

EFSS Is Dead. Long Live EFSS!

By: Alan Pelz-Sharpe



The Essentials

File Sync and Share (EFSS) technology has been around for more than 15 years, initially focusing on the consumer market and then, in the last decade, moving to enterprises as well. No longer new technology, it has gone mainstream after starting as a niche and novel web application. The EFSS market was initially fueled by innovative start-ups but is now dominated by Box, Dropbox, Google, and Microsoft, all of whose systems have millions of active users. It's transformational technology that's hard to imagine living without, yet its applications to date are fairly simplistic. Thus, the questions driving our research for this report were, essentially, has the market matured, and is there anything new to say about it?

To gather information for this report, we spoke with EFSS vendors both large and small, system integrators, and end users. Our research is ongoing, and we plan to dig deeper into sub-sectors of the market throughout 2020. However, at this stage we can say with confidence that the market has not fully matured and that it is nowhere near its peak. In fact, EFSS is still in its early years and has tremendous potential for future growth,

particularly if it breaks out of being solely a file server replacement and expands into geographic and industry-specific applications or extends its capabilities via machine learning (ML) or blockchain.



Market Forecast

As of summer 2020, well over 100 technology vendors offer some form of EFSS; even so, the market in terms of revenue is dominated by Box, Dropbox, Google, and Microsoft. A handful of others such as Syncplicity, Egnyte, Citrix, and OpenText also have lucrative and solid customer footprints.

The market for EFSS continues to grow significantly quarter over quarter in 2020, and although the use cases typically remain basic, the widening spread of EFSS use within enterprises sets a platform, both technically and tactically, for future new and divergent growth. In 2020, we estimate the size of the EFSS market at \$3.83 billion, rising to \$9.82 billion by 2025 (see Figure 1).

However, the makeup of the marketplace for EFSS is set to change significantly, in both size

and importance, over the coming years (see Figure 2). While currently the bulk of business is for file server replacements, we see potential for new areas of growth via geographic and industry-specific application expansion (see the “Future Growth Markets” section of this report).

In our analysis, the EFSS market will still see substantial and continued growth at an average of 22% compound annual growth rate (CAGR) for its current use cases over the next five years. In addition, we believe that more sophisticated use cases are emerging that will constitute further growth opportunities for some EFSS vendors in the coming years. This is because EFSS is less a product than a set of enabling technologies capable of transforming and creating new and innovative use cases. In this regard, EFSS is much like cloud or blockchain: by themselves, such technologies bring limited value, but utilized in conjunction with other technologies and applications they can be transformative. Today, EFSS is most often used as a standalone technology (product), but over time that will change.

The current marketplace for EFSS is divided into pure-play vendors such as Egnyte, Box, and Dropbox, and workforce productivity vendors (that embed EFSS within broader workplace suites) such as Citrix, Microsoft, and Google (see Figure 3).

Box, Dropbox, Citrix, Egnyte, Google, and Microsoft have emerged as the leaders in EFSS; combined, they make up almost 90% of the market share. To some, that tells the whole story: EFSS is a consolidated, mature market. But a closer look reveals important nuances that tell a more complex story, particularly regarding “enterprise” file sharing. Box and

