Champions of Software as a Service

How SaaS is fueling powerful competitive advantage

IBM Center for Applied Insights

Reducing costs is still a primary reason companies turn to **Software as a Service**. But those at the front of the pack, like cloud leaders in general, are discovering how SaaS can help them achieve a much broader and more strategic goal – unlocking **competitive advantage**.

The use of Software as a Service (SaaS) has skyrocketed over the last few years and shows no signs of slowing down. The worldwide market is expected to grow from US$18.2 billion in 2012 to US$45.6 billion in 2017.[3]

What's driving that demand? Among the over 800 companies we surveyed, reducing the total cost of ownership (TCO) of their applications was the top reason given for adopting SaaS. Forty-one percent actually reached that goal to a high degree. Unexpectedly though, a greater number – 47 percent – are using SaaS to attain a broad range of powerful benefits that combine to deliver something even more significant: competitive advantage.

Although that may seem surprising, it's remarkably consistent with prior research conducted by IBM that examined pacesetting organizations reporting competitive advantage gained through cloud computing – infrastructure-, platform- or software-as-a-service. Consistent with their competitive claims, these leading organizations were outperforming peers and achieving better business outcomes from their cloud initiatives.

More recently, when we looked specifically at organizations deploying SaaS, a similar finding emerged. Leading companies are leveraging SaaS in powerful and even transformative ways. These leaders start by taking a decidedly different approach to planning and implementing their initiatives.
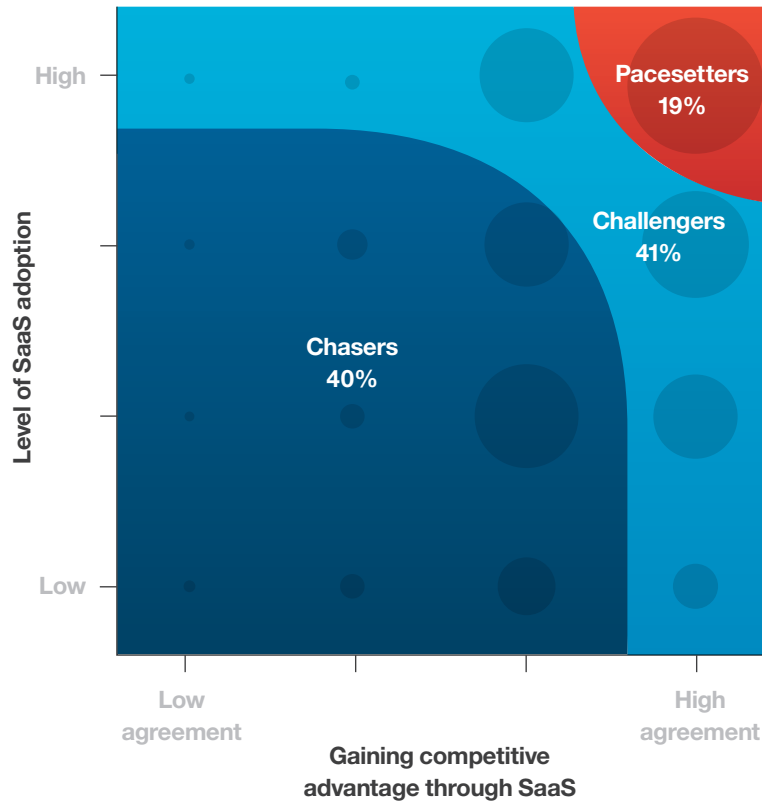
About the study

In late 2013, the IBM Center for Applied Insights published a global study of how organizations use cloud computing to accelerate competitive differentiation.[1] As a follow-on to that research, we've now taken a deeper dive into SaaS. We conducted a new global study of 879 decision makers, this time in companies that have adopted SaaS. Twelve percent of respondents are C-level line-of-business executives, and 10 percent are C-level IT executives. The remainder is comprised of Vice Presidents, directors and managers – split roughly evenly between business and IT functions. Twenty percent work in enterprises with 10,000 or more employees, while 40 percent are in companies with fewer than 2,500 employees.[2]

Profiling SaaS adopters*

Level of SaaS adoption

High

Pacesetters
19%

Challengers
41%

Chasers
40%

Low

Low
agreement

High
agreement

**Gaining competitive
advantage through SaaS**

*Placement on the vertical axis is based on the number of application areas the enterprise deploys as SaaS. On the horizontal axis placement reflects the degree of agreement with a statement about achieving competitive advantage with SaaS. The size of the shaded bubbles represents the relative number of enterprises that fall at a particular deployment/competitive advantage intersection.

