

A New Approach to Business Information Technology

WHITEPAPER



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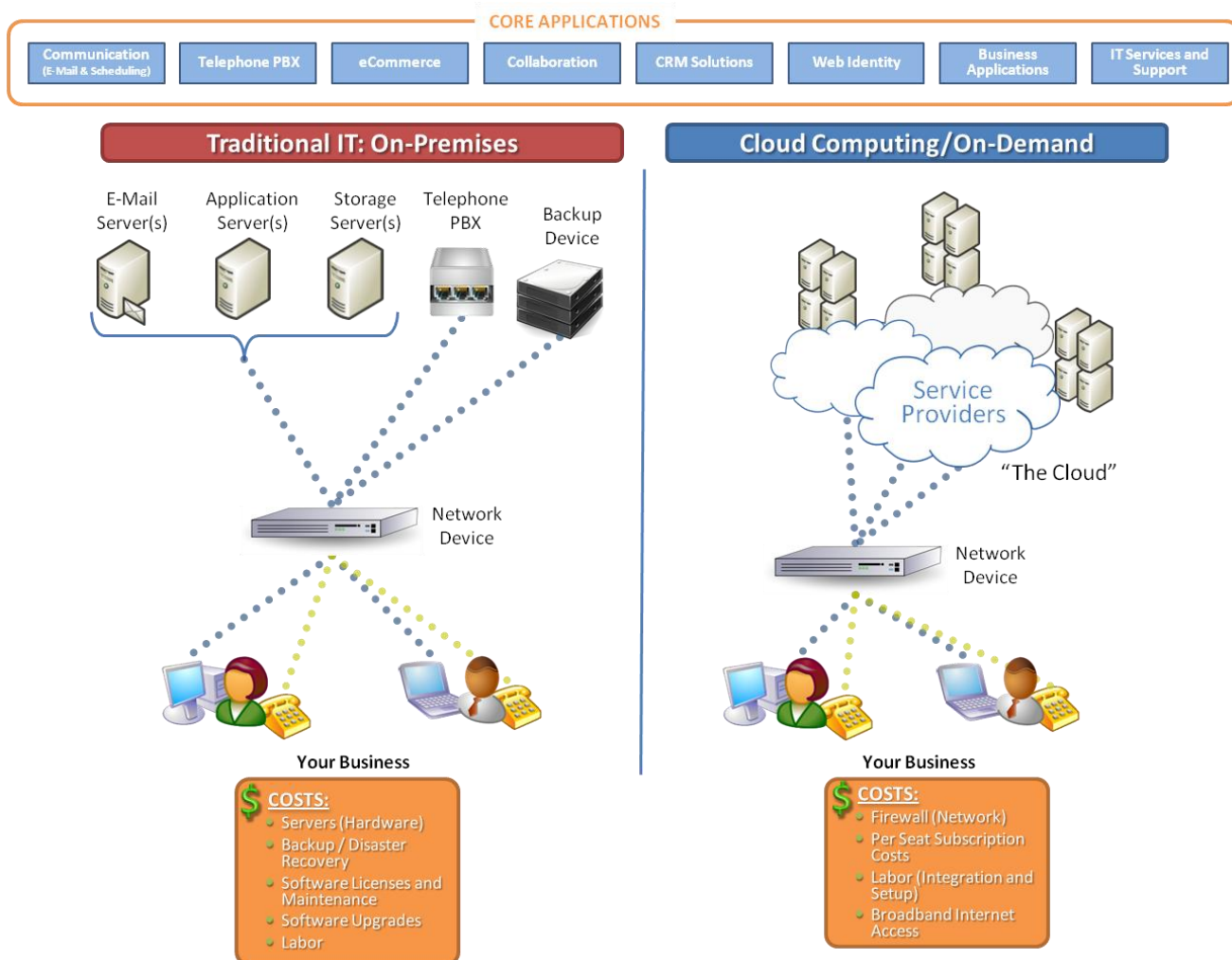
A New Approach to Business Information Technology

There is no doubt that technology plays an integral role in the success of almost every business today. Every company spends money on technology. Of course, every company is different in how they use technology but many companies use the same core programs to run their business, Messaging, Collaboration, Business Applications, Customer Relationship Management (CRM), and IT Services.

What is On-Demand or Cloud Computing?

