

I D C V E N D O R S P O T L I G H T

Bridging the Software Value Gap: Software on Demand for Employee Life-Cycle Management

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IDC Opinion

IDC believes that the software industry must adopt a new frame of reference for value creation—that of the customer experience. This means that software providers need to focus on ensuring that customers have positive experiences with their software, and that they are successful with their use of the product over time. IDC believes that applications delivered on demand can help customers achieve these positive experiences:

- Software on Demand (SoD) providers must continuously demonstrate the value of their software-based offerings, as well as service capabilities, in order to maintain customer satisfaction, loyalty, and recurring revenue.
- SoD providers typically update their software several times per year. This means that customer feedback can be incorporated rapidly to satisfy customers' business needs.
- SoD adoption will continue to increase as the benefits of the delivery model become more accepted, leveraged, and understood by the vendor, customer, and financial communities.

Executive Summary

This IDC Vendor Spotlight, sponsored by Workstream, Inc., describes the current state of Software as a Service (SaaS) and includes a five-year spending forecast on back-office applications for SaaS, and presents primary research data and IDC analysis to support the software-on-demand trend and growth predictions.

Definitions

IDC's formal taxonomy definition for SoD is as follows:

Software on Demand (SoD)

SoD is characterized by the software, implementation, and integration as well as customer support, services, and processes that are built specifically for one-to-many Internet delivery. Customers primarily share the same infrastructure and may embrace a Web services strategy. The following are the defining characteristics of SoD:

- **Software.** Software is built specifically for network delivery and is not deployed in-house. Some software on demand providers offer an offline module to complement their core online solution.

- Pricing. Software license and hosting revenue is combined into one annuity stream whereby the software license and hosting fees cannot be differentiated.
- Flexibility. There is little to no customization of the application aside from limited configuration that is allowed by the application provider.

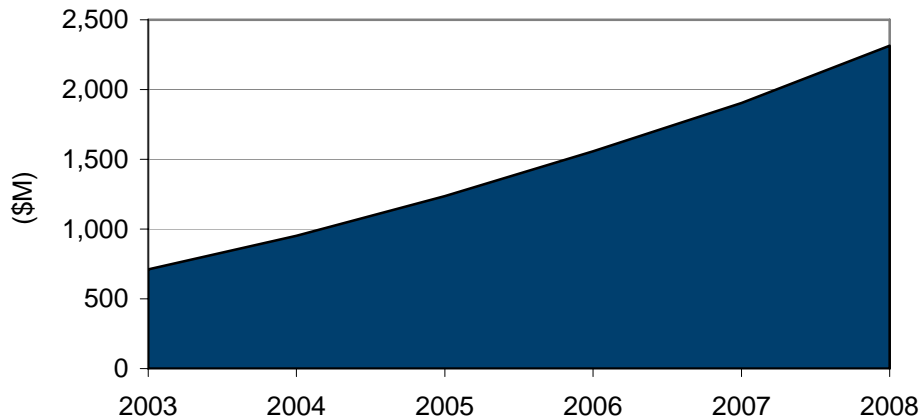
Situation Overview

The increasing availability of SaaS offerings has helped to fuel spending growth. IDC reports that total worldwide spending on SaaS will reach \$9.1 billion by 2008 which is comprised of hosted application management (hosted AM) and SoD spending.

For back-office applications, which includes human resources and workforce management application software, IDC forecasts worldwide spending on SaaS delivery to reach \$1.2 billion in 2005, an increase of 30% over 2004 projections. Furthermore, IDC predicts that worldwide spending on back-office applications SaaS will reach \$2.3 billion by 2008, with a compound annual growth rate (CAGR) of 27% (see Figure 1).

Figure 1

Worldwide Back-Office Applications Software as a Service (SaaS) Spending 2003-2008



Source: IDC, 2005

Note: Software as a Service (SaaS) is comprised of Hosted Application Management (Hosted AM) and Software on Demand (SoD)

The benefits of SoD and reasons why customers adopt on-demand applications have been widely discussed. These reasons include, but are not limited to, the following:

- Rapid implementation time
- Decreased application downtime
- Predictable monthly costs
- Increased focus on strategic initiatives by IT staff
- Implementation, maintenance, and performance risks transfer to the SaaS provider
- Cost savings

IDC also believes that increased adoption of on-demand applications will occur as word of mouth drives companies to consider alternatives to traditional offerings, companies become more comfortable with the on demand model, and more SoD alternatives become available that meet the needs of midmarket companies.

Increased understanding of the benefits of SoD, including how to use the solutions to drive competitive advantage, will also be a key driver. At the same time, functionality is important. If the solution does not address the customer's business needs, the benefits of on demand applications in terms of cost, risk, and reduced complexity are far outweighed by its inability to address the needs of the customer.

Software on Demand Human Resource and Workforce Management Applications

A recent IDC survey uncovered the adoption characteristics, purchase intentions, and operational requirements for software on demand applications. Table 1 indicates the percentage of current adopters that purchase SoD human resource and workforce management applications.

