



Adding Value in the Cloud: Saba's Next Generation SaaS Offerings

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Introduction: Defining the Next Generation SaaS Opportunity

The enterprise software phenomenon known alternatively as *on-demand*, *software-as-a-service (SaaS)*, and *cloud computing* has moved rapidly to a new level of maturity and value for customers. This shift has come in part as the result of a broader applicability of cloud or SaaS technology to enterprise software, and in part thanks to the efforts of software vendors to learn from and improve upon the examples of the early SaaS pioneers.

The ROI of the first generation of SaaS software was grounded largely in avoiding IT-related costs. The new generation of SaaS software derives additional ROI from delivering specific value that includes both never-before-seen functionality, as well as significant improvements to well-known business processes.

As next-generation SaaS solutions emerge in the market, the value of SaaS as a delivery model increases as more enterprise functionality is moved to a cloud-based platform. The growing number of next generation SaaS solutions has its own network effect: As more enterprise functionality is migrated to the cloud, and more stakeholders participate in this functionality, the value of individual SaaS applications operating grows significantly. This self-appreciating network-effect represents an increasingly significant value that was unrealizable in the first generation of SaaS applications.

One of the companies that has taken this next generation capability and brought it to fruition is Saba Software Inc., a market-leader in people management software and services, based in Redwood Shores, California. Saba has asked Enterprise Applications Consulting (EAC) to review its SaaS applications in order to assess their ability to provide this kind of next generation value. EAC's review, coupled with its interviews with Saba customers, shows a well-designed, comprehensive approach to SaaS software, built and delivered on a cloud platform that will allow customers to realize the next generation potential of SaaS software.

This report describes this next generation potential and how Saba is able to deliver that potential to its customers today. The report is organized into three sections. The first discusses the specifics of next generation SaaS and cloud-based applications in terms of the added value they can provide. The second section describes how Saba provides this next generation capability to its customers. The report concludes with a discussion of the role of customer-centricity in the people-management market, and Saba's role in delivering that value to its customers.

Next Generation Value in SaaS:

The Case for Greater Functionality and Greater Value in the Cloud

Extended Value: Opportunities for New Value in Next Generation SaaS Offerings

At the most fundamental level, the value of next-generation SaaS solutions and cloud-based infrastructures most often accrues directly to the line of business. That value is expressed by putting new capabilities and functionality into the hands of existing and new users and stakeholders. This expansion of the usage and number of stakeholders is a natural extension of the focus on customer and people-centric processes that was typically found in first generation CRM and talent management SaaS solutions. This people-centric focus of next generation SaaS solutions then becomes the basis for the creation of next generation value. In many cases, these new functions aren't simply SaaS versions of existing functions, but they represent net-new functions that were unavailable or cost-prohibitive in the on-premise world.

Configurability is another area where added value can be found. While configurability has always been a major capability of SaaS offerings, next generation SaaS has emphasized an even greater focus on deploying a system that provides services that are as highly tailored to the customers' requirements as possible, and have a direct impact on business outcome.

Aggregating Data, Processes, and People: The Network Effect

While line-of-business functionality, the extension of the stakeholder base, and configurability lay the groundwork for value, the most dramatic and far-reaching value-add for next generation SaaS offerings starts with the network effect that comes from aggregating data, processes, and people into a single cloud-based platform. In most cases, this level of aggregation typically spans organizational and functional boundaries in ways not typical in first generation systems, or on-premise applications.

THE NETWORK EFFECT OF NEXT GENERATION SAAS APPLICATIONS

- Provide Broader Data, Process, and People Connectivity
- Support Extended Connectivity across Organizational and Functional Boundaries
- Facilitate New Levels of Collaboration
- Standardize Business Processes for a Broad Range of Stakeholders
- Reduce the Complexity of Connectivity and Lower Per-connection Costs
- Extended Analytics Supported by Increased Quantity and Quality of Data

The aggregation inherent in these offerings is the result of the requirement that next generation cloud-based platforms operate as a single point of integration for the different functions provided in the cloud. Most of these offerings include integration-as-a-service as a primary function. This capability removes the enormous cost and complexity of building and maintaining peer-to-peer connections between different stakeholders, applications, and data sources.

