



Advancing Business Innovation through the Cloud

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About this Report

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About Saugatuck Technology

Saugatuck Technology Inc. provides subscription research / advisory and strategy consulting services to senior business and IT executives, technology and software vendors, business / IT services providers, and investors. Our mission is to help our clients make better business decisions and create new business value through trusted and objective insights into the key market trends and emerging technologies driving real change in business computing. Over the last few years this has included a major focus on Software-as-a-Service (SaaS), Cloud Infrastructure, and Social Computing, among other key trends. Founded in 1999, Saugatuck is headquartered in Westport, CT with offices in Falmouth, MA and Santa Clara, CA and Frankfurt, Germany. For more information, please visit www.saugatucktechnology.com, or call +1.203.454.3900.



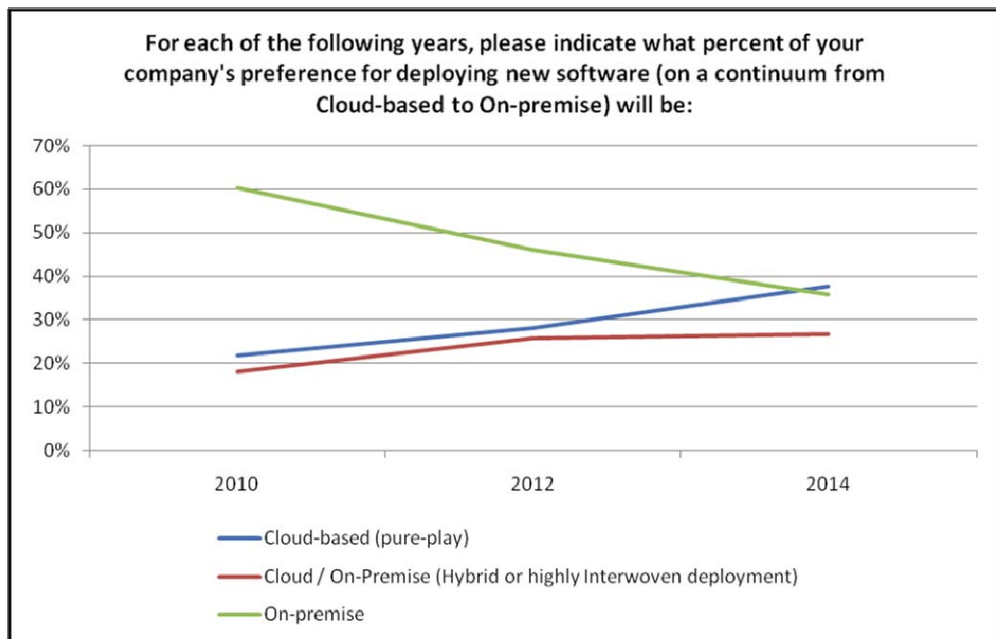
ADVANCING BUSINESS INNOVATIONS THROUGH THE CLOUD

Winners in the new competitive landscape will be those businesses that adopt Cloud solutions to fundamentally change their business models, not simply to improve the efficiency of IT. Although there are significant benefits to be had in that more limited context, “better, faster, cheaper” is only table stakes. Enterprise buyers do assume they will realize these benefits. However, buyers also know that the Cloud spans and unites geographies, supports mobile access from portable devices, enables collaboration, builds communities, and plays host to a myriad of solutions on demand.

INTRODUCTION

The Cloud has become the dominant global trend in Enterprise IT. Saugatuck Technology estimates that, by YE2014, 65 percent or more of all new business solution decisions in the enterprise will be in favor of Cloud-based or hybrids of Cloud and on-premises solutions (up from 20 percent in 2009). All customer segments will be impacted (See Figure 1).

Figure 1: Preference for New Software Deployment



Source: Saugatuck Technology Inc.

