

A FROST & SULLIVAN EXECUTIVE SUMMARY

Journey to SaaS: How You Can Grow Your Software Business by Moving to the Cloud



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— Jim Fanella
*Vice President &
 General Manager*
 HP Enterprise
 Cloud Services

For most independent software vendors (ISVs), the decision isn't whether to enter the cloud; it's how. Business users and consumers alike have shown a strong preference for easy access, low pricing, and simple updates enabled by the Software as a Service (SaaS) model.

But whether they have built their software on a cloud platform or are migrating from a traditional licensed model, ISVs have reason to be wary. In the cloud, they are not delivering a product, but a service. Their ability to build and deliver their SaaS applications securely and cost-effectively, while meeting customers' high expectations for availability, performance, and price, depends largely on the cloud vendor and infrastructure service they choose.

During the eBroadcast **Journey to SaaS: How You Can Grow Your Software Business by Moving to the Cloud**, Frost and Sullivan and HP discussed the new challenges and opportunities for ISVs as they enter the cloud era.

MARKET OVERVIEW

Software as a Service (SaaS) is a method for delivering software that uses the cloud model, which can be described in terms of a stack that starts with Infrastructure as a Service at the bottom, a Platform as a Service (which includes the platform for development and delivery of your software) on the next stack, and the actual SaaS delivery applications at the top.

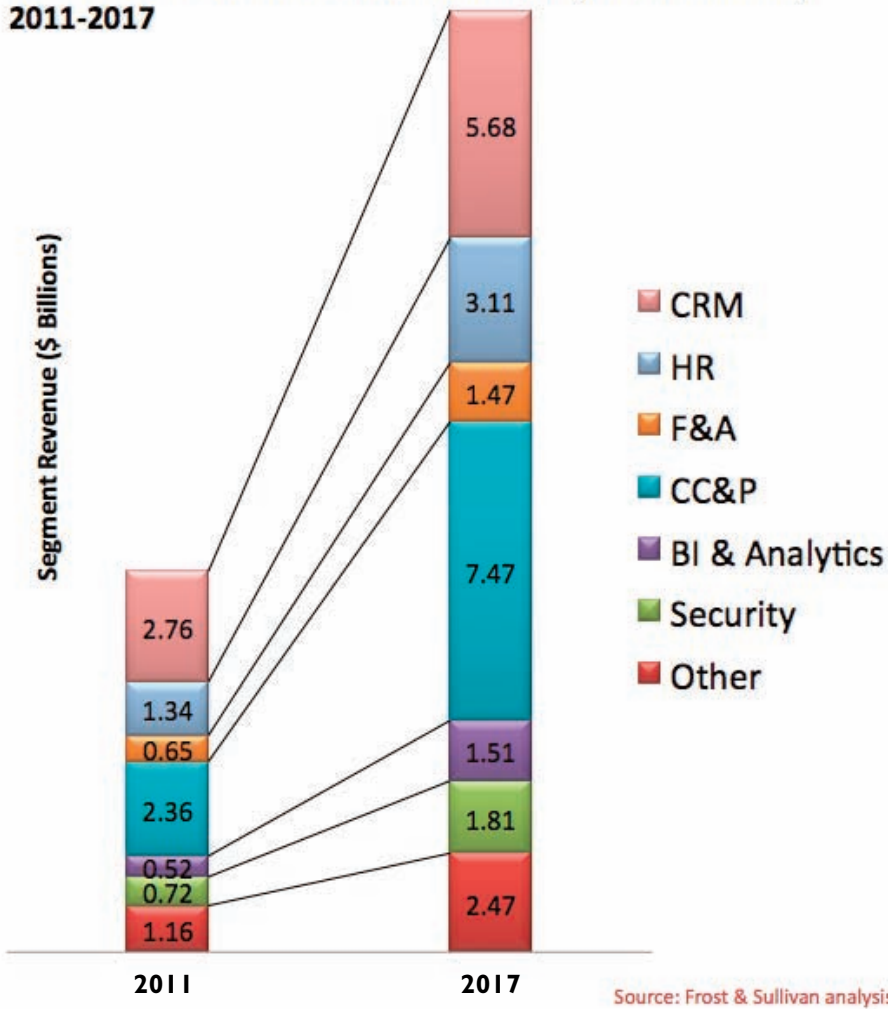
Not all software that is hosted via a network is part of the cloud. As such, some of the characteristics that are truly associated with cloud include a solution that is:

- Subscription-based
- Multi-tenant
- On-demand
- Self-service
- Network accessible

WHY SAAS MATTERS

The U.S. business SaaS market is growing quickly at 16.3% CAGR through 2017 (see chart on next page). SaaS growth outpaces all other business software delivery models, including traditional license software, an Application Software Provider (ASP) or hosted model, or infrastructure as a service. "SaaS growth is outpacing all of them. Furthermore, the growth isn't confined to a single market. It extends across all market segments," said Lynda Stadtmueller, Program Director, Cloud Computing, Frost & Sullivan.

