

# SaaS: Managing the Anti-IT Application

## Developing a firmwide strategy to reduce costs and complexity

*The increasing complexity of the IT landscape is a key issue for chief information officers. Software as a service, offers the promise to manage this complexity while improving service and reducing costs. However, there are some risks as most companies have not structured an approach to make the SaaS model work within their organizations. Given the stakes involved and the rising number of users, it is time to build a coordinated firmwide SaaS strategy.*



*Software as a service, if used properly, offers the promise to manage IT complexity while improving service, reducing costs and curtailing risks.*

The CIO agenda continues to grow more complex as the portfolio of IT platforms, systems and tools proliferates. Despite attempts at standardization—such as consolidating servers and streamlining applications—the pace of new and custom business applications is accelerating as companies focus on delivering new products to market faster. Today, a CIO must deliver new capabilities to meet business needs, enabling business strategy while continually doing more with less.

For many companies, the answer to this dilemma is SaaS, the popular acronym for “software as a service.” Rather than signing long-term software licensing agreements, SaaS applications are subscription-based and do not require significant infrastructure investments. Free email programs such as Hotmail, Google’s application suite, and Salesforce.com’s customer relationship management (CRM) platform, are all excellent examples of SaaS.

Yet, we believe SaaS, if not managed properly, could compound IT complexity problems as its simplicity allows business unit owners to make implementation decisions independently. SaaS could actually increase the long tail of small-supplier point solutions that currently exist within many IT environments.<sup>1</sup>

The solution is for companies to deploy SaaS, but only after considering the ways in which it fits into the company’s overarching IT architecture and strategy.

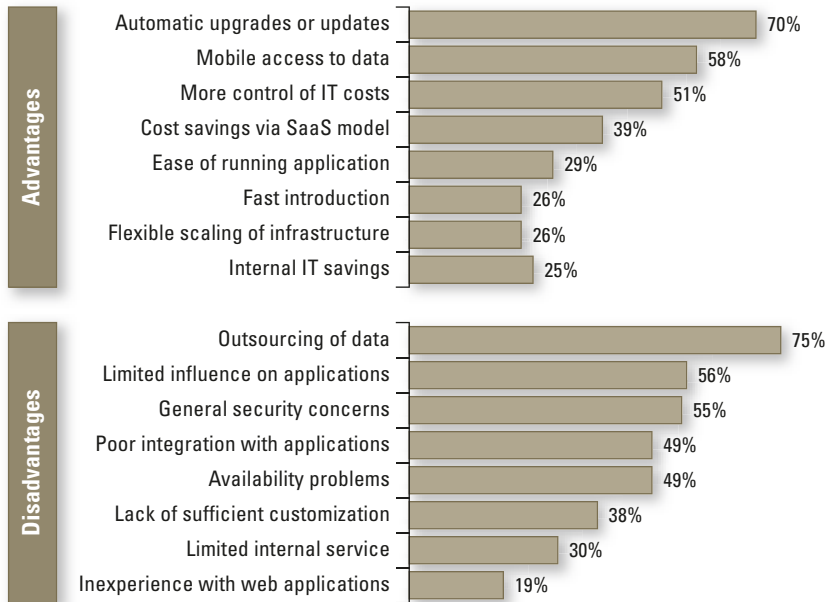
### SaaS Market Trends

SaaS adoption is picking up steam on all fronts. Between 2008 and 2009, the number of organizations piloting or using SaaS increased by 16 percent. The number of SaaS applications deployed is also rising. Interestingly, the rise is not just in small- to mid-sized companies, but also in those with the largest IT departments.<sup>2</sup> And as adoption

<sup>1</sup> For a discussion on IT complexity, please read “A Blueprint to Fix IT Complexity,” at [www.atkearney.com](http://www.atkearney.com).

<sup>2</sup> Forrester Research, Gartner Group and A.T. Kearney research

**FIGURE 1: SaaS\* advantages and disadvantages**



\*Software-as-a-service

Source: A.T. Kearney analysis

grows, key advantages and disadvantages are emerging (see figure 1).

SaaS’ advantages are clear. Pay-per-use implementations generally take less time, are cheaper, and reduce dependency on IT groups. The disadvantages are more subtle: the simplicity that attracts users may actually undermine the promise. Indeed, excessive independent business-unit implementations can increase “shadow IT” costs that reside within business units’ budgets, and are outside IT control. This increases complexity within the overall IT environment.

A.T. Kearney research and client interviews confirm the attractiveness of SaaS. The beauty of SaaS, according to our clients, is its ability to reduce infrastructure complexity and the resulting costs. Essentially, it is the anti-IT application. Unlike new on-premise IT deployments that increase the number of applications to support and maintain, the SaaS model can control and potentially reduce IT complexity (see sidebar: *SaaS Trials: Findings from the Financial Services Industry*).

