SaaS: Built to Last or Built to Lose?

Growing Opportunity for On-Premise Vendors

Oracle's sales tactics have garnered attention recently, with a series of high-profile stories alleging that the tech giant is using audits to force cloud products on customers in exchange for a break on compliance costs. The end game is that even if they don't want it, or use it, cloud adoption is reflected in Oracle's numbers.

For people who have been in this space for a while, this news is less interesting for its reminder of Oracle being Oracle (or even for its demonstration of the difficulty on-premise vendors continue to have in shifting to SaaS business models) than for this: the underlying message that Oracle customers don't want to move to Oracle's cloud-based software.

It inserts a variable into the market's love affair with SaaS that has been somewhat relegated to irrelevancy: what is the true demand for enterprise SaaS applications? And if demand isn't what it seems, what's the true profitability of SaaS vendors?

I'm not disputing that SaaS is an increasingly viable deployment option for certain scenarios. But news of SaaS's explosive growth must be viewed with a larger lens – the story that SaaS is eating the world is highly exaggerated.

Consider the incredibly formulaic but still incredibly challenging path to SaaS profitability. Just looking at Silicon Valley tech startups, this TechCrunch article points out they have a number of things that are difficult to replicate, especially if you sell enterprise software. According to the article, these include the willingness and ability to post massive, sustained losses, high-powered investors, and easy-to-explain business models.

And when enterprise buyers consider how few SaaS companies become profitable, and the risks of that company being acquired or folding, or not even being able to sustain R&D and updates, is that a risk they want to introduce into their businesses?

Add that to a growing list of things, I think, that is fighting the cloud when it comes to enterprise software – from meeting regulatory and statutory compliance, to minimizing the risk of data breaches, to integration concerns, to performance – that are all coalescing to remind CIOs why they were wary to unravel millions spent on on-premise systems to begin with.

That all combines to make it pretty attractive to gain the efficiencies and cost savings of hosting applications, or implementing hybrid deployments with PaaS (platform-as-a-service – like Amazon Web Services or Microsoft Azure – that leverages the cloud at the edges and on-premise for the core).

Within all of this lies an enormous opportunity for the on-premise software provider to drive profitability while continuing to best serve its customers.

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One of the advantages that SaaS vendors have is really robust, consumable data on exactly what's happening at the end-user level in a very efficient way. But on-premise software vendors can easily gain this advantage as well – by leveraging software usage intelligence.

With a deep understanding of your customers' needs, you can enhance the value of their software investment. For example, being able to immediately identify a roadblock that users are experiencing enables you to address it through contextually relevant in-application messaging and product updates if needed. That builds customer loyalty and long-term value.

Readers of the legendary business book by Jim Collins and Jerry I. Porras Built to Last (documenting the successful habits of visionary companies) will likely remember the concept of the "BHAG." On-premise software vendors can take much comfort in what I think is likely the Big Hairy Audacious Goal of many SaaS vendors in this new software paradigm – to actually become profitable.