The network effect also opens up new levels of collaboration and consistency that add additional value to the next generation SaaS environment. Enhanced levels of collaboration between otherwise disconnected stakeholders are often the first order of benefit. At the most basic level, the ability to publish information and solicit input from a variety of previously disconnected stakeholders is a key source of value. That value increases as these disparate stakeholders use the next generation platform for collaborative activities as well as shared communications.

**VIRTUOUS VALUE:
THE SELF-APPRECIATING VALUE OF NEXT GENERATION SAAS OFFERINGS**

Diminishing costs for new connectivity = **More Aggregated Data Available**

Diminishing costs for new stakeholder on-boarding = **More Stakeholders Connected**

Growing network effect as more stakeholders participate = **More Collaboration**

Growing analytical value as more stakeholders participate = **Better Planning and Execution**

Lower cost of enabling new business models = **Faster Ramp-up and Participation of Network**

The Analytics Added-Value and the Self-Appreciating Asset

The multi-stakeholder connectivity inherent in next generation SaaS applications leads to a significant increase in the data available for comprehensive analytics, such as performance management and predictive analytics. This capability starts with the fact that in the process of enabling new functionality, next generation offerings normalize the data flowing between stakeholders as part of the connectivity offered by the application. These data are then readily available for analytical purposes, in addition to supporting business processes. In many cases, the newness of the interaction models enabled by the SaaS offering means that entirely new and potentially very valuable data are now available for analysis.

The accumulation of these features leads directly to what EAC calls the self-appreciating value of next generation SaaS offerings. The premise behind the self-appreciating nature of these applications is that the cost per stakeholder tends to go down as more stakeholders participate in the service, and therefore the overall value of the service – including its value to any individual stakeholder – grows as more stakeholders participate and more processes are enabled as part of the SaaS offering.

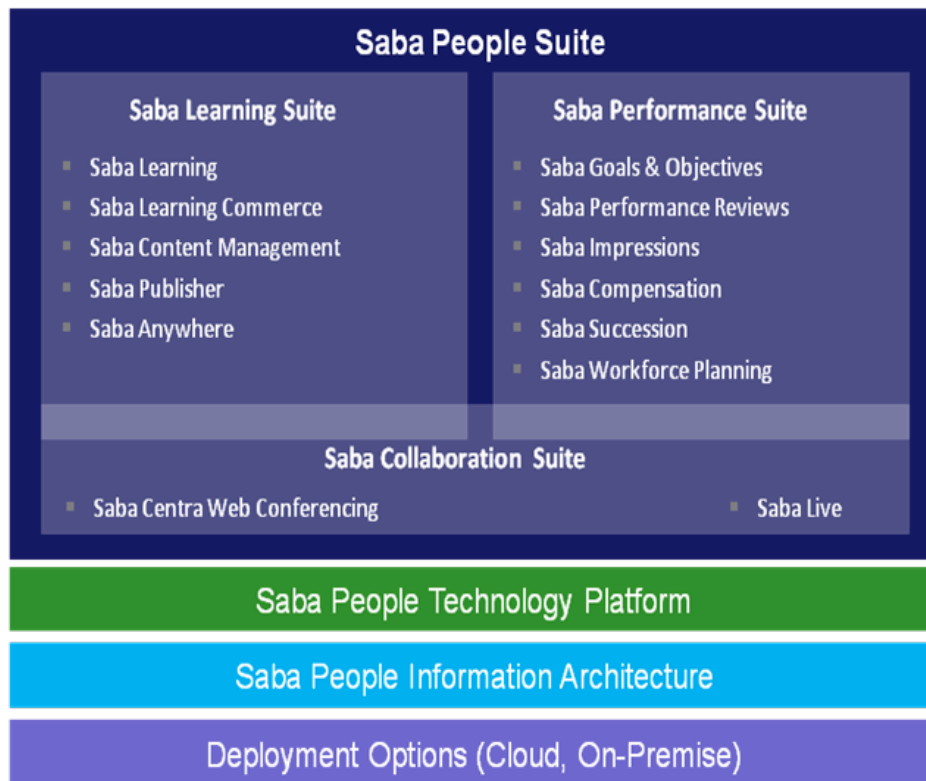
As we shall see in the next section, Saba has built and deployed a set of cloud-based applications that provide the value of next-generation SaaS offerings to its customers, and this set of applications is already delivering self-appreciating value.

