AlwaysOn OnDemand 2010

Where the Internet Meets the Enterprise

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Executive Summary

Cloud Computing is catching on, driven by the current recession and IT budget constraints, with small and medium businesses leading the adoption. Much of the new innovation in IT is being driven in the cloud by agile and nimble startups. However, don't believe vendors' hype that cloud computing is secure and going to completely replace traditional computing. It may take years before cloud computing becomes mainstream and IT will be hybrid—with many applications still running on-premise and a sprinkling of private, public, and hybrid clouds.

How has the Startup Model Changed in the Era of Open Source + Amazon S3 + SaaS?

Cloud Computing (CC) is a very broad term—is it a fad or for real? CC is a paradigm shift and a platform shift. Many companies position themselves as CC vendors and create noise, while CC is actually driven by the customer. The traditional enterprise software strategy of perpetual licensing is breaking down slowly. Larry Ellison, despite his cloud tirade, is the largest stockholder of NetSuite, a leading on-demand CC vendor. The usual impediments to CC adoption are politics, culture, security, inertia…but this evolution is inevitable. Interestingly, only 30 software companies have a billion-dollar in revenue, the latest to have reached that milestone being Salesforce.com and VMware.

What the Y2K and 2001 recession were to outsourcing, the 2008-2009 recession has been to CC and software-as-a-service (SaaS). Enterprise software is not going away, but it will be owned by a few big vendors; however, most innovation will happen in the cloud. Few companies, e. g., Intuit and NetSuite, will make it big selling to small and medium businesses (SMBs). If you can almost give away your software product for free, as SpiceWorks does, you can monetize your installed base and grow fast. Despite all the marketing hype, there have not been any enterprise-wide deployment of CC solutions, one exception being SuccessFactors. One approach would be to try the *fremium* (free low-end version plus a premium enterprise version for a fee) model. SMBs may not value their time, but sure value the money they take home.

Software worldwide is $300 billion-a-year industry and growing at 8%. But the industry on top of that software is probably five times that big. Many CC companies have made money, but are not necessarily market leaders. CC startups have to ask, "How does a customer adopting a my platform affect my cost structure and customer service?"

Keynote Addresses

Lars Dalgaard, Founder and CEO, SuccessFactors

Lars was probably the most engaging and dynamic speaker. We quote him here:

- SuccesssFactors threw out SAP at Siemens for 300,000 employees.
- Don't go to f@$*#% conferences and listen to s$%#. Build a product and change the world. Don't build to just make money.
- Salesforce.com has 2,500 servers serving 1.8 million users; SuccessFactors has 150 servers with 6.1 million users.
- Google makes 95% of its revenue from ads; Salesforce.com makes 95% of its revenue from sales force automation.
- You customer must win, and you must have a shitload of fun.
- The SAP model is broken completely.

Marc Benioff, Chairman & CEO, Salesforce.com

The company has over 75,000 customers (including BofA, Japan Post, Cisco, Dell), and believes in the 1/1/1 Model:

- Employees are encouraged to spend 1% of their time (six paid days off a year) in volunteerism;

- 1% of donated and discounted Salesforce CRM licenses software to non-profits;
- 1% of founding stock provided as funds for grants and monetary assistance.

The IT industry goes through ten-year computing cycles: 60s mainframe, 70s minis, 80s client-server, 90s desktop, and 2000s mobile/Internet. Many companies and executives who are embracing changes are getting left behind. Even CC is changing: Cloud 1.0 was Google, eBay, Salesforce.com; Cloud 2.0 is Facebook, YouTube, twitter. "Why isn't all software like Facebook or Amazon?" The new world is desktop-less. Finally, CC is not SaaS, PaaS, and IaaS, but also includes CaaS (Collaboration as a Service).

Zach Nelson, CEO, NetSuite
Microsoft years ago acquired Great Plains Software, renamed it Microsoft Dynamics, and claims it's a cloud. In reality, it's just hosting and not really CC. Much of Microsoft's software was designed before the Internet was invented, and calling everything *Cloud* doesn't make it a cloud. Remember Corio? That company failed miserably.

