BI Analyst Briefing Analytics Software Market Outlook

Company Participants

- Dan Vesset, Program Vice President
- Mandeep Singh, Analyst

Presentation

Mandeep Singh {BIO 15014535 <GO>}

Good morning. Thank you all for joining the webinar to discuss the outlook for Analytics Software Market. This is part of a series of webinars that we are doing for 2016 outlook. My name Mandeep Singh, I am the Software and Services analyst for Bloomberg Intelligence. I am joined here today by Dan Vesset, Program VP for Business Analytics and Big Data for IDC.

Couple of housekeeping notes; today's presentation will be recorded and available for download. At the bottom of the slide window you will notice that you can adjust volume and maximize your screen, so you are free to ask questions using the Q&A panel to the right of the PowerPoint slides. We will address questions at the conclusion of the presentation. And a copy of the slides and transcript will be available upon request.

A little bit about Bloomberg intelligence. This is the Proprietary Research Group. At Bloomberg we provide unique analysis and context on industries, companies, government and credit factors that impact businesses, all integrated within the Bloomberg Professional service. We have a broad coverage spanning hundred plus industries and 800 companies globally. Our research is data driven and our analysts have an average experience of 17 plus years, both on the buy-side and sell-side. We do not give any buy or sell recommendations.

For software specifically, you can type in BI space ASFT [ph] on the terminal and you will be able to load the software dashboard, which has three sections; analysis, data library and monitor. Analysis covers short-term and long-term hits and has key indicators and earnings interpretation along with industry primers. Data library has all the data.

So, without further ado, I will pass it on to Dan Vesset to go over the formal presentation. Dan?

Dan Vesset {BIO 4307286 <GO>}

All right. Thanks, Mandeep. Thank you all for joining us. I'll have a few slides to present today, but I'm hoping that we can spend most of the time responding to

your specific questions, so we can type those in, I think we'll be taking just the written questions and Mandeep will help facilitate that, and we'll get to that.

So, as was mentioned, I run IDC's business analytics and information management market research practice, and in this case we're partnering with Bloomberg to bring you some of the latest research, specifically around the Business Intelligence and Analytics market. We have a team of analysts, who cover the different aspects of this market. And as you can see on the slide now, this is our taxonomy or our map of the different discrete market segments in the space. In full-year 2014 this was about a $40 billion market and we expect the year to close -- 2015 to close with 42 billion in software revenue, global software revenue, that includes license, maintenance and subscription revenues, cloud-based subscription. This does not include professional services or hardware. If we add those in, we would, at least, triple that number.

So for context, we look at market in these three broad segments. At the bottom is the analytic information management platforms. These are the databases both relational data warehouses as well as the newer forms of non-relational non-schematic tools. NoSQL databases, Hadoop, do you have sources where data lands as it comes in from different sources. In that bucket is also data integration tools, data quality, data extraction, transformation, loading tools. Think of tools like Informatica for example.

And then on the left-hand side, there's a box for continuous real-time analytics. So there is a -- there are streaming technologies for few used cases where that's necessary. And then on top of that platform are two broader buckets there on the left-hand side, performance management and analytic applications. So, these are apps that the vendors, the IT vendors, the software vendors have pre-built for a specific business function or an industry. So, it could be in the -- for the finance department. So, not the financial service industry, but the finance department could be budgeting, planning, consolidation tools like applications like that could be marketing analysis, sales analysis. So, for that function, et cetera along the lines of all the major business functions.

And in some cases it is very industry specific, so could be fraud prevention, specifically for consumer banking for example or credit card companies or it could be supply chain optimization for manufacturing or predictive or preventative maintenance in assets, some of the asset-intensive industries.

And the focus today will be on that upper right-hand side, so business intelligence and analytic tools and that's where we see the query tools, reporting tools, all apps stands here for online analytical processing, multidimensional analysis, visual discovery. Also in this segment of the market are advanced and predictive analytics tools, the statistics and data mining software. There is a small segment specifically targeting spatial -- highly-specialized spatial information analytics GIS systems and then Content Analytics, which are real, unstructured text and rich media analysis and there has been. And so for the broader market, as I mentioned here, the $42 billion market, the vendor shares that we have right now are on the full year 2014. And we obviously expect some change in the share percentages, but it gives you a sense of,

even if we don't have the full year 2015, it gives you a sense of ranking at least, which is for that overall market. So, this is not just the BI segment, it's the overall market.

