



A Whitepaper for Independent Software Vendors (ISVs) and SaaS Providers

Enabling SaaS: Beyond Development and Delivery to Marketing and Support

*Extending the Value of the
Hosting Relationship to
Successfully Capitalize on the
Software-as-a-Service Market
Opportunity*

An Independent analysis published on behalf of Savvis.



Executive Overview

A new generation of web-based, on-demand, Software-as-a-Service (SaaS) solutions are gaining acceptance among organizations of all sizes. The rapid growth of SaaS is driven by four primary forces:

1. The intensifying business challenges posed by the growing financial crisis, rising operating costs, escalating competition and changing workplace requirements.
2. Growing frustration among end-users and executives with the costs and complexities associated with traditional, on-premise applications.
3. Broad-based acceptance of consumer-oriented, on-demand services that are setting the standard for software ease-of-use and cost-effectiveness.
4. The rapid evolution of enabling technologies which make it more economical to develop and deliver SaaS solutions.

As a result of these trends, THINKstrategies has found adoption of SaaS is accelerating not only among small- and mid-sized businesses (SMBs), but also large-scale enterprises. These organizations are adopting SaaS solutions of all kinds, including 'front-office' applications, such as customer relationship management (CRM) systems; 'back-office' applications, such as accounting and financial systems; IT management solutions; and industry-specific solutions.

This competitive environment is putting greater pressure on aspiring SaaS providers to quickly develop and deliver differentiated solutions at the lowest possible cost. And, it is also forcing them to adopt new channel strategies to acquire customers and offer more effective support capabilities to retain them.

Most SaaS start-ups and established ISVs migrating to a SaaS model recognize that it doesn't make economic or business sense to build their own hosting facilities to deliver and support their SaaS solutions. Instead, they are teaming with various hosting companies who can provide a cost-effective and reliable service delivery infrastructure so the ISV can focus their limited resources on developing a differentiated solution.

THINKstrategies believes that the leading hosting companies will be those who can provide a full lifecycle of enablement capabilities to ISVs and SaaS providers ranging from software development and service delivery to customer support and marketing services. These hosting companies will not only offer the best technical skills and resources, but will also boast the strongest 'ecosystem' of SaaS vendors and business partners to give their ISV customers the greatest access to end-users..

In short, the leading hosting companies will be those who broaden their portfolios beyond software development and service delivery infrastructure capabilities to provide ISVs and SaaS providers additional go-to-market services to help them be successful.

This whitepaper will discuss today's SaaS opportunities and challenges, and will examine how Savvis' expanded SaaS enablement lifecycle is helping ISVs and SaaS providers capitalize on the rapidly evolving market opportunities.

The Market Trends Driving the Growth of SaaS

A combination of macro-market trends is driving companies of all sizes to adopt SaaS solutions to support their employees, better serve their customers and better coordinate with their corporate partners. These market trends include,

- Changing economic conditions
- Changing competitive forces
- Changing workplace requirements
- Changing technology requirements

The current financial crisis has created plenty of uncertainty for businesses of all sizes. At the same time, escalating fuel costs are driving up operating expenses. These economic trends are placing enormous pressures on corporate budgets, forcing businesses to re-evaluate where they make their capital investments and how they can focus their limited resources on their core businesses.

Globalization and eCommerce have fundamentally changed the competitive landscape, leveling the playing field while lowering the barriers to entry in nearly every industry. Although these trends have opened new market opportunities, they have also opened the door to more competition and undercut customer loyalty.

A more dispersed and tech-savvy generation of workers is also fundamentally changing the workplace and the very nature of work. Broadband networks and mobile technology are enabling employees to work remotely, and making it imperative that they have greater access to information which has traditionally been hidden behind the firewall.

These business trends are forcing organizations of all sizes to re-think how they leverage software and technology to meet their rapidly changing operating requirements and achieve their corporate objectives.

Legacy on-premise applications were not designed to respond to these challenges. Instead, they have been too expensive and cumbersome to acquire, deploy, and maintain. As a result, many enterprise on-premise applications have failed to produce the return on investment (ROI) that organizations expected and have required a higher total cost of ownership (TCO) to keep them up and running. Few companies can afford the added costs and limited returns of legacy, on-premise enterprise applications in these troubling times.

