451 survey data identifies EFSS winners, losers and big changes

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451 Research has looked at EFSS (enterprise file sync & share) through various survey lenses over the past couple of years. However, in the spring of 2014, we decided to focus more deeply to get a sense of what is really happening in this often confusing and turbulent sector. We wanted to get a feel for how many enterprises are actually investing in paid-for EFSS systems, and what, if any, the growth trends are. We also aimed to understand how users are deploying systems. At a high level, what we can draw from this most recent data is that:

- 18% of enterprises currently pay for EFSS services, with more planning to join that number in the coming year. This is a higher number than we expected to see for an emerging sector, and is good news for EFSS vendors.
- In terms of seat numbers and overall footprint, the EFSS sector is dominated by a handful of players.
- There is a fairly dramatic swing under way from public-cloud EFSS services toward private and hybrid-cloud systems.
- Buyers appear to remain largely unaware of the scale of rogue EFSS systems currently utilized by their workforce.

We undertook our first in-depth survey in April 2014, and followed this in October 2014 to get an initial feel for the solidity of the data we had gathered. What we found has supported much of our previous analysis, drawn from discussions with both sellers and buyers of EFSS systems, but it also provided a few surprises. 451 Research will continue undertaking this same survey work every six months moving forward, and over time, some of the extremes in our current results will likely even out.

The research presented in this and subsequent reports will be divisive – welcomed and indeed lauded by some, but very uncomfortable reading for others. We continue to predict there will be considerable fallout and consolidation in this sector over the coming 18 months, and this latest data does nothing to alter our view.

This report draws from the findings of our latest ChangeWave Research survey on corporate software spending. The survey was conducted October 8-28, 2014, and a total of 1,020 respondents involved with software purchasing in their company participated. The findings specific to EFSS are in line with the broader survey conclusion that business software spending is on an overall uptick – in fact, the best October uptick in seven years.

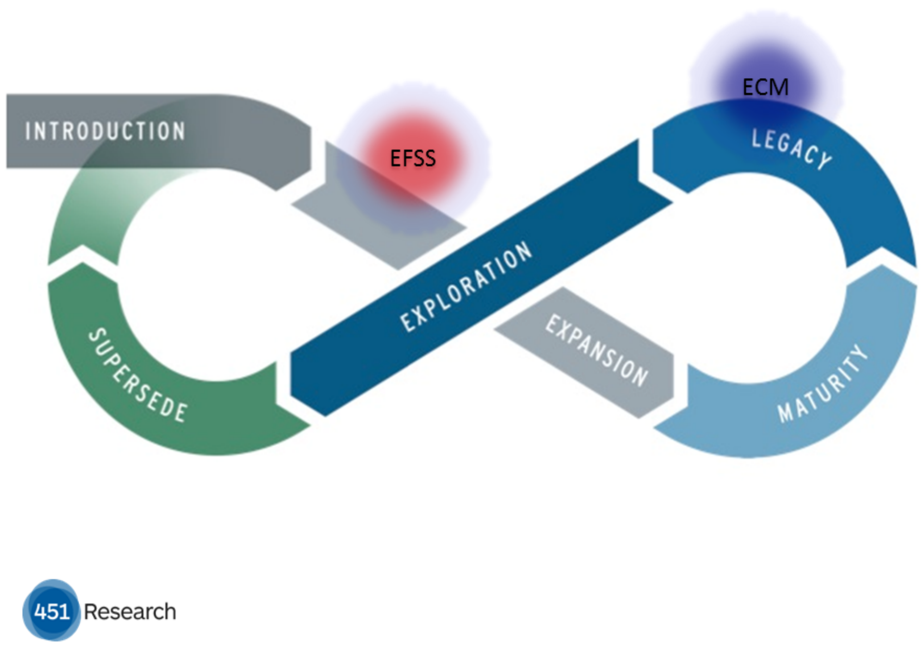
The 451 Take

In our estimation, EFSS has been an overhyped, but also underplayed, technology sector. By this, we mean it has been hyped as a solution to many business problems, in and of itself. It isn't – but EFSS is a catalytic and disruptive technology when utilized as part of an existing business process or task activity. Buyers can gain great value in utilizing EFSS functionality to socialize previously closed work activities, and are happy to invest in systems. But the EFSS systems they pay for need to be enterprise-grade in terms of reliability, support, compliance, security and, in many cases, to run on-premises or in hybrid environments. Moreover, buyers are prepared to pay a substantial premium for systems that meet that criteria, and over time, this plays well to the likes of EMC, OpenText and Citrix – generating more money per deal than most alternatives that are public-cloud-only. In six months' time, we will look again at this sector, and will see how the trends are working through; for now, though, this provides the first in-depth analysis of one of the most perplexing technology sectors we have studied in years.

