John Harrington
jfh@blueshiftideas.com

Software as a Service, Managed IT in For Long Decline Vs. Cloud

Companies: AKAM, AMZN, CRM, CRWD, CSCO, DDOG, DELL, FTNT, GOOG/GOOGL, IBM, MDB, MSFT, OKTA, ORCL, PANW, SNOW, SPLK, WDAY, ZS

May 24, 2022

"Heard, tracked, understood, witnessed, confirmed, and you should really think about paying attention to this stuff."

Research Question:

What kinds of software as a service can thrive—or survive—when pitted against what the big clouds offer? What is likely to struggle?

Key Findings

- Any large software company that expects to remain viable has to offer a cloud-based subscription model in order to simply retain customers. However, if they aren't the cloud companies themselves, they will likely be surviving or declining—not thriving.
- Competition across all segments of enterprise and web-based software is intense. Native offerings from Amazon.com Inc.'s (AMZN) Amazon Web Services, Microsoft Corp.'s (MSFT) Azure, and Alphabet Inc.'s (GOOG/GOOGL) Google Cloud Platform have created many more choices for customers. That makes dominance by any single company outside of the major clouds in any category of software as a service (SaaS) or remote physical network management virtually impossible. Certain web-facing companies such as Akamai Technologies Inc. (AKAM) garnered positive comments for being cloud-complimentary.
- For years, sources have been warning that the rise of native services in the clouds spells big trouble for once-leading companies like Cisco Systems Inc. (CSCO), IBM Corp. (IBM), and Dell Technologies Inc. (DELL). "They didn't build the infrastructure to carry them into the future," said the CEO of a network implementation firm that has worked with all three vendors' offerings for years. "While AWS, Microsoft, and Google have added to their physical data center and dedicated network footprints, Cisco, IBM, and Dell kept banking on the idea that serious enterprises would not embrace on-demand information technology services [from the cloud]. Obviously, that has been one of the biggest miscalculations ever."
- Sources said those hardware and software companies can't replace the overall market share they have lost and will lose by trying to turn themselves into SaaS and network management companies. "Look at IBM. They are still calling my clients trying to get them to buy more in-house storage. So is Dell," said the CEO of a cloud resources management company that helps move customer resources, particularly to Microsoft Azure. "Cisco is still trying to flog core network switches to customers that are facing dilemmas in their companies unlike anything they have ever dealt with before, like shutting down entire office towers permanently as work shifts remotely and workers are using the cloud. You can only blame so much on the pandemic. It is a complete shift in how the world works, and there is no turning back."
- Small, nimble private companies can rise up to snatch business from SaaS players. Inside services at the cloud vendors duplicate what many outside companies offer. Several sources talked about the staggering loss of value even among established SaaS players such as Salesforce Inc. (CRM) and Workday Inc. (WDAY). "Salesforce has lost half its value, and they were the leader of the pack," said a senior executive at a network value-added reseller/integration firm. "It's almost the same at Workday. These are the leaders in the outside CRM/HR area. You have to look at Microsoft and their similar offerings in Azure as a reason. Even Oracle Corp. (ORCL) has been hit. It's not necessarily the fault of those companies, but they do not own the hosting for their SaaS, and Microsoft does. That leaves them at a permanent disadvantage."
- So-called tracking and observability companies such as DataDog Inc. (DDOG) and Splunk Inc. (SPLK) were cited as being in trouble. In particular, sources saw no chance that the data analytics firms Snowflake Inc. (SNOW) and MongoDB Inc. (MDB) would ever become profitable. Tech Trends has been negative on both for months based on source feedback.
- The outside vendors that have the best chance to at least maintain their positions as outside-the-cloud SaaS players are data security companies Crowdstrike Holdings Inc. (CRWD), Palo Alto Networks Inc. (PANW) and Fortinet Inc. (FTNT) based on the importance of IT security in the current climate. However, as native cloud services forge more broadly into data security, growth for even the best of the outside vendors will be harder to come by.

Positive: AKAM, AMZN, GOOG/GOOGL, MSFT
Neutral: CRM, CRWD, FTNT, PANW, ORCL, WDAY
Negative: CSCO, DDOG, DELL, IBM, MDB, OKTA, SNOW, SPLK, ZS

Reality of SaaS And IT Services Comes Home To Roost

It has been bad for virtually all the big software-as-a-service names. The combined loss of value across the SaaS and IT services sector in the past year has been, well, over $1 trillion, and it will get worse for many, sources report. “It seems incredible to us [that] this is a fairly new realization that a bunch of these companies were never going to be able to find the growth they claimed they would when you account for the fact they compete against the cloud even as they depend on it,” said the CEO of a company that has been migrating large enterprises to the cloud since 2017. (see Blueshift’s Jan. 6 Tech Trends report) “We have been talking about this with you for three years or more.”

