

Software 2007
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Executive Summary

The software industry is undergoing major innovation. Software as a service (SaaS) is gaining momentum, as is open source. Traditional/perpetual licensing models are not extinct, but endangered. Small, agile vendors, using lot of open source, almost-free software are rolling out new products in much shorter times that users can download, try, and buy vis-à-vis traditional vendors with monolithic, often-proprietary software that takes years and millions of dollars to deploy, thus also hurting their profit margins. IT will be inundated with user-generated and consumer-inspired content such as wikis, blogs, context-aware content, and other Web 2.0-driven software.

Details

The theme this year was innovation. The event attracted 1,900 attendees, 100 VCs, 100 press and analysts, and 50 CIOs. About 5 percent of the attendees were from outside the U. S.

The software industry is in the midst of a wave of innovation. What matters is not product invention, but product innovation. Innovation takes many shapes and forms. McKinsey asked companies whether they innovate; those that do have a more robust growth. Fifty-five percent of the companies surveyed say they believe in innovation and believe it will come from small companies.

Keynote: Hasso Plattner, Chairman and Chief Software Architect, SAP, talked about *Innovation, Speed, and Success* and contended that large companies can innovate, too. It takes years to develop software and SAP has 3,000 working on a new project that Hasso wouldn't name (we believe it is Duet that SAP is working on with Microsoft). It is software on demand, lives in communities, going after new markets, model-based, based on standards, and will leverage service-oriented architecture (SOA) to the fullest extent. Fifteen years ago when R/3 was released, the source code was not exposed. The new product will have over 2,000 interfaces, again no source code exposed, and a user-centric design. Everything will work from a browser. Front end is Microsoft Office.

SAP in its early days had to support IBM's IMS and 250 screens. SAP is moving from portal to task. The company portal, department portal, and worker portal will all move towards event-driven architectures. Instead of exposing the source code, it will expose models and will be driven by communities of users, partners, and consulting companies. It is SOA by design built on top of Netweaver. The system will be hosted, providing on-demand services, and provide integration by SOA with others. The goal is to provide instant enterprise information with in-memory database. 20 GB of flat files was compressed to 1.1 GB in IMDB, reducing query response time to one second. Information is still not at our fingertips. We need Google speed for all transactions. What is good about Google is not that their search is good, but it is fast. Transactional data can also be run in an IMDB.

To convey information, the more minimalist, the better. Beautification is the wrong way; arts is not helping. Ten years ago, Hasso said stock options are evil, B2B is dead, and cooking books is bad. We believe he was half-right/wrong: Stock options are good if they are not back-dated; B2B is alive; and cooking books ends you up in a slammer. Just look at CA (erstwhile, Computer Associates) or McAfee (formerly, Network Associates). It is hard to deviate from where you have been successful, but SAP has morphed over the decades from mainframe to client-server to the Internet.

¹ <http://www.itnewswire.us/>

Keynote: Shane Robinson, HP, EVP, Chief Strategy and Technology Officer stated software is central to HP and it is embedded in many of the products. Year 2005 was supposed to be the year of SOA; it still has not happened. In the past HP was viewed as a hardware company, now it is becoming a software company. HP is getting better in execution. HP's acquisition has to complement its content and has to have good people. HP invests \$3.6 billion in R&D and just hired a new Lab director. HP has an annual internal R&D conference for which 35,000 employees compete, but only 700 people get to attend.

Our observations: HP and IBM have annual revenue of ~\$92 billion each. IBM's software revenue is \$16 billion, whereas HP's has grown from just under \$1 billion to ~\$2 billion after its acquisition of Mercury, Knightsbridge, and others. Otherwise, most of its software revenue comes from OpenView and OpenCall. Despite all the hype about its Adaptive Enterprise and other software initiatives, we believe HP doesn't have a coherent and integrated software story. It has a transmission, a chassis, and an engine, but no car!

