ISV-to-SaaS Business and Technology Success: Partnering for Speed and Innovation

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About this Report

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About Saugatuck Technology

Saugatuck Technology, Inc., provides subscription research and management consulting services focused on the key market trends and disruptive technologies driving change in enterprise IT, including Software-as-a-Service (SaaS), Cloud Infrastructure, Social Computing, Mobility and Advanced Analytics, among others. Founded in 1999, Saugatuck is headquartered in Westport, CT, with offices in Falmouth MA, Santa Clara CA, and in Frankfurt, Germany. For more information, please visit www.saugatucktechnology.com or call +1.203.454.3900.

"We made the mistake of trying to do it all ourselves, and fell behind. Now we're working twice as hard to catch up."

CTO, US-based ISV serving healthcare payment providers

The Cloud IT revolution, especially as regards software-as-a-service (SaaS), is well under way. IT and business executives researched by Saugatuck Technology indicate that they expect ***more than half of their new business software acquisitions will be Cloud-based/SaaS by year-end 2014.***

This "surge toward SaaS" has of course affected independent software vendors (ISVs). Even as buyer preferences for new software shift toward SaaS/Cloud, a mass of existing and established software remains on customers' premises. Addressing varying combinations of Cloud and on-premise technology, customer, and market requirements changes ISVs' business and technology models, strategies, and resource requirements. These include the complexities of new or different architecture types to support multiple customer and partner needs, as well as new types of business structures and operational needs, as ISVs shoulder responsibilities for service provision as well as developing and delivering software.

This paper explains how and why mid-sized and larger ISVs benefit from partnering and outsourcing significant aspects of their strategic and tactical business and technology requirements, in order to be able to compete and thrive in these rapidly-evolving markets. It then guides ISVs into effective partnering that can cost-effectively reduce SaaS offering time to market by providing an effective mix of technologies, skills, and innovative approaches to software architecture and development that few ISVs can afford on their own.

The bottom line for ISVs is that none – not the giants of the industry, or the fastest-moving startups – can build themselves into a competitive SaaS/Cloud presence alone. Just as the Cloud itself is a network of networks, ISVs must network to build and thrive in the Cloud—and between the Cloud and the customer premise.

How "Cloud Speed" Shapes Markets—and ISVs

"The need to change so much and innovate so quickly was simply beyond our organizational abilities and our resources. Our shareholders and our regulators would not have allowed us to consider doing it all ourselves."

CEO, European ISV serving financial services firms

It's no secret that SaaS and Cloud have become the hot topics and key trends in all forms of IT, for the buyer and user side to the provider and developer side. SaaS and Cloud represent previously-unseen scales and scope of market opportunity for ISVs and other IT provider types.

What's not as well-understood are two important aspects of this shift and growth:

- The relative speed at which it is occurring; and
- The amount of technological and business change that is typically required for traditional IT providers, especially ISVs, to compete and thrive.

The most important factor is that of time, more specifically, *the acceleration of time in all markets Cloud-related.* It is the factor of accelerated time that drives ISVs to partner, or to failure.

