



Strategy Briefing

CA Technologies Go-to-Market Strategy: A Briefing by CEO Mike Gregoire

Executive Summary

For years CA Technologies has needed a strong visionary/business manager at the helm to set the company's strategic direction and to align resources to support its chosen initiatives. In January, 2013, CA Technologies hired that visionary/business manager: Mike Gregoire (former president and chief executive officer of Taleo Corp – one of the industry's largest on-demand/cloud software companies).

Over the past year it has been a real treat to watch this self-described “business manager” take over the reign and set direction at CA Technologies. In just over a year, Gregoire has:

1. Articulated the company's market strategy;
2. Started to rationalize the company's product portfolio;
3. Maintained research and development funding;
4. Realigned the company's marketing organization;
5. Realigned the company's sales organization;
6. Restructured internal business processes; and has
7. Experimented with new service delivery models.

Based-upon these actions, *Clabby Analytics* sees a solid growth path for CA Technologies in years to come:

- From a marketing strategy perspective the company is now focused on three areas: 1) IT business management; 2) DevOps; and, 3) security;
- The company's portfolio is being rationalized – funding now matches CA Technologies growth opportunities, while revenue neutral/loss products are being divested;
- R&D investment is \$600m a year – a healthy rate for a company with revenues of \$4.6 billion;
- CA Technologies marketing organization has been aligned with the company's major initiatives – and the company is becoming more focused on targeted digital marketing;
- CA Technologies sales organization has also been aligned – with sales goals matched with the company's major initiatives, as well as a stronger emphasis on partnering;
- Internal processes are being revamped in order to streamline operations; and,

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- CA Technologies is experimenting with new software delivery models (including Software-as-a-Service (SaaS) and [Snap](#) licensing).

In this *Strategic Briefing* report, *Clabby Analytics* shares our findings based upon an analyst meeting hosted by CA Technologies in New York City in February, 2014. This report describes Mr. Gregoire's market view; his management style; and the actions that he is undertaking to realign the company to "figure out where the market is going and get there first".

CA Technologies Analyst Briefing: The Big Picture

In his keynote introduction, CA Technologies CEO Mike Gregoire presented his view of the IT marketplace, corresponding opportunities for CA Technologies, and how CA Technologies is reorganizing itself to capitalize on those opportunities. He described CA Technologies primary challenges as being: 1) the need to *innovate*; 2) *execution* of the company's initiatives; and, 3) *speed* of execution.

With great candor, Gregoire described the company, when he inherited it, as needing to invest more heavily in organic growth; needing alignment to support the company's major initiatives; and needing to streamline processes (CA Technologies, like many large companies, had lost its ability to respond nimbly to market opportunities due to process flow obstacles). Gregoire's role, as he saw it, was to more clearly articulate the company's strategic direction and growth path; realign resources to support the company's foci; and break-down process obstacles while introducing new approaches to software sales and support.

A Closer Look at Each of CA Technologies "Change the Company" Initiatives

As described in the *Executive Summary*, we see seven distinct activities that are taking place at CA Technologies that are leading to sweeping changes in how the company goes-to-market as well as how it manages its portfolio and resources. CA Technologies has:

1. Articulated the company's go-to-market strategy;
2. Rationalized the company's product portfolio;
3. Increased research and development spending;
4. Realigned its marketing organization;
5. Realigned the company's sales organization;
6. Restructured internal business processes; and has
7. Experimented with new service delivery models.

In the following subsections, we take a closer look at each of these initiatives.

CA Technologies Go-to-Market Strategy

CA Technologies is an infrastructure software product maker with particular strengths in IT service management, mainframe management, development tools and utilities, mobile applications development and security. As such, the company is ideally positioned as a cloud infrastructure service provider; a SaaS provider; a provider of streamlined, and

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accelerated DevOps (development/operations) environments; a mobile computing provider; and as a maker of secure computing environments (with a strong specialty in identity management in on-premises, shared infrastructure, and public cloud environments). What the company needed to do was to articulate a clear strategy that could serve as the basis for the company's sales and marketing efforts and its R&D investments – while also creating competitive differentiation from all of the other cloud/SaaS/mobile/secure infrastructure product makers.

