



Pervasive Performance Group

Taking Performance Management Enterprise-wide & Enterprise-deep

SaaS BI: It's Here To Stay

A White Paper From:

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11/1/2009

Several months ago SaaS BI vendor LucidEra went 'belly-up'. Most industry pundits dismissed this as a hiccup related to the economy rather than a measure of the viability of the SaaS BI market. But since then we have seen the demise of another SaaS BI vendor, Blink Logic. Do two victims make a trend? Are there more shoes about to drop? This paper examines the viability of the SaaS BI market now and into the future. The research for this paper uncovered some expected, and some surprising, findings that you should know as you decide if SaaS BI has a place in your BI strategy.

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Introduction

Business Intelligence (BI) has been around since the early '90s and few people doubt the value that BI can deliver or the viability of the Business Intelligence market. The investment of many billions of dollars in this market by industry titans like IBM, Oracle, SAP, Microsoft and others is evidence of the lofty expectations for growth in the BI market in the coming years.

It is not only the software vendors who see the importance of BI, analyst research and business opinion also supports it. Gartner reports that BI continues to be the top priority for CIOs, "For the fourth year in a row, BI applications have been ranked the top technology priority in the 2009 Gartner Executive Programs survey of more than 1,500 chief information officers (CIOs) around the world."¹

While the viability of BI is virtually indisputable, the validating research has mostly been limited to on-premise BI. The delivery of BI via a SaaS (software as a service) model has not had the same level of adoption or validating research. However, that is changing as is evidenced at the recent Gartner Symposium/IT Expo where **Gartner unveiled that cloud computing tops its list of technology priorities for 2010²**. Cloud computing jumped to the top from 3rd in 2009 and with advanced analytics coming in #2 on the priority list, expect that SaaS BI will get a lot of attention in the coming year.

So why all the attention? This paper compiles the facts and opinions that validate the stance that SaaS BI is here now, is here to stay, and has a place in almost any BI strategy.

Approaching the tipping point

While BI usage and research has been mostly focused on on-premise BI, recent research suggests that the perception of SaaS BI is changing. Part of this is that SaaS has become prevalent, accepted, and successful in other markets such as CRM, HR, ERP and others. This acceptance of the SaaS model in other markets has helped open the minds of many to the potential of SaaS as a BI deployment option.

The willingness to consider SaaS as a BI deployment has grown significantly over the last several years. AMR Research conducts an annual BI and Performance

73% of businesses are now considering SaaS for deployment of BI or performance management.

Management (BI/PM) spending survey that provides interesting insight into the spending patterns and preferences in the BI/PM market. In a recent presentation on the BI market, John Hagerty of AMR Research reported that 73% of their survey respondents are considering SaaS for BI and performance management deployment³.

Market maturity

The SaaS BI market is relatively immature when compared to the on-premise BI market. As is the case with most immature markets, SaaS BI has a plethora of small vendors with no clear market leader. This is a concern to some considering a SaaS BI deployment but the reality is that this is a normal evolution and similar to the progression that CRM, ERP, on-premise BI and other software markets have gone

through as they mature. The upside is the abundance of smaller, nimble, and hungry vendors that will drive intense competition and rapid innovation both of which benefit the users of SaaS BI solutions.

Market consolidation

As the market matures look for the number of vendors to shrink through merger, acquisition and attrition. Just as was the case for on-premise BI, a few vendors will rise from the masses to gain market leadership. These vendors will themselves become targets for acquisition by the likes of Oracle, SAP, IBM or other mega-vendors or by established SaaS vendors looking to expand into BI. Regardless of which direction this goes it will take several years to shake out.

Buyer due diligence

The key for SaaS BI purchasers right now is proper due diligence. With many vendors to evaluate, and most of them privately held, proper due diligence is the name of the game. Any vendor selection process should include checking the vendor's cash position, cash burn rate, management team, investors, partnerships, target market, client list, and references.

In a market with this many players it is probable that there will be more "shake-out" but there are also several vendors with strong backing, solid business plans, and growing client lists. The nice thing about a SaaS deployment is that if your vendor does shake-out and you have to "rip and replace", it should be less costly and time consuming than replacing an on-premise solution.