On-Demand and Cloud Computing is a model of software deployment where the software application is hosted, as a service provided to customers across the Internet. By eliminating the need to install and run the application on the customer's own server, the burden of software maintenance, ongoing operation and support has been removed.

Traditional On-Premises IT requires the business to purchase and operate all servers, software, backup devices and telephony equipment which are housed on-site in the business office. On-Demand IT eliminates all hardware, licensed software and supporting devices because software solutions are delivered over the internet. All that is needed is a broadband internet connection and a PC. On-Demand services are managed in high-end, redundant data centers.



Advantages and Disadvantages of On-Demand IT

Advantages

The Cloud Computing or On-Demand model empowers businesses with the technology they need to succeed and differentiate themselves in a competitive marketplace through the use of SaaS or “Cloud” based solutions. This eliminates the capital investment required for onsite software solutions and provides a set of solutions that will make a real difference to the company’s bottom line.

- Faster implementation and ramp-up time to productive use of applications.
- Lower upfront and ongoing costs.
- No additional IT infrastructure for servers, networks, and storage and IT resources to support these.
- No additional IT application support staff.
- Guaranteed service-level agreements (SLAs).
- Vendor provides an enterprise-class infrastructure with appropriate servers, networking, and storage systems and is responsible for regular and more frequent application upgrades; regular customer data backups and required restores; and security and compliance requirements.
- A wide range of business software and IT services to choose from.

Disadvantages

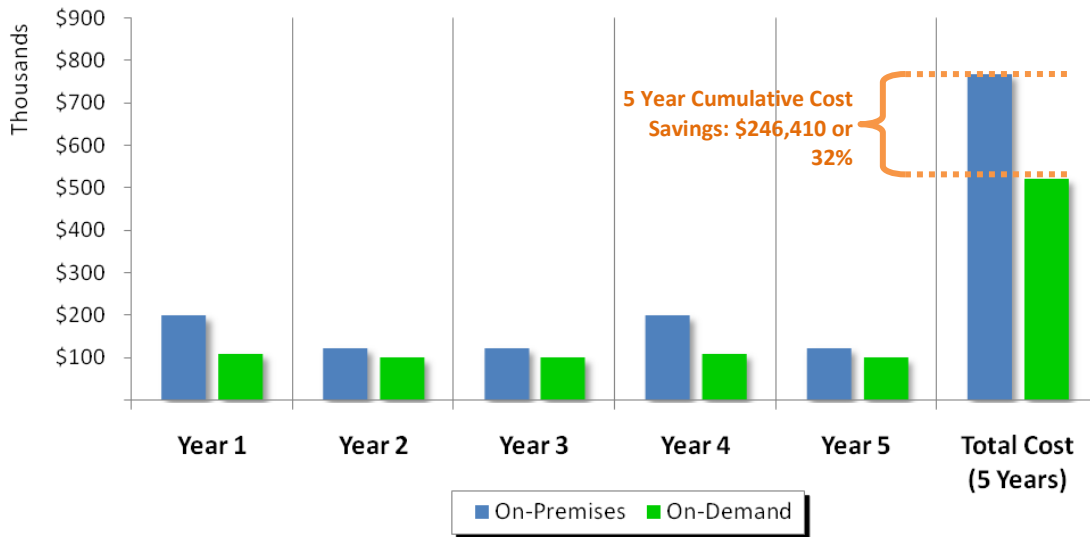
- Require the availability of reliable broadband internet service at customer location.
- Customization options for some products are limited. Customization will increase deployment costs and reduce ROI.
- Companies that employ custom developed applications will need to assure that their custom solutions support a service-oriented architecture (SOA) and web services integration model so they deliver good performance.

