



*What will the software industry look like in 3, 5, even 10 years from now?*

Fundamental shifts are now occurring in the Software Industry. These shifts are driven by the success of the early Cloud innovators combined with the old philosophy of "follow the money" - as traditional Master Brands and ISVs evolve to provide a wide range of SaaS (or Cloud Business solutions) and traditional hosting vendors evolve as providers of Cloud infrastructure. The Cloud is raining new opportunities on those in a position to recognize and take advantage of them. ISV migration to the Cloud will continue for the next few years as Cloud platforms grow in influence and capability. Through 2015, the Cloud IT industry will itself transform and consolidate, while SaaS plays its central role.

As enterprise customers of software in the Cloud transform themselves, exploiting new Cloud capabilities, their counterparts in the IT industry will also undergo transformation as their business models and partnering relationships change. The increasing diversity of Cloud platform offerings that can complement and supplement the offerings of Cloud business solution providers such as analytics, billing, mobility management, PaaS, security and work flow (among others) will create a network of composite capabilities to persuade even the most reticent of on premise ISVs to migrate to the Cloud. Some Cloud providers will acquire or partner with providers of these collateral offerings and services. We are also likely to enter a new phase of industry consolidation as a handful of SaaS providers and Master Brands seeking to strengthen their Cloud positioning beef up and go on a buying spree to create broader portfolios of offerings, targeting specific buying centers.

*Through 2015, the largest driver of Cloud IT workloads will continue to be SaaS solutions* (in all of its forms), followed by IaaS deployment and the migration of traditional on premise workloads. The SaaS value proposition is typically very easy to grasp and consume versus other Cloud resources. In regards to IaaS, business and IT executives that we regularly speak to and survey indicate that the lack of standards, as well as transaction and data/security integrity issues are still inhibiting serious adoption plans. However, over the next several years, the effect of these inhibitors will lessen significantly, especially as business priorities begin to shift from an obsession with cost efficiencies and toward business agility / flexibility. As for PaaS we believe the primary users through 2015 will be system integrators who have greater resources and expertise, and openness to risk-taking absent in most enterprises - as few PaaS development environments will be ready for prime time use by mainstream developers for several more years.

Despite early claims that the Cloud was a predominantly a direct sales medium, *channel development exploiting the cross-geographic reach of SaaS and Cloud business solutions will continue to increase in influence through alliances, joint selling, composite offerings, value-added and vertical solutions*

(e.g., via private and internal Clouds with carefully targeted functionality). Cloud channels will be expanded and deepened as a result of the role that ISVs can and should play. If they can understand and execute the transition process, ISVs can play a dominant role in the Cloud and serve as natural channels for the Master Brands. However, before too long the migration of existing on-premise ISV solutions will decline in favor of Cloud-native solutions from pure-plays and traditional on-premise vendors who invest for success.

These Cloud-driven shifts will impact every aspect of the Software Industry:

- Participating in, or providing, a Cloud ecosystem
- Vertical business solutions by Financial Services, CPG, Healthcare, Life Sciences, Transportation, and Hospitality.
- Private Clouds will deliver a very high percentage of vertical Cloud business solutions
- Service ecosystems will be inherent in the Cloud world.
- Cloud-based application innovation will move to traditional production locations like India and Eastern Europe. Silicon Valley investment will increasingly move to Bangalore.
- The outsourcing business model will change significantly. New providers with globally recognized brands and economies of scale like Google and Amazon could radically alter the economics of traditional outsourcing. Some traditional outsourcing companies like IBM are heavily investing in the Cloud to get ahead of the curve, but many more are sitting on the fence, wishing the problems away and simply not understanding the extent and speed to which change will happen within their client base.

*What customer demands and business trends will drive changes in software products, how they're developed, and the industry that provides them?*

While we could point to many influences from the Cloud in terms of IaaS, PaaS and SaaS and their transformative value upon businesses and upon the software industry, I'd like to highlight two other trends that will lead to massive change: one, the *continuing criticality of Integration* and two, the *accelerating rise of Mobility and Social Networks*.

First, Social Networks will increasingly find acceptance in the business community, as both functionality in a business context and the increasing viability of platform providers combine to lower enterprise resistance. Social media/networks will become a significant part of the enterprise business portfolio, as an overwhelming majority of enterprises large, medium, and small adopt these solutions for business use. For providers of social networking solutions in the Cloud, advertising revenues will accelerate, exceeding license and subscription revenues combined, in driving growing viability and profitability. Mobility will become ubiquitous in the business environment.

*Mobility access to Cloud Business Solutions will become a de facto standard for many work environments*, leading with sales and services organizations. Pervasive mobility and social networking together will change the landscape of enterprise SaaS and Cloud Business Solutions:

Second, *integration will remain the key glue making the Cloud in all its forms not only possible, but impossible to derail*. However, increasingly sophisticated customer requirements will shift the issue well beyond data integration to the challenges and issues related to workflow and process integration, a key gating factor for larger enterprises.

As enterprise customers of IT in the Cloud transform themselves, exploiting new Cloud capabilities, their counterparts in the IT industry will also undergo transformation as their business models and partnering relationships change. *Software, as we know it now, will never be the same.*

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