Addressing market concerns

Some perceive SaaS BI as the "bargain-basement" of BI, for those who can't afford the real thing. They perceive it as much less expensive, but also much less functional, than the alternative. There are certainly valid concerns out there, but SaaS BI vendors have done a lot to address them.

Table 1 – Commonly raised concerns about SaaS BI

Concern	Description	SaaS Vendor Resolutions
Security	Data residing outside the firewall is more vulnerable.	SAS 70 Type II compliance. Escrow agreements.
Scalability	Data volumes exceed capabilities of a SaaS solution.	Amazon E2C or other Web Services providers.
Flexibility	Can't be easily configured. Need to use "canned" reports that don't change.	Widgets or other reporting objects to allow end-user self-service.
Performance	Query and information delivery will be slow.	Columnar data stores, 64 bit, multi-tenant, on-the-fly aggregation.
Service Levels	Down-time will be greater, queries will be slower.	SLAs for data availability, data recovery, system availability, and performance.
Integration	Integrating data from multiple sources will be difficult.	XML/Web Services APIs. Partnerships with Integration-as-a-Service vendors.
Adoption	It will become "shelf-ware" in the cloud.	Flash-based visualization, self-service, business user focus, low cost per user.

These challenges are real and are top-of-mind for SaaS BI vendors as they continue to compete with on-premise solutions. There will continue to be advances in these areas but vendor's strategies on addressing these concerns will differ. Businesses should ask their prospective SaaS BI vendor how they are addressing, or plan to address, these challenges.

Gains in credibility

While on-premise BI is mature and established market, SaaS BI to date has not had the same level of perceived viability. The viability concern has been exacerbated by the recent closing of LucidEra and Blink Logic. However, the reality is that SaaS BI has been steadily gaining ground in deployments, mind-share, and projected market share. This will continue in the coming years.

Partnerships with established SaaS vendors

SaaS BI vendors have established partnerships with vendors in established SaaS markets such as HR, CRM, and ERP. Look for these partnerships to increase and for SaaS BI vendors to move away from "putting all their eggs in one basket" such as Salesforce or NetSuite by extending their partnerships to include more SaaS vendors as well as service providers.

Analysts project continued growth

The forecast for growth in SaaS BI in the research community is compelling and consistent. While analysts may differ on how quickly it will happen and to what extent, almost all agree that SaaS BI will experience significant growth in the coming years. According to Gartner, "by 2010, 20 per cent of organizations will have an industry-specific analytic application delivered via software as a service (SaaS) as a standard component of their BI portfolio".⁴

By 2010, 20% of organizations will have an industry-specific analytic application delivered via SaaS.

Interestingly, research shows that this growth is not limited to small and medium-sized business (SMB). A survey by Aberdeen research conducted in 2007 found that "13% of large organizations surveyed are planning to start on-demand business intelligence (BI) projects in the next 12 months. This was at a higher rate than mid-tier (8%) or small (11%) companies surveyed in the study."⁵ Their more recent research, *The ERP/BI Connection: Adding Value through Actionable Intelligence*, published in July shows a continued acceptance of SaaS BI. Another study by BeyeResearch found that "SaaS has gained a significant foothold in Fortune 1000 and Global 2000 enterprises finding that more than 50% of respondents were adopting SaaS BI based on low cost approach; faster development time; business vs. technology focus; ease of maintenance; or a lack of IT budget/resources."⁶

The fact that so many different and diverse BI market "experts" predict the continued growth of SaaS BI says a lot about the probability that it will actually come to fruition.

Growing reference base

In an immature market references can be a “catch-22”. Vendors in immature markets have fewer customers and fewer references. But because the vendors are not house-hold names, prospects want to talk to more references. Hence, the catch-22. SaaS BI reference clients have been overused but as client bases continue to grow, references are becoming more prevalent and diverse. As this happens it will continually become easier to produce a reference from a prospect’s home region or industry and references will become less of a bottleneck for SaaS BI vendors.

