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Oracle On Demand

The End of  
Software

Transforming Your Business  
for the On Demand Future

*"The End of Software creates a common ground  
where CIOs and their counterparts can meet to think  
through the application of this new paradigm."*  
Geoffrey Moore, author of Crossing the Chasm

Timothy Chou 雲彩

Cloud

Seven Clear Business Models

*"The landscape of the software business is changing  
again. If you design, service, sell or buy  
software, you need to read this book."*  
Geoffrey Moore,  
author of Driving with Dragons and Crossing the Chasm

# Cloud: Seven Clear Business Models

Timothy Chou

October 23, 2009  
Opsource Webinar

# Model One

	1 Traditional
SW	\$4000/user (one time)
Support	\$800/user/ year

# Oracle's Financials

	2000	2001	2002	2003	2004	Change	Change
New Software	4,315	4,584	3,441	3,270	3,541	(774)	-18%
<b>Product Support</b>	<b>2,978</b>	<b>3,571</b>	<b>3,836</b>	<b>3,929</b>	<b>4,529</b>	<b>1,551</b>	<b>52%</b>
Product Revenue	7,293	8,155	7,277	7,199	8,070	777	11%
Consulting	2,293	2,257	1,982	1,761	1,589	(704)	-31%
<b>Advanced Product Services</b>	<b>132</b>	<b>137</b>	<b>96</b>	<b>257</b>	<b>258</b>	<b>126</b>	<b>95%</b>
Education	411	411	317	258	239	(172)	-42%
Other Services	2,836	2,805	2,395	2,276	2,086	(750)	-26%
<b>Total Revenue</b>	<b>10,129</b>	<b>10,960</b>	<b>9,672</b>	<b>9,475</b>	<b>10,156</b>	<b>27</b>	<b>0%</b>
Operating Income	3,080	3,777	3,570	3,439	3,864	784	25%
Operating Margin	30%	34%	37%	36%	38%	8%	25%

And it's a helluva subscription business...

*Oracle's Financials: Most Recent Q*

- New Software revenues of \$1.028B **declined 17%** Year over Year
- Product Support revenue of \$3.117B **increased 6%** Year over Year
- Product Support was 62% of overall revenue
- Annualized Product Support Revenue is now \$12B+, larger than the whole company 5 years ago
- And it's all in the bag for next year....

# Model Two

	1 Traditional	2 Open Source
SW	\$4000/user (one time)	\$0/user
Support	\$800/user/ year	\$1600/user/ year

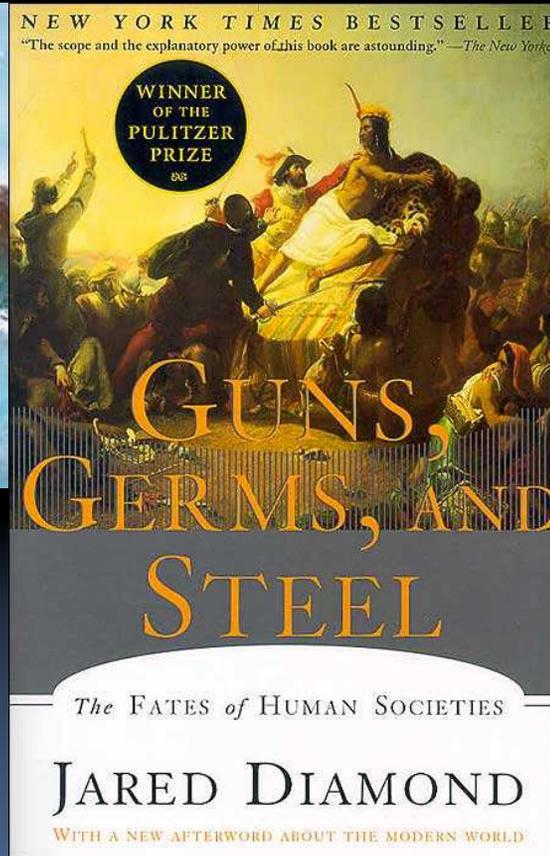
# Model Three

	1 Traditional	2 Open Source	3 Outsourcing
SW	\$4000/user (one time)	\$0/user	\$4000/user (one time)
Support	\$800/user/ year	\$1600/user/ year	\$800/user/ year
Management			Bid <1300/user /month
			@H   @C

