

20 Questions

Industry Thought Leader Interview



20 Questions with Otto van der Tang, CEO Sofon Software

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Summary: 20 Questions is an MGI Research Interview Series with leading technology industry thinkers, doers, investors and observers. SaaS software has been one of the fastest growing sectors in software, led by Salesforce.com. As large scale CRM and sales force enablement projects are rolled out, many companies are discovering that SaaS software, and Salesforce.com in particular, are functionally lightweight, requiring more customization and add-on tools to deliver a differentiated solution for each customer. In addition, Salesforce.com's (NYSE CRM; MGI-X 949) AppExchange continues to build an ecosystem around Salesforce.com. Andrew Dailey of MGI Research recently conducted an in-depth interview with Otto van der Tang, CEO of Sofon BV, a provider of guided selling solutions, and an AppExchange partner. Mr. Van der Tang is an enterprise software applications veteran. Prior to assuming the CEO role at Sofon in 2006, Otto previously worked for Oracle, and Baan (now Infor). Mr Van der Tang is a board member of several emerging growth companies. With over 110 corporate customers, Sofon software is installed in numerous Fortune 500 companies in over 50 countries. Sofon is headquartered in The Netherlands, and has offices in the United States, the UK and Germany. Privately owned, Sofon has been profitable since 1999 and is growing rapidly.

Focus Issues

- Can mid-size tech companies survive in an era of mega-vendors?
- Will cloud and Software as a Service become the dominant approach to enterprise software?
- How should software companies be valued?
- What are the economics of cloud computing?
- What are the best strategies for international expansion?

Otto van der Tang Bio

- Current: CEO Sofon BV
- Past: Director at Oracle, CEO at Getronics Care Services, CEO at Hiscom, Vice President at Baan Company
- Masters in Business Economics, Erasmus University Rotterdam

Andrew Dailey: *Welcome to MGI Research's 20 Questions – interviews with leading technology thinkers, doers, investors and observers. Today's guest is Otto van der Tang, CEO of Sofon, a provider of guided selling software, an SAP Ecohub Solution Partner and a Salesforce.com AppExchange partner.*

Given Sofon's position as both a complementary extension and partner to the likes of Salesforce.com, SAP, Microsoft, and Oracle/Siebel, we are eager to get Otto van der Tang's perspective on the enterprise adoption rates of SaaS, the competitive landscape in CRM, and discuss his experience in growing a profitable software business in today's market. Otto, we are delighted to have you join us for 20 Questions. Welcome.

Otto van der Tang: Hi Andrew, thanks.

Andrew Dailey: *Sofon describes itself as a provider of "guided selling software". What is Sofon, and how does it fit with products like SAP, Salesforce, Oracle, and others?*

Otto van der Tang: Our Guided Selling software is designed to help sellers and buyers of complex, knowledge-intensive products analyze customer needs, configure the right solution for those needs, price the solution and generate all document output such as contracts and quotes needed to support the sales process. So, essentially we accelerate, simplify and improve sales processes. Our Guided Selling software also generates the technical product specifications that the back office systems require to produce and deliver the solution. We bridge the gap that exists today between CRM and ERP for vendors of complex products. Therefore in most cases we do integrate with both CRM and ERP systems.

Andrew Dailey: *It sounds like Sofon is much more of a complement to the likes of SAP, Oracle, and Salesforce, rather than a competitor. Do customers see that right away, or is there a learning process by which companies select SAP or Salesforce, for example, believing they will receive guided selling functionality, and then discover they need Sofon or some other product as an extension to their SAP or Salesforce implementation?*

Otto van der Tang: There is definitely a learning process. Traditionally companies have been implementing solutions like SAP in the belief that they will get a globally consistent, end-to-end solution that covers everything. However, most companies begin to realize that the world is moving too fast to ever be able to reach that goal, and, more importantly, the big systems simply don't cover sales processes particularly well. In addition, companies are looking for software solutions that can be implemented by business users rather than large teams of IT consultants. Companies no longer want to spend 3 to 4 times the software license amount on consulting. Our business model is different. We believe business users should be able to do the job, as they are the ones that own and maintain technical and commercial product information. With players like SAP and Salesforce that open up their technologies for integration with third parties, it becomes even more legitimate for CIO's to accept the fact that complementary solutions often provide a far better return.

