martinwolf

Executive Perspective®

Unique Viewpoints from Industry Leaders

July 2015

Tony DiBenedetto

Chairman and CEO, Tribridge

Editor's Note: *In this month's issue of Executive Perspective, **martin**wolf interviews Tony DiBenedetto, Chairman and CEO of Tribridge. Tony leads the strategic direction, development, and vision of Tribridge, a technology services firm specializing in business applications and cloud solutions. He has 30 years of experience in the technology services industry, with a focus on executive management, business innovation and high-impact growth. The recipient of numerous leadership awards, including the Ernst & Young Florida Entrepreneur Of The Year® Award in Technology and induction into the Florida State University College of Business Hall of Fame, Tony has led the firm through the successful acquisition and integration of several companies, resulting in a compounded annual growth rate of over 40 percent each year. Tony holds a Bachelor of Science in Business Management Information Systems from Florida State University.*

You've been at Tribridge for about 17 years. What keeps you interested and engaged in the business?

Seventeen years is a long time to be with one company. There are three things that motivate me. First of all, I love solving problems and helping people. It's motivating when you're in a business that helps people solve their most difficult problems. We served about 2,200 customers last year. Many of them had very difficult global strategic challenges. So there's a great reward in successfully solving those problems.

Second, I'm in a field that is rapidly changing. My job is to come up with a strategy and make sure we have the resources to execute that strategy. The whole tech field is changing: cloud deployment models, players, subscribers, and business models. My job is to predict, in an intelligent way, where the market's going so we can serve our customers to solve those problems. I'm very motivated by that constant change and fresh look at the market. It makes the job look challenging every day.

Third, I'm always motivated by the culture we have. I didn't anticipate this. We have 650 people across the globe and we start experiencing people's weddings, children, and grandchildren. We have people who have been with us for 15-17 years, going from newbie, to leader, to Vice President, to President. You get to see people's lives unfold, and you ride the rollercoaster of the good and the bad of that as part of the job. Overall, watching people grow is a very gratifying experience.

What has your experience been like working with the PE firm LLR Partners?

Having PE in an entrepreneurial company like ours creates change. I admit I was a bit nervous about it in the beginning. Prior to LLR, I had experience with outside investors but not with PE firms. Overall, I think we're pretty lucky. LLR has believed in our strategy. Certainly they're a PE firm, and they get all the reports on our financial performance, but they've been very supportive of our strategy and constant change in the market.

Early on in 2011, I pitched an idea for an acquisition at the board level, and all the board members commented. And then the lead member from LLR, Dave Reuter, basically said, "I hate this idea. This is a financial buy, it's not strategic enough." Then he stopped, and he looked at me, and said, "Well, Tony, what do you want to do?" I thought it was funny that he asked because he pretty much shot it down. But he said, "That's just my opinion. You've heard all the board members talk about it, now what do you want to do?" And I said that I still want to do it and listed the reasons why. I agreed that it wasn't as strategic, but it was still a good acquisition for us. So I was very impressed that even though he was representing a PE firm, he was willing to go with management's recommendation.

"I realized that we had the same goals: we're trying to grow the company and create value for the shareholders."

We got a return on our capital in 12 months so it worked out. But that showed a lot about the kind of relationship we have with the people at LLR. It put me at ease. After that moment, I realized that we had the same goals: we're trying to grow the company and create value for the shareholders. It allowed me to trust them and be who I am as an executive.

We've made two strategic moves that demonstrate LLR's presence at Tribridge. First, we invested in a startup called Concerto Cloud Services. We used that investment to start our own virtual private cloud business. It's been a huge success, and we've experienced 100% revenue growth each year since launching in 2011. Had we not had the capital or the agreement with LLR, we would not have had the ability to make that investment and would be a very different company today. Second, we continued to grow the strategy outside of our traditional ERP and CRM business. We acquired a company about two years ago to launch our own human capital management practice, and again, there was no way we could have done that if we didn't have the guidance and capital of LLR partners. I look at those two things and know our company was dramatically impacted by the relationship.

I don't know if many other CEOs can tell the same story with their PE relationships. To be fair, we also tripled the business on a revenue basis and quadrupled it on a profit basis in the time that return, so it allows us to have a solid relationship.

How did LLR get involved in the first place?

We hired an investment banker in 2010 to conduct a search. We were at a pivotal point in which the owners of the business were also the people working in the business. There was a lot of internal consensus to make strategic decisions. It was time for bolder steps. We felt like we had the DNA to be a much bigger company but didn't have the capital or the structure to do it. Some of the partners wanted to sell, but I wanted to grow the company. We found a partner who allowed some of them to take chips off the table and let me continue with the company in the same role and move forward. LLR was willing to buy out some of the people and give us capital at the same time.

There was a silver lining in that [Oracle] is converting to a subscription model, which in the long-term will pay out.”

