

Evaluating SaaS Solutions:
A Checklist for Small to Midsize Businesses

A research report
prepared by:



Publication sponsored by:





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About this Report

This report is based on independent research developed and conducted by Saugatuck Technology Inc., who is solely responsible for the analysis, conclusions and recommendations presented in this report. The publication of this report was funded by SAP.

About Saugatuck Technology

Saugatuck provides research-based consulting services that combine business planning and market assessment with first-hand research of executive technology buyer trends. Founded in 1999, Saugatuck is headquartered in Westport, CT. For more information, visit www.saugatech.com or call 203.454.3900.

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In this paper we discuss the relevant criteria for evaluation of SaaS solutions targeting small-to-midsize businesses, and we raise the key questions that should be asked. It is important to ensure that the qualities of the SaaS solution will align well the business requirements and be sufficiently adaptable to meet the needs of change and growth. We also provide an evaluation template for small-to-midsize business executives to use in conducting an evaluation of a SaaS solution.

One can hardly turn a page in a business journal today without reading about the business advantages of Software as a Service, or SaaS. Right now, SaaS seems to be everywhere you look. And the reason is pretty simple. SaaS provides a more cost-effective alternative for enterprises to achieve their business objectives than traditional packaged applications. At the same time SaaS alleviates the responsibility of managing the hardware, software, networks and people that are “behind the scenes” of small-to-midsize business operations.

SaaS business solutions are advantageous in many ways. They are more affordable and implemented more quickly. The modular functionality of SaaS solutions is fairly easy to extend, modify, and integrate with on-premise vendor software in the current generation of SaaS. Because SaaS subscription pricing includes all of the underlying data center infrastructure, and the upgrades and new releases, you can focus on your business with the confidence that everything is being managed for you. All you need is a browser and access to the Internet. The rest is in the cloud.

However, SaaS solutions may not be right for every small or midsize business. You may wish to consider a traditional vendor software license if the required functionality is directly tied to the core value your business provides. Or, if you have already invested significantly in internal IT, and your internal IT is closely connected to the value you provide. Or, if regulations require the data you manage to remain behind your firewall, and the SaaS solution cannot support that.

Conversely, if your company has a limited capital budget, limited information technology support, or a distributed workforce in a sales- or service-oriented business, you probably should consider SaaS.

Key Questions for the SaaS Provider

Obviously, every business’ situation is different. And just as obviously, every SaaS provider approaches, delivers, prices and supports its solutions in different manners. So to begin “shopping” for SaaS, business executives and decision makers need to start by asking several important qualifying questions of prospective providers. Based on our ongoing work with executives of small and midsize businesses and SaaS providers, Saugatuck has netted down this list to the following questions:

- Does what seem to be improved functionality include all the things you’ve been getting from on-premise software?
- Is what appears to be lower cost is really lower?
- Will the SaaS solution be consistently available and provide acceptable response time?
- If a problem occurs, will the provider be responsive?



- Are the security and data privacy of the SaaS solution adequate to your needs?
- Does the SaaS provider maintain backup and recovery facilities?
- Will the SaaS solution permit customization and personalization that your small-to-midsize business requires?
- Will you be able to integrate the SaaS solution with the other vendor software you use?
- Does the workflow match your internal business process, or can you modify and extend it so that it does?
- Will you have access to the data and suitable tools for analysis? Can you use your own tools?
- Does the SaaS provider respond well to support requests or to requests for enhancements?
- Is there an open and active community of users so that you can exchange information and share experiences?

SaaS should be approached no differently than any other important purchase—you need to be sure of what you are getting. You need to be sure you are not going to burden your IT group with more work. You need to be sure that the SaaS solution you choose will deliver all the benefits you expect.

KEY CRITERIA FOR EVALUATION

A small-to-midsize business considering SaaS to replace or supplement on-premise vendor software should take care to ensure that the SaaS solution under consideration is the most appropriate one. And, in order to ensure getting the same quality of solution you have come to expect from on premise software, small-to-midsize businesses should evaluate SaaS solutions carefully. This section presents a series of SaaS solution and provider “checklist” issues to consider in your SaaS solution evaluation, along with guidance regarding what makes a “good” SaaS solution. :

SaaS Solution Functionality

The convenience of having the SaaS business solution accessible “in the cloud,” by using a browser, does not eliminate, or substitute, for the need to define functional requirements in advance and compare them to the various SaaS offerings in the domain. If the SaaS solution will be a niche function, such as Travel Expense, be sure to include the functionality required by adjacent functions that may need to share the data or ensure it complies with corporate or regulatory standards. The finance department, human resources, marketing and sales departments may all have particular, related, functional requirements that should be considered.

