

# Google and Salesforce.com, a friendship to compete with Microsoft

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It seems that the merger between Google and Salesforce.com will take a while to happen. When Salesforce.com said that in early June it would announce its alliance with “an important Internet company”, some already predicted a possible acquisition by Google. Indeed the Internet company that Salesforce.com was talking about is Google, but for the moment the agreement is limited to Salesforce Group Edition. This software will provide access to Google’s AdWords program for Salesforce clients, so that they can buy key words in order to advertise themselves in the search engine and integrate the information about users who click on the add and provide contact details directly into the Salesforce.com CRM. Other measures might follow, since the partnership between these two companies is but a recent one. One example is the application One Box, by Google, which provides search information for companies within the Salesforce.com program.

Like Salesforce.com, Google has bet on applications that are in a central Server and which the user executes remotely by Internet. In August 2006, the search engine launched Google Apps, a free online service that included a Word processor and a spreadsheet application, among other things, thus entering into ofimatics, which is practically a Microsoft monopoly.

But in addition to where the application resides, these two companies have significant differences in their business models. Bill Gates’ company is centred on local software and license payment model, whereas the Google Apps application on the Internet makes money on advertising. Salesforce.com takes yet a third model for its own, which is based on renting its applications online.

Google is very well positioned in this diverse setting of business models (which include pay per licence, pay per use, and pay per advertising) and diverse software location models (local versus remote). Ray Ozzie, a known Internet software guru, asserted when he joined Microsoft that web services would be on the rise and the new model to take hold would be online advertising. The king of search engines is heavily invested in the former and has a privileged positioning in the latter.

But Ozzie also made clear that success would not lie strictly in software as a service. To his mind, the future points to a combination of software and service. Google has entered into this hybrid model

## Highlights

**1** The announcement of the alliance between Salesforce and Google has driven the share prices of the search engine leader up to an all-time high: \$518.84. Shares of Salesforce closed June 4 at \$47.06, up 29% since the start of the year.

**2** In 2006, the nine leading manufacturers of on-demand software saw revenues of \$1.4 billion, nearly five times more than in 2002, according to Time Chou, former president of the on-demand software division at Oracle.

**3** According to the Spanish daily *La Vanguardia*, Salesforce’s CRM application is currently used in 32,000 companies around the world. In the first quarter of this year, Salesforce saw a turnover of €120 million, a growth of 55% compared to the same period in 2006.

with Google Gears, which allows offline access to Google applications that up to now were only accessible through the Internet. This application makes it possible to synchronize the computer with the online application and then continue working while not necessarily connected to the web.

Now Google's objective is to boost its presence in the corporate World and thus increase its revenue sources. In February of this year they launched Google Apps Premier edition for companies, for fifty dollars per year for each user's account.

The recent agreement with Salesforce.com further facilitates Google's access to corporate clients and reinforces the pay per use business model. Salesforce Group Edition is aimed at small and medium sized businesses and costs 1200 dollars per year for five users. In the future, this kind of package can be expanded to apply to larger companies.

It is very probable that the partnership between Salesforce.com and Google is only beginning and that future steps will reinforce both companies' positions in the software business. The link between the two is consolidated by their mutual need to face Microsoft, their common rival.