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Software as a Service for Small and Medium Businesses

Understanding the Benefits of SaaS

Introduction

The growth and adoption of cloud computing has brought renewed focus to the software as a service (SaaS) application delivery model, with many organizations making strategic decisions to move as much of their application infrastructure as possible off-premise and into the cloud.

Some small and medium businesses (SMBs) see SaaS as an equalizer that can give them the same application functionality as larger competitors, without incurring the massive investments in technology and resources. Other SMBs don't yet fully understand what SaaS is, how it works and why it makes business sense.

Similarly, some concepts still remain unclear around the cloud and what it means for application delivery. To better understand the business value of SaaS applications in the cloud for SMBs, this paper will explore the evolution of SaaS as an application delivery model and discuss its benefits, no matter what size business you have.

If you're an SMB owner this paper will explain many of the advantages of purchasing and deploying cloud-based SaaS applications, and how your business could benefit from software as a service.

The Evolution of Software Delivery Models

1. Upfront License, On-premise

In the traditional software delivery model, you either develop your own applications in-house or purchase software under a perpetual use license agreement from a vendor. With a license agreement, you also typically pay an annual maintenance fee to cover bug fixes and minor enhancements. In this scenario, it is your responsibility to host, implement, maintain and support the software.

Most likely, you'll need to engage the services of an implementation partner that is knowledgeable in deploying the software. Your relationship with the implementation partner will continue as you incur more costs when it comes time to upgrade the software to the next release. The traditional software delivery model requires you to invest not only in the software, but also in hardware, training, consulting services, support and long-term maintenance.

This model is still employed by large enterprise application vendors, and the applications of this nature are simply inaccessible to the SMB because of their cost and the scope of the implementation. Consequently large enterprises have been able to leverage these specialty IT resources as an advantage over their smaller competitors.

2. Upfront License, Hosted

With the widespread adoption of the Internet, software vendors began to look at a different approach to delivering software solutions. You could license software from the vendor and then purchase additional services from an Application Service Provider (ASP) to run and deliver it.

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The applications were hosted at a remote data center and served over the Internet, so you didn't need to make infrastructure investments. In this model, each customer had their own version of the application running in the ASP's hosting center (also known as single-tenancy).

However, the initial implementation of the system could still be lengthy and complex. Most ASPs focused on enterprise resource planning (ERP) applications that had to be heavily customized to replicate the business processes and reports needed by the users. And because each customer was running a separate application instance, customization and upgrade services were encouraged by the ASP as an ongoing revenue stream.

In addition, ASPs charged a monthly hosting fee, and you still had to pay the vendor upfront for the software itself and for upgrades as they became available. Organizations soon found that the total cost of ownership (TCO) with this model was very high. Software upgrades to new versions, service packs and patches disrupted the business, required a great deal of effort due to existing customizations, and were very costly. This often caused companies to remain on an old version of critical software long after improved capabilities and greater functionality were released.

ASP had its heyday in the late 1990s and early 2000s, but has since largely given way to a new model which eliminates the complexity and achieves cost savings not possible with the traditional ASP model.

3. Subscription Model, Hosted

Software providers quickly recognized that there was a better way to deliver software from a data center, and the Software as a Service (SaaS) model was born. In the SaaS approach, software vendors design their solution to be delivered via the Internet using a common web browser. SaaS applications are typically hosted at discrete data centers that are owned or leased by the vendor.

The SaaS model uses multi-tenant architecture, which means there is a single instance of the software serving numerous clients. Consequently, SaaS customers share common parts of the application, while

receiving complete security for their data and retaining exclusive access to their business process configurations. This approach lowers the cost of maintenance and reduces the time required to upgrade to new versions, service packs and patches.

One of the hallmarks of the SaaS model is subscription pricing. Instead of paying large license fees upfront, the SaaS customer pays on an ongoing basis, such as annually, quarterly or monthly. The subscription includes the use of the software, support, and access to all upgrades, patches and service packs.

Applications in the Cloud

Cloud computing is a relatively new way of referring to the use of shared computing resources, and it is an alternative to having local servers or fixed data centers handle applications. Cloud computing groups together large numbers of servers and other resources and typically offers their combined capacity on an on-demand, pay-per-use basis. The end users of a cloud computing network often don't know where the servers are physically located – they just spin up their application and start working.

In a cloud computing environment, an application instance can be instantly provisioned and decommissioned as needed. The ability to launch new instances of an application with minimal labor and expense allows application providers to scale rapidly and recover quickly from outages or failures, since there is massive redundancy in the cloud.

From a user's perspective, whether an application is served from a dedicated data center or a cloud is less important, although the cloud may offer increased reliability, and users experience less downtime due to failover capabilities.

Today, the term "SaaS" encompasses any application that is delivered as a service, via a web browser whether from a vendor's data center, a public cloud or even a private cloud. The remainder of this paper will further examine why SaaS is an attractive option for application delivery for the SMB.

The Benefits of SaaS

SaaS brings with it the ability for SMBs to gain access to the applications and functionality that had previously been available only to larger enterprises with deep pockets. With the need for capital outlay and upfront costs eliminated, any organization can pay a subscription and receive enterprise-class applications as a service.

SaaS provides additional benefits, including:

Low Financial Risk

Many traditional on-premise applications carry with them an initial license fee. Once the implementation is complete, there are recurring fees for support and maintenance, along with disruptions associated with upgrading the product to a new version.