Conversely, if the SaaS solution should be an Integrated Business Suite that serves all or many parts of a small-to-midsize business, be sure to consider requirements from all departments that may be touched, however indirectly, by the SaaS solution. Should the best available SaaS solution lack some critical function, and no alternative presents itself, you may want to look closely at customization and enhancement capabilities (see The SaaS solution’s customization capabilities below) or consider engaging a SaaS system integrator to augment or develop the required functionality.



√ **SaaS Solution Pricing Terms and Conditions**

Small and midsize businesses evaluating a SaaS solution should look beyond the value metric (for example, “per user, per month”) when considering SaaS and when choosing among SaaS solution alternatives. The value metric is just the tip of the iceberg. Consider the storage charges and service and support levels that you may need to select in the context of your current and future business operations. Will your SaaS solution pricing sustain its value as you execute your plans for growth in your company? Or will moving to another pricing tier undermine the financial value of the proposed SaaS solution?

While SaaS pricing is usually far simpler than vendor software pricing, there is often a dizzying array of options and pricing tiers, sometimes with functional differences, that should be considered. Sometimes, too, multi-year commitments will be heavily discounted. Consider annual costs for the appropriate SaaS solution, and also the bundling choices, upgrade paths, and SaaS solution roadmaps. You want to make a commitment that will grow along with your business, not inhibit its growth.

√ **The availability (uptime) maintained by the SaaS provider**

Carefully evaluate the data center competencies of SaaS solution providers, including services and platform partners. Some SaaS providers offer online access to their uptime records. An increasing number of SaaS providers are promising 99.5% availability, but some very well-known SaaS vendors don’t offer any kind of service guarantees. Ask the SaaS provider for data that demonstrates the consistency of uptime over the past several years. If there were outages, listen carefully to the explanations. You need to know what you can expect from the SaaS provider, especially if your business requires consistent availability and your customers will expect it.

√ **The system response times maintained by the SaaS provider**

In addition to uptime, small and midsize firms considering SaaS should carefully evaluate system response time to ensure that the service levels match their needs and expectations. A system may be highly available, but not sufficiently responsive. Most SaaS solutions do provide consistent sub-second response time. You should feel free to ask the SaaS provider to demonstrate a history of consistent sub-second response time, if your business depends upon it. You are outsourcing not only the application functionality, but also a piece of your data center. You need to ensure the SaaS provider will equal or excel your own data center’s production quality.

√ **The SaaS provider’s accountability for quality of service**

The Software and Information Industry Association (SIIA) recently published recommendations on how SLAs should be crafted to unmistakably enforce quality of service. The SIIA urged that the SLA should establish base monitoring performance levels, credits for non-performance and define how, and how soon, chronic problems will be resolved. More specifically, the SIIA held that the SLA should identify what is being measured and how it is being measured, as well as the number of times an incident may occur before being considered as chronic.

Ultimately, quality of service is nothing more than the user’s experience. And



SLAs are nothing more than an insurance policy. Metrics are descriptive and a way to approximate the user's experience. They are also useful for correcting problems. Is there a guaranteed service level agreement (SLA) that the SaaS provider stands behind? There may be credit policy that offers pricing relief should system performance not match its promised service levels.

The best practice for quality of service among leading SaaS providers includes website posting of live data on system performance, current information on planned maintenance activities that may impact performance, and historical data on transaction volumes and response time. When evaluating a SaaS solution, carefully consider the SaaS provider's quality of service guarantees.

The SaaS solution's security and privacy

Security and privacy concerns have been on the minds of most small-to-midsize businesses that have been reluctant to implement a SaaS solution, despite its many advantages. Yet today most SaaS providers have SAS 70 Type II audit certification -- ensuring that the service provider has demonstrated controls are in place and acceptable adherence to those controls has been attained. Moreover, the technical safeguards of SaaS providers are state-of-the-art and well exceed the capabilities of some smaller and even midsize firms. Nevertheless, anyone considering a SaaS solution should look closely at the SaaS provider's security and privacy services and ask specifically about Sarbanes-Oxley and SAS 70 Type II audit certification which should be documented in the SLA. For small-to-midsize businesses in the healthcare industry considering a SaaS solution, ask about HIPAA compliance in regard to the Privacy Rule.