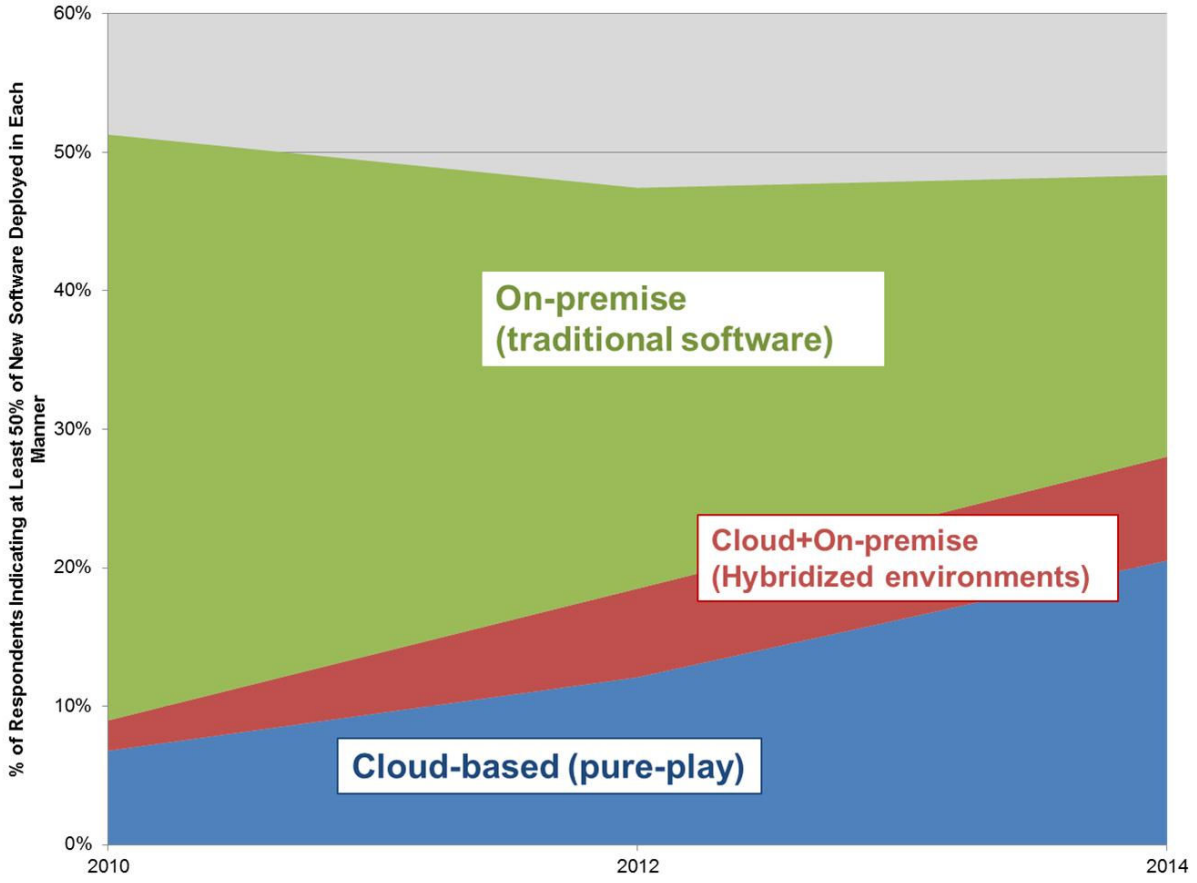
Saugatuck even coined the term "Cloud speed" to describe the environment in which ISVs need to build, develop, and re-invent themselves just to keep pace with market growth and demand shifts. *It has become normal for Cloud software firms to deliver completely new releases every six to 12 months, and to deliver significant upgrades even more frequently.*

But "Cloud speed" is more than increasingly-rapid cycles of development and release. It also includes:

- Continuous innovation and improvement of technologies, offerings, and ISV business model and management; and
- Continuous Ecosystem change, with rapid and frequent shifts in the types, numbers and influence of customers, channel partners, suppliers, and ecosystem Master Brands – the firms that dominate operating systems, development platforms, and more.

Such rapid and accelerated growth has resulted in a marketplace where customers' expectations of Cloud and SaaS have also grown and accelerated. Since 2004, Saugatuck has surveyed and interviewed more than 7,000 user IT and business executives to determine their needs and expectations regarding SaaS and other Cloud-enabled IT offerings. We have seen the expectations and preferences of those executives shift and grow rapidly, to the point where they increasingly expect, *and even prefer*, new business software to be Cloud-based by year-end 2014.

Figure 1: Shifting Preferences for New Business Software Through 2014



Source: Saugatuck Technology Inc.

Figure 1 illustrates how at least 20 percent of Saugatuck survey respondents prefer that at least half of their new business software be pure-play SaaS/Cloud by year-end 2014 – and nearly 10 percent additionally prefer new business software to be of a hybridized, Cloud-plus-on-premise variety.

Of course, not all enterprise executives expect or prefer to see all of their new software delivered and used via Cloud by YE 2014. But we can see in Figure 1 how quickly these executives' preferences are expected to change, and how important it is, and will be, for ISVs to be positioned to deliver pure-play SaaS/Cloud-based offerings as well as hybridized Cloud+on-premise solutions.

