



A Whitepaper for Business and IT Decision-Makers

How the SaaS Movement and Cloud Computing Are Transforming Professional Services

By,
Jeffrey M. Kaplan,
Managing Director
THINKstrategies, Inc.

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Professional Services companies face unprecedented customer, competitive and operational challenges today.

Companies of every size and across nearly every industry are facing intensifying competition as a result of globalization and technological advancements. Barriers to entry are disappearing. Companies are no longer competing with just their peers in their own backyard, they must also contend with competitors from around the world. At the same time, the web is making it easier for customers to find new suppliers who can meet their needs from remote locations at a lower cost.

In response, many companies are facing severe financial challenges as a result of today's economic uncertainty, and are significantly restructuring their operations to reduce day-to-day expenses and protect their profitability. For many companies this has led to downsizing their staffs and relocating many workers to home offices to reduce the cost of corporate space. It has also meant greater reliance on third-party suppliers, offshore resources and additional channel companies.

Traditional technology solutions have failed to fulfill their promises in this rapidly changing climate. Information Technology (IT) and enterprise applications are increasingly complex and costly. At the same time, they have also become more cumbersome to use and less flexible to fit organizations' changing business processes.

Nowhere is this trend more evident than with larger, enterprise-level organizations. Increasingly, traditional client-server solutions fail to meet the complex business needs of their global, enterprise customers. In today's economy, these larger organizations demand flexibility, instantaneous customization, and ubiquitous access from their automation solutions—all while still providing a significant return on investment (ROI).

The Emergence of SaaS Spawns Broader Cloud Computing Alternatives

In 2003, Nicholas Carr questioned the value of traditional IT operating models in his infamous Harvard Business Review article entitled "Why IT Doesn't Matter." While his commentary raised the wrath of IT professionals, it also captured the attention of many corporate executives and end-users. Carr went on to publish a book based on the same thesis entitled "*Does IT Matter?*"

In 2005, Carr published another article in the MIT Sloan Management Review entitled "The End of Corporate Computing", in which he wrote:

"...Imagine what future generations will see when they look back at the current time...won't the way corporate computing is practiced today appear fundamentally illogical — and inherently doomed?"

These ideas and trends have driven many companies to consider and adopt a new generation of web-based solutions, referred to as Software-as-a-Service (SaaS). As the term implies, SaaS converts traditional 'shrink-wrapped' software products into web-based software services.

Just as popular, web-based, consumer-oriented sites like Amazon and eBay have made it easier for people to buy and sell online, so are today's SaaS solutions making it easier for companies to perform their daily business functions via the web.

Rather than buy, implement and maintain the software themselves, users can now subscribe to SaaS solutions and take advantage of the application functionality without having to worry about the technology which supports applications.

This is an important shift because enterprise applications are often too expensive and difficult for many companies to implement. They require an upfront investment in a perpetual license, plus additional hardware and staff costs to support the applications. In fact, it is estimated that many companies spend ten times as much on hardware, staff and third-party support costs over the life of a software application as they do for the original license fee.

And, that is if the company successfully implements the enterprise application in the first place. Unfortunately, approximately a third of software projects fail to be completed, and the remainder often requires twice as much time and money than originally expected to be fully deployed.

AMR Research estimates that upwards of 30% of the enterprise application capacity that has been deployed is underutilized because companies have been forced to over-provision the software in anticipation of future demands which are often unrealized.

As a result, enterprise applications seldom achieve the return on investment (ROI) that companies expect and often require a higher total cost of ownership (TCO) than they would like. In response, companies of all sizes are trying to generate greater business value from their software investments.

THINKstrategies' survey research, in conjunction with Cutter Consortium, saw SaaS adoption reach a tipping point when they jumped from 32% in 2007 to 64% in 2008. Even more importantly, THINKstrategies' survey research found that over 90% of SaaS users are satisfied with the quality of these services, plan to renew and expand their use of these services, and would recommend them to their peers!

Legacy applications have never been able to achieve similar satisfaction, renewal and referral rates. As a result, we've seen tremendous growth in the SaaS market. IDC estimates the SaaS market reached \$13.1 billion in revenue in 2009, and will grow to \$40.5 billion by 2014 at a compound annual growth rate (CAGR) of 25.3%, while the legacy software market stagnates.¹

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The success of SaaS has opened the door for a broader array of 'cloud computing' alternatives to traditional data center technologies. As with SaaS, cloud computing offers a more flexible array of web-based services which enable users to build new applications or support their fluctuating business requirements. The success of SaaS has also opened the door for organizations of all sizes and levels of complexity to take advantage of cloud

¹ IDC "Worldwide Software as a Service 2010–2014 Forecast: Software Will Never Be the Same", June, 2010. Doc # 223628.

computing. Today's cloud computing adopters and advocates include some of the world's largest and most visible companies.

Once again, Nicholas Carr has captured the historical significance of this technological development in his book, *"The Big Switch"*, which compares today's transformation of the computing industry with the advent of the electric utilities.

The SaaS and Cloud Computing Difference

Unlike a previous generation of application service providers (ASPs) who simply resold existing enterprise applications which were cumbersome and costly or 'utility computing' models which were far too complex to catch on, today's SaaS solutions and cloud computing services provide tangible and measurable business benefits.

