

Workday and Adaptive Insights: Summary Notes from Rising 18

Earlier this month, I traveled west to the City of Lights (Las Vegas) to attend Workday Rising 2018. No doubt, we all missed CEO Aneel Bhusri's charismatic presence. But the show went on without a hitch for the 10,000+ who attended. This blog post summarizes some of the broader key themes, but primarily focuses on the key takeaways relative to the acquisition and integration of Adaptive Insights.

Key Growth Themes

It is very clear that Workday is pumping on all cylinders right now – with multiple growth levers driving ever higher performance across all segments of Workday's main marketing mantra of "Plan, Execute and Analyze." On the Execute front, this includes continuing to grow its core HCM and Financial Management solutions domestically, as well as a major push to expand its international presence. With 95% retention rates, its 2,300+ customer base is fueling the expansion of a broad cross-sell strategy, with a major emphasis to further round out the "Planning" and "Analytics" segments (focused on below). Rounding out its announcements, Workday introduced what could be a

significant initiative it is calling the “Skills Cloud”, as well as further investments its data-as-a-service and benchmarking offerings, its emerging set of Cloud Platform services (both native and on AWS) and future products – all of which will be additive like Lego blocks stacked on top of each other.

Throughout the event, company leaders emphasized the emergence of Workday as the “Predictive Machine.” As we have seen with other significant cloud apps players (see [Salesforce 18: And the Beat Goes On](#)), Workday is now several years into its journey to add a machine learning (ML) fabric into the core of its solutions / platform to bring a new level of intelligence and predictive power for its users.

Workday’s Leighanne Levensaler shared in her opening keynote remarks that Workday is “taking a very pragmatic approach to making predictions” – at the same time that developing predictive models in HR and Finance are “more difficult than we initially thought.” This has driven a new hiring profile for the firm that emphasizes next-gen skills, and a better pairing of its growing army of data scientists with subject-matter (business) experts to make sure that they are targeting and solving the right problems. The net of it is that the new ML / predictive layer is clearly becoming table stakes for virtually all major Cloud apps players going forward – which will no doubt only increase customer value and customer stickiness.

Adaptive Insights

With its recent \$1.55B acquisition only months behind it (see [Workday And Adaptive Insights: A Strong Pairing](#)), it wasn't surprising that Workday's plans for Adaptive Insights were front and center at the event.

First, and foremost, it was clear from the get-go that Workday wanted to calm any fears that Adaptive Insight's existing customers may have – as it repeatedly emphasized that the product line would not be re-platformed, and Adaptive Insights would be managed as a totally separate business unit that leverages a common Workday back-office. The Adaptive Insights product and marketing teams stay intact, which will operate under the Adaptive Insights brand.

The BU is getting beefed up immediately, as the entire Workday Planning team heads over there. Best of breed capabilities and next-gen technology initiatives will be shared (both directions). It is clear that Adaptive Insights will remain a very viable, strong and independent offering for its 4,000+ customers which should help minimize deflections from its large customer base (including NetSuite customers).

As noted, Workday has multiple routes to market with Adaptive. Cross-selling Workday's HCM and Financial Management solutions into Adaptive Insights upper-mid and large enterprise customer base should yield some

quick and sustainable wins. In fact, almost half within Workday's upper-mid and large-enterprise target zone (1,900 of 4,000) – and only 326 have Workday. While Workday's direct sales force will focus on these larger accounts, Adaptive Insights highly tuned digital and inside sales driven go-to-market model will continue to target small-to-medium accounts.

No doubt, Workday will begin to aggressively market the Adaptive Insights Financial Planning and Analysis (FP&A) solution to its installed base of 2,300 upper-mid and large enterprise customers. While we anticipate high long-term penetration rates, at issue, however, is how rapidly customers will adopt – as several that we talked to indicated that they will move forward, but only after a wait of at least a year (until Workday fully works out its integration plans).