New markets often demand new types of technologies and architectures; most ISVs are familiar with and consider themselves able to manage many such requirements. But shifting to, or adding, Cloud-based capabilities requires much more, including fundamentally different development methodologies, business models, operational models, business organizations, and even cultures.

In ordinary and familiar markets, such re-invention would be difficult and costly for any ISV to overcome in a reasonable amount of time. But in markets moving at Cloud speed, ISVs rarely have a reasonable amount of time.

Given the timeframe above, and given that it typically takes most ISVs between 18 and 36 months to architect (or re-architect) software solutions to be robust enough for enterprise business use, we see a rapidly-shortening window of time for ISVs to not only develop SaaS/Cloud-based offerings, but to develop the technological and business structures and processes needed to compete and thrive in such an environment. And from the constant stream of announcements in business and IT media, we see that even the largest of the large ISVs (e.g., IBM, Microsoft, SAP) have found it necessary to partner in order to keep pace with market demands.

"By the end of 2012, at least 82% of ISVs will have a SaaS offering. For end customers, the benefits include pay for use pricing and availability of continuous product enhancements. For ISVs the benefit is derived from market expansion; offering premium services around mobility and analytics; and by lowering their operations cost to improve margins. The profit advantage is to be had by those ISVs who bring SaaS offerings amongst the first few successful providers in the market."

Kanwar Singh , VP Computing-Wipro Technologies

KEY ISV CLOUD/SAAS ENABLEMENT CHALLENGES

"We felt that we could handle the business challenges because we had been quite agile as an organization in the past. Our old ways of doing business, and managing, and building, were not good enough, not fast enough, and not new enough, for the Cloud."

SVP, US-based ISV serving investment services providers

Unfortunately, ISVs face more than a need for speed to build and grow positions that enable success in a Cloud-dominant marketplace. Saugatuck's work with more than 300 ISVs worldwide since 2004 indicates a series of important business and technological challenges that must be overcome to compete in the new marketplace. We break these into two core areas, ***Business*** and ***Technological***, as follows:

- **Business Challenges.** ISVs tend to be engineering firms with established processes to develop and sell products. ISVs as businesses thus tend to be organizations that are built on hierarchies and predictable process flows over predictable timeframes. Their revenue streams are based on a very traditional model that emphasizes large upfront payments supplemented by predictable cash flow for 12 to 36 months for maintenance and upgrades. Compensation, hiring, staffing, ecosystem relationships, and more have been built around this very static type of model.

  The Cloud is an entirely different type of business – a services-based business with vastly different revenue models, operational needs, compensation, and customer/partner expectations. The demands of significant acceleration in development and delivery timeframes in turn generate extreme stresses on traditional business and organizational models.

  Timeframes stipulated by traditional processes, cultures, ecosystems, communications, and organizational structures are inadequate in Cloud-enabled marketplaces. Most ISVs simply cannot operate as Cloud-oriented businesses because they lack the inherent abilities of business flexibility, agility, and responsiveness. So it is not surprising when Saugatuck research indicates that about half of all ISVs worldwide plan to create a separate entity or business unit to begin the migration toward Cloud and SaaS. But too often, those new entities are doomed to fail because they are built on the previous, traditional ISV business foundation. ***They simply do not know how to build the new business and operating models that will enable success***.

- **Technological Challenges.** Building, or re-building, software for Cloud success requires new and different technologies, and "Cloud-speed" market pressures emphasize the need for accelerated and more efficient ways of using them. This suggests that new development and testing methodologies and approaches will be required, which in turn will require new and different skills as well as more resources. Cloud offerings have to be architected flexibly enough to work in and across multiple types of Clouds, using different types of provider technology stacks and networking. They must therefore have very powerful, yet flexible, security built into them that can be extended into and through multiple types of Cloud providers' platforms as well as unpredictable user infrastructures.

  And increasingly, Cloud/SaaS offerings have to be easily and highly integratable. The days of standalone SaaS apps, especially within business enterprises, are fading quickly. Buyers today require solutions that can easily integrate with multiple data sources, networks, Cloud providers, and other applications. This is only going to grow as the use of hybridized environments blending multiple Cloud and on-premise systems grow. And this is only going to require more, and better, architecture and testing of solutions as the ISV's Cloud/SaaS business grows.