Oracle is number one, because primarily they are the biggest data warehousing vendor and the biggest, now the information management platform vendor followed by SAP, which primarily is there because of the BusinessObjects portfolio of BI and Analytics (inaudible), but also both have various analytic applications and databases. IBM follows us too. Microsoft, SAS, Teradata, Salesforce. Salesforce there is primarily because of their some of the sales and marketing kind of embedded BI tools and now they recently came up with the new standalone BI and Analytics offering Wave, which I'll talk about a little bit later.

So, this is that overall market. Now we're going to drill in a little bit more into this $11 billion segment based on 2015 expected numbers in query and reporting and analysis. So, if we look at just that segment, you see some additional vendors popping up in the top 10. Qlik, Tableau, TIBCO's Spotfire division, then some of the kind of the older midsize vendors MicroStrategy, Information Builders are there as well.

Obviously the thing that jumps out immediately is the faster growth rate of the -- what have been become known as the visual discovery vendor. So, Tableau, Qlik and Spotfire historically came in with a very different user interface from the legacy products from SAP's BusinessObjects, Oracle BI tool that they acquired from Hyperion, and IBM Cognos and then some of those mid-sized vendors and that growth, I think, differentiation is continuing.

We'll probably, well, we'll almost certainly continue for the foreseeable future, but it's -- the competitive landscape is starting to change. And it's starting to change, because all the big vendors now have comparable products in their portfolios for -- specifically for Visual Discovery. So, if we -- I'm going to come back to this slide, but just if you look at the segmentation of query and reporting and Visual Discovery, those are distinct segments and in many -- in most cases for most vendors there are discrete products for each of those used cases and they address different audience. So, one could be more of a business analysts or who might be doing in that data exploration, another production reporting would be for embedded reports, so it could be compliance reporting, it could be relatively fixed well-known financial reports that are not necessarily changing period to period. They need to be pixel perfect. Some of the -- even financial statements that go out to consumers are often based on this -- with type of reporting -- embedded reporting software.

And then query and all up [ph] is -- we use that to classify those legacy multidimensional analysis and query tools. And so if you look at these by market, the share of the market is still about 50% of those legacy query and all-up tools. But Visual Discovery is growing, on aggregate this is a five-year historical CAGR through 2014. So, historically have been growing at around 19%. So, that includes Tableau and Qlik and Spotfire, but also the visual tools from -- visual discovery tools from other vendors as well.

And advanced analytics is just slightly over 9%, about 10% historical growth rate represents 20% of that BI market. And reporting, although it doesn't get the press and the Mindshare is also certainly a decent sized segment and there's still a need for that and will be a continued need for that market. But clearly those specialized tools are showing higher growth rate than the legacy BI suites like the Cognos business objects and Oracle's products.

And I think it's important to note that it's -- there's been a substantial change in the latest versions of those tools. But the Mindshare and kind of the perception of audiences and users are still that those are bulky, not very visual appealing, not very intuitive tools and so that will continue. I think it's very difficult to change Mindshare in the short term.

So, the key vendors are focusing now a little bit on this visual discovery market. So, the key vendors right now, the one -- besides the ones I mentioned are also Microsoft with their Power BI toolset. Amazon just announced AWS QuickSight is a new product and also Salesforce with their Wave analytics or analytics cloud offering.

And then you can see for some vendors their multiple products, which I think is not very conducive to their go-to-market. But they have to address the market this way, because the customers and audiences were buying are at different stages of maturity and it could be, in fact, very different audiences were buying. So, there is a increasing tendency to buy directly by the lines of business, not the Central IT that usually bought those enterprise BI tools.

Last year some colleagues at IDC did a study that showed that 60 -- just over 60% of new IT budgets are coming from line of business rather than IT. And so I think by end of 2015 that would have -- I think moved even higher. So, some of the most impactful I think trends that I expect to see going forward. I think what that is starting to happen is small Tableau continues to grow rapidly. They are seeing a lot more competition there.

