

SaaS Saves Money & Improves Operations:

TCO and ROI Calculations Help Make the Case

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Introduction

Software-as-a-Service (SaaS) continues to gain traction over traditional on-premise software licensing models as organizations aggressively seek more cost-effective, flexible and robust computing solutions.

SaaS delivers services much in the same way utilities deliver water or electricity, enabling new forms of consumption, such as subscription and pay-per-use models, that allow companies to use and pay for software only when they need it. Though still evolving, SaaS solutions are gaining acceptance rapidly for their ability to deliver shared and scalable resources to computers, smartphones, network-connected appliances, and other devices on-demand, over the Internet.

SaaS is rooted in an earlier model known as the Application Service Provider (ASP). In this model, service providers hosted and maintained applications for customers at vendor-owned and operated data centers. Several factors, which led to the demise of the ASP model, have been successfully addressed by SaaS. For example, while ASPs relied on high-cost delivery mechanisms, such as private networks, SaaS reduces delivery costs using the Internet as a delivery platform while subscription and pay-per-use models have largely replaced costly per-seat licensing agreements.

The number of organizations adopting SaaS is growing at a healthy rate. Gartner Research estimates worldwide SaaS revenue within the enterprise application software market will surpass \$8.5 billion in 2010; up 14.1 percent from 2009 revenue of \$7.5 billion.¹

Few would argue that SaaS holds a lot of promise as a cost-effective and robust model for applications. However, organizations still need to map the total cost of ownership (TCO) and return on investment (ROI) for each and every application that is moved to a SaaS model. SaaS pricing models are different than traditional on-premise computing and ASP models. In addition, soft costs and returns, such as people, productivity and time-to-market, are difficult to nail down. Such disparities make apples-to-apples comparisons difficult to construct.

This paper will help you understand and calculate the true costs of SaaS to determine what benefits this important resource-maximizing approach can offer your company now and in the future.

1-<http://www.gartner.com/it/page.jsp?id=1406613> Gartner report - "Forecast Analysis: Software as a Service, Worldwide, 2009-2014".

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Defining the Terms

For years, organizations have made large investments, including significant up-front payments, to purchase and implement client/server-based software in privately owned data centers, branch offices and other facilities. The initial purchase of this on-premise software is typically budgeted as a capital expenditure. Additional payments for add-ons including support, maintenance, advanced packages, renewals and upgrades and more are funded via operational budgets. As the business grows and adds employees, more software licenses must be purchased to satisfy the license agreement.

Nearly every organization maintains some type of traditional, on-premise software and hardware, but SaaS models that offer more attractive usage and payment models are growing quickly. Sales of cloud computing products (also referred to as SaaS) have topped \$16 billion in annual revenues according to IDC. By 2014, cloud computing will generate almost \$56 billion in annual revenue.²

Gartner Research defines SaaS as "software that is owned, delivered and managed remotely by one or more providers. The provider delivers an application based on a single set of common code and data definitions, which is consumed in a one-to-many model by all contracted customers anytime on a pay-for-use basis or as a subscription based on use metrics."³

While SaaS has its roots in ASP software models, it more closely resembles hosted, enterprise Web applications that began appearing a few years ago. Web-based models introduced the use of applications that required no hardware, in-house maintenance or capital expenses. But today's SaaS offerings are much savvier than simple hosted offerings. They are often based on multi-tenancy architectures, meaning a single instance of the software runs on a server and can serve multiple client organizations (tenants). With a multi-tenant architecture, a software application is designed to virtually partition its data and configuration, and each client organization works with a customized virtual application instance. In a SaaS implementation, the vendor takes care of the support, training, infrastructure and security risks in exchange for recurring subscription fees.⁴

The Value of SaaS

Organizations that plan to or have already implemented a SaaS model view it as a strategic alternative to on-premise applications. Many point to the immediate cost savings associated with quick implementation times and pay-as-you-go pricing. There are other advantages, too. Support costs are reduced, as are maintenance costs. The need for excess capacity to handle occasional or seasonal spikes in volume can be eliminated. Help desks and server support teams can be reduced and transferred to higher value roles.⁵

