

*Evaluating SaaS Solutions:*  
**A Checklist for Small and Mid-sized Enterprises**

A research report  
prepared by:



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**About this Report**

This report is based on independent research developed and conducted by Saugatuck Technology Inc., which is solely responsible for the analysis, conclusions and recommendations presented in this report. The publication of this report was funded by SAP.

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*In this paper we discuss the relevant criteria for evaluation of SaaS solutions targeting small and mid-sized firms, and we raise the key questions that should be asked. It is important to ensure that the qualities of the SaaS solution will align well the business requirements and be sufficiently adaptable to meet the needs of change and growth. We also provide an evaluation template for executives to use in conducting evaluations of SaaS solutions.*

One can hardly turn a page in a business journal today without reading about the business advantages of Software as a Service, or SaaS. Right now, SaaS seems to be everywhere you look. And the reason is pretty simple. SaaS provides a more cost-effective alternative for enterprises to achieve their business objectives than traditional packaged applications. At the same time SaaS alleviates many of the responsibility of managing the hardware, software, networks, and people that are “behind the scenes” of small and mid-sized enterprise business operations.

SaaS business solutions are advantageous in many ways. They are more affordable and implemented more quickly. The modular functionality of SaaS solutions is fairly easy to extend, modify, and integrate with on-premise vendor software in the current generation of SaaS. Because SaaS subscription pricing includes all of the underlying data center infrastructure, and the upgrades and new releases, you can focus on your business with the confidence that everything is being managed for you. All you need is a browser and access to the Internet. The rest is in the cloud.

However, SaaS solutions may not be right for every smaller or mid-sized firm. You may wish to consider a traditional vendor software license if the required functionality is directly tied to the core value your business provides. Or, if you have already invested significantly in internal IT, and your internal IT is closely connected to the value you provide. Or, if regulations require the data you manage to remain behind your firewall, and the SaaS solution cannot support that.

Conversely, if your company has a limited capital budget, limited information technology support, or a distributed workforce in a sales- or service-oriented business, you probably should consider SaaS.

### **Key Questions for the SaaS Provider**

Obviously, every business' situation is different. And just as obviously, every SaaS provider approaches, delivers, prices and supports its solutions in different manners. So to begin “shopping” for SaaS, business executives and decision makers need to start by asking several important qualifying questions of prospective providers. Based on our ongoing work with both SME executives and SaaS providers, Saugatuck has netted down this list to the following questions:

- Does what seem to be improved functionality include all the things you've been getting from on-premise software?
- Is what appears to be lower cost is really lower?
- Will the SaaS solution be consistently available and provide acceptable response time?
- If a problem occurs, will the provider be responsive?



- Are the security and data privacy of the SaaS solution adequate to your needs?
- Does the SaaS provider maintain backup and recovery facilities?
- Will the SaaS solution permit customization and personalization that your business requires?
- Will you be able to integrate the SaaS solution with the other vendor software you use?
- Does the workflow match your internal business process, or can you modify and extend it so that it does?
- Will you have access to the data and suitable tools for analysis? Can you use your own tools?
- Does the SaaS provider respond well to support requests or to requests for enhancements?
- Is there an open and active community of users so that you can exchange information and share experiences?

SaaS should be approached no differently than any other important purchase—you need to be sure of what you are getting. You need to be sure you are not going to burden your IT group with more work. You need to be sure that the SaaS solution you choose will deliver all the benefits you expect.

### KEY CRITERIA FOR EVALUATION

A small or mid-sized firm considering SaaS to replace or supplement on-premise vendor software should take care to ensure that the SaaS solution under consideration is the most appropriate one. And, in order to ensure getting the same quality of solution you have come to expect from on premise software, small and mid-sized firms should evaluate SaaS solutions carefully. This section presents a series of SaaS solution and provider “checklist” issues to consider in your SaaS solution evaluation, along with guidance regarding what makes a “good” SaaS solution:

#### SaaS Solution Functionality

The convenience of having the SaaS business solution accessible “in the cloud,” by using a browser, does not eliminate, or substitute, for the need to define functional requirements in advance and compare them to the various SaaS offerings in the domain. If the SaaS solution will be a niche function, such as Travel Expense, be sure to include the functionality required by adjacent functions that may need to share the data or ensure it complies with corporate or regulatory standards. The finance department, human resources, marketing and sales departments may all have particular, related, functional requirements that should be considered.