Sales and marketing costs are going up. Net new license revenues is starting to slow down. I think part of it is that they have reached a certain size getting close to the annual 500 million and just as it will be just harder to sustain the growth at that point. Unless they invest very significantly in net new sales, as I mentioned, early competition is starting to increase. I think the -- and part of it is also pricing pressure.

Power BI from Microsoft is coming in at $10 per user, for the standard division $10 per user. QuickSight is similarly priced.

There is a little bit of -- for QuickSight there is a little bit of higher price for some additional features, but it's a fraction of what Tableau and Qlik and some of these other enterprise tools are -- costs.

Oracle just released a new Cloud BI, Oracle BI 12c, which is has a visual discovery tools as well and that's also priced much more like the Microsoft and Amazon

product, rather than the standalone products. And these vendors obviously can do this because they're not reliant on this revenue for survival. For them it's one of many products and probably in some ways, even a loss leader to get customers on to their cloud platforms and other applications and tools for -- so I think Microsoft and Amazon's entry into the market is significant. Both have their own kind of ecosystems of developers and that's significant because the developers are likely to use one of their preferred platform to develop applications, BI applications and analytic applications based on that platform.

So, if somebody already has most of their data or much of their data in AWS, it make sense that Tableau will also try out, at least try out QuickSight and if it satisfies their specific functional requirements, they will like -- much more likely to go with QuickSight. And same for Microsoft. If it's a Microsoft shop and certainly in a SMB market, there is a large percentage of those. It makes sense to also start using them Power BI.

I think Salesforce will be also very significant -- it didn't quite get the same reaction, when that product came out as Amazon's product came. But I think it will, in the short term, have even a bigger impact on the business user side, because Salesforce really owns a lot of those sales management and sales analyst relationships. And it's -- it seems like no-brainer to add on another product that and have some incremental cost and start getting additional analytic functionality if you are already a Salesforce customer.

And since their announcement of Wave Analytics, which is of a horizontal, more generic BI tool. They also announced Sales Analytics is more of one of those analytic applications that I mentioned in that upper left-hand side of the market map, and then marketing our customer service analytics and marketing analytics are coming as well. And those are then, are more pre-packaged, even faster to deploy. They incorporate certain commonly used visualizations and key performance indicators, metrics, some workflows, which in many cases will be attractive to sales managers as they are using Salesforce and then now the additional analytic functionality from Salesforce.

IBM just announced last month, Cognos and the latest version of Cognos Analytics, which is a big revamp of their existing portfolio. So, it's again coming into the kind of the modern age and with visuals -- with the functionality on visualization. I think one thing that is starting to happen now is almost all, if not all, vendors have -- are moving towards in memory, memory based deployment and memory-based systems. We think that within the next three years all of them will -- all the new versions of these products will be memory based and what obviously that part of it is the function of the lower cost of memory, so this is not feasible. And what it provides them is that instantaneous access and response rate from more -- from tools that have more advanced or more process in terms of visual (inaudible) of the data. So, the primary benefit there is speed, speed of processing.

Many of the tools are now where in the fast primarily connected to the relational data warehouse. Now they're starting to connect with various forms of -- various types of

connections to some of the big data sources like Hadoop or Spark. So, Hadoop and so MapReduce versus Spark and some of the NoSQL databases as well just slightly in a lesser extent. So, in many ways, some other vendors have announced Big Data, "Big Data" versions of the products. Really in most cases those just mean that they're adding Hadoop and some of the non-relational databases as store systems. Some of them -- marketing play, but certainly an emerging and important sort of sources that all of them need to be able to access.

In terms of geographic coverage, so for the specialized vendors, the pure plays, Qlik, came out of -- and both Spotfire came out of Europe, both out of Sweden. So, Qlik has a much higher percentage of sales coming from Europe, which I think is partly contributing to slower growth rate. Although they are now quite well established in North America as well, but they were here -- they certainly came here later than -- later and have a smaller presence than Tableau.

Tableau was in a reverse position or that they claim customers in over a 100 countries. It's really primarily dominated in North America, their CEO recently moved to Europe to live there for a while. And I think with the expectation that he would be more involved in growing the business in Western Europe, at least. For large vendors obviously the opportunity lies across their -- they distributed and brought global reach. Certainly for Oracle, Microsoft and IBM and SAP. So, that's little bit on the geographic reach. With AWS -- some of the other differences between these vendors; so Tableau and Qlik became what they are today because they bypassed IT, in many cases bypassed IT and went directly at the line of business user. And eventually some of these deployments grew to certain size, IT was forced to embrace them and start supporting them.

