



**GXS SaaS 2.0 Roundtable  
Fall 2007**

Bobby Patrick: Welcome to Insights, the authority on business-to-business integration and automation. I'm Chief Marketing Officer of GXS, Bobby Patrick.

The software-as-a-service movement is starting its next chapter. For businesses looking to build a demand-driven supply chain and better serve their customers, this chapter is especially appealing. It includes new classes of applications well suited for network-based delivery, seamlessly integrating with on-premise applications and frequently accessing resources outside of the enterprise. Core advantages here still remain—blazing implementation speed, rapid ROI, continuous vendor accountability and extraordinary cost advantages. Today we are fortunate to have distinguished panel to discuss the business impacts, strategic opportunities and disruptive characteristics provided by software-as-a-service.

The panel will be moderated by Steve Keifer, Vice President of Industry Marketing at GXS. Earlier this month, Steve was honored with the Best Practices award from the Computing Technology Industry Association in recognition for his contributions to the B2B industry.

From AMR, John Fontanella, Vice President of Research, joins the panel. John studies B2B integration, RFID technology, supply chain visibility, supply chain security and supply chain event management.

Also on the panel, John Radko, Chief Technology Strategist at GXS. John was just named "Pro to Know" by *Supply and Demand Chain Executive* magazine. John was recognized for raising the profile for software-as-a-service as a strategic foundation for supply chains within the enterprise.

Finally, Rory O'Neill, Director of Strategy and Alliances, rounds out the panel. Rory is responsible for building technology alliances that drive software-as-a-service adoption worldwide. One such flagship alliance with Microsoft was recently recognized by *START-IT* magazine with the gold medal for their first ever Power of Partnerships award—demonstrating a powerful software plus software-as-a-service combination between two industry leaders. Now, let's get their insights. Enjoy the show.

Steve Keifer: Good afternoon, my name's Steve Keifer and I'm with GXS. Thanks for joining this session of Insights. Today we're going to talk about software as a service. Gentleman, thanks for agreeing to come on the show today. So, SaaS or software-as-a-service, everyone's talking about it. Investors love the financial model. Every major vendor out there, it seems like, has announced a SaaS strategy in the past eighteen to twenty four months. What is the big deal with SaaS? Why is this so special? Why don't we start with the basics. John, what is SaaS and why is it so different than a traditional software enterprise model?

John Fontanella: SAAS, the way it's defined today—take the term literally. It's being able to access software when you want it and paying the same way. You're not paying for a license. The way SaaS is defined the elemental difference is that it's one application that's servicing many kinds of users, unlike enterprise software where we see one license for one company.

Also the way it's deployed and the way it's priced generally, software as a service is priced—vendors price their services by subscription or some kind of service model where they're tracking number of transactions, and you're basically paying for what you consume.

And finally, I think you'll see there's a difference in the software provider itself. Where they're much more oriented towards—have much more of a service orientation. They implement and they work with you on an ongoing basis. It is their software and many times, you know, they're helping you manage your processes.

John Radko: I'd just like to add to that I think the technology itself is different. Enterprise software spends a disproportionate amount of time and cost in suiting different platforms because every large enterprise has its

own favorite platform. So, I want Sun, he wants HP; I want to run on Dell. In software-as-a-service, you miss all those costs. You can avoid all those costs. Likewise, huge amount of efforts around like the installation processes, the UIs, the training for the Sys Admins for the customers and supporting those folks just vanish from the scene. Because it's being operated by the provider on a stable hardware platform and they have complete control, which reduces the cost of ownership both for the provider and for the customers.

SK: Okay, so if I net this out, you don't buy the license up front. You pay for it on demand as your going. That some other IT provider, whether it's a software vendor or somewhere else is hosting and operating this on your behalf. You don't have to worry about different platforms, whether it's running on a mainframe, Linux, UNIX, Windows box. So how is this really new then? I mean, this sounds to me a lot like where we were thirty or forty years ago when you first introduced applications that ran on Honeywell mainframes, or GE or IBM. I mean, in these time sharing applications where the vendors did everything. You had multiple customers in one environment; you paid only for what you use, MIPs or whatever metric we were using at the time. It might have been different than what it is now. I mean, is this really something new or is this just a reincarnation of something we were doing before?

Rory O'Neil: No, Steve, I don't think it is new, actually. I think the need for software-as-a-service has been paramount in the traditional software sector for ages and ages. What's different about this model and software-as-a-service is that vendors are focused on service delivery and making sure that the people services that go along with the entire solution delivers company's value.

So if you think about the scale of the way that those people services are deployed—traditional software, all of the people reside inside that four walls of the company. Are they sourced in from a partner? What are the uses of the application? And implemented the application inside that four walls. From a BPO or outsource perspective, all of those people reside off-shore or outside of those four walls. Software-as-a-service enables people to leverage that service solution and people provided by the vendor to really improve their business process that they're looking to develop through SaaS.

