



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

The short answer is "yes". While SaaS is highly disruptive, mega-vendors cannot simply eject their on-premise legacy as these lines of business typically represent massive portions of revenue and earnings.

More broadly, the idea that cloud will completely displace traditional on-premise technology is far-fetched. At certain scales, the economics and other qualities of on-premise technology deployment outweigh the benefits of cloud-oriented technology strategies. Over time, the technology use cases most appropriate for cloud and on-premise delivery will find their levels. Some use cases will clearly fall into one category or the other, and the grey area in the middle is where technology vendors will fight for competitive advantage with a range of delivery models.

When the dust settles, the term "enterprise" will come less to describe a set of on-premise technologies, instead representing a spectrum of on-premise and cloud technologies that work together, but each delivering their own specific benefits, to address various needs within a single business or related lines of business.

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

For many (but not all) businesses, cloud and SaaS business models can offer agility, visibility and margins that are extremely attractive. Much more automated delivery models can be measured far more effectively and remove variability, which in turn increases predictability. Less variability and more visibility means that key components of marketing and distribution can be isolated, closely examined, and iterated to improve key metrics like conversion rates. This level of granular control and almost scientifically precise isolation of business factors can deliver almost unbelievably actionable business intelligence.

SaaS models often migrate towards self-service subscription models. This can often enable a business to penetrate smaller markets that would be prohibitive in terms of marketing and distribution costs. As a stand-alone marketing approach, this can be compelling. By adding such approaches to existing products, services or SaaS offers distributed to the higher end of markets via more traditional models, a business can enjoy engagement of a far larger addressable market, and can retain customers more effectively as their needs scale up or down. Subscription models are also attractive in that they offer the positive effects of accumulation and recurrence, making the long-term value of a customer much more compelling than traditional license-and-maintenance revenue models.

From a technical perspective, delivering SaaS offers can be far less complex and costly than delivering traditional on-premise software. Software upgrades happen to all customers at once, retroactive version support becomes simplified, and support organizations have far greater consistency in features that must be supported. Removing some or all hardware, operating system, network and dependent software requirements also makes customer onboarding and support faster and less costly.

The earlier mega-vendor adopters will move because they'll see the competitive advantages and the general business benefits of cloud-oriented models, especially SaaS. Later in the adoption cycle, their competitors will feel increasing competitive pressure to respond, and will follow suit. Across the board, I believe that very few mega-vendors will be able to remain competitive without cloud/SaaS/on-demand distribution and delivery models strategies.

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?

This depends on a number of factors. Instead of answering "yes" or "no", here is a list of considerations that will drive the degree of transformation that occurs as a result of a SaaS acquisition:

- What are the acquiring company's goals for SaaS relative to their larger business?
- How effectively the acquisition itself is positioned and executed as a change catalyst? Is the acquisition truly the beginning of a transformation, or an extension of an existing, stable and non-SaaS-oriented business?
- What is the overlap between existing product portfolio and the SaaS offer itself? Does the SaaS offer displace or extend existing products?

- How effective and prepared is the company itself at and for affecting major transformation?
- When the acquisition being transacted relative to the SaaS adoption cycle within the acquirer's specific industry? Has the acquiring company moved early enough to transform itself in time to dominate an emerging market or market disruption, or are they attempting to re-create themselves too late in the cycle for the effort to be sustainable?

This interview was published in [SIIA's Vision from the Top](#) , a Software Division publication released at [All About the Cloud 2012](#)