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Strategic Advisor for IT Leaders

SaaS and the Third Wave
Preliminary findings from Saugatuck's 2008 SaaS research agenda

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Key Takeaways

- **SaaS adoption remains strong and goes International** – with accelerating demand across all solution categories, customer segments and geographic regions.
    - Although collaboration and CRM continue to lead the SaaS charge, "core" systems of record (e.g., finance, HR) and BI / CPM are growing quickly as well.
    - Acceptance of SaaS for mission-critical business processes – not only with SMB customers, but Large Enterprises.
    - European SaaS adoption on the brink of exploding, lead by local innovation and strong demand in the UK, Benelux and the Nordic countries – which appear to be following a similar trajectory to the US (albeit with a 12 mo lag).
    - Adoption in Germany and France, as well as in much of the Asia/Pac region are projected to experience a similar adoption scenario (*particularly in the SMB space),* but with a 18-24 month lag to US curve. Key SaaS markets in Asia/Pac include Australia, India and China – and secondarily Singapore, Hong Kong and Korea.
    - Technology barriers are increasingly becoming merely sales objections to be overcome.
- **SaaS customer satisfaction is very strong** – especially around SaaS Wave I requirements such as solution functionality, response time, availability and pricing.
    - Satisfaction around SaaS Wave II and III requirements – especially around support for customized, personalized workflows, integration with on-premise data and process, and greater inter-company collaboration is much lower.
- **SaaS continues to evolve to address increasing levels of business process and customer complexity – as SaaS becomes fully integrated with broader enterprise architectures.**
    - The focus of SaaS shifts from cost-effective delivery of stand-alone application services (Wave I), to integrated business solutions enabled by web services APIs and ESBs (Wave II), to workflow- and collaboration-enabled business transformation (Wave III), leading to measured, monitored and managed business processes (Wave IV).
    - Cloud Computing defines and encapsulates the post-SaaS era.
- **SaaS Marketplaces and Platforms proliferate**
    - While early marketplace investments have not yet driven significant industry revenues, over time SaaS Platforms and Marketplaces will become a significant channel for vendors (driving as much as 15 percent of total SaaS solution revenues by 2012), and ultimately a key profit zone across the SaaS value chain.
    - Robust SaaS-based software development platforms and run-time environments emerge that are viable alternatives to traditional on-premise development.
- **SaaS merger & acquisition activity explodes** through 2010 – fueled by ISVs gobbling up smaller venture-backed SaaS providers (as a important culture-change driver), as well as by mid-to-large size pure-play SaaS vendors seeking to solidify key solution area franchises.
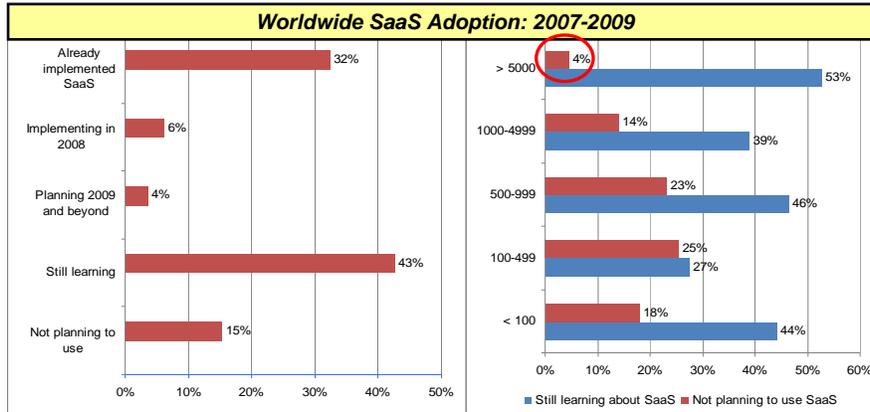
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SaaS Adoption

By 2012, 70 percent or more of businesses with greater than 100 employees will have deployed at least one SaaS application.

By 2010, SaaS becomes interwoven into the fabric of enterprise architecture, as buyers become increasingly comfortable with acquiring SaaS solutions as part of their broader business services portfolio.

Worldwide SaaS Adoption: 2007-2009

Already implemented SaaS — 32%
Implementing in 2008 — 6%
Planning 2009 and beyond — 4%
Still learning — 43%
Not planning to use — 15%

(0% — 50%)

> 5000 — 4% / 53%
1000-4999 — 14% / 39%
500-999 — 23% / 46%
100-499 — 25% / 27%
< 100 — 18% / 44%

(0% — 60%)

■ Still learning about SaaS ■ Not planning to use SaaS

Source: Saugatuck Technology, SaaS Survey Research 2008 (n=418)

Chart: 3

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SaaS Satisfaction – My company is satisfied with…

Despite an accelerating competitive landscape (fueled by massive VC investment and ISVs attempting to transition their business models), customer churn will remain low for SaaS segment leaders through 2013 – who will continue to achieve greater than 85 percent customer renewal rates and better than 100 percent on an annualized contract value renewal basis.