There are many myths about CC. The first myth is that complex processes don't run in the cloud. This is plain wrong. More complex processes run in the cloud. NetSuite's OneWorld is pure cloud. The second myth is that many applications are not customizable for CC and customization is often labeled the Achilles Heel of Cloud apps. Customization is actually the killer feature of cloud apps. The third myth is that Channels don't exist for clouds. But there is incredible innovation in new Channel models. In fact, Wipro is building a NetSuite practice. Half the public SaaS companies run NetSuite, except Salesforce.com which runs on Oracle. Top Six features in NetSuite users survey are CRM and ERP, orders/invoicing, custom code, custom dashboards, journal entries, and custom records. Cloud also makes customization simple; NetSuite's PaaS (SuiteCloud) was upgraded 400 times last year.

Fireside Chat

David Thomas, Executive Vice President, TechAmerica
TechAmerica/AeA has been around for 63 years, founded by David Packard. David (Thomas, that is) first coined the term SaaS and is now coining a new term—webtop. The primitives are that we have gone from desktop (keyboard, mouse, HDD/DVD, Ethernet…) to laptop (same components, plus Wi-Fi, batteries) to webtop (touchscreen, flash drive, one port/BlueTooth, Wi-Fi/3G/4G, Touch On, microphone, speakers, GPS, accelerometer, phone, camera/video). Computers in the past have done transactions, now they are driving the transactions. Imagine sitting in a restaurant for business lunch/dinner; take a picture of your group and of the receipt, use GPS for the restaurant's location, and email the entire thing to your company's business expense application. Apple has been a huge beneficiary of the move to webtop. Whether they will end up owning the web is to be seen.

Roundtable

The Fight for the Data Center—The Reigning Incumbents versus the Emerging Players
CC is an operations model, not technology. The cloud will expand to include both in-house and external infrastructure. There is a constant battle between BUs and IT, pendulum of IT control goes back and forth. There is a fight among virtualization, appliance folks, LOBs, and central IT. Most of the power is still with IT.

There are six players—Cisco, Dell, HP, IBM, EMC, and Oracle—fighting for the datacenter (DC). DC is the iron, apps, and services. No one vendor will dominate the landscape and all six will play a role in the DC. Traditional Oracle and SAP software-licensing models will be challenged. IBM wants to stay neutral and farm out many tasks to others. Decoupling of the infrastructure from the payload is happening. Cisco is going aggressively after the infrastructure. We don't see anyone going with *one* vendor for all their needs. Don't be misled to believe that CC is not secure. However, the more you move towards CC, the more you are giving away to the CC provider. CIOs will be challenged to change the 80-20 (maintenance vs. innovation) model to 20-80. This is a major initiative by HP's Mark Hurd. Emphasis has shifted from cost to agility. The emerging players will be Google, Amazon, and Microsoft. Open source is key to CC because most public clouds are built on open source.

What's happening with Cloud Security and Integration?

Is security an issue in CC?
"The average cost of a data breach is $6.75 million dollars." – Ponemon Institute, January 2010
"75% of Internet attacks are now happening through Web applications." – Gartner Group
"90% of Websites are vulnerable to attack." –Verizon Business Data Breach Report, April 2009

Legal, security, and integration concerns are among the top barriers to adopting cloud services, and to ditching the company-run data center. Yet, some vendors claim CC may be safer than your own enterprise. You may ask your vendor, "What is your security? "Trust us. Our security policy is company secret," is the wrong answer. Users are now demanding security scans or using third-party penetration tests. You need to worry about where your data is. The French don't want their data in the U. S. and the U. S. doesn't want its data in France. Today, there is very little security in the clouds, despite vendors' claims. If your data in Russia or Czech Republic is stolen, who do you sue? Your Service Provider in the U. S.? Where is the user information being distributed? So, instead of selling security, you may want to sell Governance, Risk, and Compliance (GRC).

Succeeding in SaaS M&A

What's different about SaaS M&A? It got a slow start, evaluation is hard, difficult to get the right metrics, and to guess what's it worth now and how much in the future? In CC Customer Service is more high-touch, and software revenue stream is more predictable, or is it?. Regardless of the nature of your company, you have to have growth. IS there customer churn? What are your KPIs? Is your monthly recurring revenue growing? Lot of companies are underestimating Sales cots which could be dangerous. Do your solutions have RAS? Market disruptions are great opportunities and threats to established players. Cisco recently acquired ScanSafe and wants to take advantage, instead of being a victim, of disruptions. Companies succeed because they religiously follow their KPIs on a regular basis. Cisco has made 135 acquisitions and SaaS, be it CRM or SFA, is something that Cisco believes in. Cisco tries to find the right company to acquire, instead of a small company trying to find Cisco.

