April 2006

Software-as-a-Service UK Trends Survey

Conducted on behalf of 7global by Survey.com

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2. Introduction

Seeking new models for growth

There is no doubt that an important shift is taking place today in the way organisations want to purchase and supply software. The traditional model of application deployment, where the customer acquires a perpetual license and assumes responsibility for the software's implementation and ongoing management, has many disadvantages for end users. Increasing dissatisfaction with the costs, complexities, and length of time that it takes to recognise value from their investments have pushed software buyers to demand alternative models of application delivery, such as **Software as a Service**.

Software as a Service (SaaS) is today an exploding market that is forecast to reach US$10.7B by 2009, (Source; IDC).

SaaS is also referred to as; On-Demand Applications and On-Demand Software. However, most analysts agree that SaaS and On-Demand are not interchangeable. On-Demand is all about how you supply technology to a user. It is a technology solution. SaaS, on the other hand, is a task-oriented business solution delivered in a timely manner.

SaaS enhances an application's value by providing its capabilities as a set of business services, available through a secure and reliable service, or hosting provider; as opposed to a software licence and set of professional services that are delivered to the end user.

As SaaS rapidly gains popularity globally, most software vendors are responding with SaaS versions of their on-site products and letting their customers pick which option they prefer. How well software vendors adapt will be a major competitive differentiator over the next few years particularly as the take up of SaaS is gaining great momentum in the US at least. UK software vendors cannot fail to have SaaS on their radar screens and many are already deploying their solutions that way. It's a pretty brave company that's ignoring this trend altogether.

For the buyer, who is the focus of this 7global SaaS survey, low cost of ownership, quick time to market, low maintenance, increased choice, technology flexibility and negating the need for application upgrades are just some of the motivators behind their preference for SaaS.

The purpose of this 7global SaaS UK Trends survey, which targeted the major UK vertical markets, was to gain a unique insight into current and future adoption rates of SaaS and the benefits and inhibitors to its adoption; thereby giving an end user, rather than the already much-researched software vendor, perspective into the take up or likely take up of SaaS amongst UK organisations.

7global's interest in the survey findings is fuelled by its pioneering role in helping 100's of software vendors deliver their applications on a SaaS model and its market leading position as one of the longest established IT managed services providers hosting On-Demand applications for end user organisations across the UK.

3. Background

Methodology

The survey took the form of an online survey which was conducted on behalf of 7global by Survey.com (www.survey.com). A short, time-limited questionnaire was conducted over a limited timeframe and participants were by invitation.

The study concentrates on four key areas; current awareness and adoption of SaaS; applications most commonly being used or considered for delivery on SaaS and the business drivers; benefits and inhibitors to adopting SaaS and the impact of SaaS on the business

According to the survey respondents;

- Two thirds of responding companies are either already adopting, planning to adopt or evaluating SaaS
    - banking/insurance/financial services organisations have the highest usage and adoption rate; and organisations of 500+ employees are more likely to be using/adopting SaaS already
- The main events which would trigger companies to purchase SaaS are a drive to reduce IT costs (52.4%), a major software upgrade (39.5%), to increase employee productivity/efficiency (35.2%), and a new service launched by suppliers (27.5%).
- The main applications being used or considered for SaaS are email/message management (20.8%), accounting (20.1%), payroll/time &

attendance (19.5%), CRM (18.8%), desktop applications (18.8%), and HR (18.8%).

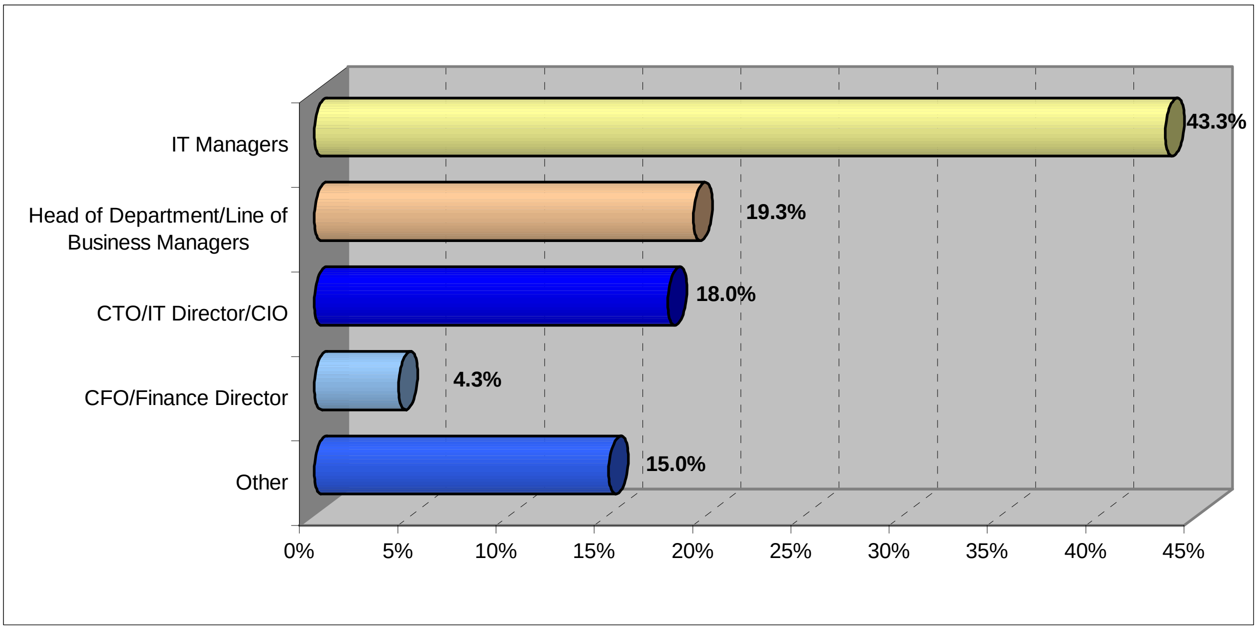
- Concerns over security of data outside the business (55.8%) is seen as the main hindrance to adopting SaaS followed by internal concern over loss of ownership (46.8%), reliability of the service (42.9%), migration from current in-house applications (41.1%), and integration concerns (40.7%)

This survey is not a statistical survey. The results are intended to give a first look at where UK organisations are in adopting SaaS and to provide insight into the benefits and concerns surrounding its adoption.

