TRENDS

Why the Cloud Best Delivers Customer- and Industry-Specific Innovation

Inside the Win-Win Benefits of Cloud-Based Solutions for Enterprises

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EXECUTIVE SUMMARY

Customers have chosen cloud-based software deployment, especially in the enterprise. Rapid innovation, opex versus capex, industry-specific functionality and regulatory compliance drive prospects to seek cloud delivery models. Those that have moved to the cloud have enjoyed higher uptimes, greater visibility into usage and more time to improve adoption and usage. Cloud deployments have also improved access and availability, enabling users to focus on the business instead of managing the technology and software.

Business Theme
Technology Optimization

CUSTOMERS SEEK NEW MODELS TO ACQUIRE TECHNOLOGY AND INNOVATION

Enterprise Buyers Seek Access, Not Ownership

The shift to the cloud has accelerated a move to subscription business models in the enterprise. Consumerization of technology results in enterprise buyers seeking the benefits of subscription access. Customers want compute power, but they don't want the complexity of designing, building, operating and managing that goes with expensive data centers—nor are they interested in the associated vendor management. In fact, technology buyers seek to simplify the complexity of running a hardware business and to reduce the hassles of constantly upgrading software. Constellation Research estimates that the tipping point for customers choosing subscriptions over on-premises software occurred in 2015. In fact, 2008 was the last year a venture capital firm funded a non-cloud software startup. In a 2020 survey of CIOs, Constellation Research found that 91% of respondents expect their vendors to offer subscription access.

Buyers Show Massive Preference for Subscriptions

From clothing to food kits and from streaming services to smartphones, subscription services have taken the market by storm over the past decade. Almost every research study shows that the subscription e-commerce market has grown by more than 70% per year over the past decade. Early pioneer Amazon Prime started in February 2005 at $79 per year for free two-day shipping. Over the past 15 years, Amazon Prime has increased its price to $119 a year, but consumers have gained access to 5,000 ad-free movies, music, photo storage, free two-hour delivery and even free one-hour delivery. Big brands such as Nike and consumer tech powerhouses such as Apple also have offered subscriptions to meet customer demand. In the consumer world, replenishment, personalization and exclusive access drive subscription box services and digital goods.

Users Expect Rapid Innovation Cycles with Minimal Effort

From regulatory updates to new features, owning on-premises software requires organizations to actively train and maintain software. Often organizations have to shut down access to software over

holidays and weekends to deploy bug and security patches, install new upgrades and deliver new functionality. Cloud software vendors take care of all the regulatory requirements, new features and performance updates. With these onerous and complex tasks freed up, users focus on integration testing and training to update users.
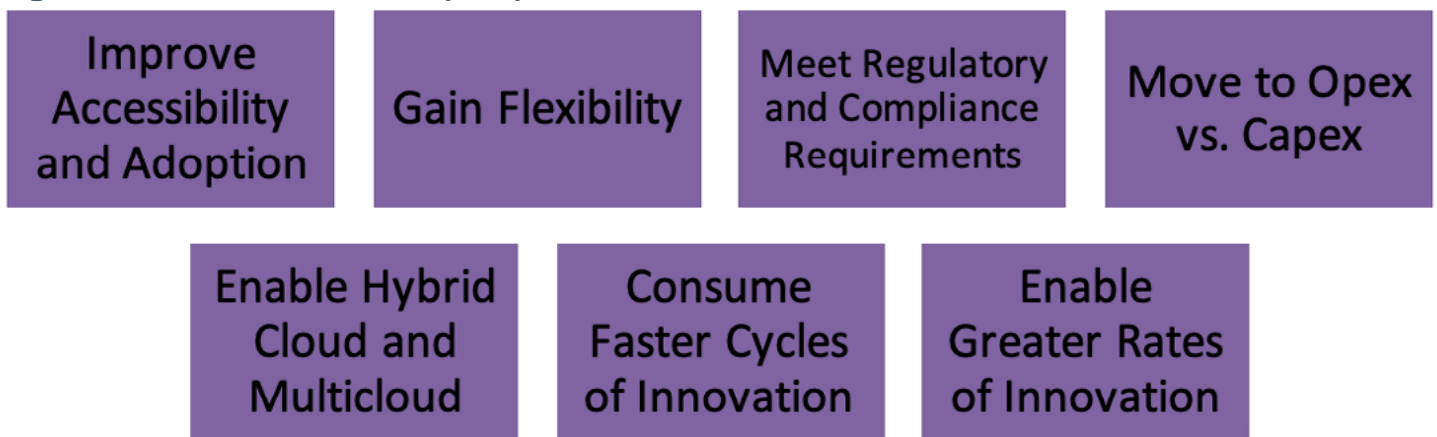
WHY TECHNOLOGY BUYERS BENEFIT IN SHIFT FROM ON-PREMISES TO CLOUD SOFTWARE (SAAS)

Tremendous pressure to achieve extreme EBITDA has forced many enterprises to reexamine their technology purchases. Cost containment in IT along with innovations in the cloud have created a massive shift in buyer trends. As the pace of innovation increases and enterprises seek a faster concept-to-commercialization time frame, Constellation sees the following trends emerging and hardening among hardware buyers (see Figure 1).

