VENDOR PROFILE

Workday Vendor Profile: Making the Case for Large Enterprise ERP Software as a Service

Scott Guinn                Robert P. Mahowald
Michael Krigsman

IDC OPINION

No longer confined to the realm of small- and midmarket businesses, software as a service (SaaS) is making inroads into the largest government and private sector organizations, changing the face of enterprise software in the process. Pure-play SaaS vendors such as salesforce.com in customer relationship management (CRM), SuccessFactors and Taleo in talent management, Ultimate Software in human capital management (HCM), and Workday in both HCM and financial management may not all be household names, but their collective impact on the large enterprise applications technology landscape is profound and growing. On the surface, SaaS appears to offer little impact on enterprise end users, aside from changing the physical location of a datacenter. In reality, the impact involves an important paradigm shift related to software delivery and consumption. As a pure-play SaaS vendor serving the enterprise, Workday offers an excellent example of understanding critical implications of the shift from on-premise to SaaS delivery. These important, market-related changes include:

- A high-stakes battle for the business delivery model of the future — between large, on-premise vendors and smaller, more nimble cloud start-ups — over control for enterprise computing dollars and mindshare
- The convergence in enterprise applications for the consumer Web, social software, and real-time analytics that give rise to "consumer" satisfaction as a strategic point of differentiation
- The rise of software architecture as a critical enabler of business strategy by offering ever more software configurability, and thereby giving companies greater flexibility and speed to adapt to changes in their processes and the markets they serve

IN THIS VENDOR PROFILE

This IDC Vendor Profile examines rapidly growing software-as-a-service (SaaS) vendor Workday, which sells HCM, payroll, and financial management applications to large organizations. Founded by Dave Duffield and Aneel Bhusri, who also started PeopleSoft (acquired by Oracle in 2005), Workday embodies a new breed of software company based entirely on delivering product over the Internet. IDC expects a gradual but profound shift in revenue earned by applications vendors shipping CDs,
from about 85% of market revenue in 2010 to about 62% of revenue in 2014, with the bulk of that revenue moving instead to subscription-based application services, predominantly SaaS. IDC sees Workday as a leader in embracing the architecture and business model of SaaS for large enterprises early in the market cycle.

An important element of Workday’s strategy involves bringing characteristics of the consumer Web experience to large-scale enterprise systems. By combining robust enterprise scalability with consumer-oriented ease of use, Workday hopes to simplify the software user experience for large organizations, and in turn encourage higher levels of software adoption. In effect, Workday is trying to bring consumer-oriented sensibilities to enterprise applications. IDC views this as part of a larger industry trend toward integrating social business software into traditional IT and business environments.

Over time, Workday plans to expand its on-demand suite to include the administrative (non-manufacturing) aspects of enterprise resource planning (ERP), putting the company into ever more competition with large vendors such as SAP and Oracle.

Given Workday’s plans, it is important to examine the company’s position within the broader enterprise software context. Rather than merely describing features and functions, this Vendor Profile examines Workday’s essential characteristics and strategy.

**SITUATION OVERVIEW**

**IDC’s Taxonomic Approach to Categorizing SaaS and Cloud Services Such as Workday’s**

SaaS services are essentially the service enablement of traditional software products, and as such there is a tight alignment between the taxonomical classification of software products and SaaS services. IDC believes that companies that develop capabilities to deliver their products as services gain a significant competitive advantage over firms with packaged software products only, for reasons outlined in this document. As background for understanding the relationship between traditional IT software products and their SaaS counterparts, the five IT cloud (a superset of SaaS) services segments are as follows:

- **Applications** includes secondary markets such as collaborative applications (e.g., messaging, conferencing, and team collaboration software) and business applications (e.g., CRM, ERP, financial, HCM, PLM, and supply chain management (SCM)), delivered via the cloud services model.

- **Application development and deployment** includes secondary markets such as application development software, application life-cycle management software, enterprise mashup and portal software, information management and data integration software, and middleware and business process management software, delivered via the cloud services model.
- **System infrastructure software** includes secondary markets such as system and network management software, security software, storage management software, and system software, delivered via the cloud services model.

