Thought Leaders of the SaaS Revolution

Good people are at the core of what we do.

Laurel Group

Where Is the SaaS Industry Headed?

It's a broad and open-ended question during volatile times.

To find where the SaaS market is headed and how it will confront an uncertain economy, the Laurel Group went to the best and brightest SaaS industry veterans for their insight and opinion.

The thought leaders in this piece agree that the SaaS market is maturing at a rapid pace, but acknowledge that the SaaS market is still in its infancy. Most agree that the SaaS model will become the dominant way software is delivered in the future, although some argue it could take longer than expected.

It's clear: there is a perfect storm brewing in which three significant factors will in many respects drive the expansion of the SaaS market in 2009 and beyond: macroeconomics, enabling technologies, and consumerization.

1

Current Macroeconomics favor SaaS model:

The economics of purchasing SaaS solutions in a down-trending market are more attractive to IT buyers than purchasing enterprise software. Rising oil prices, limitations on access to credit, and the financial market uncertainty will apply more pressure on capital expenditures – forcing companies to lower their risk, and pay-as-you-go services provide a credible alternative.

2

Enabling technologies will fuel SaaS acceptance:

Increasing interest in simplified IT management and demand for better utilization of IT assets are creating a greater focus on the development of enabling technologies such as SOA, virtualization, and cloud computing. Further cost reduction and efficiencies to implement SaaS solutions will fuel adoption.

3

The "Consumerization" of Technology is inevitable:

Consumerization is beginning to drive innovation at the enterprise level. There is a real surge when it comes to the consumerization of technology and leveraging the power of the masses. Part of this is the transformative force of the Internet and the burgeoning market for mobile and wireless applications; as consumers and businesses become increasingly more comfortable with using reliable and secure apps that are not on their desktops, adoption of SaaS will be inevitable.

The following pages contain the insights and opinions of fifteen "Thought Leaders of the SaaS Revolution" on the future of the SaaS market – offered in their own words.

Featured Thought Leaders

Byron Deeter

Partner, Bessemer Venture Partners

Will the SaaS market continue to see rapid growth, despite macroeconomic volatility?

"On a relative basis, the clear answer here is 'yes.' On an absolute basis, in the short term I think it is a function of how bad the economic environment becomes over the coming months and quarters.

SaaS vendors are clearly winning an increasing share of customer wallet relative to on-premise software deployments, and will outperform their licensed peers. In addition, the SaaS model is more recession proof than the on-premise model due to the lower upfront costs and the recurring nature of the revenues.

If the macroeconomic environment gets very difficult, this could mean that new licensed software sales actually decline and SaaS growth slows to the low double digits. However, I am personally more optimistic than this, and find the recent analyst reports predicting SaaS industry growth above 30 percent annually as being very credible."

How does the growing prominence of SaaS change traditional business thinking and metrics?

"In the traditional software world, 'bookings' was the primary business metric, and long implementation cycles and expensive shelf-ware were an unfortunate reality that made many software vendors lazy and their customers unhappy.

However, in the term Software-as-a-Service, the most important word is 'service,' which means that customers can vote each month whether or not they're still happy with their vendor. As a result, SaaS companies are very focused on time-to-value, and those that can truly serve their customers are being rewarded handsomely. In this new era of subscription pricing, 'bookings' is a metric for suckers because it can be easily manipulated and it isn't very insightful into the core health of the business.

Instead, the 'Five C's' become the primary forward indicators of health for a SaaS business: Contracted Monthly Recurring Revenue (CMRR), Customer Acquisition Cost (CAC), Cash flow, Customer Lifetime Value, and Churn."

How will technology advancements in SOA, Virtualization and Cloud Computing further enable SaaS adoption?

"The costs of building and running a SaaS application have dropped by an order of magnitude in the last half-dozen years. With the emergence of cloud computing platforms and the maturation of virtualization these costs will likely drop further in the coming several years.

www.bvp.com

Founded in 1911, Bessemer Venture Partners is the longest-standing venture capital practice in the United States. The firm has offices in Silicon Valley, New York, Massachusetts, China and India.

"In five years when we look back on the software market, it will be very clear that SaaS was the most important trend of the decade"

- Byron Deeter

One of the largest remaining indirect costs of SaaS is integration, and the advancements in SOA and vendor APIs are helping to streamline these issues. We are seeing the emergence of full SaaS platforms now as well, and I believe Amazon deserves significant credit for what they did with EC2 and S3, and I applaud the big visions of Salesforce.com, Google, and Cisco in this market. These massive investments will only serve to benefit SaaS customers and further accelerate SaaS adoption overall."

How will the SaaS market evolve over the next five years?

"As with most fundamental transformations, people tend to overestimate the short-term impact and underestimate the long-term impact of the shift – and I suspect the same will be true of SaaS. Traditional enterprise software is not going to disappear overnight, so this will take some time to really rock the foundations of the large incumbents such as SAP and Oracle. But it is starting to happen.

I believe in five years when we look back on the software market, it will be very clear that SaaS was the most important trend of the decade and many of the legacy vendors will be forced to play catch-up through M&A or watch the market pass them by."

Bob Moul

President and CEO, Boomi

Will the SaaS market continue to see rapid growth, despite macroeconomic volatility?

"Absolutely. In fact, I think most of those who follow the industry would agree that poor economic times will foster greater adoption of SaaS technology. The value proposition is just too strong to ignore and the barriers to SaaS adoption – including integration, security and customization – are being addressed. There are fewer and fewer 'technical' reasons to not be looking at SaaS and the business value such as lower up front investment, lower risk, faster time to value and faster innovation cycles can't be ignored."

How does the growing prominence of SaaS change traditional business thinking and metrics?

"I think one of the most interesting aspects is the ability for SaaS technology to not only facilitate but accelerate business activities that in the past would have taken years to accomplish – for example, assimilating acquisitions, changing business models, penetrating new markets. As a business leader, information technology is no longer a barrier to shaping your business and your go-to-market strategy. In fact, I would say that our thinking as business leaders into the realm of what's possible has not yet caught up to the potential of what can be achieved with SaaS applications and on-demand technology in general."

How will technology advancements in SOA, Virtualization and Cloud Computing further enable SaaS adoption?

"These are the basic building blocks for the SaaS revolution. They will make increasingly innovative and sophisticated models of computing and application delivery possible. They will make migrating large, complex and resource intensive enterprise processing into the cloud possible. Here again, the economics are just too compelling to ignore with cost advantages many times that of conventional client-server computing. The real benchmark will be when users have little idea or don't care where and how the app is being delivered; at that point, IT shops will finally be able to focus on delivering robust functionality and business processes as opposed to being an experimentation lab for enterprise technology."

How will the SaaS market evolve over the next five years?

"I expect enterprise computing to collapse like Communism and the Berlin Wall. The economics just aren't there and business leaders, once they have a taste of what's possible with on-demand technology, will not continue to settle for IT projects that run for years, miss the target and don't deliver the ROI. Pressure will build, perhaps for the next several years, but then the mass exodus for on-demand technology will happen very, very quickly. The analogy that comes to mind is the way telecomm infrastructure has been built out rapidly in countries like India and China. That's because those countries didn't upgrade existing infrastructure, they simply leapt over it with new generation cell technology. Enterprise software will be the 'telephone poles' of tomorrow's SaaS industry."

www.boomi.com

Based in Berwyn, Pennsylvania, Boomi is a leading provider of business integration solutions for small and mid-sized businesses (SMBs).

