



Software as a Service Current Practices & Plans of ISVs

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Presented by the SIIA eBusiness Division

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SIIA eBusiness Division

The eBusiness Division provides a neutral business forum for companies that develop and publish the software applications, Internet business services, tools, infrastructure and content that drive the global digital economy. The eBusiness Division brings together top executives from various facets of the industry to share ideas and address common challenges involved in doing business on the Internet. It is the premier venue for companies to debate and examine issues of e-business, keep abreast of industry trends and visions, and to develop industry leading "best practices" solutions that foster company growth.

Software as a Service Initiative

Software applications have begun a mass migration from the desktop to network servers and online application service providers, involving unprecedented cross-industry partnerships. The "Software as a Service" (SaaS) model holds great promise for technology providers and consumers alike. A robust future for the software service model, however, is not assured as the industry faces a litany of challenges that must be addressed head on.

SIIA, as a neutral third-party working to validate the business model, is uniquely positioned to address these challenges, illuminate benefits and drive acceptance among industry analysts and potential customers. SIIA's Software as a Service Initiative seeks to achieve two major goals for member companies in the space:

1. Development of the space through identification of business model trends, best practices and model contracts dealing with channel, legal and security issues.
2. Promotion of the model to encourage and facilitate new ISV/ASP/IBS/MSP partnerships, and to shape ongoing coverage of SaaS in media to broaden customer recognition and acceptance.

The survey that underlies this report took place over the month of February 2001 and was completely Web-based. This report was prepared by Anne Griffith, Director, Research and Fred Hoch, Director, eBusiness Division. Our thanks go out to the eBusiness Division Board and the participants in the SaaS Initiative for their support and insight.

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Introduction

Even though the ASP phenomenon has received a great deal of attention in the past two years, and has grown well over 100% per annum; and even though CEOs of software companies remark “Software is dead. Long live services” ([eWEEK](#) 5/9/2000) and “Shrink-wrapped software is dead. Long live software as a service” ([c|net.com](#) 12/28/2000), there is still a great deal of uncertainty among the software community about the prospects for the Software as a Service model and how it will impact their businesses.

Most survey work in this area approaches the question from the perspective of either Application Service Providers or end-user Information Technology managers. While these are, of course, valid perspectives, we believe that SIIA is uniquely positioned to understand the question from the perspective of those who may be most impacted by the coming changes – the software publishers themselves.

As part of the Software & Information Industry Association’s Software as a Service initiative, a survey of both SIIA members and non-member ISVs was conducted in February 2001. The aim of this survey was to assist both the association and the industry to better understand where the ISV community as a whole stands with regard to a range of policies around the delivery of software functionality in a service model.

One hundred and twenty-eight software publishers/ISVs responded to the survey. Their unstructured comments, in particular, allow us a detailed glimpse into the current thinking of the industry as it approaches a major shift in business models. How will publishers price their products? What will the relationship be between the pricing of the ‘traditional’ product and the service product? How will they distribute the service offering? Perhaps most importantly, will this shift supplement or supplant their current business model?

For those readers wishing to see the survey form and greater detail on the responses to particular questions, the top-line survey results and edited comments are available at the end of this report. The list of responding companies is also included at the end of this report.

Why 'Software as a Service' instead of ASP?

SIIA's perspective is that of the software/solution provider rather than the connection between such providers and the end user. Our focus is on the ways in which software is developed and delivered through sales channels rather than the wires or storage devices needed to host an application.

Application Service Provider, or ASP, was originally coined to describe those third-party companies that hosted an application for an ISV. However, the acronym has become muddled since then and now has a variety of meanings depending on the context of the discussion. When speaking of the service model, we refer to the concept as Software as a Service because it is much broader and captures a variety of service offerings.

A hosted application is often the same product as that sold through standard licensing agreements. The application, slightly altered, is simply resident on a Web or Extranet server instead of an internal server. As we move towards a "software as a service" paradigm, many ISVs are re-writing or web-enabling their applications to take advantage of the ubiquity and interactive capability of a network (e.g. the Web). This 'translation' is more complex than simply porting an application from Windows to Unix.

Whether this translation makes sense for all products is still under debate within the software community. To some extent, opinions vary based on the specific target market and type of application. The viability of -- and willingness to adopt -- software as a service depends to a great extent on the relative conservatism and structure of the target industry. In old-line industries with strong bureaucratic traditions, it is very difficult to introduce a medium with few rock-solid and long-term performance measures. Examples of such industries would be public education, banking / financial services and legal services.

Alternatively, some industries appear to be much more willing to take on SaaS in order to improve their competitive advantage. Technical manufacturing, communications, business services, and newer companies are better prospects for current SaaS offerings.

"In a sense, the technology is slightly irrelevant, and it's all about the service metrics. I don't care what the LDAP directory is or what the e-mail system uses as a server. [If I'm a customer] I care how much I pay and what I get out of it. We're moving away from fascination with the technology."

Evan Kaplan, CEO, Aventail, eWeek interview 5/9/00

Summary of Results

The respondents were split nearly evenly on their position on Software as a Service – 49% are currently delivering software in this mode, and 51% are not. Of the 51% not currently utilizing software as a service, 39% plan to adopt it within the next year. This finding does not appear to indicate a mass movement to SaaS among ISVs in the next few months -- there is still a strong current of 'wait and see'.

