SaaS Isn’t For Everyone: When On-Premise Makes Sense

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First, let’s acknowledge that 3Gtms offers transportation management solutions as software-as-a-service as well as a purchased, on-premise customer installation. So, the company isn’t trying to push readers away from SaaS—in fact, more than half of 3Gtms’ customers utilize the company’s SaaS solution.

In today’s transportation management systems (TMS) market, companies continue to invest in transportation management software to reduce costs, improve efficiency, and help run their overall freight management functions more effectively.

Companies can either purchase and install their TMS solution or obtain the functionality through the software as a service model—and, if they are a shipper, they can simply choose to outsource the whole thing to a third-party logistics provider.

SaaS TMS offerings have been advertised as inexpensive, quick to install, uncomplicated with no expensive hardware purchases, and few development costs.

But, in spite of the positive market reception around the on-demand (SaaS) model, does it make ultimate sense for everyone?

No.

SaaS for Tactical Functionality

A primary factor driving the growth of SaaS TMS is that it’s cost-effective and fast to implement. One of the reasons why SaaS offers these benefits is that there is a single instance of software and a single database that houses many customers. This “multitenant SaaS model” has accounted for a high percentage of growth in the sale of TMS solutions.

Particularly, for companies that use technology mostly as an internal operational tool, a SaaS TMS can be highly effective and very cost conscious. With the ability to implement a standard solution in a short period of time without the need to involve an IT department, a SaaS TMS can be a sure win. A profile for these “sweet spot” users is shippers that use it in a transportation department for least cost routing, tracking, and freight bill auditing.

On-Premise for the Strategic Functionality

However, for companies that need significant customization or integration, as well as those that use technology as part of their customer delivery, a SaaS TMS can greatly drive up costs, substantially limit their business, and impair business growth. For example, for 3PLs the SaaS model makes competitive differentiation difficult along technologies because you are sharing the same system with your competitors, even with a similar web address in some cases. There is no way to differentiate the technology, thus making it difficult to win a new customer with a me-too offering that is potentially hard to customize to the customer’s workflow.
Here are five main reasons companies should consider an on-premise solution instead of a SaaS model.

**The Flexibility to Control Your Destiny**

- Your technology adapts to your business: As companies change and grow, sometimes technologies cannot scale to meet growing customer demands or don’t have the flexibility to help companies grow into new lines of business. SaaS services are therefore viewed as “tools” while on-premise technologies have the ability to be more strategic weapons as they can drive market differentiation and business process improvements.
- You determine your next steps: Based on your business and the flexibility of the installed system, you can determine what tweaks are most necessary based on your business’ criteria including existing customer demands, potential market, and costs. In SaaS models, upgrades are for the “good of the user community” and at the vendor’s pace.
- When it’s important to change quickly: With the ability to quickly change aspects of your installed TMS such as the look and feel of a screen, or to prototype a function to view for a customer to win a deal, you can enable quick implementation, and faster time to market. And, unlike SaaS models, complex workflow changes are relatively easy.
- You control who works on your solution: Whether you use your own team or hire a contractor, you control who works on your solution, the thoroughness of the quality assurance process, and the look and feel of your branded asset.

**You Control Your Data**

- Access to the data: A fundamental disadvantage to a SaaS solution is you don’t have access to the database where your data is stored. You have reports, downloads, or “views” of specific data. This prevents other applications from interactively using this data, creating reports based on all the data, and even simply extending the database to meet your specific needs.
- It’s yours forever: You can easily keep the data for as long as you wish for legal or analytical reasons without needing to constantly download parts of data or losing it due to deletion of old data by your SaaS vendor.
- Customer profile and data security: Many customers will not allow a hosted solution as they will not allow their data to be kept by a third-party vendor. Many larger customers demand high security such as those who work with a government, defense contractors or customers who are concerned about competitive espionage. Whether you are a 3PL or shipper, you own your valuable intellectual property and data. You have total control and privacy of the data with no need to disclose proprietary information to a third party.
Tighter Integration Model

• Integration is a known area of difficulty for SaaS models: 65% of IT administrators, surveyed by the research firm IDC, recognized integration as the top barrier in SaaS adoption according to a report from DestinationCRM.com.
• Control the integration expenses: Integrations with a SaaS TMS can become very expensive. This stems from the need to navigate restrictions by the vendor on access to the application, data, and communications limitations. Generally, a premise-based system costs much less to integrate with internal applications as well as customer applications and processes. For a logistics services provider, this is critical.
• Tighter integration with the database: Not being able to directly utilize the flexibility of the database can make integration costs and functionally prohibitive. Many companies use triggers in the database, extend the dataset to include data important to just your company, or mine the data for analysis and reporting with other applications. These capabilities are generally nonexistent with a SaaS TMS.
• Data is easily stored in a data warehouse for reporting, and doesn’t have to be accessed to a third-party company which can add slowness and reduce quality.
• Installed solutions fit in easily with ERPs and across the supply chain along with disaster recovery systems.
• Integration with SaaS systems is limited to basic APIs and available web services.

