

Tapping into software

Hosted-software vendors target small businesses

BY CHRISTOPHER CALNAN

STAFF WRITER

Dharmesh Shah is making a \$500,000 bet.

The 38-year-old MIT Sloan School of Management graduate student plans to spend that much of his own money to launch this month a web-hosted software service designed for very small businesses.

The company, called **HubSpot**, would enable businesses with up to 25 employees to run software from a server hosted by HubSpot, avoiding the need for small businesses to operate their own servers.

Such software companies are classified as application service providers, and the service is sometimes called “apps on tap” or “on demand,” meaning software applications are available over the web.

Major vendors include **Salesforce.com**, **IBM Corp.**, **Microsoft Corp.**, **Oracle Corp.** and **WebEx Communications Inc.**, said **Erin Traudt**, a research analyst at Framingham-based research firm IDC.

“It’s gaining traction with the vendors,” she said. “Customers are asking for this in more types of applications.”

At the small-business level, it hasn’t caught on because business owners can’t afford enterprise-level products and aren’t keen about giving up their servers, and control, to small vendors. They’re also concerned about reliability and security issues.

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BLUE ROBIN Inc.’s Hadi Shavari says changing businesspeople’s habits is a harder sell than the technology itself.

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Shah

Technology opens way for hosted software firms to target small biz

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But Shah and others say small vendors can cater to tiny businesses in specialized markets and leverage higher Internet speeds unavailable five years ago.

"It's happening," Shah said. "It's a trend. The benefits are outweighing the risks."

Last year, a **Massachusetts Technology Leadership Council** survey found that nearly half of the Bay State's software companies offer both software and services. IDC reports that worldwide spending on software as a service was \$4.2 billion in 2004 and will reach \$10.7 billion by 2009.

In Waltham, **Blue Robin Inc.** has based its business on the concept. But persuading business owners to cooperate isn't always easy, said **Hadi Shavari**, Blue Robin's executive vice president and general manager.

"A lot of people still feel funny about not being able to look at hardware in a corner and say, 'That's my business intelligence,'" Shavari said. "You don't need to have a network. Your website is your entry to your network."

Founded in 2003 by CEO **Earl Gray** and Shavari, Blue Robin has sold programs to small businesses and organizations that it hosts itself. It now serves 500 clients, Shavari said.

The deciding factor? The monthly cost is typically \$50 per employee, he said.

Shah agrees about the cost factor, but it's coupled with a convenience issue. Business owners shouldn't worry about servers and the myriad issues that go along with them, such as backup and updating software.

"It's easier to reach the customer now, the distribution is more efficient and technology has evolved," he said. "The value proposition helps it make sense."

But **Sanjeev Aggarwal**, a senior analyst for the **Yankee Group**, said business owners are reluctant to trust their information technology to an unproven entity. The programs built by startup companies put businesses at the mercy of the provider, compared with the help it could seek if it ran into problems using a program by a better-known software maker, Aggarwal said.

"Small business goes for the tried-and-true," he said. "They can't afford to have

their e-mail down. If there's a problem, who's going to fix it?"

But that's true with any type of technology glitch, said **Brian Wright**, vice president of Watertown's **Olympic Moving & Storage**, a Blue Robin client.

The 14-year-old company employs up to 100 workers during the summer and as few as 50 during the winter. It tries to outsource work that isn't part of its core business, Wright said.

And fixing problems isn't an issue, he said, because Olympic Moving gets more attention from smaller, local vendors. "You can really talk with a person who can sit down with you and knows what you need," Wright said.

Daryl Plummer, managing vice president and chief of research for **Gartner**

Research, said the major vendors are best-suited for larger customers with general needs. But tiny customers are best served by vendors that can specialize. In May, Shrewsbury's **Hebert Confections LLC** enlisted Blue Robin to create, host and manage a replacement for its outdated website, Chief Operating Officer **Jeff Goodman** said. "In business, you should do what you do best," Goodman said. "We make really great chocolate and those guys



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BLUE ROBIN CEO Earl Gray says the time is right for hosting software for small-business customers.

make really great websites."

At HubSpot, Shah said he plans to fill a demand by customers not served by more general software. It plans to offer 12 applications and is creating programs for niche industries that include 5,000 to 50,000 companies nationally.

Shah is no dreamy-eyed neophyte. In 1994, he started **Pyramid Digital Solutions** with \$10,000 in Birmingham, Ala., and operated it until 2004, when it reported revenue of \$15 million. In 2005, it was sold to **SunGard Data Systems Inc.** for an undisclosed amount, he said.

HubSpot employs six workers, but Shah expects to employ 10 by the end of the year. He plans to operate a beta project through August with 25 to 50 customers and then start a larger, public beta until the full launch in November. Shah projects slow, steady growth for the company as more businesses adopt the application service model. "We want to go after a very small customer base," he said, "and expand from there."