Among the publishers not planning to move towards SaaS, three main deterrents stand out:

- Development issues – how to best re-design the current product
- Security issues – how to effectively safeguard user data
- Marketing issues – customers are not demanding access and have expressed resistance to the idea.

ISVs are primarily interested in SaaS as a means to reach new customers. Of those currently using the model, 89% cite new customers as the target market, with 61% including new market segments. The same holds for publishers planning to move into the market in the next year – 67% plan to target new customers. This desire to expand the current customer base is an expected response in a maturing market where growth rates no longer maintain the pace seen in the mid-90s.

One of the most significant findings of this survey is the belief among publishers that SaaS will never completely replace the desktop/client-server model. When asked what share of current customers would be expected to migrate to a service offering in the next two years, publishers answered:

Expected Share of Current Customers Moving to SaaS in next Two Years

Currently Using SaaS		Planning to Use	
<i>Share Expected</i>	<i>ISVs Expecting</i>	<i>Share Expected</i>	<i>ISVs Expecting</i>
Under 25%	67%	Under 25%	42%
25 – 50%	22%	25 – 50%	22%
50 - 75%	---	50 - 75%	16%
Over 75%	11%	Over 75%	20%

Clearly, firms with an early commitment to SaaS are more optimistic about its prospects among users. Perhaps even more telling is that even those now in the market expect that it will take at least five years for SaaS revenue to overtake desktop/LAN delivery of software, while 21% don't believe that it ever will do so.

'Service enabling', or re-coding a product to be served over the Net, and hosting the product are providing less of an opportunity for third-party service providers than might be expected. 80% of ISVs completed their service-enablement in-house, while 53% act as their own ASP. Some of the most interesting data derived from this survey were the pricing policies.

Respondents were asked about their SaaS pricing, how it was determined and its relationship to 'traditional' products. As might be expected from a wide variation in target markets and product types, pricing ranges from free to \$75,000 for two years. Tables in the appendix show data for product categories as reported.

Pricing is determined through several strategies, without a single dominant practice. Competitive market analysis, building up from cost, and comparability to desktop pricing are the major practices, but user TCO and ROI are also factors. Publishers are not in agreement, even within the same target markets, whether the pricing for a service offering should be lower or higher or equivalent than for a desktop product.

More than half of the respondents have had service offerings in place long enough to judge relative success. Of those, 51% called their offering 'extremely successful', 34% had results 'about as expected', and 14% have found it less successful than expected.

Detailed Findings

Respondents utilizing and not utilizing SaaS were remarkably similar, except that those not using the model were considerably more likely to have been in business longer than ten years and to have a larger number of software products. Firms targeting the education market were more likely to be trying SaaS, while those targeting vertical markets were less likely to do so.

Perceived Barriers to Adoption of SaaS

Many surveys have been taken of IT management's attitude toward the ASP model. For the most part, there are three major reasons IT gives for reluctance to move this direction: security, control and reliability of the providers. Many corporations do not wish to allow even the possibility that sensitive business data could be intercepted while flowing back and forth across the Net. As one respondent eloquently put it:

"The extent to which the ASP app runs on a company's internal data is, in my estimation, the major barrier to software being supplied as a service. Regardless of the security, particularly as applied to large firms, companies are not likely to feel entirely comfortable uploading 'sensitive' information to an ASP's servers. Aside from information security perceptions, the extent to which companies' view their use of software as a key contributor to their competitive advantage/central to their business model, they will also be reluctant to either share their usage information or accept the risk of transferring responsibility of this IT to outside providers."

For software publishers, additional considerations come in to play that are not salient for end-users:

- Demonstrating an adequate return on the considerable investment in converting products to services hampers many companies. Along with this, capitalizing the migration from a shrink-wrap (front-loaded payment) to a service model is daunting in the present climate.
- Publishers not interested in hosting their own services are reluctant to trust third party ASPs that seem to be cropping up and vanishing with disconcerting speed.
- Skilled IT worker shortages affect publishers just as much, or more, than they affect end-user firms, and some are concerned that they would need to hire hard-to-find labor to provide the needed services.

Distribution Arrangements

While independent Application Service Providers have received a great deal of press attention, it appears that ISVs are relying less on their offerings than might be supposed. More than half (53%) of respondents report acting as their own ASP – that is, all data warehousing, connections, servers, etc. are maintained by the ISV. Twenty percent provide and host the front end and contract out the data warehousing and connections, while 23% license the application to a third party ASP.

The vast majority (78%) of publishers who license their product to ASPs report using a royalty arrangement as their sales model. Forty-three percent use a discount off list to sell to ASPs while 21% treat an ASP as a they would any other customer and price as a straight sale.

When acting as their own ASP, the slightly more favored revenue model is to charge a monthly or yearly subscription fee with a contracted length of service, without a separate set-up charge. One third of publishers do charge for set-up in addition to the monthly subscription fee and contracted length of service. Only 21% report using a pay-per-use or transaction-based model.

The contracted length of service allows publishers to predict their revenue streams and users to predict their costs much more clearly than allowing transaction-based billing.

License models are settling into two primary categories: 58% license per user and 40% license the site. These models are familiar both to end-users and to business software publishers. While IT departments often express a wish to see more concurrent users licensing, that is only offered by 13% of the respondents

Channel partners for service offerings are not concentrated in any one channel.

