

To Subscribe or Not to Subscribe – Enterprise Applications Ownership Challenges and Solutions

**An Issue Paper by
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To subscribe or not to subscribe to enterprise applications – that is the question on many CIOs' minds today. Even at home, all of us face the challenge.

Should we subscribe to magazines and save up to 70% or even more from newsstand prices? What if we read less than 30% of the issues delivered home through subscription? Are we just better off buying those special or news-worthy issues for full price at the news stand, thus not only buying only what we need but also save on storage space for unread issues? Furthermore, perhaps a magazine other than what we subscribed to may carry better coverage of the worthy news event, and we may spend additional money for this resource, in addition to the subscription. Decisions – decisions -- decisions.

Challenges in Subscriptions to Hosted Enterprise Applications

Decisions on subscriptions to enterprise applications face similar if not all of the challenges of magazine subscriptions:

- Should enterprise applications be procured on a subscription basis? How many subscriptions should an enterprise purchase and for how long?
- Do the subscription services provide all of the functionalities required for automating enterprise requirements for workflow-based information processing? How can management be sure that the named subscribers utilize these subscription services effectively?
- How does management consolidate information across named subscription users? Or, does management utilize special services to produce consolidated reports for review and control purposes?
- How secure is the enterprise information, not only at the subscription service provider location, but also with respect to security of information at the individual subscription user level? (For instance, what is the guarantee that the user will not walk away with enterprise information when the user leaves the organization?)
- Do the CIO and executives have a clear understanding of what percentage of the named subscription users regularly and effectively utilize the subscribed enterprise application? Or, do most of them simply use their preferred contact management system, for example, and ignore the sales force automation tool that the enterprise subscribes to?
- What happens if the service provider goes out of business? Even if a company can get the data back, how long before business processes can be restored?

Subscription Vs. Ownership of Enterprise Applications – A Question of ROI

These and other questions point to a fundamental issue in enterprise applications software procurement: Have the CIO and CFO conducted a thorough cost-benefit and ROI (return on investment) analysis of the subscription model versus other approaches to procuring enterprise applications?

A subscription of \$4000 for 20 users per year over five years equates to an accumulated cash outflow of \$5883 at a conservative 10% internal rate of return. On the other hand, an enterprise applications appliance, complete with hardware, software, and implementation, at a one time purchase price of a similar system for 20 named users for \$20000 would not only be owned by the enterprise perpetually, but also have a residual value at the end of five years should the company change to a new system.

Furthermore with enterprise ownership, management must ensure that users *use* the enterprise application effectively. A further advantage of enterprise applications appliance ownership is that the enterprise has the liberty to develop customized applications and reports from the enterprise application system. Last, but certainly not the least, is the ability of management to fully utilize the potential of the enterprise-owned applications appliance for management and control of the results of workflow automation.

Subscription Versus Enterprise Applications Appliance Ownership – An Example from Sales Workflow Automation

Let us examine the recently burgeoning market for subscriptions to sales force automation applications hosted by ASPs (Application Service Providers). This writer's interest in this arena of enterprise automation systems stems from a recent introduction of a workflow automation applications appliance by BScaler, Milpitas, CA, called the BScaler ERM™ (Enterprise Resource Management) system, and its review in live action at a leading technology reseller by this writer.

Recognizing that sales force in any organization is unique, independent, and prefer not to be bothered with formal information systems in organizations, software developers and vendors have introduced a variety of personal information systems targeted at specific sales force functions, such as contact management and quote generation.

Taking the case for simplicity and portability further, ASPs provide these personal information systems for sales people through the concept of subscription services for sales functions. Examples of such services include Salesforce.com, Upshot, SalesNet, Net Suite and others.

While the subscription model provided a viable choice for sales force to automate unique sales-related tasks such as contacts, challenges still prevail. A representative list of challenges is as follows:

- If an organization subscribes for 100 sales personnel, how many of them will consistently use the services to maintain contacts and/or create quotes? (A recent news item indicated that a major software vendor was concerned about its acquisition of a sales force automation subscription service because of the low percentage of active

users compared to the number of subscriptions, raising concerns about possibilities of reductions in subscriptions.)

