



SOFTWARE

2004

Blueprint for the next decade

Sand Hill
Group

SOFTWARE EXECUTIVE BLUEPRINT FOR 2004

Ken Berryman

McKinsey&Company

San Francisco

March 1, 2004

SOFTWARE
2004

THEMES FOR 2004

1. **Growth is back . . .**
2. **. . . but real productivity matters**
3. **Shifts in customer behavior are permanent**
4. **Government actions are more important than ever**
5. **Innovation remains most significant driver of returns**

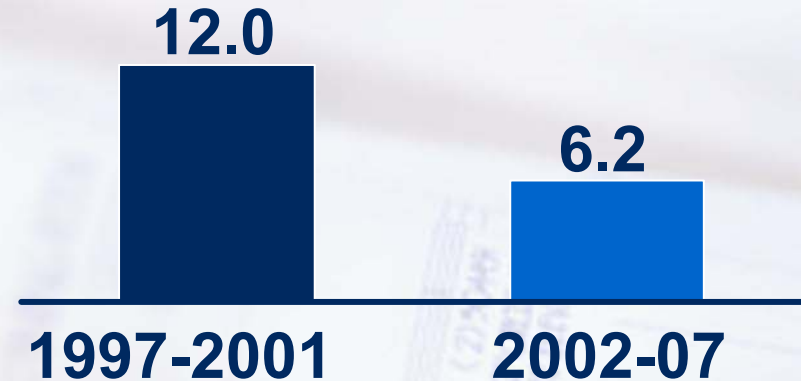


CEO AGENDA

- Find growth vectors in a more mature industry structure
- Build a team that can professionalize all major functions
- Innovate the business model
- Improve relations with government

