



Strategic Thinking

New Business Models for Tech Success

OpSource Offers Innovative Solution to Enable 'Software-as-a-Service'

OptiTech Services Engine Gives Software Vendors 'Contract Manufacturer' Alternative To Building Their Own Software Services

Opening Thoughts

The software industry is under enormous pressure to fundamentally redesign their products and restructure their go-to-market strategies to satisfy their customers rapidly changing requirements.

Large enterprises as well as small and mid-size businesses (SMBs) are fed up with the exorbitant costs of implementing and maintaining complex business applications such as enterprise resource planning (ERP), customer relationship management (CRM), salesforce automation (SFA) and supply-chain management (SCM). Rather than continue to squander more money on traditional software packages that often fail to achieve their original objectives, a growing proportion of large enterprises and SMBs are turning to pay-as-you-go software services.

The success of Salesforce.com, the leading provider of 'Net-native' CRM and SFA applications, is a clear indication of this trend. Salesforce.com had one of the most successful IPOs in 2004, and recently announced an 81% increase in subscribers over the past year, resulting in an 82% increase in revenues. Even more impressive, the company achieved this dramatic growth while generating \$2.2 million in net income in the third quarter compared to a \$100,000 loss during the same quarter a year ago.

Established software vendors must face three daunting challenges converting their traditional software applications into viable services. First, they must re-architect their applications to permit them to be deployed via a service delivery mechanism. Second, they must construct a service delivery infrastructure to deploy and manage their software services. And third, they must restructure their licensing and revenue recognition methodology to comply with a subscription service model.

OpSource (www.opsource.net) recently unveiled a new set of service solutions aimed at helping software vendors overcome these challenges. This profile will examine OpSource's solutions, strategy and an initial success story that demonstrates the potential of their 'contract manufacturing' approach.

OpSource's Optimal On-Demand Solution & OptiTech Services Engine

OpSource was founded in 2002 with the initial goal of providing outsourced and on-premises IT infrastructure services to Global 2000 companies, and offering private label services on behalf of telecommunications, hardware, software and other infrastructure providers.

Through a combination of direct sales and a series of acquisitions, OpSource has built a customer base of over eighty (80) enterprises that are utilizing the company's hosting capabilities, including Paramount, Experian Consumer Direct, MeadWestvaco, General Mills, and MacMillan Publishing Systems.

The hosting business has enabled OpSource to build a scaleable service delivery infrastructure, develop structured deployment and provisioning mechanisms, finetune its operating procedures and perfect its management processes. It has also given OpSource a solid and steady revenue stream to fund the development of its service solutions for software vendors.

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As the demand for software-as-a-service rises, interest among software vendors in OpSource's service solutions is likely to also grow.

OpSource's packaged service solutions currently come in two flavors. Optimal On-DemandSM is a turnkey service delivery solution that includes co-location and connectivity infrastructure; dedicated development and production environments; security and disaster recovery capabilities; and complete customer and technical support services. The service includes infrastructure management; nightly tape backups; upgrade/update rollouts; fault and performance monitoring; and ongoing change control. The service also includes 24x7 customer service and technical support with dedicated Subject Matter Experts (SMEs) trained on the software vendor's application(s); dedicated toll-free numbers and private mailboxes; automatic notification of incoming calls; and escalation management. OpSource's systems also permit real-time data exchange and knowledge collaboration with customers via XML. Optimal EnterpriseSM includes many of the same services, but is aimed at software vendors seeking a more traditional managed hosting solution in their own data center or a third-party facility. All of this is built upon OpSource's OptiTech Services EngineSM, a broad-based infrastructure platform that supports the company's services and business processes.

Agile Software Corporation, a provider of product lifecycle management (PLM) solutions, recently enlisted OpSource to provide the infrastructure capabilities to deliver Agile's new Agile On DemandTM PLM, a software-as-a-service solution for SMBs. Craig Macy, Agile's Vice President Of Products And Customer Care, SME Business Solutions, told THINKstrategies that Agile turned to OpSource because it had the expertise and experience to "work with us to figure out how to turn our software into services", and the service delivery capabilities "so we didn't have to worry" about the operational challenges of software services.

Although it is too soon to fully measure the success of Agile's new software service, the company is very pleased that OpSource's solution took less than two months to rollout from inception to deployment, and has reduced Agile's service delivery costs by 30% while giving it a highly scalable and secure PLM solution platform for the SMB market.

Strategic Thoughts

Rather than simply reselling software vendors' applications like typical hosting companies or application service providers (ASPs), OpSource has embarked on a strategy aimed at becoming the 'Flextronics of the software industry.' Just as Flextronics manufactures systems for leading hardware vendors on a contract basis, OpSource will develop and deliver services for software vendors on a contract basis.

This strategy permits OpSource to avoid the escalating competition among an expanding array of players selling hosting and application services to enterprises and SMBs. Instead, it can focus on software vendors—primarily in the \$10-100 million range—that are feeling intensifying pressure to provide their software via services. And, OpSource's solutions permit software vendors to focus on their primary business—developing software—rather than building and managing service delivery systems.

OpSource isn't alone in this niche. IBM is trying to leverage its vast on-demand, e-Business apparatus to provide a similar set of enabling services for software vendors. However, IBM's solutions come with higher costs, slower time-to-market and potential competitive issues.

OpSource reports it has additional software vendors seeking service solutions in its pipeline. As the demand for software-as-a-service rises, interest among software vendors in OpSource's service solutions is likely to also grow.

About THINKstrategies

THINKstrategies is a strategic consulting services firm that helps IT decision-makers with their sourcing strategies, IT solutions providers with their marketing strategies, and venture capitalists with their investment strategies. For more information, visit www.thinkstrategies.com, or contact Jeff Kaplan, Managing Director, at 781-431-2690 or jkaplan@thinkstrategies.com.

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