The bottom line is that while it is necessary for most ISVs to move to include, or migrate entirely to, Cloud and SaaS, it is also extremely costly to do so; it requires knowledge, technologies, advice and guidance well beyond what any ISV can build or develop itself.

Saugatuck interviews with ISVs indicate that architecting or re-architecting a Cloud/SaaS offering alone tends to cost between five and 10 percent of an ISV's total revenues over the time required for development, assuming that the required skills and technologies are in place. *That percentage can double when new skills and technologies are required.* Business re-engineering can require another five to 10 percent of ISV annual revenues—more if done badly.

It quickly becomes apparent that no single ISV is well-equipped to handle all of these changes on its own, cost-effectively and in time to protect its markets and partner ecosystems. As noted earlier, even the largest ISVs, including IBM, Microsoft, Oracle, and SAP, have all recognized this, and partner to improve their own abilities - and their speed to market.

Saugatuck sees this as a sign that ISVs are beginning to understand that they are businesses first and software companies second. Their success in SaaS/Cloud markets will come from understanding and managing the changing business and technologies of software.

What to Look for in Outsourcing Partners

"We did it wrong the first time by trying to do or manage everything ourselves. We got smart by partnering with a provider that could guide us and build what we needed from top to bottom, with the skillsets and the technologies to get us into the Cloud quickly."

CTO and VP of development, multi-national business application ISV

Understanding and managing the changing business and technology of software in a Cloud/SaaS era includes finding, establishing relationships with, and then managing the right partners that can deliver necessary business and technological capabilities. Saugatuck has developed a brief list of critical factors that ISVs should use to sort and evaluate potential partners, as follows:

- ***Size and Speed.*** In an era described by "Cloud speed," and characterized by nimble, agile development and quick response to short-term market shifts, it's not often that we can describe "size" as a desirable characteristic. But to change, build, and grow an ISV into a new type of business with new technologies, *while meeting the time-compressed pressures of a demanding market*, takes the resources, strength, and presence of a partner able to deploy and scale resources. A "top-to-bottom" partnership requires size, breadth and depth. Smaller partners may be adept and agile, but when running out of runway and needing to lift an entire business, an ISV needs large and powerful partner to take off in time. Larger providers—properly qualified and managed—can deliver the skillsets and technologies needed, when needed, to meet accelerated timeframes for architecting, designing, testing, and delivering new Cloud/SaaS offerings. The best partners have the scale and flexibility to do this while also architecting and guiding new business structures and operational models—-and offering the new operational capabilities that will be required, like customer onboarding, billing and payment, service management, and more. A partner with the knowledge, skills, technologies, techniques, expertise, experience and resources to assist – or even supply – technology and process engineering, design, development, and operations *can reduce an ISV's Cloud-readiness time and cost by between 30 and 50 percent, sometimes as much as 80 percent*.

- ***SaaS/Cloud Commitment and Expertise.*** Simply having or knowing how to use newer programming techniques, for example, is not nearly enough. *ISVs have to find and work with partners that have a demonstrated engineering and business commitment to Cloud/SaaS.*

  Saugatuck has interviewed too many ISV executives who partnered with well-known technology consultancies in order to architect or re-architect their core offerings for Cloud, only to learn that those consulting firms had no practical Cloud/SaaS user experience, or little to none business and operational experience. The ISVs in essence paid the consultancies to learn and acquire the tools, skills, design and engineering needed to build or rebuild their offerings.

  Because the partner consultancies were not committed to Cloud/SaaS—in essence, *because they had not developed the expertise and experience built on use cases along with business process knowledge and operational expertise*—those offerings under-performed or were built without the flexibility and adaptability needed to succeed in Cloud/SaaS and hybridized environments. The ISVs' customers, Cloud partners, and channel partners were uniformly dissatisfied., and the ISVs failed to develop adequate competitive positioning for their new Cloud/SaaS offerings.

  The most critical technological decision concerns multi-tenancy and whether to implement it immediately or transition to it through intermediate platforms. Multi-tenancy is the most efficient from a service-delivery point of view, and also for managing the frequent release cycles typical of Cloud/SaaS offerings.