The making of SaaS leaders

To learn more about how SaaS is helping companies gain competitive advantage as opposed to simply reducing costs, we segmented survey respondents into three groups:

- **Pacesetters**, who have the highest level of SaaS adoption and are gaining competitive advantage through their broad efforts
- **Challengers**, who have adopted SaaS more narrowly but are gaining competitive advantage through the SaaS deployments they do have
- **Chasers**, who have been slower to adopt SaaS and gain competitive advantage through its use

One striking difference between Pacesetters and those lagging behind is what leads them to turn to SaaS in the first place. Chasers and Challengers are primarily motivated by reducing TCO, with boosting application agility next. Pacesetters, however, are mainly driven by the desire to use SaaS to improve collaboration – both across the organization and throughout the ecosystem – as well as the customer experience.

The success of Pacesetters suggests that taking a more outward-focused, customer-centric approach helps put organizations on the path to competitive advantage. An equally distinctive approach to strategy and implementation can help take them to that destination.
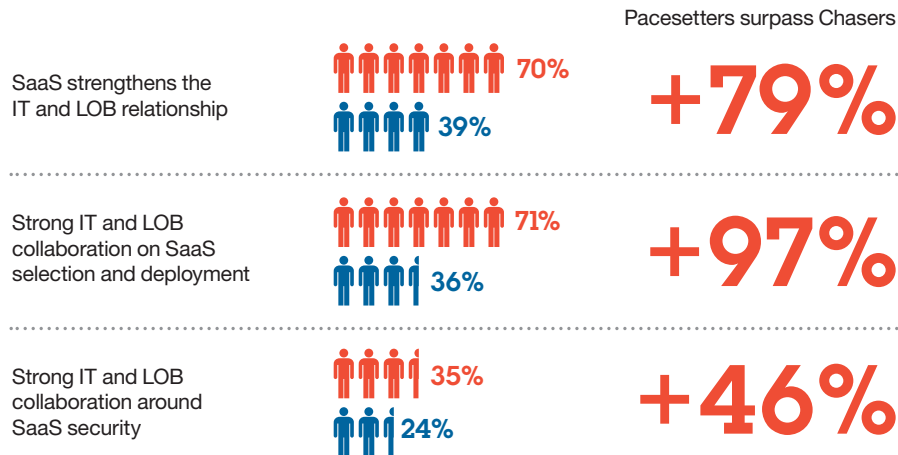
Strategizing and functioning as a team

A popular belief is that SaaS – with its ease of purchase and deployment – requires little involvement from IT organizations. But that's not the case for Pacesetters, who attest to strong collaboration between line of business (LOB) and IT on matters ranging from directing to securing SaaS solutions. For example, LOB and IT strongly collaborate on SaaS selection and deployment in 71 percent of Pacesetter organizations, while only 36 percent of Chasers benefit from those combined perspectives.

And this is for a technology that is sometimes viewed as driving a wedge between IT and LOB. Pacesetters see it differently. Seventy percent find that SaaS is strengthening the IT and LOB relationship, compared to only 39 percent of Chaser organizations enjoying that benefit. Over 65 percent of Pacesetters actually describe the IT and LOB relationship as a strategic partnership, versus less than a third of Chasers holding that belief.
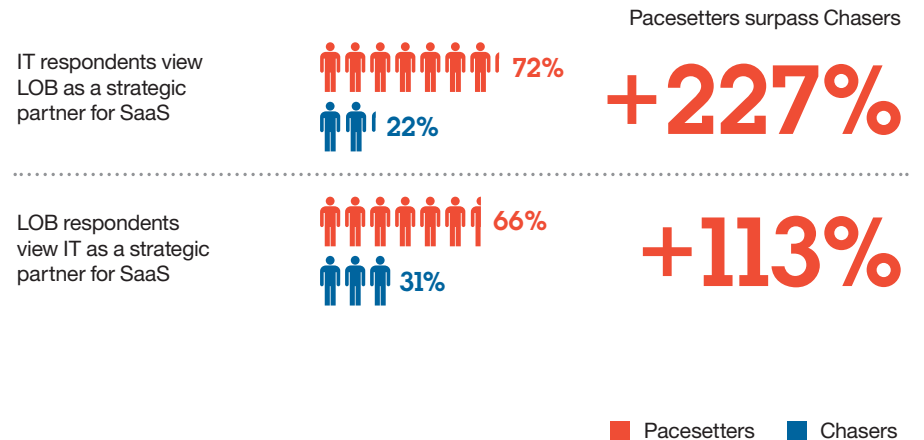
Beyond fostering collaboration and closer internal relationships, Pacesetters are far more likely than Chasers and Challengers to view SaaS from a more strategic standpoint rather than merely as a tactical tool for standalone solutions. Compared to Chasers, more than twice as many Pacesetters have a cohesive, *enterprise-wide* SaaS strategy (71 percent versus 31 percent), and are four times more likely to position SaaS as an integral part of their enterprise cloud strategy.

