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## Cloud, SaaS on the horizon for state and local governments

Posted by Ben on June 28th, 2010

State and local governments contending with budget shortfalls and declining tax revenues are taking a closer look at cloud computing and Software as a Service. And that's encouraging for cloud- or SaaS-savvy VARs that focus on government accounts.

Vendors and resellers of on-demand solutions report a bump in government sales and increased interest in the form of requests for proposals (RFPs) now hitting the street. Executives said government entities are taking to the cloud as an option for messaging and collaboration, customer relationship management and constituent services among other applications.

Economic conditions help drive demand. The SaaS model eliminates upfront software costs and hardware investment. In addition, state and local governments have a greater comfort level with cloud computing compared with previous years when the approach was still novel.

"I do think there is more activity," noted Patrick Gallagher, director of cloud computing sales at [Carahsoft Technology Corp.](#), a solutions provider based in Reston, Va. "We are seeing a lot of requirements written around a hosted software application as opposed to on premise. We have seen an uptick in requirements requiring a SaaS application."

Carahsoft serves as a reseller partner for about 100 vendors — including cloud and SaaS vendors — targeting the public sector. The company works with [Salesforce.com](#) and about a half dozen niche players. Carahsoft represents the SaaS providers on its General Services Administration contract through which state and local governments, as well as federal agencies, can make purchases.

"It's growing fast, but that's a relative measurement — cloud and SaaS are still only a very small fraction of public sector IT," said John Treadway, global director of cloud computing solutions for [Unisys Technology, Consulting and Integration Solutions](#).

### Government VARs see SaaS interest in state and local governments

So what are governments buying in cloud form? Treadway reported rising demand in collaboration and unified communications. UC solutions combine telephony, email and chat in one PC-based system.

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“In the SaaS space, one of the hottest markets is replacing in-house Exchange and SharePoint installations with hosted solutions...,” he said.

Those hosted solutions include Microsoft’s Business Productivity Online Standard Suite, Google Apps and Unisys’ own Unified Communications as a Service offering., he said.

Michael Togyi, vice president of marketing and sales at BasicGov Systems Inc., said market conditions are improving for his company’s state and local government software lineup, which is hosted on Salesforce.com’s Force.com. BasicGov provides software modules that handle functions such as permits, licensing, code enforcement and planning. The company also has a citizen access portal.

“We’re seeing a definite increase in interest in ... SaaS offerings,” Togyi said.

Governments continue to write RFPs around traditional enterprise IT requirements; even so, he estimates that nine out of 10 government entities drafting such RFPs will accept a SaaS solution. On top of that, SaaS-focused RFPs have emerged, he added.

“Just lately, we’ve seen a few come out where they specifically want a SaaS solution,” Togyi said.

Lagan, meanwhile, reports expanding sales potential for its SaaS-based CRM software for government customers. The company originally developed, and still delivers, on-premise CRM, and has since branched into SaaS with its Lagan OnDemand offering.

Steve Carter, director of North American product marketing at Lagan, said about half the company’s opportunities in North America fall in the hosted and SaaS-only category. He said about a quarter of North American customers were looking for such solutions last year.

“That is a big change from what we are used to in government, where they tend to buy and own the solution,” Carter said.

Customers who have opted for Lagan OnDemand this year include the city of Pasadena, Calif., and Cobb County, Ga.

### **Key cloud drivers: Budgets, familiarity**

The state and local budget crunch contributes to the current interest in SaaS, but other factors including diminishing in-house IT resources also play a role.

“The primary driver is cost, but an aging workforce and the need for systems revitalization are also driving this trend,” said Joe Moye, chief executive officer of Capgemini Government Solutions LLC.

Moye said states find themselves hard-pressed to support all of the software and hardware that various agencies need, noting that shared-operations models have already evolved as a result. This situation sets the stage for SaaS.

“Moving to a service model is one of the next evolutionary steps for a state or local government. It provides a manageable cost model, minimizes risks and removes the cost of upgrades and enhancements from the budget,” Moye said.

The SaaS model’s combination of cost savings and speed of deployment may also help swing state and local buying decisions.

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“If deploying a new capability via a SaaS solution is far less expensive and a lot quicker to market than traditional systems, as is typically the case, then that can be a very compelling model for a CIO to consider,” Treadway said.

Another draw for SaaS: The idea has been around for a while now, so state and local agencies feel more at ease with on-demand solutions.

Siamak Farah, chief executive officer of InfoStreet Inc., a SaaS provider, said his company tested the government sector a few years ago. Sales prospects’ lack of familiarity with the model dampened enthusiasm at that time, however.

“The market wasn’t quite ready for it,” he said. “Back then, SaaS was somewhat of a foreign word.”

But InfoStreet aims to jump back into the government market. The company this fall plans to launch a SaaS offering geared toward state and local governments. The company will sell the solution through a reseller network.

“I find the market to be very different today,” Farah noted.

### Security, privacy concerns over SaaS persist

That said, Treadway pointed out that the cloud faces some obstacles in government.

“Many state and local CIOs don’t want to let sensitive data out into the public cloud — even in a SaaS environment,” he said. “For example, welfare, unemployment, tax and health records are often mandated to remain in internal data centers.”

One remedy: a hybrid model that keeps database containing sensitive data in a private cloud, while letting front-end Web servers in a public cloud. Treadway said Unisys is working on hybrid approaches with its state and local customers.

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By John Moore, Contributor

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