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## Salesforce.com

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# ROBINS

## School of Business™

**Salesforce.com**

**January 2015**

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*“If I’m right — and I’m convinced I am — this on-demand model will totally change the way technology is bought and sold. In other words, it’s the end of software as we know it.”*  
**Salesforce.com CEO Marc Benioff.**<sup>1</sup>

Emblazoned on the Salesforce.com logo is the remnant of the company’s original mission: the end of software. That singular objective guided the company for the first 13 years of its existence. The phrase was ubiquitous across the company, even appearing on laminated cards given to every employee.

In the 1990’s, customer relationship management (CRM) looked a lot different than it does today. Back then, CRM software vendors operated through a product model in which clients would make large up-front purchases to operate the systems on-site. Then, Marc Benioff, at the time an employee of Oracle, had a revolutionary idea: offer CRM as a service rather than as a product, allowing customers to pay lower monthly fees rather than spending millions at the time of purchase.<sup>2</sup>

In March 1999, Benioff, along with Parker Harris, Dave Moellenhoff, and Frank Dominguez, founded Salesforce.com in a rented apartment. The vision, as expressed internally on April 12, 1999, was to “rapidly create a world-class Internet company/site for sales force automation.”<sup>3</sup> In January 2001, Salesforce.com rolled out the first version of their CRM software as an alternative to client-server based programs. Because traditional enterprise software systems were difficult to deploy, expensive to own, and lacked mobile access, Benioff believed the market was ripe for a web-based, subscription CRM solution.<sup>4</sup> Beyond universal access, Benioff sought to deliver a scalable, customer oriented, and flexible CRM software that could be quickly deployed by businesses and easily adopted by its employees. Salesforce.com has used the same criteria to launch all of its products, and over the last fifteen years, they earned over 50 product awards.<sup>5</sup>

Since then, Salesforce.com has grown to become the leading CRM software provider in the United States, bringing in over \$4 billion in revenue in fiscal year 2014, toppling software giants Oracle, SAP, and Microsoft. The company survived the dot-com bubble burst and thrived during The Great Recession. Benioff has quickly become an influential CEO in the United States, and Salesforce.com has become a global example for innovation while also leading the way in corporate social responsibility.

Based in San Francisco, California, Salesforce.com operates in 22 countries, divided into three geographic regions: The Americas, Europe, and Asia Pacific. In 2013, the Americas accounted for 71% of revenue, of which the United States accounted for 96%. Europe accounted for 18%, followed by Asia Pacific with 11%. The Americas also led the way in annual revenue growth, increasing by 37% over the previous year. Europe and Asia Pacific posted growth of 36% and 19%, respectively.<sup>6</sup> Although somewhat geographically concentrated, Salesforce.com is not reliant on any particular client or industry. It sells its services to companies of all sizes, and in almost every industry.

### ***Current Mission Statement***

“Our mission is to help our customers transform themselves into ‘customer companies’ by empowering them to connect with their customers, partners, employees and products in entirely new ways. Our objective is to deliver solutions to help companies transform the way they sell, service, market and innovate.”<sup>7</sup>

## BUSINESSES AND STRATEGIES

Salesforce.com categorizes its Software-as-a-Service (SaaS) into four core units: (1) Sales Cloud; (2) Marketing Cloud; (3) Service Cloud; (4) and the Salesforce1 Platform. All together, subscriptions to these services accounted for 94% of revenue in 2013, with the remaining 6% coming from the provision of related professional services, such as providing training and consulting to optimize client outcomes.<sup>8</sup>

*Sales Cloud.* The Sales Cloud is the flagship service and accounts for a majority of Salesforce.com's revenue. The service enables clients to consolidate and track information on customers, leads, and prospects throughout the sales cycle and forecast future sales opportunities. Built-in communication tools enhance collaboration by enabling the real-time sharing of information across the enterprise with any device.

