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RESEARCH NOTE BUSINESS CRITICAL: SOFTWARE-AS-A- SERVICE VENDOR STRATEGIES

THE BOTTOM LINE

As software-as-a-service's enterprise presence grows, vendors must ensure the reliability and scalability of their applications while managing costs. Nucleus found a dominant player, with 8 out of the 10 SAAS vendors delivering business-critical applications running on Oracle. The SAAS market has clearly matured, with vendors deploying infrastructure that provides demonstrated reliability and scalability as opposed to simply lowest cost.

As adoption of on-demand and software-as-a-service (SAAS) applications grows, so do enterprises' expectations of their SAAS application vendors. Many companies are looking to SAAS applications to support business-critical processes such as CRM and accounting, integrate with internal systems and processes, and even support custom application development efforts. An increasingly visible application in the enterprise environment, a SAAS application must deliver professional-grade uptime and business-class support — while staying cost competitive.

As SAAS becomes an integral part of the enterprise computing environment, it falls under the scrutiny of the IT department. Although line-of-business decision makers may not know or care about the underlying infrastructure of a SAAS application, IT decision makers do — particularly if it falls under their direct responsibility or may impact other internal systems.

To evaluate SAAS vendors' strategies for delivering high performance and reliability while managing costs, Nucleus analyzed the development and infrastructure strategies of the top 35 vendors of SAAS applications. These 35 were chosen based on their market revenue. In a positive harbinger for the future of the SAAS market, Nucleus found it wasn't lowest-cost technology that drove the decision for most vendors, but greatest manageability and scalability. Clearly SAAS vendors are investing for the long-term future.

Leading SAAS vendors look for manageability, scalability, and reliability in infrastructure to support their applications — not just lowest cost.

BUSINESS CRITICAL

Of the 35 vendors analyzed, 10 were providing SAAS applications that Nucleus Research defines as business critical. Those application supported accounting and financial management, payroll management, supply chain management, or customer relationship management — all applications where sensitive financial or

customer information is stored and where any downtime can have a significant negative business impact.

Of the 10 vendors, 8 out of 10 were running their applications on Oracle. These vendors indicated that Oracle was largely chosen because of its scalability, flexibility, and manageability. Of the 8, six ran Oracle exclusively. One ran Oracle, Microsoft SQL, and Informix because multiple acquired applications had already been developed on other databases. Another ran Oracle and MySQL because it was originally developed on MySQL to manage costs but it also ran Oracle because, over time, the vendor found that it needed to do so to meet customers' requirements.

Two vendors were running only Microsoft SQL server. When Nucleus analysts investigated further, they found that the decision to go with Microsoft was based on previous .NET application development or because they were predominantly Microsoft environments.

Eight out of 10 SAAS vendors delivering business-critical applications run on Oracle.

ALL APPLICATIONS

When all 35 SAAS vendors were analyzed, Nucleus found multiple strategies that varied based on the type of application. The larger group of SAAS vendors tended to include applications for smaller groups of users or applications that were used on a more ad-hoc basis that had lower scalability and reliability requirements — so more vendors chose lower-cost proprietary, open source, or other infrastructures. Of the top 35 vendors:

- 69 percent were running their SAAS applications on Oracle, with 51 percent running Oracle exclusively.
- 37 percent were running their SAAS applications on Microsoft, with 23 percent running Microsoft exclusively.
- 14 percent were running their SAAS applications on MySQL, proprietary, or other infrastructures. Only three relied exclusively on MySQL, proprietary, or other infrastructures.

Sixty-nine percent of the top 35 SAAS vendors were running on Oracle.

Vendors analyzed included Arena Solutions, Ariba, Authoria, CaseCentral, Citrix, Concur Technologies, Coremetrics, Daptiv, Genesys Conferencing, InterCall, Intuit, Kenexa, Kintera, MessageLabs, Microsoft Office Live Meeting, NetSuite, Omniture, Oracle, Paychex, Peopleclick, Google, Qualys, RightNow, Salesforce.com, SuccessFactors, Taleo, Ultimate Software, Vocus, Web Trends, Webex, Visual Sciences, Workspace, Workstream, and Zantaz.

CONCLUSION

Although low cost initially drove the SAAS market, today SAAS vendors are recognizing that reliability, scalability, and uptime are the key factors that drive long-term customer satisfaction. As part of their due diligence process, more customers are investigating the underpinnings of the SAAS environment. This look at the top vendors shows that the more mature and dominant players in the

market have, in most cases, made the transition from a cost-based message to one that promotes reliability and value.

Microsoft and Oracle appear to be the strategies of choice for many vendors, which is not surprising given their reputation and presence in the market. However, today Oracle has a dominant position, largely because of its demonstrated scalability and reliability.

More than half of the top 35 SAAS vendors are running exclusively on Oracle.

As the SAAS market matures, Nucleus expects emerging SAAS vendors will increasingly look for infrastructure that provides demonstrated reliability and scalability. Disappointing is IBM, which, despite its investment in branding the space, appears to be almost entirely shut out of the SAAS market.

Existing SAAS vendors with multiple infrastructure strategies will likely look to rationalize to drive more cost-effective management and reliability. With Oracle clearly in the dominant position with more than twice the share of its nearest competitor, Microsoft and others will be pushed to compete or will be relegated to less business-critical SAAS applications. The biggest winners will be customers, who can increasingly rely on SAAS applications to deliver ongoing value and consistent performance.

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