Executive Interview: Workday's Aneel Bhusri on Advancement of SaaS and Cloud Models for Enterprise ERP

Transcript of a sponsored BriefingsDirect podcast with Workday's co-CEO on the future of delivering HR and ERP solutions as cloud services to large enterprises.

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Dana Gardner: Hi, this is Dana Gardner, principal analyst at Interarbor Solutions, and you're listening to BriefingsDirect. Today we present a sponsored podcast executive interview with a software-as-a-service (SaaS) provider upstart, Workday.

This human capital management (HCM), financial management, payroll, worker spend management, and workday benefits network provider is raising the bar on employee life-cycle productivity, by lowering IT support costs through the SaaS model. More than that, Workday is also demonstrating what I consider a roadmap to the future advantages in cloud computing.

We are here with Workday's co-founder and co-CEO, Aneel Bhusri, who is responsible for the company's overall strategy and day-to-day operations. Welcome to BriefingsDirect, Aneel.

Aneel Bhusri: Thank you.

Gardner: Workday has come an awfully long way in a fairly brief amount of time, since your launching in November of 2006 -- that's less than three years. Workday also attracted a significant additional round of venture capital support earlier this year. I believe it was $75 million, Level E.

Aneel, what explains this quick level of adoption on your user side, and then also this vigorous support from investors?

Bhusri: The adoption from the user side, I think, is very straightforward. SaaS is just a better way for these legacy systems around HR, payroll, and accounting. Our customers typically achieve benefits within a four- to six-month time period and they are typically saving 50 percent of their cost.

If you look around the world and you see the move toward cloud computing, it's for a reason. It's a better way than the legacy, on-premise technology.

As to the funding, I would hope that, number one, it's a big market opportunity that we are pursuing. We're not looking at a niche. We're looking to replace the full enterprise resource planning (ERP) platform over time, much like we did at PeopleSoft.

The pedigree of the team starts with my co-founder, Dave Duffield. He's an icon in the software industry. He's known for high integrity, innovation, and customer service. Many of us, like me, have been with him for 17 years now and we share that vision and that culture with him. We have set out to build the next great software company. I think people have recognized that.

Dave has mostly self-funded the company. We took this last round of funding as a validation of what we were doing. The best part of the validation is that the new investor, NEA, did reference calls with our customers. They said that those were the best reference calls to the customers that they have done in the last 10 years.

Gardner: You mentioned PeopleSoft, and, of course, that was acquired by Oracle. What was it about that PeopleSoft experience for you that helped shape the vision that you are now putting together for Workday?

Employees first

Bhusri: We're very similar to PeopleSoft in some areas, and in other areas, quite different. We have the same culture -- focused on employees first and customers second. We focus on integrity. We focus on innovation. We brought that same culture to Workday, and our customers are very happy.

We have a very loyal employee base. Fewer than five people have voluntarily left the company since we started back in 2005. People like working here. They like the other people that they are working with here. There are no politics. It's that kind of environment that we brought with us.

Much like PeopleSoft, we are taking advantage of a technology shift. PeopleSoft benefited from the shift from mainframe to client-server. When Workday started, people weren't as focused on how big the shift was from client-server or on-premise computing to what is now called cloud computing or, back then, SaaS.

It now seems like it's even bigger than the shift from mainframe to client-server. This is a massive shift and you see it all across. That's the big difference. We are obviously leveraging a very different technology base. The thing that Dave and I both took away from PeopleSoft is that you have to stay on top of innovation, and that's what Workday is doing. We are innovating where the large ERP vendors have stopped.

Gardner: Some people would say that this notion of taking on and replacing ERP is a quixotic endeavor and that you are tilting against windmills of some kind. Why do you think ERP is vulnerable and that you can “replace" it?

Bhusri: When we first started the company, quite a few people thought we were crazy. Why would you take on these core systems? Why not take on these point systems?

If you look at the history of technology, every 10-15 years, there is a sea change and new application vendors emerge. The big winners are the ones that are the system of record -- the HR system, the accounting system, and the order management system-of-record. Those are the ones that become the PeopleSofts, the SAPs, and the Oracles.

In between, you have point solutions -- recruiting, talent management, and supply chain solutions -- that bolt on. Most times, you're not afforded the opportunity to be a system of record, because of your timing. But we were lucky enough that, when we started Workday, we were at the start of this change.

So, if you have your choice, you would much rather be the system-of-record vendor. Oracle has a $100 billion market cap, and SAP, a $40 billion market cap. Even PeopleSoft, as the third player, was a $10 billion market cap company, when we sold to Oracle. That's not the success you see from the niche vendors.