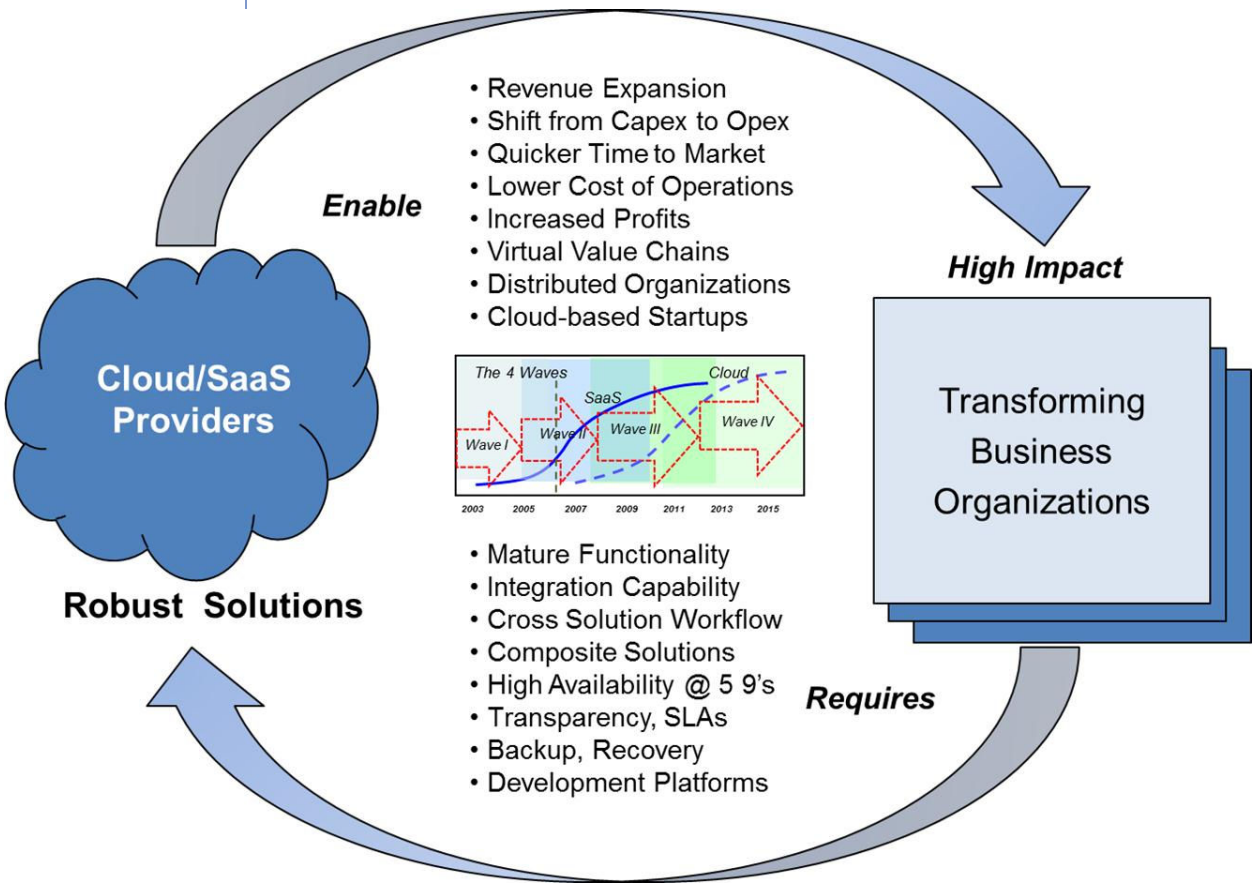
- ***Ability to Innovate.*** As Figure 2 opposite indicates, the Cloud is an environment of constant business and technological innovation for providers and customers both. Cloud and SaaS enable significant change and innovation in how customers manage and execute business, which changes the expectations of those customers regarding what, and how, Cloud/SaaS providers develop and influence customers' ability to do business. Therefore, moving to the Cloud, becoming a SaaS provider, requires innovation in technology and business for ISVs. New ways of doing business, new ways of developing offerings, new types of offerings, and more will shake the foundations of most established ISVs. Partners that create and enable new ways of thinking, new ways of developing and delivering solutions, will enable more and different types of business opportunity for ISVs.