Qlik now has two products, they started out with QlikView, which was the flagship product for long time and it started out in that fashion that I just mentioned. But then as features and functionality were added, it became more and more like -- more complex to set up and manage and IT increasingly took over the purchasing and deployments of QlikView and so the response to that was Qlik Sense, which was going back to the roots of trying to reach the record line of business end-user and compete more effectively with Tableau or some of the other tools on this list.

Tableau, kind of, is going the other way. They're still, I think, in a place where they're not always fully embraced with IT. I mean, at the end of day, it has to be a balance of being playing nice with both. The part of the challenge for some of the larger companies is that as more and more of these discrete siloed BI deployment pop up, there is a real risk, there is a governance risk, there's a data silo risk through the analytics and usually the tool should -- usually solves the individual needs of a group or even an individual person.

But if it does not -- if it's not based on certain level of enterprise standardization, it does introduce -- potentially introduces discrepancies and how the data is viewed, even the metrics could be different, not to say anything about the data itself and that's a risk that all these vendors have to deal within.

We see a lot more efforts from Tableau to try to embrace IT and ensure that the software has those enterprise capabilities around security and governance and data model management. The one big unknown right now, I think the biggest unknown here is Amazon and QuickSight. On the surface of it, it makes a lot of sense for the companies that already have data in Amazon. And this doesn't have to be just Amazon data sources, could be the hosted, any hosted data base. There is a lot of Oracle and SQL Server for example hosted on Amazon.

The question is how well that product can actually support end users rather than just the developers. Part of it is Amazon hands off approach to their go-to-market strategy, so if somebody starts using QuickSite as an individual business user as a business user Group and they run into trouble, Amazon is really not set up to have those kind of one on one personalized support, that they provide to develop that is they are from the other vendors and also that they over the years have started to provide to some of the developers on the systems admin side and storage admin side.

And even there, it's still highly reliant on the user to figure out their own back through [ph] whatever channels they might enter or use the community kind of online communities and sources like that. So that's a big question mark. Is this primarily a product for developers to incorporate into other applications, and there is obviously nothing wrong with that, there is sizable market for that, but it will be different from on what Tableau and Qlik have done to date.

And also with their QuickSite they are quite open that somebody cannot just subscribe to the server side engine, calculation engine and use some of these other visualization tools on top of that. So I think, that is a scenario that I can see developing as well as some body may already have that low, but if they have their data on Amazon, they may want to start using QuickSite and use that platform and use Tableau on top of that for example.

Let's see, so maybe I'll stop here actually we're at the bottom of the hour, but and maybe open it up now for some follow on questions.

Mandeep Singh {BIO 15014535 <GO>}

Great. Sure. Thank you, Dan. Thanks for the nice overview. I had specific questions around like this full data visualization concept and how you said it's driven by the line of business. Is it rendering the old data warehousing techniques obsolete or company is just moving away from investing in data warehousing and kind of going with more what the line of business wants in terms of whether using smaller vendors like Tableau and Qlik, and just kind of maintaining the data warehouses because obviously they had it for a while?

Dan Vesset {BIO 4307286 <GO>}

Yeah, so I think it's really those layers that I showed in the map, I'll go back to that slide, those -- so this one here, so those still matters, so there is still -- there continues

to be a need for the warehouse, the warehouse itself is changing, it's no longer just relational, so there is a big change in the architecture to extend the warehouse, the relational data warehouse with some of these non-relational technologies, because that's really the most effective way to integrate data from many different sources, it could be internal and (inaudible) applications could be bringing in some of the social media data, some of the IRT data into Hadoop clusters for example.

And then on top of that, you have then visualization layer that access its data from that information management player. Now it's also true that you can bypass the warehouse, you can go directly with the visualization tools to the source systems and it is also a trend that exists and some vendors for example SAP and Oracle are very keen to develop that trend because they owe many of those enterprise applications.

