

Accelerating Cloud Vendor Consolidation: Corporate Buyer Considerations - Move Now!

Inside:



Executive Summary
The Bifurcated Software Market
Fall 2011 - The Acquisition Frenzy is On!
The New Software Market
The Time to Move is Now
Major Cautions
Summary

Accelerating Cloud Vendor Consolidation: Corporate Buyer Considerations Move Now!



Candor. Insight. Results.

Executive Summary

With the recent cloud-based software acquisitions by prominent enterprise software vendors, many of our clients are asking, "What should these acquisitions and the cloud mean to me?" We believe these acquisitions are a clear signal cloud computing isn't just going to be disruptive - it will be transformative.

With the recent acquisitions of RightNow Technologies (by Oracle), SuccessFactors (by SAP) and Rypple (by salesforce.com) the software industry is signaling a shift in its development and marketing focus. Established vendors see cloud computing as their future direction. As a result, new cloud based offerings will emerge creating technology choices and strategic decision points for technology users.

Cloud computing solutions will become mainstream whether your organization is expecting them or not. Workers with BOYD (Bring Your Own Device) technologies are introducing mobile, cloud based applications to the organization on their smartphones and tablets. Some business unit executives are buying cloud application software with procurement cards and bypassing IT. Smart organizations will:

- > Use new cloud, mobile, social and other enabling technologies to create first mover innovation and competitive advantage
- > Experiment with new technologies and tap into new channels
- > Seek the power of combining these new technologies with new data sources, collaboration partners, powerful computational services, and more, to re-imagine the potential for how work will be done.

Baker Tilly has been working with cloud solutions for years. We have been watching the market closely for this kind of signal to validate the market has become mainstream. The events of the last quarter validate that supposition and all of the work our firm did the last few years readying ourselves for the shift. The comments in the next few pages highlight some of the many considerations you will want to ponder as cloud solutions become an ever greater part of your business, its strategies and competitive differentiation. But, even more interesting, we believe, will be the fundamental changes cloud and other enabling technologies will bring to the way you do work, how you interact with customers and more.

Now is the time for leading organizations to leverage cloud solutions and transform their businesses.

Accelerating Cloud Vendor Consolidation: Corporate Buyer Considerations Move Now!



Candor. Insight. Results.

The Bifurcated Software Market

For decades there has predominately been one kind of enterprise packaged software market – a market called on-premise. These products were frequently licensed to businesses with a large up-front fee with updates and support provided to customers that paid annual maintenance fees. These products were installed, generally, on a customer's computer systems where they may have undergone some modifications or tailoring to integrate with other systems, databases, hardware, etc.

In the late 1990s, a new generation of software products was being designed to take advantage of ever growing Internet availability, rising Internet connection speeds and the emergence of ever more powerful handheld computing devices and cellular phones. This software market was labeled "cloud computing" and it has grown significantly in the last decade.

Over time, as cloud solutions became more mature functionally, certain costs (IT operations, implementation and maintenance) and technical aspects of these products started to win over business software buyers. Both large and small organizations started buying solutions for sales force automation and human resources, to name but a couple of functional areas.

Industry analysts have been watching the on-premise world positioning itself for a battle with its smaller, cloud-based upstarts for years. Each year the fighting got more pronounced with some of the industry leaders on both sides of the platform divide making their competitive assaults more personal and more pointed. The software market was truly bifurcated, but it would not stay that way for much longer.

Baker Tilly and others have anticipated that market acceptance of cloud software solutions would continue to grow as the economics and potential for these products is so great. This isn't to say that on-premise applications will go away. But, just as cell phones have started eating into the market share of land-line telephones, cloud application software will eventually displace a large amount of the on-premise software market.

Accelerating Cloud Vendor Consolidation: Corporate Buyer Considerations Move Now!



Candor. Insight. Results.

Fall 2011 - The Acquisition Frenzy is On!

In the Fall of 2011, the application software market saw its greatest signal that a major shift was underway. We believe this epic shift was foreshadowed by earlier acquisitions in the cloud space but the most recent deals are quite noteworthy.