Andrew Dailey: *Let's talk about what you are seeing in the market today. There has been a lot of talk regarding the dominance of the MOSS vendors – Microsoft, Oracle, Salesforce, and SAP in the applications software market. With finite resources, Sofon elected to partner with Salesforce.com (via the AppExchange), and to integrate with SAP, among others. Why did you select Salesforce, and how do you see the market shifting between the various mega-vendors?*

Otto van der Tang: In the CRM market, Salesforce has a lot of momentum. It looks like SAP is losing traction in that market, in particular in the US. There are product and technology related reasons for that, but also strategic ones: enterprises welcome the fact that they can hedge their bets. Putting all ERP and CRM eggs in one basket can cause significant dependencies on those providers for corporations. Microsoft is still somewhat of a question mark in the applications space. It takes them a lot of time to build significant market share for their Dynamics products and I would not be surprised to see them make acquisitions in the near future.

Andrew Dailey: *How well is SAP defending its territory in Europe relative to Salesforce and Oracle?*

Otto van der Tang: SAP's installed base is still phenomenal. They have a hard time in the CRM market, but I don't expect any significant changes of their position in the ERP market.

Andrew Dailey: Cloud computing and SaaS have become really hot topics in the industry today. Microsoft, Oracle, and SAP have all announced products or plans to move their applications to the cloud (multi-tenant SaaS). Salesforce of course is already there. Do you see major (Fortune 500) companies moving quickly to SaaS?

Otto van der Tang: Some of them do for some business processes. SaaS offers the big advantage of being able to go live fast with a basic set of functionality. However, I notice that bigger companies consider integrating a SaaS solution with on premise enterprise software as more challenging than integrating multiple on premise enterprise software solutions. CRM can be done in the cloud, however I don't see significant adoption of cloud solutions for ERP.

Andrew Dailey: What about midmarket companies – are they embracing SaaS and cloud computing?

Otto van der Tang: Definitely. Especially for very small companies it is quite attractive to go to a website, register, pay by credit card and go live with a CRM system over the weekend. Also, there are less integration challenges with these smaller companies.

Andrew Dailey: Sofon is an AppExchange partner, but has not re-written the solution to Force.com or any other cloud framework (e.g., Microsoft Azure). Why not?

Otto van der Tang: Because customers are not requiring it. Our software has been cloud enabled since 2003, so there is no need to rewrite the solutions. We work seamlessly with Salesforce.com solutions and we use their technology for the integration. For solutions that require a lot of customization the usage of the Force.com platform will be more relevant. Since all our customers use our 100% standard product there is no need for customizations and hence the issue is less relevant to our customers.

Andrew Dailey: As someone who experienced the move from mainframes to client/server (while at then-market leading ERP vendor Baan), and then the shift to internet applications, how significant is the move to cloud computing? Do you think it's a new era of computing – like mainframes and client/server?

Otto van der Tang: It is a new era, although one sometimes wonders to what extent these trends are customer driven vs. vendor driven. It is going

to be interesting to watch what will happen over the next two to three years. Many companies that adopted SaaS solutions will have been using their SaaS solution for a few years by then, and they may begin to realize that SaaS is not that cheap after all since they will have to continue to pay these fees, in principle endlessly. SaaS is real, but there will also always be a real demand for applications that can both operate in the cloud as well as completely off-line without any connection.

Andrew Dailey: *Are there any differences between European and North American adoption rates of cloud computing and SaaS?*

Otto van der Tang: North America is ahead. In Europe there are still many non-SaaS sales cycles. However, also in North America we notice that customers are beginning to appreciate the ability to also have off-line versions of their sales tools. We've been involved in sales cycles that we won because we do also offer a complete off-line version of our product.

Andrew Dailey: *What exactly is "guided selling software"? How is that different from CRM?*

Otto van der Tang: Guided selling refers to applying knowledge to sales processes in a systematic way. We provide intelligent, rules and constraint driven dialogues to sellers and buyers. Sales staff, as well as customers, are guided through their decision making in a step by step manner. We support the areas sales qualification, needs analysis, sales configuration, pricing, quoting and contract generation. We're unique in the sense that we are a standard software application that can be modeled by business users, whereas many other vendors in our space perform a significant amount of custom software development per project. We believe custom software coding in this area is going to prove to be a dead end street. Custom software simply lacks the adaptability and flexibility that are required in front end processes. Our customers' business users can model their knowledge without help from IT or external consultants.