- **Basic storage** includes storage delivered via the cloud services model. We use the qualifier basic to note that we include in these services only raw storage capacity delivered as a cloud service. **Advanced** storage cloud services — backup, archiving, and so forth — are accounted for within the SIS category (which includes storage management services).

- **Servers** includes server computing capacity delivered via the cloud services model.

We have chosen this traditional segmentation approach as a starting point for naming and functionally categorizing IT cloud services — rather than using the widely cited, but not very granular, three-layer model described by the U.S. National Institute of Standards and Technology (NIST) — for the following reasons:

- The IDC IT product taxonomy robustly describes the vast majority of IT functionality customers invest in, with hundreds of markets and submarkets named, defined, and related to one another.

- This taxonomy is, by far, the most widely adopted model for describing and analyzing the IT marketplace by IT vendors, customers, and investors.

- Using this existing functional taxonomy to describe IT cloud services helps vendors and customers make the important connection between offering categories they know well and invest in and the emergence of cloud service versions of those offerings.

Figure 1 depicts IDC's view of the five customer-facing IT public cloud services: three primary software markets plus bulk storage and servers. For those who have followed IDC's coverage and forecasts of software as a service for the past decade, please note that the three software-related IT cloud services segments, together, equal the SaaS market. Figure 1 also shows the alignment of IDC's cloud taxonomy with NIST's three-layer model. (For the purposes of converting IDC's cloud forecast into the NIST model, the following formula will produce a rough translation: NIST's software as a service is directly equivalent to IDC's applications; NIST's platform as a service is roughly equivalent to IDC's application development and deployment; and NIST's infrastructure as a service is roughly equivalent to IDC's system infrastructure software plus servers plus storage.)

Workday is organized around delivering SaaS application and integration platform services (iPaaS), principally in the human capital management and payroll functional markets, and with an expanding footprint of financial management and spend management applications. Each of these markets falls under the enterprise resource management (ERM) secondary market.
Workday has expanded from its initial anchor offering of human capital management to building out payroll and enterprise financial management offerings. As the company’s trajectory takes it to offering ever more components of the traditional ERP portfolio, we consider the company in light of the broader ERP market.

The enterprise applications category includes a range of products and applications intended to unify and centralize data across an organization. An ERP system is among the most comprehensive, expensive, and significant enterprise systems that organizations deploy.

During the past several years, several challenging conditions have placed increasing pressure on established ERP vendors:

- The difficult economy has forced enterprise customers toward more modular, less expensive implementations and fewer, more deliberate upgrades. As a result, ERP vendors are chasing smaller, less profitable projects than in the past.
- Enterprise customers have become disillusioned with the recurring investments inherent in both the implementation and maintenance of their ERP systems. As a
result, many buyers seek alternatives to large, monolithic ERP purchases in order to reduce risk, cost, and disruption to their business.

Cloud-based technologies threaten on-premise suppliers with lower-cost offerings; faster, less expensive implementations; and overall quicker time to value for buyer organizations. On-premise vendors attempting to migrate their offerings to a cloud-based applications delivery system face both cultural and economic barriers as they seek to avoid cannibalizing existing high-margin sales.

These three conditions — the challenging economy, expensive and overbudget implementation projects, and the rise of cloud-based technologies — contribute to a business environment that is advantageous to Workday.

SaaS vendors, such as Workday, operate according to a different set of economic assumptions regarding their relationship with customers. These vendors invest heavily to acquire a customer, which then purchases software on a usage basis — in other words, customers are not bound to remain with a SaaS vendor beyond an initial contract term.

This subscription-based pricing approach looks particularly attractive to those traditional, on-premise enterprise customers that historically found themselves wasting money on "shelfware," software licenses that were purchased but remain unused. The economics of on-premise software encourage this behavior because vendors have an incentive to push large license sales and frequently offer customers a discount for buying licenses in advance of actual use.

In practice, the need to retain subscription-based pricing customers over time requires SaaS vendors to innovate around long-term customer satisfaction, on the assumption that satisfied customers will remain with the vendor over a long period.

Economic Buyers, Software Suitability to Task, and User Experience

Most organizations treat the purchase of large software systems, potentially costing millions of dollars, as capital expenditures (capex). As a result, enterprise sales cycles typically emphasize economic buyers, consisting of the purchasing department, an RFP committee, the CFO, and so on. These economic buyers make decisions based on financial considerations and feature/function checklists, regardless of how well the software vendor actually implements those features.