On **October 24, 2011**, Oracle Corporation announced its intention to acquire RightNow Technologies. Oracle is one of the largest software vendors in the world and RightNow is one of the larger Customer Relationship Management (CRM) software vendors globally. While Oracle has several cloud applications (with more under development), the RightNow acquisition brings a substantial CRM cloud solution into their portfolio. We believe this acquisition gives Oracle another solid, credible cloud alternative to sell to the users of its on-premise CRM applications (e.g., certain Siebel products). It may also blunt losses of Oracle CRM customers to Oracle cloud rivals like salesforce.com.

Cloud Vendor Consolidation Momentum

Salesforce.com acquired Jigsaw

Kenexa acquired Salary.com

Taleo acquired Learn.com

Dell acquired Boomi

Salesforce.com acquired Heroku

Verizon acquired Terremark

Salesforce.com acquired Radian6

Oracle acquired RightNow Technologies

SAP acquired SuccessFactors

Salesforce.com acquires Rypple

April-10

Sept-10

Sept-10

Nov-10

Dec-10

Jan-11

Mar-11

Oct-11

Dec-11

Dec-11

\$142 million

\$80 million

\$125 million

Undisclosed

\$212 million

\$1.4 billion

\$326 million

\$1.5 billion

\$3.4 billion

Undisclosed

On **December 3, 2011**, SAP AG announced its intent to acquire SuccessFactors. SAP is one of the largest Enterprise Resource Planning (ERP) software vendors globally with a large percentage of its revenues coming from license and maintenance renewal monies associated with its on-premise Business Suite product line. SuccessFactors is a very large cloud application software vendor of human resource solutions. This acquisition, we believe, gives SAP opportunities to cross-sell the SuccessFactors solution into its extensive customer base. It may also slow down customer defections to other cloud-based software products from other HR cloud based software vendors like Workday.

On **December 15, 2011**, salesforce.com announced their intent to acquire Rypple. Salesforce.com is a cloud based solutions vendor. Unlike Oracle and SAP, salesforce.com's product line is all cloud computing based. Its acquisition of Rypple, a cloud software solution with some HR applicability, signals that a land-grab of cloud software market share or intellectual property may be underway.

Why did all of these deals occur? We believe that several fundamental market changes have occurred. These include:

- > A realization by all application software vendors that cloud solutions are the future.
- > Market share and IT spending will continue to move, more and more, to cloud solutions.
- > Vendors know that account control is the key to driving sales, meeting growth expectations and delighting shareholders. On-premise vendors need a fast fix to shore up flagging (or potentially weakening) on-premise sales. Offering existing customers a cloud option helps on-premise vendors retain the customers they already have.
- > On-premise vendors must be feeling the competitive pressure that cloud software vendors like Host Analytics, NetSuite, Plex Online, Taleo, salesforce.com and Workday (to name but a few) that are exerting in the market.
- > Even cloud software vendors have been buying other cloud solutions. They want to grow their product footprint and be more competitive with on-premise software vendors.

Accelerating Cloud Vendor Consolidation: Corporate Buyer Considerations Move Now!