The Respondents

A total of 234 respondents participated in this online survey in February/March 2006. Of these, 43.3% were IT managers, 19.3% were Head of Department/Line of Business managers, and 18% held the position of CTO/IT Director/CIO. The geographic scope of the study was the UK

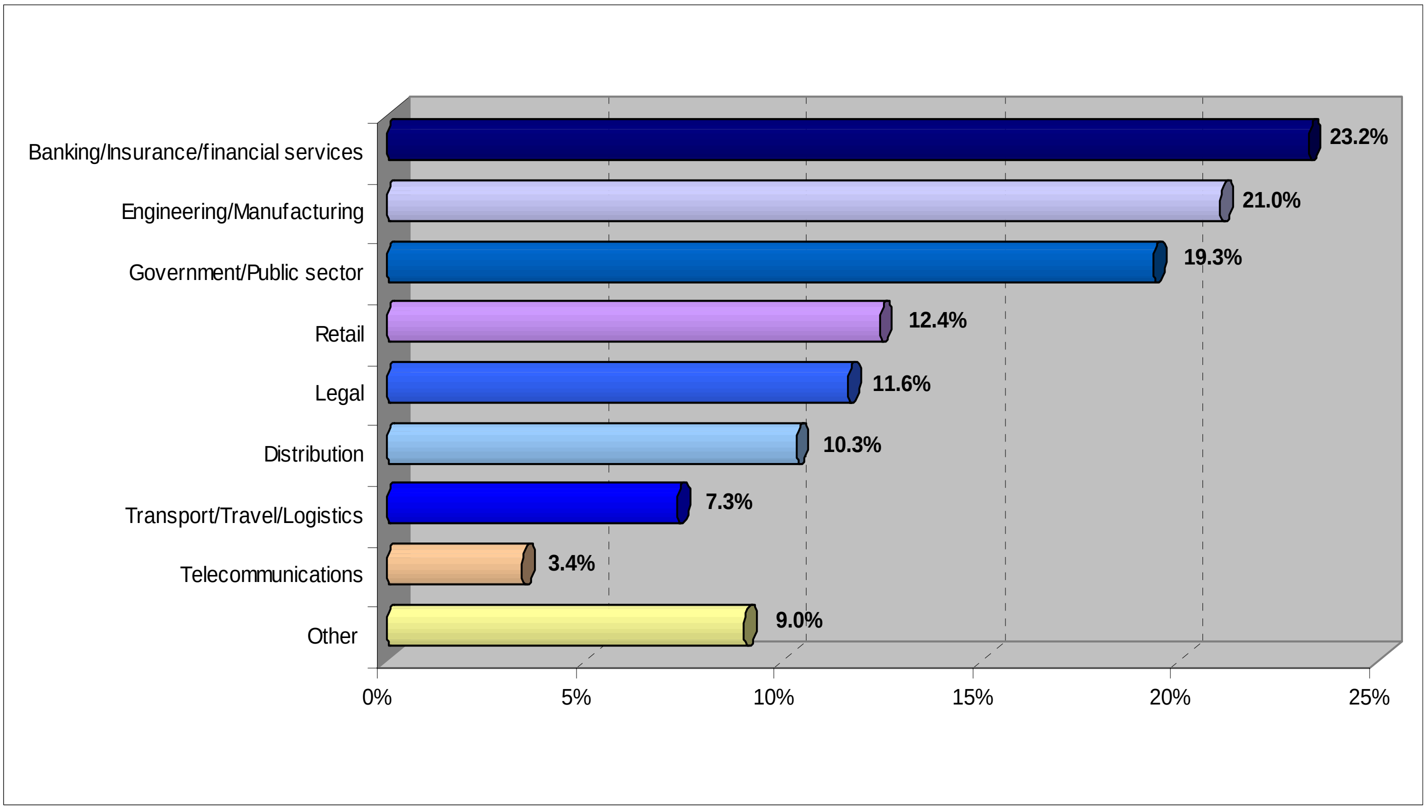
Figure 3.1



Demographics of Survey respondents

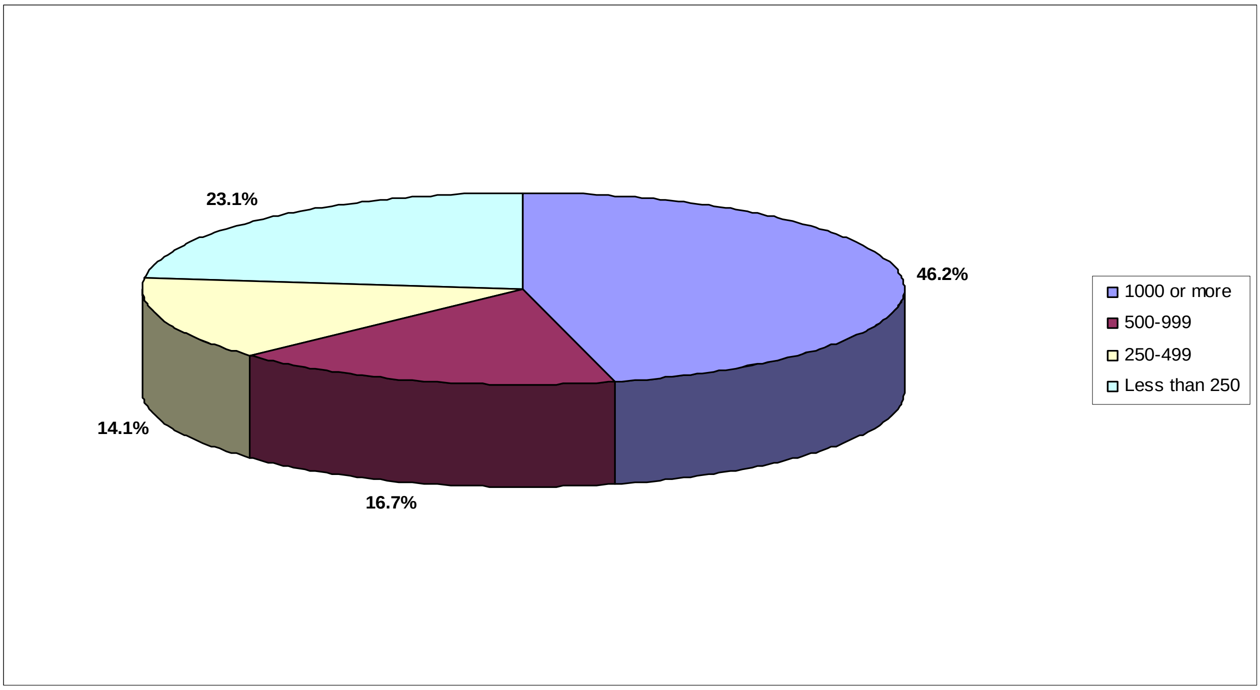
The main vertical markets in which respondents' companies operate are banking/insurance/financial services (23.2%), engineering/manufacturing (21%), government/public sector (19.3%), retail (12.4%), legal (11.6%), and distribution (10.3%)

Figure 3.2



Almost half (46.2%) of respondents work in organisations having 1,000 or more employees. One sixth (16.7%) of respondent organisations have between 500 – 999 employees, 14.1% have 250 – 499 employees, while 23.1% have fewer than 250 employees