- 40%** None (direct sales force)
- 32%** Traditional software resellers, distributors
- 47%** Integrators, Consultants
- 31%** Web based aggregators (e.g. Jamcracker)

Other partners include: ISPs; Combination of direct sales and selected distributors; Traditional print publishers; Vertical industry partnerships & our own sales force; CPA Firms and consulting firms; Wireless & wireline industry participants, (CLEC's, Telco's, Cable Operators, and ISP's); Integrators and consultants.

Pricing Models

As noted earlier, pricing depends upon the nature of the product and the market to which it is targeted. Detailed tables of the reported pricing structure by the reported market categories are included in an Appendix.

Some very broad outlines appear when examining the data by service/product category. Business management services are running at about \$50 per month for one or two users, with extremes ranging from free as an ISP add-on to \$500,000 per year. For the most part, personal use applications and communications (e.g. e-mail hosting) are priced under \$10 per month. Vertical market application services and business productivity services are much harder to categorize since their range is even larger, with fewer common pricing groups.

Publishers are not, for the most part, pricing services based on real research into what the market will bear. Many are simply going by 'what the other guys are charging', rather than any exploration of the relative TCO (Total Cost of Ownership) savings for clients or even their own costs plus an acceptable return on investment.

Some interesting factors emerged when respondents were asked about the relationship between their service offering and their traditional software products – when they had both. Many ISVs planned that the service offering would be less expensive for short-term users (short-term was defined as 1 - 3.5 years), but more expensive for longer-term users. Some regard SaaS as simply an alternative-licensing vehicle and essentially charge the same price for either type of product. Others discount the service offering considerably – up to 50% less than a packaged product.

Success of SaaS

More than half of the respondents believe that they have had sufficient time to judge the relative success of their service offerings. The average length of time in place is more than a year, with only 14% having less than six months' experience. Fifty-one percent have found SaaS 'extremely successful, 34% about as expected and only 14% have found it less successful than expected. Those who gave reasons for lower results blamed either market conditions (market not ready) or their own positioning in the market.

Few of the ISVs currently in the market are willing to bet that SaaS will break ahead of revenues for desktop or LAN distribution in the near future. The median projection of dominance is between two and five years from now.

Expected Timing of SaaS Market Dominance

Six months	7%
One year	7%
Two years	29%
Five years	36%
Never	21%

Conclusion

The results of this survey show that the majority of software publishers have moved or are considering transitioning their products to a service-based offering. However with the business model in such a nascent stage, it is clear that no method dominates the marketplace. A great deal of uncertainty continues to exist regarding issues of technical development, security and marketing the model to customers. Publishers will continue to explore and experiment with a service offering for some time to come as long as customer demand continues to grow. SIIA will continue to work with the ISV community to alleviate uncertainty and assure the success of this model in the future.

APPENDICES

Price Point Table (These are the individual responses on price categorized by market)

Price Point of Current Offerings	Personal Productivity	Business Productivity	Business Management	Vertical Market	Communications
Varies based on SLA		X	X	X	X
Varies (Approx. \$60/yer per person)		X	X		
\$20-\$100/year per user		X	X		X
Additional services will be offered on both 'transaction' basis (e.g. credit card payments, licensing options, etc.) as well as subscription basis (reporting, etc.)	X	X	X		
Starts at \$50 per user		X	X		X
\$200 per project per month increasing to \$15,000 per project per year			X	X	
\$60 per month per company (2 users)			X	X	
60% of current application licenses			X	X	
Per seat pricing from \$30 - 50 per month.			X	X	
60% TCO savings over their in house methods			X	X	X
under \$500,000 for 12 months			X	X	
\$60 per subscriber for entire site			X	X	
60% of list			X	X	
\$50K per year			X		
\$7 per month per employee			X		
\$29/month			X		
Between \$9.95 and \$49.95 per month (per server, administrator, site URL, etc. depending upon the service			X		
Depends on volume. A few nickels to a few dollars per person per month.			X		
Depends upon app. Is offered as a free service by some such as AOL by Phone			X		X
Starts @ \$350/seat/month			X		X

SaaS: Current Practices & Plans of ISVs

Price Point of Current Offerings (continued)	Personal Productivity	Business Productivity	Business Management	Vertical Market	Communications
\$2 to \$4 per use			X		
25 -50% of packaged products			X		
our product will only be part of the overall ASP delivery to the customer			X		
In the range of \$250-\$300 per user per month for an entry-level system.			X		
Varies depending on situation but expect about 100\$/year/user on average.			X		
\$100/concurrent user/month		X			X
\$49/year	X	X			
\$6 registered user/month	X	X			X
Between \$12-\$20 / month	X	X			
Current titles in our offering are priced at \$3-5 for rental, given retail price points of \$30-50 per application.	X	X			
Free	X	X			
Per user; volume discounts		X			X
Varies between \$200 to \$500 per month per user		X			
\$15 per file first year - \$7 per file second year / \$10 per user				X	
\$1800 per year.				X	
\$20 per subscriber				X	
\$25,000 plus royalty plus percent of backend. Every program is different				X	
\$5-20 K set up fees; then revenue sharing on a transaction basis				X	X
Depends on size of the organization.				X	
Monthly fee for the client				X	
Approximately\$29 per user				X	
\$10.00 per user for 60 - 90 days usage				X	

