NUCLEUS RESEARCH

TOP TEN PREDICTIONS 2017

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THE BOTTOM LINE

Nucleus's top 10 predictions for 2017 reflect the way innovations in technology are disrupting traditional power bases and business models. Top-down command-and-control processes are making way for bottom-up efforts in the sales channel, marketing funnel, supply chain, and security infrastructure. Meanwhile, artificial intelligence (AI) remains more advanced in concept than in reality, the Internet of things (IoT) is permeating enterprise asset management, one tech behemoth is finally getting out of its own way, and another can't seem to focus.

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BELIEVERS IN ON-PREMISE SECURITY VERSUS CLOUD SECURITY GO EXTINCT

In 2017, the last believers in the superiority of on-premise security will follow the dinosaurs into the annals of history. Nucleus was wide of the mark in our 2016 prediction that the adults would take over the security debate and cooler heads would prevail, as the last year saw more of the same chickens running around with their heads removed. Instead of insanity prevailing in the market in 2017, Nucleus predicts that customers will realize that the immense investment that cloud providers have put into security technology far outstrips what their on-premise systems could hope to deliver. The service level agreements (SLAs) to which cloud vendors commit mean that customer data and computation is far better protected in the cloud that it ever was on-premise. Even the most die-hard on-premise true believers will

emerge from their caves and admit that they can't match the security offered by cloud vendors.

AI STEPS OUT OF SCIENCE FICTION

In 2016, artificial intelligence (AI) has been the talk of the town. Science Fiction shows like "WestWorld" and "Humans" are pushing the imagination of their audiences and vendors are racing to capitalize on the hype. However, in practice, AI is far from reaching its full potential. This is not surprising considering it is a relatively nascent technology, but customers must be wary that some vendors only claim to have AI. The vendors who actually offer AI will have machine learning combined with some form of human interface, whether it's audio, visual, or natural language understanding.

With the game of Jeopardy played by Watson several years ago and the game of Go won by an AI system developed by Google in March, AI has made significant leaps. Yet, there is still a significant gap between the conception of what's promised in SciFi and the practical application of the technology. 2017 will be about which vendors are truly able to develop it and incorporate it into their applications.

THE FUTURE OF THIRD-PARTY SUPPORT

Third-party support emerged on the scene some years ago as a means for companies running large ERP and CRM software applications to cut their software license maintenance costs – often as much as 30 percent of their initial purchase price – while keeping their aging applications operational. Caught with overly-customized applications that were simply too costly and risky to upgrade, third-party support appealed because it was typically less than 50 percent of the cost of support from the vendor. While the price tag was the initial attraction, customers found that third-party support was more personalized and responsive that they could get from the vendor. While the main vendors impacted either tried to buy or sue away the third-party market, third party support prevails – and will continue to erode the license maintenance revenues of Oracle and SAP until on-premise software goes away. As third-party support grows, so will its role, not just as a help desk and patch fixer but a matchmaker, guide, and partner to help customers maximize value from their IT portfolio. As CIOs seek to do more with less,

they are not moving their infrastructure wholesale to the cloud, but they do need funds to innovate in cloud on the edges. Third-party support gives them the ability to keep the lights on in the critical application core while freeing up funds for strategic investments in cloud on the periphery.

IOT GETS OVER ITSELF

This time last year IoT was top of mind, but in 2017 it's finally coming of age. The technology is moving out of the shiny object syndrome and customers are looking at it like any core enterprise application where it has to impact their bottom line. Fortunately, as vendors now have more experience in successfully implementing and operationalizing these IoT systems, it is becoming less risky for customers. In many industries such as manufacturing, agriculture, or oil and gas, organizations should already have some level of IoT in use or else they are behind the curve. As the market continues to mature, seeing IoT should be expected and should no longer be considered a novelty.

SELF-CORRECTING SUPPLY CHAIN

For supply chain vendors, end-to-end visibility has been the Holy Grail for years. Connecting the front-end point-of-sales velocity data with inventory levels from multiple third-parties was the dream of every supply chain manager, but these capabilities are now table stakes for any modern supply chain solution. The rules of the game are changing, however, with visibility taking a backseat to supply chain applications that leverage machine learning to automatically detect and correct errors. With buzz words like machine learning and artificial intelligence permeating the technology landscape in 2016, 2017 will see these capabilities put into practice as supply chain solutions take advantage of the ability of algorithms that learn from past mistakes to identify and correct current issues as they arise. Vendors that remain satisfied with delivering visibility and enabling supply chain managers to address supply chain errors will realize that the speed and efficiency of the self-correcting solution can't be matched.

