

# SOFTWARE AT YOUR SERVICE?



While adopting the software as a service (SaaS) approach may lower IT investment costs, it may not be appropriate for all logistics applications – at least in its current state, cautions DR TORSTEN MALLÉE.

Software as a Service (SaaS) is one of the top trends in the IT world. Springboard Research, in a survey just published (October 2009), predicts that the SaaS market in the Asia Pacific region (excluding Japan) will grow from 2008's US\$1.2 billion to US\$2.3 billion in 2012.

This growth will likely be heightened by the economic downturn, since SaaS is regarded as the way to reduce IT costs. So will on-demand solutions someday dominate the IT world? Before examining this key question, let us review the alternative software operating models and define what makes SaaS unique.

SaaS is commonly defined as a model of software delivery whereby the application is centrally hosted and provided to users over the internet. Such SaaS applications are either multi-client based or multi-instance based and can serve a rather large community of users.

This definition establishes a clear distinction from the application service provider (ASP) model. ASP solutions are single-client based (used by a single enterprise) or single-instance based. Usually, they are accompanied by professional services, such as system management and support services. The software is designed for use by only one customer and access may not be via the internet.

Finally, there is the traditional on-site model whereby the software is installed locally on the customer site. This is typically accompanied by a software licensing and deployment model in which the software is licensed from the vendor.

**GREAT OPPORTUNITIES BUT ...**  
The SaaS concept has actually been

around for over ten years now. The main incentive driving its introduction was to utilize economies of scale while providing the same software to a multitude of users over the internet. This not only allows significant cost reductions by the vendor but also lowers implementation and operation expenses. In their simplest form, SaaS solutions require only that users open a web browser and go to the vendors' websites.

This reduction in total cost of ownership (TCO) offers great opportunities. It lowers investment costs and speeds up the company's return on investment (ROI). However, the real breakthrough is that small and medium-sized enterprises (SMEs) can now afford to use software solutions in areas earlier accessible only to large companies.

That sounds great, but as we all know, advantages often come with a drawback. The same goes for SaaS. The drawback lies at the very core of its nature: the same application is made available to all clients in the same form such that all users adapt the same standard of how it works and what it offers. Although some solutions come with a variety of options for simple customizing, their workflows are rather fixed.

Not a problem, one might say. Surely not when it comes to standard processes to be supported by the solution. For example, there is no harm in using the same word processing application as the competition. The issue arises in the context of strategic core processes, by which companies want and need to differentiate themselves from others in the same industry.

Meanwhile, IT and work processes are

so closely coupled that differences in the processes require differences in the setup and customization of the software deployed to support them. As a consequence, your company will lose its competitive edge when your formerly unique core business model is governed by the same software used by your competitors.

Does this mean it is impossible to run an ERP system based on a SaaS solution? No, it does not. An ERP system governs the core business processes of an enterprise. If your company produces mooncakes that are simply the best in town, for example, then that is your competitive edge.

The ERP system can well be a standard. This is far better than juggling Excel spreadsheets, as many companies still do. This example can be applied to other businesses, of course, but it changes when work processes, rather than physical products, are the distinctive characteristics of your business.

Does this mean that SaaS cannot be applied as easily to supply chain management processes? Again, the answer is no. Just as explained above, it depends on the extent to which the processes to be supported by software are capable of being standardized and critical to competitiveness.

## LOGISTICS RELEVANCE

In the logistics world, processes are very diverse and need to be flexible to react

## Comparison of Software Operating Models

Software as a Service (SaaS)	Application Service Provider (ASP)	Traditional On-Site Model
A model of software delivery where the application is centrally hosted and provided to users over the Internet	Usually accompanied by professional services, such as system management and support services, but access may not be via the Internet	Typically accompanied by a software licensing and deployment model in which the software is licensed from the vendor
Either multi-client based or multi-instance based	Single-client based (used by a single enterprise) or single-instance based	Software is installed locally on the customer site
Can serve a rather large community of users	Designed for use by only one customer	

explanation is the attractive business model behind SaaS. Decision-makers simply like the idea of transparent and predictable costs for IT solutions. They want to have scalable solutions without worrying about the hardware and running extensive IT activities.

Maybe the above definition of SaaS needs a little amendment. Even if not all IT applications can be used as standardized solutions accessible over the internet, it must still be possible to combine the advantages of the "new" and "old" worlds.

This means that the software must really come as a service. This will be an increasing demand in the market. Software vendors who are able to offer innovative pricing models and meet extended service levels will be successful in the future.

In this context, the indispensable ASP and on-site solutions might increasingly be offered on a per-use basis. At the same time, the services offered by software vendors will become an increasingly important characteristic. Vendors must be able to operate, up- and downscale, and continuously improve ASP solutions and on-site solutions.

With this and the amended definition of SaaS in mind, the answer to the question posed at the outset would be: Yes, SaaS solutions will eventually dominate the IT world, as they are an economically attractive alternative that allows companies to focus on their core businesses. ■

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to steadily changing requirements and individual customer needs. This is not in line with the nature of SaaS solutions. Still, there are a lot of extensions and add-ons to processes that can follow a standard approach and are thus ideal for SaaS solutions.

A 2006 Aberdeen Group survey reported that the area with the highest adoption of SaaS is transportation management. A perfect example of a specific transportation management process is selecting the least expensive or fastest carrier for a certain transport, including electronic communication with the carrier and the printing of carrier-specific labels. Another area would be electronic customs declaration. Both areas are typical, as they involve third parties and follow standardized rules.

On the other hand, the same survey found that the areas with the lowest adoption are facility-centric applications such as warehouse management and manufacturing planning and scheduling. The ideal workflow for these processes simply varies too much from company to company.

There are a few things to look at when implementing SaaS solutions. As another Aberdeen study from 2008 highlights, the two most important factors relate to how well SaaS solutions are integrated into the existing workflow.

Companies deploying SaaS solutions successfully are two-and-a-half times as likely to be deploying applications that support smooth interfacing between the existing IT and the SaaS application. Furthermore, they are twice as likely to work out clear process definitions between the SaaS application and the existing IT.

Both preconditions are critical to success.

**[ Software vendors who are able to offer innovative pricing models and meet extended service levels will be successful in the future. ]**

A solution can be beneficial to the extent it is well integrated into the workflow. SaaS should not be an add-on but, rather, an add-in.

### STRESSING SERVICE

Given the above, it becomes clear that the answer to the introductory question about the future penetration of SaaS solutions in IT is that SaaS will continue to grow but never replace all other models. So why do so many still cling to this dream?

The likely background is less about SaaS in the sense of the solution. The



[ Going forward, the economically attractive SaaS business model should be accompanied by more flexible service offerings from software vendors. ]