They want to see companies use more of that embedded BI that is maybe sitting directly in the financial systems, in the supply chain systems areas of enterprise systems, I had a chance to ask question of Mark Hurd at Oracle earlier this year and the question I posed was somewhat along the lines that the database and applications business clearly dominate what they do and BI and Analytics is tertiary for Oracle when we compare that kind of border message or high level messages to other large vendors and he didn't deny that, that's the case, his response was that we want to expose all the analytics in BI through the applications.

So I expect them to continue whether it's their HR applications or sales or marketing or their CRP modules, to have more analytics and those will be most likely not -- many of those will not depend on the data warehouse. So to some extent the data warehouse was not going away, but its role is somewhat diminished, many of them were not growing as fast because some of the data sets are moving to other types of technologies often open source technologies and so overall that affects obviously growth in the date warehouse segment in the market.

Mandeep Singh {BIO 15014535 <GO>}

Great. I mean I want to go over this whole concept of vertical versus horizontal kind of layer of visualization and analytics. So if I have my data in an SAP or an Oracle system and I use their analytics product, it makes a lot of sense because it's in the enterprise application that's given to me by SAP or Oracle and I can visualize it easily, but what if I have multiple systems and that could be ERP, CRM system from different vendors and I want to build an analytics layer on top of it where I am able to ingest data from different systems easily and aggregate it using that analytics layer. So would a solution like Tableau or Qlik be more conducive to that or you may still want to go with like a large analytics vendor for that kind of solution?

Dan Vesset {BIO 4307286 <GO>}

So you can do some of that with Qlik and Tableau, but I think again it really will depend on whether you want to setup a more managed and structured data warehouse. And a part of the challenge is that, your Qlik or Tableau server is not going to hold as much data, as a data warehouse. So if you're doing any kind of longitudinal station, you want multiple quarters or years or kind of longer term

analysis and have data really from across the full enterprise, you're most likely building -- still building the warehouse.

I think again that layer such -- that layer of this technology stack still has its place. But now, you can -- I mean, I think part of the issue is that, now if you build out -- if your data warehouse, let's say, from Oracle, let's say, it's (inaudible) data, you have the option to also to use Oracle BI tool, so if your -- that layer is Amazon, you could be using the right shift, for example, from Amazon as your preferred data warehouse.

Now you have a BI tool from Amazon that's also available. That was in the case just a couple of years ago, you would naturally gravitate to these independent BI vendors. So that's I think a big shift in the market. Was Salesforce is an example where most likely the core data that you're analyzing is just a Salesforce data. So it's first and foremost the marketing and the customer service data. And in that case, you may begin a self-contained in that domain and there is less need for a data warehouse, have your Salesforce way of analytics, directly accessing data in those cloud CRM applications and providing the necessary analytics in BI functionality.

Mandeep Singh {BIO 15014535 <GO>}

Got it. So you mentioned about Amazon's QuickSight, can you talk specifically about which segment of the $11 billion market is Amazon's QuickSight aimed at?

Dan Vesset {BIO 4307286 <GO>}

Yeah. Some of it is still a little bit unclear. I think most of it will be targeting this visual discovery, but I think there is also a little bit bleeding into this query and multi-dimensional analysis space that would replace some of the existing deployments of enterprise BI suites, because -- and there are some gray areas, obviously, between those segments, because it's not always clear. Most of these still have a visual interface, just that some are more conducive to this ad hoc visual, ad hoc discovery where the schema and the routes that an analyst might take through the data are not pre-determined, which was the case with all absolutions.

So with all that -- I mean, that's a big difference again with the -- in memory systems and applicable to this particular question also is that, with many of the OLAP cubes that existed before, somebody had to pre-build those cubes and the cube basically determined how an analyst, how our user was able to navigate through the data.

And if they had a question that wasn't part of that pre-determined path, they would have to go back to IT and that's where the frustration going to begin, because that would require almost completely new development cycle, they would have to define their requirements, the IT would have to go way, add a new dataset, new data dimension, rebuild the cubes, redevelop it, test it and then deploy it out, by that time host of end-users are already onto other questions.