Business SaaS Markets: Revenue Growth, North America, 2011-2017



WHY IS SAAS GROWTH OCCURRING?

The primary reason businesses are choosing SaaS is not because of cost savings, but because they see business growth as more important. “Customers are more interested in using business software applications to grow their business and that’s what they expect your SaaS offers to do for them,” said Stadtmueller.

The top IT-related concerns for businesses driving this growth include:

- Ease of access for remote users
- Speed to deploy applications or onboard new users
- Support of LoB decisions regarding software
- Scalability of applications
- Decreased time/cost for software management and maintenance

“ In terms of supply and demand, less than 30% of today’s software companies offer SaaS. New software companies leave the gate with a SaaS offering, leaving 70% of software companies — many of them long-established brands — working to catch up. ”

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- Expected cost savings vs. traditional software license
- Decreased time to implement new applications
- Greater functionality of SaaS applications
- Avoidance of costs for servers and networks
- Increased need for process automation
- Decrease in functional staff

“There are a lot of reasons that businesses are eager to look at the SaaS model and cost is only one of many,” said Stadtmueller.

HOW TO CHOOSE A SAAS PROVIDER

“Similarly, low price is not the most important factor for businesses choosing a SaaS provider,” said Stadtmueller, noting that, “What is more important is that the business trusts the SaaS provider to deliver important applications to their users.”

Even the most loyal users of traditional licensed software products can view migrating to SaaS as an opportunity to look for alternative products to replace their existing software to ensure that they are making the best business decision for the company. For that reason, a business considering a transition to a SaaS model should create an understanding of how its customers are choosing their SaaS providers.

More and more, businesses expect SaaS providers to:

- Encrypt data stored in the cloud
- Offer high-availability (uptime) SLAs
- Provide ease of migration from traditional software apps
- Offer easy integration with other software
- Have end-to-end performance SLAs
- Provide easy customization
- Be available at a low price
- Provide a single, federated sign-on to SaaS apps
- Offer comprehensive visibility into usage
- Allow users to subscribe to SaaS bundles
- Bundle SaaS apps with a centralized administration
- Run on an open-source platform

SaaS is no longer a standalone world. With traditional packaged software, the expectation was that the software would not touch other software products. “Your users aren't thinking that way anymore; they're looking at SaaS as an opportunity to integrate and combine different types of commercial software with their own software,” said Stadtmueller. “So, look for opportunities to be part of the new cloud way of delivering services and work with your colleagues and customers to increase your functionality by partnering.”

TWO TYPES OF SAAS INFRASTRUCTURE

“When enabling a client with a cloud-based solution, your organization can earn a client's trust by delivering more than code,” suggests Stadtmueller. “Your organization should deliver a cloud solution using the right infrastructure that supports your target clients' needs. Customers are looking for a reliable service — and that comes down to infrastructure.”

Two types of SaaS infrastructure include the **virtual private cloud** and the **public cloud**. Their differences are broken down as follows:

VIRTUAL PRIVATE CLOUD:

- Servers dedicated to an enterprise
- Offers greater control, security, and application performance than public cloud
- Higher cost than public cloud

PUBLIC CLOUD:

- All infrastructure components — including servers — are shared among clients
- Potential contention for server resources
- Lower cost than virtual private cloud

“Either one of these models is less expensive than building your own or another type of infrastructure service,” said Stadtmueller.

For many independent software vendors, the answer is a cloud-based virtual private cloud, as it offers the benefits of a public cloud in a dedicated hosted environment.

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“It comes back down to the app and the data. There are different models of the cloud and cloud management. What's key is the application that manipulates the data translates to revenue for you.”

— **Patricia Wilkey**
*Program Director,
 Global Director,
 Cloud Services
 HP Enterprise
 Cloud Services*

The benefits of this solution include:

- Pay per use: costs aligned with revenue
- Scalable: resources available as needed
- No capital expenses
- Predictable performance: supports SLAs
- Lower risk of data breach or contamination
- Better able to comply with regulatory environments

“The journey to SaaS can be complex. The most important thing I can suggest is that you choose an experienced partner to help you get from here to there and be successful along the way,” said Stadtmueller.

THE JOURNEY TO THE CLOUD

The Challenges of Moving to the Cloud

Build or buy? That is one of the main questions organizations are faced with when considering a move to the cloud. The move to the cloud also spurs the need also consider the types of applications you will use in the cloud, when you will use these apps, and what type of cloud will work best for your organization.

Additionally, the IT department is being called on to do more (often with fewer resources). Employees also expect an enterprise cloud to have many of the features that are available on consumer clouds, such as those that provide smart phone apps and features.