JF: Yeah, I agree with Rory. That's the big difference. Software-as-a-service, the vendor has domain expertise. You can talk one-on-one with the line of business. In fact, most often the sale is done with the line of business, the business buyer in the organization. Also they've got great integration capabilities. Integration capabilities that you don't see necessarily with enterprise applications or certainly in a timeshare environment.

JR: I agree with some of that, but I do disagree with the notion that it's not new. The pattern certainly is familiar. For instance, when we first we went to electric power in factories, factories would generate their own electric power. And then they'd move to central power distribution. So that pattern culturally has been seen before. But I think this is the first time we've seen it within the software industry. The difference in what you were referencing earlier, Steve, is that was just raw capacity. People were selling MIPs time on mainframe computers. Now folks are selling application functionality. And being able to get ERP type functionality, by the hour if you will, is a genuine innovation. Just because it's a business model innovation rather than a technology innovation doesn't make it any less of an innovation.

RO: No, in fact, it's actually—I agree, John, it's much more. I mean, let's be honest, right? The IT sector and the technology sector has antidotally suffered from a very poor quality in service. Projects are late. Projects are over budget. Projects are delivered with reduced scope. And, quite frankly, we've all been struggling as vendors to make sure that we improve the quality of the services we deliver. And software-as-a-service is giving us a chance, from a technology and a business model perspective, to be able to improve our service levels.

SK: So SaaS is going to solve all these problems where application service providers, which were the big thing five years, which sounds a heck of a lot to me like SaaS, and IT outsourcing, business process outsourcing, all these different models haven't solved it over the last ten years but SaaS is going to.

JF: Absolutely not. There's still boundaries, there's still limits for what SaaS is good for. Particular—if I want to uniquely differentiate myself and my business, differentiate myself in my industry, I'm more than likely not

going to use SaaS. I want that software in behind my firewall and I want to be able to custom configure, custom design it. Now is that for every application, every function? Absolutely no. SaaS has a whole array of functions that SaaS can support efficiently and economically. But, it's certainly not for every situation and every company.

SK: So that's a good point. So there are some down sides to SaaS. The customization angle—

JR: There are, but to be fair SaaS is going to solve some of the unsolved problems. For instance, right now enterprise software does a terrible job of solving, kind of a need to have, but not competitively differentiated application domain. So, for instance, if I'm a manufacturer I can afford to spend a ton of money to optimize my factories, but I can't necessarily spend millions of dollars on software to manage my field service force. I need a field service force and I need to manage their time but I can't go blow \$5 million on it. So a SaaS-type vendor who can set me up in a month and I can pay for it as I use it, is a great model. And it solves an unmet need. So, each of those generations that you talked about: application service providers, packaged software, even timesharing way back when, solved some of the problem and SaaS will solve a little bit more. But it won't finish the industry's problem, which is a good thing, because when an industry has solved all its problems that industry isn't needed any more.

RO: Well, I don't know about that necessarily, John. I think—I do agree with you though that SaaS is an evolution of ASP. I think what the ASP model gave us was the pricing and subscription model. And that is now obviously prevalent in the SaaS model. But, I also support your argument that innovation between ASP and SaaS is the technology. It can run with a certain scale. It can run with its own security to deliver those applications back to the business.

SK: So multi-tenant, that's great if I'm a vendor, because I'm getting economy as a scale. I'm putting a lot of applications on one server and it costs me less. Is there a benefit to the client from this new version of—

RO: Yes, those should be passed back to the customer.

SK: They should be.

JF: I'm going to disagree with you. You said technology is the difference between ASP and the SaaS services we see today and I disagree. I think it's the domain expertise.

SK: Yeah.

JF: The person running the SaaS, the service today, knows all about your business whereas the ASP does not. That's why ASPs in most cases fail. They also have absolutely no integration capabilities. The success of SaaS is predicated on having very strong integration capabilities.

JR: And I would argue, I think we're in agreement. I would argue also that SaaS is more of an extension of the enterprise software industry than the ASP because the focus is how successful you are at SaaS depends on the quality of your service offering, which comes from your subject matter expertise. You need good operations, but it's not surprising that many SaaS vendors are actually using ASPs. I mean, you can get that kind of commodity expertise out there, but it is that subject matter expertise that makes the difference.

RO: Yeah, I think I emphasize the technology. I think the reality is that the mix of the service offering is dictated by people, processes and the technology. And each of those three components are very important in building a SaaS model.

JR: But, to your other question though—the multi-tenancy. It's the whole model of how you build a true SaaS offering that makes the difference, delivers the cost and delivers the quality. If you're simply hosting software on dedicated hardware, that is something customers could do for themselves at scale. That's why the most important and most widely used software in an enterprise, eventually there will probably be a cost advantage to running that in-house, if you're going to scale that to the heights. Okay. SaaS gets the economies of scale by servicing many customers on one platform. So we achieve economies of scale in messaging or forms

delivery across multiple customers. So no single customer can scale as high as we can. So that multi-tenancy, that shared scalable infrastructure, is the key component of the economic value of SaaS.

