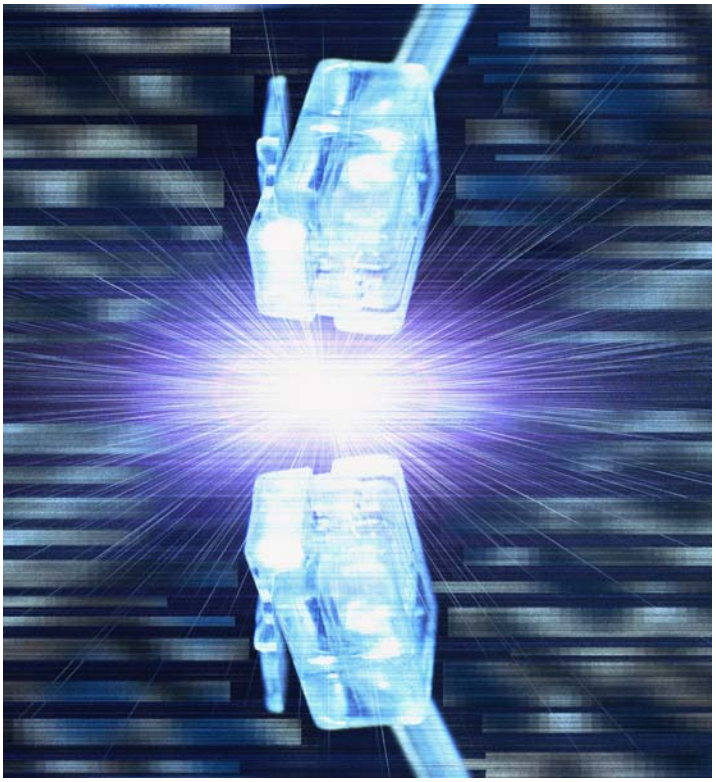
CHAINLINK RESEARCH



On Demand Now
(Summary)

How On Demand Is Radically Changing the Enterprise Software Industry

By Neil Singhal and Bill McBeath

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About ChainLink Research

ChainLink Research is a bold new supply chain research organization dedicated to helping executives improve business performance and competitiveness. ChainLink was founded on the premise that supply chains are market driven and that the management of the links between the companies has become the key determinant of the winners and losers. ChainLink's fresh approach to supply chain research, actionable analysis and high-impact decision-making workshops helps manufacturers, retailers and technology firms enter new markets, expand share and achieve peak performance in their markets.

ChainLink focuses solely on supply chain. Our 3PE methodology encompasses the Policies, Processes, Performance and Enablers for realizing supply chain excellence. Our world-class team has created a rich knowledge base of timely, next-generation business innovations, practices and technologies such as supply chain networks and small/smart/fast technologies. ChainLink's customers have achieved dramatic business transformation and results they could not get from other firms. We customize our research and findings to meet your specific objectives.

ChainLink Research bridges the gulf between supply chain managers and the CEO's team. Emerging and leading supply chain executives have recognized ChainLink as the foremost supply chain thought leader and action catalyst for the 21st century.

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Introduction

There is an end-user revolution going on. Enterprise Software customers are fed up with over-promising and under-delivering by vendors—key functionality that was in the sales deck or demo but never showed up in the product or was delayed for years; vendors that "take the money and run", once initial installation is completed; and ROI that never materialized. Of course, there have been many success stories as well, but the reality is that the traditional technology sales model never did a particularly good job of facilitating an alignment of goals between the customer and the vendor. As a result, vendors who focused almost exclusively on sales as the only goal often did not stick around to insure that the value of their product was realized for their customers.

On Demand software is changing all that. On Demand is a fundamental shift in the way technology, content and service are delivered from the software/technology firm. This shift not only changes the revenue and technology model, but more importantly, it aligns the vendor's and customer's motivations and goals in a way that enables continued customer success over the long term.

On Demand has received a lot of marketing hype, but there is very little real understanding by many users or technology firms on what true On Demand actually is. In this report, ChainLink gives a clear definition of On Demand technology.