So how exactly do Pacesetters benefit from these contrasts? What do they gain from this outward-looking perspective, inclusive and collaborative project teams, and emphasis on strategy over tactics? The answer: a lot.
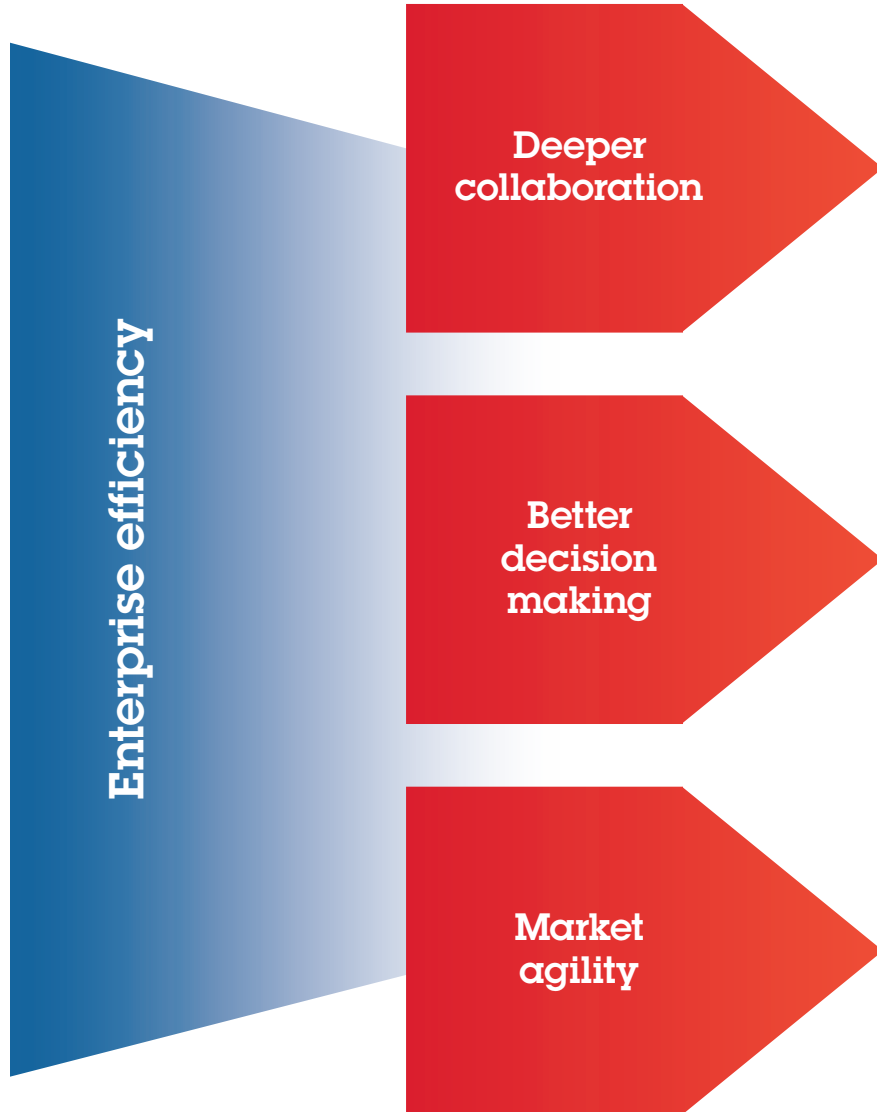
The power of collaboration