SK: So this sounds like a fundamental change, in a way, for the software industry in that for the past twenty years, for the most part, a lot of these software vendors have been chasing end of quarter results—trying to push big license deals, throw the software license over the wall to the customer— “Hey, if they want help we’ll charge them some outrageous professional services fees” or “We’ll get him hooked up with some off shore people,” but, essentially all the risk has been on the customer’s side to make the implementation successful, to deliver the value. But it sounds like, now we’re moving to a model where the vendors are a lot more accountable, enough to deliver the full solution experience, a really more of a services model. Have we gotten to a point where the software industry itself, is at the level of maturity that it’s really become more of a services industry than a product industry, as some of the other manufacturing sectors and product-oriented sectors are?

JF: I don’t know. I don’t think we’ve gotten to that point yet where you can say that for the majority of the companies. But certainly, what excites me about SaaS, is SaaS providers, they’re involved in the business. They are the innovators in this industry. And they’re the ones being chased by SAP, Microsoft, Oracle. And they are innovating. And they are innovating in some very unusual ways. Ways that are going to benefit the user. And I think permanently transform the way this industry runs.

RO: Yeah, no, John, I agree. I think this is actually akin, Steve, to what the manufacturing sector experienced in the 1980s and 1990s. When the emphasis was not just on the product that they manufactured, but the way that their end user would consume that product and the services they packaged around it. Fundamentally, this innovation is helping the technology industry as a whole ,focus on service and solution delivery, versus manufacturer of a product.

SK: So this is going to have a big change in the way, I mean, software’s thought about in terms of its model. I mean, imagine if I’m an institutional investor or someone that’s got an equity stake in a software company, I’d prefer this model to the license model. There’s a heck of a lot of risk quarter over quarter, right?

JF: Not necessarily if you’re an established license model, you’re probably looking to move too fast towards a service model.

SK: Well, that was one of the points I was trying to get out. So, if you’re a small guy and you’re starting with SaaS then it’s fairly easy to grow your model

JF: You’re a great attraction to an investor.

SK: What do you do if you’re Oracle, you’re Microsoft, you’re SAP? You’ve been—you’ve had a history ten, twenty years of selling software licenses, how do you convince Wall Street and the investment community that you should move to the SaaS model, or don’t you?

JR: It’s a gut-wrenching change for the traditional software provider. It isn’t a matter of Microsoft and SAP convincing Wall Street; it’s a matter of Wall Street and private equity convincing them. The private equity and the investment community love software-as-a-service. They’re doing several things. One is they’re pushing people to use software-as-a-service in their startup. So, they’re actually engaged in demand generation much as they were for—

SK: So, the venture capitalists are actually pushing this.

JR: Right, they demand that people use it because it’s an efficient use of capital. They don’t want you to go out and buy and build a huge infrastructure. They want you to leverage Amazons or they want you to leverage, you know, Salesforce.com, instead of buying software. They want you to put more of your money into R&D. Secondly, they like the financials of the annuity model, because not only is it more predictable, but it’s easier to get your first sales. You’re not asking a large enterprise to sign up for hundreds of thousands of dollars of investment.

SK: Easier to get that approval within the internal—

JR: Right—

SK: —bureaucracy.

JR: -- and because people spend less and because it tends to get ramped up faster, you tend to get your references faster. And also, software as a service, not to quote a hip term, but it can tend to be viral because it's easy to add incremental units of capacity through subscription. A software-as-a-service offering can wind its way through a corporation without the core IT staff even realizing its happening. Because it's typically accessed through the Internet. Not always, but typically. So it's a huge change and I think it's a major challenge for the traditional software vendors because the margin and financial structure is quite different.

RO: Yes.

SK: So if you're a big software company, do you ignore SaaS?

RO: I've seen them.

SK: Do you move fully into SaaS? Do you try to compete with it? Do you have a hybrid model?

JF: If you're very opportunistic, you'll take where SaaS is appropriate, you adapt it. In other cases you may adapt a quasi-SaaS model, like shared services. One instance, supporting business users within your corporation, and in other cases you may have a client server sitting at every location for a particular process. I think it all depends on the situation.

RO: Yeah, I think, actually Microsoft's done a very good job of thinking about their software-as-a-service strategy, referred to as software plus service. And you'd expect that from the most established leading deployed software vendor on the planet. However, what they have done is they've understood, I believe, and I'm not so sure they're that influenced by the VC community John, but I think they're more influenced by their customers who are pulling them in this direction. But, what they have done is they know that their customers spend a disproportionate amount of their IT budgets on maintenance. And they're spending to stand still. Thirty percent of their budgets is only available, typically, for new applications or new projects. And I think what that has forced Microsoft to do is come up with this hybrid model of software plus service. And they define it in three categories that are for the developer, for a set of hosted services that speed applications, for attached services that are software in conjunction with services, which is, I think, going to be a very popular deployment model in the supply chain. And then there is finished services or pure software-as-a-service. And I think that flexibility of solution set, [inaudible] across the Microsoft suite, should be very interesting to the market and very certain sectors.

