Workday, Inc.
Strategy Report

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Executive Summary

Workday, Inc. (NYSE: WDAY) provides cloud-based enterprise software applications for human capital management (HCM), financial management, payroll, time tracking, employee expense management, and big data analytics. Its applications are intended for large global and US companies to help manage and provide insights about the company’s critical business functions. Workday emphasizes its cloud-based model, and its products allow for greater configuration flexibility to fit an individual customer’s needs compared to competitors’ products. Workday’s cloud delivery model allows all customers to share the same version of its software applications while keeping each customer’s data separate, which significantly reduces costs for software implementation and upgrades. Additionally, since all customers are always using the most up-to-date version, customer support is more efficient and less costly. These implementation, upgrade, and support cost advantages have enabled Workday to target both medium and large companies, whereas most competitors can only cost-effectively provide software to large companies. Workday also provides deployment, integration, and training services for its software products.

Founded in 2005, Workday is an industry newcomer compared to leading competitors Oracle and SAP. Going up against these major incumbents who have well-established customer bases, Workday has relied on its differentiated cloud-based products to gain market share, but despite its healthy revenue growth in recent years has yet to reach profitability. The very high cost for enterprises to switch software providers has added to the difficulty of gaining market share for Workday.

Workday launched its initial public offering (IPO) in October of 2012 at a valuation of approximately $4.5 billion, which exceeded the valuations of the higher-profile 2012 tech IPOs of Groupon and Zynga. Since the IPO, the company’s shares
have risen by 112%, as analysts and investors are optimistic about continued revenue growth and future profitability.

Workday has not yet had a profitable year, but by most measures is off to a healthy start since its founding in 2005. The company’s revenues have grown at impressive rates over the past few years, increasing from $6 million in 2008 to $68 million in 2010 to $273 million in 2012. Net losses have increased during the same period, albeit at a slower rate, but the increasing costs that contribute to the increasing net losses are largely coming from higher research & development expenditures and more sales & marketing spending. Spending in these areas will improve Workday’s products and increase its market share.

Workday’s cost advantages and its intuitive, user-friendly applications, both of which have resulted from its innovative cloud-based software model, have been the primary drivers of the company’s rapid growth. By offering only cloud-based products, Workday has an advantage over competitors still offering on-premise applications. On-premise applications such as those offered by Oracle and SAP have higher cost of ownership for customers and require frequent updates that the customer must perform. Compared to these on-premise offerings, Workday’s products have also been hailed for their ease of use and superior reporting and analytics tools, which give managers better visibility into the workforce and other critical areas of a company and provide actionable information.

In efforts to prevent loss of market share and aid in product innovation and improvement to avoid falling behind the smaller, more agile companies in the industry, industry leaders Oracle and SAP have aggressively bought emerging enterprise software companies in recent years. For Oracle, the relevant notable acquisitions include Taleo (2012), DataRaker (2012), Instantis (2012), RightNow
Technologies (2011), Sun Microsystems (2010), BEA Systems (2008), Hyperion Corporation (2007), and PeopleSoft (2005). SAP’s recent relevant acquisitions include Syclo (2012), SuccessFactors (2011), Sybase (2010) and BusinessObjects (2007). For both Oracle and SAP, many of the most recent acquisitions have been companies with a focus on cloud-based software, likely because Oracle and SAP’s current on-premise (non-cloud-based) software products are being significantly threatened by competitors’ cloud-based alternatives, including Workday’s line of products.

Upon first glance, it may seem that Workday could be a prime candidate for Oracle or SAP to acquire, but Workday’s management has indicated that it wants to become a major player itself rather than complete a quick exit by being purchased. These sentiments were echoed by Kevin Spain, an expert in the industry and general partner at Emergence Capital Partners: “[Workday co-CEO Dave] Duffield wants to build a big independent business. He’s not going to settle for building a public company and turning around and selling it. He wants to go for the long ball.”

Moreover, competition between Workday and Oracle may be personal, since Workday’s co-founder and co-CEO Dave Duffield was the founder and CEO of software company PeopleSoft when Oracle successfully completed a hostile takeover of it in 2005.

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Company History

Shortly after Oracle’s hostile takeover of software company PeopleSoft in 2005, PeopleSoft’s founder and former CEO David Duffield and former chief strategist Aneel Bhusri founded Workday, Inc. Workday’s cloud-based enterprise resource planning software products make it a direct competitor of Oracle and fellow software giant SAP.