A SaaS implementation is different. There is no up-front IT infrastructure or technology development investment, and the recurring costs are predictable. There are no hidden costs for upgrades, maintenance or support – these are all included in the subscription. This results in an overall lower total cost of ownership, and avoids large capital outlays in favor of lower operating expenses.

If for some reason, the application is not a good fit for the organization, there isn't a huge sunk cost associated with it. After the subscription or contract period ends, the customer is free to terminate and move on.

Easy Deployment

An on-premise implementation can be a costly and time-consuming proposition. In addition to the investment in technology infrastructure to run the application, you must devote resources to installing and customizing the application. Consulting fees can further inflate costs. Today's competitive organizations simply can't afford lengthy and complex projects.

In contrast, most SaaS application instances can be provisioned in minutes, rather than

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weeks or months. There is some tradeoff in that a shared application can't be heavily customized, but it can certainly be configured with settings, branding, process flows, additional fields, reports and many other ways to make it your own. A highly configurable product offers a great deal of flexibility without the time and expense of software redesign and coding.

Comprehensive Support

Unlike a traditional software license, the SaaS model includes comprehensive support in the subscription fee. This also includes product maintenance and upgrades, so there are no hidden costs or additional fees, nor do you have to worry about hardware maintenance or failures.

Many SaaS providers also provide different levels of support and services, each with a different impact on the monthly fee depending on the package. This way, you can choose the best level of service for your needs, without paying for more or receiving less than you need.

Relief for IT Staff

If your organization is like most, your Information

Technology (IT) staff is already overburdened. Because there is no technology infrastructure or application environment to support, SaaS does not place any additional demands on your IT team.

For small and medium businesses that often don't have a dedicated IT resource, SaaS applications are an attractive solution for obtaining needed functionality. If you do need additional assistance, SaaS vendors will often offer services either directly or through consulting partners.

High Security

When you move important data offsite to a service provider, you need assurance that the system is secure. SaaS vendors house their applications in world-class data centers, with state-of-the-art power, ventilation and security features. They also employ encryption and the latest in security protocols to ensure the safety and integrity of your data.

This also holds true for cloud vendors, whose servers are found in the same data centers here on earth. For example, the Amazon Elastic Compute Cloud (EC2™) is a SAS 70 Type II Audit Certified data center. The vendors that use public clouds for application delivery also build in security features to protect data in transit.

Access from Anywhere

A SaaS application makes it possible to gain access to data and documents from anywhere that has an Internet connection. Remote and mobile workers can collaborate effectively with colleagues and share information using any suitable mobile device.

Transitioning to SaaS

Virtually any type of application can be delivered as SaaS. Customer relationship management, document management, accounting and financials, human resources — all these mission-critical applications can be obtained from a SaaS provider.

Are you ready to make the transition? Here are some key questions that might help you decide.

- Has your business effectively outgrown the applications that are geared toward small and medium businesses? Do you need more power and more functionality to help you grow?

- Do you have an increasing number of remote and mobile workers who have difficulty connecting via a VPN? Are you worried about the security of those connections?

- Is your technology infrastructure not up to the task of running today's applications? Are you unable to make new capital investments in updated equipment?

- Is your IT staff overwhelmed with user support and other system administration tasks? Or, do you not have a dedicated IT resource and have to outsource this work?

If you answered yes to more than two of these questions, then SaaS based applications might be the solution for your organization. Start with one application, such as document management, and try it out. Many SaaS providers offer 30 or 60 day trial periods so a small team can evaluate the application.

Once you're satisfied as to the reliability, security and ease of use of the application, you can bring more users on board and integrate the application with other front and back-office systems.

You'll likely find that SaaS has a lot of upsides and very few downsides. For the small business that wants to grow and stay competitive, SaaS is a smart investment.

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Software Delivery Model Comparison Table:

	Traditional – Licensed Software Delivery Model	ASP – Application Service Provider Model	SaaS – Software as a Service Delivery Model
Up front costs	Purchase software license, hardware, annual support contract and implementation consulting	Purchase software license and annual support contract; no hardware investment	No software purchase, no hardware investment, support included with subscription
Implementation and hosting	Unique, in-house implementation likely involves heavy customization by consultants	Single tenant hosting; implementation and high degree of customization by ASP	Multi-tenant hosting by vendor; no customization but highly configurable
Maintenance and support	Maintenance and support by IT department or via vendor's support contract	Maintenance and support via vendor's support contract; additional ongoing hosting fee from ASP	Maintenance and support by vendor is included in subscription
Upgrades	Major version upgrades require additional consulting assistance due to customizations; may result in delaying adoption of new features. Patches and service packs must be installed by IT.	Major version upgrades require additional consulting assistance due to customizations; may result in delaying adoption of new features. Patches and service packs installed by ASP.	Ongoing innovation and new features steadily introduced resulting in no version lag; bug fixes and patches constantly applied.
Risk	Considerable upfront investment in software, hardware, implementation; heavy customizations result in high total cost of ownership, unpredictable cost model and sunk costs	Considerable upfront investment in software and implementation; customization, and single tenancy result in high total cost of ownership, unpredictable cost model and high probability of hidden costs	All-inclusive subscription guarantees transparent and predictable cost model; multi-tenancy allows continuous innovation and ongoing patches, reducing risk of service disruptions