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Shape Your Apps Strategy To Reflect New SaaS Licensing And Pricing Trends

by R "Ray" Wang

for Application Development & Program Management Professionals

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This is the seventh document in the "Building A Long-Term Apps Strategy" series.

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EXECUTIVE SUMMARY

Recessionary forces drive applications professionals to seek new delivery models such as software-as-a-service (SaaS), platform-as-a-service (PaaS), and other XaaS (X-as-a-Service) models. But with these options' upfront benefits in choice, value, and predictability come new ownership risks that applications professionals and business stakeholders should explore. Forrester's review of 11 vendors in SaaS enterprise resource planning (ERP), customer relationship management (CRM), and supply chain management (SCM) confirms that, motivated by heavy competition for new customers, these vendors remain vigilant in mitigating such end-user concerns. In fact, SaaS vendors continue to improve and refine subscription models for new buying scenarios beyond cost/user/month. Forrester recommends that all applications professionals include SaaS in their firm's long-term packaged apps strategy and that they take five key actions to mitigate risk while avoiding lock-in.

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NOTES & RESOURCES

Forrester interviewed 11 vendors and 517 users, including Amitive, Intacct, Intuit, NetSuite, QuickArrow, salesforce.com, and Workday.

Related Research Documents

"Five Steps To Building A Recession-Proof Packaged Applications Strategy"
December 22, 2008

"The Forrester Wave™: Enterprise Apps Software Licensing And Pricing, Q4 2007"
October 15, 2007

"Enterprise Software Licensing And Pricing Update, Q1 2007"
March 15, 2007

"An Enterprise Software Licensee's Bill Of Rights"
December 18, 2006

THE RECESSION IS DRIVING INCREASED SAAS ADOPTION

Faced with impending IT budget cuts, increasing business demands, and the encumbrances of legacy packaged apps, applications professionals are increasingly turning to true multitenant SaaS delivery options during the downturn (see Figure 1). SaaS adoption as part of a long-term apps strategy keeps growing because:

- **Subscription pricing reduces capital expenditures (capex).** Enterprises facing credit and liquidity issues must conserve cash when possible. Pay-as-you-go deployment options reduce the upfront capital expense of license fees, maintenance, implementation, integration, and hardware that users face with on-premise deployment. Over 46% of respondents in Forrester's Enterprise And SMB Software Survey, North America And Europe, Q3 2007 stated that the SaaS pricing model is a significant motivator for using SaaS (see Figure 2).

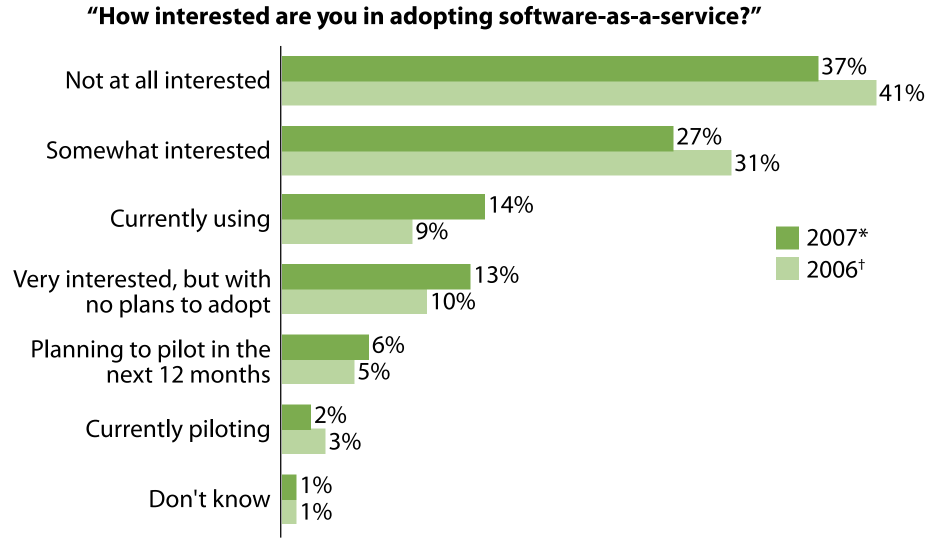
- **SaaS enables more-rapid deployment.** Apps pros can configure, integrate, and deploy quickly, starting from as little as two weeks. Rich user experiences and intuitive Web 2.0 approaches reduce the overall cost of user training compared with fat-client user interfaces that reflect older user-experience practices. Enterprises can easily deploy across subsidiaries and geographies.