- If an organization uses sales force automation subscriptions for specific sales functions, such as contacts and quotes, separately from a single or multiple ASPs, how does management receive consolidated reports for monitoring and control of sales resources, performance, forecasts and revenue recognition, accounts receivables, and commission management?
- If an organization subscribes to sales force automation tools hosted by ASPs, how secure is the information, and perhaps even intellectual property, contained in the ASP's systems? How confident can the enterprise be in terms of high availability, disaster recovery, and business continuity guarantees provided by the ASPs?
- If an organization subscribes to sales force automation tools, and individual sales personnel have named subscriber privileges to all sales-related information (not just their own data), how can the organization be sure that the information stays proprietary and confidential, and not leave with the user when the user leaves the organization?
- What capabilities exist for the management, not only to extract and consolidate information, but also to create interfaces for passing information from hosted systems to the organization's internal systems for completion of the workflow cycle?

Based on this writer's evaluation of the BScaler ERM Appliance in action at a leading technology reseller, the BScaler appliance addresses these challenges through an ubiquitous and pervasive browser-based thin client computing (B2TC2) approach to automate *all* phases of the workflow cycle. (Refer to a separate article on "Browser Based Thin Client Computing – Toward Ubiquitous and Pervasive Enterprise Applications" by Dr. Raja K. Iyer.)

Comparing Costs of Client-Server Software, Subscription and Appliance Ownership Models

In general, three approaches to enterprise applications procurement are available today, excluding in-house development, which can be expensive, time consuming, and by definition not relevant in this issue paper on comparing subscription services to the enterprise applications appliance approach. The three approaches are:

- Client/Server Software Model, where an organization obtains software through licensing fees, customizes and implements the software on the organization's computer systems, and involves its IT personnel in maintenance of the client/server software system.
- Subscription Model, where an organization procures enterprise application through subscription to an ASP or other organizations, which host the application in its facility. There are usually costs associated with customization, implementation, and training.
- Enterprise Applications Appliance Model, where an organization obtains an application through a bundled approach, with hardware, software and licenses, customization and implementation services, and training, all for one up-front cost. The organization owns the bundle and may host it at their premises or the vendor's premises for an additional nominal annual fee. The enterprise also pays industry-standard annual maintenance fees that may include version upgrades.

Let us examine the three options for enterprise applications procurement and implementation, namely: Client/Server Software, such as Siebel; Subscription Model, such as Salesforce.com; and SaaS+ Model, such as BScaler ERM™. The table below shows the cost comparisons of the three procurement and implementation models.

Components of the Costs of Ownership	Client/Server Model: (Example: Siebel)	Subscription Model: (Example: Salesforce.com)	SaaS+ Model (Example: BScaler ERM™)
Subscription Fees	0%	68%	No subscription fee. One-time cost for hardware, software license, deployment and training. Minimal IT personnel involvement required. Annual maintenance after first year. Enterprise owns the hardware.
Software Licenses	9%	0%	
Customization & Implementation	44% (Includes Training)	32% (Includes Training)	
Hardware	26%	0%	
IT Personnel	14%	0%	
Maintenance	7%	0%	
Source: Yankee Group and Salesforce.com web site.			Source: BScaler.

As the table shows, the client/server model (such as CRM from Siebel and most ERP packages) requires significant efforts in customization and sufficiently large licensing and hardware investments, as well as IT personnel and contract maintenance costs in most instances. Subscription models (such as Salesforce.com) avoid licensing, hardware, IT personnel, and maintenance costs.

The enterprise applications appliance model (such as BScaler ERM) provides complete ownership of the hardware, with industry standard nominal annual license and maintenance fees. With the applications appliance model, enterprises own and control their investment in applications, have a residual value for their investment at all times, and even with the annual fees, can look forward to higher return on investment in enterprise applications software procurement and deployment.

CIOs have a decision to make regarding the method of procuring new and updated enterprise applications. This issue paper points out criteria for evaluating the choice between client/server software, subscription and enterprise applications appliance ownership models.

About the Author:

At the time of first writing this issue paper, Dr. Raja K. Iyer was a freelance writer, researcher and consultant. Dr. Iyer has published over 60 articles in academic and industry publications, and has a Ph.D. in Business Administration from the University of Minnesota. He has over 32 years of experience in the IT industry and has held professorial, managerial and consultative positions. Dr. Iyer currently serves as Vice President of Corporate Communications for BScaler.

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