Oracle’s Q4 Earnings report was generally seen as a disappointment to investors, largely because of decline new software licenses. Do you see that to be an anomaly that just affected Oracle and all the other large enterprise companies who are putting all their bets into moving into the Cloud?

When you look at Oracle's release, they blamed currency. There's no doubt that had an impact. But if you remember the report, they also talked about the strong cloud quarter they had. They were predicting $1.5B to $2B in cloud revenue for the fiscal year, and I was a little shocked by that. I see Oracle as an old company, slow to change. I don't know how they're counting cloud, but I was very impressed with the $2B number. I'm surprised the market reacted negatively. There was silver lining in that they are converting to a subscription model, which in the long-term will pay out.

From firsthand experience at Tribridge as well as just watching the market, it's going to take several years to switch from big bang front-end dollars to a subscription model because you're cannibalizing your own licensing revenue.

The question is, can Oracle, IBM, Microsoft, or SAP show the formula that allows the public to understand the long-term value of converting licensing revenue into a subscription model? If they figure out the math and disclose to the public that, for example, the 20% increase in subscription revenue represents X% cannibalization of licensing revenues, and whether it is good or bad. Until they do that, everyone will be confused by the results. But the smart analysts and investors will ask that question and they're going to have to get the answers. It's hard to tell whether the increase was a net market share increase or not.

Oracle will have to address the issue, but I think it's a natural evolution for all the legacy companies. If the market is going to penalize them for that then they'll have to pull back on cloud because they're getting beaten up. The brave CEOs are going to say we don't care what the market says, we have to go cloud, and we're going to continue to take market shares. I'm hoping they ignore the short-term impact to their stock and get the long-term benefit of subscription licensing. You can tell from reading the press releases that Larry Ellison is all-in for the cloud, but whether he pulls it off or not is another story. Fusion took forever.

"Customers will have greater success because they're spending more of their dollars implementing than they are paying for software. It's a net positive for everyone."

How does the transition specifically affect Tribridge from traditional licensing to SaaS and the new focus on the cloud throughout the industry?

When I look at the market, I always try to view it through the eyes of a customer. Ultimately, if you can make the customer happy, then you have a good business. When I think about what cloud does for a customer, I'm pretty excited about the transition, because for the first time in long time, we now align cost and benefit.

For traditional legacy software, a customer pays millions of dollars upfront with the hope that several years from now they will realize the benefit. The software company is not going to make a lot of money from subscription revenue in the short term, but the customer will benefit. In the long term customers will pay more, but in the short term, they're not taking on all the risk. Aligning costs and benefits is a win-win for the customer and Tribridge. It allows the customer to focus on a bigger footprint of what they need to change.

Sometimes we would run into customers who spent so much on software that they were reluctant to invest in services, so the work didn't get done right. But when software costs a lot less, they're willing to invest in the services to actually implement it in the right way. Since we're a large integrator, it's important for us to do things the right way. Customers will have greater success because they're spending more of their dollars implementing than they are paying for software. It's a net positive for everyone. The software companies will figure out how to run a business around recurring revenue, and it will be good for the whole ecosystem.

"When I look at the large enterprise players, I think a lot of them have become awfully slow."

How would you rate, on average, the legacy providers vs. younger companies like Workday and Salesforce?

It's a pretty mixed bag. When I look at the large enterprise players – SAP, Oracle, Microsoft, IBM – all the big multi-billion global companies, I think a lot of them have become awfully slow. They've done well in acquisitions, though. SAP has done the big acquisition with SuccessFactors, and they have launched more cloud applications. The companies that have done better are the ones that started from ground zero. Look at ServiceNow, Workday, NetSuite, Google, or Amazon. They've done great because they don't have the legacy code or applications to rewrite. I'll give Salesforce pretty high marks because they started as a cloud company before it was even called that. I think the issue is that they're so large now.

I'll give Microsoft some credit in a couple of places. Five years ago, the press and analysts were saying, "Microsoft is on the decline," "Office is going to go away," "Google is going to eat their lunch." But have you seen any company switch platforms as quickly as Microsoft? Word and Office went completely cloud, and Office 365 was a huge success. They lost almost no market share to Google, who is not viewed highly in this realm in my opinion. I'll give Microsoft an A+ for a giant company being able to switch that part of their business so quickly. I think they're slow in ERP and other apps, but they killed it with Office.

The market is starting to see Microsoft differently, and the new leadership under CEO Satya Nadella is moving much faster. As for the other players like IBM and Oracle, I think they'll figure it out but right now they're getting their lunch taken by the Workdays, NetSuites and Salesforces of the world.

As far as Salesforce goes, you mentioned in your recent Inc.com article that Salesforce, once a disruptor, now looks like it's facing the same challenges that it once posed to the big legacy companies. Are we not going to see any companies be able to achieve the huge legacy status that Oracle and Microsoft was able to achieve?

