Strategic Report

Salesforce.com, Inc.

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Executive Summary

Salesforce.com, Inc. is the leading provider of web-based customer relationship management ("CRM") and enterprise cloud computing applications. The company's web-based solution has enabled Salesforce to achieve lower implementation costs and facilitate more flexible integration with customers.

Even though the financial crisis affected the company's operations and revenues, Salesforce finds itself in a strong financial position. While the enterprise software and application industry is intensely competitive, Salesforce is positioned to emerge as a market leader and continue its high growth. The company must deal with the threats of internal rivals and decide how to effectively combat this threat to continue its success in the future.

Salesforce.com should focus its efforts on the following initiatives:

- Salesforce should aggressively pursue sales in Japan and Europe.
  - Success in this area will diversify the company's revenue stream, provide capital for further growth and products, and increase the adoption of the Force.com platform.
- Lead the industry transformation to cloud computing
  - Cloud computing presents many clear benefits to firms and experts expect it to be an integral part of the future of business and research. By taking the lead in the business end, Salesforce stands to dominate this market and create substantial revenues and earnings for the company.
- Encourage and maintain an entrepreneurial atmosphere
  - In order to stay nimble as the company deals with large growth, the innovative workplace must be incentivized. In an intensely competitive market, this is a necessity for leadership and profitability.
- Engage in Strategic Partnerships
  - Partnerships with complementary firms will provide multiple benefits for Salesforce.com. The improvement and expansion of the product offering will strengthen Salesforce's market position. Partnerships will provide a barrier against increased competition from that complementary firm.

Company Overview

History

Salesforce.com was founded in 1999 by Marc Benioff. A former executive at Oracle, he dreamed up the concept while on sabbatical in Hawaii and India. After noticing the success of consumer websites like Amazon.com, he saw the potential for the Internet to be a goldmine for business consumers and set out on his plan to create his own startup business. After considering a human resources endeavor, his first venture was Customer Relationship Management (CRM), with an idea that his software would be easy to use and inexpensive, a vast improvement over similar items already on the market. Salesforce.com has become a platform for business owners and managers to buy subscriptions for software that has many business applications, like service and support, marketing and, of course, sales.

Salesforce.com is headquartered in San Francisco, California with regional headquarters in Dublin, Singapore, and Tokyo. In June 2004, Salesforce.com conducted an initial public offering of $110 Million on the New York Stock Exchange. Much of Salesforce's growth has been fueled by acquisitions. In April 2006 it acquired Sendia Corporation, which has now become Force.com Mobile. In August 2006, it acquired Kieden, now Salesforce for Google AdWords. In January 2007, it acquired Kenlet , which has been re-launched as Salesforce Ideas. Koral, acquired in March 2007, has been re-branded as Salesforce Content, and Instranet, acquired in August 2008, has become Salesforce Knowledge. With these acquisitions, Salesforce.com was recognized as a leading company in the NYSE and added to the S&P 500 in September 2008.

In line with these acquisitions, in January 2007 Salesforce.com announced Earthforce -- an initiative to create a carbon neutral salesforce.com in 2007. On the same day, Salesforce.com announced the availability of Apex Code, the world's first on-demand programming language, a tremendous milestone that is predicted to revolutionize business applications. In February, 2007, Salesforce.com announced Salesforce Wealth Management Edition, the next generation financial advisor desktop built for business clients. Furthermore, in April 2007 the company announced Salesforce Partner Relationship Management (PRM) 2.0, the next generation of the leading on-demand channel management application. In the third quarter of 2009, they acquired shares of its joint venture Salesforce Japan and increased its ownership to 72 percent to ensure its leadership in the customer relationship management world today.

Business Model

Salesforce.com is the leading provider of enterprise cloud computing applications. Headquartered in San Francisco, the company operates primarily within the United States, Europe, and Asia and has offices in the major business centers throughout the world. Considered the top provider of cloud computing services, the company is still driven by Marc Benioff, a 13-year veteran of Oracle Corporation and co-chairman of the President's Information Technology Advisory Committee. Although Salesforce has many Fortune 100 clients, the firm prides itself by providing its services to the whole range of company sizes. As of Q1 2010, Salesforce.com employed 3,969 people, with a market capitalization of approximately $9.61 Billion[1].

Salesforce.com derives its revenues from two sources: (1) subscription revenues, which are comprised of subscription fees from customers accessing their cloud computing application services, and from customers purchasing additional support beyond the standard support that is included in the basic subscription fee; and (2) related professional services and other revenues consisting primarily of training fees. Subscription and support revenues accounted for 93 percent of total revenues in Q1 2009. Subscription revenues are driven primarily by the number of paying subscribers of the service and the subscription price. Furthermore, none of the customers accounted for more than 5 percent of revenues[1].

The subscription revenues come from two difference sources, Cloud Applications and Cloud Platforms. Cloud computing refers to a system where application developers no longer manage their own infrastructure and development tools in order to create a business application. Instead, the entire infrastructure is managed by third parties who specialize in infrastructure management, and developers simply use an Internet browser to access the development environment. Cloud applications enable businesses to subscribe to a wide variety of application services that are developed specifically for the Internet. Applications are delivered online on an as-needed basis with little or no implementation services required and without the need to install and/or manage third-party software in-house. Salesforce's main cloud application is their SalesCloud CRM software, which is the company's primary source of revenue.

On the other hand, Cloud Platforms describes the building of cloud applications on an application development platform. Application developers use cloud platform technology to build both custom applications for individual businesses or vertical industries and horizontal applications to address standard business processes that can be sold to a broad range of potential customers. This is the basis for Salesforce's Force.com platform. The Force.com platform allows developers to create applications and then sell them on Salesforce's AppExchange. The AppExchange is a marketplace that allows developers to sell their applications developed on the Force.com development platform. This provides the other portion of the company's revenue stream.

