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ADOBE SYSTEMS INC. STRATEGIC ANALYSIS AND RECOMMENDATION

An Undergraduate Honors Thesis
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Abstract

Adobe Systems Inc. is a dominant company in the software and creative industry. To provide a strategic recommendation for continued growth in the number of Creative Cloud subscribers, a strategic analysis was performed. This analysis comprised of looking at Adobe's current market segments and market offerings, performing a SWOT analysis, performing a PEST analysis, examining Porter's Five Forces regarding Adobe, and clarifying Adobe's core competencies and competitive advantages.

After this analysis, the strategic recommendation was made for Adobe to expand its Creative Cloud subscription options and increase its efforts in the education market. This plan if successful puts Adobe on track to reach the projected 20 million subscribers by 2024. If it fails, it is recommended Adobe refocus efforts on its digital experience market.

Keywords

Adobe Systems, Strategic Analysis, Creative Cloud, Digital Media

Introduction

Adobe Systems Inc. (NASDAQ: ADBE) is an international software company that aims to provide all the tools necessary to create, design, and deliver the best digital experience for its customers. With over \$7.3 billion in annual revenue and over 18,000 employees worldwide (Adobe, 2018), Adobe is one of the giants of the software industry. As users become more tech-savvy and as new technologies like virtual reality and artificial intelligence are introduced, Adobe faces challenges to maintain its marketplace dominance that may require new business strategies. To provide an accurate strategic recommendation, it's necessary to look at Adobe's history and products and analyze its current market position.

Background

Company History

Adobe was founded in December 1982 by Charles Geshchke and John Warnock in Mountain View, California. The founders started the company to bring the PostScript language to market after their employer Xerox declined to do so. After a key investment from Steve Jobs of Apple Computer Inc., PostScript was used in laser printing and soon became common throughout the publishing industry. The company went public in 1986, released the popular PDF document format in 1993. In 1996, company headquarters were moved to San Jose, California (Adobe, 2018). Over the years Adobe released creativity software developed in internal teams and acquired through mergers. Many of these are commonly recognized products like Photoshop, Acrobat Reader, and Creative Cloud. Today, the company has offices in over 25 countries, employs over 18,000 employees, dominates the professional creative software market, and had revenue of over \$7.3 billion in 2017 alone.

Product History

Adobe's first hit products were the PostScript language and the PDF format which was based on PostScript. The company licensed PostScript to other printing companies and it soon took off as one of the common languages used for laser printing in the late 1990's. The PDF format was created by Adobe to store all information necessary to display any document on any computer. Adobe later made PDF into an open standard that was adopted internationally in 2008 and is today the default format for all document sharing software and tasks.

Adobe began releasing creativity software in the late 1980's with the company's first flagship creativity product: Photoshop. This product was used for graphics and image manipulation and soon dominated the market after its release in 1989. Other recognizable products were released in the following years: Premiere in 1991, Acrobat Reader in 1993, After Effects in 1994, Dreamweaver in 2005. It is notable that some of Adobe's main products came from buying competitor companies. For example, After Effects and Dreamweaver came from two separate acquisitions. In September 2003, Adobe released Creative Suite 1 (CS1), a suite of creativity software applications bundled together in a one-time licensing purchase. Adobe continued releasing suites of software up until CS6 in April 2012. This business model allowed Adobe to sell software licenses as well as software suites.

Adobe made a huge pivot by launching Adobe Creative Cloud in April 2012 to switch from a licensing-based business model to a monthly subscription-based model (Adobe, 2012). This was a tremendous shift and subscription-based models were relatively untested in the industry at the time. In May 2013, Adobe announced that Creative Cloud would be the primary point of access to its creativity products and that individual products and the Creative Suite would no longer be sold (Lardinois, 2013). Within 2.5 years of launch Creative Cloud became 75% of the company's revenue at around \$3 billion (Miller, 2015) and today sits at \$4.17 billion at the end of 2017, making up 57% of annual revenue (Adobe, 2018).

