

Best Practices for Adopting SaaS: A Holistic Evaluation Approach

WRITTEN BY: LOOK BEFORE YOU LEAP

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Crisis gives birth to innovation. The proverb proves always true in the world of technology. As companies search for ways to power through the present economic downturn, the Software-as-a-Service (SaaS) model has gained even more momentum. Businesses in many industries and geographies have applied this service delivery model to a variety of business processes and achieved great success.

By using a commercial vendor to develop the software, host its operation and provide Internet-based access and application support to customers, companies are able to reduce the cost of procuring and maintaining enterprise software applications.

“SaaS is particularly compelling for small and mid-sized businesses,” says Daniel Druker, SVP at Intacct. SaaS democratizes the world of software by giving SMB firms access to the same capabilities and benefits heretofore available only to the largest corporate enterprises — and at far lower cost.”

Given its strong appeal, the rate of SaaS adoption is on the rise, as evidenced by the growth of worldwide SaaS revenue. Gartner Group predicts the SaaS market will grow at a compound annual growth rate (CAGR) of 22.1 percent through 2011, twice the rate of the overall enterprise software market.¹

Meanwhile, venture capital dollars are flowing into the sector. In 2009, venture capitalists invested more than \$187 million in companies offering SaaS solutions.² These VC funds were distributed among 33 deals for 30 companies, with an average deal size of \$5.67 million. According to Dow Jones Venture Sources, 116 VC firms have invested in companies with products related to SaaS, while 10 of these firms have funded more than one SaaS product.

SaaS adoption is a strategic initiative, layered with complexity. It will require a fresh analysis of your existing business processes and technology infrastructure.

¹ Gartner Research. “Gartner/Dataquest Insight: SaaS Demand Set to Outpace Enterprise Software Market Growth,” August 3, 2007.

² Thomson Reuters. “Investment Analytics Reports 2009”.

Why is the idea of delivering software as a service so compelling? And what are the best ways to adopt it? We answered the first question in Part 1 of the SVB series on SaaS technologies (“[Is SaaS the Silver lining to the Cloud?](#)” August 2009). Here in Part 2, we plan to explore best practices for SaaS adoption. There is no well defined, ready-to-go approach for SaaS since every company’s situation is different; however, understanding the basic adoption cycle and applying established best practices will help to ensure success.

“SaaS solutions put the customer back in charge,” says Byron Deeter, partner, Bessemer Venture Partners. “Shelfware no longer needs to exist, and because it’s a service, you have the option to switch vendors at any time if the product or service isn’t meeting your standards.”

As the number of vendors offering SaaS solutions increases and this approach becomes more common in the enterprise environment, CIOs need to plan ahead and evaluate products thoroughly before embarking on a SaaS implementation.

1. WHICH BUSINESS APPLICATIONS MAKE MORE SENSE FOR SAAS?

- Is SaaS a replacement for traditional delivery models?
- Can all enterprise applications be migrated to SaaS?

CIOs need answers to these questions before they can plan a SaaS implementation. According to a recent Forrester Research survey,³ not all applications are equally suitable for SaaS adoption. While most companies still prefer to purchase their core business applications the traditional way, according to Bessemer’s Byron Deeter, “We are already seeing major software categories where the majority of new licenses are delivered via the SaaS model, and we expect almost all major existing software

categories to offer compelling alternate solutions delivered via the SaaS model within the coming years.”

From a recent survey of SaaS Adoption by application, Forrester Research identified 13 areas in which SaaS applications are making headway:

- Archiving and eDiscovery
- Business Intelligence (BI)
- Collaboration
- CRM
- Digital asset management
- Enterprise content management
- Enterprise resource planning (ERP)
- Human resources
- Integration
- IT management
- Online backup
- Supply chain management
- Web content management
- Web conferencing

As a broad guideline, SVB recommends that companies consider migrating applications that are less critical to the business to the SaaS model first. For now, it is wise to maintain on-premise solutions for business-critical applications because of the need for tighter controls on data and access. This may change when the SaaS delivery model becomes more mature and standards-based. The ideal starting point for SaaS can be collaboration platforms, marketing, helpdesk, and sales and HR applications.