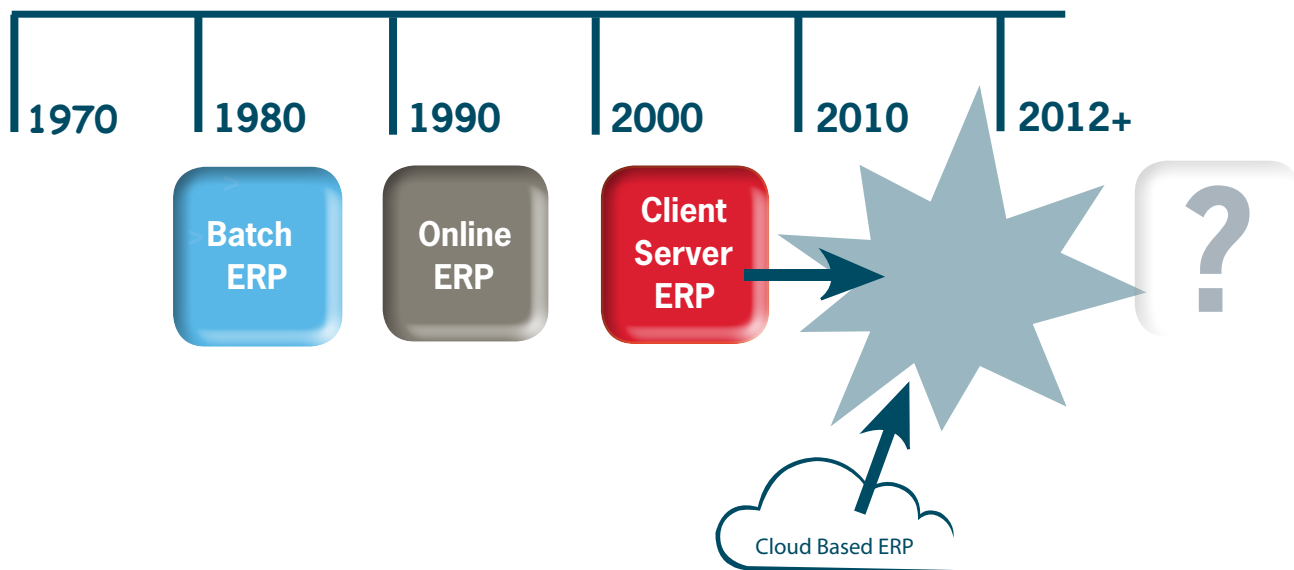


Candor. Insight. Results.

The New Software Market

The market for application software is now changing – permanently and structurally. The resultant market will retain a few characteristics of the older, on-premise, license driven world but many, fundamental and potentially amazing changes will become available for businesses globally.

Collision of Two Software Ecosystems



We believe that software vendors, on-premise and cloud based, will make new application software solutions on cloud platforms. The economics of building cloud applications are just too compelling even for the on-premise vendors to ignore. Moreover, we believe all vendors will build more cloud applications as:

- > Cloud platforms will be the enabling technologies behind mobile, social, big data and other solutions
- > Cloud platforms contain fewer technology stack components than what on-premise vendors must support. Therefore, maintenance and development costs are lower in the cloud space. More development resources can focus on new functionality rather than regression testing multiple technology stacks, resulting in more new features delivered faster.
- > More and more external, third-party data is being served up in cloud ecosystems. Businesses that want access to this information will need cloud integration and possibly cloud applications to access this data

Learn from our Transformation

Baker Tilly began its move to a more cloud based practice years ago. We did so by doing the following:

Visiting the emerging software leaders in Silicon Valley. When you see the future, you can't help but walk away affected.

Monitoring the marketplace. We continuously watch technology markets to see what vendors have or will soon "cross the chasm" – a phenomenon Geoffrey Moore made famous in his book "**Crossing the Chasm**".

Immersing ourselves in the new cloud technologies. We sent staff to Silicon Valley to learn the platform, social, mobile, integration, SaaS and other technology components.

The new application market will be one where:

- > **The lines of distinction between on-premise and cloud solutions will get very blurry.** Buyers will need to be very diligent in determining what must-have cloud capabilities (e.g., multi-tenancy) are actually present in the newer solutions. For example, some solutions marketed as cloud products may be hosted, single tenant version of on-premise applications versus true multi-tenanted cloud technologies.
- > **The market leaders may include some of the on-premise vendors if those vendors make great acquisitions and investments in new product development.**
- > **Obviously, some of the new market leaders will be cloud software vendors if they are great at continuing to be innovative and learn how to effectively market and compete against ever larger on-premise competitors.**
- > **Platforms (as in Platforms-as-a-Service or PaaS) will become more important than ever as these will fuel innovation by vendors, vendor channel partners, integrators and especially, customers.** Customers may favor products built on certain PaaS environments as they can take advantage of pre-integrated applications also developed with that PaaS tool set.
- > **Many of the near-term innovations and application development will occur in peripheral areas.** Many non-cloud vendors will leave their on-premise applications alone and focus their development efforts on expanding cloud analytic, mobile and social capabilities (to name but a few). Expect these vendors to integrate new cloud applets to their existing on-premise products. Cloud-based vendors will focus their development into two areas: acquiring more baseline ERP functionality and, simultaneously, building more peripheral applications in many of the same spaces that on-premise vendors will build for.

Accelerating Cloud Vendor Consolidation: Corporate Buyer Considerations Move Now!



Candor. Insight. Results.