My company is satisfied with the overall experience of using SaaS solution (s):

Strongly Agree — 34.3%

84%

Agree — 50.0%

Neither Agree nor Disagree — 13.0%

Disagree / Strongly Disagree — 2.8%

Satisfaction / Experience

Solution functionality
System response time
Availability or uptime
Pricing terms and conditions
Backup and recovery capability
Accountability for quality of service
Responsiveness to support requests
Security and privacy
Data access and analysis capabilities
Personalization capabilities
Workflow capabilities
Customization capabilities
Integration capabilities
User community or network

(0% 10% 20% 30% 40% 50% 60% 70% 80% 90%)

Wave I

Important SaaS Wave II and Wave III Customer Requirements

Source: Saugatuck Technology, SaaS Survey Research 2008 (n=420)

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Enterprise SaaS Solution Demand Through 2010

Although Collaboration and CRM continue to lead customer adoption worldwide through YE2010 – demand for traditional "core" systems of record and BI / analytic tools (both stand-alone and embedded into other solutions) experience explosive growth as well.

While SaaS markets continue to remain highly fragmented, three-to-four dominant (best-of-breed) Enterprise SaaS Solution Providers emerge in most major business process areas by 2012; pre-integrated suites grow in importance, but remain concentrated in SME segments.

SaaS Enterprise SaaS Solution Demand: 2008-2010 Company Adoption by Region										
	YE 2008								YE 2010	
SaaS Application	Worldwide		North America		Europe		Asia		Worldwide	
Collaboration (Email, WebConf)	1	45.0%	1	44.7%	1	46.4%	1	43.1%	1	66.8%
CRM/SFA	2	36.4%	2	37.4%	2	33.6%	2	39.7%	2	58.9%
Payroll	3	31.2%	3	32.5%	3	32.5%	3	25.9%	3	**45.8%**
Travel Services	4	28.6%	5	30.1%	5	28.5%	4	25.9%	7	39.7%
HR/Benefits	5	28.3%	4	30.5%	4	28.5%	5	22.4%	4	**45.3%**
Specialized Verticals	6	22.7%	6	21.9%	6	25.5%	9	18.5%	5	41.7%
Finance /Accounting	7	18.3%	7	16.3%	8	20.7%	8	19.3%	8	**39.3%**
BI & CPM	8	17.3%	8	14.8%	7	22.0%	11	15.5%	6	**40.7%**
Procurement & Sourcing	9	16.9%	9	12.8%	9	20.1%	7	20.7%	9	**38.9%**
ERP/Manufacturing	10	13.2%	11	9.7%	10	14.8%	6	20.7%	12	25.9%
Supply Chain Mgt (SCM)	11	12.5%	10	11.7%	11	12.2%	10	15.8%	10	27.5%
Compliance and Risk Mgt	12	10.4%	12	9.4%	12	10.0%	12	14.3%	11	26.0%

Source: Saugatuck Technology, SaaS Survey Research 2008 (n=418)

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On Demand IT Infrastructure and Personal Productivity / Networking SaaS Solution Demand Through 2010

Although traditional on demand IT infrastructure capabilities (e.g., Backup/Recovery, Storage & Server Capacity) lead customer demand through YE2010, on demand data warehousing, IT security and performance / problem management as well as a variety of complementary managed services become high-priority user investments 2010-2012.

Aggregation of on demand IT infrastructure services combined with the continued growth of cloud-based infrastructure leads to five-to-six dominant cloud-based platform providers by 2013.