Saba's Next Generation SaaS Offerings in Action

Saba Software Inc.'s embrace of the cloud and its ability to support next generation SaaS offerings can be seen in the broad range of capabilities that the company has brought to market. At a fundamental level, Saba is among the first companies to make available the breadth of its on-premise offerings in a comparable and, importantly, interchangeable SaaS fashion. This interchangeability also makes Saba one of the foremost developers and providers of a hybrid SaaS/on-premise offering, and this allows a degree of deployment flexibility that is largely unavailable in what Saba calls the “People Systems” market.

Saba's People Systems SaaS offering includes a number of capabilities – such as learning management, performance management, succession management, workforce planning, compensation, enterprise web conferencing, and enterprise business networking – that are familiar to Saba's historical customer base, as well as that of its competitors. (See Figure 1, below.) These services are supported by both a business intelligence capability and a knowledge management system, and are delivered on a fully-integrated, unified platform. People Systems also provides the integration and support services necessary to ensure that the SaaS offering is fully integrated into the existing enterprise back-office, as well as its ecosystem of stakeholders.

Figure 1: Saba People Systems and the People Systems Cloud



Source: Saba Software, Inc.

Backing up these capabilities is a cloud infrastructure – supported by Amazon Web Services, as well as Saba’s own data centers – that provides 99.5% guaranteed uptime, security, disaster recovery, and other basic requirements of the SaaS world. The Saba cloud-based infrastructure also provides a platform for the provision of services that can be quickly developed and deployed without depending on traditional, on-premise development and delivery timetables.

One example of how Saba can use its cloud platform to provide additional SaaS services can be seen in a recently released service called Saba Impressions. This is a relatively light-weight, simple application that allows members of work groups to provide feedback to the working environment on a specific individual. This feedback can then be used for performance appraisals as well as for helping to define the value of an individual’s group participation.

As part of EAC’s review of Saba’s SaaS offering, EAC interviewed three representative customers in three widely disparate industries. The results show a customer base that initially embraced Saba’s

solutions as a first generation service that provides lower IT costs and improved business process support, and then moving forward, realized measurable next-generation value as well. Despite the newness of the concepts behind next-generation SaaS, it is clear that Saba's customers are reaping the benefits of these capabilities in numerous and measurable ways. First and foremost is the self-appreciating value of Saba's SaaS offering.

Extended Value: The Self-Appreciating Value of Saba's People Systems SaaS Offerings

The self-appreciating value of Saba People Systems can be illustrated by looking at a global restaurant management company that has been using Saba for the last five years. The company's initial experience running Saba's SaaS offering allowed it to avoid a \$1 million implementation cost for upgrading their previous on-premise learning management system (LMS). "We put our capital into building new restaurants. We didn't want to put it into IT. And after not keeping up the pace in IT, it was even more expensive to upgrade," the company's learning management manager said.

While this company's Saba implementation delivers "classic" first generation benefits, the implementation has also positioned the company to realize additional next-generation benefits in terms of improved business operations. One clear next-generation benefit comes from the improvements to the training evaluation process that this customer undertakes in partnership with a talent management analytics company. Saba's People Systems offering makes it easy for this customer to work more closely with the partner and use their analytics more efficiently, according to the customer's learning management manager. "Because it's all SaaS, I can do [training, evaluation, and follow-up] very nimbly from the business side," the manager reports.

The fact that Saba made it easy to on-board a key partner and integrate the partner's functionality into Saba's SaaS learning management processes has made it easy for the customer to expand the value of its overall training processes. "The integration with these analytics was done by one person on my team – my business administrator for learning technology," the learning manager said, adding that this business administrator was able to do the integration without involving the IT department. "Because it was in the cloud, our IT people didn't know and didn't care."

Extended Value: The Network Effect at Work

The network effect of Saba's SaaS offerings can be seen in how this restaurant company has been able to roll out a new training system. Training and retention are enormous problems for this company, which measures its employee base in the tens of thousands, and has struggled with a historical annual turnover

rate of 150 percent. The company was able to reduce that turnover rate to 70 percent, due in part to its deployment of Saba.

Before Saba, scheduling a new class, communicating its availability, and then managing enrollment took up to 38 hours for each class or event. With several hundred classes or events per year, the burden was extraordinary. Using Saba, this customer has been able to reduce total management load to less than two hours per class or event. And being able to take classes online has meant that “my instructor corps doesn’t have to schedule a food safety expert to teach a course,” said the learning manager. “It’s easy to say that on-line versus classroom training is an easy ROI, but the class management alone pays for the Saba system.”