Figure 3.3



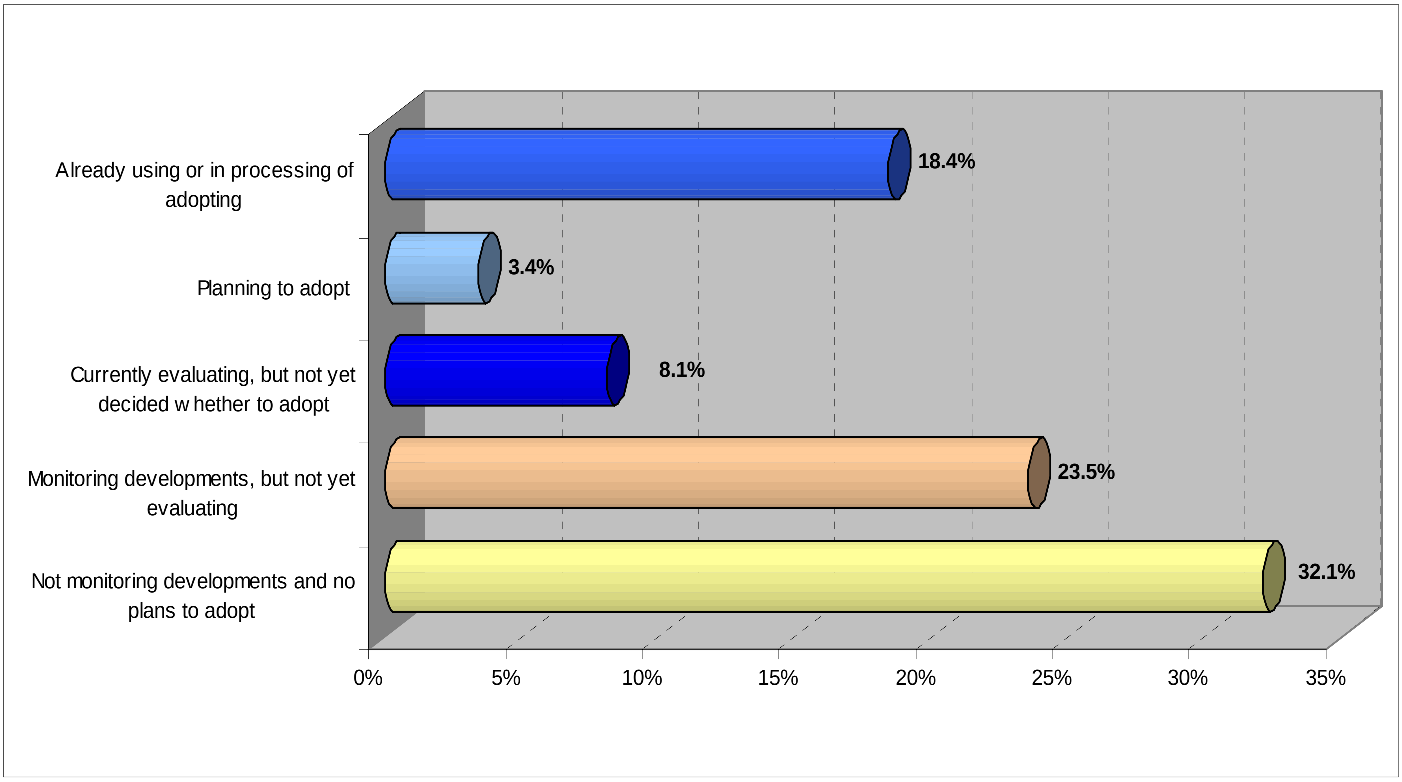
4. Survey Results

4.1 SaaS Awareness and Adoption

Almost one-fifth of companies (18.4%) are already using SaaS or in the process of adopting it. A further 3.4% have plans to adopt it. In addition, 8.1% are currently evaluating it, but have not yet decided whether to adopt. One quarter (23.5%) are monitoring developments, but are not yet evaluating. A further one third (32.1%) are not monitoring developments and have no plans to adopt.

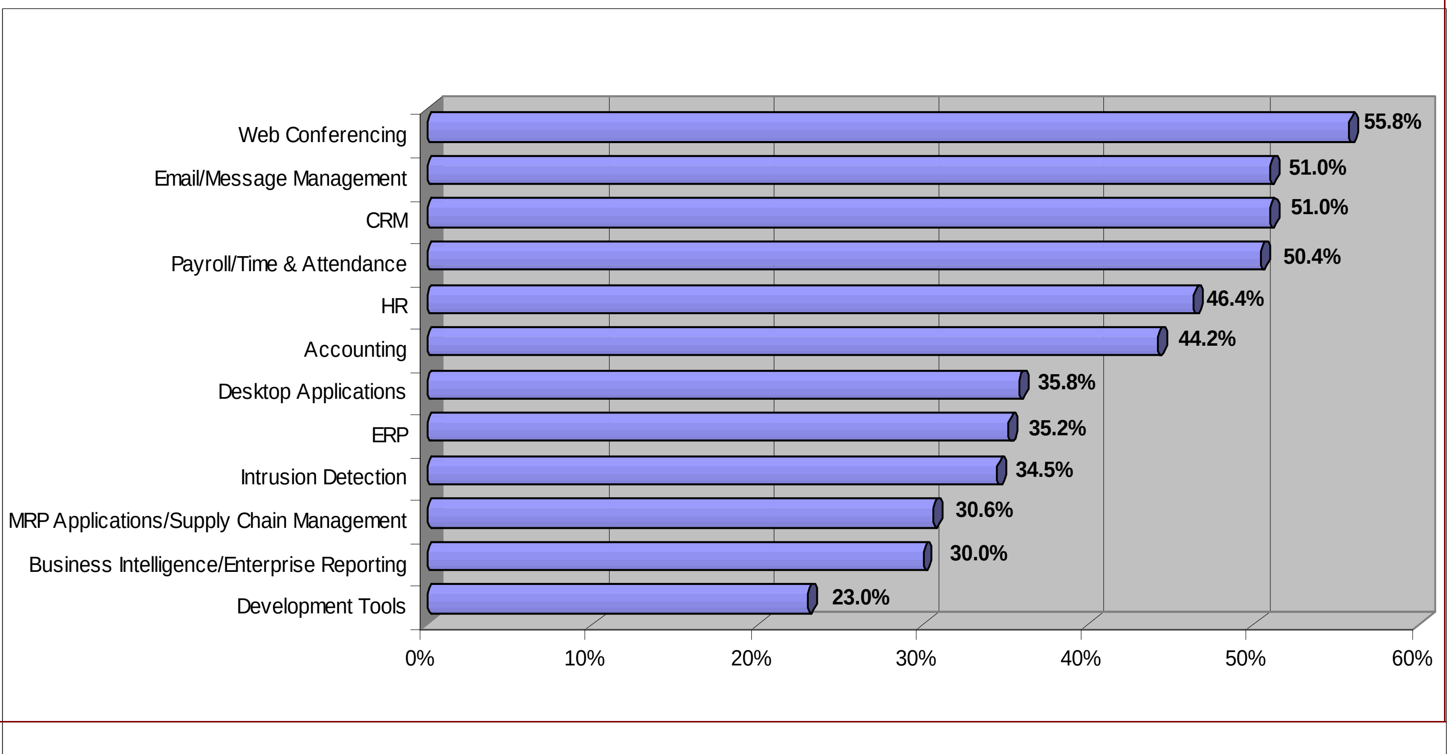
Analysis by industry sector reveals banking/insurance/financial services organisations to have the highest usage and adoption rate. Comparison by organisation size shows larger organisations (500+ employees) are more likely to be using/adopting SaaS already.

Figure 4.1.1



The application which is seen as most widely available on a SaaS delivery model is web conferencing, with 55.8% perceiving it as having 'high' or 'moderately high' availability. This is followed by CRM (51%), email/message management (51%), payroll/time & attendance (50.4%), HR (46.4%) and accounting (44.2%).