As mentioned earlier, SaaS can be implemented at a lower cost due to standardization and scale. Figure 2 illustrates the annual costs of on-premise applications compared to the stationary costs of subscription-based software. In addition, SaaS implementations are typically less risky as cost overruns are less likely to occur.

### The Building Blocks

Growth in SaaS highlights the importance of developing a coordinated strategy. IT departments should take the lead in developing a SaaS enterprise strategy, stressing the value-added activities that IT can bring to such

## SaaS Trials: Findings from the Financial Services Industry

As part of our assessment, A.T. Kearney interviewed IT executives at several prominent financial institutions. The sessions complemented our secondary research and provided significant firsthand knowledge regarding SaaS usage. What we discovered underscores the importance of taking an enterprise-wide view of SaaS.

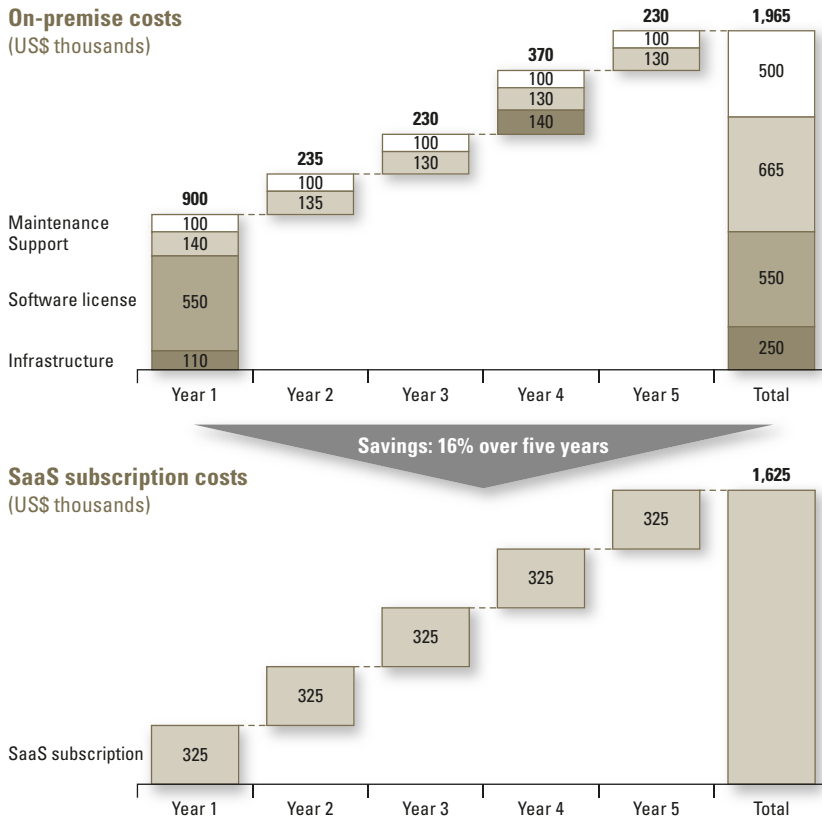
**The findings.** Interest in SaaS has grown as users consider it a cost-effective and less risky IT delivery model. The impression of SaaS functionality is often mixed, however. Several users in our pilot noted that a simpler, less-is-more approach will meet most needs, while others wanted even more capabilities.

IT groups appreciate the flexibility SaaS offers, although certain groups view SaaS as a competitive threat to internally delivered IT systems. We noted an overall fear of losing control due to externally managed upgrades, uneven continuity capabilities, and a perceived inability to meet internal IT standards. This fear extended to losing control of cost-related issues.

Many IT groups think SaaS contributes to shadow IT costs, and also fear loss of influence when business groups independently select a SaaS application. One IT participant said his IT group was placed in a weakened negotiating position when business partners turned SaaS applications over to them for final negotiations and management. Another complained that inconsistent standards across SaaS applications blocked wider deployment—a situation that could be rectified with an enterprise plan.

All study participants agreed that a unified approach to SaaS could support firmwide goals while also controlling costs.

**FIGURE 2:** Comparison of on-premise and SaaS\* subscription costs (CRM sample)



\* SaaS is software-as-a-service; CRM is customer relationship management

Source: A.T. Kearney analysis

implementations and ongoing operations, while also helping to control unnecessary complexity. While most companies develop SaaS strategies to meet their unique needs, A.T. Kearney has isolated several building blocks applicable to all SaaS implementations.

**Set goals.** Goals for the SaaS deployment model should consider the impact that SaaS can have on IT complexity and cost, and should facilitate IT's focus on core versus non-core applications. When managed properly, SaaS can reduce IT complexity and costs; when mismanaged, SaaS can actually increase complexity as various business units develop their own point solution for common busi-

ness functions. Leveraging the SaaS deployment model can also help IT groups effectively reallocate their time and capital investments to core, in-house applications.

**Establish guidelines for SaaS deployment.** IT departments and business users should work together to establish guidelines. SaaS, by its nature, does not offer a competitive advantage, so should be considered for non-core functions first. In addition, SaaS applications have not demonstrated a consistent ability to meet complex functionality, workflow, or process requirements. Because SaaS applications can be rolled out quickly, they should be considered when time-to-market is vital.