Behind that ROI is a significant network effect for this customer. By deploying its training and related processes in a SaaS model, the company has been able to roll out new capabilities to its far-flung restaurant network on a step-by-step basis, building on the overall value of Saba, as the number of stakeholders on the system increases. This incremental approach was necessary due to the different and often limited technical resources available in the individual restaurants. “We needed a mechanism to get them on the network,” said the learning manager. “We had to grow into this.”

NEXT GENERATION CUSTOMER BENEFITS

- Improved Overall People Management
- Standard, Consistent Employee Communications
- Easier Partner On-boarding
- Improved ROI for Content Development
- Improved Value of Training and Talent Management Content
- Improved Talent Management Processes
- Better Executive Recognition of Top Performers
- Improved Ability to Correlate Training with Company Profitability
- Improved Employee Collaboration and Interaction

The network effect of Saba's People Systems is also in evidence in a US-based engine-manufacturing customer. This company is able to use Saba to leverage its instructional design efforts across the company, according to the customer's manager of global training. "People development is very important to us as an organization: it's going to give us a competitive edge." The Saba People Systems at this customer serves as a training content repository and management system that allows employees worldwide to access training content and services on demand. That accessibility means that the value of any individual training course developed inside this customer's training group is increased by the company's ability to distribute it with basically no incremental cost. "We are getting ROI from [leveraging the company's] instructional designers: they design an online course that goes out to everyone," said the training manager. "Before we had to change classes manually. The fact that we are able to offer the courses globally is working well for us."

This network effect has been possible without having to rely on highly configurable on-premise solutions and a lot of IT resources: "We don't have that many needs that are different than what Saba can offer. We are not using IT resources. Our IT department is extremely lean: it would be very difficult to get the kind of support [from IT that] we need for Saba," said the training manager.

The result has been a measurable return on investment for the training content development process. "We did an ROI report for the first two years of using Saba that showed a 20-30% ROI. Part of the ROI [came from reducing] the number of instructors that had been going out to teach classes," adds the company's training manager. "We were able to turn the courses into on-line courses."

The Network Effect: Saba Centra and Saba Live

The network effect of next generation SaaS can also be seen in two components of Saba's People Systems offering. The first is Saba Centra, an on-line conferencing and learning content delivery system that supports one-to-many or many-to-many collaboration. Saba Centra is used not only to connect and communicate with stakeholders – users, trainees, and managers – but also to capture and evaluate information from any Saba Centra session. These capabilities help bind individuals to the Saba cloud platform's capabilities, and are essential tools in the provision of next-generation SaaS services.

The second component is Saba Live, an enterprise business networking platform that provides Web 2.0 capabilities for connecting people and leveraging information, skills, and interactions in a social environment. Saba Live includes support for wikis, blogs, discussions, and other familiar functions of the

social web. Saba Live is frequently used in conjunction with Saba Centra to provide a comprehensive networking environment for delivering and managing social interactions.

In the last year the SaaS system has worked well for us in terms of the response time and our ability to use Saba Centra to download and record content. All of that has added opportunities for us worldwide.

— Manager of global training,
global engine manufacturer

This manufacturer's evaluation of Saba Centra illustrates the value-add that can be provided in a SaaS environment. Like other Saba customers, this company uses Saba Centra to communicate with and develop employees in its emerging talent program. The information and interactions with these employees that is captured in the Saba Centra system is then aggregated and used to inform the company's senior management of the progress of the program and its value to the company. Information from Saba Centra "lets our executives see how talented the people we have on board are," says the training manager. "This supports our initiatives to retain our talent. Saba helps us do this."

The manufacturer's use of Saba Centra as a means to communicate and manage content has also provided additional value to the company. "In the last year the SaaS system has worked well for us in terms of the response time and our ability to use Saba Centra to download and record content," said the training manager. "All of that has added opportunities for us worldwide."

These benefits are in addition to the first generation on-demand SaaS ROI that the company has been able to realize. "Putting employee tracking and self-registration in a SaaS system has freed up ROI in terms of administrative support," said the training manager. Company-wide compliance training now gets done in a more cost-effective manner as well. "That's important training that needs to get done and done at low-cost," added the training manager.