Figure 1
EFSS Market Growth 2020-2025

Average CAGR of 22%

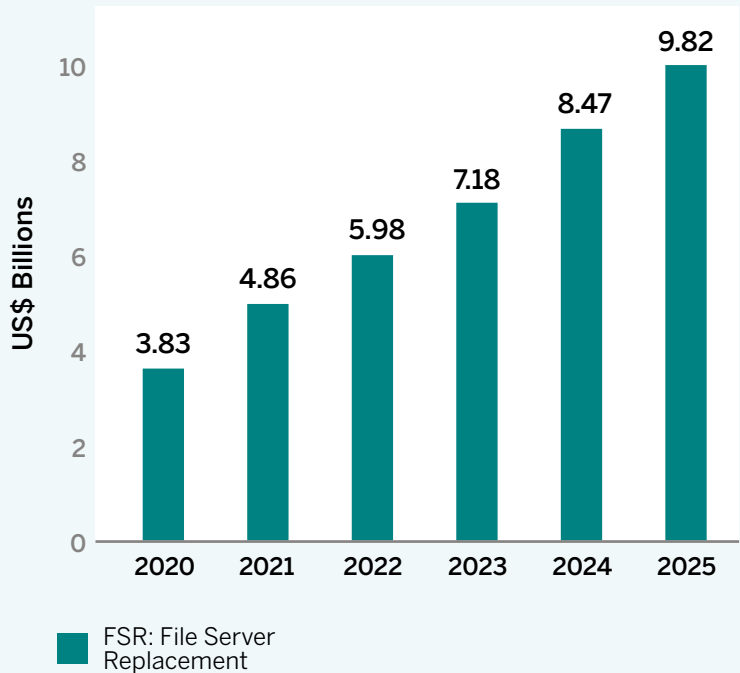
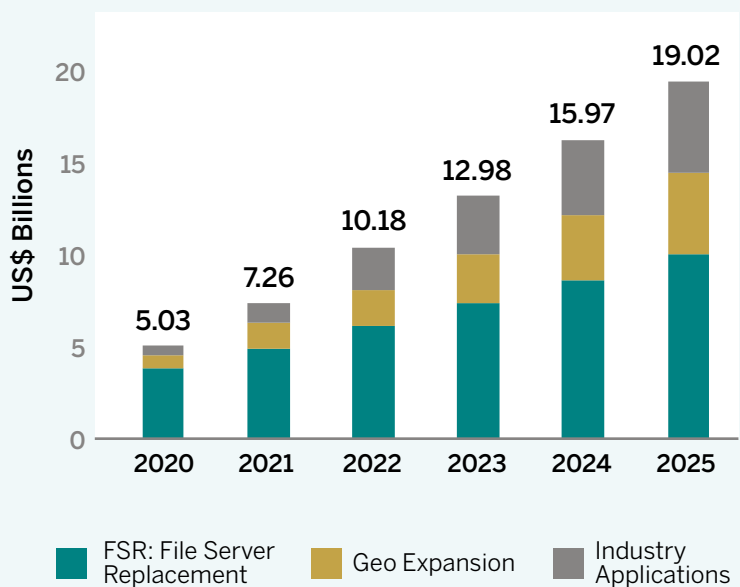


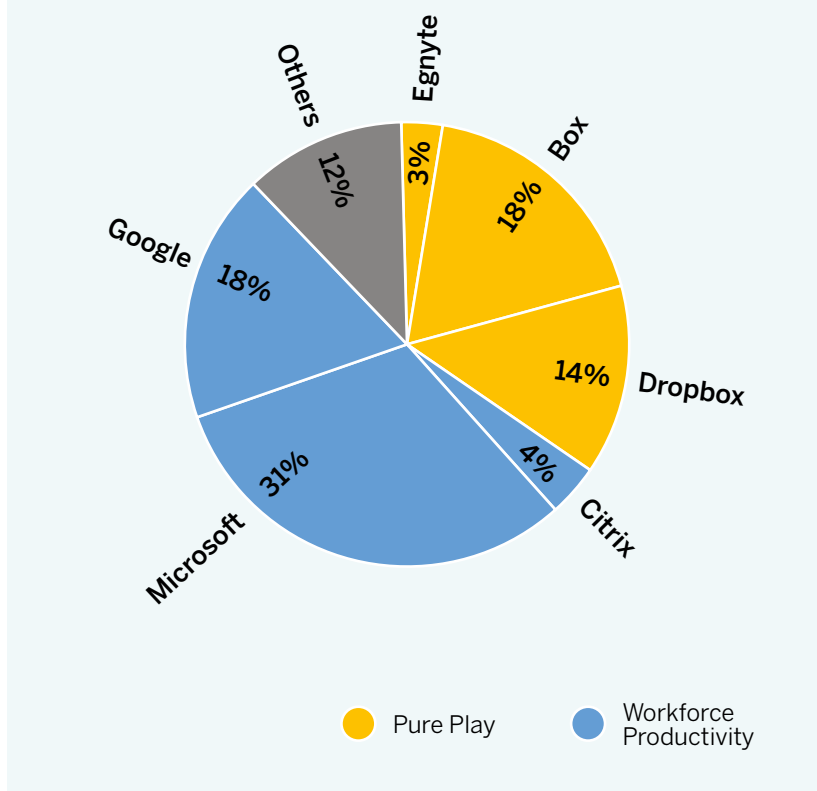
Figure 2
New Growth Potential for EFSS 2020-2025