The company, which was located in Walnut Creek, CA until its 2008 move to Pleasanton, CA, was initially funded by founder Duffield and Greylock Partners, a venture capital firm headquartered in nearby Menlo Park. It had subsequent funding rounds in 2009 and 2011, bringing its total private fundraising to $250 million.

In October 2012 Workday had its initial public offering and was listed on the New York Stock Exchange with the ticker WDAY. Leading up to the IPO, analysts expected shares to be priced in the $24-26 range, but Workday surprised the public by launching the IPO at $28 per share, producing $685 million of additional funding for the company. This last minute increase in the share price for the IPO may have been influenced by multiple IPOs in the weeks leading up to Workday’s that saw those stocks rise rapidly to levels well above their IPO share prices.² Workday’s share price increase to $28 seemed to be well founded, as share prices rose over 70% on the initial day of the IPO and have continued rising, currently sitting at $59.45 and giving the company a market capitalization of $9.87 billion.

Workday has experienced impressively fast revenue growth over the past five years, with revenues approximately doubling each year since 2008, reaching total

revenue of $273 million for the year ended January 31, 2013. (Note that in 2011
Workday changed from a December 31 year end to a January 31 year end, so data for
the year ended January 31, 2011 covers only one month, and is therefore disregarded
in this discussion of year-to-year growth.) Over this same period the company has had
increasing costs, leading to net losses every year, with a total net loss of $119 million
for the year ended Jan. 31, 2013. However, the primary growth of costs are in research
& development and sales & marketing, as the company has spent significant resources
developing and improving its products and increasing its customer base to gain
market share. These investments have left Workday in good position with an industry-
leading product and noticeable traction in its efforts to sign new customers. As of Jan.
31, 2013, the company had over 400 customers, up from 250 one year earlier.³

³ Workday, Inc. 10-K 2013.
Financial Analysis

Overview, Stock Performance, and Analyst Expectations
In October 2012, Workday launched its initial public offering (IPO), selling 26.2 million Class A shares priced at $28 to raise $684.6 million. Since its IPO, the company’s stock price has more than doubled to reach $57.68 as of April 18, 2013, and its market capitalization has soared to over $9.5 billion.

An important aspect of Workday’s financial performance is that, according to its most recent financial statements, they “have a history of cumulative losses and…do not expect to be profitable in the foreseeable future.” Yet, after the stock doubled in the first week, the market has kept their stock price at a relatively stable level since the IPO. And while Workday’s losses mean that it does not have a price-earnings ratio, it is interesting to note that those within the business-software industry are highly variable; more mature competitors Oracle Corporation and SAP have price-earnings ratios of 15.27 and 24.93.

For the year ended January 31, 2013 (we will consider this the 2012 year), Workday reported revenues of over $273 million, a 104% increase over the previous year’s $134 million. This compares favorably to the substantially smaller corresponding net loss increase of 49.8% from almost $80 million in 2011 to approximately $120 million in 2012. Indeed, the loss per share attributed to Class A and Class B common stockholders fell from $2.71 to $1.62 over that same time period.
Workday is attempting to compete in a market with strongly established players. Oracle Corporation and SAP both have market capitalizations of over or almost over ten times that of Workday. Both are in sound financial shape with profits of $10.6 billion and $3.65 billion respectively.

Industry Comparison

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<thead>
<tr>
<th></th>
<th>Workday</th>
<th>Oracle</th>
<th>SAP</th>
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<tbody>
<tr>
<td>Market Cap</td>
<td>9.57B</td>
<td>151.31B</td>
<td>93.19B</td>
</tr>
<tr>
<td>Employees</td>
<td>1750</td>
<td>115,000</td>
<td>64,422</td>
</tr>
<tr>
<td>Revenue</td>
<td>273.7M</td>
<td>37.15B</td>
<td>21.00B</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>157.12M</td>
<td>29.26B</td>
<td>14.71B</td>
</tr>
<tr>
<td>EBITDA</td>
<td>-88.84M</td>
<td>17.29B</td>
<td>7.09B</td>
</tr>
<tr>
<td>Net Income</td>
<td>-119.76M</td>
<td>10.57B</td>
<td>3.65B</td>
</tr>
<tr>
<td>EPS</td>
<td>-1.62</td>
<td>2.15</td>
<td>3.07</td>
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*Time period is Workday’s year ended January 13, 2013 and comparable reporting periods for Oracle and SAP.
For the current fiscal year 2013, analysts estimate revenues of $432.4 million and a corresponding growth in sales of 58%. They also expect earnings per share to drop to -0.77 from -1.26 the previous year. The consensus analyst recommendation on a scale of 1.0 (Strong Buy) to 5.0 (Sell) was 2.3 as of April 15, 2013, with recommendation trends of almost entirely hold, buy, and strong buy.