Adaptive Insights Integration Plans

Workday "Power of 1" Integration Plans: Adaptive Insights		
1	Workday 32 [Spring 2019 (e)]	Workday 33 [Fall 2019 (e)]
One Source for Data	<ul style="list-style-type: none"> Native Data Integration Drill Through to Data 	<ul style="list-style-type: none"> Drill Through to Objects Plan to Execute-Job Requisitions Budgetary Control Workday Prism Analytics Data Sharing
One Security Model	<ul style="list-style-type: none"> Single Sign-On 	<ul style="list-style-type: none"> User Management Synchronization Domain Mapping to Roles and Permissions
One Experience	<ul style="list-style-type: none"> Adaptive Worklet on Workday Landing Page Business Process Framework-Workday Inbox 	<ul style="list-style-type: none"> Unified Look and Feel Predictive Planning

Source: Workday Presentations, Rising 18

In a small group meeting with the Adaptive Insights CMO, Connie DeWitt emphasized that they have already begun work on a unified UI, and within 12-18 months, will have deployed a unified data model and security model that is consistent with the "Power of 1." Just to be clear, the two offerings already had some level of data integration.

As the chart illustrates, in Workday 32 (due out in Spring 2019), the company will provide meta data integration that understands the Power of 1, and provides drill through to the data. In Workday 33 (due out next fall), it will provide drill through to objects, as well as Workday Prism Analytics data sharing and a unified look and feel.

I reached out to Ms. DeWitt after the conference to see if she could provide even greater clarity in

regards to the integration plans. She emphasized that the goal is for “Workday customers [to be able to] seamlessly share data across Workday applications including Adaptive Insights, have a single security model, and a common user experience. We will not be doing this by re-writing or re-platforming Adaptive Insights, but rather by creating the right software services connections between Adaptive Insights and Workday.”

She went on to explain: “Fortunately Workday and Adaptive Insights share similar cloud-first in-memory architectures that make this transformation easier. We currently have data integration with Workday using a professional services-led approach. As we realize our Power of One roadmap, this will become a product-led unification that is seamless for Workday customers and will not disrupt our non-Workday customers in any way.”

It was clear from the various presentations and off-line discussions that technologies will be leveraged between the development teams, and where applicable they will bring together various capabilities such as their two report writers, leveraging the best of both worlds. Look for significant cross-“pollenization” of its machine learning investments, with PRISM Analytics heavily leveraged going forward.

Workday Planning and Financial Management

Adaptive Insights is now the de facto Planning engine for the company. In fact, Workday quickly launched an Adaptive Insights version of Workday Planning (to complement what it already does around Finance) as a firm declaration of its emerging strategy going forward, although it will keep the existing Workday Planning customer whole by continue to support the product for some time to come. We would anticipate a continued aggressive expansion of Adaptive Insights land-and-expand push into other functional markets (e.g., Sales, Marketing), as it positions itself as the primary competitor to Anaplan – in what otherwise is a highly competitive market (including SAP, Oracle, IBM et al).

In regards to Workday's Financial Management suite, we gathered that it now has more than 500 customers, 60 of which are public companies that are live on the solution. Workday is likewise embedding machine learning capabilities directly into the product. They already offer solutions around expense reporting, account reconciliation and anomaly detection (in regards to payments), with plans to roll out many more in the coming months.

Lots of talk about moving toward “continuous accounting” or “continuous close” – with the advent of

the Workday Accounting Center (to launch in 2020), with its ability to bring non-Workday operational data in through as journal entries, and the ability to trace all the way back to source transactions even if not originally on Workday. We just hope that there is some meat behind the slides in these regards.

Other odds and ends:

- They made a big deal about the launch of Workday Assistant, but I didn't see a lot different than what Salesforce is doing with Einstein.
- Launched "Stories" which looked interesting.
- Last year launched Worksheets – this year adding "Live Sheets" which provides a potentially powerful real-time presentation tool.

Wrap

While Workday is still very much focused on its core "Execute" offerings in the HCM and Financial Management segments – it is clear that it has expanded its vision significantly into "Plan" and "Analysis." This provides a much bigger set of add-on opportunities into the base, but also brings with it the many sales challenges associated with a "big-bag".

With "game-on" in the competitive race to add value from emerging ML fabrics across the broad Cloud apps pantheon, we hope that Workday stays focused on providing very specific / narrow predictive solutions

across its primary functional targets, rather than general purpose capabilities.

Longer-term, we would not be surprised by additional strategic acquisitions that help accelerate market growth (especially around Supply Chain) – assuming they can find opportunities with the right cultural and architectural fit. But most we see a period of consolidation over the next 12-24 month (other than tuck-in technology acquisitions), as Workday works hard to make the most of its new go-to-market weapon to expand and grow the company.

