

Software-as-a-Service: A Better Approach for Retailers

Deploy your price optimization software using SaaS

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Abstract

For retailers of fast-moving consumer goods, price optimization software has become a must-have tool. Recent advances in price optimization are delivering undisputed results to early adopters, providing an edge in a rapidly changing, increasingly fragmented, and ultra-competitive marketplace. Traditionally, retailers using price optimization software have purchased the software, and assumed responsibility for installing and integrating it with their own Information Technology environment.

As the pace of development and complexity of modern price optimization systems continues to evolve at unprecedented speeds, more retailers are discovering the value of Software-as-a-Service (SaaS). Unlike traditional "on-site" software packages, the SaaS model of implementation delivers significantly different options to the retailer.

In sum, SaaS is a software delivery approach that means the product is installed, hosted, maintained, upgraded and sometimes even operated by the software vendor. Retailers access most SaaS systems through an Internet portal. Price optimization software is the latest addition to the SaaS stable. Software for other business functions has been delivered via SaaS for the better part of the past decade; including business development, sales, and customer relations management. Salesforce.com is perhaps the best example.

This paper explores why the SaaS model has emerged as a cost-efficient, customizable deployment platform for price optimization software, and demonstrates how retailers can reap greater ROI and profit growth through a SaaS model than through the traditional on-premise software ownership model.

Business Computing Moves to the "Cloud"

Unlike previous decades, the Internet is now becoming the dominant delivery vehicle for a host of business applications traditionally purchased and deployed on a localized level. Lead companies across a variety of industries are rapidly shifting data storage, CRM, accounting, human resources, creative services, and other key business functions to what has become known as "cloud computing." The "cloud" is a metaphor that represents the virtual orchestra of computers, servers, and software applications that converge to create a company's technical infrastructure. It will be the defining feature of 21st-century IT infrastructure. The emergence of web-based business systems such as Google Apps points to the day in the near future where even the basic business functions such as writing a letter or updating calendars will be conducted using online software and services accessed through the web browser such as Microsoft's Internet Explorer. As storage has become more affordable, and data has become more portable, this trend has ignited a revolution in the way we do business - and made it cheaper, more accessible, and more reliable.

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Top-10 benefits of SaaS for Price Optimization Software

The SaaS model is a direct outgrowth of the movement toward “on-demand” or cloud computing. Providers of price optimization software have now joined the SaaS movement, to the delight of retailers. The availability of price optimization software through SaaS creates at least ten important advantages for the retailer of fast-moving retail goods. When compared to an on-site software model, SaaS delivers most notably a lower cost of ownership, higher user value, more rich applications and features, and a more accessible product. In more detail, here are the top-10 reasons leading retailers of all sizes should strongly consider the SaaS model for their price optimization software purchase:

1. Lower Initial Cost

Of all the drawbacks normally associated with the traditional on-premise model most retailers cite initial investment and startup costs as the factor most likely to present a barrier to adoption. Traditional on-premise models require 5 to 10 times more up-front investment than the typical SaaS deployment.

Particularly for large retailers, on-premise solutions often require significant investment of financed capital – an additional cost that vendors are not obligated to include in their cost proposals. Further, traditional on-premise software systems typically do not account for a variety of hidden costs, such as professional service fees (i.e., travel, un-budgeted equipment); software maintenance and/or upgrades; and customization (i.e., re-modeling and re-programming).

2. Faster Deployment and Return-On-Investment

Retailers not only need to manage the up-front cost of their price optimization software investment, they also need to consider all the factors associated with its deployment. One of the most critical variables is the amount of time required to get the software fully implemented and launched. SaaS deployments typically require 60-90 days or less, compared to on-premise license model integrations that typically require 6 to 8 months. Since your price optimization software will likely produce system-wide margin and profit increases in the first week of deployment, losing time during implementation means, in essence, losing money.

The impact of quick start-up should not be underestimated. Retailers disciplined in managing how they invest their time and financial resources see clearly that the quicker the path to profit, the quicker the path to total ROI. SaaS solutions come online more quickly and generate greater returns faster than traditional licensing models.

3. Lower Total Cost of Ownership

Unlike on-premise systems that require payment for the entire software and service suite up front, retailers choosing SaaS systems only pay for the applications and functions they need. With this “pay-as-you-go” model, the retailer is also afforded a measure of insurance against the effectiveness of the product. In other words, if your SaaS software isn’t working, you simply stop using it (and paying for it). There’s nothing to return and no equipment to re-sell. Additionally, the best SaaS-based price optimization vendors offer Pricing Specialists to work with customers on a one-to-one basis to identify the specific features that retailer requires, thus eliminating the need for the retailer to spend money on applications they will never use. Having an expert at your side during implementation generates a host of additional benefits.