Egnyte, for example, are almost exclusively focused on selling to businesses. Dropbox has a strong business base, but much of its revenue is consumer-based, as is also the case for Microsoft and Google. Most of the smaller EFSS vendors are focused exclusively on selling to businesses. Some business application vendors, notably SAP (Jam) and Salesforce (Files), provided EFSS products but then decided to exit the market. Others have been acquired over the years and absorbed into larger firms, for example Syncplicity, HighTail, and WatchDox. Still others have gone out of business, such as Wuala. Major enterprise content management (ECM) vendors including OpenText, Hyland, and Alfresco have their own EFSS products – as they should – as EFSS use cases directly encroach on their home markets by providing competitive cloud-based document management alternatives.

Then we have a host of smaller EFSS vendors selling to the enterprise who try to differentiate themselves from the crowd. Some focus on Virtual Deal Rooms (Intralinks), others on securing IP (SpiderOak), and still others on rich media (SugarSync) and even geo-fencing data (FileCloud). The list goes on. *Possibly the biggest surprise in our research was just how many small EFSS vendors are extant and, though modest in terms of revenue, continue to grow and onboard new customers. This vibrant market flies in the face of previous analyst predictions that by 2018, 70% of EFSS vendors would cease to exist.*¹ In sharp contrast, most look set to survive in the long term, and in some cases smaller vendors will also make good acquisition targets as larger business application vendors start to see the need for file sharing in their own platforms and service offerings.

Figure 3
EFSS Market Share 2020



What's in a Name?

Enterprise File Synchronization and Sharing, or the shorter Enterprise File Sync and Share, (EFSS) was the name first used to categorize early market entrants such as Box and Dropbox. Although the term has stuck, nobody in the industry seems to like it much. Some vendors see it as a clunky acronym that limits their market appeal. Various attempts have been made to rename the category, and a variety of alternative terms are used to describe EFSS systems, including (but not limited to) Cloud Content Management, Cloud Collaboration Platforms, and Secure File Sharing. For the purposes of this research we are using EFSS, still the most commonly used term, until we can come up with a better name for it.

The COVID-19 Blip

No analyst report in 2020 is complete without some consideration of the extraordinary times we are living through due to the COVID-19 pandemic. Ironic though it may be, the lockdown has boosted the EFSS market, and quarterly results later in 2020 and beyond will almost certainly reflect that. Remote working has increased substantially, and that in turn benefits EFSS as a whole. Indeed, some vendors we spoke to reported that system workloads and active users have increased by up to 100% during the COVID-19 crisis. Others told us that their sales pipelines and number of inquiries have grown substantially. How long the boost will last, and whether “the new normal” will resemble the old normal, remains to be seen. But in our analysis even if the boost is temporary, the growth benefits of COVID to EFSS (though under the most tragic of circumstances) will likely lead to more and substantially larger deals over the next two years. This in turn will lift the CAGR in the short term upward from its average of 22% before it levels out again.