		Pacesetters surpass Chasers
SaaS strengthens the IT and LOB relationship	70% / 39%	**+79%**
Strong IT and LOB collaboration on SaaS selection and deployment	71% / 36%	**+97%**
Strong IT and LOB collaboration around SaaS security	35% / 24%	**+46%**

Fostering strategic partnerships

		Pacesetters surpass Chasers
IT respondents view LOB as a strategic partner for SaaS	72% / 22%	**+227%**
LOB respondents view IT as a strategic partner for SaaS	66% / 31%	**+113%**

■ Pacesetters   ■ Chasers

Gaining competitive advantage

Streamlining approach   Taking the lead

Enterprise efficiency

Deeper collaboration

Better decision making

Market agility

## Enterprise efficiency: Streamlining their approach

Across the board, Pacesetters excel in achieving outcomes through SaaS – often starting with improving efficiency.

Sixty-six percent find that SaaS improves application agility, making it easier to quickly, easily and flexibly deploy and implement solutions. Three-quarters of Pacesetters have significantly improved self-service capabilities through their SaaS deployments, while Chasers underperform here as well, with just 26 percent realizing this outcome. More broadly, 70 percent are optimizing business processes and workflows with SaaS, versus just 31 percent of Chasers.*

All told, Pacesetters are achieving impressive benefits in enterprise efficiency through SaaS. However, they're also discovering how SaaS can help them unlock competitive advantage – most notably through increased internal and external collaboration, faster and better decision making, and greater market agility.

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61 percent of Pacesetters say that SaaS has increased both internal and external collaboration.

20%
reduction in
implementation time
for many projects
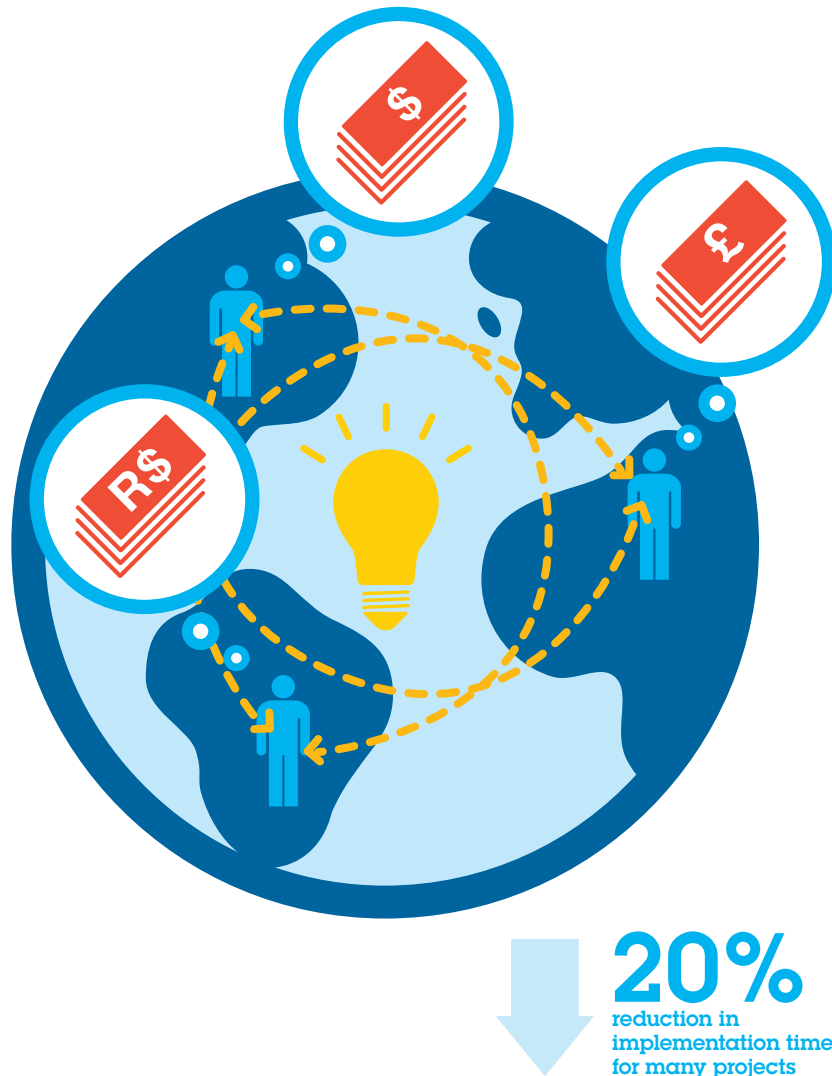
Deeper collaboration: Working together to work smarter