*Marketing Cloud.* Salesforce.com significantly expanded its marketing capabilities with the acquisition of ExactTarget in 2013 for \$2.6 billion. The marketing cloud enables clients to gather, interpret, and analyze customer data from a broad range of channels and subsequently use that data to create personalized digital marketing content for any customer across any channel. The depth of customer insights allows management to improve the cost effectiveness of marketing activities.

*Service Cloud.* The Service Cloud focuses on connecting the customer service agents of clients with their customers across a multitude of devices and channels. This enables the customer service department to better assess and address customer service and support needs.

*Salesforce1 Platform.* The platform provides the infrastructure and tools to create business apps without the need for internal hardware or software. Clients can use the platform to integrate the services and information on Salesforce.com with an app custom tailored to their business needs, including apps for their own customers.

Salesforce.com has led the CRM market with integration of social media into all of four service areas, utilizing social media as both a source of data and two-way channel of communication. As the Marketing Cloud develops further, Salesforce.com will continue automating the process of turning raw social media data into actionable social intelligence.

### Competitive Strategy

Salesforce.com utilizes a differentiation pricing strategy, charging almost double what competitors charge. The recommended Sales Cloud package costs at least \$125 per user per month, not including optional add-ons. Its two main competitors in the CRM business, Microsoft Dynamics and Oracle, offer similar functionality for \$65 and \$75, respectively.<sup>9</sup> However, in order to appeal to a wide range of clients, Salesforce.com employs a tiered pricing structure for each of its core services, with higher prices corresponding to higher levels of functionality. The Sales Cloud ranges in price from \$25 per user per month for basic sales and marketing for 5 or

fewer people, to \$250 per user per month for the top-line Unlimited Edition. The Services Cloud is similarly priced from \$30 to \$260 per user per month.<sup>10</sup> Sales are conducted through a direct sales force, consisting of telephone sales professionals and regional sales representatives.

## **Innovation Strategy**

Salesforce.com fosters internal innovation by utilizing a management technique known as Scrum. In 2006, Salesforce.com encountered a problem endemic to large organizations—lack of innovation. In the early years, the company churned out an average of four major software releases each year, but as the company grew, so did the hierarchical bureaucracy used to manage it. Collaboration across functional silos became increasingly difficult and innovation stalled. Consequently, by 2006, the company was only delivering one major software release per year.<sup>11</sup> Salesforce.com executives refused to accept the dearth of innovation as the inevitable consequence of growth. Instead, they took decisive action and, in just three months in 2007, implemented a radical transformation from traditional management to the management practices of Scrum.<sup>12</sup>

Scrum replaces the traditional management hierarchy with decentralized, cross-functional teams. Each team consists of seven to 11 people, including a Product Owner, Development Team, and a Scrum Master. The Product Owner represents the stakeholders and is ultimately responsible for maximizing return on investment by identifying product features and translating them into a prioritized list. The Development Team is cross-functional, including all the expertise necessary to deliver the final product, but the members do not have individual titles or job descriptions. Although each team member brings specific expertise, the team members are expected to go wherever the work is, and such cross-functionality is encouraged as a learning opportunity. The Scrum Master serves the team. He or she works to enable the team by removing impediments, coaching other team members, and protecting the team from outside interference.

Each team is self-managing with a high degree of autonomy and accountability. Work is not delegated to team members by a manager; instead, the team meets at the beginning of each work cycle, called a “sprint,” to work out what needs to be done by whom in order to complete the iteration proposed to them by the Product Owner. Each sprint lasts for one-to-four weeks. During a sprint, the team is completely dedicated to completing that one, specific goal. If other issues arise, it’s up to the Product Manager to account for them in future sprints, but the goal and timeline of the current sprint do not change. During the sprint, team members meet daily to report on what they accomplished the day before, what they will accomplish that day, and what impediments they are facing. At the end of each sprint, the team meets to discuss the successes and failures of the sprint and how to improve in the future. Thus, Scrum combines a high level of transparency with a mechanism to address problems. Breaking down projects into short sprints allows the team to evaluate and improve performance with each iteration and provides the flexibility to improve the product itself throughout the development process.<sup>13</sup>