Revenues, Profitability, and Growth
Workday derives the majority of its revenues from subscription fees and professional services fees. Subscription revenues primarily consist of the fees that give customers access to cloud applications, include free customer support. Professional service fees include deployment services, optimization services, and training.

Workday’s subscription revenues accounted for 70% of revenues during the year ended January 31, 2013 and represented 92% of total unearned revenue as of January 31, 2013. This figure is an increase over the previous two years in which subscription fees composed 66% in 2011 and 54% in 2010. According to their financial statements, subscription revenues derive from the number of customers, the number of workers employed by each customer, the number of applications subscribed to by each customer, the price of the applications, and to a lesser extent, renewal rates.

Workday attributes the rise in subscription revenues to the addition of new and larger (more employees) customers; the company had more than 250 customers as of January 31, 2012 compared to approximately 150 customers as of December 31, 2010. To date, revenues from renewals have not been a substantial component of revenues, but the management is hopeful that, as the company matures, customers whose subscriptions expire will choose to renew with Workday.
Workday’s growth has been substantial since its inception; the company grew from approximately 300 employees as of December 31, 2008 to more than 1,750 employees as of January 31, 2013. In recent financial statements, management indicated that they believe continuing internal growth is necessary for long-term profitability. This will, in all likelihood, lead to further increases in costs of revenues.

Liquidity and Solvency
For the year ended January 31, 2013, cash flows provided by operating activities were $11.2 million. The positive flows were the result of increased cash collections driven by growth in sales. The increase in collections was largely offset by increases in Workday’s operating expenses driven mostly by an increase in employees. The $11.2 million figure is an improvement over the negative cash flows from operating activities of $(13.8) million in 2011, and $(15.3) million in 2010.

Cash attributed to investing activities for the years ended January 31, 2013, January 31, 2012 and December 31, 2010 was $(670.1) million, $(56.2) million, and $12.2 million, respectively. These figures were primarily the result of the timing of purchases and maturities of marketable securities and of capital expenditures of $15.9 million, $5.0 million and $3.7 million, respectively. Following the initial public offering, Workday purchased a significant amount of marketable securities.
Competitive Analysis

<table>
<thead>
<tr>
<th>Five Forces:</th>
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<tbody>
<tr>
<td>Internal Rivalry</td>
<td>Moderate</td>
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<tr>
<td>Barriers to Entry</td>
<td>High</td>
</tr>
<tr>
<td>Substitutes &amp; Compliments</td>
<td>Low &amp; High, respectively</td>
</tr>
<tr>
<td>Supplier Power</td>
<td>Low</td>
</tr>
<tr>
<td>Buyer Power</td>
<td>Moderate</td>
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Market Definition

The global enterprise software market can be broken down into many subcategories based on the process or task for which the software is used. Workday’s products are in the enterprise resource planning (ERP) market, which includes software systems that are useful for human resource management, financial accounting and management, supply chain management, data services, and project management, among others. The leading companies in this market offer a range of software products that serve many or all of these functions, and they often bundle their products and offer them as a complete suite of enterprise software systems. There are high costs for customers to implement and learn to use ERP software systems, so relationships between customers and software providers are generally long and very lucrative for the providers. For the purposes of this analysis, the market is considered to be national and global ERP software providers that target medium to large enterprises. Workday offers products in human resource management, financial management, and data services, and has customers that range from medium-sized to Fortune 50. Its most notable competitors are Oracle and SAP.
Internal Rivalry

