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## Online Software: Buzz vs. Business It May Be Simple and Cheap, But Matching It to the Task Is Often an Issue

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Online software is supposed to make business computing cheaper and easier. But cost and simplicity don't matter if the software doesn't do what a company needs it to do.

That is currently one of the challenges facing corporate-technology leaders. Even the ones who favor online software -- which is the accessing of software over the Internet through a Web browser instead of on tech equipment that they own and operate -- often can't find a product that meets their needs. And ultimately, that is what is most important for businesses.

The average worker doesn't know how the software that helps get the job done is delivered, and most don't care. "They just want it to work," says Peter Young, vice president of information technology at biotech firm MedImmune Inc. The upshot: Mr. Young and other tech leaders say that how well software fits a business still holds the greatest weight in their tech-buying decisions.

All of this poses challenges to online software -- or "software as a service" as it is known in the tech industry. The sector has recently garnered plenty of buzz: Late last year, online-software firm **NetSuite Inc.** staged a successful initial public offering and some large traditional software firms, such as SAP AG, are also venturing into the online-software arena. Advocates say online software costs less and is faster to implement than traditional software because there isn't any equipment to buy or code to write.

Despite this, online software accounts for only about 6% of business-software sales, or about \$5.1 billion, says Ben Pring, an analyst at the Gartner Group. While the segment is growing rapidly, increasing 21% from 2006 to 2007, it was "starting from a small base," he notes.

So far, the online software that is available is best suited for less-complex business tasks, such as managing sales leads or automating some human-resources work, which have the broadest possible customer base. It is harder to

find online software that handles tasks like managing a supply chain or crunching financials that differ wildly from business to business. Mr. Pring expects these offerings to materialize over the next few years. Within five years, he projects software as a service will constitute between 15% and 18% of business-software sales.

But businesses can't always wait. When children's product maker Boon Inc. needed to upgrade the system it used to take orders, track inventory and manage accounting in 2005, Ryan Fernandez, president of Chandler, Ariz., firm asked his tech consultant to identify the five best options. The list contained companies that sold both online software and traditional software.

Mr. Fernandez says he considered going with online software but quickly realized that he was more comfortable being in control, similar to the way someone might prefer to own a home rather than rent. "I need to be able to see how things are working," he says. "I don't like my data going off-site." He was also skeptical that online software would be cheaper over the long run.

Ultimately, Mr. Fernandez bought traditional software from Exact Holding NV's Exact Holding North America Inc. that he runs on tech equipment that he bought and operates. He says the software-as-a-service options would have cost \$10,000 a year, while he was able to buy the software from Exact for \$35,000, plus \$5,000 for equipment. So while the online software might be cheaper at first, it would cost more long term.

Molly Hunting, the technology manager at Shape Corp., an auto-parts manufacturer in Grand Haven, Mich., is another one who balked at getting online software. "There are things that make you think twice about it," she says. "You're getting married to the vendor. They have our software; they have our data."

Indeed, software as a service is such a departure from what IT departments are used to that only 6% of IT leaders said it was the way they preferred to buy software in a December survey by Forrester Research. (One consequence of this is that online-software companies often try to sell their products directly to business executives, bypassing the IT department.)

Ms. Hunting ultimately decided to go with online software from Plexus Systems Inc. But she didn't buy the online software because it comes over the Internet; rather, she says, it was the product best suited for managing Shape's manufacturing floor, which includes tracking when parts of machine equipment need to be replaced and automating many of the tasks the 1,400 workers formerly performed manually.

"We bought for functionality, not the delivery model," Ms. Hunting says. She declined to say how much she is paying other than that it is less than what she might have spent on traditional software, but not by much.

Some tech leaders remain attracted to online software. MedImmune's Mr. Young says he chooses software as a service whenever possible -- he uses an online version of Siebel customer-management software from Oracle Corp., among others -- but says it isn't an option for more-complicated functions like MedImmune's manufacturing process. Because his industry is so tightly regulated, he needs software that is highly configurable and doesn't think there is an online-software offering that works. So MedImmune uses software from SAP that it runs itself. "Certain applications are no-brainers" to deliver online, he says. "But some aren't suited for this."

Fabrice Cancre, chief operating officer at Olympus NDT, a division of Olympus Corp., agrees. He is a fan of online software, having used **NetSuite's** management software for the past six years. That software, which costs Mr. Cancre less than \$100 a person a month, is a fixed cost, which makes budgeting easier. He also loves that he doesn't have to install new versions of the software every few years -- **NetSuite** updates the software on its Web site, and customers automatically have access to the latest version.

But when it came time to choose a manufacturing system in 2004, Mr. Cancre selected traditional software from Infor Global Solutions Inc. In spite of his belief in online software, he says, "the No. 1 question has to be, 'Is the product going to meet our needs.'"

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