So that was the part of the frustration that Qlik and Tableau were able to address and nearly bypass that whole process. So with QuickSight, I think a lot of it will be a visual

discovery, but it will be also -- you could develop a dash -- interactive dashboards with that technology and some of the, kind of -- maybe a little bit light -- more light-weight in a sense that it doesn't -- not necessarily have to be ad hoc discovery, it could be some pre-built views of the data that's our management types are interested in looking at on a regular -- daily basis for example, a weekly basis. So I think it's a substantial part of that 11 billion that potentially they could egress. I don't see them really going directly at the production reporting site for now.

Mandeep Singh {BIO 15014535 <GO>}

And I would just add they also launched a machine learning services before they launch QuickSight, so do you think that makes the machine learning and AI just kind of bring that relevance into the analytics landscape and how they plan to leverage those techniques for analytics. Is that their play or?

Dan Vesset {BIO 4307286 <GO>}

Yeah. So the machine learning in that case would fall into this advanced analytics category. And if you look at these vendor, Microsoft has now machine learning, IBM has on their -- has a machine learning services, Amazon has it now, and there are two players there. One is the application of machine running internally to automate more of the BI functionality, so recommendations, for example, for what the most appropriate visualization is -- given a dataset, so the user ingest or imports the dataset, the system can recommend the types of analysis that would make more sense of the type of visualization, that would make more sense. So there is an efficiency gain there, you need less analysts. They need to spend less time in manually manipulating and setting up their views that they want to present to the rest of the organization. So that's the kind of an internal use of machine learning and somewhat of techniques for artificial intelligence.

And then externally those machine learning services are now also available to the developers and data sites for developing applications, so they don't necessarily have to build these -- all these algorithms themselves, they can call on that service and run their data through that machine learning engine that Amazon or Microsoft or IBM are providing.

And we expect that also to grow quite rapidly. I think also if -- so I'll give my -- IBM as an example, with Watson Analytics, a part of it is IBM is kind of muddying their waters around -- on Watson, so there is -- the largest cloud for them is the Watson the cognitive platform for that, they talk about a lot and then now they are starting to brand some of their other products also with Watson, even if they don't have all that cognitive functionality.

So Watson Analytics is, if you look at it on the surface it's very much like these visual and discovery and analytics products. It has -- but it's able to now call on some of the APIs of that Watson cognitive platform and more will be coming. I think as that happens and if it really does happen right and I think it does -- it will happen.

So you'll start to see machine learning and other techniques being applied to this BI and visualization market and that can really disrupt the market, because -- think about what it is, it's -- the BI market is there, it exists and has existed primarily for the business analysts to manipulate the data and find interesting things that they can report to management who then will take -- make decisions based on that information, sort of their basic level could be anything from Excel and Excel pivot tables and then all the packaged software that, in many cases, does pretty much the same thing, but is maybe more visually appealing or has been in the past and more -- have better capability to pulling data from different sources and be more -- talking of high performance, et cetera. But a lot of that is still very manual. It's a manual process of getting the data and it's a manual process of finding what's interesting, what is the root cause of a certain -- something turning red on your dashboard, why is this KPI off from what it should be, let's investigate and let's figure out what it is.

In many cases, if you're applying now machine learning and other cognitive functions through that dataset, it can tell you automatically what it is, what's different, what's unusual. And if that's where we're going with this market, there will be a lot less need for -- I think over the next five years, we'll start to see a lot of disruption in this market as there is going to be less need for the traditional tools targeting manual processes of business analysts.

Mandeep Singh {BIO 15014535 <GO>}

Great, thanks. I'll take a pause here and remind our listeners to send their questions if they have any, we can take it out in real-time and so we have one question from a listener. He is asking to what level, if any, are we seeing the new age analytic solutions like Qlik, Tableau replace implementations/used-cases of legacy solutions like Cognos and Business Objects?

Dan Vesset {BIO 4307286 <GO>}

Yeah. So we don't have a specific number, but anecdotally it's still a relatively small percentage. Lot of it -- and it's usually happens when there is a quite old version of strategies, these other products, and so there is not an incremental -- so there is a decision point, do we go with -- do we jump two or three versions even in sometimes for with SAP products or IBM or Oracle or do we go with the new vendor.

And oftentimes it also is triggered by a change in the SORE [ph] system, so there -- it's maybe a change in the ERP or CRM application or there may be kind of rapid growing reliance and other non-relational technologies, so maybe that really heavy, start reliance on social media data for example in a market scenario. So there is a whole new dataset which is large dataset, fast scrolling and there is a new decision point to assess the existing need. So that's where we see a replacement, but those are relatively few cases. So in most cases it's an add-on to any given named company, named accounts, and in most large companies will have multiple BI products and will continue to have multiple BI products.