In response to these trends, corporate end-users and executives alike are adopting a variety of Software-as-a-Service (SaaS) solutions to address a variety of business needs, including front- and back-office applications as well as end-user collaboration and inter-enterprise solutions such as supply-chain management.

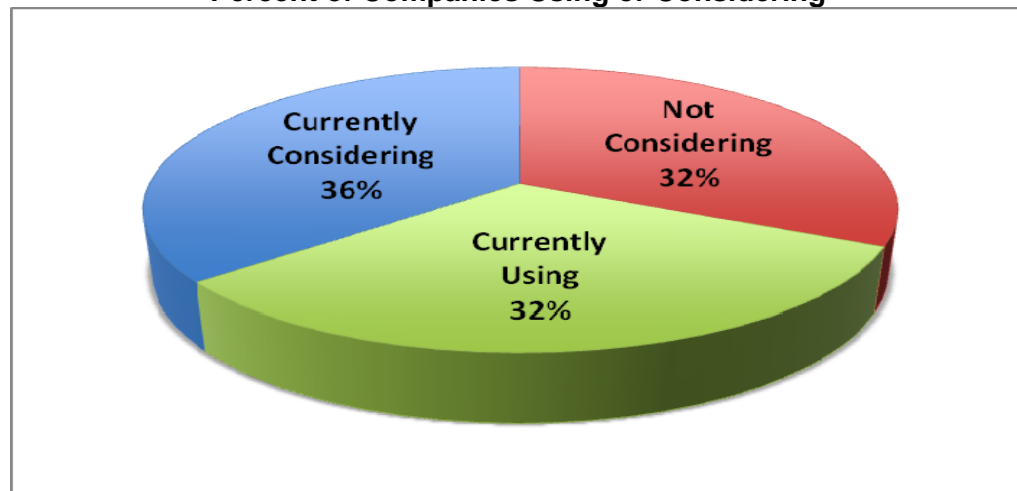
In fact, there are now over 800 SaaS vendors listed on THINKstrategies' Software-as-a-Service Showplace offering over 3500 solutions across 80 different application, industry and enabling technology categories.

SaaS solutions leverage the web to permit greater anytime, anywhere access to business applications by remote employees or authorized customers and partners. These solutions can be deployed quickly without the upfront capital investments

associated with traditional software. As a result, SaaS solutions offer a quicker time to value at a lower cost of ownership.

THINKstrategies has seen a steady increase in customer interest and adoption of on-demand SaaS solutions over the past three years through our market research and consulting engagements. Our most recent survey of over 100 companies conducted in November 2007, in conjunction with Cutter Consortium, found nearly a third (32%) of the companies had adopted a SaaS solution, and another 36% are considering SaaS solutions. (See, Figure 1.)

Figure 1
Percent of Companies Using or Considering



Source: THINKstrategies/Cutter Consortium 2007.

Our survey also found over 90% of those already using a SaaS solution are satisfied with the quality of the solution, plan to expand their use of SaaS and would recommend a SaaS solution to their peers.

As a result of this track record of success, Gartner expects the SaaS market to equal \$19.3 billion in 2011 when over 25% of all software sales will be via services.

The Challenges of SaaS from an ISV Perspective

Growing demand for SaaS solutions is attracting a growing number of independent software vendors (ISVs) to the market. This 'gold rush' effect is causing greater competition, and will inevitably result in a shake-out in the SaaS industry and consolidation of the players.

The ISVs and SaaS providers who survive will be those who can develop clearly differentiated solutions and can deliver them in an economical and reliable fashion. The winners in the SaaS market will also be those which have the best channels to market and strongest 'ecosystem' of partners.

These are not easy hurdles to overcome because the SaaS model changes many of the rules of the game.

The SaaS model fundamentally changes the customer/vendor relationship. In the past, the customer was responsible for successfully deploying and maintaining

business applications, and the ISV merely had to respond to problems and periodically issue updates and upgrades.