- ***Viability.*** Partners/providers so strategic to the viability of an ISV's technology and business must themselves be viable. This goes beyond a partner's relative size. A truly viable partner must have a strong ecosystem composed of its own technology and services partners, as well as a thriving customer base. A strategic partner/provider's own strengths must be built and rebuilt from a wide range of ecosystem inputs, information, change, and influence.

''The Cloud is all about efficiency, reuse, and focus on core competency. ISVs establishing SaaS offerings require a full set of new capabilities ranging from end user support, infrastructure management, operations, to billing and licensing systems and payment gateways. Wipro brings its shared management framework to deliver such complementary services at an industrial-class level.''

Andrey Zhulenev, Client Partner-Wipro Technologies

Figure 2: Constant Cycles of Business and Tech Innovation



Source: Saugatuck Technology Inc.

Conclusion: Figuring Out What to Partner For

"Finding the right outsourcing partners meant finding out what was lacking in our own organization and resources. Choosing the right outsourcing partners meant finding what was lacking in their organizations and resources."

VP Products and Services, US-based ISV serving healthcare services providers

The next step for ISVs is to begin a thorough examination and assessment of what needs to be done, and what cannot be done readily and rapidly using its own resources. The results of this self-assessment will spotlight the areas with the greatest potential, and the greatest likely ROI, from partnering. ISVs should use the following list of Cloud/SaaS transition challenges to first assess their own needs, and then to compare their needs against what potential partner providers can deliver. Saugatuck's work with ISVs indicates that typical areas where ISVs find the greatest challenges, and see the greatest benefit from partnering to accelerate and innovate, are as follows:

From a Business strategy perspective:

- Managing and migrating legacy products, customers & partners, many of which may not desire to shift to Cloud/SaaS use or delivery models.
- SaaS pricing and profitability strategy, including margin development and management, customer renewal and up-sell strategies, along with channel strategies, ecosystem loyalties and royalties, compensation strategy, and so on.

From a Technological perspective:

- Technology strategy, including what software/development platform, tools and related services will be considered standards for the ISV and its ecosystem(s).
- Managing R&D through transition, from a static product development mode to endless cycles of Cloud-driven innovation.
- Multi-tenancy approach for functional richness *and* cost efficiencies, including whether or not to fully engage multitenancy for all offerings, or to transition some or all over time through stages of architecture change.
- Integration and customization, especially with an eye toward the emerging hybridized, multi-Cloud+on-premises IT and business environments.
- Technology infrastructure services – few ISVs are equipped to host their own offerings, let alone manage entire technology stacks and data centers required to deliver SaaS at high levels of availability and quality.

From an Operational perspective:

- ISVs consistently tell Saugatuck that they have critical operational needs as SaaS providers that they imply cannot build or offer on their own. These include capabilities to on-board customers, manage release cycles, provide security, monitor use and access, enable and manage billing, and so on. Saugatuck sees this as a critical need for ISVs to outsource and partner.
- Security, service levels, back-up & recovery – when an ISV becomes a services provider, it must be able to acquire or build service-provider capabilities. Partnering with an experienced provider is the most cost-effective route.
- Defining and exploiting operational metrics that provide real data regarding customer access and usage – critical for Cloud/SaaS profitability.
- Delivering continuous innovation & ongoing functional enhancements as noted previously. *The ability to innovate frequently and effectively is critical to establishing and maintaining a core customer and partner ecosystem base in the Cloud/SaaS marketplace.*

And from an Organizational perspective:

- Planning a smooth organizational transition plan – is the organization designed and optimized to support ISV software products, SaaS or both?
- Partnering strategy to reduce the size of the organization and ensure lower costs (and ongoing profitability).
- Distribution channel for value-added services – again, no ISV can go it alone, and this includes the development or bundling of services that enhance and extend the ISV's offerings.

In sum, ISVs are very aware that they need to move to Cloud/SaaS to extend their business lives and to take advantage of one of the fastest-growing and largest potential markets yet seen. There is a closing window of opportunity to establish presence and to begin serving, satisfying, and retaining customers.