Appealing to the business user

The buying model for BI is migrating from an IT purchase to a line of business purchase. According to Gartner, “By 2012, business units will control at least 40 per cent of the total budget for BI”⁷. The line of business (LOB) is not interested in spending money on infrastructure and IT support, they want quick time to value, less overhead, ease of use, and independence from IT. The trend towards LOB purchases from their own operating budgets, to meet their own specific needs rather than from the capital budgets of IT favors a SaaS delivery model for BI.

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Gaining in viability

The viability of SaaS BI as a market and of specific vendors in that market has been an area of concern for businesses considering a SaaS deployment option as well as fodder for on-premise BI vendors. However, as SaaS BI matures it is becoming easier to dispel the viability issue.

Venture capital investment continues

Under recent economic conditions venture capital funding has become scarce. Lack of additional funding was cited by many as the major reason for the demise of SaaS BI vendor LucidEra. While stories of companies like LucidEra get a lot of attention, other SaaS BI companies have been able to garner significant amounts of funding during the current economic recession. According the *National Bureau of Economic Research* the current recession began in December 2007. Since that time there has been continued flow of venture capital in SaaS BI market.

“I continue to consider the near- and long-term prospects of SaaS BI solutions to be extremely bright.”
- Evangelos Simoudis, Managing Director Trident Capital⁸

Table 2 – Venture Capital investment during the recession

Date	Company	Funding
3/08	Kapow	\$11.6M, Series C
7/08	Boomi	\$4M, Initial round
7/08	GoodData	\$2M, Initial round
9/08	Right90	\$10M, Series C
11/08	Birst	\$10M, Series B
2/09	PivotLink	\$10M, Series C
6/09	Cloud9	Undisclosed, Series B
10/09	GoodData	\$2.5M, 2nd round
11/09	Indicee	\$6M, Series A

Venture capital is certainly constrained in this economy and it has impacted the ability of some SaaS BI companies to obtain funding. But Table 2 shows that many vendors in this market have been successful in obtaining funding even in the face of a major recession. Expect that additional money will continue to be available to those vendors in this market who have a compelling value proposition and savvy management teams.

The Big on-premise BI Vendors are investing...and watching

The major players in on-premise BI have all made investments in on-demand BI offerings. SAP BusinessObjects (BusinessObjects On-demand), IBM Cognos (Cognos Now!), and Oracle (Oracle BI On Demand) all have hosted options for their BI products. SAS Institute is investing \$70M to build a cloud computing facility. Much of the investment by these vendors is in hosting their on-premise versions rather than developing SaaS BI offerings.

The big on-premise BI vendors are like big oil companies. They will continue to milk their cash cows for as long as possible.

I liken the big on-premise BI vendors to the big oil companies. They want the market to continue to buy their core high margin products but are investing enough in the alternatives to be ready to accelerate when the big shift in the market occurs. In the meantime they will continue to milk their cash cows for as long as possible by providing a hosted option. Hosting allows them to continue to drive revenue from existing products while reducing their cost to support a complex BI environment. According SAS' founder Dr. Jim Goodnight, "Right now, it takes us longer to test software than it does to write it. It's gotten to be a huge bottleneck."⁹

The question is will they be able to keep up with the innovation of the smaller more nimble players in this space. Bruce Richardson the Chief Research Officer at AMR summed this up nicely in a recent blog entry about cloud computing on his *The Future of Enterprise Software* blog. He said “We’re on the edge of another critical technology transition. Oracle needs to step up and take a leadership position before new companies do what he [Larry Ellison] did to Cullinet and McCormack & Dodge.”¹⁰

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– Bruce Richardson, Chief Research Officer, AMR Research

Oracle, SAP, IBM and Microsoft will be big players in the SaaS BI market, the question remains whether though innovation or acquisition.

Large Enterprises are buying

SaaS BI is not just for the mid-market. Most vendors have several marquee names on their client lists that have deployed to hundreds or thousands of users. This trend towards larger companies adopting SaaS BI is borne out by the Aberdeen and BeyerResearch studies referenced earlier in this paper that highlight the growing propensity of large enterprises to purchase SaaS BI. The acceptance of SaaS BI in the large enterprise market sends a strong message about viability of the SaaS BI.