While there are many companies filling niches in the enterprise software industry, the large market share of a few giant industry leaders indicates that it is relatively concentrated. An industry with only a small number of relevant firms and high switching costs for consumers would generally experience low internal rivalry, but a few factors serve to heat up the competition between the handful of firms that currently have or threaten to gain significant market share. Due to the nature of software, all firms have excess capacity. Since the cost of each marginal unit of software (the cost of implementing it for the customer) is miniscule compared to the fixed cost of developing the product, Oracle, SAP, Workday, and all others are constantly under pressure to boost sales. Next, since prices are unobservable and each sale to a large enterprise is huge in size, firms are incentivized to undercut the prices of competitors to secure a large sale. When prices are unobservable by other firms, current customers, and potential customers, the following factors motivate firms to cut prices: competing firms may not be able to react quickly enough to avoid losing market share, relationships with current customers will not be strained by their displeasure from paying higher prices for the same products, and the price-cutting firm will not necessarily have pressure to charge future customers the lower price, since they are unable to observe prices of previous customers. The effects of these competition-increasing factors can sometimes be dampened in industries with a history of cooperative pricing, but that is certainly not the case for Workday and its competitors. Since Workday’s co-founders and co-CEOs lost their previous positions at PeopleSoft when Oracle performed a hostile takeover, Workday is unlikely to participate in any cooperative practices with industry rivals. The last factor to consider is the growth of the industry. Since the industry is growing rapidly with expectations of continued growth, firms can spend some of their sales efforts on targeting new, “unclaimed” customers rather than stealing customers from competitors, which somewhat decreases the internal rivalry in this industry until this growth slows.
Entry
As the newest major player in the market for human capital management and financial management software for large enterprises, Workday has its work cut out for it to gain significant market share and become profitable in this industry with high barriers to entry. Since launching its products in November 2006, Workday has been continuously trying to steal market share from longtime market leaders SAP and Oracle. In order to achieve long-term profitability, it is crucial for Workday to increase its market share. In this market, the large fixed cost of building the products and small additional cost per customer create significant economies of sales and a huge minimum efficient scale. In other words, only the few companies who are able to obtain a major portion of the market share will be successful. For an entrant such as Workday, the large investment of creating its products will only produce good returns if the company can take some of SAP and Oracle’s dominant market shares. This task will be difficult because consumers have a high switching cost, and are therefore very loyal to their current software provider. For a large company, switching from a current software system to a new one can be very costly in terms of money, since these complex systems are not easy to set up, and time, since managers must be trained thoroughly in order to utilize the systems effectively. However, the trend of large companies increasingly understanding and seeking the benefits of cloud-based software combined with the incumbents’ lacking current product offerings presents an opportunity for Workday to gain traction.

Substitutes and Compliments
Substitutes
The threat posed by substitute products is very low. The only notable substitutes that Workday’s potential customer base is using for human capital management and financial management are old fashioned employee management systems and
accounting. Using these systems instead of high tech software from Workday or one of its competitors puts these large companies at a significant disadvantage, as it is much more difficult for them to keep track of all the useful data about their workforce and financial investments. Companies with the software are able to use the large amount of data that the software tracks and organizes to inform future decisions and ensure financial and human capital resources are being deployed in an efficient manner. With the trend of an increasing number of large enterprises relying on data to drive decisions, the outdated traditional accounting and human capital management systems are becoming less and less attractive to companies. As a result, companies are adopting software products such as those offered by Workday and very few are giving up software systems in favor of old fashioned methods. The market for Human Resource Management System software applications is growing at a healthy 8.2%, and the broader market of software-as-a-service (SaaS) is growing at rate of 15%.

Compliments

Workday’s software products have complex implementation processes that vary from customer to customer, and the implementation depends largely on the characteristics and desires of the individual customer. Due to the complexity, Workday requires that its software systems be set up by an authorized Workday Consulting partner. These partners must have employees trained by Workday so that they are capable of implementing and deploying a version of the software that fits the customer’s needs, in addition to training the customer on how to effectively use the product. Thus, Workday’s partners provide a complimentary service that could affect the customer experience and satisfaction with Workday’s products. Without adequate implementation and training services, the value added for customers by Workday’s products would decrease significantly, but the healthy status of the Workday Consulting Partner market means a negative effect in the near future is unlikely. Workday has an abundance of partners and the employees of each partner undergo a
thorough training period taught by Workday itself. Partners pay Workday to have employees attend the trainings, which gives partners an added incentive to provide good service to Workday’s customers. By providing good service, partners will continue to get business from Workday, allowing them to maximize the return on investment of sending their employees to the expensive Workday trainings.

There is a significant cost for managers of companies to switch to software systems such as Workday’s financial or human capital management applications because they must spend time to learn the products and become comfortable and efficient in using them. Consequently, related software products that use similar user interfaces and serve other parts of a customer’s business needs can be more efficient for managers by eliminating the need to learn multiple systems. Therefore, Workday’s various enterprise software products are compliments of each other, as would be any other enterprise software products the company adds to its product line.