The SaaS vendor is now responsible for ensuring the availability, reliability, security and scalability of the software solution. If they fail to meet the customer's expectation, they are not only at risk of paying a penalty under a service level agreement (SLA), but could easily lose customers when their subscriptions expire.

The pay-as-you-go subscription pricing model puts additional pressure on the SaaS vendor to continuously improve the quality of their services. The subscription pricing model also allows businesses to incrementally adopt SaaS solutions and avoid the upfront capital investments associated with perpetual software licenses. The SaaS subscription pricing model also gives ISVs less capital to finance the development and delivery of their SaaS solutions.

Many aspiring SaaS vendors are migrating from an on-premise, single-instance, packaged software architecture to a multi-tenant architecture which makes SaaS more scalable and profitable. Re-architecting these applications takes specialized software development skills and service delivery capabilities. It also requires sophisticated service provisioning, monitoring, metering and hosting capabilities.

In addition, companies are increasingly demanding that their SaaS vendors can demonstrate that they have sufficient security policies and procedures in place to safeguard customers' sensitive corporate data. These certifications, such as SAS 70, and the security measures require significant capital investments.

However, most ISVs cannot afford to make these investments of money, people or time. Instead, they must focus their energies on building the best SaaS solutions possible to be competitive.

It is for these reasons most ISVs rely on hosting companies to support their SaaS service delivery needs. Some ISVs are also turning to hosting companies and a growing number of 'platform players' for help in developing their SaaS solutions.

However, ISVs have generally had to search elsewhere for channel partners to help them sell their SaaS solutions.

Savvis' SaaS Hosting Platform and Enablement Services

Savvis, Inc. is launching a new initiative to help ISVs address the unique technical and business challenges associated with the SaaS operating model, and succeed in the increasingly competitive SaaS market.

Savvis has been recognized as a leading IT infrastructure services company for many years. But it also has a long history of success supporting the hosting needs of ISVs.

Under the company's new SaaS enablement initiative, Savvis will provide a highly secure, function rich, global, and scalable hosting platform. The platform will permit ISVs to quickly and economically develop and deliver SaaS solutions.

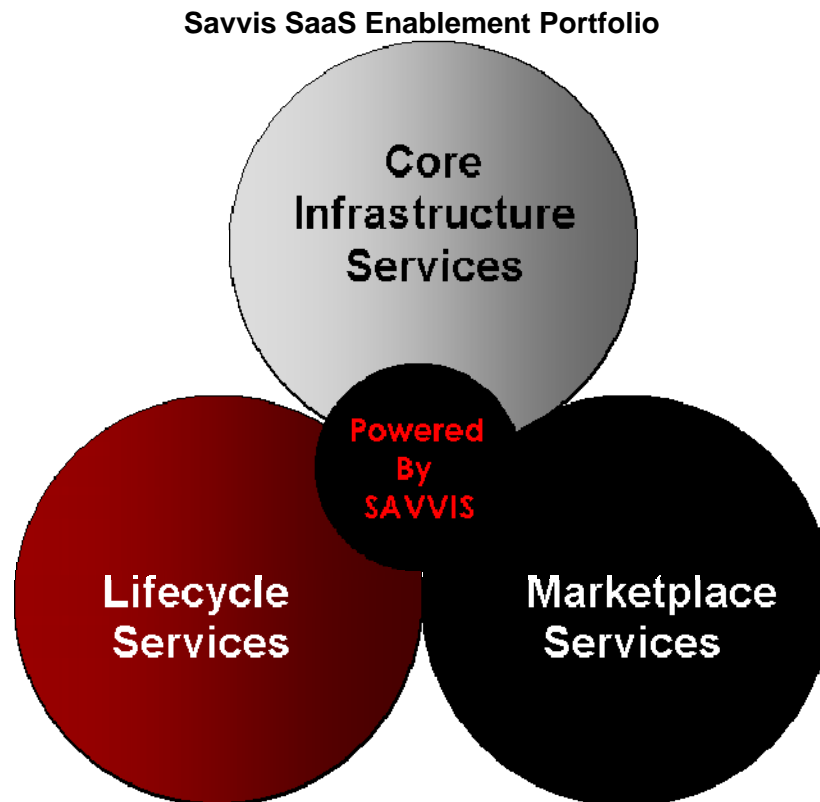
The enablement program will support ISVs entering the SaaS market for the first time, and existing SaaS providers that want to outsource their service delivery requirements so they can focus on their core business.