Cycle stage

In our analysis, EFSS is still in the early stages of its tech lifecycle. However, it's made the move from consumer-grade novelty to a technology that not only has enterprise attention, but also long-term viability. Over time, its functionality can become virtually ubiquitous, much like search technology is today, and it has a long way to go before it becomes saturated at an enterprise level.

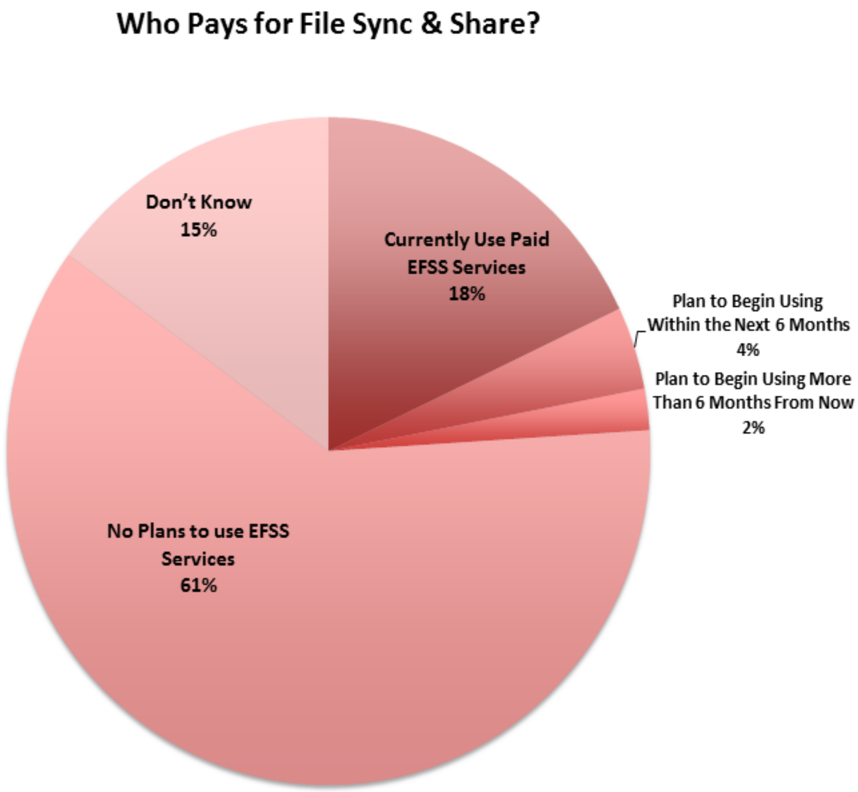
EFSS Tech Cycle, November 2014



Although it's still early for EFSS, the trends are positive for it expanding further into enterprises. According to our survey data, about 18% of enterprises are now paying for EFSS systems, this is up 3% since April 2014. However, in our broader research work with buyers and sellers alike, we find that few of these are truly enterprise-wide deals. In most cases, they are either pilot programs or department to department. In other words, although that

18% is substantial (more than many would have expected), it masks much bigger growth potential for the sector because current investments are modest and have the potential to grow over subsequent years.

