Workday Rising 2019: Machine Learning Front and Center

Last week, I drove to the Orange County Convention Center in Orlando, Florida and attended Workday Rising – joining more than 13,000 attendees, and a global live streaming of the event. The conference theme – "For a Changing World" – helped Workday highlight it's continuing commitment to innovation, especially in regard to applying machine learning to core business systems.

Aneel Bhusri, Workday Co-founder and CEO, set the tone early in his keynote, sharing "*the technology of today that I believe is as disruptive as the cloud is machine learning . . . Machine learning helps you harness the power of data. It's very clear that this is the way the world is headed*."

Top-line Growth and Margin Expansion

It astounds me how rapidly Workday has grown to become a powerhouse in the cloud. Fifteen years after its founding, the company now has over 2,800 HCM customers, 725 Financial Management, 650 Procurement, 275 PRISM Analytics and 4,500 Planning (with the acquisition of Adaptive Insights a little over a year ago).

Top-line revenues are projected to hit $3.59 billion in FY2020 (+27% YoY). To the Wall Street analysts who attended a private briefing on Tuesday at the event, the company reiterated its guidance of reaching long-term operating margins of 25 percent, a rate that it is already achieving in its HCM segment.

While the company continues to be successful with upper-mid and large enterprises, its customer success with very large enterprises is especially impressive – 40 percent of the F500, and 50 percent of the F50 – with 70 percent “live.” This is a great sign that customers are spinning up and gaining value quickly.

I’m not quite sure why the company’s stock has gotten so beaten up by Wall Street recently. My read of things is that some of the analysts were surprised that the growth of Workday’s HCM line of business is slowing to 20 percent per year. Yet for most of us, this was old news – as the law of large numbers has kicked in. In fact, going forward, it is clear that the company has many growth levers that it can pull to maintain 25-30 percent annual top-line growth for the foreseeable future. This includes international expansion, new growth opportunities in finance, planning, analytics, procurement and learning, and the bevy of new products being introduced including Skills Cloud, People Analytics, Discovery Boards, Workday Credentials, Journal Insights, Accounting Center and its evolving Workday Cloud Platform. While I don’t have room in this blog to focus on all of these, some are highlighted below.

Machine Learning – Now Core

Only a couple of years ago, Workday envisioned its emerging machine learning capabilities as a series of monetizable off-the-shelf functional solutions. However, Workday quickly realized that machine learning would need to become a fundamental underpinning for all of its offerings – and embedded in virtually everything it does.

Across the board, Workday has worked hard to leverage machine learning and broad-based data analytics across the product portfolio. A sampling of key announcements at Rising included:

- Workday People Analytics – built on PRISM Analytics, it delivers natural language-based insights, trends, patterns and organizational anomalies. Will bring a similar capability to

Financial Management and Planning over time.

- Skills Insights – leveraging Workday's new Skills Cloud, provides an automated way to assess individual and company-wide skills information, strengths and gaps.
- Discovery Board – leveraging the data-discovery technology in PRISM Analytics, timesaving drag-and-drop discovery capability to create reports and analysis.
- Journal Insights – uses machine learning to surface journal entry exceptions and anomalies as they occur, which not only helps improve accuracy, but saves time including helping to shorten the close cycle.
- Workday Accounting Center – provides ability to take high-volume data from operational systems and run them through Workday's accounting rules-engine, transforming business events into journal entries. I would look for this offering to evolve over time, as it moves toward becoming a fully transparent audit trail. If this is the case, it could become a unique and differentiated value prop in the market.

Workday is moving fast to fundamentally alter its value proposition for customers and prospects alike. The pace of change is rapid. Some customers will have a hard time keeping up. Among the more than a dozen company execs that I had a chance to sit and chat with at the event, few were taking advantage of Workday's powerful new machine learning capabilities and vision yet. Helping customers understand the value through evolved messaging concerning how they can easily and effectively leverage these new tools and capabilities will be important for the company to maintain its momentum.