Buyers appreciate low up-front costs, no major investment in infrastructure or personnel, quicker time to use, and lower costs of ownership. ISVs can see clearly the growth rates of Cloud solution providers outstripping on-premise vendors. Even as the global economy went through the recent massive recession and tentative recovery, SaaS firms’ revenue growth clearly outperformed traditional on-premise providers. Most market studies, including our own, indicate that SaaS and other Cloud solutions will maintain and increase revenue growth rates well above on-premise software in the coming years. The reason is simple: buyers prefer Cloud solutions with their “easy-to-budget” subscription pricing and functional advantages.



Key purchase drivers today have shifted from “better, faster and cheaper” to “transforming the enterprise” – especially for larger enterprises. Smaller companies remain focused on cost savings and risk mitigation, gaining access through the Cloud to otherwise unavailable customers, services and suppliers. Through 2015, the largest driver of Cloud IT workloads will continue to be Software as a Service (SaaS) in all of its forms, including business applications, social computing and mobile solutions.

As a result, the master brands are moving aggressively into the Cloud. Investments made by traditional master brands such as Cisco, HP, IBM, Microsoft, Oracle, and SAP will begin to bear fruit 2011-12. Joining them as emerging Cloud master brands are Amazon, Google, Salesforce, and VMware. By 2011 we have seen that 45-50 percent of ISVs have begun their move to the Cloud. Platform as a Service (PaaS), as a potential key enabler, has become a master brand battleground. Given the pace at which the Cloud is evolving, ISVs that do not invest and begin their Cloud transition by 2012 will become increasingly marginalized.

A PLATFORM FOR INNOVATION

While the initial impact of the Cloud has been primarily economic – better, faster cheaper – we are beginning to see the transformative effects of Cloud technology on businesses. Geographic reach and the ability to coordinate across organizational boundaries are two easy-to-identify transformative effects. The use of mobile devices to access information in the Cloud, share that information with co-workers, launch business transactions and control on-premise assets remotely through the Cloud brings still another dimension to how business can now operate.

Although there are significant benefits to be had in the more limited cost-benefit context, the winners in this new competitive landscape will be those who adopt Cloud solutions to fundamentally change their business models, not simply improve IT. Cloud technology-based business strategies can achieve compelling returns versus on-premise business re-engineering to fundamentally change the business model. This will be demonstrated through:

- **Innovation** – Innovation can be sparked by the potential for new functionality, new platforms for deployment and access to new customers through the Cloud. The Cloud, too, because of its on-demand, pay-as-you-go pricing encourages business innovation and experimentation, even the prototyping of entirely new lines of business because of the lower cost of on-demand or usage pricing versus acquiring and managing fixed assets. Rather than secure approval for the use of investment capital and human resources, innovators can start small and scale up their new business ideas according to demand.
- **Agility, Flexibility** – Agility and flexibility are the clear benefits of access to elastic resources, as existing lines of business can scale up or down to meet demand or respond to competitive challenges. The frequent functional enhancements of Cloud providers, especially in contrast to traditional ISVs, bring current technology and functionality into the near term. Mobile computing devices not only empower business travelers these days, but ride along with the freight in eighteen wheelers on the interstate and provide tracking and delivery information, as well as enable the management of supply chain efficiency for both buyers and suppliers.