JR: It's definitely possible. One I watch with interest, right now, is Oracle. Because I think Oracle is going to crash on the rocks of the SaaS trend with their CRM strategy. Because it's very difficult for—

SK: Because of the legacy [inaudible].

JR: —someone who wants to be a service and still sell software to compete. It's hard to be two things in this world and be the best at both of them. So Salesforce.com has a superior marketing position because they're only trying to advocate one model. If someone's trying to advocate two models, then customers have a right to wonder about their commitment to either one or the other.

JF: I agree with John. I see companies that try and support both models, but one side of the equation is half-hearted. And the most likely scenario I see is when a SaaS vendor, service provider, is asked to install software behind a firewall. So, in essence, it's more along the license model. They'll do it...grudgingly.

SK: Interesting it's evolving the other way from a service model to have a hybrid.

JF: Right, exactly. They'll do it grudgingly. But usually they have rules, they say, "When we upgrade our central instance, do your upgrade with us," so that they keep their software connected and at the same version.

RO: I also think John actually now when we get to this level of detail in the debate, I think it actually depends on which process you're actually trying to automate as well because... I think Carte Blanche to say that a SaaS provider couldn't go, you know, and deploy some software to connect to their SaaS offering, you know that does happen in some sectors. You know, that clearly does happen in certain sectors. And I also think that traditional software vendors will work with terrific partner communities to deliver software and service that make up a broader solution. Software may be taking care of internal processes and a service partner working on external processes. Both solutions come together to give that one company a single solution.

JR: It is possible. But one of the most intriguing notions that I think comes out of the SaaS world is the world without version numbers. Where you no longer care, nor even know what version of software you're running on, because you're just using the service. I mean, I think of it as what version of your power company are you running on? What version of your cell phone provider are you counting on?

SK: I mean, but is that always a good thing to let the vendor control? I mean, I know, for example, I just upgraded to Microsoft Office 2007 and I'm lost. I'm completely unproductive because I've got this new version of the application. I can't find anything in these ribbon bars. So, you're telling me it's an advantage for an end user, who's typically less familiar with IT than me to kind of come in one day, and all of a sudden they've got new version of the application because the vendor's controlling it on--

JR: But that goes back to—

SK: —a host, for instance.

JR: The vendor there does not incur the cost for your confusion or the troubles you have in operating it. Were that a service offering, they would. Their phones would start ringing off the hook. They would realize they created all this confusion. Because remember, the alignment of user and vendor needs and benefits in SaaS is more, is greater. They're more in alignment with one another.

SK: So, I've heard that before. Is that the reason why I often hear SaaS customers say that they have a better service experience? That they have a happier implementation?

JR: Exactly. And it's not because SaaS vendors are any more attuned to their customers than software vendors are. But because SaaS vendors, the majority of the revenue we're going to make from our services with our customers, is in the future. It's not yesterday. For a software vendor who's just closed a big deal they're not going to see significant revenue out of that customer for at least a year, until the next maintenance payment. So it's very different. Also, any problems operating that software are going to accrue to the customer, whereas in a SaaS model it tends to be more equally shared. Now that is an idyllic situation. But it is definitely closer than your traditional licensed software model.

RO: Yeah, and the capital model is very interesting. It will be very interesting to see if any traditional software vendor that's looking to grow market share can make a successful transition in their business model to a SaaS model.

JR: You know, it's interesting. I don't know if any of you follow Ariba? But they very ambitiously have kind of moved down this path of trying to move from a traditional software model to more of a subscription-type of model. And actually, their latest quarterly results, they're predicting *pro forma* that they're going to have 65 million of their overall roughly 300 million by the end of the year come from subscription revenues, which is a pretty substantial portion given where they were just a few years ago.

RO: And I think they've done that—they've done exactly the right thing. If you look at the procurement sector, the traditional models was a traditional deployed software model, particularly in procurement and Ariba

recreated something that was a little bit different in the market and alongside companies like Procuri, they've created an on-demand procurement market and they've capitalized very much on that trend. I mean, we also just need to consider NetSuite, another great SaaS company. You know, just released their S1 documentation. They've invested \$193 million (dollars) in their company over the last nine years. Now obviously, a lot of that comes from families like Larry Ellison in their particular business. But we cannot underestimate that the business model is completely different and takes a disproportionate amount of resources in sales and marketing operations to build and grow this recurring revenue that the VC community actually loves when it actually occurs. But, changing that from a traditional quarter-by-quarter license model to that recurring revenue is a very difficult transition to make.

SK: So you have an advantage if you're NetSuite or one of these companies coming out in the IPO process right now, given that you built your model in that way. So we've talked about what some of the pros and cons of this are. Some of the common things that I hear, that maybe are misconceptions, I'm interested in your opinion.