The very nature of a SaaS offering – software which is owned and maintained by a third party – means organizations rid themselves of software ownership and all that comes with ownership. Organizations implementing SaaS do pay subscription costs, but they avoid costs related to the hours spent by IT staffers who must maintain software installations, licenses, and ongoing upgrade schedules, freeing up these employees to work on more innovative tasks. Associated hardware costs can also be reduced or even eliminated. IT upgrades and more extensive overhauls also can be less expensive in a SaaS model, compared with on-premise computing. When an on-premise application needs to be

2-<http://www.idc.com/research/viewdocsynopsis.jsp?containerId=223549§ionId=null&elementId=null&pageType=SYNOPSIS>

3-Forecast Analysis: Software as a Service, Worldwide, 2009-2014". The report is available on Gartner's website at <http://www.gartner.com/resId=1393813>

4-Software & Information Industry Association's paper, "Software as a Service: A Comprehensive Look at the Total Cost of Ownership of Software Applications" (http://www.bi101.com/documents/white%20papers/accountsiq_wp.pdf)

5-"The ROI of Software-As-A-Service," Forrester Research

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completely replaced, the initial costs associated with that can be extensive, and the disruption and time-to-implement can be very taxing to an IT department.

Organizations also can more effectively and efficiently plan for and manage growth. According to the Software & Information Industry Association, this scalability derives from the fact that “SaaS applications grow with you as your business grows.”⁶ With a SaaS model, for example, companies can more easily add users. No new licenses are required and client software doesn’t have to be rolled out to more workstations. Fewer infrastructures are required to support the new users. Fewer training sessions are needed when more users are added, and fewer ancillary staff members are needed to manage the additional software seats. Equally important, if software needs to be scaled down, SaaS offers that flexibility – without a huge loss associated with a capital investment that can no longer be used.

Reducing, or even eliminating, many of the expenses associated with software can breathe new life into an IT budget. In addition, the predictability of on-going subscription costs can make budgeting easier. Ultimately, the savings and advantages of a SaaS-based system make IT budgets go further and do more.

Finally, as the Software & Information Industry Association points out, SaaS vendors have greater accountability because of the subscription-based model. There are service level agreements (SLAs) relating to support and operations that must be met and are often backed with financial guarantees.

ROI Calculation

Forrester Research has identified several key considerations in determining the ROI of SaaS. They created its Total Economic Impact (TEI) model to help companies consider three fundamental aspects of SaaS ROI.⁷

- Benefits - How will your company benefit from SaaS?
- Costs - How will your company pay, both in hard costs and resources, for SaaS?
- Risks – How do uncertainties change the total impact of SaaS on your business?

Forrester Research’s TEI model for determining the ROI of SaaS includes comparisons with traditional on-premise software. For example, it compares the subscription costs of SaaS against the greater upfront costs of on-premise software, maintenance, upgrades and support costs. Considering all elements, Forrester Research estimates yearly costs remain lower for on-premise but increase during upgrade cycles, which represent about 65% of the initial costs of implementation in year eight.

Forrester Research gives SaaS a significant advantage in benefits while the differences in flexibility aren’t quite as clear-cut. Greater risks can be found in on-premise implementations that originate from deployment complexities, training needs, and support issues, according to the research company report.

When considering your own ROI analysis, be sure to include all the cost, benefit, flexibility and risk elements associated with implementation, deployment, staff, resources, and upgrades. And don’t forget that TCO must be part of the overall ROI calculation.⁸

6-SIIA: “Software as a Service: A Comprehensive Look at the Total Cost of Ownership of Software Applications” (http://www.bi101.com/documents/white%20papers/accountsiq_wp.pdf)
7-“The ROI of Software-As-A-Service,” Forrester Research
8-“Comparing The ROI Of SaaS Versus On-Premise Using Forrester’s TEI™ Approach”

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The TCO of SaaS: What's Included?