Dramatic change

It's that, along with the fact that ERP is now 15 years old and just needs to be rewritten. The world has changed so dramatically since the original ERPs were written.

Back then, companies were thinking about being global. Now, they are global. People were not even thinking about the Internet, and now the Internet exists. That was before Sarbanes-Oxley and before the emergence of the iPhone and BlackBerry. All these things pile together to say that it's time to go back and rewrite core ERP. It's no longer valid in today’s world.

Gardner: So, we see an inflection point in ERP, perhaps a detriment to incumbency. We see a shift in technology, more toward cloud types of activities, but we are also seeing a very difficult economic environment. Is there something about the economy that is providing you a catalyst or an accelerant to the adoption of a SaaS-based human resources portfolio?

Bhusri: Absolutely. These last nine months have been challenging for everyone. We, as a system-of-record vendor, saw fewer projects out there. At the same time, because of our new model and the cost benefits of the SaaS solutions, we were probably more relevant than we might have been without the economic downturn.

We had companies that were planning on implementing the traditional legacy systems, but could not afford it. They looked at different alternatives, came across Workday, found out that we are further along than they thought we were, and then decided that this is a much better path.

A great example is Sony Pictures Entertainment. They already own the licenses to the SAP HR system, and yet, after careful consideration, determined they didn't have the budget to implement it. They chose Workday. At the end of the first quarter, they will be live in five months, and they will get the benefit of about a 50 percent cost savings, if not more. They basically quoted it as one-half the time at one-third the cost.

Gardner: So, we've seen this fortuitous confluence of external forces along the trajectory of the evolution of technology. Can you tell us what these customers that you have -- I think it's up to 100 now in your first three years, which is pretty dramatic -- what they are doing with your services? Are they swapping one thing out? Are they using it to augment something? Are these people who didn't do HR from a system-of-record perspective and are now doing that? All the above? What's the mix?

Bhusri: I'd say all of the above, but most are replacing a current legacy system that either is SAP, PeopleSoft, or Oracle. That's the predominant customer we're seeing.

They're replacing it for several reasons. Typically, they've decided that they were not going to take the major upgrade from one of those vendors. A major upgrade is much like a new implementation and it's cost prohibitive.

Usability is important

Second, they are looking at the systems and saying, "What do we get for that upgrade?" The world has changed. Talent is now more important, and usability is a lot more important.

They care about having systems that are accessible to their employees, that look more like eBay and Amazon, and that don't look like an ugly enterprise system. They're looking for systems that are flexible and keep up with their organizations. Workday happens to be a good solution for those systems.

They switch over and they get the benefit right away of going forward. Upgrades are our issue, not theirs, which is a huge, huge difference. That's the elephant in the room. Upgrades are really the bane of the existence of anybody running enterprise IT systems, and it's only getting worse with time.

Another piece is that they are now on a modern system with a user interface that looks like a consumer Internet system. As a result, people use the system. The most important measure of how good a system is whether people like using it, because that makes it more valuable.

Lastly, with our focus on continuing innovation, they are not stuck in time. Every customer gets upgraded every four months to the most current version of the system. So as we are innovating, they are all taking the advantage of that innovation, whether it's in usability, functionality, or a new business model. So, those are really the differences.

Gardner: That strikes me as potentially a game changer -- this idea that the cycle for adoption in a traditional license software model can be three to five years. It's very expensive, very complex, and disruptive. The incentives are against upgrading. But, you at Workday can get out in front of your competitors, with features, performance, and innovation, reacting to the external environments, and then bake that in almost seamlessly and invisibly to your customers.

You are at Workday version 8, already in three years. Am I right? Is this a game changer that the SaaS model can give you a huge advantage over anybody that you compete with?

Bhusri: Absolutely. I like to think about it as building at web speed, and that's how Google, Amazon, and eBay think about it. New features come out very quickly. There are no old versions of Amazon and eBay that they have to worry about supporting. It's one system for all users. We're able to leverage those same principles that they are and bring out capabilities very quickly, so a customer can identify something that's important to them.

We've gotten a lot of requests for an iPhone client. Within one update cycle, four months, we had an iPhone client built. We got a request for BlackBerry, and the next update cycle, four months later, there was a BlackBerry client built. In a traditional enterprise, with cycles of 12-18 months, by the time the release comes out, the world has changed.

So yes, it's SaaS, but it's more, because we build like the other consumer Internet companies and we look to them as our role model. The only enterprise company I look to as a role model is Salesforce, but they embrace many of the same views and technologies as we do.