So, we talked about the one about having a better customer experience and what some of the reasons are. But what I often hear people talk about, well, why would you implement a SaaS model versus enterprise software? One of the first things people say is, "Oh, it's cheaper." But yet, if you look at some of the studies they suggest that over the long run, perhaps it isn't.

JF: I think the providers are saying it's cheaper. The deployment model is very cheap. But, unfortunately not all of those savings accrue to the user. You know, the providers are smart. They're going to price their offerings at with what the market will bear. I think one thing wrong the providers do do is that they go say, "Okay," to the end user, "Go into your back room. Look at the administrations, operations cost. And I'm a business user; I don't care what goes on in my IT department. I'm looking at the license cost. So while it's much, much more efficient to go support this kind of application from a provider point of view, users aren't going to see that great a difference in cost in most cases. Just my observation.

SK: Let me ask you—

JR: Well, let me challenge you—

SK: —is it fair to say maybe the TCO is known better in advance with a SaaS model than in their price?

JF: Yeah, but as a business buyer I don't care about my CIO's TCO.

SK: Well, unless you're getting charged back for it.

JR: I actually don't disagree with what John was saying but I actually do think that the road to the end result is quite different. Because you can start with a smaller investment, frequently a SaaS project can be conducted in a lower level in the organization. You're going through less approvals and your time to realizing some benefit is shorter. So I'll give you an example. Internally we had two projects commence at the same time. A CRM, which was a traditional hosted project or an internal IT project, and a professional services work force management tool, which we did with a SaaS provider. We were up and running on the SaaS offering before we even had CRM configured and ready to beta internally. Now in the end I think they're going to end up costing us about the same but we are realizing benefit and we have had more of an incremental end in the SaaS site versus the CRM tool, which we had to fun fully, at least the licensing up front, and it will be months before we start deriving benefit from it. And I think that that situation is not uncommon.

SK: So GXS is a mid-size company, right? Is that the sweet spot for SaaS? Because I often hear when I talk to some of these big vendors, they'll say, "Oh, SaaS is a great deployment model for the SMB but the enterprises are always really going to want to buy software licenses. That's the way it's been that's the way it's always going to be." But when I look at, for example let's take Salesforce.com since we're talking about CRM, the customers they list as references on their website: ADP (3000 Sales Users), Corporate Express, Dow Jones news wire, Sun Trust Bank, Kaiser Permanente—these are not small companies. So is that just fear, uncertainty and doubt that the Oracle, the Microsoft and the SAPs of the world are putting out or is SaaS

really better for SMBs than it is for enterprises?

JF: I think that's a mistake to think that this is just a mistake for SMBs, software-as-a-service. I've never seen it that way. I've never seen it adapted that way. It all depends on the community you're trying to serve. If it's geographically dispersed, the disturbed community, software-as-a-service is an excellent tool with which to connect that community together. Whereas if you're talking about an accounting package or accounting function, I'd probably go look for that functionality in my desktop or in the backroom of my computer.

RO: Yeah, it comes back to what companies are in control of, Steve, and that's really what defines if a SaaS model or a service model is going to be more important. Whether it's full BPO or just SaaS delivered in a certain way.

SK: So it goes back to John's point earlier about having a competitive advantage edge would be able to customize things versus [inaudible].

RO: Right and companies are looking at their processes all the time and they're trying to figure out which ones are core differential processes. Those are the processes which they'll put their own IT resources behind.

JR: It's also, quite honestly, problem domain and scale. And it comes back to that multi-tenant. If you are going to scale in a given problem domain where the multi-tenancy wouldn't provide you any efficiency you're not a manufacturer in your ERP space. It's unlike that Net Suite or some equivalent hosted ERP or SaaS ERP is going to be able to equal the economies of scale that General Motors gets just with General Motors. In those spaces you won't see SaaS economically beneficial, right? But that same company, move over into the sales force, move over into indirect procurement, somewhere where they don't have quite as much need or quite as much scale, they are a huge top Global 50 company, maybe, using a SaaS solution in some niche area or at a division.

SK: So—

JR: So it varies with the problem domain and with the scale, with the competitive—it's not as simple as just big versus little.

SK: So let's talk about that with problem domain. Because I've heard a lot examples thrown out here as we've been talking. The number one that people always seem to refer to is Salesforce.com and the CRM space, I've heard of number of you refer to purchases, financial back office, non-differentiated types of things but your General Motors automotive example is a good one. So what about the supply chain because you don't hear a lot about SaaS in the supply chain, at least not yet. Are there certain applications, are there certain problem domains, are there certain businesses processes that are better suited to SaaS than [inaudible].

JF: Now I think we're starting to touch on the true intrinsic value of SaaS, the ability to connect a whole community together. It's not just a community within my community it's my entire trading community regarding what level of sophistication they have on technology. We're working on the same processes, using the same applications, quite likely the same single transaction backbone that we're communicating with each other. And when you start to think of that and with the implications that the supply chain are all working the same way, all using the same kind of data information, it's astounding, I think, what this will evolve to in the future.

