



# A New View of IT Cost Cutting: Software as a Service

by Brett Tarr

**T**oday, IT departments are facing sustained organizational pressure to maintain cost effectiveness and reduce expenses whenever possible. Of course, the pressure on IT is always to do more with less, but this pressure is being compounded by actual reductions in IT budgets. As organizations of every size and in nearly every industry seek to level costs and balance the “must haves” versus the “nice to haves,” nearly all IT expenditures are undergoing serious evaluation.

As organizations seek to reduce IT costs, some key factors being considered include:

- Proactive IT cost reduction programs
- Negative financial or industry performance
- Budget reductions
- General economic conditions

## A SaaSy New View

Rather than simply accepting IT budget cuts, an organization can demonstrate how IT can be used to reduce costs, how IT governance can avoid costly redundancies and how the IT organization can improve the overall business. Next-generation tools such as Software as a Service (SaaS) are allowing IT to

provide organization and infrastructure without the expensive equipment costs and upfront expenditures of the past.

As business becomes more dynamic and complex, an organization's allocation of resources becomes even more important, as exemplified by the recent shift from client-installed software applications to a hosted or Software as a Service model. Indeed, SaaS represents the largest shift in the software industry in decades. By embracing SaaS, an organization can achieve a lower total cost of ownership with few, if any, technical resources required to implement and support an application.

Some key advantages of the SaaS model include:

- **Increased usability and functionality of software applications**
- **Recurring and more predictable revenue and cost structures**
- **Reduced implementation, training and ongoing support time**
- **Minimized overall business risk with greater data accessibility and security**

Because it is a more cost-effective way for businesses to achieve their objectives than traditional applications, Software as a Service is one of the fastest growing segments of the information technology industry.

## Why SaaS Is Thriving

SaaS is more than just a novel idea. Rather, it is part of a wider movement toward Internet-based automated services. The larger trend driving SaaS is the same one driving Web 2.0 applications, wikis, blogs, social networking applications and every other expression of today's increasingly web-connected world. Fundamentally, the underpinnings of the Web allow organizations to cut out much of the location-dependent limitations that interfere with communication, collaboration and trade. In the same way, software used to suffer from being location dependent: It had to be delivered in a box and installed in the same building as the end user. Of course, the Web removes those constraints, enabling delivery of software over the Internet, which ultimately enables SaaS. This, in turn, allows SaaS to become the foundation for unique and innovative forms of communication and trade.

One of IT's emerging trends is the convergence of software vendors into the SaaS market. Software giants such as Oracle have even begun to unveil SaaS offerings, which has led to a rush of smaller software producers scampering to release web-delivered software applications. Industry experts have noted that 15 to 20 percent of traditional application software vendors have already either begun new initiatives or gained access to SaaS assets and development experience through merger and acquisition activity. Industry experts expect that number to rise dramatically over the next year, as a tougher economic climate will only accelerate the existing pressure faced by on-premise software and the traditional perpetual license model.

Additionally, general economic factors also favor SaaS. Although the recession will surely pose challenges for SaaS vendors, the consensus is that conventional software vendors will be harder hit. In fact, one widely held school of thought reflects the belief that SaaS is one reason for the pricing pressures facing traditional application software developers.

The low-risk, pay-as-you-go model offers a substantial competitive advantage to SaaS vendors, especially if capital expenditure budgets are cut. The advantage of SaaS comes from the ability to install and activate new applications with a substantially lower initial cost of ownership. Economically pressured organizations favor limiting the upfront investment in new software applications, particularly when the ultimate ROI is in doubt. And because SaaS is flexible and scalable, it reduces risk and maximizes scarce resources. In addition to these financial factors, many IT personnel like the low-cost, low-maintenance, low-resource profile of externally delivered SaaS applications.

In short, running a lean business is the key to riding out the economic downturn, and with management espousing ROI as the mantra while keeping a tightly clenched fist around the corporate checkbook, IT can utilize SaaS to provide results while minimizing risk and expenditure. This trend will be a key driver in the growth of software development and will buoy the continued use of Web 2.0 technologies through 2009 and beyond, especially as this technology drives the exponential growth of communication bandwidth and collaboration, but without the traditional upfront costs. [ILTA](#)



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