"I expect enterprise computing to collapse like Communism and the Berlin Wall."

- Bob Moul

John Girard

CEO, Clickability

Will the SaaS market continue to see rapid growth, despite macroeconomic volatility?

"I think the SaaS market may see continued growth, not in spite of the macroeconomic slowdown, but because of it. Many of our new customers have come to us specifically because of economic uncertainty. No one is going to turn off their website in a downturn, so companies are looking for ways to make sure their costs are contained, that they can grow as needed, but that they don't over-invest in capacity. One of the great things about SaaS is that it scales up and scales down. To the extent that expected demand doesn't materialize because of the economy, our customers can pay us only for what they use. The TCO argument for SaaS has always been superior when compared to installed alternatives, and in times of economic uncertainty this is even more important. Finally, many businesses are realizing that SaaS can help them keep up with changes in the ecosystem even while their own internal R&D budgets are being cut. We release three to four major versions of the software every year, whether there is a recession or not."

How does the growing prominence of SaaS change traditional business thinking and metrics?

"SaaS businesses focus on slightly different metrics than traditional software businesses, but the ultimate end is the same: creating and sustaining significant cash flow. The predictors of creating significant cash flow are very different in SaaS businesses: as a subscription-based business, we are focused on the size of the annuity that we have created, both over a specific period (we use monthly recurring revenue, or MRR) and in aggregate (total contract value, or alternatively customer lifetime value). SaaS is a disruptive force in the industry, and has caused people to think very differently; metrics are really only the beginning of that shift in thinking. In addition to metrics, traditional notions about time-to-value, speed of innovation, and scalability/security have been exploded."

How will technology advancements in SOA, Virtualization and Cloud Computing further enable SaaS Adoption?

"As SOA, virtualization and cloud computing mature, SaaS businesses benefit in two ways. First, we are able to take advantage of some of these technologies in rolling out our solutions. While most SaaS businesses have built their own infrastructure, cloud computing may be a useful way to extend capacity. We are a close partner with Akamai and classify the solution that they provide for us as a cloud computing resource.

Second, these technologies (and in particular SOA) make it that much easier for SaaS applications and platforms to talk with one another, and to talk to installed or on-premise applications. This makes "integration in the cloud" relatively trivial, and allows for companies to stitch together complete, novel solutions from the various vendors available.

We have customers that are only using us, and customers that are using us and as many as 25 other solutions providers (with us at the hub) to deliver a whole product."

www.clickability.com

Founded in 1999, privately held Clickability is headquarterd in San Francisco and is the global leader in on demand Web Content Management. The company's platform combines the benefits of Software-as-a-Service (SaaS) with Infrastructure-as-a-Service (IaaS).

"The next five years will see an explosion in SaaS."

- John Girard

How will the SaaS market evolve over the next five years?

"The next five years will see an explosion in SaaS. Two major categories of SaaS vendors will clearly emerge: displacers and niche providers. The displacers are those vendors (like Clickability) creating disruption in existing software vertical spaces (like web content management). Traditional vendors in those spaces will find it very hard to compete with the SaaS disruptors. Niche providers are those SaaS businesses that solve business problems that were previously too small or too fragmented to address through large enterprise solutions. In the next two years, every major software vertical will have at least one viable SaaS displacer actively gaining market share. In five to seven years, most business software will be delivered as a service."

Adam Miller

CEO, Cornerstone OnDemand

cornerstoneondemand.com

Based in Santa Monica, California, Cornerstone OnDemand offers a SaaS talent management suite providing comprehensive solutions for employee learning, social networking, performance, compensation, succession and compliance management, as well as robust reporting and analytics.

Will the SaaS market continue to see rapid growth, despitemacroeconomic volatility?

"Despite the current economic state, we believe SaaS will continue to see significant growth. As we've witnessed first-hand in the talent management space, it has become even more important for companies to maximize their technology investments. This makes the value proposition of SaaS solutions even more attractive. The delivery costs for SaaS are lower and the pricing model more client-friendly versus on-premise solutions; SaaS also allows for more organizational efficiencies. For example, IT managers are able to offer more strategic value to organizations in the form of process management and innovation, rather than spending time on system and hardware maintenance.

SaaS allows for large-scale global deployments, too. At Cornerstone, we've secured some of the largest deals in the SaaS category with companies such as Barclays, Starwood Hotels & Resorts and Flextronics because of our ability to support wide-scale implementations. "

How does the growing prominence of SaaS change traditional business thinking and metrics?

"SaaS allows for faster implementation, which means organizations are able to assess the ROI and impact of technology solutions on their business more quickly.

And because it is a scalable and flexible solution, companies are able to expand deployment and configure the software based on analytics in a matter of weeks instead of months or years. In turn, SaaS vendors are able to more quickly respond to client feedback, so organizations are able to reap the benefits of their own influence on product innovation."

How will technology advancements in SOA, Virtualization and Cloud Computing further enable SaaS adoption?

"These technology enhancements to network technologies – as well as advancements in hardware – lower the costs for SaaS providers and increase scalability, so providers are able to support more and more clients.

Also, the widespread use of SOA allows for even better interoperability and even faster deployments, which further enhances the benefits of SaaS."

"Despite the current economic state, we believe SaaS will continue to see significant growth."

- Adam Miller

How will the SaaS market evolve over the next five years?

"In five years, we believe SaaS will be the dominant way software is delivered, and there also will be more widespread use of business application mash-ups. Most on-premise deployments will be up for renewal or replacement, so we will see even more migration. SaaS will continue to outpace traditional on-premise solutions in terms of feature sets and its ability to more quickly take advantage of technological advancements.

And companies will more than likely continue to be conservative in their IT spending, so the total cost of ownership will continue to make SaaS a more attractive proposition."

Gordon Ritter and Brian Jacobs

General Partners, Emergence Capital Partners

Will the SaaS market continue to see rapid growth, despite macroeconomic volatility?

"There are three fundamental forces at work in IT, as it relates to the SaaS market, and they point to continued strength in SaaS even as the economy slows. They are Acceptance, Amortized Licensed Software and Avoidance of Capital Expenditure.

1. Acceptance: The continued acceptance and growth of SaaS makes it the inevitable software delivery method for all software infrastructure, with just a few exceptions. IT departments have gradually become comfortable with the security measures taken by leading SaaS companies, along with their improved uptime capabilities. Additionally, employees are now demanding the same easy-to-use interfaces that they use in their personal lives when they come to work. SaaS applications have the look and feel of consumer web applications and users now prefer them.
2. Amortized Licensed Software: Big software investments made in the early years of this decade, before SaaS was a viable option, have now been fully amortized. Corporate users need to regularly upgrade their business applications and, as IT departments consider new options, the opportunity for SaaS applications to make major inroads is greater now than ever.
3. Avoidance of Capital Expenditure: During recessionary times, IT budgets get squeezed and large capital expenditures are the first to be cut. The fact that many SaaS pricing options are per-user-per-month allows for the total cost of SaaS applications to be spread out over time and to be borne by the functional areas that benefit from them. In fact, the subscription pricing for many SaaS applications is lower than the maintenance fee being paid on many of the licensed software being replaced, therefore it has very little marginal cost."