Our Take

Within the broader IT industry, there is a perception that EFSS is something of a shooting star that has already peaked. We disagree strongly with this position, as our research shows that EFSS is actually in the relatively early stages of its market growth. EFSS is, though, also at a point where it needs to consider building on its current success by going beyond its typical core business case of replacing file servers. It needs to explore and expand into new markets and leverage core EFSS functionality further into new areas.

How EFSS Works

Enterprise File Sync and Share technology provides a service that allows users to access saved files on any mobile or desktop device; in effect, they can access any file, anywhere, on any device, at any time. That defines the “share” element of EFSS and is, in and of itself, transformational. Previously, enterprise files were difficult if not impossible to access without logging in (with an approved desktop) via a LAN or WAN (Local/Wide Area Network).

The “Sync” in EFSS refers to the synchronization of files across networks, which ensures that changes made to any files from any location are automatically synchronized. In other words, if two or more users make changes to a file, those changes will be synchronized within a single, managed, shared file regardless of the users’ location or device.

How vendors provide these services differs. Some vendors (such as Box and Dropbox) operate exclusively in the cloud, while others (such as Microsoft, FileCloud, Citrix, and Egnyte) work in

hybrid situations both on-premises and in the cloud. How they synchronize files also differs. In some cases, the entire file is updated both on the remote device and the central storage whenever a change occurs. In other cases, the synchronization is limited to the delta (the specific elements of the file that have changed).

In summary, all EFSS vendors provide file sharing and synchronization functionality. At the operational level, however, how they provide these services can differ significantly.

EFSS tools have seen significant usage and uptake across both the public and private sectors. However, in our analysis most buyers make use of the technology in limited and somewhat simplistic ways. Most commonly we see EFSS used either as a form of cheap cloud storage or, even more commonly, as a replacement for dated file server systems (or on-premises SharePoint).

That being said, although simplistic, those basic use cases mean that today almost all midsize and large firms in North America and Europe utilize EFSS systems in some form. Often these systems are uncontrolled and poorly managed, and perform perfunctory services. But the fact that they are there at all, and are increasingly used, tells us that they are in the process of being adopted permanently. In this regard at least, EFSS is starting to mature and will remain a permanent technology in most organizations.

It's important to note that the underlying technology even for simplistic use cases is complex and difficult to manage. As a result, vendor capabilities, strengths, and weaknesses vary widely. An EFSS system that would be a perfect fit in one situation would not be in another. In other words, EFSS systems excel by making a technically complex and difficult task seamless and straightforward for the end user. This perception of simplicity versus technical complexity has dogged EFSS systems, leading some analysts and industry observers to perceive them as overvalued and commoditized.

File server replacement is a market that will continue to grow consistently over the coming years and will likely continue to constitute the bulk of the enterprise rationale for initially investing in EFSS systems. In this context, it is important to point out that the market for on-premises file servers is currently substantially larger than that for EFSS, but the file server market has a lower CAGR (approximately 5%) than the EFSS market (approximately 20%).

This higher CAGR may be fueled, in the short term at least, by the rapid growth in remote and home working, which has further exposed the limitations of on-premises file servers. Even a basic implementation of EFSS can help to resolve many of the remote access problems currently being encountered with on-premises alternatives. There are, though, more use cases that have yet to be fully explored for EFSS beyond file server replacement.

Our Take

File server replacement may not be the most exciting use case, but it is a lucrative one and has the potential to continue growing for many years. The market potential of file server replacement alone is more than sufficient to sustain and grow the businesses of many smaller EFSS vendors over the next decade. Indeed, the total addressable market (TAM) for file server replacement is immense.



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Expanding into Future Growth Markets

The EFSS market is in a period of extended growth: larger organizations are adopting the technology, and major players like Microsoft and Google bundle it as standard functionality for their customers. Though this growth is expected to continue, it is unlikely to accelerate substantially even though there may be a temporary upward tick during and after lockdown. As Figure 4 illustrates, and the following sections explain, new avenues for future growth await in currently untapped geographic and industry sector markets.