Cost Savings

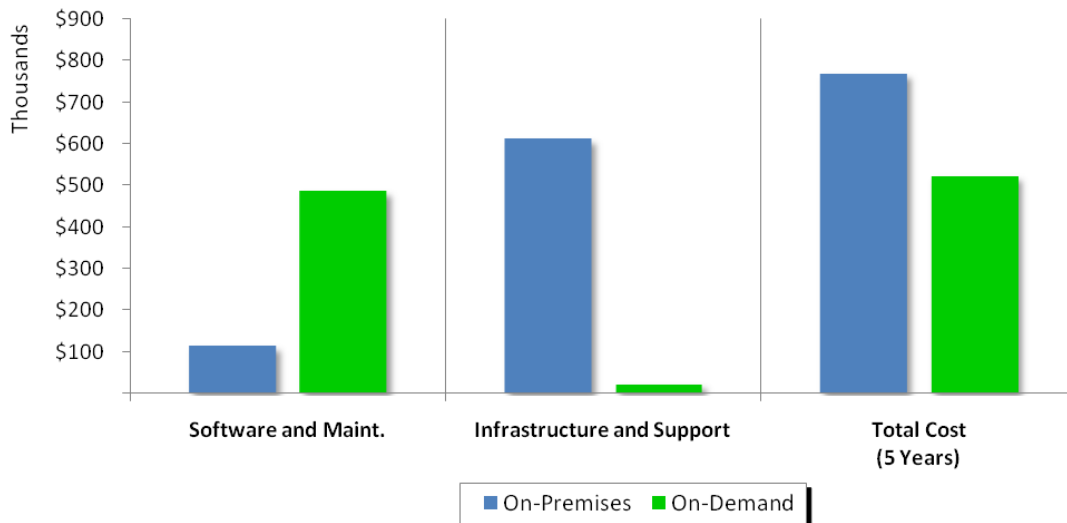
Our analysis shows that the On-Demand model can save our clients an average **30-50% on annual IT expenditures**. This savings is primarily realized from the elimination of internal IT support personnel and IT infrastructure costs (see example). Our analysis calculated the IT cost for companies of varying size from 5 employees to 100 for both a typical On-Premises and On-Demand set of solutions (for details see **On-Premises vs. On-Demand TCO Analysis** in the Appendix). For each scenario, the On-Premises solution was scaled (support and infrastructure) accordingly, to provide necessary capacity for its employee user base.

Example: 50 User Company - Total Cost of Ownership (TCO) for On-Premises vs. On-Demand Solutions

5-Year Total IT Costs



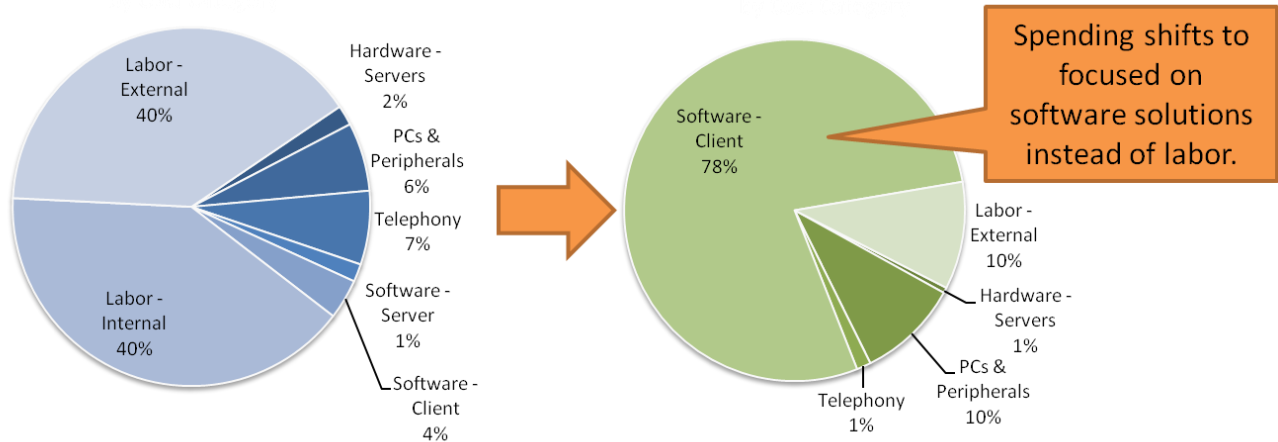
5-Year Software and Infrastructure Costs



Re-Focus Spending

The On-Demand model allows a company to focus its technology investments in software that will make the business more productive and grow instead of spending money on labor and infrastructure needed to support a traditional On-Premises IT environment.