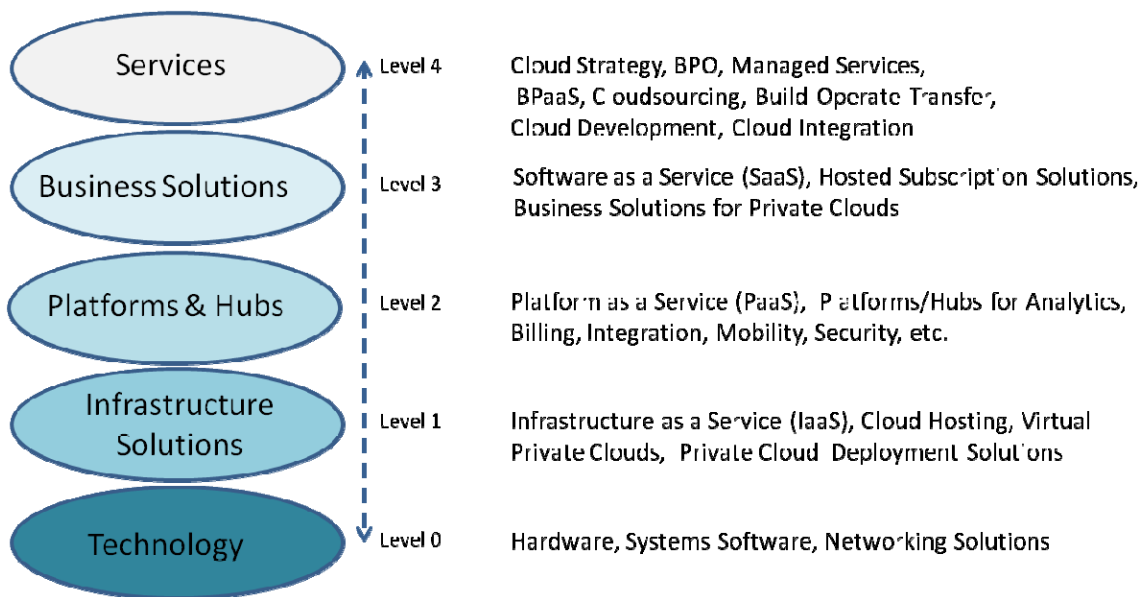


- Leverage – Leverage increases through the Cloud via access to superior resources and business and technology expertise. The SaaS model, whether accomplished through multi-tenancy or through virtualization, spreads the costs of Cloud solutions and technology across a large number of customers, bringing the very latest capability into the realm of affordability for many SMBs that could not otherwise afford it. Moreover, the Cloud makes it easy for enterprises of all sizes to focus on their core solutions and value proposition, while taking advantage of a network of expertise in areas outside their focus. Both forms of leverage are compelling reasons to make full use of the Cloud.

THE CLOUD ECOSYSTEM

The shift in acquisition of business and IT resources from licensed software solutions to Software as a Service and from on-premises data center infrastructure to Public and Private Cloud deployment will continue to transform the information technology sector. This ongoing transformation has resulted in the multi-level ecosystem model depicted below (See Figure 2).

Figure 2: Saugatuck Cloud Ecosystem Model



Source: Saugatuck Technology Inc.

For example: a SaaS provider may host its solution on a Level 1 partner’s Cloud Infrastructure platform, and avail itself of other data center services and solutions that partner offers, such as a Cloud development platform. The same SaaS provider may choose to work with Level 2 partners for billing and payments, data warehousing and analytics capability, and integration solutions. At the same time, the SaaS solution itself might serve as the platform for a level 4 partner’s business process outsourcing or managed services offering. Thus the buyers and users of Cloud-based services – and even the Cloud providers – will typically find themselves utilizing multiple providers from multiple layers of the EcoStack. Clearly, a Cloud provider that can offer multiple levels of offerings in an integrated whole



may have a significant advantage when it comes to offering buyers simplicity in management of their solutions. As Figure 3 below points out, simplifying software management is a primary motivator for buyers in selecting the Cloud over on-premises solutions and could be a significant differentiator in choosing among potential Cloud solutions. Moreover, integrated and composite offerings could contribute significantly to enabling enterprises to innovate in the Cloud by removing both costs and complexity from the equation.

INNOVATION IN THE CLOUD

Two companies that demonstrate innovation in the Cloud are HealthData, a pseudonym for a West Coast provider of performance management solutions to the healthcare industry and SemiSupplier, a global supplier to the semiconductor industry located in the Midwest. Both companies deliver their high-quality solutions through selective partnering and a clear understanding of what their Cloud buyers expect – cost efficiency, dependability and innovation.

