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Playing Host

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By Herman Mehling

Salesforce.com has become the poster child for the rapidly expanding software-as-a-service market. But while Salesforce.com and other vendors have successfully exploited the model, the question is whether the model presents a threat or opportunity for VARs and integrators.

Despite some trepidation about the ease with which vendors can use SAAS to reach end-user customers directly, many in the IT channel believe solution providers are in a good position to take advantage of it as well.

SAAS provides a more cost-effective way for end-user companies to achieve their business objectives than traditional packaged applications can, said Jeff Kaplan, managing director of ThinkStrategies, a strategic consulting services company in Wellesley, Mass. And as such, Kaplan said, the model has a lot to offer solution providers.

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First, consider the figures. Last year, 40 percent of all companies used hosted applications, and 49 percent were planning to use them within a year, according to market research company AMR. Meanwhile, market researcher IDC predicted the SAAS market would grow at a 21 percent compound annual growth rate during the next three years, reaching \$10.7 billion worldwide in 2009.

Those kinds of numbers mean there is plenty of opportunity for everyone from vendors to ISVs to solution providers.

"On demand is in demand, and partners are key to servicing that demand," said Bobby Napiltonia, senior vice president of worldwide channels and alliances at Salesforce.com, in San Francisco.

Many solution providers see SAAS as a great way to broaden their offerings, provide more services, widen their sales territories and, in some cases, tap into recurring revenue from customers. SAAS vendors, for the most part, have established or want to establish reselling channels, recognizing that resellers have closer relationships to end users than they will ever have.

SAAS has been the growth engine for Bluewolf Group, a New York-based on-demand enterprise consultancy that specializes in deploying its ESI (Enterprise Salesforce Integration) tool for Salesforce.com customers. ESI is available via AppExchange, Salesforce.com's new "ecosystem" platform that allows users to browse, install and share on-demand applications.

"We've been experiencing 30 to 40 percent sales growth per year since becoming a Salesforce.com partner," said Eric Berridge, co-founder of New York-based Bluewolf, a company with \$20 million in sales last year. "AppExchange is driving acceptance of on-demand software and enables us to offer on-demand integration without any software changing hands." Bluewolf's new customers include BP Solar, Charles Schwab, Staples and The Wall Street Journal.

Selling SAAS on demand is a no-brainer for solution providers, said Dan Edwards, partner of Ncompass Business Solutions, a solution provider in Atlanta that sells NetSuite, a portfolio of applications that enables companies to manage all key business operations in a single system.

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"Selling and customizing NetSuite has been our sole means of income for years," Edwards said. "It allows us to do custom development, act as consultants, get steady income and expand our sales opportunities at the same time."

Edwards said selling SAAS has gotten much easier over the years as companies and IT departments have become more educated about the benefits of SAAS.

"One of the biggest benefits of SAAS for IT departments is they can add applications without having to justify the expense of dedicating an IT person to manage a particular application, which is what they would have to do with premises-based software," said Quintin Thompson, owner and vice president of Ironclad Solutions, in Lincoln, R.I. That benefit simplifies the sales process, added Thompson, whose company provides mail and calendaring solutions built in-house using Microsoft's ASP.Net.

"For the SAAS market to reach its full potential, software has to be sold both through the vendor over the Web as well as through the reseller channel," said Brian Howden, vice president of marketing at 01 Communique, in Mississauga, Ontario. 01 Communique provides a suite of remote access software and on-demand PC remote control solutions.

Howden said it is the vendor's challenge to educate solution providers about their importance to the SAAS market. 01 Communique's SAAS offerings, he said, gives solution providers a revenue model traditional hardware and software sales cannot match: generous upfront margins and ongoing residuals, leading to predictable revenue streams.

"The SAAS model enables solution providers to adapt services to customers' needs," said Howden. "For example, a solution provider can sell a remote access solution to a corporate customer for personal use and then upsell the solution across the company."

 [Dilithium Networks embraces managed services to fulfill a customer need. Click here to read more.](#)

Of course, SAAS also allows solution providers to augment their product suites without requiring any additional technical expertise or skills training, since the management of the service's technology is the vendor's responsibility.

"That's one of the great benefits of SAAS for us," said Rufus Lohmueller, partner of Lohmueller & Associates, a Raleigh, N.C., solution provider that has built a strong business around NetSuite since 2002.

"NetSuite allows us to offer one application to a client, and, once the client is satisfied with the service, we can offer other applications or the whole suite," Lohmueller said. "But, more importantly, NetSuite allows us to concentrate on our core competency, which is business process automation."

Vendors must encourage solution providers to embrace SAAS primarily by educating them about the possibilities of switching to an SAAS model and how to package the various offerings to better serve their customers, said Kristen Brown, vice president of alliances and channel sales at NetSuite, in San Mateo, Calif.

As SAAS applications and enabling technologies multiply, the ability of SAAS suppliers to differentiate themselves purely on the technical capabilities of their solutions is declining, said Kaplan. "Consequently, many SAAS players are aggressively expanding their partner portfolios to strengthen their competitive position and win a greater share of the market," he said.

Kaplan added that partners serve a vital role for most companies either by supplying important ingredients that go into a final product or service, or by providing a channel to market to a broader audience.

"The more partners a vendor has, the more attractive their products or services become," said Kaplan.

Recent developments in the partnership development/differentiation game include Salesforce.com's AppExchange platform, which enables dozens of third-party companies to link to the provider's on-demand applications; NetSuite's NetFlex Applications Program (announced with 30 partners), which combines tools, technology and support to enable ISVs and other third parties to extend NetSuite with complementary applications; and Jamcracker's JSDN (Jamcracker Service Delivery Network), an on-demand ecosystem of more than 50 members.

JSDN, designed to make it easy for solution providers to deliver SAAS to customers, features a catalog spanning IT, business and vertical services that solution providers can select, test drive, rebrand, bundle, deliver, bill and support.

"JSDN will help to extend the market reach of SAAS for Jamcracker, our partners and other on-demand providers," said Brent Arslaner, vice president of marketing at Jamcracker, in Santa Clara, Calif.

"Building relationships with the channel is vital to the growth of SAAS because ISVs and service providers are the trusted advisers to their customers and are much closer to them than vendors will ever get," said Arslaner.

"Jamcracker has skin in the game," said Frank Hughes, vice president of technical services at SecureMyCompany, in Encino, Calif. "They are committed to providing an SAAS infrastructure."

Despite the opportunities that SAAS is opening for channel companies, VARs and integrators must tread carefully when adopting the model. Providing SAAS requires sales skills and technical know-how that traditional channel companies may lack. Careful business planning and staff training are necessary to successfully take advantage of the model.

Some of that responsibility falls on the vendors, said Salesforce.com's Napolitonia. Vendors need to support solution providers with co-marketing efforts, such as joint customer seminars, marketing collateral, free sales training and technical support, and helping with lead generation, he said.

The joint marketing efforts serve to create awareness at the user level. Customers unaccustomed to using SAAS, as opposed to outright buying the applications, may need some persuading.

However, despite the challenges, plenty of industry experts believe SAAS is not only here to stay, but also is poised to seize a significant percentage of the software market. And that, at least according to the channel's experience with the model so far, is something to look forward to.

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