The customer is also counting on added value as it is looking into using Saba Live. The requirement for standardizing not just training, but the company's overall employee messaging and communications efforts lends itself well to an on-line, SaaS collaboration tool like Saba Live. "We see Saba Live as a common glue and platform for interactions inside our employee portal," said the training manager. Being able to communicate consistently and rapidly to its worldwide employee base is seen as a way to continually improve company best practices and standardize company culture. "I would like all my interactions to be the same. I would like the rules for my users to be the same. I don't have that today."

Jeffrey Jennings, the national training director for Sonic Automotive, Inc., a nation-wide automotive retailer based in Charlotte, NC, has a similar opinion about the network effect of using Saba to help standardize business practices. Sonic uses Saba's SaaS solutions to help employees access content similar to what they'd find in the employee "Playbook," in order to have a consistent set of practices and policies for its employees. "The on-demand nature of Saba helps employees access information in the secure Playbook environment from outside the company's firewall," adds Jennings.

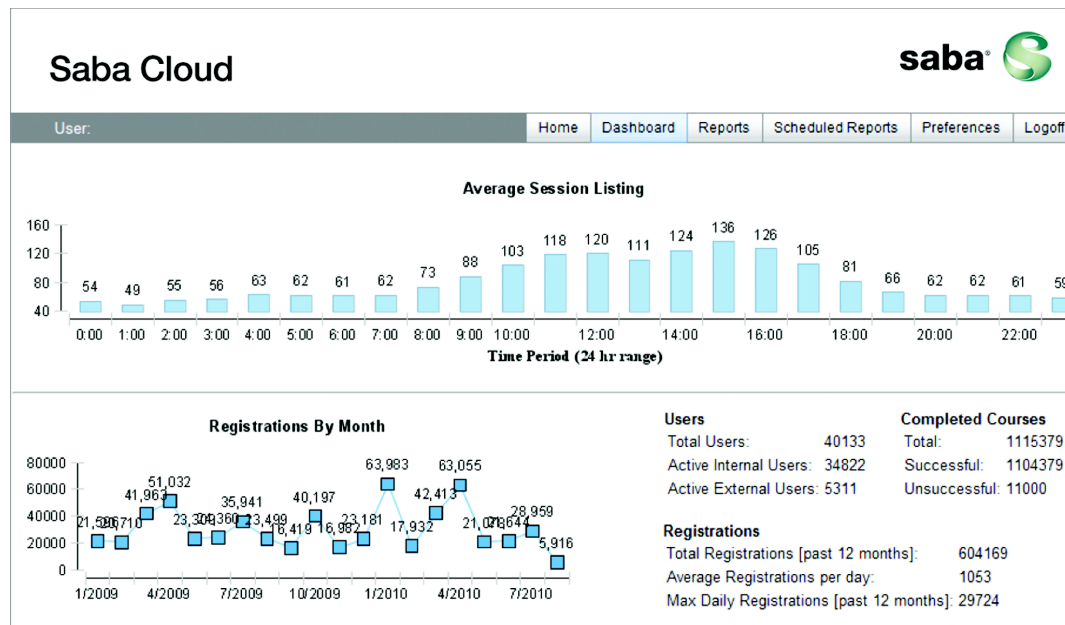
Next up for Sonic is Saba Live, which the company plans to use to find and nurture its "thought leaders." Added Jennings: "I know who the best parts-person in the business is. How many other people know that? Wouldn't you love to ask him questions about parts? We want to get to the point where we can integrate that knowledge across the company."

Extended Value: The Self-Appreciating Effects of Advanced Analytics

Another key component in the self-appreciating effects of the Saba offering is an advanced analytics capability – Saba Adoption Metrics – that provides a broad range of pre-built reports, as well as custom reports that go beyond the basic reporting capabilities of first generation products. Fueling these advanced analytics is the fact that the increase in both the types of processes supported by Saba – such as the collaboration enabled by Saba Centra and Saba Live, and their usefulness by employees and other stakeholders – means that Saba Adoption Metrics can access a much larger data set than other talent-management or people-management systems.