SHIFT IN SPENDING: Example: 50 Employee Company



Supporting Research

Yankee Group concludes that IT systems and applications support people account for 30% to 60% of total 5-year costs. [*"TCO of On-Demand Applications Is Significantly Better for SMBs and Mid-Market Enterprises."* Yankee Group. June 1, 2005]

Gartner Group says application outsourcing can reduce total cost of ownership (TCO) by 50 percent or more in some cases. In part this is due to the fact that the on-demand provider acts as a technology aggregator, allowing organizations to capitalize on the economies-of-scale of a shared data center, network, and management services. SaaS provides cost-avoidance, freeing organizations from capital investments, upgrade and ongoing management costs. [W. Kirwin, T. Berg for Gartner Group, Inc. "TCO: A Critical Tool for Managing IT,"]

Forrester Research: "SaaS (On-Demand) models provide a better total economic impact throughout the 10-year life cycle of software ownership, as well as lower cumulative costs". [Comparing the ROI of SaaS Versus On-Premise (Forrester Research-Feb 2007)]

Industry Outlook: SaaS - On-Demand - Cloud Computing

Foundation

The foundation for the On-Demand IT Services opportunity is built on the massive proliferation and availability of low-cost, reliable broadband internet services. A major component of the On-Demand Services opportunity is Software as a Service (SaaS), which many analysts believe has reached a “tipping point” in terms of market-readiness.

Subscription Software Spending to Increase (by IDC, Inc)

Research firm IDC projects overall spending on subscription based software to grow at a compounded rate of 18% to \$19.8 billion by 2012. This rapid growth is being driven by the ease and speed with which users can adopt these offerings, as well as the cloud model’s economic benefits (for users and suppliers alike) - which will have even greater resonance in the current economic crisis.

Even more striking than this high growth rate, is the contribution cloud offerings’ growth will soon make to the IT market’s overall growth. By 2012 - even at only 9% of user spending - cloud services growth will account for fully 25% of the industry’s year-over-year growth in these five major segments. In 2013, if the same growth trajectories continue, IT cloud services growth will generate about one-third of the industry’s net new growth in these segments.

Economic Crisis Will Bolster the Cloud Computing Model

"The cloud model offers a much cheaper way for businesses to acquire and use IT -- in an economic downturn, the appeal of that cost advantage will be greatly magnified," Frank Gens, senior vice president and chief analyst at IDC, says. "This advantage is especially important for small and medium businesses, a sector that will be a key target in any plan for recovery."

Aside from the economic crisis, three market forces are driving the overall shift to cloud computing and services, according to IDC. They are the search for growth and revenue in emerging geographic markets in Brazil, Russia, India and China, as well as the **overall small- and medium-sized business sector**.

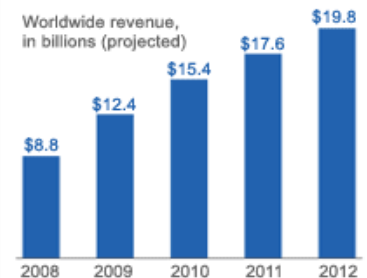
“Spending on cloud computing will capture 25% of IT spending growth in 2012 and nearly a third of growth in 2013”, IDC predicts.

Large Software Companies Change Strategies to Play in the Cloud (Fortune 3/2/2009)

- Oracle at the end of January launched a new version of its online sales-management product.
- In February, SAP said it would be releasing a software-as-a-service product in May.
- Microsoft also has recently released customer-management software and popular messaging and collaboration software available online.
- IBM just named a cloud-computing czar