The Software & Information Industry Association has identified five costs when calculating the TCO of a SaaS implementation:⁹

- **Capital Expenses** – SaaS models do not incur capital expenditures. Most SaaS models have a recurring cost structure that continues on a monthly or annual basis for as long as you use the service. There are no perpetual software licenses to buy, and there is no infrastructure to purchase.
- **Design and Deployment Costs** – Typically, SaaS software can be deployed and put into production much faster. However, if the SaaS model is multi-tenant, there may be fewer ways to customize the application to fit the business process.
- **Ongoing Infrastructure Costs** – Other than network needs (i.e., Internet bandwidth) and software associated with maximizing bandwidth, there are almost no incremental infrastructure costs. There may be some minimal client or desktop software required. When integration is required, there may be application programming interface (API) development required to configure the SaaS application with any backend databases or other existing enterprise applications.
- **Ongoing Operations, Training and Support Costs** – SaaS vendors are responsible for the end-to-end delivery of the application. That includes operational support and maintenance. Many SaaS vendors offer ongoing training.
- **Intangible Costs** – Never easy to calculate, intangible costs include such things as reliability and availability, interoperability, extensibility, security, scalability, capacity, and opportunity costs.

Subscription fees charged by a vendor comprise the largest component of the TCO equation. However, any SaaS implementation will likely include setup fees, application testing, API configurations, the launch, end user awareness, administration (i.e., end user management), usage analysis and some cost allocations.¹⁰

Summary

A growing number of companies are adopting SaaS computing models, and all market research indicates that trend will continue. The benefits are many. Maintenance, management and support requirements become the responsibility of the SaaS provider. Costs associated with those requirements are either reduced or eliminated. IT personnel needs are eased and growth can be more effectively planned and managed. Vendor accountability (and ultimately performance) is increased.

These benefits and more add up to an attractive model for IT departments which continue to struggle to find a balance between tight budgets and limited staff and resources. Nonetheless, prudent organizations will continue to perform the necessary ROI and TCO analysis. The good news is that, after those calculations, the analysis will err on the side of SaaS.

9-SIIA: "Software as a Service: A Comprehensive Look at the Total Cost of Ownership of Software Applications" (http://www.bi101.com/documents/white%20papers/accountsig_wp.pdf)
10-SIIA: "Software as a Service: A Comprehensive Look at the Total Cost of Ownership of Software Applications" (http://www.bi101.com/documents/white%20papers/accountsig_wp.pdf)

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About Symantec.cloud

Cloud computing and SaaS are often used interchangeably to refer to different things. Symantec.cloud defines cloud computing as the shift of computing power, storage and applications from physical machines to the Web. SaaS is a more precise term and refers to a variety of hosted application delivery models that start in the cloud.

Symantec is pursuing the following three:

1. **Hosted features:** most of the application sits on premise and some capabilities are delivered in the cloud.
2. **Identical online version** of software or an appliance that is offered in the cloud.
3. **Cloud services:** A true alternative to a software-licensed solution that provides additional benefits and was designed for the cloud.

Whether a cloud service is the best choice depends on the customer and how the above financial calculations support your business. We work with organizations to diagnose their requirements and then recommend the best solution.

Symantec.cloud recently added a cloud-based endpoint security service to our product portfolio, as well as a data loss prevention hybrid cloud service to our product roadmap to give you more choices in a cost-effective way.

Symantec.cloud is a leading provider of cloud-based messaging and Web security services, with over 31,000 clients ranging from small businesses to the Fortune 500, located in over 102 countries. Our services protect, control, encrypt and archive communications across email, Web and instant messaging. These services are delivered by a globally distributed infrastructure and are supported 24/7/365 by our security experts. This gives a convenient and cost-effective solution for managing and reducing risk and providing certainty in the exchange of business information. For more information or to request a free trial of our services, please visit www.MessageLabs.com.

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About Symantec.cloud

Symantec.cloud uses the power of cloud computing to secure and manage information stored on endpoints and delivered via email, Web, and instant messaging. Building on the foundation of MessageLabs market leading software-as-a-service (SaaS) offerings and proven Symantec technologies, Symantec.cloud provides essential protection while virtually eliminating the need to manage hardware and software on site.

More than ten million end users at more than 31,000 organizations ranging from small businesses to the Fortune 500 use Symantec.cloud to secure and manage information stored on endpoints and delivered via email, Web, and instant messaging.

Symantec.cloud helps IT executives to protect information more completely, manage technology more effectively, and rapidly respond to the needs of their business.

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Symantec helps organizations secure and manage their information-driven world with managed services, exchange spam filter, managed security services, and email antivirus.

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