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SAAS ECONOMICS

THE SAFE BET IS NO LONGER THE SMART BET

SAAS ECONOMICS – THE SAFE BET IS NO LONGER THE SMART BET

"SaaS lets you pay only for what you need, when you need it"

This white paper explores how SaaS has fundamentally changed the economics for ITSM by reducing or removing maintenance, internal resource, and infrastructure costs.

Hear traditional IT service management companies tell it, and you'd think buying their software or application service is a budget-smart choice. You'd be wrong.

Legacy ITSM solutions carry a hefty price tag from the get-go. Tally up spending on customizations, piece-part licensing and upgrades, and the cost of ownership can reach obscene proportions – an extra quarter of a million dollars here, a half a million there. ITSM often becomes the bitter pill no enterprise IT executives will do without despite the difficulties they have swallowing its associated costs.

But as an increasing number of IT executives are finding, ITSM costs don't have to be gag-inducing. When delivered on demand in a software-as-a-service (SaaS) model, ITSM gets a whole lot more palatable from a total-cost-of-ownership (TCO) perspective. No need to invest big bucks up front, or choke down hidden charges, exorbitant maintenance fees that emerge over time or pricey consulting fees that crop up every time you want to do more than a little tweak. Rather, you pay only for what you need, when you need it, based on subscription pricing for flat-cost predictability.
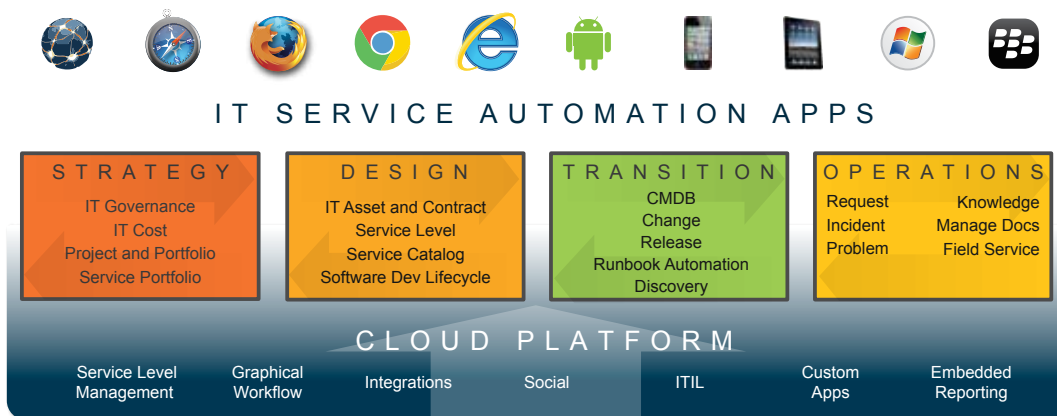
THE SAAS TCO ADVANTAGE

Whether you're just getting started with an ITSM project or considering an upgrade to an existing implementation, now is the time to think about how ITSM delivered through a new model with modern technology could benefit the bottom line – not to mention tighten that all-important relationship between IT and the business, says longtime ITSM watcher Bill Keyworth, an analyst with research firm Ptak, Noel & Associates. "I'm very pro on the SaaS model," he says. "Cost-savings are a big benefit."

Early SaaS ITSM adopters agree.

Here's one example: When one large university in the southern U.S. compared the cost of upgrading its legacy ITSM tool installation with additional modules to scrapping that software entirely and using comparable services from ServiceNow, it found it would save $262,000 annually. "That was enough of a business advantage to convince the organization to move in a new direction," reports the IT executive responsible for the project.

"We had been working on what we thought was going to be a really lucrative reimplementation arrangement, but as we dug into it, we found that what we would be purchasing was just the applications themselves, and then the licenses needed actually to access those applications would cost us another quarter of a million dollars," says the IT executive, noting that the university had been using incident management but wanted to add in new functionality such as change and portfolio management.