Conversely, if the SaaS solution should be an Integrated Business Suite that serves all or many parts of the business, be sure to consider requirements from all departments that may be touched, however indirectly, by the SaaS solution. Should the best available SaaS solution lack some critical function, and no alternative presents itself, you may want to look closely at customization and enhancement capabilities (see The SaaS solution’s customization capabilities below) or consider engaging a SaaS system integrator to augment or develop the required functionality.



### √ **SaaS Solution Pricing Terms and Conditions**

Executives evaluating any SaaS solution should look beyond the typical, vendor-provided business cost and value metrics (for example, “per user, per month”). These cost and value metrics are just the tip of the SaaS and business-impact iceberg. Consider the storage charges and service and support levels that you may need to select in the context of your current and future business operations. Will your SaaS solution pricing sustain its value as you execute your plans for business growth or change? Or will moving to another pricing tier undermine the financial value of the proposed SaaS solution?

While SaaS pricing is usually far simpler than vendor software pricing, there is often a dizzying array of options and pricing tiers, sometimes with functional differences, that should be considered. Sometimes, too, multi-year commitments will be heavily discounted. Consider annual costs for the appropriate SaaS solution, and also the bundling choices, upgrade paths, and SaaS solution roadmaps. You want to make a commitment that will grow along with your business, not inhibit that growth.

### √ **The availability (uptime) maintained by the SaaS provider**

Carefully evaluate the data center competencies of SaaS solution providers, including services and platform partners. Some SaaS providers offer online access to their uptime records. An increasing number of SaaS providers are promising 99.5% availability, but some very well-known SaaS vendors don’t offer any kind of service guarantees. Ask the SaaS provider for data that demonstrates the consistency of uptime over the past several years. If there were outages, listen carefully to the explanations. You need to know what you can expect from the SaaS provider, especially if your business requires consistent availability and your customers will expect it.

### √ **The system response times maintained by the SaaS provider**

In addition to uptime, small and mid-sized enterprises considering SaaS should carefully evaluate system response time to ensure that the service levels match their needs and expectations. A system may be highly available, but not sufficiently responsive. Most SaaS solutions do provide consistent sub-second response time. You should feel free to ask the SaaS provider to demonstrate a history of consistent sub-second response time, if your business depends upon it. You are outsourcing not only the application functionality, but also a piece of your data center. You need to ensure the SaaS provider will equal or excel your own data center’s production quality.

### √ **The SaaS provider’s accountability for quality of service**

The Software and Information Industry Association (SIIA) has published recommendations on how SLAs should be crafted to unmistakably enforce quality of service. The SIIA urged that any SLA should establish base monitoring performance levels, credits for non-performance and define how, and how soon, chronic problems will be resolved. More specifically, the SIIA held that the SLA should identify what is being measured and how it is being measured, as well as the number of times an incident may occur before being considered as chronic.

Ultimately, quality of service is nothing more than the user’s experience. And



SLAs are nothing more than insurance policies. Metrics are descriptive and a way to approximate the user's experience. They are also useful for correcting problems. Is there a guaranteed service level agreement (SLA) that the SaaS provider stands behind? There may be credit policy that offers pricing relief should system performance not match its promised service levels.

The best practice for quality of service among leading SaaS providers includes website posting of live data on system performance, current information on planned maintenance activities that may impact performance, and historical data on transaction volumes and response time. When evaluating any SaaS solution, executives should carefully consider any quality-of-service guarantees proposed or issued by the relevant SaaS providers.

#### **The SaaS solution's security and privacy**

Security and privacy concerns weigh heavily on the minds of most executives of smaller and mid-sized firms when it comes to considering and implementing SaaS solutions, and in fact have prevented many smaller firms from using SaaS at all. Yet today most SaaS providers have SAS 70 Type II audit certification, ensuring that the provider has demonstrated controls are in place and acceptable adherence to those controls has been attained. Moreover, the technical safeguards of SaaS providers are state-of-the-art, and will exceed the requirements of subscribing firms, regardless of their size. Of course, anyone considering SaaS solutions must look closely at providers' security and privacy services, and ask specifically about Sarbanes-Oxley and SAS 70 Type II audit certification, which should be documented in the SLA. Firms in the healthcare industry considering a SaaS solution should also ask about HIPAA compliance in regard to the Privacy Rule.

#### **The SaaS solution's backup and recovery capability**

Backup and recovery is one capability that is essential to small and mid-sized enterprises. If it is to trust its data to a SaaS solution "in the cloud," what happens when something goes wrong? Does the SaaS provider, or its hosting partner, manage a hot backup site -- and mirror every transaction with a few seconds delay? Backup and recovery is something that doesn't matter at all until it matters entirely too much. No evaluation of a SaaS solution should be complete without a careful examination of the SaaS provider's backup and recovery capability.

