

NUCLEUS
RESEARCH

FIRST HALF 2018 MARKET SURVEY

ANALYSTS

Nucleus Research

THE BOTTOM LINE

Nucleus conducted a survey of 130 technology users in the human capital management (HCM), customer relationship management (CRM), enterprise resource management (ERP), supply chain management (SCM), content management (CM), and analytics marketplace to track market patterns and divergence. The results show strong differences in markets as some continue to adapt and grow, while others are in decline.

CRM is now almost completely in the cloud, and almost 90 percent of users plan on increasing spending, while in the analytics space, fewer than 20 percent of users plan on increasing spending as analytics are increasingly embedded in solutions. While the cloud has come to dominate most market areas, the majority (70 to 85 percent) of ERP and SCM solutions are still found on premise, due to both market demographics and not wanting to go through the implementation time. Single integrated suites continue to grow, as customers seek to find a single vendor for all their technology needs. Short lists are also consolidating around major vendors, putting pressure on best of breed applications and smaller vendors, while also suggesting that end users are turning to trusted names in the market.

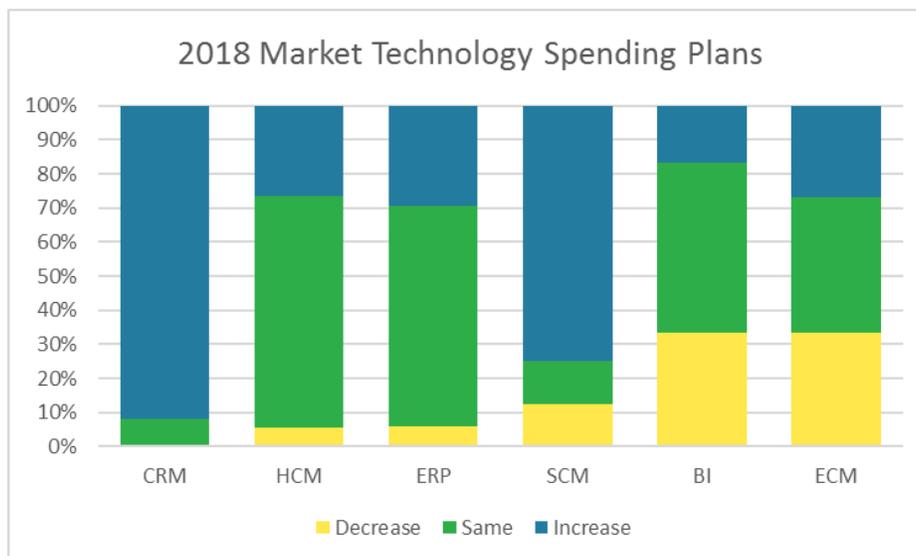
METHODOLOGY

Nucleus conducted phone interviews with 130 end users across the HCM, CRM, ERP, SCM, CM, and Analytics areas. These customers were questioned on their buying preferences, deployment types, spending plans, and applications types. These customers came from Nucleus's database of end users, many of whom have previously been interviewed for their feelings on the various markets. The data was consistent across both industries and corporation size.