I T   S E R V I C E   A U T O M A T I O N   A P P S

S T R A T E G Y	D E S I G N	T R A N S I T I O N	O P E R A T I O N S
IT Governance	IT Asset and Contract	CMDB	Request — Knowledge
IT Cost	Service Level	Change	Incident — Manage Docs
Project and Portfolio	Service Catalog	Release	Problem — Field Service
Service Portfolio	Software Dev Lifecycle	Runbook Automation	
		Discovery	

C L O U D   P L A T F O R M

Service Level Management	Graphical Workflow	Integrations	Social	ITIL	Custom Apps	Embedded Reporting

Indeed, licensing, together with software maintenance and support fees, represents a big gotcha when it comes to costing out an on-premise ITSM tool. But a TCO analysis doesn't stop and start at that, warns Matt French, director of marketing and product strategy at ServiceNow. When conducting a TCO analysis, you've got to be sure your number-crunching includes spending on consulting, internal resources and infrastructure too, he says.

How each factor comes into play in your TCO will depend on what your organization is trying to achieve, French says. Are you weighing upgrading an existing tool against using SaaS ITSM, as was the case at the southern university? Have you reached a breaking point with a legacy tool and now want to shop around for another provider, on-premise or otherwise? Do you want to replace an outsourced ITSM service delivered in an application service provider (ASP) with a SaaS option?

Regardless, you might be surprised by just how much more sticking with tradition might cost you rather than going the new-age services route to ITSM.

In a nutshell, ServiceNow saves time and money on existing HP Service Desk, HP ServiceCenter and BMC Remedy implementations. ServiceNow customers often replace annual maintenance fees with a single subscription to all applications, implementation time and cost savings of 75% compared to legacy ITSM tool upgrades, and 100% infrastructure and upgrade cost avoidance. ServiceNow substantially reduces ITSM tool TCO.

"Next-generation ITSM SaaS is flexible. Leverage built-in ITIL processes or completely customize the application"

The same goes for old, rebranded ITSM technology delivered in an application service provider (ASP) model. This model falls into the same cost traps as on-premise implementations because ASPs rely on client/server software technology, too. Essentially, the ASP is simply providing residency for a legacy ITSM tool. The same application maintenance and support costs exist in the ASP model and often become more expensive through the introduction of a veritable software broker. Somebody still has to monitor, tune, deliver availability, track and fix bugs, and implement upgrades. You might shed this responsibility but not the cost.

In fact, when you start peeling away the layers, you'll quickly see that the ASP model includes unpredictable hidden costs. Hosted client/server applications weren't designed to be delivered as a hosted service. Not only do the same client/server limitations of on-premise solutions apply in an ASP model, they're magnified. Here's why: Driven by service margins, an ASP requires standardization of the applications it provides. Once an individual system requires change, the ASP loses significant operating margin. For this very reason, hosted client/service applications are not meant to be changed – you get what you see. In the event you want to configure the application to meet your needs (which all IT organizations do) you may succumb to additional fees.

Next-generation ITSM SaaS, such as delivered by ServiceNow, alleviates those problems by enabling customers to leverage out-of-box ITIL process or completely customize the application or even build new applications to meet specific needs. ServiceNow has successfully released more than 20 automated upgrades that preserved all customer changes. Modern software empowers IT to do more on its own and eliminates the use of high-dollar consulting or service fees.

For the price of a ServiceNow subscription, you get the full range of ITSM capabilities, including problem, change, release, configuration, request, IT cost, service portfolio, field service, knowledge, service-level, asset portfolio/contract, project and portfolio management, along with shared services applications that extend the services you can offer to include HR, facilities and sales force automation. All that, plus a service catalog and a configuration management database (CMDB) too. You also get automatic upgrades – thrice yearly - that preserve all customizations, continuous monitoring of instances, 24/7 support, full redundancy and more.

UNDERSTANDING TRUE TCO

Let's take a closer look at what factors you'll need to consider when conducting your TCO.

Licensing, software maintenance and support

Naturally, if you already have an ITSM application in use that you'd like to upgrade, then you have sunk costs and don't have to account for an initial outlay. However, getting a solution from a tool vendor that matches what ServiceNow offers on a complete subscription basis will likely mean buying additional licenses or acquiring completely new application modules, as discovered at the southern university. Those will cost you.