THE RISE OF MICRO-MARKETING

Nucleus has witnessed an increase in the adoption of tools that enable micro-marketing within the enterprise sector. Micro-marketing performs the more task-oriented, ground-level aspects of marketing –such as scheduling, running bulk e-mail and localized web marketing campaigns, and lead qualifying and nurturing – with a new, slimmer set of marketing tools. We think 2017 will begin the evolution of software to accommodate micro-marketing. Within the next year, the majority of customer relationship management (CRM) platforms and marketing automation software will have integrated micro-marketing functionality. Vendors which offer just one piece of the micro-marketing puzzle – like e-mail marketing tools – will decline in popularity. Those who implement micro-marketing in their businesses will experience increased marketing and sales productivity, as micro-marketers will enable marketers to focus on strategic initiatives as well as reduce sales' reliance on marketers for processes such as lead scoring (Nucleus Research *q146 – The rise of Micro-marketing*, July 2016).

THE DEATH OF THE SALES FUNNEL

Since the early 1900s, most sales efforts have been driven by the concept of a sales funnel – bring in enough prospects at the top, qualify and engage them in the middle, and ultimately some fraction of them will buy your product. The concept has guided sales meetings for decades – but it's on its way out. The traditional sales funnel assumed two things: information asymmetry and a (relatively) consistent sales cycle. With prospects for all types of products doing extensive research before they ever reach a sales rep, asymmetry has all but disappeared. A number of factors are making sales cycles more inconsistent, including the low cost of capital (for some), the rise of the subscription economy, and the omnichannel experience. This means that sales must rethink the pipeline, look at multiple touchpoints and bring data in from both internal touchpoints and third-party sources to give them a much more sophisticated view of propensity to buy than the number of days in the pipeline.

HR LOSES TALENT MANAGEMENT TO MANAGERS

The concept of "talent management" was first coined in the late 1990s as a vehicle for human resources (HR) to elevate its organizational standing – from lowly cost center to indispensable shepherd leading the workforce to greater levels of engagement and, in turn, productivity. But the technology for talent management has long since evolved to meet the workforce where talent management actually occurs: wherever managers interact with employees. This pokes holes in HR's ability to ride the coattails of talent management to organizational legitimacy. Fortunately, reporting will be HR's saving grace to remain an essential player in talent management. The parallel evolution of analytics functionality is delivering granular information on goings on across the enterprise. Within the next five years 90 percent of analytics will be embedded in business users' existing core applications (Nucleus Research *q153 – The evolution of embedded analytics*, August 2016). Increasingly, these analytics will be predictive and prescriptive to empower managers to manage their talent directly. The results of all this activity, however, will continue to flow back to HR, whose role will evolve to measure effectiveness and, thus, provide managers with valuable feedback on how they're managing their workforce.

SAP FINALLY GETS THE MESSAGE

As SAP continues its push to migrate customers to the cloud with S/4 HANA, it finally starts to understand that just saying it is "simple" is not sufficient to convince customers to take the plunge on a new ERP system. What began at Sapphire 2016, and which we reinforced with our research into its customers (Nucleus *Research q115 – 6 out of 10 SAP customers wouldn't buy again*, June 2016), SAP will realize that moving their existing customers will take more than a smile and reassuringly saying "trust me." As with other ERP vendors that have been slow to the cloud party, SAP will realize that a one-size-fits-all cloud strategy is inadequate. As we saw with Oracle at OpenWorld 2016, Nucleus predicts that SAP will focus on extending services to customers that ease the transition to a cloud system and enhancing the value proposition beyond just repeating that it is simple to install and simple to run.

GOOGLE DRIVES OFF THE CLIFF

Recently, Google announced that it was targeting enterprises – again – with a new version of Google Apps with embedded intelligence. In an ideal world, this would be a great thing: with enormous resources for research and development, Google can take apps to a new level and drive broad enterprise productivity gains by enabling white collar workers to work smarter. However, in reality Google's promise for the enterprise will never come to fruition. The company's tremendous resources are no match for its lack of ability to focus. From driverless car crashes to beekeepers to YouTube to space travel, Google keeps proving to us time and time again that has the attention span of a 3 year old. It would take a major change in leadership at Google to bring a real enterprise value proposition to market.