Adaptive Insights

I had a chance to sit with some of the leadership from the Adaptive Insights team pre-conference and was encouraged to hear about their continued progress. The unit has added more than 700 customers since the acquisition (now totaling 4,500), with 1,000 or more customers in the sweet spot to potentially become broader Workday customers over time.

The unit has made a lot of progress integrating with Workday, across many dimensions, while still maintaining a “separate from” go-to-market positioning and messaging. Users now have unified identify management across both platforms, and seamless data and metadata integration. In the upcoming release, customers will be able to write data back to Workday (across both Financial Management and HCM), with future releases providing even more seamless integration, and a UI refresh that will bring the look and feel of the two platforms closer together.

Adaptive is quickly expanding its functional footprint, with evolved messaging around the “Intelligent Enterprise” and a vision that it can become the enterprise-wide planning cockpit. This repositioning started well before the acquisition, but it clearly has picked up steam over the past year – as the business unit broadens its strategy to encompass not only financial planning, but other key functional domains such as human resources, sales and operational planning.

As with the rest of the Workday product portfolio, machine learning is front and center, with Adaptive delivering anomaly detection capabilities in the short-run, and a vision to leverage machine learning in scenario planning in the mid- to long-term.

While Adaptive needs to make sure that it continues to deliver value to its large installed FP&A customer base, this broader repositioning is critically important if it is going to succeed against planning competitors such as Anaplan, which is increasingly nipping at its heals.

From several one-on-one customer interactions, I got the sense that receptivity to its Workforce Planning offering has been strong, with several current HCM customers and prospects considering it. On the other hand, most of the customers I spoke to were not yet aware how they would use Adaptive's emerging machine learning capabilities.

Financial Management Update

Workday is making a lot of progress with its Financial Management suite. In fact, the offering is becoming a key growth engine for the company. I was pleasantly surprised to hear that 450 of its 725 Financial Management customers are now live. Workday has worked hard to evolve its vision, messaging and value proposition, in regard to supporting customers growing demand for insight and action – an inversion of the traditional pyramid of effort and responsibility that was previously heavily weighted toward transaction processing.

I was also glad to see a continued focus on going global, and progress in regard to fleshing out and streamlining core financial management workflows, especially around procure-to-pay, supplier invoice automation, stock-to-replenish, contract-to-cash, and the like.

As noted above, Workday signaled that machine learning will be front and central in Financial Management, as it pursues the triad of intelligent automation, augmented analytics, and continuous insight, guidance and recommendations. Its vision for applying machine learning to help shorten the close process looks very promising indeed.

While Workday is having success growing its Financial Management customer base, I did run into two very, very large prospects (one an existing HCM customer, one not yet a Workday customer) who were still cautious about Workday's ability to support them. The issues for both had to do with their large size and global reach, so it appears that Workday still has some work to do to succeed with the F100.

Procurement Now on the Map

I was glad to learn that Workday is now breaking out Procurement as a separate product line from Financial Management – and positioning it as a growth business. The company has already fleshed out a significant amount of functionality in this area over time, especially around inventory management. However, more importantly, breaking it out should help the line of business get more internal funding to grow and expand, as I view this as a significant upside opportunity and growth engine for the company over the next five years.

No doubt, in the short-run, Workday will likely leverage key partners to help it round out a broader spend management / strategic sourcing positioning. As CEO Bhusri noted, the firm will "need to get into other areas such as contracts" – as customers are pushing Workday in this direction. Bhusri also shared that "procurement is a natural place to build a marketplace – but that is a bit early for us now."

So the game is on, with yet another key battleground to emerge. While Workday will continue to build and partner, I would not be surprised by an acquisition or two, especially if it wants to accelerate growth in the mid-term.

Sage Intacct: The Momentum Continues

The last week of September, I attended Sage Intacct's annual Analyst / Influencer event in Healdsburg, CA. While the red wines of Sonoma County were no doubt inspiring prior to and after the full-day briefing, I walked away from the event convinced that Sage's acquisition of Intacct two years ago continues to be on track and delivering solid value for customers and parent company Sage alike.