**Supplier Power**
As a software vendor, Workday has few traditional inputs. As a cloud-based SaaS company, Workday hosts its software products and its customers’ data on central servers, which makes the servers a relevant input to the company’s finished products. Servers are largely undifferentiated products with many suppliers, so the market for servers is competitive and suppliers are unable to charge high prices that would diminish Workday’s profits. Moreover, servers comprise only a small fraction of Workday’s cost of creating its products. The second main input, which makes up a much larger portion of Workday’s costs, is its engineers who design and build the software. However, since software engineers are not united by a union, there is no centralized supplier of engineers, so Workday’s engineers and potential engineer hires do not have any significant supplier power.
**Buyer Power**

We consider the companies who subscribe to Workday’s subscription SaaS products as buyers. These companies range in size from medium to very large. The generally large size of Workday’s target customer base and the high concentration of the enterprise software industry are conflicting forces that influence buyer power in opposite directions. Instead of selling its software products, Workday uses a SaaS model where customers pay monthly fees to get continued access to their cloud-based software. The subscription prices of Workday’s products are based on the customer’s total number of employees, but Workday negotiates prices on a per-company basis, so larger companies are likely able to negotiate cheaper per-employee prices than medium-sized companies. Workday’s prices are not transparent however, which means offering a cheaper per-employee price to some customers will not affect their other customer relationships. Software updates, maintenance, and support are all included in the subscription price, so once Workday’s software systems are installed and running, the customer does not pay any additional fees. However, once a customer has a software system in place, it is very costly to switch to a different product, so buyers have little power to prevent subscription-fee increases (or increasing upgrade prices for non-SaaS products). Since there are only a handful of enterprise software companies that have significant market presence and offer products that analysts and experts deem comparable in quality to Workday’s, buyer power is further diminished. Moreover, there are no viable substitutes to software systems for ERP for large enterprises, so Workday and its competitors should have no fear of the overall market shrinking as a result of potential buyers opting for alternative solutions.
**SWOT Analysis**

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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</thead>
<tbody>
<tr>
<td>✤ Cloud-base software products</td>
<td>✤ Small size and small current customer base</td>
</tr>
<tr>
<td>✤ Subscription pricing model with prices below competitors</td>
<td>✤ Lack of a complete suite of enterprise software applications</td>
</tr>
<tr>
<td>✤ Consistent user experience across platforms</td>
<td>✤ Expensive in-depth training for customers</td>
</tr>
<tr>
<td>✤ Intuitive user interface</td>
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<table>
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<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>✤ Expand product line</td>
<td>✤ Incumbents using predatory pricing</td>
</tr>
<tr>
<td>✤ Target smaller, high growth companies</td>
<td>✤ Rapidly changing software expectations</td>
</tr>
<tr>
<td>✤ Target companies with pressure to reduce costs</td>
<td>✤ Fewer barriers to entry for “big data analytics” product</td>
</tr>
</tbody>
</table>

**Strengths**

One of Workday’s key unique strengths is its cloud-based, software-as-a-service (SaaS) distribution model. Some of the company’s competitors require software to be installed locally on computers, and others offer cloud-based services but with substantial upfront costs to implement the system. As a cloud-based system, Workday software is easy to update for all users and platforms. Workday’s subscription model ensures client companies pay only for what they need; it also guarantees the company a relatively stable revenue stream. The cost advantages of cloud-based products also allow Workday to charge prices lower than competitors.

Another advantage of the Workday cloud-based model is that users have the same experience across platforms, whether using Windows XP or Windows 8, Mac OS X or an iPhone. A related strength is Workday’s mobile applications for iPhone.
and iPad, along with a generic mobile web version of its software for smartphones running other operating systems. These different channels boast the same features and functionality, as well as a virtually identical user interface, as the Workday platform accessed from a computer.

Workday software has an intuitive appeal in its object-oriented layout. Charts, tasks, and organizational relationships (such as manager and managed employees) are easily visualized in the Workday system. Workday software can generate custom reports in real time; examples of such reports include global headcount, turnover, average time to fill positions, and compensation analysis.

Weaknesses
Workday’s small size in comparison with Oracle and SAP is a considerable weakness in a market with sticky customers due to the high time and monetary costs of switching vendors. Potential customers may be less likely to choose Workday as their human capital and financial software vendor because they would not want to invest significant financial resources into a product made by a company whose existence in the medium-term future could be uncertain.