Omniture, now part of Adobe, leverages its 300 partners. IBM in the last ten years has acquired only one company that it didn't partner with. All the companies that Salesforce.com has acquired have been its partners. Small companies often try to hug a boulder, which could be suicidal. If you buy the right company at a cheap price, it's a good buy; but if you buy a wrong company at a cheap price, it's still a bad buy. Every deal involves mistakes, but try not to repeat them. EMEA and APAC are extremely underpenetrated in M&As. IP is very tricky in Israel. Moving customers from on-premise to SaaS is challenging.

Cloud-Service Business Models that Win

Contrary to the opinion that it is anti-cloud, HP has been a supplier of products for cloud vendors. SOAASTA helps you test your SW. Develop something that's incredibly easy to use, as SOASTA did with its CloudTest, but ensure you make money. It took the recession for CC/SaaS to get more visibility. All SaaS is not created equal. Simplicity, speed, and ease of use always win. Just putting 'as-a-service' after something doesn't always make money. If you are a CIO, your competitor is the Service Provider. NTT runs a cloud based on OpSource which, in turn, runs on NTT hardware. Biggest adopters of CC are consumers because they have low barrier for entry. One-half of $1.5 trillion spent annually on IT worldwide is by SMBs. There are over 700 CC companies offering over 3,000 applications. What is your value prop or differentiator? Early adopters of CC have been SMBs. One Fortune 100 company is trying to replicate its entire IT in the cloud. The move to cloud is inevitable, but it will take much longer than all predictions. Some mainframe apps may never move to the cloud.

The Cloud Customer: Who is Driving Business-App Adoption?

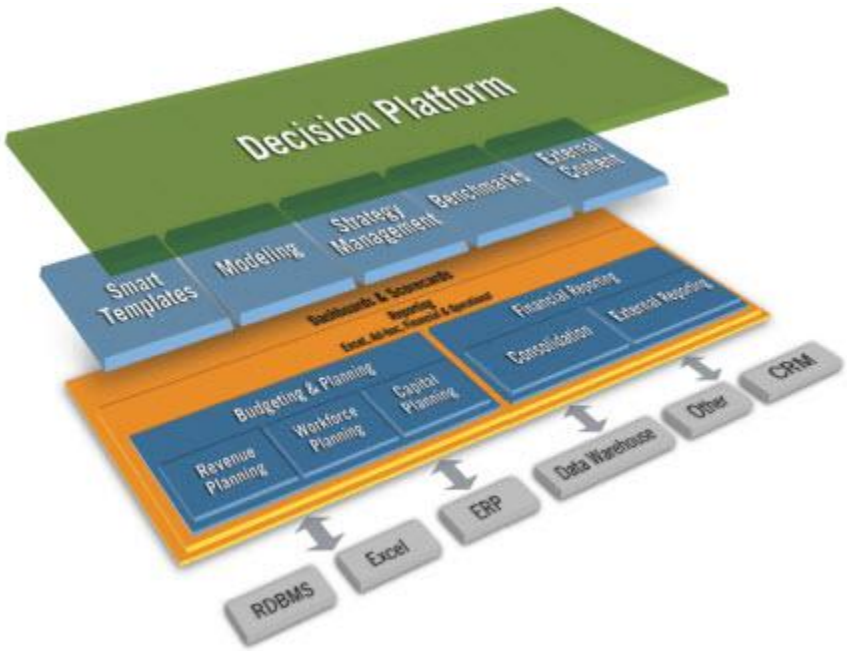
As price and end-user complexity drop, the market grows; but who is driving the market—consumers or the enterprise? Are department buyers helping biz apps make an end-run around the traditional direct sale to IT chiefs?

SugarCRM has over 6,000 customers running on-premise or in the cloud—enabling customers to run them anywhere. Business Units are driving some cloud initiatives, but are going to IT for the budget. In other words, end users are driving adoption. There are many in IT organizations resisting cloud adoption, it'll be a long way before IT moves to the cloud. Most issues are political or legal, not technical. Flexibility of cloud or on-premise gives a choice for customers. Some apps may have to scale up or scale down on a given day. This is where the beauty of CC comes in. Will CC takes over the IT world? No, there WILL be servers on-premise that won't go away. Are there certain apps that are suited for the cloud? Yes, for instance, business intelligence/analytics is a good candidate, but the question is, "Where should my data be?" If you are NASA processing large images, CC may not make sense. We used to say "Everything will be browser-based, we don't need clients." This is nonsense. Web browser isn't the solution to everything. Many organizations still use fat clients. Similarly, CC isn't a cure to all IT headaches. Yet, SugarCRM has datacenters in the U. S. and the U. K., but sees no need to build out further, because it can use a cloud service provider.