Every aspect of the company will be impacted by the shift to Cloud/SaaS, driven in part by a constant need for innovation and improvement demanded by market pressures. *Thus, every ISV's ability to grow, compete, and thrive will depend in large part on that ISV's ability to find and choose the most effective partners that can deliver critical capabilities on the path to Cloud/SaaS, and continue to deliver innovation and improvement over time.*

SPONSOR PERSPECTIVE

ISVs migrating their applications to Cloud will need to architect so that they can reap the benefits of scalability and elasticity promised by Cloud without impacting their operating expenses.

Re-architecting an existing application for the Cloud is a complex task. Wipro's rich experience in migration of multiple types of applications to different cloud platforms has enabled us to develop a set of reusable framework components and best practices to accelerate the process. These framework components help ensure the scalability and reliability of ISVs' cloud based applications. Wipro has successfully migrated different kinds of applications to the cloud, ranging from simple web applications to applications with High Performance Computing requirements.

Another important architectural feature of a SaaS application is multi-tenancy. Enabling an existing single-tenant application into a multi-tenant application or building a new multi-tenant application from scratch, requires a framework to enforce multi-tenancy taking into consideration the necessary tenant levels of isolations. Wipro's **SaaSefy** provides an SDK that helps ISVs develop multi-tenant applications with ease. SaaSefy provides a patent pending non-intrusive meta-data injection capability driven by a flexible meta-data modeling and management functionality.

The shift to a SaaS model also has a significant impact on the operational side of the business. One such impact is the ability of an ISV to offer the application in a pay-per-use model. In order to provide an effective and flexible pay-per-use model the SaaS application needs to be provisioned on-demand and tracked for usage. In this context, the use of Service Delivery platform (SDP) is gaining momentum and can provide the necessary service delivery capabilities out-of-the-box. With SDP, ISVs do not have to build these capabilities into the application. The SDP has an ability to integrate applications with back end system thus enabling faster release cycles.

Wipro's **SaaSefy Service Delivery Platform** provides all the necessary functionalities required to enable service delivery features including subscription management, entitlement management, provisioning, usage metering, billing, user management, tenant management, single sign on and access control. It integrates with most well known CRM systems and ticketing systems to enable an end-to-end procurement and fulfillment workflow for the SaaS services.

The SaaSefy platform is available in the 'as-a-Service' model as well as an on-premise model to suit the needs of the ISV and is designed to support different types of applications and use cases. The SaaSefy solution enables us to provide specialized skill sets across the technology spectrum and ensures a smoother SaaS transformation, automation of service delivery and management of SaaS operations.

About Wipro Technologies

Wipro Technologies, the global IT business of Wipro Limited (NYSE:WIT) is a leading Information Technology, Consulting and Outsourcing company, that delivers solutions to enable its clients to do business better. Wipro Technologies delivers winning business outcomes through its deep industry experience and a 360 degree view of "Business through Technology" – helping clients create successful and adaptive businesses. A company recognized globally for its comprehensive portfolio of services, a practitioner's approach to delivering innovation and an organization wide commitment to sustainability, Wipro Technologies has over 130,000 employees and clients across 54 countries.

For more information please contact Sawan Deswal, Sr. Practice Manager – Cloud Computing Services & Solutions -Wipro at sawan.deswal@wipro.com. To learn more about Wipro's complete portfolio of SaaS and Cloud solutions please visit: http://www.wipro.com/industries/computer-software-solutions/wipro-comprehensive-cloud-services-for-isvs.aspx

