

ENTERPRISE 2005 SUMMARY



This report is a collaboration of McKinsey & Company and Sand Hill Group LLC

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The Enterprise 2005 report, and all previous Enterprise reports and conference information are available online at www.sandhill.com.

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Introduction

In August 2005, a select group of senior executives and other leaders of the enterprise software industry gathered at the Inn at Spanish Bay, Pebble Beach, to attend Enterprise 2005. They exchanged views on the present and future of the enterprise solutions industry and spoke frankly about the issues and trends facing their companies and clients. This document summarizes that discussion and provides the results from many of the quick-tally questions that participants answered during the conference.

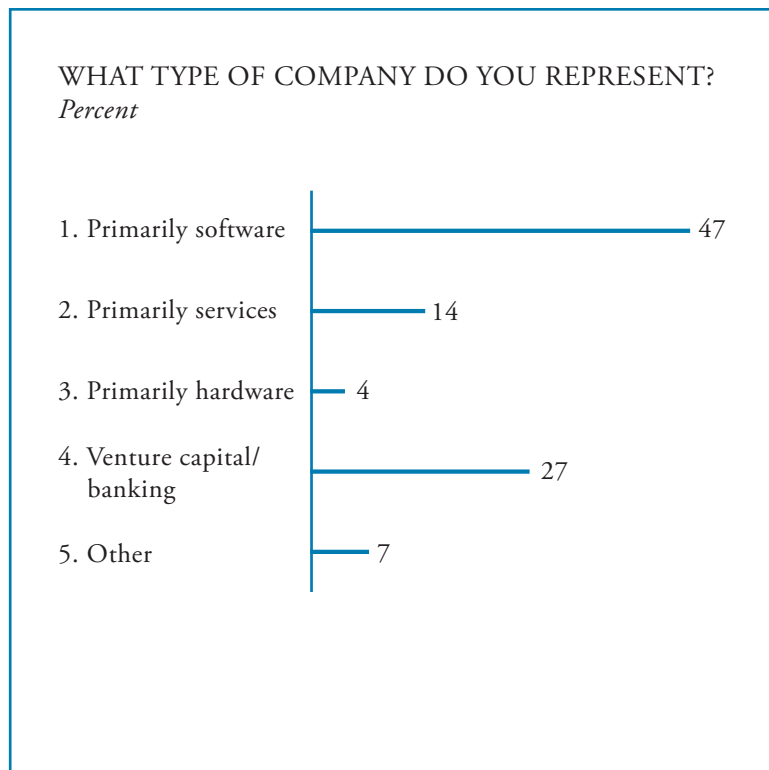
The highlight of this eighth annual conference was continuing cautious optimism within the software industry. More than 50 percent of attendees believed their companies would achieve more than 20 percent growth in revenues this year – and believed the industry as a whole will grow revenues at 3 to 6 percent. Revenue growth remained the primary imperative for attendees – although business model innovation was also a source of much interest. Other major topics of discussion included software-as-a-service (SaaS), service-oriented architectures, open source, and China and India as the next big markets.

This Enterprise 2005 summary, a collaboration between Sand Hill Group and McKinsey & Company, summarizes the conference presentations and panel discussions in the context of the current industry climate. We are pleased to provide this summary as a record of the conference. The Enterprise 2005 summary, and all previous Enterprise reports and conference information are available on-line at www.sandhill.com.

ENTERPRISE 2005 *Conference Summary*

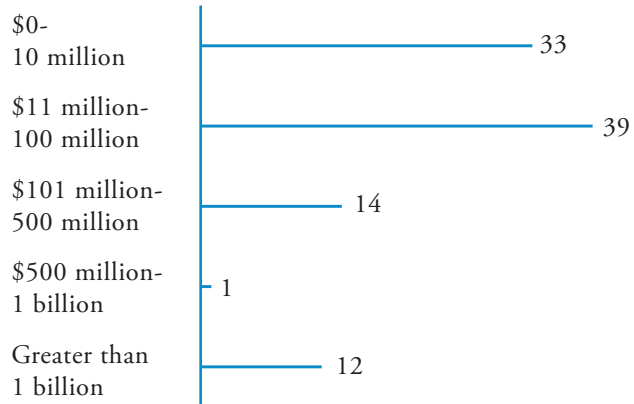
The participants

The senior executives who gathered this year came from the same basic segments as last year – software, services, investment banking, and venture capital. Overall, more than 75 percent were either CEOs or managing directors of their organizations.