13% of large organizations plan to start on-demand BI projects in the next 12 months.

Gaining in Deployability

IT is coming around

The economic downturn has focused many on the total cost of ownership (TCO) of BI and on ways to reduce that TCO. This has certainly helped the SaaS deployment option get attention and a second look that it might not have had in better times. The other effect the economy has had is that IT is more strapped for resources than ever and working within very constrained budgets. Tight resources, tight budgets, and increased demand from the business have made IT look for ways to do more with less and SaaS BI is one of those ways.

A Hybrid environment becomes accepted

As IT struggles with “keeping the lights on” activities the backlog of requests from the business continues to grow. Out of necessity IT organizations are seeking out ways to make their business users more self sufficient quickly. While they may still push back on SaaS BI as an enterprise standard, more IT organizations are open to SaaS BI coexisting with on-premise BI. SaaS BI is being brought in as a supplement to existing on-premise BI and to free up

More IT organizations are open to SaaS BI coexisting with on-premise BI.

more IT resources to work on complex IT initiatives like integrating an acquisition or a major ERP consolidation or upgrade.

Conclusion

SaaS BI is growing in market share, viability, and acceptance. This will continue as technology improves, products mature, and vendors grow. There will be some shake-up as this market matures. There will probably be another failure or two (so do your due diligence) and inevitably there will be acquisitions. But many of the vendors in this market today will prosper and the big on-premise vendors will increase their investment as the SaaS BI market matures. SaaS BI will continue to be a viable option for small and medium-sized businesses as many of these businesses have not invested in BI in the past due to cost and time to value.

Demand for SaaS BI is not limited to the mid-market. Larger businesses looking to supplement their existing on-premise BI solutions are also adopting SaaS BI. Don't expect SaaS BI to displace existing on-premise BI in large organizations any time soon, instead expect more coexistence and inclusion of SaaS BI as an effective supplement to an existing BI strategy. As SaaS BI "lands and expands" businesses will find additional use cases for SaaS BI. There is plenty of room in this market for both on-premise and SaaS BI and both will continue to be viable options into the foreseeable future.

About Pervasive Performance Group

Pervasive Performance Group is a provider of advisory services on performance management and business intelligence. Our focus is helping businesses expand performance management from finance or IT-centric initiatives to an enterprise-wide and enterprise-deep approach that increases the return on their BI and PM investments.

Pervasive Performance Group provides advice, insight, and direction that help businesses recognize and break down the barriers that inhibit wider deployment and limit return on technology investments. Our services help companies progress to a performance-driven culture that empowers IT to expand the reach and impact of technology. We do this by helping companies recognize the tangible and intangible value of expanding performance management from isolated initiatives and departmental fiefdoms to a collaborative performance culture.

Footnotes

¹Gartner Identifies the Top 10 Strategic Technologies for 2010, Gartner press release, October 10, 2009

² Business Intelligence Ranked Top Technology Priority by CIOs for Fourth Year in a Row, Gartner press release, February 18, 2009

³AMR Research Outlook: The New BI Landscape, December 19, 2008

^{4,7} Gartner Reveals Five Business Intelligence Predictions for 2009 and Beyond, Gartner Press Release, January 15, 2009.

⁵ Aberdeen Group In the “Blink” of an Eye: On-demand BI Begins to Target Established Deployments, January 2008

⁶ Pay as You Go: Software as a Service Business Intelligence and Data Management, Colin White and Claudia Imhoff, BeyeNETWORK, May 20, 2009

⁸ Q&A: Venture Capital Investor Sees Solid Future for Cloud BI, DW, Linda Briggs, Enterprise Systems Journal, September 23, 2009

⁹ SAS on SaaS: This makes sense...for the vendor, Tom Steinert-Threlkeld , ZDnet March 23, 2009

¹⁰ Salesforce.com and Oracle: A Tale of Two Worlds, Bruce Richardson, AMR Research The Future of Enterprise Software, October 14, 2009.