

Under the Buzz **NUGGETS**



Commentary on Business Strategy for Tech Company Executives & Professionals

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Under the Buzz is an email "newsletter" published by Philip Lay, managing director at TCG Advisors, a Silicon Valley-based firm that helps executive teams in tech companies to deal with complex strategic, organizational, and operational challenges. Now in its thirteenth year, this journal is published periodically and delivered free to subscribers via email on an opt-in basis. It is also posted on TCG Advisors' website, <http://www.tcg-advisors.com/Library/utb/utb.htm>, where back issues are also available.

2012 – The Year of Widespread Cloud/SaaS Adoption in the Enterprise?

What Oracle's and SAP's recent acquisitions mean for enterprise customers and for vendors

With Oracle's acquisition of Taleo announced yesterday, February 9, following shortly after SAP's acquisition of Taleo competitor SuccessFactors late last year, the legitimization of the software-a-service (SaaS) model in enterprise applications is ratcheted another step forward. When we see the two dominant players in enterprise business applications make *deliberate-follower* moves like these, it's a clear sign that SaaS-delivered applications are coming of age. Add to this news LinkedIn's 105% year-over-year revenue increase in the fourth quarter of 2011, and we're starting to see a pattern of young publicly-traded cloud/SaaS businesses becoming serious players for enterprise customers as well as for business users.

If you further consider the less publicized but rapidly increasing penetration among corporate customers of cloud infrastructure-as-a-service offerings (IaaS) by Amazon's AWS division, Rackspace, and other vendors, in addition to IBM's recent moves to significantly step up its investment in this space, you begin to see a pattern. Although I have an aversion to the notion of designating certain years as "2012 - The Year of ...", it's difficult to ignore the signs we're seeing today. So often the announcement is way premature, due to our tendency in the tech industry to get carried away by our enthusiasm for the "new new thing" and to ignore the inertial weight of installed status quo technologies. In this case, however, let's remember that cloud-based technologies have been around for almost two decades, first adopted by consumers, then by individual business users, then departments, and today by entire organizations. The enterprise-focused players are all either coming up on a decade old, or just a little older or younger.

True, the third leg of the cloud stool – Platform-as-a-Service (PaaS) remains at a relatively early stage of adoption, but this is quite normal with development platforms. A number of serious players are jockeying for power in the PaaS category, including Microsoft (with Azure), Amazon, Google, and Salesforce.com (with Force.com). However, apart from legitimate concerns among CIOs regarding the danger of getting locked in to this or that vendor's proprietary platform architecture, widespread platform adoption always follows the adoption of specific product offerings, often by several years. The main reason for this "delay" is that the majority of companies have pragmatic or conservative adoption strategies, and they want to wait to see which company emerges as the "winner" before committing to a platform. This also happens with developers, who wait until they see an emerging victor (or at most two main platform companies) before committing many man-years of engineering to develop applications on one or other platform architecture.

What does this all mean for corporate CIOs and line-of-business executives? Well, it means that it's time to put an end to the head fakes and low-risk "pilot" cloud projects in non mission-critical areas of the business, and bite the bullet. I would predict that company budgets for SaaS offerings will now sprout far more freely than before now, and budgets for license-based application software – except for maintenance and upgrades where appropriate - will start to shrink further.

For CIOs and their staffs, it's also time to really acknowledge the inexorable shift from "manufacturing" and maintaining in-house systems to managing an outsourced supply chain of consumable applications accompanied by negotiated SLAs. This will require a very different skill profile, and even number of IT staff, especially in-house developers and "maintainers". We've been hearing for years how CIOs have needed to become much more business-savvy and service-oriented. In the client/server world, IT departments have by and large fallen way short in their *business service* mission, not necessarily through their own fault. Often they have been swamped by the complexity avalanche of integration complexity between disparate systems, architectures, and applications from a variety of vendors. But now business users and executives are on the march, intent on making IT serve their business needs, and any IT department that fails to measure up is going to become rapidly "outsourced".

What does this mean for software and systems integration vendors? One of the major challenges for established licensed/on-premise software vendors including SAP and Oracle is how to transform the mindset of their employee populations in marketing, engineering, product management, professional services and above all sales, from selling and installing an *upfront/license + implementation services + upgrade* commitment to their customers to a *subscription/consumption + adoption services + renewal* commitment. This, as most executives acknowledge, is a non-trivial shift, which explains in part the deliberateness – some would say lateness – of their acknowledgement that they really had to get in the game now in order to do something to slow the progress of Salesforce.com and other young companies in the SaaS movement, including WorkDay, NetSuite, and many others. Both SAP and Oracle are paying a fairly high price for choosing to get in the game now, long after their own luke-warm but costly internal SaaS development initiatives have fallen pitifully short.

Perhaps the trickiest part of the integration of these SaaS businesses into legacy license software companies will be how to teach their sales teams new tricks, such as selling to both the line of business and to IT rather than just one of the two, and also how to structure quotas and

compensation to incent them to sell SaaS offerings alongside license-based software. In practical terms, it almost certainly makes more sense to keep the cloud/SaaS sales forces separate from the traditional license-focused account teams, at least for a time until management understands the different world they have entered with this new business model.

Not only sales but service priorities are dramatically different in a SaaS world. No longer is installation and implementation the main focus for professional service organizations, internal or third-party, because cloud-based offerings self-install and implementation is made much more user-friendly; now it's time to put the main proserv focus on end-user engagement and adoption, otherwise these per-user subscription or consumption contracts risk being cancelled, or adoption throughout the enterprise being curtailed.

This short article has focused mainly on business applications delivered by the SaaS model. In an ensuing article I shall explore the accelerating adoption of IaaS offerings, the underpinning of a cloud strategy which is becoming the next intriguing game for cloud adoption by enterprise customers. In the meantime, I would be very interested to receive comments, pushback, critiques, or other responses from you, the reader.

This article was authored by Philip Lay, managing director at TCG Advisors.

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