

# SaaS Cost & Pricing for Existing Businesses

Back in the late 90s, as we were enjoying the glow of the dot.com boom, Andy Grove, CEO of Intel, predicted, “...all businesses will be internet businesses, or they won't survive.” Instead, companies *adapted* to having an internet *component* to their business.



Now, in the late 00's and heading into the '10s, Software as a Service (SaaS) has become credible, taking its rightful place as a mature business concern. Increasingly, traditional software vendors (and others) are realizing their product offerings can continue in conventional form (here's CD/DVD, you install, and maintain) *or* as a service completely delivered via the web (SaaS).

I think the path of SaaS will be parallel to what we found after Andy Grove made his original prediction for the internet. I do not feel, 'all software companies will be SaaS companies, or they won't survive.' Instead, many will develop a SaaS *component* of their business.

Business Process Outsource (BPO) providers are 'non-software' example. Consider a company that outsources it's Accounts Payable function to a BPO. The BPO provider will go ahead and print and mail checks, invoices, and other documentation as usual. In the past, digital copies of all the documents printed might be burned to

a CD (either as TIFF or PDF) and returned to the customer for their records.

Now, consider the option SaaS offers that BPO. Instead of burning the content to DVD, likely never seeing light of day again, why not host it on a server and provide a web interface for the documents? All of a sudden, you now have created a new service (SaaS) enabling help desk look-up services via a browser. Or, your customers can log in to verify that, Yes, a check has already been mailed out, and, there's an image of the check for them to look at.

Yes, this is just a simple example of what SaaS/BPO providers are already doing. My focus is more for those considering adding a new or additional SaaS service to their existing business.

Depending on what your SaaS service may be, determining costs and, by extension, pricing can be a challenge.

While this is an issue of past experience, today's post was triggered today after reading Andy Mulholland's ***CTO Blog***. Capgemini recently conducted a survey of CIOs and how they view the role of IT in their company:

Three common profiles of the CIOs surveyed:

Technology Utility (24%)

- IT is managed as a pure utility

Service Centre (39%)

- IT assets are packaged to provide specific services

## Business Technology (37%)

- IT is a key asset in the leadership of the business

In every company today, there is an IT layer required simply to keep the business in operation. This layer can consist of your PCs, servers, network, telecom, ERP systems, software, and so on. There are various ways of doing the accounting, charging-backs to different business units, and the like. In the end, the expense almost invariably boils down to being overhead absorbed by the organization.

The challenge with in introducing a new SaaS offering, is that there is an 'aspect' of IT involved.

The parent organization may view the SaaS offering as a loss-leader, a give-away, or simply as a component of a more strategic offering. Think: tire iron and your car. All this is quite simple if your SaaS offering is simply a fully burdened expense that never shows up on a customer invoice.

However, if your offering is a direct-to-customer offering, you need to have a very clear understanding of where the line in the sand is drawn, between your share of corporate's shared IT resources, and your own.

For instance, more servers, more staff with laptops, development software, and so on. Many of these expenses can be directly attributed, and costed to, the specific business unit.

At the same time, your SaaS offering almost certainly will need to make use of *shared* corporate resources, like firewalls, network security staff attention, telecom/bandwidth, and storage space.

So, how do you price your offering? How do you determine your true costs?

Identifying the true cost of operation for your SaaS offering may be a major challenge, pragmatically and politically. The direct costs of your staff and their dedicated equipment is straight-forward. However determining shared costs may not be easily done.

One very real cause is how the accounting in an organization is done...accounting systems simply may not be able to give you the level of granularity required. A second cause, also very real, is politics. Other managers may be unwilling to share their cost models with you. You may also simply find that senior management has arbitrarily dictated business unit charge-backs.

However you do it, understanding true cost of your business is critical. To do so you need a complete understanding of *all* the functional (cost) components of your business along with practical arguments justifying how shared IT costs should be accounted for. In doing so, you will need to shape your justifications so they take into account how your senior-most IT managers (i.e. CFO and CIO) view IT. Does SaaS = IT = SaaS, or no?

(photo credit: **Donald Cook**)