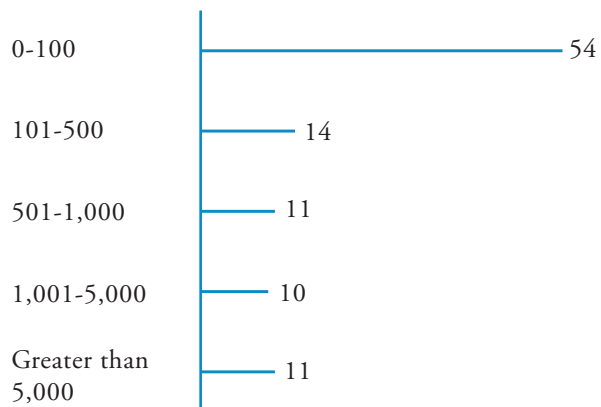
WHAT IS YOUR COMPANY'S REVENUE?

Percent



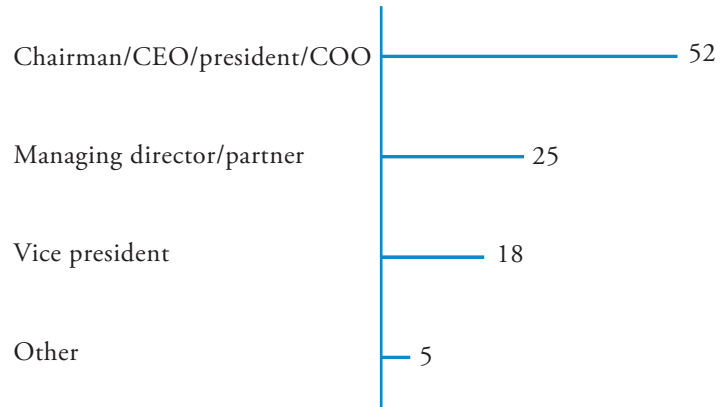
HOW MANY EMPLOYEES DOES YOUR COMPANY HAVE?

Percent



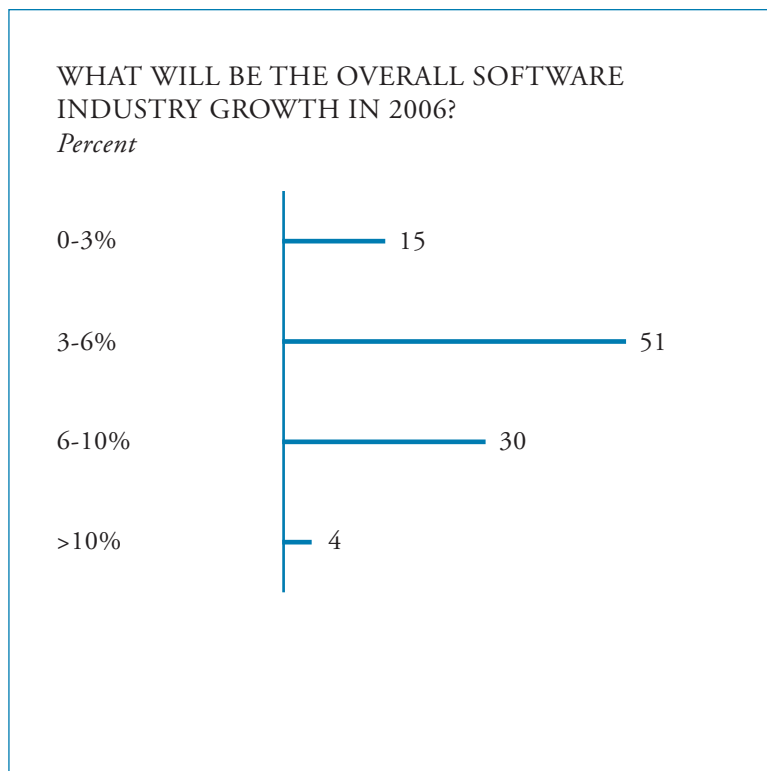
WHAT IS YOUR TITLE/POSITION?

