INFORMATION
VENTURE PARTNERS

Beyond Enterprise Software

July, 2015

Contents

Introduction

Heads Up, Legacy Enterprise Software.... Winter is Coming

For legacy software players, there is a cold, bitter and competitive storm blowing their way.

The "storm" is being driven by innovative and transformational technology that poses a mounting threat to the enterprise software market and leading players such as IBM, Oracle, SAP and Hewlett-Packard.

The "new" breed of software leverages open source technology, cloud, flexible pricing plans, easier implementation cycles and delivery models (e.g. SaaS), and the power of data to provide enterprise customers with new ways to serve customers, drive efficiencies and attract more business.

"Their biggest challenge is they live in a world of legacy business models."
- Gartner analyst Ed Anderson on the uncertain future faced by legacy software companies such as IBM and Oracle

As important, there is a power shift within the enterprise that is driving the embrace of new technology. CIOs and CTOs – the traditional gatekeepers of enterprise software – are losing control to business line managers, who are demanding quicker and better access to new marketing and sales tools, as well as ways to make tools easily accessible to employees.

The reconstitution and evolution of enterprise IT offers significant opportunities for disruption in how software is deployed, maintained and delivered. It creates an environment in which innovative and fast-moving companies can quickly establish footholds with enterprises ready and open to innovative and different ideas.

An interesting part of the new approach to software is the impact of millennials, who have different expectations about how they use technology and how they want it to perform. This demographic expects real-time and mobile access to information and insight. And they want software to be user-friendly and easily integrated into other software. In other words, their approach to software has little to do with the slow-moving, process-riddled world of traditional enterprise software.

This white paper looks how enterprises can capitalize on the emergence of new software, as well as the most attractive investment opportunities. It also offers insight into how Information Venture Partners is approaching the data landscape and its investment focus areas.

"This is what our customers are asking for to take them to the next level and free them from the bondage of mainframe and client-server software."
- Marc Benioff, chairman, CEO, Salesforce.com

The Shifting Enterprise Software Landscape

The enterprise software world has begun to experience seismic changes.

From a high-level management perspective, CEOs are telling their CIOs to be more agile, cost-efficient and innovative. At the same time, CEOs want their organizations to deliver information and insight to different business units so they can make faster and better decisions to drive returns, market share, new products, customer service, etc. CEOs are willing to explore outsourcing most parts of the business to best-of-breed players to accelerate growth and drive efficiencies.

This aggressive mandate is a major shift from 10 years ago when the focus was managing IT costs at a time when computing power and storage was more expensive, and buying from IBM and other legacy software players was seen as a logical, no downside decision.

So what is driving disruption within the enterprise software market? There are three major "change agents":

1 The cloud, which is seeing a growing number of applications offered online rather than on-premise. This is making software more flexible and cost-efficient as organizations have less reliance on internal IT to install and maintain applications. At the same time, it makes software available to employees, regardless of location. This is a key consideration given the growing use of remote and virtual teams.

2 The SaaS business model is changing how enterprise organizations purchase and deploy software. It provides organizations with financial flexibility and the ability to deploy software when and as needed, rather than being locked into long-term licenses and expensive hardware that have a long-term return on investment.

3 The increase in powerful and less expensive computing resources is setting the stage for the development of software that could not have been built previously. This is making it easier for innovative and disruptive startups to tackle significant enterprise problems. More robust computing is making it easier to analyze data using open-source software such as Hadoop.

"**The subscription economy is dramatically transforming the way businesses try, acquire and ultimately deploy critical software to power their business. The transfer from the old world of legacy enterprise software to the cloud and SaaS is creating a once in a generation opportunity for entrepreneurs to build highly valuable companies."**
- Dave Unsworth, Co-Founder and General Partner Information VP

"**As simple as SaaS appears on the surface, they are actually highly complex business models, linked with interdependencies. To build a successful SaaS company, it is advisable to study the first generation success stories and surround yourself with people who have lived the experience, and then iterate and innovate."**
- Rob Antoniades, Co-Founder and General Partner Information VP

A Focus on Data, Information and Insight

In looking at the software landscape, one of the leading themes is Big Data and how enterprises can extract insight that business units can quickly capitalize on. At the same time, enterprises are looking for data to drive contextualization, personalization and automation so employees can more effectively meet the needs of customers.