Salesforce.com's business model relies on the scalable nature of Cloud Computing. Beyond the upfront costs of creating the infrastructure, the company maintains low fixed costs of selling subscriptions. This allows the company to expand rapidly with positive externalities. These occur because as more developers use Salesforce's cloud, the more efficient and encompassing it becomes. Given the low variable cost and benefits of scalability, Salesforce can continue to expand despite the recent economic downturn.

Competitive Analysis

FORCE	STRATEGIC SIGNIFICANCE
Internal Rivalry	High
Supplier Power	Low
Buyer Power	Medium
Entry and Exit	High
Substitutes & Complements	Medium

Internal Rivalry

Main Competitors: Prepackaged Software

- Oracle Corporation (NASDAQ: ORCL)
- SAP (NYSE: SAP)
- Aplicor
- Microsoft

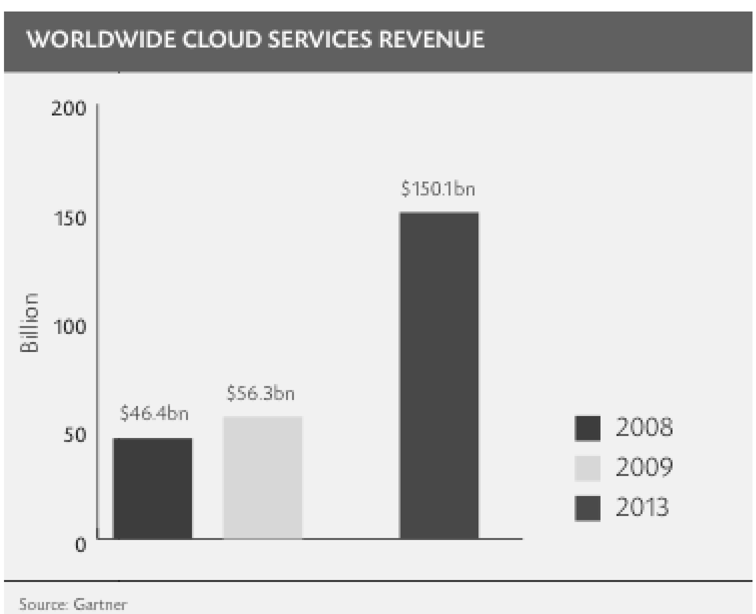
Salesforce competes in the prepackaged software industry (SIC Code 7372) with customer relationship management software against two main competitors, SAP and Oracle. However, the top four companies only take up about 60% of the CRM market. In these top four, Salesforce is ranked number three by market share following SAP (22.5% of Market) and Oracle (16.1%). This leaves many small business and middle market players on the fringe. While Salesforce has been gaining market share and does maintain an edge over SAP and Oracle due to their brand and force.com application development platform, the company must still be wary of more specialized competitors. Specialized competitors can compete on price and quality. A smaller competitor could potentially create software that deals entirely with a specific industry (for example,. healthcare) that may erode market share from Salesforce's vertical enterprise approach. The software costs less because of the limited functionality to one industry, while providing excess functions for that industry. At this time, the greatest risk to Salesforce's market share comes from the smaller competitors, while the established firms will only provide a small threat to the company.

Main Competitors: Cloud Computing

* Amazon.com
* Google
* Akaimi Technologies

Along with the CRM market, Salesforce competes in the Cloud Computing industry. While the cloud offerings differ greatly among these companies, the product offerings differ in that some are value-added products and some are collocation products. A collocation product is a cloud offering that simply allows for increased processing. On the other end, value-added refers to a cloud service that allows for increased performance, but also provides developers with increased productivity or delivery. Salesforce, Google, Amazon, and Akaimi fall into this category. Google and Amazon offer a platform for using applications, while Akaimi offers a platform for speeding the delivery of applications. Salesforce.com offers a combination of these two with the platform for creating applications and then using AppExchange to deliver them. Many figures have attempted to gauge the market size and shares of different firms. The estimates range from $42 Billion to $56.3 Billion for the industry[2].

Figure 1



However, the opaque nature of cloud computing has made market shares difficult to measure. In this sense, there is a large threat of competition from both companies; however, this can be mitigated with strategic partnerships discussed in the recommendations section.

Supplier Power

The supply of computer performance capabilities and human capital determines the power that the suppliers have over Salesforce. Salesforce.com runs its entire product suite from a computer network provided by a leading collocation company, Equinix, Inc. However, the use of a single supplier does not pose a threat because collocation has become an extremely competitive industry, with many players and minimal differentiation that has driven down costs. Furthermore, the improvement of the software depends entirely upon the developers employed by Salesforce as well as the additions from Force.com. Due to the highly competitive nature of the PC market, the risk of extreme cost increases or supply disruption of computer servers is low, since Salesforce can simply buy a separate and comparable machine from many PC companies. Also, the large number of computer programmers guarantees that the cost of hiring more developers remains relatively constant. Moreover, the Force.com platform allows third party developers to add to Salesforce's code, lowering the need for internal hiring. It is clear that Salesforce.com's suppliers have a small amount of power and this is a low risk for the company.