SK: Okay, so this sounds an awful lot to me like the dot.com era where we have these marketplaces, exchanges, everybody's going to come together. We're going to do actions. We're going to collaborate. We're going to share data. We're going to solve the supply chain.

JF: The problem with—

SK: We're going to build cars in five days. So—

JF: The problem with exchanges were that the exchanges thought that they were going to sit in the middle of the this and nothing was further from the truth. No company is going to allow them to just come into their industries and just take over and just take control of those kinds of trading relationships.

SK: Even if they're owned by the major OEMs and [inaudible].

JF: Especially [inaudible].

RO: I think Steve it's no surprise that CRM went first to SaaS, okay.

SK: Because Siebel was just so bad?

RO: No, no. I think it's because, look, given the pressure on people's budgets and their IT process, the first thing they will focus any new level of spending on is customer service and managing their customers.

JR: But was it really first? Let me ask you, the major retailers have been exchanging product data for a couple of decades through commercially offered services. They're not industry exchanges. They're hired guns. We have one. Some of our competitors have another.

SK: In the apparel departments mostly.

JR: In the apparel departments for a sector. That is looking back on it, SaaS. It's software-as-a-service. It isn't an industry exchange. We don't own it. We provide that service. Likewise, the core messaging service that fuels some of the major manufactures as well as some of the retailers. Those are services that they bought. It's true SaaS because they can walk away. They're not tied into an industry exchange from which they can't leave. It's a competitive market place. So I actually think supply chain pioneered this for all the reason John was talking about. You're talking geographically dispersed, lots of parties, because it was impossible for any one party to host it for everybody else.

RO: Yeah, no, and I think I'm battling in my head whether who is first is kind of academic to me. I think what's very important is that the supply chain is clearly going to be next and the reasons—

SK: So what apps? I mean, we talked about catalog and data synchronization. Are there others that lend themselves better to SaaS than others?

JF: I think our [strength technology stack] right from the infrastructure on up.

SK: Infrastructure.

JF: How I test my data, transactions, translation, work flow all the way up to the business logic—

SK: VMI apps, transportation—

JF: --transportation VMI—

JR: Visibility.

JF: --visibility.

JR: Any kind of activity monitoring.

SK: What does that mean, visibility?

JR: Well, visibility means—there's an old phrase about substituting information for inventory in the supply demand chain and you're constantly driving cost out. In order to operate an efficient supply chain you need to

be able to see what's going on. And that means collaborating with multiple parties. And as the pace of change and information exchange has accelerated, visibility hasn't been able to keep up. That's why trucks sometimes arrive at distribution centers before the electronic document that tells you that the truck is coming. So I think being able to see what's going on in your supply chain, being able to see what's going on with your shipments, with your down stream suppliers, and in particular, though this is still a ways out there for various reasons, true demand signals. Being able to figure out what's going to happen to the demand for your product. That's the top of the food chain. But that in no way disagrees with what John was saying because everything underneath that had better be in place or else the visibility's worthless.

RO: Yeah, no, I think there are some terrific SaaS vendors in the supply chain already. And I agree with my colleagues here the disparate diversity in the supply chain makes it right for SaaS. Right the way through from replenishment, right the way through to invoicing and payment. There are some great companies out there offering very solid supply chains.

SK: Who are some of the ones you like?

RO: So on the procurement side; we've already talked about Ariba and Procuri. Replenishment, there are great companies, like, We Supply and Supply On, particular companies coming out of Europe where supply chain is typically diverse. On the invoicing side and payment side there's great companies like OB10 that are building global, e-invoicing networks that are available on demand to their customers.

JF: Yeah, let's not forget transportation either. GT Nexus practically covering the majority of shipments going from Asia to North America, lean logistics.

SK: Yeah, the transpiration one's a no brainer to me because you get the network of carriers on there. The operating times lower. I mean, there's opportunity for all kinds of different things.

JF: Yeah, I mean, we are seeing this network effect. If you've got communities, common business, common functions. We're probably using the same suppliers. We're going to integrate those same suppliers into that SaaS backbone.

JR: And back to the mid-market in terms of hosting, of being able to field an IT infrastructure equivalent to a Fortune 500 company. Companies like Net Suite, certainly Salesforce.com always talked about but there is good reason for that. Niche companies like OpenAir that does professional services management. They can all provide you, rapidly, solid IT offerings equivalent to what much larger companies had uniquely in the past.

RO: Steve, we should talk about what's going to make SaaS successful in its supply chain and all these vendors that we've mentioned, have in common. And we've mentioned a couple of these things already but one is they understand their customers process and the problem domain that they're trying to solve. And that's why many of them are fragmented and look at one specific process. And the second thing is that they understand that they have to be complementary, or many of them understand that they have to be complementary to the existing investments their customers have made in ERP systems. And the third thing is they understand the role of the community. They understand the supply chain solution needs to be adopted by every single partner in that community and that's its real value.