If you can no longer abide your ITSM tool and want to start from scratch with a new vendor, then you'll need to compare the price of a new tool and the ServiceNow subscription fee. However, with the tool option you'll also pay an annual software maintenance fee, which typically runs at about 15 percent (or higher) of the software's list – not discounted – price. For that fee you'll generally get rights to software upgrades, access to bug fixes and patches and basic support. You'll pay extra should you want a little special attention, such as the ability to reach technical support 24/7. So, be sure to account for platinum-type support should that be your tendency.

You will not need to factor an annual maintenance fee into a ServiceNow subscription. It's nonexistent. The ServiceNow annual subscription includes access to all applications (including multiple instances), disaster recovery services, support, upgrades, application hosting, admin training and continuous maintenance and monitoring of your instance.

As Ptak, Noel's Keyworth says, "The service environment changes the nature of what you can buy. With subscription-based licensing, you pay for what you use vs. what you might need in the long term, and that's pretty important."

Consulting

ITSM tools can be tricky, making new implementations, reimplementations and ongoing maintenance and upgrades an ITSM consultant's bread and butter. As many an ITSM tool user has learned, fine-tuning, maintaining or upgrading your deployment can mean repeatedly forking out ongoing, but oftentimes completely unpredictable, consultancy costs. "Invariably, you're going to need consultants to help understand how to use the application," Keyworth says.

At the southern university, for example, IT invested more than $75,000 in consulting over the five-year life of its ITSM tool, the IT executive says.

ServiceNow suggests a three-year upgrade model for helping to factor on-premise tool consulting costs into your TCO. In year one you'll spend on the implementation consulting, year two on ongoing maintenance just to fine-tune the implementation and year three on an upgrade, French describes. The cycle continues, he adds, with consulting costs in the next two years focused on ongoing maintenance and, in year six, upgrade.

Still, adhering to a three-year upgrade cycle puts most organizations two, maybe three, releases behind. This delay in continuous upgrades is the pinnacle of the upgrade conundrum. As legacy track records show, if an organization is behind two or three releases it may face a reimplementation.

In its TCO calculator, ServiceNow assumes the fully burdened, or extended, cost of a consultant at $10,000 weekly. Given that the average ITSM tool implementation requires a consultant's time for 47 weeks, on average, while an upgrade runs in the ballpark of 30 to 35 weeks, you can see how the consulting costs ramp up quickly. "In most cases, the cost of implementing the client/server software about triples the purchase price," French notes.

The beauty of the ServiceNow model, of course, is that no ongoing consulting fees are required and implementation services are delivered in a flat-fee statement of work. The result is complete cost predictability. At ServiceNow, the team that wrote the application handles monitoring, tuning, availability and updates to the application, so you don't have to hire out for that. An automated upgrade process delivers continuous innovation and new functionality three times per year – at no additional cost.

During six years, in fact, ServiceNow figures an IT organization with 300 users will see as much as a 92 percent reduction in consulting costs when comparing an ITSM tool to a SaaS subscription.

Managing the system using internal staff

Given the complexity of a legacy, on-premise ITSM tool, you'll need to account for a variety of associated staffing costs: for systems administrators who maintain and manage the tool (one or more for each module) and developers who customize the tool to your needs, for instance, as well as application and database server administrators on the backend.

In general, French reports, before switching to ServiceNow, customers typically have at least three systems administrators, and one or so application and database server administrators as well as about two developers for legacy ITSM tool deployments.

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For purposes of a TCO analysis, ServiceNow suggests determining staffing costs at $2,400 weekly, fully burdened, across all associated roles. While you'll want to determine the costs for ITSM system admins and developers on an annual basis, for application and database server roles you can safely figure for 11 weeks of full-time pay into your calculations, French suggests. Based on the typical enterprise staffing scenario for an ITSM tool, that would mean factoring in approximately $650,000 into your TCO.

In addition, bear in mind that the reliance on those personnel will grow during years three and six of the ITSM cycle as you consider upgrades and new applications, French adds.

