

## Quocirca's Changing Channels – Software as a service - can value outweigh price?

By Bob Tarzey, Service Director, Quocirca Ltd, Sept 27th 2006

Software as a service (SaaS) has been one of the most widely talked about topics in IT circles over the last few years for a number of reasons. Rightly, one of these reasons has been the benefits SaaS can deliver to businesses; another has been the hard work of some of the leading proponents of this delivery model in getting the message out there.

But these two have conflicted with each other at times. The real benefits sometimes get lost in the vendor hype and this can lead to confusion among prospective customers and slowing of the uptake of SaaS. One of the greatest areas of confusion has been cost.

Cost, or more usefully, total cost of ownership, should of course be taken into account in any investment decision. Anyone who has bought a product or service will be well aware that buying the cheapest is not always the best decision and that poor quality can lead to a greater cost over a period of time if, for example, a product fails after a year or so.

Measuring the TCO for a SaaS product is pretty straight forward. There is a monthly cost per user, multiply this by the number of users, add in something for start-up costs (eg training and integration with other applications and business processes), and you have it. Multiply the yearly cost by a three, four or five – and you have a cost of ownership for a given number of years.

Quocirca uses a SaaS offering for its email and portal requirements. A rough calculation of the three year cost ownership (three years being the typical hardware refresh cycle), shows that on paper there is little difference in TCO between the SaaS option and buying the requisite hardware, software, and maintenance that would be needed to run this inhouse (the cost of management time is harder to calculate, but Quocirca has staff capable of doing this part-time). Stretch the hardware to four years and SaaS is definitively more expensive.

But this is not really the point. Cost was not the basis for Quocirca's decision to use SaaS, there

were many other benefits that added up to the SaaS delivery model being a far better value proposition than running email and a portal on premises. Not least of these was leaving Quocirca free to focus on its core business, but also a more consistent service, more reliable backups, and not having to worry about upgrade and patch management.

These ownership costs were calculated using the list price of software and hardware required to run an email and portal system. Enterprise business applications are even more problematic as the list price for software is rarely paid and skills to manage the application stack are more readily available. But it can be demonstrated that over a reasonable period of time, say three or four years, SaaS is rarely cheaper than buying the base products for running the application on premises.

Again, the SaaS delivery model needs be sold using a broader value proposition – ease of sharing data with third parties, availability of backup data centres for disaster recovery and, especially for smaller businesses, having access to enterprise level application services that would be near impossible to achieve inhouse.

Today SaaS has moved well beyond a small group of specialists, most of the major software vendors now have a SaaS offering of some sort. All these vendors, the resellers who represent them, and those resellers who have developed their own SaaS offering, should not lose sight of this. There are much more effective arguments for buying SaaS-based solutions than pure cost; a SaaS proposition that looks at the total value it can deliver to a customer will be much more compelling.

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Quocirca is one of Europe's leading independent industry analyst firms. One of its biggest assets is the core team of highly experienced analysts drawn from both the corporate and the vendor communities. This team prides itself on maintaining a bigger picture view of what's going on in the IT and communications marketplaces. This allows all of Quocirca's activities to be carried out in the context of the real world and avoids distractions with fads, fashions and the nuts and bolts of specific technologies. Quocirca's focus has always been the point of intersection at which IT meets "the business".

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Quocirca's primary research involves the surveying of many thousands of technical and business end users each quarter, analyzing their perceptions of the possible impact of emerging, evolving and maturing technologies on their businesses.