Top-5 On Demand IT Infrastructure Solutions: 2008-2010 Company Adoption by Region										
	YE 2008								YE 2010	
On Demand Infrastructure	Worldwide		North America		Europe		Asia		Worldwide	
Website Operations	1	45.6%	1	39.5%	1	53.7%	1	48.3%	1	**66.8%**
Backup / Recovery	2	36.6%	2	36.1%	2	39.0%	3	34.5%	2	**58.9%**
Disaster Recovery	4	31.9%	3	33.7%	8	31.3%	5(t)	29.3%	3	**45.8%**
Storage Capacity	5	31.4%	5	30.3%	6(t)	33.1%	4	32.8%	4	39.7%
Server / Processor Capacity	6	30.0%	6	28.2%	6(t)	33.1%	5(t)	29.3%	5	**45.3%**

Top-5 SaaS Networking / Personal Productivity Application Demand: 2008-2010 Company Adoption by Region										
	YE 2008								YE 2010	
SaaS Application	Worldwide		North America		Europe		Asia		Worldwide	
Web Conferencing	1	49.8%	1	51.8%	1	48.7%	1	46.6%	1	67.5%
Email	2	43.0%	2	40.9%	2	46.3%	2	41.4%	2	56.6%
Blogs	3	35.4%	4	30.6%	3	43.0%	3	34.5%	3	52.1%
Calendaring	4	31.9%	3	33.5%	4	34.5%	4	24.1%	7	45.9%
Office Suite (e.g., spreadsheet, word proc)	5	25.4%	8	21.8%	5	30.5%	5	22.4%	4	43.3%

Source: Saugatuck Technology, SaaS Survey Research 2008 (n=418)
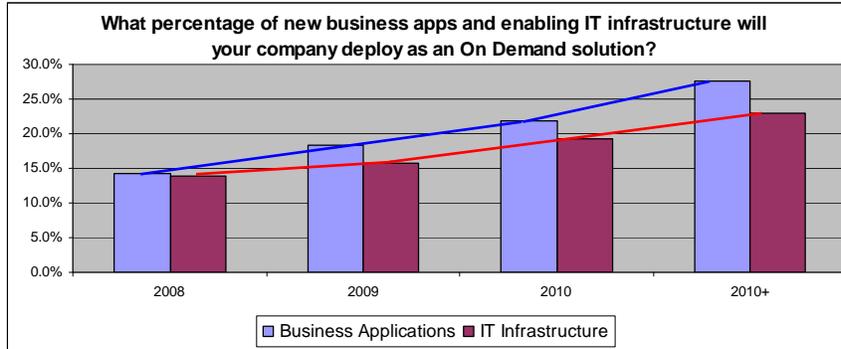
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SaaS vs. Traditional IT Deployment

By 2012, 30 percent of new business solutions and 25 percent of enabling IT infrastructure will be delivered as software-as-a-service.

By 2010, 40 percent of traditional on-premise application ISVs bring SaaS solutions to market, via acquisition, development of new single-instance multi-tenant applications, or through virtualized (multi-tenant) versions of their traditional on-premise offerings.

Less than half of the ISVs in transition will succeed – especially large multi-divisional publicly-traded vendors who have unique organizational, cultural, sales and marketing, and installed customer base (transition / cannibalization) challenges.

What percentage of new business apps and enabling IT infrastructure will your company deploy as an On Demand solution?

Legend: ☐ Business Applications ■ IT Infrastructure

Source: Saugatuck Technology, SaaS Survey Research 2008 (n=418)

Chart: 7

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Beyond Software as a Service

The focus of SaaS shifts over time from cost-effective delivery of stand-alone application services (Wave I), to integrated business solutions enabled by web services APIs and ESBs (Wave II), to workflow- and collaboration-enabled business transformation (Wave III), leading to measured, monitored and managed business processes (Wave IV).

By 2013, at least 20 percent of enterprise IT workloads -- that historically would have operated on-premise -- will be run in the cloud, providing significantly enhanced functionality, lower costs, fewer staff, and reduced carbon footprint.
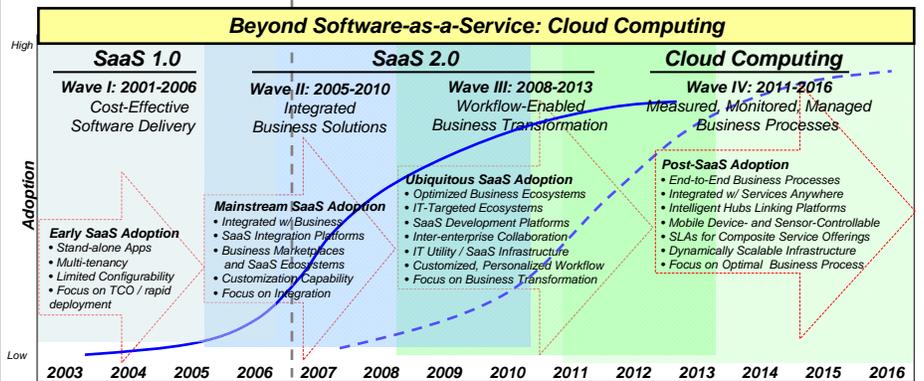
Beyond Software-as-a-Service: Cloud Computing