SaaS: Current Practices & Plans of ISVs

Price Point of Current offerings (continued)	Personal Productivity	Business Productivity	Business Management	Vertical Market	Communications
\$5,000 to \$500,000				X	
20-40% of site license fee with volume discounts				X	
\$2,000 per year	X				
Individual subscriptions from \$9.95 per week up to thousands for corporate site licenses	X				
\$15.00 monthly	X				
\$12 per user for full program					X
\$750/year					X
\$9 per user per year; \$2,000 per site per year					X
it varies per customer					X
Averages \$2 per user per month. MS Exchange 2000 host pricing \$30 / user / mo.					X
Variable based on number of users					X

NO Market Given:

- \$.31 per authentication
- \$100 - \$500 per year per user
- \$19.95 per month per system
- \$2 per seat per month
- \$500-\$1500 per year per concurrent user, based on volume
- \$75000/ 2 years all inclusive
- +\$250K
- Between \$0.25 and \$3.00 per software license purchased (bulk purchases are encouraged), depending upon volume. Licenses last 'forever'\$10-\$25 per participant
- \$29.95 per user.
- It is priced as a percentage of content value...
- \$5/seat or overall licensing agreements in the tens of thousands of dollars.
- Per transaction is \$1 per survey, To lease full features is \$3000/month plus \$45 per user.
- SEK \$1-15,000 per year
- \$50 - \$200 per month per user
- \$9.99 per month for single user
- Between \$0.25 and \$3.00 per software license purchased depending upon volume.

Factors in Determination of Selected Price Point(s)

Determination process	Personal Productivity	Business Productivity	Business Management	Vertical Market	Communications
SLA, number of concurrent users, bandwidth requirements	X	X	X	X	
Costs, margins, competition		X	X		
Amortization of existing license + training + support	X	X			
Based on current pricing			X	X	
Based on current volume discounts.			X	X	
Comparable enterprise solutions and internal costs + margin goal	X	X			
TCO targets and ROI models			X	X	X
Competition			X		
Competitive research			X		
Marketplace conditions			X		X
Relative to the value delivered to our customers.		X			
Standard licensing plus hosting costs			X		
Up to our partners			X		X
Using Cost of Ownership analysis of traditional versus SaaS, cost of capital, market conditions, competitors' pricing	X				
Various market data points along with the cost of installation & maintaining the application as a traditional software product.	X				
Comparables	X	X			
Development costs, market conditions, implementation time and cost	X			X	
Individual applications are given prices the publishers or providers deem appropriate. Our streaming software platform is available at a separate price for clients	X	X			
Market research for comparable services	X			X	
Market, cost plus	X	X			X

SaaS: Current Practices & Plans of ISVs

Determination process (continued)	Personal Productivity	Business Productivity	Business Management	Vertical Market	Communications
Using the shrink wrap distribution price and breaking it out over 12-18 months and adding the upgrade protection for new releases	X	X			
% Of hosting cost				X	
By the quality and amount of product offerings			X		
Cost to cover customization				X	X
Costs plus				X	
Market research.				X	
Number of users to site subscription.				X	
Prior pricing model set with previous client/server app. Mirrors what customers expect	X				
Comparison to offline offerings					X
Expenses x a factor, as well as meeting competitors' prices			X		
Implementation of email desired (as above), number of users, amount of storage required, amount of bandwidth used.				X	
Market					X
Revenue requirements and market acceptability				X	
Comparison with other similar services	X				
Market level for traditional products	X				
Prevailing market pricing thresholds	X				

Relationship between Service Price & Traditional Product

Price relationship	Personal Productivity	Business Productivity	Business Management	Vertical Market	Communications
Higher		X	X		
60%			X	X	
About a 12-month breakeven compared to traditional licensing.			X	X	
Alternative licensing vehicle -- price competitive			X	X	
Product price the same, however half of the price is amortized with hosting services.			X	X	
Service product only			X	X	X
Equivalent			X		
Lower minimum up front commitment. Lower TCO if used less than 3.5 years; higher if used longer.			X		
No fixed algorithm.			X		
No specific relationship			X		
Roughly equal			X		
The service is cheaper over the first year, but there are obviously long-term cost benefits to realize in using a service model.			X		
Application is free, however the software that runs the applications are bought; application offered as a value-added service	X	X			
Depending upon implementation length and amount of content, could be small		X			X
Selling less to end users and more to value-added resellers, price has gone up	X	X			X
The same		X			X
About the same.				X	
Custom development costs are higher otherwise it's lower than our previous traditional product				X	

SaaS: Current Practices & Plans of ISVs

Price relationship	Personal Productivity	Business Productivity	Business Management	Vertical Market	Communications
Previously was only available with a hardware product we manufactured; currently browser-based and available to all platforms				X	
Price fixed on the number of documents to be indexed				X	
Service price is a factor of standard annual support pricing.				X	
Service price is higher depending on volume usage.				X	
Subscriptions are cheaper				X	
They are similar to the customer				X	X
50% discount of traditional price.					X
Service product only					X
COG's - eliminate the support costs of storefronts and you can pass on the economies of scale from on-line sales.	X				
Customer can order service for a short period and it will be cheaper, than to buy traditional product	X				
There is no direct relationship since this is a specialized product.	X				

NO Market given:

- An add-on capability for our clients
- Depends on how the product is acquired. It can be obtained free by FTP download or purchased through a retail outlet or as a pre-load through an OEM. Product costs between \$39.99 and \$179.95, depending on add-ons.
- Service price is discounted. Service price is less expensive to the customer.
- Discounted cash flow model
- Purchase of license in perpetuity plus annual support is equal to annual subscriptions paid at about 40 months. Thereafter, subscription costs are higher.
- Same price
- To lease full features, monthly fee is 1/24th of purchase price. Our transaction price is base on current market standard as a result of competition.
- Traditional product based on transaction fees--service price based on licensing and subscriptions fees.

