



HOW HIGH THE CLOUD?

SOFTWARE-AS-A-SERVICE IS **TOUTED AS LESS EXPENSIVE**
THAN TRADITIONAL, ON-PREMISE BUSINESS SOFTWARE. BUT,
OVER THE LONG TERM, THAT MAY NOT BE THE CASE.

By Marty Weil

"Nobody cares if they've ever written a line of code," McNamara says. "It's all about where is the business going, how can they leverage IT, how can they be unique and distinguish themselves from the competition, how do they get closer to the customers, how do they manipulate all the info and data they already have and make it actionable? That's where a lot of new CIOs are spending most of their time."

So it's hardly surprising, perhaps, that a recent IBM study of 2,500 technology leaders from around the world, called "The New Voice of the CIO," revealed that today's CIOs spend more than 55% of their time on "activities that spur innovation," rather than the basic operational issues involved in running the corporate IT environment.

Kevin Jarrett, IBM report contributor at IBM Global Business Services in the United Kingdom, adds, "Running a low-cost IT shop efficiently is not a turn-on for a CEO these days. You still have to do it, and do it well, but what they are really looking for are individuals who can rise above the operational side of things and demonstrate their visionary understanding of the business. Those who can make that leap are the CIOs of the future."

McKinsey's Peters isn't sure many of them can. "There's a mismatch between what the business thinks the CIO should be and what roles a CIO can really fill," he warns.

"For example, time and again I have seen this idea that

a global ERP solution is the hammer that can drive the globalization of the business into various markets and business units by using IT to deliver common processes. But I think this is very ambitious. Trying to be a change leader is overstressing many traditional CIOs. I have not seen any of these global or international change projects succeed if they are only driven out of IT — not one," he says.

“The manufacturing sector is actually blazing the trail here, bringing together systems and processes under one role to drive down the unit cost and help drive growth.”

