

Analysis: SAP's new cloud czar to take on Salesforce, Oracle

Jim Finkle and Georgina Prodhan, Reuters

SAP AG's purchase of Web-based software company SuccessFactors Inc could be the catalyst the old-school German technology giant needs to try to catch up to rivals in the fast-growing cloud computing market.

SAP has struggled for more than five years to create business applications that are hosted on the cloud, or Web, and the company lags behind pioneer Salesforce.com Inc and larger rival Oracle Corp in the so-called software as a service (SaaS) market, analysts say.

One of the key assets that SAP trumpets in its planned \$3.4 billion purchase of SuccessFactors is the U.S. company's chief executive, Lars Dalgaard, an energetic 6'4" Dane who is one of world's top evangelists for cloud computing.

Dalgaard, 44, a former pharmaceutical sales representative, founded SuccessFactors 10 years ago and built it into a leading provider of cloud-based human resources software. It went public at \$10 a share four years ago, and is now worth \$40 a share under the SAP deal.

Some analysts say SAP is overpaying for SuccessFactors. SAP says it's not just buying a product line: Dalgaard will manage its cloud computing business, have a seat on its executive board and lead the charge against industry leader Salesforce.com.

"Lars is going to definitely be a change agent," said Michael Nemeroff, an analyst with Morgan Keegan who follows SuccessFactors. "The question is - how much change can SAP deal with by taking on Lars?"

At SAP, Dalgaard will face the challenge of getting the nearly 40-year-old company to change the way it develops and sells software. He will also need to figure out how to best integrate SuccessFactors' technology mesh with that of SAP to make it easy for customers to combine products from the two companies.

SAP has to sell more software as a service to fuel growth, because the cloud computing market is a rare bright spot in an otherwise lackluster tech industry. Web-based software is popular because companies can vet the products extensively before buying, pay by the month, and do not need to make expensive hardware buys.

Sales of cloud-based SaaS applications will hit \$17.3 billion in 2013, up 41 percent from an estimated \$12.3 billion in 2011, according to Gartner. The research firm forecasts that sales of traditional programs, which make up the bulk of SAP's revenue, will grow just 14 percent during the same period.

DISAPPOINTMENTS

After SAP launched Business By Design, an all-in-one, cloud-based business management suite for small and mid-sized businesses four years ago, it ran into problems making money off the service because it hadn't figured out a cost-effective way to host software for multiple clients.

SAP also had trouble convincing companies to buy cloud products using the sales approach it has traditionally taken, which was to establish long-term relationships with senior corporate executives instead of with users on the ground.

"For cloud computing, it's the other way around," said Forrester Research analyst Stefan Ried. "People start with free offers, then hopefully convert users into customers, and then upsell large enterprise software."

One of SAP's biggest disappointments in SaaS has been in customer relationship management (CRM) software, an area where it trails far behind Salesforce and Oracle. SAP co-CEO Bill McDermott conceded that the company's last cloud CRM product has fared poorly in the market, but said in an interview on Sunday that he expects its next one to do better.

He said that SAP plans to start heavily promoting that product, Sales on Demand, after Dalgaard takes over the cloud-computing business.

Dalgaard, who studied business at the Copenhagen Business School in Denmark and Stanford University Graduate School, told Reuters that Sales on Demand is so cool that he "went bananas" when he first saw it.

He said he spent six hours playing with it at the end of a long day of travel. "I can't wait to bring it to the world," Dalgaard said by phone.

Marc Benioff, chief executive of Salesforce.com, told Reuters that SuccessFactors uses CRM products from his company so he was "surprised" to hear Dalgaard praising SAP software.

"SuccessFactors is standardized worldwide on Salesforce.com," Benioff retorted. "To my knowledge, they don't use any SAP software of any kind." SuccessFactors did not respond to a request for comment on Benioff's statement.

The battle for CRM customers will be intense because that accounts for the largest segment of the SaaS market. About a third of the nearly \$10 billion in cloud applications sales were from CRM applications, according to Gartner.

"Customers are howling for cloud solutions with Web interfaces," said M. Eric Johnson, a professor at Dartmouth's Tuck School of Business who advises large corporations on technology investments. "Happy with iPhone and Android interfaces, users are just not willing to put up with cumbersome old interfaces."

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Dalgaard has created an unconventional, fast-paced work environment business culture at his Silicon Valley company, where he has advised employees to take calculated risks, make mistakes and learn from them.

The company's value statement promotes respect for individuals ("No jerks") and tells employees to enjoy their work ("Get a rush from what we do"). Yet it is focused on the bottom line, telling workers that they should produce measurable results and "Get it done. Do whatever it (legally) takes."

Analysts said they are looking to see just how Dalgaard fits in at SAP.

"Lars is the type of guy who when he sees a problem, he has to fix it immediately," Nemeroff said. "Maybe this is McDermott's way of saying 'We have to move faster.'"

(Reporting by Jim Finkle and Georgina Prodhan. Additional reporting by Nicola Leske. Editing by Tiffany Wu, Bernard Orr)

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