Buyer Power

As previously discussed, the CRM market holds many players that provide competitive products. Since the lower functions of the product are shared among all of the CRM firms, any buyer that simply uses the minimal suite is highly price sensitive since it is virtually costless for the buyer to compare prices between providers. Therefore, Salesforce's buyers have a moderate amount of buying power at the basic level. However, Salesforce targets the enterprise level of the market that utilizes their advanced functions. In this area, switching costs are relatively high. When a customer creates an application on the Force.com platform they create stickiness to Salesforce as they have invested time into the application that only Salesforce hosts. Also, with larger customers Salesforce creates longer-term contracts rather than month-to-month contracts, therefore lowering the customer's elasticity of demand and ensuring customer retention. Due to Salesforce's focus on the advanced product market, the high buying power in the basic market only provides a medium risk to the company.

Entry and Exit

The on demand customer relationship management industry allows easy entry and moderately easy exit. One major reason for this is the relatively low cost of entry. While larger established companies may have an edge in recruiting human capital, anyone with sufficient expertise may create a specialized niche company. The long term success of a company relies on its ability to recruit and retain key personnel. Also, the capital requirements are low, as the upfront costs can be outsourced to a collocation company at low fixed costs. As a result, capacity limits are not a risk to the company, since it can simply hire more collocation centers. The fixed costs after set up are the maintenance of the computers and employee salaries. Furthermore, the economies of scale are huge because after paying the human capital, each sale after a certain point represents profit because no new hardware must be deployed.

Although costs may not present a barrier to entry, a few key issues allow established companies to maintain an edge. One is first mover advantage. After investing time into creating a database and developing applications, buyers tend to stick with the company they initially started with, allowing customer retention to stay high. Brand identity is another issue that causes buyers to gravitate towards established companies. This happens because the cloud computing model becomes more efficient as more people utilize it, and gives a better product to the customer. This is evident in the network effect of Force.com because as more people use it, more applications are created, creating more value, and providing a better service to buyers.

Exit costs are low in the CRM industry, because the only assets that the company owns are computer servers that could be liquidated or simply shut down. However, this is not an issue if the firm does not own the computer servers. For Salesforce, in particular, its exit costs would be higher than the average firm because it must honor its longer term contracts, but the costs would still remain relatively low. The easy entry and exit of the CRM market creates a high risk for Salesforce.com since the company must be wary of newer competition and niche firms.

Substitutes & Complements

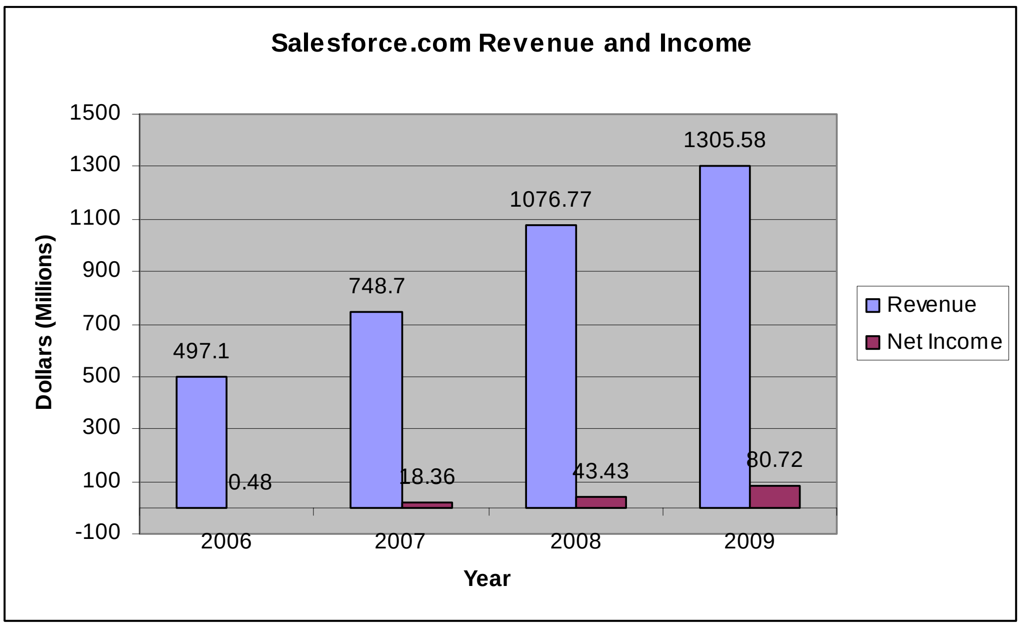
The threat of substitutes to Salesforce.com is high due to the low cost of entry of firms and the simplicity of the software. There is enough product differentiation that buyers cannot base decisions purely upon price. Due to the low cost of entry, the largest threat of substitutes comes from more specialized software from niche firms. Also, the software industry is constantly improving efficiency and functionality. Because of this, Salesforce must constantly improve their software and keep their human capital away from competitors and ensure that they stay ahead of competition. Although the threat of substitutes is high, Salesforce can remain ahead of the competitors, and therefore this represents a medium risk to the company.

Complements for this particular firm can be categorized as any product that would likely lead to the purchase of Salesforce.com subscriptions. For example, a complementary product would increase the delivery of Salesforce.com content, such as Akaimi's offering, or a product that increases usage of the Force.com platform. In this case, the direct competitors to the force.com platform actually provide a complementary service to the CRM offering. Because these companies can accelerate the delivery of enterprise applications through a cloud computing model, they can provide a complementary service. Due to the nature of this market, there is a threat as well as a benefit from the complementary service.