- **Enterprises expect frequent updates with new functionality.** Constant increases in maintenance fees without corresponding increases in delivered value, the burden of marshaling functionality requests, and the high ongoing cost of ownership frustrate on-premise users. Additionally, infrequent and expensive upgrades cause business users to experience upgrade fatigue. True multitenant SaaS users experience frequent upgrades with minimal downtime and minimal reduced testing resources — leaving business users time to get value from the software. Moreover, changes to business processes can occur via configuration instead of expensive customizations, bolt-ons, or user exits.

- **Business leaders drive more and more software decisions.** Cuts in IT budgets result in business leaders having to fund more and more IT activities, including software purchases. Furthermore, executives of divisions and subsidiaries upset with unresponsive IT departments can take matters into their own hands with SaaS, often to the chagrin of IT leaders who end up cleaning up the mess.

- **Vendor success generates buzz and increased interest.** SaaS vendors continue to grow quarterly revenues year over year. In fact, most vendors posted over 40% growth rates in the past two quarters during a period when most on-premise vendors delivered disappointing year-over-year quarterly reductions in new license revenue (see Figure 3). Continued customer successes drive word-of-mouth adoption and a groundswell of interest. For example, Flextronics International's decision to go with Workday for 200,000 users has raised the profile of enterprise resource planning (ERP) SaaS options for large enterprises. Rapid deployment times for project-based solutions (PBS) have raised awareness for vendors such as OpenAir, QuickArrow, and Tenrox.

Figure 1 SaaS Adoption Continues To Increase

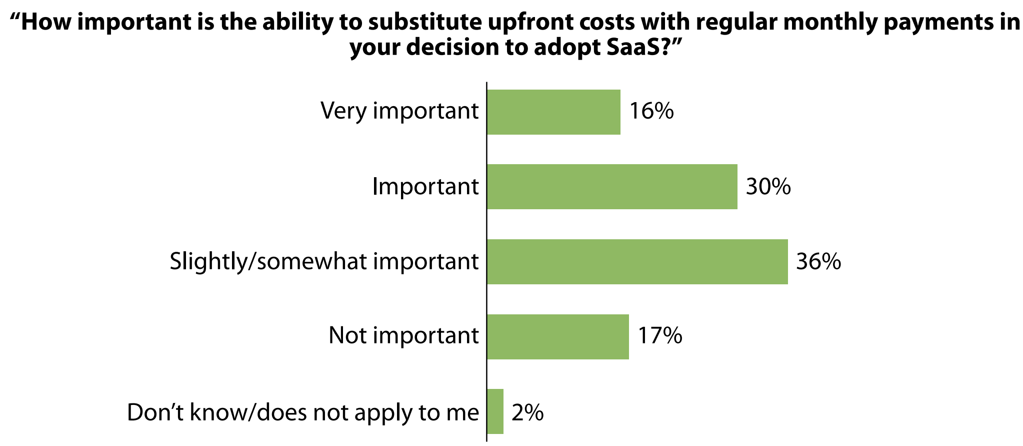


Base: *450 enterprise IT professionals, †667 enterprise IT professionals

*Source: Enterprise And SMB Software Survey, North America And Europe, Q3 2007
†Source: Business Technographics® September 2006 North American And European Enterprise Software Survey

46602 Source: Forrester Research, Inc.

Figure 2 The SaaS Pricing Model Is A Significant Motivator



Base: All 101 SMB IT professionals who answered the question "How interested are you in adopting software-as-a-service?" with "planning to pilot within next year," "currently piloting," or "currently using"
(Percentages do not total 100 due to rounding.)