How does the growing prominence of SaaS change traditional business thinking and metrics?

"SaaS is helping businesses across the globe become more productive. In competitive markets, companies are forced to allocate resources to its area of greatest differentiation and outsource other areas to the lowest price vendor. During the 90's, companies had to expend huge resources on IT (hardware, software licenses, customization, ongoing maintenance, etc.) just to get the same level of software productivity as their competitors. Today, companies can choose the IT investment that is core to their business success and devote resources to being world-class in that area, and then outsource other facets of IT to best-of-breed SaaS vendors. They may not be highly differentiated from their competitors in many of the SaaS application areas (CRM, HR, ERP, etc), but they can use world-class applications without major investments in those areas.

A hidden value of SaaS application use for critical-but-non-core business areas is that customers are constantly benefitting from the latest enhancements that any of their competitors are demanding of the vendor. For example, if a leading customer pushed its SaaS HR vendor to add cascading performance goals to make sure the CEO's goals line up with the lowest employee, and the vendor concluded that this feature would benefit all of their customers, the next release of that SaaS HR application will make that module available to every customer. Because SaaS vendors benefit greatly from all customers being on the same version of the hosted software, best practices for one SaaS customer are inherited by all customers."

www.emergencecap.com

Emergence Capital Partners, based in San Mateo, California, is the leading venture capital firm focused on early- and growth-stage Technology-Enabled Services companies.

"SaaS is helping businesses across the globe become more productive."

- Gordon Ritter/ Brian Jacobs

How will technology advancements in SOA, Virtualization and Cloud Computing further enable SaaS adoption?

"The technical community – from entrepreneurs to large corporate developers – is now developing enabling technologies that lower the cost of deployment to SaaS providers and further enhance the capabilities of end users. Each advancement in technology has different implications. Service oriented architectures (SOA) continue to gain acceptance and will provide more options to SaaS application developers who need to integrate with other SaaS applications, with internal corporate applications, or with business partners. This evolution has been slow, but the implications of quick, low-cost integration are huge. Virtualization can have dramatic effects on the cost and complexity of data centers, but will have limited impact on pure SaaS application providers or users. Ultimately, lower cost and more secure data centers mean lower costs for end users. The term cloud computing encompasses many underlying technologies, which together also enable developers to significantly lower the cost of deploying applications. Lower costs attract startups and corporate developers alike, spur new application development and encourage experimentation."

How will the SaaS market evolve over the next five years?

"We expect to see continued growth as more and more customers recognize significant savings from SaaS. The penetration of SaaS is still tiny compared to its potential. Technology developments will drive the cost of SaaS computing even lower, and penetration will rise dramatically in under penetrated sectors, such as education, non-profits or healthcare, who are adopting SaaS for its cost, ease of use or collaborative advantages. New applications leveraging these advantages will also arise. More and more industry-specific solutions will emerge to automate the unique needs of large vertical markets. We expect to see more innovations in application integration, mashups, mobile applications and enterprise social networking. Increasingly, SaaS providers will recognize the value of aggregating customer data and providing additional knowledge value to their customers."

Mark Gorenberg

Managing Director, Hummer Winblad Venture Partners

Will the SaaS market continue to see rapid growth, despite macroeconomic volatility?

"The rapid growth of the SaaS market will continue because the advantages to both end users and vendors – as well as investors – are overwhelming. Customers benefit from lower cost of entry and lower risk of implementation and minimum starting commitments. Vendors benefit from better and more predictable visibility in their businesses, lower development costs, and lower support and customer implementation costs. But most importantly, for the first time in the history of the software industry, SaaS applications and platforms provide small- and medium-sized businesses with the same basic capabilities that have previously been available only to larger enterprise customers; and these capabilities come with an appropriate pricing model. SaaS not only disrupts the market, but also expands it. While the software industry as a whole is growing under 10 percent year over year, the SaaS market is growing over 20 percent year over year with the top 20 SaaS companies growing an average of 50 percent year over year. For investors, this has led to significant IPOs and M&A transactions."

How does the growing prominence of SaaS change traditional business thinking and metrics?

"The watchwords of the SaaS Era will be analytics and optimization. Because everything can be tracked and measured, vendors can get a much better view as to how their customers are using their offerings, improve their software products, and suggest specialized best practice services. Similarly, customers can get an exact view of how their users are using their offerings. For example, Sliderocket (www.sliderocket.com), a SaaS-based rich media presentation software, lets a presenter see which slides were the most interesting by measuring the amount of time each user spent on each slide; this converts presentation software into a powerful CRM tool. We have now invested in 15 SaaS companies and everyone includes their own analytics package or ties directly into third-party analytics services."

How will technology advancements in SOA, Virtualization and Cloud Computing further enable SaaS adoption?

"As SOA, virtualization, and cloud computing advance, SaaS will advance from SaaS to PaaS, Platform-as-a-Service, and IaaS, Infrastructure-as-a-Service. Initially, this will allow business customers to mix and match the best of breed SaaS applications together into a seamless, customized suite. Over time, moving the platform to a service will greatly lower the costs to develop, deploy and integrate a set of applications and lower the economic barriers to build new ones. According to McKinsey, traditional platform spend to develop, deploy and integrate an application costs about 60-70 cents on the dollar to a customer, while a SaaS-enabled platform would cost only 20-30 cents on the dollar – a 50-70 percent improvement to the customer. The further expansion of the market with cloud computing will also lead to new and exciting utility-based business models where enterprises, small- and medium-sized businesses, prosumers, and even consumers, can equally use and afford the same computing resources with new utility-like business models already being pioneered by companies like Amazon and Elastra."

www.hummerwinblad.com

San Francisco-based Hummer Winblad Venture Partners was founded in 1989 as the first venture capital fund to invest exclusively in software companies. Over the past six funds, the firm has helped entrepreneurs build companies in embedded systems, client-server, distributed network computing, internet, software as a service, and cloud computing.

"SaaS not only disrupts the market, but also expands it."

- Mark Gorenberg

How will the SaaS market evolve over the next five years?

"We have already seen the first wave of SaaS. Both SMB and Enterprise customers today commonly use SaaS as an alternative to established packaged applications. Relatively young SaaS vendors have grown rapidly as a result. Salesforce.com is poised to become the next $1B revenue software company. We are now starting to see the second wave where new applications are being built to handle the models created by SaaS itself and Web 2.0, which includes areas like billing, supply chain, collaboration and social networking. One such example is Aria Systems (www.ariasystems.com), the leader in subscription billing and customer lifecycle management for complicated pricing models created by SaaS vendors and other companies with recurring revenue packages. The second wave also includes the start of new SaaS-based platforms and their ecosystems of SaaS partners to start to challenge the platforms of the software incumbents. Within five years, those SaaS platforms will mature and become accepted so that not only will the SaaS application and line of business infrastructure market grow to rival on-premise application spend, but SaaS platforms will become accepted as an alternative to the on-premise platforms of today."