Gardner: Let me pursue that a little bit. How do you see yourselves different -- either in character, culture, or the way you enter the market -- from Salesforce.com?

Application vendor

Bhusri: I think we are a lot like Salesforce. Dave and I have a very good relationship with Marc Benioff. They're focused on CRM, and we're focused on ERP. I think the big difference is that they are focused on becoming a platform vendor, and we are really very focused on staying as an application vendor.

We will not have a Force.com equivalent. We are really focused on building the best applications that we can, and maintaining a good partnership with Salesforce. We don't plan to be in the CRM world, and we have a very nice integration built to their systems.

They started out in the small and medium business (SMB) world and are moving into the larger enterprises. In some part, thanks to them, we were able to focus on the larger enterprises at the start and really did not focus on the SMB. So, that's a difference. But, really there are more similarities than differences to our approaches.

Gardner: I imagine -- given that you acquired Cape Clear Software and have significant integration capabilities -- that the data sets that exists within a Salesforce engagement with a customer, and your data sets, provide an opportunity to somehow mix and match here. This would allow business intelligence (BI) of some nature, or perhaps even some joining of these data sets?

Bhusri: Absolutely. As we roll out our financial products, we have prototyped some BI work that we have built on the Force.com platform. It takes CRM data from Salesforce, and accounting data and HR data from Workday, and presents it in a Force.com way. It's very slick, and, as we get into the market, we'll probably come up with more examples like that.

The Cape Clear technology is really key to our success. Those of us who started Workday are all applications people. The last generation of applications didn't really care about integration, but today's world is very different.

We found out upfront, when we launched Workday with Cape Clear as a partner, that most of our early customers were focused not just on the application, but on the integration to the systems. So, we decided to bring the two companies together. Now, integration is part of everything we think about. Your example is one very good example, but there are a lot of other examples as well, and we don't think about it as an afterthought the way we used to.

Gardner: You mentioned that a significant portion of the adoption for Workday comes from the swapping out of legacy systems. This strikes me as something that would be from very large organizations, Global 2000 enterprises. That, I believe, is your focus. Why, as a SaaS provider, have you focused on large enterprise and not the expected SMBs?

Bhusri: Our view is that the bigger bang for the buck, in terms of the cost savings and the real value for the technology, happens with larger companies. We started out serving companies in the 1,000-5,000 range, but our goal is to serve the largest companies.

As the system has gotten more robust, we've really focused on the Fortune 1000 companies, our biggest being Flextronics. Those large, complex organizations with global requirements have a great opportunity for cost savings. That's number one.

Large-enterprise focused

Number two, with our PeopleSoft backgrounds we are large-enterprise focused. It's what we know. It's what we know how to build. It's what we know how to market. It's what we know how to sell. SMB is not in our DNA, and we believe that there is a big enough market in the large enterprises. That was the natural place to go.

Gardner: What are the economics of this? Some debate we have heard in the past around SaaS is whether it's a cost saver or a long-term wash? How do you view it? If you are going into these large organizations, I assume that you have got a sense of the economic metrics and what the return on investment (ROI) might be?

Bhusri: With the downturn in the economy, we have very detailed analysis, because every selection came down to the ROI case in the selection of a vendor. The data we have now is not theoretical. It's now based on 60 of our 90 customers, of our 99 customers. Being in production, we have been able to go back and monitor it.

The good news about our cost is that it's all-in-one subscription cost, so we know exactly what the costs were for running the Workday system.

The trickier part is that the customers typically underestimate the cost of running legacy. They don't think about the mainframe, the hardware upgrades, the database administrators that they need, or the networks that they have dedicated to their on-premise systems. A lot of outside costs don't really get calculated in.

When you add it altogether, really do it on an apples-to-apples basis, and look at what we have taken over for the customers, it averages out consistently to about a 50 percent cost saving over a five-year period. There are cases where it's less than that and there are cases where it's more that that, but it averages around 50 percent.

The most important assumption in that five period is that we don't count on a major upgrade of the legacy system. I personally think that's very conservative, because if you are running PeopleSoft, SAP, or Oracle, you should be upgrading at least once every five years. We are falling really far behind.

Gardner: If there is a certain set of applications that you can offload to a SaaS provider, that opens up quite a bit of capacity in your data center, which perhaps forestalls the need to replace a data center, which could cost $40 million or $50 million.