In its first year of Scrum, Salesforce.com released 94% more features, delivered 38% more features per developer, and delivered 500% more value to their customers compared to the previous year. Over the same time period, the percent of employees that reported having a “good time” or the “best time” working at the company increased from 40% to 86%, with 92% saying they would recommend Scrum to others.<sup>14</sup> In 2014, Salesforce.com ranked #1 on Forbes list of The Most Innovative Companies, a title they held for four consecutive years.<sup>15</sup>

## **External Growth Strategy**

In addition to internal innovation, Salesforce.com has achieved growth through acquisitions and strategic partnerships. Salesforce.com has acquired 30 companies since 2006. Since 2010, the focus of acquisitions has shifted from adding features to existing services to diversifying into new related services, including the introduction of the Marketing Cloud.

Strategic partnerships also play a key role in Salesforce.com's growth strategy. In a pattern indicative of the competitive landscape, Salesforce.com's most important partnerships are with its biggest rivals. In 2013, Salesforce.com and rival Oracle entered a nine-year strategic partnership to integrate their cloud computing services at all levels.<sup>16</sup> Less than a year later, Salesforce.com announced a strategic partnership with another rival—Microsoft. That partnership will similarly integrate the Salesforce.com platform and applications with Microsoft products, increasing compatibility between the two.<sup>17</sup> These partnerships reflect the truth that these companies share many common customers, and they expect rapid low-cost implementations and seamless application integrations, even when the applications are from different vendors.<sup>18</sup> Consequently, cooperative endeavors among otherwise fierce competitors are a common feature of the CRM market.

Partnerships have also formed the cornerstone of Salesforce.com's international expansion strategy. Partnership with Tokyo-based Nippon Telegraph and Telephone Corporation (NTT) allowed Salesforce.com to establish a data center in Japan in 2011 and in London in 2014.<sup>19</sup> Continuing with its European expansion, Salesforce.com recently announced a partnership with German telecom giant Deutsche Telekom, which will run Salesforce.com software and provide a sales fleet in the back yard of rival SAP.<sup>20</sup> More importantly, locating data centers within the EU allows Salesforce.com to circumvent EU regulations that prohibit storing certain types of data (such as personal financial and medical data) outside of the EU. This previously precluded Salesforce.com from offering its services to those industries and now presents an opportunity for growth.

## **Major Customers**

CRM system providers are business-to-business companies with large enterprises making up the majority of their customers. Salesforce.com is no different, with two-thirds of its customers being large businesses.

CRM providers serve many different business segments. For the industry in 2013, banks and financial institutions made up the biggest part of the customer base (26%), followed by retailers and online businesses (22%), healthcare and other service industries (21%), manufacturers (17%), and academic institutions and other (14%).<sup>21</sup> Salesforce.com's customer mix reflects that of the industry, with customers such as Wells Fargo Bank, Chipotle, the American Red Cross, Rosetta Stone, and Georgetown University, just to name a few.<sup>22</sup>

While large businesses are the ones that can afford CRM software-as-a-product (SaaP) services, the rapid rise of Salesforce.com as a software-as-a-service (SaaS) provider has opened the door for more small businesses to take advantage of what these CRM system providers have to offer. With the SaaS model, companies do not have to spend as much capital up front to purchase equipment or servers to house all the data.

While the SaaS model opens up a new set of customers for CRM system providers, the SaaS model also has much lower switching costs compared to SaaS. Under the SaaS model, a customer has to make significant investments in time and capital to thoroughly integrate the product with the physical resources like servers necessary to house the data. It is much less likely for a customer to switch after so much time and money has been spent to implement its current system. With the SaaS model, the investment of time and money is still there to integrate the system, but it is not nearly as much, which heightens the competition between SaaS CRM system providers.