JR: And I want to talk about the integration for a moment. Because John rightfully put it out earlier that their integration capabilities are outstanding, at least the successful ones. One other thing I want to highlight though, one of the nightmares of integration, is when you've integrated an application to the rest of your applications, the vendor really doesn't care. When they launch a new release they really don't have a huge stake in not breaking what you've done; totally different for a service provider. When a service provider upgrades you, if everything breaks, they're in trouble, right? You might leave which kills our revenue stream for the next twelve months.

SK: So I don't understand why you're saying SaaS is a good thing then in this model.

JR: I'm saying that—

SK: I'm buying the entire suite from the ERP vendor; I don't have to worry about the integration. It's all one package. It's not silo'd, like you said.

JR: That is what the ERP vendors have said for years. The problem is there is no vendor out there, even today, who offers best-of-breed solutions in all spaces. It goes to what Rory was saying, which is subject matter expertise is not something you can achieve in all problem domains. Typically vendors have strengths and they have weaknesses. And unless you are willing to put up with a lot of weaknesses in core business areas, you're going to continue to have to integrate pieces together.

SK: So what you're saying is we're really going to see this hybrid model where companies trying to standardize an SAP or Oracle to the extent where those applications are feature rich and then they'll use, sort of a, number of SaaS vendors to fill in the holes that have domain expertise.

JF: SaaS vendors and license companies typically do a horrible job at integration. There's no real payback for it. It's very hard to define the value of it yet they recognize they need integration. In our own analysis and studies, more and more companies want to go to a totally electronic B2B processing because they understand the efficiencies. They're just not good at it.

SK: John's bringing up a lot of great points—the challenges that are associated with actually getting to 100 percent order automation, getting trading partners actually on board. This brings up kind of a good point about SaaS and GXS being one of the leading B2B integration providers. What is the GXS SaaS strategy and how does it help solve some of these problems we've been talking about here?

JR: From a technology point of view, the GXS SaaS strategy is the GXS Trading Grid. The Trading Grid is built expressly around a SOA-based platform targeted specifically for business-to-business. So, for instance, it's inherently multi-tenant. We assume multiple companies will be working on our applications exchanging information with one another. It also offers automated provisioning. So, we don't do an installation when we add a new customer to the GXS Trading Grid. We provision permissions, mailboxes, forms, translations, so it's all dynamic. ,

SK: What are some of the SaaS applications when you say there are things that are running on the Trading Grid. Give me an example.

RO: Steve, we offer a GXS visibility suite and that's probably our easiest to decipher SaaS products that are available on the market today. They help companies automate the complex external, outside the four walls, business processes that support all aspects of their supply chain. From replenishment, through logistics, through payment. Order Lifecycle Visibility focuses on the replenishment process and logistics visibility focuses on international logistics processes. And what these applications deliver to companies is real time data in an electronic format of a high degree of quality or improved quality. And a real time track and trace capability to know what's going on outside their four walls at any point in time. And most importantly, these applications compliment existing investments in the ERP systems. So they really add that value to compliment the internal deployment with that hosted service offering [inaudible].

SK: So those are some of the supply chain applications, but that doesn't really solve the problem that John was talking about with the integration, companies not being good at it and not being able to get their systems to communicate with their partners. Does GXS have a SaaS strategy around solving that overall B2B integration problem, doing all the plumbing type of work on the infrastructure that people don't want to do themselves?

JR: Absolutely. The first step in that strategy is to leverage what people have in place. So in the case of the GXS Trading Grid, any customer that has a pre-existing connection into GXS, which is 41,000 companies globally, can leverage that to talk to any of our Trading Grid applications. So simply by sending documents, much as you'd send an order or an invoice to a partner. Now beyond that we've made tremendous investments in our webforms infrastructure, in accelerators for accounting packages, and, actually Rory you would be better positioned to talk about this, partnerships with software companies.

SK: But these all sound like tools and technologies. I mean what John was getting at is companies don't want to do this themselves. They want to turn it over to a provider.

RO: No, absolutely. In fact, we offer an outsourcing offering, GXS Managed Services that leverages many of the technology [inaudible] that John has mentioned on the Trading Grid. It's a service that is delivered through the trading grid. And it helps companies do the low level plumbing integration that supports their supply chain. Let's face it, the fax machine is the fundamental technology of today's supply chain. And we, as a service provider, are trying to fix that with this managed services offering that enables companies to exchange data in real-time with any company, irrespective of size and irrespective of their geographic location.

SK: This managed services platform, the Trading Grid, is all GXS technology or—

JR: Oh, absolutely not. No, we leverage the best-of-breed technology from across the industry. There's numerous technologies in there from companies like Oracle, BEA, and in particular one of our strategic partners, Webmethods, now Software AG.