Mandeep Singh {BIO 15014535 <GO>}

So I would just piggyback on that, do you think like with IBM coming up with Watson Analytics, Microsoft launching part of BI, is it cannibalizing their old analytics solutions in any way or it's all incremental?

Dan Vesset {BIO 4307286 <GO>}

I think it is cannibalizing, some of it. I think big part of it is, they are allowing the customer, wherein the past they had to buy a suite of products which had multiple modules within them, and so it was a relatively large initial outlay of cash. They're now allowing a much smaller incremental purchase. So you can buy just the Cognos Analytics or just that Watson Analytics piece of everything that IBM has to offer. When in the past, you would have been almost forced to buy a broader Cognos suite.

So I don't know if it's cannibalization, but it certainly does. The price points become smaller than any given point in time with a hope that it gets -- the volume of transactions increases. Some vendors are very good at that. Microsoft is very good at volume. And then somebody like Salesforce, but IBM and SAP and Oracle are not that great at that. So I think for them it's a big shift and we could see that from their very slow growth or in fact negative growth in the BI revenue.

Mandeep Singh {BIO 15014535 <GO>}

So let's move on to the cloud. Do you think is there an advantage for a cloud-based analytics product over on-premise ones and I mean -- I know Tableau and Qlik are very popular, but most of their consumption is still using their desktop or the server products. So do you think it makes sense for people to kind of move towards a cloud-based analytics product?

Dan Vesset {BIO 4307286 <GO>}

So the broad answer to that is that everybody is moving to the cloud, you're right that most of those deployments today are on-premises. We're estimating around maybe 7% or so, 5% to 7% of the BI market is in the cloud today. That is very small compared to, for example, what happens with Sales -- PS Automation applications where the majority of deployments, they are now in the cloud. And part of it, is that there was a lack of supply. So as you said, most of these deployments have still been on-premises.

And now in the second half of 2015, all the major vendors came out with new cloud versions of their tools. So we are estimating that the cloud, public cloud part of this $11 billion market will be growing at 4.5 times faster over the next five years. 4.5 times faster than the on-premises part. So there is no question that we're moving towards the cloud and because of that it becomes really becomes a requirement. So they have to have -- any vendor today has to have cloud-based product. Does it give you a specific? So functionally, I don't think there is a major advantage at any given point in time, but I think what the cloud gives you is the ability to reiterate faster through, with new features and functionality and obviously provide quicker and cheaper updates.

So there's a lot of advantages to the vendor in moving to the Cloud. A part of the issue is in the short term, it hits -- there's a revenue recognition issue as that kind of the change happens and that can take three years to even out, so that's from a revenue assessment and forecasting perspective that's an inhibitor to growth in the short term. So there is more adoption but because the revenue recognition is spread out, it's a negative. For those and those who were primarily in it's who have that issue of switching from one premises to about.

Mandeep Singh {BIO 15014535 <GO>}

Great, and how would you contrast like the different approaches of the large vendors, so Microsoft and Amazon they are offering their analytic service flash utilization [ph] tools on top of their Cloud infrastructure services, whereas IBM is -- yes, they're offering Watson analytics, but they've also gone out and purchased Weather Channel data. Is that tied into analytics in some way, and then what do you think is the rationale for doing that?

Dan Vesset {BIO 4307286 <GO>}

Yeah. So I think that's an important point is that what we're calling it -- calling it value added content. So the ability to not just to analytics but contents along with it and (inaudible) a company's one example of that in there -- Amazon, I mean Microsoft's partnership with Twitter is another example of that.

Oracle acquired a couple of companies, Bluekai was one and Datalogix and they were both in the consumer data business. So they're collecting behavioral data, purchasing data, demographic data kind of packaging up [ph] and again in Oracle's case, they are continuing to sell those as a discrete offering but also embedding value, not embedding, but they are co-selling that with CRM application.