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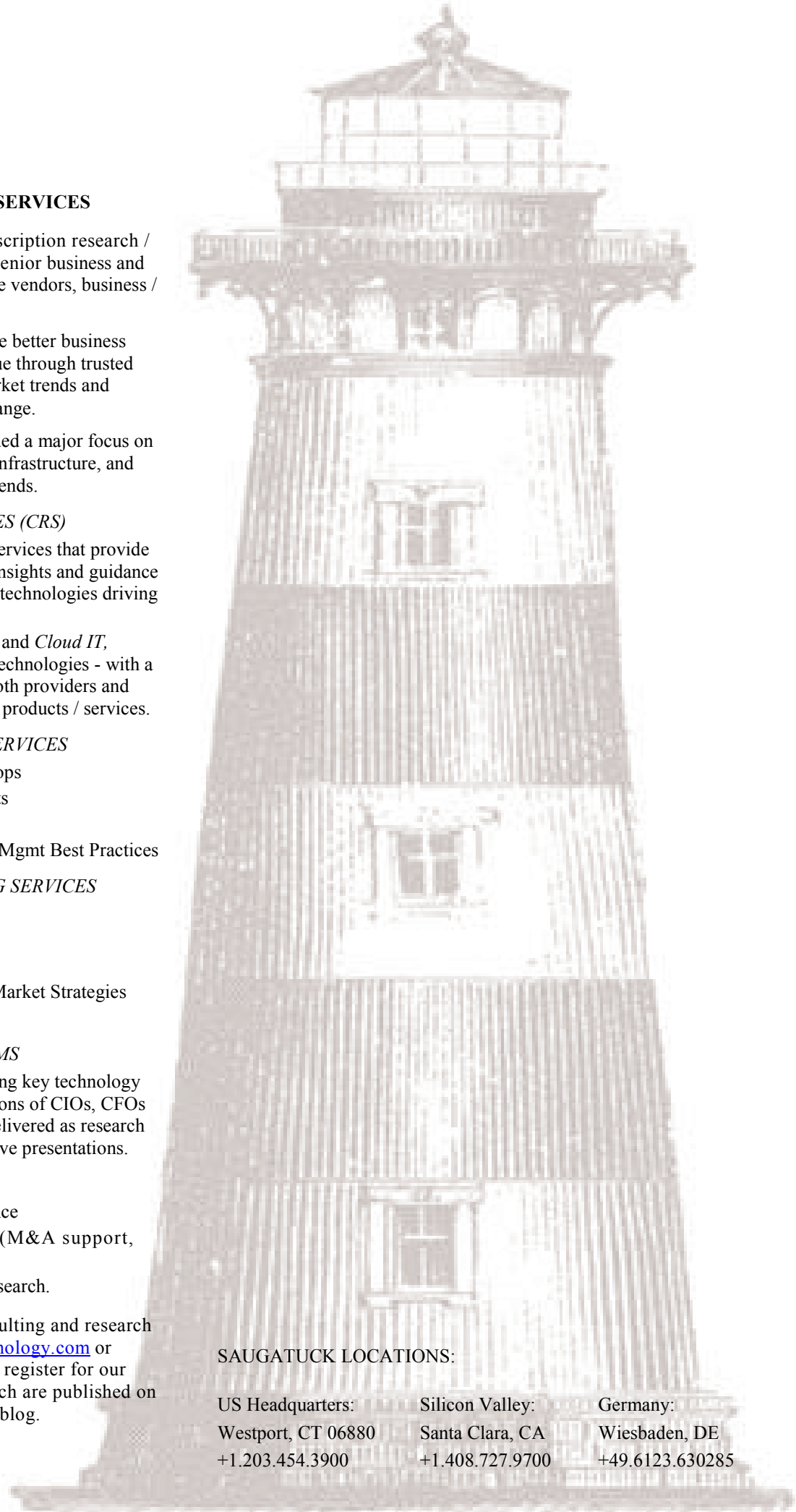

SAUGATUCK OFFERINGS AND SERVICES

Saugatuck Technology provides subscription research / advisory and consulting services to senior business and IT executives, technology and software vendors, business / IT services providers, and investors.

Our Mission is to help our clients make better business decisions and create new business value through trusted and objective insights into the key market trends and emerging technologies driving real change.

Over the last few years, this has included a major focus on Software-as-a-Service (SaaS), Cloud Infrastructure, and Social Computing, among other key trends.

CONTINUOUS RESEARCH SERVICES (CRS)

- Subscription research / advisory services that provide independent / unbiased analysis, insights and guidance into the most important emerging technologies driving change in business computing.
- We are experts in *Cloud Business* and *Cloud IT,* among other key market trends / technologies - with a balanced view that is valued by both providers and consumers of technology-enabled products / services.

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SAUGATUCK LOCATIONS:

US Headquarters:	Silicon Valley:	Germany:
Westport, CT 06880	Santa Clara, CA	Wiesbaden, DE
+1.203.454.3900	+1.408.727.9700	+49.6123.630285