Forecast calls for more clouds

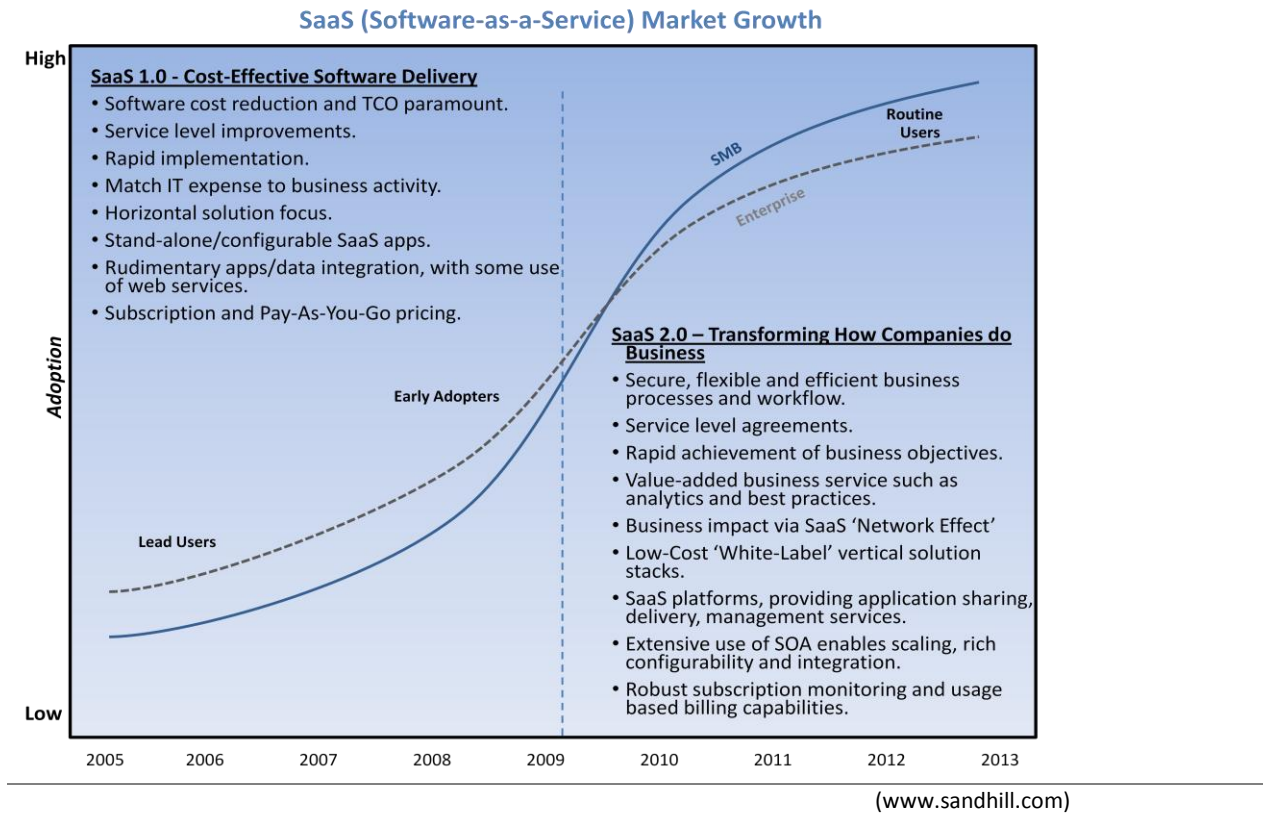
Corporate cost cutting and convenience are expected to prompt more firms to rent software that will be delivered over the Internet cloud.



By the end of 2009, 76% of U.S. organizations will use at least one web-delivered application for business use.

SOURCE: IDC

Projected Software as a Service (SaaS) Market Growth



Opportunities for SMBs (Small to Medium Size Business)

As the cloud computing revolution continues to develop, SMBs are poised to reap the most benefit of this new IT Services model through the substantial reduction in IT costs. Businesses should be cautious before deciding to “go it alone” in selecting the most applicable On-Demand products for their business. Most all solution vendors (suppliers) focus on offering vertically oriented solutions. Software companies and large hosted solution providers tend to focus on a single or vertical solution space (messaging/collaboration, website hosting, financials, HR, etc) and do not provide customized analysis and consulting services. Without a trusted partner, business leaders are faced with complexity of the technology marketplace, having to research and understand a myriad of product offerings to decide “What is the right product(s) for my company and am I paying a fair market price”.

Cloud Commerce

Cloud Commerce is committed to serving the IT and Application needs of small and mid-sized businesses. Our unique focus on cloud computing allows us to specialize in providing comprehensive on-demand services, with unbeatable services and support, so that our customers can save money on technology and focus on growing their business. We realize the economy is currently very difficult, but we believe we are in a unique position, more than ever, to add value to companies by helping them realize the benefits of technology with reasonable cost. This is our mission and our vision.