2. WHAT CHALLENGES WILL I ENCOUNTER IN MOVING TO SAAS?

- How much does a SaaS model cost?
- How do I ensure data security in the SaaS model?

³ Forrester Research, Inc. “Enterprise and SMB Software Survey, North America and Europe, Q4 2008,” February 2009.

If you're worried about total cost of ownership, data security, integration with legacy systems or lack of customization, you're not alone. Forrester surveyed 239 applications decision makers who had a variety of concerns relating to SaaS adoption including total cost, security of platform, availability of necessary applications, integration into existing systems, inability to customize the SaaS platform, performance, complicated pricing schemes and inability to migrate from their current vendor.

A similar study by Saugatuck Technology⁴ highlights four essential management challenges that enterprises (as well as SaaS vendors) will need to confront and resolve:

- Integrating SaaS workflows with enterprise business processes
- Collaboration across business units or other enterprises
- Customizing and personalizing business workflow
- Utilizing SaaS business analytics, both built-in and as adjunct services

SaaS solutions offer a viable way to reduce the cost of software procurement and maintenance — a priority for every CIO. But the concerns are real: guaranteeing service levels, facilitating inter- and intra-company collaboration, and integrating data and workflows. Moreover, the increasing presence of “cloud-based”⁵ SaaS business solutions that must be integrated with on-site applications will require SaaS Integration Platforms (SIPs) and Enterprise Service Busses (ESBs) to form coherent and flexible IT portfolios of integrated business solutions. The best way to meet these challenges is to plan ahead.

3. HOW SHOULD I PLAN FOR SAAS?

Adopting and selecting a SaaS solution should be evaluated at par with other on-premise vendor solutions. Before considering the advantages and nuances of a SaaS solution, first and

foremost it should clearly meet the solution needs for the core business problem at hand. Once that is established there are some specific items to consider to analyze and assess before you adopt the SaaS based solution. The following steps are a guideline to help select the right fit SaaS solution from the right vendor at the right investment,

“Selecting and adopting SaaS applications shares many of the same characteristics as selecting and adopting new on-premises software applications. You need to identify your requirements and ensure business fit and understand how the application will fit within your existing business processes and technology infrastructure. You must implement and configure the applications to match your business needs. What is different is that the vendor will be operating and maintaining the system for you, so you need to clearly document your expectations and agree with the vendor on their ongoing responsibilities. For this reason crafting thorough service level agreements (SLA) is such an important part of adopting SaaS — it sets the stage for a successful ongoing relationship with your vendor,” suggests Daniel Druker of Intacct.

Determine your readiness

Before adopting SaaS, an organization must demonstrate clear business objectives for the initiative and assess its organizational-readiness for the change. A readiness assessment can help identify business, technological, operational and cultural challenges that could interfere with a successful adoption. This type of exercise will include evaluation, preparation and planning activities that address the following:

- Contextualize the SaaS initiative
- Identify all of the transformational (business and technology) components
- Identify all of the activities that need to occur before, during and after the transformation/adoption
- Identify all of the roadblocks, dependencies and shortcomings

⁴ M. West and M. Koenig. “Three Waves of Change: SaaS Beyond the Tipping Point,” Saugatuck Technology, May 3, 2007.

⁵ Cloud computing involves delivering hosted services over the Internet. These services are broadly divided into three categories: Infrastructure-as-a-Service (IaaS), Platform-as-a-Service (PaaS) and Software-as-a-Service (SaaS)

- Optimize transformation/adoption costs; analyze re-use/customization areas
- Identify the right implementation and testing methodology
- Define the maintenance plan

Select the right vendor

The right SaaS partner will ensure a successful implementation in your organization. We recommend evaluating SaaS solutions at par with conventional perpetual licensed on-premise software. It is important for prospective SaaS clients to also look at business practices and culture, not just product features and technical capabilities. Finally the bottom line: select the best fit for feature, price and ease of use win. Specifically, take the time to evaluate SaaS vendors according to two criteria:

1. **Technical capabilities:** Assess the proposed solution in the context of the needs of the organization, transition approach, delivery mechanism, maintenance, scalability, standard compliance and reliability.
2. **Financial viability:** Ensure longevity and uninterrupted services over a reasonable period of time.

