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Ardent Opinion

Time to Rent

With the business world on tenterhooks, awaiting the potential impact of the global credit crisis, there is a very real risk that companies will postpone essential IT upgrades and investments to avoid large capital investment. Many smaller companies are also delaying the employment of IT Managers, preferring instead to struggle on with expensive external support services.

But this attitude is simply not sustainable. Organisations need to be fitter, leaner and even more effective in an economic downturn. No business can succeed when enduring the systemic downtime and inefficiency associated with aged technology and poor IT skills.

If capital investment is not an option, organisations should now consider the rental model offered by Software as a Service. SaaS not only delivers leading edge technology at a fixed monthly cost, but it also solves key problems such as disaster recovery provision, robust back up and excellent technical support, insists Andrew Watkinson, Managing Director, Ardent Solutions.

Economic Concern

The media continues to whip up fear and confusion about the potential impact on the UK economy of the emerging credit crisis. But what is the reality for the UK's SMBs? Whilst some markets such as catering and discount retail are reporting a marked downturn, other industries have yet to any tangible affect on sales. Indeed, for those organisations involved in export, the booming markets in Asia, the Far East and Middle East, are providing massive expansion opportunities.

However fear of what may be in store is making businesses uneasy. Is now really the time to invest in an upgrade of the ERP software, especially when that upgrade will probably also demand new server technology? Yet the system is beginning to creak a little, downtime is increasing to a couple of hours every week and IT call out support costs are starting to creep up - especially for those many small organisations without in-house IT Managers.

Furthermore, to be competitive the business is under pressure to achieve the additional efficiency improvements, cost savings and better decision making that a new software solution can deliver.

So just how can the UK's SMBs attain the efficiency and productivity required to compete in a challenging economic climate without suffering the risk associated with large capital expenditure?

New Model

By considering a hosted solution and opting for a software as a service (SaaS) delivery model organisations can fundamentally change the IT cost structure. Whilst not necessarily cheaper over a three year period, SaaS is far more convenient and delivers quantifiable benefits in improved quality and reliability of IT services.

Critically, the service is fixed cost, ensuring the business can accurately pinpoint the IT overhead every month - a revelation for most Finance Directors.

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The hosting company automatically adopts the most up to date software products, providing immediate access to leading edge technology without any of the traditional overheads associated with product upgrades. Indeed, by opting for SaaS an organisation will never be faced with an emergency investment in new hardware following catastrophic failure: IT contingency funds are simply no longer required.

Furthermore, the fixed per user cost model enables organisations to scale up and down in line with the competitive climate. This overcomes the need for additional system purchases to support seasonal business uplift and allows businesses to embrace new business ventures without requiring a massive up front investment.

The model is particularly appealing for those organisations that are either struggling to deliver a robust technology infrastructure without an IT Manager or those that have, grudgingly, appointed someone to that role. By adopting SaaS, the organisation outsources all responsibility for IT infrastructure delivery whilst attaining guaranteed high availability based on a service level agreement (SLA).

Furthermore, whilst an IT Manager has to be a jack of all trades, the SaaS supplier can provide access to highly skilled experts, ensuring the resulting solution is far more effectively managed and supported than any in house infrastructure.

Fringe Benefits

The SaaS model also offers a number of additional benefits by default, including a fully blown disaster recovery solution and robust, tested backup processes. Insurance companies are increasingly making disaster

recovery a pressing issue for many businesses. Yet at a typical cost of £70,000 for a standard disaster recovery solution, few organisations are able to make the investment despite the implications for insurance premiums.

SaaS solutions are co-located to ensure high availability and continuity of service. At a typical £25,000 annual cost for a hosted ERP system, SaaS is obviously an appealing solution to the disaster recovery quandary. Furthermore, the solution also includes robust, tested backup processes that enable organisations to remove the cost and resources associated with handling backups internally.

The other appeal for the Finance Director is that, unlike capital expenditure or leasing, organisations can offset 100 percent of SaaS costs against tax, because this is rental service.

Industry Challenge

However, whilst SaaS makes perfect sense for UK businesses, to date the IT industry is struggling to make the transition to this new model. Just how will resellers fund the move from large capital payments to incremental monthly revenue? Once the SaaS customer base is established, the business model is robust. However, funding the transition will be near impossible for all but the largest businesses that can afford to invest in the data and co-location centres required to deliver robust SaaS solutions.

It is therefore essential that organisations truly understand the nature of the SaaS deal on offer: to fund the transition some resellers are offering customers a lease back contract rather than true rental.

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This will not only affect the potential tax benefits but will also constrain an organisation's ability to scale up and down to support business change.

A SaaS deal on this basis will tie in an organisation for three years. Yes, the cost will be fixed, but the benefits of scalability and flexibility will be lost. For SaaS to deliver maximum benefits to the organisation it must be based on a true rental agreement.

Business Focus

The transition may be tough for the IT community but, without doubt, SaaS is the only model that truly makes sense for business in the long term. Most organisations have no desire to run IT operations; it is simply a distraction from the core business. Opting for SaaS overcomes this problem: the company has access to the most up to date software with high levels of system availability guaranteed by an SLA at a fixed monthly cost.

However the economy develops over the next few months, organisations cannot afford to put critical IT developments on hold - it will jeopardise competitiveness. SaaS provides a low risk, fixed cost route to leading edge technology without the IT management headache. Isn't it time to consider the rental option?