November 2010 Document K70

RESEARCH NOTE
NUCLEUS TOP TEN PREDICTIONS FOR 2011

THE BOTTOM LINE

Widespread economic pessimism, concerns about taxes and unemployment, and diminishing appetites for risk are shaping enterprise decision making — and IT strategy. Nucleus's top ten predictions focus on the innovators and opportunities leading the pack in the quarters to come, and call out those that hinder value creation in 2011.

Let's get real: it's hard to be optimistic about predictions for the year to come if you're following the headlines. With job creation challenged, tax hikes looming, and tight access to capital, it's tougher than ever to be a software startup. In fact, 2011 is likely to be a tough year for many:

- Economic growth is still yawning — at best flat.
- Unemployment will remain steady in many sectors and structural unemployment will become an unexpected reality for many in the US.
- Taxes – both corporate and personal — are still unpredictable at best.
- Access to capital is limited, and hurdles for first round funding — let alone multiple stages or IPOs — are higher than ever.

Related software market currents driving our 2011 trends include:

- Cloud. Low initial and ongoing costs, rapid time to value, and both environmental and capital savings are driving interest in and adoption of cloud computing.
- Predictability. Custom application development, waterfall projects, and writeoffs are out; fixed bid, best practices, and penalty clauses are in.
- Accountability. If I made the decision, I'm on the hook; if you took the check, you'd better make it work.

1. ORACLE AND IBM ARE THE LAST ONES STANDING

Just like the American political map, the software competitive map is breaking down to Oracle red and IBM blue. How will remaining standalone analytics, enterprise application, integration, and other technology vendors weather 2011? With IBM and Oracle's energetic moves to secure dance partners, Microsoft needs to freshen its image and SAP's still doing the Robot. Vendors that haven't partnered up with Oracle or IBM should look quickly to do so, or they may find themselves without customers when the dance is over.

TOPICS

Application Development & Integration

Business Intelligence & Analytics

Content Management & Collaboration

Customer Relationship Management

E-Commerce

Emerging Technologies

Enterprise Applications

IT Management & Operations

Networking & Communications

Security & Compliance

Software as a Service

Supply Chain Management

2. STEVE BALLMER MUST GO

We know Bill Gates — and Steve, you are no Bill Gates. How does a software vendor move from a synonym for innovation to an also-ran competitor in more markets than any other? Don't ask Bill. Although many Microsoft divisions (like Dynamics) continue to deliver, they're tarnished, not aided by corporate missteps and a visionary vacuum. Microsoft is at a turning point: the company needs an inspiring visionary or a tactical general or both — and Ballmer is neither.

3. THERE ARE STILL SMALL VENDORS TO CONSIDER

There are still small software vendors out there that have developed specialized expertise and deliver significant value to customers. Take Blackline Systems (that streamlines account reconciliation and financial close processes) for instance, or HealthcareSource (that provides health care providers with software-as-a-service recruiting and talent management). They've grown even in the downturn not by just filling gaps but by offering deep expertise in specific areas. These small vendors have blue chip clients, unique skills, greater flexibility (being privately-held), and a focus on customer success that delivers initial and ongoing ROI.

4. GOOGLE: GROW UP OR BE LEFT TO GOOGLE YOURSELF

We'd all agree that Google has delivered some great technology innovations. However, as a glance through YouTube will tell you, just because you can do something doesn't mean you should. Beyond search (where Microsoft is encroaching), Google is in trouble. Its attention span can't make it through a product roadmap, and decision makers want predictable planning, not a supplier that's still trying to work out its ADHD medication.

5. AN UPHILL BATTLE FOR HP

While the HP garage may have been restored, the rest of the company needs an overhaul. While old hippies were ok in the 1980s and managed in the 1990s, what do they do now? With its real strengths in hardware and especially printers, Hewlett-Packard needs to get beyond boardroom scuffles and define what it is in the modern software world. Time will tell if HP can establish a new direction in 2011, but few who know SAP and Apotheker's strengths bet he's the man to bring HP back to greatness.