Given the strong IT and LOB partnerships found among Pacesetters, it's not surprising that they're highly enthusiastic about using SaaS to drive broader collaboration across their organizations and throughout their ecosystems. Sixty-one percent of Pacesetters say that SaaS increases both internal and external collaboration, versus 34 percent of Chasers. Seventy-one percent of Pacesetters credit SaaS for improving business relationships, compared to only 28 percent of Chasers.*

Interestingly, Pacesetters put social tools at the top of their most-favored SaaS applications. In sharp contrast, Chasers relegate them to the #12 spot. It's a key way that Pacesetters are enabling individuals and teams alike to quickly tap the right talent for a given need, no matter where in the business ecosystem it's located. By doing so, SaaS helps to open companies up to new perspectives, fresh approaches and faster results.

Closer communications, swifter projects

SafeGuard World International is a leading provider of global managed payroll and global employment outsourcing. To support rapid growth, it needed scalable processes, as well as teams empowered to work effectively during implementation and new client on-boarding. The company found the answer in a SaaS-based collaboration and social project management solution.

Knowledge sharing and collaboration functionality now enables employees and executives alike to access project status in real time. The solution also provides visibility and increases conversation, while reducing the number of unnecessary meetings – creating a more streamlined and proactive culture. As a result, SafeGuard was able to overcome communication challenges and decrease time to revenue through a 20 percent reduction in implementation time for many projects.[4]

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72 percent of Pacesetters use SaaS to leverage analytics and gain insights from large masses of data.

2.4%
increase in
comparable
store sales
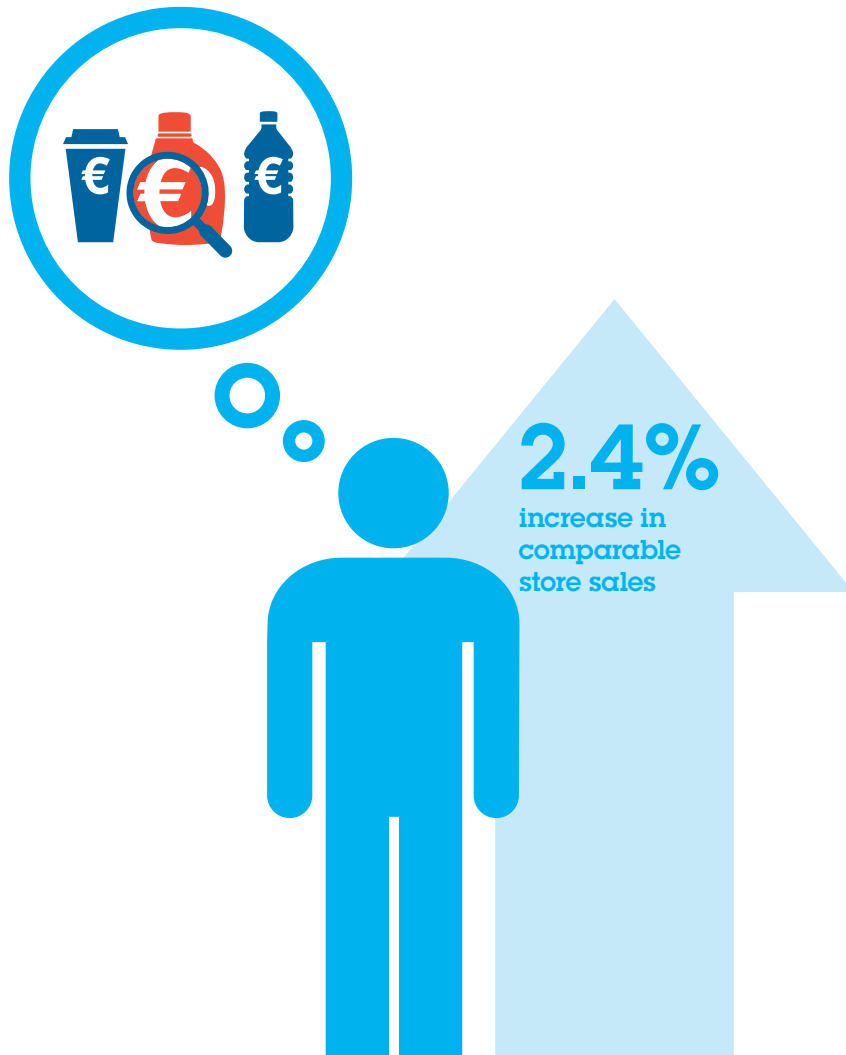
Better decision making: Using big data to make big moves