Our Goal

Cloud Commerce has gathered a team of IT professionals, with over 40 years of combined experience in providing solutions for businesses. Our goal is to build a reputation of being experts in the On-Demand IT and SaaS marketplace as it relates to the needs of small and medium sized businesses. Of course, we can only do that by showing our customer results. We define that as “Real Savings, Real Value, Real Results”

Our goal is to build long term relationships with our customers by enabling them to realize substantial value from technology by focusing on the following core principles:

- **Drive Sales** thru the use of software applications that increase worker productivity and provide improved customer contact.
- **Lower Costs** with affordable tools that provides reliable technology with predictable costs.
- **Level the playing field** by using the same tools as larger companies.
- **Eliminate** large up front **capital investments**.

Our Approach

Using technology effectively is essential for companies to flourish in today’s highly competitive marketplace. Small and mid-sized companies are often unable to leverage technology because of the high cost and complexity of on premises’ solutions. This is the power of On-Demand software delivery. We obviously are advocates of cloud computing and of course we run our company completely in the cloud. Cloud Commerce's mission is to offer a consolidated set of cloud computing based services to our customers and also give you the choices. Choices in products and choices in services. Let Cloud Commerce help your business understand how On-Demand enterprise technology solutions can help it achieve more.

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Appendix

On-Premises vs. On-Demand TCO Analysis

What Does the TCO Model Include?

Subscription costs versus license costs for an equivalent number of users

- Application support and maintenance costs
- Implementation and customization costs
- Host server computers, storage and maintenance costs
- Internet access costs
- End-user technical support costs
- End-user IT support personnel requirements
- User training costs

TCO Calculation

For this analysis, we evaluated a common set of solutions widely used by small business (see Exhibit 1). Because the two models offer similar features and functions, we evaluated a 5, 10, 25, 50, 75 and 100-user solution set within a 5 modeling period. For each scenario, the On-Premises solution was scaled (support and infrastructure) accordingly to provide necessary capacity for its employee user base.

Assumptions

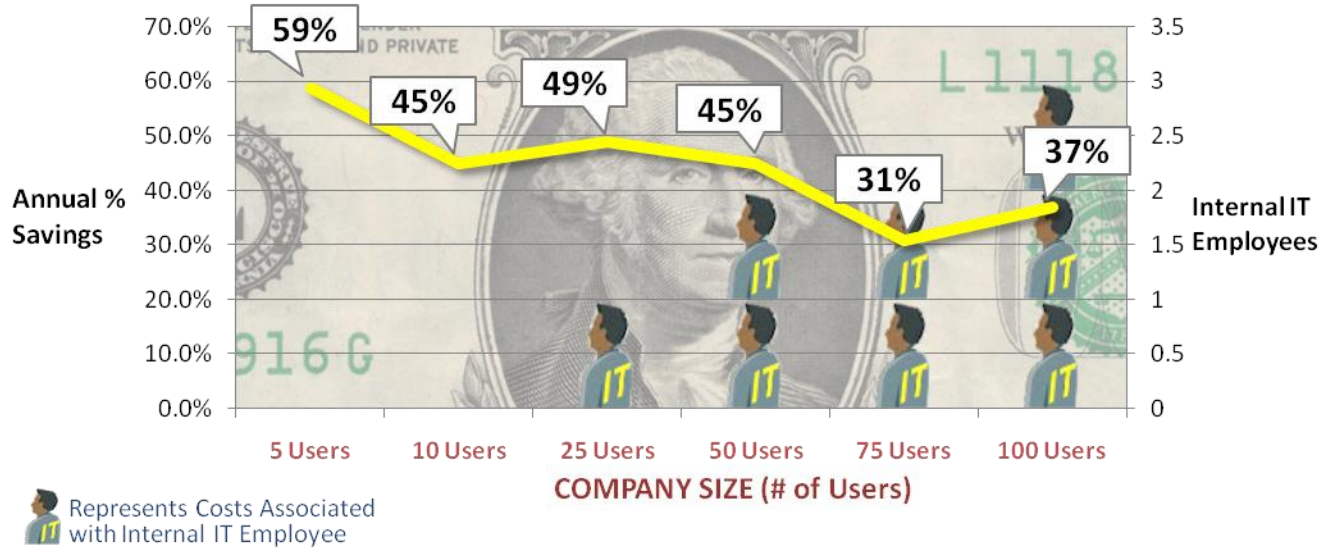
- 1) Software and hardware upgrades for On-Premises solution every 3 years.
- 2) Cost associated with customer software development where not included in either TCO.
- 3) Additional client software was not included in either TCO.
- 4) Internal IT Personnel annual salary was set at \$50k/year.
- 5) External support costs set at \$150/hr.
- 6) Cost for software licenses are MSRP acquired from respective company's website.
- 7) External support costs where increased if internal support was assumed not available for company.
- 8) On-Demand software subscriptions increase at 5% / year.