Percent



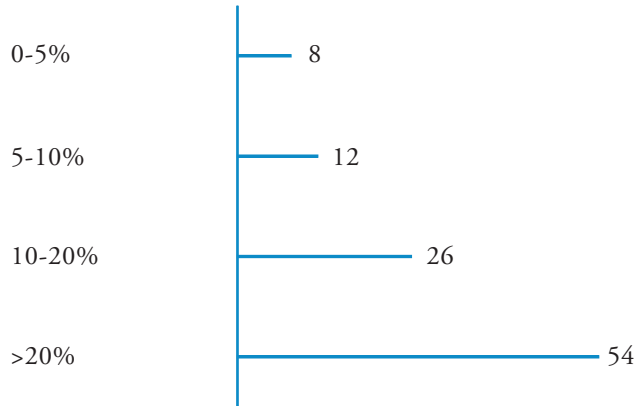
Market conditions suggest maintaining cautious optimism

Participants at this year's conference continued to express cautious optimism about the software industry. While more than 51 percent of attendees expect an overall software industry growth rate of between 3 percent to 6 percent, more than 54 percent of them expected their companies to register growth rates of more than 20 percent this year. The primary imperative for the software industry has shifted from a focus on costs to one on revenue growth with strong profitability. Surprisingly, for the first time business model innovation was cited as a more important growth vector than technological innovation.



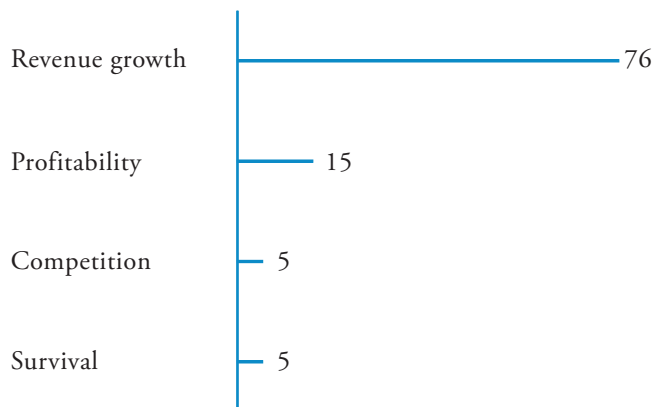
HOW FAST WILL YOUR COMPANY
GROW IN 2006?

Percent



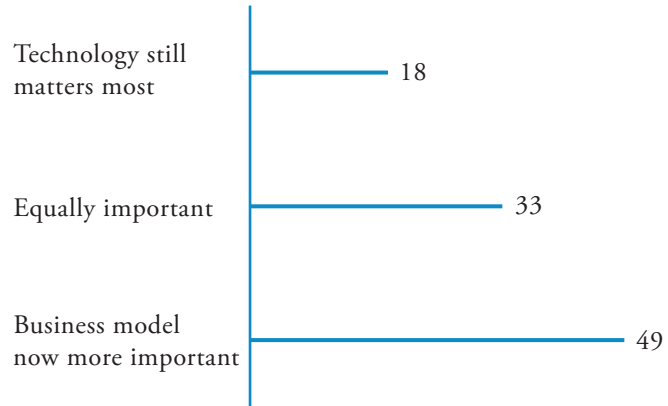
WHAT KEEPS YOU UP AT NIGHT?

