

On-Demand Software Gaining Ground



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Introduction

On-demand software is the newest movement sweeping the field of business software. Often referred to as “software as a service”, it is a model of delivering software over the Internet, eliminating the need for companies to buy, build, manage and maintain infrastructure and applications. Companies gain the benefits of the software, but with less capital investment, lower overhead, faster ROI, and less risk.

When FileTrail began offering its on-demand software in 2001, only a few other business applications were offered on-demand. In those days providers like Salesforce.com, Jamcracker Inc., and FileTrail spent a lot of time explaining the basic concept and addressing security concerns.

Since 2001, security concerns have been resolved and on-demand software has become more common. Today, companies of all sizes trust their data to on-demand providers like FileTrail, Salesforce, Siebel Systems, and others. In addition, consumer-focused services such as Google, eBay and Amazon have made on-demand software a familiar concept.

On-Demand Defined

The term “on-demand” is a reference to the way the software is implemented. Instead of being installed *on-premise*, on-demand software is already implemented on servers and available to client organizations *on-demand* over the Internet.

On-demand software is also identified by the way you pay for it. The cost of on-demand software is based on usage, rather than an up-front license fee. A monthly subscription is the norm for business applications. However, in the case of consumer-focused providers eBay and Amazon, the fees are built-in to the cost of items you buy.

A good analogy for the economics of on-demand software is found in the power industry. Your company might buy a generator to power your heating, cooling and lighting. As the company grew, you would need more generators, a generator room, fuel trucks, and mechanics on duty.

At some point, it becomes more cost-effective for someone else to provide power using a central power plant. They make the capital investment and run lines to many customers, reducing your cost for power and allowing you to focus on your core business. In this analogy on-demand software is the power plant.

The On-Demand Trend

Corporations are betting that on-demand software is a part of their future. A survey released in November, 2005, by AMR Research shows that more than 78% of 500 respondents across major vertical industries and company sizes are currently using or considering on-demand software. Research firm IDC predicts that by 2008, subscription license revenues for on-demand software will represent 34% of the total software market.¹

The current trend shows that corporations are recognizing the value of on-demand software in terms of decreased cycle time,

faster time to value, lower cost per user, and lower total cost of ownership, not to mention the change in the economic model from a capitalized expenditure to a manageable, monthly expense.

"In 2006, more companies are going to be looking for on demand than ever before to try to move away from the [on-premise] software model," said Marc Benioff, CEO of Salesforce.com.²

And the software heavyweights are taking notice of the growth in use of on-demand software. In November, 2005, Bill Gates unveiled Microsoft's foray into on-demand software, largely responding to the threat posed by Google.

"This affects everyone who uses software," Gates said at the time. "It's a broad sea change."³

Satisfaction On-Demand

Users who have made the jump to on-demand software seem to be satisfied not only with the applications but with the concept. The normal risks of failure, technology changes, and even product obsolescence are mitigated by the fact that you didn't have to pay all the money up-front and can walk away when the deal is no longer in your favor.

"We chose the FileTrail service in 2001, because we don't like to invest in a lot of software. We have in the past and some of it either didn't work or didn't produce the benefits we expected," says Marc Merrill, a Management Consultant at Glenn M. Gelman & Associates. Merrill goes on to say that, in addition to reducing risk, getting approval from the firm's partners was much easier without a large capital cost.

On-Demand Software Benefits

An October survey of IT professionals by Cutter Consortium, an IT advisory firm, revealed that 86% of respondents said they expected to use on-demand software to generate costs savings. And those respondents also cited other benefits, such as greater ROI (27%), smaller staff required (24%), improved reliability and performance (21%), quicker/easier deployments (18%), and systematic upgrades and updates (8%).⁴

Lower Cost

A key advantage of on-demand software is that the customer doesn't have to make a huge up-front capital expenditure. For example, the initial investment for a FileTrail OnDemand™ solution is generally less than 20% of the cost of a traditional on-premise solution.

Reduced Resources

With on-demand software the customer doesn't have to provide the in-house infrastructure to deploy new applications. This eliminates the need for the client to provide space on a server, license additional database software, and allocate staff resources to system installation and maintenance.