Financial Analysis

Overview

Even though Salesforce.com (CRM) weathered the financial crisis and maintained a strong position in the cloud computing market, the company is not insulated from recessions. With that said, its recent success is evident in certain key financials. In Q1 of 2010, Salesforce.com earned $354 Million, a growth of 22% from the same quarter last year. Net income for Q1 2010 was 20.3 Million. Management predicts the company to grow 17% in the next year which, given the financial forecast, is an impressive feat.[3]



As a subscription-based company, Salesforce's income comes almost exclusively from subscription fees. In the immediate future, Salesforce can continue outperforming analyst expectations and maintain an edge over competitors by increasing profitability through subscription based growth, reducing churn, and leveraging their force.com platform. Ratios measuring Salesforce's liquidity, leverage, and profitability suggest that the company maintains a healthy balance sheet and provide context for later strategic recommendations

Key Financial Metrics

Salesforce.com (CRM)

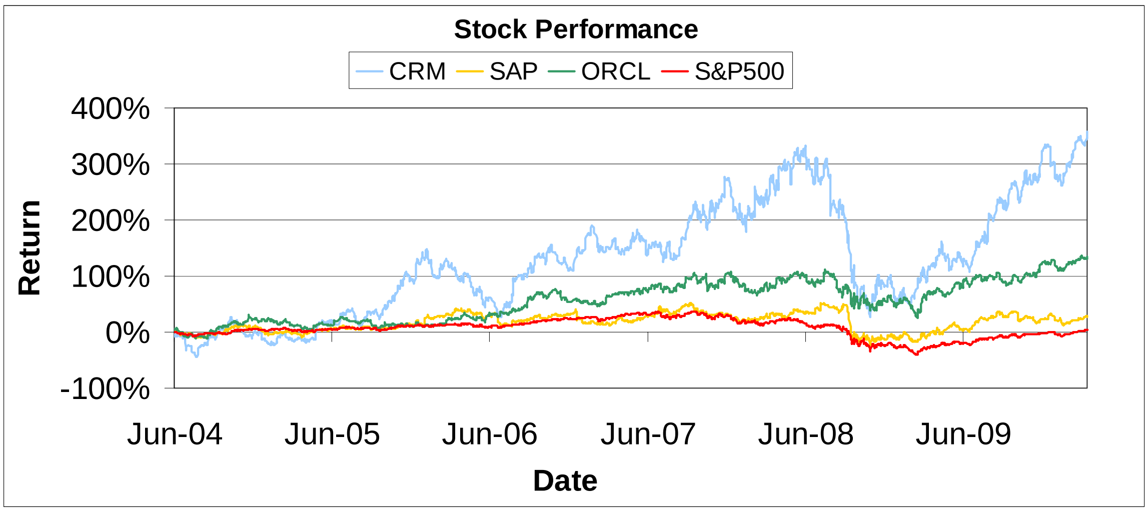
* Current Price $77.10/share (03/23/10)
* Market Cap: $9.81 Billion
* P/E: 121.12
* Beta: 2.00
* EPS: $0.64
* Debt/Equity: 0.431

	Q1 (Jan '10)
Net profit margin	6.33%
Operating margin	7.21%
EBITDA margin	17.90%
Return on average equity	8.60%
Current Ratio	1.879
Total Cash Per Share	$9.768

It is clear from the financial analysis that Salesforce does not have any liquidity concerns and has managed to remain profitable throughout the financial crisis with a net margin of 2.45% in 2008 and 4.03% in 2009. They maintained a current ratio of 1.879, which measures a company's ability to pay its short term obligations[4]. A current ratio greater than 1 shows that a company can easily repay its obligations. Therefore, Salesforce has no immediate threat of bankruptcy. The one immediate concern from the balance sheet is the influx of $450.2 M in long term debt. This is major change, since the company has carried zero debt since it went public. This unexpected offering has led to acquisition speculation as Salesforce is still in the high growth stage (P/E: 121.12) and would like to continue building its product suite and customer base. This also led to a 7% stock decline on the day of announcement. Without an adequate reason, this would raise a warning flag, but it seems that the company is optimizing their debt/equity ratio in order to raise capital more efficiently and cut costs. Therefore the financials show the strength and profitability of Salesforce.com.

Stock Performance

Stock Chart (CRM v. ORCL v. SAP v. S&P 500) 5 yr Trailing



Source: Yahoo! Finance

Salesforce.com has consistently outperformed industry averages, competitors, and the S&P 500. The company seems to follow market trends, with a beta of 1.97, and though it fell precipitously during the correction in late 2008, the stock has steadily returned and surpassed the previous highs of Q2 2008[5]. While most of the drops in stock price have been attributed to market conditions and the unexpected debt announcement, over the long-term Salesforce has provided a steady growth stock over the long term. On the other hand, the stock remains volatile in the short term, as would be expect in a technology growth industry. This, however, his will not deter stockholders as long as Salesforce continues to have increasingly stronger quarterly earnings statements deliver strong results.

Industry Comparison

Within the customer relationship management software industry, Salesforce.com faces two main competitors: SAP, based in Walldorf, Germany, and Oracle Corporation, based in San Francisco. Of these top software companies, Salesforce has the smallest market capitalization, with $9.61 Billion. The largest company in 2010 was Oracle Corporation, with a market capitalization of $129.64B. Figure 2 shows a comparison of some key metrics within this industry to evaluate the position and performance of the companies.

