Pricing the fluffy stuff

Is SaaS really a cheaper option?

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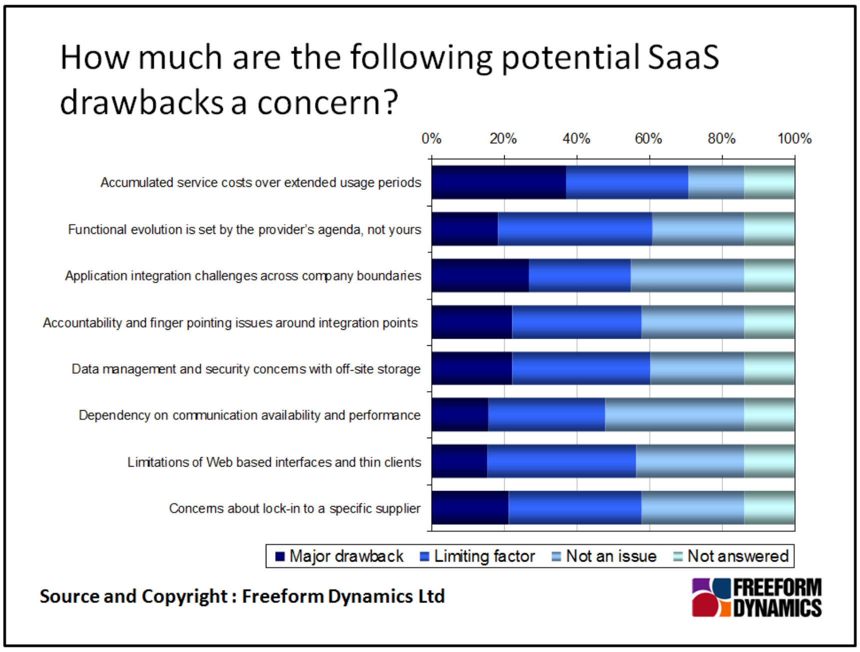
Cloud really is the new black, and it is hard to get through the day without seeing reference to the various aspects of this new nirvana, in particular the promise of lower costs, with a pay to play pricing model that doesn't require in-house expertise or capital expenditure, but allows companies to pay only for what they use.

At first glance, Software as a Service (Saas), part of this 'Cloud' phenomenon, is seen as an attractive proposition from a financial perspective, however, as SaaS offerings become more mainstream in the workplace, there is increasing discussion about whether or not SaaS really does provide long term cost benefits compared to premise-based solutions. The chart below, which has been taken from research into SaaS with 202 enterprises across Europe carried out by Freeform Dynamics shows that the greatest concern with SaaS is that of accumulated service costs. Almost 40% of enterprises felt that the ongoing costs were a major drawback.



A key problem that enterprises face is to come up with an all-encompassing comparison with in-house systems. This is not as easy as it might initially appear, and companies need to ensure they factor in a number of possible scenarios to come up with a workable like-for-like comparison. A first, high level, glance may suggest that SaaS deployments are cheaper: but a number of factors are probably not being factored in that can make a big difference.

The first is that of ongoing costs, as suggested by the above chart. In the first year of a deployment, a comparable SaaS installation is likely to work out cheaper for an enterprise than a 'buy, install and maintain' solution. Moving beyond the first year, however, the maths gets a little bit more involved, and the waters become somewhat muddied. Companies need to assess ongoing costs associated with the two options. Of course, for SaaS, the costs are ongoing, and based on a comparable profile, will continue pretty much constant.

However, it is important to remember that for premise-based solutions, costs do not finish after the first year. Software will need to be maintained and supported. Industry estimates for this can be anything up to 25% of the original software cost. On top of there will be costs associated with servers or PCs. Companies can only derive broad estimates when making these comparisons, but it is worth looking at the numbers over a three or even a five year timeframe.

The story doesn't end there, however, as potentially hidden costs need to be factored in for a true comparison. With SaaS, although it is intended to replace premise-based solutions, companies may find that they need to continue with certain hardware or people, to address gaps in the deployment. It might be possible to identify some of these upfront, but companies should provision some contingency for unforeseen items. There may also be additional costs that surface, for example additional supplier management because of need for interoperability between suppliers where SaaS systems become dependent on each other

Functionality is yet another issue. Is the functionality delivered by a SaaS solution is comparable to a premise-based one? Of course, this only has relevance when it is functionality that a company needs or is likely to need going forward. If a SaaS solution doesn't deliver on all counts, then what will be the cost of 'gap-filling'? On the flip side, why pay for functionality that you simply don't need? All of this leads to potential costs for change management. As with any software change, staff will need training and will require additional support while teething problems are ironed out.

Deriving a total cost of ownership comparison between SaaS and premise-based is not the easiest task, and needs to address a whole host of things based on what a company needs, including IT staff, training, scale, customisation, term contracts, discounts etc – a true 'horses for courses' scenario. While there is no definitive TCO winner between the two options, general rules can be drawn for certain sub-segments, e.g. small companies with no IT department and budget limitations around capital expenditure will most probably find SaaS most enticing.

For those companies who don't fall into these sub-segments, and for which the cost benefits are not so clear cut, then perhaps this is no bad thing. While they may have to work a little harder at the maths to come up with an answer, it really does force them to consider exactly what they are trying to achieve and how they need to go about it.

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