm>

The table below provides a combined view of deployment models comparison in terms of implementation and maintenance costs.

	On-premise deployment	On-premise deployment
Enterprise 2.0 software acquisition	Customer purchases full software license and pays subscription renewals to receive product updates and upgrades.	Customer pays monthly fee for the actual number of employees using the software.
Additional software acquisition	Deployment requires installation of additional software like operating systems, a web server, database and security framework.	No extra expenses. The software environment is provided by the service provider.
Hardware acquisition	Deployment requires purchase and installation of hardware.	No extra expenses. Hardware is provided by the service provider.
Installation	Software and hardware require installation and configuration.	No extra expenses. Installation is performed remotely in a dedicated VPS created by the service provider.
Maintenance	Software and hardware require maintenance and upkeep for qualified IT staff.	No extra expenses. Maintenance is a part of services from the service provider.

Importantly, the SaaS deployment gives a cost advantage only for a certain timeframe. Depending on the vendor pricing policy, it generally is the case that the on-premise deployment is more advantageous in a 3-4 year perspective.

The charts below demonstrate the approximate comparison of year-by-year expenses (1) and cumulative expenses (2) for Enterprise 2.0 solutions for different deployment options. It clearly illustrates that large companies should consider the on-premise deployment to assure the long-term software acquisition profitability. At the same time, we emphasize that the given calculation does not reflect the other TCO items and only provides an estimation of software acquisition.



If something sounds too good to be true, it probably is. There is another side of the story as SaaS architecture puts some restrictions on use of the software. Obviously, customers must sacrifice a number of on-premise deployment advantages. For example, product customization to meet specific business requirements, functionality and additional modules development; opportunities for tight integration with existing IT infrastructure (like ERP, CRM, SCM, AD etc.)

And of course some security and privacy concerns will arise from the fact that remote deployment introduces a different (though often less-threatening, in fact) set of data leakage and security threats.

At the same time, these considerations are normally the domain of large businesses, which want to keep everything under their own control and may invest a substantial amount of money to reach this goal. Smaller companies will certainly be happy with the quality of services from their provider and enjoy cost-effective Enterprise 2.0 solution.



«Online communities are turning into a vital new channel for innovation, business agility, customer relationships, and productive output for most organizations. This is one of the most potent new ways to achieve business objectives, both in terms of cost and quality.»

Dion HINCHCLIFFE
Enterprise architect
and business strategist

CONCLUSION

Enterprise 2.0 brings a set of obvious advantages to organizations of any size, complexity and industry focus. There are dozens of reasonable arguments concerning who really needs an intranet solution and why. Naturally, every employee can benefit from this technology regardless of position and individual needs.

The Enterprise 2.0 market is on the threshold of mass adoption. The times when social oriented intranets were the exclusive domain of large organizations implementing high-priced proprietary solutions are now in the past. The availability of ready-to-go solutions make implementation of the best Enterprise 2.0 practices a matter of days and it doesn't require any significant investment. A company of 100 users may launch the solution for some \$8,000–30,000 depending on the selected product and its deployment.

The process of wide adoption of Enterprise 2.0 is tightly connected with the development of Cloud-oriented solutions. The cost-effectiveness and ease of the SaaS deployment provides real benefits to small organizations, which can save up to 80% of the initial product implementation and further maintenance costs. At the same time, both software vendors and service providers are interested in exploring this opportunity and creating a distribution channel and model that challenges the traditional reselling model.

We firmly believe that the future of Enterprise 2.0 lies in both SaaS and on-premise deployment, with smaller organizations concentrating in the cloud and larger organizations moving intranets in-house.

ABOUT BITRIX

Bitrix is a privately-owned company developing an advanced business communications platform to bridge SMBs with their customers (Internet), partners (Extranet) and employees (Intranet). Founded in 1998 and headquartered in Alexandria, VA, Bitrix now incorporates 70+ staff, 30,000+ customers and 4,000+ partners worldwide. The customer list includes Hyundai, Volkswagen, Panasonic, Gazprom, Xerox, PricewaterhouseCoopers, DPD, VTB, Samsung and Cosmopolitan. Localized into 13 languages, the company's products are distinguished for their pioneering technology, unique security features, extreme performance capacity and unmatched ease-of-use.

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