Panel

Moderator: Victoria Barrett, Forbes; Panelists: Roger Burkhardt, Ingres; David Knight, WebEx
Innovation is change for good. WebEx is an early SaaS adopter and can innovate fast. Increasingly, it is not personal productivity, but collaboration. Large companies have difficulty moving to SaaS. United Airlines, for instance, knew what Southwest was up to, but couldn't react because of the legacy infrastructure.

Web Services is overrated. To think that applications will integrate by themselves is ridiculous. We have been talking about this for decades, it hasn't happened yet. Mass customization is also highly overrated. Sure, SAP may expose 3,000 interfaces, but how will the end user know which ones to use?

Open source is underrated, banks have used open source for swap trading. As an economic model to make money, open source is overrated.

Utility computing is underrated, but the impact will be huge in five years. Five folks from Latvia could build a solution and deliver it over the cloud. Deploying grid computing is fine, but people forget the huge legacy systems that exist in enterprises. Outsourcing makes sense.

Cisco is interested in collaboration, IP telephony, and bringing intelligence to the network. While Sun says The Network is the Computer, Cisco says the network is the platform. Innovation is coming from the consumer space to the enterprise space.

Panel: Enterprise 2.0 Already Happened – but was the User Out of the Room?

Moderators: Ismael Ghalimi, CEO, Intalio, and Jeff Clavier, Managing Partner, SoftTech VC; Panelists: John Roberts, CEO, SugarCRM; Dan Farber, Editor in Chief, ZDNet; Ross Mayfield, CEO, Social Text.

Enterprise 2.0 (E2.0) got started with a Harvard professor. E2.0 is social software being adopted by the enterprise, it is not just a pattern, but includes different models — open source, wikis, social networking, blogging, offshoring, and outsourcing. E2.0 is more capital-efficient and has a different deployment model. Users contribute a lot to E2.0 and E2.0 is harnessing collective intelligence. Today, most of the data is unstructured, such as Excel, PowerPoint and Word documents, and is mostly shared as e-mail attachments. Issuing a press release involving two companies requires six parties—two companies, two PR agencies, and two webmasters. This is insane. In the PC era we had personal-productivity tools; today we have more collaborative tools. An enterprise is one large adaptive system. It is like an ant colony. Too many employees spend too much time on Facebook, but companies like SAP are developing their internal Facebook-like software for its employees. If you have CRM, why not have employee RM? SugarCRM does have an ERM.

Keynote: Marc Benioff, Chairman and CEO Salesforce.com

The software industry has moved from mainframe to client-server to software-on-demand (SOD). Oracle is a one-night stance, salesforce.com is like a marriage. Some of the largest companies use salesforce.com. salesforce.com started building SOD in 1999, and then had to build infrastructure services, application services, business services, and operational services. salesforce.com has invested \$100 million in two

datacenters. salesforce.com mantra is very simple: Pick your geography, you don't need a database, .net framework or Java framework.

1. Use Idea Exchange² to post your ideas.
2. Create applications on the salesforce.com platform.
3. Uses Adobe Flex, a client-side technology.
4. Participate in the salesforce.com developer community.
5. Join salesforce.com's Incubator Workspace located in San Mateo, CA.
6. Market your apps on AppExchange, look at companies that have fully exploited salesforce.com's strategy, e. g., Appirio, Compro, EditGrid, Theikos, and VerticalResponse.
7. Sell your applications on AppStore, as Centive is doing, a multi-tenant, shared platform.

Of course, salesforce.com gets a cut of your revenue. In five years salesforce.com will be a platform company and applications company. Internet changes how you build, distribute, and sell software. Mashups and consumer software will change the enterprise. Siebel sold only to large enterprises, but salesforce.com is going after SMBs, too. Merrill Lynch has 25,000 salesforce.com users, Dell has 15,000, and Cisco has 10,000. Is open source going to marginalize salesforce.com? No, and salesforce.com does use lot of open source, but we believe Benioff is rewriting the books on software development and deployment, and it is a great company to watch.