While Oracle and SAP offer complete enterprise resource planning (ERP) software suites, with applications covering the complete range of critical business areas for large enterprises, Workday has a much smaller range of products. Workday’s offerings consist primarily of human resource applications, financial management applications, and big data analytics. With the significant cost for enterprises to implement software systems and train managers to effectively use them, there is a large incentive to use a single software provider for all ERP software systems. With its current product line, Workday cannot provide a complete suite of applications, while its primary competitors already do.
Workday’s policy of having three annual software updates presents some challenges. Rather than updating functionality on an as-needed basis in response to customer feedback, the company has a standard practice of releasing only three updates per year. Additionally, as part of this update process, customers can choose which new features they would like to activate. Although Workday’s cloud delivery model allows all customers to use the most updated version of the software, this aspect of customer choice in enabling features as part of the update process leads to a somewhat fragmented ecosystem of Workday software products. Workday could better manage its customer expectations if it adopted a policy of enabling all newly added features on all software update installations.

The company’s lack of native applications for Android and Windows smartphones and, to a lesser degree, tablets is a noteworthy oversight in an otherwise complete portfolio of software services and devices. Users of these platforms must instead access Workday products through the company’s HTML5 application. Having one application for these various platforms reduces Workday’s ability to optimize the user experience for each platform.

Workday’s inclusion of only basic training services with a software subscription is another weakness for the company. More in-depth training, or training on topics useful for more advanced users, is expensive, at $600 per day per student for a classroom-based workshop and $300 for virtual training. Even online self-service training videos cost a minimum of $5,000 per year plus 50 cents per employee per year. Minimum contract length is the number of years left on the license, so a 1,000-employee company with 3 years left would find itself spending $16,500 for the self-service option. Including full training in the purchase of a subscription could build customer satisfaction for Workday and thereby increase loyalty of the customer base.
and referrals to new potential customers.

**Opportunities**

If Workday were to expand its product line to offer a more complete suite of ERP systems, it could attract customers who desire unified software systems across multiple business functions. As it currently stands, such customers would be forced to buy products from one of Workday’s primary competitors. Potential areas for new Workday products include customer relationship management, supply chain management, service management and project management, among others.

Workday’s low implementation-cost software is well suited to small technology startups, which may not currently need a majority of the software’s capabilities. Workday can gain traction for its products with such companies and then continue to meet the companies’ expanded range of needs as they grow.

Workday can also grow its market share among companies facing pressure from shareholders to rein in costs and improve productivity. Because Workday customers pay only for the subscriptions they need, such companies could achieve significant cost savings by switching to Workday software instead of products made by competitors. Companies suffering from poor productivity would gain by using Workday software, which can easily track effectiveness on an individual employee level and which also provides a method of linking compensation to productivity.

Workday has an opportunity to attract large corporate customers who want to simplify and streamline their software packages throughout the company. For instance, current Workday customer Flextronics had 80 different HR systems throughout its operations in 30 different countries before it switched to Workday. Workday software is robust enough to handle the HR and payroll needs of large multinational companies.
Threats

Incumbents Oracle and SAP have built up large customer bases over the years. Potential customers may be significantly less likely to use Workday software products, even if they are superior products better suited to the organization’s needs, because the time and monetary costs of switching vendors are high. Established competitors could offer low-cost pricing to their existing customers to prevent them from switching to Workday. To poach the clients of competitors, Workday would have to offer lower pricing, thereby hurting the company’s bottom line and cash flow. Eventually, this could work to Workday’s long-term detriment by reducing the company’s ability to invest in the development of new features in its software.

Technology risk is an important consideration for Workday. What the market expects from software changes quickly, and Workday could easily find itself with a product vastly inferior to those of incumbents or new entrants who move more swiftly to adapt. Workday must continue its focus on innovation and avoid stagnation in its product development in this industry in which products can have short life spans.