#### **The SaaS solution's customization and personalization capabilities**

While the first wave of SaaS solutions lacked the capability to customize and personalize, the current generation of SaaS allows customized user interface "look and feel," additions or changes to the business logic, and custom data structures, as well. Today, even the smallest firms can ensure their SaaS solutions appear and behave appropriately. Many, but not all, of the current wave of SaaS providers also support Web 2.0- style personalization capabilities. The tools to support customization and personalization range from technical programmer tools to point-and-click tools that are easy to use. If customization or personalization will be important to your firm, be sure to determine whether a SaaS system integrator or other technical expert will be required.

#### **The SaaS solution's integration capabilities**

The key to integrating SaaS solutions with on-premise software applications is a



Web Services API. SaaS providers have for the most part developed their software in compliance with service orientation and utilizing Web Services standards. This makes integration relatively straightforward, although executives must always plan for conditions and needs specific to their firm. Ask any SaaS solution provider specifically about whether its offerings include a Web Services API to enable integration with on-premise software. The likely answer is, “Yes.” But it definitely is a question that needs to be asked.

√ **The SaaS solution’s workflow capabilities**

Workflow capabilities of SaaS providers are still evolving. Executives in smaller and mid-sized firms vendor would be well advised to ask whether workflow can be customized and how flexible it is, whether additional workflow can be integrated, and what the longer-term plans for workflow in the SaaS solution are. It is always possible to redefine a business process in terms of how the business solution supports it, but there is good reason for requiring it be able to adapt to changing business needs. Flexibility in workflow is essential to being able to redesign a business process for greater efficiency or value. As SaaS workflow capabilities continue to evolve, we expect to see far greater flexibility, customization, personalization and integration than exists today. However, it is essential to understand what the limitations and capabilities of the SaaS solution’s workflow are at present and how the SaaS provider plans it to evolve.

√ **The capability to access and analyze SaaS data for business purposes**

Any executive of any business of any size considering a SaaS solution cannot overlook the importance of *ad hoc* data analysis. SaaS solutions may be designed for limited inquiry and a few canned reports, for openness SQL-based queries or a flexible report writer, or with an open interface to permit SaaS business intelligence tools to interrogate the data. ***What matters most are the requirements of your business.*** If extensive inquiry is required and especially data “slicing-and-dicing,” then (in addition to any built-in capabilities) the more flexible and open the SaaS solution is the better. Some SaaS solutions also permit Web 2.0 mashups. The most advanced SaaS solutions encourage and support drop-in, third-party, data analysis capability enabled by a Web Services API.

√ **The SaaS provider’s responsiveness to support requests**

Because smaller firms tend to depend so greatly on IT providers, executives evaluating SaaS solutions and providers should make it an important priority to evaluate very provider’s responsiveness to support requests. Learn as much as possible about how support requests are submitted, evaluated, and acted upon, and in what time frame. Transparency in the support process is a feature to be prized. Is there a hotline, call center, or contact center with an open-for-business mentality? Or an SLA for support requests? Remember, SaaS providers need to create “stickiness” - they need to have effective means of maintaining customer relationships beyond what traditional vendors often use. Support responsiveness is an important factor in creating and maintaining their relationships with customers.

√ **The SaaS provider’s responsiveness to requested enhancements and changes**

Similarly, another major difference between SaaS and on-premise software vendors is their responsiveness to requests for functional enhancements. While an on-



premise software vendor may manage a user group that prioritizes and promotes enhancements, leading SaaS providers openly solicit suggested improvements from their customers on-line, in the SaaS solution itself via a suggestion box. These suggestions then drive the new release process. Executives evaluating solutions and providers should ask how enhancement requests are handled, from submission to making their way through the approval and implementation process. And also ask just how much influence smaller-sized firms have on the provider’s solution development and enhancement processes.