HealthData

Founded as an EDI network provider for health care organizations, HealthData today provides 700 healthcare organizations the full range of clinical, operational and financial solutions through an on-demand, Cloud-based platform. HealthData began providing value in the Cloud as a hosted solution and almost immediately began delivering uptime well beyond the 99 percent they promised to their customers.

The HealthData Cloud solution pulls data feeds from hospitals and other health care organizations, aggregates, scrubs and normalizes the data from its multiple, disparate sources, creating a single, standardized, easy-to-use view for users across the enterprise. Using role-based and HIPAA-secure protocols, HealthData delivers this data to individuals within the enterprise in scorecards and dashboards tailored to the organization's key performance indicators (KPIs). Through visual inquiry and email alerts based on KPI triggers, the HealthData Cloud solution drives both critical workflow decisions and proactive analytics, accessible to executives, whether in the office or traveling on the road.

While HealthData's efficiency and dependability have been essential to proving to its customers the value of the Cloud; another key has been innovation. HealthData's ability to deliver continuous innovation has come through partnering with an offshore engineering group to continually enhance its Cloud-based data solutions. As a result, HealthData's customers reap the benefits of placing their trust in the Cloud with efficient, dependable and continuously innovative solutions.

SemiSupplier

A leading worldwide supplier of materials used in the manufacture of semiconductors, with 900 employees and headquartered in the Midwest, SemiSupplier needed a sophisticated IT solution quickly to provide 24 X 7 support for global operations across Asia, Europe and North America. SemiSupplier was able to rapidly deploy a SaaS solution to support a global sales force, serving some of the world's largest high-tech manufacturers, providing a single point of accountability from anywhere in the world.

Not only did the Cloud solution provide global reach, but it also proved to be a highly cost-effective solution enabling its employees to focus on business performance and



improvements, growing revenues while keeping IT costs low. SemiSupplier moved beyond CRM into demand planning and enterprise performance management solutions in the Cloud to streamline their budget process and manage financial performance.

In the semiconductor industry, all investments in IT are strategic, but particularly those that manage customers, the supply chain and finance. SemiSupplier was able to create end-to-end solutions via the Cloud - requiring integration across multiple platforms, vendors and solutions - that lead directly to significant innovation in their business operations. Through the Cloud, SemiSupplier transformed its manufacturing processes, using sophisticated demand planning capabilities integrated to ERP in support of its global enterprise, including an IT Center of Excellence in China.

As a spinoff of a large US based company, SemiSupplier found themselves in need of an entire suite of business applications, so they decided right from the start that they would not acquire infrastructure and expertise to manage their enterprise applications. Turning to a managed service provider proved to provide a solid foundation for extending advanced Cloud functionality and supported their ensuing global expansion.

CLOUD ADVANTAGES FOR ENTERPRISES

Large enterprises, too, have begun to recognize the advantages not only of Cloud-based SaaS solutions, but also of moving their legacy on-premises systems to the Cloud. Whether for an in-house developed system or a packaged solution, using the Cloud as a datacenter does have inherent business advantages. The first advantage is scalability. Cloud hosting provides elastic scaling at no risk to the enterprise, enabling the enterprise to manage capacity exactly as needed, using no more and no less resources than required.