451 Survey Data - Paid EFSS

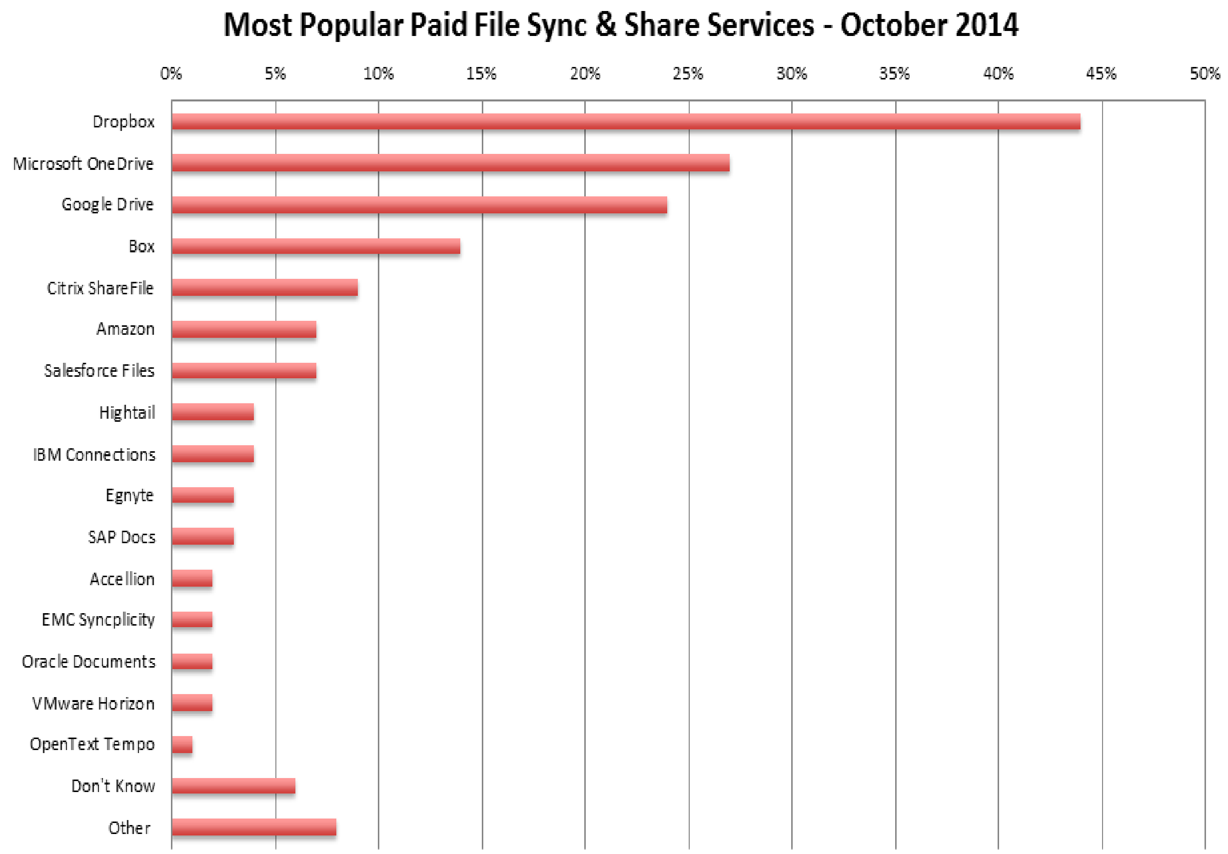


What is also notable here is that we see 4% of buyers planning to invest in EFSS systems in the next six months alone. That number grows to 6% when we focus on firms with more than 1,000 employees. This is a very strong figure, and some of the best news the sector has gotten in quite some time. In summary, EFSS is on a fast growth clip that shows no immediate signs of slowing.

Top performers

It will come as no surprise to those that follow this space that Dropbox is leading the pack by a considerable margin, taking 44% of the current market share. This figure, however, is actually down from a peak of 48% in April. The drop may even out as a fluctuation in coming surveys, due to sampling and market immaturity. But it may also represent a shift that comes from a number of major vendors moving aggressively in the space in 2014, most notably Microsoft, Amazon, EMC and Citrix ShareFile, which – alongside firms like Oracle and salesforce.com – have been muddying the EFSS waters, and essentially bundling the technology into broader packages.

451 Survey Data - Major EFSS Players



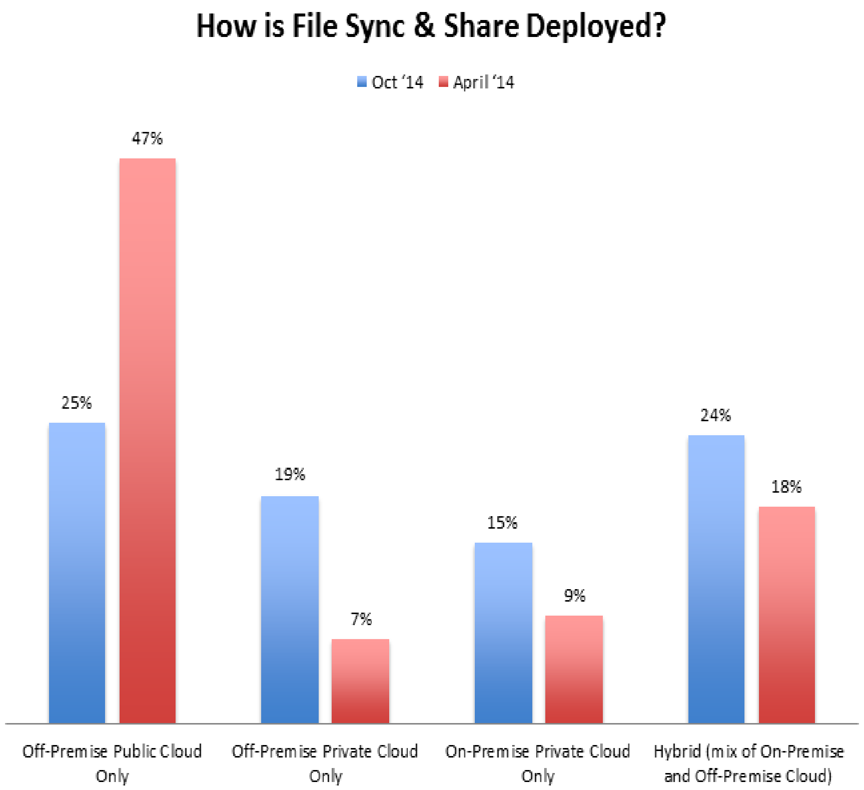
Either way, Dropbox, Microsoft, Google and Box are not going to be shifted out of the top 10 in the near future. Which other firms will join them at the top of the charts, though, is open to debate. Citrix is certainly making a strong showing, as is salesforce.com and Amazon, all firms with huge customer bases to sell to within.