KEY FINDINGS

2018 Market Spending Plans

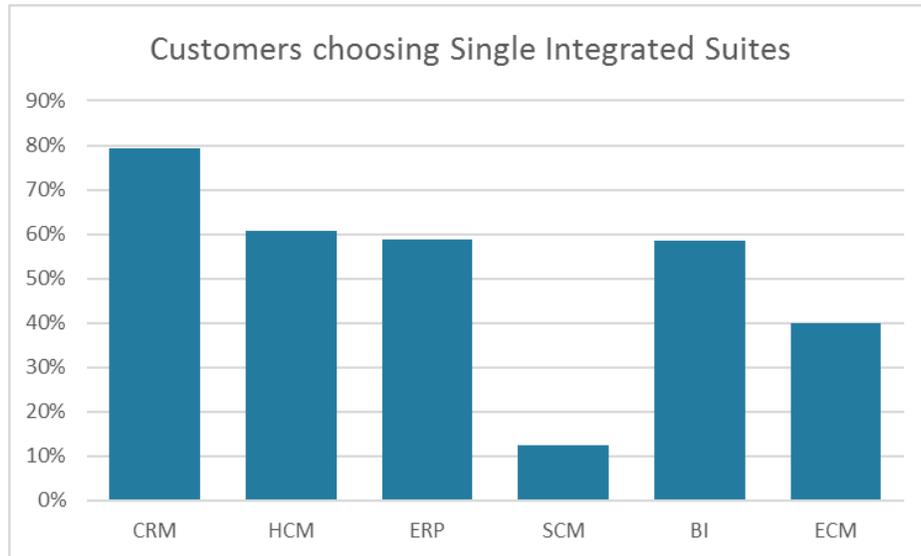
Spending in CRM continues to grow as companies continue to see the high return CRM delivers. In the HCM market, spend is now stagnant, with anticipated spending increases focuses around moving toward the cloud. ERP also remains stagnant, while SCM buyers are increasing their spend to improve supply chain operations through optimal planning systems and eliminating siloes. Spend for both ECM and BI will decrease more than 70 percent and 80 percent respectively as these features are increasingly becoming integrated offerings through HCM, CRM, SCM, and ERP solutions. Nucleus expects spending to continue to decrease dramatically as BI and ECM vendors struggle to justify the cost of an outside application, particularly as the market moves towards single integrated suites.



Single Integrated Suite Versus Best-of-Breed Application

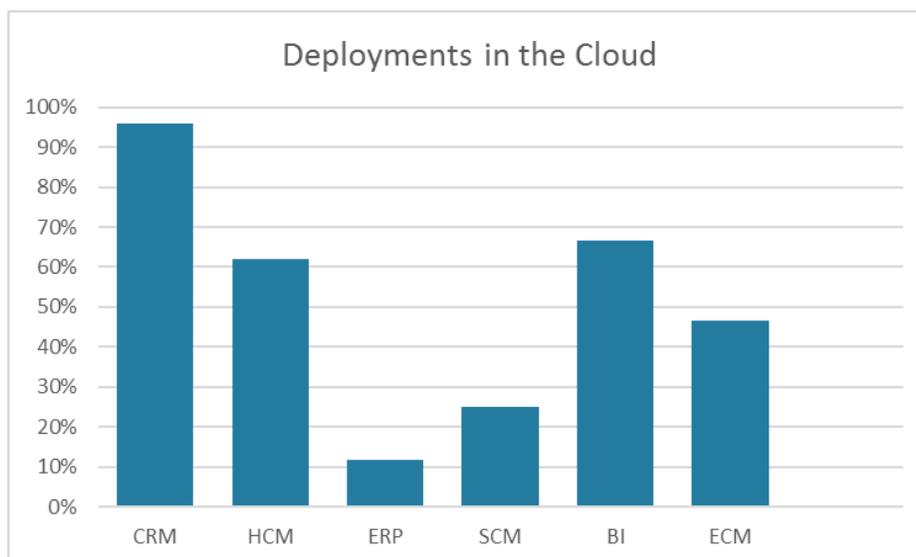
To better understand the business decisions being made, Nucleus asked customers whether they were selecting best of breed applications, or a single integrated suite. Increasingly, organizations are turning to single suite applications as cross market integration becomes a greater business driver. Organizations need to be able to share and use data in real time across departments, which remains much easier to do on a single suite. Best-of-breed applications, particularly those vendors that do not have turnkey integration with larger

solutions, will find it harder to sell their solutions. As more and more data moves under a single suite, those best of breed applications will have to further prove value not just for an individual task, but as a larger software picture.



CLOUD VERSUS ON-PREMISE DEPLOYMENT

It is clear that the cloud has demonstrated value for well over a decade. Nucleus found that overall, the cloud provides the scalability and dependability to help drive ROI. The cloud first grew to prominence with CRM and Salesforce. This trend is reflected in the fact that some 97 percent of CRM deployments are now in the cloud. HCM too has been moving towards the cloud with more than 60 percent of customers in the cloud. Nucleus found that those not in the cloud are either looking to move, or are limited to on-premise solutions because of external factors such as unions. On the other side of the spectrum is ERP, which has been the slowest to adopt the cloud. This is a result of buyer demographics, as well as an antiquated notion of the perceived superiority of on-premise solutions versus cloud deployments.