Major Barriers to Customers' Acceptance of SaaS

- Avoiding channel conflict with storefront resellers. Finding the magic "sweet spot" for pricing an intangible
- Lack of control for large enterprise clients along with bandwidth constraints.
- The conventional ASP model does not make sense. For the business user to wait while an ASP provides a daily download of their desired software is highly dependent on available bandwidth and could take a significant amount of time. As an employer, I don't want my employees waiting for application downloads. Moreover, for home users access is an even greater problem.
- We are an entertainment software developer. Currently customers are not predisposed to paying for these games as a download but rather play them at no charge and then (if enticed) will buy the CD. Additionally a number of online sites have emerged that offer unlimited play of a number of games per month. The logistics for payout in this model are currently not sufficient to sustain high quality development based on the universe of paying players and the amount of royalty allotted.
- Our software process is too involved, and needs to be executed locally
- (1)Band width in our territory.
(2)People have a mental block against paying for something you would find free on the Internet.
- The business model is entirely different. We are seeking partners to act as an ASP for our software.
- Cash flow considerations are better under a site license agreement for our company. Jury is out when moving to an ASP pricing model that we would create incremental demand for our products.
- Bandwidth; security; ASP market risks
- Customer acceptance of their data and database out of their control.
- Labor to provide the services around the software offering.
- The ability to control costs and the ability to make modifications.
- Mid-sized manufacturers and distributors have significant concerns about reliability and security of systems delivered via the Internet. Until these issues are addressed, there is little demand for the model.
- Confidence in security, liability of service providers, service providers staying in business.
- For us, it's merely implementation at this point.
- End user acceptance is the major barrier right now
- Our internal structure is not set up for this. It will be expensive to set up and a diversion to our core strategies
- Demonstrating ROI.
- Lack of Corporate charge-back systems &/or budgeting accuracy and measurement.
- It is a change to what people are currently doing, and therefore must first be researched, then requires time, effort and therefore money to implement.
- Can't make our product into a software service.
- Our customers are not ready
- We offer access to data that is typically resident elsewhere. Our partners, those who collect or host data, DO provide our software as part of their service offering.
- We have just come out of our development phase and are starting to market our solutions. We will first have to sell directly to the market and make a name for ourselves before setting up an Internet-based (ASP or other) sales channel.

Barriers continued

- We are specialized in order routing systems. The only reason at the moment for us to use Internet, is as a means, not as an end. Further, the security is not yet enough developed. In a very long term...why not?
- Security
- Security, accounting and billing
- Customers prefer to run their own operations software. If they outsource, they outsource the management function and not just the SW.
- The model is not accepted by 90% of the buyers of software as recent studies in the U.S. and Europe show.
- The need for broader bandwidth. As long as most households or individual consumers have to use dial-up Internet access and tie up their phone line, my company's software is best distributed on a CD instead of the "subscription model" using Internet or Web browser delivery of software.
- Our users seem to like to be masters of their own machines.
- The extent to which the ASP app runs on a company's internal data is, in my estimation, the major barrier to software being supplied as a service. Regardless of the security, particularly as applied to large firms, companies are not likely to feel entirely comfortable uploading 'sensitive' information to an ASP's servers. Aside from information security perceptions, the extent to which companies' view their use of software as proprietary/ a key contributor to their competitive advantage/ central to their business model, they will also be reluctant to either share their usage information or accept the risk of transferring responsibility of this IT to outside providers.
- Performance and control issues.
- At this point we are still exploring the model. We do have a great deal of interest in developing alternative models for presenting and promoting our software.
- Barriers are political and comfort level.
- Maintenance of UDDI service information.
- Acceptance of the CRL on all hand-held devices.
- Capitalization of migrating from a shrink-wrapped (pay up front) model to a service model (transaction or pay as you go).
- Reliability in a complex system.
- Resolution of quality (QOS) issues and its impact on Client Support organizations.
- Not appropriate to our business
- We think that our products are still better served by boxes. We might bring some add-ons as service item. We don't know if we can charge for them.
- 'Customer base is not asking for this yet. This is a future consideration
- 'Not consistent with our sales model and cost structure
- Little demand in our market
- Liability issues
- We may explore this in the next year or so depending on market demands.
- We monitor infrastructure. No market sense of urgency for our product as a service..
- Not appropriate to our business
- Our product does not seem appropriate

