

Is your head in the Cloud?

With the purchasing squeeze now on should you try renting rather than buying software? Sarah Stokely investigates cloud computing

By Sarah Stokely

KEY POINTS

Cost savings is one of the most touted benefits of software as a service (SaaS).

The biggest concern for HR is the security of hosting sensitive data, such as employee records, offsite.

Companies need to make sure they retain ownership of their data. Business continuity and migration are two other areas which need to be fully planned out in order to cost and assess risks associated with moving to a SaaS model.

As businesses continue to adjust to the negative economic climate which rocked the markets in 2008, it's predicted that constrained budgets will change how technology purchases are made. This means companies may look to deal with pressures on capital investment by investigating a move to software as a service (SaaS) rather than upfront purchasing of HR information systems (HRIS).

SaaS was born as a 'pay as you go' alternative to making a lump sum capital investment to purchase, install and service software internally. Because SaaS lets you essentially outsource software (and the infrastructure and support it requires) it can also appeal to smaller companies with little or no technical staff in-house.

In these cost-conscious times, SaaS may be about to come into its own. In its annual prediction of technology trends for the Asia Pacific region, technology industry research firm IDC predicted that outsourced data centres and cloud computing would both grow in 2009, boosted by a pressure to cut IT spending in the current negative economic climate (see page 38).

The head of IDC's Asia/Pacific predictions committee Graeme Muller says, "Even while overall IT spending slows, IDC believes that the negative economic force will actually intensify the focus on emerging markets and emerging technologies as businesses look to cut costs, improve business models and reach their customers more effectively."

SaaS is a well developed model for customer relationship management (CRM) applications, and companies such as Salesforce.com have mature offerings in the market.

In the HR space, US companies have been quicker to adopt SaaS than Australian businesses have. The benchmark for SaaS is Workday. Founded

by ex-PeopleSoft CEO Dave Duffield, Workday is trying to bring PeopleSoft's model of providing products to the HR segment via the internet on demand. That software, the service on demand way, is now the defacto standard for picking a new CRM system. It is probable the same thing is going to happen with HR, payroll and accounting systems.

HR technology consultant Michael Specht of Inspecht Consulting says in Australia, HR and payroll departments have a long history of using outsourced software services. "Payroll has been a long-time user of SaaS under various names such as bureau services and application service providers [ASP], many times associated with full outsourcing of the payroll operation. Other large users of SaaS within HR is in the area of timesheets, recruitment and talent management."

One benefit for HR is that software is being designed specifically for the segment and has been informed by the more mature SaaS products on the market.

The founder and managing director of HR technology consultancy Competitive Edge Technology John Macy says, "The Salesforce.com product is probably influencing the design of some of the newer HR offerings, and products like Workday have developed online integration capabilities with Salesforce.com for expense tracking and niche HR applications."

However, the market is not mature, says Macy. "My main concern with the new HR SaaS model is the short cuts vendors are taking to secure market share, and the real value of composite and mashup features are being overlooked. The CRM platforms offer far more features for their users and the communities that have sprung up around the Salesforce.com and development platform providers cater for the more specialised needs of their market."

Specht says that as with any technology purpose, SaaS needs to be assessed for how well it meets the needs of an individual business rather than being assessed on cost alone. "From a technical architecture point of view, organisations need to select the architecture that can deliver on your business needs based around five key factors: security, privacy and compliance; performance; business continuity; integration with your current business and affordability."

Cost savings is one of the most touted benefits of the SaaS model but the cost of moving from a traditional software solution to SaaS needs to be assessed on a case-by-case basis, Specht says. "Very rarely would moving from a traditional in-house environment to SaaS make business sense without an increase in business functionality.

"As part of the selection process it should be determined if the SaaS solution meets the needs of the business and then if it will work within the technical environment. SaaS solutions still need to integrate into an existing environment, particularly around single sign-on, workforce analytics and employee self-service."

Even when SaaS was price competitive with existing solutions other factors can inhibit uptake, Macy says. "I think the cost of ownership comparison

against the on-premise solution has been largely resolved, and the change and cultural shift is the main inhibitor to moving to the new SaaS model.” Another potential benefit of moving to SaaS is the speed at which the solution can be deployed or upgraded, says Macy. “The compelling factor is time. It can be argued that it takes less time to configure and implement a new SaaS solution than it takes to perform an upgrade for one of the major [ERP] products.

“Once on the SaaS platform the flexibility to add functionality and the ability to execute common client upgrades in the future makes a cost comparison heavily biased towards the SaaS model,” says Macy. However, one key benefit which SaaS should provide – flexibility and customisation – has not yet translated into many HR SaaS solutions.

“Many of the HR SaaS products on offer don’t provide any means of extensibility or customisation and the purchaser must rely on published APIs to extend the functionality of their solution using additional products and that is not data integration. True data integration is needed by HR for business intelligence and information reporting,” Macy explains. (An API, or application programming interface, is a protocol or tool which a software manufacturer can release to the public to help them write software which works with theirs. For example, Microsoft makes the Microsoft Windows API so other software developers can make software that works with the Windows platform). Perhaps one of the biggest concerns related to outsourcing HR functions in particular is the security of hosting sensitive data, such as employee records, offsite.

“SaaS providers will tell you there is no issue with data privacy, and the coexistence of multiple clients’ data on the same server is totally secure and cannot be accessed by unauthorised parties. But I’m reserving judgement on that one,” says Macy.

“The real test of information security comes with mergers and acquisitions of SaaS providers [and when] client companies use contractors to perform database administration functions at data centres where multiple client data resides. It is an area that has not yet been fully tested, but no less vulnerable than in-house installations,” says Macy.

Business continuity and migration are two other areas which need to be fully planned out in order to cost and assess risks associated with moving to a SaaS model. For example – how quickly will you get access to your data if your provider experiences a major data centre outage?

Another key area which needs to be addressed is ensuring that your company retains ownership of your data. You must have a clear migration path for regaining all data in a usable format should your SaaS contract end. It is best to engage your legal team, IT security expert and employee relations to ensure the specific requirements for your business are covered.

Data privacy is also critical, Specht says. “Make sure that the SaaS vendor will allow you to comply with the national privacy guidelines and any other specific industry requirements”.

SaaS providers will be hoping to benefit from the slowed or shrinking global economy as companies look for cost effective solutions to their technology

requirements. It may be a time of opportunity for customers also. For example, as the slowing economy puts more pressure on software vendors, there may be price reductions or more flexibility in service offerings – for example annual rather than multi-year contracts.

What is cloud computing?

We've come a long way from giant, sterile server rooms serviced by men in white coats. Now technology enabled services are housed in cyberspace. Think of the internet as a giant cloud that houses servers that store files and information. Web 2.0, SaaS and other applications, like Google apps for example, all come under the banner of cloud computing.

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