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RESEARCH NOTE
NUCLEUS TOP TEN PREDICTIONS FOR 2010

THE BOTTOM LINE

The cloud continues to drive both rapid ROI and new ISV business models. Beyond the cloud, expect 2010 to bring greater use of analytics, automation, and CRM, and a permanent shift in structural unemployment. Bid auf Wiedersehen to the vendors who still haven't gotten it.

NO SIGN OF RAIN: THE CLOUD CONTINUES TO GROW

Led by Salesforce.com and others, more and more organizations, regardless of size and sector, are moving to cloud computing to reduce capital expenditures, increase flexibility, and reduce the cost and time to deliver and adapt business applications. 2009 saw a boom in adoption of the Force.com platform for not just CRM applications but applications across many areas. Other players such as Workday, Intacct, and NetSuite — to name a few — showed their ability to attract customers. In 2010, the cloud adoption trend will continue, and vendors and systems integrators without real software-as-a-service strategies will be even more challenged to compete. Key factors to watch:

- Accelerated growth of systems integrators that adopt the cloud as their platform of choice and help companies with traditional applications build roadmaps to migrate to the cloud.
- More internal IT teams embracing the cloud model as a means to accelerate development and trim ongoing operating and application maintenance costs.
- A shortening sales cycle for ISVs, even smaller ones, who have developed and tested their applications on a trusted cloud platform.
- Migration of traditional costly applications such as content management and imaging, contact center operations, and even ERP to the cloud.

THERE'S AN APP FOR THAT

From the iTunes store to AppExchange, both consumers and enterprises have access to more niche applications than ever before. On the consumer side, winners and losers are already emerging.

On the enterprise side, winners are the ISVs developing, marketing, and monetizing their cloud applications at a dramatically faster pace than traditional application development. They're also the customers that can take advantage of a established platform and the quality control, reliability, and certification Salesforce.com provides for its ISV partners. This is a real departure from traditional developers building monolithic static applications to developers building multiple components, widgets, and apps with discrete functionality that can be

TOPICS

Application Development & Integration

Enterprise Applications

Software as a Service

Customer Relationship Management

Business Intelligence and Analytics

Emerging Technologies

plugged into various frameworks and be adapted and evolved over time as demands change.

Nucleus expects to see more and more ISVs moving to cloud environments, and as many will be venture funded and on a fast track to returns, we expect to see continued acquisition and consolidation as well.

ANALYTICS FOR EVERYONE

Nucleus sees increased spending on analytics, because many of the companies who are using business intelligence to look in the rearview mirror are now using the same underlying data to look forward using predictive analytics. If you're an insurance company, the data that was used to identify the best underwriters should also be used to predict which customers or incoming claims are likely to be fraud related. In addition to more analytics deployments, the analytics user population is expanding beyond the traditional base of analysts with statistical backgrounds to include marketers, risk managers, and even call center staff.

Fueling the fire has been the acquisitions of pure play BI and analytics vendors such as IBM Cognos, SPSS, Business Objects, and Hyperion by the enterprise giants that see BI and analytics as an integrated part of the applications they offer customers — not just standalone applications for reporting.

Structured data can be easy to analyze. But the more that analysis of structured data is combined with unstructured data — such as notes taken by call center employees or comments in a user forum — the better your decisions will be. One IBM customer uses analytics to identify customers whose actions are likely to be followed by hundreds of followers. The happier those leaders and mavens are, the happier their followers will be. The more closely you watch your leaders, the better able you will be to anticipate and prevent customer defections.

To take advantage of this trend, companies should stop thinking of predictive analytics as a shiny object that would be nice to have. Somewhere in all those bits of data in your databases are trends that can predict the future. Poll your senior managers to find out what unanticipated events or trends most significantly impact your results. If you're tracking the underlying data, it's likely that there's a predictive analytics application that can find the needle in the haystack.

STRUCTURAL UNEMPLOYMENT ISN'T MOVING

After the significant cuts of 2009, don't expect 2010 to be a big year for hiring — especially in IT and support roles. As limited resources and economic uncertainty drive organizations to do more with less, the most successful organizations will be those that focus on increasing individual user productivity. The automated workflows, integrated applications, and personal productivity tools available enable companies to do more with fewer on the payroll — and even an economic turnaround won't change that. In fact, organizations that made a one-time investment in software to automate processes won't be replacing that software with people even if they have the resources — meaning we'll be looking at a different profile of the structurally unemployed moving forward.

According to the Bureau of Labor Statistics, permanent layoffs accounted for 53.9 percent of the unemployed in August 2009; semiconductor jobs took a significant hit compared to other technology sectors. To avoid being a member of the structurally unemployed, new graduates will need to not just graduate, but to be proficient in basic common-sense computer skills and problem solving and be self-directed in identifying opportunities to master new skills. More mature members of the workforce who may have been slow to adopt and take advantage of productivity-enhancing applications should put new training on their short list to avoid early retirement. Those who can't survive without a full-service IT helpdesk are likely to be left behind.