Rationalizing the Company's Product Portfolio

As with many major software vendors with broad portfolios, some products are major successes while others do not meet revenue expectations. Choosing which products stay in the portfolio becomes an exercise of examining how much it costs to support and continually develop a product versus the revenue the product generates. Products that don't generate positive revenue are closely scrutinized at CA Technologies – and funding is given to growth products. In some cases, functionality from revenue neutral/negative products is rolled into other products. In other cases, products are farmed-out to third-parties, or customers can retain the use of these products but support is discontinued.

Fortunately for CA Technologies, many of the products that the company has invested in over the years complement one another – so unified product offerings such as CA Chorus can be created where synergies in the management of databases, systems, storage and more can all work together to create an efficient management environment. This same concept holds true with CA IT Service Management, where a wide variety of products are being integrated by CA Technologies to deliver comprehensive management solutions to CA Technologies customers.

CA Technologies R&D Investment

CA Technologies is spending a quite impressive \$600m a year on R&D – about 13% of its revenues (\$4.6B in 2013). This compares with companies like Hewlett Packard that spends about 2.8% of its revenues on R&D, and with networking companies that spend about 14% of their revenues on R&D. Note: it is not quite fair to compare R&D spending of companies that make commodity high-volume PCs (for instance) to software-only companies (see this [article](#) for a balanced perspective) – but, from our perspective, CA Technologies spending is in line with the type of investment that it will need to make to continue to build innovative software products as well as to continue to perform “organic” integration of its respective product offerings.

Realigning Marketing

What Gregoire inherited when he came into CA Technologies was a company that had numerous strategic directions – and numerous supporting marketing organizations. His big challenge has been to align his current marketing organization around the key strategic themes (IT management, DevOps and security) – and to divest the company of skill sets no longer required while building new skills in the company's chosen focus markets.

As Gregoire puts it: “great marketing can make a humongous difference” – and he is fully committed to building a great marketing organization.

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In addition to realigning skill sets, some of the additional marketing actions that CA Technologies has undertaken include:

- A stronger focus on more targeted marketing (especially digital marketing and demand generation);
- A focus on effective, efficient, high impact marketing; and
- More marketing feet-on-the-street (with senior marketing people providing more sales/customer visits and support).

Over the past year we have seen an increased emphasis on digital reach-out with greater numbers of Tweets; with more Webinars; with more and more e-mails, and with greater overall emphasis on reaching the customer digitally. We have even participated in some of these activities (see this [link](#) to a combined Clabby Analytics/CA Technologies/customer panel discussion of the CA Technologies Dynamic Data Center). We believe that CA Technologies strong focus on digital marketing combined with more targeted marketing efforts will have a material effect on CA Technologies future growth.

Realigning Sales

Product rationalization, marketing realignment and sales realignment all go hand-in-hand. To ensure that a company reaches its goals, sales plans (particularly compensation plans) need to be aligned with the overall corporate goals. Under Gregoire's leadership – and with the recent promotion of Adam Elster (who previously headed CA Technologies Mainframe and Customer Success business) to executive vice president and group executive, Worldwide Sales and Services, CA Technologies believes it has found a customer-sensitive sales executive who can help drive sales. According to Gregoire “Adam has a proven track record connecting technology and innovation to customer needs – he has led some of our most important businesses and sales teams, and will help us to accelerate the transformation of our sales organization, better serve customers and drive growth.”

One area particularly worth watching closely is global sales. CA Technologies North America sales have remained solid over the past several years – but softness in Europe and lack of strong growth in other geographies (except Brazil, where growth has been exceptional) – has led CA Technologies to focus more on generating revenue in foreign geographies through partnerships. CA Technologies now carefully chooses business partners with specific expertise and allows these business partners to sell particular products exclusively in various geographies (thus limiting local competition and helping to ensure business partner success). It will be interesting to see if CA Technologies new global partner approach help generate noticeably more revenue over the forthcoming year.

Restructuring Business Processes

Although no specifics were presented, Gregoire mentioned that complicated business process flows were affecting CA Technologies ability to respond more agilely to business situations. As with all companies, efficient business process flows can help reduce sales, general and administrative costs – leading to lower operating costs (and the savings pass directly to the company's bottom line as direct process). If CA Technologies profitability

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suddenly improves over the next several quarters, it is reasonable to expect that some of this improved profitability is coming from more efficient process flow.