FIGURE 2

Financial Ratios: CRM Industry Comparison				
	CRM	SAP	ORCL	Industry
Price/Earnings	121.12	24.6	13.18	22.0
Price/Book	9.6	5.1	1.12	4.9
Net Profit Margin	6.49%	22.8%	8.91%	2.50%
Return on Equity	9.41%	22.24%	18.16%	4.40%
Dividend Yield	0.00%	1.0%	1.97%	0.00%

These financial ratios depict Salesforce's position as a high growth company with its extremely high Price/Earnings and higher than average Price/Book. It is also reasonable that Salesforce.com has a much higher P/E and P/B than these competitors because they are large diversified companies with limited exposure to high growth areas as a percentage of revenues. However, the bulk of the company's ratios are lower than their competitors. This is not necessarily negative, since the companies are in different stages of the growth cycle. Furthermore, the numbers remain strongly above the industry averages, therefore the company is more profitable than the industry. A better comparison of these competitors would arise from a direct comparison of their similar business segments or at the time when Salesforce matures and exits the high growth phase.

Along with the CRM industry, Salesforce competes within the cloud computing industry with three main competitors: Amazon.com, based in Seattle, Akamai Technologies, based in Cambridge, MA, and Google, based in Mountain View, CA. Of these top cloud computing companies, Salesforce has the third largest market capitalization. The largest company in 2010 was Google Inc., with a market capitalization of $180.68B. Figure 3 shows a comparison of key metric within this industry to examine Salesforce's financial performance.

Figure 3

Financial Ratios: Cloud Computing Industry Comparison					
	CRM	AMZN	GOOG	AKAM	Industry
Price/Earnings	121.12	66.7	27.9	42.0	22.0
Price/Book	9.6	11.5	5.0	3.2	4.9
Net Profit Margin	6.49%	4.7%	35.4%	27.6%	2.50%
Return on Equity	9.41%	22.75%	20.30%	8.82%	4.40%
Dividend Yield	-	-	-	-	-

After reviewing the above financial ratios and taking into consideration the overall financial climate, it is clear that Salesforce.com displays financial strength. While Salesforce outperforms the industry, it is trailing its nearest competitors financially. Looking into the future, Salesforce must increase revenues to improve its financial performance. Salesforce should also work on cutting costs in order to improve operating and net margins. With this in mind, Salesforce's financial strength suggests that the company is in a good position to raise capital to leverage operations with minimal risk to the company.

SWOT

Strengths

* **Brand:** Salesforce has the best value in software as a service market for customer relationship management. The company effectively used first mover advantage in offering a scalable, cloud software offering to build its brand. With the addition of the force.com platform, Salesforce.com has diversified their product suite in order to leverage their cloud computing to increase revenues. Salesforce.com is the brand leader in the CRM market because of a proven track record of customer success.
* **Scalability:** The business model ensures that Salesforce can constantly add new customers, due to the speed and ease of implementation of the product. Also, cloud computing is scalable as it get more efficient and cheaper with each additional user. Competitors could use the scalability of cloud offerings due to the nature of the businesss; however, Salesforce's combination of cloud offerings with CRM offerings gives it a synergistic strength over competitors.
* **Market Position**: The continued innovation and expansion of the CRM product with additional services (Force.com) further solidifies the position of Salesforce.com as leader in the CRM industry.
* **Little Competition:** The main competitors in the customer relationship management arena are SAP, Oracle, and Microsoft. However, Salesforce has been gaining market share while SAP and Oracle have lost market share.
* **Financial Stability:** Rapid growth has given Salesforce a strong balance sheet to allow it to survive economic struggles. It has also placed it in athe position to make acquisitions to increase market share.
* **Trust:** Salesforce.com uses the best security protocols to protect proprietary customer data and further backs it up in near-real time to ensure service continuity and reliability. While the larger competitors ensure their client's information, the security of Salesforce places it in a stronger position relative to small competitors.

Weakness

* **Single Product**: The Company relies upon a single product in the CRM realm and therefore lacks flexibility in serving customers.
* **Size**: In every market that Salesforce competes, the company is far smaller than its competitors and cannot compete against the greater resources of the larger companies.
* **Seasonality in Billings**: Historically, the fourth quarter is strongest for new business and renewals for Salesforce.com. This could lead to missed opportunities in the first three quarters of the year because the majority of revenue does not come in until the fourth quarter.

Opportunities

* **Expansion of complementary products:** Companies such as Akamai that provide a more efficient delivery of cloud computing services can provide synergies for Salesforce's original CRM offering to further take market share. By speeding up delivery of the company's products, complements will make Salesforce look more attractive to customers compared to competitor products. This will drive a further erosion of market share from the larger competitors.
* **Huge growth of CRM market:** As Salesforce.com continues to take market share, the growth of the market will lead to increases in revenues and profit for the company. Analysts estimate that the market will continue to grow at 22% annually until 2013[6]. It also allows the company to continue to grow and not saturate the market.
* **International Expansion**: About 70% of Salesforce's revenues and earnings come from the United States. Salesforce should take advantage of the global recession to increase its presence internationally. Current sales numbers show that the Salesforce product suite has been especially well received in Japan and Europe. The opportunity stems from the fact that the market penetration in those regions is still relatively small. Oracle has a penetration of 49% revenues internationally and SAP has a large presence in Europe, but Salesforce has already taken market share from both companies and can replicate its strategy abroad.[7][8]

Threats

* **Entry of large (>$10B) firms**: Microsoft Corporation has initiated plans to enter into the cloud computing market and already competes within the CRM market. This is a threat to Salesforce.com because it adds more firms that can take advantage of Salesforce's size weaknesses.
* **Competition in the Cloud Computing industry:** The established firms in cloud computing are Amazon.com and Google, which have the resources to compete heavily with Salesforce's force.com platform. Furthermore, companies that provide complementary products for Salesforce's CRM offering can directly compete with their cloud offerings.
* **Competition in the CRM Industry:** The large firms in the CRM market are SAP and Oracle, which have the marketing resources to harm Salesforce's position. They also have deeper research and development resources and if these two companies chose to direct them to the CRM market they could steal Salesforce's market share.