## **LOOKING INSIDE THE COMPANY**

### **The Management Team**

Salesforce.com.com was founded by Marc Benioff, Parker Harris, Dave Moellenhoff, and Frank Dominguez. It is led by its Chairman and CEO, Marc Benioff, who has led the company since its inception in 1999.<sup>23</sup> Benioff is widely recognized for his visionary leadership and pioneering innovation. Many employees reference Benioff's unique hands-off management style. He is famous for casting a broad vision to managers and employees, responding to any questions with, "You'll figure it out."

Benioff is a 35-year veteran of the software industry, and prior to launching Salesforce.com he worked at Oracle for 13 years. While there, he was named Rookie of The Year at age 23 and became the company's youngest Vice President at the age of 26.

Since his time at Salesforce.com, Benioff has received numerous accolades. He was named to Fortune's Smartest 50 People in Tech in 2010, Top 50 People in Business, San Francisco's Executive of the Year in 2009, and even appointed by President George W. Bush as the co-chairman of the President's Information Technology Advisory Committee.

Keith Block, Oracle's former North American Vice President of Sales & Consulting, was hired in 2013 as Salesforce.com's President and Vice Chairman to be Marc Benioff's new second-in-command. Block is a 30-year veteran of the software industry, most recently leading an 11,000-person team to create a multi-billion dollar sales business unit at Oracle. Since his arrival, he has made several top-level management changes, hiring both Anthony Fernicola and Dan Smoot from Oracle. His changes are aimed at improving customer interfaces. The remaining executives of Salesforce.com are products of great industry experience and can be seen in Exhibit 1.

### **Major Shareholders**

Salesforce.com has been a public company since June 2004 and currently has 619 million shares outstanding with a value near \$39 billion, as of November 2014. Outside of the firm, Fidelity Investments holds the largest percentage of ownership, with 91 million shares, and Price (T. Rowe) Associates Inc. holds the second most, with almost 34 million shares. Inside of the firm, Benioff holds 39 million shares, making him the largest internal shareholder.

## **The Board of Directors**

The firm's Board of Directors is comprised of ten members with tremendous industry experience and diverse political involvement. It is led by Benioff as the Chairman and Block as Vice Chairman, with the remainder of the board members coming from outside of the Salesforce.com team, as shown in Exhibit 2.

## **Employees**

Salesforce.com employs over 13,000 employees and is well known by many inside and out of the company as a great company to work for.<sup>24</sup> It placed #50 on Glassdoor's *Best Companies to Work For* in 2014, #7 on Fortune's *100 Best Companies to Work For*, and was rated one of the *Most in Demand Employers* by LinkedIn. The company strives to treat its employees well and provides them an environment to grow. Salesforce.com regularly encourages its managers to move around every few years to prevent stagnation. Engineers and lower level managers can also jump to projects they find more interesting at annual internal job fairs.

## **Corporate Citizenship**

Salesforce.com has been named one of the World's Most Ethical Companies for the second consecutive year by the Ethisphere Institute, in large part because of its dedication to corporate citizenship.<sup>25</sup> Salesforce.com integrates philanthropy into its business with the "1-1-1 model," which dedicates 1% of the company's product, equity, and time to improving communities around the world. Leading the charge is the Salesforce.com Foundation, the philanthropic arm of the company, which supports more than 20,000 non-profits, has delivered more than 580,000 hours of volunteerism, and has contributed over \$55 million in grants.<sup>26</sup> According to company executives, a key criterion for acquisitions is the target company's dedication to philanthropic giving.<sup>27</sup>

Recently, Benioff has put pressure on fellow tech companies to follow Salesforce.com's lead and give back to their local community. The tech industry has been blamed for a rapid rise in the cost of living in San Francisco, and violent demonstrations even broke out against buses that transported workers to Silicon Valley in early 2014. In response, Benioff proposed that 20 tech companies give \$500,000 each to "SF Gives," an organization that fights poverty in San Francisco. "Our industry is not known for its generosity," Benioff said. "It's an opportunity for everyone to step forward in an easy, actionable way... We're going to make a list of every company in San Francisco, every tech leader, from the highest revenue and most employees, to the bottom. We're going to go right down the list and ask, 'Are you with us or not?'"<sup>28</sup>

## **Financial Condition**

Salesforce.com has seen rapid top-line growth over the last four years. In fiscal year 2014, the company brought in revenues of \$4.071 billion, compared to \$1.657 billion in 2011. The company has healthy gross margins, but those have declined over the last four years, moving from 80.46% in 2011 to 76.21% in 2014. While revenues have grown, Salesforce.com's operating income has declined each of the last four years. This has come about because of substantial increases in operating expenses, mainly marketing and sales as well as research and development.