Kevin McClelland

Managing Director, JMP Securities

Will the SaaS market continue to see rapid growth, despite macroeconomic volatility?

"Growth in the SaaS market will continue to outpace growth of the overall software market due to a number of factors. Clearly, the size of the current SaaS market pales in comparison, so one would expect more rapid growth relative to the traditional software market as companies like Salesforce.com, Omniture, NetSuite and SuccessFactors continue to grow much faster than Oracle and SAP. More important, the economics of purchasing SaaS solutions in a difficult market are more attractive to many IT buyers – customers pay over-time out of operating budgets rather than funding perpetual license purchases upfront out of capital budgets. Finally, new company creation and VC funding in the SaaS market is much stronger than in traditional software markets, and these smaller companies are growing much faster than the largest traditional software companies."

How does the growing prominence of SaaS change traditional business thinking and metrics?

"While revenue, EBITDA and earnings are key metrics for traditional software companies, SaaS companies are judged on metrics that include: bookings, monthly recurring revenue (MRR) and free cash flow. In their growth stages, SaaS companies generate less revenue and often burn more cash than their perpetual counterparts because they do not enjoy the one-time perpetual license bookings that generate cash upfront and more immediate revenue. Over time, however, quality of revenue for SaaS companies eclipses that of perpetual software companies because of the much higher visibility provided by what is largely recurring revenue. What is interesting is that visibility for SaaS companies is more similar to that of very mature perpetual companies that have a higher percentage of recurring maintenance revenue than license revenue. The difference is that these legacy maintenance revenues may atrophy over time while SaaS revenues per customer often increase organically as new users are added or new divisions are rolled out."

How will technology advancements in SOA, Virtualization and Cloud Computing further enable SaaS adoption?

"Many of these technologies are the building blocks for SaaS infrastructure. Similar to the manner in which commercial and residential broadband Internet access accelerated the transition from client-server to Web 1.0, technologies such as SOA and cloud computing ease the transition to SaaS adoption and Web 2.0. It is important to note, however, that SOA and virtualization are not exclusive to the SaaS model – these technologies are deployed by large IT organizations for traditional software models as well."

How will the SaaS market evolve over the next five years?

"Most of the SaaS companies that have gone public to date have been in horizontal software segments including CRM, ERP and HR. We are seeing significant new company formation and growth in areas like infrastructure software (e.g. security and performance management) and vertical markets (e.g. healthcare and real estate). We also expect to see continued SaaS

www.jmpsecurities.com

Founded in 2000 and based in San Francisco, JMP Securities is a full-service investment bank that provides equity research, institutional brokerage and investment banking services to public and private growth companies and their investors.

"We also expect to see continued SaaS penetration into the enterprise market."

- Kevin McClelland

penetration into the enterprise market. While it is easy to understand why small- and medium-sized businesses are adopting SaaS applications (lack of IT infrastructure, lower initial cost, etc), we have seen the largest enterprises deploy SaaS applications for CRM and HR, and more recently, even ERP. Many enterprises may prefer to acquire and 'own' their own software through perpetual licenses for years to come, but the current SaaS penetration is still low and we expect to see continued growth in this market for years to come."

Michael Braun

CEO, Intacct

Will the SaaS market continue to see rapid growth, despite macroeconomic volatility?

"Software-as-a-Service (SaaS) will see not only rapid but accelerating growth, because the SaaS model represents a disruptive shift in the market that is better both for the client and for the vendor.

It's becoming well understood that SaaS offers compelling value for the customer when you compare it to traditional on-premise software. On-premise software applications require costs to purchase the applications and any underlying infrastructure software, plus hardware, installation, implementation, integration, operations, maintenance, upgrades, training and administration. The largest costs are nearly always in ongoing operations – IT staff to operate, manage and maintain the applications and the infrastructure to support them. This adds up to tremendous total ownership costs.

With SaaS applications like Intacct, there are no capital costs, no operating costs, no hardware or software to install or maintain, no programming, easy upgrades and low administrative costs. We even include free support and free online training, all for an affordable and predictable subscription fee that is aligned with the actual month-to-month usage of the applications by our clients. The total cost of ownership for SaaS can be 10 times less than on-premise alternatives – it's a far, far better value than the old alternatives.

SaaS is also better for the vendor. Because all of our customers are using the same version of the product running on the same infrastructure, we can and do spend 100 percent of our engineering dollars on improving the current version of product. Compare this with the on-premise world, where it's typical to find that just 20 percent of engineering resources are focused on new development – with 80 percent of engineering investment sucked into porting and maintenance across the many different operating environments and many old releases installed across the customer base.

Innovation is also far faster in the SaaS model. Because of the centralized SaaS model, we release new features every month, and we get instant feedback from our clients on how those new features are working. Compare this to the on-premise world, where vendors ship new version every few years, and where it often takes a year or more for customers to adopt those new versions. That's a stark contrast for the pace of innovation – a 45-day cycle from new feature to customer feedback in SaaS versus a two-year or longer cycle in the on-premise world.

It's rare that new technology models are better for both the customer and the vendor. This is why SaaS is so disruptive for the current on-premise incumbents, and why it will not only keep growing but is destined to become the predominant model for software delivery."

How does the growing prominence of SaaS change traditional business thinking and metrics?

"The world of financial applications in which Intacct operates has traditionally been a tightly closed one, with a few key employees in finance closely tied to an in-house system. SaaS applications like Intacct radically change this, enabling our customers to run their businesses better and more flexibly.

www.us.intacct.com

San Jose-based Intacct is a market and technology leader in on-demand financial management and accounting applications.

"Over the next five years we see a world where many companies are deploying 100 percent SaaS applications to run their businesses."

- Michael Braun

SaaS applications are always on and always current, and can be accessed securely anytime, from anywhere, by anyone with a web browser and an internet connection. This ubiquity implies a radical shift in how business applications can be used and deployed and is likely to transform entire industries.

SaaS, first and foremost, means workplace flexibility. Employees can work from home or from remote locations as easily as they can from the office, and they can work at any time of the day. Our customers are using this flexibility to make it easier to recruit new talent and to tap into labor pools in geographically lower-cost areas of the county.

The collaborative aspects of SaaS are also transformational. For example, a large number of accounting firms use Intacct as part of their practices. In the very old days, accountants worked with their clients by shipping paper documents back and forth. In more recent years, those paper documents have become data files, but collaborating is still an off-line activity between accountant and client with a latency often measured in days.

With SaaS applications like Intacct, both accountant and client always work with the same information in the same applications at the same time. Changes made by the accountant are instantly visible to the client. Invoices or other supporting documents generated by the client are instantly available to the accountant. Because SaaS applications are processed centrally, a practice manager can access all of the financials for all clients from a single centralized console, and a single accountant can work with many clients, regardless of client location.

SaaS applications are also real-time, centralized and highly secure. Because of this, with an application like Intacct, it is possible to give every employee in the business visibility into real-time performance of the organization. Many of our customers are deploying dashboards with key, real-time operational metrics so the entire management team always knows exactly what is going on in the business, at any time of day and no matter where they are. Some of our customers are even using SaaS to drive business visibility across their entire employee population, so all employees always know how they are performing and how their performance relates to that of the overall business.