THE GROWTH OF SAAS

The SaaS market is growing because, “end customers want the business functionality offered by Software as a Service, like consumer customers, they want applications without the headaches and costs,” said Jim Fanella, Vice President & General Manager, HP Enterprise Cloud Services.

“In terms of supply and demand, less than 30% of today’s software companies offer SaaS,” said Fanella. “New software companies leave the gate with a SaaS offering, leaving 70% of software companies — many of them long-established brands — working to catch up.”

This disparity was created by application risk reversal. In the past, software companies simply provided the end-customer with software and received an up-front payment. Meanwhile, the end-customer was responsible for being current with software releases, buying hardware, buying data center or server room, taking software and hiring employees, watching current tech turns.

“The onus was primarily on the user, until Software as a Service came,” said Fanella.

Before the cloud, the software company was responsible for the software. With SaaS in the enterprise, the software company is now responsible for providing:

- SLAs
- New pricing models
- Technical support staff
- Application transformation
- Cloud infrastructure
- Data center

“With the cloud model, revenues are received over a longer period of time — from perpetual to subscription,” said Fanella.

HP CLIENT CASE STUDY

A move to the cloud can provide serious business results, as described in the following case study. One of HP's SaaS clients needed to deliver Software as a Service globally to gain market competitiveness, as well as to focus on its core competency, which was innovative software development. HP partnered with the client to manage an enterprise class cloud infrastructure.

HP initiated a Virtual Private Cloud proof of concept to give customers an opportunity to test cloud services and discover the possibilities, and delivered application integration service to port applications and test the solution readiness. Through this, HP then enabled new SaaS business model with Enterprise Cloud Services – Virtual Private Cloud for new client volumes.

“The private cloud showed which geographic regions the client's applications needed to run at an enterprise class level. In the end, the client decided it made good business sense to take advantage of the enterprise-class virtual private cloud,” said Fanella.

Although the public cloud offered lower pricing, the private cloud offered better security and performance.

DEMAND SIDE OF THE CLOUD

For an enterprise customer looking for SaaS apps in the market, a cloud solution can provide many savings, from lowering data center costs, to reducing IT technical support costs, as well as hardware and software licensing costs. Additionally, SaaS provides the ability to elastically scale up and scale down at will. Looking forward, SaaS also holds the potential to create new revenue streams.

FINANCIAL RETURNS OF THE CLOUD

Deciding to move to the cloud is dependent on an organization's cost structure; it depends on what apps you want to use, and whether you need localized clouds, private, or public clouds. It depends on the business drivers and the outcomes you want.

Many of HP's customers are asking for help on which cloud is the best choice for which of their workloads, as well as for help with the transformation journey to SaaS. These customers want the help of a brand leader established in the marketplace.

Clients are looking for value above the infrastructure layer, with application environments, applications, and industry solutions. They are seeking support for hybrid environments with the confidence that the cloud is managed consistently and securely.

"It comes back down to the app and the data," said Patricia Wilkey, Global Director, Cloud Services, HP Enterprise Cloud Services. "There are different models of the cloud and cloud management. What's key is the application that manipulates the data translates to revenue for you."

FINAL THOUGHT

ISVs that want to be successful need to stay ahead of the market. And today's market increasingly wants to consume its applications via Software as a Service. The SaaS model is attractive to both consumers and business users because it offers on-demand, low-cost access to the latest software.

For ISVs, the opportunity is great — but the added responsibilities are considerable. With SaaS, it's the ISV — not the user — that is responsible for supplying the infrastructure to run the software, for pushing out updates, and for ensuring secure and available access.

To meet customer expectations and gain a share of the 16% industry growth, ISVs need to rely on a strong infrastructure provider, like HP. The HP Virtual Private Cloud offers a reliable, affordable, and scalable infrastructure solution that is ideal for hosting SaaS.

Backed by the cloud partner, ISVs can focus on the app, not the infrastructure. Isn't that what you and your customers want?

“ The journey to SaaS can be complex. The most important thing I can suggest is that you choose an experienced partner to help you get from here to there and be successful along the way. ”

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ABOUT HP

HP offers the full breadth of converged cloud solutions required by enterprises, service providers, governments, and developers. HP Converged Cloud solutions help you deliver information anywhere, applications anywhere, and infrastructure anywhere for a cloud environment that's flexible and change-ready — and tailored to your business or agency. With over 50 years of experience to help you on your cloud journey, HP is a market leader with over 1,000 customers using its Converged Cloud solutions and services and over 200 managed cloud customers and more than 6,000 public cloud users. HP has signed more than 80 Cloud Agile service providers' partners, while over 40% of Fortune 100 companies run HP Converged Cloud solutions. Learn more at www.hp.com.

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