STAFDA TECH BRIEF – Spring 2009

No signal of a recovery yet:

Various forecasts continue to project reduced spending on IT initiatives for 2009. A survey published by Computer Economics (www.computereconomics.com) projects IT operational spending for 2009 to be at 1.5% of revenues which is the lowest level since the 2001 recession. Another survey conducted by SearchCIO (searchcio.techtarget.com) reports that 1/3 of the companies survey will reduce the IT budgets for 2009 while another third will hold the line at last years' levels. BSW Consulting conversations with distributors indicate that many projects have been put on hold waiting for some indicator that it's safe to spend money on new technology. For the most part, they are still waiting for the signal.

Even though many sectors of the industrial marketplace are in recession, distributors need to invest in new technology or upgrade existing software and infrastructure to remain competitive. This is especially true for businesses that have legacy systems (systems that are based on technology, languages or hardware platforms that are generations out of date) or heavily customized their software packages and haven't been able to move to the current version for many years.

Typically, distributors will postpone technology investments during difficult economic times as they don't have the cash to invest in new hardware, software license fees, and implementation services. However, if those investments are delayed for too long, when the recovery comes along and demand increase, those distributors are at a disadvantage while they try to catch up.

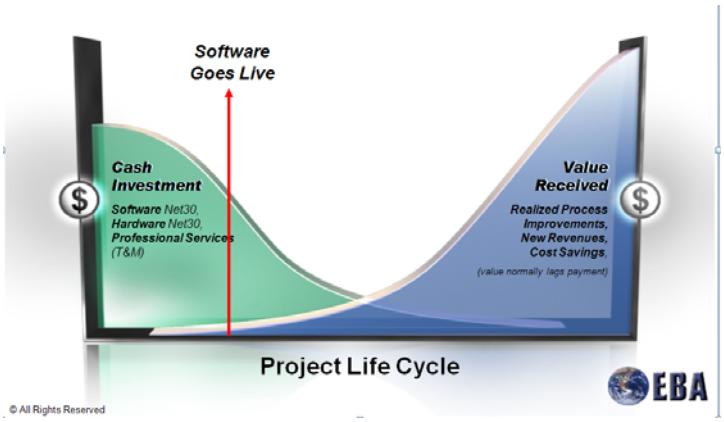
There are several alternative approaches to acquiring technology that you should consider:

Leasing:

The traditional approach to managing the cash flow of your technology purchase has been to use leasing to spread payments out over a 3 to 5 year period. This approach is still viable but more difficult given the condition of the credit markets. If you can obtain this type of financing it allows you to continue to purchase hardware and software. Hardware, software, and consulting can all be leased. You will need to work with a leasing company that has a history of financing technology transactions to make sure that all the details are handled properly. Be sure to ask for references so that you can verify this.

Alternative financing models

We recently were involved with in a software selection project where one of the software vendors selected as a finalist proposed some pretty innovative financing. This approach has been used in the Tier 1 market (companies of $1B in revenue) for quite a while but is now appearing in the mid-sized company market.



The typical software purchase requires a significant investment at the inception of the project for licenses, hardware and implementation services. Over an average 9 month period your project team and software vendor will install new hardware, install the software, convert data, configure the software, train your users, conduct conference pilots, and finally go-live on the new software. Over the next several years the investment generates costs savings justifying the investment.

Economic Business Alignment Inc. (www.ebainc.com) develops a customized payment plan that matches payments for the technology with the return generated. Every financing deal is individually underwritten since EBA assumes the financing risk. If you can put a deal together this eliminates much of the reason for postponing your project.

A new approach to making technology investments that has been gaining momentum for several years. Instead of making an up-front purchase of user licenses you sign up for a subscription and pay a monthly fee to use the software. You'll need to be familiar with the following terms:

Cloud Computing:

Cloud Computing refers to computer processing resources (services, software, services) that exist at some remote location that can be accessed over the Internet. Google created massive data centers to host the equipment they needed to create the indexes of everything on the web that was need for their search business. The latest data center is located in Oregon along the Columbia River where they can get cheap

hydro-electric power to operate and cool the center. Microsoft and Yahoo have similar facilities.

