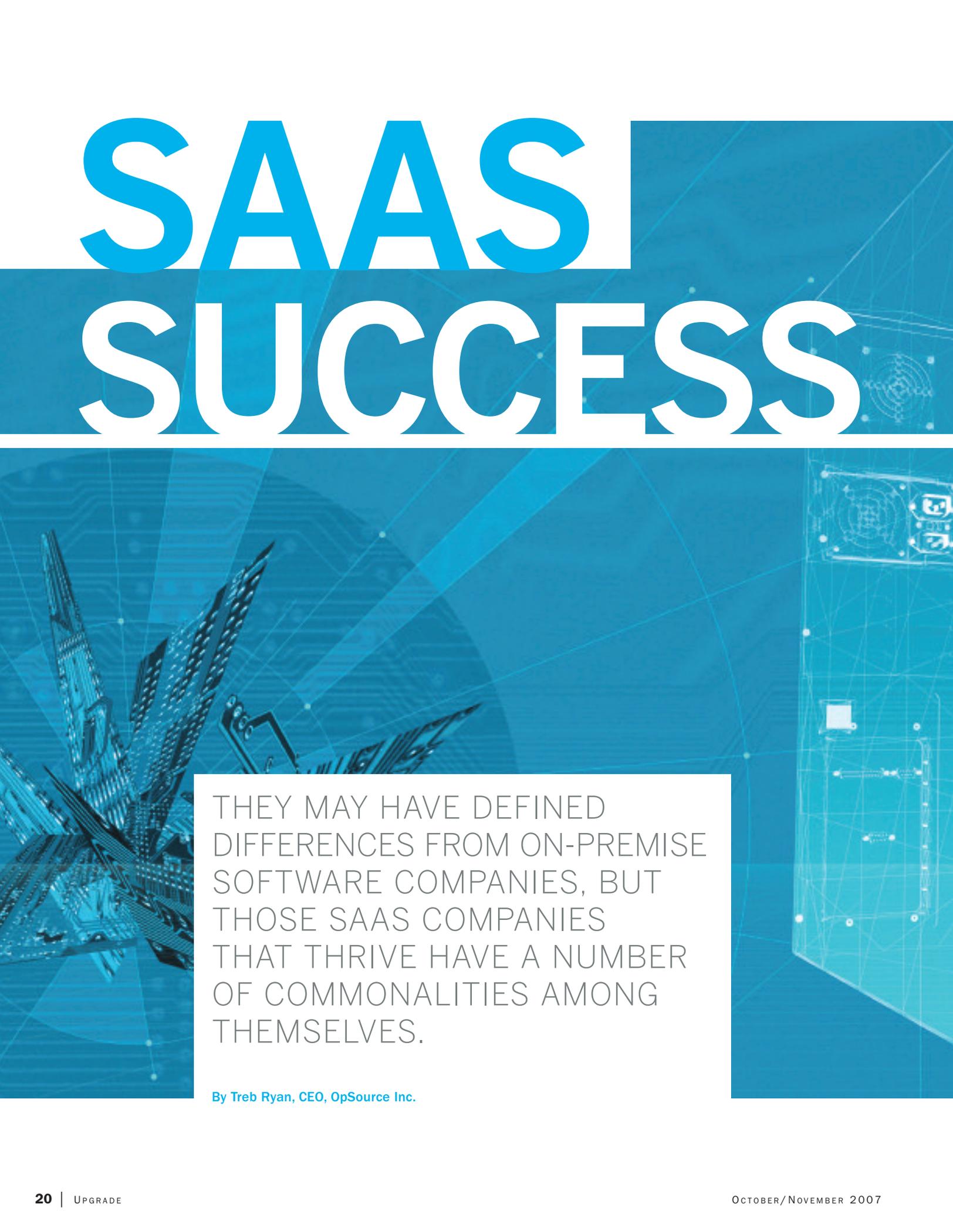# SAAS SUCCESS

THEY MAY HAVE DEFINED DIFFERENCES FROM ON-PREMISE SOFTWARE COMPANIES, BUT THOSE SAAS COMPANIES THAT THRIVE HAVE A NUMBER OF COMMONALITIES AMONG THEMSELVES.

By Treb Ryan, CEO, OpSource Inc.

In the past few years, software as a service (SaaS) has grown from a speck on the horizon to a thriving industry. A significant increase in demand for SaaS has led a large number of companies to enter the market, including start-ups and legacy providers of on-premise software. Our company has worked with dozens of these new market entrants, and we've noticed some commonalities among the companies that have thrived. The really successful SaaS businesses behave differently than companies that sell on-premise software. They think and act more like Web companies than traditional software companies. To paraphrase a car company's slogan, successful SaaS companies live the understanding that "this is not your father's software business."

This makes sense, because just about everything involving SaaS is different than on-premise software. Successful SaaS companies know they can't develop software, market it, sell it, deliver it or support it in the same way as on-premise software. In fact, they can't even structure their companies and business plans the same way. Why? The answers lie in the many differences between SaaS and on-premise software.

Technical, development differences: Some of the technical differences between on-premise software and SaaS are obvious. With SaaS, multiple customers use the Internet to make use of a single copy of an application that runs on an Internet-connected server. This requires designing the software to support such multi-tenancy while keeping each customer's data separate and secure. But that's only the beginning of how SaaS must be handled differently than on-premise software.

Another difference involves the entire development process. SaaS companies can constantly see how their users are using their applications in real time. They immediately analyze what is working well and what isn't. Successful companies use this information to respond quickly by implementing software updates with a shorter cycle than is possible with on-premise software.

