

Title

Software 2006: Trip Report Highlights

What Happened?

Last week, Saugatuck's Bill McNee and Bruce Guptill presented at *Software 2006*, held in Santa Clara, CA. Hosted annually by MR Rangaswami of Sand Hill Group, the conference is a thought-leadership event for leading industry executives and select user CIOs. This year's theme was "Unifying the Ecosystem," with presentations and discussions on such strategic issues as innovation, globalization, and new vendor models for business and growth. Breakout sessions presented leadership discussions on such key topics as Software-as-a-Service (SaaS), Open Source, the M&A landscape, and best practices for sales and marketing.

Figure 1

Top Buzz-Words at Software 2006

- 1) SaaS
- 2) Ecosystem
- 3) Tacit Interaction
- 4) Open Source
- 5) Innovation

Source: Sand Hill Group

This year's event featured keynotes and industry insight from such industry leaders as Ray Lane of investment firm Kleiner Perkins, SAP Product & Technology president Shai Agassi, Tata CEO S. Ramadorai, and Dave DeWalt, president of EMC Software. CIOs from top user firms as Shell and Motorola also shared their visions and experiences regarding the future of software as an industry.

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Bill McNee presented key highlights from Saugatuck's recent software buyer research in a special Alliance track geared for emerging IT vendors. Bruce Guptill presented Saugatuck research to the CIO leadership panel on user IT, software and business metrics and management. For copies of either presentation, contact us at the email links below.

Why Did it Happen?

The conference participants made it clear that software vendors and users face unprecedented change and challenge from new and unexpected quarters. Global, sweeping changes are impacting the business structure and value chain of the entire software industry, as well as how individual users access, utilize, and pay for software. Overall, the mood of the conference was very positive – as encouraging signs of higher spending intentions by buyers counter-balanced concerns over the fundamental shifts occurring in the software business.

Trip Report Highlights

These startling and costly industry changes and challenges were reflected in the keynote presentations and discussions. Readers may access several of these presentations at the Sand Hill site: <http://www.sandhill.com>. Key insights from the sessions that we attended include:

The authors invite your comments and inquiries on this *Research Alert*.

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- **Changing Industry Landscape:** Ray Lane, Partner at venture capital firm Kleiner Perkins Caufield & Byers (and former Oracle President /COO) asserted that the software industry is at a major crossroad due to the headwinds of globalization, untenable industry economics, slowing revenue growth and an unhealthy concentration of profits by the four leading players. He suggested that software industry dominance by the US is no longer a given, especially with India and China rapidly gaining share, and that it will be a tough road for many traditional software companies who are trying to shift to a services

orientation (and toward SaaS), as the transition is fundamental across all aspects of the business (e.g., product architecture, product and release management, pricing, licensing and sales models, customer care). He presented “7 Laws for the New Software Landscape,” ([click here for a recent Sand Hill Group editorial](#)) asserting the opinion that the next big wave will be around “The ‘Inter’ Personal Enterprise.”

KPCB believes that vendors must rethink both products and marketing to enable, force, and take advantage of the “viral” spread of software to succeed in this emerging new era of software business. Lane’s vision set the tone for two days of debate regarding software delivery and usage changes and realities. While Saugatuck believes that Web 2.0 is clearly a big deal, we are cautious about the speed and breadth with which it will become monetized – and who the ultimate winners will be.

- **New Industry Models:** Dr. Vanessa Colella, leader of McKinsey’s High Tech Organization Initiative, shared some interesting data from a recent CIO survey that suggested that software’s share of IT spend will rise 5 percent (from 30 to 35 percent) in an accelerating IT budget growth scenario over the next two years. She also presented the vision behind a new business model that combines the software-based automation of business interactions, Web 2.0 enterprise services, and SaaS to deliver success for software vendors. The model provided a good discussion framework, but was seen by many as more futuristic than realistic.
- **SAP and SOA:** Shai Agassi, president of SAP’s Product and Technology Group, presented a compelling scenario of software and IT evolution that is now building an environment of “immediate change.” His (and SAP’s) basic assumption is that user IT environments must standardize on a single, unified (SOA-based) platform in order to cost-effectively build, utilize and manage the vast array of emerging software and services choices– with the industry increasingly shifting to an even greater focus on industry-specific solutions. Agassi was challenged by CIOs (specifically Con Goedman of Shell) regarding real-world timelines for vendor deployment and user adoption of ESA (Enterprise Services Architecture – SAP’s version of SOA) and other key technologies. We, like many in the audience were appreciative of Agassi’s honesty that deploying ESA and SOA will be a long journey – *as he suggested that it could easily take an organization as large as Shell at least 4 years (and maybe as many as 7 years) to fully migrate to ESA.* Frankly, in our opinion, Agassi did a great job positioning SAP’s vision, and in *reaching out to the vendors in the audience to embrace and extend it to help SAP build a broader and stronger SOA-based ecosystem.* As he sees it, SAP and its current partners will not be able to manage the explosive growth and vertical market specialization alone as the software industry evolves (driven by SOA), especially with the number of micro vertical solutions growing from roughly 400 today to 4,000 or more in the not too distant future. *The big question coming out of the session for us however is whether the deployment timeframe that Agassi laid out is truly realistic and acceptable for ANY IT deployment in today’s rapidly changing market economy.* This seems more in line with old SAP deployment timetables, rather than thinking of ESA as the basis for a new, more rapid deployment paradigm.