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Another key feature of the SaaS model is that retailers don't have to worry about "paying off the system" in total. With SaaS, retailers only pay for what they use. Retailers can control the size of their monthly investment in SaaS systems by only choosing the elements they need, thus benefiting from predictable costs that are always proportional to the business impact that is delivered by the software.

The metrics associated with total cost of ownership are particularly telling. As stated, up-front costs of a SaaS software can be up to 10 times lower compared to on-premise systems. Despite this huge initial discrepancy in cost, many on-premise software vendors promote that their solution achieves cost-benefit equality with web-based SaaS systems within 4 or 5 years.

In reality, while some on-premise retailers report experiencing near or equal cost ratios somewhere around the 3-4 year mark, the vast majority of retailers using SaaS systems typically achieve significantly greater returns in year 5 and beyond. Why? Since most out-of-the-box software systems become obsolete after 5 years (including consideration for upgrades), retailers choosing SaaS are free from the cost burden of having to re-purchase and deploy an entirely new software system -- because the upgrades to SaaS systems are seamlessly rolled out "in the cloud" with little or no additional cost to individual users.

4. Global, Full-time Availability

Like all Internet-based systems, retailers who choose the SaaS model for price optimization can access the system from any Internet-connected device with a web browser, from anywhere in the world. This is one of the key driving forces behind the SaaS movement. Today's world is increasingly mobile, and many businesses have come to learn that it doesn't make sense to tether pricing data to a single computer on a single desk in an one office when it could be accessed from any Internet-connected device. Store owners or merchandising staff -- particularly for global retailers -- can remain productive working offsite any time of day.

Most price optimization solutions delivered via SaaS integrate seamlessly to any point-of-sale or back-office system -- a key factor for retailers who've already made investments in POS, Sales, or accounting systems. Another key advantage for global retailers is that, because SaaS operates through a web interface, the products often support multi-language and multi-currency capabilities.

On-premise software systems are far less accessible -- typically only a limited number of computer stations at the home office have the price optimization software installed, so working on this essential aspect of the retailer's business is limited to the time spent in the office. With SaaS price optimization systems, the number of users is limited only by management's choice as to who is provided access.

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Another critical differentiating factor is the “always-on” nature of web-based systems. Leading price optimization vendors deliver sophisticated data and operations infrastructures that offer 99.999% availability – virtually faultless online performance. This kind of availability cannot be replicated by even the best-maintained personal computer. On-premise software systems – many of which are integrated with older, legacy hardware and software infrastructure -- are notoriously prone to bugs and system faults, let alone upgrades and other maintenance issues that inevitably require downtime periods.

5. Less-stringent Lock-in

Web-based SaaS systems are essentially risk-free in terms of how retailers terminate engagements. In most SaaS agreements, retailers are able to discontinue SaaS contracts at pre-determined times with no penalties or future cost obligations, and all specific retailer information can be seamlessly and securely transferred back to the retailer upon conclusion of the engagement. Given that up-front startup costs for retailers are minimal compared to on-premise systems, SaaS vendors are basically put in the position of participating in the investment alongside the retailer.

Retailers choosing on-premise systems own their software suites, whether they choose to use any or all of the applications or not. Because on-site systems require full payment up-front, the retailer is essentially being asked to front all costs before any benefit has been derived. SaaS turns that dilemma on its head. If the retailer wants to stop using the on-premise system they have to remove it themselves, which is a time-consuming task that often produces further problems because the software has been deeply integrated into other front- and back-end applications.

6. Frequent, Value-adding Upgrades

Technology obsolescence is a fact of life for on-premise software providers. Shelf-life for most retailing software products is usually about 5 years, after which retailers are forced into a situation where they have no choice but to substantially re-invest in the replacement software applications to ensure their programs are capable of meeting basic future business needs. And the process of upgrading or replacing on-site software is laborious and error-prone, a reality that is often made more problematic by the fact that on-site software vendors are faced with servicing their entire client list at the same time when a new upgrade is released.

Off-premise systems allow retailers to benefit from a significantly larger number of upgrades and updates because off-premise software is usually updated continuously at the server level as new innovations are integrated. Scheduled software updates and upgrades are developed and released seamlessly to all users, with no interruption of service or local interaction required. For significant upgrades, on-premise vendors often charge substantial fees that are not included in the up-front purchase price. SaaS-based product upgrades are typically included in the fee structure, and retailers interested in new services simply pay an additional cost per month for the new application.

7. Greater Software Budgeting Flexibility

Particularly for larger retailers with dozens of stores, on-premise price optimization installations are notorious for cost overruns and missed deliverable deadlines. Many on-premise vendors have, over time, re-cast their rollout scenarios from all-in-one massive rollouts to more fragmented scenarios where individual product elements are delivered, so that retailers can better manage expenses and resource requirements, particularly for IT staff.

“Most out-of-the-box software systems become obsolete after 5 years.”