There is little doubt that hidden in the mountains of data being produced today are key insights ready to give companies critical advantages over their competitors. Pacesetters avidly employ SaaS to find and act on those insights.

In fact, almost three quarters of the Pacesetters use SaaS to leverage analytics and gain insights from large masses of data, while barely a third of Chasers take advantage of those capabilities. That same proportion of Pacesetters improves decision making with SaaS – compared to just 28 percent of Chasers.*

By generating new insights from big data, Pacesetters are able to make faster, more accurate decisions, and ultimately achieve competitive advantage.

The right prices, in the right stores

PAC2000A, an Italian retail giant with 2011 sales topping 2.2 billion Euros, had been using a homegrown application and "gut feel" to manage shelf prices across more than 1,000 member stores. Their pricing application wasn't able to incorporate consumer demand into its pricing equations, whether on a national or local scale. With the implementation of a SaaS-based price optimization solution, PAC2000A gained sophisticated analytical capabilities on fine-grained cost and competitive data. This led to more category-centric, localized pricing decisions, more accurate forecasts, and a 2.4 percent increase in comparable store sales.[5]

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68 percent of Pacesetters use SaaS to improve the customer experience.

10% increase in flight bookings
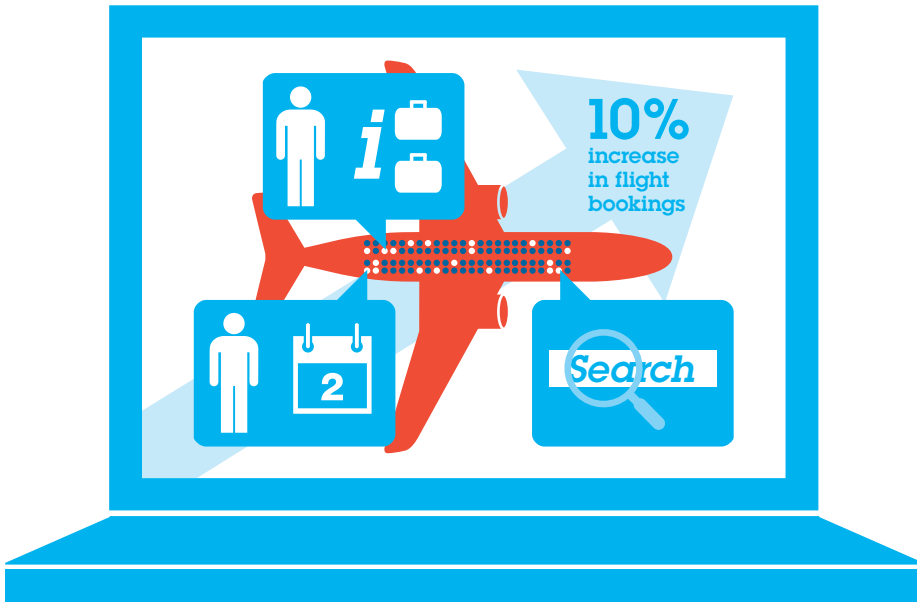
Market agility: Moving at the speed of change

We've noted that, compared to other companies, Pacesetters adopt SaaS out of decidedly more outward-looking and customer-centric motivations. So, it's not surprising that we see many more of them achieving overarching, market-oriented outcomes with SaaS.

For example, 66 percent of Pacesetters are increasing innovation through SaaS, enabling them to bring new or improved products to market. Moreover, 71 percent are employing SaaS to shorten their time to market. Ultimately, 68 percent use it to improve the customer experience. Meanwhile, Chasers are largely standing by the wayside, with less than a third achieving strong gains on each point.