The company boasts a healthy balance sheet, with its cash balance increasing each of the last four years. At the end of fiscal year 2014, Salesforce.com had \$782 million in cash on hand. The company has also seen a rapid increase in its plant, property, and equipment, with net PP&E more than doubling from fiscal year 2013 to fiscal year 2014. In order to finance its aggressive acquisition and growth strategy, Salesforce.com has had to take on more long-term debt, with \$1.302 billion on the balance sheet in fiscal year 2014 after two years in which the company had no long-term debt on its books.<sup>29</sup>

## COMPETITIVE LANDSCAPE

The CRM service provider industry, including both SaaS and SaaS offerings, is a mature industry worth \$7.3 billion, with annual growth expected to be 3.8% through 2018. The industry is highly concentrated, with the four top firms holding nearly 86% of the revenue. The SaaS CRM service segment represents 38% of the market and, with its relatively low upfront cost, is expected to continue growing as small and medium-sized businesses begin to look for opportunities to improve customer management.

The current U.S. domestic industry is on an upward swing from lower sales levels during the recession. Computer and software budgets were cut significantly during the recession, directly impacting all CRM firms negatively with significantly less SaaS purchases. As businesses began to recover and started to spend capital on computers and software in 2010, they chose to do so in smaller amounts. This led to an increase in SaaS purchases over the more traditional and capital intensive SaaS option, due to the low upfront costs and ability to adjust subscriptions on a monthly basis.

There are currently nearly 200 competitors in the industry, but that is expected to decline as top market performers such as Salesforce.com and SAP continue to grow rapidly and make more acquisitions. A key component for success in the CRM industry is the firms' ability to rapidly innovate or adapt to new technologies. Smaller companies will be forced out of the market due to an inability to compete with the larger companies, especially as the demand and the complexity of the industry increases over the next five years.<sup>30</sup>

### Global CRM Industry

The United States is home to all of the top CRM provider firms except SAP, which is based in Germany, but the international markets are a source of significant revenue and future growth. In 2014, the worldwide CRM industry was valued at \$20.6 billion and is expected to grow to \$36.5 billion by 2017.<sup>31</sup> Salesforce.com derived 34% of its revenue in 2013 from overseas. The ability to digitally distribute CRM solutions increases the ease for CRM firms to expand internationally, and as more countries across the globe further develop, an increasing number of small to medium-sized businesses will need customer management solutions.<sup>32</sup>

### Key Competitors

#### *SAP*

SAP, a German software company founded in 1972, holds the second most market share in the CRM industry, with 25.5% of the market in 2013. A quarter of SAP's sales are derived from the U.S., with 50% coming from Europe, the Middle East, and Africa.

SAP competes in the CRM industry with its *Business Suite* line of software products. In addition to traditional CRM functions, it also offers enterprise resource planning (ERP) functions used to combine back-office functions for service, manufacturing, and consumer industries. The company also offers an online CRM system, Sales OnDemand, which allows sales teams to manage accounts remotely.

The primary growth strategy of SAP is through acquisitions. In 2010, the company made one of its largest acquisitions for \$5.8 billion to acquire Sybase, a mobile software developer, to expand its *Business Suite* software to smartphones and other mobile devices.<sup>33</sup>

### *Oracle*

Oracle was founded in 1977 and is the world's largest enterprise software company, also providing hardware and services to companies, with over \$37 billion in total revenue for 2013 and 400,000 customers worldwide.<sup>34</sup> Nearly 75% of its revenue is derived from software sales, and it holds the third most market share of the CRM space with 18.4%, producing \$1.4 billion in revenue for 2013.

