



Distinct Aspects of True On-Demand Software

LEARNING PERFORMANCE SUCCESSION COMPLIANCE COMPENSATION ANALYTICS

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Introduction

This whitepaper discusses the emergence of the software-as-a-service (SaaS) model in the context of the broad marketplace and, further, from the standpoint of distinguishing the core benefits of true on-demand software from the alternatives.

The software industry has passed a critical inflection point where on-demand software, or software-as-a-service (SaaS), has considerably changed the ways in which vendors develop and deliver specific technology solutions -- and the ways in which customers evaluate them. This evolution is notably affecting the development and deployment of high-end software applications to large, global enterprises.

SaaS is a distinct model for delivering software and services to end clients and must be differentiated significantly from vendors of legacy, on-premises software that simply port over existing software code into a single-tenancy, hosted application environment.

Only one aspect of real SaaS is the technology. The distinctions are critical and beyond the merely technical. True on-demand software impacts product delivery, service provision, vendor valuation, retention rates, cost, timeframes, and core client satisfaction.

From a business perspective, SaaS is not a redefined update of the application service provider (ASP) frenzy of the dotcom-era boom. Rather, the change to SaaS is much more far reaching and customer adoption rates are significantly higher. SaaS is a proven delivery model that meets current and planned customer demands to reduce costs, optimize resources and minimize risk through term-based licensing and outsourced delivery solutions.

True On-Demand Software

Real SaaS refers to externally managed and hosted applications, content and services that are delivered to multiple customers via the World Wide Web in a shared tenancy approach. A true on-demand solution leverages a service-oriented, multi-tenant application architecture and shared services delivery model to support multiple customers from a single platform.

In recent years, the marketplace has witnessed the development of so-called “false migration” efforts of legacy software vendors. In this case, legacy software code is simply ported to a single-tenant model to an offsite hosting facility. The resultant offering is left lacking in both the spirit and the letter of the true on-demand offering.

Repurposed (and remarketed) in this manner, on-premises software fails to capture the real benefits of the SaaS model, among these lower deployment costs, reduced operational expenses, and a version-less upgrade environment. Naturally, these costs of false migration do not disappear and are passed along to the client.

On the flip side, clients implementing real on-demand software can expect to benefit from free upgrades, ongoing innovation, and no hidden technology costs. The multi-tenancy paradigm allows for costs to spread across all installations and allows the vendor to focus on driving product improvement and broadening feature offerings – not supporting a dazzling array of unique client implementations.

Market Forces Drive Adoption

Overall, IT budgets are not growing as quickly as they did in the late 1990s, yet the pressure on IT to facilitate business performance continues to increase. This pressure, coupled with the economic downturn in the early 2000s, has pushed many customers into a different mode of purchasing and implementing technology. Now, customers want choice when they are procuring enterprise software and SaaS provides this value. The technology implications of this trend also are important since, in many instances, companies purchased too much capacity and had a significant amount of under-utilized hardware or software. As a result, the concept of SaaS allows the customer to utilize exactly what they need, when they need it.

The business rationale for the SaaS model includes lower pricing, quicker delivery/implementation and swifter technology adoption. The greatest cost for legacy enterprise software is the large upfront licensing fee. The value proposition offered by SaaS can significantly reduce the overall cost of deployment by a multiple of factors. Delivery and implementation of SaaS also is significantly compressed as compared to on-premises software, from months to just weeks or days.

Costs associated with licensing fees and implementation aside, the principal motivation for customers to adopt SaaS is to keep pace with the rate of technology change. SaaS allows for the deployment of practically “version-less” software, as updates are attributed on-demand and as they are released. By being able to “pay-as-you-go”, customers essentially rent the most advanced software applications as opposed to continually purchasing new software. With SaaS, customers immediately access the latest features, bug fixes and other upgrades by simply logging on to the Web; there is no wait time involved for receiving upgrades to the system and no installation fees involved as there is with traditional software.

SaaS Market Overview

Some software applications are better suited for the SaaS model than others. Customer Relationship Management (CRM), Enterprise Resource Planning (ERP) and Human Capital Management (HCM), have seen the greatest amount of adoption of the SaaS model. CRM is one of the first enterprise application segments to have real success with hosted software. As the CRM market segment leader, Salesforce.com's success at delivering SaaS applications for thousands of corporate customers has resonated with many enterprises.

