



***What factors are driving the mega-vendors to buy pure-play SaaS/Cloud vendors?***

SAP, Oracle, Infor, HP, IBM all face a great deal of pain as their business models become more and more stressed by cloud computing. Enterprise customer preferences are changing rapidly. Cloud computing just makes sense for businesses of all sorts and all sizes. As compelling cloud solutions become available in each new space, they are gaining market share quickly. Companies like Workday, Taleo, Netsuite and Ultimate are taking customers away from the established vendors. There are countless smaller, fast-growing vendors doing the same thing.

Most cloud products were created after the turn of the century. They were written **because** of the Internet, to take advantage of it. The legacy products were written

**before**

the Internet came of age. The first generation enterprise software vendors like Cullinet, McCormick & Dodge, Dun & Bradstreet, and Walker didn't survive the market shift to minicomputers and client-server architectures. We are now seeing some big brands from the 80s and 90s falter and get rolled up into oblivion.

The cloud computing model puts pressure on current quarter revenue, cash, and profits for the traditional vendors. It is very hard for a public company to make the switch. RightNow did it years ago and was punished for quite a while during the transition, but ended up with a great result. The larger the company, though, the more difficult and painful is the transition. Highly-levered private companies face a similar challenge. They need cash flow to service the debt. Making a big move to subscription pricing would not be popular with debt holders.

All these factors combine to make the idea of buying a significant SaaS business appealing.

***Are traditional on-premise mega-vendors really committed to Cloud, or is it just a strategy to perpetuate and protect their on-premise legacy?***

I think it's a mixed bag as to whether the mega-vendors are committed to the cloud. They are all highly incented to protect their legacy maintenance revenue stream as I outlined above. Some are adding Cloud solutions as window dressing, to assure customers and investors that they are "cloud-ready". They will promote legacy systems as true SaaS. In truth they are offering a hosted version of the same old stuff. In some cases they offer "limited multitenancy" where similar businesses are in the same instance. They still don't fully understand what it takes to move in a big way to the cloud provider paradigm. This "faux-SaaS" approach has bought them some time.

It's possible that SAP has learned that they need an external stimulus to create a "Cloud Culture" within the behemoth. ByDesign debuted in 2007 as "the most important announcement in the history of the company". The company has struggled with it ever since then. The current version of the platform gets great reviews. However, the bigger challenge is with all the other aspects of the business. Everything is different - the sales approach, pricing, deployment, service, new feature development. It seems to be proving impossible for larger scale vendors to make the change organically. There is just too much momentum behind the status quo.

***The mega-vendors are buying up pure-play SaaS companies. Will they succeed in using those acquisitions to help change their companies to the SaaS culture and business model?***

It is still to be seen whether the mega-vendors can buy their way to transformation. The prices they are paying certainly incent them to get that kind of value from the acquisitions. It is possible that SAP or Oracle can build a significant cloud business from the seeds of their acquisitions if they back the management of those businesses and let them flourish, if they learn from those who have lived it and have SaaS DNA. It is also possible that innovation at those acquired companies will die as they are assimilated into the larger whole.

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