In general, larger companies wind up stifling creativity, creating more control and being more cognizant of the public market, so as a result they are innovating less efficiently. Even though Salesforce is relatively new compared to IBM or Microsoft, I think they are in a dangerous spot because they own the market in CRM. I'll give them an A+ for developing a platform that represents their future, but on the CRM side there are plenty of start-up and niche companies that are going to eat their lunch. Even little Sugar is starting to take a tremendous amount of their market share.

"Even though Salesforce is relatively new compared to IBM or Microsoft, I think they are in a dangerous spot because they own the market in CRM."

Salesforce's saving grace, however, could be on the platform side, allowing developers to build apps in their platform. But I think it's going to be hard, because when you're really big with those kinds of numbers, it's hard to be disruptive. I don't see Salesforce being disruptive right now but rather being part of the old guard. They have to figure out sub-verticals or parts of the company that can jump on steps like the Internet of Things. I haven't seen them launch a lot around that. It'll be interesting to see what role they play in IaaS knowing they have a specific app platform viewpoint. I think Salesforce is poised for an acquisition and that's why the Microsoft rumor went around. The big guys – IBM, Oracle, Microsoft – would want to buy Salesforce to get the platform. But as a company, I'm concerned that they jumped the shark, which is why I wrote that article.

ServiceNow was the first to look at how we automate IT, and then they realized they could take the same disruptive approach to HR, call centers and the front office. Now Salesforce, ServiceNow and Workday are all competing. ServiceNow wasn't even on the radar for Workday a year ago, and now they're a

$500M company. The companies who are winners are starting to bleed into the others' businesses, which I think is interesting. Salesforce has their work cut out for them.

Do I think anyone can become super big? There's danger in it. I can't give you a good example of a company that has stayed super innovative at a large size, expect perhaps Apple – but they are in the consumer space, so that's a little different. If you're serving a lot of masters, you tend to have a very diluted message in the market instead of having a focused micro-message. For example, Mark Benioff, instead of just figuring out one thing is figuring out 20, because people like him can't get their peers to be as innovative as they are.

"I can't give you a good example of a company that has stayed super innovative at a large size, except perhaps Apple – but they are in the consumer space."

Tell me about the rise of the hybrid cloud concept.

Again, I'll focus on what the customers' needs are. When we got into the hybrid cloud business, our whole thinking about private cloud was that people need high performance and governance for critical workloads. But like anything else, people are now buying a lot more best-of-breed clouds. Customers are saying that ServiceNow is good for IT service, Salesforce is good for CRM, Amazon is good for e-commerce, and Workday is good for HR. Now you have four or five clouds and they're not talking to each other, which is a challenge.

When I think of hybrid I consider two things. First, customers want their clouds interconnected. You need a platform that goes across those public and private clouds to share data. Second, the cost and performance you get in public and private clouds are different. We wanted to put the power in the hands of the customer to say they might want their ERP in the private cloud and CRM in the public cloud, or they want to move workloads depending on governance or performance needs. That's why we created a hybrid cloud.

If we can give that power to the customer and they can take advantage of the pricing or governance, then a hybrid cloud is a homerun. When we started getting that feedback from our customers about two years ago, we began developing our hybrid cloud model. We're about to launch one with AWS, which will attract customers because they're not seeing other providers offer a true hybrid cloud model in which they control where the workload goes. Hybrid is where the cloud's going, and that's what Concerto wants to do.

"Because we've been so focused on solutions, our growth rate outpaces the market by probably four or five times. We're growing at such a fast pace because we're not worrying about building the next platform but rather solving a customer's business problem."

How have you been able to maintain your strong growth rates?

You grow with the strategy. Determine where the buying is happening today, where you think it's going, and then build a strategy around where you think you'll be able to help the customer. We have had great organic growth over the years sprinkled with key acquisitions at the right time. From an M&A perspective, my role as a CEO is to start forming relationships with the people we might want to acquire three years from now. For a company we acquired in 2013, I had a five-year relationship with the CEO beforehand. If you're not buying, then the other part of your role is to be an innovator.

For Tribridge, I work to ensure that we're constantly looking at our model. When I mention the IT services model, people think of implementation or advising or BPO, but service companies like us really have to evolve from not just providing services, but also having a cloud offering, like we do with Concerto. Services companies need to start adding more value with IP on top of platforms, whether it's Salesforce or Google or Microsoft, which we started to do.

We developed a strategy for growth around cloud and solutions. How do we help our customers get to the cloud faster, and how do we build solutions that solve problems on top of all these great platforms that are in the marketplace? Because we've been so focused on solutions, our growth rate outpaces the market by probably four or five times. We're growing at such a fast pace because we're not worrying about building the next platform but rather solving a customer's business problem.

You have to be nimble and innovative to create the growth company that not only the PE firm wants, but frankly that team members and customers want. Our customers love the way we're growing because we're providing more value to them than we used to before.