Strategic Recommendations

Short Term Initiatives

Maintain a Vertical Product Suite

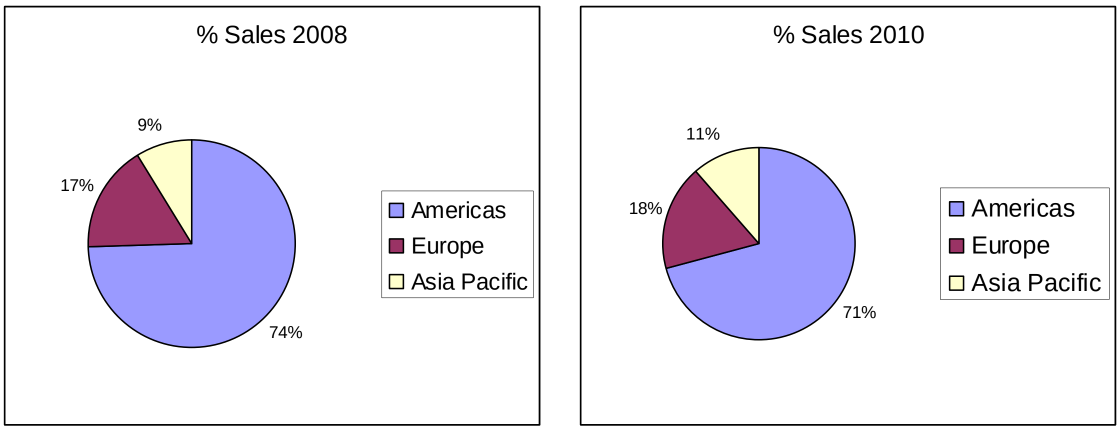
Salesforce.com provides a vertical product suite to small, medium, and large size business, with the same offering applying to all of these companies. The biggest threats to the company come from entry of new firms. To counter these threats, Salesforce needs to leverage its strengths, which are the its brand and its balance sheet. Since the current CRM offering is stealing market share form the bigger competitors, Salesforce needs to continue to increase functionality, while also keeping the product directed towards all businesses. Larger companies require more data analysis, while small companies require basic functionality. By providing the service to all businesses, Salesforce uses the stickiness of its product to keep customers as the customer grows. This short term strategy will keep growth from the CRM market. To attack specialized competition, Salesforce can leverage its Force.com platform to create industry specific offerings and therefore should maintain its CRM product.

New Growth Markets

In December of 2000, Salesforce.com established a Japanese joint venture, Kabushiki Kaisha salesforce.com, with SunBridge, Inc.,,to assist with sales efforts in Japan. The Asian market provides new business customers because it has seen huge growth in the CRM industry and estimates show a $570 Million market in 2012.[9] Salesforce must leverage this relationship to further penetrate the Asian Pacific market. This is evident in the 36% increase in annual revenues from Q1 2009 to Q1 2010 from the Asian market, while the Asian market only accounted for 11% of total revenues, indicating that Salesforce should aggressively pursue new business customers in this region.[10]

In addition, the Salesforce push into the European markets has generated some success, and the company must continue to penetrate this market. From Q1 2009 to Q1 2010, there was an increase of 22% in revenues from the European markets, accounting for 18% of total revenues. Salesforce's reliance on the North American market (Figure 4) clearly shows the need to attack the Europe and Asian markets in order to strengthen revenues as well as diversify the revenue stream. Salesforce can achieve this by aggressively pushing its subsidiaries to produce more favorable results and placing more subsidiaries in strategic international locations (refer to Appendix for list of subsidiaries).

FIGURE 4



One potential difficulty with penetrating these foreign markets is the different global preferences for a CRM product. However, the sales preferences of international business centers only differ slightly and Salesforce has already created a global product suite for these areas, and therefore needs to increase sales in these regions. This can be accomplished by their many subsidiaries within the European market. Also, the Force.com platform allows developers to create applications relevant to their businesses. So as the adoption of this platform occurs in the foreign markets, Salesforce will gain more functionality that is relevant to Europe and Asian. Because of this reinforcing cycle of adding customers and providing a better service, this should be a high priority for the company.

Lead the industry transformation to cloud computing

The market adoption of cloud applications and platforms is a growing trend in the information technology industry. Salesforce enables customers of all sizes to benefit from the capabilities of enterprise software applications. The company has established a leadership position in this new enterprise cloud computing industry both as a successful vendor of CRM application services and as an enabler for third parties to create their own cloud applications through the force.com platform. The company must continue to seek to extend its leadership position in this industry by continuing to innovate and bringing new application and platform services and value-added technologies to market, as well as by providing the tools needed by third parties to develop their own cloud applications on our platform.

To accomplish this goal, Salesforce.com must encourage the development of third-party applications on the Force.com cloud computing platform. The Force.com cloud computing platform enables existing customers, independent software vendors ("ISVs") and third-party developers to develop and deliver cloud applications they have built in the Force.com environment. It is a platform on which applications can be created, tested, published, and run. In addition, these applications can be listed on the AppExchange, an online marketplace of cloud applications, or sold by ISVs. With the introduction of contracts that give price incentives to developers, the company can obtain many applications in the short-term to leverage profits in the long-term. For example, Salesforce can provide cheaper rates to contributors to the AppExchange. Also, the further marketing of the AppExchange will improve understanding of the platform, and reinforce the creation of new applications because it allows developers to profit from their work.

