



What factors are driving the mega-vendors to buy "pure-play" SaaS/Cloud vendors?

Prospective software customers are increasingly demanding Software-as-a-Service (SaaS), seeking a "pay as you go" subscription model. Prospects want a cost model based on utilization instead of ownership with the advantages of no capital expenditures, faster implementations, elimination of long-term contract lock-in, predictable costs, improved system uptime and increased ROI. Increasingly, prospects are refusing to purchase software from vendors who only provide on-premise solutions.

Mega-vendors are buying "pure-play" SaaS/Cloud vendors for three key reasons. First, they don't want to miss out on the rising client demand as they struggle to transition their on-premise applications to SaaS. Second, they have discovered that their attempts to deliver their on-premise applications with an inefficient multi-instance SaaS architecture lack manageability, scalability and cost effectiveness. Third, they have discovered the high value of highly efficient SaaS architectures based on multi-tenancy.

However, purchasing "pure-play" SaaS companies to capture market demand is a short sighted view. Although incremental revenue may be generated, the significant challenge of moving legacy on-premise applications to SaaS still exists. However, it's inconceivable to think about scraping the entire legacy portfolio of applications and re-writing them for SaaS.

In some cases, a mega-vendor purchases a "pure-play" company because they have encountered many obstacles and have learned valuable lessons from the pains involved in delivering their on-premise solution as a multi-instance SaaS solution. They have discovered that there are scalability, manageability and operational issues, such as the complexity and difficulty of constant updating of hundreds or thousands of copies of application code. Phil Wainwright, a veteran SaaS evangelist, describes this type of SaaS deployment as "SoSaaS", for "Same Old Software-as-a-Service!" While this approach gives each client (tenant) web-based access to their application via the cloud, the software vendor does not gain the efficiency of only having one centralized code base to maintain. Nor does it provide the efficiencies of utilizing a single software stack that exists in a true "multi-tenant" SaaS play. This highly inefficient SoSaaS play ultimately slows down the speed of innovation.

In other cases, a mega-vendor purchases a "pure-play" vendor for strategic reasons as in the case of SAP's purchase of Success Factors. The incremental SAP revenue from the purchase is now only a drop in the bucket. For the longer term, they are looking at the upside potential in the future explosive growth of SaaS. In addition, they also hope Success Factors will be able to infuse the service oriented culture that is needed for a successful SaaS company. Most importantly, SAP hopes they will be able to leverage the key underlying technology element that made Success Factors successful, i.e., their core multi-tenant architecture.

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?

It's important to remember what Software-as-a-Service is, with a major emphasis on service. Beyond software maintenance contracts, traditional on-premise software companies have little experience in providing operational client service. The challenge for these software companies will be to utilize SaaS as more than a technology. In order for a mega-vendor to be successful with their acquisition, they will need to understand that delivering SaaS requires a cultural and business model change at all levels in the organization from Engineering to Sales.

First, the acquiring company will need to become a student of the "pure-play" SaaS company while driving the changes from the top. Second, they will have to accept taking a short term hit while transitioning from a "pay up front" to a "pay as you go" revenue model. Lastly, they will need to figure out how to effectively leverage the multi-tenant SaaS architecture across their entire product line for long term and sustainable success.

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