The SaaS solution's backup and recovery capability

Backup and recovery is one capability that is essential to small and midsize businesses. If it is to trust its data to a SaaS solution "in the cloud," what happens when something goes wrong? Does the SaaS provider, or its hosting partner, manage a hot backup site -- and mirror every transaction with a few seconds delay? Backup and recovery is something that doesn't matter at all until it matters entirely too much. No evaluation of a SaaS solution should be complete without a careful examination of the SaaS provider's backup and recovery capability.

The SaaS solution's customization and personalization capabilities

While the first wave of SaaS solutions lacked the capability to adapt to user look-and-feel or business processes, today small-to-midsize businesses can ensure the SaaS solution appears and behaves appropriately. Many, but not all, of the current wave of SaaS providers also support Web 2.0-style personalization capabilities such as mashups embedded in dashboards. Today's tools to support customization and personalization range from technical programmer tools to point-and-click tools to end-user configuration tools. Easy-to-use configuration capabilities allow non-programmers to modify their look-and-feel and their business processes. For many smaller businesses, configuration may be a more appropriate approach, due to simplicity and lower cost of ownership. If customization or personalization will be important to the small-to-midsize business, be sure to consider the approach of the SaaS solution provider.

**The SaaS solution's integration capabilities**

The key to integrating SaaS solutions with on-premise vendor applications in the small-to-midsize business is a Web Services API. SaaS providers have for the most part developed their software in compliance with service orientation and utilizing Web Services standards. This makes integration rather straightforward. Small-to-midsize businesses evaluating the integration capabilities of a SaaS Provider should ask specifically about whether there is a Web Services API to enable integration with on-premise software. The likely answer is, "Yes." But it definitely is a question that should be asked.

**The SaaS solution's workflow capabilities**

Workflow capabilities of SaaS providers are still evolving. Business executives would be well advised to ask whether workflow can be customized and how flexible it is, whether additional workflow can be integrated, and what the longer-term plans for workflow in the SaaS solution are. It is always possible to redefine a business process in terms of how the business solution supports it, but there is good reason for requiring it be able to adapt to changing business needs. Flexibility in workflow is essential to being able to redesign a business process for greater efficiency or value. As SaaS workflow capabilities continue to evolve, we expect to see far greater flexibility, customization, personalization and integration than exists today. However, it is essential to understand what the limitations and capabilities of the SaaS solution's workflow are at present and how the SaaS provider plans it to evolve.

**The capability to access and analyze SaaS data for business purposes**

The small-to-midsize business considering a SaaS solution cannot overlook the importance of ad hoc data analysis. SaaS solutions may be designed for limited inquiry and a few canned reports, for openness SQL-based queries or a flexible reportwriter, or with an open interface to permit SaaS business intelligence tools to interrogate the data. What matters here is the requirements of the small-to-midsize business. If extensive inquiry is required and especially data "slicing-and-dicing," then (in addition to any built-in capabilities) the more flexible and open the SaaS solution is the better. Some SaaS solutions also permit Web 2.0 mashups. The most advanced SaaS solutions encourage and support drop-in, third-party, data analysis capability enabled by a Web Services API.

**The SaaS provider's responsiveness to support requests**

Because SaaS is essentially an ongoing business service supported by subscriptions and renewals and not a technology solution sold as a "big-hit" transaction, it is more of a relationship, and consequently support requests are ideally opportunities to create stickiness and ensure retention. This is one clear key to selecting a SaaS solution vendor that will survive and prosper in the industry. The small-to-midsize business should make it an important priority in evaluating responsiveness to support requests to know as much as possible about how support requests are submitted, evaluated and acted upon, and in what time frame. Transparency in the support process is a feature to be prized. Is there a hotline, call center or contact center with an open-for-business mentality? Or an SLA for support requests?



The SaaS provider’s responsiveness to requested enhancements and changes

Similarly, another major difference between SaaS and on-premise software vendors is their responsiveness to requests for functional enhancements. While an on-premise software vendor may manage a user group that prioritizes and promotes enhancements, some leading SaaS providers openly solicit suggested improvements from their customers on-line, in the SaaS solution itself via a suggestion box. These suggestions then drive the new release process. The relationship between SaaS vendor and customer is less “arms-length” and more intimate with the best SaaS solution providers. Executives should ask about how enhancement requests are handled. How does a request make its way through the approval and implementation process?