INDIVIDUAL MARKET OVERVIEWS

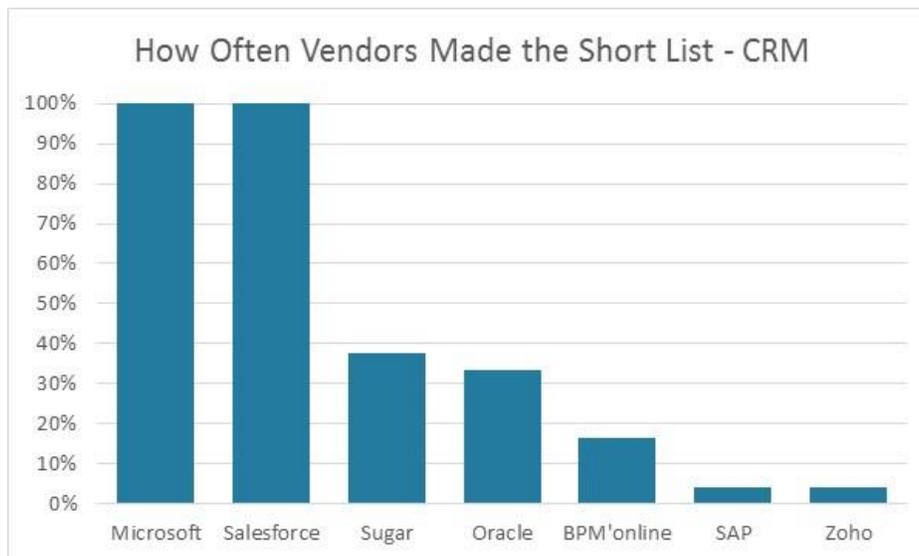
CRM

Our survey found that CRM spending is up year-on-year, with 92 percent of companies reporting an increase in spending on CRM applications. This increase is partly driven by year-on-year price increases for the majority of companies running cloud CRM on an annual subscription basis, with an average annual increase of 8 percent. Companies are increasing their investments because of the impact of overall CRM initiatives on their businesses, with 64 percent of companies rating CRM as highly important to their company's objectives.

Not surprisingly, both Salesforce and Microsoft are considered as leaders in the market, followed by Sugar CRM and Oracle.

Ninety-five percent of companies deploying CRM have cloud deployments; those still running on-premise deployments cite the existing investment in on-premise data models as a factor in not moving to cloud.

Nucleus also found that customers are increasingly looking to integrated suites as ties between sales, marketing, and service data become more important for overall customer engagement, with 77 of customers either moving toward or having already deployed suites.



