

Title **DreamForce '07: Customer Interviews Indicate the Strength of Salesforce and SaaS**

Summary More than 7,000 users attended Salesforce's annual DreamForce '07 user and partner conference at the Moscone Center in San Francisco, September 17 - 19, 2007. Attendance was up more than 25 percent from 2006's 5000 attendees. Salesforce made several interesting announcements, most notably regarding its Force.com "on demand" SaaS development platform service – which the company has labeled "platform-as-a-service." It also laid out initiatives for expanding Salesforce and AppExchange presence within customer enterprises, including the "Ideas" platform/application for intra-enterprise collaboration and communication.

As we did in 2006, Saugatuck attended DreamForce, participating in several analyst and VIP events, and meeting with SFDC executives, partners, and other analysts. And as we also did in 2006, Saugatuck interviewed Salesforce customers regarding SaaS (and Salesforce) benefits, Salesforce functionality, future adoption plans for SaaS, and attitudes toward multi-tenancy and data privacy issues.

We present and compare our findings in this Strategic Perspective, assessing the evolution of SaaS, as well as some key challenges facing Salesforce as SaaS looms large in enterprises of all sizes, worldwide.

So What? Salesforce continues to be a force, if not *the* force, driving SaaS awareness and adoption among business executives and user enterprises of all sizes and types. Understanding what Salesforce users and partners believe, desire, and understand is a useful gauge in understanding SaaS' influence and presence in business and IT.

While the overwhelming majority of Salesforce user interviewees expressed positive views, we did find a few cracks in the façade that bear watching – and that bear action by Salesforce, its partners, and possibly its competitors.

Perspective One of the first developments we noticed when comparing DreamForce 2007 interview results against those from DreamForce 2006 was a shift in the average number of Salesforce licenses within customer enterprises.

Last year, our random sample of 20 user attendees indicated customer companies across a wide spectrum of industries and sizes, from 3 to 4200 seats. In 2007, we randomly selected 21 user attendees for interviews. We found the same wide distribution across all types of industries and company types, and a significantly larger Asian enterprise presence. In fact, Salesforce CEO Marc Benioff made a point of emphasizing the Japanese growth and increased presence of Japanese customer firms at DreamForce 2007.

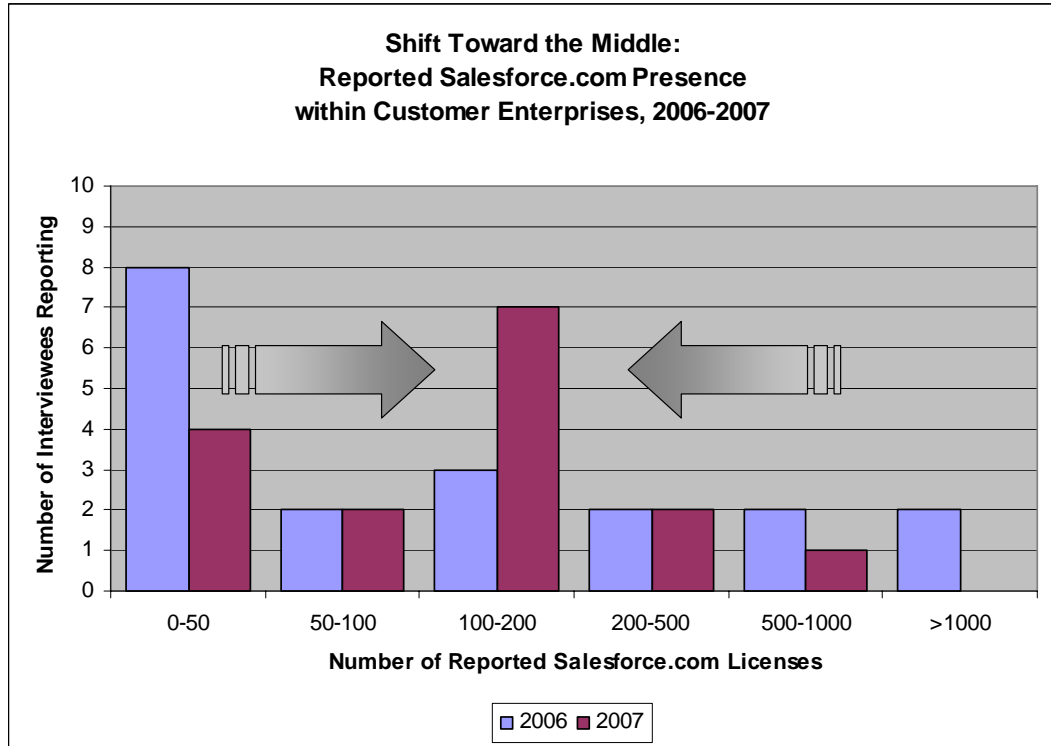
But perhaps just as significant was the difference in distribution of the number of SFDC licenses from 2006 to 2007. The numbers are presented in Figure 1 below.