Business Update

Prior to our arrival, the analysts attending were notified of several key leadership changes at the unit and company. Among the many shifts are:

- Rob Reid, formerly Intacct CEO, is now Sage Chairman of Sage Midmarket Solutions (that includes both Sage Intacct and Sage People).
- Marc Linden, formerly CFO for the Sage Intacct unit was promoted to EVP, Sage Intacct, now overseeing not only Business Ops and Finance, but also leading the Marketing, Product and Engineering group.
- Aaron Harris, formerly CTO of the Sage Intacct unit is now CTO of Sage reporting to Sage CEO Steve Hare.

With two former senior Intacct leaders now on Sage's Executive Committee, this is a clear signal that the acquisition of Intacct is having a major (positive) impact on the company. As highlighted in my blog from a year ago (see **Sage Intacct: Acquisition On Track** – 31Oct2018), virtually the entire leadership team (and most of the employees) remain on board post acquisition – another great sign of successful integration.

While not explicitly sharing detailed financials, it was our sense that the strong momentum that the unit experienced last year post acquisition has been continued through 2019. Based on our guestimates of Sage Intacct's size last year, and its continued success, McNee Associates would not be surprised it the business unit reaches or exceeds $200 million in revenue within the next six-to-twelve months, with margins continuing to expand.

The unit continues to be largely run as an independent business unit, although there is significant cross-sharing of enabling technology innovation across the company, both into and from Sage Intacct.

Sage Intacct’s partners continue to be a huge part of its success. I really liked their focus on quality relationships over quantity of partners. In total, Sage Intacct now has 120+ VAR partners, 30 of which are on the top 100 list. While its’ relationship with the AICPA continues deliver big results, it now has 297 partners in its Sage Intacct Accounting Program (SIAP), and 165 direct sales reps. Six of its top 12 partners are CPA firms. Adding up all of these direct and indirect channel resources helps put more than 2,000 people on the street for Sage Intacct. Impressive indeed.

Evolving Product Focus

Sage Intacct is clearly moving beyond its roots as a best-of-breed cloud accounting / ERP solution for small and mid-size firms. Responding to changing market demand, Sage Intacct is now beginning to provide a broader suite of (increasingly integrated) tools, delivered both by Sage and by key partners. This includes Sage People, the company’s Cloud HR and people management system (deployed on Salesforce), and its fast-growing SMB-targeted FP&A budgeting and planning tool launched last year.

Aaron Harris shared some insights around current and future investments in regard to Sage's significant firm-wide commitments around AI and analytics. This has included several smaller tuck-in acquisitions which has helped bring in key talent to the organization. In regard to Sage Intacct, its AI focus seems to be around anomaly detection and predictive billing in the short run; however, there appears to be a number of initiatives in the pipeline as it moves toward an evolved positioning around the "Intelligent Organization."

International Expansion and Micro-Verticals Drive GTM

While this started some time ago, the business unit is focusing its going-to-market around targeted micro-verticals and expanding its international footprint. Whereas stand-alone Intacct was an almost exclusive a US-focused business, Sage Intacct is now investing heavily to grow its business internationally, initially targeting the UK and Australia. They have developed specific offerings that are fully compliant at the country level (in regard to tax, banking, payments, statutory reporting et al), and are providing local data residency.

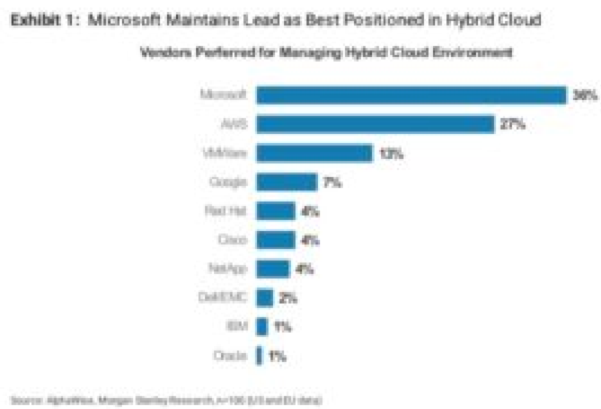
It was fascinating to hear about the extensive research that they do to help identify micro-verticals to target. Greater than 75 percent of new business is now coming from micro-verticals, versus more horizontally focused marketing initiatives.