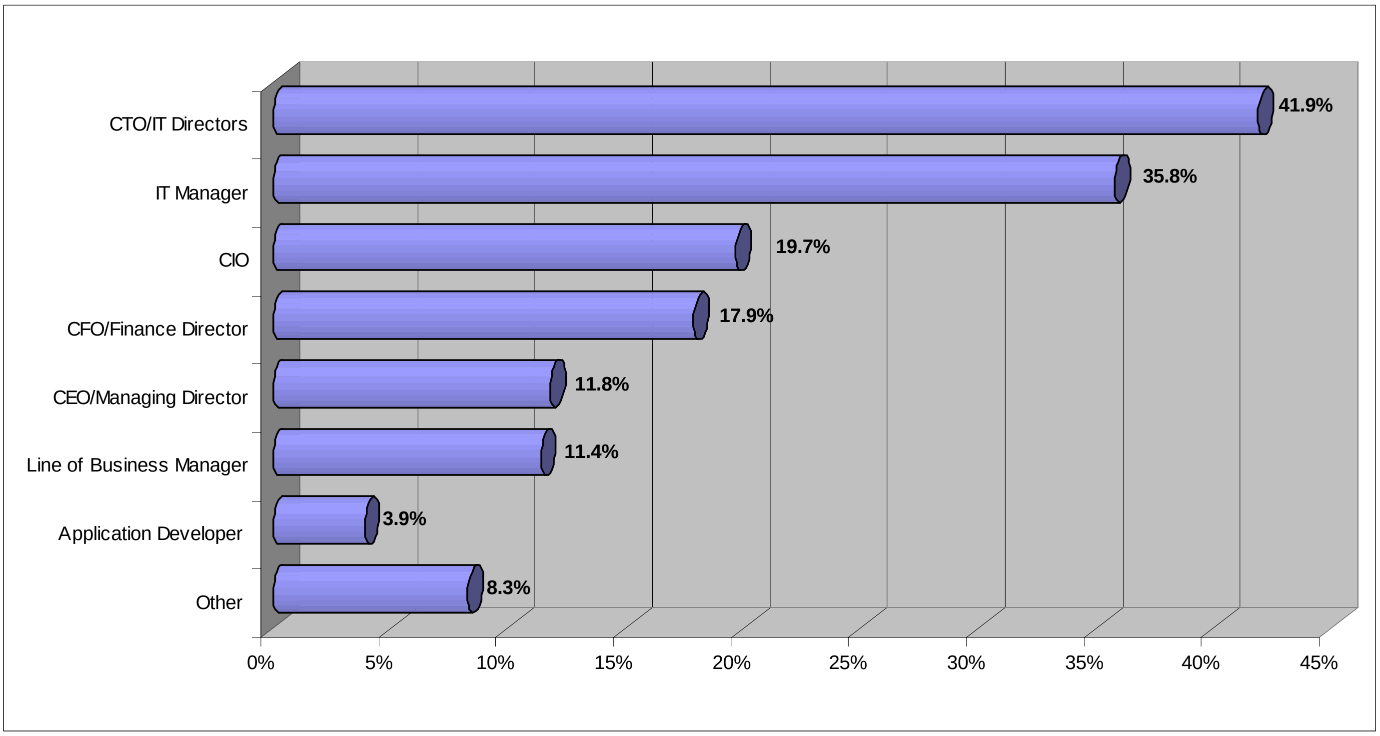
Figure 4.1.2



Generally, CIOs/IT Directors/CTOs perceive the applications to be more widely available than do other respondents.

The main influencers of strategy in relation to SaaS are CTO/IT Directors (41.9%) and IT managers (35.8%)

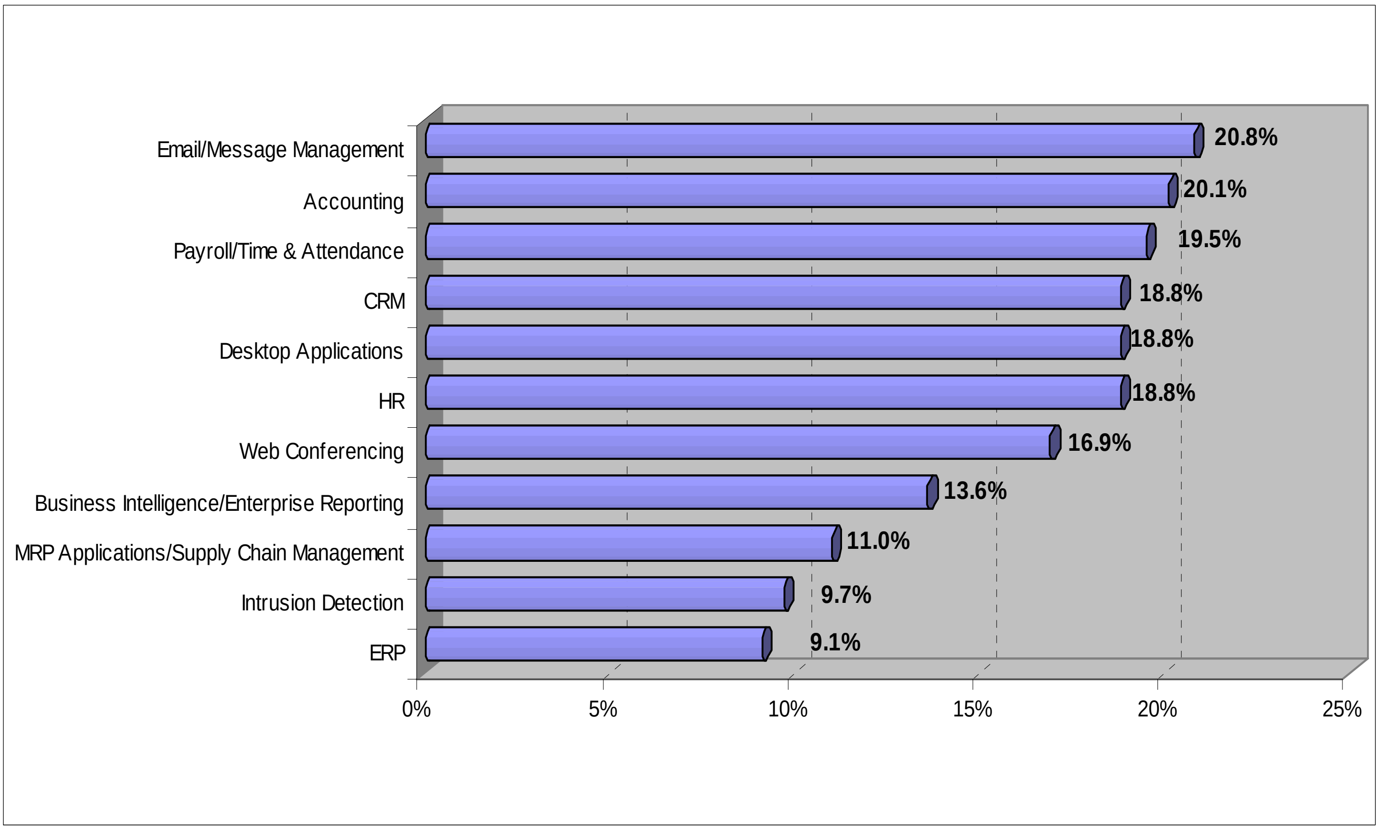
Figure 4.1.3



4.2 Applications & Business Drivers

The main applications being used or considered for SaaS are email/message management (20.8%), accounting (20.1%), payroll/time & attendance (19.5%), CRM (18.8%), desktop applications (18.8%), and HR (18.8%). Organisations with less than 250 employees are more likely to be using/considering for accounting and payroll/time & attendance