In an April Silicon.com article by Will Sturgeon, Robert DeSisto, research vice president at Gartner, noted the CRM industry performed well in terms of SaaS, with 8 percent of total software revenue in 2005 and an expected 12 percent in 2006. "As SaaS became a viable delivery model from 2000 to 2003, most providers supplied good enough functionality with core integration capabilities. SaaS and solving business complexity were two phrases not associated with each other," says DeSisto. Since those beginnings, he says, the trend has shifted toward enhanced functionality and greater ease of customization and configuration.

Large software companies, such as Oracle, Microsoft and SAP - feeling the pressure of lagging behind smaller, more nimble competitors - are now quickly embracing SaaS as their customers demand alternatives to cumbersome, more resource-requiring perpetual licenses. Other software applications that have found recent success in the SaaS model include electronic design automation, network security and supply chain management.

A recent report from market research firm International Data Corporation (IDC) – "Top 10 Predictions for 2006: Software as a Service" – shows that SaaS has stimulated technology spending among companies and that customers are more willing today to pay for SaaS. According to the report, nearly 33 percent of survey respondents indicated they had purchased some form of on-demand offering, while another 47 percent are considering it. While software on-demand represented only 1.5 percent of U.S. total software spending in 2004, IDC says that number will more than double to 3.8 percent of all spending, or \$10.7 billion by 2009. IDC has predicted in the past that worldwide growth of software subscriptions will outstrip perpetual licenses. Subscription licensing will grow at 16.6 percent, compounded, from 2004 to 2008, while perpetual licenses will decline in that time frame, says IDC.

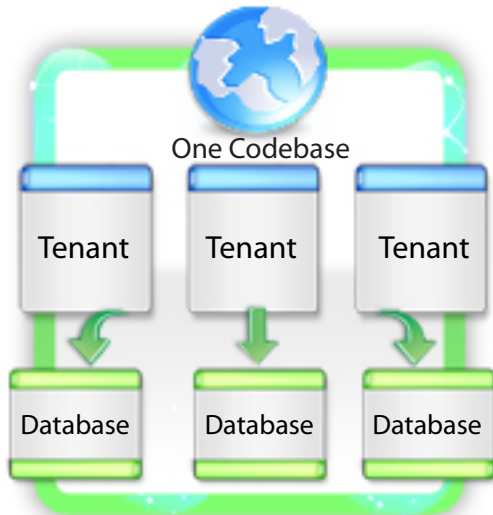


SUBSCRIPTION LICENSING
GROWTH 2004-2008 (SOURCE: IDC)

Distinct Aspects Of Real On-Demand Software

The following section describes the critical aspects associated with true on-demand software and should be considered distinct from both on-premises software and legacy applications that have been “falsely migrated” to a hosted environment.

Technical



A true multi-tenant, multi-user architecture delivers higher flexibility, reliability, and scalability while driving down IT costs and total cost of ownership.

Multi-tenancy

The tenancy model is a critical point of differentiation as the scalability and efficiencies of the multi-tenant SaaS architecture allow providers to spread fixed infrastructure costs across a diverse client base, creating the economic flexibility for users to “pay-as-they-go” for software and services instead of making the commitment to enter into pricey license and maintenance agreements.

Further, this shared architecture generates economies of scale that allow rapid, low-cost and low-risk deployment of software and services without the large, upfront investment required to purchase and install the software and hardware or the significant costs and resources required for implementation, upgrades and ongoing support.

Elimination of Versioning

The version-less nature of SaaS products, inherent to the model, drives a completely different set of economics for vendors. With only one version of the software to maintain, on-demand vendors are freed from chasing the tail of the business they transacted in years past.

Data Integration

For the current generation of on-demand software vendors, the model is no longer associated with isolated silos of data across different departments or across different software applications in an organization. SaaS products are now successfully integrated with all manner of legacy software platforms (and other SaaS tools).

Operational

Sales

The SaaS model also affects sales processes and methodologies. In a marketplace defined by long-term relationships and high retention rates, commission models and financials are inevitably transformed from existing premises-based software.

Valuation

Compared to standard valuation methods for traditional premises-based software suppliers, the SaaS delivery model significantly flips the equation.

SaaS vendors are valued primarily on software revenues and lose value as services revenue rises too high in the software/services revenue mix. Further, SaaS vendors directly face the pressure of waiting for payment to be made only when services and software has been delivered – as opposed to large upfront payments.

The overall effect of these factors is that SaaS vendors have greater longterm-control and revenue management than is the case of the classic software licensing model.