HCM

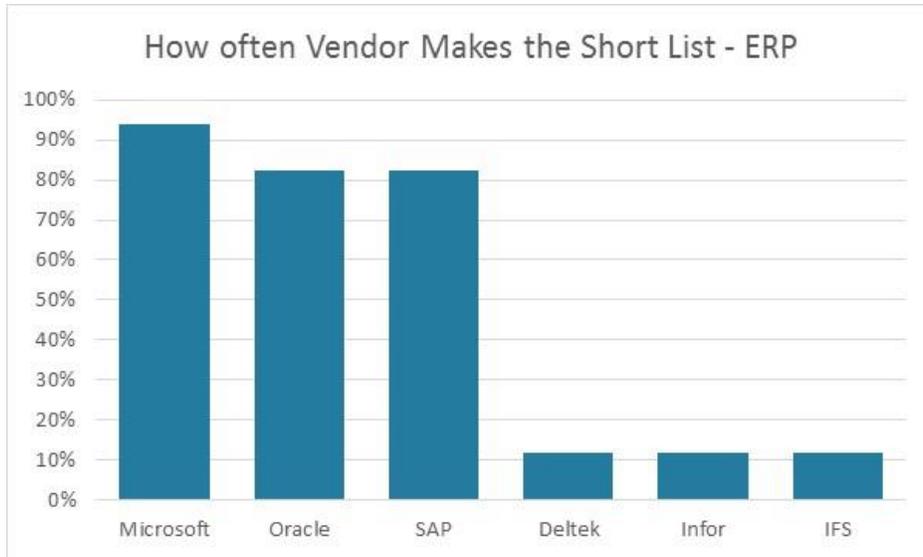
More than 60 percent of HCM deployments today are in the cloud, and most HCM vendors appear to have embraced the future as being cloud. As a result, the majority of employers that still make do with on premise solutions have very few options to stay there. Because of this, more than 80 percent of the on premise customers that Nucleus interviewed are actively considering soon moving to the cloud. These realities explain related findings on planned spending in HCM. The data from this survey show all but a small handful of cloud-based users expect to increase spending per capita, per year, over the course of the next 12 months. This is unsurprising given that Nucleus's analysis elsewhere shows that cloud deployments on average deliver payback in less than eight months following a short-lived spike in spending for implementation (Nucleus Research *s101 – Cloud payback comes in*

less than 8 months, June 2018). Customers named a number of leaders in HCM, such as Kronos, ADP Ceridian, Ultimate, Infor, and SAP SuccessFactors. Kronos and ADP remain leaders on the market short list due to the legacy best-of-breed reputation around pay and time and attendance, The ADP and Kronos time clocks remain popular best of breed applications, but will struggle to complete as vendors move towards full single suite offerings. Nucleus believes that the vendors' current name recognition and popularity will not remain in the long run as other vendors develop these applications for their respective suites.



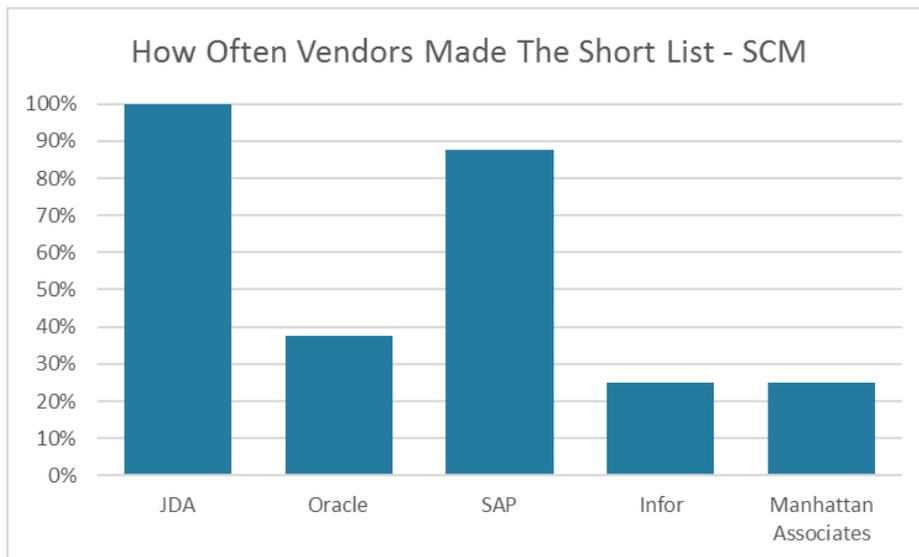
ERP

The mission critical business processes that run on ERP systems means that customers have been slow to move these systems to the cloud. Some customers are prioritizing investment in other areas of their enterprises instead of their ERP, keeping their spending steady. ERP is a business-critical system almost universally, with potential downtime overtaking security as the primary concern for those customers that are considering cloud but have their systems on premise. Though some customers have a plan to move to a cloud solution as part of their next upgrade cycle, some are still looking for the right business case. Customers identified a variety of market leaders depending heavily on industry vertical; the primary leaders customers named were Microsoft, SAP, Oracle, and Infor.



