

What's Wrong with this Cloud?

Why Software as a Service (SaaS) often does not reduce IT costs in small or mid-sized businesses, and an introduction to the cloud alternative that does.

A White Paper By Frank Butler, Founder: fbutler@proxios.com

What is SaaS?

The genre of cloud computing known as Software as a Service (SaaS) is certainly one of the most studied of all the cloud delivery services and is seemingly the most relevant for the SMB. SaaS companies deliver topical software solutions over the Internet via the web browser installed on a user's PC. SaaS solutions are meant to be a substitute for in-house deployments of a single application. SaaS is a cloud delivery strategy that is relevant to organizations of all sizes; it is certainly the most widely known cloud service used in the SMB market. Examples of SaaS companies include the SalesForce.com CRM application, Google Gmail and Apps services, and Microsoft Office365.

Is SaaS Right for Your Business?

SaaS companies abound and will become ever more ubiquitous as more and more software providers scramble to join the cloud crowd. Three premises are basic to the argument for the use of SaaS, as opposed to an in-house solution. Typically, it's argued:

1. SaaS solution can be deployed more effectively (meaning faster, better, and cheaper)
2. Users can learn them more readily and are thereafter more self-sufficient because these are Web-based applications;
3. Costs are lower because less in-house maintenance is required to keep SaaS applications operational.

Though point one is true and point two may be true in some circumstances, point three regarding costs may well not be true. Forester Research is a major research firm that has done much research on enterprise SaaS deployments. In one of their reports, "The ROI of Software-as-a-Service", published July 13, 2009, the authors state:

Moving to SaaS does not guarantee retirement of hardware or people resources. Firms often anticipate... eliminating hardware as well as people resources when moving to SaaS. However, in some cases these anticipated savings do not materialize or are too small to make SaaS cost-effective in the long run.

Though a SaaS deployment can make excellent business sense for new applications (at least in large enterprises), often SaaS installs are done to replace existing in-house applications. When this is the case, the economic benefits of using a SaaS solution are particularly difficult to determine. In fact, an SMB that replaces its core business application with a SaaS version of the same application will more often than not increase its IT costs, not reduce them.

Unlike large enterprises, the resources used to support IT activities in SMBs are almost always serving multiple purposes. For example a company with 50 or so PCs may have one IT manager who sup-

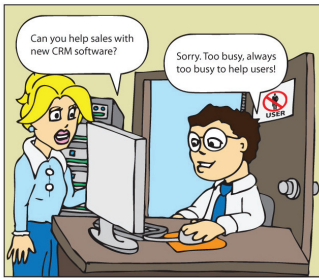
ports the desktop, two or three servers, a network and the core business applications as well. This is a very different IT structure from a large corporation where hundreds or thousands of servers are involved and departments, each with multiple employees, will be devoted to highly discrete IT functions, e.g., the server team, the WAN team, the storage team, the helpdesk team, etc.

Because multiple roles or functions are served by the same staff or resource in an SMB, it is usually impossible to reduce infrastructure or staffing costs after a SaaS solution is deployed. Most, if not all, of the original infrastructure and staff are needed to continue supporting the other remaining in-house operations. The costs of IT in the SMB can increase after a SaaS installation simply because the costs of the SaaS solution must be added to the existing cost of the staff and infrastructure.

Certainly, there may be times when the increase in IT costs can be justified in an SMB, and no doubt many SMBs will justifiably employ a SaaS solution for one or another reason. Some of the cases where a SaaS deployment might make excellent business as well as economic sense include situations where:

- Application complexity is high and number of users is low, e.g., CRM applications where only the sales staff are involved
- Large capital investments are needed and the ROI is marginal

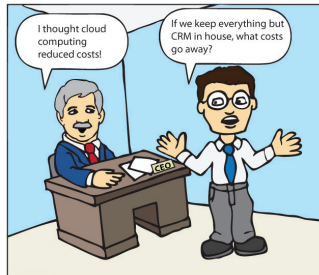
Get Frank about the Cloud – SaaS vs. ITaaS



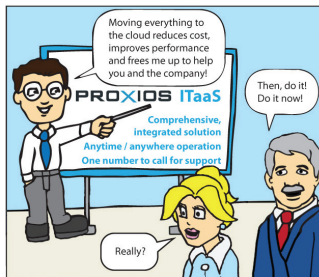
Support: Busy Upgrading



SaaS CRM Provider



Software as a Service



Information Technology as a Service

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- Speed of deployment is more important than cost
- Remote access is required and unavailable for a comparable Windows application

Though these and other situations can certainly be the drivers behind a SaaS deployment, the point here is that most SMBs do not have the scale to benefit economically from a SaaS solution in the way a large enterprise might. In an SMB the same IT resources, e.g., people, servers, etc., serve multiple purposes and therefore cannot easily be eliminated from the overall cost equation when a single purpose SaaS application is installed.