Barriers continued

- Fail to see any reason a user would wish to do this.
- As a components-level software supplier, our software is embedded within the application's of others, and therefore is not appropriate for an ASP model.
- Don't see a need for it as there has been no customer request.
- Too many options for customers to choose from. Early companies provisioned web-enabled products that caused customer confusion.
- Unproven ROI. Reticence to outsource -- loss of control/quality implementation.
- Users have been hesitant to move to this model because of performance and security issues. The major ISV's do not
- Credibility of the provider and the Internet are the biggest challenges
- Customers still prefer a tangible product due to constant PC crashes - even if company restores new copy.
- Purchase decision (for consumer products) lacks the reassurance gained from handling a boxed product. The reseller acts as a further security blanket for returns.
- Difficult implementation
- E-learning infrastructure and market acceptance is just starting to learn about ASP style services. For them it is still the early adopters as the main users.
- Fear of data offsite. lack of control to tweak database and add new fields. dependence on vendor
- Hardest part is customer understanding. And the long sales cycle.
- I think fear is the biggest demotivator, and the fact we're dealing in the K-12 space, which is inhabited by more fearful individuals in general, people who find it difficult to make a decision, all decisions are made en masse, etc.
- IT people want the data in house. Also they don't want to outsource software to a startup who might go out of business later.
- Lack of acceptance is still due to the newness of the model and the concerns over performance and the integrity of the companies providing the services
- Lack of acceptance: major behavioral change fraught with risk but little perceived benefits (applies to our current target industries).
- Most of our prospects tell us that they want to own this technology and keep it in house on their own intra/extra/internet servers. They do not want to lease it or use it at a 3rd party site. A small number want to want to lease or pay per transaction and so we allow that, but the driving reasons for having a service offering are:
- Education is typically not "early adopter", and either sees no value in a service yet, or is reluctant to leave the security of local control
- Another major oversight to the classic ASP model is the disintermediation of the sales channel. While there is always some justification in providing an alternative to keep the channel honest and performing well, many ISV's could not exist without their channels. The channel exists because the customers use it. If customers, en masse, were confident with an alternative, they would pursue it. The small VAR can often be as important or more important a part of the sales (and after sales) process as the publisher.
- Pricing, billing and service models need to be understood and accepted.
- Primary reasons are all around security and to a lesser extent concerns about access.

Barriers continued

- Right now companies are holding off on selecting service vendors because of the "noise" in the industry. There are too many poorly funded, partial solutions. Companies don't want to change horses mid race. Therefore they are waiting for the smoke to clear. The technology meltdown and overall economic climate has also cooled short-term acceptance of service offerings.
- Security concerns; immature applications.
- Security in general will become more important at all levels, and users will need to incorporate the latest security protection--firewalls, virus protection, etc.-- very quickly. However, software subscriptions are seen as being too costly, and for most applications, people do not see the benefit of using an ASP.
- Security, loss of control of data, concern about unstable dot-com companies due to market conditions, lack of familiarity or full understanding of solutions, lack of complete solutions
- The adoption of the ASP model has been slow in coming. Some factors contributing to it maybe:
 - External -
 1. The lack of confidence around ASPs' viability
 2. Outsourcing enterprise level ERP systems, which is considered highly sensitive data, still makes customers nervous
 3. All ASPs have different pricing models - adding to the confusion
 - Internal -
 1. ISV's have difficulty migrating to a recurring revenue model due to its negative impact on short term revenue recognition
 2. Compensation plans and revenue targets set for the sales teams do not take into account the recurring revenue stream. Inherently in this business model, the money comes in over a period of time.
- The biggest issue is gaining a market awareness for the service.
- The fit of our service into larger business plans. We are ready before they are ready for us.
- The largest impediments to acceptance are the perceived security risks and the lack of customizability.
- Part of the classic ASP model is the reduction of IT overhead. If this is true, then the ASP has a labor-dependent revenue model (workers are just moved from one location to another). While there may be some economy of scale/overlap, most companies have developed systems that best suit their internal business practices. Anyone that has moved from one company to another can attest to how different this can be from one company to the next. In the M&A world, one of the classic economies is the integration of financial and accounting systems. While this may save head-count in the long run, it is expensive, arduous and culture shocking in the short-run.
- When efficiencies of distribution are reached, and prices become cheaper than what people pay today, software as a service will become accepted across the board.

Positive Reasons to Adopt Software as a Service

- "Software as a Service" makes more sense than traditional licensing -- the model puts the pressure on developers to support their clients all the time, and forces clients to pay for ongoing use of the developers IP.
- Plus: strong on-demand subscription possibility (money save)
Minus: strong dependence on Internet connection
- We save companies over 70% of the cost of providing e-mail services themselves in-house. We provide more CONTROL over email - on user-by-user, group/department , *and* company-wide basis. We provide more functionality (i.e., virus scanning, content filtering, etc.) for business e-mail than a company could EVER afford to implement themselves.
- Cost savings for customers in terms of IT resources and management
- Early adopters are trying to use new ways to distribute their products, as a result they are trying our technology.
- Ease of implementation, lease vs. buy model, flexibility
- E-learning infrastructure and market acceptance is just starting to learn about ASP style services. For them it is still the early adopters as the main users.
- I think the acceptance is coming but slowly. It's currently a pure lease or buy decision with ASPs growing as corporate customers become more comfortable with outsourcing key applications. The economy could drive more short term application hosting.
- In education, school districts are recognizing the high cost of supporting LANs across a large number of schools. With the increase in technology driven by e-rate and other technology sources, districts are building the infrastructure to support Internet-based delivery of content.
- The successful service providers will be those with an iron clad survival story, i.e. major telcos.
- It's easier to use, protects privacy, and is a rich set of products
- We use it as an effective 30 day evaluation mode for prospects. We are able to act as an emergency backup for customer who own our product. If they need an survey up fast or as a result of their own IS difficulties, we are there for them to help out at a very low preferred customer rate.
- No technical hassle, constant access to updates and upgrades, no commitment to capital expenditure, more flexibility
- Real-time virus table updates - so IT departments expect to have the updates on a daily/weekly/monthly basis.
- Quickly increasing, market is maturing
- Software as a service pricing allows budget planning and flattens out expenditures.
- Some organizations want to maintain the security and control that they perceive is only available on premise.
- The model is perceived as still under development
- The technical and financial requirements for our customers to build and maintain their own solution is way too high for them.
- Very widely accepted unless competing with internal organization own IT staff.