# Model Four

	1 Traditional	2 Open Source	3 Outsourcing	4 Hybrid
SW	\$4000/user (one time)	\$0/user	\$4000/user (one time)	\$4000/user (one time)
Support	\$800/user/ year	\$1600/user/ year	\$800/user/ year	\$800/user/ year
Management			Bid <1300/user /month	\$150/user/ month
			@H   @C	@H   @C

# Standardization, Repetition, Automation



# Concur (CNQR)

<b>Concur [CNQR]</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Subscription	\$927	\$4,624	\$10,360	\$33,590	\$40,244	\$53,011	\$80,501
License	\$14,852	\$12,489	\$9,847	\$8,690	\$4,746	\$2,617	\$0
Professional Service	\$22,82	\$23,771	\$24,890	\$14,457	\$11,560	\$16,203	\$16,644
<b>Total Revenue</b>	<b>\$38,604</b>	<b>\$40,884</b>	<b>\$45,097</b>	<b>\$56,737</b>	<b>\$56,550</b>	<b>\$71,831</b>	<b>\$97,145</b>
Cost of License	\$1,342	\$584	\$487				
Cost of Subscription	\$2,806	\$8,615	\$9,957				
Cost of Service	\$23,684	\$15,762	\$11,543				
<b>Total Cost of Revenues</b>	<b>\$27,832</b>	<b>\$24,961</b>	<b>\$21,987</b>	<b>\$23,214</b>	<b>\$23,264</b>	<b>\$28,450</b>	<b>\$37,846</b>
Marketing & Sales	\$38,581	\$24,941	\$16,669	\$14,549	\$14,329	\$17,484	\$22,907
R&D	\$31,212	\$16,449	\$10,606	\$10,356	\$8,773	\$9,336	\$12,445
G&A	\$14,795	10,729	\$6,800	\$46,710	\$7,295	\$10,319	\$14,458
Acq & Restruct	\$2,167	\$266	\$1,490	\$1,140	\$1,140	\$1,140	\$2,420
<b>Total Operating Expenses</b>	<b>\$114,587</b>	<b>\$77,346</b>	<b>\$57,552</b>	<b>\$55,969</b>	<b>\$54,801</b>	<b>\$66,729</b>	<b>\$90,076</b>
<b>Income</b>	<b>&lt;\$75,983&gt;</b>	<b>&lt;\$36,462&gt;</b>	<b>&lt;\$12,455&gt;</b>	<b>\$768</b>	<b>\$1,749</b>	<b>\$5,102</b>	<b>\$7,069</b>