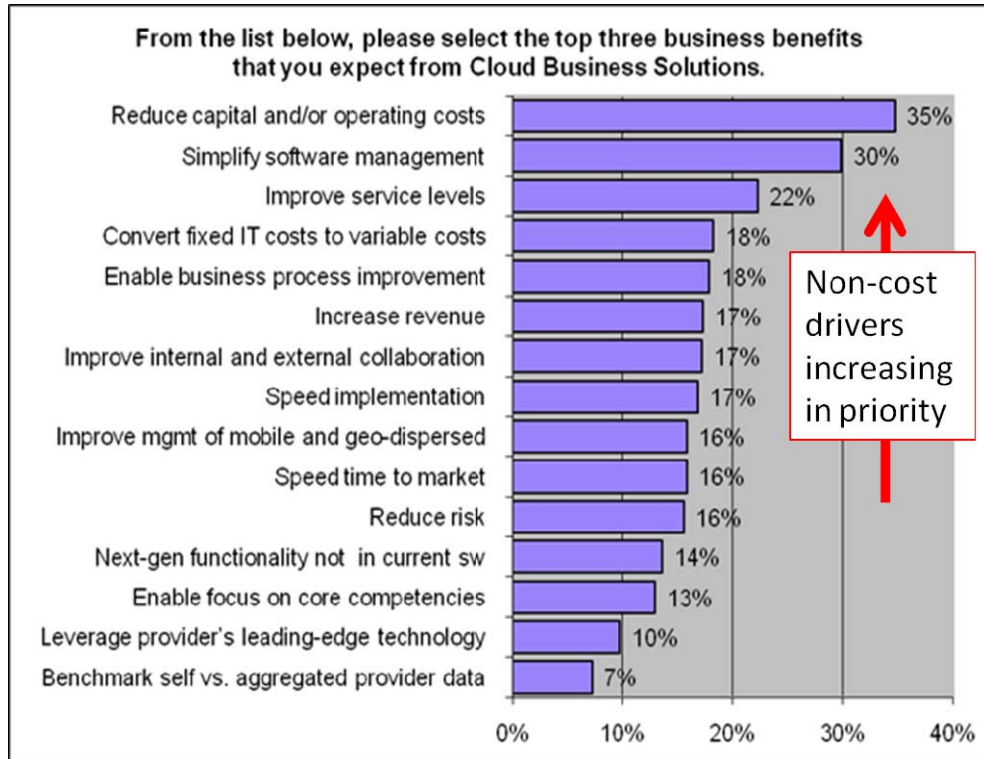
Just as Cloud solutions such as HealthData and SemiSupplier can support customers across geographies, large enterprises with end users in different geographies can use the same Cloud-hosted solution and keep their data current and consistent worldwide. Traveling executives can have the same global access to Cloud-hosted solutions as they would to a SaaS solution and collaborate with their geographically-dispersed colleagues to solve problems, do joint planning and share important documents.

Not only is internal collaboration supported by Cloud-hosted solutions, but external partners, too, can become part of the same extended virtual enterprise. Suppliers, product designers, packagers, printers, shippers and distributors that may be partner providers can all be linked into a Cloud-hosted solution. There are simply no limits to the cost advantages or innovation in this model, as the Cloud opens up every element of the supply chain to the network.



Quite clearly, cost advantages are a high priority for enterprise buyers of Cloud solutions (See Figure 3 below).

Figure 3: Non-Cost Drivers increasing in Priority



Source: Saugatuck Technology Inc.

Reducing capital and operating costs is the number one priority and has been for the past seven years of Saugatuck Technology’s buyer surveys. Along with reducing capital and operating costs, we have typically also seen simplifying software management (and eliminating those personnel costs), and converting fixed to variable costs.

However, we are beginning to see an increasing priority for non-cost drivers in recent years. Improving service levels and business processes, increasing revenue, enabling collaboration and mobility in geo-dispersed scenarios all have been climbing up the list in terms of priority for Cloud buyers. These are the drivers of innovation in the Cloud. As we have seen in the Health Care industry and with High Tech Manufacturing with HealthData and Cabot Microelectronics, and as we have seen in the enterprise drive to move business processes to the Cloud, innovation is the motivation. Whether for in-house developed workloads or for packaged solutions, whether for internal processes or for outward-facing applications, buyers are looking to the Cloud as a source of, and as a platform for, business innovations.