While there are many more ways that SaaS is transforming business, these four aspects – ubiquity, flexibility, collaboration and centralization – are driving some of the biggest changes in the world of financial applications."

How will technology advancements in SOA, Virtualization and Cloud Computing further enable SaaS adoption?

"SOA, virtualization and cloud computing are a great collection of buzzwords that are more-or-less distantly related to whether SaaS adoption will accelerate. You could also add Platform-as-a-Service to this list, but let's save that for a future article.

The concept behind service-oriented architecture – the ability for applications to expose business processes as interoperable services – is certainly applicable to SaaS. At Intacct, we have invested heavily in our web services and SOA platform; as a result, more than 80 percent of the transactions we process today come through our web services layers. SOA is also at the heart of our Intacct-Ready strategy, in which we work together with our partners to pre-integrate our applications so our customers don't have to do it on their own.

We use virtualization in our data centers at Intacct to achieve better hardware utilization, but this is really not so much of an enabler for SaaS applications as is designing scalable multi-tenant applications in the first place. In fact, some vendors have been promoting virtualization as a way for traditional on-premise applications to become hostable – but the industry has clearly recognized this as a stop-gap approach on the way to re-writing applications as natively multi-tenant. Basic economics means that it's going to be very hard for anyone who wants to be a SaaS vendor to build a competitive business model without building multi-tenant systems in the first place.

Cloud computing is clearly the most interesting of these three concepts. Remember, at Intacct we make financial applications. If you think about how to leverage the concepts of cloud computing to extend on-demand financial applications via commercial SaaS applications, coupled with consumer Web 2.0 services, then things get really exciting really quickly.

Our customers and partners are already mashing up Intacct with their other key SaaS business systems like Salesforce.com and Adaptive Planning so they can bring together sales pipeline, business plans and financial results. They are rendering financial data from Intacct in Google Gadgets and using cloud-based service to bring business workflow from Intacct to their iPhones. There are huge possibilities for combing rich media like video as well as social networks and collaborative tools with financial and other business applications.

So when you think about the convergence of SaaS applications and consumer Web 2.0 technologies, we at Intacct think that the broad idea of cloud computing is going to have an enormous and transformational impact on SaaS and the value it brings to customers, which will drive adoption even faster."

How will the SaaS market evolve over the next five years?

"We see the SaaS market evolving into an interconnected ecosystem of best-of-breed applications. Our customer base is already out ahead of this, and we are already seeing an increasing trend of companies making it an explicit strategy to try to get to 100 percent SaaS for their core business applications. The end state of getting to 100 percent SaaS is that your entire IT infrastructure could simplify down to an internet connection, which is truly a radical transformation from where things are today.

Already, many of our customers are using not just Intacct; they're using it together – on average – with four other best-of-breed on-demand applications from our partners – like Adaptive Planning, ADP, Avalara, Avankia, Boomi, CompuPay, IBM, Ingres, LucidEra, Pervasive, QuickArrow, Salesforce.com and Zuora.

An enormous change that will be enabled by SaaS over the next five years is thus a shift away from single-vendor software suites, which are by definition not best-of-breed; instead, we'll see a move toward freedom of choice, which will allow customers to select and deploy pre-integrated best-of-breed applications.

Recall the bad old on-premise software days, where integration between applications was a costly, risky and failure-prone exercise that was the responsibility of the customer and an army of expensive consultants and integrators. That whole debacle is what led to the rise of single-vendor suites in the enterprise software world, and it has predictably resulted in bad things for customers such as low satisfaction, high failure rates and vendor lock-in.

We are working with our partners to change this game. SaaS makes it possible, for the first time, to shift the integration costs and risks of selecting and deploying best-of-breed business applications from the customer to the vendor. Our vision is to assemble a coalition of the best on-demand applications in every category and pre-integrate them with Intacct.

The idea is to give our customer a seamless experience, where making best-of-breed products work really well together becomes the vendor's problem and is not an exercise left up to the student.

The result is that over the next five years we see a world where many companies are deploying 100 percent SaaS applications to run their businesses. SaaS offers a different and compelling vision for bringing together the benefits of the suite (vendor responsibility for integration, maintenance and support) and the benefits of best-of-breed (great applications that really work) without exposing customers to the risk, expense and lock-in of a single-vendor solution.

The idea of going 100 percent SaaS with an ecosystem of best-of-breed, pre-integrated applications is a massive change with enormous benefits for customers and, as SaaS matures, we think it is a goal that is absolutely attainable."

Steve O'Deegan

Managing Partner, The Laurel Group

Will the SaaS market continue to see rapid growth, despite macroeconomic volatility?

"The SaaS model works equally well when a market is trending up or down due to the nature by which these solutions are delivered, serviced and priced. Today, more than ever, the alignment between SaaS vendors and their customers is at all-time high; customers know what they want, how often they need it, and how much they're willing to pay, and SaaS vendors can accommodate each customer's individual requirements and can scale up or down as needed. We're beyond the 'early adopter' stage and applications are maturing. The flexibility and command-and-control options SaaS-based solutions offer will continue to drive adoption. Also, one of the main reasons that SaaS will survive the turn in the markets is that this delivery strategy puts predictability into a highly uncertain cost – IT costs. Bottom line, this means less risk. Market conditions will impact the pace in which it happens, not if it happens.

From a recruitment perspective, as the SaaS market starts to gain momentum, it will be interesting to observe how the demand for seasoned SaaS leaders, particularly those who have previously scaled a successful SaaS business, will be addressed. Because SaaS companies are being created at a rapid pace and there have been a limited number of true market winners, the supply of proven SaaS leaders will be constrained in the foreseeable future. As builders of these companies, the challenge we will face is how to find the next generation of SaaS leaders without cannibalizing our own progress by continuously targeting the same five to ten successful companies. While it is imperative that we embrace those who have already seen the light and are SaaS savvy, it is prudent that we welcome some of the more forward-thinking neighboring-tech and/or on-premise leaders into the world of SaaS in the coming years."

How does the growing prominence of SaaS change traditional business thinking and metrics?

"The SaaS market has come a long way in terms of how to measure success; terms like CMRR (contracted monthly recurring revenue), time-to-value, customer acquisition costs and customer churn (among others) come up frequently in conversations with our clients and are all critical to a thriving SaaS business. However, with such clarity comes ambiguity – especially for those who come from the traditional on-premise or enterprise software world; the believers are jumping on board so they don't get left behind, but those with a grip on legacy software and maintenance revenue are looking at a bleak future. We do see the possibility of a hybrid model, one with a software/services compromise, as vendors like Microsoft and others start to invest in subscription-based models. But, without doubt, the SaaS model has opened a new world for customers.

From a recruitment perspective, one of the biggest shifts that we've seen is among the leaders who are being called upon to run SaaS businesses; executives who understand how to organize and optimize their business-functions around a subscription-based model, and who can manage burn-rate in concert with the business demand and growth, will carry with them a huge premium in the years to come. Organizational and investment alignment will be paramount for a SaaS company's success or failure, and those who can balance the two will be piloting the next generation of winning SaaS companies."

www.laurel-group.com

Founded in 2002, The Laurel Group is one of the leading retained search and human-capital staffing firms on the West Coast.