Brazil. Today, Brazil's overall IT market sits at around \$50 billion, with a strong annual growth rate of just under 10%. Though Brazil's market size is modest compared to the US, its growth

rate is almost double that of the US. Cloud computing was slow to take off in Brazil, but it appears that the country is making up for lost time, with the cloud computing market now growing at over 30% CAGR. There will be a shift to the cloud for greenfield customers and departmental purchasers, just as a broader shift to the cloud is underway for other IT applications in Brazil. Interesting to note here is that cloud file sharing systems have been slow to gain traction for enterprise usage in Brazil, in part because of connectivity problems outside of major urban centers and questions regarding the security and reliability of such systems. However, in our analysis, the major reason for such weak traction – beyond a local reluctance to embrace cloud computing – has been that major (US-based) EFSS vendors have made little effort to sell to Brazil.

Figure 4
Growth Cycle for EFSS



Supply Chain. Supply chains ranging from energy to food are document-intensive activities; moreover, they rely on hard-copy documents and manual signoffs. Almost every supply chain struggles to handle the mass of delivery notes, contracts, manifests, bills of lading, and other shipping documentation. To date, supply chain organizations have lagged far behind the technology adoption curve, but in recent years they have become early adopters of technologies such as IoT and blockchain. EFSS has the potential for rapid growth in these industry sectors when combined with good capture technology and, ideally, blockchain integrations.

Government. Governments (state, local, and national) have all experimented with EFSS, and some department-level groups have adopted its use. However, the slow procurement cycles and concerns over the cost, risk, and security of moving on-premises files to the cloud have stymied adoption. Geopolitics and government cost-cutting combined have added urgency to moving files and sharing them in the cloud: cost-cutting because the cloud is perceived to be cheaper than on-premises, and geopolitics because greater scrutiny of where files are located and who they are shared with is accelerating the need to geo-fence data. Some vendors, for example FileCloud, Box, and Egnyte, have developed highly secure solutions to geo-fence data and files and are starting to gain greater traction with government clients.

Our Take

We use Brazil as an illustrative example of an untapped geographic market, but many other countries and regions have yet to fully embrace EFSS; Asia (outside of Japan) is one example. There are many reasons, including in some cases a distrust of cloud computing and concerns over security, but often it is simply because EFSS vendors have focused their sales and marketing efforts on the US and Europe and have done little to tap into these new markets.

Supply chain and government are examples of document-intensive sectors that need to improve the way they work, collaborate, and share data. Aside from a handful of small EFSS vendors, there has been little work undertaken to explore, size, build, and sell EFSS solutions to meet specific industry needs. Generic EFSS platforms bring some value, but buyers expect an understanding of their specific needs and solutions that are built to meet those needs.



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Extending EFSS Platforms to Leverage Potential

EFSS systems by default accumulate vast amounts of data, and they are increasingly used to support complex business process activities. Yet, as of today, few if any EFSS vendors have extended their platforms to embrace and leverage the growth potential of the big data they have accumulated over the years.

In fact, one thing all EFSS vendors have in common is big data – data generated and collected at many different levels, from transactional (date and location opened, for example) to content (what is contained in the files). These rich data sets could be exploited in many different ways by leveraging ML, AI, and analytics to add customer value. For example, big data could be analyzed to provide predictive user analytics or to deliver cognitive search capabilities. Data could also be further combined with ML or RPA tools to intelligently enhance automation and to trigger business workflows. In this regard, EFSS vendors should be exceptionally good at even relatively traditional use cases such as document capture and autocategorization. Today, they are not, and instead they rely on traditional and somewhat dated technology partners for this type of work.

Another area that EFSS could extend to relatively easily is the enterprise use of blockchain, an area that is growing quickly in the supply chain, government, and financial services sectors. As EFSS systems are often by default systems of record, offering blockchain capabilities to provide immutable shared records and audit trails seems an obvious route to take, but again, few if any EFSS vendors have looked at this potential in any depth.