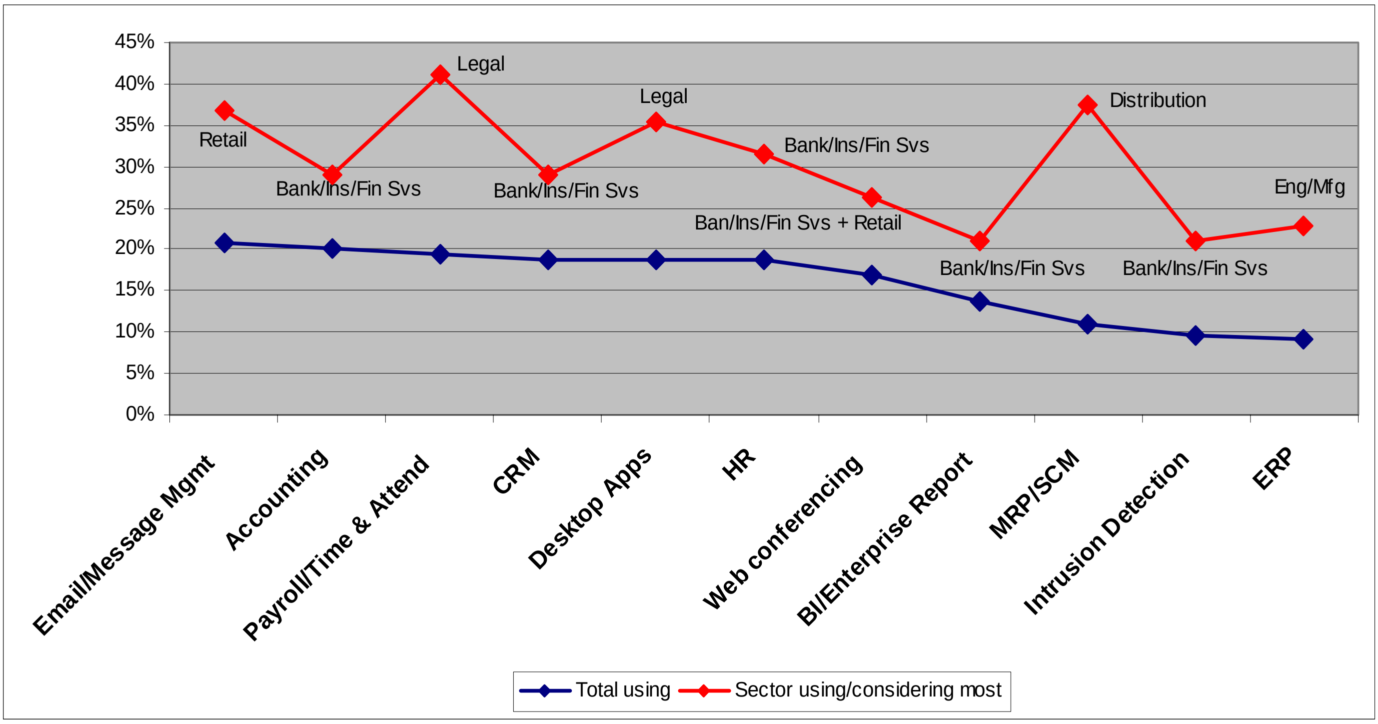
Figure 4.2.1



Analysis by vertical market shows:

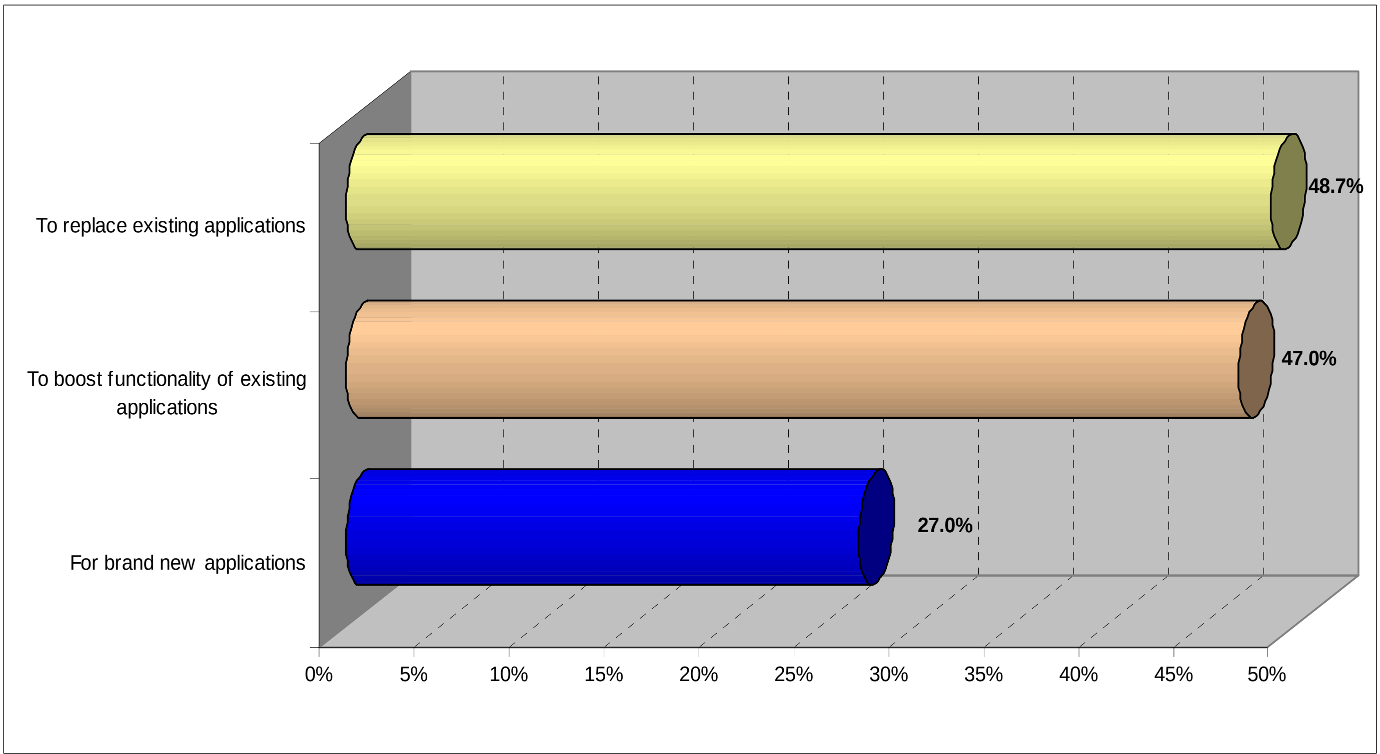
- Retail is most likely to be using/considering for email/message management
- Banking/insurance/financial services is most likely to be using/considering for accounting, CRM and HR
- Legal has the highest usage/consideration for payroll/time & attendance and desktop applications
- Distribution has the lowest usage/consideration for email/message management, accounting and payroll/time & attendance

Figure 4.2.1a



Almost half of those using or considering SaaS applications state that this is to replace existing applications (48.7%) or to boost the functionality of existing applications (47%). One quarter (27%) report that this is for brand new applications.