Percent



TECHNOLOGY VS. BUSINESS
MODEL INNOVATION

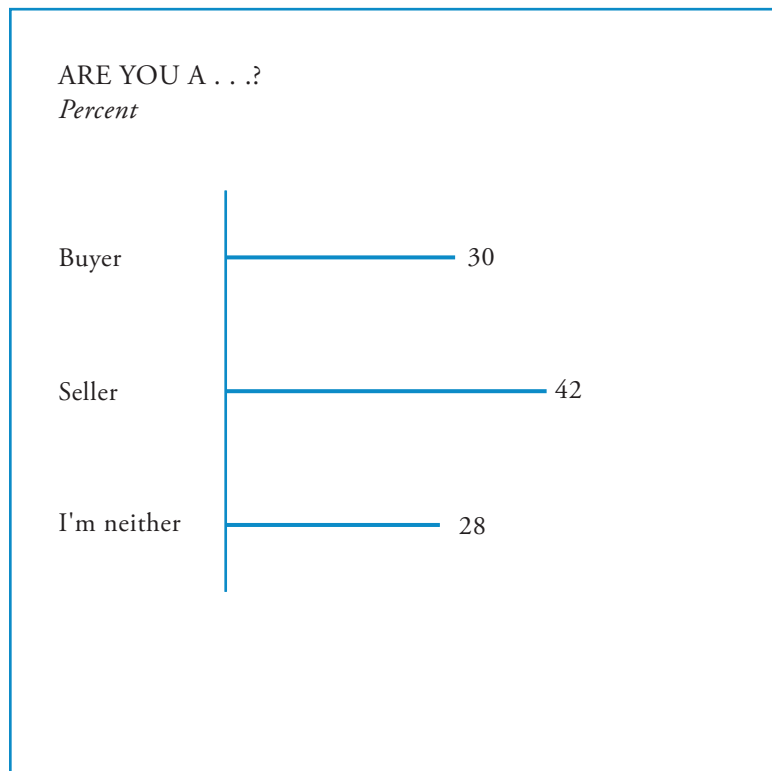
Percent



Industry consolidation

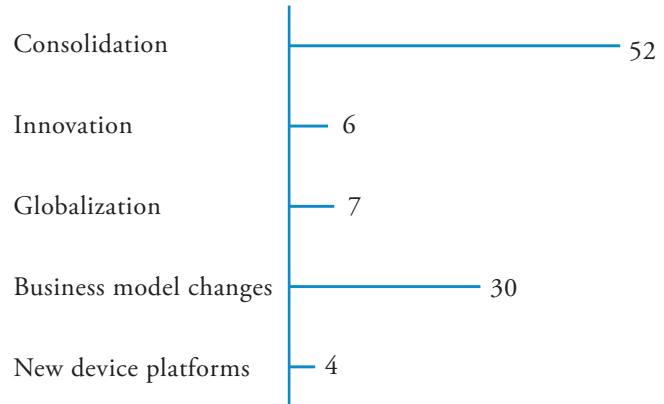
Driven by strong forces for restructuring and consolidation, consolidation remains the “hottest” industry topic in 2006. The current focus of the large enterprise software vendors is to build vertical capabilities. Several key factors continue to drive consolidation activity within the software industry:

- Achieving scale to drive margins
- Leveraging IP for revenue and margin expansion and
- Existing installed base to drive revenue and margin expansion.



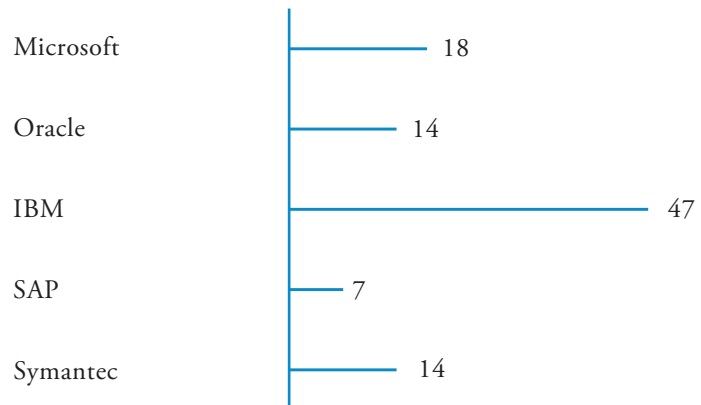
WHAT SOFTWARE TOPIC WILL BE MOST
IN THE NEWS IN 2006?