The firm's main strategy in recent years to innovate and grow has been through acquisitions. To expand its offerings and increase its competitiveness with Salesforce.com with cloud-based CRM systems, Oracle acquired RightNow, a cloud CRM provider, in 2011. Oracle released its premier cloud-based CRM system, Oracle Sales Cloud, in 2012. In August 2014, Oracle acquired TOA Technologies, an Ohio-based cloud software company, to further innovate their cloud CRM applications.<sup>35</sup>

Though Oracle and Salesforce.com are fierce competitors, in 2013 Oracle and Salesforce.com entered into a nine-year partnership to integrate their cloud systems to offer better products to their customers.<sup>36</sup>

### *Microsoft Dynamics*

Microsoft Dynamics, formed in 2001, is a part of the Microsoft Business Division of Microsoft Corporation, with a strategy focused on integrating multiple software components into one location. It has positioned its product at a lower cost than Oracle and SAP, but it is much more narrowly focused in its capability. Target businesses for its products are small to mid-sized companies that are looking for a software solution that can be flexible as they grow. Microsoft Dynamics leverages a large number of third-party add-ons its customers can implement into their products to increase flexibility. Microsoft Dynamics has also been driving expansion through acquisitions of other product lines.<sup>37</sup> Customers' familiarity with Microsoft products, given the wide adoption of the Windows operating system and other products (Microsoft Office), is a significant competitive advantage for the firm.<sup>38</sup>

## **LOOKING FORWARD**

Salesforce.com faces significant uncertainty stemming from the highly competitive and rapidly changing nature of the CRM industry. Thus far, Salesforce.com has excelled in this environment by combining Scrum management philosophies with an aggressive acquisition strategy to out-innovate its much larger and less agile competitors. Whether Salesforce.com can maintain the current pace of innovation is an open question. Despite strong growth in revenue, Salesforce.com has seen its operating profit margin deteriorate, placing it in the precarious position of having both higher prices and lower margins than its rivals. And as cloud services are increasingly commoditized, the downward price pressure will only increase.

## **EXHIBIT 1: KEY EXECUTIVES**

### **Marc Benioff - Chairman & CEO**

### **Keith Block - Vice Chairman and President**

### **Parker Harris - Co-Founder**

Parker Harris oversees product strategy for salesforce.com, from design to development to service delivery. Parker founded salesforce.com along with Marc Benioff, Dave Moellenhoff, and Frank Dominguez in the spring of 1999. Prior to founding salesforce.com, Parker developed cloud computing expertise at Left Coast Software, a company he co-founded in 1996, and sales force automation expertise at Metropolis Software, an early pioneer in field sales force automation subsequently acquired by Clarify.

### **Joe Allanson - SVP, Chief Accounting Officer and Controller**

Joe Allanson is salesforce.com's chief accounting officer and corporate controller and advises the company's management on all accounting matters. Allanson has been with salesforce.com since 2003. Prior to salesforce.com, Allanson spent four years at Autodesk and three years at Chiron Corporation in key corporate finance positions. Previously, he worked at Arthur Andersen LLP for 11 years in its Audit and Business Advisory Services group.

### **Jim Cavalieri - Senior Vice President**

Jim Cavalieri is a senior vice president at salesforce.com. He is responsible for managing executive priorities, alignment and strategy. Cavalieri joined salesforce.com in 1999 and has served in a variety of leadership roles for the company. Cavalieri was responsible for architecting, building and operating the original salesforce.com cloud computing infrastructure and data centers, building the company's IT organization, creating salesforce.com's Security, Technology Compliance and Risk Management programs and establishing the company's Trust organization. Prior to salesforce.com, Cavalieri held various technical and management roles at Oracle and also worked as a consultant and systems engineer at Electronic Data Systems (EDS).