In conclusion, I walked away with a continuing sense that this has been one of the more successful application acquisitions (along with Adaptive Insights by Workday) over the past couple of years. No doubt, challenges exist, especially from a range of competitors fighting fiercely for cloud ERP market share. We hope Sage puts some marketing muscle behind its new FP&A offering in particular, as this looks like an especially ripe opportunity.

Microsoft and AWS Outpacing the Competition

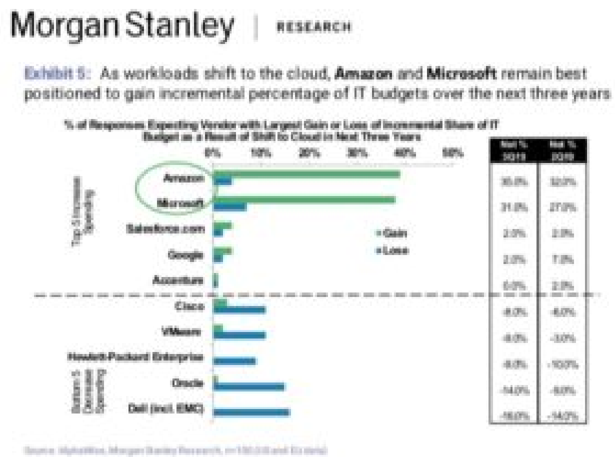
With industrial-strength cloud platforms and hybrid cloud architectures fast becoming a reality, enterprises are now beginning to put plans in place to shut down their data centers, and migrate the vast majority of their legacy application workloads to the cloud. While the market for infrastructure-as-a-service offerings has long been crowded with a bevy of options to choose from, it is becoming clear that Amazon Web Services (AWS) and Microsoft Azure are becoming the dominant choice for the vast majority of CIOs and enterprise leaders.

Research just published by Morgan Stanley shows just how strong this momentum is. Data from their most recent quarterly CIO survey indicates that Microsoft and AWS remain at the top of the heap as it concerns vendor preference for managing hybrid cloud environments (see Exhibit 1).



In yet another chart, the research shows just how dominant these two providers are becoming in regards to IT spend going forward. Exhibit 5 focuses on which vendors will gain or loose IT Budget share as a result of the shift to the cloud over the next three years.

As you can see, both AWS and Microsoft Azure are blowing the field away as providers who will gain share over this time period, while providers such as Cisco, VMware, HPE, Oracle and Dell will no doubt experience significant share loss. This is especially relevant given the fact that many enterprise leaders are now hoping to get out of the data center business, and quickly migrate production / mission critical workloads to the cloud.



Other key insights from the research include:

- CIOs anticipate IT Budget growth to decline from 4.4% in 2019 to 3.4% in 2020, as the economy softens up a bit.
- With the shift to the cloud, Software will continue to grow the fastest among the major categories of IT spend (over Services, Comms and Hardware), although similar to overall IT Budget growth, Software growth will slow to 3.7% in 2020 from 4.7% in 2019.
- The leading spending priorities / investment themes continue to be cloud computing, AI / ML, analytics and digital transformation – all of which are heavily Software-focused.

This research very much supports recent field checks that I have been conducting at various industry events this year. One of my favorite things to do at vendor conferences I am invited to is to sit down wherever lunch is being served, and innocently chat-up senior IT and business leaders sitting nearby. Most are eager to share their experience with the vendor in question, as well as their key priorities and investment plans going forward at a high level.

Many of my most recent discussions have focused on the rapid migration of traditional production workloads to the cloud, in addition to the deployment of new apps and workloads built around next-gen analytics, and AI / ML capabilities. Next week, I head to Workday Rising in Orlando and hope to do just that.