Technical capabilities

Unlike the old on-premise software evaluation process, in which the application with the most features (now and in the future) often won the contract, the focus of a SaaS evaluation is whether the tool is good enough on day one and how well it will adapt over time. Consider how complete the product is today, whether it meets your current and future needs and how you will adopt and integrate the solution. An article in the *Control Engineering* suggests a number of specific steps such as: ensuring physical and logical security for data, requiring comprehensive non-disclosure agreements from the vendor, full data back-up and disaster recovery procedures. The vendor should be able to suggest a pragmatic approach and incorporate industry-wide best practices.

In addition to these factors, you should also look at the vendor's ability to handle customization and configuration. Your ability to make appropriate changes to the application depends on the richness of the configuration tool. You might need metadata-level configuration capabilities to align the features of software with your business processes. The reason why companies such as Salesforce.com and NetSuite have done exceedingly well is that their configuration tool is rich enough to handle such changes successfully.

Financial viability

The majority of SaaS vendors today are young, innovative companies that have been in business for only a few years; therefore, the ability to judge their financial viability is a key factor. A few large vendors have achieved operational scale and profitability to date, but most other vendors will have fewer credentials to make their case. Nevertheless, this should not deter you from making your selection of sound SaaS solutions, as long as you conduct the right due diligence on the vendor and strategy, plans and financial viability. Be sure to answer the following questions to minimize risk:

- If a private startup venture, how well is the company funded? Who are the investors and stakeholders in the company? Ask about the total number of employees, as well as the company's R&D and service locations.
- If the vendor is a large enterprise, how important is the SaaS business line to the corporation? Does it have a steady revenue stream from existing SaaS business? Does it have other on-premise perpetual license sales revenues?
- What percent of the investment is directed toward R&D versus support?
- Does the management team have a good track record with successful startups or SaaS product experience?

Longevity of the SaaS vendor is crucial to your success.

Longevity of the vendor is crucial to your success, but you should plan a contingency strategy in case of sudden failure of the SaaS vendor. When a SaaS provider closes down, what business continuity plan will you implement to meet the business process needs?

Calculate total cost of ownership (TCO)

By adopting SaaS, companies are able to avoid many of the hidden costs of traditional software implementations, including service overruns, integration problems, data center costs, infrastructure licensing costs and costs associated with hiring large teams of consultants to implement the solution. With a SaaS model, you pay a one-time implementation and then a monthly subscription, which should reduce the TCO considerably in theory. The case for a lower TCO remains unproven, however, so we recommend that you involve your finance department at an early stage and evaluate the total cost of ownership over a five to seven-year span. The analysis should consider recurring fees, availability costs, incremental costs, network bandwidth increase costs, additional efforts involved in audit and security, customization and support and help desk costs.

Understand hidden factors

The SaaS model introduces a critical success factor, which smart providers embed in the post-sales service and support portion of their product: managed services. Managed services vary with the type of SaaS provided, and range from broad services such as ongoing software upgrades to targeted services such as data import functions for a CRM solution. These types of services are more critical for some categories of SaaS than others. For example, compare an accounting services solution for a retail store chain versus a procurement solution for the e-procurement industry.

SaaS vendors will provide varying levels of managed services as part of their solutions. The accounting solution may work well with the regular updates and upgrades, but the procurement

solution will require targeted supplier content upgrades, import of updated price lists or real-time monitoring of orders in process. It's important that you unravel the true return on investment (ROI) and not just the total cost of ownership (TCO), considering indirect costs and investments in addition to the setup fees, recurring fees and other state fees in the contract. All such critical aspects should be covered in the service contracts and service-level agreements. To avoid such surprises, discuss factors such as: hardware for end-users, SaaS platform software, complementary software, peripherals, connectivity and bandwidth.⁶

4. WHAT ARE THE BEST PRACTICES FOR ADOPTING A COMPLETE PRODUCT?

As you consider selecting a SaaS partner to work with your organization, keep these best practices in mind to ensure you receive a complete solution:

- Ensure that you (the client organization) and your SaaS partner have taken all of the components of the whole product into account.
- Watch for middleware/peripheral purchases to enable integration with existing systems; they may add costs but may also be critical to achieving the ROI and business objectives for the SaaS solution.
- Review the SaaS partner capabilities and experience in integrating the service with an enterprise and assess the partner integration options and experience.
- Identify the ongoing managed services that are critical to keeping the SaaS solution running smoothly and who will perform them.
- Choose a SaaS partner with state-of-the-art backup, recovery and redundancy.
- Select a SaaS partner with an open and transparent system status website.