We believe that today's software buyer should:

- > **Expect that future application software purchases will be cloud-based or have a considerable portion of their functionality and content served up via a cloud service.**
- > **Evaluate not just the functions and features of one cloud application versus another but also inspect the power of the platform behind the cloud application.**
- > **Evaluate the platform's ecosystem, too.** Platform technology will be important but so, too, will the ecosystem that comes with the platform. Smart software buyers will want apps that can be extended or made more valuable by utilizing the hundreds or thousands of cloud-based applications created by third parties and accessed by the vendor's platform application store.

As organizations evaluate their software portfolio, they should:

- > **Seek more benefits/value than just straight software replacement.** Re-automating an old process will likely result in little to no added value. We believe every process must be re-thought now as cloud solutions with all new (think non-ERP) data sources and capabilities change the landscape for business value. Many of the traditional barriers to truly re-thinking work are now eliminated by cloud vendors and enabling technologies.
- > **Use cloud solutions to fuel corporate growth, drive new levels of business awareness and market knowledge.** Technology should not be looked at simply as a tool to improve efficiency and effectiveness. New solutions can and should drive new business value along new lines of wealth creation. (See sidebar)
- > **Become more cognizant.** Whatever you thought you knew about application software has changed: the vendors, the underlying technology, who the leaders are, etc. You need to become more aware – seek help and knowledge now!

The Cloud Future for One Client

One of our clients has become a poster child for the adoption of cloud and other enabling technologies. Two years ago, this manufacturer started using a cloud based analytics tool to compare the purchase (and replenishment) history of their customers against the manufacturing plans in their ERP software. Later, they began to compare the point of sale activity of their customers' customers to learn more about the buying variations of these consumers and how products can be better positioned in retail stores to drive more sales and profits for everyone in the value chain.

What they have created started out as an internal business intelligence aid for their executives and managers but now has evolved into a mobile, handheld solution that they are planning to license to their customers. Cloud computing is the key enablement for them as it gives them access to powerful analytic tools and excess server capacity to do the number crunching cheaply and in record time. Other technologies, like mobile devices, round out the current product with an iPad solution soon to come.

Accelerating Cloud Vendor Consolidation: Corporate Buyer Considerations Move Now!



Candor. Insight. Results.

The Time to Move is Now

Organizations that move now to understand how cloud and other enabling technologies can advance their business strategies will quickly out distance their competitors who choose to stay put. These organizations will also improve the way in which they work and collaborate within and outside their organization. These improved interactions with customers, suppliers, channel partners, governments and other constituents will be facilitated by cloud enabled technologies.

In our own firm, we learned that to take advantage of this new opportunity, we needed to change our strategy, reorganize our practice, build many new capabilities, create new go-to-market channels and forge many new relationships. We have realized that the real value of cloud computing is not just lowering technology cost, it is building new business models and new innovation capabilities with new talent that are propelling us through changes at an ever faster rate.

Our clients appear to be on a similar trajectory, similar journey. Cloud technologies are quite democratic. Their low costs make it easy for even the smallest organizations to compete with industry giants. Our clients now have new ecosystems of technology partners to develop more new capabilities and opportunities for their organization.



If your organization hasn't taken steps toward cloud technologies, you may want to consider the following:

- > What are your competitors doing to collaborate with and serve their customers better, to attract new talent, to make better decisions using new sources of data faster and to develop first mover collaboration relationship advantages with others in their value chains that could box them out of new markets?
- > How competitors may be decreasing their cost structure to allow them to deliver higher profit or price more competitively?
- > What their suppliers and customers will be demanding of them in the way of ecommerce and mobile capabilities and when?
- > What new speed and innovation capabilities competitors are building that will cause them to become more agile competitors allowing them to set new standards of service in their markets?

When you move towards cloud computing, consider these points:

- > What should your roadmap be for moving many parts of your business to cloud solutions?
- > What new skills will your organization need to implement new cloud solutions and integrate them with legacy systems and other cloud solutions?
- > What ecosystems should you become part of to accelerate your move forward?
- > What are PaaS platforms? And how can they be used to create highly customized differentiation via the cloud?
- > What decisions would your executives like to be able to make, in real time, using what data and how could new big data analytics tools help them to do that?
- > How should mobile solutions be used to improve the effectiveness of your workforce and present a modern image to new recruits?
- > What new channel and go to market strategies could the organization consider to get closer to its trading partners and respond to requests that are being made by your most valuable partners?
- > How can collaboration tools bring parts of the business such as product development, marketing, customer service, sales, and others closer to improve win rates and customer satisfaction?