One of Workday’s less prominent software applications, billed as “big data analytics,” compiles and organizes data from Workday and non-Workday sources to answer questions about an organization’s operational effectiveness. As this market grows and matures, Workday is likely to face stiff competition from companies with considerable expertise in data analytics, such as Google, for example. The use of external data for much of this analysis also makes it difficult for Workday to sustain its competitive advantage, which is built upon a “walled garden” approach, in this product space.
Strategic Recommendations

Expand Product Line and Offer a Bundled Suite of Enterprise Applications

Workday currently offers products in human capital management, financial management, and big data analytics, while its main competitors, namely Oracle and SAP, offer complete suites of enterprise resource planning applications that cover the entire spectrum of critical business areas for large companies. As previously discussed, this puts Workday at a significant disadvantage for inducing customers to choose its applications over competitors’. For any of the relevant software systems offered by Workday or its competitors, there are high costs for managers to spend time and money to go through the necessary training to become comfortable and effective using a new software system. The enterprise software applications being discussed offer powerful analytics and data visualization, but only managers who are adept at the software are able to get the full benefit of the software’s capabilities. Since the costs of learning how to best use a software product is high, it is more efficient for enterprises to use unified software products for as many business functions as possible. To decrease the overall cost of training for customers, Workday has designed its various applications to have similar user experiences. Therefore, when a customer chooses a Workday product for one business function, that customer is more likely to choose Workday products for their other business functions.

Unfortunately, Workday’s competitors have not only employed the same strategy, but have done so to a much greater extent. In addition to the functions served by Workday’s applications, the enterprise software suites offered by Oracle and SAP (Oracle offers multiple suites) include applications for customer relationship management, supply chain management, project management, and service management, to name only a few. These comprehensive suites give Oracle and SAP a significant advantage in attracting savvy customers who want to benefit from the
reduced training costs from having a unified software experience across all business functions.

When Workday first started, its initial product was its human capital management (HCM) system. The strength of this product alone drove the company’s growth for the first few years, and it continues to be the primary force behind Workday’s recent success. In fact, experts consider Workday’s HCM applications to be considerably stronger than similar products offered by competitors. In a 2012 report comparing all major human resource management systems by global research firm Forrester, Workday’s HCM product was rated highest for both quality of current offering and strategy going forward (note that this rating is for Workday’s strategy for its HCM product only, not the overall company strategy). Although Workday’s HCM ranked higher than competitors’ products in both categories, its market presence remains smaller than Oracle and SAP’s human resource management products, in part because Workday’s other products only cover a portion of the software needs of large enterprises.
In order to gain market share in this industry and rival Oracle and SAP, Workday must continue to add new software applications to its product line. The company has already taken steps in the right direction by introducing financial management and big data analytics products. The next steps should be to add products one-by-one until Workday can offer an enterprise software suite with breadth comparable to those of Oracle and SAP. Bridges Consulting Group’s recommended strategy for determining the order of new products to develop is to first focus on business areas that do not currently have a strong stand-alone product available to large enterprises. For example, Salesforce.com only offers customer relationship management software (CRM), but has product that customers and experts love and a dominant market share in CRM. Therefore, Workday should develop
products in other areas before developing a CRM product, because potential customers would be more open to using a combination of Workday’s software suite (which lacks CRM) and Salesforce.com’s highly regarded CRM product.

Aggressively Increase Sales & Marketing

Workday’s cloud-based model gives it a competitive advantage over incumbents Oracle and SAP, whose leading products are still on-premise systems. However, firms in the industry have realized the benefits of cloud-based software over on-premise alternatives, and are making moves to transition to offering cloud-based products. Therefore, Workday’s advantage will not last indefinitely, so it must aggressively try to gain market share as soon as possible while its advantage remains. There is evidence that Workday has employed this strategy to a degree, as its revenues have grown rapidly in recent years, but its market share remains well below the industry leaders, so there is still significant room for growth. Since customers are very “sticky”, it will be worth it for Workday to continue to operate at significant losses, and even increase sales and marketing spending despite the subsequent increases in net losses, to secure significant market share. Customers that Workday acquires now, while its products still offer considerable advantages, are likely to remain Workday customers even as competitors catch up by creating products that use similar cloud-based models.

Target Smaller, High-Growth Companies in Addition to Current Large Targets

The relatively low implementation cost of Workday’s software products is well suited to small technology startups. Although small companies may not currently need a majority of Workday’s software’s capabilities, Workday can sell its products for lower prices to these companies without losing money on each small customer it acquires. Workday will build rapport and gain traction with these companies and, as the companies grow, Workday’s products will continue to meet the companies’ expanded range of needs. Workday’s competitors who provide on-premise software systems with
much higher implementation costs would be unable to compete for these somewhat smaller companies, since the competitor would be operating at a loss with every small customer it acquired. With this approach, it is critical that Workday select small companies that are high growth candidates, so they will develop into high-revenue producing customers.