With the onset of new technology like artificial intelligence (AI), virtual reality (VR), and the Internet of Things (IoT), Adobe has enhanced its existing products to better serve customer needs in these areas. It recently released updates to its Premiere and After Effects programs that use AI for color and audio volume matching. It also added enhancements for creating VR applications (Lardinois, 2018). And, Adobe announced a program to allow companies to track users across devices to ensure they received a more personalized ad experience. Companies could now know which ads users have already seen and show new ads instead of repeating old ones (AP, 2018).

Current Market Position

Market Segments

In its 2017 annual report, Adobe described its three market segments: Digital Media, Digital Marketing, and Publishing. The first two are part of Adobe's long-term strategic growth areas where they will focus on growing investments and creating marketplace solutions.

The Digital Marketing segment is Adobe's most profitable and most active segment. It contains Creative Cloud and Document Cloud. This segment is focused on creation, publishing, promotion, and monetization of digital content and was 69% of 2017 total revenue at \$5 billion.

The Digital Marketing segment is Adobe's second segment. It contains the Experience Cloud. This segment is focused on creation, management, execution, measurement, and optimization of digital advertising and marketing and was 29% of 2017 total revenue at \$2.12 billion.

The Publishing segment is Adobe's third and smallest segment. This segment is focused on authoring and publishing needs for technical and business writing and was 2% of 2017 total revenue at \$171 million. The following image is from the 2017 annual report of each segment's performance.

	Fiscal 2017	Fiscal 2016	Fiscal 2015	% Change 2017-2016	% Change 2016-2015
Digital Media	\$ 5,010.6	\$ 3,941.0	\$ 3,095.2	27 %	27 %
Percentage of total revenue	69%	67%	65%		
Digital Marketing	2,120.0	1,736.6	1,508.9	22 %	15 %
Percentage of total revenue	29%	30%	31%		
Print and Publishing	170.9	176.8	191.4	(3)%	(8)%
Percentage of total revenue	2%	3%	4%		
Total revenue	\$ 7,301.5	\$ 5,854.4	\$ 4,795.5	25 %	22 %

Product Families

Adobe Creative Cloud is Adobe's subscription-based suite of creativity and design software. This suite is targeted to hobbyists to industry professionals to entire companies. This product family aims to be the best creative software for video, photo, graphic, and audio content creation and design.

Adobe Experience Cloud is Adobe's suite for marketing and advertising tools and analytics. This suite is targeted at companies wanting better tools for engaging with customers by providing enterprise-level solutions for advertising, analytics, content and data management, and user campaigns.

Adobe Document Cloud is a set of tools centered on PDF documents. This suite is targeted at businesses, but some key programs are accessible by anyone. The purpose of these tools are to better manage and interact with PDF documents with capabilities like editing, commenting, and signing.

Situational Analysis

To better understand the current state of Adobe and the industry it is in, different analyses are used to understand Adobe from different perspectives.

SWOT Analysis

Adobe has a number of strong internal strengths. It has successfully transitioned from the licensing-based business model to a subscription-based business model. This points to a strong internal commitment and focus to embracing new untested ideas at a time when subscription models on that scale and in the industry were largely untested. Adobe also has a wide portfolio of products that are used internationally by creative professionals and businesses. These products like Premiere, Photoshop, and Illustrator are the some of the most commonly used programs for their respective industries.

However, there are a number of glaring weaknesses. Adobe is not very known for listening to and responding to customer feedback. Users of its software have voiced many complaints about some of the limitations it places in software in order to make it more universally useable on both simpler and more advanced computers. The small but vocal minority of Linux users do not have Adobe software and there are no foreseeable plans to port the programs to the Linux operating system. And, Adobe was known for a time for the Flash Player software used for developing Internet applications and viewing videos online. The software was notoriously buggy and had many security flaws. Although major Internet browsers and tech companies vocally opposed the software as early as 2010, it took Adobe 7 years to announce their decision to end support of Flash by 2020. Today, almost all major browsers function without Flash, but the ghost of Flash and Adobe's reluctance to fix or kill Flash haunts the company.

