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OPINION

SaaS Suites Struggle in the Enterprise

A look at the evidence finds that the jury is still out on whether SaaS will crack core, mission critical processes in the enterprise.

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It's no secret Software as a Service (SaaS) has generated tremendous excitement among many customers for its apparently transformational adoption model and ownership experience. Unlike client-server applications, SaaS delivers faster time to value often via a viral buying cycle as well as lower risk deployment.

The early adopter focus has been on small and midsize businesses (SMBs) because SaaS makes it economical to reach them with broad penetration for the first time. Where SaaS has carved out successes in large enterprises, it has largely been in more independent, non-mission critical departmental functions that have no CapEx budgets such as HR, CRM, or marketing, not end to end suites.

Despite the undoubted progress that SaaS is making, we believe the adoption of core, mission critical processes (Financials, order management, industry-specific processes such as manufacturing or securities processing) in large enterprises is still many years out for a variety of technical and business challenges.

SMBs are the Early SaaS Suite Adopters

SMBs have been the low hanging fruit for early SaaS adoption because they've historically been underserved by application vendors. Small deal sizes and bare bones cost of ownership requirements typically were critical stumbling blocks. The small deal sizes mean vendors have to reach them with a much lower cost channel than direct sales.

So far there are two emerging channels. The first is online, customer-initiated self-service complemented by inside sales that often becomes the viral — discover, learn, try, buy, recommend — process best articulated by Ray Ozzie in his 2005 [Services Disruption Memo](#).

The second is further out because it requires a greater transformation among existing VARs. Today they make a modest commission on the sale of traditional perpetual licenses or SaaS-based subscriptions. Configuration or customization and integration is where they make their margin. It's a time and materials business. Expanding the market requires that in the future they deliver the same services to SMBs at a fraction of the cost. The most likely way is to become mini ISVs by transforming their industry-specific expertise into an application hosted on and extending their SaaS provider, and use those higher margins to support much lower margin services. That way the VAR should be able to squeeze down the subscription/service mix for their highly price-sensitive customers.

On the product side, SaaS flips the implementation risk from the customer to the vendor; the cost of ownership (TCO) experience is claimed by some to be as much as an order of magnitude lower.

Suites are Likely to Emerge Center Stage



Will suite emerging suite vendors such as Workday and NetSuite join SAP and Oracle in the enterprise? Perhaps. But there are still some obstacles in their path.

The TCO value of end to end process integration offered by suites is likely to emerge in the enterprise in the SaaS generation for the same reason best-of-breed collapsed in the client-server generation. At first, the best-of-breed products seem to offer better functionality, faster deployment, and more departmental autonomy. But building and maintaining point-to-point integrations over time is a crushing expense. For example, it's not clear that CODA's widely cited development of a Financials product on Salesforce.com's platform means they can jointly deliver a reconfigurable order to cash process. They appear more likely to share just the development and deployment platform, Force.com, not the end to end processes. In the client-server generation, that would be the equivalent of running both on BEA Weblogic and assuming that means they're integrated. As in the client-server generation, however, the slow maturation of suites means the best-of-breed vendors will have a long time in the sun.

So What's the Hold-up with Suites?

Why SaaS suites need time to prove their TCO advantage over best-of-breed SaaS applications. The favorable TCO economics for SaaS suites is nothing more than a hypothesis at this point based on the experience of the client-server generation. Nor does that necessarily translate into an overwhelming advantage for SaaS suites over client-server suites.

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