

SaaS for Association CFOs

An accounting and finance perspective

Software as a Service (SaaS) is one of the fastest-growing segments of the Information Technology industry. An attractive alternative to traditional licensed software, SaaS enables organizations to focus on their attention on business objectives, rather than on software installation and maintenance. This white paper explores the reasons for SaaS' popularity with accounting and finance teams.

Software as a Service (SaaS), also called on-demand, subscription or hosted software, is redefining the way businesses buy and use software.

The concept is simple: rather than buying software and incurring ongoing costs to install, support, and maintain it, a business signs up to use the application, paying a subscription fee for its use. The software vendor hosts the application, providing shared access to it via the internet.

Just as easily as users check email online, businesses can access CRM software or manage payroll over the web. No longer concerned with software installation and IT management, associations are free to focus on using the software to achieve their business objectives.

As hosts, software vendors also promise to provide subscribers a range of IT services. A typical service level agreement will cover application availability, performance metrics, and data security, and will include support for common maintenance activities such as backups and software upgrades.

The following sections provide seven compelling reasons why SaaS is a financially-attractive option for associations.

"The Yankee Group forecasts that 50% of software purchased by small to midsize companies in 2008 will be delivered as an on-demand service and this market will reach \$10 billion annually."

Lower IT costs

Hardware and infrastructure costs, software maintenance contract costs, technical support costs, and IT staff required to install, configure, and maintain traditional software must be accounted for in an association's annual IT budget.

With SaaS, these IT costs are effectively traded for a much lower monthly subscription fee, thus enabling an association to operate with minimal IT budget and staff.

Lower Total Cost of Ownership (TCO)

Traditional software requires significant ongoing investment to install software upgrades and patches, operate and maintain.

While subscribers to SaaS technically do not own the software outright, ongoing operational costs are still necessary to maintain it.

The SaaS vendor absorbs these costs as part of the hosting agreement. Subscribers pay for operational costs through their monthly subscription fees.

Economies of scale are realized because the operational costs are effectively shared across the entire subscriber base.

From the association's perspective, TCO can be dramatically less with SaaS. For example, companies that subscribe to a CRM service have reported up to 30% TCO savings when using SaaS.

Cash flow benefits

SaaS software is more budget-friendly for associations than traditional software. Software that is installed in-house requires a large up-front investment, which includes not just the software expense, but often new hardware and upgrades to infrastructure and supporting software. SaaS eliminates those setup costs.

With SaaS software, the software, hardware and infrastructure costs are combined and expensed each month. Traditional software requires setting up a large asset and dealing with depreciation, which can wreak havoc with an association's annual budget.

Predictable expenses, accurate budgets

SaaS subscribers pay a monthly or annual subscription fee for online access to a software application.

A flexible pricing model with on-going monthly fee-for-service makes it easier for associations to predict costs and plan their budgets.

Plus, since SaaS subscriptions are generally based on usage, associations are assured that they are paying only for what's been used.

Cost containment

Ongoing costs associated with traditional software can dramatically increase when better-performing hardware and additional licenses are necessary to support an increased load brought on by a growing association.

SaaS applications are designed for scalability, with the hosted environment able to withstand heavy loads.

A growing association that uses SaaS can easily add more users, and may even be entitled to steeper discounts reserved for higher-usage subscribers.

Reduced financial risk

Associations take on significant financial risk when selecting traditional software for purchase. If the software fails to meet the business needs of the association, it may become shelfware, leaving the association with no return on its investment.

Financial risk is reduced with SaaS because subscribers can stop the service at the end of the contract term. Some SaaS vendors even allow early cancellation with little or no penalty if the software doesn't work out, further reducing the association's risk.

A hosted environment breeds a better product

"SaaS cost savings for SMEs range between five and fifty-five percent in comparison to software brought under traditional licensing model." - Study Springboard Research

In the SaaS model, software and systems maintenance costs are owned by the software vendor. The hosted environment allows the vendor to standardize on a single hardware platform, which results in simplified upgrades, speedier problem resolution, and accelerated time-to-market for new features.

Overall, SaaS software tends to be more reliable, and the software and services of higher quality. The net result is a better end-user experience for association staff and members.

Strategic advantages of SaaS over traditional perpetual licensing

- More predictable IT expense
- Low initial cash outlay
- Eliminate hidden costs
- Drive faster implementation and ROI
- Superior economic model

Bottom Line

The SaaS movement is in full throttle, fueled by customers who prefer to focus their attention on business issues; not on IT. Association CFOs have discovered they can lower financial risks, achieve costs savings, and create more predictable budgets — all while providing staff and members access to a high quality product with superior service and support.