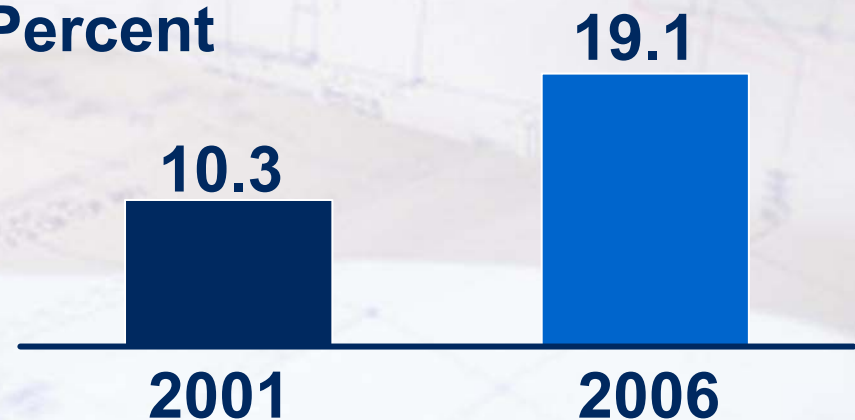
Global software spend

CAGR, Percent



Software implied share of worldwide capex

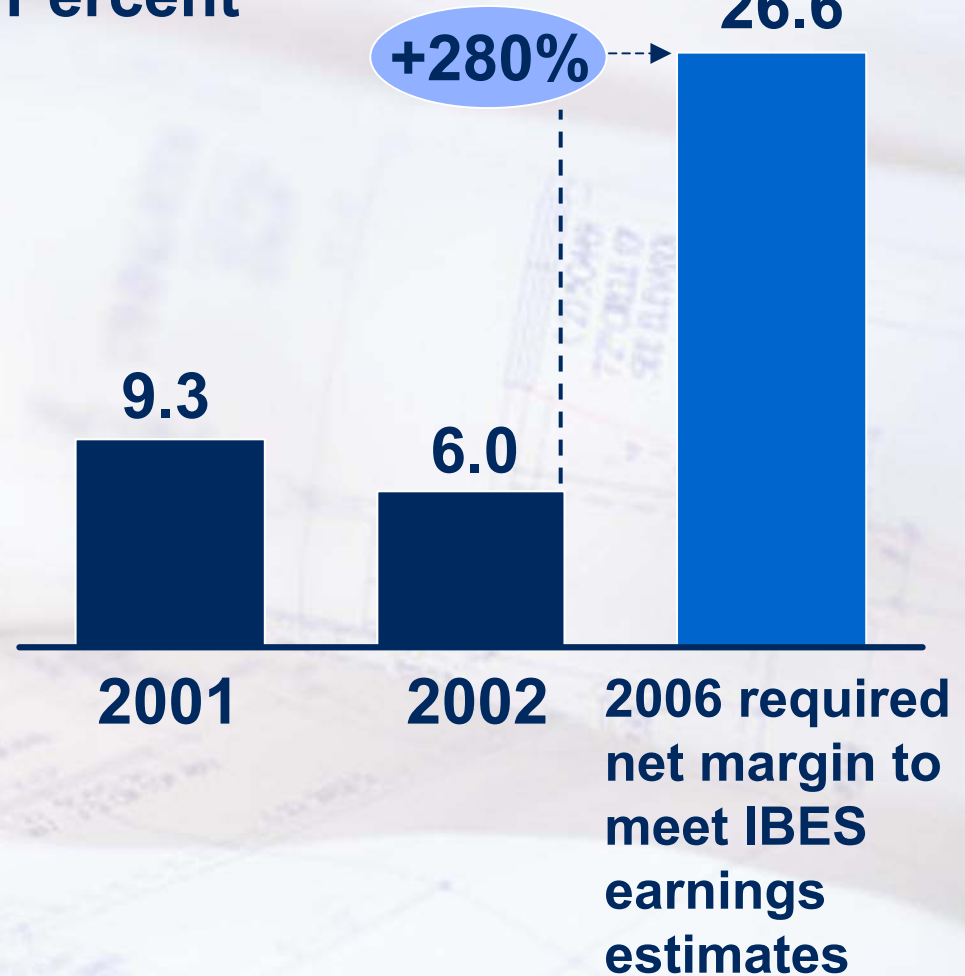
Percent



CFO AGENDA

- Drive continuous improvement of operating costs
- Adopt more rigorous performance management
- Launch careful deployment of new pricing models

Average net margins*
Percent



* For the top 50 public-listed software companies

Source: Datastream; Bloomberg; McKinsey analysis

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HEAD OF SALES AGENDA

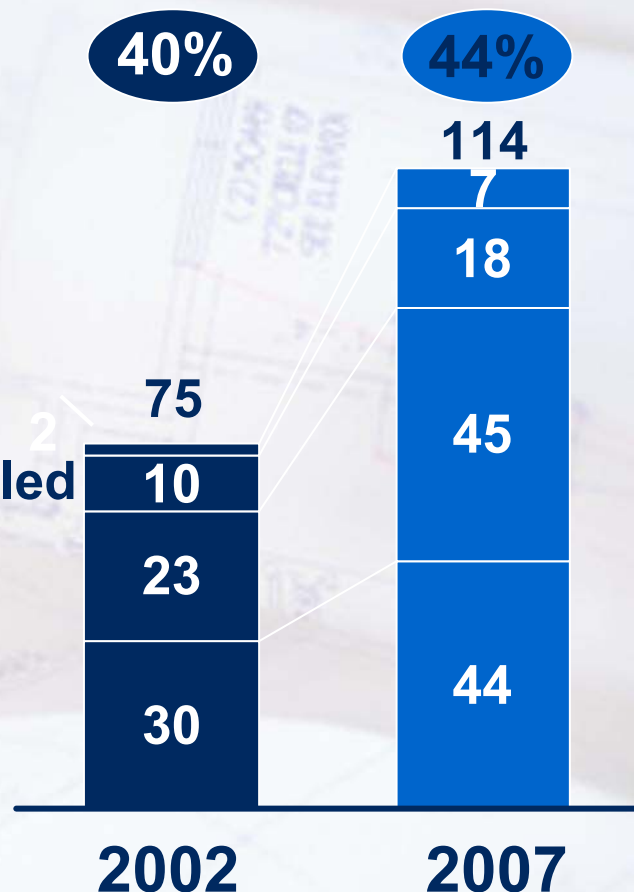
- Respond to shifts in customer behavior to increase productivity
- Manage increasing complexity of delivery channels
- Drive an integrated, global customer interaction approach