CIO Panel

Moderator: Ernest von Simson, Senior Partner, Ostriker von Simson

Panelists: Neil Cameron, CIO, Unilever; Rob Carter, CIO, FedEx; Patricia Morrison, CIO, Motorola; Tony Scott, CIO, The Walt Disney Company

FedEx is working on smart package with an RFID chip that gives location, temperature, vibration conditions, and responds to light, giving better custodial control. Motorola is working on fast development of applications and integrating them tightly. Unilever does more renovation than innovation. Walt Disney is working on digitizing their business, e. g., putting their shows on the web the day after the broadcast. This lets you skip ads; however, advertisers are not willing to pay for web ads the same amount as they do for broadcast ads.

Panel: Marketing in a 2.0 World: Utilizing New Tools, Cultivating Communities, and Improving Thought Leadership

Moderator: David Munn, President & CEO, ITSMA

Panelists: Kendall Collins, Senior Vice President, Corporate and Product Marketing Salesforce.com; John Lenzen, VP, North American Marketing, TCS; Mark Yolton, VP, SAP Community Network, SAP

In SAP business analysts and marketing folks are influencing IT. SAP recently launched a wiki which is pretty active. Content is king, make sure your website is rich. Send newsletters infrequently and predictably. SAP is 35 years old and is not known as an open or highly innovative company. Its community is now 800,000 strong and is adding about 20,000 every month. TCS, founded in 1968, started an R&D organization in 1981.

Keynote: Steve Ballmer, CEO, Microsoft Understanding the Value of Services

Microsoft is emphasizing Software + Services and is building platforms for businesses, PCs, phones, and handhelds. You can expect broad innovations in desktop, enterprise, online, consumer electronics, and multi-core. The consumer market is small device but large software; ubiquitous web; business solution; experience first; and richness of use.

Microsoft is developing a new class of applications called Office Business Solutions and also working with SAP on Duet. Microsoft Office will be the front end to all business uses. Microsoft's goal is to drive

² <http://ideas.salesforce.com/>

deployment of existing licenses; increase upgrades to new versions; and sell more seats in enterprise accounts.

Conference Summary

Ken Berryman, McKinsey

What have we learned?

1. Disruptive changes spark waves of innovation. Innovation in software is just beginning. Innovation is not incremental but radical changes. Once upon a time, a clipper ship had three masts, then went to four and five masts, but it was eventually killed by the steamship. So, don't put extra masts in your ship.
2. Think bottom up, not top down
3. Look for new sources of value.
4. Celebrate success
 - a. Growth in software has returned to high single digits across the industry.
 - b. EBITDA³ margins are above 30%.
 - c. VCs and private equities continue to invest in software.
5. Software is key to all industries; Siemens has more software engineers than any company in the world.

Final Comments

Overall, this was a great conference. As usual, MR (the better-known, not yours truly) does a great job of rounding up great speakers with wonderful insights into our industry and its future.

As many readers may know, Sand Hill Group that has run this show for the past three years has sold the event, not the company, to CMP⁴, part of United Business Media⁵, that publishes numerous online websites and print magazines⁶, and sponsors many events, including Interop. Next year, Software 2008 will be held in Las Vegas in conjunction with Interop at the Mandalay Bay Hotel & Casino. We feel this is not a great idea: Software happens in Silicon Valley and what happens here spreads everywhere; sin happens in Vegas, and should stay there. It may also discourage many startups and smaller vendors from participating because of the travel and hotel costs, which latter are usually jacked up by a factor of two to three during major events in Vegas. Let's hope we are we are wrong.

³ <http://www.investopedia.com/terms/e/ebitda.asp>

⁴ <http://www.cmp.com/>

⁵ <http://www.unitedbusinessmedia.com/>

⁶ http://www.cmp.com/products/cmp_brands_usa.jhtml