Opportunities for new markets and new platforms are coming in the future, and Adobe has started to address some of them. A unique and powerful cloud computing partnership began in 2016 when Adobe made Microsoft Azure its preferred cloud platform for the all its Cloud services. Microsoft in return made Adobe's Experience Cloud the preferred marketing service for Dynamics 365 (Choney, 2016). With the shift from desktop to mobile devices, Adobe has become more mobile-friendly by creating mobile versions of its most popular apps like Photoshop and Illustrator. As the next generation of users are

more tech-savvy, the education market is an increasingly more essential place to convert students into users. With the steep learning curve of Adobe products, students introduced to Adobe are more likely to stick with the company once they have used its products and integrated them into their education. In April 2018, Adobe released its graphic storytelling software Spark for free to the entire education segment (Adobe, 2018). This comes within weeks of Apple retargeting the education market with a new iPad. As the education market grows more competitive, opportunities for Adobe continue to grow.

There are some threats to Adobe. It faces advertising giants Google and Facebook when competing for business advertising services. Open source creativity programs are not as polished as Adobe's but are free and get the job done. This consistently takes away a small chunk of Adobe's target audience. With recent privacy and hacking concerns, Adobe could easily be targeted for valuable user data and user-made content. And, a shift in consumer tastes shows that Millennials go to Adobe for creative tools, not for creative inspiration. Instead, inspiration comes from social media like YouTube and Pinterest (Silver, 2018). This shift could continue to turn against Adobe's favor if no actions are taken soon.

PEST Analysis

Adobe is in the creative and software industries. The political factors of these industries are mainly limited to privacy concerns. As mentioned before, privacy and hacking are becoming increasingly important topics for all software companies. Data protection and security practices must therefore be taken more seriously. Societal tastes and social factors also point to consumers being more wary and unforgiving of companies with failures in these areas.

Economic factors look positive. The growing American economy has been spearheaded by the growth of tech companies like Google, Facebook, Apple, Netflix, Amazon, and Adobe. These stocks generally perform well and remain strong even amidst market uncertainty. With new technologies like AI, VR, and

cloud computing, the industry has begun to realize the high potential for growth and improvements to consumer software, business analytics, and user experience.

Porter's Five Forces

Regarding Porter's Five Forces, Adobe faces low threats of new entrants and low supplier bargaining power. Adobe's vast software suite is made in-house, so their suppliers are their workers who provide the creativity and innovation necessary to create its software. With international offices, over 18,000 employees, and ranked by Fortune as 26th Greatest Place to Work, Adobe is well liked by its workers who are not going anywhere. New entrants to the creative software market face high barriers to entry. Adobe has immense brand recognition and decades to improve its software experience. New entrants must compete on these fronts and also convince users to learn a brand-new system. These factors lead to a low threat of new market entrants.

The threat of substitutes and consumer bargaining power are medium threats. Consumers are not all completely satisfied with Adobe's lack of response to user feedback, but few are able to leave Adobe's system once they have learned its powerful software. There are a few substitute creative applications that are either free or cheaper than Adobe's. Hardware manufacturers also bundle their own software with hardware purchases. Yet, these are often standalone programs that only compete with one or a few of Adobe's products. There is no other substitute suite of creative software that serves as many consumer needs as Adobe's Creative Cloud.

The threat of competitive industry rivals is high. Historically, Adobe faced competition from Apple and Microsoft for control over the creative professional market. Adobe has gained lots of ground, but its rivals have the resources to make a come back if Adobe does not continue to satisfy. Google and Facebook ad services rival Adobe's, and Microsoft has a strong presence in the business analytics sector.