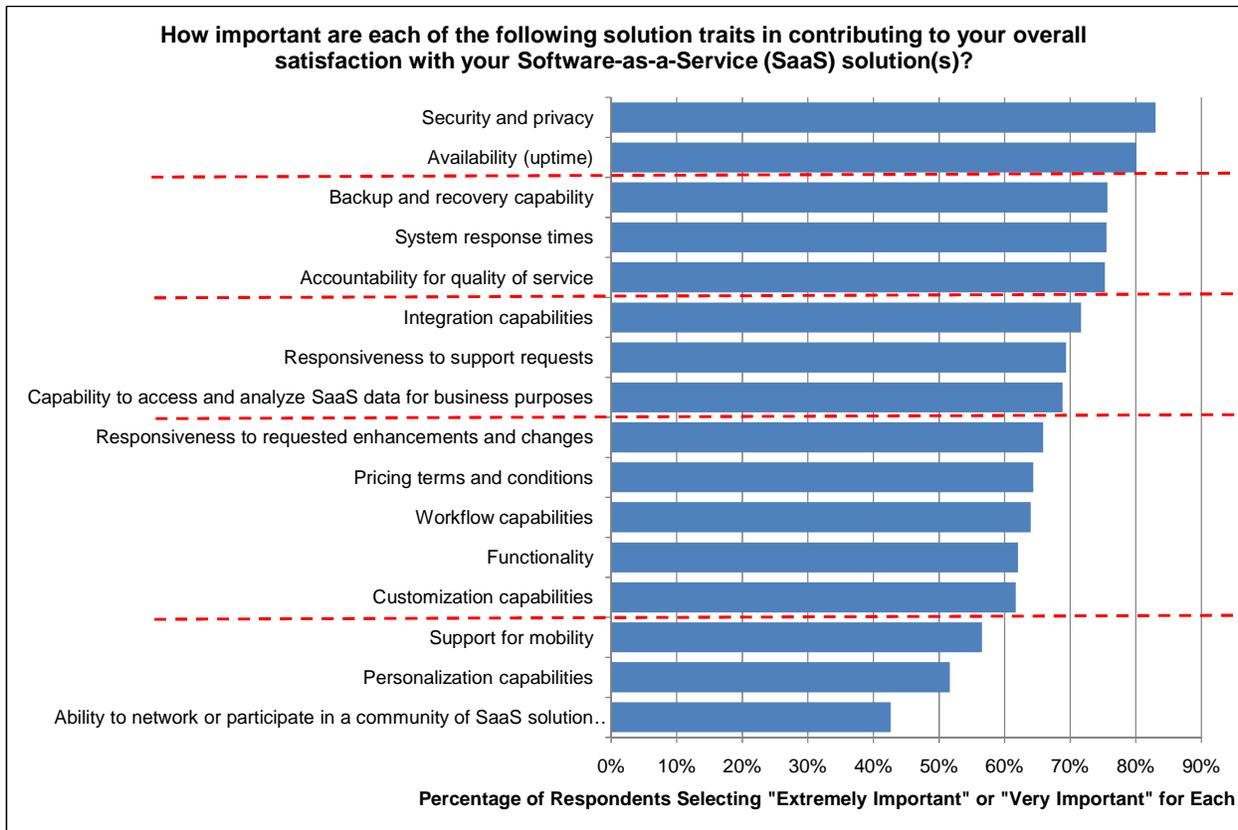
√ **The ability to network or participate in a community of SaaS solution users**

Unlike the software user group, the community of SaaS solution users meets and exchanges viewpoints and experiences in a multiple continuous threads: exchanging best practices, posting questions and receiving responses, submitting ideas that become part of the product roadmap. That is the goal, although many SaaS providers do attain it. Executives within small and mid-sized firms are advised to weigh any community requirement heavily, as it is another hallmark of the intimacy that characterizes the SaaS solution. Community voices are heard when SaaS providers value customer retention and subscription renewal.

**HOW REAL ARE THESE CRITERIA?**

Since 2003, Saugatuck has been surveying and interviewing business and IT executives regarding the most important factors in making SaaS decisions, and in working with SaaS. In 2009, we published our latest global SaaS study that includes information regarding what factors are the most important in contributing to executives’ satisfaction with SaaS. These data are presented in Figure 1.

**Figure 1: SaaS Satisfaction Criteria**



Source: Saugatuck Technology Inc.; n=1788



Two things become apparent when we analyze the data in Figure 1. First, there are “tiers” of relative importance. Clearly, several factors are much more important in executives’ satisfaction with SaaS solutions and providers. Secondly, the rankings of importance are very similar to those typically seen in traditional IT and outsourcing. This indicates that SaaS is considered as “real” IT, and should be evaluated as would any other critical software, hardware, or service.

**SAUGATUCK’S SAAS EVALUATION CHECKLIST**

It should be understood that the rankings of importance as shown in Figure 1 are an aggregate of our global survey, which includes 1,788 firms in 21 countries. We have found that the relative importance of these factors varies somewhat by size of company, by industry, and by geographic location. So while there are strong trends and similarities around the world, it’s clear that few companies are alike in what is most (or least) important to them in selecting and working with SaaS solutions and providers.