Source: Saugatuck Technology
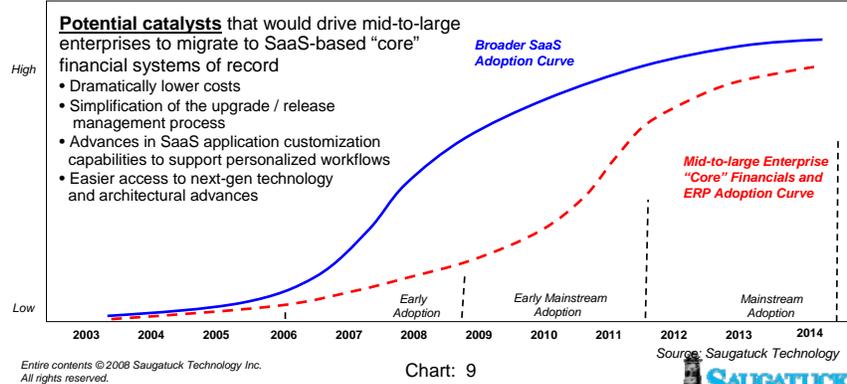
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SaaS and Core Mission-Critical Business Processes

Between 2009 and 2012, at least 40 percent of mid-to-large enterprises will seriously evaluate SaaS-based "core" financial systems of record, as well as broader operational requirements (e.g., order management, procurement, ERP, HR).

Of these, approximately a third will choose a new next-gen SaaS solution provider, a third will migrate to newer SOA and SaaS-based versions from their existing software vendor and a third will postpone making a decision.
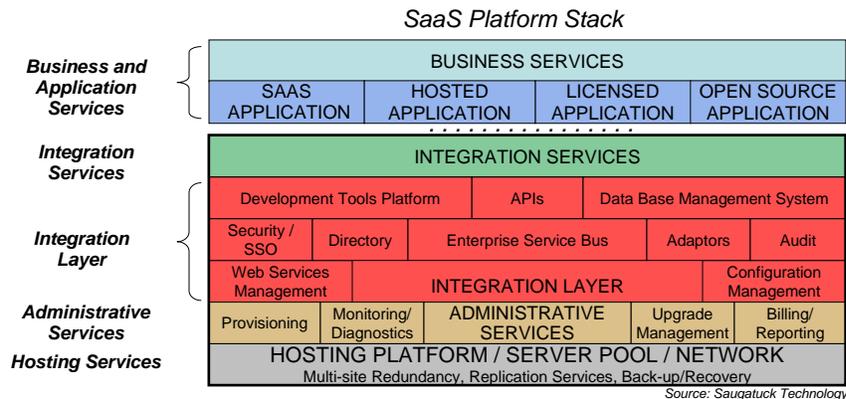
Beyond 2012, all bets are off for business software sold and managed under traditional perpetual software licensing schemes.

Potential catalysts that would drive mid-to-large enterprises to migrate to SaaS-based "core" financial systems of record
- Dramatically lower costs
- Simplification of the upgrade / release management process
- Advances in SaaS application customization capabilities to support personalized workflows
- Easier access to next-gen technology and architectural advances

Broader SaaS Adoption Curve

Mid-to-large Enterprise "Core" Financials and ERP Adoption Curve

High

Low

Early Adoption

Early Mainstream Adoption

Mainstream Adoption

2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014

Source: Saugatuck Technology

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SaaS Platforms Evolve

Through 2010, SaaS Platforms will evolve beyond ecosystem-driven integration in support of customers, complementary long-tail offerings and other business partners to embrace development and runtime services.

By 2010, cloud-based development and runtime platforms will be viable alternatives to on-premise application development and data center services.

SaaS Platform Stack

Business and Application Services

BUSINESS SERVICES			
SAAS APPLICATION	HOSTED APPLICATION	LICENSED APPLICATION	OPEN SOURCE APPLICATION

Integration Services

INTEGRATION SERVICES

Integration Layer

Development Tools Platform	APIs	Data Base Management System

Security / SSO	Directory	Enterprise Service Bus	Adaptors	Audit

Web Services Management	INTEGRATION LAYER	Configuration Management

Administrative Services

Provisioning	Monitoring/ Diagnostics	ADMINISTRATIVE SERVICES	Upgrade Management	Billing/ Reporting

Hosting Services

HOSTING PLATFORM / SERVER POOL / NETWORK
Multi-site Redundancy, Replication Services, Back-up/Recovery

Source: Saugatuck Technology

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