Savvis' SaaS enablement program is organized into three service categories,

- Core Infrastructure Services
 - Savvis' core managed hosting services including multi-tenancy enablement, application fire-walling, and holistic application-centered service level agreements.
- Lifecycle Services
 - SaaS development, integration, delivery and operation services.
- Marketplace Services
 - Marketing awareness programs aimed at Savvis' customer base.

Figure 2 illustrates the complimentary qualities of these three types of services.

Figure 2



The SaaS enablement program is built on Savvis' global IT services platform that leverages 29 data centers integrated with Savvis' Tier 1 Multiprotocol Label Switching (MPLS) network.

Savvis provides multi-layered security capabilities including data center physical security, network and application level firewalls, application authentication,

intrusion detection, and DDoS mitigation. These security capabilities are supported by 24x7 Security Operations Center (SOC) monitoring.

It also offers ISVs real-time infrastructure performance monitoring capabilities to verify service level agreements (SLAs) and customer agreed to uptime performance metrics. Savvis is also providing a portal which gives ISVs a customizable dash-board to track service levels and trouble-tickets.

Savvis is also collaborating with Parallels to enable ISVs to convert their legacy software to a SaaS environment quickly without re-architecting the application. This relationship includes software provisioning and billing capabilities, as well as back-office reporting capabilities, including end-user utilization statistics.

In addition, Savvis has teamed with Skytap, Inc., a leading provider of cloud-based virtual labs, to provide customers with on-demand, IT infrastructure designed specifically for highly dynamic environments. This allows ISVs to accelerate their time to market and reduce their infrastructure costs.

In THINKstrategies' view, Savvis' Marketplace Services represent a new level of value for ISVs offering SaaS solutions. While other hosting companies can boast about their service delivery capabilities or third-party software development partners, none has offered to serve as a channel to market for ISVs by promoting their SaaS solutions to their installed base of enterprise customers.

In an era when competition is intensifying in the SaaS market and SaaS vendors are seeking new channels to market, Savvis' Marketplace Services could be a key differentiator.

Summary and Conclusions

The SaaS market is growing rapidly in response to a series of major business trends. The financial crisis is spurring companies of all sizes to seek new ways to acquire software applications without the upfront capital investments, long deployment cycles and ongoing management hassles of the past. At the same time, businesses are pursuing new ways to better support their dispersed workers and better communicate with their customers and partners via web-based services.

The growth of SaaS is attracting an increasing number of ISVs seeking to respond to their customers' changing business requirements. Making the transition to SaaS entails more than simply re-architecting an ISV's software products to a service. It requires a complex set of enabling technologies and service delivery capabilities.

Escalating competition in the SaaS market is driving ISVs to accelerate their software development efforts. At the same time, the subscription pricing model associated with SaaS along with today's credit crunch prevents many ISVs from making the capital investments necessary to build out their own service delivery infrastructure.

Therefore, many ISVs are relying on hosting companies to help them develop, deliver and deploy their SaaS solutions. In our opinion, while many hosting companies are able to satisfy their basic hosting and service delivery requirements, none has been able to meet their technical and business needs.

Savvis' SaaS enablement program adds a new dimension to the basic hosting formula by offering a set of marketplace services on top of its core infrastructure and lifecycle services. The marketplace services promise to give ISVs a new channel to market for their SaaS solutions.

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About Savvis

Savvis, Inc. (NASDAQ:SVVS) is a leader in providing and managing global IT infrastructure and end-to-end managed services that enable quick and strategic response to the demands and technology needs of business and government. Savvis combines virtualization technology, a global network and data centers with automated management and provisioning systems to provide a full suite of hosting, utility compute, network, security and professional services. These services give customers an ideal balance of support and control that enables them to focus their resources on their core business while Savvis ensures the quality of their IT infrastructure. For more information about Savvis, e-mail saas.info@Savvis.net or visit: <http://www.Savvis.net>.

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.