Long Term Initiatives

Encourage the Entrepreneurial Atmosphere

Salesforce.com must encourage its staff to maintain the thought process and innovation of a smaller company as it continues to grow. The company is reaching a growth level that will put it among the largest companies in the United States and will force them to deal with the complexities of running a large company. This can be seen in the 37% increase in employees, from 2,600 to 3,500 in 2009, and 11% increase in 2010, putting the company at 4,000 employees. Salesforce.com needs to examine and adopt the strategies that have allowed companies to transfer smoothly into a large company.

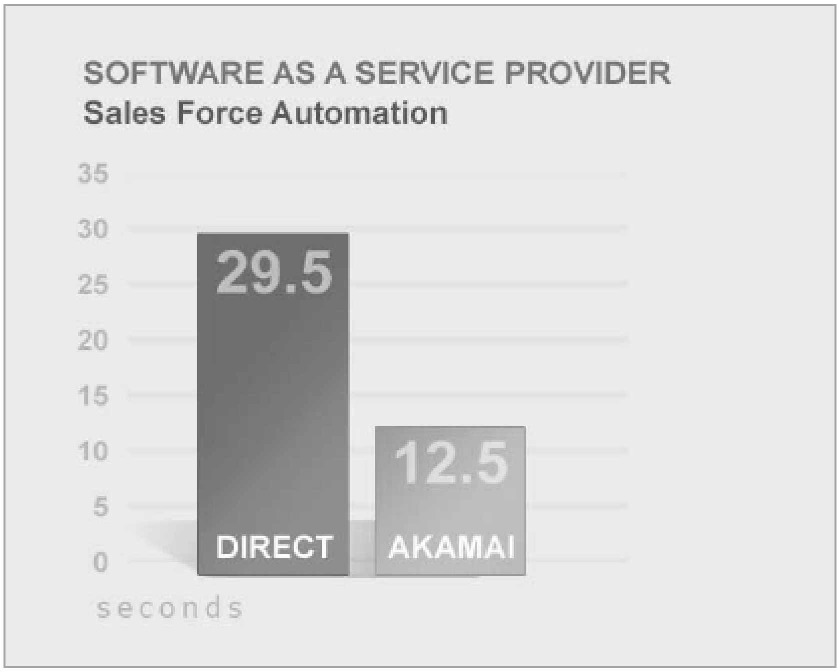
The company should focus on strategies that large companies use in order to fuel innovation. Firms such as Google and Intel incentivize innovation processes in order to remain nimble as larger companies. For example, companies such as Intel and IBM allow their developers to use a percentage of their time to work on any project that they propose, provided that they give periodic updates. This ensures that developers can investigate their ideas without sacrificing productivity.[11] Successful strategies include monetary bonuses for developers that innovate and add value to the existing platforms and applications. Salesforce should improve monetary incentives focused on using the knowledge tapped by the Force.com platform Also, the cloud computing model allows the company to use the talent of developers globally, and because of this the in-house developers should focus on recognizing innovative additions to the platform. The Force.com platform has inherent monetary incentives because global talent receives payments for their ideas, in the sales of their applications on AppExchange. Creating an incentive to recognize the innovations coming into the company, as well as encouraging ideas within the company, Salesforce.com will leverage its entrepreneurial edge and further fuel its impressive growth.

Pursue Strategic Partnerships

Salesforce.com currently runs a consulting services partner program and an independent software vendor program to enhance their force.com service. While these provide a marginal benefit to the company, they should aggressively pursue a partnership with larger cloud computing service providers. Companies such as Akamai can accelerate the delivery of Salesforce's products and therefore increase their competitive edge (See Figure 5). By engaging in this large partnership, Salesforce can mitigate the threats of competition because companies such as Akamai will be invested in the success of Salesforce. The necessity of a large strategic partnership is evident because SAP, one of the company's direct competitors, is a large client of Akamai.[12]

FIGURE 5

(Time to complete a web processing request)



Source: Akamai Technologies (White Paper)[13]

The enhancement of the cloud computing offering should remain Salesforce's top priority. To ensure Salesforce's future growth and strength, the Force.com platform must gain traction and drive new revenues. Therefore, firms that complement the offering, such as Akamai, should be investigated and developed into a strategic partnership.

Appendix

Salesforce.com Income Statement

In Millions of USD (except for per share items)	1/31/2010	1/31/2009	1/31/2008	1/31/2007
Revenue	1,305.58	1,076.77	748.7	497.1
Other Revenue, Total	-	-	-	-
Total Revenue	**1,305.58**	**1,076.77**	**748.7**	**497.1**
Cost of Revenue, Total	257.93	220.47	171.59	118.89
Gross Profit	**1,047.66**	**856.3**	**577.11**	**378.21**
Selling/General/Admin. Expenses, Total	800.49	693.03	492.99	337.19
Research & Development	131.9	99.53	63.81	44.61
Depreciation/Amortization	-	-	-	-
Interest Expense(Income) - Net Operating	-	-	-	-
Unusual Expense (Income)	-	-	-	-
Other Operating Expenses, Total	-	-	-	-
Total Operating Expense	**1,190.31**	**1,013.03**	**728.39**	**500.7**
Operating Income	**115.27**	**63.74**	**20.31**	**-3.6**
Interest Income(Expense), Net Non-Operating	-	-	-	-
Gain (Loss) on Sale of Assets	-	-	-	-
Other, Net	-1.3	-0.82	0.14	1.31
Income Before Tax	**142.38**	**85.59**	**46.21**	**12.5**
Income After Tax	**84.69**	**48.03**	**22.83**	**2.7**
Minority Interest	-3.97	-4.61	-4.47	-2.22
Equity In Affiliates	-	-	-	-
Net Income Before Extra. Items	**80.72**	**43.43**	**18.36**	**0.48**
Net Income	**80.72**	**43.43**	**18.36**	**0.48**
Preferred Dividends	-	-	-	-
Income Available to Common Excl. Extra Items	**80.72**	**43.43**	**18.36**	**0.48**
Income Available to Common Incl. Extra Items	**80.72**	**43.43**	**18.36**	**0.48**
Diluted Weighted Average Shares	128.11	125.23	122.42	120.15
Diluted EPS Excluding Extraordinary Items	0.63	0.35	0.15	0
Diluted EPS Including Extraordinary Items	**-**	**-**	**-**	**-**
Dividends per Share - Common Stock Primary Issue	0	0	0	0
Normalized Income Before Taxes	**-**	**-**	**-**	**-**
Effect of Special Items on Income Taxes	-	-	-	-
Income Taxes Ex. Impact of Special Items	-	-	-	-
Normalized Income After Taxes	**-**	**-**	**-**	**-**
Normalized Income Avail to Common	**-**	**-**	**-**	**-**
Basic Normalized EPS	-	-	-	-
Diluted Normalized EPS	0.63	0.35	0.15	0