In this typical process, end users are underrepresented, as vendors focus on those possessing the power to make purchase decisions. As a result, the economics of purchasing drives disconnects between those that purchase enterprise software and end users. These economics of traditional enterprise software purchasing create an incentive for enterprise software vendors to invest in feature checklists, which appeal to economic buyers, rather than optimizing the user experience.

In contrast, consumer-oriented software vendors tend to emphasize usability and user experience because they help encourage end-user buyers to adopt the software. In addition, greater usability helps consumer vendors reduce technical support costs, which can be a large expense for consumer software companies.
For cloud vendors selling on a subscription basis, end-user adoption is the key to success.

**Legacy Advantage**

From Workday's inception, the company designed its user experience on native Web technology; as a result, it is unencumbered by the need to retain backward compatibility with older software versions. In contrast, established software vendors frequently design products to avoid disrupting an established base of users, training suppliers, consultants, and so on. As Workday becomes a well-established player itself, this advantage will diminish over time. For the present, however, being free of legacy concerns offers Workday a point of competitive differentiation in the market.

**Culture**

Workday believes that "responsiveness and company behavior" play an important role in generating goodwill from customers. As a result, Workday deliberately fosters a culture that encourages interaction with customers, based on the desire to address end-users' needs on an equal basis with the requirements of economic buyers.

Workday defines user experience in broader terms than is typical in the industry. While most enterprise vendors consider user experience as screen design and information display, Workday emphasizes its intention to make the software easier to use and change. To accomplish these goals, Workday designed its system around a flexible software architecture specifically tailored to accomplish those goals.

**End-User Perspective**

To understand the practical impact of Workday's approach, IDC spoke with Vice President of Worldwide Human Resources Debi Hirshlag at Flextronics, a large Workday customer.

According to Hirshlag, Workday is different from traditional software vendors in several respects:

- **SaaS ownership model.** Everything is included in the single subscription price, so there are no modular discussions around functionality trade-offs and pricing.

- **SaaS delivery.** The customer does not have to maintain a server farm or worry about upgrades due to hardware or software changes. This also reduces the burden on IT, which helps maintain company margins, especially for a business that runs lean. As a result, the Workday system requires less ongoing IT support than a comparable on-premise system.

- **Shared user experience.** Because all Workday customers are on the same version and platform, knowledge sharing among customers is easier, as are interactions with Workday's support team, Workday Customer Success.

- **Rapid configurability.** After learning the system, IT business analysts and relatively nontechnical system administrators can directly modify workflows in response to changing business requirements. For example, changing an approval process does not require programming or software development, which is easier for the business and makes fewer demands on IT.
In Workday's view, merely bringing a new system live is not an appropriate metric for gauging implementation success. Instead, Workday considers adoption as a proxy for customer satisfaction. When evaluating customer satisfaction, the company tracks various metrics related to system utilization to gain insight into user adoption and customer satisfaction. Doing so helps the company ensure that economic buyers gain the benefits they expected when purchasing Workday. As a result, customer satisfaction serves both the economic buyers and the end users.

**Software User Experience**

Historically, enterprise software vendors emphasized back-office process efficiency and data integrity at the expense of system ease of use; data entry and storage were primary goals, with user experience less of a priority to system designers. Unlike consumer software, which is often single purpose and highly focused, enterprise applications must address a broad range of functions, integrate with existing systems, and offer robust availability and security. For these reasons, enterprise software generally has a reputation for being difficult to use, which increases training and change management costs during implementation. In contrast, consumer-oriented software typically sacrifices functionality for ease of use.

Workday's approach to software design attempts to merge enterprise software scalability and features with the design sensibilities of consumer software. A Workday white paper explicitly acknowledges the company's debt to the consumer software experience: "Why should completing a transaction in a robust HR system be more complicated than purchasing a book at Amazon? Consumer Internet applications are making people's everyday lives easier; Workday thinks they should do the same for people's work lives."

For Workday, user experience goes beyond attractive screen designs and is part of the company's core strategy to make its software intuitive and flexible; the company designed its core software architecture to support end-user agility.