We decided to divide the landscape into three "buckets": Data, Information and Knowledge/Insight. This allows us to identify the different investment opportunities within the ecosystem, as well as disruptive companies that are bringing innovative technology into the enterprise world.

Data

There is a lot of talk about the growing importance of Big Data. But here is the thing: data is simply data unless you can extract information and insight from it. When data is well leveraged, it becomes a powerful tool to build better products and applications to meet the needs of end users. At the same time, data lets enterprises quickly shift gears strategically and tactically because they have rapid access to value-added information.

One of the keys to getting value from data is gathering and aggregating lots of data. But only 10% to 15% of data is being analyzed. It means there are large amounts of data not being analyzed and, therefore, important information not being accessed, not being incorporated into decision-making, and not being capitalized on. In other words, there is an information gap that will deliver major opportunities for companies that bring this "dark data" into the spotlight.

Information

Once data is collected, its value starts to surface when basic information is exposed. For example, analysis of the data could show correlations, combinations or relationships measured and displayed in numerous ways. Advanced statistical analysis can surface the obvious but, hopefully, the valuable information that is presented was either previously unknown, counter intuitive, unexpected, or highly predictive. In whatever form, the information is additive to the decision making process.

Insight/Knowledge

Armed with information through data collection, the third and perhaps most powerful pillar is extracting insight and knowledge. This is business intelligence that provides valuable context so sales and marketing groups can create target campaigns to drive leads and sales. This insight can be better accessed through visualization and predictive technologies. Once analyzed by people, information and insight becomes a powerful knowledge base. This knowledge can and needs to be shared with the right decision makers throughout the organization (e.g. marketing, sales and customer service), rather than existing in silos.

The Information Venture Partners investment focus

There are five high-potential themes that align with our expertise in enterprise software market:

1 **GOVERNANCE, RISK AND COMPLIANCE ("GRC")** A rapidly evolving part of enterprise software, GRC software monitors and automates much of the work associated with documenting and reporting of compliance and risk management associated with corporate governance. All stakeholders of an enterprise are affected by GRC, not just executives, auditors and regulators. GRC touches almost all elements of corporate infrastructure but it is concentrated on audit management, policy management, compliance and risk management functions. Most organizations need to improve how they manage risk. Trends that drive spending include third party risk management, (critical) infrastructure protection and risk analytics.

2 **CORPORATE PERFORMANCE MANAGEMENT AND BUSINESS INTELLIGENCE ("CPM" AND "BI")** CPM and BI are among the most important investment areas for CIOs. Research and Markets expects the global market is expected to climb to $26.8-billion by 2020 from $17.9-billion in 2015. SAP, Oracle, IBM, SAS, and Microsoft are the large incumbent vendors in the market. They are also the acquirers and consolidators of the emerging disruptive vendors.

The general definition of this broad category encompasses technology used to access, analyze and report on enterprise data. As the broadest segment, many enterprise applications, including those focused on functional areas, are included in this category. Marketing automation, expense management, supply chain management, price optimization, and visualization are representative of sub segments of CPM and BI. We want to find and invest in the most dominant and disruptive innovations in large sub segments. Recurring revenue models are required but we are indifferent to enterprise or SMB target markets.

One of the most exciting aspects of SaaS is how it lets small and agile players disrupt large markets featuring well-established players.

A case in point is Adaptive Insights, which started in 2003 when Rob Hull saw the opportunity to create a SaaS-based service for companies looking for better ways to do budgeting, forecasting and reporting.

At the time, the options for enterprises were Excel – a manual, error-prone approach – or costly and complex enterprise software from legacy players such as IBM, Oracle and SAP.

Using a corporate culture that supported innovation and risk, Adaptive focused on the needs of mid-market finance executives who it believed had the greatest needs.

In the process, Adaptive began to disrupt the industry. This allowed the company to raise significant amounts of venture capital to expand its product suite, grow globally and move upmarket.