Source: Enterprise And SMB Software Survey, North America And Europe, Q3 2007

46602 Source: Forrester Research, Inc.

Figure 3 Q2 And Q3 2008 Vendors With Subscription Pricing Models Show Tremendous Growth

Subscription revenue in millions (USD)

	Q2 2007	Q2 2008	% increase	Q3 2007	Q3 2008	% increase
Ariba	18.0	30.3	68.3%	18.8	32.6	73.4%
Blackboard*	52.3	68.3	30.7%	54.0	74.3	37.7%
CA*	907	965	6.4%	936	975	4.2%
Concur	30.2	53.2	76.1%	32.4	55.7	71.9%
NetSuite*	25.6	36.6	43.0%	28.1	40.4	44.0%
RightNow Technologies*	20.7	25.6	23.6%	22.4	26.0	16.1%
SAP†	56.9	82.7	45.5%	59.5	82.7	39.1%
salesforce.com*	160	239.7	49.8%	176.4	253.4	44.0%
Taleo*	25.6	30.9	20.6%	27.4	41.0	49.4%

Data shown reflects publicly available quarterly figures most in line with the calendar year quarter.
(Numbers/percentages may not equal the total shown because of rounding.)

*Values include other categories in addition to subscription revenue.
†Converted to USD based on exchange rate 1 Euro = 1.2924 USD as of Dec. 8, 2008, using http://moneycentral.msn.com/investor/market/currencyconverter.aspx.

46602 Source: Forrester Research, Inc.

APPS PROS SEEK CHOICE, VALUE, AND PREDICTABILITY FROM SAAS

During the past four months, Forrester spoke with more than 500 applications professionals about price increases, maintenance hikes, and long-term apps strategy. These discussions gave us insights into what users expect from their software ownership experience. While those issues can be broken into tens of categories, our analysis uncovered three consistent themes, all of which align with the SaaS software ownership life cycle, which is driving apps pros to give SaaS added emphasis as part of a long-term apps strategy. The themes are (see Figure 4):

- **Choice.** Rapid vendor consolidation over the past five years has left apps pros with fewer vendor choices, but the growing plethora of SaaS vendors increases competition and choice in the SaaS marketplace. Moreover, SaaS vendors with strong ecosystems such as salesforce.com's AppExchange allow users to stay within one platform for additional functionality or to extend application capabilities via PaaS.

- **Value.** Forrester's Total Economic Impact™ (TEI) studies show that in most cases, SaaS delivers better TEI and lower total cost.[1] In addition, recent price hikes and maintenance fee increases by packaged apps vendors run counter to user sentiment during a recession.[2] Customers find value with SaaS solutions' pay-as–you-go, "flex-up and flex-down" deployment, which allows users to buy licenses when needed, reduce licenses during downturns, and avoid buying the costly shelfware that is often the result of using on-premise software.

- **Predictability.** Constant innovation with quarterly and even monthly product updates deliver product road map predictability. Most current on-premise options limit user access to new functionality over long periods of time and require costly upgrades. Meanwhile, subscription pricing models with price protection clauses bring apps pros both predictability and flexibility.

Figure 4 The SaaS Software Ownership Life Cycle Delivers Choice, Value, And Predictability

Phase	Responsibilities	Time
Selection	• Determine current state. • Identify key process flows. • Design future state. • Map process flow and functionality gaps with vendor offering. • Negotiate software terms.	Precycle
Implementation	• Select implementation partner. • Identify executive sponsors. • Build IT and business leader owners. • Determine program management. • Design ongoing knowledge management and transfer processes. • Focus on integration requirements.	Years 0 - 0.5
Utilization	• Software is now at full usage. • Business requirements are collected for future enhancement requests to the vendor. • Changes in business structure affect software usage. • Updates require testing of integrated modules. • Introducing new modules requires evaluation.	Years 0.5-???
Maintenance	Not applicable	N/A
Retirement	• Customer considers new alternatives. • Transfer and migration of data • Movement from SaaS to on-premise if available	At user discretion

46602 Source: Forrester Research, Inc.

VENDORS DEMONSTRATE CONTINUED EVOLUTION AND VALUE OF SAAS PRICING MODELS

Forrester analyzed the completed, work-in-progress, or ongoing initiatives for the latter half of 2008 for seven SaaS applications vendors. The software licensing and pricing trends Forrester found include refined pricing models, new bundling and unbundling options, and a focus on fixed-price implementations. Specific trends for these SaaS apps vendors include:

- **Amitive delivers a usage-based model to foster collaboration and community participation.** Amitive, formerly known as Mitrix, provides community supply chain management (SCM) and order-hub components for brand owners who outsource manufacturing. The vendor's mission focuses on creating a trading community of customers and suppliers for enterprises with less than $2 billion in revenue. Unlike most SaaS vendors, Amitive bases pricing on order lines in order to encourage participation of the brand owner and the supply chain owner. The result: a usage-based metric that's based on order size for each stakeholder. Amitive also provides basic and premium support based on a percentage of the recurring annual contract value. Additional services include a fixed-price offering of a new Amitive implementation methodology.

- **Intuit attaches a SaaS services model to on-premise QuickBooks Enterprise Solutions.** Intuit's new SaaS offerings include Warehouse Management ES, Sales Management ES (beta), and Field Service Management ES. Intuit remains committed to a hybrid sales channel, but its indirect sales channel partners will deliver its professional service offerings. All offerings have a special 25% discount on all sales through March 31, 2009, for the first year of service. Customers who purchase a Full Service Plan for QuickBooks Enterprise receive one seat of Field Service Management ES, Warehouse Management ES, and full Business Analysis ES. The Full Service Plan provides on-premise QuickBooks users with product upgrades, technical support, training tools, data protection services, and online backup.

- **Intacct reduces the barrier of entry for SMBs while simplifying channel pricing.** Intacct delivers on-demand financial management and accounting applications for small and medium-size businesses (SMBs). Recent changes for small enterprises include the unbundling of modules and a lower base price of $5,000 per year for core financial applications. Small enterprises can add functionality by buying additional modules such as Consolidation, Revenue Recognition, or salesforce.com integration in $3,000-to-$6,000 increments while still paying a $125/user/month list price for finance department users and $10/user/month for casual employee users. Customers can still buy the entire suite for a list price of $28,000 per year. For midsized enterprises with subsidiaries, operating units, or franchises, Intacct introduces per-business entity charges: Customers pay by business user according to a list price of $600/business entity/year.

  Fixed-price implementation for core financials is $7,500 from Intacct and starts at $2,000 from resellers. Unlike some SaaS vendors, Intacct has a payment model that charges for users deployed, not users licensed, and payment terms can be monthly, quarterly, or annual. The subscription price includes US-based support, training, and disaster recovery. Premium support options provide 24x7 coverage and on-premise training. Intacct has also expanded its service-level agreement (SLA) beyond performance and availability to include data ownership, data retention, and disaster recovery guarantees. In addition, Intacct has deployed a unified pricing model across its direct, reseller, and outsourcing channels that resolves most channel conflicts.

- **NetSuite continues to expand vertical-edition bundling and flat-fee pricing for add-ons.** Per-user pricing remains a standard $99/user/month with a base fee per company of $499 per month. CRM+ pricing is $129/user/month and includes silver-level support. Vertical-edition bundles are add-ons to the base suite, which means that core pricing stays intact and customers will not receive charges for functionality they do not use. Currently, NetSuite delivers seven vertical bundles, including software companies, wholesale/distribution, manufacturing, eCommerce, services, media and publishing, and IT resellers. New usage-based models include Web-order volumes for eCommerce editions. The five-tier support plan has moved to three tiers with the elimination of the bronze level and the collapse of two gold tiers. Select customers may qualify for new platinum support, which includes 24x7 coverage and a dedicated representative. The company still provides free phone support for 60 days to all customers. NetSuite One, the new best practices templates and professional services implementation methodology, is now available to all partners and customers.

- **QuickArrow delivers choice with tiered and bundled user-based pricing models.** QuickArrow provides project-based solutions (PBS) that optimize professional services automation. New licensing and pricing initiatives help smaller businesses improve access to technology. In response to customer requests, the vendor has reduced minimum contract terms from one year to a month-to-month frequency for small businesses. Other developments include tiered user pricing that reflects the roles of full users, individual users, and nonproject time and expense (T&E) users. For those seeking bundled pricing, QuickArrow offers one price based on the distribution of users and will renegotiate terms based on usage at contract renewal. Additional bundling includes fixed-price services implementations with subscriptions. Basic support includes 24x5 coverage. Premium support includes administrative support paid by each interaction.