THE EVOLVING HYBRID PORTFOLIO

Meanwhile, it is clear that a new hybrid Cloud/on premises master architecture is emerging in the enterprise, largely in response to ad hoc and opportunistic buying and implementation, as well as the need to integrate Cloud solutions with on-premises data bases and transaction systems. Some providers of packaged solutions



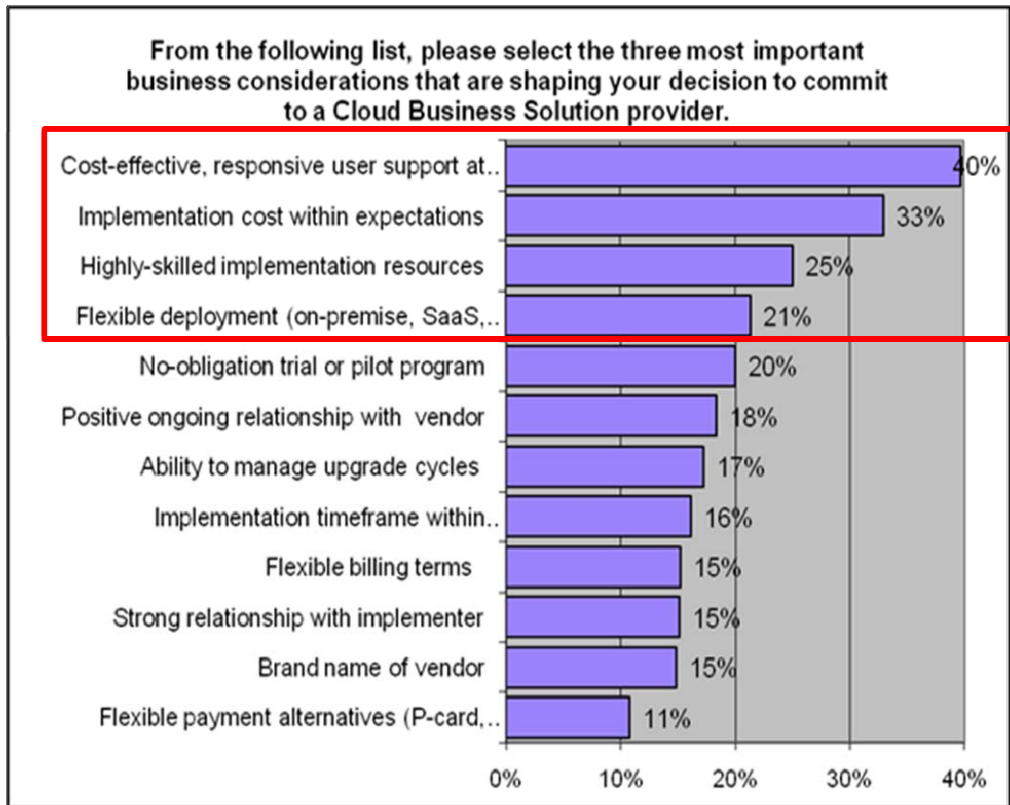
for the on-premises data center now offer both Cloud-hosting and compatible Cloud offerings, either as complements, alternatives or in support of distributed architectures. Increasingly Cloud integration providers can link Cloud to Cloud or Cloud to on-premises solutions with relative ease, and the range of these combinations is increasing.

Saugatuck does not expect that the on-premises portfolio will disappear. Rather, as we have observed, buying will increasingly favor the Cloud, whether SaaS or Cloud-hosted solutions, and integration capabilities will continue to grow in sophistication and ease of use, enabling a truly hybrid business portfolio spanning Clouds and on-premises data centers. For the foreseeable future, however, the on-premises data center will most likely remain in the control of the transaction data that is the mission-critical core of an enterprise’s value proposition. *The hybrid business portfolio will be dominated by Cloud solutions in 2015, as the on-premise segment transforms from the driver of transactions to the repository of business data.*

WORLD-CLASS SUPPORT

Given that enterprises are moving increasing to the Cloud in search of both better-faster-cheaper and innovative solutions, and given they have a considerable and critical investment in their on-premise data centers, providers that can offer both options will be highly attractive to buyers (See Figure 4). Certification of regulatory compliance for the markets they serve is another key attribute that buyers are seeking.

Figure 4: World-Class Provider Support



Source: Saugatuck Technology Inc.



