

TOP 3 PREDICTIONS FOR CLOUD APPLICATIONS IN 2022

SaaS will see new vendors, bigger workloads and more customization

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▼ CONSISTENT GROWTH MASKS CONSIDERABLE CHANGE IN SAAS DURING 2022

The expectations for what cloud can offer customers have shifted, and in no market is that more clear than with cloud applications and SaaS. The financial benefits of cloud, both the lower overall cost and the shift to an operating expense pricing model, were the early attractions as customers moved low-risk applications to the cloud. Now that more mission-critical enterprise applications are being moved, cost is still a consideration for major SaaS purchases, but it is no longer the sole driving factor influencing adoption decisions. The constant stream of innovation, more frequent updates, and ability to align cloud to changing business requirements have taken over as the most attractive elements of SaaS solutions.

That high-level value proposition will persist into 2022, making SaaS the largest cloud market in terms of revenue and one that will continue to grow in the double digits year-to-year. It may sound like the same old story, but a shifting set of trends will drive this growth. First, while large providers like SAP, Oracle and Microsoft remain the mainstays of the market, born-in-the-cloud providers have matured greatly over the past few years, best highlighted by Salesforce whose front-office SaaS portfolio aligned well with the adoption patterns of the enterprise, setting the vendor on a course to eclipse SAP as the largest enterprise application provider in terms of revenue by the end of 2021. The success of Salesforce and other cloud pure plays like Workday has been recognized by a growing ecosystem of nontraditional ISVs that are entering the market to capitalize on the opportunity. Systems integrators, small managed services partners, and cloud platform providers will all package solutions that are sold as SaaS to end customers. Second, the larger, mission-critical services in the ERP category of workloads will see increased adoption. That shift carries significant dollar investments not only in the SaaS offerings being purchased but also in the associated services and technologies that support those environments. Third, the need for customization based on the business process, existing technology, and vertical industry increases the value of broad ecosystems that extend the core SaaS offerings. This dynamic is supported by TBR's *1H21 Cloud Applications Customer Research*, which found that the value of ISV ecosystems was not just in filling gaps in vendors' portfolios but also, more critically, in increasing the stickiness of vendors' offerings within clients' environments. This dynamic will result in PaaS capabilities becoming a key differentiator for vendors in the overall public cloud market, which TBR covered at length in the *2022 Platform and Infrastructure Predictions*. So while growth will continue in SaaS, it will mask big changes occurring in the market during the coming year.

▼ PREDICTIONS




THE SAAS OPPORTUNITY SIZE ATTRACTS ALL KINDS OF NEW PARTICIPANTS

-  **Trend:** New vendors, ranging from startups, platform providers and SIs, will all expand their SaaS portfolios.
-  **Driver:** SaaS offerings are necessary for vendors to create end-customer solutions and to monetize and scale their intellectual property investments.
-  **Result:** Vendors from a variety of backgrounds will expand SaaS offerings, contributing to the growth of the SaaS market in 2022.

With a market opportunity expected to reach \$225 billion in 2022 and continue to grow at more than 10% year-to-year, SaaS is difficult to ignore. Small startup ISVs are the logical players to be attracted to the opportunity, and the number of these new companies coming to market has continued to grow, even during the pandemic. The Amazon Web Services (AWS) application ecosystem is a great example of and litmus test for just how robust the activity in the ISV space has been over the past year. At the end of 2020, AWS cited the marketplace had more than 8,000 software listings from over 1,600 ISVs, and a recent search on the AWS Marketplace reveals more than 19,500 solutions available from 2,685 ISVs. AWS is just a single vendor, albeit a big one, in the ecosystem. We expect Google, Salesforce and Microsoft also saw significant increases in ISVs developing solutions on their platforms and increasing the number of complementary offerings available in the market. We expect that trend to continue into 2022, though macroeconomic conditions may dictate the amount of growth those new ISVs can capture during the coming year.

Beyond the logical uptick in ISVs to capture SaaS opportunity, we also expect to see increased participation from companies outside the traditional ISV space, most notably including large IaaS platform providers and global SI partners. Applications have been part of Microsoft's strategy since its inception, but for vendors like AWS and Alibaba applications represent new territory. Alibaba is beginning to see its collaboration app DingTalk as part of its overall cloud strategy, and AWS has seen increased usage of Chime during the pandemic. On the SI side, many of the SaaS solutions are less publicized, but PwC's Connected Solutions offerings illustrate how SIs will increasingly participate in the SaaS space moving forward.