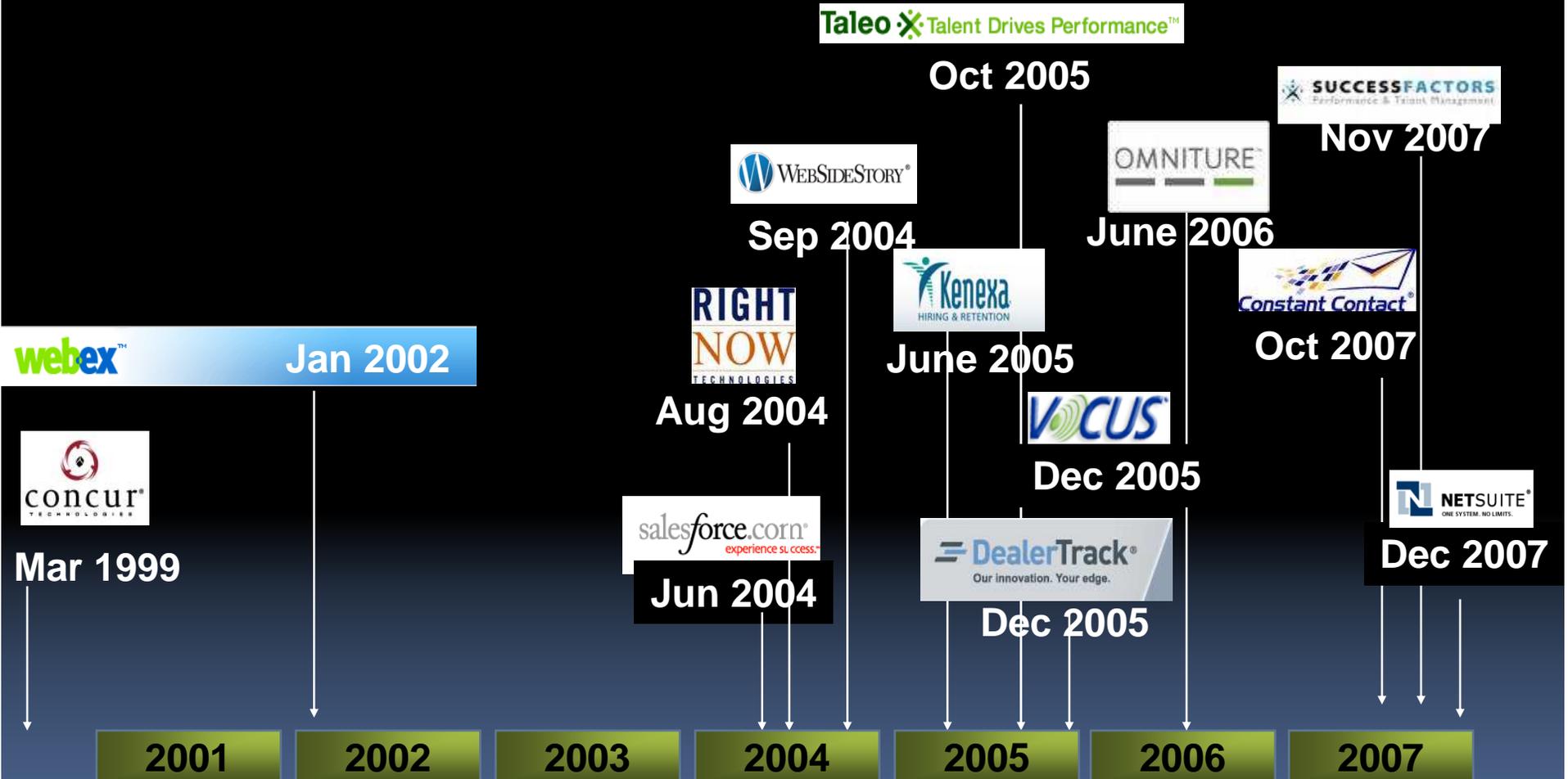
# Model Five

	1 Traditional	2 Open Source	3 Outsourcing	4 Hybrid	5 Hybrid+
<b>SW</b>	\$4000/user (one time)	\$0/user	\$4000/user (one time)	\$4000/user (one time)	\$300/user/ month
<b>Support</b>	\$800/user/ year	\$1600/user/ year	\$800/user/ year	\$800/user/ year	
<b>Management</b>			Bid <1300/user /month	\$150/user/ month	
			@H   @C	@H   @C	@H   @C

# Model Six

	1 Traditional	2 Open Source	3 Outsourcing	4 Hybrid	5 Hybrid+	6 SaaS
<b>SW</b>	\$4000/user (one time)	\$0/user	\$4000/user (one time)	\$4000/user (one time)	\$300/user/ month	<\$100/user/ month
<b>Support</b>	\$800/user/ year	\$1600/user/ year	\$800/user/ year	\$800/user/ year		
<b>Management</b>			Bid <1300/user /month	\$150/user/ month		
			@H @C	@H @C	@H @C	