Here’s how Tech Trends sources break IT services down:

Data Security: Sources rate network security as the most stable of the categories but with a lot of exceptions in areas that are loaded with competition, particularly from the clouds themselves. Sources said the days of explosive growth in network security are over. The game has shifted to which companies can hold their base customers, sell those customers additional services, and hope to grab some new business away from rivals. Fortinet ranked at the top of the list of those companies, with Crowdstrike next, followed by Palo Alto Networks—which sources described as being “too expensive,” especially in the face of Microsoft’s rapidly expanding lead in overall data security sales. (see Blueshift’s April 21 Tech Trends report) Sources said security subscription dollars are very high-margin. Tech Trends has numerous sources that provide security consulting to clients that use Crowdstrike, Fortinet, and Palo Alto. They said security companies battle to grab as many subscriptions as possible and hang onto them, because sales of on-premise firewalls and peripherals tied to those boxes all depend on constant updates from the security companies’ cloud-based threat detection engines. “It’s all down to that now,” said the CEO of a security consulting and managed services company with Fortune 1000 clients.

Sources continued to be negative concerning Zscaler Inc. (ZS), saying the company offers nothing unique and is at a direct disadvantage to Microsoft’s cloud. Blueshift Tech Trends has been tracking negative trends on Zscaler since August 2019. The ID management space has also become a problem for outside vendors such as Okta Inc. (OKTA), sources said, because Microsoft in particular is taking the overall lead in the category because of its investment in the area.

Data Analytics and Observability: Not a single source said they see any long-term-growth upside for companies in the category because of direct competition from the clouds themselves—even as companies in the category have to rely on the clouds competing with them to allow them to even exist. Sources have rated Snowflake and MongoDB the strongest. Sources cited these negative trends: Competition, the lack of a unique advantage in their respective product categories, and the lack of any barrier to entry into their specific areas by less-expensive newcomers—or from the clouds themselves. Datadog and Splunk were also seen as running up against the cloud. Software tools offered within the clouds duplicate what those companies have to sell. “It’s a lousy time to be in data analysis or observability unless you are Microsoft or AWS,” said a data management executive who helps move clients’ large data sets to the cloud from on-premise resources.

Sources said Oracle still maintains its lead among outside vendors in relational databases, but the company continues to face expanding competition from the cloud vendors—including Microsoft, which also hosts Oracle Cloud customers. “Then you have AWS, which continues to wage war against [Oracle],” said another database specialist source. “AWS will not quit until they have ground Oracle down as much as they can. It’s an ugly situation.”

CRM/HR/Talent Management: Salesforce.com and Workday are far below their lofty highs. Combined, the two companies have seen their value roughly halved since last October. Sources offer no simple explanation. Competition, price, the change in how companies work, and other factors are each part of the mix. Microsoft has gained share with its Dynamics 365 suite in CRM/HR/talent management from both Workday and Salesforce, sources said. Microsoft’s ownership of the hosting is a big advantage. Other, less expensive alternatives in the marketplace also appeal to the SMB segment, sources said.

Overall, Salesforce remains the leader in the SaaS area of CRM, but the company is past big growth, sources said. “I know it sounds like a broken record, but when you compile what resources any of our cloud customers can tap into that Microsoft offers vs. what any outside company offers in the same categories, you can’t just compare on a price/price ratio,” said the CEO of a cloud migration company that has had clients move off Salesforce and Workday when moving to Microsoft Azure. “You have to take into account the whole picture.

“The analysis we do includes what you will save in costs by moving off premises to cloud hosting in manpower and, maybe most importantly, data security. If we have a client that has been running Salesforce or Workday in their network, that’s a cloud application the customer has been tapping into inside their building, OK? Now, if we move them over to Azure, especially as we have done since March 2020 [due to the pandemic], that creates a series of issues regarding all kinds of workloads and SaaS applications. In which case, yes, they can continue to use Salesforce or Workday on the cloud. Or they can port over to Dynamics [Microsoft], get help on training to the new application, and switch. It may look more expensive at first blush, but you are consolidating into a set of capabilities that run the gamut from active workloads to storage and security, as well as around-the-clock access from anywhere in the world. When we explain it that way to clients, they ask, 'How do we sign on?' Our view is, if you are going to Azure for important application workloads, take advantage of the whole platform, and you can decentralize from being baked into what you were doing in-house. I think this is where you see the erosion of not just the CRM-type applications; but it is seriously eating into Cisco, Dell, IBM, the security companies; and it is killing DIY storage. There is no question about it."

