



A Whitepaper for Independent Software Vendors (ISVs)

Maximizing the Software-as-a-Service (SaaS) Market Opportunity

*How to Accelerate Your Time-to-Market,
Reduce Your Operating Costs and
Improve the Quality of Your Solutions*

An Independent analysis published on behalf of CSS Corporation.

CSS

Cybernet - SlashSupport

Executive Overview

A combination of market forces has combined to fuel the rapid growth of a new generation of web-based, on-demand, Software-as-a-Service (SaaS) solutions.

The growing acceptance and adoption of these SaaS solutions is being driven by three primary forces:

1. Frustration among corporate end-users and executives with the escalating costs and complexities associated with traditional, on-premise applications.
2. Broad-based use of consumer-oriented, on-demand services which are setting greater expectations for the ease-of-use and cost-effectiveness corporate users have for their business applications.
3. Enabling technologies which make it more economical to develop and deliver SaaS solutions.

THINKstrategies has found that that these forces are driving adoption of SaaS across all organizations of all sizes. SaaS solutions are also being used to address 'back-office' areas, such as accounting and financial systems, IT management functions, such as IT/network management and messaging, as well as 'front-office' applications, such as customer relationship management (CRM). In addition to these horizontal solutions, a widening array of vertical market SaaS solutions are also emerging.

The promise of rapid industry growth has attracted a widening array of net-native SaaS start-ups and established independent software vendors (ISVs) seeking to take advantage of this new market opportunity.

The proliferation of new players is placing greater competitive pressure on aspiring SaaS providers. Because the pay-as-you-go pricing model associated with SaaS permits customers to more easily abandon their software vendors, SaaS providers must develop highly differentiated solutions at the lowest possible cost, and properly support their customers' needs in order to ensure their satisfaction and loyalty.

Start-ups and established ISVs both face a wide range of operational challenges they must overcome to meet these requirements.

Ironically, the SaaS subscription pricing model also creates cashflow constraints which limit the investment which SaaS providers can make on their internal development and support capabilities.

In response to these challenges, a growing number of SaaS providers are turning to third-party software development and support companies, such as CSS Corporation, to reduce their time to market and improve their customer support capabilities. Software lifecycle services companies can provide specialized skills and additional resources that can help SaaS providers accelerate their development processes and strengthen their service delivery capabilities.

This whitepaper will discuss the opportunities and obstacles facing SaaS providers, and will examine how CSS Corporation is helping SaaS providers overcome these challenges.

The Drivers of the SaaS Market

THINKstrategies believes the SaaS market is being driven by a combination of macro-market trends.

Globalization has changed the competitive landscape for companies of all sizes in nearly every major industry sector. It has opened up new market opportunities and attracted a new set of offshore competitors who can offer low-cost products and services that are commoditizing many markets, making it more difficult for companies to differentiate themselves.

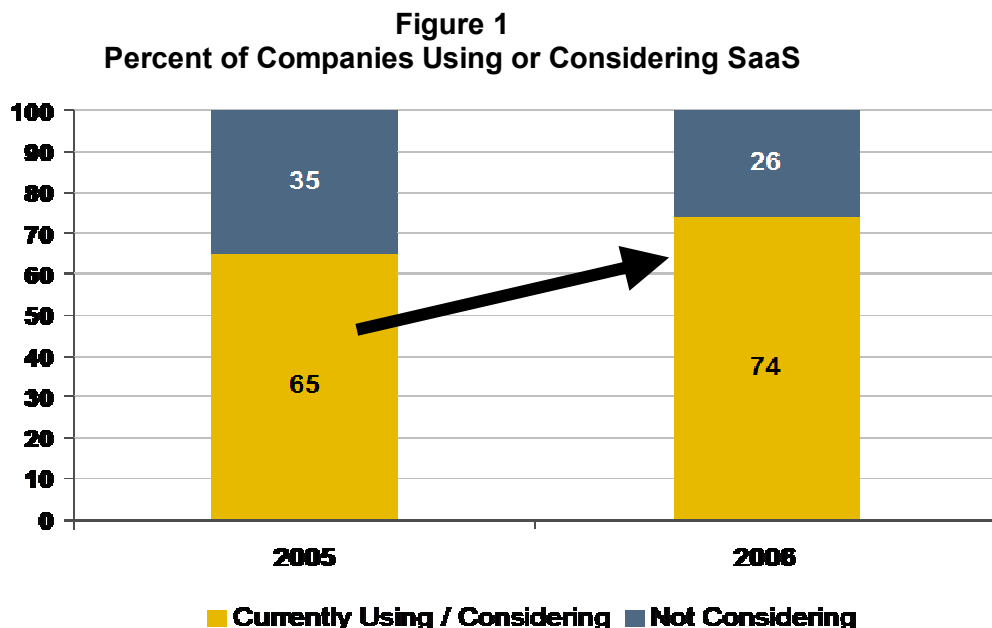
Mobility is also permitting people to work anywhere, creating new challenges for companies seeking to properly manage these employees and give them secure access to corporate applications and databases remotely.