New breed of CIOs

Bhusri: Absolutely. I think the new breed of CIOs, and it's not based on age or experience, thinks differently than the last generation of CIOs did. They think about it as a business issue, not as a technology issue. If you can get your administrative applications, your non-mission critical applications -- CRM, HR, payroll, and accounting -- delivered from a vendor, and you can manage them to service-level agreements (SLAs), why not focus your resources on the core enterprise apps you have?

If you're a Wall Street firm, those are trading applications. If you're an insurance company, that's claims processing. If you're a retail company, it's merchandise management. Leave the rest to vendors who can deliver those levels of service and focus on your core business.

More and more CIOs are getting that. It does free up data-center space. It also frees up human resources and IT to focus in on what's core to their business. HR and accounting don't have to be specialized in running that system. They have to know HR and accounting, but they don't have to be specialized in running those systems.

Gardner: I suppose we can put ERP in that same category. Tell me a little bit about where you are going next. We've seen you come up with HR products and payroll products. You have obviously declared the ERP category, which is large and can be specialized from vertical to vertical. What should we look to next in terms of application sets from Workday?

Bhusri: Our big focus was HR and I think it will continue to be, but, right now, HR has, we believe has reached parity with the legacy systems. In 2009 there has been a big push on payroll, getting those to parity with the legacy systems, because many of the large companies run HR and payroll together. You can't replace just HR, if you leave them with the payroll headache.

Going forward, next year, our view is that we want to be an ERP replacement suite, but not for manufacturers. We will sell our HR and payroll accounting system to manufacturers, but we are not looking to manage the shop floor manufacturing, the way an SAP might. We'll expand out of core accounting into procurement and order management and really be the full ERP suite for the services economy.

We've started many of those applications. We've started the procurement applications. We've got this application called Worker Spend, as well. The next big push for us will be in the order management, revenue management, and revenue generation side of the business. The best way to think about it is that we will effectively replace the full footprint we had at PeopleSoft, which was again ERP for the services industries.

Gardner: I want to close out with a little bit of thought leadership or vision direction around the cloud-computing opportunity. I've got a certain theory that Moore's Law carried IT quite a way in the past. For decades, productivity could be almost expected as a given, with this increase in the density of what silicon could produce. I think we are now at a new opportunity level, which is business process innovation.

Do you think that if we refine it, look for the ecosystem partnerships, go for the best opportunity, regardless of the sourcing location or organization, we can see a new level, a different law, perhaps some sort of a cloud law?

Fear of the cloud

Bhusri: I believe so. The only things that will get in the way of that are really two things. One is people's risk aversion. I think that right now people are scared of the cloud, what it means to open up their world into the cloud, and what does social networking do to their businesses.

I actually think that all these things are good things -- sharing of information, sharing of relationships, and being able to source in a way that's very different than the traditional world. So one is the risk aversion.

The second piece, which is a big unknown, is what will the governments do, as these clouds transcend national boundaries. Right now, all the governments are way behind in figuring out how to deal with these.

But, if the governments can stay away and risk aversion reduces over time, cloud computing is going to transform the way people communicate and the way people do business. These business processes will be meta-business processes that span multiple organizations, and they are organic, as opposed to hard-coded the way they are today.

Partners will become partners and fall apart as partners, somewhat organically, depending on the specific project. That's a pretty exciting world that we are headed into.

Gardner: Do you think that the days are over for 46-percent profit margins from software vendors, and the whole idea of large enterprise devoting 4-5 percent of revenue to IT spend? Are those days over?

Bhusri: I think so, particularly in the latter category of what percent gets devoted to IT. Even some of the companies that have based their businesses on IT are looking at 2-3 percent. So, it's half. That's pretty universal. That's going to come out from somewhere. I think it will impact the margins.

One of the reasons why the margins are so high for those companies is that they are at the tail end of the technology life cycle. They are not really innovating. They are collecting maintenance payments. We all know that maintenance is very, very profitable. Well, when you start in a new technology, it's mostly investing. Usually, when the profitability rates get that high, it means that there is a new technology around the corner that will start cutting into those profitability rates.

Gardner: Well, I certainly look forward to a cloud economy. I'm not sure it will live up to Moore's Law, but perhaps there is something there that's very significant.

We've been talking about Workday, a fiscal management, payroll, and human capital management SaaS provider. Joining us has been Aneel Bhusri, co-founder and c0-CEO. Thanks so much for joining us.

Bhusri: Thanks, Dana, my pleasure.

Gardner: This is Dana Gardner, principal analyst at Interarbor Solutions. You have been listening to a sponsored BriefingsDirect Podcast. Thanks for listening, and come back next time.

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