Calculating Your Rent Option

By Lauren Gibbons Paul

Software-as-a-service contracts may lift some of your IT burden—once you figure out how to evaluate and manage them.

Your next big software project is on the horizon, and your business managers are leaning heavily toward renting, rather than owning, the application. As an IT manager, you may be tempted to relax. After all, renting the software as a service from a third party means one less application for IT to babysit, right?

Wrong.

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Part of the attraction to software as a service (SaaS) is that it lightens the load on a midsize company's often overstretched IT department and it can save an organization a lot of money on IT support and maintenance. However, do not hand off the application to a vendor without first doing your due diligence on the service and terms, as well as coming up with a plan to manage the relationship long term. This might even require reorganizing your IT department or training your people for different skill sets around vendor and contract management. Having a well-defined SaaS management plan will also help if you decide to bring the application in-house later.

As a partner with the business, IT can provide helpful counsel on SaaS decisions. In some cases, the best strategy is a phased approach. "The right long-term strategy might be to have an on-premise solution, but for rapid deployment reasons [a company] might decide to go with an on-demand solution in the near term," says Kevin Faulkner, product marketing manager for Microsoft Dynamics™ CRM in Redmond, Washington. "Microsoft® offers the best of both approaches [with its Microsoft CRM product]: Rent with the option to buy. That combination is pretty attractive to midsize businesspeople."

Once the business managers decide to go ahead with SaaS, be sure to protect yourself—and your organization—by focusing on these often overlooked details of the SaaS arrangement before signing any contracts.

Clarify End Goals

SaaS has such powerful allure that some midsize business executives strike deals on their own, without involving IT. "They make the decision to do this and pay for it out of their budget—without waiting," says Robert Bois, research director at AMR Research Inc., in Boston. Sometimes that can have disastrous consequences: If the executives did not choose the hosting provider and application wisely, migration will be difficult. To mitigate that possibility, IT should be involved in the decision process from the beginning, to identify and understand the business side's needs and goals. Evaluate each prospective vendor against those metrics. If a department head still wants to make a decision without IT, share some best practices for selecting and managing service providers.

For starters, you will need to take a close look at the SaaS provider's processes and provisions, including service-level agreements (SLAs) and security practices. "If you need 99.99999 percent uptime, most hosted service providers don't offer that," says Bois. Ask to see an application performance profile hourly, daily, weekly, monthly and by region, and specify the minimum acceptable performance levels. Make sure there is appropriate recourse if the provider fails to meet its performance guarantees. Other things to watch out for: guaranteed network and bandwidth capacities, application testing guidelines and user support provisions. Make sure the provider has multiple network connections to the SaaS application from Tier 1 providers, ensuring no bottlenecks and fast minimum response times.

Plan for Security
With applications such as customer relationship management (CRM), some companies will have concerns about a third party housing customer data, according to Stephen Ibaraki, a longtime industry analyst based in Toronto and the recipient of *Computing Canada's* Lifetime Achievement Award in 2005. IT managers should query the service provider with a checklist of security provisions, including encryption of sensitive data, confidentiality policies, disaster recovery, business continuity procedures and physical security, says Ibaraki.

IT managers should take the lead, wherever possible, on overseeing the relationship with the service provider. "Insist on clear, documented policies for responsibilities and levels of service and engagement, with regular, scheduled communication between the parties," Ibaraki says. "This ensures the relationship is professional and in line with corporate objectives." It is most important, however, to foster a collaborative atmosphere in which the SaaS provider is an extension of your corporate IT department.

Make Contingency Plans
IT should also figure out how to bring the hosted application back in-house at some point, even if business decision makers do not envision that will happen. In truth, most midsize businesses will need to integrate their mission-critical enterprise software applications at some point (such as CRM and enterprise resource planning), and that may mean bringing it back on-site.

"IT must figure out how it will fit in with the rest of the enterprise data," even if the provider maintains the application for several years, says Faulkner.

Bringing a rented application in-house can be problematic, Ibaraki warns, especially if the application has two different formats, one for on-premises use and one for the hosted model. "You will have to convert the data over, ensure its integrity, and figure out how to run in parallel until the conversion is done," he says.

Outsourcing to a service provider can be a profitable way for your midsize organization to get the latest in application software. As an IT manager, it is your job to help your company to manage the specifics of the agreement as well as the ongoing relationship with the SaaS provider.

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