On-premise companies typically spend at least a year creating, testing and distributing each new version of their products. They must ensure their revised products will still work on a wide variety of customer hardware. Because SaaS software updates only require changes on a single platform at centrally located servers, rolling out updates is much simpler. This means companies can implement improvements in SaaS products more often, and the most successful companies do just that. Quarterly, monthly and even weekly updates enable SaaS companies to respond more quickly to customer issues and requests. Such iterative software development requires successful SaaS companies to structure development teams and processes much differently than an on-premise company does.

Financial differences: The revenue flow from SaaS is completely different than it is for on-premise software. Even the most successful SaaS companies rarely see significant revenue during the first three years their applications are live. And all the initial sales are much smaller than they are with on-premise software.

This requires SaaS businesses to structure their finances differently, or they could run out of operating cash before the applications have a chance to take hold.

It also means a completely different approach to marketing and sales. With SaaS, the "elephant hunter" becomes extinct. There are no huge single sales to be had. Successful SaaS companies structure their sales departments and sales incentives based on a volume of smaller sales, not on a smaller number of big sales. Like Web companies, the primary focus of a successful SaaS company is simply getting people to use the software. More users equals more monthly revenues and more opportunities to up sell enhanced functions.

Marketing differences: For marketing, this means making it extremely easy for a potential customer to become a user. Free trials are essential, and the most successful companies make it possible for prospects to begin a trial by simply filling out a Web form. Any user who tries the SaaS application becomes a lead for the sales team, who can then work on converting the trial user to a permanent customer. Companies consider trial users to be valuable leads, because they've already become familiar with the software's benefits. Becoming a permanent customer, however, should not require a call from a salesperson. The most successful SaaS companies allow their trial users to buy access to the application the same way they ordered the free trial, with a Web form. SaaS companies cannot afford to make prospects jump through hoops to become customers. They focus their marketing on immediate gratification.

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Gone are the analysts, conferences and huge advertising budgets of on-premise software marketing. Blogs, search words and infiltration marketing are the tools of the successful SaaS company. After all, SaaS lives on the Web. That's where SaaS companies should look for their customers.

Web-based differences: Another way successful SaaS companies differ from on-premise software companies is in the way they take advantage of the unique benefits of providing their products as Web applications. The most popular SaaS applications make full use of Web 2.0. By that I mean they make collaboration and customer interaction a priority. An example of effective use of Web 2.0 technology is to allow user communities to create and provide configurations via the SaaS site. Other users then rate and/or adopt such user-created configurations as they see fit. Thus, the community of users creates best-practice scenarios without any development cost to the SaaS company.

Coghead is a SaaS company that bases its entire business on such user interaction. Coghead enables business people to create custom Web-based applications to automate manual tasks. Users can then make their applications available to other users. Users can even charge fees to other users for the use of their self-created applications. This kind of capability is simply not possible with on-premise software. The most successful SaaS companies make full use of all the abilities that the Web uniquely makes possible.

Service differences: One final element that makes a critical difference between success and failure for a SaaS company is its ability to meet service expectations. SaaS customers expect the software to be fully available whenever they need it. That means companies must provide 100

percent uptime. To do this, the SaaS company must have servers in a world-class data center that has redundant UPS power, generator backup, fully meshed Tier 1 connectivity to multiple backbone providers and in-depth 24x7 monitoring, among other features. Staff members must regularly analyze firewall logs to keep abreast of traffic patterns and identify any unusual activity. They must ensure appropriate security patches are promptly applied to server software. They must respond immediately to any hardware, software or database administration issues.

In addition, SaaS customers demand 24x7 customer support. Successful SaaS companies staff their call centers around the clock with highly trained expert representatives who can immediately help users with any difficulties they encounter while using the software.

Many companies find the infrastructure and call center requirements are burdens that are too large to manage internally. It is typical for successful SaaS companies to outsource such functions. When they do, they look for delivery partners that have deep expertise in SaaS, not just Web-site hosting or managed services. They insist on service-level agreements that guarantee 100 percent availability. And they look for providers who tie their fees to the SaaS company's revenue.

Having it Both Ways

What about companies that wish to provide both on-premise software and SaaS? Because of all the significant business and product differences mentioned above, such hybrid businesses rarely succeed. The exceptions are the huge companies that have the resources to essentially create completely separate divisions, with

their own development, marketing and sales staffs and their own profit and loss responsibilities. Even then, companies find cultural issues difficult to overcome. Smaller organizations simply don't have the resources to be two companies at once. They must make a choice between being an on-premise business or a SaaS business if they wish to do well.

There will always be companies offering on-premise software. Heck, we still have mainframes in data centers these days. So, a company that's making good revenues from on-premise software can survive, if it focuses on maximizing maintenance revenues and doesn't attempt to enter the SaaS market. But just about any company that wants to see significant revenue growth must either start fresh as a SaaS company or effect a transition from on-premise to SaaS, because the future holds great promise for growth in the SaaS market. If you ask executives of on-premise software companies what worries them most, they'll tell you it's not a company like SAP entering their markets; it's a company like Google.

There are no shortcuts to the SaaS market. But existing companies need not attempt an immediate conversion from on-premise to SaaS. They can make the transition gradually, but they must make it their goal to become SaaS companies within the next couple of years.

Successful software-as-a-service companies aren't typical software companies. Instead, they're business-to-business Web companies. They develop, market, sell, deliver and support their software differently than traditional on-premise software companies. They take full advantage of the benefits of Web 2.0 technology. And they structure their entire businesses based on a different revenue stream. Companies that understand this are the ones that experience the greatest success in the SaaS market.

Prior to co-founding OpSource in 2002, Treb Ryan was president of the Americas for Metromedia Fiber Network (MFN). He has been a guest speaker at numerous industry events, including CIO, venture capital, Internet, hosting and software conferences. For more information about OpSource, visit www.opsource.net.