On the other hand, the ITSM-as-a-service model only requires an application administrator – and only for configuring the application and managing roles and responsibilities. ServiceNow customers, with 300 users, typically designate a half full-time employee to that role for the year. So, at $2,400 per week, the associated IT cost amounts to roughly $62,400.

Infrastructure

Obviously, one of the glory points of SaaS is that no infrastructure is required. You've got no such luck with a legacy ITSM tool implementation, for which you must account for the server infrastructure on which the applications run as well as for the corresponding application and database server and relational database management system licenses.

And don't just count those costs once in your TCO. Remember to factor in each type of infrastructure scenario – development and testing, quality assurance and production, for example – as well as the hardware and licensing required for redundancy and failover, French warns. And, don't forget about hardware refreshes. Over the six-year ITSM TCO lifecyle, you'll want to account for at least one hardware refresh.

The Value of ServiceNow SaaS

Once you've conducted a TCO that factors in these major costs plus myriad others, you'll no doubt discover that ITSM as a service offers great opportunity to make a change, improve processes and, especially, reduce operating costs. As one ServiceNow customer says, "You owe it to your organization to survey the full ITSM landscape."

That customer, a utility company, conducted an exhaustive evaluation in which it ultimately pitted a Remedy upgrade/reimplementation against ServiceNow's ITSM offering, describes the IT executive in charge of the project.

The company had begun adopting the IT Infrastructure Library (ITIL) framework in 2003, using the Remedy ITSM tool, now from BMC. By 2006, the IT executive says, the time had come either to upgrade to a new version of Remedy or, in what would be a revolutionary move, switch to a different product suite. The change was forced by contractual terms – if it wanted to remain supported, an upgrade was necessary – but also necessitated by the heavy customization the organization was undertaking to get the current version up to par with the process changes it was adopting as part of its ITIL best practices initiative, the exec explains.

Having already incurred $500,000 in labor expenses alone in a Remedy upgrade two years prior, the IT executive says, "looking at another Remedy upgrade was really nothing anybody was looking forward to." Besides eating up a half a million dollars, migrating the data, carrying forward the customization and retraining staff for the Remedy upgrade took the IT organization 16 months – a real killer, the IT executive says, given that's nearly a year and a half of time not spent moving the company's processes forward.

After evaluating the two offerings on about two dozen different attributes, the company found that ServiceNow bested Remedy in areas such as configurability, overall functionality and the user interface. But cost turned out to be the biggest differentiator, she says. In a four-year net present value analysis, it determined that ServiceNow would cost less than half of what Remedy would. "That was huge," she adds.

To determine TCO, the company took into account factors such as:

- The escalation of the Remedy maintenance fee.

- The monthly per-seat cost for ServiceNow.

- Forecasted technical resources needed to support both options.

- The $0 infrastructure cost for ServiceNow vs. the operational costs of running Remedy internally.

- The labor cost associated with running Remedy within its data center.

- The cost of third-party solutions and required integration to get functionality included in ServiceNow but not in Remedy. Specifically, the company wanted a knowledge base and a service catalog, which at the point of its evaluations were not included in the BMC offering.

- Customization work inevitably required with the ITSM tool.

"I do feel that we took just about everything into account that you possibly could and the decision landed clearly in ServiceNow's favor," the IT executive says.

Ptak, Noel's Keyworth encourages others to scrutinize their ITSM choices from a TCO perspective as carefully as did this energy company. IT budgets, after all, need as much breathing room as possible these days. "ITSM SaaS is worth a look for decreasing the cost of an upgrade, lowering support costs and improving the response time to user enhancement requests," he says.

Plus, once you've made the move to ITSM SaaS, you can put that dreaded upgrade cycle and those forced vendor evaluations out of your mind forever. ServiceNow doesn't force customers into extensive upgrades to stay supported – the upgrade non-events occur automatically.

What's more, Keyworth adds, with the rise of cloud computing model, a SaaS-heavy future is in most company's impending sphere of reality. Why not build up experience with an application IT uses itself, he mulls, adding, "There certainly is a legitimate cost reduction story to tell."

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4810 Eastgate Mall San Diego, CA 92121 T | 858 720 0477   E | info@servicenow.com