Workday anticipates its customers will monitor processes over time and make changes in response to evolving business requirements. Therefore, the company's basic platform architecture enables users to configure the product rapidly, using point-and-click methods, to achieve goals that would otherwise require procedural programming.

Collaboration capabilities are also an important component of user experience. While Workday continues to explore the place and application of various social technologies within its solutions, it has built in collaboration tools and activity streams functionality within its process modules. This layer of engagement on top of systems of record such as ERP is an important evolution in the "consumerization" of enterprise applications.

**Economic Basis for Strong Customer Relationships**

Although Workday automates human capital management and financials, which are core enterprise processes, its approach to customer relationships mirrors that taken by suppliers of consumer-oriented Web applications.

Workday's approach toward customer service, transparency, innovation, and openness mirrors characteristics typically found among social software vendors.
Customer Relationships and Transparency

Workday has stated a high level of customer commitment; an attitude that has a basis in both economics and the founders' philosophy. Because Workday offers customers subscription-based pricing based on usage, the company's revenue model depends on customers adopting and using the software over an extended period. A critical part of Workday's go-to-market strategy therefore involves deep customer relationships extending over a long period.

Every vendor in today's highly competitive marketplace wants to be seen as deeply in tune with its customers. Workday makes that message believable, both through the reputation of its executive team and by the endorsements of its customers.

The executive team starts with Dave Duffield. Repeat buyers of his companies' products go back a number of companies now. They know him because of his accessibility over the years, and their numbers are evidence of his reputation for building an enthusiastic customer following. That corporate memory helps Workday, certainly in the case of HCM, get "shortlisted" by prospective large enterprise buyers time and again.

As for the customers, those that we spoke with include several who were early adopters and still have the change management "scars" to prove it. They are also visible, outspoken, and enthusiastic proponents of "The Workday Way," volunteer to demo Workday at HR Tech, participate in Webinars and other programs, and talk freely about their positive views of the company.

Finally, Workday performs an annual survey of customer executives who act as buying sponsors. The company states that customer satisfaction is "one of the major objectives that everyone at Workday is measured on as part of our corporate goals."

Crisis Management

The company's relationship with customers was tested in September 2009, when back-end equipment in the company's datacenter failed, causing Workday's entire system to go down for 15 hours. Such an outage could have been catastrophic for Workday if it had caused customers to lose confidence in the company's ability to provide a reliable service.

Workday handled the outage responsively and therefore lost no customers as a result. Commented Manjit Singh, former CIO of Chiquita Brands International, a Workday customer, "Workday's communication was fantastic: they kept us informed of the problem, steps they were taking to resolve it, and expected time to solution. Are we a happy customer despite this? Yes, we are, absolutely."

Workday handled the outage situation with an unusual level of transparency. On its own initiative, despite lack of press coverage, the company exposed why the outage occurred, the realistic extent of impact on customers, steps it took to resolve the problem, and plans to avoid similar situations in the future. Workday's reputation and conduct toward customers in good times and amid crisis are worth noting.
Software Architecture as Competitive Differentiation

Platform architecture plays an important role in helping Workday drive customer satisfaction and, therefore, high user adoption of the Workday software. Since Workday charges customers based on number of users, adoption is a key metric and serves as a proxy for future revenue.

Workday’s platform to support the company’s business strategy encompasses four distinct areas:

- Infrastructure and economies of scale
- Connectivity and integration
- Product ease of use
- End-user flexibility and process configuration

Infrastructure and Economies of Scale

As a provider of SaaS-based solutions, Workday offers a standard software delivery platform for all customers. The company defines six key platform attributes that comprise what it calls “real” SaaS:

- Customer implementations take place off premise and in shared datacenters
- All customers on the same software code line
- Multi-tenancy
- Virtualization to support “Elastic” grid processing
- Updates included with the service
- Subscription-based pricing

Connectivity and Integration

Integration with legacy systems and external data providers is fundamental to any enterprise system. For this reason, Workday offers preconfigured (managed) interfaces with external providers and robust APIs. Since customers run Workday as a single instance, creating a common view of “data truth” across the enterprise, these integrations are extremely important in helping customers achieve overall lower cost of ownership.