On-demand services aimed at consumers, such as Amazon.com and Apple's iTunes, have set a new standard for the ease-of-use which corporate executives and end-users would like to gain from their business applications.

Enabling technologies such as broadband networking, grid computing, virtualization, Open Source development and Web 2.0 tools are also making it possible to build more user-friendly SaaS applications specifically designed to leverage the ubiquitous nature of the web in a reliable and secure fashion.

Legacy application costs and complexities can no longer be tolerated by companies who must generate greater productivity with more limited resources in an increasingly competitive market.

In response to these trends, customer receptivity and adoption of SaaS solutions is growing rapidly. THINKstrategies has found the proportion of organizations adopting or considering SaaS solutions has jumped from 65% in 2005 to 74% in 2006. (See, Figure 1.)



Source: THINKstrategies/Cutter Consortium 2005 and 2006.

SaaS Development, Delivery and Support Challenges

The escalating demand for SaaS represents a “good news, bad news” story for start-ups and established ISVs. The demand is creating new market opportunities, but also producing more intense competition.

In response, SaaS providers must have clearly differentiated on-demand applications. They must be able to develop and deliver their applications in a rapid and cost-effective manner. They must be able to ensure the reliability and security of their online services. And, they must fully support their customers and continuously enhance their solutions.

These issues entail software architecture and design choices; service hosting and infrastructure management requirements; and technical/customer support needs. There is a rapidly evolving set of software architecture and design alternatives. There is also a widening array of hosting infrastructure technologies. And, support needs in the SaaS market go beyond reactive, helpdesk techniques of the past to now requiring proactive, business process oriented customer support as well.

Many aspiring SaaS companies are at a fundamental disadvantage in this market because they are product or technology centric and not service-oriented. The shift to a service-orientation can be difficult because it requires a different set of development, delivery, sales and support skills.

These organizational challenges are compounded for SaaS start-ups, as well as established ISVs, by the significant investments of time, resources and funds need to develop and deliver on-demand solutions.

Yet, the SaaS pay-as-you-go model prevents these companies from recognizing new customer revenues upfront as they would in a legacy, perpetual license sale.

The incremental acquisition of new customers and recognition of new revenues is forcing SaaS companies to seek alternative sources to meet their operational needs rather than addressing them all with internal resources.

Increasingly, these challenges are driving SaaS companies to enlist software development, delivery and support services companies to augment their inhouse capabilities.

Third-party service companies can accelerate their software development processes. They can strengthen their service delivery capabilities. And, they can improve their customer support capabilities.

However, adopting a best-of-breed approach to contracting for these services can create another set of vendor management challenges for SaaS companies. It also may not make economic sense to contract for services from a series of separate companies to handle software development, delivery and support issues.

Instead, SaaS companies are recognizing that a strategic sourcing approach for corraling the skills and resources of third-party service providers can be a more effective approach.

How SaaS Providers Can Leverage Third-Party Lifecycle Services

Just as enterprises have discovered that they can gain direct and indirect benefits by relying on pivotal suppliers to meet their business needs, so are SaaS companies realizing operational and economic benefits by working with a set of strategic partners.

Working with a partner that can provide a full range of product lifecycle services - development, delivery, operational support and infrastructure management - enables a SaaS company to continuously improve the quality and effectiveness of its solutions, while reducing its operating costs.

While many ISVs view third-party service providers as primarily of value during the development process, they are increasingly important in the following infrastructure management areas:

- 24 x 7 x 365 Operational Monitoring and Management
- Infrastructure Resiliency
- Performance Optimization
- Capacity Management Planning
- Disaster Recovery and Business Continuity
- Data Protection
- Technical Support.

The partner can provide an independent and objective perspective to monitor and test the performance of the SaaS provider's solutions. The partner can also leverage the knowledge it's gained from working with multiple SaaS providers to accelerate develop cycles; improve operating efficiencies; and increase customer satisfaction and loyalty.

CSS Corporation has established a support-centric model that offers a "one-stop shop" portfolio of services for SaaS companies. The CSS *OneWorld* model leverages project teams on the client site, offsite and offshore.

CSS's software architecture services help companies quickly design solutions which utilize industry standard platforms and tools. CSS also helps established ISVs migrate their legacy applications to new platforms, transition to a service-oriented architecture (SOA), and optimize their functionality and performance. CSS can also perform architecture and design verification testing, including reliability, compliance, process and scalability testing.

CSS provides technical support for web and mobile technologies, and multiple programming languages, operating systems, database types, and application areas. It handles Level 1, 2 and 3 support for the customers of a number of leading technology vendors including WebEx and Nortel.