Accelerating Cloud Vendor Consolidation: Corporate Buyer Considerations Move Now!



Candor. Insight. Results.

Major Cautions

The merger and acquisition flurry is likely to continue. Your on-premise and cloud software solutions could be impacted by future acquisitions. For example, you may encounter these situations:

- > **An on-premise product your organization uses is no longer supported by the vendor as the vendor has acquired a cloud application solution to replace it.** You may encounter new integration and conversion costs to use this solution. The new solution may have a different data model, different functionality and different work processes. Be careful as the vendor may require a new license for this replacement product.
- > **A cloud solution your organization uses has been acquired by another vendor.** The new owner may forcibly migrate your organization to the new solution. Be careful as the new solution may have less or different functionality than what your organization requires.
- > **Any solution your organization uses could experience premature obsolescence due to a vendor's merger plan.** Any move your organization must make to implement a new solution will undoubtedly require re-training of users and other change, process and technology costs.
- > **Your contract with the vendor may lack sufficient protections for your organization should the vendor acquire a new product line.** What recourse would your organization have if your solution is discontinued, a new solution contract must be executed, etc.?
- > **The new owner of the acquired product may promise your organization will eventually get a new 'combined' or 'merged' product but never deliver it.** Promises don't always turn into reality in the software world. What recourse will your organization have? Do you have a Plan B in mind?

Summary

Cloud solutions are now mainstream, whether your organization has started to use them or not. The recent acquisitions of significant cloud companies by major on-premises software vendors signal that this shift is only going to accelerate. Organizations that move now will learn how to use new cloud solutions to change the way their businesses work. They will change the way they interact with their partners, develop new organizational competencies and exploit new cloud ecosystem relationships. These new capabilities will be the springboard for further competitive advantage for the organization. Once organizations have mastered the basics of new cloud solutions, they should expand their cloud horizons further in other cloud enabling areas (e.g., in-memory computing, platform as a service, social computing, mobile solutions and big data). These advanced, enabling technologies will trigger more innovation, more competitive advantage and more relevant capabilities in a business world that continues to morph ever more rapidly. We believe:

- > If your organization has not begun to experiment with cloud solutions, now is the time to start before your competitors open wide capability gaps
- > If your organization has already mastered the cloud basics, now is the time for your organization to fundamentally rethink the way you work and interact with your partners leveraging cloud enabling solutions to create new breakaway strategies

Baker Tilly has helped numerous organizations to begin their move to the cloud. Over the past years we have also developed many relationships within the cloud ecosystems that we are leveraging to help leading organizations move beyond cloud basics. We have benefited from our knowledge of these new and enabling technologies - now it's your turn!

Accelerating Cloud Vendor Consolidation: Corporate Buyer Considerations Move Now!



Candor. Insight. Results.

Contributors

Bryan Majewski
Managing Principal
bryan.majewski@bakertilly.com

Ethan Bach
Principal
ethan.bach@bakertilly.com

Matt Haller
Principal
matt.haller@bakertilly.com

About Baker Tilly

Baker Tilly is a full-service accounting and advisory firm whose specialized professionals connect with you and your business through refreshing candor and clear industry insight to provide high value results.

Our specialized expertise and global reach in audit, tax, and management consulting support your organization's goals with knowledgeable, competitive insights. As an independent member of Baker Tilly International, the world's eighth largest network of accounting firms, we bring you access to market-specific knowledge in 120 countries.

We believe that exceptional client service comes down to a single idea...trust. The trust that comes from working with people dedicated to understanding your business needs. People who respond to the challenges you face today and anticipate the opportunities of tomorrow. Our clients recognize the differences that set us apart.

- > Proactive, personal, and responsive client service
- > Informed observations and recommendations from experienced professionals who know your industry
- > Active in a strong global business network
- > Team approach that ensures continuity and access to partners and managers
- > Broad industry and service offerings with deep specialization

We bring our skills, integrity, and energy to each client engagement.

Connect with us: connecting@bakertilly.com