Experimenting with New Service Delivery Models

When we first heard Mike Gregoire speak (at CA World 2013 in April 2013), he talked about how the current software licensing model needed to change. The problem with the traditional model, he contended, was that it was not encouraging customers to upgrade because costs sometimes became prohibitive. So, in some cases, even though new functionality is available, IT users fail to get access to that new functionality due to purchasing restraints. Failure to upgrade has a negative effect on vendors too: customers on old revisions still need to be supported – which means a vendor needs to make changes to old revisions or support functionality on old revisions rather than working in lockstep with customers on new revisions with new functionality. Gregoire described the way the new model should work as like an application in iTunes where the original application may receive frequent updates on a regular basis – enabling the customer to get access to the latest greatest functionality and bug fixes.

Much work needs to be done to translate this kind of thinking into a business model that generates ongoing revenue for the vendor while limiting the economic support impact on the customer. But CA Technologies approach to SaaS packaging and pricing is a big step in the right direction. CA Technologies is expecting a large shift from traditional licensing to the SaaS revenue model over the next few years. And we expect that over the next decade, the lion's share of CA Technologies revenue will come from subscription-based SaaS services – either hosted on premises or hosted by CA Technologies.

As for traditional software licensing models, CA Technologies is innovating in software licensing of certain products such as its [CA Nimsoft Monitor Snap](#) packaging. CA Technologies recently announced a new version of its cloud/virtualization/network/-database/user experience monitoring tool known as CA Nimsoft Monitor Snap. This new solution is based on the premium version of CA Nimsoft Monitor – but now anyone can download the software and monitor up to 30 devices for free. This isn't a limited time trial – it is free for as long as a business wants to use it. It can be downloaded, installed and configured to monitor physical and virtual servers, private clouds, storage, end-user experience, networks, packaged apps and databases from a single user interface. Not only that, it provides many of the same capabilities as the full version of CA Nimsoft Monitor including dashboards, reports, thresholds, alarms and notifications.

We like what we're seeing in terms of innovative software packaging from CA Technologies – especially this new Snap edition of CA Nimsoft Monitor. Getting people to try the product before they buy it – with no purchase obstacles in the way – is the kind of innovation that we are looking for from CA Technologies in the future.

Summary Observations

CA Technologies transformation is a textbook example of how to change a company. Under Mike Gregoire's leadership, the company has now focused on three major growth initiatives: 1) IT management; 2) DevOps; and 3) Security. Within each of these

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categories CA Technologies believes that it has sufficient product depth and distinct research and development expertise to differentiate itself from competitors.

Once the strategic direction is set, it is necessary to realign resources to support this direction. And Gregoire's marketing and sales organizations have been realigned, and will constantly be tuned to operate with maximum efficiency. From a marketing perspective it will be extremely interesting to watch CA Technologies progress in digital marketing – more targeted marketing to prospects and customers using new and varied approaches including email, Twitter, Webinar – and more. If CA Technologies can fine tune this system, great results can be expected. As for R&D, CA Technologies is investing a significant amount of its revenue into research and development. It expects payback through new innovations (getting to market first with great products) – and it expects payback through “organic growth” (taking its existing portfolio, improving it, and integrating it with other complementary CA Technologies products). We are seeing solid results from these investments (look for our CA Chorus write-up next month on our www.ClabbyAnalytics.com website).

The one area that we want to watch a lot more closely is CA Technologies global sales. New sales leadership and a new approach to creating partnerships and giving partners exclusive rights to sell in specific CA Technologies products in specific geographies should help drive global revenue upwards. Plus, CA Technologies continues to invest in more “feet-on-the-street” (direct sales) as needed. Global growth will be important to CA Technologies' future – the company really needs to show progress on this front.

All in all, Mike Gregoire's progress in the year he has been at CA Technologies has been remarkable. He has had to articulate a future growth strategy, align R&D/marketing/sales to support that strategy – as well as change business processes and experiment with new delivery models. We are expecting good results from these efforts – and will be quite interested in tracking CA Technologies progress on a quarterly basis to look for signs that Gregoire's strategy and alignment (his company's transformation) is putting CA Technologies back on the fast-growth track.

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