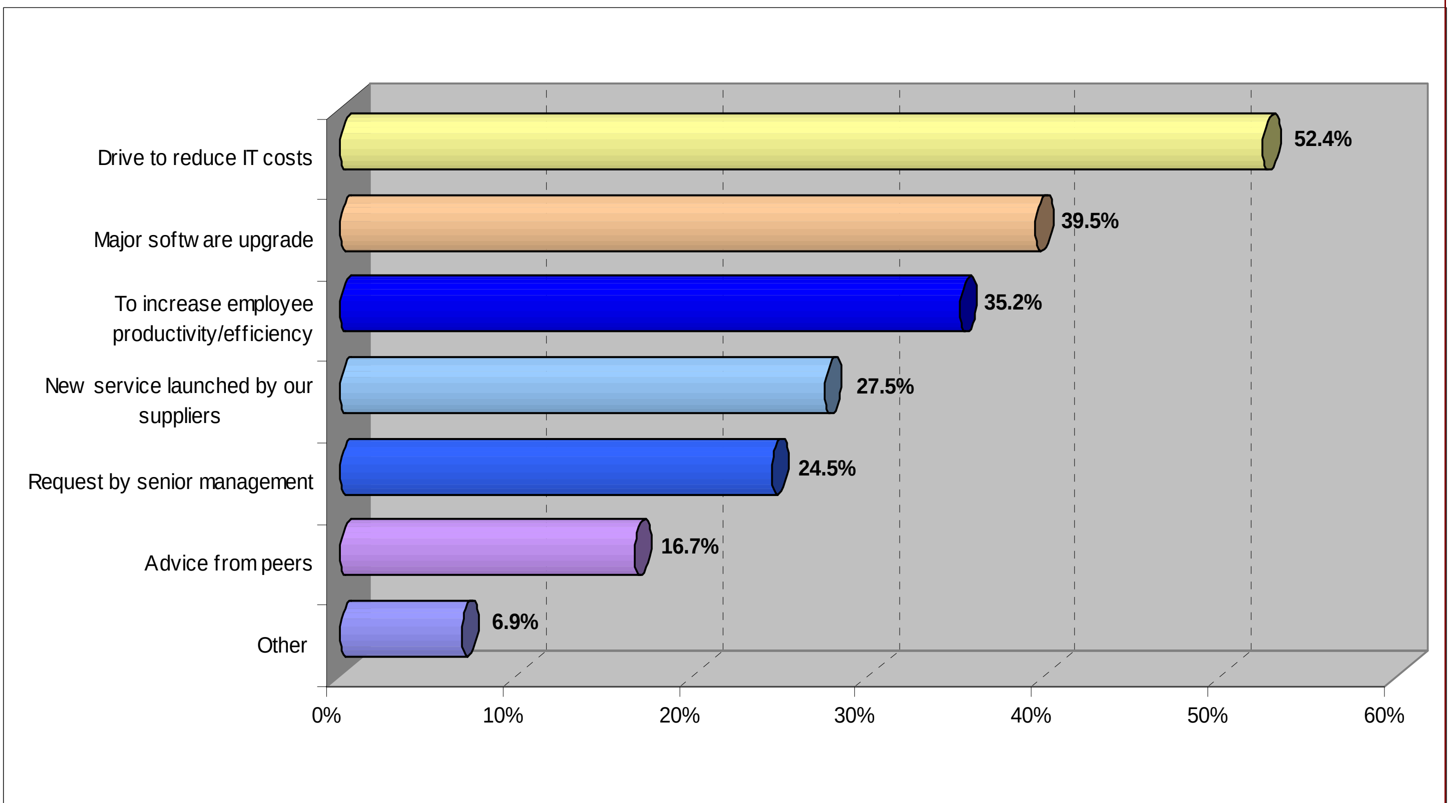
Figure 4.2.2



The main events which would trigger companies to purchase SaaS are a drive to reduce IT costs (52.4%), a major software upgrade (39.5%), to increase employee productivity/efficiency (35.2%), and a new service launched by suppliers (27.5%). Organisations having 500 or more employees are more likely to mention a drive to reduce IT costs. Analysis by sector reveals:

- Government/public sector is least likely to mention a major software upgrade as a trigger to buy SaaS
- Distribution is most likely to cite a new service launched by suppliers
- Retail is most likely to mention increased employee productivity/efficiency and legal the least likely