We expect that over the coming year, we will see EMC Syncplicity and OpenText Tempo (along with OpenText's recently announced Core product) begin to climb the charts. EMC is already doing well in terms of revenue generation, and we will be looking at this contrast between market presence and revenue generated in a future report. Suffice it to say that there is a notable difference in the top 10 players in terms of revenue versus market presence.

Public to private cloud

Probably the biggest surprise that came out of this survey was the momentum we are seeing away from the public cloud and toward private EFSS deployment options. The trend itself was not a complete surprise, since we have noted regularly in our research that highly sensitive files are by default going to be the most highly guarded data points within an enterprise. There has also been a great deal of marketing effort and messaging expended to dissuade buyers from public cloud EFSS options (much of it erroneous). And into this environment has come a slew of products and services that extoll the virtues of hybrid and private cloud deployments. Realistically, unless all these efforts and options were fruitless, we would have expected to see some kind of shift.

451 Survey Data - EFSS Deployment Methods



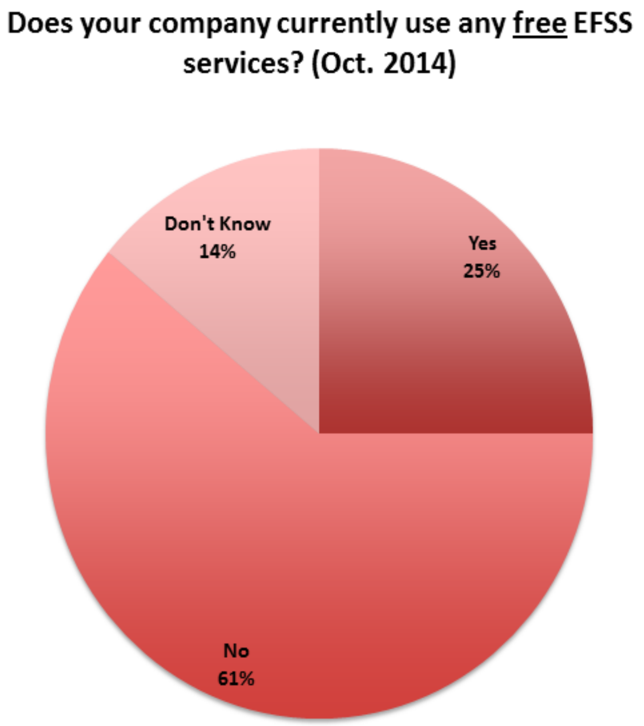
Nevertheless, a swing of 22% from April to October away from public-cloud-only options is eye popping. Again, we need to stress that this is new data that we have tracked twice in the past year – it is quite possible this number will swing back slightly and self-correct to some degree in our next survey efforts. But such an intensive shift as this cannot be ignored, particularly because it is validated by reports from buyers and sellers that for true enterprise deployments, public-cloud-only is not a preferred option.

It has only been the last year or so that on-premises and private cloud options have been pushed by vendors; in part due to the Snowden fiasco, more due to long-standing enterprise reluctance in general to move highly sensitive files to the cloud. It will be interesting to see how this trend progresses, and if, over time, public-cloud options will come back into favor.

The shadow of EFSS

As we have stressed a number of times in this report, the data is related to early stages in the tech cycle, and although it is valuable data in its own right, there is a much more confused situation afoot than the data alone suggests. When we asked buyers if their employees were using free EFSS systems, we found most under the impression that their employees were not, and that everything was under control.

451 Survey Data - Use of Free EFSS Systems



This data simply does not sit well with what our research shows to be the reality within most organizations. Shadow IT is rampant, and for those enterprises that have run analytical tools such as Sky High Networks to identify what is really running in their enterprises, they find a plethora of EFSS services. In larger organizations, 30 or more different EFSS systems are often identified running outside of IT control.

As firms look more deeply at what is really happening in the shadow of the IT department, we would expect to see more starting to smell the coffee. In time, they will then block some EFSS services, and consolidate on either the most popular or their preferred providers. This is yet another indication of how far this sector has to go to reach maturity. Only now are best practices and shared war stories starting to emerge, and debate under way about what should be done. Again, we will watch with interest, and we predict that over time, more awareness of non-sanctioned 'free' service usage will emerge.