See the Workday Integration Cloud section for a list of specific Workday packaged integrations with external service providers that complete the Workday HCM, payroll, benefits, financials management, and spend networks.

Product Ease of Use

Workday attempts to strike the balance between information access and overload by integrating features such as search directly into the platform architecture itself. This integration gives Workday flexibility in controlling the types of data and interactions the software presents to users.
Business intelligence tools are integrated into and are offered as part of Workday's core platform, something that other vendors sell as a separate product. This integration allows the company to provide flexibility by offering contextual reporting rooted deep inside the application. In addition, the reporting and business intelligence features share a common user interface across the entire product suite.

**End-User Flexibility and Process Configuration**

Workday's workflow is built into its core system architecture, based on the philosophy that process should take priority over discrete screens or "transactions." This design philosophy leads to workflows that are relatively easy to change and configure, using point-and-click methods rather than procedural programming. In contrast, workflow in traditional ERP systems can be difficult or complicated to change.

---

**Company Strategy**

**Sales and Pricing Strategy**

According to Workday, the company's primary source of opportunities is found in the wake of a planned or unplanned disruption to large organizations that have been loath to change or upgrade their internal systems, but with this disruption are now forced to. Therefore, Workday seeks potential customers among organizations undergoing "acceleration events" that drive business and system changes.

These acceleration events would include mergers, acquisitions, and divestitures, which often lead companies to consolidate systems, on-premise software upgrades, HR transformation efforts, and planned and strategic extensions of an existing platform.

In general, Workday believes its best sales prospects are upper midsize and large organizations planning operational or organizational changes; companies in this situation are generally more likely to replace (or supplement) existing systems than otherwise might be the case.

Workday's sales strategy involves helping these organizations see the value of replacing existing systems, packaged or homegrown, with Workday's cloud-based solution. Although Workday meets Oracle, SAP, and other HRM vendors in competitive sales situations, the company believes its solution is unique and distinct enough to do well in those matchups.

Workday's pricing is straightforward:

- Solutions are priced for simplicity (a small number of SKUs for recognizable products [HCM, financials, etc.] that deliver clear value). Workday states, "Our goal is to make it easy for customers to complete the sale [and renew] and encourage broader, deeper deployment and usage of our solutions."

- Banded pricing is based on value (price is based on customer size [number of employees]).

- The annual subscription fee is based on a three-year term.
Risk Factors

Despite Workday's growth rate and market impact to date, IDC believes the company faces several sources of market risk.

Competitors

- **Cloud vendors.** Potential near-term competition comes from other cloud vendors that have had success as best-of-breed pure SaaS vendors in large enterprise accounts and choose to broaden their offering to an applications suite offering HCM, financials, or both. Potential ERP competitors include Ultimate Software, which already offers core HCM and could merge or tightly partner with a financial management vendor; salesforce.com through its AppExchange partners; Microsoft leveraging its Azure platform; and Dynamics AX6's functionality and ISV partnering strategy for upper midmarket and enterprise customers. Longer-term risk also comes from other SaaS midmarket vendors, particularly as new technologies, architectures, and customer use cases enable them to more easily scale and extend up-market.

- **Established enterprise software vendors.** Companies such as a SAP and Oracle are investing strategically in fully multi-tenant, cloud-based solutions. Although these competitors have been slow bringing viable cloud solutions to market, Workday's uniqueness as a cloud vendor will fade over time. To compensate, Workday must rapidly scale and maintain consistently high levels of innovation into the future.

- **Established system integrators.** Workday's implementation model requires less professional services than traditional, on-premise software deployments. As a result, large professional services firms may recommend Workday's on-premise competitors to secure higher-margin implementation contracts.

Other Market Risks

- **Changing business and IT environment.** As the "social Web" pushes many organizations toward decentralized computing, the CIO and IT become less a center for innovation and increasingly function in the role of governance and compliance stewards. Workday and the industry at large need to address how to incorporate social media and tools into their business models or eventually face competitive threats from new vendors that empower users to deploy ERP-related software and bypass centralized IT.