Today, Adaptive has more than 2,500 customers. Gartner ranks the company as the revenue and market share leader in the corporate performance management market, while Montclare ranks it as the 14th most influential SaaS company worldwide.

3

ENTERPRISE 2.0: Historically, Enterprise 1.0 would have included knowledge management, enterprise search, document management and business process management. Enterprise 2.0, or enterprise social software, is the evolution and transformation of the networked enterprise. This transformation is, in part, due to the changes enveloping consumer technologies including more social, local and mobile application usage.

Translated to the enterprise, knowledge workers are increasingly adopting or expecting to use technology that mimics the user experience they enjoy as consumers. Collaboration, file sharing, wikis and blogs are representative of the tools available. But the essence of enterprise 2.0 is the democratization and transparency of information to facilitate interactions with customers, integration with partners, and sharing of knowledge internally and externally. We focus on entrepreneurs with disruptive mobile, security and cloud applications that automate core business processes and solve infrastructure challenges.

LOOKBOOKHQ

As a growing number of enterprises embrace SaaS, it is easy to believe that software continues to be purchased on a standalone basis to meet specific needs or goals.

But one of the realities and benefits of SaaS is how software can work together to create cohesive "stacks" that drive better utility, value and return on investment.

This is something that LookBookHQ has discovered when selling its content management engagement platform. Nick Edouard, LookBookHQ's president and chief marketing officer, said marketing software buyers want solutions, not technology. They want to create integrated marketing stacks featuring different types of software.

"We are delivering solutions rather than tech per se," he said. "We are not doing that in response to explicit requests but the sub-text is there. We can't just sell tech but business solutions that solve business problems. It enables marketers to try things very quickly, but much like everything, our software is awesome but not magical. You still need to make it work, and recognize that digital marketing is iterative."

Edouard said LookBookHQ, which offers a platform that lets brands deliver relevant and topical content to nurture prospects, said a major part of the company's strategic direction is creating integration partnerships with organizations such as Eloqua.

4 CYBERSECURITY:

CYBERSECURITY: Cybersecurity is the process of applying security measures to ensure confidentiality, integrity, and availability of data. Cybersecurity protects assets, which includes data, desktops, servers, buildings, and most importantly, humans.

Cybersecurity is ripe for disruption by one of our core themes: the cloud. This year, about 10% of the security controls deployed by organizations will be cloud-based, particularly by small and mid-size businesses. While cloud-based services' competitive pricing puts pressure on the market, the cloud is also providing new growth opportunities as some organizations switch from deploying on-premises products to cloud-based services or cloud-managed products. According Gartner, global IT security spending will grow to $76.9 billion in this year from $71.1 billion in 2014. In the next couple of years, the use of security solutions will be driven by the adoption of mobile, cloud and social and information technologies, which often interact with each other.

5 **RETAIL TECHNOLOGIES:** In 2014, global retail trade was $22.5 trillion, of which 6%, or $1.3 trillion, is e-commerce. With the advance in standards of living in most nations, retail sales are expected to grow to $28.3 trillion by 2018. Every element of retailing - from the design, order, manufacture, distribution, stocking and sale of goods - involves technology. Technology adoption and innovation is transforming retailing. For example, analytics is bringing science to the art of retailing. Mobile technologies are changing the customer service paradigm. RFID is providing tracking and monitoring visibility to the smallest units. Retail technologies also provide the bridge to two important FinTech sectors, payments and loyalty programs.

A new, dynamic phase for Enterprise Software

Conclusion

While the SaaS business model continues to disrupt the software business, it is still early days in many respects. With the emergence of new technology leveraging the cloud and open source software, the enterprise software market is poised for dramatic change. New, agile and innovative players are winning market share from large, established software incumbents. At the same time, corporate executives are looking for software that delivers more insight to make faster, better decisions. This has created new investment opportunities in large markets ripe for change.

To learn more about opportunities within the enterprise software market,

drop us a line:

INFORMATION
VENTURE PARTNERS

David Unsworth	dave@informationvp.com
Robert Antoniades	rob@informationvp.com
Twitter:	@informationvp
Web:	www.informationvp.com