CLOUD DELIVERY FOR MISSION-CRITICAL APPLICATIONS INCHES CLOSER TO MAINSTREAM

-  **Trend:** Workloads supporting finance, operations, manufacturing and logistics will lead cloud growth in 2022.
-  **Driver:** Customers have grown more comfortable with cloud as a delivery method, allowing them to utilize it to transform mission-critical IT workloads.
-  **Result:** Cloud ERP opportunity will expand, along with all the associated services and complementary IT services required to support those workloads.

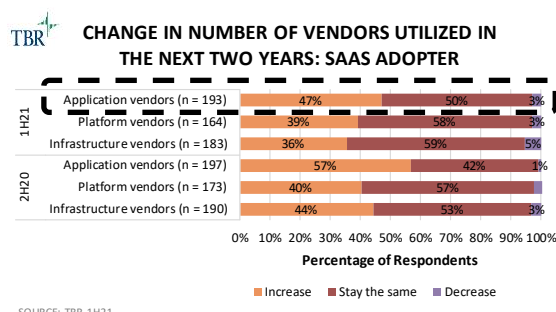
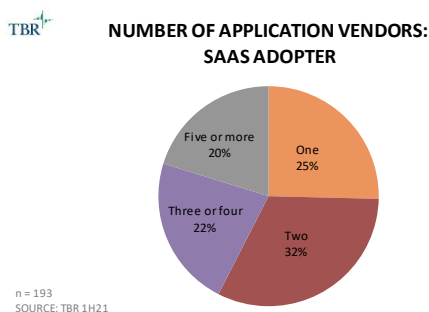
ERP workloads are an important indicator of cloud adoption maturity. The subcategories of applications within ERP include critical systems, such as financials, payroll, planning, manufacturing and supply chain. They were not the first workloads moved to the cloud, but customers are becoming increasingly comfortable utilizing cloud for their delivery. In the most recent *1H21 Cloud Applications Customer Research*, 82% of respondents had deployed ERP workloads via cloud. That level of adoption is on par with workloads considered nonmission-critical, such as collaboration and web hosting. After customers have migrated some ERP workloads to a cloud environment, we expect them to migrate even more in 2022. Since most ERP deployments involve interconnected systems and business processes, that means the vendor opportunity for integration, change management, and ongoing management services will also increase.

As more workloads and their associated data reside in the cloud, the center of data gravity for the organization begins to shift from on-premises to cloud environments. TBR believes many customers are at a tipping point, where a majority of their IT services and data are already in cloud, making it the default deployment method for new services. For those reasons, more cloud growth will be driven by the migration of ERP workloads to cloud environments in 2022 and beyond.

CUSTOMIZATION BECOMES THE STANDARD FOR CLOUD APPLICATIONS

- Trend:** Customization of cloud application environments will occur through integrations, modules and best-of-breed application purchasing,
- Driver:** As customers increase their use of cloud applications, they are encountering nuances and complexity that require customization of their SaaS environments.
- Result:** Suite-based applications and complementary customization solutions will see mutually beneficial growth in 2022

For years, there has been a tension between all-in, best-of-suite cloud applications and more a la carte, best-of-breed options. In 2022 we expect the answer to finally be clear: Both approaches are necessary. As much as vendors like SAP and Oracle try to sell customers on the breadth of their portfolios, most customers will require accommodations for their business processes, existing solutions, geography, and vertical nuance. In TBR's *1H21 Cloud Applications Customer Research*, 75% of respondents currently use more than one SaaS vendor and 42% of respondents use three or more vendors, a trend we expect to accelerate as clients seek to modernize niche, industry-specific workloads and business processes by adopting cloud-based solutions. The maturation of the multicloud management and integration spaces has aided this trend, as a majority of customers are utilizing solutions like Kubernetes cluster management and iPaaS platforms.



Clients' customization needs will not be one size fits all but instead will depend on the type of workload. As a result of this trend, TBR is evolving its research in 2022, launching the *Cloud Applications Vendor Benchmark* to identify key inputs impacting workload deployments within clients' front and back offices, such as sales and marketing or ERP installations.

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