- **salesforce.com provides more value for existing license fees and more user tiers.** The SaaS pioneer and industry leader continues to build value in its six-tier, user-based pricing model. Tiers include Unlimited Edition, Enterprise Edition, Professional Edition, Group Edition, Personal Edition, and Force.com Developer Edition. The Unlimited Edition includes all of the core CRM application modules, enterprise infrastructure, 2,000 custom objects, Force.com sandbox, Salesforce Mobile, Premier Support and Administration, and six times the normal 20-MB-per-user storage, which can be pooled (all customers get at least 1 GB of storage). This storage is different from document storage; customers get additional document storage.

  All editions allow customers to create custom applications and tabs, but Unlimited Edition allows them to develop more sophisticated applications. Pricing remains the same at $125/user/

month for Enterprise Edition and $65/user/month for Professional Edition. Premier Support delivers 24x7 live phone support and priority phone queues, two-business-hour response time, an assigned customer service representative, application program interface (API) support, outsourced admin services, and CRM health checks.

- **Workday maintains a simple subscription pricing model based on company size.** Founded by PeopleSoft founder Dave Duffield and Aneel Bhusri, Workday provides Workday Enterprise Business Services in areas that include human capital management, payroll, financial management, procurement, resource management, and expenses. Workday continues to offer subscription-based pricing based on total number of employees or total revenue. Pricing is based on service areas. Support and upgrades are included while maintenance fees are not assessed. Workday's new professional service offering, Workday Solution Center, focuses on rapid implementations. One financial services company went live in just 38 business days.

RECOMMENDATIONS

ADOPT SAAS BENEFITS WHILE MITIGATING RISKS IN YOUR LONG-TERM APPS STRATEGY

Keep in mind that while cost/user/month SaaS pricing models may seem simple at first, factors such as connection points, storage, support, and module-based pricing can quickly add to their complexity. In addition, true multitenant SaaS models leave users without the software code should the vendor go bankrupt or the client choose to end its relationship with the vendor. While considering SaaS as part of a long-term apps strategy, apps professionals should follow these simple suggestions to get the most out of SaaS and mitigate risk:

- **Balance pay-as-you-go month-to-month terms with long-term contracts.** Clients report that SaaS vendors that have sought longer-term contracts in the past are now more open to shorter-term contracts. Seek at least a 10% discount for yearly contracts. Forrester recommends that clients start with monthly plans to ensure that the functionality meets requirements and that integration issues will not be an obstacle to success.
- **Compare SaaS versus on-premise over an appropriate period.** A fair comparison should include applicable cost factors such as implementation, training, change management, upgrades, hardware, and bandwidth. Forrester recommends a comparison period that reflects the full usage life of on-premise software. For ERP, that is 10 years; for CRM, that may be five to seven years.
- **Understand long-term ownership implications.** Keep the five phases of the software ownership life cycle (i.e., selection, implementation, utilization, maintenance, and retirement) in mind when reviewing contracts. Unexpected costs during selection often include platform, connection, and country support charges. During implementation, users may expect additional costs geared to performance, integration, and security requirements. Utilization

surprises often include bandwidth, storage, and additional module fees. Maintenance charges remain minimal but could include backup recovery. Retirement includes switching costs such as data migration, process migration, training, and integration.

- **Seek more than just refunds for outages in service-level agreements.** Most contracts specify refunds in contract price for outages. Forrester recommends that users seek loss-of-business metrics. One model used in some Forrester contract negotiations utilizes past performance, adjusts for seasonality to estimate the transaction values lost, and compares year-over-year with an adjustment for growth or decline.
- **Choose a financially viable SaaS vendor or seek a software escrow-like mechanism.** Vendors' economic viability will evolve into a significant risk factor during this downturn. Unlike perpetual software, SaaS code is "rented." Most contracts do not include the software escrow protection mechanisms found in on-premise contracts. The result: No access to the code or service from a bankrupt SaaS vendor. Apps pros considering nonmultitenant options such as hosting may benefit by owning the software, but they should factor this against the risks of higher long-term maintenance costs, fewer updates, and greater potential for vendor price hikes to offset increasing costs.