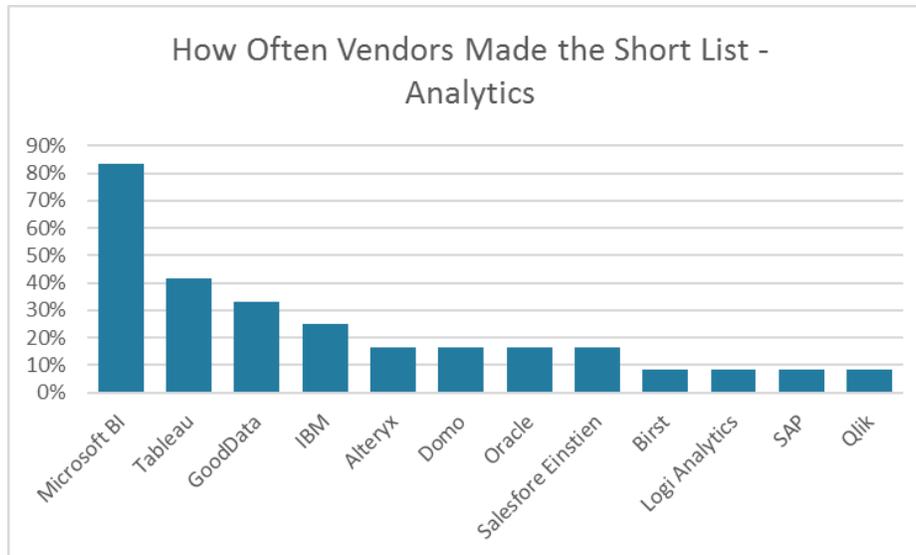
SCM

The majority of supply chain customers that Nucleus spoke with were on their way to adopting an integrated suite of solutions rather than best-of-breed point solutions. Investment was expected to increase almost universally, with enterprises looking to improve the efficiency of their supply chain operations with better planning systems and by eliminating siloes between business units and products. Moving their systems to the cloud was a priority for most supply chain customers as they looked to take advantage of the scalability and centralization that the cloud would afford their organizations. Customers named a number of leaders in the supply chain management market, including JDA, SAP, Manhattan Associates, Infor GT Nexus, and Oracle.



ANALYTICS

Analytics spending is with fewer than 20 percent of respondents reporting increased software expenditures and 50 percent continuing with the same budget in 2017. Most telling is the continued shift to embedded analytics, representing 60 percent of new or additional purchases, consistent with Nucleus predictions for embedded solution (Nucleus Research Q153 – *Evolution of embedded analytics*, August 2016). Nucleus sees the embedded market growing, meaning that stand-alone analytics vendors will either be acquired, provide tight integration, or struggle to survive.



ECM

Content management spending results continue to be mixed in the first half of 2018 with 26 percent of respondents planning increased budgets and 26 percent with decreased budgets. Not surprising is the balance of 48 percent with no plans for either; noting significant expenditures in 2016 and 2017 to manage GDPR security concerns and digital transformation either to hybrid or cloud solutions. Again, results are fairly even between best-of-breed and full-suite applications with embedded solutions representing 77 percent of best-of-breed applications. The shortlist is the most diverse of the markets. This is a result of the multiple use cases such as broad access versus deep content or versioning needs in areas such as compliance. Just as with analytics, Nucleus sees embedded content management leading to more consolidation in this space.



CONCLUSION

As markets continue to mature at different rates, the importance that individual markets play, and thus the spending that they drive, is changing. In HCM, with most vendors already in the cloud or moving to it, there was little desire or internal support to increase spending. This contrasts to CRM, which has almost uniformly converged around two main leaders. Despite already being in the cloud, most CRM end-users are planning on increasing their respective CRM spends, no doubt driven by the high returns and increased revenues that CRM has helped corporations realize. Analytics is becoming a standard embedded feature in all other markets. It makes little sense for most users to invest in some type of BI when the same results can be achieved for free in other embedded solutions. Perhaps the greatest potential for growth is in the ERP and SCM markets, where cloud adoption has been slower. Overall, Nucleus expects that organizations will continue to focus on people, revenue, and production.