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Figure 1: DreamForce Customer Interviewees: Relative Salesforce Presence, 2006 - 2007



Source: Saugatuck Technology Inc.; n = 20 (2006) and 21 (2007)

There appears to be a narrowing of Salesforce license presence within user enterprises over the past 12 months. While the overall numbers at the lowest end (e.g., 0 to 50 licensed users within the customer enterprise) have reduced from 2006 to 2007, the number of interviewees reporting more than 500 licensed users has also reduced year over year. Salesforce presence seems to be focused more and more in the 100- to 500-user range, with a "sweet spot" of between 100 and 200 users.

This is not unexpected, although Salesforce sales, promotion and marketing groups would undoubtedly like to see a much greater presence at the higher end (i.e., more than 1000 licensed users within customer enterprises).

The first reason this mid-range focus in 2007 is not unexpected is that 100 to 200 users tends to represent a significant sales force within an SMB enterprise – Salesforce's original target market. It suggests that Salesforce's marketing and promotion efforts have paid off over the past few years, and that the company may be growing a more solid presence within its original target customer community.

A second reason has to do with the overall acceptance of Salesforce and of SaaS in general within user enterprises – and a resulting shift in DreamForce attendees (and executives responsible for SaaS). In 2006, DreamForce interviewees tended to have a good grasp of the presence and usage of Salesforce and of SaaS within their firms. Most were able to provide a solid estimate or actual count

of Salesforce license seats and of SaaS usage in general within their enterprises. Many were IT executives responsible for the implementation of Salesforce and other SaaS – and the vast majority reported relatively early implementation status. Only four of the 20 interviewees from DreamForce 2006 reported Salesforce being in full production mode.

In contrast, 2007 DreamForce attendees tended to have a more general view, both of Salesforce usage and of SaaS usage. They were much less likely to have responsibility for the original Salesforce implementation, and were more likely to be departmental-level or enterprise-level sales and marketing. Hence, they were less likely to know exact numbers of licenses, etc. And the vast majority reported full production status for Salesforce – and for other SaaS applications as well. In short, Salesforce – and SaaS – have arrived as part of mainstream business operations.

Over the past several months, Salesforce has spent significant resources promoting its offerings for use in larger customer enterprises. Much of Salesforce's offering development since 2006 has focused on platform- and community-oriented growth that would help attract larger enterprises, and the "Ideas" rollout at DreamForce 2007 is clearly oriented at expanding the licensing and use of Salesforce within customer enterprises. And while our 2007 small random sample of interviewees did not yield any mega-size customer enterprises, given Salesforce's offering development and heavy marketing, we expect that a similar interview program at DreamForce 2008 will yield a shift toward larger numbers of user licenses – and larger customer enterprises. Saugatuck estimates that Salesforce currently has at least 70 customer enterprises with at least 1,000 licensed seats, and approximately 1,500 customers with at least 100 licensed seats.

Business Functionality – and Community

Last year, 70 percent of the users we spoke with agreed or agreed strongly that Salesforce's business functionality (i.e., Salesforce.com plus AppExchange, plus their own customizations) met their companies' business requirements. In 2007, 76 percent of interviewees agreed or agreed strongly, indicating that Salesforce – with AppExchange and internal customer customization work – is delivering what customers want and need, and improving over time.

Interestingly, it's not just Salesforce and its partners who are delivering – customers have a very strong role as well. One theme repeated throughout several sessions at DreamForce 2007 was that of customization by customers, which is then adopted and adapted by Salesforce itself. Customers and Salesforce brass continually cited customer innovation with Salesforce and AppExchange offerings as a key driver of Salesforce's growth.

In follow-on conversations with Salesforce executives, partner executives, and user attendees, Saugatuck noted that Salesforce.com is more and more resembling both a traditional software platform, and an emerging open source – style community development environment. As a traditional software platform, customers (and partners) develop to Salesforce technologies and interfaces. But they also tend to share and develop on top of contributions from the Salesforce community of users, much like in open source software communities. Saugatuck believes this is a very innovative development and business model for Salesforce.



It's not necessarily new at heart – most vendors quickly learn to utilize customer innovations, or lose customers. But the combination of innovation driven *and adopted* by Salesforce, by AppExchange partners, and by customers, is unique in a commercial, privately-licensed SaaS environment.

SaaS Growth: Expected Adoption of Partner Applications

At DreamForce 2006, several of the customers with whom we spoke were already taking advantage of AppExchange and its partner network, while over 50 percent of our sample indicated that they were likely to bring on at least one additional new SaaS application over the next 12 months. Roughly 15 percent indicated that they had no intention of bringing on AppExchange partner products, while the other third said they would look at it over time, although many in this category weren't sure if they would go down this path.