To that end, Saugatuck has developed the following tool to assist executives and decision makers in evaluating a SaaS solution, according to how well it meets their requirements and how important those requirements are, relatively. This tool has been developed and refined over the years based on real-world input from small and mid-sized firms, and is based on the “checklist” of key considerations presented earlier in this report.

**Figure 2: Saugatuck SaaS Evaluation Checklist**

<b>SAAS EVALUATION CHECKLIST</b>	<b>Importance (weight) A</b>	<b>Fit (rating) B</b>	<b>Combined Score C = A x B</b>
Solution functionality			
Pricing terms and conditions			
Availability or uptime			
System response time			
Accountability for quality of service			
Security and privacy			
Backup and recovery capability			
Customization capabilities			
Personalization capabilities			
Integration capabilities			
Workflow capabilities			
Data access and analysis capabilities			
Responsiveness to support requests			
Responsiveness to requested enhancements			
User community or network			

Source: Saugatuck Technology Inc.



Summing the combined scores of the 15 criteria yields the total number for each SaaS solution. Our clients have found this to be a very useful, and repeatable method by which to evaluate the quality of potential SaaS solutions and providers in the context of the small-to-mid-sized business in their particular region, industry and marketplace(s).

**Conclusion: SaaS Works for Firms of All Sizes**

SaaS delivers solutions for businesses of all sizes and types. The business value of SaaS varies from solution to solution, and from provider to provider. How to determine where, when, and from whom the best value can be delivered is up to the business owners and managers. The “trick” is in knowing what questions to ask—and what the answers are telling you.

A combination of objective, useful, and meaningful questions, with useful comparison criteria, make this task more straightforward, and more repeatable as your business moves forward and utilizes more SaaS in more areas of IT and operations.

Even so, no prepared checklist is a complete substitute for situational knowledge and common sense. The most useful results for your business will be in situations where you adapt the questions and checklist to your own, unique situations.

And over time, these questions and criteria, adapted to your situations, and leavened by your experience, will enable you to develop and manage an effective and repeatable SaaS management strategy and plan.



## **Sponsor Perspective: Evaluating SaaS Solutions**

Businesses like yours need initial support as you roll out the software, a commitment to a long-term vision and roadmap, and a solution that can scale up as your business grows. In turn, a strong vendor/partner will look to you for ideas to improve their products and offer a strong network of users and partners. Consider the following as you explore the best solutions and vendors for you:

### **Form an Evaluation Committee**

Enlist a cross-functional team with a holistic view of the business and its goals to help make the decision. Individuals best qualified are those with a deep understanding of process in specific functional areas, and understand the cause and effect relationship across the business. The team should agree up front on guiding principles for the selection (i.e. cut cost, increase control, enable customer self-serve, enable real-time decisions, or enable flexibility of the business, etc.). Otherwise, vendors may convince or steer the team to their specific solutions.

### **Expect the Evaluation to Take Up to 8 Weeks**

Unified business applications delivered as a service require due diligence so the full capabilities and long-term possibilities can be explored. What looks like an immediate quick fix, may lead to a dead-end. Take the time to look at your business processes end-to-end, and be particularly wary of solutions that bound the problem to solving one aspect of a process as traditionally defined by large enterprise applications.

### **Bet on a Vendor – Not just a Solution**

Look for a vendor that is willing to work with you on getting the RFP right. Just determining what you need can be a huge part of the process, and a vendor can provide a fresh look at your systems and requirements. Look for a vendor to be a strong, viable partner, committed to the long-term success of your organization.

Can the vendor deliver software, support and services, and training, either personally, or through strong partnerships with third-party integrators, trainers, etc.? Does the vendor have a solution roadmap, and a one-, five- and ten-year business plan, which it can articulate? This should encompass plans for both technology and the company. The vendor should also have an enthused, involved user community. User groups form independently. They are typically very vocal about their likes and dislikes, very willing to talk to prospective users about their experience and able to provide references; and in the best cases, very involved in the product evolution. In the case of SAP, the Americas' SAP Users' Group holds an annual conference, offers benchmarking expertise, and oversees a portal with forums and discussion boards.

### **Stability and Reputation in your Industry**

Consolidation has narrowed vendor selection considerably. Be certain your vendor has a record of success in companies of your size, in your industry. The company's Web site, sales representatives and user groups can give you that information. If you are risk-averse, pay attention to the company's market share—a longtime major player will likely be here five years from now to service your installation.

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