

# SaaS – Should software vendors even care about it?

By Ranjit Nayak

The year 2008 is historic in all respects. In the US, we saw the election of the first African American President. The economic crisis touched the entire world. Software vendors are not immune to these macroeconomic developments. Will the economic conditions force independent software vendors (ISVs) to change their delivery model to a web based online SaaS model? Will software companies continue to sell their products with perpetual licenses or start offering subscription licenses? Gartner, a research firm, predicts that by 2012, more than 66% ISVs will offer some of their applications optionally or exclusively as SaaS. If the prediction is to hold, we should expect to see some big shifts in 2009.

Software vendors sometimes think that hosting an installation of the product for the customer is considered SaaS. With virtualization technology easing this particular path, this may be the first step in the transition to SaaS. However the road to a complete transition is longer and more involved. Beside technology changes and adoption, a fundamental change in approach is called for.

Some feel that software vendors can never make this transition from the traditional premise-based software model to an on-demand model, primarily because of the financial implications. One option is to acquire companies that already have a SaaS product, rather than transforming an existing product into a SaaS model. Change is always a difficult proposition. The President and CEO of Kadient (previously Pragmatech) said it took his company three years to make the transition. One look at SAP's foray into SaaS lets you surmise that this is no easy task. So let's look at why this is the case:

- a) Changing from a perpetual license model to a recurring revenue model is not a natural transition. A SaaS offering can cannibalize revenues from premise-software.
- b) ISVs must change development methodologies and adapt to an iterative mode of development. They need to be very conscious of ease of use and ease of integration.
- c) ISVs must also build their knowledge base in operations, ensuring high availability and meeting other service level agreements. If they choose to outsource web operations, then they need to choose the right managed service provider (MSP).
- d) The customer service departments of transitioning ISVs must assume new responsibilities of being subscription renewal agents as well.

All in all, these are big changes, and transformation to the SaaS model must be executed very carefully. These changes require the finance organizations, sales organizations, development organizations and service organizations to think and operate differently. Most importantly, executive management must buy into this model. Senior management must have an appreciation for issues pertaining to the SaaS model. ISVs cannot treat SaaS offering as a science experiment. The shift in culture includes understanding that the product is a business service, putting a laser sharp focus on ease of use, and using customer feedback to continuously improve the product. Product, Sales and service teams have to collaborate very efficiently and must be empowered to make this happen. The Sales organization must be incented to sell the SaaS solution as well as the on premise option.

The SaaS ecosystem itself is evolving, hence choosing the right partners is important. ISVs must work with a hosting vendor, platform provider and marketplace. In this monthly column, I will elaborate on the issues ISVs face, potential solutions and information needed in the decision making process.