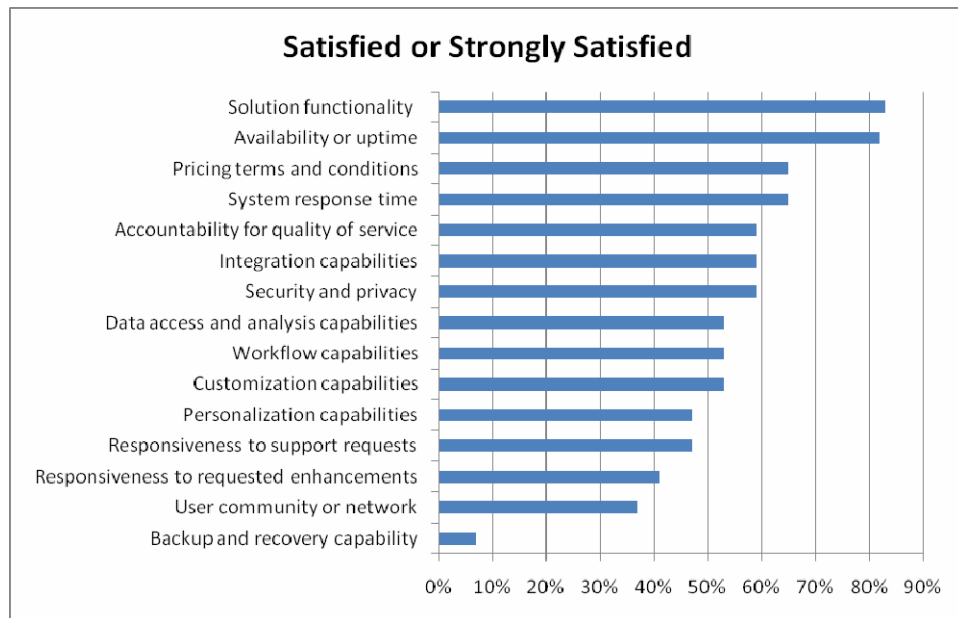
The ability to network or participate in a community of SaaS solution users

Unlike the software user group, the community of SaaS solution users meets and exchanges viewpoints and experiences in a multiple continuous threads: exchanging best practices, posting questions and receiving responses, submitting ideas that become part of the product roadmap. That is the goal, although many SaaS providers do attain it. Executives in any size businesses would be advised weigh the requirement heavily, as it is another hallmark of the intimacy that characterizes the SaaS solution. Community voices are heard when SaaS providers value customer retention and subscription renewal.

HOW DO SAAS CUSTOMERS LOOK BACK ON THESE CRITERIA?

It is one thing to consider these criteria in advance and imagine how important they may be, and then assess how well the SaaS solution providers meet these criteria. It is another to have chosen a SaaS solution and worked with it and experienced these criteria at first hand in the daily grind of small and midsize businesses.

Figure 1: SaaS User Satisfaction (Satisfied or Strongly Satisfied)



Source: Saugatuck Technology Inc.; n=100; data indicates number of respondents indicating “Satisfied” and “Strongly Satisfied” with each aspect of their current SaaS offerings.



A 2008 Saugatuck survey of over 400 business and IT leaders garnered over 100 responses to a series of questions about SaaS user satisfaction. Key responses regarding satisfaction with different key aspects of SaaS is shown below in Figure 1.

As can be seen in Figure 1, 88 percent of this sample of IT and business leaders reported being “satisfied” or “strongly satisfied” with their experience of SaaS. When asked to respond in detail to the various components that make up the SaaS solution, their responses indicated both highs and lows.

SaaS Solutions for small-to-midsize businesses should be measured against these criteria. Consider the criteria above and how they were rated by experienced SaaS users. How should you focus your evaluation? The business decision-makers should weigh carefully the criteria that matter most in driving and sustaining business growth and profitability.

SAUGATUCK’S SAAS EVALUATION CHECKLIST

Saugatuck has developed the following tool to assist executives and decision makers in evaluating a SaaS solution, according to how well it meets their requirements and how important those requirements are, relatively. This tool has been developed and refined over the years based on real-world input from small and mid-sized firms, and is based on the “checklist” of key considerations presented earlier in this report.