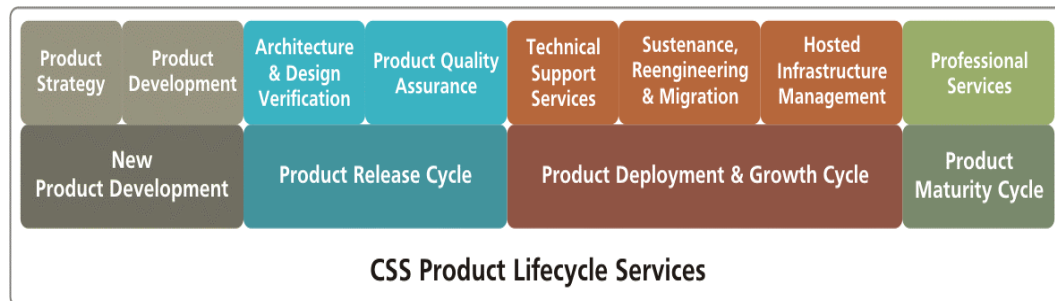
CSS can help SaaS companies address their operations management needs by providing 24/7 administration of servers, data centers & SANs by level 2 and level 3 engineers; remote problem and incident management; operating system upgrades and version control; performance monitoring; disk usage, processor usage optimization and load balancing; and security/bug patch notifications.

CSS works as an extension of a SaaS company's in-house research & development, infrastructure management and customer support teams to help them address their lifecycle requirements.

CSS also works with SaaS companies to ensure they can meet their contractual and Service Level Agreement (SLA) obligations.

CSS's lifecycle services are summarized in Figure 2.

Figure 2
CSS Corporation
SaaS Lifecycle Services



SaaS Leaders Working With CSS

CSS is helping a wide array of SaaS companies develop their solutions and support their customers. Here are few examples:

- **Webex**, now a part of Cisco Systems, relies on CSS to provide 24x7 technical support for its SaaS platform.
- **Operative** employs CSS for product development and QA of its Online Ad-Sales Management platform, an ERP environment for online publishers and websites. CSS also helps Operative in managing their online ad-operations.
- **Ketera** uses CSS to handle technical support for its on-demand spend management solution.
- **RW3** relies on CSS for platform development, QA, and performance optimization (testing and tuning) for its performance measurement and workflow optimization solutions for the consumer-packaged goods industry.
- **Syxta** uses CSS's platform development services for its health insurance management solutions.
- **Gryphon Networks** relies on CSS's remote infrastructure management services for its on-demand contact governance solutions.

CSS's work with the world's largest provider of e-education platform provider, **Blackboard**, clearly illustrates the value of the company's services. The Washington, DC-based provider of e-Education enterprise software serves over 500 customers and relies on over 2,000 servers housed in three data centers located in U.S. and Europe to deliver its customers 99.7% service availability. In order to meet these service level objectives (SLOs), Blackboard turned to CSS for 24 x 7 monitoring and management of its global hosted delivery platform. It also leverages CSS's application customization and integration capabilities. As a result of CSS's proactive monitoring and management services, Blackboard has:

- Reduced operational risks
- Gained greater operational leverage
- Achieved higher server-to-staff ratios
- Increased customer satisfaction and retention.

Summary and Conclusions

Successful SaaS companies must develop and continuously enhance highly differentiated solutions quickly in order to gain and sustain a competitive advantage.

Smart SaaS vendors recognize the critical need and substantial advantage of leveraging the skills and resources of a qualified third-party provider, who can be a strategic partner rather than just a vendor.

CSS Corporation has established itself as a proven provider of product lifecycle services for SaaS companies and its clients include the world's leading technology companies such as WebEx, Operative, Nortel and Sun.

By providing a full range of product lifecycle services – from development and QA/testing to technical support and remote monitoring and management of the SaaS infrastructure – CSS helps SaaS companies accelerate time-to-market, reduce operating costs, improve service quality and application performance, and increase customer satisfaction.

This independent analysis was published on behalf of CSS Corporation.

About CSS Corporation

CSS is a leading provider of global technology operations management services with close to 5,000 employees and offices in North America, Europe, and Asia, including world-class offshore delivery centers in India. Driven by a corporate mission of “100 percent reference-able customers”, CSS is committed to building long-term client partnerships that maximize quality, availability and reliability while minimizing costs and risks for its clients. CSS supports and manages technology infrastructure platforms and applications for Fortune 2000 companies, and provides testing/QA and support solutions for products and applications from ISVs and consumer technology providers. The company is backed by Goldman Sachs and Sierra Ventures. For more information, go to www.csscorp.com.

About THINKstrategies, Inc.

THINKstrategies is a strategic consulting services company formed specifically to address the unprecedented business challenges facing IT managers, solutions providers and investors today as the technology industry shifts toward a services orientation. The company's mission is to help our clients re-THINK their corporate strategies, and refocus their limited resources to achieve their business objectives. We help enterprise decision-makers with their sourcing strategies, IT solutions providers with their marketing strategies, and VCs with their investment strategies. THINKstrategies is also the founder of the Software-as-a-Service Showplace (www.saas-showplace.com) a vendor-independent, online directory and information resource center of SaaS solutions. For more information regarding our unique services, visit www.thinkstrategies.com, or contact us at info@thinkstrategies.com.