So as you buy their marketing automation, marketing analytics you also have an option now to subscribe to the data feeds about individuals, sometimes and usually anonymized individuals, but used for analytics. So I do think that all the large vendors are in a position or to do that and already some half, so Amazon also makes available certain data sets to their marketplace, same with Microsoft.

I think we're going to see much more of that of prepackaged data sets, sometimes just raw data, but oftentimes some type of value-added being put on the data, so maybe scores, benchmarks that go along with the analytic service and that, it really becomes feasible only in the cloud, because of the delivery mechanism for social-bank [ph], so another example would be, well this also opens up its competition from outside of the traditional player, so for example Intuit that provides certain financial solutions for the SMBs, they have our data service, where they -- because they process all these transaction for SMBs, so they know what people are purchasing, how much they spend at Staples last month in this region for this business, they can create -- they create certain data sets and benchmarks out of that.

And sometimes they are monetizing those directly and sometimes they're just there to create more stickiness with the customers. And we can see these types of -- there is more interest in that, credit card companies are in this business, large retailers are becoming -- and this everybody is trying to figure out what -- how else to monetize the data that they're sitting on, how to package that and in many cases within, obviously within the compliance regulations and privacy regulations that exists and make money of that.

So that's clearly the major part of the play from IBM in this case, another is the fact that weather is a key element in pretty much any decision whether it's retail or insurance or physical asset management or logistics, weather plays a huge part and the weather company had all these relationships and business in those domains. So I think there is an opportunity for IBM to continue that and I expect them to acquire more content sources like them.

Mandeep Singh {BIO 15014535 <GO>}

So could this increase pressure on the pure play guys like Tableau and Qlik which are primarily selling tools and don't have the VeriBit on to acquire content companies?

Dan Vesset {BIO 4307286 <GO>}

I think overall, yes. I think in the short term, they are still more nimble and can execute, I think faster and more effectively than the big vendors. I think it's just this -- it's a symptom of the large vendors just moving slower, Qlik actually bought one of those data providers, they bought a company called DataMarket, those are relatively small European vendor but that -- so that exists, so they could go that way as well.

I think to me the next important thing is, will they -- will those pure play vendors get more into advanced and predictive analytics? Not that they will compete with a company like SaaS or IBM SPSS but incorporating some of that more advanced analytics into their existing tool sets and to provide more recommendations for users to automate the process of data, acquisition and preparation and also visualization. I would expect them to do that, that will be an important kind of next step.

Mandeep Singh {BIO 15014535 <GO>}

Great. And one last question. So is this space getting too crowded? I mean companies in this space continued to get new funding, Altrix had another funding round and yeah we are keep hearing about analytics and visualization more and more. So do you think there is scope for consolidation or yeah what's your odds so far?

Dan Vesset {BIO 4307286 <GO>}

Yeah. There are some that have gotten enormous funding like Gilmore, which frankly I'm not -- I don't quite understand, I don't see anything quite unique there. There is company like Burst and GoodData and others. Altrix is a bit different and that they

target a slightly different base. They partner with Qlik and Tableau where they're more focused on their -- more data preparation and advanced analytics.

It's besides those that are more visible. There are dozens of other vendors in the space, I think there is always this long tail or there is a lot of movement along those vendors. This is the first time I've been at IDC for 15 years. This is the first time in probably 20 years that there is a major change in the top 10 vendors with -- other than M&A activity with Qlik just moving up -- I mean not quite -- Tableau moving up the ranks now, kind of surprising some of the mid-size, other mid-sized vendors.

Will Tableau ever become top five? It's hard to say, it's doubtful. I think there would have to be some acquisitions. I think there are always a bunch of some tiny smaller vendors, but for those that matter I think it's very hard for any of those other names you mentioned or that I mentioned to crack into top 10 for the next -- for the foreseeable future. So I think there will -- and it's also, I'm not clear on what the reasoning for acquisitions will be other than to buy somebody like Tableau or Qlik assuming the right valuation, because a lot of the functionality is very well known and so there's -- the big vendors are not buying unique IP when they're doing that.

Mandeep Singh {BIO 15014535 <GO>}

Great. Clearly, this is not an easy space to understand and hope you all find the discussion useful. Thank you so much Dan for your time. I really enjoyed the discussion and look forward to future webinars. Thank you, all.

Dan Vesset {BIO 4307286 <GO>}

Thank you.