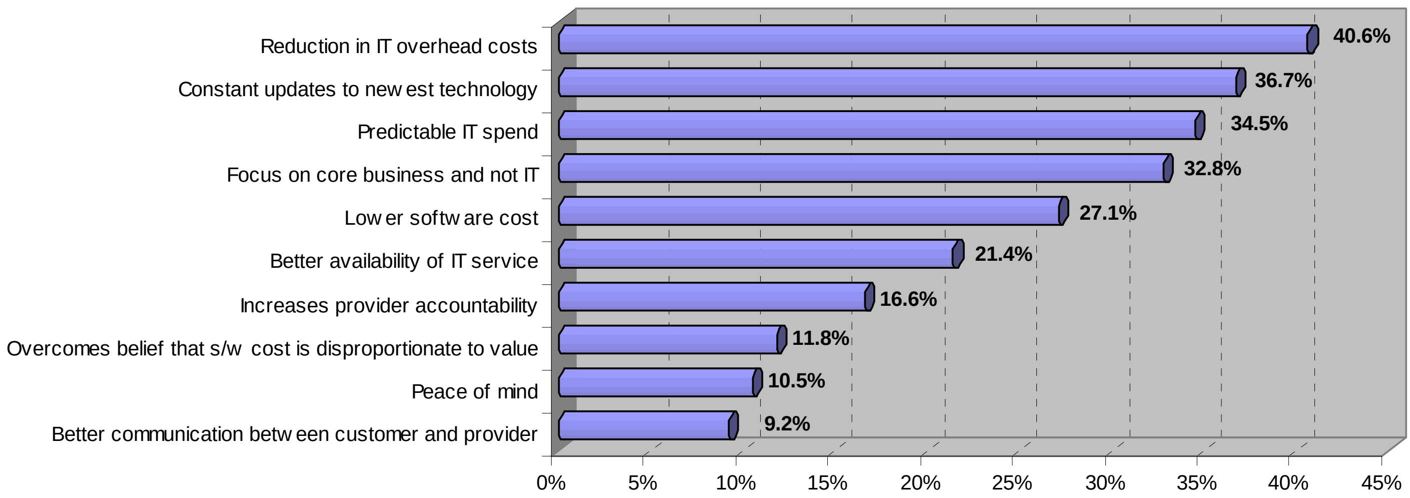
Figure 4.2.3



4.3 Benefits & Inhibitors

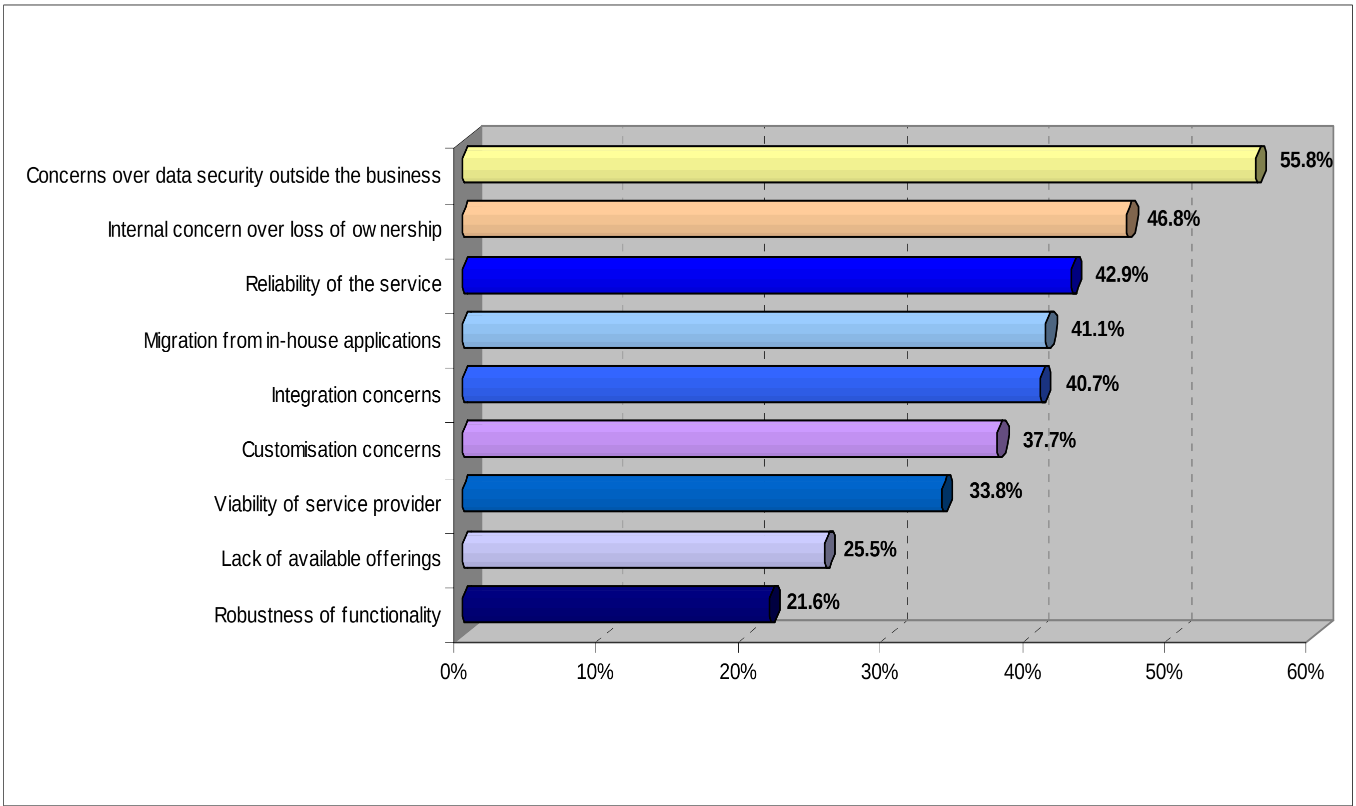
The main perceived benefit of SaaS is a reduction in IT overhead costs (40.6%). The next most commonly perceived benefits are constant updates to the newest technology (36.7%), predictable IT spend (34.5%, and allowing a focus on the core business rather than IT (32.8%).

Figure 4.3.1



Concerns over security of data outside the business (55.8%) is seen as the main hindrance to adopting SaaS followed by internal concern over loss of ownership (46.8%), reliability of the service (42.9%), migration from current in-house applications (41.1%), and integration concerns (40.7%).

Figure 4.3.2



Analysis by industry sector shows:

- Banking/insurance/financial services has the highest concerns regarding security of data outside the business and internal loss of ownership
- Legal is most likely to view reliability of the service and integration as barriers
- Government/public sector is most likely to cite migration from current in-house applications as an obstacle

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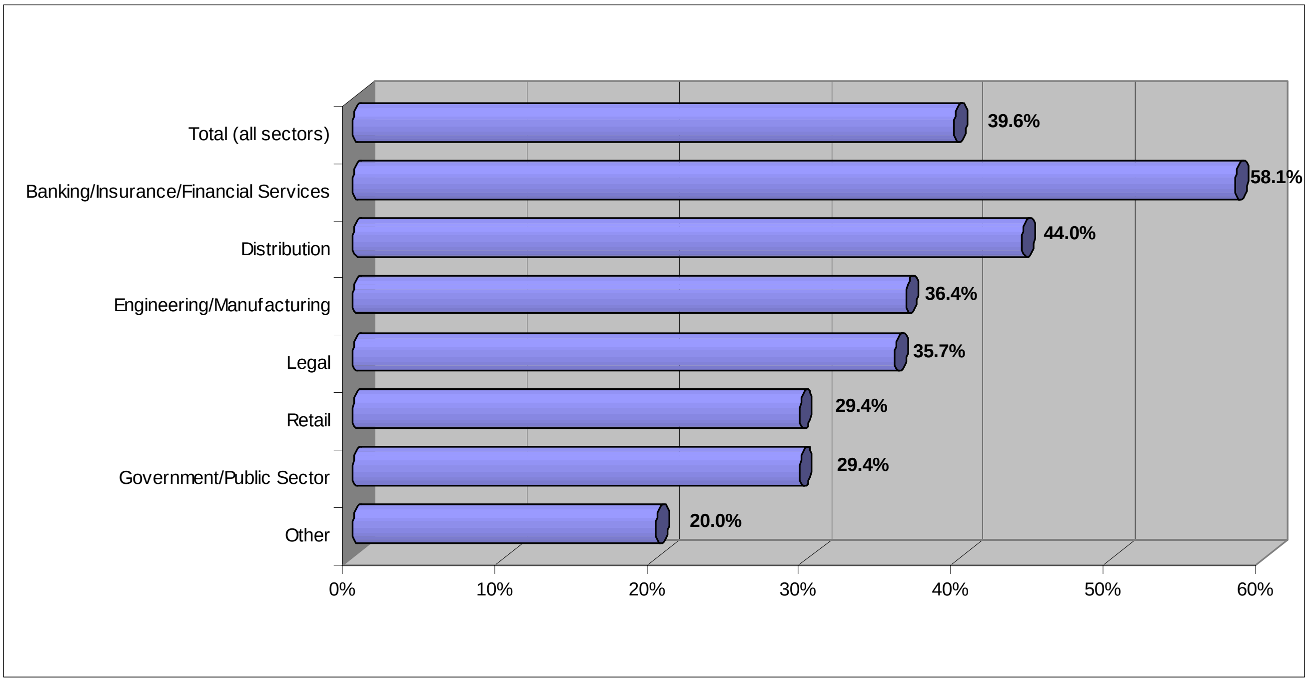
When asked what impact the availability SaaS would have on their software spending two fifths (39.6%) of respondents are more likely to consider products from other vendors than in the past, while 30.6% are more likely to purchase subscription licences. Analysis by vertical market shows:

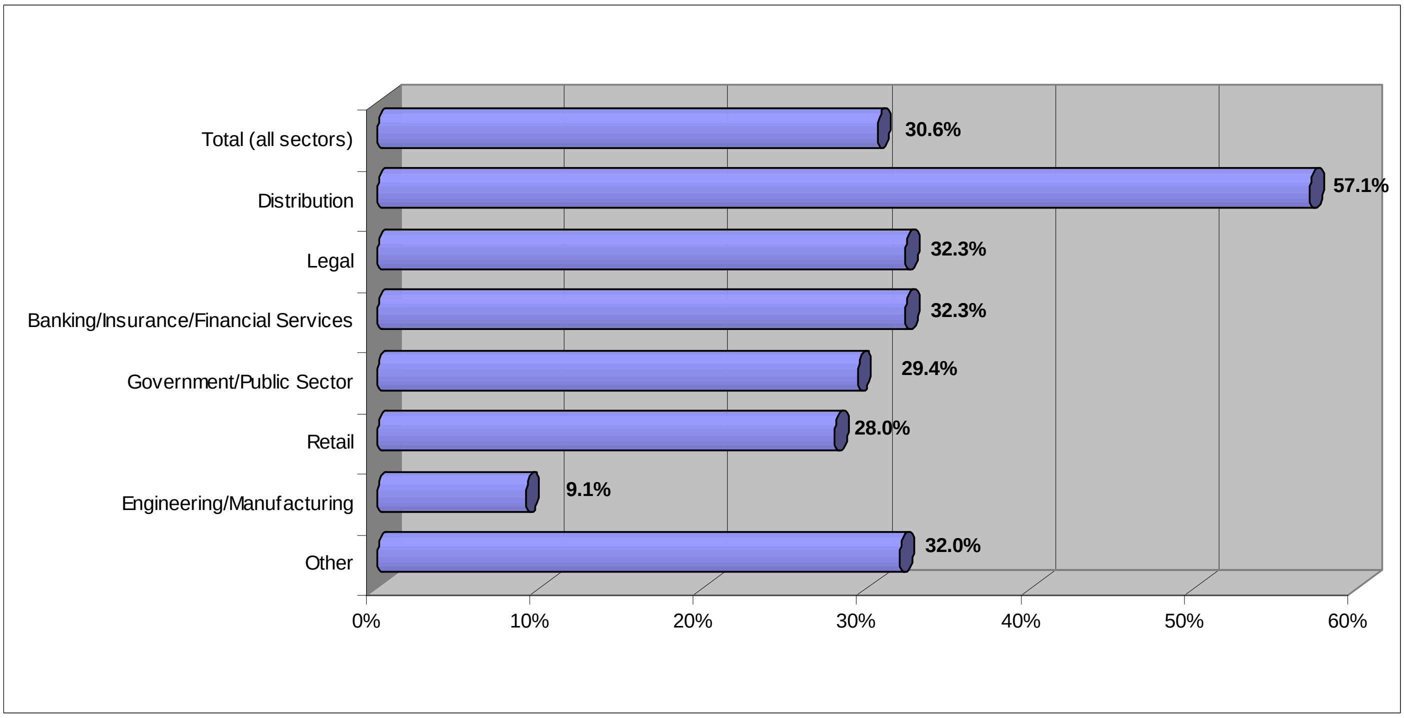
- Banking/insurance/financial services are the most likely to consider products from other vendors than in the past, with government/public sector the least likely

Figure 4.3.3



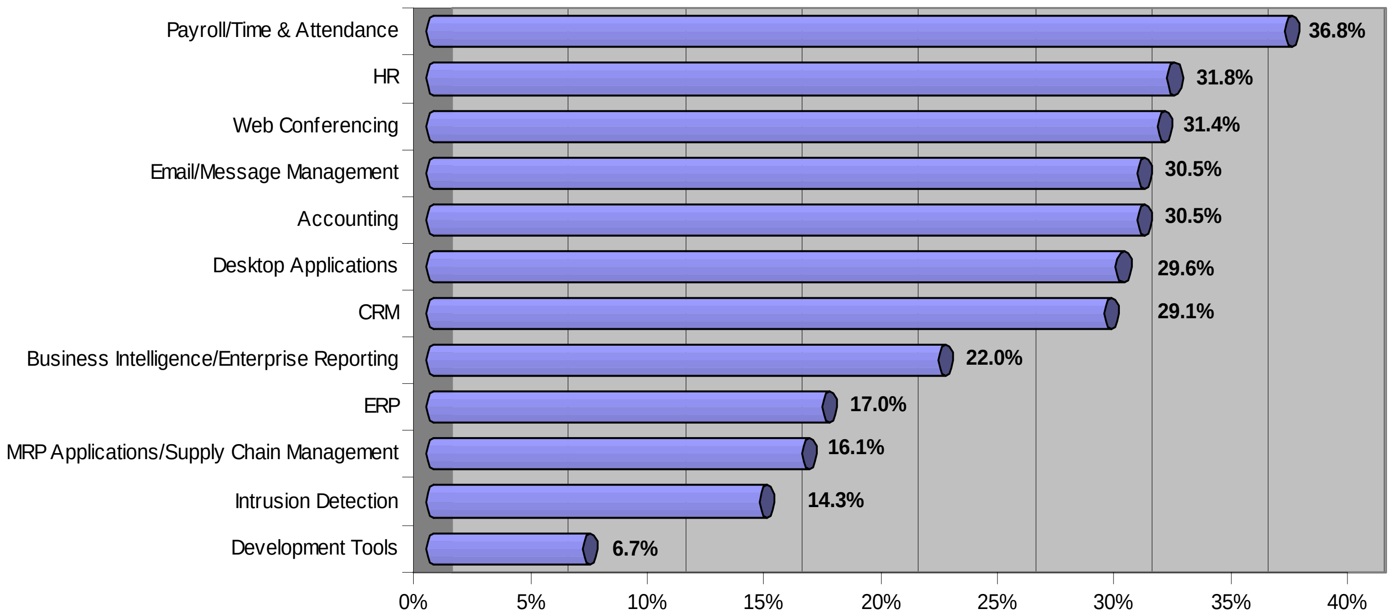
Retail has the highest proportion more likely to purchase subscription licences, with legal having the lowest

Figure 4.3.3a



The software categories seen as most likely to benefit from SaaS are payroll/time & attendance (36.8%), HR (31.8%), web conferencing (31.4%), email/message management (30.5%), accounting (30.5%), desktop applications (29.6%), and CRM (29.1%).

Figure 4.3.4



Organisations with fewer than 250 employees are less likely to mention HR.

The most notable variation by sector is for web conferencing, with banking/insurance/financial services and legal having the highest proportions foreseeing a benefit and distribution and retail the lowest. Other noteworthy vertical markets differences are:

- Banking/insurance/financial services is most likely to see a benefit for HR
- Legal has the highest proportion who foresee a benefit for CRM and the lowest for HR

- Government/public sector is most likely to perceive a benefit for accounting

Figure 4.3.4a