Worldwide software sales using indirect channels

USD billions

Share of Indirect channels

ASP model
BPO controlled
VAR sales
SI-driven

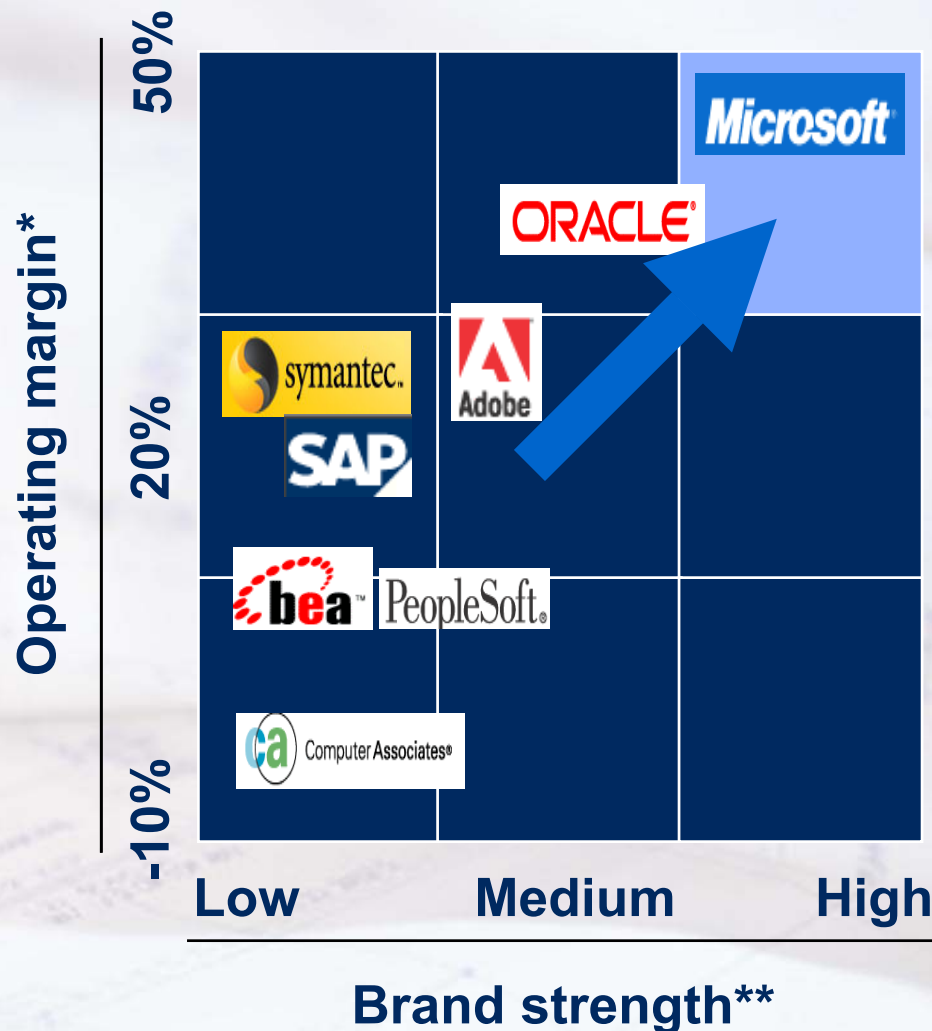


Source: IDC, McKinsey

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CMO AGENDA

- Pursue an integrated brand strategy
- Increase marketing spend effectiveness
- Drive market input into sales and R&D
- Shape compelling value propositions



*For the year 2002
 **As measured by CoreBrands

Source: CoreBrands; Compustat; McKinsey Analysis

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HEAD OF R&D AGENDA

- Build and optimize global development “factories”
- Remove creativity and productivity barriers for top developers
- Monitor increasing innovation from outside of the software industry

Development productivity

Function point/person month

CMM Level 5

7.5-12.5

CMM Level 1

3.5-5.0

Software's share of development cost

Percent

Utility control equipment

60-80

Automotive

50-70



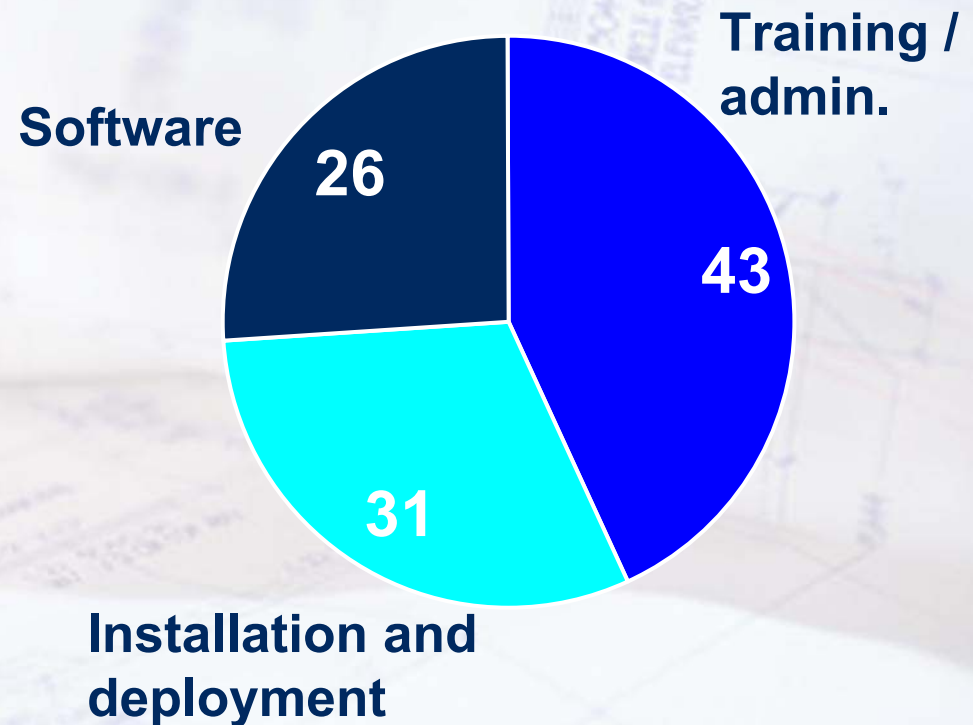
Source: Literature searches, Interviews

HEAD OF SERVICES AGENDA

- Manage and shape web of partner relationships
- Build a low-cost, global delivery model
- Improve customer satisfaction for post-sales services

WW IT Spend (excl. hardware)
USD billions

100% = \$534 bn



Source: IDC

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THEMES TO KEEP IN MIND

- **Competing with constant entry from new hardware and services players by continuously improving productivity**
- **Responding to nagging complexity, reliability, and security concerns**
- **Organizing to create a more unified perspective on the role of government**
- **Learning from more mature industries, while retaining the creativity and innovation that drives growth**

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