

FORTUNE

Is This the Next \$1 Billion Cloud Company?

April 4, 2016

By Heather Clancy

Here's a pop quiz to get your work week started. What cloud business software company reported net income for its most recent fiscal year (a rare feat), is on pace to top a projected \$500 million in revenue (profitably) for its current one ending in January 2017, and hopes to cross the \$1 billion mark by 2020? Unless you're involved with the life sciences or pharmaceutical sector you probably guessed wrong.

Meet Veeva Systems, one of several fast-growing software concerns laser-focused on selling into a single industry. The company started with sales and marketing automation applications but has since expanded its menu to cloud-hosted data and document management systems that cater to the healthcare sector's strict compliance and privacy concerns. Veeva exited its 2016 fiscal year ended Jan. 31 with 400 customers, up dramatically from 276 in the previous year. Its client list includes Fortune 500 drugmakers AstraZeneca, Merck and Pfizer.

There have long been software specialists for certain industrial sectors, but their influence is probably way larger than you realize. Research firm Gartner figures they collectively generated

\$114.8 billion in revenue for 2014, an annual growth rate of about 6%. Considered in aggregate, that's approximately 27% of all software sales.

Co-founder and CEO Peter Gassner, who started his career at IBM writing database software for mainframes, told me earlier this year that the business world's willingness to invest in cloud services has made delivering industry-specific applications much more economical. "In the cloud, you can be very specific, you know exactly what your customers are doing. You can solve a problem once, watch what happens, and create software that maps to their needs really well," he said.

Veeva has [parallels in other sectors](#). Guidewire Software, which like Veeva is public, will generate a projected \$410 million for its current fiscal year. It sells operations and data management applications for insurance companies (200 customers and counting). The retail, hospitality, and transportation sectors are particularly aggressive adopters of cloud services and many early stage companies hope to cash in. Some examples: Alice App (hotel guest management systems), Tulip Retail (inventory management that bridges "real" store and e-commerce systems), and Fleetmatics (fleet management systems).

Emergence Capital co-founder and general partner Gordon Ritter believes the "era of horizontal software companies is over," as organizations seek to adapt cloud services from the likes of Salesforce to their specific processes and needs. "What these industry cloud companies need to do is layer the cake. They need

to be in multiple functional areas across a single sector,” Ritter said.

That’s likely to inspire a consolidation wave in the months to come, as specialists seek scale and as software giants including IBM, Oracle, and SAP reconsider their own cloud-relevant pitches for specific industries. Watch this space.

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