Percent



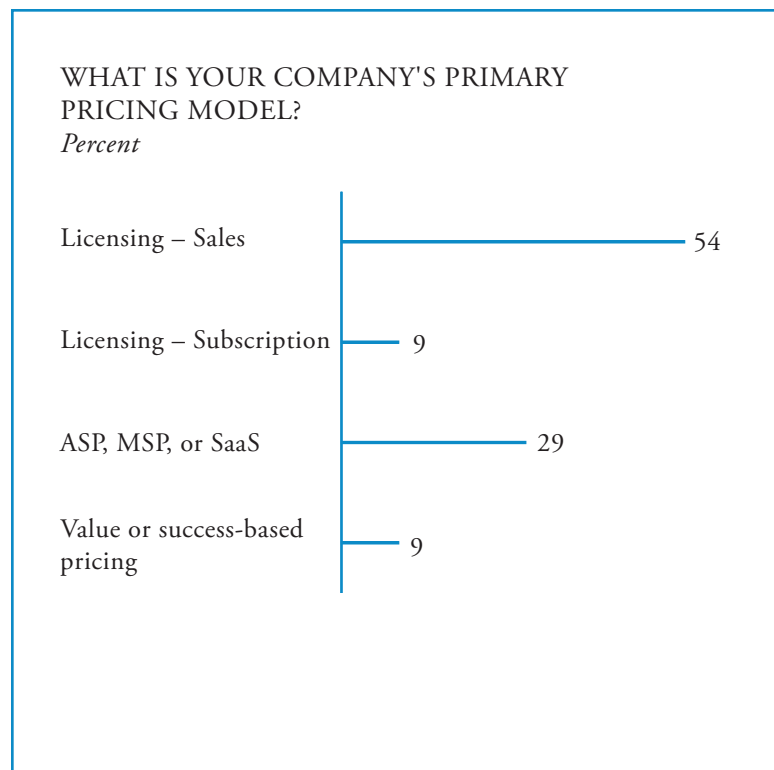
WHO WILL ACQUIRE THE MOST SOFTWARE
COMPANIES 2006?

Percent



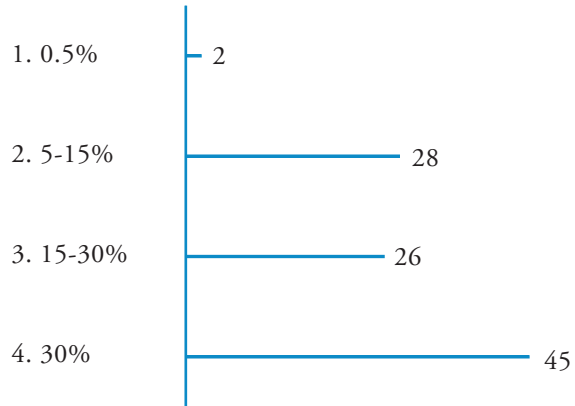
Emergence of alternate business models

SaaS has received increasing attention as a popular delivery model for customers. The urgent need to reduce IT cost and complexity, particularly operating cost, is driving experimentation with multiple forms of SaaS models. Although large enterprises do not yet appear to be replacing effective, large-scale systems with SaaS alternatives, the SaaS option suddenly becomes perfectly viable for all enterprises when it comes to adding new functionality. In addition, several related trends contribute to other types of business model experimentation (including utility models): the ongoing deployment of SoA architectures, open source, and virtualization. Surprisingly, the single factor cited as most important for ongoing SaaS success was exceptional user experience – certainly a long unmet customer need.