Configuration vs. Customization

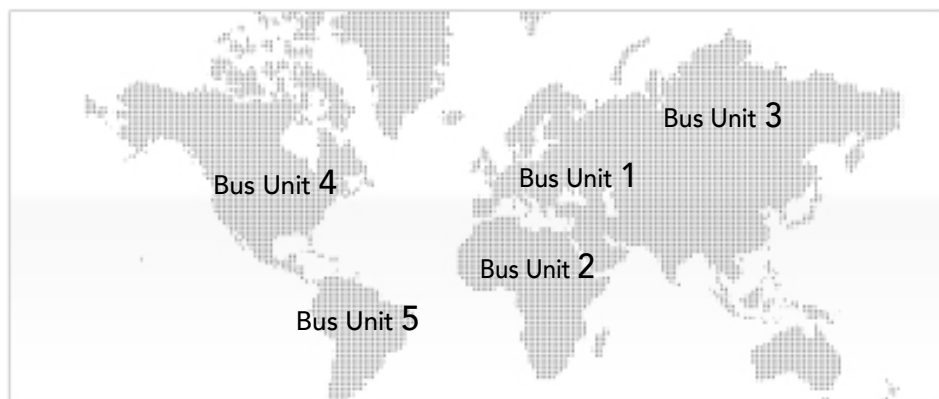
The ability for the platform to allow for extremely flexible configuration is another critical factor in the deployment of on-demand applications in global enterprises. Configuration has to be able to be realized at a deep architectural level to allow clients to properly replicate organizational structures, workflows, and processes across geographically and, often, philosophically disparate business units.

From a business perspective, this point represents the crux of the whole game to keep services costs low.

Globalization

A core component of an on-demand system is the ability to allow for localized/unit-level administration while having immediate access to rolled-up reporting at every level, all the way to the top. Global enterprises require this level of control and reporting to roll-down management and to be able to lock down specific data by region or other unit – especially true to be in accord with varying data protection regulation across the globe.

This model is especially appropriate in an environment like talent management where people are constantly moving around.



Configurability for Decentralized Admin



Case Study

Randstad Holding NV

Professional employment services provider Randstad North America, a wholly owned subsidiary of Randstad Holding nv, faced significant turnover (approximately 45%) of its workforce of 2,300 employees. This placed a heavy burden on Randstad's recruiting and new hire training functions and increased the challenge of reducing a new employee's time to competency.

For Randstad, the challenge was to not only enhance its new hire onboarding process, ensuring that new employees receive adequate training and are productive in a short amount of time, but the company also wanted to reduce the costs associated with onboarding in order to leverage existing training budgets more effectively throughout the company. Randstad recognized that while it had a reliable onboarding plan in place, it was paper-based, time-intensive, and classroom-intensive which resulted in a less-effective and more-costly delivery of necessary training and information to new hires.

Randstad turned to Cornerstone OnDemand for help in automating its onboarding program and in creating an easy-to-use, cost-effective system for tracking and managing the program for every new hire. Cornerstone OnDemand's integrated talent management application enabled Randstad to envision and develop a sophisticated onboarding process that includes job shadowing, training, performance assessments and knowledge tests.

By automating the process and utilizing Cornerstone OnDemand, Randstad is currently able to track and manage the entire process from start to finish more easily and effectively. As a result, Randstad has been able to increase the use of web-based training and e-learning courses to reduce training time and costs. Using the SaaS model Randstad provided over 26.5 hours of instruction to each employee, eliminating 4 days of classroom training from the process.

Conclusion

The benefits of the SaaS delivery model are now well-documented and increasingly irrefutable – especially when utilized in key software markets like CRM, ERP, and integrated talent management. The broad implications of a true multi-tenancy approach -- including scalability; service provision and vendor incentives; deep configuration; decentralized control; and centralized reporting -- are speeding companies' return on investment and enabling them to access the most advanced software technologies at a fraction of the cost of perpetual licensing.

Other Resources



- Performance Datasheet
- Succession Datasheet
- Learning Datasheet
- Compliance Datasheet
- Office Datasheet



- Upcoming Webinars
- Upcoming Events

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About Us

Cornerstone OnDemand is the leading provider of on-demand enterprise software solutions for talent management. The Cornerstone Talent Management Suite provides fully integrated solutions for learning, performance, compensation, succession and compliance, as well as robust reporting and analytics.