## **EXHIBIT 2: BOARD OF DIRECTORS**

- Chairman: Marc Benioff, Co-Founder and CEO of Salesforce.com
- Vice Chairman: Keith Block, President of Salesforce.com
- Craig Conway, Former CEO of PeopleSoft
- Alan Hassenfeld, Director of Hasbro, Inc.
- Colin Powell, General, Former U.S. Secretary of State, Former Chairman, Joint Chiefs of Staff
- Sanford Robertson, Principal of Francisco Partners
- John V. Roos, Former U.S. Ambassador to Japan
- Larry Tomlinson, Former Senior Vice President and Treasurer of Hewlett-Packard
- Robin L. Washington, Senior Vice President and Chief Financial Officer of Gilead Sciences Inc.
- Maynard Webb, Chairman of Yahoo! Inc.

## EXHIBIT 3: SALESFORCE.COM INCOME STATEMENT

### Salesforce.com Income Statement (figures in \$ millions)

	Fiscal Year Ended January 31,			
	2014	2013	2012	2011
<b>Revenues:</b>				
Subscription and support	\$ 3,824,542	\$ 2,868,808	\$ 2,126,234	\$ 1,551,145
Professional services and other	246,461	181,387	140,305	105,994
<b>Total revenues</b>	<b>4,071,003</b>	<b>3,050,195</b>	<b>2,266,539</b>	<b>1,657,139</b>
<b>Cost of revenues:</b>				
Subscription and support	711,880	494,187	360,758	208,243
Professional services and other	256,548	189,392	128,128	115,570
<b>Total cost of revenues</b>	<b>968,428</b>	<b>683,579</b>	<b>488,886</b>	<b>323,813</b>
<b>Gross profit</b>	<b>3,102,575</b>	<b>2,366,616</b>	<b>1,777,653</b>	<b>1,333,326</b>
<b>Operating expenses:</b>				
Research and development	623,798	429,479	295,347	187,887
Marketing and sales	2,168,132	1,614,026	1,169,610	792,029
General and administrative	596,719	433,821	347,781	255,913
<b>Total operating expenses</b>	<b>3,388,649</b>	<b>2,477,326</b>	<b>1,812,738</b>	<b>1,235,829</b>
<b>Operating Income</b>	<b>(286,074)</b>	<b>(110,710)</b>	<b>(35,085)</b>	<b>97,497</b>
Investment income	10,218	19,562	23,268	37,735
Interest expense	(77,211)	(30,948)	(17,045)	(24,909)
Other expense	(4,868)	(5,698)	(4,455)	(6,025)
Pre-tax income	(357,935)	(127,794)	(33,317)	104,298
Benefit from (provision for) income taxes	125,760	(142,651)	21,745	(34,601)
Less: income from noncontrolling interest	-	-	-	(5,223)
<b>Net income</b>	<b>\$ (232,175)</b>	<b>\$ (270,445)</b>	<b>\$ (11,572)</b>	<b>\$ 64,474</b>
<b>Earnings per Share</b>				
Basic net loss per share	\$ (0.39)	\$ (0.48)	\$ (0.02)	\$ 0.12
Shares Outstanding	597,613	564,896	541,208	520,888

Source: Salesforce.com 2014 10-K

## EXHIBIT 4: SALESFORCE.COM BALANCE SHEET

Salesforce.com Balance Sheet (figures in \$ millions)