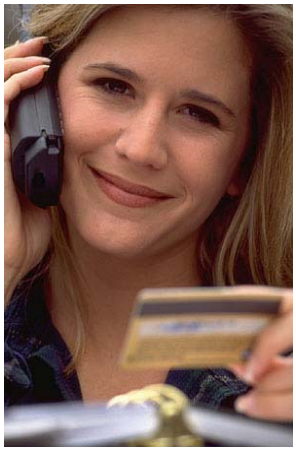
The On Demand Phenomena

Today's companies build their own data centers, buy, install, configure, tune, maintain, and support the servers, operating systems, databases and application software, operate their own help desks, and so forth. This is how they acquire traditional enterprise software.

"On Demand" software is about to change all that. On Demand is a fundamental shift in the approach of how software technology is developed and delivered. But it is not just a new technology. On Demand creates a profound transformation of the underlying economics of the software industry and the relationship between customer and vendor.

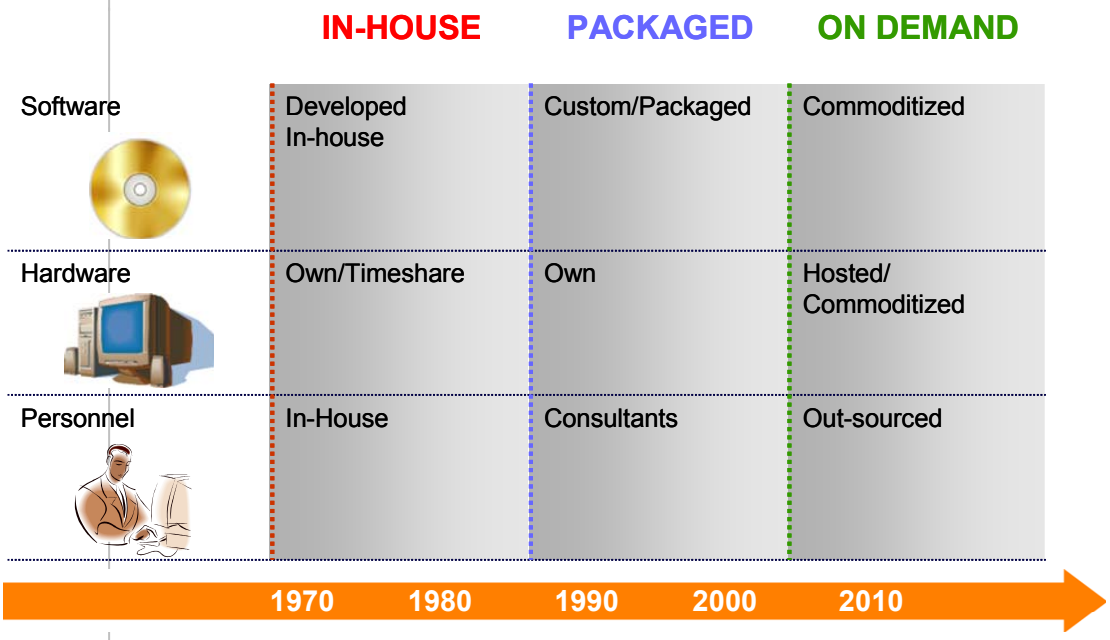
Currently there is a great deal of ambiguity and confusion among vendors and customers about what exactly is On Demand, what are the best uses for it, and what the future holds.

One of the reasons there is confusion is that each software vendor tends to define On Demand differently, to match *their* capability to deliver. Those that don't really have an On Demand architecture often simply host their application "as is" and call it On Demand. Others refer to On Demand Enterprises, which are able to respond more quickly and agilely to changing market conditions. When we use the term "On Demand" in this paper, we are referring to On Demand *Technology,* which is a relatively new way of developing, delivering, and supporting software—a service rather than a license.