6. SAP SHRINKS

SAP will continue to battle it out on the sales front, but the reality is that business intelligence (from the Business Objects acquisition) is the feeding tube keeping the old man alive. As customers contemplate costly upgrades or inflexible maintenance, and others consolidate to be more agile, SAP has no new generation to offer. The duct tape and shoestring fixes are unrealistic, and companies now have credible alternatives (Oracle, NetSuite, and others).

7. IT'S OFFICIAL: POLITICIANS ARE STUPID

Since the adoption of the Internet (or perhaps even the telephone), modernists have declared government bodies out of touch with the realities of information technology. That's true, but only marginally interesting when minor regulations are in play. However, the score changes when the cloud and outsourcing are competitive necessities for the Global 500 (as well as the smaller job-producing guys) and policies like the EU's on privacy seem more bent on filling bureaucratic coffers than protecting constituents. In 2011 more than ever, any money-hungry bureaucracy with out-of-touch taxing and fining powers will have to answer for their actions or suffer the consequences. As Detroit learned, it's easy for bureaucracy to scare companies away; it's much harder to attract them back.

If the cloud enables white-collar workers to work anywhere, smart companies will look for environments with low taxes, health care costs, and other overhead as the best locales to operate. Governments and taxing authorities will need to think carefully about how they tax companies as real work locations become more virtual and companies leverage the opportunities of a global transient work force.

8. NO MORE SOCIAL NETWORKING NONSENSE

Twitter is for tweeting twits. We unfriended Facebook before the movie came out. Although social networking drove some interesting collaboration adoption in enterprises, most real workers are moving away from social sites. Instead, we find them on LinkedIn, a site that actually has something to do with their knowledge of business contacts and clients. In all fairness, some social networking technologies are delivering benefits, but as we showed last year, if you're not blocking Facebook you're losing 1.5 percent of total office productivity.

9. THE CLOUD CHANGES EVERYTHING – STILL

Cloud is cheap, cloud is green, cloud is a marketing machine. In 2009, the cloud drove decisions and deployments outside of IT, user adoption of CRM and other applications, and panic about IT irrelevance. This year brought development environments in the cloud, a better understanding of cloud economics, and an enthusiastic leap — marketing or otherwise — on the cloud bandwagon for every major vendor. In 2011, look for greater competition in the cloud space, more and more upstart cloud app vendors that leapfrog traditional startup delivery models, and more recognition of the real impact of the cloud on the environment (see Nucleus Research Note K52, *It is easy being green*).

Anyone who says enterprises are skeptical about cloud computing are likely viewing all the vendor marketing hype for what much of it is: hype.
However, the reality is that companies large and small are taking advantage of the economic and environmental advantages of developing and computing in the cloud. Vendors, for their part, recognize that getting users onboard today is key, as competition drives price erosion, and long-term deals are best.

10. AT&T DIDN'T HEAR US

AT&T's iPhone blunders taught us a valuable lesson. We all know they have marginal service but most customers have, in the past, been left complaining on their own. When those unhappy customers can band together on the Internet and take on a herd mentality, they can bring down partnerships (with Jobs friending Verizon) and drive market changes. The Internet allowed a collective voice to roar that AT&T was too slow to recognize. All vendors beware: an auto response to a negative tweet is not customer service (Comcast, are you listening?). Don't let a single voice move a herd.

CONCLUSION

Greater transparency and collaboration in the industry makes it better for everyone. While our predictions may scoff at social networking trends, the reality is that decision makers have greater access to unvetted information and advice than ever before. What was a novelty 10 years ago — prospects and customers unchaperoned in the same real (or virtual) room — is now a reality for the largest and the smallest of firms. That is good news for decision makers seeking to maximize value from their investments, and bad news for vendors that aren't focused on delivering and proving value.

The cloud is driving greater flexibility, agility, and risk management for users and vendors alike: Expect cloud vendors to gain ground in 2011 and beyond as customers large and small make the cloud part of their IT strategy. Those customers that do will gain the needed flexibility, agility, and capital savings to weather an uncertain economic climate.