

Independent Survey of Software Companies

Software organisations and SaaS/Cloud

Background to Survey

Market Transformations undertook a survey of some 50 software companies. The primary aim of the survey was to find out the reasons why companies are not migrating to the web, as quickly as some commentators think they should.

The various studies show an overwhelming rise in demand for web-based applications. This is particularly true of Small to Medium Enterprises, who perceive SaaS/Cloud applications as providing a way for them to use enterprise class software but at an affordable price, with no up-front capital expenditure and the ability to withdraw from the arrangement with a month's notice. For an SME, SaaS/Cloud applications also reduce or even eliminate the need for any IT resource other than some desktop/laptop systems.

How therefore are software companies approaching the issue of moving their applications from traditional 'on-premise' solutions to the Cloud. From experience we also knew that many of the companies had web-based applications from where it would only be a short step to providing Software as a Service.

Summary

50% of our sample already had a web-based version of their software but none of the companies we talked to were providing the software as a service. We believe there are one or two perceived technical difficulties associated with moving to a SaaS model, however, the overwhelming reasons are commercial.

We asked the survey respondents to identify what they perceive to be the difficulties in moving to the Cloud. The results are shown in Table 1.

Table 1

What do you perceive the difficulties are in moving to a hosted "Solution as a Service" business model? (Tick as many as are appropriate)	
Answer Options	Response Percent
Loss of license revenue	25.0%
Availability of skills to migrate your application.	25.0%
Lack of resources.	50.0%
Do not understand the SaaS revenue model.	25.0%
Capital cost of moving from current revenue model.	50.0%
Operational costs of running in a hosted environment.	50.0%

Very few respondents identified technical issues as a difficulty, which would back up our hypothesis that companies already have a web-based application and simply need to put a SaaS infrastructure around it to take it to the web.

Apart from the skills and resources the main problems are related to the implications on revenue of moving to a SaaS/Cloud model. 75% of the survey cited this as the main difficulty.

Other comments.

When asked to provide their own commentary around their difficulties a strong pattern starts to emerge of companies waiting for the market to come to them. It was noted however that the vast majority of the companies interviewed were selling into enterprise level customers where the demand for SaaS is not as pronounced as in the SME sector.

The following table shows some of the comments provided by the respondents and our comments.

No	Customer Comment	Our Comments
1	Perceived as difficult, complex, time-consuming and will detract from day to day work that wins business or keeps customers happy	This would indicate a short term view or heavy dependence on Corporate sales.
2	Doesn't offer significant enough value, in fact detracts from upfront license revenues	Often used by the sales department because sales like up front license revenue because it makes them more money. However MDs/FDs like recurring revenues offered by SaaS.
3	It's been hyped for 15 years and hasn't taken off yet	The sign that companies are waiting for the market to come to them or alternatively they are selling to high end enterprises.
4	Customer demand isn't there yet	As above.
5	Our software doesn't lend itself to the web – transaction intensive or computational eg CAD	These are legitimate concerns if your software has large files to move around.
6	Loss of control	A difficult comment to explore but generally was meant to
7	If they were forced to do it by customer demand it would be reluctantly	This Market driven demand is being realised as opportunity by some application provider businesses who use SaaS to their competitive advantage.
8	Don't know how to price SaaS	Price in line with the additional value being delivered to the use business as the benefits of the application/solution are realised over time.
9	Costs of running a hosted model	There are proven technologies which enable entry level costs of infrastructure and other services to match the investment needs of Application provider businesses. E.g. Managed Hosting, Virtualisation.

From the survey it's clear that companies have fears about the SaaS model. They may actually have a web offering but are not promoting it because of commercial fears.

The problem for application vendors

Combining all the results – Customer Interviews, surveys and my own discussions with software companies (including Microsoft and Oracle) I concluded the following:

- 1) Hosting is a very technical sell - but
- 2) Application vendors may just want the “pain” of dealing with multiple suppliers taken away
- 3) Their customers fear losing ‘control’ of the IT assets
- 4) They fear loss of revenue in a SaaS model

Even although the software companies are technical people themselves, they do not want to be worried about networks, infrastructure, comms etc. That pain boils down to working with all the different organisations they would have to speak to, in order to put in an infrastructure of hosting either themselves or with many of the existing vendors.

Many of the software vendors have not yet felt the need to go SaaS but the momentum is building.

In order to assist companies to move their products to a SaaS model, we offer the following 5 point best practice:

1. Commercial considerations are often the key reason for failure of your SaaS implementation therefore step 1 is to develop your commercial terms for SaaS applications – How much will you charge in terms of monthly or annual fees, remembering to include everything in the fee. Tied to this you need to work out your sales model. A direct, field-based sales force is unusual in SaaS and difficult to justify therefore your marketing and inbound and outbound telephone sales may be more important.
2. Legal considerations are important but for on-premise applications the focus is on protecting your software from piracy etc, but this changes in the SaaS model to commercial considerations, length of contract tie in, cancellation clauses etc.
3. Ensure the administration systems are in place to ensure customer sign on and that the payments are handled simply and properly.
4. We do not recommend that you invest in the hardware and middleware infrastructure. We recommend that you work with hosting companies who can provide the necessary support and infrastructure to enable you to simply move your application to SaaS. Hosting applications is not the same as hosting web-sites so make sure you choose a hosting supplier who has this experience.
5. Finally you need to consider the transition from the old model to the new SaaS service. Remember it is a service and your mind set needs to move from Software to Service.

For further reading please follow this link;

[CIOs getting savvy about outsourcing \(Silicon.com\)](#)