Cloud and SaaS Models Improve Accessibility and Adoption

Customers seek the ability to try before buying. Pay-as-you-go, incremental consumption enables elastic pricing and affordability. Clients pay only for the features and usage they need. This enables a measured approach to adoption without heavy upfront costs while improving accessibility for new

Figure 1. Seven Reasons Why Buyers Benefit from Cloud Software

Improve Accessibility and Adoption	Gain Flexibility	Meet Regulatory and Compliance Requirements	Move to Opex vs. Capex
Enable Hybrid Cloud and Multicloud	Consume Faster Cycles of Innovation	Enable Greater Rates of Innovation	

Source: Constellation Research

types of users. Moreover, cloud deployment enables better mobile access and overall consumption of the technology for all types of users. Cloud users also gain the latest user interfaces and user experience.

Enterprises Gain More Flexibility in Consuming Technology Innovation

Existing purchasing models assume ownership—not access. Upfront payment for unused consumption often leads to underutilization, or "shelfware." Customers seek more flexibility in how to allocate licenses and license terms. Could the customer that paid for $1 million in term-based licenses for 1,000 licenses in solution X for four years shift its model to 2,000 licenses for two years for the same cost? Can customers use the same license on different hardware and gain full portability of their software? Concurrently, customers may also change deployment models from private cloud to public cloud without penalty. Technology vendors must create new models of technology access to support new consumption models as enterprises seek extreme flexibility to adapt to rapidly changing market conditions. As companies require more users, compute power and storage, the cloud improves performance and scalability with M&A and divestiture.

Meet Regulatory and Compliance Requirements with Ease

Keeping up with constant regulatory, legal and compliance changes requires on-premises software owners to plan for downtimes, upgrade windows and integration testing investments. With rapid changes happening in legislation, updates must be made more than twice a year. In fact, software-as-a-service (SaaS) vendors often provide monthly to quarterly customer releases, ensuring that customers have the latest updates. Meanwhile many on-premises organizations skip critical updates, leaving them vulnerable to audits, cybersecurity attacks and compliance violations. More importantly, the move from on-premises to cloud (SaaS) models often requires less staffing for updates and upgrades.

Many CFOs Embrace Operational Expenses over Capital Expenses

Except for those in industries that rely on regulated rates and some public sector industries, most CFOs seek ways to improve return on capital. The cloud has a higher potential for reducing total cost

of ownership and ensures more predictable costs. Reducing the upfront costs frees up capital to be invested in other innovation projects. Meanwhile, pay-as-you-go models reduce overprovisioning of compute, storage and licenses, and the underusage of technical resources. Subscription services can play a major role in finance transformation of the enterprise for CFOs.

Customers Seek Hybrid Cloud and Multicloud Solutions

Many new workloads are shifting from the data center to the public cloud. Meanwhile, customers seek to move existing workloads and storage to the cloud in multicloud environments. New environments often see tooling in one cloud, storage in another cloud and applications in yet another. Overall, purchases shift from hardware to the access of storage and compute power. Hybrid and multicloud models simplify the ownership experience.

Cloud Deployment Addresses Need for Faster Cycles of Innovation

Customers have raised their expectations that their vendors deliver faster rates of innovation. This pressure to hasten innovation cycles has increased cloud deployment options by technology vendors. Customers' rapid embrace of agile DevOps, DevSecOps and other new development methodologies improves their go-to-market capabilities. Consequently, innovation cycles shorten for both vendors and for their customers in the cloud. Most vendors provide two to four updates a year.

Digital Feedback Loops Enable Greater Rates of Innovation

Usage reports and active customer success management allow customers to provide real-time feedback to the vendor. Product teams can apply this improved customer understanding toward creating new features or investing in new platforms that support new requirements. A focus on customers' success management ensures that customers are successfully onboarded and using the software. This direct feedback loop allows for faster rates of innovation and better ensures adoption.

WHY EVERY BUYER SHOULD CONSIDER INDUSTRY-SPECIFIC CLOUDS

When it comes to the cloud, we know one size doesn't fit all. Getting the most out of the cloud requires understanding the challenges of your business and the particular demands of your industry.

Enjoy Out-of-the-Box Optimization

Horizontal, vanilla out-of-the-box enterprise software clouds often meet between 50% and 60% of a client's needs. However, customization by industry often consumes from 50% to 70% of the implementation budget. Industry-specific clouds start with a design point that addresses the key requirements of an industry vertical, reducing the number of customizations required and enabling more specific configuration with less effort and meeting more requirements out of the box.

Avoid Customization but Embrace Configuration

The pressure to constantly earn the ongoing business of the customer is at the heart of the subscription business model. Unlike a once-and-done purchase, vendors must ensure that a customer can use the technology, continue to improve the product and address new customer requirements. The tremendous force of this incentive aligns customer success with vendor profitability.

Reduce Cost of Delivery

Skilled expertise in a particular vertical industry results in less retraining and reskilling by industry. With implementation experts well versed in your industry and subsegments of the industry, enterprise cloud software dan be deployed in days and weeks. Time spent learning industry lingo, adjusting for regulatory risk, and debating reporting formats and types of metrics become nonissues.