Our Take

EFSS systems provide limited functionality (despite being technically complex to build and run), but they do provide a good foundation to extend that functionality in value-added directions. EFSS systems are often used as “systems of record,” and integrating with enterprise blockchains seems a logical extension to build out. Similarly, as all EFSS vendors have access to proprietary big data, leveraging that further through the use of AI & machine learning is a logical path to take. To fast-track this, EFSS vendors should look to acquire IP and technology while the market is suppressed.



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Call to Action

Neither buyers nor vendors should be lulled into thinking all EFSS systems are the same, or that the EFSS market is treading water or has no room for growth. The reality is that EFSS, despite dramatic growth and activity over the past years, is still finding its feet and has not yet reached its full potential. EFSS is “catalyst” technology: by itself, it provides seemingly simple functionality, but used wisely in conjunction with other technologies it has the power to transform the way we and those technologies work, and even to increase our capacity to change.

Advice for Buyers

EFSS used as a replacement for file servers or as an easy-to-use cloud backup or filing system can make good sense. But EFSS systems need managing to prevent noncompliance and sprawl in the same way any on-premises system would. EFSS does bring operational efficiencies and, used effectively, provide a much-improved platform for secure remote sharing. Do be aware, though, that all EFSS systems are not created equal: some offer great security, others are easier to use, etc. If you are looking to invest in an enterprise-wide EFSS system, be sure to seek independent advice and thoroughly test your options before making any firm decisions. Magic Quadrant leaders may be the biggest vendors in the space, but they are not necessarily the right fit for your organization’s needs.

Advice for Vendors

Though it may not be sexy or exciting, replacing aging file servers and SharePoint systems is good business and will remain so for the foreseeable future. Challenging Microsoft and Google in the workforce productivity market is always going to be an uphill struggle and should likely be avoided. But opportunities for growth internationally, through technically extending the EFSS platform, and in designing solutions for large industry verticals, may be a better path to follow. Of course, entering new markets takes time and investment, as does adding new technical features. But in this extended period of high growth, now is surely the time to make those investments and to develop new revenue streams.

Endnotes

1 See <https://www.businessinsider.com/gartner-enterprise-file-storage-companies-box-dropbox-wiped-out-in-2-years-2016-8>.

About Deep Analysis

Deep Analysis is an advisory firm that helps organizations understand and address the challenges of innovative and disruptive technologies in the enterprise software marketplace.

Its work is built on decades of experience in advising and consulting to global technology firms large and small, from IBM, Oracle, and HP to countless start-ups.

Led by Alan Pelz-Sharpe, the firm focuses on Information Management and the business application of Cloud, Artificial Intelligence, and Blockchain. Deep Analysis recently published the book "Practical Artificial Intelligence: An Enterprise Playbook," co-authored by Alan and Kashyap Kompella, outlining strategies for organizations to avoid pitfalls and successfully deploy AI.

Deep Analysis works with technology vendors to improve their understanding and provide actionable guidance on current and future market opportunities.

Yet, unlike traditional analyst firms, Deep Analysis takes a buyer-centric approach to its research and understands real-world buyer and market needs versus the "echo chamber" of the technology industry.

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Alan Pelz-Sharpe is the founder of Deep Analysis. He has over 25 years of experience in the IT industry, working with a wide variety of end-user organizations like FedEx, The Mayo Clinic, and Allstate, and vendors ranging from Oracle and IBM to startups around the world. Alan was formerly a Partner at The Real Story Group, Consulting Director at Indian Services firm Wipro, Research Director at 451, and VP for North America at industry analyst firm Ovum. He is regularly quoted in the press, including the *Wall Street Journal* and *The Guardian*, and has appeared on the BBC, CNBC, and ABC as an expert guest.