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Those Magnificent Men In Their SaaS Machines

The reaction of the outsourcing industry to the Software as a Service (SaaS) 'Cloud'

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Come in Cloud #5, Your Time is Up

Some of today's popular myths have more than a ring of truth about them. Manchester United, it seems, cannot win matches without *Fergie Time*. England really do have a goalkeeping problem, and you really can apparently now purchase SG&A services for $5 a head in large scale organizations via the new, cheap and fast evolving software-as-a-service platforms, or "the cloud" as it has euphemistically become known.

As captivating as the title chances of United and the outcome of the FIFA World Cup might be, the members of the European Board of the Human Resources Outsourcing Association (HROA) turned their attention recently to more familiar territory; namely, the emerging debate over the emerging tipping points caused by new technologies currently being discussed by a number of commentators and IT bloggers in the outsourcing space.

Discussion centred on one recent posting on the FDE market place – a discussion space on the chief financial officer network of LinkedIn – suggesting that software-as-a-service, or SaaS, would bring the outsourcing industry to its knees. The following gives a flavour of the posting:

> 'With cloud solutions, the use of technology over people utterly breaks the IBM, Capgemini and Atos – and HP, EDS, Accenture et al – business models. As the cloud business model, currently typified as software as a service (SaaS), evolves into providing other business processes, like F&A, the old consulting-led businesses suddenly lose their shine.'[i]

The same posting, not written by a CFO I should point out, went on to suggest the average cost of SG&A per full-time employee would plummet from an average of $US 700 to just $US 5. 'Is that a typo?' questioned Julian ?? of PA Consultng. 'Have they missed a couple of zeros off that five?' The jury is firmly out on the capacity of the cloud to dramatically reduce the cost of services. Equaterra's Bill Thomas challenged such optimism on the basis that the average PC keyboard at a cost of $25 lasts just two years. 'So we already have a problem with that figure, and we haven't even started yet' claimed Thomas.

Nevertheless, the hares are already running. It appears they are running in three separate directions: cost relative to third party service providers *and* internal captives; flexibility and freedom from buying into long term service and software contracts with third party providers – and the associated creativity and innovation such freedom brings; and the large shadow of compliance lurking menacingly in the background. But there can be little doubt the vapour trails of those magnificent men in their SaaS machines have captured the imagination on both sides of the service provision market place.

Those Magnificent Savings: The SaaS Challenge

Those Magnificent Men In Their Flying Machines.
They Go Up, Tiddly, Up, Up.
They Go Down, Tiddly, Down, Down.
They Enchant All The Ladies And Steal All The Scenes
With their Up, Tiddly, Up, Up
And They're Down, Tiddly, Down, Down.

According to one experienced and respected commentator on the BPO market place, Vinnie Michandani, SaaS is undoubtedly driving down the costs of services in organizations. Perhaps somewhat facetiously he has recently suggested, 'If Oracle/Accenture BPO is a cost factor of 100, Oracle/Wipro would likely be a factor of 75. A Wipro/SaaS vendor like Workday would likely be a factor of 50, and a SaaS vendor/Cloud Outsourcer/Nextgen SI like appirio would likely be a factor 25.'[ii] Of course no hard evidence is provided – it very rarely is – but the down, tiddly down, down is being performed before our very eyes.

Equaterra's Thomas is less than impressed. 'I'm not sure SaaS is *that* new a concept.' Pointing to the initial processes engaged in by outsourcing providers during the 1980s when, 'the glorious payroll industry in North America and Europe was pretty fixed on an operating model described as a "service bureau" with a remote terminal into which either client would key information and the provider, which was probably a massive bank, would process it at quiet times and deliver the post-processed data back via this remote terminal, is not a million miles away as an operating model from the software as a service model.'

Significantly for the participants in the debate, the payroll outsourcing industry has evolved a lot from this model prevalent in the 1980s to an operating model incorporating what Thomas described as a "total outsourcing model" because the cost of the process is driven by the level of automation and the level of productivity and therefore the amount of headcount required to do the transactions, versus just the cost of running the piece of software, whether local or remote. For Thomas, then, 'the heart of the change management business case is in and amongst automation and productivity, and that remains the case whether one is running on SaaS or different technologies.'

For Christian Baader at the technological powerhouse of SAP the same technological laws of gravity the rest of us have to cope with also apply to those magnificent men in their SaaS machines. 'I think the discussion up until now has been a little misguided. There is always an urge to drive creativity and innovation. But the same laws of gravity that have to be applied to other forms of technology also have to be applied to software as a service. Yes there can be automated services but there is always a form of a "judgement call" which is handed over in BPO along with responsibility for the service cost as well as the resolution of the process itself. It's a managed service.'

Looping the Loop: Service as a Service?

Up! Down! Flying Around.
Looping The Loop And Defying The Ground.
They're All, Frightfully Keen
Those Magnificent Men In Their Flying Machines.

How service remains at the heart of outsourcing represents the industry's main challenge to the SaaS young pretender. For Howard Blake of IBM, 'I think SaaS is taking us backwards in the outsourcing discussion. Perhaps I'm coining a new phrase here, but rather than software as a service, we should be thinking of *service* as a service.' There is a view amongst senior executives on the sell-side of the outsourcing business that they never quite successfully managed their clients to a place that they were buying a service.

For all of the impressive talk – and it only is talk – about the relatively low costs of the cloud, Blake cannot but feel those advocating the new alternatives to managed third party service providers are missing one of the original foundation stones of the outsourcing industry. 'What you are buying is the service outcome. You are not buying the technology application. You are not buying the functionality, even. You are buying the output of that functionality.'

The problem with Saas, then, is that it might be seen to be taking organizations back into the technological spaces they had previously broken free from. All of the productivity gains and hard-fought freedom for organizations to focus on the core business may inadvertently be reversed simply because, in Blake's words, 'there's too much interest in what's in the technological box rather than what's coming out of it.'

Compliance

Those Magnificent Men In Their Flying Machines.
They Can Fly Upside Down With Their Feet In The Air.
They Don't Think Of Danger. They Really Don't Care.
Newton Would Think He Had Made A Mistake.
To See Those Young Men And The Chances They Take.

So the costs do not appear to stand up to scrutiny, there is a danger that the service gains in terms of managing outputs could also be at risk. Board members also pointed to other risk factors.

For John Hindle of Accenture the problem was one of, 'establishing which cloud are we talking about?' There will undoubtedly be organizations with their own clouds talking to other organizations with theirs. But as things stand, the operationalization of this has not quite lived up to the expectations of SaaS's early advocates. It remains, some say, a castle in the clouds: shrouded by mist, which clears albeit fleetingly to reveal the tantalizingly yet seemingly impossibly impractical world envisaged by the outsourcing doom merchants. The debate continues.

AJH
9th July 2010

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They're All, Frightfully Keen
Those Magnificent Men, Those magnificent men, Those magnificent men and their fly--ing ma--chines!

http://www.youtube.com/watch?v=UPgS26ZhqZs&feature=related

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[i] Kirkwood, G. (2009) The death of outsourcing …' FDE Finance Director Europe – CFO & FD Network, accessed 30th June, 2009.
[ii] See Vinnie Michandani (2010) 'NetSuite and Scenario 3 Outsourcing,' Deal Architect, http://dealarchitect.com, accessed April 15th 2010.