"By choosing FileTrail's hosting solution, we avoided having to expand our IT infrastructure to accommodate an in-house hosting option," according to Joshua Teeple, Director of Litigation Technology Services at Grobstein, Horwath & Company LLP, an Encino, California-based accounting firm.

Greater ROI

On-demand software provides a greater ROI and faster break-even than on-premise solutions. This is largely due to the reduction of capital costs and not having to allocate internal technology and staff resources. Typically the break-even point is attained in one-fourth to one-fifth of the time. The faster break-even makes it much easier to justify a project, and the lower up-front cost can reduce the number of signatures required for project approval.

Reliability and Performance

The on-demand software model has a huge impact on reliability and performance. According to Tom Pemberton, VP of Product Strategy for FileTrail, "We build a product that has to work every day, and provide benefit to the users every day."

Since clients subscribe to on-demand software on a month-to-month contract they can walk away any time they are dissatisfied. In contrast, it is almost impossible for companies to walk away from traditional software because they have paid for it up-front.

"If customers don't like your solution, they don't renew," said Pemberton. "Customer satisfaction translates directly into renewal. And, this satisfaction shows in the quotes we post on our website."

Rapid Deployment

Since on-demand software is web-based it is immediately available to anyone you allow to access it. With no software to install, deployment is as simple as providing each employee with an account and a password. In contrast, traditional on-premise software is commonly Windows-based, requiring an installation process at every desktop.

"Among our direct competitors we are the only 100% Pure Web application and thus the only one offering an on-demand option," said Mimi Phommachakr, Customer Service Manager with FileTrail. "This fact alone eliminates internal deployment costs."

Systematic Upgrades

Upgrades and patches are easily applied to on-demand software. The web technology means that the software must be updated only on the server - not at every desktop. Since the on-demand software is hosted by the provider, updating the software is the responsibility of the provider, not the client organization.

"Since we started in 2003 we have never had to worry about doing backups, upgrading software or installing software at anyone's desk," said Stephen P. Paschall, a Partner at the law firm of Lovett Bookman Harmon Marks LLP, about using the FileTrail OnDemand service.

Conclusion

As on-demand software continues to prove itself as an economical and secure alternative to traditional software licensing, dramatic

growth will continue. On-demand software continues to be used in multiple industries and in organizations of all sizes. In contrast to traditional software licensing, companies that provide on-demand business applications will see success closely tied to the value derived by clients, the usability of their applications, and the merits of their service.

Client Perspectives

"We chose the FileTrail service in 2001, because we don't like to invest in a lot of software. We have in the past and some of it either didn't work or didn't produce the benefits we expected."

Marc Merrill, Management Consultant
Glenn M. Gelman & Associates

"By choosing FileTrail's hosted solution, we felt more comfortable that we would be running the most up to date versions of FileTrail with little or no downtime, in addition to not having to expand our IT infrastructure to accommodate an in-house hosting option."

Joshua Teeple, CPA, CFE,
Director of Litigation Technology Services
Grobstein, Horwath & Company LLP

"Having FileTrail host the system on their servers was a great decision. Since we started in 2003 we have never had to worry about doing backups, upgrading software or installing software at a anyone's desk."

Stephen P. Paschall, Partner
Lovett Bookman Harmon Marks LLP

"Implementing FileTrail as a hosted service was very easy. Our system was configured with the fields we asked for, our data was loaded for us, and all we had to do was run Internet Explorer and start using it."

Lisa Altomare, Office Manager
Lovett Bookman Harmon Marks LLP

About FileTrail

FileTrail is the leading provider of Web-based records tracking and management. FileTrail provides traditional applications licensing, as well as on-demand services for clients in many industries.

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¹ *The Rise of Software-as-a-Service*, BPM Today, December 27, 2005.

² *On-Demand Software Goes Mainstream in 2006*, By John Pallato, eWeek, December 12, 2005.

³ *Software Shifts Gear*, By Dan Fost, San Francisco Chronicle, December 25, 2005.

⁴ *The Rise of Software-as-a-Service*, BPM Today, December 27, 2005