CEO Showcase Sessions

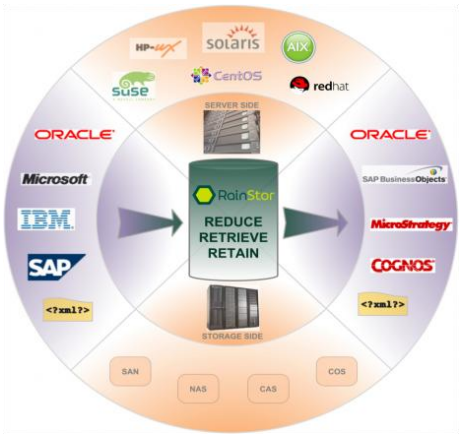
There were many startups invited to pitch their ware. These included:

1. Boomi, founded in March 2000, that offers an integration cloud, announced Boomi Trust. Integration is ready for disruption and adoption.
2. Host Analytics that offers a SaaS Corporate Performance Management suite



Source: Host Analytics

3. uTest for on-demand software testing
4. RainStor, whose slogan is *Reduce, retain, retrieve* data



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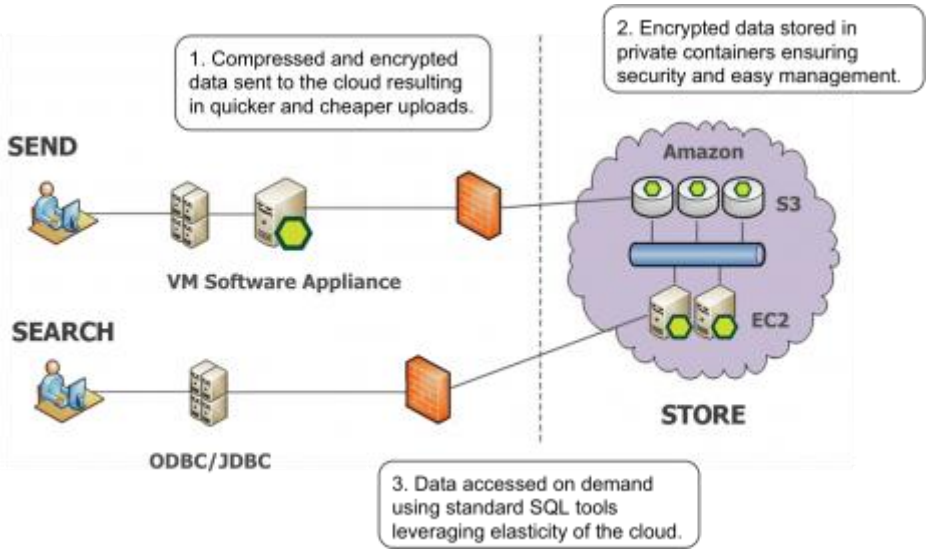
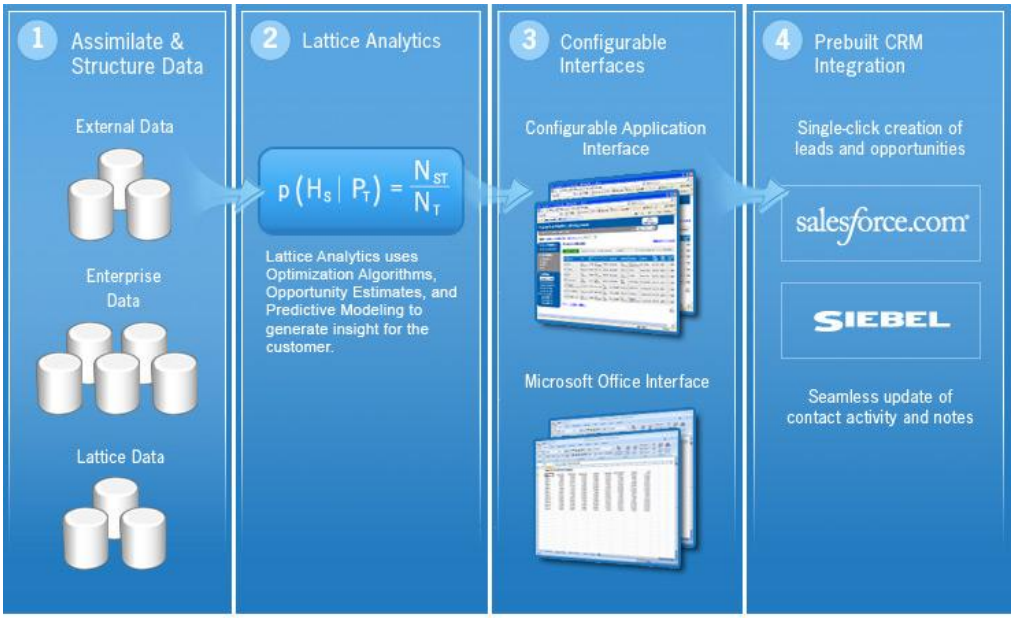