Because SaaS and cloud computing doesn't require the same level of effort or upfront cost to be implemented, they permit quicker time to value with less risk. Many SaaS solutions and cloud computing services can be tested in pilot deployments to see how they fit a company's business processes. These web-based solutions can be accessed via the Internet, permitting remote and mobile users, as well as authorized third-parties, to better access and leverage these resources.

Today's SaaS solutions and cloud computing services not only include multi-user access and real-time collaboration, they also have user tracking and reporting capabilities which enable companies to measure their effectiveness and monitor their compliance.

Some Professional Services firms have mistakenly viewed SaaS and cloud computing as a threat to their livelihoods because they make it easier to deploy software and systems from a technical integration standpoint. Others dismiss the ability of SaaS and cloud computing as an inadequate alternative to legacy applications and systems because they believe these 'on-demand' alternatives lack the features and customization capabilities of traditional solutions.

The reality is that many of today's SaaS solutions and cloud computing are evolving rapidly to offer many of the essential capabilities that most companies need, and a new level of collaboration which legacy applications and systems cannot match. This new functionality is derived from its web-based platform which permits anytime/anywhere access and greater monitoring for compliance and cost-management purposes. For instance, many SaaS solutions permit organizations to track usage levels to evaluate whether they are getting the utilization rates they desire, and track specific changes to records for audit purposes. More flexible provisioning capabilities also permit users to access these services 'on-demand' and decommission them equally as fast.

It is for these reasons that firms of all sizes are adopting SaaS and cloud computing at an accelerating rate. As a result of these trends, market research firm Gartner named cloud computing the top strategic technology for 2010.² It has also estimated worldwide cloud services revenue will reach \$68.3 billion in 2010, a 16.6 percent increase from 2009 revenue of \$58.6 billion, and will jump to \$148.8 billion in 2014.³

² "Gartner Identifies the Top 10 Strategic Technologies for 2010", October 20, 2009.

(<http://www.gartner.com/it/page.jsp?id=1210613>)

³ "Gartner Says Worldwide Cloud Services Market to Surpass \$68 Billion in 2010", June 22, 2010.

(<http://www.gartner.com/it/page.jsp?id=1389313>)

What SaaS and Cloud Computing Means to Professional Services

Professional Services firms must recognize that the SaaS and cloud computing movement is real and will continue to grow. They should also recognize that they can benefit greatly from these powerful new web-based solutions.

Like their customers, Professional Services companies are facing escalating competition and cost pressures. Companies in both the IT Professional Services and Business Process Outsourcing (BPO) sectors are facing a proliferation of competitors from a variety of emerging countries, who are undercutting established pricing models.

Professional Services firms must combat these competitive forces while they attempt to respond to escalating customer demands and attempt to leverage a more dispersed workforce.

Professional Services companies have typically operated in a decentralized fashion so they can be close to their customers. This organizational structure has made it difficult for firms to fully leverage their dispersed personnel and synchronize their work.

These fundamental operating challenges are being compounded by today's extraordinary macro-trends, forcing professional services companies to undergo the same type of reassessment process that many of their customers are undergoing. This reexamination effort is driving many professional services firms to adopt even more decentralized organizational structures and business processes that legacy applications are not designed to support.

For example, services industry leaders like Accenture, BearingPoint and Deloitte Consulting are now partnering with leading on-demand solutions providers, including Salesforce.com, NetSuite and OpenAir, to automate their operations and improve customer capture and retention levels, accelerate quote-to-cash cycles, better utilize billable resources, increase project margins and consolidate systems. Others are adopting Web 2.0 collaboration tools such as wikis and blogs to encourage more effective knowledge sharing, as well as social networking tools such as Facebook and Twitter to encourage better communication.

These companies, like a growing number of other Professional Services firms, are also recognizing that today's SaaS solutions and cloud computing also help them be more agile while meeting escalating compliance requirements by providing an off-site, back-up and recovery capability. (Many SaaS vendors have won Statement on Auditing Standard (SAS) 70 certification from the American Institute of Certified Public Accountants (AICPA) verifying the quality of their internal controls and operations.)

The trends are clear. SaaS and cloud computing is here to stay. The leading Professional Services firms are restructuring their businesses to capitalize on the efficiencies these new web-based alternatives offer. They are leveraging SaaS and cloud computing services to respond to their customers' changing requirements, meet their changing operational needs and optimize their business performance. As SaaS and cloud computing become more widely accepted, professional services firms who wish to remain relevant and competitive must get onboard this growing movement quickly.

About the Author

Kaplan is Managing Director of THINKstrategies (www.thinkstrategies.com), an IT strategy consultancy in Wellesley, Mass. He is also the founder of the SaaS Showplace (www.saas-showplace.com). He can be reached at jkaplan@thinkstrategies.com.

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THINKstrategies is a strategic consulting services company formed specifically to address the unprecedented business challenges facing IT managers, solutions providers and investors today as the technology industry shifts toward a services orientation. The company's mission is to help our clients re-THINK their corporate strategies, and refocus their limited resources to achieve their business objectives. We help enterprise decision-makers with their sourcing strategies, IT solutions providers with their marketing strategies, and venture firms with their investment strategies. THINKstrategies is also the founder of the Software-as-a-Service Showplace (www.saas-showplace.com), the largest vendor-independent, online directory and information resource center with SaaS solutions in 80 application and industry categories. For more information regarding our unique services, visit www.thinkstrategies.com, or contact us at info@thinkstrategies.com.