Salesforce.com Balance Sheet

In Millions of USD (except for per share items)	1/31/2010	1/31/2009	1/31/2008	1/31/2007
Cash & Equivalents	1,011.31	483.83	279.1	86.61
Short Term Investments	230.66	213.77	171.75	165.82
Cash and Short Term Investments	1,241.96	697.6	450.84	252.42
Accounts Receivable - Trade, Net	320.96	266.56	220.06	128.69
Receivables - Other	-	-	-	-
Total Receivables, Net	320.96	266.56	220.06	128.69
Total Inventory	-	-	-	-
Prepaid Expenses	42.31	20.05	17.68	11.78
Other Current Assets, Total	100.92	84.35	52.23	26.2
Total Current Assets	**1,706.16**	**1,068.56**	**740.81**	**419.1**
Property/Plant/Equipment, Total - Gross	176.81	132.99	78.83	54.06
Accumulated Depreciation, Total	-87.1	-55.97	-37.45	-23.91
Goodwill, Net	48.95	44.87	8.56	6.71
Intangibles, Net	41.55	39.67	24.57	14.27
Long Term Investments	485.08	184.96	218.96	160.09
Other Long Term Assets, Total	88.74	64.74	55.32	34.52
Total Assets	**2,460.20**	**1,479.82**	**1,089.59**	**664.83**
Accounts Payable	14.79	16.38	7.48	8.87
Accrued Expenses	194.74	163.21	126	77.33
Notes Payable/Short Term Debt	0	0	0	0
Current Port. of LT Debt/Capital Leases	-	-	-	-
Other Current liabilities, Total	698.6	587.38	472.44	286.99
Total Current Liabilities	**908.13**	**766.97**	**605.92**	**373.19**
Long Term Debt	450.2	0	-	-
Capital Lease Obligations	-	-	-	-
Total Long Term Debt	**450.2**	**0**	**0**	**0**
Total Debt	**450.2**	**0**	**0**	**0**
Deferred Income Tax	-	-	-	-
Minority Interest	12.86	10.7	8.94	4.63
Other Liabilities, Total	45.21	30.37	22.67	5.22
Total Liabilities	**1,416.40**	**808.04**	**637.53**	**383.04**
Redeemable Preferred Stock, Total	-	-	-	-
Preferred Stock - Non Redeemable, Net	-	-	-	-
Common Stock, Total	0.13	0.12	0.12	0.12
Additional Paid-In Capital	938.54	648.72	471.8	319.5
Retained Earnings (Accumulated Deficit)	106.56	25.84	-17.59	-35.63
Treasury Stock - Common	-	-	-	-
Other Equity, Total	-1.43	-2.9	-2.28	-2.19
Total Equity	**1,043.80**	**671.78**	**452.06**	**281.79**
Total Liabilities & Shareholders' Equity	**2,460.20**	**1,479.82**	**1,089.59**	**664.83**

List of Subsidiaries

Name of Entity	Jurisdiction
SFDC Australia Pty. Ltd.	Australia
Salesforce.com Canada Corporation	Canada
Salesforce.com Information Technology (Shanghai) Co., Ltd.	China
Salesforce.com France SAS	France
Salesforce.com Germany GmbH	Germany
Salesforce.com Hong Kong Ltd.	Hong Kong
Salesforce.com India Private Limited	India
SFDC (EMEA) Limited	Ireland
SFDC International Limited	Ireland
SFDC Ireland Limited	Ireland
Salesforce.com Italy S.r.l	Italy
Kabushiki Kaisha salesforce.com	Japan
SforceSystems Korea Limited	Korea
SFDC Luxembourg SARL	Luxembourg
SFDC Mexico S. de R.L. de C.V.	Mexico
SFDC Netherlands B.V.	Netherlands
Salesforce.com Singapore Pte. Ltd	Singapore
Salesforce Systems Spain, S.L.	Spain
SFDC Sweden AB	Sweden
Salesforce.com Sàrl	Switzerland
Salesforce.com Taiwan Limited	Taiwan
SFDC UK Ltd.	United Kingdom
Koral Technologies, Inc.	United States
salesforce.com, LLC	United States
Sedona Acquisition Corporation	United States
InStranet, Inc.	United States
InStranet	United Kingdom
Informavores Group Ltd	United Kingdom
Informavores Ltd	United Kingdom
Informavores Technologies Ltd	United Kingdom

Source: Salesforce.com FORM 10-K - EX-21.1

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