Software as a Service Survey

124 respondents, 59 using SaaS, 62 not using (of those 21 are planning to do so)

SECTION I:

Is your company currently providing a software application as a service over the Internet?

Yes 48%
No 52%

If no, have you any plans to do so in the next year?

Yes 39% No 61%

If you have no near-term plans, what are your major reasons for not undertaking this approach to delivery?

17% Development issues
10% Security issues
31% Marketing issues
42% Other: not applicable to our product type, customers not demanding,

Please explain what you see as the major barriers:

*See Appendix for full list of comments

SECTION II: Firms Currently Using SaaS

What type of application(s) are you currently delivering as a service?

[Does not add to 100% since more than one could have been chosen.]

11% Personal productivity [e.g. tax, scheduling]
16% Business productivity [e.g. word processing, graphics]
29% Business management [e.g. accounting, HR, CRM, billing]
24% Vertical market management application [e.g. healthcare, legal, construction]
26% Communications product [e.g. e-mail, messaging]
Other: *Software license management, e-Commerce system, Remote Information retrieval and extraction for websites, portals and intranets, Educational Content, Electronic Surveying, Web customer service, software anti-piracy processes, IT Services Procurement, Management and Delivery System, Graphics Applications, Entertainment, Data Backup & Disaster Recovery, [eCommerce, eLogistics, portals, and collaboration SW], technical support service, PC utilities, Training/education management, mobile market for webmaster and wireless users, online marketing campaign creation and serving, group/team decision action planning participation, web-survey software, online testing software, help desk management software, network management,*

eprocurement/emarketplace, Application Provisioning Software, Solutions to problems in engineering, science and research,

How long have you been offering a software product as a service?

- 2% Less than two months
- 12% Two to six months
- 28% Six months to one year
- 59% More than one year

How have you service-enabled your application?

- 80% Own Product/Developers
- 3% Third-Party product
- 15% Third-Party ASP technology
- 2% Rebuilt product from scratch
- Other (please specify)

What type of distribution / hosting arrangement do you use?

- 53% Act as our own ASP, including all data warehousing, connections etc.
- 20% Provide the front end and contract out data warehousing and connections
- 23% License application to a third party ASP
- Other: *Partnership with IBM Global Services for infrastructure hosting, Both our own asp and third party asp's, Two options: co-location for ASP option or software license for customer to host application and site,*

If you license your software to a third party ASP, what type of sales model(s) do you employ? [Does not add to 100% since more than one could have been chosen.]

- 18% Pay as they go (royalty)
- 10% Discount off "list"
- 5% Straight "retail" sale
- 27% Combination of above
- Other: *ASPs pay a simple distribution price on either a daily/monthly or annual basis, Flat Fee/Annual License, per seat per month,*

If you act as your own ASP, which type of revenue model(s) do you employ? [Does not add to 100% since more than one could have been chosen.]

- 34% Set-up fee plus monthly charge with a contracted length of service
- 40% Monthly/Yearly subscription with a contracted length of service
- 26% Subscription (e.g. weekly, daily, monthly)
- 21% Pay-Per-Use/Transaction based
- Other: *Basic use has a maintenance charge; Customers purchase transactions (i.e. license;), Set up fee plus per/user license fee; Per client project, graduated scale depending on numbers of participants; Free service,*

How do you license the application(s)?

[Does not add to 100% since more than one could have been chosen.]

- 58% Per User
 - 40% Per Organization
 - 7% Per Department
 - 13% Number of Concurrent Users
- Other: *site license based on number of users; Number of documents to be indexed; Per instance of application; Per number of students/staff tracked in the database; We license applications to end users, and we license our platform to publishers and other groups looking to provide streaming software*

Who is the target market for your service offering?

[Does not add to 100% since more than one could have been chosen.]

- 60% Current customers
- 89% New customers
- 61% New market segments

What is the price point of your service offering?

Varies widely. See table in Appendix for report.

How are you determining the price point?

Varies widely. See table in Appendix for report.

What is the relationship between your service price and the price of your traditional product?

Varies widely. See table in Appendix for report.

Has your software as a service product been in place long enough to judge its relative success?

Yes 55% No 44%

If yes, is the result:

- 51% Extremely successful
- 34% About as expected
- 14% Less successful than expected

Can you explain why the result is other than you expected?