At DreamForce 2007, we broke this question into two: We asked interviewees about licensing and integrating additional AppExchange SaaS applications into our business, and we asked them about licensing and integrating additional non-Salesforce, non-AppExchange SaaS applications into their business.

About 44 percent of the DreamForce 2007 interviewees indicated that they plan to license and integrate additional AppExchange SaaS applications within the next 12 months, while 47 percent indicated that they plan to license and integrate additional non-Salesforce, non-AppExchange SaaS applications within the next 12 months. The difference was two interviewees among a total of 19 answering these questions, so it hardly threatens Salesforce or its AppExchange partners. But the overall numbers do support Saugatuck's contention that SaaS usage is growing significantly.

Salesforce as SaaS Influence

And Saugatuck believes that Salesforce may be one of the factors helping to drive SaaS adoption. At DreamForce 2007, we asked interviewees if their experience with Salesforce has increased their comfort with SaaS. Nineteen out of 21 interviewees – about 91 percent – agreed or agreed strongly that this was the case. And for ninety-three percent of interviewees, Salesforce was *the* first SaaS experience for their company.

Granted, DreamForce is a Salesforce company and customer event, and customer attendees should be expected to be positive about the company and their experiences with it. Some positive correlations between Salesforce usage and SaaS usage should be likewise expected. But the overwhelming percentage of users who reported SaaS use beginning with Salesforce use is significant. Salesforce is a significant influence on the growth of SaaS among customer enterprises.

Business Value Delivered?

While the DreamForce population was somewhat self-selecting for Salesforce and SaaS positivism, the attitudes were not all roses and champagne. Only 85 percent of interviewees agreed that the business benefits of SaaS -- lower up-front costs, quicker start-up, shift from managing software to managing a business, avoidance of new release headaches -- have been validated by their experience with Salesforce. Five percent of Salesforce customers disagreed that



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they were receiving the business benefits expected, and another 10 percent neither agreed nor disagreed. Those disagreeing cited unexpected complexities of Salesforce offerings, and unexpected internal integration costs, as key reasons for their dissatisfaction. None were ready to commit to dropping Salesforce in favor of a competitors, but all were open to investigating possible alternative providers.

Net Impact The indication of a shift in Salesforce use toward a "middle ground" of license numbers is a reflection successful marketing by Salesforce – and by its AppExchange partners. They aimed for the middle ground, and they have struck a solid target. The question now is, "Now what do Salesforce and AppExchange need to do to overcome and build upon that success, and move more toward larger enterprises – and more widely-spread licenses within those enterprises?" Are they perceived and pigeon-holed as a mid-sized/SMB value proposition?

Some of that answer is indicated in the wider presence of business attendees at DreamForce, and the growth in the percentage of customers looking to expand adoption of AppExchange and non-AppExchange SaaS applications. There is an increasingly broader array of users willing and ready to adopt SaaS applications for business. Salesforce and AppExchange are as well-positioned, if not better positioned, than most other providers to take advantage of this. However, the increasing willingness by customers to pursue non-AppExchange SaaS applications indicates a potential threat to Salesforce.

That potential threat may be further implied by the 15 percent of interviewees who didn't agree that Salesforce is delivering the full business benefits of SaaS. And as noted in an upcoming Saugatuck *Strategic Perspective* that examines partner and analyst sentiment at DreamForce 2007, Salesforce may be leaning too heavily on vision - and disappointing partners and customers when it comes to executing on that vision.

Saugatuck believes that 15 percent of such a small random sample does not indicate anything more than a dashboard-level pointer – more of a possible warning light than anything else. But the sample size does not invalidate interviewees' beliefs and responses, whether positive or negative. Any crack in a façade bears watching for further developments – and root causes.

Overall, customer indications are still very positive for Salesforce. Their customers indicate strong, overall happiness with what the company has delivered, and with Salesforce's vision and direction.

The challenge for Salesforce is that of transitioning from pioneer to established, trusted provider. Is Salesforce going to continue to be a pioneer leading the way, or will it be a lasting, long-term market driver and influence? Very few pioneers in any market survive long beyond first waves of adoption. Even fewer retain market leadership and influence over the long term.

Every IT market experience has shown that, once users are no longer scared of a new frontier, they don't necessarily need or turn to the pioneers to help find their ways. And frankly, the vast majority of potential customers are not interested in being or following pioneers – they prefer to be, or to follow, settlers. They are less interested in vision, and more interested in affordable business value.



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Salesforce has blazed the way for other vendors in business SaaS applications and services, and is working very intelligently (and very hard) to get those vendors to be part of its ecosystem(s). Saugatuck's DreamForce interviewees indicate that they are happy with both Salesforce's delivery of value and Salesforce's current direction. DreamForce 2008 will be a telling indicator of how many customers are willing to follow Salesforce in that direction – and how far they are willing to travel.