Because SaaS usually adversely impacts the cost of computing in an SMB, executives in those companies must look towards other cloud strategies, if they seek to control or reduce IT costs as well as gain many of the other benefits that cloud computing offers – pay-per-use computing, increased agility, reliability, and performance.

After all, many executives running SMBs today intuitively understand that the one-IT-department-per-company computing model historically employed in SMBs is incredibly inefficient. As it stands today every SMB that has its own on-premise IT infrastructure, has generally the same software, equipment and staffing as every other SMB. Using a power generation analogy, today's on-site SMB computing model can be likened to every SMB owning and operating its own on-site generator to generate electricity - a model long since proven to be ineffective, but one that has been perpetuated in the computer industry since the days of the service bureaus of the 1960's.

Given these inefficiencies, it is time for a change. Cloud computing hints at what this change might be. SaaS computing models point in the direction of that change, but this and other similar cloud strategies do not go far enough. Beyond SaaS there is a cloud strategy that not only reduces costs but at the same time actually positions the SMB to increase revenue, profits and shareholder value. This cloud approach is referred to as IT as a Service or ITaaS.

Benefits of ITaaS

New to the cloud market, ITaaS is a cloud approach that is bolder and more comprehensive than any given SaaS solution strives to be. If the SMB cannot reduce resources by halves or quarters as it were, why not take the reverse approach? Why not find a way to eliminate in-house staff, servers and, indeed, everything related to the IT infrastructure in an SMB by provisioning it all as a comprehensive and cohesive cloud solution, including Windows desktops, applications, servers, networking, backups, faxing, telephony and more? This is the idea behind cloud providers who provision ITaaS solutions.

ITaaS providers actually reduce IT computing costs for the SMB clients they serve, because they eliminate the inefficiency built into today's SMB IT approach. By leveraging the IT spend from many clients across a private and secure but shared infrastructure, ITaaS providers create economies of scale that individual SMBs can never create. Regardless of the application requirements, regardless of the storage, email, telephony or other technical requirements, ITaaS providers can deliver a better performing and

totally comprehensive solution. It can all be delivered for a lower price per user than any particular customer could set up independently in their own business.

Nicolas Carr, the IT paradigm shattering and much quoted author who published “IT Doesn’t Matter” in the Harvard Business Review in 2003, says in a follow-on article, “The End of Corporate Computing”:

Computing utilities will bring to an end the traditional model of “corporate computing” in which computing is carried out within individual corporations - just as electric utilities made “corporate electricity generation” obsolete. And utility computing will represent “the end” toward which business computing in general is heading. It’s IT’s destination.

ITaaS providers, like power utilities, generate ready-to-use IT environments designed to meet all the discrete and unique IT needs each SMB customer has. What has long been true for the power industry is now true for the computing industry, too: customers can have a completely functional computing and communications environment and almost no technology footprint left in-house to provision and support. ITaaS providers represent the ultimate conclusion of the cloud revolution. They are the destination about which Carr speaks – the endgame in computing which must ultimately be realized.

The unwary or uninformed may well take a circuitous route through all the partial solutions, e.g., IaaS, SaaS, or whatever other derivation the market dreams up. Those who wish to focus on core business activities and refocus IT staff almost exclusively on high value strategic activities can do so now using an ITaaS solution. If they do, chances are they will save themselves a good deal of money, remove the associated challenges and shortcomings of their in-house solutions, and finally establish IT foundations that can support revenue, profits and value creation.



About Frank Butler

Frank Butler founded Proxios in 1999 to deliver cloud-based IT services in the same manner that utility companies deliver electricity or water. For over 13 years Proxios has been delivering virtual desktops and business software applications integrated with email, desktop faxing and VoIP telephony solutions. Prior to forming Proxios, Frank was the founder and President of Information Technologies, an IT consulting company which quickly grew and was named to Inc. Magazine's 500 fastest growing companies. Frank received his degrees from University of Richmond, the University of New Hampshire and Virginia Commonwealth University.



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Proxios is headquartered in Richmond, Virginia and is in the business of IT as a Service (ITaaS). As a provider since 1999, we have proven knowledge and experience to move customer infrastructure to the cloud, freeing customers to do what they do best, driving real business value from the applications that help run your business. We provide a wide range of cloud services to our customers throughout the United States and Canada including telephony and collaboration, business virtual desktops, and application hosting that help run their businesses.