	Fiscal Year Ended January 31,			
	2014	2013	2012	2011
<b>Assets</b>				
<i>Current assets</i>				
Cash				
Cash and cash equivalents	\$ 782	\$ 747	\$ 607	\$ 424
Short-term investments	57	120	171	73
Total cash	839	868	778	497
Receivables	1,361	873	684	427
Deferred income taxes	-	7	32	28
Prepaid expenses	309	126	80	38
Other current assets	171	142	98	86
Total current assets	2,680	2,016	1,672	1,075
<i>Non-current assets</i>				
Property, plant and equipment				
Gross property, plant and equipment	1,625	858	687	495
Accumulated Depreciation	(384)	(253)	(159)	(108)
Net property, plant and equipment	1,241	605	528	387
Equity and other investments	482	942	669	938
Goodwill	3,501	1,529	785	396
Intangible assets	482	271	188	166
Deferred income taxes	-	19	88	41
Other long-term assets	767	147	233	89
Total non-current assets	6,473	3,513	2,492	2,016
<b>Total assets</b>	<b>\$ 9,153</b>	<b>\$ 5,529</b>	<b>\$ 4,164</b>	<b>\$ 3,091</b>
<b>Liabilities and stockholders' equity</b>				
<i>Liabilities</i>				
<i>Current liabilities</i>				
Short-term debt	572	521	496	-
Accounts payable	65	15	33	18
Taxes payable	153	120	100	49
Accrued liabilities	662	463	402	296
Deferred revenues	2,474	1,799	1,292	913
Other current liabilities	54	-	-	-
Total current liabilities	3,980	2,918	2,323	1,276
<i>Non-current liabilities</i>				
Long-term debt	1,302	-	-	473
Capital leases	-	127	49	25
Deferred revenues	48	64	89	22
Minority interest	-	-	-	-
Other long-term liabilities	784	103	116	18
Total non-current liabilities	2,134	294	253	538
<b>Total liabilities</b>	<b>\$ 6,114</b>	<b>\$ 3,211</b>	<b>\$ 2,577</b>	<b>\$ 1,815</b>
<i>Stockholders' equity</i>				
Common stock	1	-	-	-
Additional paid-in capital	3,363	2,411	1,415	1,099
Retained earnings	(343)	(111)	159	171
Accumulated other comprehensive income	18	17	13	7
<b>Total stockholders' equity</b>	<b>\$ 3,039</b>	<b>\$ 2,318</b>	<b>\$ 1,587</b>	<b>\$ 1,276</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 9,153</b>	<b>\$ 5,529</b>	<b>\$ 4,164</b>	<b>\$ 3,091</b>

Source: Morningstar.com

## EXHIBIT 5: COMPETITIVE COMPARISON AS OF NOVEMBER 2014

(\$ in millions except per share data)

	<b>Salesforce.com</b>	<b>Oracle</b>	<b>SAP</b>
<b>Market Cap</b>	\$ 36,009.00	\$ 181,330.00	\$ 82,040.00
<b>Employees</b>	13,300	122,000	68,835
<b>Quarterly Revenue Growth</b>	38%	3%	5%
<b>TTM Revenue</b>	\$ 4,770.00	\$ 38,500.00	\$ 21,420.00
<b>TTM Gross Margin</b>	76%	61%	68%
<b>TTM EBITDA</b>	\$ 3.11	\$ 16,830.00	\$ 7,520.00
<b>TTM Operating Margin</b>	(6%)	39%	31%
<b>TTM Net Income</b>	\$ (399.06)	\$ 10,950.00	\$ 4,100.00
<b>EPS</b>	\$ (0.66)	\$ 2.39	\$ 3.44
<b>P/E</b>	N/A	17.10	19.94
<b>PEG</b>	4.22	1.47	1.32

Source: Yahoo! Finance



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## **SALESFORCE.COM**

### **DISCUSSION QUESTIONS**

1. What are the primary reasons for the phenomenal success of Salesforce.com against huge industry rivals?
2. How would you describe the business-level (competitive) strategy of Salesforce.com? What are the elements of this strategy that should not change in the future? Are there any parts of the strategy that will need to be changed in the future for the company to continue to be successful?
3. Why is Salesforce.com so innovative? Would the tactics they use be successful in all other companies? If not, what kinds of companies are likely to be successful with these tactics?
4. Salesforce.com has begun to diversify away from its core activities. What are the risks of this strategy? What are the benefits? What other business areas should the company consider for diversification?
5. Has the corporate citizenship strategy of Salesforce.com contributed to its business success? Please explain your answer.
6. What accounts for the steady decline in operating income? What does this decline say about the future of the company?
7. How can Salesforce.com increase its bottom line?
8. Should Salesforce.com be acquired? If so, by whom?