"Organizational and investment alignment will be paramount for a SaaS company's success"

- Steve O'Deegan

Laurel Group

How will technology advancements in SOA, Virtualization and Cloud Computing further enable SaaS adoption?

"These technologies are the glue between the wood for SaaS-based solutions. Not all will be pervasive to SaaS vendors, but in combination should provide the underpinnings for continued growth, stability and rapid adoption of SaaS-based solutions. These are the basis for driving down costs to serve. Whether you're talking about extending your business processes as a service with SOA, virtualizing your datacenter, or leveraging the cloud to deliver computing power to the end-user (or a combination of the three), these advancements will help streamline the development and creation of new applications, improve the way SaaS applications integrate and talk with legacy installed and/or on-premise based solutions, and dramatically reduce the overall costs across the board. In the end, the customer is the beneficiary."

How will the SaaS market evolve over the next five years?

"SaaS adoption will continue to pick up pace and the uncertainty surrounding the viability or risk of leveraging a SaaS solution in the market will greatly diminish. Enterprises, SMB's and end-users will have plenty of time to adapt, adopt and optimize the use of these new breeds of applications and accept them as mainstream. The viability of SaaS will open the doors to a plethora of new applications and new distribution channels (i.e. SI's, large ISV's and Vendor ecosystems) and extend a company's ability to rapidly expand in the U.S. and overseas. We see packaged applications leading the market adoption, followed by enabling technologies. First was CRM; ERP and SCM will be the next big area. And things like content management and BI will be close to follow. By 2012, we believe most software will be delivered as a service in some fashion or another."

Lyle Fong

CEO, Lithium

Will the SaaS market continue to see rapid growth, despite macroeconomic volatility?

"We believe the SaaS market will continue to see rapid growth despite macroeconomic volatility. While these ups and downs may depress growth somewhat in SaaS, as they would in any sector of the economy, the economics of SaaS are favorable to companies seeking to contain costs; upfront commitments are less than on-premise software, there's more flexibility to increase spending incrementally, and there's less hiring pressure within IT.

SaaS economics are particularly important with new initiatives. In economically constrained environments, companies have traditionally hunkered down and cut spending on anything new in favor of keeping the lights on. But under a SaaS model, companies can afford to try new initiatives, especially those that offer rapid and measurable return on investment."

How does the growing prominence of SaaS change traditional business thinking and metrics?

"Since SaaS companies host all of their deployments, they can be more metrics-driven and analytical in their approach to software than on-premise companies can. In the enterprise social media market where Lithium operates, that means providing guidance in areas where companies have no experience. For example, we're able to give our customers a quantitative profile of what their deployments should look like as they move through the life-cycle. We can even benchmark them against other comparable companies. So, in the best case, SaaS helps create knowledge that can in turn help companies succeed."

How will technology advancements in SOA, Virtualization and Cloud Computing further enable SaaS adoption?

"In general, any technology that decreases centrality of the traditional corporate data center is good for SaaS adoption. As companies become more accustomed to deploying location-transparent services in a cloud model, SaaS becomes an easier pill to swallow."

How will the SaaS market evolve over the next five years?

"One of the most important things we're looking at is the convergence of SaaS deployments and the consumer internet. Traditional enterprise software has been largely isolated from the larger internet – not just technologically, but conceptually, too. The firewall has served as a comfort zone; people didn't need to worry about what was happening on the other side. But with the advent of SaaS, those assumptions change in ways that the industry is only beginning to explore now with mash-ups.

www.lithium.com

Based in Emeryville, California, Lithium Technologies provides the leading on-demand enterprise social media platform.

"One of the most important things we're looking at is the convergence of SaaS deployments and the consumer Internet."

- Lyle Fong

In areas such as enterprise social media, SaaS deployments can take advantage of all of the content, all of the data, all of the interactions, and all of the human intelligence that is present on the internet.

That's an enormously powerful differentiating proposition from on-premise software. As the boundaries between enterprise software and the internet continue to blur, companies will not want to be trapped behind the firewall."

Maynard Webb

Chairman and CEO, LiveOps

Will the SaaS market continue to see rapid growth, despite macroeconomic volatility?

"There are three key factors that will drive SaaS growth:

First, IT managers seek a more efficient and cost-effective model. SaaS eliminates costly up-front capital investments and optimizes operational efficiencies. On-premise software solutions require extensive investments before the company even uses the application(s) from IT infrastructure. Additionally, since business growth is hard to predict, most companies buy more than is needed to be safe. SaaS provides a pay-per-user or pay-per-minute model that is far more efficient.

Second, SMB accessibility. SaaS is an enabler for small- and medium-sized businesses (SMB). It allows SMBs to access and use enterprise-quality data and tools that were previously only available to large companies with deep pockets. In times of economic volatility, the SaaS model still allows the SMB market to flourish by focusing limited capital on the core growth areas of companies rather than necessary, but ancillary, support functions.

Third, SaaS puts the customer in the driver seat. Not only can customers control how much they use and when they use it, but SaaS vendors don't recognize revenue until the application or service is used and so they are strongly motivated to partner with customers to ensure quality of service and that expectations are met."

How does the growing prominence of SaaS change traditional business thinking and metrics?

"SaaS solutions evolve and improve faster than on-premise solutions. SaaS customers are able to leverage advances in technology much more quickly and often with no additional upgrade costs.

In addition, SaaS solutions often focus on self-service provisioning and configuration, allowing business managers to directly control the levers that are important for their business. Enabling the business professional to make changes, SaaS improves the speed and innovation in business process and moves the company beyond the "set it and forget it" mentality that often exists with traditional software solutions. Furthermore, with SaaS IT managers can focus on strategic technology initiatives rather than managing hardware and software upgrades and patches."

How will technology advancements in SOA, Virtualization and Cloud Computing further enable SaaS adoption?

"Most SaaS solutions are based on three core principles:

- Web-based delivery of content and data
- Open protocols, APIs, and web services for integration
- Scalable architectures with separation of duties

By definition, SaaS solutions move away from the data silos and functional islands that often exist within the closed enterprise. This movement is further strengthened by the growing

www.liveops.com

Based in Santa Clara, California, LiveOps provides a best-in-class SaaS call center platform to hundreds of companies. The company also operates the largest virtual call center in the world which includes a network of more than 20,000 independent home agents.

"SaaS puts the customer in the driver seat."

- Maynard Webb

prevalence of SOA, web services and cloud computing adoption within companies. These technologies in conjunction make both the creation of new applications and integration with legacy systems significantly easier; this dramatically simplifies the complex IT environments that most large companies face today."

How will the SaaS market evolve over the next five years?

"Over the next five years, the biggest change will be that SaaS adoption will move into the heart of the enterprise and will be utilized in mission-critical business operations. SaaS vendors such as LiveOps are already demonstrating that their services meet the rigorous standards for availability, scalability, security and integration that mission-critical business environments require.