WHAT IT MEANS

SAAS BENEFITS WILL DRIVE APPS PROS TO CONSIDER BROAD ADOPTION

As the recession worsens, expect business and IT leaders to consider SaaS and other cloud computing options. The allure of "try and buy" in the SaaS model delivers the agility applications professionals will need to balance cost pressures with business pressures for much-needed functionality. Expect new vendors and choices to emerge as SaaS development and delivery costs lower the barrier of entry for new competitors. Forrester believes that some of those new entrants will include the system integrators with unique intellectual property (IP), business process/transformation vendors delivering in the cloud, and industry associations looking to lower the cost of commoditized services.

ALTERNATIVE VIEW

SAAS MODEL RESEMBLES 1980S MAINFRAME AND SERVICE BUREAU LOCK-IN MODELS

Adoption of SaaS models carries inherent risk. To understand these risks, apps pros should consider the history of mainframe computing and service bureaus:

- **Services denote continued operational usage costs.** Usage costs continue as a perpetual expense for access rights to the license instead of a one-time, fixed cost for the license as is the case for perpetual license models. Depending on the application lifetime and the cost of maintenance and upgrades for the licensed alternative, the continued operational usage costs of the SaaS option can make its Total Economic Impact less favorable in comparison.

- **No infrastructure means data is stored outside of the enterprise.** As SaaS has risks similar to those that outsourcing poses, users must be vigilant about data security when using a SaaS option — and it may never be acceptable to host some data off premise. Data migration will require SaaS vendors to deliver one-click data export into open file formats such as ASCII, text, HTML, XML, DOCX, ODF, PDF, DVI, RTF, OGG, PNG, and others. Keep your data backed up in another location (even if it's just another location in the cloud) to lower this risk.
- **Integration among PaaS platforms and SaaS providers will require additional effort.** With the number of options and services in the cloud proliferating, apps pros must focus on SaaS integration strategies. Strategies can range from a software appliance model such as Cast Iron Systems to SaaS integration options including Boomi, Pervasive Software, and Informatica. The challenge will be to avoid building a full client-side enterprise service bus (ESB) while maintaining the flexibility necessary to create interoperability among very different modules with different pedigrees.

SUPPLEMENTAL MATERIAL

Methodology

Forrester interviewed 517 users and 11 SaaS vendors to determine current software licensing and pricing trends. The conversations focused on strategies to optimize long-term apps strategies.

If you're interested in providing insight, please directly contact the author, R "Ray" Wang, at rwang@forrester.com.

Companies Interviewed For This Document

Amitive

Intacct

Intuit

NetSuite

QuickArrow

salesforce.com

Workday

ENDNOTES

[1] While adoption of software-as-a-service (SaaS) has become widely accepted in CRM, usage in ERP continues to play catch-up. Consequently, firms evaluating various deployment options should consider evaluating both SaaS and traditional on-premise options beyond the pure cost tradeoffs. Depending on the business models and economic drivers, differences in business benefits, flexibility, and risk are important when comparing these deployment options. The third document in the "Measuring The TEI For Enterprise Applications" series builds on the on-premise and SaaS models of the first two reports and evaluates four scenarios using Forrester's Total Economic Impact™ (TEI) methodology for 50, 100, 250, and 500 users. See the September 20, 2006, "Comparing The ROI Of SaaS Versus On-Premise Using Forrester's TEI™ Approach" report.

[2] SAP's July 16, 2008, decision to move to a single-tiered 22% maintenance model raises concern for business process and applications professionals. While the new model does offer some new benefits such as upgrade support and end-to-end operations support, many of the customers with whom Forrester has spoken already question the value of their existing Basic Support contracts at 17%. If you're an SAP customer or prospect, formulate a long-term strategy on SAP ownership that includes a near-term push for license discounts and longer-term involvement with user groups. Use Forrester's SAP Enterprise Support Value Calculator to determine how SAP's maintenance hike will affect your existing SAP strategy. See the October 10, 2008, "Coping With SAP's Pricey Maintenance Hike" report and see the October 10, 2008, "Forrester's SAP Enterprise Support Value Calculator" tool.

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