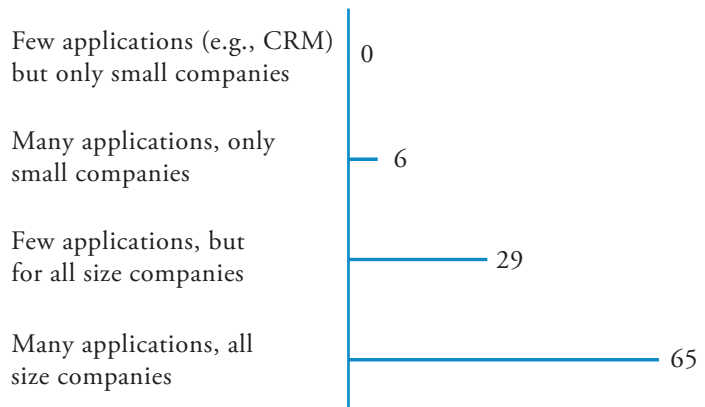
WHAT PERCENT OF SOFTWARE INDUSTRY REVENUES WILL BE SERVICE-BASED IN 5 YEARS?

Percent



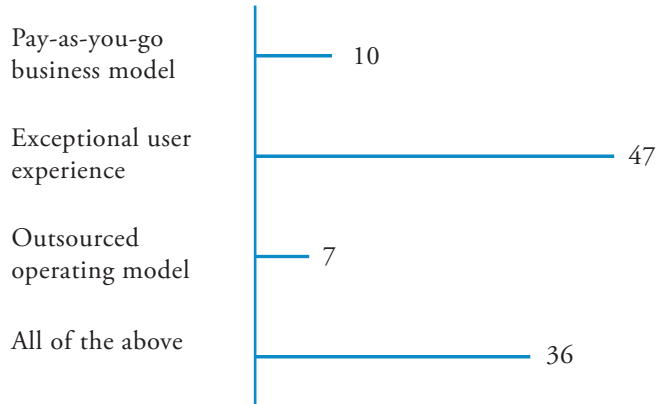
SOFTWARE AS A SERVICE IS IMPORTANT FOR . . .

Percent



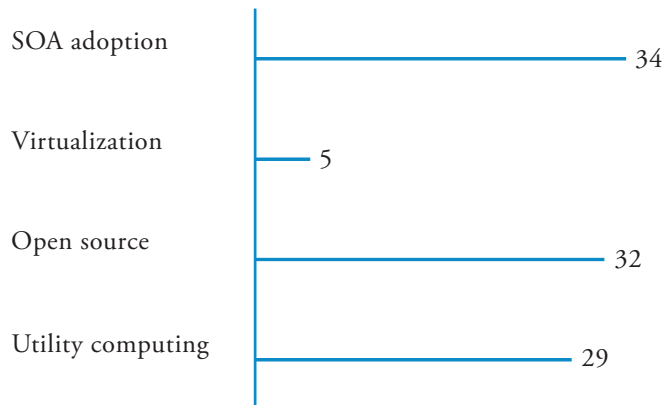
WHAT FACTOR IS THE MOST IMPORTANT FOR SaaS SUCCESS?

Percent



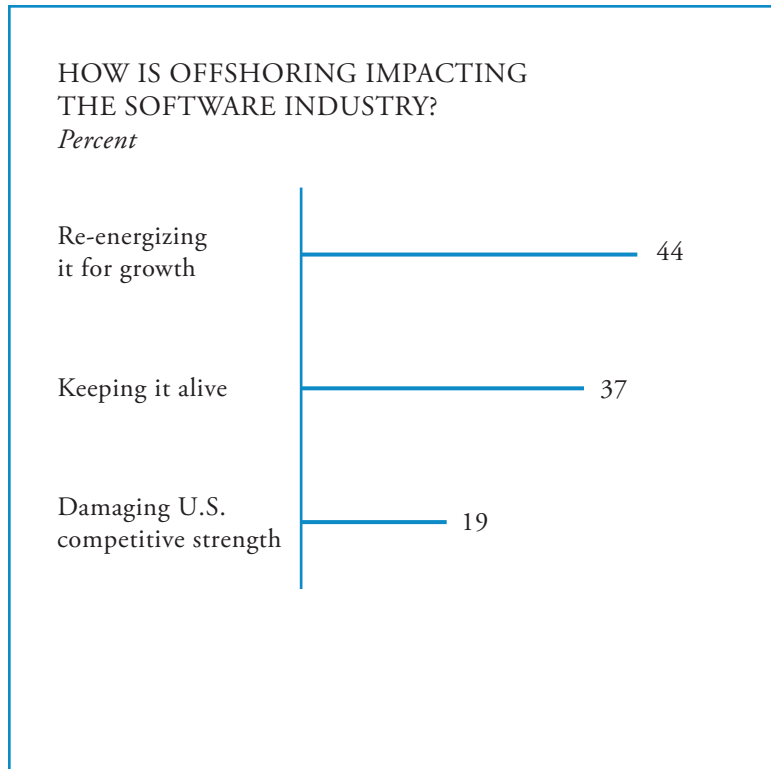
WHICH OF THE FOLLOWING IS THE MOST IMPORTANT TREND?