Cost

• Lower Total Cost of Ownership: Although more is paid in the initial cost of premise software, with SaaS you are constantly paying for application fees, hosting fees, transaction fees, and license fees. And, like leasing a car, you never own anything.
• Rent to Own Flexibility: If the vendor has both SaaS, hosted, and on-premise, a customer can typically use the SaaS version to see if the overall functionality meets the business needs. This reduces risk, enables the initial business need to be tackled while enabling you to take your time to evaluate and choose the best solution for the company.

Better Customer Experience

• Better brand and customer experience: Your interfaces look like a true customer site that represents your hard-earned brand, and not a re-skinned UI of a third-party provider.
• You control your customers’ experience: The customer service and interaction you provide to your customers isn’t dependent on the third-party’s quality and reliability. You are not dependent on the customer support service you get from your SaaS provider. For example, in a SaaS environment, a customer has a requirement tied to a delivery date and the vendor misses the critical due date. You are in the middle. In an on-premise operation, you can attack the customer service issue with one person or a whole department—dependent on your business needs.
• Fewer disruptions: No worries about your system being disrupted because your SaaS provider is going out of business; or changing their business focus or pricing matrix through acquisition.
Higher reliability and speed: With a network, there is higher latency and you are subject to network disruptions that you cannot control

Addressing the Cost of Hardware

Years ago, the price of buying computer/IT hardware to run a new software solution would give pause and even be prohibitive.

This is not the case today.

In a Harvard Business Review blog, author Andrew McAfee gave compelling insight into this economic issue in his March 29, 2010 post, “The Weird and Wonderful Economics of Digitization.”

In his article, McAfee displayed this graph that shows the sharp decline of the prices of computer equipment from the late 1940s to about the current year.

McAfee explains:

“This chart shows that since the end of WWII, prices for virtually all other types of corporate equipment have increased by about one order of magnitude (that is, one factor of 10). Over a substantially shorter time, meanwhile, computer hardware prices have decreased by about four orders of magnitude. Nothing else in the history of the industrial US economy has ever behaved like this. I’d wager, in fact, that nothing anywhere ever has.”
McAfee goes on to outline the reasons why the computer hardware costs have steadily declined: continuous technical innovation; cheap raw materials; the scale of high volume production and the highly competitive hardware market.

Summary:

In closing, we have discussed how on-premise methods are beneficial in ways that SaaS may not be able to satisfy. Among the reasons for the migration away from the SaaS TMS covered in this whitepaper are: flexibility, expensive and limited integration, total lifecycle cost, control and access of data, business valuation, and in the case of logistics companies, basic competitiveness. One CEO that migrated from a SaaS TMS to an installed TMS put it best: “My technology was dictating my business”.

Regardless of the method of delivery, TMS technology is a growing market for shippers and 3PLs.

According to a recent analyst report:

TMS Solutions Continue To Be Seen As The Key Enabler That Will Help:
- Reduce Total And Empty Miles
- Enable Better Utilization Of Freight Capacities
- Minimize Unnecessary Moves
- Combine Loads To Use More-Economical Modes Of Transportation
- Ensure That Least Cost Modes And Carriers Are Routinely Chosen By Users

Because of various price points and different methods of delivery, transportation management systems are no longer sensible only for large companies. They are now available and affordable to a wide range of customers of all sizes.

Look at your needs and allow your decision be driven by criteria such as the need for flexibility, issues around data access, and long-term functional control.

The choices in the TMS market are plentiful, but with a bit of internal and market research, you can make the right choice.

ABOUT 3Gtms
3Gtms is The Next Generation of Transportation Software. The company was formed by a merger with Transite Technology, recognized as the award-winning developers of the industry’s leading rating engine technology. 3Gtms produces a best-of-breed suite of transportation software products used by shippers and logistics service providers to buy transportation services; plan and optimize transportation activities; execute the transportation plan; and be integral to an organization’s supply chain management framework. Visit www.3gtms.com to learn more.