



Are traditional on-premise mega-vendors really committed to the Cloud or is it just a strategy to perpetuate and protect their on-premise legacy?

ISV's New Reality

Based on my experience with our clients and other executives running large ISV's, I believe that they are now starting to realize that their customers are very interested in leveraging the power of the Cloud for their own businesses. Recent Gartner research on the SaaS market projects a 17% growth rate between 2011-15, which is 5 times the growth rate of the traditional on-premise software. Customers are now buying all types of on-line software solutions with more confidence and the recession has only intensified these growth rates. Reasons for SaaS popularity include:

Ease of Use

SaaS solutions are designed to be much easier to use than their traditional on-premise predecessors. With a 'land and expand' sales model, most SaaS providers are quite focused on building and delivering products that are easy to adopt. SaaS adoption is especially important now because a large percentage of users would prefer to access and use their products using a mobile device like an iPad or phone instead of a PC.

Rapid Time-to-Value

For most businesses, *time is money*. SaaS solutions are increasingly attractive to buyers because they can be implemented and deployed quickly. This time-to-value advantage is critical because many customers are trying to increase the velocity of their own businesses. By deploying SaaS solutions quickly, customers can often realize competitive advantages as well as improved operational efficiencies.

Total Cost of Ownership

Part of the leverage that customers are looking for from their software providers is to lower the Total Cost of Ownership associated with their solutions. This doesn't necessarily mean reducing pricing but better articulating how a SaaS-based solution can eliminate the need for hardware, facilities, power, dedicated personnel and painful upgrades. By better equipping the buyer's business leaders with this information, this in turn helps them to sell the value back to their organization, because most companies are very focused on reducing operational costs and improving efficiencies.

Because of these changing market dynamics, traditional ISV's are not only committing to the Cloud, but realizing that their futures are tied to how well they can leverage it for their customers.

The mega-vendors are buying up pure-play SaaS companies. Will they succeed in using those acquisitions to help change their companies to the SaaS culture and business model?

Large ISV's now realize that building a profitable SaaS business is much harder than they originally thought, which is one reason for the increased SaaS M&A activity over the past 6 months by companies like Oracle and SAP. One major realization is that SaaS is not just a software delivery approach, but also a different business model. Key elements that are needed to build a successful SaaS business include:

- Fielding an experienced team
- Solid SaaS product and platform
- Strong sales and marketing engine
- Growing subscription revenue stream
- SaaS customers

As it turns out, all of these ingredients take time to locate and develop, so there are now new strategies.

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