The centers represent “the cloud” where users access services. An example of these cloud based services would be Google Maps: enter the “to” and “from” addresses and get driving directions and maps. You aren’t concerned about the servers, the network, the user interface – it “just happens.”

Software-as-a-Service (SaaS)

Software-as-a-Service refers to programs that operate in the cloud that are paid for on a subscription basis. The number of these web-based services that you or your kids might be using at home have exploded in the last several years – hosted email like AOL, Gmail or Yahoo, social networking like Facebook, Myspace or Linked In, photo editing software like Picasa or photo sharing sites like Flickr. This list goes on and on. All of these services are available for free or at a nominal cost. If there is a cost it is normally in the form of an annual subscription.

There are a similar set of free or nearly free services available for business that you can use to improve productivity or streamline costs. Travel expenses can be reduced by holding meeting on line. Services such as GoToMeeting, Webex, or Live Meeting are low cost ways of hosting on-line meetings with integrated audio services the ability to share powerpoint presentations and other exhibits over the Internet. If you’re conducting any type of email marketing to your customers you’re most likely using services such as iContact or Constant Contact. These are very low cost tools that allow you to be very productive with no initial investment and little training.

SaaS for Business

This approach to computing is also being used for serious business purposes from single purpose applications to enterprise software. You may want to think about how these types of applications can integrate with your existing ERP software or be used to upgrade your capabilities:

Function-specific application – Example: E-Mail SaaS

The vast majority of e-mail traffic is spam. At our office, our IT staff maintains a hardware device that is used to filter out the spam so that only “good” emails are delivered to our Outlook Exchange mail boxes. When the filtering device fails or is overwhelmed by an increase in traffic we are flooded by the Spam. If the traffic increase is permanent, our IT group has to determine when to invest in a bigger device that can keep up with the amount of traffic.

We could purchase our e-mail filtering from a SaaS provider. We wouldn't have to invest in hardware as it is runs in "the cloud" and has an almost infinite amount of resources and redundancy. The staff time to monitor and maintain the device would be used to monitor the service but with less time devoted to the task. The amount we would pay would depend on the amount of traffic filtering that we needed.

Process-specific application – Example: Salesforce automation

One of the earliest success stories for a process-specific application delivered as SaaS was Salesforce.com. Founded by an ex-Oracle executive in 1999 Salesforce was an early innovator of what was then called "on-demand" computing. The product provides a fairly long list of functionality including sales force automation, customer service & support, marketing campaign management, etc. If your ERP vendor doesn't offer a CRM package and you've been wanting to add this capability, consider this option. Other SaaS companies are providing application-specific products that include Business Intelligence, Demand Planning, Supply Chain planning and more.

Enterprise-wide application –Example: ERP software

Full blown ERP packages (order processing, inventory management, accounting, etc.) that are delivered using the SaaS model was introduced by NetSuite (www.netsuite.com) in 1998. Originally perceived as an accounting only application it now includes a full range of functionality. Software companies that have their roots in the Wholesale Distribution world are joining in: IBS (www.ibsus.com) recently introduced IBS Enterprise Online. This solution is hosted at IBM's datacenters and provides the same distribution-centric functionality as their on-premise solution. As with any ERP selection, a rigorous evaluation of functionality is required to ensure that the product will satisfy your business process requirements.

Ask these questions

Like any flavor of new technology, Saas isn't without questions and concerns. When considering whether to utilize SaaS application you need to consider the following:

- Does your ERP vendor already provide that functionality?
- How would you integrate a SaaS application with your current ERP package?
- How would you customize or personalize the SaaS application?
- If your network access was lost for 2 or 4 or 6 hours or longer what would you do?

- If the SaaS vendor went out of business could you continue to use the application? And much more important, who owns the data and how would gain control over your data?

- What are the economics over the long-term? (At what point is renting the application more expensive the purchasing it?)

All companies are looking for ways to conserve cash during this downturn while staying competitive for the long-term. These ideas may help you to do so.