**Support supplier selection.** An IT-led strategy will ensure the full SaaS opportunity is captured, while also "selling" the capabilities that IT can provide. As a core competence, IT groups can help with system selection and proof-of-concept, while also assessing the potential risks. Standard IT risk assessments that consider security, backup and continuity, system certification, and supplier viability will ensure the business does not take on too much risk.

**Develop standards.** A major drawback of SaaS is the lack of seamless integration with other applications, which means a successful SaaS model requires first developing and standardizing integration capabilities. Developing interface standards, data exchange formats, and means for integrating into alternate architectures such as service-oriented architecture (SOA), will facilitate speed to market for new SaaS applications.

**Monitor market developments.** An enterprise SaaS strategy is not complete without a mechanism to monitor market developments. The landscape is expanding and new applications are being developed for new business sectors and specific business processes (see sidebar: *Who Are the Key Players? on the following page*).

### Mitigating the Risks

SaaS implementations bring their own challenges and risks. How well these are mitigated is an effective test of a good SaaS strategy.

**Begin with non-core functions.** An enterprise SaaS strategy should establish which functionality is best suited for SaaS. IT can assist in determining which applications and

---

## Who Are the Key SaaS Players?

The key players in the SaaS market continue to evolve. Large software vendors, including Microsoft, Oracle and SAP, have recognized the changes in user adoption and buying behavior and are tuning their offerings accordingly. Smaller market players, such as Workday in the enterprise resource planning (ERP) space, typically provide SaaS-only offerings and target specific functional requirements.

The increasing popularity of SaaS has resulted in a proliferation of offerings. New applications are being developed to serve industry vertical markets, and functional and process domains. For example, eCredit and Sentinel eCollections have used SaaS to develop point-collections solutions, Glovia has a manufacturing application, and Serengeti provides an effective global legal platform.

Arguably the largest SaaS player, Salesforce.com, has played a key role in the emerging platform as a service (PaaS) model. PaaS uses the simplicity of SaaS system configuration to enable user development of applications. For example Facebook and Force.com, which uses Facebook interfaces for social data powered by Force.com to deliver the service.

In 2006, Workday entered the market with what it bills a fully functional SaaS ERP package. In just three years, Workday has built a base of more than 100 customers, including a 17,000-employee account with Life Time Fitness. It's easy to challenge Workday's lack of manufacturing or supply-chain capabilities, but the promise of complete ERP functionality without the complexity is enticing.

Such challenges can be overcome with a coordinated approach that takes advantage of interface standards, tool-kits and certification guidelines. SaaS projects may be relatively less risky than on-site deployments, but they still involve managing change and aligning business and IT requirements.

**Monitor suppliers.** The aggressive growth of the SaaS marketplace has attracted a field of suppliers. Many of the smaller players have demonstrated an ability to bring compelling applications to market quickly. However, not all small players will survive, and those that do may provide "shaky" continuity and data security capabilities. Monitoring the SaaS marketplace means continually assessing supplier viability, continuity and security rigor.

## Harnessing the Opportunity

Software as a service provides an interesting opportunity for IT groups and businesses. With the right strategy, SaaS can add substantial value—allowing IT to focus on its core activities and users to leverage new functionality more quickly. Both IT and business users can benefit from SaaS, but only if they work together to harness the opportunity.

functions are core and which are non-core so the right areas are considered first. Lack of a plan for harnessing SaaS can lead to system proliferation or overly ambitious implementations that could fail.

Integrate, integrate, integrate. SaaS systems are typically standalone,

remotely hosted applications that are not integrated, and therefore limit the ability to track performance. These applications must be properly integrated into the existing IT environment to avoid data management inconsistencies. Internal IT may fear a loss of control if equipment is located off-site.

## Authors

*Arjun Sethi is a partner in the New York office and can be reached at [arjun.sethi@atkearney.com](mailto:arjun.sethi@atkearney.com).*

*Axel Freyberg is a partner in the Berlin office and can be reached at [axel.freyberg@atkearney.com](mailto:axel.freyberg@atkearney.com).*

*Jason Miller is a consultant in the Chicago office and can be reached at [jason.miller@atkearney.com](mailto:jason.miller@atkearney.com).*

A.T. Kearney is a global management consulting firm that uses strategic insight, tailored solutions and a collaborative working style to help clients achieve sustainable results. Since 1926, we have been trusted advisors on CEO-agenda issues to the world's leading corporations across all major industries. A.T. Kearney's offices are located in major business centers in 36 countries.

A.T. Kearney, Inc.  
Marketing & Communications  
222 West Adams Street  
Chicago, Illinois 60606 U.S.A.

1 312 648 0111  
email: [insight@atkearney.com](mailto:insight@atkearney.com)  
[www.atkearney.com](http://www.atkearney.com)