- **Centralized IT control and security.** Workday attempts to balance user demands for flexibility with IT's desire to maintain centralized control regarding security and more. For a company like Workday, the question becomes one of providing a positive user experience to encourage adoption against IT's concern over security. A private cloud option, where both the SaaS and infrastructure are behind the company's firewalls, mitigates some of that risk, but at the cost of some of the TCO benefits derived from multi-tenancy. However, for some industries where regulatory measures mandate mitigation of security risks, a private cloud or on-premise deployment is, today, the only option.
Quick Stats (as of April 2011)

- Number of employees: Approximately 700
- Number of customers: Approximately 200
- Number of users: Over 1 million contracted users

Products

Core Products

- Workday Human Capital Management (Global Human Resource Management, Workday Global Talent Management)
- Workday Payroll Solutions (U.S.)
- Workday Spend Management (expenses, procurement, supplier management, settlement, resource tracking)
- Workday Financial Management
- Workday Initiatives (plan, staff, manage and analyze the total coast, quality and nature of work)

Workday Integration Cloud (Preconfigured Integrations, Individual SKUs)

- Cloud Connect for HCM:
  - Directory integration (Active Directory and LDAP)
  - HCM Change Detection Integration
  - StepStone TalentLink
  - Kronos Employee Data
- Cloud Connect for Workday Payroll:
  - ADP, Ceridian and VHR Tax Filing
  - Kronos Timekeeper Integration
  - Direct deposit (electronic payment)
- Cloud Connect for Third-Party Payroll
  - Safeguard World International
  - Workday Payroll Interface
- Payroll co-sourcing services (provided through OneSource VHR)
- Cloud Connect for Benefits:
  - Network of over 160 benefits carriers
Cloud Connect for Financials:
- Salesforce.com integration
- CyberSource for customer payments
- Electronic payments (multiple formats) and acknowledgment
- Bank statements

Cloud Connect for Spend Management:
- Punchout
- Bank of America Visa Corporate Card integration
- American Express Global Corporate Card integration

Services
- Deployment services
- Life-cycle services
- Payroll co-sourcing services
- Training and Education
- Production Support
- Update Conversions

FUTURE OUTLOOK

IDC sees the continuation of a gradual but profound shift in revenue earned by applications vendors shipping CDs, from about 85% of market revenue in 2010 to about 62% of revenue in 2014. The bulk of that revenue is moving to subscription-based application services, predominantly SaaS.

Workday has been a leader in embracing the architecture and business model of SaaS for large enterprises early in the market cycle. IDC believes platform architecture will continue to be an important differentiator for SaaS vendors including Workday, as will connectivity and ease of integration to other enterprise systems, product ease of use, end-user flexibility, and process configuration. As a provider of SaaS-based solutions, Workday offers a standard software delivery platform with all the attributes that allow customers to derive the full total cost of ownership (TCO) benefits of a SaaS-based delivery model, including multi-tenancy.

With all of these benefits, SaaS is not yet fully proven out as ready for large enterprise deployments in all functional areas. While there are strong use cases in such areas as CRM, HCM, procurement, and project portfolio management, there are fewer in the areas of financials and supply chain management. These are mission-critical systems, and the stakes are high for them to be reliable and performant.
Prospective buyers should look for customer references and use cases from vendors and pilot projects, and ensure satisfactory service-level agreements (SLAs) are in place before rolling out large enterprisewide deployments.

**ESSENTIAL GUIDANCE**

**Advice for Workday Customers and Prospects**

Workday represents a new breed of software vendor, designed from the ground up with the following attributes:

- Pure SaaS platform architecture with no on-premise option for customers
- Subscription-based pricing and licensing
- Software design sensibility rooted in both scalable enterprise software and the consumer Web experience
- Social business software features
- Transparent and open commitment to customer satisfaction and end-user adoption

IDC believes this is a winning formula for long-term success but is also mindful that established competitors are rapidly learning lessons from companies such as Workday.

Functionally, many prospective buyers will find Workday’s complete HCM suite and next-generation user interface and user experience make Workday worthy of consideration for their short list. This may also be the case for financials; however, Workday’s financials functional footprint continues to be built out and enhanced, so prospective buyers should check to ensure all of their RFP requirements are met, either by Workday or through its partners.

**LEARN MORE**

**Related Research**

- **Worldwide Enterprise Applications 2009 Vendor Shares** (IDC #224067, August 2010)