Other sources said much the same thing regarding SaaS and managed IT network services. Several said they do not see how IBM, Cisco, and Dell can hope to make a serious case to their customers that they should continue to spend on legacy technologies that lock customers into specific physical locations at great cost, when all three are also trying to sell cloud management to their customers when none of those companies has a cloud of its own.

"I'm not telling my customers to keep buying hardware when they are consolidating their information technology at Microsoft," said the president of a cloud network integration firm. "A classic use case is based on laptops. We have customers buying Windows machines and Apple machines. On the Windows side, we see Microsoft Surface Pros, Dell, HP, Lenovo. We have several running Apple MacBook Pros. What is the common denominator? They are accessing their applications in the cloud, not through the central company network anymore—because there is no central company network anymore. This is not a small/midsize business thing. We have customers with well over a thousand seats that are operating this way on Office 365, Azure, SharePoint. They use Teams. Their data is on cloud backup. It's all about mobility. That puts all the SaaS companies into the same pot, and there are hundreds of them. That is a harsh reality if you are on the outside [of Microsoft] looking in."

Background

Senior Technology Researcher John Harrington has been reporting on the rise of cloud computing since 2014. He has focused on key trends that have allowed the major cloud providers at Microsoft, Amazon Web Services, and Google Cloud Platform to continually add applications and services to their global platforms. In doing so, they have taken share from traditional vendors that have sold information technology hardware and software to enterprise customers and other organizations. The results have severely hurt the overall DIY IT sector and forced companies doing any kind of business in application software to reformulate their plans to at least try to coexist with the major clouds. For this report, John interviewed 18 executive sources—all repeats from previous Tech Trends reports—who specialize in data engineering, cloud management, IT security, network implementation, data storage and analysis, and application software development. Fourteen sources are in the United States. One is in Canada and three are based in the UK. Interviews were conducted at the end of April and into May.

About the Author

John Harrington is an award-winning investigative reporter and veteran Wall Street researcher. John previously served as senior editor and senior researcher at OTR Global and was a three-time Emmy Award-winning TV journalist.

John brings expertise and relationships in internet networking, network security, fiber-optic communications, and data center computing to Blueshift Research. John will contribute regularly, sharing deep insight into tech and communications trends, often before they are recognized by Wall Street.

Report Coverage Areas and Companies

Blueshift Research has been reporting on the following technology areas since Feb. 14, 2014, covering these public companies:

- Cloud Computing/On-Demand Hosted IT (AMZN, CRM, GOOG/GOOGL, IBM, MSFT, ORCL, WDAY)
- Enterprise IT Networking (ANET, CSCO, CTXS, DELL, FFIV, HPE, IBM, JNPR, MSFT, ORCL, RHT)
- Data Security (CHKP, FEYE, FTNT, INTC, JNPR, MSFT, PANW, SYMC)

- Data Storage/Management/Analysis (AMZN, BRCD, CSCO, GOOG/GOOGL, HPE, IBM, INTC, MSFT, NTAP, ORCL, PSTG, RHT, TDC, WDC)
- Data Centers and Fiber Optic Networking (AMZN, CONE, DFT, DLR, EQIX, GOOG/GOOGL, IBM, INTC, MSFT, NVDA, QTS, ZAYO)
- Fiber Network Construction and Implementation (ALU, CIEN, CSCO, DY, GLW, IESC, JNPR, NOK)

To access these reports, please contact your Blueshift Research sales representative or John Harrington.

The Author(s) of this research report certify that the information gathered and presented in this report was obtained in accordance with Blueshift Research's compliance protocols as outlined in the company handbook. All Blueshift reporters identified themselves as reporters/researchers from Blueshift Research and articulated the purpose of the research. To the best of our knowledge and efforts, Blueshift confirmed that the underlying source(s) lawfully obtained the information shared with Blueshift and were entitled to provide such information to Blueshift without breaching a duty to another party. The data in this report has undergone review from Blueshift Research's Compliance Officer and has been approved for distribution to Blueshift Research's clients.

© 2022 Blueshift Research LLC. All rights reserved. This transmission was produced for the exclusive use of Blueshift Research LLC, and may not be reproduced or relied upon, in whole or in part, without Blueshift's written consent. The information herein is not intended to be a complete analysis of every material fact in respect to any company or industry discussed. Blueshift Research is a trademark owned by Blueshift Research LLC.