Definition of On Demand

- **Pay-as-you-go**—In this new world, the vendor is not getting paid up front… they have to stick around to get paid as the customer successfully uses the system.
- **Instant deployment**—On Demand solutions are available for immediate use. Although, for complex applications, users will still have to deal with data cleanup and process changes.
- **Single Instance / Single Release**—The software is architected to support dozens or hundreds of different companies running on a single instance of the software, on a single platform. Although this may not appear to be an explicit advantage to the customer, single instance is key to the enormous economic advantage and lower cost of On Demand.



Phases of IT Evolution

Drivers of On Demand

- Renewed focus on core competencies
- IT project backlogs
- Lower risk and capital investment
- High Profile Wins
- Flat IT Budgets

Inhibitors of On Demand

- IT Resistance
- Rigid Procurement practices
- Security and availability concerns
- Ownership concerns
- Investments in existing systems
- FUD Factor

Why Now?

The IT industry has really evolved through three major phases. During the "*In-house*" phase in the 70's and early 80's, the majority of software was developed by in-house IT staffs, and it ran on very expensive mainframes, often using time-sharing services.

During the late 80's and 90's, up to about now, there has been the era of packaged applications. Hardware prices fell enough so that most companies bought and managed their own servers. The emergence of standards-based systems encouraged the rise of packaged enterprise applications in ERP, SCM, CRM and other areas. Consulting firms started playing a major role in the implementation of these systems.

Now we are at the third major shift—to On Demand. The means of software delivery and management is being commoditized. Hardware is hosted, and the bulk of the IT personnel managing these systems and applications will no longer work for the customer. They will be at hosting firms and at the software vendors themselves. The goal of On Demand software is to provide value while reducing the complexity, costs and unpredictability associated with in-house implementation and management of enterprise software packages.

Impact on Vendors

- Broader Responsibilities
- Deferred Cash Flow
- Longer Term, Closer Customer Relationship
- Single Instance Architecture
- More Rigorous QA
- Lower Cost, Increased Focus
- Efficient Sales Model

Impact on Business Customer

- Enables focus on core competencies
- Much quicker adoption of new technology
- Lower capital expenses, smoother cash flow
- Lower risk, less training, faster implementations

Impact on IT

- IT organization shrinks, mundane tasks done by vendor
- IT role shifts from tactical to strategic
- Relationship management becomes key

The Impact of On Demand

ChainLink Research developed a model to calculate the impact on the economics, and found it to be enormous.

The conclusions are stunning—total cost will be in the range of 30% - 60% of the traditional solution. There are many reasons for this. The client hardware cost doesn't change. But the cost of developing and supporting the software goes down to somewhere between 10% - 30% of today's traditional solutions, primarily for one reason—Focus. The On Demand vendor only has to develop for and support a single release on a single hardware platform, a common database model, and a single operating system. They only have to test on that one release operating system and platform. They no longer have to simulate the customer's environment, because they already own and operate the customer's environment. And now it's one system, instead of thousands of different systems, at different release levels with different combinations of patches applied at each site. That traditional model makes support very labor intensive, particularly in duplicating the customers' environments to reproduce and fix bugs.

Conclusions

We are witnessing a change as large as the emergence of standard systems and packaged applications fifteen years ago. The giant players of five or ten years from now could very well be a whole new set of companies.

Flat or reduced IT spending, and desire for faster, lower risk implementations will drive adoption. The maintenance of data bases, hosting facilities, call centers etc. can be outsourced to vendors who can exploit economies of scale and provide service at a lower cost than what would be possible in-house.

As more and more key players get on board over the next three to five years, On Demand software sales will substantially outpace traditional software sales, particularly in the SFA, TMS and B2B integration arena, with many other segments following suit. The reason is simple: "*It makes sense".* In the final analysis, On Demand brings a quantum leap forward in the speed and agility of applying IT to businesses, and it's going to have a significant positive economic impact.

Table of Contents for the Full Report:

(For information on how to purchase the Full Report, see page 1.)

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