Clearly, SaaS can transform the way companies go to market. In fact, 71 percent of Pacesetters go so far as to say that SaaS changed their organization's business model, compared to just 30 percent of Chasers. By every measure, SaaS is enabling its top practitioners to respond more effectively to fast-breaking challenges and opportunities and, in the process, find whole new routes to market success.*

Web innovation takes flight

As with many airlines, Virgin Atlantic found tough market economics and aggressive competition standing in the way of business growth. Looking across the enterprise for new sources of strategic advantage, the company used SaaS analytics to map how different types of customers navigated its website to make travel decisions. The process revealed opportunities not only to improve the customer experience, but also to generate new revenue. As the airline introduced new features to the site, the solution tracked customer responses and enabled further refinements. For example, simply by changing the size of its home page search panel, the airline increased flight bookings by 10 percent. And with new insights into click-through rates, Virgin Atlantic was able to sell higher priced seats and grow the value of the average booking by seven percent.[6]

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Driving your own competitive advantage through SaaS

As demonstrated by the Pacesetters, SaaS can provide your entire enterprise a wide range of powerful benefits. It can reduce costs, yes. More than that, though, it can engender rich and far-reaching collaborations, clear the way to better decision making, and make you more customer-focused and agile in the marketplace.

That's not to say that your route to the winner's circle won't take some planning and preparation. You can start by asking yourself the right questions.

Set ambitious objectives
Consider the full range of benefits that SaaS could help you attain.

How could broader, smoother and more frequent collaboration inside and outside your organization improve results?

Which teams could do a better job by leveraging big data to inform decision making?

Which business processes could be better optimized?

Where can you speed application deployment and implementation?

Take a more strategic approach
Position your SaaS solutions within an enterprise-wide cloud strategy.

What elements would round out your current SaaS strategy?

Are you exerting just the right amount of control over SaaS deployment?

How could you better integrate SaaS strategy into a broader cloud strategy?

What changes are needed to keep your governance structures current?

Broaden your collaborative base
Multiply your chances of success by encouraging close IT and LOB collaboration.

Are you leveraging the best minds of IT and LOB for SaaS selection and investment decisions?

Where else could IT and LOB gain from each other's perspectives and resources? SaaS deployment? Security?

How can SaaS help you tap valuable expertise beyond your organization?

About the authors

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About the IBM Center for Applied Insights

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Reference

SaaS and competitive advantage
(% achieving through SaaS)

		Chasers	Challengers	Pacesetters	% Pacesetters surpass Chasers
Enterprise efficiency	Increased self-service capability for applications	26%	36%	74%	+185%
	Optimized business processes and workflows	31%	41%	70%	+126%
	Improved application agility (flexibly deploy and implement solutions)	28%	41%	66%	+136%
Deeper collaboration	Increased collaboration across organization and ecosystem	34%	37%	61%	+79%
	Improved core business relationships	28%	44%	71%	+154%
Better decision making	Leveraged analytics across organization to turn big data into insights	34%	50%	72%	+112%
	Achieved better decision making	28%	41%	72%	+157%
Market agility	Increased innovation	29%	40%	66%	+128%
	Reduced time to market	30%	42%	71%	+137%
	Improved customer experience	30%	47%	68%	+127%
	Changed organization's business model	30%	44%	71%	+137%

Notes and references

[1] *Under cloud cover: How leaders are accelerating competitive differentiation.* IBM Corporation. October, 2013. http://www.ibm.com/ibmcai/globalcloudstudy.

[2] The growth markets studied include Brazil, China, India and South Africa. Mature market countries studied include the United Kingdom and the United States. To smooth possible geographic distortions, responses were weighted based on IBM assessment of each country's total IT spend.

[3] *Gartner Forecast: Public Cloud Services, Worldwide 2011-2017.* Ed Anderson, Lai-ling Lam, Yanna Dharmasthira et al. 4Q13 Update. December 26, 2013.

[4] Foster, Cynthia. Interview. May 6, 2013.

[5] "PAC 2000A Group: Price optimization leads to better financial control, improved company performance." IBM Corporation. Accessed December, 2012. http://www-01.ibm.com/common/ssi/cgi-bin/ssialias?infotype=PM&subtype=AB&htmlfid=ZZC03206USEN.

[6] "Virgin Atlantic increases online booking values by seven percent." IBM Corporation. Accessed December, 2012. http://www-01.ibm.com/software/success/cssdb.nsf/CS/STRD-95ZLQ6.