Percent



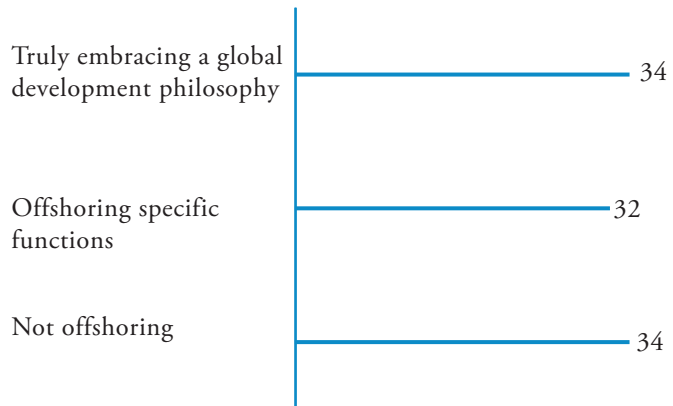
Offshoring remains important

Offshore development continues to be a key discussion topic within the software industry, with more than 44 percent of the attendees pointing to it as one of the factors for re-energizing growth within the industry. However, about one-third of the companies (34 percent) currently do not off-shore.



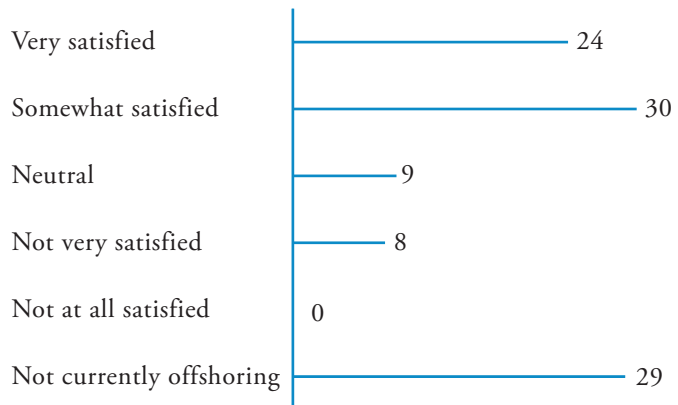
WHAT BEST DESCRIBES YOUR COMPANY'S
CURRENT OFFSHORE STRATEGY?