Core Competencies

Adobe's main core competency is its excellent integrated system of solutions across multiple creative industries. Its products have been designed to work well together and each performs well as a standalone product. Adobe has created an application for each part of the creative workflow and has spent years polishing and enhancing its product suite. It brings this expertise and integrated workflow to the digital advertising sector where it has so far seen double digit growth.

Competitive Advantages

Adobe enjoys several competitive advantages. Adobe maintains high brand recognition and a reputation for quality creative software. Its creativity software is a staple from hobbyists to professionals and is commonly used throughout many creative industries. Consumers are satisfied enough to stick with its products and not abandon the investments made to learn its products. Its marketplace dominance and success in switching to a new subscription model have caused its stock to trend upwards since 2012.

Strategic Goal and Evaluation Criteria

Strategic Goal

Adobe's largest revenue stream is from its Creative Cloud subscriptions. The overarching strategic goal is to maintain this revenue stream and maintain Adobe's marketplace dominance. One key aspect of this strategic goal is to continue increasing the number of users subscribed to Creative Cloud. 57% of Adobe's revenue came from these subscribers, which includes individual and company subscriptions. As Adobe continues to maintain dominance in the creative market, it needs to maintain growing the number of Creative Cloud subscribers.

Evaluation Criteria

Each of the following strategic alternatives will be evaluated by its feasibility, the implementation time frame, and how large of an audience it allows Adobe to address and potentially convert into subscribers.

Strategic Alternatives

Alternative 1

Adobe should expand its subscription tiers to better target creatives and artists who have not subscribed to Creative Cloud. This would allow more flexibility for users and would attract those who want to use Adobe products but are unwilling to use any of the existing subscription options.

Alternative 2

Adobe should make greater efforts to enter the education market and target those users beginning to enter the industry. These users are unfamiliar with any kind of creative workflow software. If Adobe can convert these users into subscribers, the high learning curve and integrated workflow of its products can keep users locked into the system for the long-term.

Alternative 3

Adobe should partner with gaming companies to enter the gaming market. The gaming market is a large and untapped area for Adobe. Entry through partnerships could entice gamers to use its creative software for livestreaming of games and collaboration.

Strategic Recommendation

Recommendation

The best recommendation for Adobe to grow the number of Creative Cloud subscribers is a combination of alternatives 1 and 2. Adobe should expand its subscription options and make greater efforts to

convert users in the education market. The metric for measuring the success of this recommendation is the number of Creative Cloud subscribers.

Reasoning

Improving Adobe's largest revenue stream is key to maintaining its marketplace dominance. It can leverage its great software experience and use the high learning curve and high cost of switching to its advantage. Alternatives 1 and 2 were selected since they together are feasible, can be implemented soon, and can address large audiences.

Expanding Creative Cloud subscription options allows Adobe to address those users who did not subscribe due to lack of flexible options. Creating more diverse options is relatively feasible for Adobe. User research and testing is necessary to find gaps in the subscription options and to create more targeted options. Once research and testing are complete, Adobe can offer new options to attract creatives who are not currently subscribers. While not addressing a new market, this recommendation allows Adobe to better target the market it is already in.

Expanding its entrance into the education market is a feasible alternative for Adobe since it already has a foothold there with its education discount. Research and better targeting must also be done here to better address students and teachers. This recommendation allows Adobe to better address the market of new creative students and potentially convert them into long-term subscribers.

An entrance to the gaming market was somewhat feasible and would allow Adobe to address a brand-new market. However, the implementation time frame would be too long to be completely feasible. Since Adobe is entering the market, partnerships with companies already in the market would make the most sense. Also, Adobe is a software company whereas the gaming market is both hardware and

software. Developing new partnerships in a new industry may take too long to attract enough gamers to become Creative Cloud subscribers. Thus, alternative 3 is not part of the recommendation.

