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BUSINESS PULSE SURVEY: [What should Opportunity Austin focus on over the next couple of years?](#)

Renting software online has perks for buyers, producers

Austin Business Journal - September 8, 2006 by [Curt Finch](#) Contributing Writer

Over the past decade, the technology industry has been shifting away from the traditional model, in which users install software at their physical locations, to a new model in which users rent Web-based software through the Internet. It's moving this way because customers want it to -- and so do vendors.

Most software companies receive their revenue from "shelfware," software that's rarely used and that ends up on the shelf. Popular programs such as Quicken or SAP, for which customers pay the total cost up front, can be complicated, making them difficult to use, or use well. Once a customer has paid for these programs, however, no incentive exists for the manufacturer to follow up and ensure that the product is working properly for the customer.

But hold on. Things might be improving. Austin-based companies such as Journyx Inc., (time sheets and project accounting), KaleidaCare Management Solutions (foster care automation) and Affiniscape Inc. (association management) are turning out to be quite successful in renting software to customers through the Web.

If customers sign up for a monthly service from one of these companies and the program doesn't work, customers will likely stop using the software after one month. Software providers, therefore, have an incentive to pay attention to customer usage, to find out whether the technology is providing business value and to strive to increase its value.

Austin is becoming a leader in the on-demand software revolution. Some analysts predict that by 2010, 30 percent of software revenue will be derived from software delivered via "software as a service" models.

They also predict that this year, at least two vendors will offer lightweight, Web-based tools that will eventually undermine the use of heavyweight office suites, such as Microsoft Office. Google, in fact, is offering similar tools through its purchase of **Writely.com**.

With the on-demand software model, everybody wins.

Vendors prefer on-demand software because:

- They get paid every month. It makes business more stable and predictable.
- It's easier to support. If the customer has a problem, vendors can see the problem immediately.
- They can analyze customer usage. Vendors can see what parts of the application customers find confusing, helpful or hard to find.
- Pricing models can be changed to fit the customer. Vendors can charge per week, per page viewed or per user. Flexibility in pricing works in the buyer's favor.

Customers like the hosted model better because:

- The cost of entry is low. Instead of paying a large amount of money to roll out a complex

solution across the entire company, customers can implement one test department of 20 people. The risk is low, should it fail.

- The onus is on the vendor. The company is motivated to fix any problems with the software.
- The vendor works for the buyer. Customers don't have to rely on their IT departments to install an application. Everything is running securely at the vendor's location.
- The investment is less risky. Instead of spending \$60,000 all at once, for example, customers pay for the software monthly. The monetary risk is lower.
- Vendors must provide a secure data environment, or they're out of a job. Most vendors understand that data must be backed up religiously, and that security is the top priority.

Customers' IT departments are typically pulled in many directions and can't be as focused on one program.

Customers can rest assured their data security is probably stronger with a hosted solution, not weaker. On-demand software is on the rise, and many companies will be willing to try it out -- especially if they understand the benefits.

Curt Finch is the CEO of Jourmyx Inc. He can be reached at curt@jourmyx.com.

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