THE BOTTOM LINE: CLOUD-BASED SOFTWARE PROVIDES CUSTOMERS WITH BIG WINS

The move to subscription from upfront purchase and ownership delivers three major wins for customers (see Figure 2).

Vendors Focus on Customer Success

The pressure to constantly earn the ongoing business of the customer is at the heart of the subscription business model. Unlike a once-and-done purchase, vendors must ensure that a customer can use the technology, continue to improve the product and address new customer requirements. The tremendous force of this incentive aligns customer success with vendor profitability.

Figure 2. Inside the Win-Wins in Shifts from Hardware to Software and from Ownership to Access
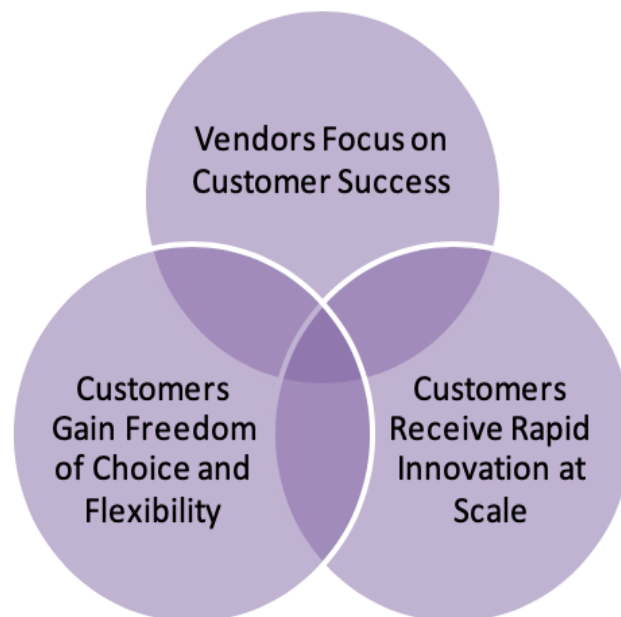
Source: Constellation Research

Customers Gain Freedom of Choice and Flexibility

The shift to cloud-based software models in categories such as hyperconverged infrastructure allows customers to choose any server they want. Customers can change server vendors at any time and avoid lock-in. Enterprises can move off of different generations of Intel chipsets at any time. Moreover, they can own the software license or access via the cloud. This results in more frequent server refreshes. Software-defined approaches also enable hardware agnosticism while preventing hardware vendor lock-in. Meanwhile, software investments appreciate while hardware investments depreciate.

Customers Receive Rapid Innovation at Scale

The cloud provides a level of scale to design, develop, deliver and maintain enterprise software. With a one-to-many deployment model, the cloud ensures that every customer is on the same version, receives the same updates and is supported along well-defined terms. With every customer on the same version, development and support costs drop, and innovation cycles increase. Vendors gain deeper customer understanding through digital feedback loops and can deliver more frequent cycles of innovation. Vendors can also deliver lower-cost integration and security at scale than customers can manage on their own.

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Founder and Principal Analyst

R "Ray" Wang is Founder, Chairman and Principal Analyst of Constellation Research, Inc., and the author of the popular enterprise software blog, "A Software Insider's Point of View." He previously was a Founding Partner and Research Analyst for enterprise strategy at *Altimeter Group*.

A background in emerging business and technology trends, enterprise apps strategy, technology selection and contract negotiations enables Wang to provide clients and readers with the bridge between business leadership and technology adoption. Wang has been recognized by the prestigious Institute of Industry Analyst Relations (IIAR) as the Analyst of the Year, and in 2009, he was recognized as one of the most important analysts for Enterprise, SMB and Software. In 2010, Wang was recognized on the ARInsights Power 100 List of Industry Analysts and named one of the top Influential Leaders in the CRM Magazine 100 Market Awards.

Wang graduated from the Johns Hopkins University with a B.A. in natural sciences and public health. His graduate training includes a master's degree from the Johns Hopkins University in health policy and management and health finance and management.

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ABOUT CONSTELLATION RESEARCH

Constellation Research is an award-winning, Silicon Valley-based research and advisory firm that helps organizations navigate the challenges of digital disruption through business models transformation and the judicious application of disruptive technologies. Unlike the legacy analyst firms, Constellation Research is disrupting how research is accessed, what topics are covered and how clients can partner with a research firm to achieve success. Over 350 clients have joined from an ecosystem of buyers, partners, solution providers, C-suite, boards of directors and vendor clients. Our mission is to identify, validate and share insights with our clients.

Organizational Highlights

· Named Institute of Industry Analyst Relations (IIAR) New Analyst Firm of the Year in 2011 and #1 Independent Analyst Firm for 2014 and 2015.

· Experienced research team with an average of 25 years of practitioner, management and industry experience.

· Organizers of the Constellation Connected Enterprise—an innovation summit and best practices knowledge-sharing retreat for business leaders.

· Founders of Constellation Executive Network, a membership organization for digital leaders seeking to learn from market leaders and fast followers.

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