In this sense, SaaS systems have a clear advantage over on-premise systems – installation is highly predictable, and retailers are able to control costs by simply dialing up or down the number of location licenses they need at any one time or the level of functionality they require. Retailers thereby benefit from not tying up their budgets in expensive, unpredictable software installations.

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8. Greater Focus on Core Competencies

Time, budget, and resource-stressed retailers are typically working on so many day-to-day projects it is no wonder many retailers simply reject on-premise options because they must stay focused on core competencies.

SaaS price optimization models allow retailers to do just that. Most SaaS vendors perform the bulk of installation tasks, allowing the retailer to keep staff focused on business priorities -- particularly IT managers responsible for inventory and supply chains, and warehouse, POS, and other back-office systems. By removing the retailer from the nuts-and-bolts of software installation and configuration, SaaS vendors are essentially allowing the retailer to focus on higher-level price strategy decisions.

9. Faster Vendor Support Response

Always-on, SaaS-based price optimization vendors provide 24 hour, 365-day product and service support. Leading vendors in this space provide Retail Pricing Specialists, and other retail experts that are assigned to develop and manage one-to-one relationships with retailer clients. Many retailers report that having their Pricing Specialist on-call around the clock provides a significant competitive advantage over their competitors, and express enhanced confidence in their ability to achieve all their pricing goals because they have an outside expert working for them on their side they can consult for expert advice and input.

And because SaaS vendors are intimately familiar with the environment in which their single systems operate – an environment that has far fewer integration variables than on-premise systems – even the most complex incidents with multi-tenant retailers can be diagnosed and closed more quickly than with on-premise systems that are running on any number of applications.

10. High Level of Scalability

Scaling, once the bane of price optimization vendors, is a non-issue with the advent of the SaaS model. Today's price optimization vendors employing the SaaS model support retail operations of any size. From family-owned, single-store operations to multi-banner conglomerates operating thousands of stores with hundreds of pricing zones globally, the SaaS model provide the ultimate convenience in on-demand scaling. The flexibility of the SaaS models' shared platform enables SaaS vendors to scale the system to any number of stores. No other price optimization model can accommodate a similar level of scalability. Here's why:

Cloud computing essentially entails capturing the power of GRID technologies -- the process by which substantial computing functions are broken up into smaller components, re-assembled automatically, and then distributed across multiple servers for more rapid processing. GRID-based platforms enable processing timeframes that are a fraction of the processing speeds normally associated with a single server with a single processor. By sharing resources on GRID architectures, users benefit from the power of an aggregated network of processors.

Leading SaaS vendors typically employ a GRID architecture that is characterized by fully redundant, highly available Class A – Tier IV Data Centers that include independent power generation, multiple network redundancy nodes, and SAS 70 certified production hardware architecture. This GRID infrastructure architecture is fast becoming a hallmark of leading SaaS vendors and is helping retailers define what they should look for when considering price optimization vendors.

In sum, leading vendors have designed their systems so that there is no single point of failure – which leads to extremely high incident recovery timeframes. Many vendors have modeled their systems after some of the world's leading providers of web-based products and services, such as Google, whose online and incident-fix performance track record has become the industry standard. Individual retailers not using SaaS-based systems would not be able to achieve this scalable performance on their own.

First generation price optimization vendors who did not deploy through the SaaS model were less able to scale up for large retailers without significant effort. The SaaS model has evolved so successfully because it completely eliminates scaling barriers – as the retailer grows, access to price optimization software grows with it, and there is no need to reconfigure firewall access permissions, integrate with new POS or inventory management systems, or re-train IT and management staff.

Conclusion

The new wave of “cloud computing” is revolutionizing price optimization software delivery, and giving retailers more value, access and flexibility when it comes to pricing. The Software-as-a-Service model has finally come to price optimization software, and like other business systems delivered by off-site software and data storage price optimization practices are seeing clear improvements and significant advantages over the traditional model of on-site software purchases. At least ten distinct advantages are explored in this paper, demonstrating that the traditional model of software delivery pales in comparison to the lower costs, quicker implementation, greater flexibility, improved access, easier upgrades, and better security inherent in the SaaS model. These benefits as a whole create an additional indirect advantage for retailers choosing SaaS over software ownership; less time and energy spent on implementing and managing a software product means more time for retailers to focus on their core competencies and other priority endeavors.

Revionics is a leading provider of full-lifecycle price and promotion optimization technology for retailers and distributors in the Fast Moving Consumer Goods Industry. The Revionics Advanced Pricing System (RAPS) generates increased sales and profits through sophisticated demand intelligence and proprietary pricing science. The system optimally determines base pricing, promotional and ad pricing, temporary price reductions and markdowns. The Revionics offering is available as a Software-as-a-Service (SaaS) subscription offering over the Internet. The service includes advanced price modeling, optimization on-demand, scenario forecasting, and advanced category analytics.