

Aragon Research

Topics: Knowledge

Issues: How will enterprises acquire and distribute knowledge?

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SAP Goes Cloud: Buys SuccessFactors for \$3.4 Billion

Summary: On December 3rd, SAP announced that it was purchasing SuccessFactors for \$3.4 Billion in an all cash deal.

Event: SAP announced on Saturday, December 3rd, that it intends to purchase Talent Management provider SuccessFactors.

Analysis: While Oracle and IBM has been the dominant M&A software acquirers in the last few years, SAP, with its cash purchase of SuccessFactors, is demonstrating that the focus of the Tech Titans is shifting to the cloud.

For the last two years, many Tech Titans, such as SAP, have made small acquisitions, but in general have conserved cash. This move to expand its Cloud and Talent Management application portfolio signals that the Management team at SAP is looking for new revenue growth, growth that in HCM and Talent Management is increasingly going to be Cloud based.

At a significant multiple over the SuccessFactors stock price, this signifies that SAP was serious about making a move. SAP indicated that SuccessFactors CEO Lars Dalgaard would be in charge of the new SAP Cloud Business Unit. However, until the deal is final, both companies will operate independently.

This does create some clear product overlap

between SAP HCM modules and SuccessFactors Talent Suite.

A big question is the reconciliation of SAP Streamwork and SuccessFactors Jam, its social platform that includes robust video capabilities.

Finally, the acquisition of SuccessFactors by SAP and SAP's new Cloud focus will put pressure on other providers and is likely to trigger a new wave of Consolidation in HCM and Talent Management with a focus on Cloud based offerings.

Planning Assumption: By midyear 2012, at least two major HCM/Talent providers will be acquired.

The technology providers that become candidates for bigger mergers include:

- Taleo (core competency is Recruiting)
- Saba (Learning and Collaboration)
- Cornerstone OnDemand (Talent Suite)
- Workday (HCM and Talent)

Aragon Advisory: SuccessFactors and SAP HCM customers should ask for specifics on product roadmaps to understand integration points and which products are not going to be enhanced.

Given this move, we expect to see a much higher degree of focus and investment on HCM and Talent Management than we have seen in the recent past from SAP. Clients can leverage this increased focus to negotiate better Cloud

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