Workday And Adaptive Insights: A Strong Pairing

Earlier today I opened my laptop for the first time in 10 days (after a glorious family vacation to Yellowstone) – to Workday’s announcement that it is acquiring Adaptive Insights for \$1.55 billion (in cash), inclusive of \$150 million in unvested equity issued to Adaptive Insights employees. At 13x (+) trailing 12-months revenue of \$114 million (33 percent y/y growth, 3,800 customers), investors Bessemer,

Norwest, Salesforce, JMI and others will no doubt be pleased with their return on the \$176 million invested across several venture rounds.



While the price tag might appear to be high – more than double what Adaptive Insights impending IPO was valued at – what is less surprising is that these two companies came together in the first place. The Workday leadership team has long known that powerful cloud-based financial planning, budgeting, forecasting, consolidation and modeling software is the most important beachhead to successfully penetrate the Office of the CFO. And Adaptive Insights is a clear leader in this category.

In fact, rumors have long circulated that Workday danced with several companies – including Anaplan, Tidemark and Adaptive – prior to announcing its own Workday Planning offering in 2015. Today that product

has more than 250 customers. However, all but a handful are squarely focused around Workforce Planning, as Workday has not yet delivered competitive feature / functionality in the financial planning and modeling arena.

Don't Derail the Train

Given this, the acquisition should be a win-win for customers. As Workday CEO Aneel Bhusri explained in the investor call earlier this morning, Adaptive Insights will be largely left alone to run as a stand-alone business. The good news is that Adaptive Insights has been integrated with Workday since 2015 – although Workday will move quickly to “*harmonize*” the Adaptive Insights offering, leveraging Workday’s UI, security and meta-data models. How this ultimately plays out within the context of Workday’s core mantra of “the power of one” is still unknown – but it would not be surprising to see a highly coupled model emerge, given the architectures currently in place. Workday Planning will become the de facto offering for Workforce Planning, whereas Adaptive Insights will become the core offering for both Finance and Sales planning (and any other functional domain it may pursue).

While Adaptive Insights began as a channel-driven mid-market focused player, it has been investing significantly over the past several years to both better scale and support large-enterprise customers

(see [Adaptive Insights: Poised for Continued Growth](#), 13Feb2018). In fact, 23 percent of the business now comes from Enterprise customers – which is up substantially over the past three years. With an overlap of only 30-40 customers, the enterprise-focused Workday salesforce should be able to quickly monetize the acquisition by upselling the Adaptive Insights solution into the 450+ Financial Management customers it already has (60 percent of whom are now live) – let alone leveraging it as a lead value proposition to drive new customer acquisition with large enterprise Finance prospects, and cross-sell to Workday’s existing 2,000+ HCM clients.

Given Adaptive Insights heritage, the acquisition should also help Workday evolve its nascent plans to go down market with targeted / packaged HCM offerings that appeal to mid-market customers. What is less clear is how Adaptive Insights highly tuned channel strategy will play out in the new scenario, and how many of its mid-market customers will flee over time that are hooked to other cloud-based systems of record (e.g., NetSuite).

Change in M&A Strategy

While the acquisition is the largest Workday has undertaken to date, the announcement clearly reflects a fundamental change in Workday’s M&A strategy. What the announcement suggests is that unlike many of its previous acquisitions that have focused on enabling

technologies / capabilities or to acquire talent / teams (e.g., Rallyteam, SkipFlag, Platfora, Gridcraft, CapeClear) – *Workday is now beginning to look seriously at a broad range of adjacencies* that can help it maintain its rapid growth clip.

While it would be surprising to see Workday pursue Manufacturing in the near-to-midterm, my bet is that Supply Chain and a deeper / broader view of Procurement could be on the table over the next 12-to-24 months – both sectors that play well in the cloud, and that are ripe for further consolidation. As Bhusri emphasized, however, acquisitions of this type need to be highly strategic for the company, and bring with them complimentary company values and culture.

While advanced analytics and data are clearly at the center of its evolving vision, it was very clear from the recent Analyst Summit I attended that Workday will continue to put the pedal to the metal around its core HCM and Finance offerings. At this point, HCM is highly profitable with an industry-leading position among enterprise customers. The acquisition of Adaptive Insights only strengthens and accelerates its market momentum in Finance – with a well-oiled solution that should provide significant cross-sell opportunity.

Net / Net: this acquisition will clearly help Workday accelerate its roadmap by 2+ years, and deliver significant value to customers. All-in-all, this

should be exciting to see play out over the next 24 months. What will determine its ultimate success will be how well the go-to-market synergies are exploited / monetized, not only among large enterprise customers but in the mid-market as well.