In addition to broader acceptance in the enterprise, there will be changes in the market landscape – specifically, the distinction between SaaS and Platform-as-a-Service (PaaS)/cloud computing (platform providers) will start graying. The successful SaaS companies will evolve into PaaS companies or will aggressively integrate with other cloud computing platforms to provide not just core application services, but the building blocks for customers, partners and third parties to build new applications. Salesforce.com is a company that is already heading in this direction and I certainly see an opportunity for LiveOps to evolve in this way, too."

Zach Nelson

CEO, NetSuite

www.netsuite.com

Founded in 1998 and based in San Mateo, California, NetSuite is the leading provider of on-demand, integrated business management software for mid-sized businesses and divisions of large companies.

Will the SaaS market continue to see rapid growth, despite macroeconomic volatility?

"SaaS providers will continue to attract and retain customers even in difficult times. When the economy gets choppy or a company's future looks uncertain, the playbook is always the same – firms look to run lean, and to avoid writing big checks. SaaS delivery reduces demand for internal IT resources and is a manageable cost of doing business, not a big-bang expenditure that is easy to defer to a better fiscal year.

If anything, macroeconomic shocks due to clear threats such as rising oil prices and tighter access to credit only strengthen the case against capital expenditures and favor of pay-as-you-go business solutions. Truly onerous international shipping prices simply make it more appealing to consume computing power as a service that operates closer to the overseas plants where chips, drives and servers are manufactured. And restricted access to credit makes it harder for the CFO to place a bond or to tap a line of credit to pay for a multimillion-dollar IT overhaul – again, making SaaS more attractive."

How does the growing prominence of SaaS change traditional business thinking and metrics?

"When you talk about people's minds being changed about SaaS, or by SaaS, you're usually talking about technologists – the people who might not believe that it's possible to consistently deliver top-quality business functionality outside the four walls of the company. Business users don't have to know or care that the application they use is SaaS, or that it's hosted by a third-party thousands of miles away instead of in a vault at the company headquarters. Yes, a well designed SaaS application might make it possible to access a company's CRM or ERP functionality, when in the past, a salesperson would have had to rely on phone tag with an assistant. A SaaS application might also make remote access easier across a wider range of devices than a conventional client-server application. But nobody changes the way they think about their business *because* they run their business with the help of a SaaS solution. Business objectives don't change with technology – they just become easier to achieve."

"You will see more companies drifting into the cloud, whether they like it or not."

- Zach Nelson

How will technology advancements in SOA, Virtualization and Cloud Computing further enable SaaS adoption?

"Aside from simply making it easier for a wider range of business functionality to be delivered with the SaaS model, these changes will make it easier for holdouts to realize that they have already come to embrace and rely on the shift – they just don't know it yet. Mobile phone users already do much of their computing in the cloud. People who rely on Google apps do much of their computing in the cloud. Virtualization demonstrates that *where* an application runs is really not terribly important, as a virtual machine and its application payload can be run on thousands of different architectures that support the same virtualization layer. SaaS, and its related disciplines, will just become more and more accepted, an everyday part of business computing."

How will the SaaS market evolve over the next five years?

"You will see more companies drifting into the cloud, whether they like it or not. Too many business applications are viable in the cloud for the traditional desktop and server players to ignore them, and customers will see they have choices. And if Google Chrome can achieve even a fraction of the traction other Google services have, you will see an even greater shift. Google, after all, is a company that delivers a range of SaaS features, but to date they have always been forced to do so around a wrapper of other people's technology. If that changes, the gloves come off."

Josh James

President and CEO, Omniture

www.omniture.com

Based in Orem, Utah, Omniture is a leading provider of online business optimization software, enabling customers to manage and enhance online, offline and multi-channel business initiatives.

Will the SaaS market continue to see rapid growth, despite macroeconomic volatility?

"The short answer is 'yes' – from a customer's perspective, SaaS makes software easier to try out and has lower risk for cost-conscious companies. There are less upfront costs and commitment, and in many industries SaaS has several advantages so people will shift even if the market isn't growing rapidly.

That said, SaaS itself isn't a market; it is a business model. Companies that choose the SaaS business model fall into very diverse 'markets' (including CRM applications, HR applications, financial applications, serving mid-market customers, enterprise customers, etc.).

However, there are some characteristics of well run SaaS companies that make them less susceptible to volatility. The biggest characteristic is that SaaS companies are based on a subscription revenue model, which makes it very difficult to have dramatic swings in revenue either up or down.

Well run SaaS companies should have lots of data and high customer retention in order to forecast revenues for coming quarters and can adjust expenses so they don't overspend or underspend."

How does the growing prominence of SaaS change traditional business thinking and metrics?

"The biggest change to traditional thinking and metrics is how different the financial model is when compared to traditional software and GAAP accounting; for example, in terms of revenue recognition. SaaS companies typically have to make 100 percent of the hardware investment to support new customers upfront, yet the revenue for that customer is recognized over future quarters. This makes executives gun-shy versus other models. It also presents some interesting challenges when trying to communicate with financial analysts who are used to traditional software revenue models – especially when dealing with a SaaS company that is growing fast and therefore investing a lot in infrastructure. Obviously, non-GAAP financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP; but I believe non-GAAP measures provide a good basis for evaluating our operating results because they are helpful in understanding our past financial performance and our future results; they also facilitate meaningful comparisons of results between periods. But again, you need to be careful not to lump all SaaS companies together. Just because you've figured out Salesforce.com or Omniture does not mean all metrics apply equally.

For example, you can look at Omniture when we went public. We went public at $6.50 per share because investors said: 'If it's SaaS, then we must trade the stock based on cash flow.' They said this because they grouped us together with Salesforce.com and assumed our businesses worked exactly the same because we were both SaaS. But, Salesforce.com collects a much greater percentage of its cash up front, and Omniture has much higher capital expenditures; Omniture has close to one trillion transactions per quarter while Salesforce.com is only at a few billion transactions per quarter.

Neither is better than the other; they're just different. The point is that you could misjudge if you rush the conclusion or try to make them all fit in the same box."

"The most important driver of SaaS businesses is the customers' needs."

- Josh James

How will technology advancements in SOA, Virtualization and Cloud Computing further enable SaaS adoption?

"These types of advancements may allow companies to develop and deploy SaaS applications with less up-front expense in infrastructure. As long as the service levels and support make sense with the vendors that provide these advancements, this will be particularly attractive to small companies just getting started. Of course, less up-front expense would lower barriers to development/deployment and we could see more companies offering SaaS solutions.

While these outsourcing options (e.g. cloud computing) will likely help start-ups, or medium-sized businesses build and deploy SaaS applications, they are a long way from being viable for companies that are building major applications for multi-hundred-million-dollar businesses."

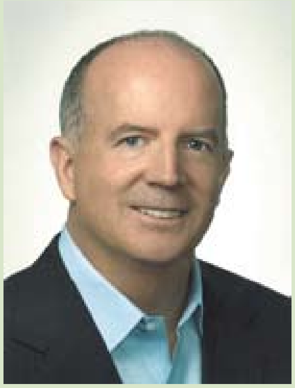
How will the SaaS market evolve over the next five years?

"There is still little understanding in the investment community regarding SaaS. It's early for SaaS, and there aren't a lot of companies to watch; as a result, there aren't a lot of SaaS companies that have had to weather the storms of various macroeconomic cycles.