Percent

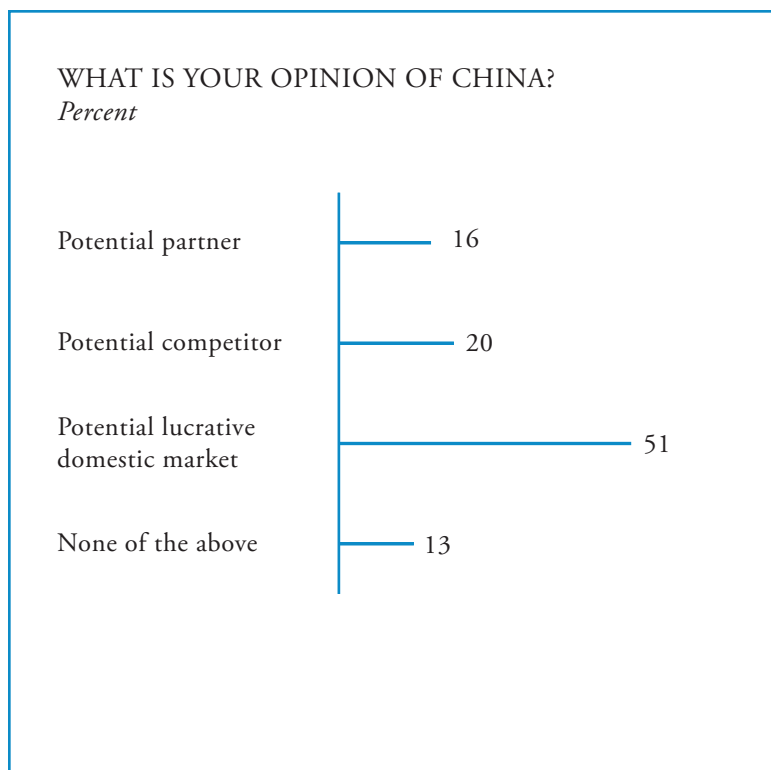
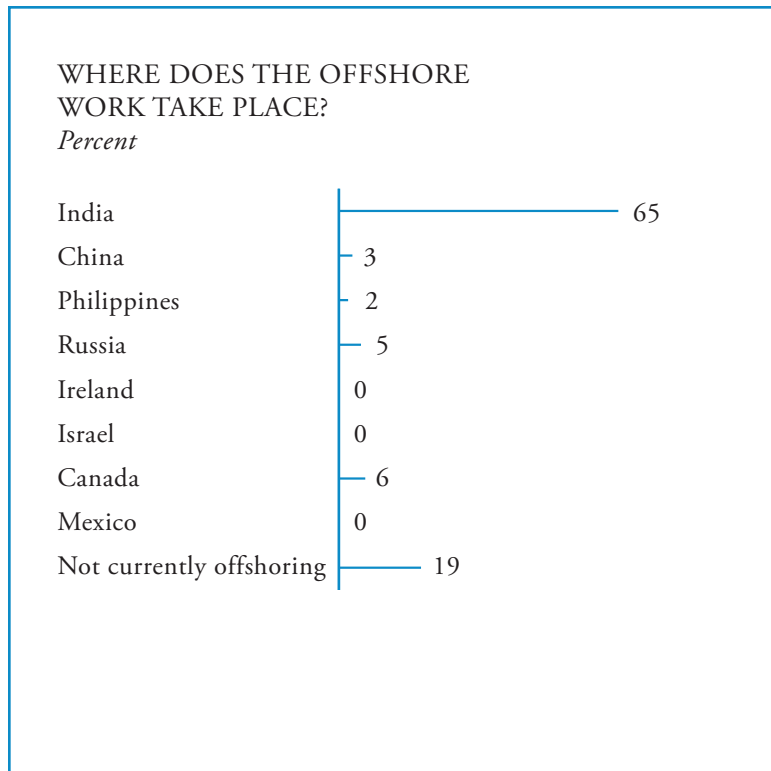


HOW SATISFIED IS YOUR COMPANY
WITH ITS OFFSHORE STRATEGY TO DATE?

Percent



India continues to be the preferred destination for off-shoring software development. India's reputation as the preferred off-shoring destination continues to improve as the emerging Indian IT giants and even the second-tier firms move up the food chain and create new practices, such as verticals and strategy consulting practices. However, China seems to be the likely destination of the "next big market." It is also rapidly becoming highly inventive, innovative, and entrepreneurial, demonstrated, for example, by the rapid adoption of large scale mobile technology.



Improving total customer experience

The software industry still lags in one key area – customer satisfaction. Although customers no longer value cutting-edge technology over business results, the software industry is still evolving when it comes to offering a total customer experience.

Software industry vendors must address not only such well-known issues as increasing business value delivered, reducing total cost of ownership, and improving software return on investment (ROI), but also the aspects of customer interaction that contribute to the overall customer experience.

IF THE SOFTWARE INDUSTRY HAS ONE PROBLEM, IT IS:

Percent

