



The Benefits of Hosted Software

Hosted software, also known as on-demand software or software as a service, is ideally suited for small and medium sized companies (SMEs) with small IT staffs as it centralises the tasks of maintaining and updating the applications while spreading the costs over a broad user base.

The concept of hosted software is simple and while it has been around for a while under a different guise it is only now coming into its own with the advances in web technology and the spread of high speed broadband.

Originally only large companies outsourced their IT systems as they found that they could negotiate fixed cost contracts thereby managing costs while at the same time handing over the problems of recruiting and maintaining IT staff to an organisation that specialised in that area. The set-ups were generally mainframe based and required large memory and bespoke communication infrastructures. But they tended to work well because the systems that were outsourced were large and complex and more often than not had a global reach...but at the typically high price that large companies can afford.

Because of its high cost this outsourcing option could never be considered by the SME community. It also required an in-house IT expertise to provide a supervisory overview over the technology infrastructure partner which, unless that was their area of expertise, most SMEs did not and still do not have. But then it must be observed that it is not uncommon to find SMEs that are IT adverse and who would only use an application if there is a clear business need. So it would not have been uncommon less than 10 years ago to find very successful small to medium sized companies using primitive spreadsheet technology on a stand alone desktop basis to run their businesses while showing no interest in seeking out applications that would bring clear productivity improvement benefits. In fact it can often be easier for SMEs to hire two additional people to perform a manual process than to purchase a piece of software at a lower cost to the business and which would fit in to the current staffing structure.

My view is that the unknown element of software ownership may play a major factor in the decision making process. In particular, most software requires an upfront cost and then an annual maintenance payment for help and support. It may also require additional hardware and additional software to install and maintain so that the original piece of software can operate effectively. There may also be some upgrade costs several years in the future which at a certain stage are forced on the end user because support for the older version ceases to be provided. So what initially was considered to be, say, a one off £5,000 investment turns out to require a £10,000 initial investment and then annual outgoings of £2,000 for the life of the current

version. Also, this would be before taking into account any extra personnel costs which even on a temporary basis is an important cost element which also raises the concern that should the personnel move on then it could potentially leave the company in an unpleasant predicament. So clearly there is the potential for enormous uncertainty with traditional software applications particular for organisations without the experience of software implementations.

The advent of the World Wide Web has had the effect of changing how software is delivered and more importantly on how it is priced. In fact combined with ever increasing broadband capacity and plunging hardware costs the web is having the effect of democratising software and making its benefits available to a much broader audience.

Let me paint an alternative picture to the traditional software route. How about taking the previously mentioned software pricing scenario and turning it on its head by saying that a similar hosted application would cost the customer an all-in flat rate of £1,750 per year on an ongoing basis and that all maintenance, hardware cost and upgrades would be included in that figure and managed externally in its entirety by the software provider. So effectively the customer is receiving a very straight forward proposal with no surprises down the road.

How is that possible? Well from an infrastructure perspective we are looking at holding multiple copies of the software on the same server thereby spreading its cost over a broader user base while at the same time making more efficient use of the equipment. Then with similar versions and configurations of the software being available for all customers, the task of maintaining and updating is greatly simplified again spreading what is ultimately a lower cost per account over a broader user base. Finally, by concentrating on the absolute necessities rather than on building additional "wow features" which are only used by a minority of customers we can reduce the complexity and thereby the cost of developing and maintaining the software which has a snowball effect across the broader user base.

This all means that hosted software provides a more pleasing experience to the customer both from a usability and a pricing perspective.

There are also other benefits of hosted software such as having documents and information held at a different location which is the subject of another article titled "***Hosted software as part of a business continuity contingency***"

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