Those data allow Saba to provide metrics and analytics that go well beyond typical information, while many systems measure employee training levels by only looking at registration data. Saba can therefore provide a new level of analysis based on a richer set of interactions than is possible in either an on-premise or first generation SaaS solution. By having a much richer set of data about employees, their training, and other related activities, Saba customers are able to use these data to significantly improve their workforce people, learning and collaboration management activities, and ensure that training and other employee tools are used in the correct manner. (See Figure 2)

Figure 2: Saba Adoption Metrics



Saba’s next generation analytics and adoption metrics allow users to track key performance indicators that go beyond the scope of first generation SaaS offerings.

Source: Saba Software, Inc.

The ability to use a next generation SaaS system as the focal point for a new level of business analysis is very much in the thinking of Sonic’s Jennings. “Saba’s performance management and succession planning, combined with Saba Live, will allow us to see an associate’s performance, and their contribution to the company in a more holistic way,” Jennings said. “We want people to get feedback in a very consistent way. Saba will allow us to do the performance review on line.”

Sonic is particularly interested in using Saba’s People Systems to help it reduce employee turnover, which averages 75 percent per year in the automotive retail market, while improving the value of its employees’ interactions with customers. So far, Sonic has reduced its turnover to 31 percent, due in part to its use of Saba. “We are investing more in our people, so when the economy returns we’re ready. We needed an LMS to grow where we want to take our business,” said Jennings. To that end, Sonic uses the analytics capabilities of Saba’s SaaS offering to not just track how many people have completed their training, but also to track what the direct business impact of that training is.

One key item in Sonic's training has been to emphasize the importance of doing a full seven-point inspection when a customer brings his or her car into a service facility. Those employees that do the full inspection have been able to bring more business to Sonic in the form of additional repair opportunities per customer, which netted Sonic \$3 million last year. "We can track the training to correlate it with profitability," said Jennings. "It more than pays for the training."

In each of these interviews, it was clear that Saba's customers were able to begin realizing the next generation value of Saba People Systems as part of fulfilling the basic requirements for cost savings, improved people management, better training, and other first generation rationales. The ability of Saba's SaaS offerings to significantly improve communications with employees and managers at all three companies, and leverage their collaborative activities in Saba Centra and Saba Live, were part of a shift from first to next generation value. And as more and more of these interactions are captured across the range of the People Systems' functionality, the more the next generation network effect – combined with the advanced analytics and metrics of the Saba cloud platform – will provide an increasingly valuable platform for people management.

The result is that Saba's People Systems offering provides a unique combination of "classic" on-premise people management functions in a SaaS model, plus a growing set of new SaaS offerings such as Saba Centra and Saba Live. Taken as a whole, Saba's SaaS offering provides a solid platform for achieving core first generation value, and, it sets the stage for a next-generation network effect that will bring additional value and return on investment to Saba's customers.

Conclusion: The Customer-centricity of Next Generation SaaS

One of the most important threads that wove through EAC's conversations with Saba's customers was how their companies were leveraging Saba People Systems to improve employee skills and interactions, retain top performing employees, and in the process improve their companies' customer interactions. It is no accident that companies that value the kinds of services provided by Saba People Systems also see the correlation between people management and customer satisfaction: Excellence in training and talent management are at the forefront of the drive to improve customer satisfaction, which in turn is increasingly correlated with profitability and lower operating costs.

Saba's ability to provide a similarly high level of customer satisfaction to *its* customers is also no accident. Indeed, flexibility in the deployment and diffusion of the people management content and capabilities embodied in Saba's People Systems is a primary reason why Saba's customers are able to make such comprehensive use of the platform. Saba's SaaS offering allows a significant amount of "customization" to fit its individual customer needs without breaking the SaaS model: the use of wizards and other configuration tools helps Saba's business users create the people management system they need to run their business, without burdening the IT department with the job.

This combination of rich capability – both in terms of first and next generation SaaS capabilities – means that Saba is able to do a better job of supporting its customers' requirements to be customer-centric in their own right. The fact that Saba understands and delivers on this virtuous circle reflects well on the company's understanding of its market and its customers' needs.

Saba's People Systems offering represents a leading market opportunity for companies to begin the shift towards greater overall success by starting with first generation improvements in operating costs, and then rapidly moving towards next generation value creation. There are only a handful of vendors that have even understood this opportunity, and even fewer that can pretend to pull it off. Saba has clearly succeeded in bridging first and next generation SaaS value, and in the process has made its customers all the more successful for their efforts.