⁶ Suzanne Miglucchi. "Software as a Service (SaaS): Are you truly getting the WHOLE product," SciQuest, Inc.

- Ensure that your SaaS partner will deliver a strong service-level agreement (SLA), compared to the industry and your own organizational standards.
- Work with a partner that will deliver ongoing maintenance, service and upgrades for the solution as a core component of the SLA.
- Choose a partner that acts as an extension of your IT organization.
- Repurpose your resources to focus on your business while your SaaS partner acts in the role of your extended IT organization.

Although moving to a SaaS model introduces many challenges, there are a few aspects of traditional software deployment that won't be a concern. First of all, you need not worry about the infrastructure. In the SaaS delivery model, the infrastructure will be the vendor's concern. Similarly, scaling up is dynamic, capacity is built in and installation is not required.

5. READY FOR A SAAS IMPLEMENTATION?

- How to I develop a roadmap for a SaaS initiative?
- Do I need to do a proof-of-concept project?

Once you've tackled the steps of organizational readiness and vendor selection and lined up a complete SaaS solution, you need to create a roadmap for implementing the initiative. Project management for a SaaS implementation has its own unique aspects. Your IT department should conduct due diligence to identify the touch points and interdependencies in the system. It is important to identify any legacy systems and draw up a SaaS integration plan for them. In a SaaS implementation project four key areas require specific attention: configuration, integration, security/access and performance.

SaaS adoption still does demand significant technical and operational capabilities. Assessing the current and required capabilities, will help you fill the gaps and prepare for success. The right approach and methodology can determine the success

of the SaaS initiative. A small pilot or proof-of-concept project will prove invaluable at this early phase of adoption. This limited implementation can validate the approach you've taken and expose key challenges and complexities.

An effective communication plan will set expectations for what is required to achieve the shared vision.

As Bessemer's Byron Deeter explains, "We're witnessing the consumerization of software, in which employees can become empowered as SaaS customers. Software purchases no longer have to be made by CIO's and senior executives, but managers and individual contributors can quickly test products that may solve their needs and then encourage broader enterprise adoption only behind success."

Sound project management in any SaaS rollout depends on your ability to manage dependencies, devise backup plans and work creatively around any obstacles.

Finally, an effective communication plan will set expectations for what is required to achieve the shared vision. Communicate directly and often with the IT, network operations and finance departments within your company as well as with software vendors, ISPs and other partners.

6. IF YOU ARE A SAAS VENDOR

This paper focuses on the concerns shared by organizations adopting SaaS delivery models; however, SaaS providers face many of the same challenges. If you plan to develop and host a SaaS solution, consider these questions:

- Decide whether to adopt a purist SaaS model or choose a hybrid model, (i.e., optionally also provide hosted, ASP or on-demand services). From the business perspective, the challenge lies in creating a radically different approach for a variety of business processes.

- Clearly distinguish the SaaS solution from traditional models in terms of architecture, deployment methodology and multi-version support.
- Develop and provide ready documentation to address TCO/ROI for your SaaS solution, a 30- to 60-day implementation cookbook, integration options with on-premise systems and finally identity and access management.
- Host the SaaS solution with a reputable hosting firm that has the right certifications and regulatory approvals.
- Implement a sound support model using Web self-service and call centers.
- Implement and demonstrate data security, archiving and compliance.

Most SaaS vendors end up building substantially different solutions for the on-premise and SaaS markets. They develop and nurture separate teams — with separate R&D budgets, sales and marketing teams and profit responsibility — and encourage healthy competition between the two.

CONCLUSION

Companies that adopt SaaS do not choose the model because it's trendy. Rather, they consider SaaS offerings because they have the potential to solve a business problem — while delivering faster time-to-market through higher ROI and lower TCO than traditional software approach.

There is no single approach for adopting and implementing the SaaS delivery model. But if you take the time to develop a sound strategy and evaluate all SaaS opportunities holistically, you'll tip the scales in favor of success.

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