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SaaS Represents the Commoditization of Business Function

North Bridge in partnership with GigaOm Research released their [2014 Future of Cloud Computing – 4th Annual Survey Results](#). As you examine the 124 slides, one thing is obvious that the greatest growth in cloud computing is coming from Software-as-a-Service (SaaS). Market research like this is very important because it provides tangible proof for our anecdotal hypotheses. That said, the report does not extrapolate what is the most interesting facet of SaaS hyper growth—59% in three years—the model for commoditization of business function is market validated.



Like all things that get commoditized, differentiation or uniqueness that keeps economic value high becomes less important than the common, undifferentiated features driving costs down. The interesting thing is that lower costs is a side-effect of commoditization as commoditization can only occur when businesses identify that they can achieve the same goals with the commodity item as they can with the unique one. Hence, businesses are speaking with their dollars and telling the market, we've figured out how we can operate our businesses equally well using this less complex, highly-configurable SaaS version as we can your expensive, monolithic, high-overhead, licensed version of this business function.

Maybe you've all figured this out already and I'm late to the game, but it's definitely an "A-ha" moment for me. It's easy, as demonstrated by the aforementioned report, to get caught up in the fact that cloud computing is having a disruptive impact on both the buy- and sell-side of the IT marketplace. However, for many, there is a belief that the costs, complexity, and delivery capabilities of internal IT have been the drivers for SaaS massive and rapid growth.

However, based on recent conversations with IT executives, I've come to the realization that businesses are

willing to pay the high costs associated with enterprise applications if they deliver value. Thus, in order for SaaS to be growing at the pace it's growing and seeing the increasing number of enterprise deployments, businesses have to be able to achieve an overall subset of functionality in an equivalent manner. Hence, the SaaS effect we're seeing in the market has more to do with SaaS vendors hitting the sweet spot regarding commodity business functions and less to do with businesses' frustrations with their own internal IT or agility alone. Moreover, this should be a clear message to startup SaaS companies, if you do not properly commoditize the right business function or enough of it, chances are your SaaS application will not see the success of those like Salesforce.com, Workday and others.

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