WE'RE STILL SPENDING ON CRM

In a down or uncertain economy, identifying and retaining profitable customers becomes all the more important. Although sales force automation sales have slowed with the economy, customer service and support purchases are as strong as ever and will drive additional investment in 2010 for a number of reasons:

- The availability of on-demand CRM applications with relatively rapid, predictable deployment times and lower initial and ongoing costs are a less risky investment than other projects such as ERP upgrades or broad data warehousing initiatives.
- As aging on-premise customer contact center applications become more costly to maintain and upgrade, customers are looking at options that can support multichannel communication, remote agents, and integration of customer community and social network feedback at a lower ongoing cost.
- Many organizations that moved call center operations offshore in the first half of the decade are finding rising outsourcing costs, quality challenges, and lack of real-time access to data are driving reassessment of their contact center strategy.

FACEBOOK OUT, LINKEDIN IN, TWITTER FALTERS

With the average company losing 1.5 percent of employee productivity because of employee time spent on Facebook during work hours, it's not surprising that more and more organizations are blocking employee access. Those taking advantage of Facebook to support social networking CRM efforts must carefully weigh the benefits for a small group of the employee population versus the overall productivity hit — and even then, many sales professionals are recognizing LinkedIn as a more reliable and businesslike source of information.

What, then, about twitter? Although an interesting social phenomenon, for many twitter users the old adage "engage your brain before putting your mouth in gear" should apply to tweets as well. Although consumers tweeting about products and services can be an important source of insight and information for customer support, service, and sales organizations, the value from the tweets of business users is still questionable.

SAP: THERE'S NOT AN APP FOR THAT

As Nucleus predicted in its 2009 Top Ten, SAP's fortunes continue to fade. Although we applaud SAP's effort to avoid newfangled trends like rapid deployment, ease of use, and positive ROI, those who hold on to SAP's old-fashioned application approach may be sorely disappointed at Antiques Roadshow.

With limited demand for its costly, complex software, margin pressure from increased competition with Oracle, and a failed effort at delivering an on-demand

ERP solution with Business By Design, what could get worse? Well, SAP announced that maintenance for its R/3 V4.6 application will end as of March 2010 and maintenance for SAP R/3 4.7 will be extended but at a higher cost — effectively putting the majority of its existing customer base on a forced march to SAP ERP 6.0.

Most customers have avoided upgrades at all costs because they tend to be costly, risky, and extremely disruptive, but have had few alternatives. With NetSuite, Workday, Oracle, and others aggressively marketing to SAP customers, and services firms such as Rimini Street offering to take on SAP support contracts, CFOs will think twice about writing another big check to SAP.

RETHINKING MOBILITY STRATEGIES

With the lines blurring between phones and PDAs, netbooks and mini laptops, personal and work time, and company and personal devices, companies will be reviewing their mobility strategies and budgets this year. Netbook investments are likely to grow as a cost-effective alternative to the traditional laptop, except for those with heavy computing needs. Blackberries and iPhones have cornered the market as RIM and Microsoft's fortunes fade. We'll be watching for the impact of Android.

As the traditionally sacred ground of disconnection — the airplane — gets wifi enabled, companies will need both policies for mobile connectivity expenses and for supporting work-life balance. A revamp of asset management policies may identify areas for savings, either by slowing device refresh rates or more aggressively negotiating with carriers.

INCREMENTAL IS THE NAME OF THE GAME

Companies will continue spending on IT in 2010, but don't expect to see forklift upgrades, large user migration projects, or even a "flick the switch" approach to Windows 7. They key theme for 2010 will be incremental investment in almost every software domain, from CRM to ERP to PLM, as companies look to leverage existing technologies and domain knowledge to deploy additional users and projects without significant business disruption or expense.

THE END OF FREE — OR NOT

As Rupert Murdoch and others lead the charge to monetize online content by charging for online subscriptions, they will face pushback from readers who are used to reading online content for free, loss of advertising revenues as online readership wanes, and hassles from credit card providers who will simply see multiple micropayments on a customer's card as cause for a fraud alert. Until the micropayment issue is solved — and the fees are justifiable to the average online reader — wise content providers will likely do better sticking with advertising.

BONUS#11: LOOK OUT FOR BIG BROTHER

Although we're not there yet, the ubiquity of Google and the sheer volume of information it's keeping about us will likely be a rising concern toward the end of 2010. Between Android, Chrome, Google Search, Google Apps, and Google Earth, even us non-tree-hugging-hippie types have to wonder where Google's reach will end — and why the government has yet to look into what Google is doing with its near-monopoly on our personal data on the Internet. Eric Schmidt's position on the President's technology advisory council surely has nothing to do with it, but we expect the conspiracy theory types will be adding this to their 2010 hit list if they haven't already.