

Value of Web-Based Applications

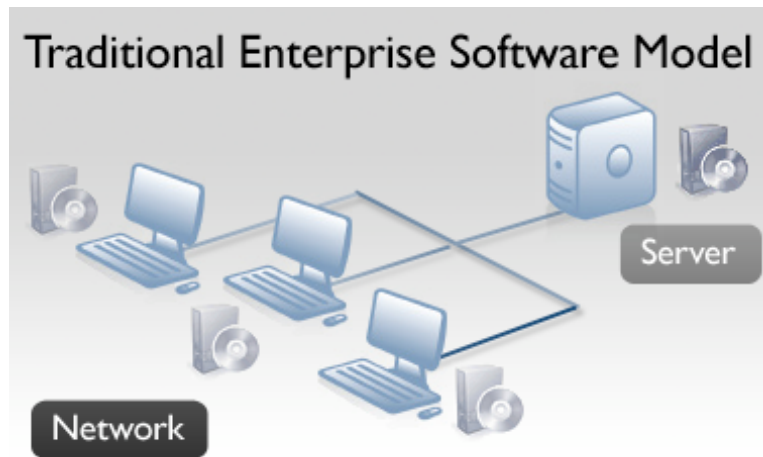
If you happen to pay any attention to the software industry, you may have noticed there are more software vendors that are offering web-based applications via an online model called Software as a Service or SaaS. Companies like Google, Microsoft, and Yahoo all have variations of SaaS offerings and are increasing their offerings each year. Salesforce.com was established from the ground up as a SaaS company and has proven that a SaaS model can work well for shareholders and customers. The question is, why would you want to choose a SaaS based company to provide you a service to help run your business?

To answer that question, let's look at what software is becoming: a commodity. You use commodities every day to run your business: electricity, gas-heat, gasoline, oil, etc. However, you likely do not have your own sub-station or gas pumps but rather, you purchase these commodities from another provider that has all of that infrastructure. The cost to you is a combination of the cost of the product and the cost of delivering that product. The SaaS model is a commodity model, you pay for a product/service but you don't worry about all infrastructure, maintenance, etc. that go along with that service.

What does this mean for your bottom line? Traditional software vendors usually have a complex model that has multiple components that you pay for: server, seats, maintenance, and professional services.

- Server - This is the cost of the actual software itself that you will be installing on your hardware. In many instances, it will come with a pre-set amount of user licenses or "seats", usually around 5 to 10.
- Seats - In many instances, you will need more seats than what you are initially supplied with. To deal with this, the vendor will sell you additional seats at a cost/seat fee. This license fee must be renewed on a fixed basis, e.g. yearly. Therefore, if you pay for an additional 20 seats at \$300/seat (\$6000), you could be looking at paying that cost every year ABOVE what your original outlay is. Negotiating better prices is possible for multi-year contracts, e.g. the vendor knocks down the price to \$200/seat if you sign and pay for a three year contract up front.

- Maintenance - This is the secret-sauce of the software industry that makes it so profitable. Maintenance is a fee that you pay on a fixed schedule and in return you get support, upgrades, etc. for your software. The cost can vary, but is generally based on the size of



- your installation. For example, if you have purchased a server at \$12000 and 20 additional licenses at \$6000/year for a total of \$18000, you could be looking at an additional 30% or \$5400 in annual maintenance costs. As previously noted, this does include any upgrades, but if you don't have the expertise to perform the upgrade you end up paying for more professional services. Why software companies like maintenance so much is that the cost to provide it is typically around 2% due to economies of scale. So it's VERY profitable for them and they will typically really push maintenance plans on new accounts.
- Professional Services - Most enterprise software is complex and requires a significant amount of expertise to install and configure. If you don't have that expertise in-house, you'll likely be paying for consulting. Depending on the software being installed, the amount of configuration and the amount of customization, a professional services engagement can be quite expensive. Of course, this is in ADDITION to all the other fees that you have already paid. It's not uncommon for pro-services to bill at \$180-\$300/hr depending on the software. In addition, you will pay for all per diem expenses as well.

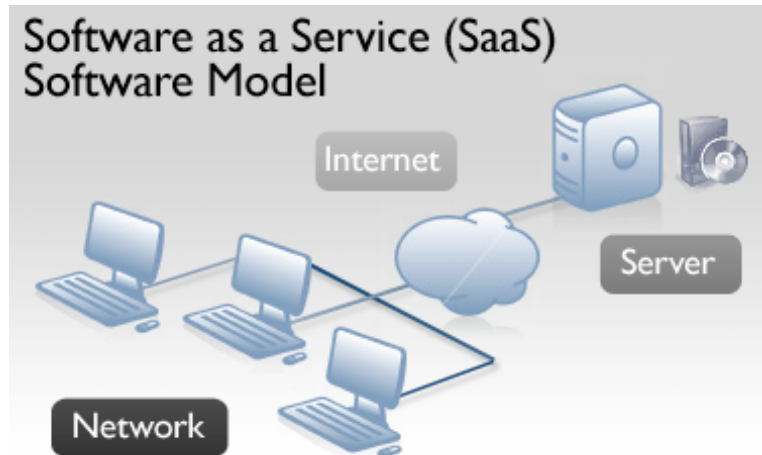
So, what are the costs to buying a traditional package? Let's do a simple scenario taking in all the components we've looked at:

- Server - \$5000
- Licenses - $\$300 \times 20 = \6000
- Maintenance - $30\% \text{ of } \$11000 = \3300
- Pro Services - $20 \text{ hours @ } \$200/\text{hr} = \$4000 + 3 \text{ days per diem @ } \$400/\text{day} = \$5200$

- total = \$19500

This assumes you already have hardware! What if you need to buy your own hardware? Also, what if the package requires an administrator? As you can see, the costs start to escalate quite quickly.

The SaaS model is a subscription based model. There are only 2 components to the model compared to the traditional model: subscription and pro services. The subscription is exactly that, \$xxxx/mo per user. Since SaaS packages can also require custom



configuration, there can be pro-services involved as well. However, it should be noted that the maintenance/licensing is rolled into the subscription. So, let's compare the cost of our SaaS company to our traditional company:

- Subscription - 25 x \$20/mo = \$6000/yr
- Pro Services - 20 hours @ \$200/hr = \$4000 + 3 days per diem @ \$400/day = \$5200
- Total = \$11200

Also, keep in mind that there are NO hardware costs associated with the SaaS model, therefore the savings represented are likely greater since we did not represent hardware costs in our comparison.

Is SaaS right for you? Buying enterprise software is complex and requires a fair amount of due-diligence. It's fair to ask the question whether or not SaaS meets your needs. At ServicePortal.com, we believe that SaaS is the model of the future. To learn more how our offering can help you manage the working relationship with your customers, contact us at info@serviceportal.com or call us at 503.555.5555.