Implementation Plan

Actions

With this recommendation in mind, there are a few steps Adobe can take to implement this strategy. First it should extend the Creative Cloud free trial period from 7 days to 3 months. This allows first time users to have more time to learn about and use Adobe's software. 7 days is a short time frame to learn such varied and powerful applications and leaves little room for trialing the software through demo projects. Extending the trial period makes it more likely first time users will trial the software and leaves more time for them to be converted to subscribers.

The screenshot displays the Adobe Creative Cloud subscription interface. It features four main plan cards:

- Photography:** US\$9.99/mo. Includes Lightroom CC, Lightroom Classic CC, Photoshop CC, and 20GB of cloud storage. A dropdown menu shows 'Photography plan (20GB)' and 'Annual plan, paid monthly'.
- Single App:** US\$20.99/mo. Includes a choice of one creative app (Photoshop CC, Illustrator CC, or Adobe XD CC), 100GB of cloud storage, a portfolio website, premium fonts, and social media tools. A dropdown menu says 'Choose an app'.
- All Apps (Most Popular):** US\$52.99/mo. Includes 20+ creative desktop and mobile apps, 100GB of cloud storage, a portfolio website, premium fonts, social media tools, and up to 10TB of cloud storage. A dropdown menu shows 'Annual plan, paid monthly'.
- All Apps + Adobe Stock:** US\$82.98/mo. Includes the entire collection of 20+ creative desktop and mobile apps, 10 free Adobe Stock images per month, and a risk-free first month.

Each plan card has a checkbox for 'One month Adobe Stock free trial' and a 'Learn more' link.

The above image is of Adobe's current Creative Cloud subscription options.

Seeing so few options, Adobe should also offer a Designer option that includes its Illustrator, InDesign, and XD programs for \$21/month. It currently offers a Photographer option targeted at photographers. However, that is the only option targeted at a specific creative medium. By offering a Designer option, Adobe better targets graphic designers. These users have many more software options available to them, so Adobe must better target this audience in order to keep them as subscribers.

Another subscription option is to create a plan for 3 apps at \$35/month. This option targets those who only use a handful of Adobe's products. The existing All Apps plan allows for access to all Creative Cloud applications for \$53/month. However, the next option is the Single App plan for access to only 1 app for \$21/month. An unaddressed gap is the option for those who want only a few apps and aren't willing to pay the high price for all the apps, most of which they will not use. So, a plan for 3 apps at a price midway between the Single and All App plans addresses this options gap.

Timeline

Adobe should immediately begin researching and testing the recommended subscription options and other possible options to see if the targeting and pricing are attractive enough to the target audiences. In the weeks leading up to the beginning of the 2018-19 school year, Adobe should extend the trial period to 3 months. This gives new users like those in the education market more time to learn about and become familiar with Adobe's products.

Contingency Plan

Trigger Point

As with any plan, there is always a chance for failure. Given that our goal is to increase the number of Creative Cloud subscribers, this number will also serve as the metric for measuring the strategy's success or failure. Adobe no longer reports the exact number of Creative Cloud subscribers, but it is estimated to have had 12 million subscribers at end of 2017. Analysts predict this number will grow to reach almost 20 million by 2024 (Trefis, 2017). So, the trigger point at which the plan is considered to have failed is if there are less than 16.5 million subscribers by the end of 2020. This date is the halfway to the prediction date, so the recommended strategy should bring Adobe a little over halfway to the predicted number of subscribers.

Contingency

If this trigger point is reached, the contingency plan is to focus efforts on Adobe's Experience Cloud service and its second largest segment of Digital Marketing. This segment is where Adobe addresses business advertising needs of and represents a new market Adobe has only begun to address. Although it is not Adobe's largest revenue stream, it makes up almost a third of overall revenue. Increasing efforts in this segment allows Adobe to be less reliant on its flagship Creative Cloud software and would allow Adobe to be better able to handle issues if Creative Cloud revenue were to suddenly slow down or decline.

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