Table 1

Software on Demand (SoD) Adoption by Application Type

Q. Please select the category or categories that best describe the type of software as a service that your company purchases

| | All SaaS Respondents |
|----------------------|----------------------|
| Human resources | 30.4% |
| Workforce management | 15.6% |
| Unweighted Count | 135 |

Note: Data are NOT weighted. Multiple dichotomous table: responses reflect percent of respondents selecting each option. Totals do NOT add to 100%. Table Source: Software as a Service, IT QuickLook, IDC, May, 2004

The results of this survey map closely to trends that IDC has observed in other surveys. Human resources and workforce management applications represent a predominant category of on-demand adoption, given their contextual nature as well as the fact that many of the first on-demand applications available were in this category.

Software on Demand Adoption Trigger Events

In the same aforementioned survey, IDC sought to uncover the events that would prompt a SoD purchase. In Table 2, it's clear that a drive to reduce IT costs and the need for a major enterprise software upgrade are key events that would trigger a high percentage of respondents to acquire on demand software applications. This is consistent with earlier IDC studies that show customers want to reduce or optimize resources dedicated to contextual activities, like human resources, so that they can focus on their core business.

Specifically, customers want to reduce costs associated with the ongoing management of their software. Recent IDC studies have shown that the cost of managing software can far exceed the purchase cost. In one survey, 45% of the total respondents had indicated that the cost of managing their software in-house was at least two times the software cost and 27% indicated the cost was four times or more (see Table 3).

Merger and acquisition activity is also a strong driver for adopting on-demand applications in the human resources and workforce management arena. This not too surprising considering the potential workforce issues that these events can cause, as well as the challenges of consolidating human resource systems.

Table 2

Software on Demand (SoD) Adoption Triggers

Q. Which of the following events prompted you to consider software as a service or may prompt you to consider software as a service?

| | All Respondents | HR & Workforce Mgmt |
|---|-----------------|---------------------|
| A drive to reduce IT costs | 44.8% | 58.3% |
| The need for a major software upgrade | 36.9% | 41.7% |
| A merger or acquisition | 9.9% | 18.8% |
| A request by your senior management or your board | 17.2% | 18.8% |
| Enforcement of regulatory compliance | 16.3% | 18.8% |
| A failed in-house implementation | 16.6% | 12.5% |
| Advice from your peers | 10.2% | 6.3% |
| Not sure | 15.9% | 18.8% |
| Other | 10.8% | 8.3% |
| Unweighted Count | 453 | 48 |

Note: Data are NOT weighted. Multiple dichotomous table: responses reflect percent of respondents selecting each option. Totals do NOT add to 100%. Table Source: IT QuickLook, IDC, May, 2004

Table 3

Cost of Managing Software In-House

Q. Considering the enterprise software that your company manages in-house please complete the following statement. 'Over the life of the software the cost of managing the software is...'

| | All Respondents | HR & Workforce Mgmt |
|---|-----------------|---------------------|
| Less than the purchase price of the license | 16.8% | 16.7% |

| | | |
|--|--------|--------|
| Equal to the purchase price of the license | 9.9% | 10.4% |
| 2x the cost of the software | 12.4% | 12.5% |
| 3x the cost of the software | 13.9% | 10.4% |
| 4x the cost of the software | 6.8% | 8.3% |
| 5x the cost of the software | 4.0% | 12.5% |
| More than 5x the cost of the software | 7.9% | 6.3% |
| Not sure | 28.3% | 22.9% |
| Total | 100.0% | 100.0% |

Note: Data are NOT weighted. Use caution when interpreting results for sample sizes less than 100.
Table Source: IT QuickLook, IDC, May, 2004

Workstream, Inc.

Founded in 1996, Workstream, Inc. provides On-Demand Enterprise Workforce Management solutions delivered as a service with the aim of helping customers create and sustain a more productive workforce through management of the employee life-cycle from hire to retire.

Workstream's Enterprise Workforce Management suite features six modules that are accessed via the company's Web-based portal, the Workstream TalentCenter:

- Workstream Planning and Analytics
- Workstream Recruiting
- Workstream Benefits
- Workstream Performance
- Workstream Compensation
- Workstream Rewards
- Workstream Transition

Workstream also offers a variety of services to customers in areas such as product training, deployment, and support. Workstream's deployment services are designed to provide a personalized installation that integrates with customers' existing systems. Product support is available via email, Web, and phone to ensure customer issues are quickly resolved. In addition, training is available in-person or over the Web and presented by a Workstream resource. The company also has a "train the trainer" program to provide customers with in-house Workstream product knowledge.

Challenges and Considerations

IDC believes that on demand providers such as Workstream have been visionaries in recognizing their symbiotic relationship with customers. However, on-demand delivery models are still relatively

new to the software industry and although awareness is beginning to heighten, apprehension regarding data security and integration remain key customer concerns.

Mastering on-demand software delivery will be challenging for some new and crossover vendors, as it requires a mindset and business model different from what the software industry is traditionally accustomed to. Software providers not only have to demonstrate the ongoing value of their software-based offering, but also of their customer support and services portfolios.

Conclusion

IDC believes the software industry has reached a critical intersection between customer expectations and vendor offerings. Through on-demand application delivery, the value and experience gap has the potential to close due to increased communication, trust, and innovation on behalf of both vendors and customers.

Software on demand (SoD) applications can provide customers with benefits such as cost savings, the ability to focus on core business competencies, increased employee productivity, and streamlined business processes. In addition, Workstream's on-demand offering is designed to allow managers to manage their teams, employees to manage themselves, and human resource professionals to manage the entire workforce, thus helping to improve overall organizational efficiency throughout the employee life-cycle.

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