# Model Six: Elite Eleven



# Webex Case Study

<b>WEBX</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Funding			\$7M	\$25M	\$75M		<i>IPO</i>		
Net Revenue	\$481	\$1,289	\$1,987	\$2,607	\$25,389	\$81,186	\$139,861	\$189,341	\$249,133
Cost of Revenue	\$38	\$192	\$484	\$688	\$10,081	\$21,527	\$25,064	\$31,798	\$41,854
<b>Gross Profit</b>	<b>\$443</b>	<b>\$1,097</b>	<b>\$1,503</b>	<b>\$1,919</b>	<b>\$15,308</b>	<b>\$59,659</b>	<b>\$114,797</b>	<b>\$157,543</b>	<b>\$207,279</b>
Sales & Marketing	\$103	\$421	\$2,244	\$9,319	\$50,807	\$47,207	\$58,026	\$74,249	\$84,192
R&D	\$713	\$525	\$1,406	\$3,361	\$12,168	\$16,284	\$22,788	\$24,769	\$34,342
G&A	\$48	\$125	\$198	\$1,732	\$6,553	\$10,301	\$14,447	\$13,575	\$18,713
Equity Based Compensation			\$92	\$2,005	\$28,039	\$13,668	\$2,966	\$1,849	\$571
<b>Total Operating Expenses</b>	<b>\$864</b>	<b>\$1,071</b>	<b>\$3,940</b>	<b>\$16,417</b>	<b>\$97,567</b>	<b>\$87,460</b>	<b>\$98,227</b>	<b>\$114,442</b>	<b>\$137,818</b>
<b>Operating Income</b>	<b>&lt;\$421&gt;</b>	<b>\$26</b>	<b>&lt;\$2,437&gt;</b>	<b>&lt;\$14,498&gt;</b>	<b>&lt;\$82,259&gt;</b>	<b>&lt;\$27,801&gt;</b>	<b>\$16,570</b>	<b>\$43,101</b>	<b>\$69,461</b>

# Salesforce.com Case Study

Salesforce.com [CRM]	1999	2000	2001	2002	2003	2004	2005	2006
Funding	\$13M	\$47M				<i>IPO</i>		
Subscription			\$5,022	\$21,513	\$47,656	\$85,796	\$157,977	\$280,639
Professional Service			\$413	\$896	\$3,335	\$10,227	\$18,398	\$29,218
<b>Total Revenue</b>			\$5,435	\$22,409	\$50,991	\$96,023	\$176,375	\$309,857
Cost of Subscription			\$1,730	\$3,718	\$7,199	\$7,782	\$12,727	\$34,457
Cost of Professional Service			\$1,692	\$2,329	\$3,164	\$9,491	\$20,727	\$34,669
Cost of Revenue			\$3,422	\$6,047	\$10,363	\$17,273	\$33,454	\$69,126
<b>Gross Profit</b>			\$2,013	\$16,362	\$40,628	\$78,750	\$142,921	\$240,731
Marketing & Sales			\$25,392	\$24,605	\$33,522	\$54,600	\$96,311	\$149,598
R&D			\$3,366	\$5,308	\$4,648	\$6,962	\$9,822	\$23,330
G&A			\$6,855	\$8,317	\$12,958	\$16,915	\$30,268	\$47,986
Lease Abandonment				\$7,657		<\$3,455>		<\$285>
<b>Total Operating Expense</b>			\$35,613	\$45,887	\$51,128	\$75,022	\$136,401	\$220,629
<b>Income</b>			<\$33,600>	<\$29,525>	<\$10,500>	\$3,728	\$6,520	\$20,102

# Model Seven

	1 Traditional	2 Open Source	3 Outsourcing	4 Hybrid	5 Hybrid+	6 SaaS	7 Internet
<b>SW</b>	\$4000/user (one time)	\$0/user	\$4000/user (one time)	\$4000/user (one time)			Ads
<b>Support</b>	\$800/user/ year	\$1600/user/ year	\$800/user/ year	\$800/user/ year	\$300/user/ month	<\$100/user/ month	Transactions
<b>Management</b>			Bid <1300/user /month	\$150/user/ month			Embedded (< \$10/user/ Month)
			@H @C	@H @C	@H @C		

# Cloud Stack

for R&D, Ops, Sales, Mktg, Finance

**Application Cloud Services**



OpenTable, LinkedIn, Google, Netsuite, Omniture, Taleo

**Platform Cloud Services**



Service-now.com, Google App Engine, force.com, postini, Connect with Facebook, Engine Yard, NS-BOS, Microsoft, Corent, RIGHT SCALE, Oracle, VMware, Opalis

**Compute & Storage Cloud Services**



Amazon.com, the Rackspace Cloud, OpSource Cloud, IBM, terremark, Layeredtech

**Co-Location Cloud Services**



SAVVIS, Internap, Digital Realty Trust, NTT Communications, 365 Main

**Network Cloud Services**



Qwest, Xo Communications, at&t, AboveNet

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Moving traditional Model 1 software to the cloud.