Mass High Tech: The Journal of New England Technology - July 2, 2007
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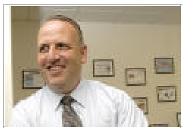
Stability? From the Web?

On-demand software delivery models equal stable revenue for more companies

Mass High Tech: The Journal of New England Technology - June 29, 2007 by Christopher Calnan Mass High Tech

Whether you call it "software as a service" or "on-demand software," it is calming the waters at both ends of the revenue stream for area tech companies that have adopted that sales strategy. The delivery model's subscription payments save customers from major outlays of capital, combined with reducing the costs of implementation and IT service. Meanwhile, by adopting the on-demand monthly subscription model, software vendors spare themselves the wild quarter-to-quarter sales fluctuations.



Sandie Allen
John Panaccione, CEO of LogicBay Corp., said customers pushed the firm into the on-demand world.
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In New England, software companies are recognizing the benefits of the model, and more and more companies are adapting it as a realistic revenue stream.

For example, Providence, R.I.-based LogicBay Corp. posted profits for the first time last quarter after taking a cue from its customers and re-designing its training software to an on-demand delivery model.

LogicBay, which started in 1993 under different ownership in Minnesota, has undergone a transformation under its new management team at KLi Learning Corp., which bought LogicBay in 2004 and moved it to Providence.

In March, the company raised $550,000 in financing from Seed Venture Finance LLC, a Taunton-based venture capital firm, in addition to an $1.8 million Series A round that KLi had received in 2003, primarily to acquire LogicBay, company officials said.

Although integration issues have been cited in the past as a concern, LogicBay shifted to an on-demand software model because customers wanted a program they could integrate with that on-demand poster child, **Salesforce.com**.

About 10 percent of the companies in North America use on-demand software rather than on-premise software, and Connecticut-based Gartner Research projects that the portion of on-demand will grow to 25 percent by 2011. Another Connecticut-based research firm, Saugatuck Technology Inc., predicts that more than 75 percent of U.S. firms will incorporate at least one on-demand application by 2010.

Thomas Wooters, vice president and investment adviser for Seed Venture Finance, said the on-demand software subscription model helps put LogicBay on solid financial footing, he said.

"Recurring revenue is always an attractive model," Wooters said. "It provides you with some predictability."

Other New England technology companies have cited the advantages of the on-demand delivery.

Eight-year-old Woburn software maker HighRoads Inc. plans to reach profitability this fiscal year -- two years after changing its name from IE-Engine Inc. and expanding from strictly benefits procurement to a broader set of human resource management functions. It also changed its delivery model to on-demand, and COO Michael Byers said last fiscal year HighRoads posted a 150 percent growth over the previous year.

The reliable revenue has benefited HighRoads, because clients purchase three-year subscriptions, Byers said. "It's given the company great predictability and visibility," he said. "We've had just unprecedented results."

For some software companies, such results have been overdue.

Waltham's Oco Inc., a developer of on-demand business-intelligence software since 1999 has finally seen more demand for its applications after years of battling the on-premise mentality of buyers. George O'Conor, founder and chief strategy officer of Oco, has said the pace of adoption has quickened over the last two years -- not unlike consumers' attitudes toward online banking.

At LogicBay, CFO Steve Chunias said the company posted revenue of $3.5 million in 2006 and projects to reach $4.3 million this year.

The company develops software used in training and measuring the performance of sales and service people working in technology companies and industrial manufacturers. Customers include Oregon's Freightliner LLC, Hewlett-Packard Co. in California and Illinois-based Caterpillar Inc.

LogicBay has identified 1,000 U.S. companies as prospective customers, which means their profile includes annual revenue of $200 million or more, Chunias said. The company's main competitor is New York-based Accenture, he said.

Under its previous owners, LogicBay reportedly had raised $21 million in venture capital by 2000. LogicBay CEO John Panaccione, who is also CEO of KLi, said investment in LogicBay eventually reached about $40 million, but he was unsure whether LogicBay had ever reached profitability.

LogicBay's shift to "software as a service" (SaaS) was a customer-driven decision, Pannaccione said. Since most security concerns have been resolved with SaaS applications, customers want it because it's faster and easier to use than installed software, he said.

"The market is really telling companies like us they want a software as a service with a technological approach that's faster to put into place and gets results within 90 days."

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