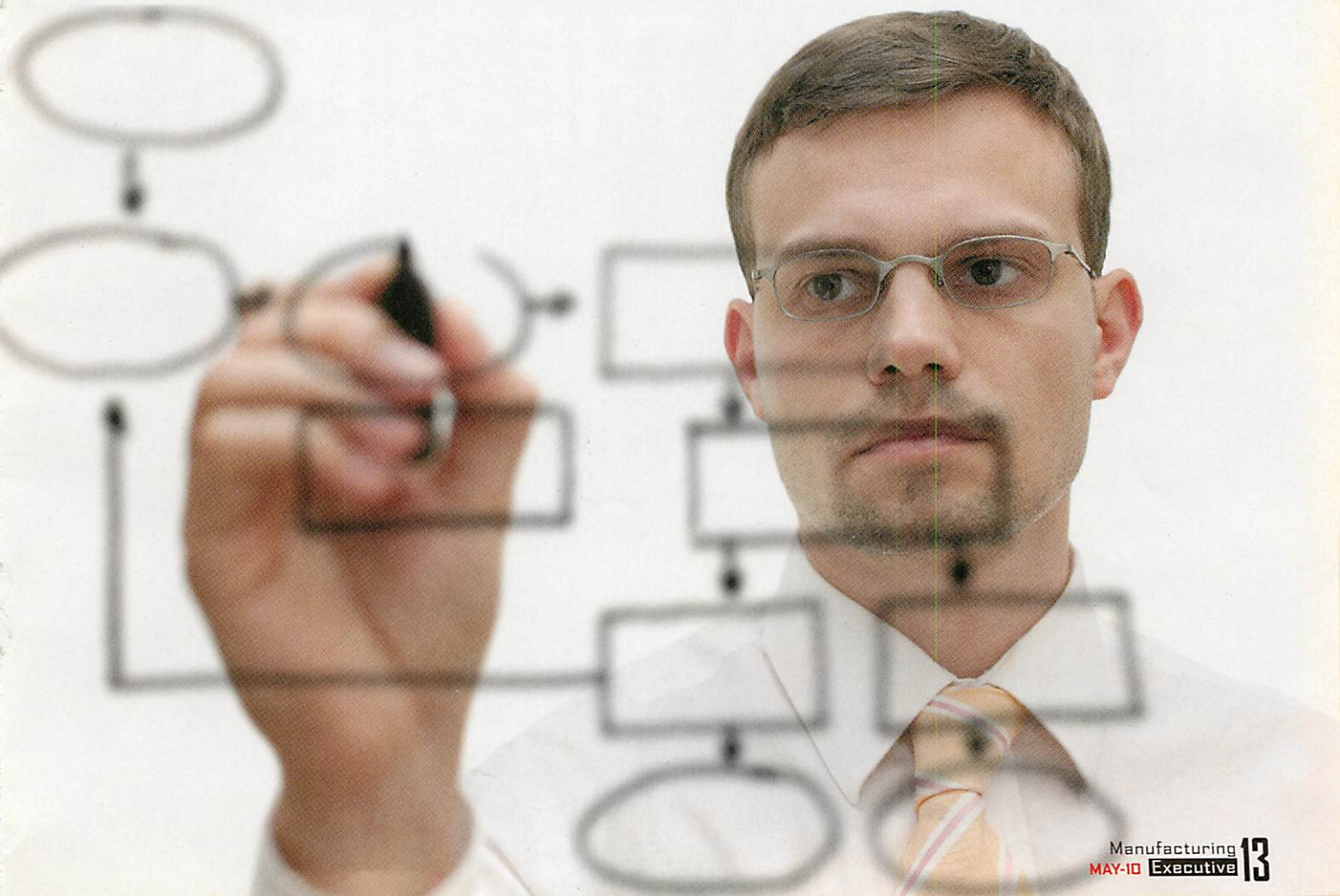
Gerard McNamara

Managing Partner, Heidrick & Struggles

That's why Peters believes there is, and needs to be, a new generation of CIOs in manufacturing whose primary focus is on the business interface, not the data center, and who can live comfortably in both the technology and business cultures. These are CIOs who can both identify and deliver on business opportunities amid rapid change, leverage technological potential to drive growth and make innovation real, and effectively hold their corner in a boardroom fight and win.

The trouble is, they're still a rare breed. Catch one if you can. **ME**

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he increasing pressure to control costs is causing many manufacturing executives to take a closer look at software-as-a-service (SaaS), the computing model that calls for users to access business applications over the Internet rather than having those applications loaded on company servers. The SaaS model's purported benefits, chief among them a lower cost of ownership when compared with on-premise software, clearly are attractive to resource-starved executives.

But are SaaS solutions really less expensive than on-premise applications?

"We have seen plenty of examples of SaaS being lower in cost over a specified period of time," says Ben Pring, vice president of research at Gartner, Inc. "But not all SaaS deployments are cheaper. If you're signing a long-term SaaS deal, there will be a point, along about year four, where the SaaS model becomes more expensive."

Most SaaS products are priced on a per-user-per-month basis. For instance, Business ByDesign, the SaaS-based ERP offering from enterprise applications market leader SAP, starts at \$149 per month for each named user.

Few SaaS vendors actually collect those fees on a monthly basis, however. Salesforce.com, the San Francisco-based vendor whose CRM solutions are among the most widely used SaaS applications, bills annually, collecting most fees in advance for its contracts. Pring says Salesforce.com also prefers to have customers sign three-year contracts, which means customers are making a fairly substantial financial commitment before they start using the system.

But SaaS vendors argue that up-front costs on their products pale in comparison with those for licensing and implementing on-premise applications. Roman Bukary, head of manufacturing industries marketing for SaaS vendor NetSuite, says subscribing to a SaaS solution is "much different than the traditional enterprise deployment where you have to allocate millions of dollars to purchase every piece of functionality you think you will ever need, plus budget even more for integration services." NetSuite customers sign up only for the applications they plan to use immediately, Bukary says. They can add applications, functionality, or users as their needs change, and adjust pricing accordingly.

"It's designed for a CFO to get a good sense of the value they're getting for their money," he says.

Mark Symonds, CEO of Plex Systems, another SaaS vendor, also says subscribing to an application doesn't require buying servers, operating systems, or the rest of the infrastructure required to support on-premise software.

However, critics of the SaaS model say that, even if its up-front costs are lower, the long-term cost of ownership often is higher because you never finish paying for the system. "The SaaS model is a bit like leasing a car rather than buying it," Gartner's Pring says. "Over the long term, leasing will be more expensive."

NetSuite's Bukary says that analogy holds up only if the software a company buys continues to meet its needs for many years. "In that completely unrealistic scenario, buying once and amortizing over the lifetime of the ownership is a wonderful approach," he says. "But the reality is that situations change; business changes." As businesses running on-premise ERP suites change, Bukary says, they invariably find themselves facing major, expensive upgrades. SaaS vendors continually feed their customers upgrades over the life of their contracts.

Few Plex Systems customers adopt its solutions purely for cost savings, Symonds says. "Maybe they are saving some cash up front," he says, "but they understand that SaaS is a whole new way of doing business. This means their software is always up to date, and they can adapt rapidly as their company changes."

Dennis Hodges, CIO of Inteva Products, a designer and

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manufacturer of automotive interior systems based in Troy, MI, says the Plex Systems package saved his company money. But he wouldn't have adopted it if it didn't also meet his functional requirements. "The company I previously worked for had a traditional, on-premise ERP system that required a dedicated IT staff, the requisite IT infrastructure, regularly occurring maintenance fees, and hardware and software upgrade costs," he says. "I knew that if I were to start over, I would opt for a SaaS ERP option, assuming it met my requirements for data security and business continuity processes."

According to Hodges, after performing extensive due diligence, Inteva chose Plex Online and deployed it to 1,200 users in 14 global locations within 12 months. "We quickly met our cost-savings goal, saved significant maintenance and resource costs, and trimmed one-third off our monthly IT budget," he reports.

Inteva has been using the Plex SaaS product for about 12 months. Only time will tell if the company continues to enjoy similar savings. **ME**

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