However, in addition to the cost-effectiveness they need and the innovation they seek in their businesses, buyers must have world class provider support to achieve their goals. In our most recent survey, cost, flexibility and skilled resources were at the top of the buyer priority list.

At the very top was cost effective, responsive user support. Whether a SaaS solution, a hosted workload or application package, when trusting business processes to the Cloud, the enterprise must know with confidence that its provider is reliable, accountable and responsive. This was deemed even more important than cost within expectations, more important than highly skilled resources, more important even than flexible deployment options. Yet taken together these top four responses define the profile of a world-class provider.

The move to the Cloud is still a fairly recent phenomenon, and it is ongoing, and will be ongoing for many more years. As enterprise buyers consider their investment in the Cloud, both short- and long-term considerations come to mind. The immediate competitive need is for a better-faster-cheaper solution, but also one that can meet the new standards and functionality that the Cloud brings to the fore for business models that build on Cloud support for mobility, collaboration, and communities across geographies worldwide. Longer term, enterprise buyers need to build sustainable relationships with world class providers that now more than ever can be a reliable source of the cost savings and ongoing innovation that leads to strategic business advantage.



SPONSOR PERSPECTIVE: ORACLE



Innovation in the Oracle Cloud

Oracle On Demand's cloud services help 5.5 million end users achieve the benefits of cloud and address any concerns. Innovation in the customer's business, agility/flexibility (i.e. the ability to scale up and down), to leverage our investment and expertise as a provider, and the sharper focus on their business are the reasons why the shift to the cloud is occurring.

The most effective cloud solutions provide the choice of deployment models (such as on premise, off premise, hybrid), as business needs change. Customers can host Oracle products in their data center or in their own private cloud - we will remotely manage it for them. Ultimately, we can host and manage customers' Oracle products in our data center. Customers can either own a perpetual license or subscribe to some Oracle applications, all in the Oracle cloud.

Oracle On Demand's cloud services are engineered specifically for Oracle products. They provide compelling advantages to either running Oracle products in-house, or outsourcing them to a third party. Oracle standardizes and manages cloud deployments for application to disk, using ITIL-based processes across a large customer base. Standardization allows us to automate routine service tasks to quickly detect, diagnose, and repair incidents and make changes so that the systems are always available, secure and up to date.

Oracle's security practices are built on the ISO27000 framework and customers leverage our ISAE 3402 and SSAE 16 certifications, among others, to meet their own regulatory, audit and compliance mandates. Oracle is accountable to meet demanding Service Level Agreements (SLAs) under a comprehensive governance framework.

Oracle On Demand's cloud services are the IT enabler of business innovation that only the cloud can provide. Customers need to innovate and transform their businesses in order to operate their businesses and compete to win at "cloud speed". Customers have the choice to "go it alone", or leverage the significant investment and technological innovation that Oracle On Demand has made in cloud services so that they can achieve the benefits of cloud and address any concerns.



SAUGATUCK OFFERINGS AND SERVICES

Saugatuck Technology provides subscription research / advisory and consulting services to senior business and IT executives, technology and software vendors, business / IT services providers, and investors.

Our Mission is to help our clients make better business decisions and create new business value through trusted and objective insights into the key market trends and emerging technologies driving real change.

Over the last few years, this has included a major focus on Software-as-a-Service (SaaS), Cloud Infrastructure, and Social Computing, among other key trends.

CONTINUOUS RESEARCH SERVICES (CRS)

- Subscription access to Saugatuck's ongoing premium research, providing independent / unbiased insights and guidance into key trends, buyer behavior, "white-space" opportunities and disruptive market forces driving change in business computing.
- A variety of advisory services are available, including telephone-based inquiry, and "Analyst Days."

USER STRATEGIC CONSULTING SERVICES

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- Cloud Transition / Migration and Mgmt Best Practices

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- Strategy Validation
- Opportunity Analysis
- Positioning / Messaging / Go-to-Market Strategies
- Competitive Analysis

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- Primary and Secondary market research.

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