Figure 2: Saugatuck SaaS Evaluation Checklist

SAAS EVALUATION CHECKLIST	Importance (weight) A	Fit (rating) B	Combined Score C = A x B
Solution functionality			
Pricing terms and conditions			
Availability or uptime			
System response time			
Accountability for quality of service			
Security and privacy			
Backup and recovery capability			
Customization capabilities			
Personalization capabilities			
Integration capabilities			
Workflow capabilities			
Data access and analysis capabilities			
Responsiveness to support requests			
Responsiveness to requested enhancements			
User community or network			

Source: Saugatuck Technology Inc.



Consider 1) weighting each criterion for in the SaaS Evaluation Checklist for importance (A); and 2) rating each criterion according to its fit (B), how well the SaaS solution meets the requirement. Multiply the weight by the rating to reach its product, the combined score (C). Total the scores and compare results.

Summing the combined scores of the 15 criteria yields the total number for each SaaS solution -- one way to evaluate the quality of potential SaaS solutions in the context of the small-to-midsize business in a particular vertical industry.

Conclusion: SaaS Works for Smaller Firms

SaaS delivers solutions for businesses of all sizes and types. The business value of SaaS varies from solution to solution, and from provider to provider. How to determine where, when, and from whom the best value can be delivered is up to the business owners and managers. The “trick” is in knowing what questions to ask—and what the answers are telling you.

A combination of objective, useful, and meaningful questions, with useful comparison criteria, make this task more straightforward, and more repeatable as your business moves forward and utilizes more SaaS in more areas of IT and operations.

Even so, no prepared checklist is a complete substitute for situational knowledge and common sense. The most useful results for your business will be in situations where you adapt the questions and checklist to your own, unique situations.

And over time, these questions and criteria, adapted to your situations, and leavened by your experience, will enable you to develop and manage an effective and repeatable SaaS management strategy and plan.



Sponsor Perspective: Evaluating SaaS Solutions

Businesses like yours need initial support as you roll out the software, a commitment to a long-term vision and roadmap, and a solution that can scale up as your business grows. In turn, a strong vendor/partner will look to you for ideas to improve their products and offer a strong network of users and partners.

Consider the following as you explore the best solutions and vendors for you:

Form an Evaluation Committee

Enlist a cross-functional team with a holistic view of the business and its goals to help make the decision. Individuals best qualified are those with a deep understanding of process in specific functional areas, and understand the cause and effect relationship across the business. The team should agree up front on guiding principles for the selection (i.e. cut cost, increase control, enable customer self-serve, enable real-time decisions, or enable flexibility of the business, etc.). Otherwise, vendors may convince or steer the team to their specific solutions.

Expect the Evaluation to Take Up to 8 Weeks

Unified business applications delivered as a service require due diligence so the full capabilities and long-term possibilities can be explored. What looks like an immediate quick fix, may lead to a dead-end. Take the time to look at your business processes end-to-end, and be particularly wary of solutions that bound the problem to solving one aspect of a process as traditionally defined by large enterprise applications.

Bet on a Vendor – Not just a Solution

Look for a vendor that is willing to work with you on getting the RFP right. Just determining what you need can be a huge part of the process, and a vendor can provide a fresh look at your systems and requirements. Look for a vendor to be a strong, viable partner, committed to the long-term success of your organization.

Can the vendor deliver software, support and services, and training, either personally, or through strong partnerships with third-party integrators, trainers, etc.? Does the vendor have a solution roadmap, and a one-, five- and ten-year business plan, which it can articulate? This should encompass plans for both technology and the company.

The vendor should also have an enthused, involved user community. User groups form independently. They are typically very vocal about their likes and dislikes, very willing to talk to prospective users about their experience and able to provide references; and in the best cases, very involved in the product evolution. In the case of SAP, the Americas' SAP Users' Group holds an annual conference, offers benchmarking expertise, and oversees a portal with forums and discussion boards.

Stability and Reputation in your Industry

Consolidation has narrowed vendor selection considerably. Be certain your vendor has a record of success in companies of your size, in your industry. The company's Web site, sales representatives and user groups can give you that information. If you are risk-averse, pay attention to the company's market share—a longtime major player will likely be here five years from now to service your installation.

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