But people will soon become even more confident in the model. The bottom line is that customers like SaaS for a variety of reasons: faster deployment, lower risk, uptime and accessibility, surge capacity of multi-tenant computing, improved financial efficiencies for customers, easier upgrades, and dramatically decreased reliance on IT, for example. This is the most important driver of SaaS businesses – the customers' needs."

Quentin Gallivan

CEO, PivotLink



www.pivotlink.com

As the leading provider of SaaS business intelligence solutions, Bellevue, Washington-based PivotLink's innovative technology design was purpose-built to give users the freedom to explore and analyze their information so they can better meet the demands of today's rapidly changing business environment.

Will the SaaS market continue to see rapid growth, despite macroeconomic volatility?

"The SaaS model for buying and implementing technology is a run-away train that will continue to transform the information technology industry, simply because SaaS is a better way! The SaaS model provides mutual alignment between the technology vendor and the client. The pay-for-use pricing model and monthly service structure ensures that the client only pays for what they need; as a result, the vendor is highly motivated to deliver great service every day or risk being replaced.

Macroeconomic volatility only fuels the migration to the SaaS model, as most companies still need to address business requirements while reducing capital expenditures and optimizing IT resources. Companies need to do more with less and SaaS provides that flexibility. As an example, the business intelligence (BI) software market is a $6B category that drives a $15B services market for implementing BI solutions. Companies continue to require BI and analytics, as supported by Gartner's 2008 CIO Survey, which highlighted BI as the number one technology priority for the third straight year.

Today however, companies are looking for a better way of buying and deploying BI solutions that dramatically reduce the cost and time of deployment, without sacrificing functionality. SaaS BI companies like PivotLink deliver that reduced cost and faster time to implementation and value. PivotLink's next generation BI SaaS model allows companies to implement full BI solutions in days versus months/years associated with traditional BI software solutions. This accelerated time to value becomes even more important in tougher economic conditions."

How does the growing prominence of SaaS change traditional business thinking and metrics?

"From a customer perspective, SaaS is changing the traditional technology buying process as well as changing the metrics of how technology ROI is measured and calculated. For example, the business user – whether it's the VP of Sales, VP of Human Resources or merchandising manager – is far more involved in the IT decision process because SaaS solutions in these areas require far fewer IT resources and the product features and product roadmaps are built with the business user's needs in mind. Additionally, traditional technology ROI metrics are being adjusted so they are less forward spending capital intensive and more direct spending to direct benefits oriented. This is a positive move that helps mitigate the risk of large, capital intensive IT projects failing; it also aligns short-term variable spend to increased benefits and faster ROI."

"Macroeconmic volatility only fuels the migration to the SaaS model."

- Quentin Gallivan

How will technology advancements in SOA, Virtualization and Cloud Computing further enable SaaS adoption?

"These technology advancements share a common theme with SaaS, in terms of looking for ways to make technology more cost effective, more productive and easier to implement. The continued adoption of cloud computing, particularly basic IT infrastructure from providers like Amazon, will only accelerate adoption and shift buying behaviors towards more SaaS applications and more cloud computing. Additionally, SaaS companies will be able to take advantage of these technology advancements to make their service more efficient and easier to use."

How will the SaaS market evolve over the next five years?

"From an adoption cycle perspective, the first wave of SaaS adoption over the last five years has been primarily aimed at departmental solutions, with limited data integration and customization requirements. Successful companies like Salesforce.com, Success Factors and RightNow were born and flourished. In terms of the next five years, with the continued mainstream acceptance of SaaS, you will see a second wave of SaaS companies that will move more complex data integration and ecosystem management up to the cloud and into a SaaS model. Companies like PivotLink, providing BI solutions, NetSuite, providing integrated ERP, Host Analytics, providing business performance management, and Zuora, providing integrated billing solutions, are part of the second wave of SaaS."

Tien Tzuo

Founder and CEO, Zuora

Will the SaaS market continue to see rapid growth, despite macroeconomic volatility?

"Yes, the SaaS market will continue to see rapid growth. Why? Businesses still need applications to drive their growth and productivity, and in uncertain economic times, they will gravitate toward SaaS. The convenience of pay-as-you-go, the flexibility, and the choice to customize the services for your own needs will continue to position SaaS as the model of choice. In the last downturn in 2001-2002, Salesforce.com actually experienced tremendous growth, as the market turned to the alternative we offered from expensive, risky software."

How does the growing prominence of SaaS change traditional business thinking and metrics?

"In the traditional software model, software vendors focus on number of units sold. They are paid for moving product, quarter in and quarter out. In contrast, successful SaaS companies know that creating loyal subscribers their service is the only way to build the recurring revenue base that is at the foundation of the SaaS business model.

The SaaS way of thinking is built on three core tenets: 1. effectively segmenting your market, and using pricing and packaging to create the right service for each segment, 2. focusing on an entirely new set of metrics to run your business, such as MRR (monthly recurring revenue) and renewal rates, and 3. investing in the right operational infrastructure so that your recurring quote-to-cash processes will scale with your business."

How will technology advancements in SOA, Virtualization and Cloud Computing further and enable SaaS adoption?

"Behind all these buzzwords is one thing: the internet. The internet is the great transformative force of our time, and what we are seeing play out is the inevitable continuation that started with the internet. Everything is moving online – what started with browsing and search has moved into shopping, news, advertising, and now the most important applications that run our lives and businesses are also moving online. Consumers and businesses are becoming increasingly comfortable with using apps that are not on their desktops, or even in a form they can hold with their hands. And those that haven't yet adopted SaaS, will do so as this comfort level increases. Businesses have also had the opportunity now to see that web-apps are secure and reliable so fears of not 'owning' or controlling the systems have been quelled. SaaS is only one facet of the inevitable move of everything on to the internet."

How will the SaaS market evolve over the next five years?

"As technology advances and the needs of the customer become more detailed and complex, SaaS will be able to service those needs in ways that desktop applications cannot, and in the process, become the number one choice of software delivery. Quite simply, SaaS will evolve to support some of the major trends of the internet: mashing up services like online payments and online storage, using computing power where it is available and cheapest, taking advantage of social networks and communities, supporting always on access from mobile devices, etc. I'm not sure where it will end, but one thing is for sure, SaaS 2.0 will be even more exciting than SaaS 1.0."

www.zuora.com

Based in Redwood City, California, Zuora is focused on building the world's first platform for subscription businesses.

"Consumers and businesses are becoming increasingly comfortable with using apps that are not on their desktops"

- Tien Tzuo

Laurel Group

Silicon Valley
Laurel Group, LLC
1999 S. Bascom Avenue
Suite 700
Campbell, CA 95008
408-879-2393 tel
925-215-2376 fax

Seattle
Laurel Group, LLC
6 Nickerson Street
Suite 301
Seattle, WA 98109
206-729-7772 tel
206-216-5804 fax

To follow these Thought Leaders and others please join the following social networking groups to track the best and brightest within industry:

Facebook: www.new.facebook.com/group.php?gid=31764786889
LinkedIn: www.linkedin.com/e/vgh/927677