Andrew Dailey: *Sofon has some major corporate customers – companies like Philips, and your application manages sensitive corporate data – namely product specifications and pricing information. Without commenting on their specifics, how do you see large companies embracing software in the cloud? Are they concerned about data security issues?*

Otto van der Tang: It was interesting to notice during Dreamforce 2010 that there were concerns being voiced regarding the potential impact of Wikileaks on the SaaS market. If the US Government has not been able to keep sensitive information confidential, what does that mean for sensitive commercial data that sits in the cloud? So yes, large companies are con-

cerned about data security and a certain number of them will therefore not move everything into the cloud.

***Andrew Dailey:** As the CEO of a relatively small player, what recommendations would you have for other software companies trying to complement and partner with the mega vendors?*

Otto van der Tang: Add a lot of value in a short amount of time. Smaller complementary vendors need to have a crystal clear added value, need to be able to implement in a few months and need to be able to prove a return within 12 months.

***Andrew Dailey:** The public equity markets today clearly place a premium on growth vs profitability. You and your investment partners have control of Sofon – without any other venture capital firms. How do you see the growth vs profitability issue?*

Otto van der Tang: Well, we're a private company so we are not so much driven by public equity reasoning. We make decisions based on what's right for our customers, not on what's the best exit strategy for shareholders. Customers want to do business with companies that are viable, and the fact that we have been both profitable and growing strongly since the start of the company is good news for our customers. Being profitable means you can move faster without having to spend time with capital providers and banks.

***Andrew Dailey:** How does your focus on profitable growth affect your ability to invest in sales and R&D?*

Otto van der Tang: Exactly because of the fact that we have been profitable for such a long period we do have the cash available that we need to make the investments in sales and R&D that we deem necessary.

***Andrew Dailey:** As we alluded to earlier, Sofon has managed to hedge its bets in terms of partnerships and commitments to technologies and the major vendors, and as a result, you have customers that use a spectrum of enterprise software like SAP and Oracle. Have you considered more aggressively embracing a technology platform like SAP, Salesforce.com, or Microsoft?*

Otto van der Tang: As I mentioned earlier, we use a lot of Microsoft technology. For our integration with SAP we use native SAP technologies such as Netweaver, and for Salesforce.com integration we use their native technology. So we are aggressively embracing these tools where we need to, but we are also realistic in the sense that we have to be able to work seamlessly in a multivendor world.

Andrew Dailey: *Now that we are well into the first quarter of 2011, how do you see IT budgets and software spending shaping up for the year?*

Otto van der Tang: We see two trends. First of all there are many prospects that we started talking to two, three years ago, that were not in a position to take decisions because of the crisis. They have now come back and are ready to make decisions. Secondly, we see a lot more of unsolicited interest from prospects. We see companies focus more on growing the topline, and sales enabling technologies like Sofon help them do that without having to grow their sales staff.

Andrew Dailey: *Where are you planning on getting the most growth in 2011 and 2012?*

Otto van der Tang: In terms of vertical markets we see a lot of potential growth in service industries. Sales processes in many service industries are still on the basis of Excel and Word and we see great potential for improvement there. In terms of geographic markets both the US and Germany will be strong contributors.

Andrew Dailey: *What risks do you see to growth and the broader macro-economic recovery? As CEO, what are you doing to mitigate those risks?*

Otto van der Tang: We live in interesting times. Who would have thought a few months ago that we would see a revolution in the Arab world, with a significant impact on oil prices? And who could have predicted the earthquake in Japan? The world is not getting any more stable, so the key is to be able to react to change very quickly. Our company is extremely lean, we operate without any overhead such as secretaries and our admin is completely outsourced. We can move very quickly, and we have a solid financial base that allows us to do the things that are needed.

Andrew Dailey: *In closing, share a prediction with us - what do you think is going to be the biggest surprise relating to software in 2011?*

Otto van der Tang: I believe that some SaaS vendors will be driven by customers to unbundle the license part of their SaaS solution from the infrastructure part. Because of the ongoing costs, customers will want to be able to pay off the license after a few years while continuing to use the hosting and infrastructure services. That's going to have a potentially disruptive impact on the SaaS market.

Andrew Dailey: *Otto, it's been a great pleasure talking with you.*

Otto van der Tang: Thank you.