(Exhibit 1) Software Solution Comparison

Communication	On-Premises Solution	On-Premises Solution
Telephony/PBX	Nortel Small Bus Analog PBX	Simple Signal Hosted PBX
eMail	Microsoft Exchange 2007	Hosted Microsoft Exchange 2007
Collaboration		
Calendaring and Scheduling		
File Sharing	Microsoft Small Bus Server 2003	Hosted Microsoft Sharepoint/Box.net
Workflow/Process Mgt	Microsoft Sharepoint	Hosted Microsoft Sharepoint
Business Applications/ERP		
Financials	Quickbooks Premier	BizAutomation Small Business ERP
HR	n/a	
Inventory Management	n/a	
Supply Chain	n/a	
Sales Order Entry	n/a	
POS Integration	n/a	
Other/Custom Applications	n/a	
Web		
Store (eCommerce)	Yahoo Small Bus eCommerce Std.	
Site		Intermedia Hosting Services
CRM		
Sales Force Automation	Microsoft Dynamics CRM	Hosted Microsoft Dynamics CRM
Knowledge Base		
Marketing Campaign Mgt		
Partner Relationship Mgt		
IT Services		
Admin and Maintenance	Internal / External Mix	External Support
Backup/Continuity	McAfee AntiVirus Defense	McAfee Small Bus Total Protection
PC/Desktop Support	Internal / External Mix	External Support
Security	Internal / External Mix	External Support
Breakfix Support	Internal / External Mix	External Support

On-Premises vs. On-Demand TCO Analysis (continued)

Annual % IT Cost Savings using On-Demand vs. On-Premises



Projected Cost Savings Detail by Company Size

Company Size	Annual \$ Savings	Annual % Savings	Internal IT	5 Year Cumulative \$ Savings	5 Year Cumulative % Savings	10 Year Cumulative \$ Savings	10 Year Cumulative % Savings
5 Users	\$26,685	59.0%	0	\$37,425	32.0%	\$73,350	31.0%
10 Users	\$23,370	45.0%	0	\$9,090	7.0%	\$16,680	6.0%
25 Users	\$57,425	49.0%	1	\$144,085	34.0%	\$241,470	29.0%
50 Users	\$89,650	45.0%	2	\$246,410	32.0%	\$396,120	26.0%
75 Users	\$71,275	31.0%	2	\$95,735	11.0%	\$94,770	5.0%
100 Users	\$123,300	37.0%	3	\$237,660	19.0%	\$328,620	13.0%
Average		44.3%			22.5%		18.3%

Glossary of Terms

SaaS: Model of software deployment where the software application is hosted, as a service provided to customers across the Internet. By eliminating the need to install and run the application on the customer's own computer, SaaS alleviates the customer's burden of software maintenance, ongoing operation, and support

Cloud Computing: Shorthand for centralized computing services that are delivered over the Internet (a.k.a. the "cloud").

TCO: *Total Cost of Ownership.* A statement on the financial impact of information technology investments during a specific period or its whole life-cycle.

On-Premises Solution: Software developed internally or purchased via a perpetual license that carries an up-front capital expense. The software runs entirely within the hardware systems of its owner or licensee. The licensee is responsible for the management of the software installed, which include periodic version upgrades.

CRM: *Customer Relationship Management.* A software system that consists of the processes a company uses to track and organize its contacts with its current and prospective customers. CRM software is used to support these processes; information about customers and customer interactions can be entered, stored and accessed by employees in different company departments

ERP: *Enterprise Resource Planning.* A company-wide computer software system used to manage and coordinate all the resources, information, and functions of a business from shared data stores. Usually encompasses core operations such as HR, Financials, Inventory, Order Management, etc.

Seat License: A software licensing model which is the basis for On-Demand or SaaS solutions where the use of the software is charged by user or "seat". Typically the seat license or subscription fee is a monthly charge.