Adaptive Insights: Poised for Continued Growth

In mid-January 2018, I had the opportunity to catch up with Adaptive Insights' VP of Product Marketing, who provided an informed update on the firm. Having followed Adaptive Insights for more than 10 years, I was gratified to learn that it had reached two important milestones by year-end 2017 – surpassing both the \$100 million USD revenue threshold and \$100 million USD in annual recurring subscriptions under contract. Both of these are visible markers that often signal an IPO on the horizon – which I would not be surprised to see by mid-to-late 2018, should the current window remain open. With more than 3,700 customers, 30 percent top-line growth,



a rebuilt and strengthened senior management team (built to further scale the business), and an expanded set of beachhead solutions beyond the Office of the CFO (and the Financial Planning / Performance Management / Budgeting / Forecasting / Reporting market), Adaptive Insights is poised to enter its next phase of growth.

While hinted at in our call last month, Adaptive Insights yesterday announced the launch of its [Business Planning Cloud](#), the latest repositioning of its core planning platform – as well as the first of what will likely be several new functional solutions, [Adaptive Insights for Sales](#). It was clear from the recent briefing (and a short follow-up call again yesterday morning) that Adaptive Insights has continued to invest in the platform – putting differentiated product “meat” behind its marketing mantra of “Easy, Powerful and Fast.”

While well known for its ease-of-use, highly collaborative approach to planning and strong data discovery / visualization capabilities (via dashboards) – especially for its primary mid-market target audience – Adaptive Insights has scaled-up its core planning platform to support larger enterprise requirements. In fact, I was not surprised to learn that 24 percent of its business is already with enterprise customers, although that figure is likely to grow substantially over the next few years as their sweet spot expands to firms with as many as 10,000

employees.

Built from the ground up as a multi-tenant and in-memory offering, its core multidimensional modeling, reporting and analytics platform can now scale to support the needs of large and complex models (and enterprises). This applies to the number of transactions records / users / accounts / what-if versions / scenarios or dimensions in their multi-dimensional cubes.

The Adaptive Insights for Sales solution appear to be the first of several new functionally-targeted solutions on the drawing board at it formalizes its vision of serving other functional domains beyond the Office of the CFO. Specifically targeting the sales operations function, the offering focuses on capacity and compensation planning, as well as quota and territory modeling and management. It is easy to see the significant opportunity in front of them – although they will no doubt face stiff competition, from specialists such as Ops Panda, as well as broader competitors such as Anaplan.

While having six live customers is a great start, *this is a new and different buying center for the firm*, and will no doubt take considerable time to create and capture significant demand. Helping to propel growth – of both large enterprise accounts and its expanded bag of functionally-targeted solutions – is a direct sales force launched mid-year 2017 (which now has 8 reps).

While Adaptive Insights estimates that 50 percent of its recent deal activity has been touched by its 200+ partners, its growing direct sales force will no doubt lead the charge as it moves up market and creates larger and larger (multi-function) planning relationships.

Other planning-intensive areas that Adaptive Insights has already had some success include Workforce Planning, Project Planning and Operations Planning. Which one leads the way to become the next (functional) solution beachhead is not yet clear. However, what is clear is that Adaptive Insights will increasingly pursue a land-and-expand go-to-market model.

Key Takeaways

At this point, Adaptive Insights biggest challenges appear to be execution related, as the market opportunity for cloud-based planning tools is robust and growing. At the same time, the space is ripe with both traditional competitors (e.g., Oracle, Anaplan, Host Analytics, IBM, SAP), as well as a bevy of emerging players mostly targeting specific niche markets. It will be interesting to follow how it plays out over time among Adaptive Insights' large installed base of NetSuite customers, after its acquisition by Oracle a little more than a year ago.

We like Adaptive Insights move beyond Finance, and

beyond the mid-market, as it sets itself up to grow into a sizable platform-based business planning player. Many of the core user benefits that today brings it to the table in Finance will likewise play elsewhere – but it will take time and *substantial sales and marketing investment / muscle to establish the brand beyond its well-known core Financial Planning beachhead*. Continuing to put the pedal-to-the-medal on its international expansion and vertical offerings will also be critical for success.

If you are not already [subscribed to my blog](#), I encourage you to do so. After taking a couple of months off over the winter, I'm gearing up to more regularly publish again. This will include highlights from some new buyer demand research I have been conducting related to the digital journey, and the AI-driven future that is in front of us. Lots of interesting new insight on the horizon.

Bill McNee

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