- **More on SOA:** Earlier on day one, there was a very interesting panel discussion led by *Forbes'* Dennis Kneale, with panelists Rick Sherlund (Goldman Sachs), Bruce Richardson (AMR) and Peter Sobilloff (Inside Venture Partners) – focusing on a number of topics, but specifically on how quickly SOA will roll out. While Sherlund was a bit more optimistic, Richardson painted a slower growth scenario (that we would largely agree with), suggesting SOA is a big deal, but that it will take time to fully flesh out, that smaller starts-up will lead the charge, and that many of today's giants will be challenged to keep up.
- **Oracle and SOA:** Oracle SVP of Middleware Development Thomas Jurian presented an overview of Oracle's Fusion strategy and status. Oracle's clear goal is the unification – and dominance of – user IT software infrastructure and applications. He was challenged by audience CIOs regarding the reality of grid computing, a key component of Oracle's Fusion strategy, and regarding the real-world integration requirements of Fusion as it is rolled out to users. While the vision as outlined in the charts was comprehensive, we were a little bit surprised that Jurian did not reach out to embrace and extend Oracle's ecosystem as it marches down the road with Fusion, as SAP did. Instead, it felt more like a “let's learn about Fusion 101” presentation rather leveraging this great opportunity to get more partners on board.
- **EMC and Globalization:** Dave DeWalt, president of EMC's Software Group (and former CEO of Documentum), did a very nice job of sharing the strategy, evolution and growth of EMC's software business relative to its historical strength in storage. He too emphasized the truly global nature of the business today (with research centers throughout the world), and the need to bring innovation from the edges to the center.
- **The Rise of India, Inc.:** Industry strategist (and University of Michigan professor) CK Prahalad delivered a fascinating talk about the evolution of the Indian IT industry, and how it has evolved over time from its roots in labor and cost arbitrage to *quality arbitrage*, to now being on the cusp of becoming a major center for *innovation arbitrage*. In a separate fireside chat interview, Tata Consulting Group's S. Ramadorai shared similar observations and opinions. And this shift applies not only to IT, but to such globally influential industries as Autos and Pharma.
- **RightNow:** We attended a terrific breakout session by Greg Gianforte, Founder and CEO of RightNow Technologies, who emphasized that a one-size-fits-all deployment and licensing model for SaaS (founded on the principles of net-native, pay-for-service, multi-tenancy) might work well for SMBs, but it is not realistic for large enterprises. He stressed that large enterprises will have much more demanding requirements for flexibility in how they want to deploy, pay for, upgrade, integrate and customize their SaaS applications. We agree with him (see the soon to be released – late April – Saugatuck research study entitled “SaaS 2.0: Software-as-a-Service as Next-Gen Business Platform”).
- **CIO Panel:** Erik Keller moderated an entertaining and insightful main-tent panel with two CIOs from Motorola and Shell. Key subjects discussed with the panel and audience included IT spending expectations, software vendor management, the emergence of SOA, SaaS considerations, and IT ROI. The key takeaway was that software



vendors still have a lot of work to do relative to servicing their customers. Gripes we heard a decade or more ago while we worked at Gartner are as visible today as ever.

- **CIO Dialogue:** Top user firm CIOs shared experiences and insights regarding IT and software management challenges and practices. Bruce Guptill led a spirited discussion of IT and business alignment and metrics based on Saugatuck research that shows a dramatic need for improved IT and business measurement, based on rapidly-increasing fragmentation of IT and business operations.
- The **Industry Alliance** track featured insights and guidance for emerging software vendors seeking to develop and capitalize on vendor alliances and partnerships. Saugatuck CEO Bill McNee delivered key insights on user executive business and IT priorities, budgeting, and spending for 2006 and beyond. His presentation of Saugatuck research provided guidance for participants regarding emerging user demand, changes in user spending, and the business and technological drivers behind these changes (see Research Alert "[Flexibility Drives Eight Key Trends](#)", 29Mar06, RA-233). Erik Keller followed McNee's presentation with a panel that included senior partner executives from SAP and Microsoft, who provided some insights on how smaller ISVs and SaaS companies can partner with the giants, and successfully grow between the cracks. However, what surprised us was the fact that both companies (but especially Microsoft) expected smaller ISVs to bring deals to the giants, rather the other way around. While the late-day session was well attended by smaller vendors looking for assistance and leverage, unfortunately the giants discouraged them from expecting too much in terms of sales leads and support.

Market Impact Four key summary observations:

- 1) **Globalization:** From the mix of attendee's (25 percent Indian, 5 percent Chinese, 10+ percent other non-US) to the range of discussions around global venture investment strategies, to offshore software product development and innovation, the trend is clear – the software industry is truly a global business, and has been fundamentally altered. While great economies are being gained through this explosive growth of our business, the flip side is the potential for an expensive management challenge – for both vendors and users alike.
- 2) **Open Source:** Open source is now ubiquitous. While a major theme at the event, no longer was the talk about whether open source was a major trend, but how all aspects of the IT value chain needed to accept, embrace and leverage it to their advantage. The train has left the station and is clearly down the track.
- 3) **Software-as-a-Service:** SaaS is clearly a major industry trend . . . and considered an important market opportunity for both emerging and established software providers. The road to success has many potholes, including identifying where the best segments are to attack.
- 4) **Ecosystem:** Building an effective sales, marketing, and development / innovation ecosystem in today's increasingly global software industry is absolutely critical.