SK: So you're taking the software vendors' technology and you're building a SaaS model around it. You're taking these third party vendors—

JR: Exactly, we're taking third party components—

JR: --and building our own platform dedicated to SaaS in there. And this is very different—

SK: Why can't these third parties just do this themselves? They've got the technology?

JR: Third parties absolutely can, but they don't have the same economies of scale that we can offer. When we put up a communications gateway, we can use it across our entire trading community. A given company can only use it across themselves. So, for instance, order lifecycle visibility, which is frequently done in concert with managed services, is a many-to-many application. That means, when you come in you can see all of your partners on there. But, when each of those partners comes in, they can see all of their partners. You can't do that with enterprise software. It's got to be installed in one enterprise or the other. So you don't have that shared view

SK: Yeah, and that's really to me, back to what we were talking about earlier, one of the big advantages of SaaS in this whole supply chain model.

JF: Yes, this is a real turn of events. I'm sitting here thinking, it's for the first time I've seen technology vendors eat their own dog food. They've not only developed the technology, they delivered it, but now they have to go work with it and create an outcome. You just can't mail the CD. We're toying around, playing around with the concept of technology enabled managed services at AMR today and this is where we see SaaS going in the future. It's not just going to be a software application discussion or infrastructure discussion, it's along the lines of what you're talking about really. More and more management of my business processes, I'm going to allow my SaaS provider to manage and simply because of the high level domain expertise they've got. I may not consider it strategic. I may not consider it core to my business.

RO: It goes back to the point we made earlier about people, process and technology and those three things working in unison. And, John, we prefer to say "drinking our own champagne," but you're absolutely right.

JF: I worked at Microsoft.

SK: So John just kind of gave us his vision on where he sees SaaS going. It seems like, as we've discussed this over the past thirty minutes, that we're sort of embarking on this new era of SaaS. Maybe I'll call it SaaS 2.0, give it kind of an interesting name, but where do you guys see this SaaS model evolving? Where are we three, five years from now? Is SaaS really a major force in the industry or is it restricted to just a couple of

niche applications that the big vendors don't do well? Do we ever get beyond five, 10 percent market share of the software market that SaaS really has? What are your guy's thoughts?

JR: I think SaaS is going to continue to be a major force. And not just a major force in SaaS but also in enterprise software. I think it's going to force the enterprise software companies to change and evolve to compete. So it's going to be very powerful because it's going to create a substitute, as Michael Porter would say, or an alternative, as most of us would say, to enterprise software. And I think that tension between those two is going to continue. Enterprise software is not going away. The investments made are going to be leveraged and people are going to use these two together. But I think SaaS is going to continue and it's going to create a world where even the smallest company can have a champagne infrastructure that they just rent on a monthly basis.

SK: Sort of level the playing field?

JR: I believe so, yeah.

RO: SaaS is going to be the innovation vehicle for our industry. All of the innovations that happen are going to be focused on the service experience of how people consume and use that software. And that's [inaudible].

SK: That's a pretty bold statement.

JF: I agree with him. I think what's happening with the system replacement now, is a big wave of application replacement. Applications I bought in the mid-90s, I don't want to buy the same thing again. I want something new and innovative. So that's benefiting service-oriented architecture. It's certainly going to benefit SaaS. I think corporate buyers want something. They want something new. They understand the value of community. But also think they have a much, much better understanding of the realities of total cost of ownership, integration cost, application development cost, on down the line.

RO: The line of business, the users of the SaaS applications are going to have a very important say in the future of SaaS. Because they're the users, they are the customers.

SK: So, we actually get the business units, the client organization is actually more involved in these decisions.

JF: They are fundamental decision makers.

JR: But I do want to make one comment. Because whenever we start talking about the business users, it tends to imply a reduction in the role of IT. I actually think internal IT organizations are going to become ever more important because it's going to be their job to help those business users assess how easy it will be to integrate. Some SaaS vendors have excellent integration abilities, just as some enterprise software vendors have. Some do not. So that role of corporate IT of putting all this stuff together and insuring service levels, it's going to evolve, but there's still very much a role for them.

SK: So enterprise IT doesn't go away. Business users are more involved. We've got a more collaborative type of environment. Traditional software doesn't go away. We've got more of a hybrid model, where SaaS, working where it does the job well, enterprise software working where it does the job well. But overall we've got a better focus on the end customer and them realizing the value from the software application. More accountability on the vendor.

I want to thank you gentleman for taking time out of your busy schedules to join us today, particularly John Fontanella from AMR Research. I appreciate you taking time away from educating the world about software-as-a-service to join us. Rory, especially appreciate you flying over from London to join us here on the panel. John, I appreciate you taking time away from building the Trading Grid to join us here and give us your insights today.

Thanks to all of you for joining us for this edition of Insights. We look forward to seeing you next quarter as we continue to discuss emerging issues in B2B integration and the supply chain.

**[End of Recording]**