Less successful: *Market is not ready; market slow to mature to new model; We positioned the value of the product incorrectly to the market; Core desktop productivity apps may not be desirable as a service;*

Very successful: *We incent our new and existing users to adopt the service; Early indications are that the results are as expected with a new product offering; We are extremely successful in our business model, including the path to profitability; We've refined our target markets. We've also added some features that enable our customers to grow their businesses dramatically; Addresses a known need for systems management assistance; Still a new industry. We are just getting good at it; There is not a good sales distribution system in place*

What share of your current customers do you expect to migrate to a service offering in the next two years?

42%	0-25% of customers
22%	25-50%
16%	50-75%
20%	75%+

Do you expect the service model to overtake the desktop or local network delivery of software in terms of revenue in the next:

7%	Six months
7%	One year
29%	Two years
36%	Five years
21%	Never

Who are the channel partners for your service offering? [Does not add to 100% since more than one could have been chosen.]

40%	None -- our own direct sales force
32%	Traditional software resellers, distributors
47%	Integrators, Consultants
31%	Web based aggregators (e.g. Jamcracker)

Other: ISPs; Combination of direct sales and selected distributors; Traditional Print Publishers; Vertical industry partnerships & our own sales force; CPA Firms and Business Consulting Firms; the wireless industry participants, the wireline industry (CLEC's, telco's, cableco's, and ISP's), Integrators and consultants, and ASP aggregators.

Please take a moment to give us your thoughts on the reasons for the acceptance (or lack of acceptance) of the Software as a Service model in the near term.

*See Appendix

Comparative Demographics of Respondents

Using SaaS (N = 64)	Variable	Not Using SaaS (N = 60)
Primary Target Market		
3%	Home	9%
35%	Small Business	22%
48%	Education / Government	28%
14%	Vertical Market	41%
Total Number of Employees		
2%	Fewer than 5	10%
7%	5 to 10	5%
27%	10 to 50	24%
18%	50 to 100	19%
32%	100 to 500	24%
14%	More than 500	17%
Length of Time in Business		
7%	Less than one year	4%
53%	One to five years	23%
19%	Five to ten years	26%
21%	More than ten years	48%
Distribution Channels		
94%	Direct	90%
56%	VAR, Integrators, etc	44%
36%	Two-tier distribution	32%
49%	OEM agreements	37%
Number of Products		
15%	One	19%
39%	2 – 4	28%
25%	5 – 10	18%
21%	More than 10	35%

List of Respondent Companies

Abridean	IBM Software	Relavis Corporation
ACP	Index Stock Imagery	RightNow Technologies
Aidministrador Nederland BV	Individual Software	RightsMarket Inc.
Aladdin Knowledge Systems	INNOVA Multimedia	Riverdeep
Allaire Corporation	Inquisite (A division of	Rockwell Software
Alliance Manufacturing	Catapult Systems Corp.)	Saba
Software	Intacct Corporation	ScanSoft
Amdocs	Into Networks	Seagate Software
American Language Academy	iQ Commerce	ShareAPhoto
Artemis	Kaspersky Labs	Silanis Technology Inc
Attest Systems, Inc.	KDC-Tech	SkyDesk, Inc.
Axtive	Learning Tools International	SoftDex Corporation
Baan	LivePerson, Inc.	Soliton Associates
Banana.ch	Longbow International Corp.	SpeechWorks International
Bentley Systems	MailArmada.com	SpiderCache Inc.
Bindview Corporation	McAfee.com	support.com
BIOSIS	Mediclick, Inc.	Sylvan Learning Systems
Borland	MediaHouse Software	Tally Systems
Brainium	Merit Software	Tangram Enterprise Solutions
Brio Technology	Micromuse	The Electric Mail Company
Carnegie Learning, Inc.	Multiactive Software Inc.	The Solomon-Page Group
CompuCom	neolT	ThinkFree
Concept Systems Inc.	NetActive	ThinkKnowledge Networks
Constellation Software Inc.	NetActive Inc.	Timberline Software
Conxion	netobjects, inc.	Tom Snyder Productions
Corel Corporation	NetPro Computing, Inc.	Tutor.com
CTC	netquartz	USinternetworking, Inc.
Delphes Technologies	NetSchools Corp.	Ventaso
InternationalL	Norada Corporation	VERITAS Software
Demand Management, Inc.	Ontrack Data International	Vyou Inc.
Dolphin Inc.	Open Software Associates	Waterloo Maple Inc.
Easy Computing	Opus Solutions, Inc.	Webmind, Inc
eChalk	Outlook Technologies, Inc.	Wilson WindowWare, Inc
element 5 AG	Passwordit.com	Z4 Technologies, Inc.
Esker Software	PatchLink Corporation	Zaplet, Inc.
Exceller Software Corp.	Peachtree Software	
Exent Technologies	PLATO Learning, Inc.	
FORTEL, Inc	Power On Software	
Fourth Shift Corp.	PowerQuest Corporation	
GL TRADE/ MULTIMEDIA	PowerSchool, Inc.	
GLOBEtrotter/Macrovision	Prime Technologies	
Gupta Technologies	Procedo Commerce	
HarrisData	Protexis Inc.	
Hostedware Corporation	Punch Networks Corporation	
Hudson Company Ltd	PyWeb.com	
I/O Software, Inc.	Reciprocal, Inc.	
IAETE	Red Hat, Inc.	