Source: Rainstor

5. Lattice Engines, with applications that help sales professionals take a proactive approach in their interactions with their customers.

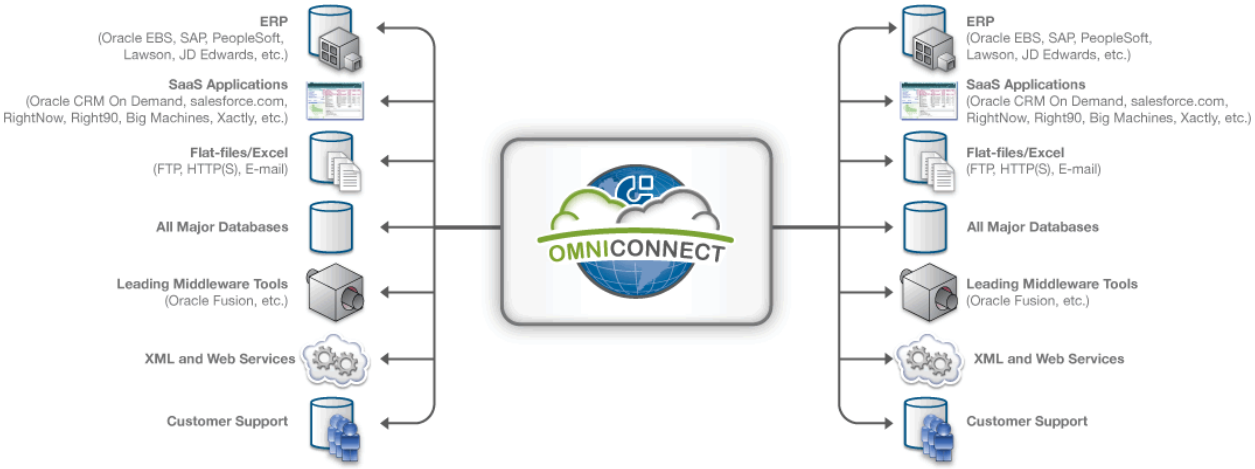
Summary

Overall, this was an insightful conference. The mood was definitely upbeat, with all the vendors optimistic that CC can only lead to increased IT spending—servers, software, middleware, storage, services…



Source: Lattice Engines

6. Cast Iron Systems, which offers Omniconnect and bills itself Integration 2.0, with a warning, "If you are doing integration, beware there are many immature APIs out there."



Source: Cast Iron Systems

7. Pivotlink, that delivers BI as SaaS. BI software market is $6 billion; BI platform market is $200 million; and the average BI implementation is 19 months. Standish Group says 50% of legacy BI projects fail; PivotLink customer retention rate is 95%.

SAAS	ON-PREMISE BI
Set-up and maintenance handled by the service provider	Requires IT resources to set up and maintain
Does not require capital expenditure	Requires CAPEX
Can deploy quickly	Complex, costly and long deployment time, requires resources with specialized skills
Automatic software upgrades	Expensive, time-consuming upgrades
Can expand number of users and processing capacity on-demand	Must expand server capacity if adding users and rewrite license agreements
Can terminate service anytime	Must continue to pay annual maintenance fee as dictated in contract

Source: Pivotlink