

SaaS on the Rise .. Are you ready?

By Ranjit Nayak

A recent [article](#) in Computerworld predicts that the current economic downturn will increase the pace of SaaS adoption. According to the article " ..two weeks ago IDC raised its projected SaaS growth rate for 2009 from 36% to 40.5%. The firm said, recent surveys indicated that the recession would prompt more users to choose subscription-based services over on-premises applications. IDC also forecast that nearly 45% of U.S. companies will spend at least one-fourth of their IT budget on SaaS by next year, up from 23% in 2008."

Many people have predicted growth for SaaS, but is this for real? Recent news and activities make me want to believe that this is true. The Wall Street Journal had a report on Feb 17, 2009 titled "Business solutions: Smart ways to cut costs". The author refers to "Web-based software instead of software installed on your computer" and even gives the example of the solution, Zimbra. Most people familiar with the computer software industry recognize that the online model of software delivery is nothing but SaaS. When SaaS references have made it to popular press and SaaS is even being touted as the way to cut costs in this harsh economic environment, we could expect the market for such services to grow.

A prospective customer called us last week and said that an online service he had started offering gained traction much faster than he had anticipated. He said he was forced to expedite usage based billing automation. I was on the judging panel last week for the [Texas Moot Corp](#) business plan competition and interestingly three of the four participating companies were offering online services, not necessarily described as SaaS.

Software vendors planning on offering a SaaS solution or switching to a SaaS model for delivery should pay careful attention to the monetization and related business operations that help maintain a sustainable offering. Even within normal service delivery models, back-office disciplines such as metering, contract management and billing management are typically difficult. SaaS delivery models create an even more complex and rapidly changing environment for these business operations needs. In a SaaS pay-as-you-go model, revenue is generated based on thousands - hopefully millions - of customer interactions. SaaS delivery often shifts a company's revenue stream from a small number of large transactions to a large number of small transactions. This calls for a very efficient financial operations model, much like the model that Utility companies follow. There is a need for collecting operational data, automating processes and scaling the business. The Wall Street Journal had an article by Dr. Gulati et al, Harvard Business School, titled "Staring you in the face" on September 23, 2008. It said that companies have a lot of valuable information needed to innovate but do not realize it.

Amazon.com announced that its fourth-quarter 2008 profit rose 9 percent and it had an optimistic forecast for 2009. These are astounding results given the state of the economy and the daily dose of news signaling bankruptcies by retailers. There are some important lessons for SaaS service providers in this because Amazon's success was largely attributed to its better pricing in the 2008 holiday season.

Now this capability did not come about overnight or in last few months when the recession was acknowledged. Amazon has been at this for years. It has improved operational efficiency on pricing by capturing and collecting data on goods and customer preferences. They know their customers well, and use dynamic pricing to optimize revenue. They also use a recommendation engine co-relating user behavior to the inventory on hand. Pricing and revenue optimization call for collecting data systematically and analyzing it rapidly. All SaaS companies have the inherent benefit of collecting usage data, and hence knowing the customer. They can build the necessary capabilities to optimize bundling and pricing for various customer segments.

In conclusion, all businesses ought to look at using online web-based services for ways to cut costs in this global economic downturn. This in turn can increase business for SaaS providers, who should now pay careful attention to operational efficiencies and optimized financial practices.